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Flash Macro Update (05/24/2019)

After some disappointing macro data (recent home sales and PMI reading) in the US all eyes were turned to April durable goods data, which was released today. Durable goods orders in April also disappointed. April durable goods orders posted a m-o-m decline of 2.1%, which was pretty much in line with expectations. However, the downward revisions supported the bearish camp's view that US economy is slowing down fast. For instance, March durable goods orders that previously registered a 2.8% m-o-m increase, are revised down to +1.7%.

The market also likes to follow the so-called core durable goods orders that excludes transportation items. Core durable goods orders were flat in April compared to the consensus of +0.2%. We should highlight that the March core data also revised down from +0.2% to -0.5%, hinting that there would be a downward revision to the 1Q19 GDP that posted a 3.2% increase.

When we look at the details of the data, we see a broad-based weakening, but it is worth noting that two sectors seem to be the main culprit behind the weak durable goods order data in April. These sectors are autos and aircrafts. Non-defence aircrafts posted a 25% m-o-m decline (could be related to Boeing's recent issues) and autos recorded a 3.4% m-o-m contraction in April.

There is also one important item, which is the proxy for future capital expenditures of companies, confirms that company specific developments and intensifying trade war between China and US started to take its toll on numbers. That proxy, non-defence capital orders excluding aircraft, recorded a 0.9% m-o-m decline in April after rising by 0.3% m-o-m in February and in March, respectively.

The data suggests that the bond yields in the US could decline further, pricing in a rate cut from the FED in the remainder of the year. According to FED funds futures, financial markets started to price in one rate cut in September. As of today, this is a discrepancy between markets and the FED, as the FED has employed 'a wait and see' approach. However, US-China trade talks are not going well and any further escalation of the tension could force FED in the coming months. Next FOMC meeting will be held on June 18/19.

Ozgur ALTUG
Chief Economist
CONY Global Macro Strategy