High Frequency Economics®
Daily Data Analysis and Assessment of the Global Economy

Weekly Notes on the **Global Economy**

October 15, 2018. Worldwide Edition

Carl B. Weinberg, Chief International Economist

Euroland's Three-Ring Circus

Financial market participants in Euroland have coincident challenges to digest right now. Several are coming to a head this week. *This could be an uncertain and volatile week for markets.*

As macroeconomists, we start our watch with growing anxiety about the **health of Euroland's economic expansion**. Friday's report did show a bigger-than-expected 1% jump in industrial production in August. However, a one-month windfall does not change the economic seas. ***The August jump in production failed to offset declines of 0.7% in both June and July!*** So the trend is still down. It will average flat in the third quarter, signalling flat GDP, unless September's result is a huge increase. While a slowing economy is no promise of falling equity prices, the economy surely will not help to reverse the trend declines that have already become well-established in the Euro Zone equity markets. Our charts are on page 10.

Those equity market declines got worse last week. Regardless of why they are occurring, **falling stocks tighten financial conditions** at a time when the ECB wants to sustain monetary easing: We see the ECB reducing its QE involuntarily, only for lack of assets it can buy. *We think it does not want to reduce stimulus now*. The inflation target is neither attained nor assured. The ECB is holding all other monetary conditions unchanged, even as it begins to taper its asset purchases. *Falling equity prices are an unwelcome drag on economic growth.*

Third, **Italy's draft budget** is causing drama. It arrives in Brussels today, sporting a 2019 deficit equal to 2.4% of GDP and an increase in the debt-to-GDP ratio. This run-up in Italy's already excessive debt ratio breaks EU rules. Brussels will insist that Italy revise its budget to keep the debt ratio constant, at least. Rome will refuse. This standoff has no precedent, although the treaties say Italy's government can be sanctioned. *Markets are pricing in a crisis.*

We disagree. We expect Italy's challenge to EU rules on deficits will be resolved by a ***process****, not a* ***crisis****. We expect the EU will let Italy slide for one year at least. Italy's* Tesoro *will not be bankrupted or forced to default on its debt on account of a couple of extra percentage points of GDP added to the fiscal deficit or national debt. No one is going to boot Italy out of Europe over this right now.* The EU has enough trouble already. However, resolution will not be apparent to markets this week.

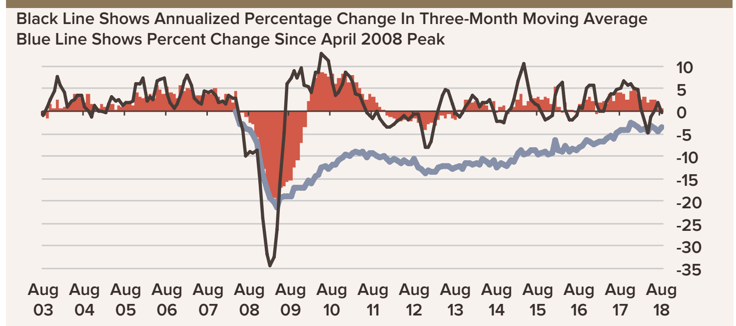
(Continued on page 6)

When Will Brexit Bite Wages In Britain?

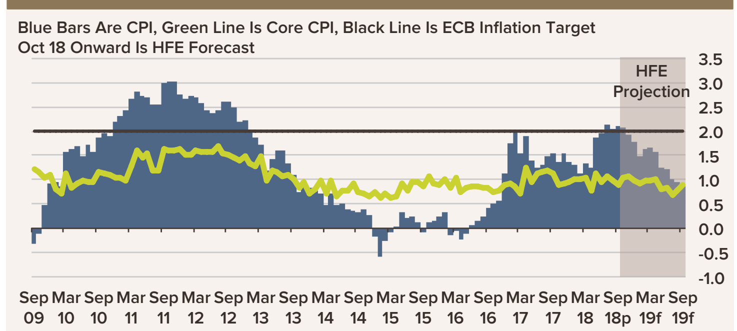
We have all read the weekend Brexit news. We focus on those developments on page seven. Here, we will worry that Brexit's main goal is to close the border to immigration. A hard Brexit—the likely outcome right now—would close the border and disenfranchise EU citizens already working in Britain in 23 weeks. That would cut the supply of labor, leading to both rising wages—especially in services and agriculture—and lower potential output. In short, it promises stagflation.

Is it too soon to look for wages to pick up in this week's data? *Possibly not!* Our model does not predict it, but our model also does not "know" about Brexit because it has never been happened before. *So watch out for an upside surprise. It has to start sometime!*

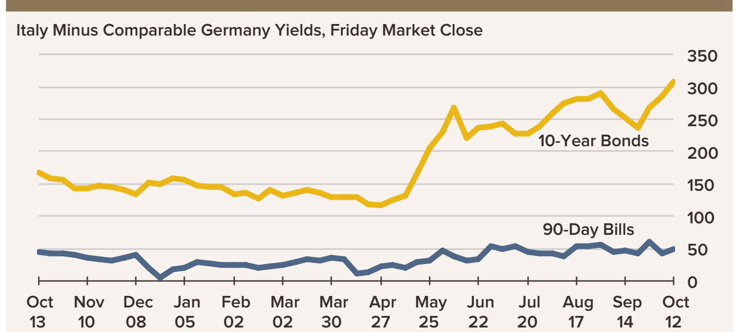
Euro Zone: Industrial Production, Percent Change Year Ago



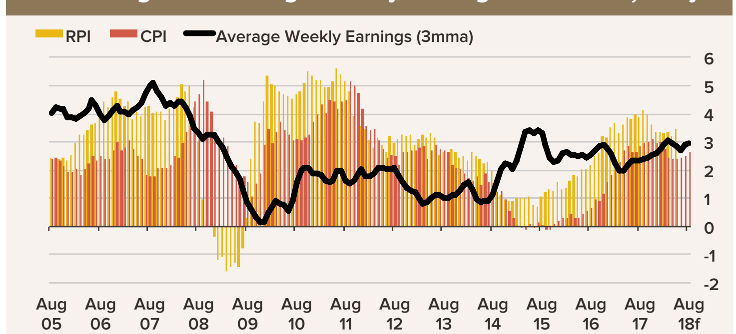
Euro Zone: CPI, Percent Change Year Ago



Germany Vs Italy: Yield Spreads, Basis Points



United Kingdom: Average Weekly Earnings Ex Bonuses, %chya



Weekly Calendar of International Economic Events & Data Releases

High Frequency Economics®

	United States	Canada	Japan	France	Germany	United Kingdom	Australia	Europe & Global
Monday Oct 15	Empire State Svy (10) ***Retail Sales (9)** Inventories (8)	Loan Officer Svy (Q3)	Industrial Prod'n (8r)			**165 Days To Brexit**		Call For Repo Tenders IT Budget To EU
Tuesday Oct 16	***NAHB Index (10)** ***Industrial Prod'n (9)** JOLTS Survey (8) TIC Flows (8)	Int'l Securities Flows (8)			**ZEW Survey (10)** Import Prices (8)	**164 Days To Brexit** Claimant Count (9) **ILO Employment (8)** **Avg Wkly Earnings (8)**	**RBA Minutes (10)**	**TRADE (8)** Wkly Repos Allocated
Wednesday Oct 17	***Housing Starts (9)** FOMC Minutes Wkly MBA Mortgages	**Survey of Mfg (8)**				**163 Days To Brexit** **CPI (9)** PPI (9)		**EU Summit Dinner** CPI (9r) Vehicle Regs (9) Construction (8)
Thursday Oct 18	***Philly Fed Survey (10)** LEI (9) ***Wkly Initial Claims**	**UI Claims (8)**	**TRADE (9)**		WPI (9)	**162 Days To Brexit** **Retail Sales (9)**	**Employment (9)**	**HFE Brexit Webinar** **EU Summit**
Friday Oct 19	***Existing Home Sls (9)**	**CPI (9)** **Retail Sales (8)**	BoJ's Kuroda Speaks			**23 Weeks To Brexit** PSNCR (9) BoE's Carney Speaks		**EU Summit** Current Account (8)
Sometime Soon	*Treasury Budget (9)* **November 8:** FOMC Decision	**October 24:** BoC Council Decision	**October 31:** BoJ Board Decision	**October 30:** Household Spd'g (8)	**October 25:** IFO Survey (10)	**October 29:** Budget 2019-20 **November 1:** MPC Decision	**November 6:** RBA Board Decision	**Oct 25:** ECB Council **Nov 5-6:** EU FinMins **Nov 30:** G-20 Summit **Dec 13-14:** EU Summit
Key Data	Solid Retail Sales Housing Starts Down	Puzzling Slowdown In Mfg, BoC To Hike!	Trade Balance Flat Exports Slowing	Quiet Week No Data	FFT Prepares To Welcome City Banks	First Sign Of Wage Gain Before Brexit?	Slow Progress To Full Employment	Summit Will Have No Brexit Deal To Mull

CCI or **BCI** = Consumer or Business Confidence Index. **HPI** = House Price Index. **a** = Advance. **s** = Second. **p** = Preliminary. **r** = Revision. **f** = Final. Dates are in parentheses: **(1)** indicates January, etc. ***Indicates subjects of HFE Snapshots.** *Italics indicate HFE estimated release date.*

Carl B. Weinberg, Chief International Economist

International Yield Curves

We are wary beyond all reason about risks to the yield curve in ***Britain*** *as this week's EU Summit unfolds.* Unless a "deal" can be struck to avert a hard Brexit—urgent negotiations yesterday yielded no fruit—Britain will fall out of the EU in just 23 weeks, with no separation agreement and no transition period. That will mean a sudden closure of the border to immigration, an instant loss of the business of the City, shortfalls of food and drugs, and possibly no rail, sea, air or telecom service with the EU. These will all constrain output, and a labor shortage will trigger a jump in wages. Stagflation should steepen the yield curve. We see no reason for that shift not to start right now!

Euroland faces multiple challenges this week in addition to the prospect of a hard Brexit... which is actually relatively low on its list of concerns. **Italy**'s draft budget will be submitted to Brussels for review today. It is sure to be rejected, and Rome will refuse to adjust it to meet European budget guidelines. *The resulting standoff will end, we think, with a negotiation to give Rome a year to prove its hypothesis that fiscal stimulus will boost the economy. It will not end in a budgetary crisis or a default for Italy. So Italy's yield curve may spike steeper this week, if markets panic, but we do not expect a crisis unless a bank fails because of losses on sovereign bonds. One can guess that we have until year-end before that happens.*

In **Germany** and **France**, sovereign bonds remain a safe haven from equity market reversals. If stock markets continue to adjust lower, yield curves there should flatten. Remember that Bunds in particular are in short supply. Windfalls to Germany's economy from City businesses relocating to Frankfurt should boost growth and the fiscal surplus next year. So even though our expectations for Q3 GDP in Germany are grim, longer-term prospects look better.

Japan's yield curve remains immobilized by BoJ asset purchases.

We expect manufacturing survey data in **Canada** will seal the deal on rate hike expectations for the BoC's October 24 decision. The jobless rate shows a fully employed workforce, and StatCan's estimates show industrial capacity nearly fully used. *The time to hesitate is through!* Weakening data from the housing market are not going to stay the hand of a central bank that is worried about busting through full employment and capacity utilization. *HFE expects the BoC to hike as much as the Fed over the next year, maybe even more. That means a rising and steepening yield curve and a steady or strong loonie. With NAFTA uncertainty now mostly settled, the C$ has scope to rise.*

Desperately slow declines in **Australia**'s unemployment rate will not prompt any change in the RBA's wait-it-out stance on interest rates.

Yields On 90-Day Paper — October 12, 2018

		Spread Against:							Curve's
Country	**Yield**	**U.S.**	**Canada**	**Japan**	**France**	**U.K.**	**Germany**	**Aus**	**Slope***
U.S.	2.26	—	+0.66	+2.21	+2.99	+1.61	+2.97	+0.32	0.90
Canada	1.60	-0.66	—	+1.55	+2.33	+0.94	+2.31	-0.35	0.89
Japan	0.05	-2.21	-1.55	—	+0.78	-0.61	+0.76	-1.90	0.05
France	-0.73	-2.99	-2.33	-0.78	—	-1.39	-0.02	-2.68	1.59
Britain	0.66	-1.61	-0.94	+0.61	+1.39	—	+1.37	-1.29	0.83
Germany	-0.71	-2.97	-2.31	-0.76	+0.02	-1.37	—	-2.66	1.21
Australia	1.95	-0.32	+0.35	+1.90	+2.68	+1.29	+2.66	—	0.80

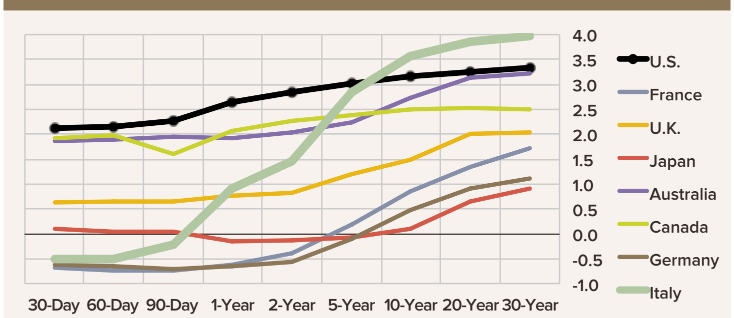
*Calculated as 10-year yield minus 90-day yield for each currency.

Yields On 10-Year Bonds — October 12, 2018

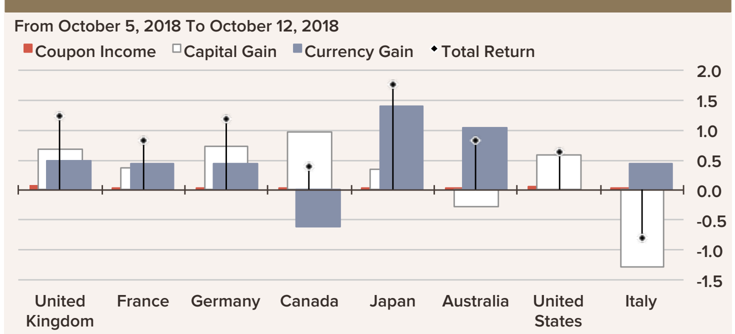
		Spread Against:						
Country	**Yield**	**U.S.**	**Canada**	**Japan**	**France**	**U.K.**	**Germany**	**Aus**
U.S.	3.16	—	+0.67	+3.06	+2.30	+1.67	+2.66	+0.41
Canada	2.49	-0.67	—	+2.38	+1.62	+0.99	+1.99	-0.26
Japan	0.10	-3.06	-2.38	—	-0.76	-1.39	-0.39	-2.64
France	0.86	-2.30	-1.62	+0.76	—	-0.63	+0.37	-1.88
Britain	1.49	-1.67	-0.99	+1.39	+0.63	—	+1.00	-1.25
Germany	0.50	-2.66	-1.99	+0.39	-0.37	-1.00	—	-2.25
Australia	2.75	-0.41	+0.26	+2.64	+1.88	+1.25	+2.25	—

Japanese 10-year simple interest yield converted to semi-annual compound yield.

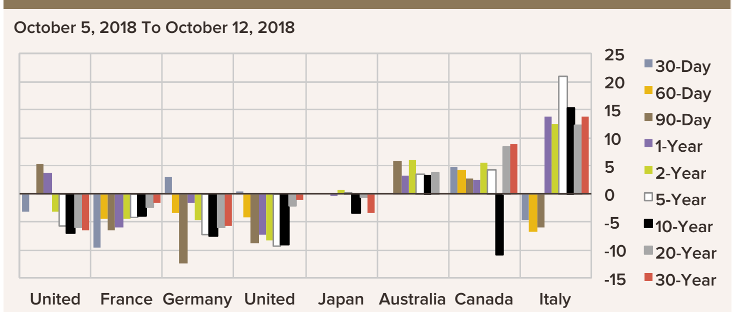
Government Bond Yield Curves — October 12, 2018



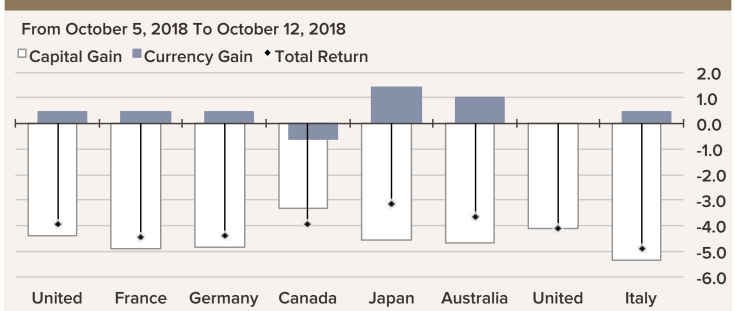
Total Return On Ten-Year Bonds In U.S. Dollars, Percent



Changes In Government Bond Yield Curves, Basis Points



Capital Return In U.S. Dollars, Equity Market Indexes, Percent



Germany: Faltering Industry

It is going to take the biggest one-month increase in industrial output since August 1993 to prevent the average for the third quarter from turning out lower than the second quarter. *That is unlikely, eh?* History suggests that eight times out of 10, GDP contracts in any quarter when industrial production declines. *So the odds favor a decline in GDP for the third quarter.*

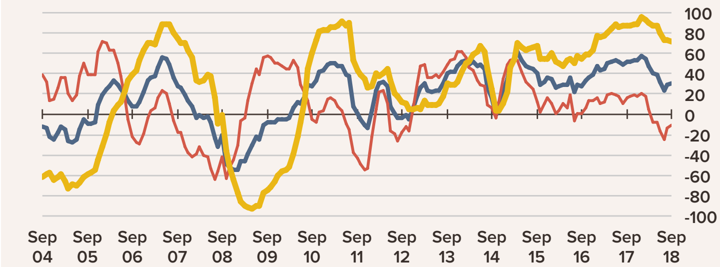
Germany's industry is producing less because both domestic and foreign demand are faltering. Last week's report showed gross exports are slowing, down to a 2.2% year-over-year growth rate as of August. Net exports—the trade surplus—are declining. As of August—the latest data available—retail sales volumes had declined in three of the last four months, with the year-over-year and quarterly growth rates decaying. *With the consumer fizzling and demand from abroad decreasing, no wonder production is slowing.*

Germany is talking conciliation on Brexit terms, but we suspect Berlin sees a lot of advantages as Britain leaves. Britain's international banks have already started shedding jobs in London in favor of locations in the EU, and Frankfurt is the place that makes the most sense for the largest banks. Estimates suggest over two dozen have established EU hubs there already. This means new high-paying jobs, national income gains and additional tax revenues to fund social programs for the SPD.

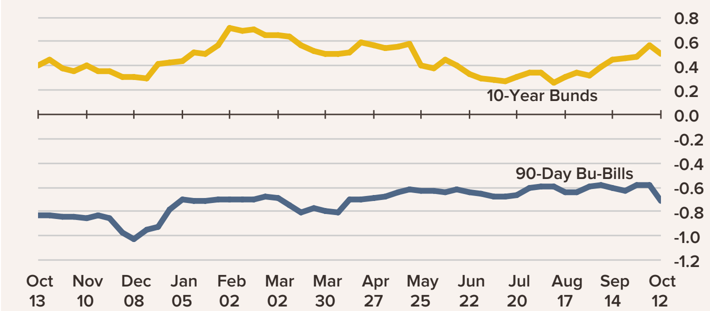
So maybe we will see some reversal in consumer demand. For the moment, though, we suspect GDP contracted in the third quarter, although a good bit of data for September have yet to be released.

Germany: ZEW Index And Its Components

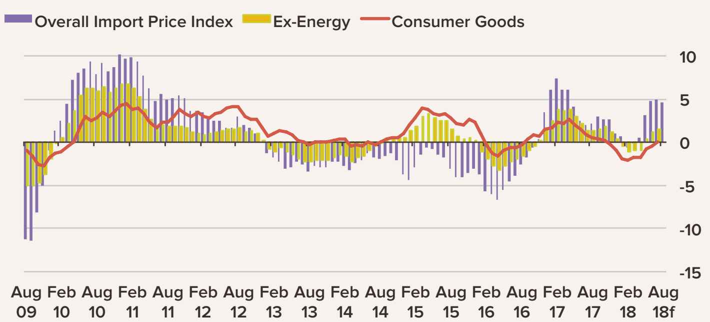
Blue Line Shows HFE Composite ZEW Index
Red Line Is ZEW Expectations Index, Yellow Line Is ZEW Current Conditions Index



Germany: Yields, Percent

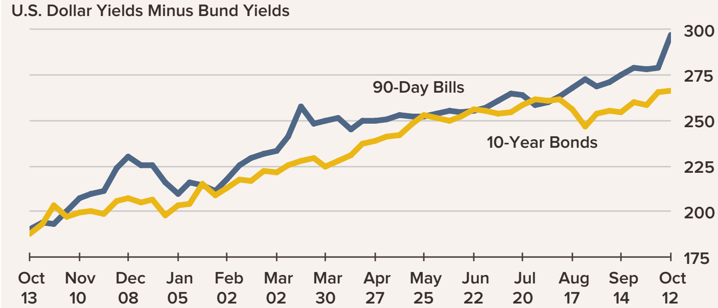


Germany: Import Price Index Details, Percent Change Year Ago



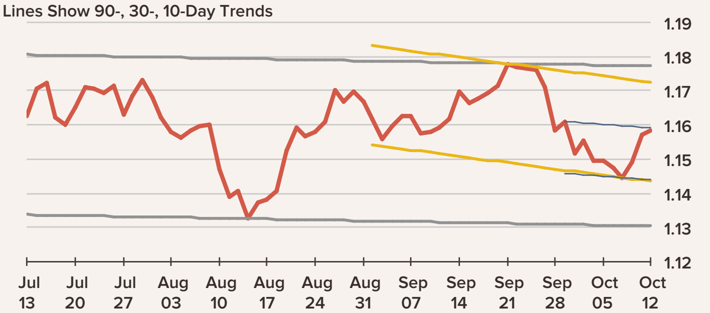
Bund Vs U.S. Dollar Yield Spreads, Basis Points

U.S. Dollar Yields Minus Bund Yields



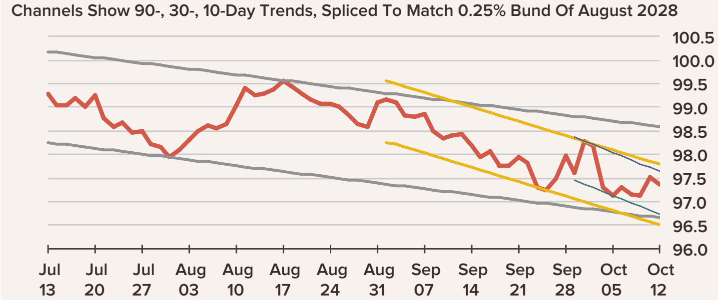
The Euro In U.S. Dollars, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



Germany: Daily Price Of 10-Year Bund

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 0.25% Bund Of August 2028



Monday 15

Tuesday 16

ZEW Survey	Expectations	Current Cond'ns	HFE Composite
Oct 17	17.6	87	52.3
Jul 18	-24.7	72.4	23.9
Aug 18	-13.7	72.6	29.5
Sep 18	-10.6	72.0	30.7
Oct 18f	*?*	*?*	*?*

Tuesday 16

Import Prices	%chya
Aug 17	2.1
May 18	3.2
Jun 18	4.8
Jul 18	5.0
Aug 18f	*4.7*

Wednesday 17

Thursday 18

WPI	%chya
Sep 17	3.2
Jun 18	3.4
Jul 18	3.6
Aug 18	3.8
Sep 18f	*3.6*

Friday 19

Japan: The Trap—Or, No Way Out

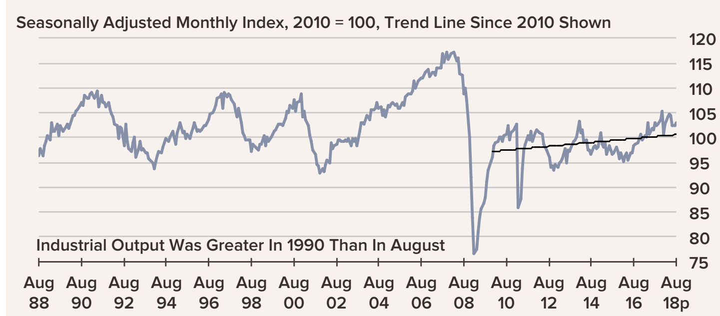
The BoJ has to do whatever it takes to keep long-term bond yields at present levels, indefinitely. Japan's financial system cannot withstand the shock of a rise in interest rates. Even were the inflation target to be achieved, we do not believe the BoJ would stop meddling in the JGB market, keeping yields where they are, just above zero. Of course, we do not see the inflation target being hit for a long time, as Japan's population continues to decline. That will be for decades.

Deflation is the natural fate of a depopulating nation: Demand falls faster than output as retired baby boomers pass away... even as working baby boomers retire! So the inflation target will never be hit as long as the population is declining.

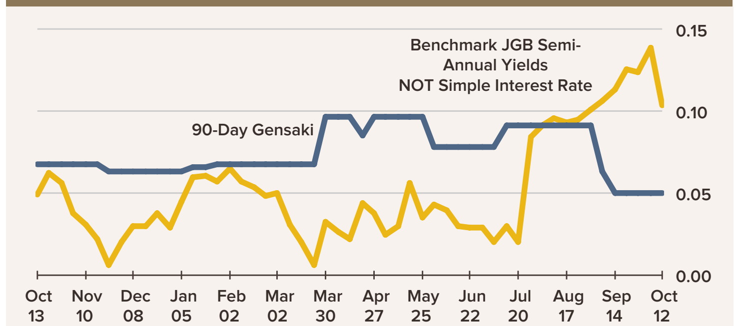
The balance sheet problem is that private creditors are holding public sector debt equal to 134% of GDP. That estimate is the IMF's, reported in its *Fiscal Monitor* last week. The IMF puts the net worth of the general government in the red by a wider margin than any other advanced economy. *Japan's creditors are largely pension funds, insurance companies and banks.*

If the 2% inflation target is achieved and JGB yields are allowed to rise to 3% to normalize monetary conditions, the value of 10-year JGBs in portfolios will fall by 28%. That would be untenable for a banking sector that has no viable source of income other than bonds. Pension funds and insurers are rushing into stocks as they get squeezed out of JGB markets. So stocks can hold up relatively well for a while, at least, but bonds will die if the BoJ ever steps away from its QE program. Eventually, it must... but maybe not very soon.

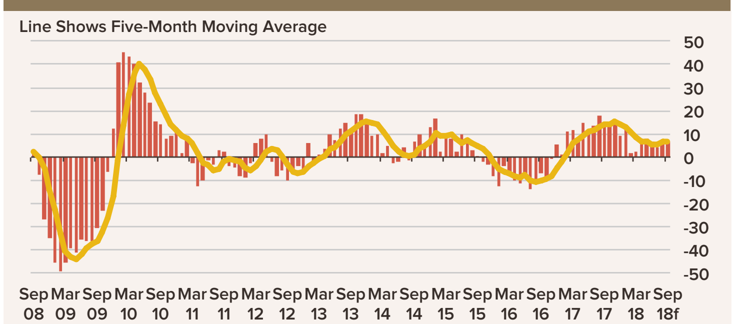
Japan: Industrial Production Index



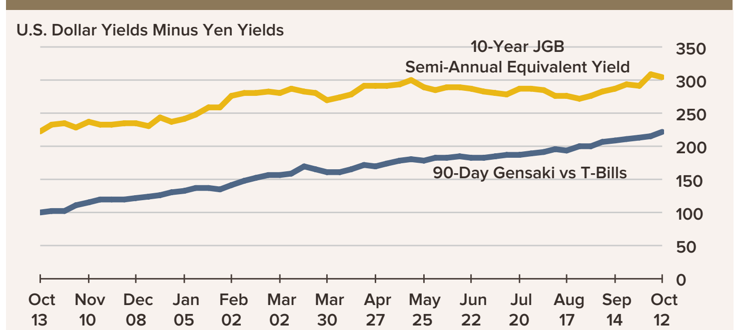
Japan: Yields, Percent



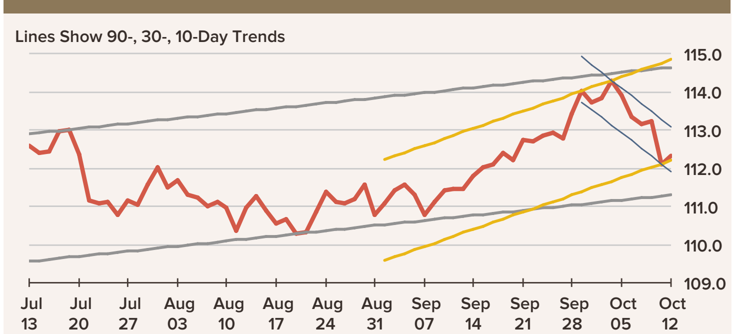
Japan: Exports, Percent Change Year Ago



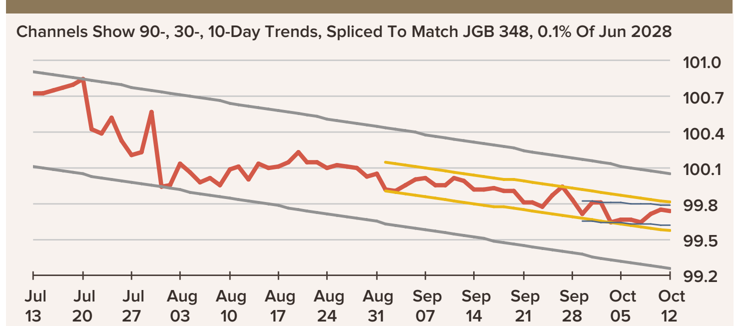
Yen Vs U.S. Dollar Yield Spreads, Basis Points



Yen Per U.S. Dollar, Daily Exchange Rate & Trends



Japan: Daily Price Of 10-Year Benchmark JGB



Monday 15	Tuesday 16	Wednesday 17	Thursday 18	Friday 19
Industrial Production			¥bns / Exports / Imports / Balance	BoJ's Kuroda Speaks

Monday 15 — Industrial Production

	%chya	%ch	%chSP
Aug 17	4.7	1.3	-12.3
May 18	3.7	-0.2	-11.0
Jun 18	0.6	-1.8	-12.6
Jul 18	0.7	-0.2	-12.8
Aug 18p	*0.1*	*0.7*	*-12.2*

Thursday 18

¥bns	Exports	Imports	Balance
Sep 17	6811	6157	654
Jun 18	7053	6335	718
Jul 18	6748	6980	-232
Aug 18	6692	7136	-445
Sep 18f	*7261*	*6806*	*455*

Friday 19: BoJ's Kuroda Speaks

France & Euroland: Lots Going On In One Week

(Continued from page 1) The risk in the Italian situation is that if markets begin to speculate about a public sector fiscal crisis and bond yields rise, then the balance sheets of banks in Italy—they hold huge bond portfolios—will decay sharply. Let's face it: Those balance sheets were not so strong to begin with. *A failure of one or more major institutions in Italy would threaten the TARGET2 clearing house, where Italy's banks owe the Zonal banking system €492 billion.* Germany's banks are owed €912 billion. Banks count those "due from" credits as reserves. *So watch for bank shares in particular to tumble as Italy risks fluctuate. Bank lending will be further crimped if capital bases erode.*

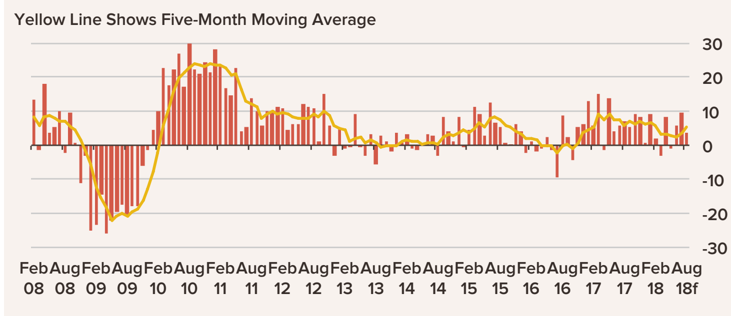
Then there is Brexit. EU leaders and Britain's Prime Minister May are supposed to walk away from a Summit at the end of this week with an initialed separation agreement ready to be ratified by the national parliaments of the 28 nations party to the treaty. Unanimous ratification in five months is unlikely. Ireland will veto any deal that puts up a hard border with Northern Ireland. A hard Brexit would impose just that. In any case, that treaty is prerequisite to a 20-month transition period to negotiate terms for post-Brexit relations. That also seems unlikely.

This week's Summit will start with a dinner on Wednesday. ***Both sides have expressed optimism that a "deal" is near, but we believe no "deal" is possible. While there could be an emergency "second chance" Summit in November, a bad outcome this week would chill investors with a vision of Britain crashing out of the EU in 23 weeks without a transition period.*** *Even if EU leaders fold and agree to Prime Minister May's Chequers plan—they have already rejected it—we doubt Tory hardline Brexiters will vote for it in Britain's own Parliament.* So no deal can succeed.

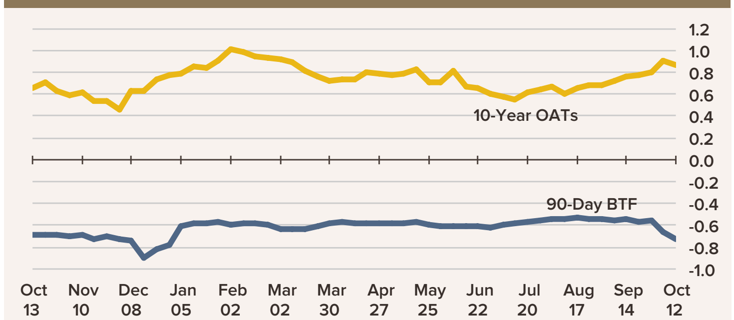
Markets are likely to be riled by this outcome, even though the EU will gain from Brexit regardless of how it happens. Rather rapidly, manufacturing and services will relocate to the EU, bringing jobs, income and tax revenue. However, Ireland's economy will suffer if a hard border is imposed. ***The big risk to Europe is a disruption of financial services with no transition period.*** It may be brief, but big systems can break very quickly. Also, services like air and sea transport and telecoms will be disrupted without a transition period.

So watch for a lot of ups and downs in markets this week.

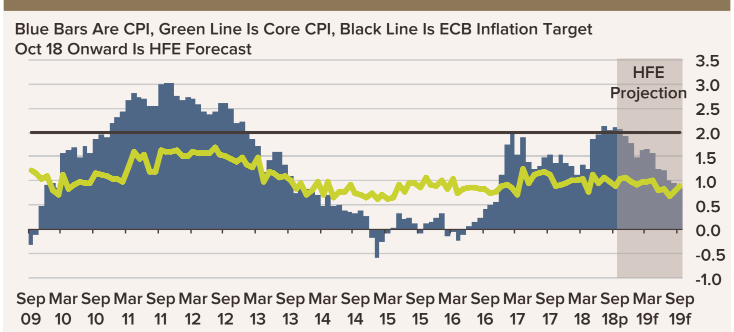
Euro Zone: Exports, Percent Change Year Ago



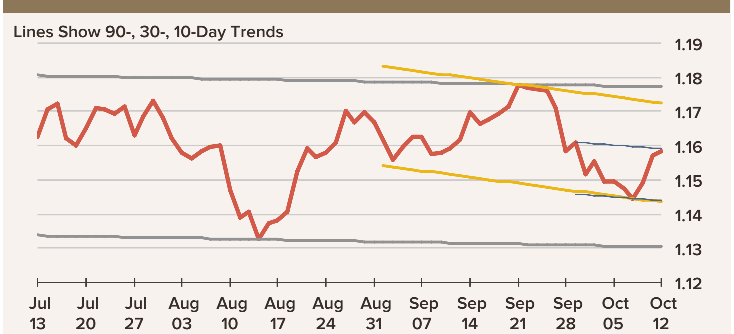
France: Yields, Percent



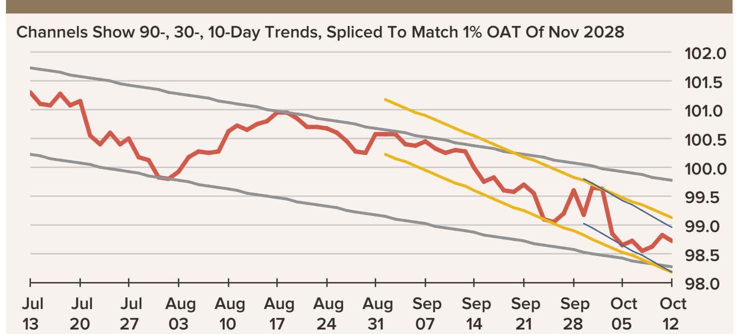
Euro Zone: CPI, Percent Change Year Ago



The Euro In U.S. Dollars, Daily Exchange Rate & Trends



France: Daily Price Of 10-Year OAT



Monday 15

IT Budget To EU

Tuesday 16

EZ Trade €bns	Exports	Imports	Balance
Aug 17	171.8	156.6	15.2
May 18	189.5	172.9	16.6
Jun 18	198.8	176.1	22.7
Jul 18	194.6	177.1	17.6
Aug 18f	*178.5*	*165.6*	*12.9*

Wednesday 17

EZ CPI	%ch	%chya	Core %chya
Sep 17	0.4	1.5	1.1
Jun 18	0.1	2.0	0.9
Jul 18	-0.3	2.1	1.1
Aug 18	0.2	2.0	1.0
Sep 18p	*0.5*	*2.1*	*0.9*

Wednesday 17

EZ Construction	%ch	%chya
Aug 17	0.0	2.0
May 18	0.2	1.6
Jun 18	0.7	2.7
Jul 18	0.3	2.7
Aug 18f	*0.5*	*3.2*

Wednesday 17

EU Summit

EZ Vehicle Regs (9)

Thursday 18

EU Summit

Friday 19

EU Summit

Friday 19

EZ Current Account	€bns
Aug 17	38.88
May 18	6.79
Jun 18	28.77
Jul 18	31.93
Aug 18f	*23.92*

United Kingdom: Preparing For A Hard Landing

The weekend news was filled with unsettling developments. The DUP is threatening to unseat the government. Former Brexit Minister David Davis is calling on the Cabinet to rebel against the prime minister. Europe rejects all British proposals and is bracing for a hard Brexit.

We will step out of school here with a political comment: **The Brexit referendum result has created a constitutional crisis in Britain by mandating an outcome that no British government can deliver.** Neither the current government nor any opposition-led Cabinet can deliver Brexit on the terms the people believe they voted for. The referendum cannot be ignored—the people have spoken—and the government cannot exit Europe on acceptable terms. Indeed, it cannot manage to leave on any negotiated terms at all.

Let us recognize the truth: *No practical arrangement can be made that satisfies Brexiters' desire to break free of EU trade regimes and to close the border to immigrants forever, and that also keeps the Irish border open beyond a brief transition period.* The border cannot be left open if Britain leaves the free trade zone, and free trade cannot be offered to Britain if it will not accept the ground rules of union.

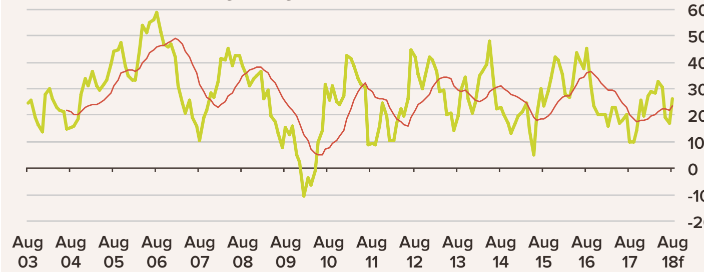
This is a disaster! Economically, Britain faces an initial stagflation that will debase national wealth and lower capacity to generate income. That means less tax revenue to support public services.

If a hard Brexit promises a hard border between Ireland and Northern Ireland, the 10 DUP MPs that give the Tories their majority will withdraw their support. *This can happen as soon as October 29 if the DUP refuses to vote for the chancellor's budget, a document unworthy of legislation for lack of a credible economic scenario to support it.* A defeated budget would force national elections, throwing the government into chaos at a time when an emergency action plan is most urgently needed. *This is not the controlled ascent into post-EU existence that market players are hoping for. Sterling will crash, as will the value of financial assets.*

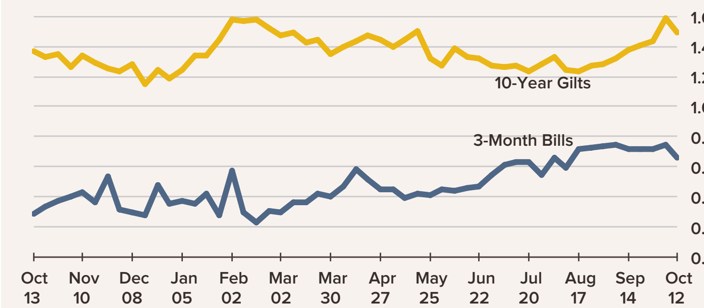
This week's economic data will be interesting only for investors who still believe that a seamless transition to Brexit is possible. Retail sales will be upbeat. CPI will be well behaved—steady at the core and slowing a bit at the headline, despite elevated oil prices. Wages should be well behaved, too, although they will start picking up as Brexit nears. More aggressive investors will not wait much longer to trash sterling asset prices as chances of a seamless Brexit disintegrate.

United Kingdom: HFE Estimate Of Immigration

Excess Of Job Creation Over Unemployment Decline, 12-Month Rate, Thousands
Line Shows 12-Month Moving Average

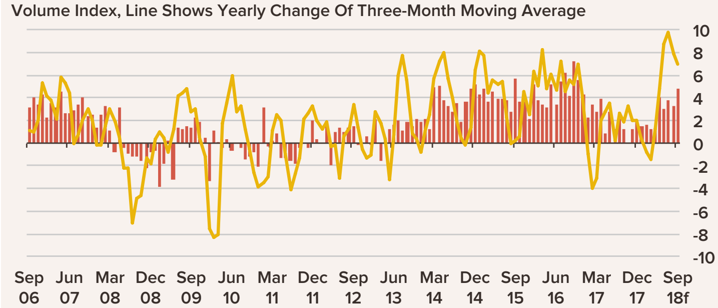


United Kingdom: Yields, Percent



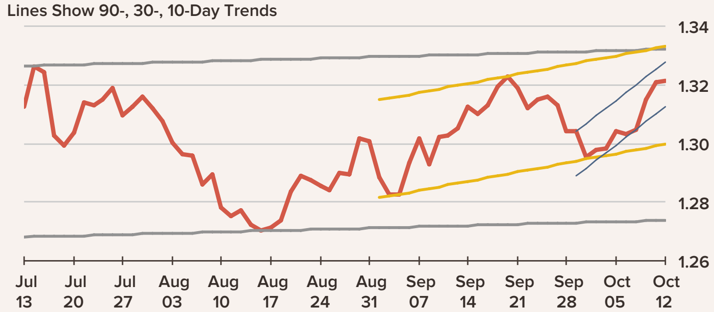
United Kingdom: Retail Sales, Percent Change Year Ago

Volume Index, Line Shows Yearly Change Of Three-Month Moving Average



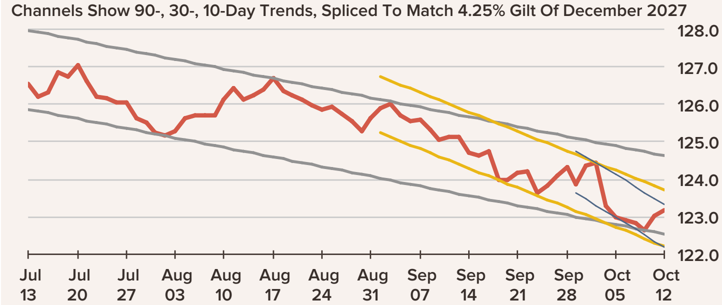
Sterling In U.S. Dollars, Daily Exchange Rate & Trends

Lines Show 90-, 30-, 10-Day Trends



United Kingdom: Daily Price Of 10-Year Gilt

Channels Show 90-, 30-, 10-Day Trends, Spliced To Match 4.25% Gilt Of December 2027



Tuesday 16

ILO Unemployment	000s	Δ000s	%
Aug 17	1443	-52	4.3
May 18	1411	-12	4.2
Jun 18	1360	-65	4.0
Jul 18	1361	-55	4.0
Aug 18f	*1334*	*-77*	*3.9*

Tuesday 16

Avg Earnings	%chya	%chya 3mma	Δ vs CPI
Aug 17	2.4	2.3	-46
May 18	2.8	2.9	38
Jun 18	2.8	2.7	35
Jul 18	3.1	2.9	60
Aug 18f	*2.9*	*2.9*	*29*

Tuesday 16

Claimant Count (9)

Wednesday 17

CPI	Total %chya	Core %chya	CPI-H %chya
Sep 17	3.0	2.6	2.8
Jun 18	2.4	1.9	2.3
Jul 18	2.5	1.9	2.3
Aug 18	2.7	2.1	2.4
Sep 18f	*2.5*	*2.1*	*2.3*

Wednesday 17

PPI	Input %chya	Output %chya
Sep 17	8.3	3.3
Jun 18	10.3	3.3
Jul 18	10.3	3.1
Aug 18	8.7	2.9
Sep 18f	*8.1*	*2.7*

Thursday 18

Retail Sales	%ch	%chya
Sep 17	-0.7	1.3
Jun 18	-0.4	3.0
Jul 18	1.0	3.8
Aug 18	0.3	3.3
Sep 18f	*0.8*	*4.8*

Friday 19

PSNCR (9)

BoE's Carney Speaks

23 Weeks To Brexit

Canada: Manufacturing Is Firmer, CPI Core Is Cool

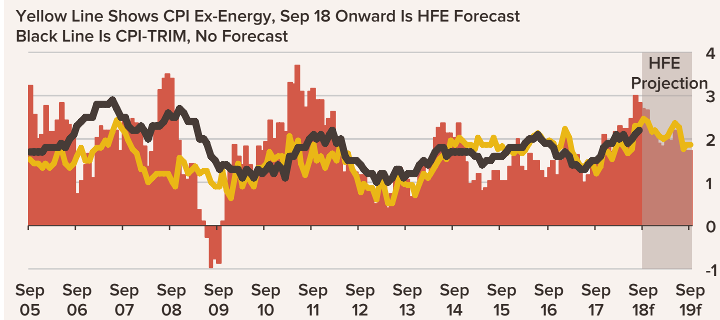
Looking at the housing sector reports published last week, some people will hypothesize that the BoC might postpone its next rate hike. After all, Teranet's house price index is all but flat, StatCan's new house price index is nearly flat, and both housing starts and permit issuance are falling.

Those people will have to look for guidance from StatCan's survey of manufacturing results this week to see that industrial activity is expanding fast enough to push against capacity. That is a red flag for the BoC, whose mandate is to pursue price stability tirelessly over most other economic results. The latest employment report confirms that all slack in the labor market is pretty much exhausted. Manufacturing data, to be updated this week, will show both fast-enough growth absorb even more slack and an accelerating trend in output. *The Bank has to hike interest rates to brake the pace of economic growth and job creation. If an already hard-hit housing sector gets hit even harder, so be it: The Bank's monetary policy tool is too blunt to be targeted at a single sector of the economy.*

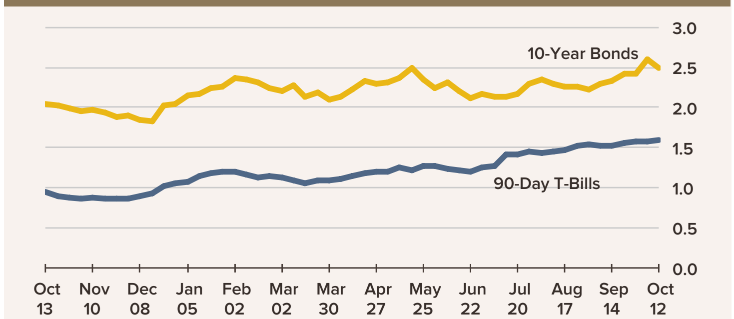
Meanwhile, the trend in CPI is accelerating, although that is mostly due to energy price increases. However, the BoC's new core CPIs are accelerating through the middle of the target range. *A central bank must block inflation before it takes off. By the time it sees a rise in inflation metrics, it is too late to stop it.*

The truly weak link in the *konjunktur* is retail sales. Flat real wage growth likely explains it. *On that observation, no big improvement is expected in this week's retail sales report.*

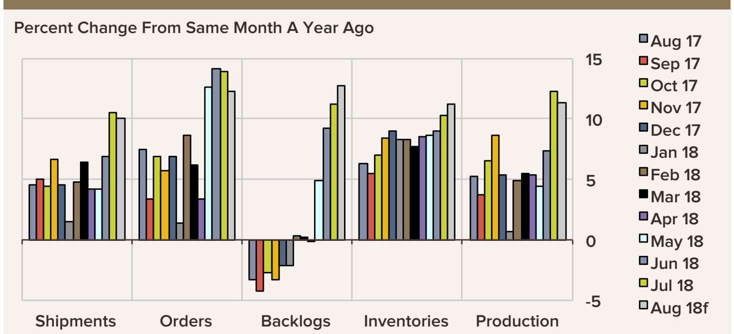
Canada: CPI, Percent Change Year Ago



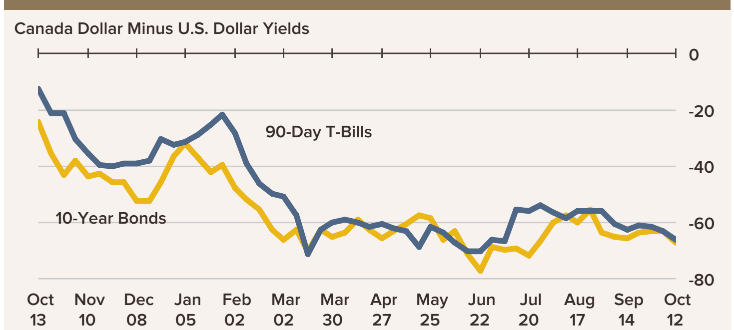
Canada: Yields, Percent



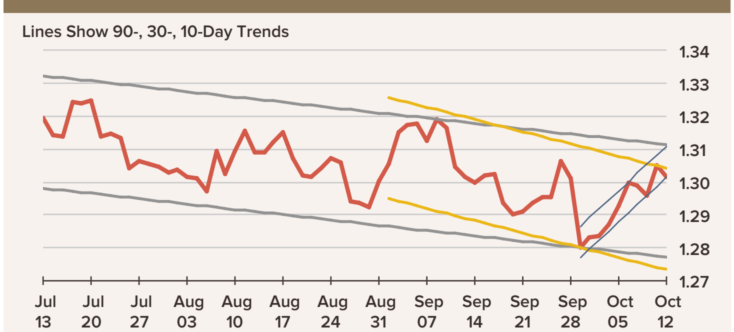
Canada: Survey Of Manufacturing



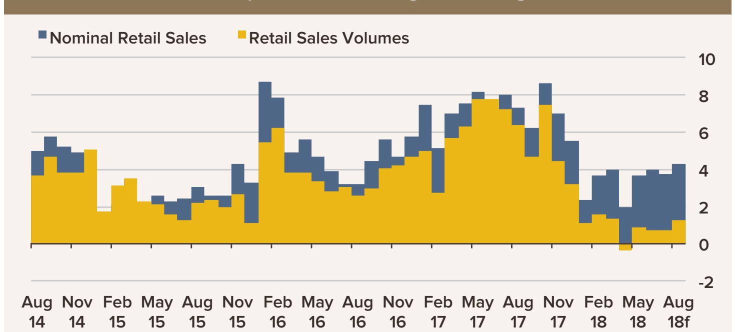
Canada Vs United States Yield Spreads, Basis Points



Canadian Dollar Per US$, Daily Exchange Rate & Trends



Canada: Retail Sales, Percent Change Year Ago



Monday 15

Loan Officer Survey (Q3)

Tuesday 16

Int'l Securities Flows (8)

Wednesday 17

Survey of Manufacturing

%chya	Jun 18	Jul 18	*Aug 18f*
Shipments	6.9	10.5	*10.0*
Orders	14.1	13.9	*12.3*
Backlogs	9.2	11.3	*12.7*
Inventories	9.0	10.2	*11.2*
Production	7.3	12.3	*11.3*

Thursday 18

UI Claims

	000s
Aug 17	232.1
May 18	229.9
Jun 18	238.8
Jul 18	243.2
Aug 18f	*228.8*

Friday 19

CPI	% ch	% chya	Ex-En %chya	Core %chya
Sep 17	1.6	1.5	1.6	1.5
Jun 18	2.5	1.9	2.0	2.0
Jul 18	3.0	1.9	2.0	2.1
Aug 18	2.8	2.0	2.1	2.2
Sep 18f	*2.7*	*?*	*?*	*?*

Friday 19

Retail Sales	%chya	Real %chya
Aug 17	7.3	5.9
May 18	3.7	1.4
Jun 18	4.0	1.5
Jul 18	3.7	0.7
Aug 18f	*4.3*	*1.4*

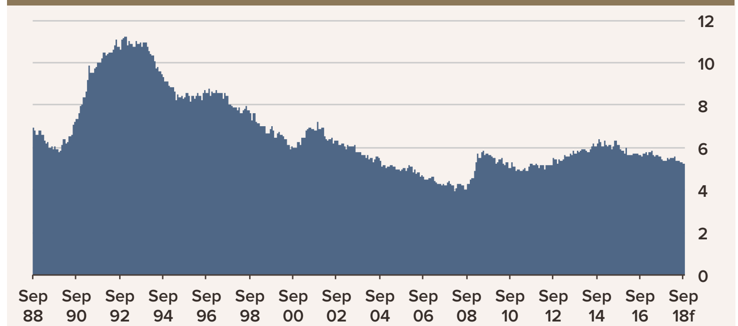
Australia: Slowly, Steadily, Unemployment Falls

A little bit at a time, the unemployment rate is falling. It fell 0.3 percentage points over the 12 months ended August. Over the year ended August 2017, it did not fall at all. That is not much progress toward full employment, is it? The jobless rate is still 1.2 percentage points above its 2008 low. *If that level defines full employment, then we are still years away from it.* At this relatively high level of unemployment, CPI increases are nipping at the bottom end of their target range. *So the RBA surely has no cause to* ***hike*** *interest rates now.*

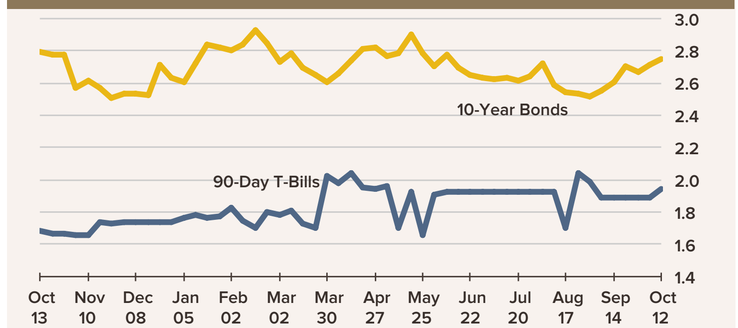
Last week's report showed mortgage lending falling off sharply. Previous reports showed building permits also tumbling. *No one on the RBA Board is going to lift a finger to help the housing industry.* The Board had been fretting about risks of inflating a housing bubble by holding rates too low—by local standards—for too long. A year ago, the Board fretted in its minutes, "Borrowing for housing had continued to outpace growth in incomes, although the composition had shifted towards owner-occupiers, with higher interest rates for investors in housing reflecting the ongoing effects of APRA's recent measures to strengthen lending standards in this area." *We believe the Board welcomes slower house prices and falling mortgage approvals.*

Consumer spending remains the weak part of the economy. The rest of it is growing near its potential rate with no inflation risks. *We expect the RBA to deliver its promise of unchanged rates for a while. Eventually, it will move rates again. That move is more likely to be a hike than a cut, but it ain't coming any time soon. That means spreads should widen against the U.S. dollar, pushing Ozzie cheaper.*

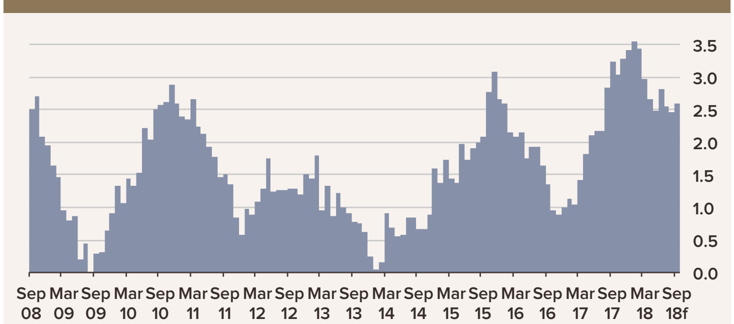
Australia: Unemployment Rate, Percent



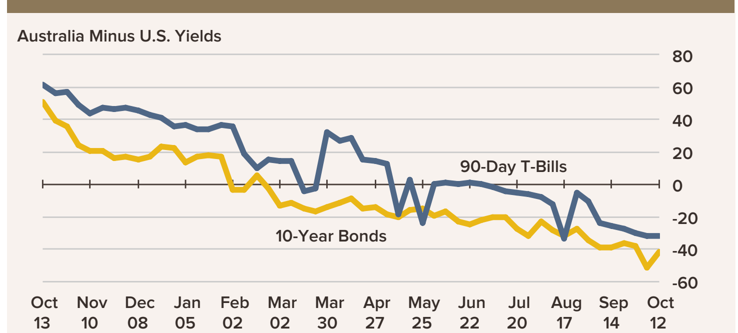
Australia: Yields, Percent



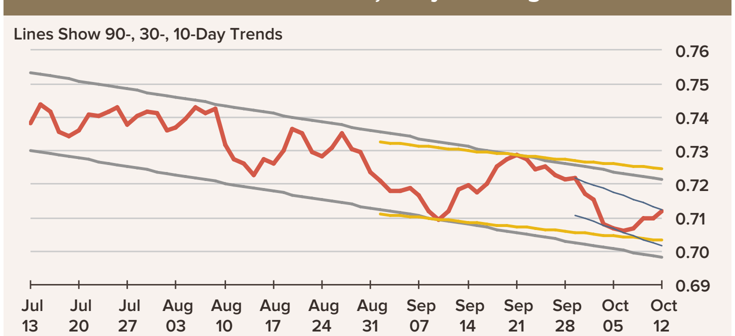
Australia: Employment, Percent Change Year Ago



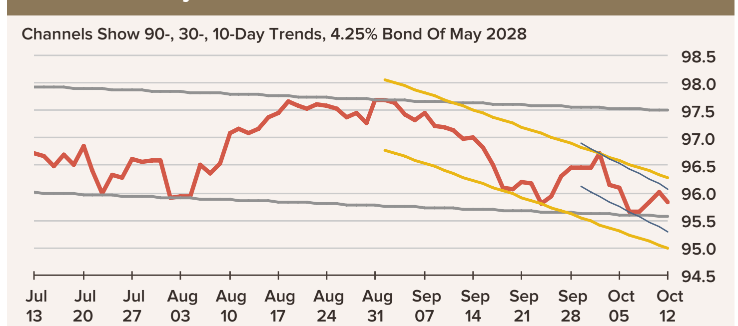
Australia Dollar Vs U.S. Dollar Yield Spreads, Basis Points



U.S. Dollars Per Australian Dollar, Daily Exchange Rate & Trends



Australia: Daily Price Of 10-Year Bond

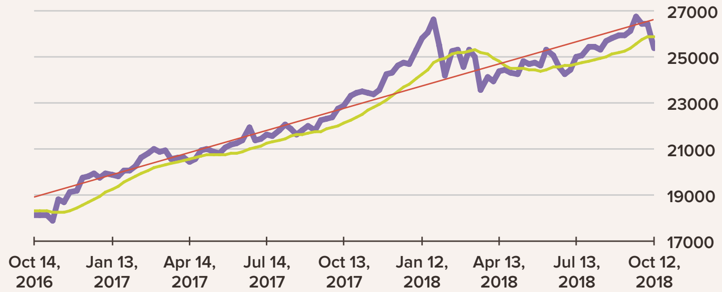


Monday 15	Tuesday 16	Wednesday 17	Thursday 18	Friday 19
	RBA Minutes (10)		**Unemployment** % Δ(000s) Sep 17 5.4 -14.5 Jun 18 5.4 -3.2 Jul 18 5.3 -9.0 Aug 18 5.3 6.0 *Sep 18f 5.2 -9.1*	

Global Equity Markets Slide At A Glance: It Is Worse Outside The United States So Far

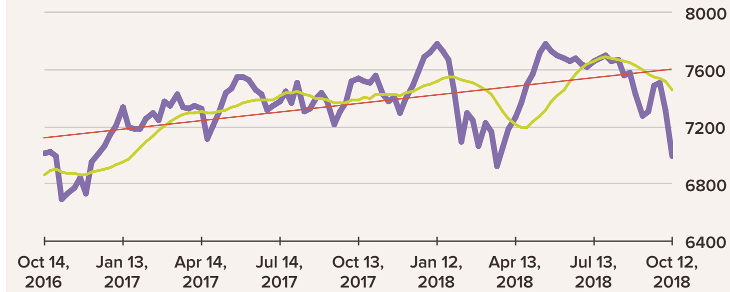
United States: Dow Jones Industrial Average

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



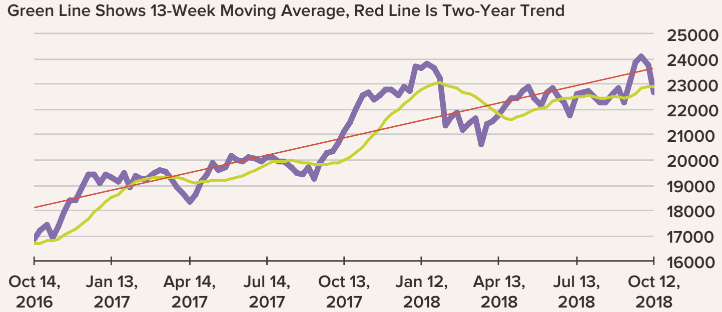
United Kingdom: FT100 Stock Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



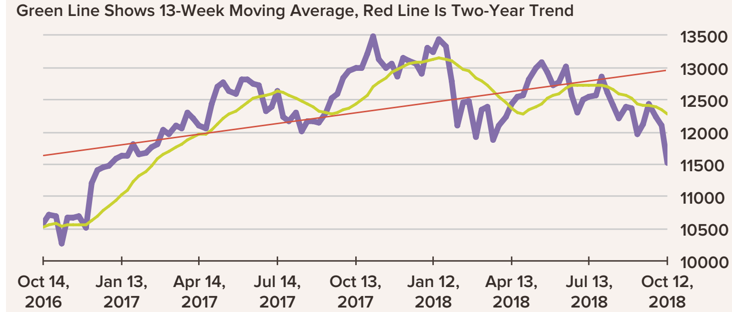
Japan: Nikkei Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



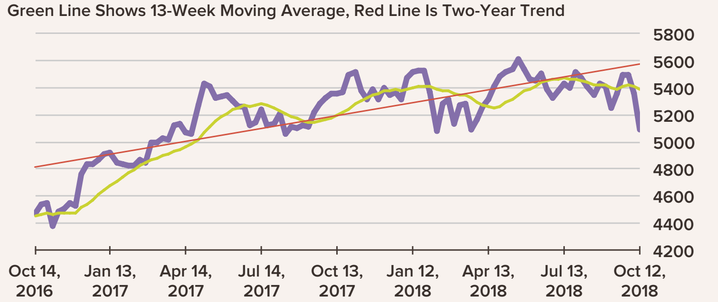
Germany: DAX Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



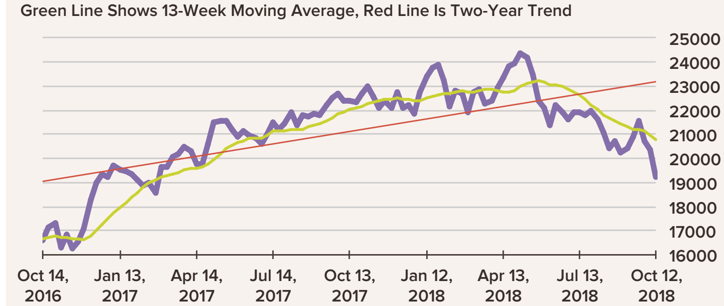
France: CAC 40 Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



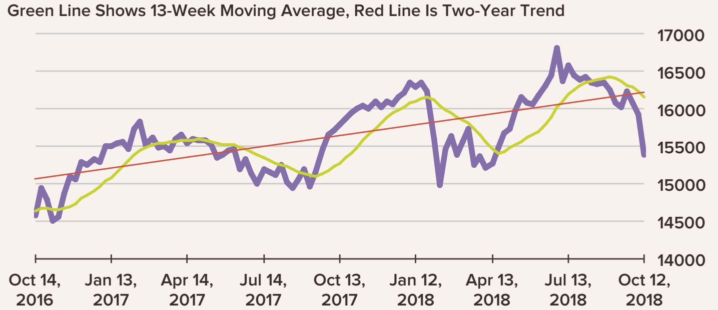
Italy: Borsa Italiana Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



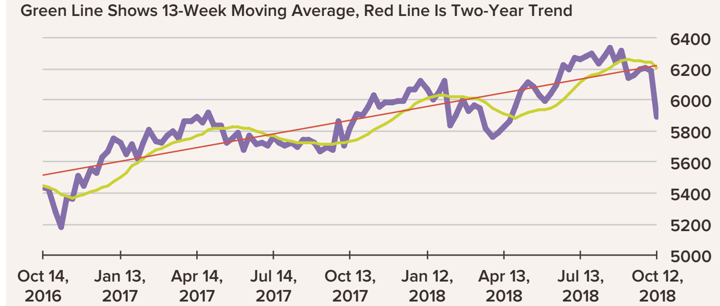
Canada: Toronto Composite Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



Australia: All Ordinaries Index

Green Line Shows 13-Week Moving Average, Red Line Is Two-Year Trend



Carl B. Weinberg, Chief International Economist