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Flash Macro Update (06/26/2019)

After the FED's FOMC meeting, in which FED clearly signalled that it started to warm up to a rate cut at the coming meetings, high frequency data gained more importance. Therefore, today's durable goods orders data was important. The data was weak in general supporting the expectations that the FED will cut its rate in the coming period. Certainly, FED does not look at one data point, but recent dataflow indicated that economy lost some pace compared to 2018.

May durable goods orders posted a m-o-m decline of 1.3%, which was worse than the consensus of -0.1%. In addition, there were further downward revisions in previous months. For instance, April durable goods orders that previously registered a 2.1% m-o-m decline, are revised down to -2.8%. With the May data we calculate that durable goods orders recorded only 1.2% y-o-y increase in the first five months of the year, which is not 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 +0.3% m-o-m in May compared to the consensus of +0.1%. But we should highlight that the April core data also revised down from +0.0% to -0.1%, confirming that 2Q19 GDP growth will be slower than the 1Q19 GDP growth despite some increase in capital goods orders.

Apart from the increase in capital goods orders, 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 0.4% m-o-m increase in May compared to consensus of +0.1%. It is worth noting that this item declined by 1.0% m-o-m in April.

Headline was significantly weak, but there were some alleviating factors in the details. However, overall durable goods orders data seemed to be weak in May. We think that the main issue in the market is not the timing or possibility of a rate cut anymore. Pretty much all market participants are sure that there will be a monetary policy easing in the US and probably rest of the world as well. But the question is whether FED will cut its rate by 25 bps or 50 bps or maybe more. Markets were leaned towards larger cuts, whereas FED officials seem to support a 25-bps cut for now.

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