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Flash Macro Update (06/07/2019)

Most important data of the week were released today. May job data disappointed and it seems that escalated tension in trade talks between US and China is the main culprit behind the weak data. Later in May, new tariff talks on Mexico also did not have positive impact on job creation in the US. After the job data, rate cut expectations intensified in the market that boosted gold, US Treasuries and stock futures. But it is worth noting that at some point equities might price in the real reason behind the rate cut expectations!

According to the data, U.S. economy produced 75k non-farm jobs versus expectations of 185k in May. In addition, the April non-farm payroll data was revised down from +263k to +224k, while there was another downward revision in March reading by 36k. We observe that labor force participation rate remained unchanged at 62.8% in May after falling from 63.0% to 62.8% in April. With the May data, unemployment rate in the US also remained unchanged at 3.6% in May hovering at its lowest level in the last five decades.

As important as the aforementioned figures, average hourly earnings came in at +0.2% in May, which was lower than expectations (cons: +0.3%) and point to an annual increase of 3.1% in May compared to 3.2% in April. So overall the data continued to signal that there is no inflationary pressure and no recession yet.

Employment increased in private sector but declined slightly in the public sector. When we look at the details, we see that the job cuts in the retail sector continued at full speed, which is a structural phenomenon due to online retailing, in our opinion, whereas other sectors did well in terms of creating jobs but still the performance in May was weaker than in April. In fact, apart from retail and information sectors, pretty much all sectors added new jobs in May but at a slower pace.

Although we see that rate cut camp in financial markets gets stronger and stronger, we do not expect FED to start easing its monetary policy in its upcoming June meeting. Probably, depending on the macro dataflow a rate cut could be on the agenda in the last quarter of the year.

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