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CONY Flash Macro Note **July 24, 2019**

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Flash Macro Update (07/24/2019)

Ahead of the FOMC meeting there was another important data release today. After the disappointing July PMI yesterday that softened to 50 level being the lowest reading since 2009 and after ECB's signals that further monetary policy easing is on the way (probably in September) today, durable goods orders in the US for June was important. And the data came out stronger than forecasted. Certainly, FED does not look at one data point, but recent dataflow indicated that economy is doing just fine. ECB today did not take any action, but implicitly open the door for a rate cut and probably deposit tiering in September.

June durable goods orders posted a m-o-m increase of 2.0%, which was better than the consensus of 0.7%. But it is worth noting that there was a relatively sharp downward revisions for previous months that offset better than expected June reading. For instance, May durable goods orders that previously registered a 1.3% m-o-m decline, are revised down to -2.3%. With the June data, we calculate that durable goods orders recorded only 0.5% y-o-y increase in the first half of the year, which is not that promising.

The market also likes to follow the so-called core durable goods orders that excludes transportation items. Core durable goods orders were up by +1.2% m-o-m in June compared to the consensus of +0.2%. We should also highlight that the May core data revised up from +0.4% to +0.5%. Core durable goods orders in the second quarter continued to signal that 2Q GDP growth will be slower than 1Q GDP growth. Please note that the second quarter GDP growth data will be released on July 26.

There is also one important item, which is the proxy for future capital expenditures of companies. That proxy, non-defence capital orders excluding aircraft, recorded a 1.9% m-o-m increase in June compared to consensus of +0.2%. It is worth noting that this item posted a 0.4% m-o-m increase in May. This hints that US economy is not near a recession at this stage.

Regarding the FED's monetary policy, the recent dataflow suggests that an aggressive rate cut in July would be too premature, in our view. In fact, even a 25 bps rate in July could be debatable, but FED has probably enough reasons to deliver one 25 bps rate cut for now. These reasons seem to be; 1- Slowing down global economy starting with China and Europe, 2- Brexit uncertainty, 3- Trade war between China and US, 4- Low levels of inflation in the US.

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