Amplifying Global FX Capital

7 July 2017

Key economic developments – strong US jobs, strong Canada jobs, strong Eurozone IP, weak UK activity, Japan wages growth, solid Australian PMIs.

US jobs growth momentum remains strong

US jobs growth six-month average 180K, three-month average 194K.

ISM employment indicators recovered from recent lows in April (51.4 & 52.0) to 55.8 and 57.2 in June for non-mfg and mfg respectively.

Unemployment and broader under-employment measures rose from their lows in May, stabilizing after a sharp fall this year.

Average hourly earnings growth rose from a low in May (2.4%y/y) to 2.5%y/y in June, a step down from the peak around the end of last year around 2.7%. Below forecasts with downward revisions.

The participation rate rose a tick from 62.7 to 62.8%, continuing on a stable trend in the last year, up from the lows in 2015. Stable participation is consistent with tightening labour market conditions, considering that aging demographics are seen to be reducing trend participation.

Fed released to monetary policy report that Yellen will testify on next week. I'd expect her to sound very much like she did at the recent FOMC meeting, tending to downplay recent weakness in inflation, lean on forecasts for inflation to rise next year and ongoing moderate growth in the US economy.

The jobs data were mixed, but probably support the USD somewhat.

Canada employment data seal the deal for a rate hike next week

Canada unemployment rate fell from 6.6% to 6.5%, revisiting the cyclical low in April.

Total employment rose 45K in June, above 10K expected, following on from a strong gain in May of 54.5K, continuing a faster pace of growth since around August last year.

Participation rose a tick to 65.9%, similar in pattern to US.

The Ivey Canada whole economy PMI rebounded from its dip in May, to leave the three-month average at a strong 59.3 in June.

Canada 2yr yields rose a further 2bp on Friday, up around 45bp since early June, when the BoC began its shift to a tightening bias. A hike next week on 12 June is now 95% priced in, and two hikes are priced in by December.

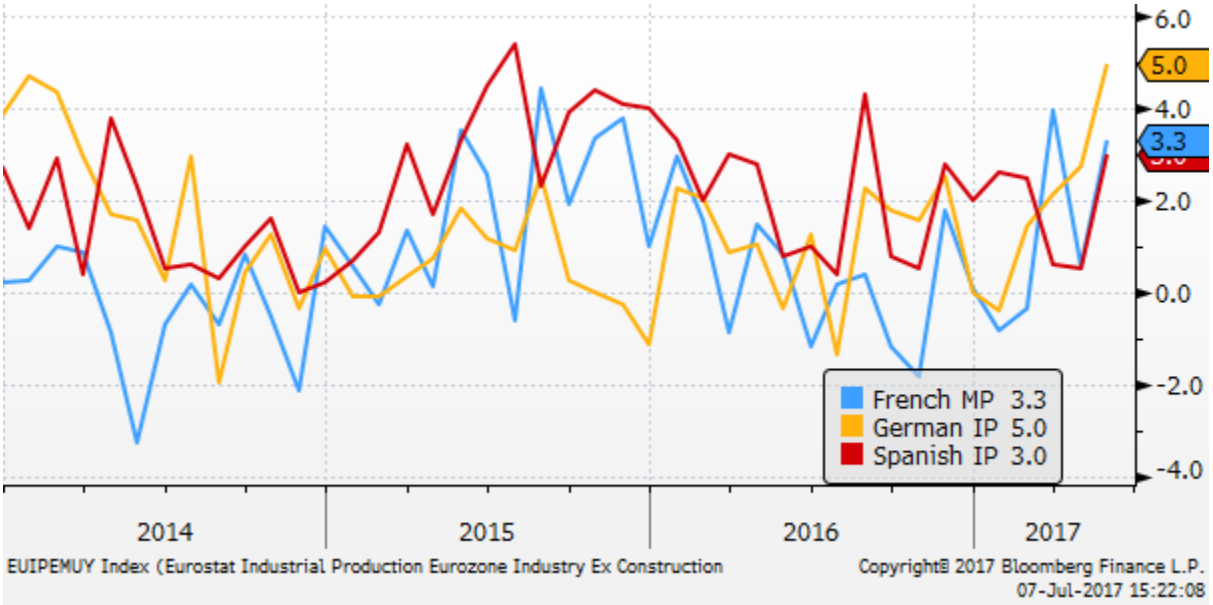
Eurozone strong industrial production in May

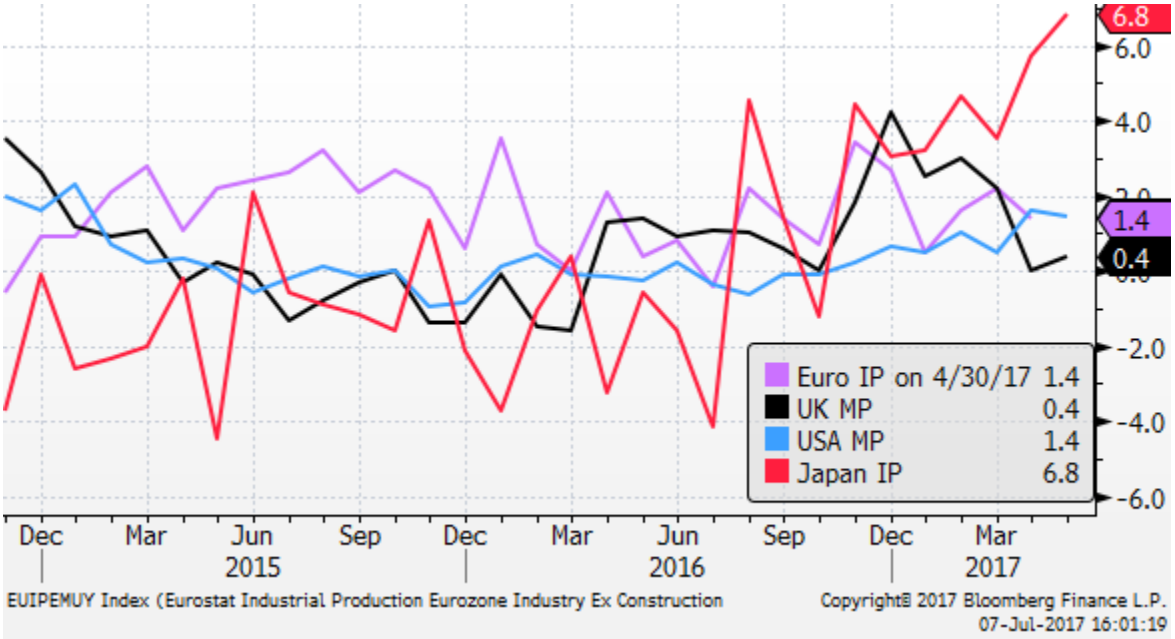
German industrial production rose 5.0%y/y in May, stronger than 4.0%y/y expected, a high growth since 2011.

French manufacturing production rose 3.3%y/y in May, above 1.4% expected, a high three-month average since Jan-2016.

Spin IP rose 3.0%y/y in May, above 2.0%expected.

Industrial production %y/y





Eurozone PMI retailing rose to 53.2 in June, a high in three years of data available (released on Thursday).

Portugal retail sales rose 5.1%y/y in May, a high in data available back to 2011.

UK indicators weak

UK manufacturing production rose 0.4%y/y in May, weaker than 1.0% expected.

UK construction spending fell 0.3%y/y in May, weaker than +1.1% expected.

UK trade balance was also weaker than expected.

UK NIESR GDP estimate for the three months through June was 0.3% 3mth/3mth, pointing to an another weak quarter after the low Q1 GDP result of 0.2%q/q, below the long-run trend of 0.6%.

UK Halifax house price index slowed to 2.6% 3mth-y/y in Jun, below 3.1% expected, a low since 2013.

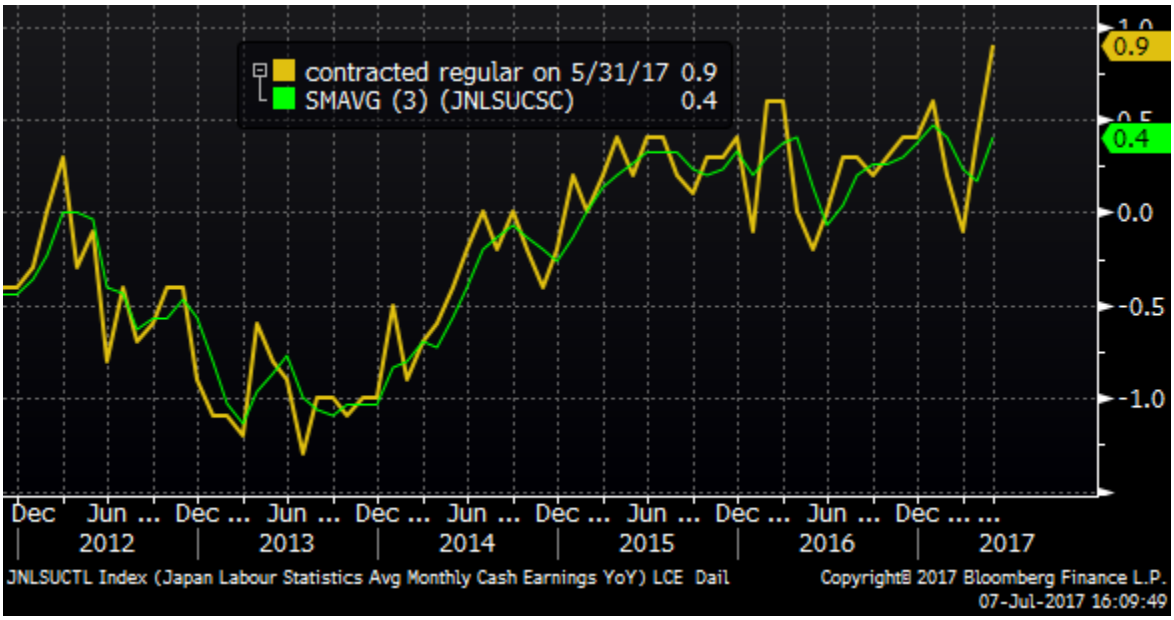
UK 2yr yields fell 2bp on Friday. But are still up by 26bp since the 15 June BoE MPC meeting. The market has a 19% probability priced-in for a hike on 3 August, down from a peak of 27% on 3 July (Monday), up from zero% on 14 June. The market has a 36% chance of a hike by 2 November (the timing of the next quarterly inflation report, after the one to be released on 2 August).

The recent data suggest the talk of a hike by the BoE was premature and they may have to back-track, making GBP vulnerable to a correction.

Japan wage growth maybe

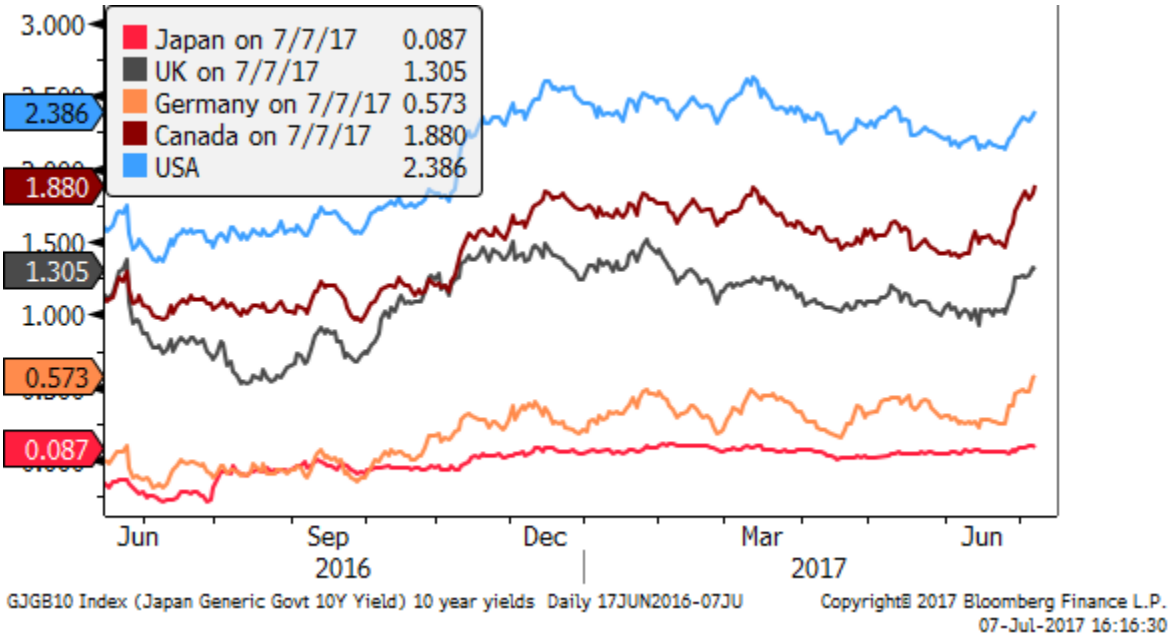
Labor Cash Earnings rose 0.7%y/y in May, above 0.4% expected. Underlying regular contracted earnings rose 0.9%y/y, a high since 2000. The three-month average of underlying earnings was still only 0.4% 3mth-y/y in May, so too early to call a new uptrend, but we need to be watching for wage rises with the jobs-to-applicants ratio at a high since the 1970s, and the unemployment rate around the low since 1995.

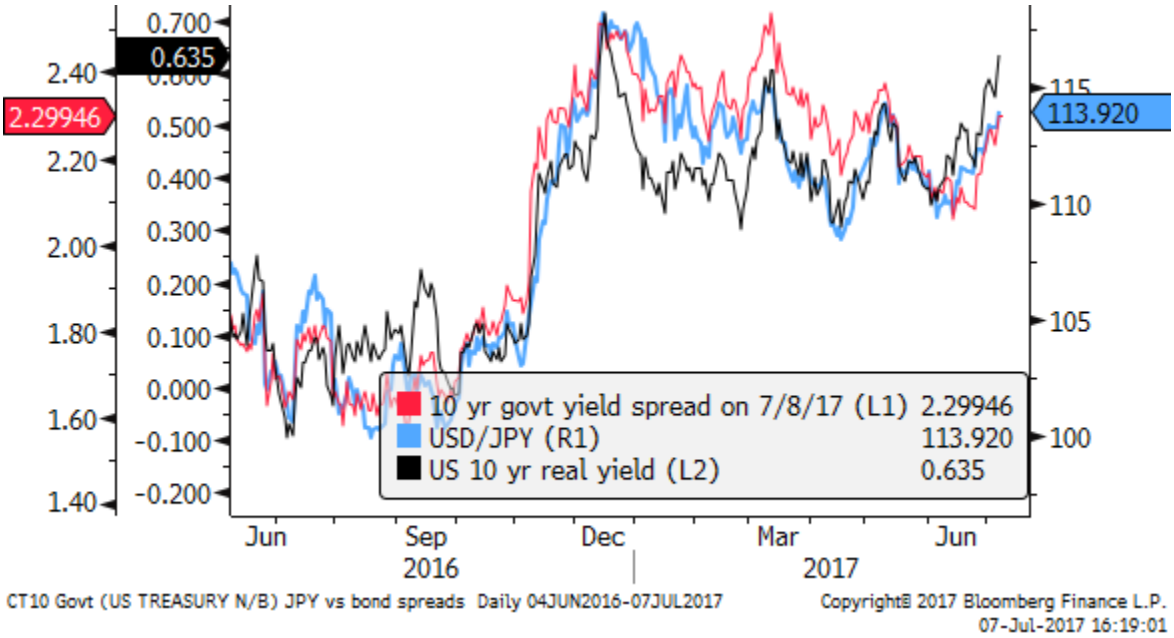
Labor cash earnings contracted regular pay (underlying)



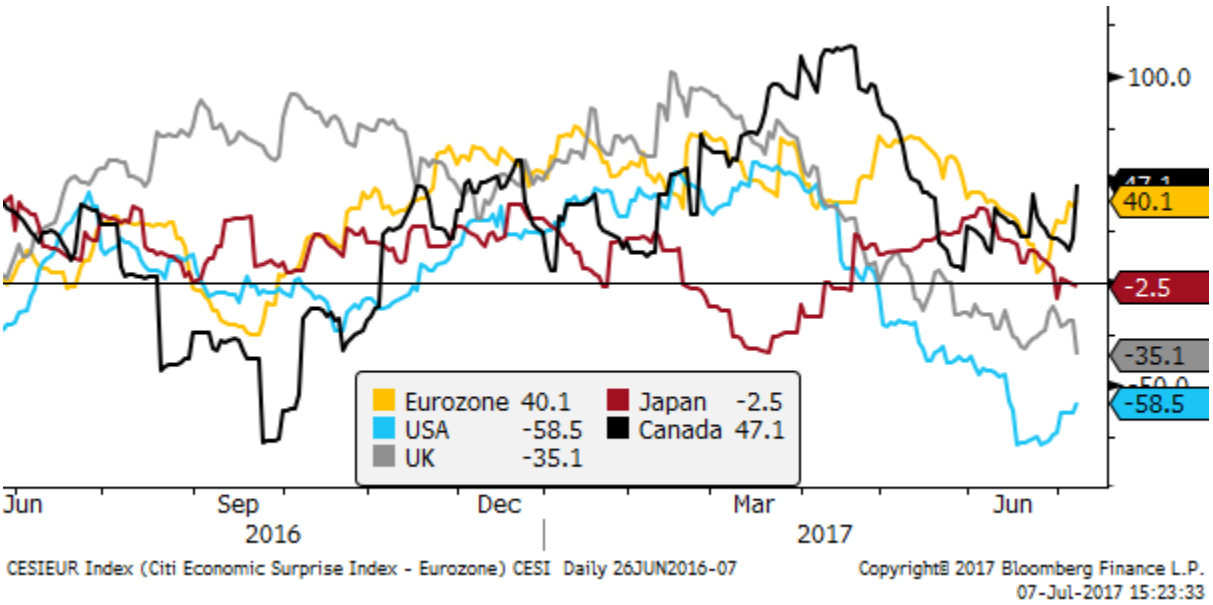
USD/JPY rose to a new high after the BoJ reasserted its yield curve control with a fixed rate JGB purchase operation for 10-year notes at 0.11%, pushing yields down 2bp to 0.085%, despite higher yields in Germany and the USA the day before.

10-year government bond yields





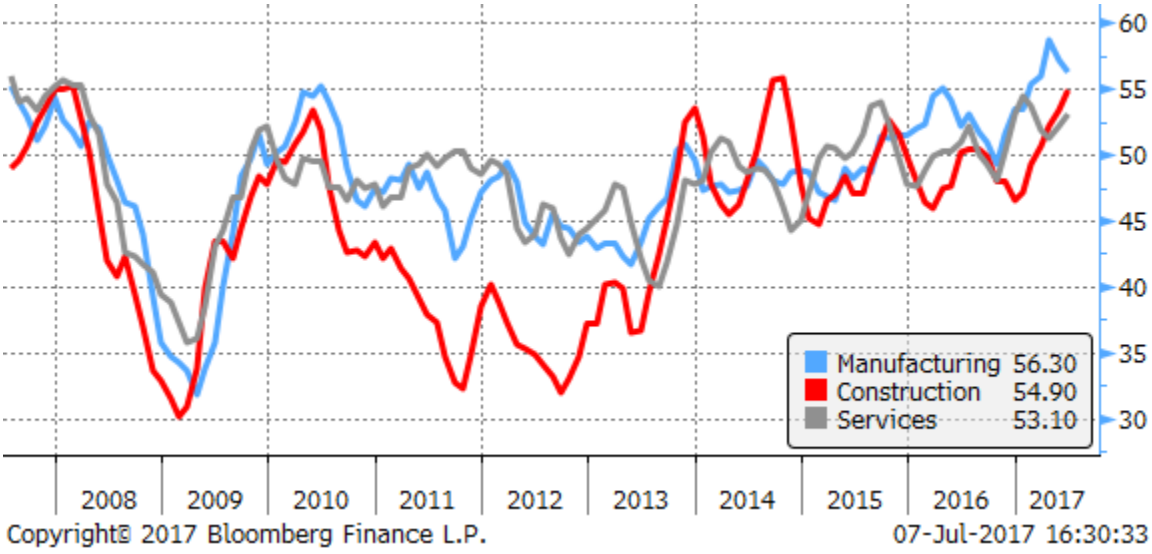
Economic data surprises – US recovering from lows, Canada jumps this week. Eurozone also rising over recent weeks. UK falling and below zero, Japan meeting expectations



Australian PMI data continue recent stronger trend

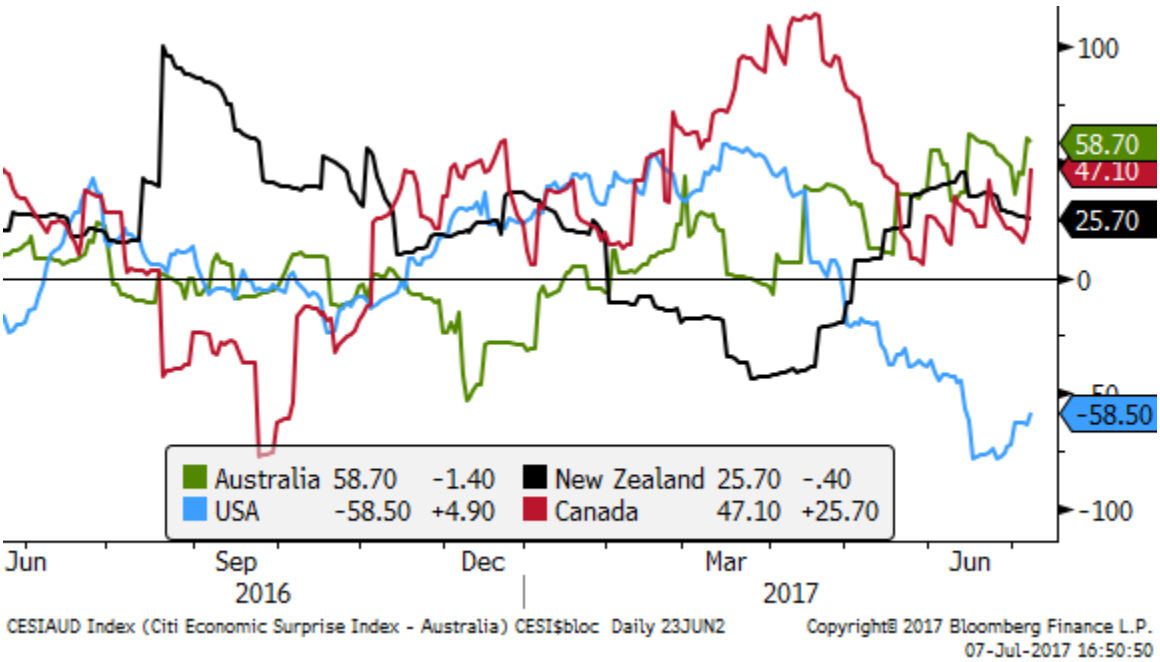
Australian PMI construction was 56.0 in June, raising the three-month average to 54.9, a high since 2014. Earlier in the week, the services PMI rebounded to 54.8 in June, averaging 53.1 over three months, remaining at around the highs since 2015. Last week, the manufacturing PMI was 55.0, holding at around its post-GFC peak.

Australian PMIs – 3mma

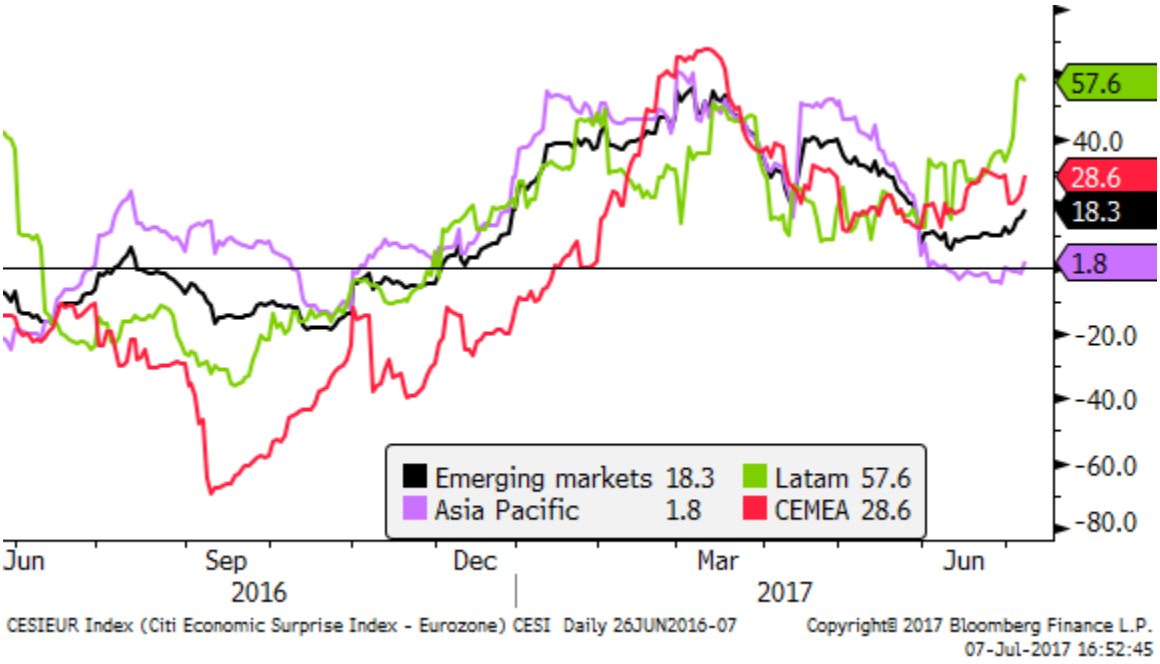


The data suggests that the NAB business survey this week should remain strong, and the employment data next week should also remain on its recent strengthening trend.

Economic surprise indices – Australia up this week to a solidly positive level

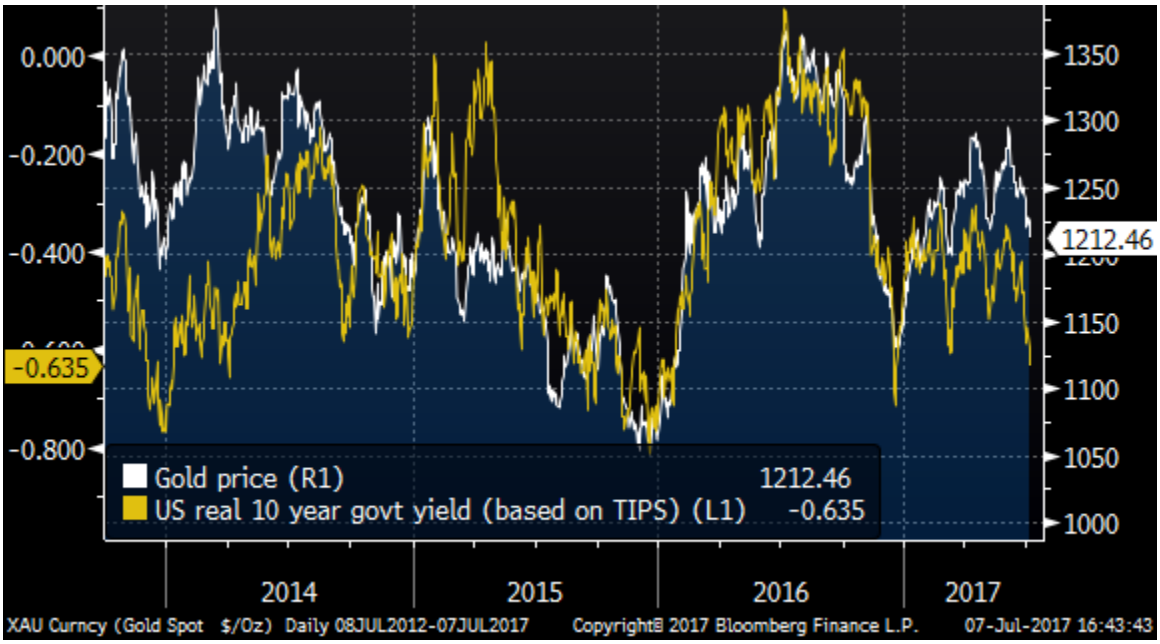


Economic surprises firming in emerging markets. Flat in Asia in the last month.



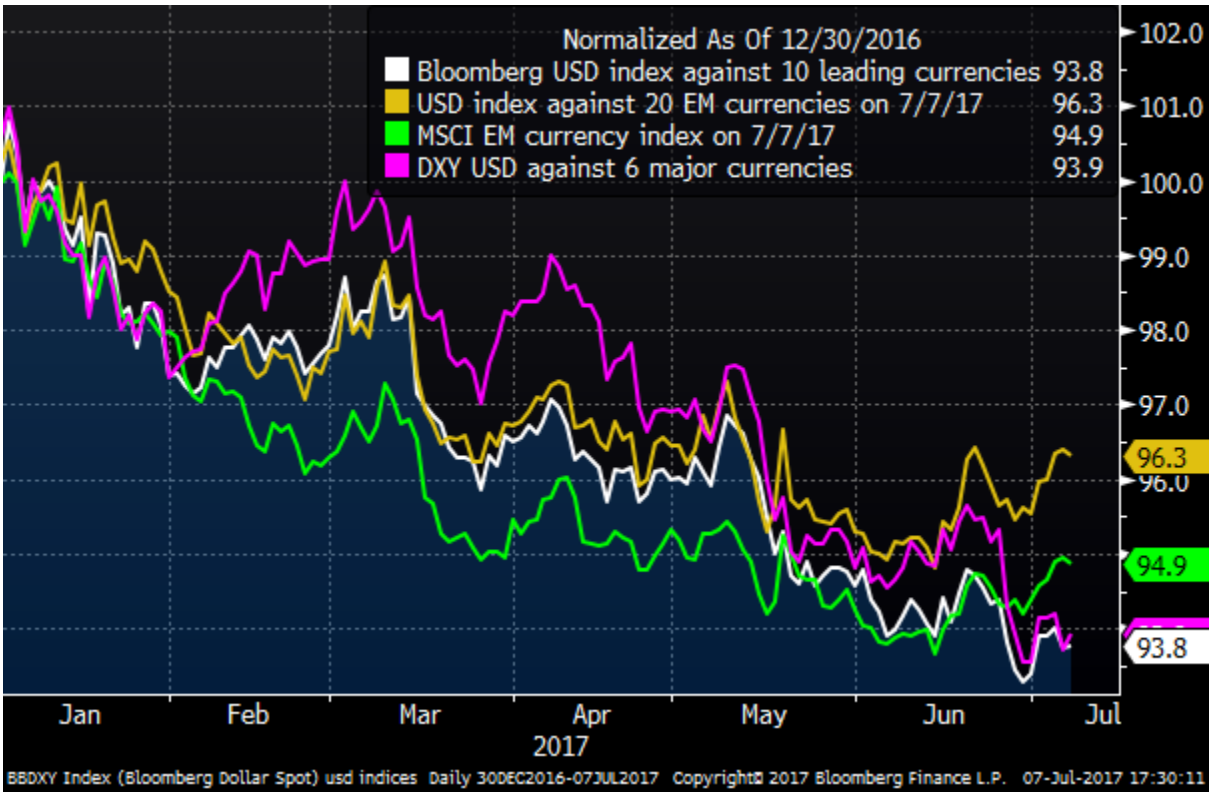
Gold and real yields show dollar strength

The price of gold has fallen to a low since May. This is consistent with the Fed sticking to its policy tightening path despite lower inflation outcomes and inflation expectations. And FOMC members paying more attention to elevated asset prices and financial stability risks. US real long term yields have risen to their high since December. The real yield is correlating well with gold prices.

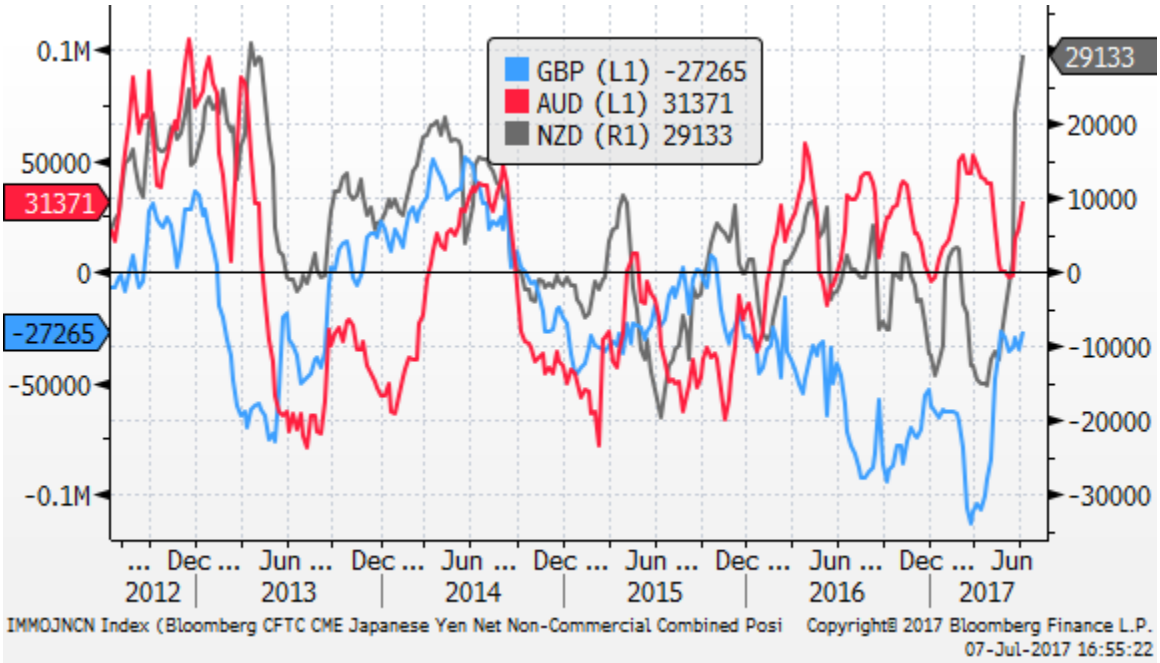


Higher real US yields and lower gold price might typically be associated with a stronger USD. This has shown up recently against some emerging market currencies, but a number of currencies have been out-performing the USD because they are exhibiting stronger economic growth data and have more hawkish central banks as well.

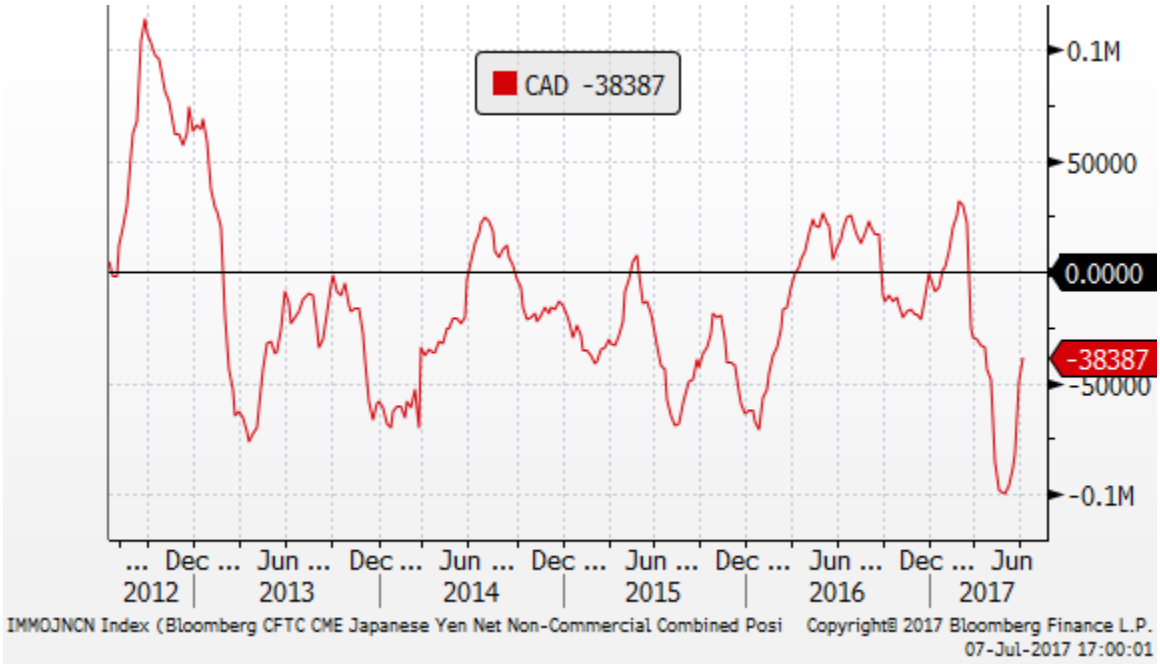
USD indices – stronger against EM currencies since mid-June



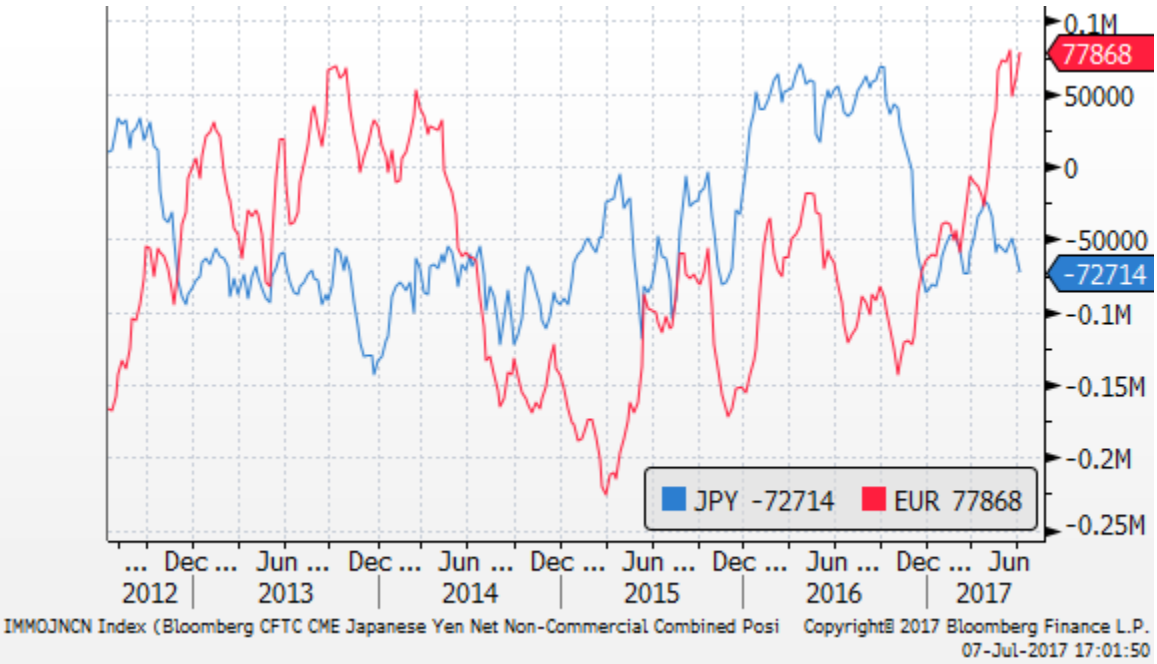
CFTC non-commercial trader net positions in CME currency futures. NZD longs stand-out



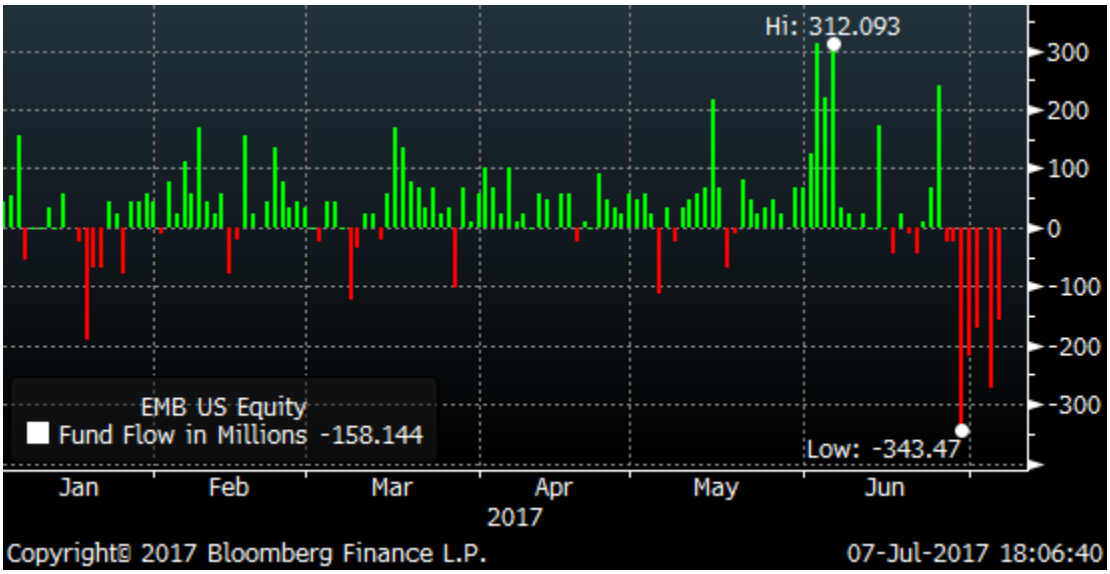
Surprisingly futures traders are still short CAD despite the rate hike anticipated next week and strong CAD on the last month



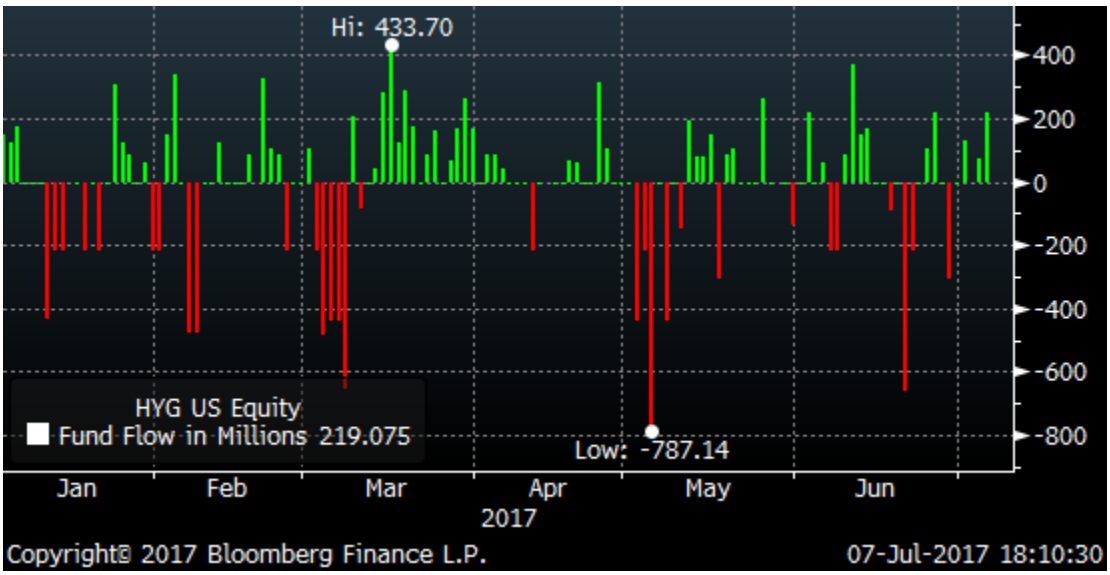
Market is long EUR and short JPY



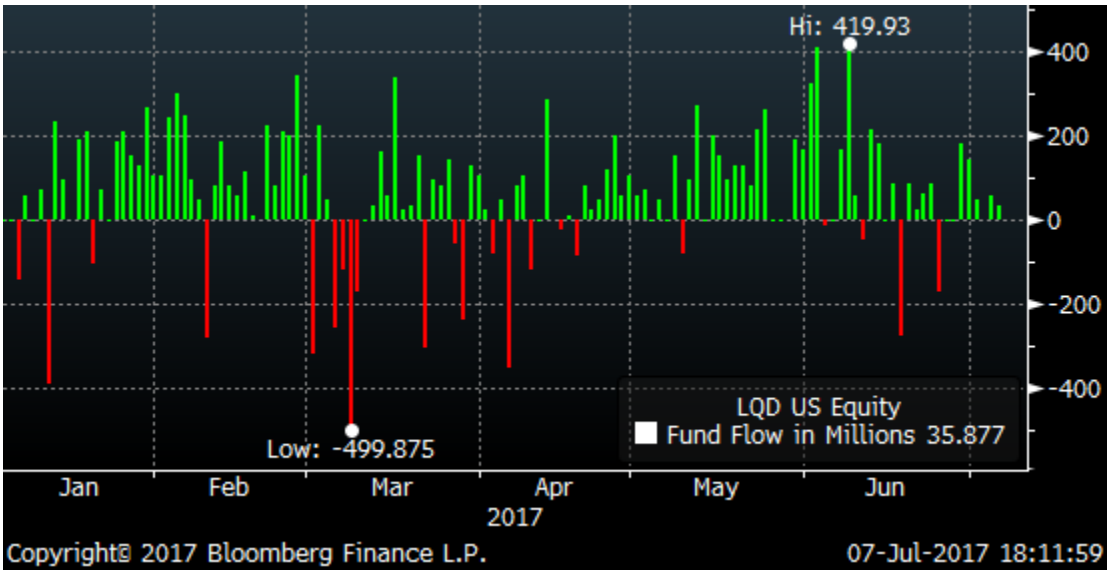
Significant outflows from Emerging Market bond ETF in the last two weeks



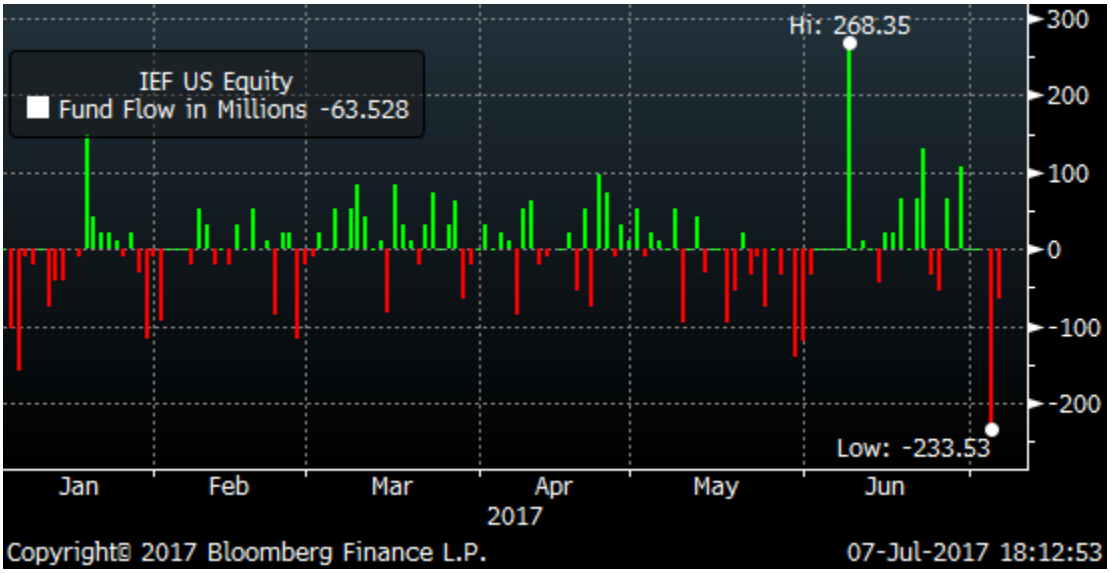
Inflows in the last week to High Yield corp bond ETF



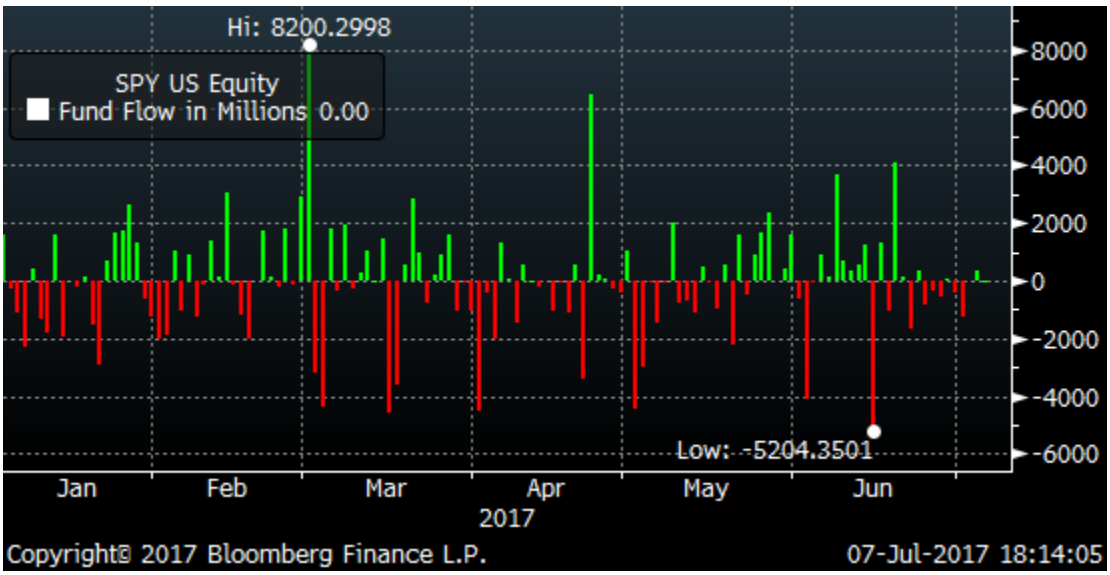
Modest inflows to Investment grade corp bond ETF



Outflows Wed/Thu from US Treasuries ETF



little flows to S&P500 equity ETF in last week



Disclosure and Certification

- The report does not contain and is not based on any non-public, material information.
- The information in this report has been obtained from sources we believe to be reputable and accurate, but we have not independently checked or verified that information.
- This report is protected by copyright laws. Please do not republish, post or distribute in any way its contents without prior permission from our company.
- Our Company is incorporated and licensed in Australia to provide only general financial advice. Please see our financial services guide and terms and conditions for use of this report for more information.

Greg Gibbs,
Founder, Analyst and PM
Amplifying Global FX Capital Pty Ltd