



THURSDAY BRIEFING POINTS – Andrew Wroblewski, London/Andrew Husby, New York/Francisco Larios, Miami

United States: Just jobless claims. Jobless claims, a key indicator that has so far given little signal of deterioration in labor market conditions, are expected to hold around the

320,000 level seen in recent months – suggesting continued healing is occurring.

U.S. DATA AND EVENTS OUTLOOK – Andrew Husby, New York

Today brings the weekly unemployment insurance report and March import prices, both at 08:30 EST/12:30 GMT.

Forecasts:

Initial Claims (week of April 5): Consensus and DE: -6,000 to 320,000.

Import Prices (March, non-fuel, % y/y): DE: -1.1%, steady rate compared to February.

The initial claims figure covers the third week in payroll-April, last week's report showing a higher-than-expected uptick, but one that still served to reinforce the March downtrend. Today's figure should hold just around the 4-week average of 320,000. An upside surprise can be given less weight given adjustment difficulties around the turn of the quarter, while an inline or lower figure would be more informative than usual. The reason is that many choose to delay filing into a new quarter in order to boost benefit amounts, potentially depressing claims at quarter-end, followed by a brief jump higher in the new period. If that occurred to a lesser extent than adjustment factors assume, a low result would suggest underlying improvement is real—not statistical.

With claims low historically, the big question remains when new hiring (and wage growth) picks up. On that front, the continued downtrend in continuing claims suggests that is occurring somewhere. Hiring and consumer confidence surveys continue to improve, at least supporting notions that the April jobs report can see at least as good a result as March.

WESTERN HEMISPHERE ANALYSIS

UNITED STATES – Andrew Husby, New York

Minutes to the March FOMC meeting showed policymakers still engaged in discussion on several key topics, including the updated forward guidance on rates, progress in the labor market and the amount of slack in the economy, and importantly the degree to which the public would misinterpret the upward shift in estimates of the appropriate policy rate -- the infamous "dot chart", and what it might imply about the timing of rate hikes.

The Committee struggled with inserting language to offset what members rightly saw could be a hawkish interpretation by markets:

"A number of participants noted...that this component of the SEP could be misconstrued as indicating a move by the Committee to a less accommodative reaction function. However, several participants noted that the increase in the median projection overstated the shift in the projections. In addition, a number of participants observed that an upward shift was arguably warranted by the

improvement in participants' outlooks for the labor market since December and therefore need not be viewed as signifying a less accommodative reaction function. Most participants favored providing an explicit indication in the statement that the new forward guidance, taken as a whole, did not imply a change in the Committee's policy intentions, on the grounds that such an indication could help forestall misinterpretation of the new forward guidance."

One reason several Fed officials, including Chair Yellen, have sought to reduce emphasis on the SEP dot chart in favor of the official statement is because it represents participants' individual judgment of the appropriate level of the target funds rate under appropriate monetary policy, not forecasts of what participants expect the Fed to actually do. A modest but important distinction, and also one that, in DE's view, still risks muddying the effectiveness of rate guidance, despite assertions to the contrary.

Indeed, the Minutes saw fit to express "many participants noted market expectations of the future course of the federal funds rate were currently reasonably well aligned with those of policymakers," suggesting they do on balance see a relationship between market pricing and their forecasts serving as guidance. In addition, "a number of participants observed that an upward shift was arguably warranted by the improvement in participants' outlooks for the labor market since December and therefore need not be viewed as signifying a less accommodative reaction function." Participants lowered their unemployment rate forecasts, raised inflation forecasts slightly, and lowered real GDP forecasts slightly (in part weather impact)--which in DE's view should, and did, result in an upward shift in participants' funds rate estimates.

Growth Outlook and Housing Concerns

The old news contained in the statement was the assessment that economic slowdown in the winter months was only "in part" a reflection of severe weather, other factors being previous strong contributions from net exports and inventory build, and some slowing growth and rising risks in emerging market economies.

New news was a bit more concern about the housing sector, with a few participants suggesting that "last year's rise in mortgage rates might have produced a larger-than-expected reduction in home sales", and that "it was noted that the return of house prices to more-normal levels could be damping the pace of housing recovery, and that home affordability has been reduced for some prospective buyers". In short, policy may have been effective in boosting house prices, but slow accompanying income growth may have left new buyers priced out. Looking forward, the Minutes show Fed officials are relying on population growth and household formation as positive underlying fundamentals.

Doves Still Have Upper Hand on Amount of Labor Market Slack

There was agreement that slack remains in the labor market, but participants were divided on just how much. Until nominal wage growth and other compensation measures turn up, doves will continue to be vindicated in terms of focusing on low labor force participation, a high number of people working part time for economic reasons, and a high share of long-term unemployed. A "couple" of participants saw more limited slack, noting demographic trends probably meant low participation was more structural than cyclical, and that the alternative measures cited above, while high historically, still registered declines comparable to the unemployment rate. A "couple" also saw low price growth as a result of a decline in medical services inflation. Slowing Chinese growth was also cited as a downward pressure for commodity, and other prices.

DE View

Ultimately the Minutes emphasize what Fed officials have noted in recent speeches (in response to what was originally taken to be a somewhat more hawkish than expected Yellen press conference)--that participants on balance believe accommodative policy, and a historically-low level for interest rates will be appropriate for quite some time. Tapering remains very much on track to wrap up later in 2014, but that has been clear for a while. DE puts the chance of an initial rate hike late in Q1 2015, or Q2 at 60%. Inflation will need to pick up for that scenario to occur, even if the unemployment rate and other labor market indicators otherwise argue for a hike.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE – Inflation Risks Balanced. As usual, and as expected, the editorial of the ECB's (April) Monthly Bulletin repeated the themes highlighted at last week's post-Council-meeting press-briefing by President Draghi.

FRANCE – Manufacturing Uptrend Clearer. Coming in largely in line with expectations, industrial output edged back up 0.1% in M/M terms in February, after a 0.3% drop in the previous month. There was more energy-related weakness but manufacturing actually rose for the fifth successive %. As a result, the latest data helps highlight a clearer uptrend in the factory sector, not least in terms of the still-positive Y/Y rate (of 1.2%).

Inflation Falls Back. Slightly undershooting expectations, headline CPI inflation decreased 0.3 percentage point to 0.6% Y/Y last month, a five-month low. In M/M terms, prices rose by 0.4%. The lower rate was broadly based but most manifest in clothing prices.

Indeed, underscoring less underlying weakness, the official core inflation measure (which excludes fresh food, energy and taxes effects) fell back from 0.7% Y/Y to 0.4%. Meanwhile, EU-harmonized inflation was also lower, dropping from 1.1% to 0.7%.

ITALY – Industrial Production Corrects Back. Undershooting expectations this time around, February industrial production fell 0.5% M/M, thereby partly unwinding the upwardly-revised 1.1% bounce. Even so, production has risen in four of the last six months of data) with it clear that weather-induced weakness in energy was responsible for much of the February correction. Indeed, it is notable that while Y/Y work-day adjusted growth slowed back down to 0.4%, consumer, capital and intermediate goods output has grown by close to 2% in the last year, a contrast to the 9% slide in energy.

DE View: *These production updates are all the more reassuring as they show clearer manufacturing recovery despite the impact of recent warm weather curbing energy output. As a result, and possibly underscoring that the Eurozone is developing added growth momentum, Eurozone Industrial Production numbers for January due on Monday are expected to rise some 0.6% M/M after the correction posted in the previous month, the latter having been hit by weather-induced weaker energy output.*

NETHERLANDS – Inflation Falls Further. Consumer price inflation fell another 0.3 percentage point to 0.8% last month. Moreover, the EU-harmonized measure fell the same amount but to 0.1%.

OTHER WESTERN EUROPE

UNITED KINGDOM – Housing Buying Interest Diminishes Further? The latest (March) Royal Institution of Chartered Surveyors (RICS) house price survey highlighted a continued upbeat picture for the housing market, but with mixed signals evident, most notable in regard to a fall-off in prospective sellers. Even so, the amount of surveyors (realtors) reporting higher prices recovered clearly, as the headline price net balance jumped back ten points to 57, just short of the 13-year high set in November. Moreover, while sales expectations and buyer enquiries consolidated, agreed sales and expected price changes failed to recover.

Notably, despite a further fall in new instructions, the supply of housing (in the form of unsold stock on surveyors' books) rose afresh, albeit up from the February cycle-year low, as the numbers sold hit a six-year high. Even, the closely watched sales to stock ratio (often seen as an indicator of future prices) fell back, albeit down from the highest since mid-2007.

DE View: the data underscore how the lack of supply, principally an unwillingness of homeowners to put their homes up for sales, is pushing up prices.

SWEDEN – Still Soft Inflation. Undershooting expectations this time around, March headline CPI inflation turned more negative, dropping from -0.2% to -0.6%, the lowest since late-2009 as prices were flat in M/M terms.

Notably, the long-standing core measure (CPIX, which excludes mortgage costs and taxes) dropped similarly but to -0.4% Y/Y, while the underlying measure (CPIF, which the Riksbank now puts more emphasis on and which holds mortgage interest expenditure constant) dropped to zero, still a cycle-low.

DE View: The headline and core rates are below the projections made by the Riksbank in February, the question being the extent to which the timing of Easter has had in dragging inflation down so low. More importantly, however, clearly better business survey and GDP data point to the Riksbank remaining on hold for the foreseeable future. Indeed, the recent undershoot in regard to inflation is far less marked than the overshoot in regard to GDP growth.

NORWAY – Core Inflation Rises Further. Surprising a little to the upside, March CPI data showed mixed developments. Indeed, the headline rate fell another notch to 2.0%, a three-month low, a fall largely driven by softer energy inflation. On a M/M basis, prices rose 0.2%. However, the core rate, CPI-ATE (excluding taxes and electricity) stayed rose 0.2 percentage point to 2.6%, the highest outcome since mid-2009).

DE View: The new data leaves inflation in line or just slightly above Norges Bank projections that were released last month. Regardless, the softer inflation projection perceived from this quarter into next year that the Norges Bank pointed to in its recent and (surprisingly) dovish assessment is challenged by recent data, especially given the likely impact that the late Easter may have had in tempering the March readings.

JAPAN – Andrew Wroblewski, London

Orders Correct Clearly? Very much undershooting expectations this time around, core machinery orders (excluding shipping and utilities) dropped by 8.8% in M/M terms in February, partly unwinding the 13.4% January bounce.

This latest result suggests M/M volatility is even more evident. Even so a clear uptrend is evident, albeit with the Government paring back its assessment to suggest that the uptrend is stalling.

Lending Growth Slips Further. Bank lending data for March showed total bank loan growth slipping another notch to 2.1%, a second successive slowing.

ASIA-PACIFIC ANALYSIS – Chang Liu, London

CHINA – Less Steep Fall in Exports. Confounding expectations of a further deficit, visible trade data for March showed the trade balance swinging into surplus territory to the tune of \$ 7.7 bln from a \$ 1.0 bln shortfall in the same month of the preceding year. The breakdown revealed the latest outcome to be a reflection of a much less steep fall in exports (-6.6% Y/Y from -18.1% in February) coming in contrast to a clear deterioration in imports (-11.3% from 10.1%). On a geographical basis, meanwhile, exports actually improved to most major trading partners, but with clear declines seen to Hong Kong and Taiwan.

As usual, much of the volatility seen in recent months have been blamed by analysts on current account manipulation as well as base effects stemming from similar activities last year. While there is little doubt that these practices do take place to some extent, their impact on overall trade numbers are likely to have been significantly diminished by successive rounds of crackdowns by the Government over the past year. Indeed, a number of other external factors may also be potential culprits behind the recent weakness, including the slowing of arbitrage activity related to the yuan as the PBoC has guided the currency lower in recent weeks as well as the impact of corruption crackdowns following President Xi's rise to power which has significantly dampened trade in luxury goods (such as shark fins and imported red wine). Officially, the Customs Administration only noted that the first quarter weakness was temporary and with growth expected to resume at a steady and mild pace from May onwards—with the full-year target still set at 7.5%.

MALAYSIA – Output Growth Picks Up Further. February industrial production growth rose to 6.7% Y/Y following a 3.5% increase in January. The breakdown showed the latest outcome to be the result of a clear improvement in manufacturing (9.8% from 4.8%) and electricity (8.7% from 0.2%) outweighing a fresh contraction in mining (-1.4% from 0.7%).

SOUTH KOREA – Policy Held. Surprising few, the Bank of Korea (BoK) kept the base lending rate unchanged at 2.50% at its meeting in April. This follows similar decisions in the previous ten months and a 25 bp rate cut in May last year, but all coming after six consecutive decisions to hold policy before that.

Outlook Still Upbeat

The unofficial English translation of the MPC statement had few notable changes from the previous month. Indeed, its assessment of the global economy was repeated nearly verbatim, with the BoK noting a sustained economic recovery in the U.S. alongside less sluggishness in the Eurozone. Emerging markets, however, were now observed to have weakened somewhat (versus shown signs of weakening to some extent). Accordingly, in stating risks to the global outlook, the weakening growth in emerging markets was again front-and-center alongside the possible effects of Fed's policy stance on global financial markets.

The Bank's view of the domestic economy, meanwhile, was also little changed from March, with the Committee noting that growth was still continuing in line with trend. A more detailed assessment, meanwhile, revealed that while exports had continued its uptrend, domestic demand actually saw a temporary slump (versus sluggish). Still, the BoK repeated its more upbeat assessment introduced in January, noting that the negative output gap in the economy will be maintained "for a time being going forward" but will gradually narrow. Indeed, despite a seemingly weaker emerging market backdrop and a temporary setback in domestic demand, the Bank actually revised up its full-year growth forecast to 4.0% for this year from 3.8%.

Inflation Contained

In regard to inflation, the BoK observed a fresh pick-up in both the headline and core measures. However, the Committee still expects inflation to stay low for the time being, largely due to a "bountiful agricultural harvest", but again noting that it will gradually rise further ahead. Once again in slight contrast to the latest developments, but consistent with the Bank's outlook, official projections for 2014 inflation have been reduced to 2.1% from 2.3%.

DE View: Notably, the final paragraph of the Statement, which offers guidance, only saw one alteration in that the Bank now also vowed to pay close attention to external factors including "the weakening of economic growth trends in some emerging market countries" as well as shifts in major countries' monetary policies and geopolitical risks in Eastern Europe in conducting policy going forward. These slight alterations in the Statement, when put into context of the more favorable forecasts released alongside, signals little change in BoK policy thinking over the period ahead. Perhaps just as importantly, this is also the first meeting chaired by new Governor Lee after Governor Kim stepped down from the post earlier this month—with the largely unchanged tones signaling that no major change is likely to occur (at least in the near-term) as a result of the change in leadership. Going forward, however, while an extended period of stable policy is the most likely outcome, odds are increasing that the next move will be a hike possibly sometime next year.

AUSTRALIA – Labor Market Less Soft? Exceeding expectations once again, the level of overall employment rose last month by 18 100, adding to the (slightly upwardly revised) 48 200 gain seen in the previous month and actually the sixth gain in the past seven months. The latest bounce was the result of a bounce of part-time work (40 200), more than offsetting the correction seen in full-time jobs (-22 100, albeit only after an 80 000 surge in February that was the largest since 1991). Even more encouragingly, the seasonally adjusted unemployment rate actually fell clearly and to 5.8% in March, swinging from a cycle-high to a joint six-month low, as the participation rate declined to 64.7% from 64.9%.

DE View: Notably, while the clear drop in the unemployment rate is likely to be exaggerated by the fall in labor participation, there were actually no special factors cited for the broadly upbeat messages seen in the latest survey. Indeed, the latest improvement may be a signal that the economy is successfully rebalancing away from the resources sectors (i.e. that enough jobs are being created in other, non-mining, sectors)—with some even speculating that the RBA's recent calmness regarding the still-strong AUD is a reflection of the improved labor market outlook. On the other hand, these upbeat numbers have pushed the currency to a 4-and-a-half month high,

leaving one to wonder when the Bank may feel the need to jawbone markets afresh in order to stem any premature hiking speculation in the near future.