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The Overview 13 September 2019

US Economics Flash - Core CPI hits 0.3% for third consecutive month

(Andrew Hollenhorst 12 Sept 2019)

- Data**

The 0.256% rise in August core CPI (just strong enough to round to 0.3%MoM) was stronger than our expectation for 0.18%. This was enough to take the year-on-year reading to 2.39%, the fastest rate of increase since 2008. Core price rises were solid across categories, with some unexpected strength in medical (+0.85%) and used cars (1.05%). We also had thought that seasonal factors might weigh on seasonally adjusted apparel prices, which still managed to advance 0.21%. Shelter prices rose a weaker-than-expected 0.15% as observed, and imputed rents rose 0.23% and 0.22%, respectively, after stronger increases over the first seven months of the year, and lodging away from home fell 2.08%. Headline inflation advanced 1.7% year on year, with an index reading of 256.558.

- Citi's View**

Today's report reinforces a point that we have been emphasizing for months – the underlying pace of core inflation is running very close to target. This has been obscured as transitory weakness in early 2019 pushed year-on-year readings further below target. As those transitory factors bounced back in recent months, core inflation is now more clearly running close to target.

In particular, substantial declines in apparel and used-car prices in March through May were followed by strong increases over the last three months. While strength in auto prices may continue, apparel prices will be volatile in coming months, as seasonal factors do not seem to have adjusted with methodological changes to the computation of this price category.

One of the key sources of sustained strength in core inflation, and the most persistent category in general, has been increases in shelter prices. Somewhat weaker readings are not too surprising, but if the pace of increase has downshifted, we would be more confident that although the underlying pace is close to target, it is not accelerating further

[Link to full article](#) to read the report:

Top Warrants & Stopped Out Warrants

Previous day's top warrants by value and volume

Warrant Code	Value	Citi	Warrant Code	Volume	Citi
XJOMQ	\$911,316	Citi Buys	XJOMQ	304,601	Citi Buys
BHPLOE	\$214,180	Citi Sells	LSFJOA	250,000	Citi Buys



NDXKCC	\$190,000	Citi Sells	SARKOD	137,535	Citi Buys
WBCLOP	\$178,929	Citi Sells	AWCJOW	86,800	Citi Buys
APTJOY	\$178,710	Citi Sells	AWCKOB	80,500	Citi Buys

Stopped Out Warrants

Warrant Code	Strike	Stop Loss	Remaining Value	Stop Loss Date	Final Listing Date
AMCKOP	16.4340	14.78	\$1.60	12/09/2019	16/09/2019
DJXKOV	28122.0350	27313	\$11.75	12/09/2019	16/09/2019
NI2KOS	22749.7100	21631	\$1.305	12/09/2019	16/09/2019
WBCKOZ	31.3690	29.82	\$1.515	12/09/2019	16/09/2019
XJOKCV	6928.3990	6659	\$2.44	12/09/2019	16/09/2019

Headlines & Highlights

- The European Central Bank reduced the deposit rate to -0.50% from -0.40% overnight whilst also announcing the revival of bond purchases, after pledging to buy EU20bn a month, starting from November 1st, for as long as necessary. The central bank also cut its 2019 and 2020 growth forecasts and lowered inflation expectations through to 2021. Draghi's move to restart QE, however, was not a unanimous one, with reports revealing that the French, German and Dutch central bank governors opposed the decision.
- After President Trump revealed yesterday that he will delay the 5% increase in tariffs on Chinese goods until October 15th, reports surfaced highlighting that the Trump administration discussed offering an interim trade agreement to China. The deal would delay and roll back some tariffs in exchange for commitments on intellectual property and agricultural purchases. Whilst a White House official did deny the report, both sides are taking small steps to reduce tensions ahead of next month's talks in Washington.
- Google is set to pay EU965m to end two French tax investigations, with the Alphabet unit agreeing to a EU500m settlement to end a criminal case over fiscal fraud allegations, whilst also signing a deal to pay authorities an extra EU465m in back taxes. The resolution now puts a stop to all of the country's tax disputes with Google.

Overnight

Equities | S&P500 3,009.57 (+0.29%) | Stoxx600 390.48 (+0.20%) | FTSE100 7,344.67 (+0.09%)

- US – US stocks were driven by macro news overnight with the ECB cutting their deposit rate by 10bps to -0.5% and the Trump administration has discussed offering an interim trade agreement with China. The S&P rallied +0.5% to 3016.82 with materials (+0.72%) and real estate (+0.56%) gaining the most. LKQ (LKQ +11.93% \$32.55) significantly outperformed its peers in the index overnight as the auto and truck part manufacturer jumped in pre-market trading after ValueAct Capital disclosed a 5.2% stake in the company.
- EU – Euro continued this week's rally with the Stoxx600 (+0.2%), FTSE (+0.1%) and DAX (+0.4%) all up overnight. Utilities (+1.48%) and materials (+0.78%) benefitted most in the Stoxx600 overnight however AB InBev (ABI BB +2.49% EU87.9) moved the index most on the day as the beverage maker looks to IPO its \$5b Asian unit later this month. In the FTSE, materials (+1.1%) and utilities (+0.82%) gained the most with the index gaining overall despite BP (BP/ -1.58% GBP504) have the largest impact falling with oil. Consumer discretionary (+1.23%) and utilities (+1.14%) gained the most in the DAX.

Foreign exchange | AUDUSD 0.6867 (-0.25%) | DXY 98.3500 (-0.27%) | EURUSD 1.1066 (+0.47%)

- The euro rose broadly Thursday after the European Central Bank's monetary easing was seen as more limited than expected and signs emerged of reduced US-China trade tensions. The common currency rebounded after initially falling as much as 0.8% to within a pip of its year-to-date low reached on Sept. 3, which was the lowest since May 2017, after the ECB lowered growth estimates for 2019 and 2020 and ECB President Mario Draghi said risks are tilted to the downside. The dollar broadly sold off, with the DXY dropping -0.27% to 98.35.
- EUR/USD was +0.5% to ~1.1066 vs a session high 1.1087; yields on German 10-year notes rose 5bps to -0.52%. In addition to Draghi's emphasis on fiscal policy, the higher-than-expected level of tiering, currently set at 6x minimum reserve requirements for banks, also supported the common currency.
- USD/JPY was up 0.3% to ~108.07; pair touched 108.19, the highest since Aug. 1, after the US 30-year auction tailed. Chinese importers reportedly bought soybeans after President Donald Trump said late Wednesday he would delay the introduction of extra tariffs on Chinese imports by two weeks
- GBP/USD was relatively flat, up 0.1% to 1.2340 while AUD/USD broadly sold off 0.25% to 0.6867.

Commodities | Gold 1,506.80 (+0.24%) | WTI 55.12 (-1.13%) | Copper 2.62 (-0.90%)

- Oil slumped as OPEC and its allies urged members to adhere to pledged production cuts and the IEA highlighted the difficulty the group faces in balancing the market. Futures in New York fell 1.2% for a third day of declines. Investors hoped that the group would announce something about deeper cuts, but it may have put off the decision because of uncertainty on US-Iran tensions. However, Saudi Arabia said it will produce 9.89mm b/d in October and carry on its voluntary cuts to the end of the year. Iraq will lower production by 175k and become fully compliant with OPEC+ targets.
- Gold (+0.24%) prices pared gains while other metals rose, including palladium (+3.7%); gold had gained earlier after the ECB's decision to cut its key interest rate and restart bond purchases. Copper (+1.0%) touched a one-month high as President Trump moved to ratchet down trade tensions. US equities rose along with the yuan after Trump said he will delay the next tariff increase on China by about two weeks as a gesture of goodwill. Short-sellers have been sent scrambling to buy back positions; in recent months, investors turned bearish on copper as prospects for a trade deal deteriorated. Aluminium, zinc, lead and tin declined as nickel advanced.
- Hog (+4.9%), soybeans (+3.4%) and cotton (+4.8%) futures surged in Chicago on optimism that China will boost imports from the US. Soybeans surged the most since May of this year. Corn (+2.0%) futures even gained after the USDA cut its outlook for domestic yields less than analysts expected.

CORPORATE

ECONOMICS

- 22:30 US Retail Sales Advance MoM
- 22:30 US Retail Sales Ex Auto MoM
- 22:30 US Retail Sales Ex Auto and Gas

Overnight Summary

-- Equities --	Last	Chg	%chg
Dow	27,182	+45	+0.2%
S&P500	3,010	+9	+0.3%
Nasdaq	8,194	+25	+0.3%
Euro Stoxx	3,539	+22	+0.6%
Shanghai Comp.	3,031	+22	+0.7%
Nikkei	21,760	+162	+0.7%
....SPI (Aust)	6,670	+22	+0.3%
-- FX --	Last	Chg	%chg
\$A / \$US	0.6867	+0.0005	+0.1%
Yen / \$US	108.09	-0.01	-0.0%
Euro / \$US	1.1065	+0.0000	+0.0%
\$A / GBP	0.5566	-0.0002	-0.0%
A\$ TWI	60.10	0.000	+0.0%
USDCNH	7.07	-0.003	-0.0%
-- Comdty --	Last	Chg	%chg
Aluminium	82.8	0.2	+0.3%
Copper	261.8	-2.4	-0.9%
Nickel	809.7	-8.8	-1.1%
Coking Coal	147.8	1.8	+1.2%
Thermal Coal	65.5	0.2	+0.2%
Iron Ore	94.8	0.1	+0.1%
Gold	1506.80	+3.60	+0.2%
Oil...WTI	55.09	-0.66	-1.2%
Oil..Brent	60.42	-0.39	-0.6%
Zinc	2363.00	+25.00	+1.1%
Gas	2.58	+0.02	+0.9%
-- DLCs --	Last	Chg	%chg
BHP Billiton Plc	1,804	26.8	+1.5%
Rio Plc	4,332	43.5	+1.0%

Clydesdale Plc	123	-1.0	-0.8%
South 32 - London	153	0.0	-0.0%
-- US listeds --	Last	Chg	%chg
BHP - adr	50.96	+0.38	+0.8%
RIO - adr	53.69	+0.45	+0.8%
Janus Henderson	21.69	-0.1	-0.6%
Resmed	133.96	+0.27	+0.2%
NWS A	14.42	-0.13	-0.9%
James Hardie	16.26	+0.31	+1.9%
Bonds	Last	Chg	%chg
US 10 Year 3	1.77	+0.03	
Aus 10 Year	1.15	+0.01	
Volatility	Last	Chg	%chg
VIX	14.22	-0.39	-2.7%

Source: Bloomberg

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