



MORNING BRIEFING

September 4, 2018

A Sustainable Meltup?

See the [collection](#) of the individual charts linked below.

(1) The meltup question is back. (2) Nothing to fear but a trade war and an emerging markets crisis. (3) Precisely defining terms. (4) Must a meltup be followed by a meltdown? (5) S&P 500 revenues growth remarkably strong. (6) S&P 500 earnings even stronger. (7) Record profit margin. (8) Trump's tax cuts boosted after-tax earnings, undistributed profits, and cash flow. (9) US equities have been a risk-off trade compared to equities abroad. (10) Mr. Wonderful's meltup scenario. (11) Movie review: "Operation Finale" (+).

Strategy I: Diary of a Meltup. Now that the major US stock market indexes are back in record-high territory, I am starting to get more questions from our accounts along this line: "Is the meltup you've been expecting happening now?" The short answer is "Yes."

The problem with the term "meltup" is that it suggests the runup in stock prices is speculative, thus raising the odds of a meltdown. However, it's important to note that the meltup in stocks may be more sustainable because it is based on a meltup in earnings, as I discuss below.

I started writing about a potential meltup in the stock market in early 2013. I did so because the widely feared "fiscal cliff" at the end of 2012 was averted on New Year's Day 2013. I concluded that there was "nothing to fear but nothing to fear." The S&P 500 fell 7.7% in late 2012 on fiscal cliff fears, but still managed to gain 13.4% for the year ([Fig. 1](#)). It proceeded to gain 29.6% during 2013 on a big relief rally ([Fig. 2](#)).

An 11/9/13 *Barron's* [interview](#) with me was titled "Lifting the Odds for a Market Melt-Up." I said:

"I have met a lot of institutional investors I call 'fully invested bears' who all agree this is going to end badly. Now, they are a bit more relaxed, thinking it won't end badly anytime soon. Investors have anxiety fatigue. I think it's because we didn't go over the fiscal cliff. ... Investors have learned that any time you get a selloff, you want to be a buyer. The trick to this bull market has been to avoid getting thrown off."

I also said: "Since the beginning of the year, I've been forecasting 60% probability of a rational exuberance scenario, 30% melt-up, and 10% meltdown. I'm still there, but I'm wavering and leaning toward the melt-up."

The S&P 500 rose only 11.4% during 2014 and was relatively flat in 2015 as a result of a meltdown in commodity prices, particularly the price of a barrel of Brent crude oil, which plunged 76% from the summer of 2014 through the start of 2016. There was a 13.3% correction in the S&P 500 from November 3, 2015 through February 11, 2016.

It's been mostly a meltup since that low in early 2016, with the S&P 500 up 58.6% through Friday's

close. The index is up 35.6% since Election Day, November 8, 2016.

The 12/9/17 *Barron's* included an [article](#) titled “Outlook 2018: The Bull Market’s Next Act.” I was one of the 11 investment strategists surveyed by the author, Vito J. Racanelli. He wrote: “Edward Yardeni, President of Yardeni Research, is no stranger to Wall Street but a newcomer to our panel—and its most exuberant bull. He sees the S&P 500 ending next year at 3100, which would reflect a gain of about 17% from current levels.”

It sure seemed like a meltup was under way as the S&P 500 soared 9.3% from its low at the start of December 2017 through its new record high of 2872.87 on January 26. From that peak, the S&P 500 plunged 10.2% in 13 days through February 8. Since then, it is up 12.4% through Friday and only 6.8% from my year-end target of 3100. I suppose we have nothing to fear but a trade war and an emerging markets crisis. Strong earnings should continue to help us overcome those fears. The trade war will be resolved in a bullish fashion, in my opinion. Emerging market crises come and go.

Strategy II: Profits Meltup. The word “meltdown” originated with the invention of nuclear power reactors, referring to the accidental melting of the core of a reactor. The term has been widely used in the financial community to describe a precipitous and disastrous decline in an asset price. So it makes sense to describe a rapid increase in an asset’s price as a “meltup.” The implication, though, is that the price is rising faster than justified by the fundamentals, setting it up for a meltdown.

A price meltup that is justified by the fundamentals isn’t likely to be followed by a meltdown as long as the fundamentals hold their ground or get even stronger. This accurately describes the current situation in the stock market, in my opinion. Stocks are soaring because profits are doing the same. Consider the following:

(1) *S&P 500 operating earnings in aggregate* jumped 25.5% y/y during Q2-2018 to an all-time record high of \$1.3 trillion (at an annual rate) ([Fig. 3](#)). The series was up 5.4% q/q, suggesting that the strong performance in after-tax profits isn’t attributable only to Trump’s cut in the corporate tax rate at the end of last year.

The Bureau of Economic Analysis (BEA) computes “book profits,” an after-tax series based on tax returns. It rose 6.7% y/y to a record \$1.97 trillion (saar). Much more impressive is the 16.1% gain in after-tax profits from current production, which eliminates gains and losses attributable to inventory and depreciation accounting based on the Inventory Valuation Adjustment (IVA) and the Capital Consumption Adjustment (CCAdj).

(2) *S&P 500 operating earnings per share* (using Thomson Reuters data) jumped 25.9% y/y during Q2-2018, also to a record high of \$41.03 (at a quarterly rate) ([Fig. 4](#)). S&P 500 revenues per share increased impressively over this same period by 10.4%. This implies that Trump’s tax cut might have added as much as 15 percentage points to earnings growth.

This effect can also be seen in the profit margin, which jumped from a record 10.9% during Q4-2017 (before Trump’s tax cut) to a new record high of 12.3% during Q2-2018 ([Fig. 5](#)).

(3) *Cash flow* received a big boost from Trump’s tax reforms, according to the BEA’s data. Corporate income taxes dropped from \$351 billion during 2017 to \$225 billion during H1-2018 (saar) ([Fig. 6](#)). Undistributed profits with IVA and CCAdj jumped from \$533 billion during 2017 to \$771 billion (saar) during H1-2018 ([Fig. 7](#)).

The bottom line is that cash flow increased significantly from \$1,941 billion during 2017 to \$2,531 billion

during H1-2017 ([Fig. 8](#)).

Strategy III: Anatomy of a Meltup. Contributing to the bull run in the US since March 2009 have been occasional stampedes out of overseas stock markets as a result of European financial crises and troubles in various emerging market economies. That seems to be happening again this year. Consider the following:

(1) Here is the ytd performance derby of the major MSCI stock price indexes in local currencies: US (8.7%), All Country World (3.5), EMU (-1.8), Emerging Markets (-3.5), UK (-3.6), and Japan (-4.0) ([Fig. 9](#)).

(2) Here is the ytd performance derby of the major European MSCI stock price indexes in local currencies: Sweden (6.2), France (2.8), Switzerland (-3.2), UK (-3.6), Ireland (-4.0), Germany (-5.4), Spain (-7.0), Italy (-8.1), and Greece (-16.3) ([Fig. 10](#) and [Fig. 11](#)).

(3) Here is the ytd performance derby of the major Asian Tigers and Emerging Markets MSCI stock price indexes in local currencies: Russia (9.9), India (9.2), Taiwan (5.2), Brazil (-0.6), Mexico (-1.4), Singapore (-6.1), South Korea (-6.4), Chile (-7.0), China (-9.0), and Argentina (-53.0) ([Fig. 12](#), [Fig. 13](#), and [Fig. 14](#)).

Strategy IV: Mr. Wonderful's Meltup. On Friday, Kevin O'Leary (a.k.a. "Mr. Wonderful" and one of the sharks on *Shark Tank*) appeared on CNBC's *Halftime Report*. He said that if Trump wins his trade war with China, the stock market could experience a meltup. I agree with that.

Joe and I have kept count of the number of panic attacks followed by relief rallies since the start of the bull market in early 2009. (See our [S&P 500 Panic Attacks Since 2009](#).) Including the 13-day correction at the beginning of the year, we are up to 61. A resolution of Trump's trade war resulting in fairer trade and less protectionism could trigger the "MAMU," i.e., "the mother of all meltups."

Last Thursday, the EU's trade chief, Cecilia Malmström, said Brussels is willing to scrap tariffs on all industrial products, including cars, in its trade talks with the US! "We said that we are ready from the EU side to go to zero tariffs on all industrial goods, of course if the U.S. does the same, so it would be on a reciprocal basis," Malmström told the European Parliament's trade committee. "We are willing to bring down even our car tariffs down to zero ... if the U.S. does the same," she said, adding that "it would be good for us economically, and for them."

Malmström's comment goes beyond what was agreed to in July: The [joint statement](#) between European Commission President Jean-Claude Juncker and President Trump mentioned eliminating tariffs, non-tariff barriers, and subsidies only for "non-auto industrial goods."

Movie. "Operation Finale" (+ +) ([link](#)) depicts the true saga of how Israeli intelligence officers captured former SS officer Adolf Eichmann in 1960 and brought him to trial in Israel. He claimed to be a patriot and overworked accountant for the Nazi regime rather than the architect of the Final Solution. He was hanged for his crimes against humanity. In 1963, Hannah Arendt published a book about the trial, *Eichmann in Jerusalem: A Report on the Banality of Evil*. She wrote that Eichmann declared "with great emphasis that he had lived his whole life ... according to a Kantian definition of duty." Arendt considered this so "incomprehensible on the face of it" that it confirmed her belief that he wasn't thinking at all, just mindlessly following orders, thereby establishing his banality. She argued that moral choice remains even in a totalitarian regime.

CALENDARS

US. Tues: ISM & IHS Markit M-PMIs 57.6/54.5, Construction Spending 0.4%. **Wed:** Total & Domestic Motor Vehicle Sales 16.9mu/13.0mu, Merchandise Trade Balance -\$50.2b, MBA Mortgage Applications, Williams, Bostic. (Econoday estimates)

Global. Tues: RBA Cash Target Rate 1.50%, Carney, Lowe. **Wed:** Eurozone Retail Sales - 0.1% m/m/1.3% y/y, Eurozone, Germany, France, and Italy C-PMIs 54.4/55.7/55.1/52.2, Eurozone, Germany, France, and Italy NM-PMIs 54.4/55.2/55.7/53.1, UK C-PMI & NM-PMI 54.1/53.9, China Caixin NM-PMI 52.6, Australia GDP 0.7% q/q/2.8% y/y, BOC Rate Decision 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): The US MSCI index registered a 0.9% gain last week for the second week in a row and was higher for the 12th time in the past 15 weeks. The index ranked 13th out of the 49 markets in a week when 22 countries rose in US dollar terms vs the prior week's 37/49 ranking as 42 markets rose. The AC World ex-US index increased 0.3% vs 1.7% the week earlier. EM Eastern Europe performed the best among markets abroad with an increase of 2.2%, followed by EMEA (1.9%) and EM Asia (1.1). Just one region underperformed the AC World ex-US, EM Latin America (-1.1), and two tied the AC World ex-US' 0.3% gain, EAFE and BRIC. Egypt was the best-performing country as it rose 5.1%, followed by Taiwan (3.0), Russia (2.8), and Hungary (2.6). Of the 29 countries that underperformed the AC World ex-US MSCI last week, Turkey fared the worst, falling 6.4%, followed by South Africa (-4.6) and Argentina (-3.5). In August, the US MSCI rose 3.1%, ranking 2/44 and well ahead of the 2.3% decline for the AC World ex-US index in a month when all regions fell. That compares to the US MSCI's 3.5% rise in July, when it ranked 22/44 and was well ahead of the 2.2% gain for the AC World ex-US in a month when all regions rose. The best-performing regions in August, albeit with declines: EM Asia (-1.0) and EAFE (-2.2). August's worst-performing regions: EM Latin America (-8.8), EMEA (-6.0), EM Eastern Europe (-4.6), BRIC (-4.3), and EMU (-3.3). On a ytd basis, the US MSCI rose to an 8.7% gain, and remained steady in the ytd performance ranking at 3/49. The US MSCI remains way ahead of the AC World ex-US (-5.4) in the ytd period; 38/49 countries and all other regions are in negative territory ytd. EAFE (-4.3) and EMU (-4.8) lead the AC World ex-US. EM Latin America (-12.9) is the biggest laggard relative to the AC World ex-US's performance, followed by EMEA (-11.4), BRIC (-9.2), EM Asia (-6.8), and EM Eastern Europe (-6.2). The best country performers ytd: Israel (11.9), Finland (10.6), the US (8.7), Colombia (4.1), and Portugal (4.0). The worst-performing countries ytd: Turkey (-55.1), Argentina (-53.0), South Africa (-21.1), Brazil (-20.0), and Greece (-18.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these market-cap indexes rose last week, LargeCap by the most—0.9%—beating SmallCap's (0.6%) and MidCap's (0.5) gains. Only SmallCap ended the week at a record high, as LargeCap and MidCap finished 0.4% and 0.3%, respectively, below their records on Wednesday. Eighteen of the 33 sectors rose in the latest week, down from 23 rising a week earlier. The best performers in the latest week: SmallCap Health Care (2.5), LargeCap Tech (2.0), MidCap Tech (2.0), SmallCap Tech (1.9), and LargeCap Consumer Discretionary (1.8). MidCap Telecom and SmallCap Energy were the biggest decliners last week, falling 1.8% and followed closely by LargeCap Telecom (-1.7). All three market-cap indexes moved higher again in August. LargeCap gained 3.0% last month, underperforming SmallCap (4.7) and tying with MidCap (3.0). SmallCap's monthly gain was its sixth straight rise, while LargeCap rose for a fifth month and MidCap for a fourth. Twenty-eight of the 33 sectors advanced in August, matching July's performance and the most since 30 sectors rose in November. That compares to 22 rising in June, 27 in May, 20 in April, 19 in March, and just one in February (the fewest since August 2015). August's best performers: MidCap Telecom (19.0), SmallCap Health Care (8.9), MidCap Tech (7.6), and SmallCap Consumer Discretionary (7.5). August's biggest laggards: SmallCap Energy (-5.0), MidCap Energy (-3.8), and

MidCap Materials (-2.0). LargeCap is now up 8.5% ytd; it has been beating MidCap (7.6) on a ytd basis in recent weeks after trailing it for much of the year, but both are significantly trailing SmallCap's 17.3% gain. Twenty-nine sectors are now positive to date in 2018, unchanged from a week earlier and compared to just three in early February. The best-performing sectors ytd: SmallCap Health Care (47.2), MidCap Health Care (32.2), LargeCap Tech (20.0), SmallCap Telecom (18.7), and LargeCap Consumer Discretionary (18.3). The worst performers ytd: LargeCap Telecom (-7.3), LargeCap Consumer Staples (-6.1), LargeCap Materials (-1.9), and MidCap Materials (-0.9).

S&P 500 Sectors and Industries Performance ([link](#)): Seven sectors rose last week, and three outperformed the S&P 500's 0.9% gain. That compares to seven rising a week earlier, when four outperformed the S&P 500's 0.9% gain. Tech, with a gain of 2.0%, was the best-performing sector and beat the performances of Consumer Discretionary (1.8%) and Health Care (1.0). Telecom was the biggest underperformer, with a drop of 1.7%, followed by Utilities (-0.6), Consumer Staples (-0.4), Energy (-0.1), Materials (0.3), Financials (0.3), Industrials (0.4), and Real Estate (0.9). The S&P 500 rose 3.0% in August as 8/11 sectors moved higher and three beat the index. That compares to all 11 rising and four beating the S&P 500's 3.6% gain in July. The leading sectors in August: Tech (6.7), Consumer Discretionary (5.0), and Health Care (4.2). The biggest laggards in August: Energy (-3.8), Materials (-0.7), Industrials (0.0), Consumer Staples (0.3), Utilities (0.6), Financials (1.2), Real Estate (2.2), and Telecom (2.9). Eight sectors are in the plus column so far in 2018, unchanged from a week earlier and down from nine in early March. However, just three sectors are outperforming the S&P 500's 8.5% ytd gain: Tech (20.0), Consumer Discretionary (18.3), and Health Care (12.0). The eight ytd underperformers: Telecom (-7.3), Consumer Staples (-6.1), Materials (-1.9), Utilities (0.9), Financials (1.2), Industrials (1.2), Real Estate (2.3), and Energy (2.7).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 1.1% w/w for only its third gain in nine weeks as 14 of the 24 commodities that we follow moved higher. That compares to the prior week's 2.7% gain when 14/24 commodities rose. Last week's strongest performers: Sugar (3.6%), Brent Crude (2.0), Live Cattle (1.9), and Wheat (1.7). Last week's biggest decliners: Nickel (-4.7), Zinc (-3.2), Coffee (-2.8), and Lean Hogs (-2.6). August saw just eight of the commodities climb as the S&P GSCI Commodities index rose 0.8%, compared to six rising in July when the index fell 4.6%. August's best performers were led by Cocoa (7.6), GasOil (5.3), Heating Oil (4.9), Natural Gas (4.8), and Brent Crude (4.6). August's laggards: Nickel (-8.8), Cotton (-8.2), Soybeans (-8.2), and Coffee (-7.4). The S&P GSCI commodities index is up 5.9% ytd and near its highest level since December 2014, but is down 5.3% from its high in May and remains about 50% below its record high in July 2008 just before the financial crisis. The top performer so far in 2018 is Kansas Wheat (29.5), followed by Wheat (27.8), Cocoa (23.5), Brent Crude (16.1), Crude Oil (15.5), and GasOil (15.0). The biggest laggards of 2018 to date: Sugar (-30.1), Lean Hogs (-29.7), Zinc (-26.0), Coffee (-19.3), and Copper (-17.4).

Assets Sorted by Spread w/ 200-dmas ([link](#)): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 9/24 commodities, 3/9 global stock indexes, and 31/33 US stock indexes, compared to 14/24 commodities, 9/9 global stock indexes, and 21/33 US stock indexes rising a week earlier. Commodities' average spread rose w/w to -3.3% from -3.4%, and 10 commodities trade above their 200-dmas, unchanged from a week earlier. Wheat leads all commodities 12.5% above its 200-dma, but Sugar (-15.4%) performed the best among commodities and all assets last week, rising 3.7ppts. Lean Hogs now trades at 27.7% below its 200-dma, the lowest of all commodities and all assets. Nickel (-5.9) had the worst performance of all commodities and all assets last week, falling 4.9ppts. The global indexes trade at an average of 2.9% below their 200-dmas, up from -3.9% in the prior week. Just two of the nine global indexes trade above their 200-dmas, down from three a week earlier. Japan (2.0) now leads the global indexes, but South Korea (-4.0) improved 1.4ppts w/w for the best gain among global assets. China (-13.0) trades at the lowest point relative to its 200-dma among global assets, but the UK (-0.8) fell 2.0ppts for the worst w/w performance among global assets. The

US stock indexes trade at an average of 6.9% above their 200-dmas, with 31 of the 33 sectors above, down from 7.0% a week earlier, when 31 sectors were above. SmallCap Health Care (23.5) continues to lead the US stock indexes and all assets, but SmallCap Tech (11.1) and MidCap Tech (9.2) both rose 1.8ppts w/w for the biggest gains among US stock indexes last week. LargeCap Materials (-0.4) trades the lowest among all US stock indexes relative to 200-dmas, but MidCap Telecom (10.1) dropped 2.5ppts last week for the worst performance among US stock indexes.

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 0.9% last week and improved relative to both its short-term 50-day moving average (50-dma) trend line and its long-term 200-dma for the fifth time in six weeks. The index remained in a Golden Cross (50-dma higher than 200-dma) for a 123rd straight week (after 17 weeks in a Death Cross) as the S&P 500's 50-dma relative to its 200-dma rose for the 12th time in 13 weeks following 17 straight weekly declines. The current Golden Cross reading of 2.9% is at a 19-week high and up from 2.7% a week earlier, but well below its 55-month high of 7.2% in early February; these compare to its 25-month low of 1.0% at the end of May and four-year low of -4.5% in March 2016. The S&P 500's 50-dma rose for a 14th week after mostly declining from late March to late May—including four straight weeks of decline through mid-April that constituted its worst performance since before the 2016 election. The index appears to have successfully tested its 50-dma at the end of June, and improved to a 12-week high of 3.1% above its rising 50-dma from 2.7% a week earlier. That compares to a 25-month low of 5.6% below its falling 50-dma near the end of March, and a two-year high of 6.2% above its rising 50-dma on January 29. The 200-dma continued to rise, as it has done since May 2016, but at a pace near its slowest since October 2011. The S&P 500 successfully tested its 200-dma in early April, and ended the week at a 24-week high of 6.1% above its rising 200-dma, up from 5.4% a week earlier. That compares to 0.6% below the index's rising 200-dma on April 3 (the lowest reading since June 2016) and a seven-year high of 13.5% above its 200-dma on January 29.

S&P 500 Sectors Technical Indicators ([link](#)): Among the 11 S&P 500 sectors, five improved relative to their 50-dmas last week and seven relative to their 200-dmas. These four weakened relative to both measures in the latest week: Consumer Staples, Energy, Telecom, and Utilities. Ten of the 11 sectors are trading above their 50-dmas, unchanged from a week earlier and leaving Energy as the only sector trading below its 50-dma. All 11 sectors were trading above their 50-dmas in late July, the most since early December. Just a few months prior, the picture was the opposite: All 11 sectors were trading below their 50-dmas at the end of March (a first since February 2016). The longer-term picture—i.e., relative to 200-dmas—shows 10/11 sectors trading above currently, also unchanged from a week earlier. That's up from just four sectors trading above their 200-dmas in early May (which matched the lowest count since January 2016). Materials remained below for the tenth time in 11 weeks. Sectors trading the longest above their 200-dmas: Tech (above 200-dma for 113 straight weeks), Consumer Discretionary (95 straight weeks), and Health Care (14 weeks). All 11 sectors had been above both their 50-dmas and 200-dmas briefly in mid-December (for the first time since July 2016). Six sectors are in a Golden Cross (with 50-dmas higher than 200-dmas), unchanged from a week earlier. All 11 had been in a Golden Cross in mid-January for the first time since a 26-week streak ended in October 2016. Consumer Staples was out for a 24th week, followed by: Telecom (out for 22 weeks), Materials (18), Industrials (14), and Financials (10). Ten sectors have rising 50-dmas now, a count that's unchanged from a week earlier as Energy turned lower and Materials reversed higher. That compares to all 11 sectors with falling 50-dmas during early April (the worst count since before the election in November 2016). Nine sectors have rising 200-dmas, up from eight a week earlier and compared to six in mid-July (which was tied with a count in February for the lowest since May 2017). Real Estate's 200-dma turned up in the latest week, leaving just Consumer Staples and Utilities in the declining 200-dma club.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): The latest monthly data show real consumer spending continued to expand at the start of Q3 to new record highs, though the pace was slightly below Q2's. Real personal consumption expenditures (PCE) climbed 0.2% in July, easing from Q2's average monthly gain of 0.3%. Real spending on both goods and services advanced 0.2% in July, with the former a mixed bag—a 0.6% increase in real spending on nondurable goods more than offset a -0.5% decline in durable goods. Real disposable income advanced for the 13th straight month in July, up 3.2% over the period to a new record high, while real wages & salaries rose 2.8% over the same period, also to a new record high. Consumers boosted savings by \$1.03 trillion over the 12 months through July—the best pace since the comparable period through May 2016. Meanwhile, July data show inflation continues to accelerate, with the headline rate (2.3% y/y) climbing to its highest reading since 2012, while the core rate (2.0)—the Fed's preferred measure—was back up at the Fed's target rate reached in March for the first time in six years.

Consumer Sentiment ([link](#)): Consumer sentiment improved a bit during the last half of August, though still sank to its lowest level since the start of the year. The Consumer Sentiment Index (CSI) fell for the fourth time since reaching a 14-year high of 101.4 in March, sliding to 96.2 in August—slightly above the 95.3 preliminary estimate. According to Richard Curtin, the Survey of Consumers' chief economist, "The dominating weakness was related to less favorable assessments of buying conditions, mainly due to less favorable perceptions of market prices and to a lesser extent, rising interest rates." However, he clarified that consumers have "not yet judged the current rate of inflation as a significant source of erosion in their living standards or as a cause to reduce their buying plans." Future income and job certainty have become the main reasons cited by consumers for their positive spending views. The present situation index dropped from a record-high 121.2 in March to a 21-month low of 110.3 (vs the preliminary 107.8) last month. Meanwhile, the expectations index continues to move sideways around recent highs, ticking down from 87.3 in July to 87.1 (vs 87.3) last month.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate ([link](#)): August's CPI rate is expected to ease slightly after accelerating to its highest reading since the end of 2012 in July, according to the flash estimate. August's report shows the rate slipping to 2.0% y/y—above the ECB's target rate of just under 2.0% for the fourth month. Looking at the main components, energy (to 9.2% from 9.5% y/y) is once again expected to have the highest annual rate in August, though down from July's high for the series going back to 2013. Also expected to move lower, though modestly, are rates for non-energy industrial goods (to 0.3 from 0.5) and services (1.3 from 1.4), while the rate for food, alcohol & tobacco is predicted to remain at 2.5%. The core rate—which excludes energy, food, alcohol, and tobacco—is calculated to edge down to 1.0% from July's 1.1%, which matched May's eight-month high.

Eurozone Economic Sentiment Indicators ([link](#)): August's Economic Sentiment Index (ESI) for the Eurozone (-0.5 point to 111.6) fell for the eighth time this year, sinking -3.6 points from December's 17-year high of 115.2, to its lowest level in a year; the EU's was unchanged at 112.3 last month, though down -2.7 points from its 17-year high of 115.0 at the end of last year. ESIs in the Eurozone's five largest economies all fell last month: France (-1.3 points to 108.2, 15-month low), Italy (-0.8 to 108.2, 13-month low), Spain (-0.7 to 107.0, 17-month low), the Netherlands (-0.5 to 109.4, 14-month low), and Germany (-0.1 to 112.7, 2-month low). At the sector level, retail trade (+1.4 to 1.7) and construction (+1.0 to 6.4) confidence rose last month—with the latter just a few ticks below May's record high of 7.1, while industry (-0.3 to 5.5), services (-0.6 to 14.7), and consumer (-1.4 to -1.9) confidence fell.

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