Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
09:45 AM	Markit US Manufacturing PMI	Nov F	↓	55.3	55.4	55.4	55.4
10:00 AM	Construction Spending MoM	Oct	↓	-0.1%	0.2%	0.4%	-0.1% R↓
10:00 AM	ISM Manufacturing	Nov	↑	59.3	57.2	57.5	57.7
12:00 AM	Wards Total Vehicle Sales	Nov			17.00m	17.20m	17.50m

* ↑ 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 Agree To Ceasefire in Trade War, U.S. Construction Spending Disappoints In October

President Trump and Chinese President Xi Jinping agreed to a temporary ceasefire in the trade disagreement between the two counties. As part of the deal, the U.S. has agreed to postpone the increase in the tariff rate to 25% on $200 billion in Chinese exports that was scheduled to go into effect on January 1. The current rate is 10%. For its part, China agreed to resume buying some U.S. farm, energy and industrial commodities. The ceasefire will last until March 1, 2019 as trade negotiations continue covering broader topics including technology transfer, cyber theft and intellectual property.

I think the Trump-Xi ceasefire was the best outcome that could have been expected going into the meeting this week. The announcement keeps the worst case outcome of an escalation of the trade war and tariffs at bay for at least the first 90 days of 2019, which lifts a major headwind for global investors and equity markets near-term. As far as the U.S. economy is concerned, the initial impacts should be modestly positive. The ceasefire will blunt deterioration in business and consumer confidence and spending over the next three months that would have resulted from a failure to reach any agreement at the dinner. However, lingering uncertainty on the ultimate outcome of negotiations in the first quarter will continue to be a drag on future business investment plans.

Near-term, sales for soybean farmers, energy, and industrial goods manufacturers that rely heavily on Chinese buyers will rebound and prices should stabilize. Longer-term, we still need a more permanent solution on forced technology transfer and intellectual property protection to ensure U.S. economic success in the years to come. Unfortunately, a potential escalation of the U.S./China trade war remains a downside risk to our 2019 economic outlook.

Construction spending declined 0.1% month-on-month in October, on par with the downwardly revised reading of September but well below the expected advance of 0.4%. This is the third successive monthly decrease. The decline was limited to residential construction which contracted 0.5%. Nonresidential construction grew 0.1%. Private construction decreased 0.4% in October while public construction advanced 0.8%. Finally, on a year-ago basis, construction spending is up 4.9% year-on-year in October with nonresidential construction up 7.3% and residential construction up a more modest 1.7%.

The ISM Manufacturing Index improved to 59.3 in November, up from 57.7 in October and well above the consensus view for a reading of 57.5. Five of the 10 components increased from last month, led by new orders (+4.7 points), inventories (+2.2 points) and employment (+1.6 points). The biggest decline was in the prices paid index which plunged 10.9 points. Despite the sharp decline, price pressures continue but at notably lower levels than in recent months. Finally, export orders were stable suggesting no significant impact from the U.S.-China trade war as of yet.

U.S. stocks were up sharply this morning on the encouraging news on the U.S.-China trade dispute, but gains have moderated from their morning highs. The Dow and the S&P 500 are up 0.72% and 0.59% respectively, while the NASDAQ is up 1.09%. Gains in the S&P 500 today are led by consumer discretionary, energy, and information technology stocks.

Treasury yields are mostly higher across the curve this morning. The 10-Year Treasury yield is currently at 2.991 – up 0.4 basis points from Friday's close. The yield curve is getting flatter, however. The 2-10 Treasury spread is just 17.4 basis points – down 2.9 basis points from Friday's close. The futures market probability of another Fed funds rate hike in December is 80.5% this morning, up from 78.0% on Friday.

The U.S. dollar is down against the major currencies today. The Bloomberg dollar spot index is down 0.38% from yesterday's close but is up 0.34% over the last month. The U.S. dollar is losing the most ground today against the, euro, Canadian dollar and Mexican peso.