BANK OF THE WEST BNP PARIBAS

# Daily Update

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| Time EST | Indicator | For | | Actual* | Estimate** | Consensus*** | Previous Period**** |
|---|---|---|---|---|---|---|---|
| 08:30 AM | CPI MoM | Aug | ↓ | 0.2% | 0.2% | 0.3% | 0.2% |
| 08:30 AM | CPI Ex Food and Energy MoM | Aug | ↓ | 0.1% | 0.2% | 0.2% | 0.2% |
| 08:30 AM | CPI YoY | Aug | ↓ | 2.7% | NA | 2.8% | 2.9% |
| 08:30 AM | CPI Ex Food and Energy YoY | Aug | ↓ | 2.2% | NA | 2.4% | 2.4% |
| 08:30 AM | Initial Jobless Claims | 08-Sep | ↓ | 204k | 210k | 210k | 205k R↑ |
| 08:30 AM | Continuing Claims | 01-Sep | ↓ | 1696k | NA | 1710k | 1711k R↑ |
| 02:00 PM | Monthly Budget Statement | Aug | | | NA | -$166.5b | -$76.9b |

* ↑ indicates stronger than Consensus estimated, ↓indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

**Estimate from Bank of the West Economics

***Consensus from Bloomberg

****↑means prior reading revised up, ↓means prior reading revised down

## U.S.-China Expected to Resume Trade Talks, Turkey Tightens, and U.S. Consumer Inflation Slows in August

The Trump Administration has extended an invitation to Chinese officials to resume trade discussions according to Larry Kudlow, the Director of the National Economic Council. This comes after a report earlier this week that China was going to file a formal complaint with the World Trade Organization accusing the U.S. of violating trade rules with regard to dumping duties and as the administration is prepared to place tariffs on another $200 billion of Chinese exports.

Meanwhile, Europe's central banks have been busy today. Turkey's central bank surprised the markets with an increase in its main policy rate by 625 basis points to 24%, defying Turkey's President Erdogan. The central bank is trying to slow accelerating inflation and further declines in the Turkish lira. The ECB announced it will cut its quantitative easing (bond buying) in half in October and stop new bond purchases all together by year-end as expected. Despite the imminent end of the ECB's quantitative easing program, the central bank does not expect to begin raising interest rates from their present level until next summer. Finally, the Bank of England voted unanimously to hold their policy rate steady and pledged that future rate hikes would be limited and gradual. Britain's Brexit uncertainty has been rising since August acting as a drag on U.K. business investment spending.

Aligned with the producer price inflation data released yesterday, consumer price inflation came is lighter-than-expected for August. Consumer prices rose 0.2% month-on-month in August, below the consensus estimate of 0.3% but in-line with our forecast and unchanged from the previous month. Increases in gas prices (+3.0%) and airfares (+2.4%) were partially offset by declines in apparel prices (-1.6%), the third consecutive monthly decline, and healthcare services prices (-0.2%). Core consumer inflation – excluding food and energy increased a modest 0.1% last month, after three straight monthly increases of 0.2%. This was also slightly below economist expectations for a rise of 0.2%. On a year-ago basis, overall consumer inflation slowed to 2.7% (down from 2.9% in July) and core consumer inflation moderated to 2.2% (down from 2.4% in July).

Underlying consumer inflation appears to be moderating a bit, in line with our forecasts, but additional tariffs on Chinese imports could create at least a temporary boost to consumer inflation in the months ahead if fully implemented. Moreover, this one month softening in consumer and producer inflation is unlikely to change many minds on the FOMC about the proper path of future interest rate hikes. This report will not prevent the Fed from raising interest rates by a quarter percentage point when they meet later this month.

Initial jobless claims remain leaner than expected, coming in at 204K for the week ending September 8. This was slightly below the consensus view and a decline of 1K from the previous week. Claims are now close to a 49-year low. The four-week moving average of initial claims also fell 2K last week to 208K, also the lowest level since December 1969.

U.S. stocks are higher this morning on the Turkey central bank move. The Dow and the S&P 500 are up 0.38% and 0.41% respectively, while the NASDAQ is up 0.74%. Advances in the S&P 500 today are led by information technology, materials, and health care stocks.

Treasury yields are modestly lower this morning on the softening inflation data. The 10-Year Treasury yield is currently trading at 2.950 – down 1.3 basis points from Wednesday's close. The 2-10 Treasury spread is 20.3 basis points – down 1.3 basis points from yesterday's close. The futures market probability of another Fed funds rate hike in September is 99.8% this morning, unchanged from yesterday.

The U.S. dollar is losing ground against the major currencies today. The Bloomberg dollar spot index is down 0.19% from yesterday's close. The U.S. dollar is decreasing the most against the euro, Mexican peso, and British pound today.