MORNING BRIEFING
October 9, 2018

Trump's Poison Pills

See the collection of the individual charts linked below.

(1) Gift for the holidays. (2) Short wait to get confirmation of our China thesis. (3) Veep Pence is Trump's new hit man on China. (4) US has a long list of grievances over trade and many other issues with China. (5) There's a poison pill in trade deal with Canada and Mexico. (6) Trump's bullets hitting one of his targets: Chinese stock market. Will they ricochet to the US? (7) The Big Hack likely to alter global supply chains. (8) Trump's sanctions against North Korea and Iran seem to be hitting their marks too. (9) Lots of poison pills out there!

Thinking Ahead. The holidays are coming. May we suggest the perfect gift from you to your colleagues, friends, and family? Consider giving them Dr. Ed's "*Predicting the Markets: A Professional Autobiography*." You'll get a 25% discount for orders of five or more books purchased on our shopping cart (with free shipping in the US). Avoid the rush, and have Dr. Ed sign them if you order before Thanksgiving Day.

China: Trumped Again. A week ago Monday, the *Morning Briefing* was titled "China's Syndromes." I wrote that aging demographic forces, which were significantly exacerbated by the Chinese government's one-child policy, are already depressing the growth rate of real retail sales in China (*Fig. 1* and *Fig. 2*). As a result, the government is scrambling to expand its overseas military and economic power to counter the structural weakness at home.

I argued that President Donald Trump is implementing policies aimed at either slowing or halting China's drive to become a superpower. He wants to reduce America's huge trade deficit with China by forcing US and other manufacturers to move out of that country. In the process, the US would no longer be financing China's ascent with our trade deficit and providing technological knowhow that has been either stolen or extorted.

I didn't have to wait long to get confirmation of my working hypothesis. Consider the following fast-paced developments:

(1) *The President's speech.* In his 9/25 speech before the United Nations General Assembly, Trump said only the following about China, focusing on trade: "The United States lost over 3 million manufacturing jobs, nearly a quarter of all steel jobs, and 60,000 factories after China joined the WTO. And we have racked up $13 trillion in trade deficits over the last two decades. But those days are over. We will no longer tolerate such abuse. We will not allow our workers to be victimized, our companies to be cheated, and our wealth to be plundered and transferred. America will never apologize for protecting its citizens. … China's market distortions and the way they deal cannot be tolerated."

(2) *The Vice President's speech.* In a 10/4 speech at the Hudson Institute, Vice President Mike Pence discussed the administration's policy toward China in far greater detail. He started out by warning: "Beijing is employing a whole-of-government approach, using political, economic, and military tools, as

well as propaganda, to advance its influence and benefit its interests in the United States."

He accused the Chinese Communist Party of using "an arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, intellectual property theft, and industrial subsidies that are handed out like candy to foreign investment. These policies have built Beijing's manufacturing base, at the expense of its competitors—especially the United States of America."

He specifically berated the party's "Made in China 2025" plan for aiming to control 90% of the "world's most advanced industries including robotics, biotechnology, and artificial intelligence. To win the commanding heights of the 21st century economy, Beijing has directed its bureaucrats and businesses to obtain American intellectual property—the foundation of our economic leadership—by any means necessary." He accused the Chinese of stealing US technology including cutting-edge military blueprints. "And using that stolen technology, the Chinese Communist Party is turning plowshares into swords on a massive scale," he said.

He point-blank accused China of economic and military aggression abroad: "[W]hile China's leader stood in the Rose Garden at the White House in 2015 and said that his country had, and I quote, 'no intention to militarize' the South China Sea, today, Beijing has deployed advanced anti-ship and anti-air missiles atop an archipelago of military bases constructed on artificial islands." The result has been provocative and dangerous near misses between our two navies in the South China Sea.

Pence also documented instances of China using so-called "debt diplomacy" to expand its influence: "Today, that country is offering hundreds of billions of dollars in infrastructure loans to governments from Asia to Africa to Europe and even Latin America. Yet the terms of those loans are opaque at best, and the benefits invariably flow overwhelmingly to Beijing."

The US has responded by boosting defense spending and slapping tariffs on China. These "exercises in American strength" explain why China's largest stock exchange fell by 25% in the first nine months of this year. Got that? The US is targeting China's stock market!

Pence accused the Chinese government of oppressing its own people at home. He railed about the Great Firewall of China "restricting the free flow of information to the Chinese people." Even more frightening, he said, is the "Social Credit Score," which, according to the official blueprint, will "allow the trustworthy to roam everywhere under heaven, while making it hard for the discredited to take a single step." It will be implemented in 2020.

Pence also attacked the Chinese government for meddling in US politics in an effort to weaken America. He claimed that in June, "Beijing itself circulated a sensitive document, entitled 'Propaganda and Censorship Notice.' It laid out its strategy. It stated that China must, in their words, 'strike accurately and carefully, splitting apart different domestic groups' in the United States of America."

There are lots more complaints about China in Pence's speech. Clearly, the Trump administration's policy toward China isn't just about trade. A 10/5 *NYT* article critically stated that Pence in effect had declared a "New Cold War" with China. An alternative spin is that Pence was simply recognizing that China has launched an ever-expanding war against American interests.

(3) *The poison pill placed in USMCA.* A 10/5 CNBC article noted that there is a provision in the newly passed North American trade agreement, the United States-Mexico-Canada Agreement (USMCA, a.k.a. "the new NAFTA"), "which effectively gives Washington a veto over Canada and Mexico's other free trade partners to ensure that they are governed by market principles and lack the state

dominance." In effect, that's a "poison pill" aimed at China.

When Trump was elected, I observed that after eight years of government by community organizers, we were about to have a major regime change with government by dealmakers. US Commerce Secretary Wilbur Ross, a consummate wheeler-dealer when he was in the private sector, signaled on Friday that Washington may insist on including this poison-pill provision in future bilateral trade deals. "People can come to understand that this is one of your prerequisites to make a deal," he said.

(4) *JP Morgan's bearish call.* Last Wednesday, JPMorgan strategists wrote in a note that "[a] full-blown trade war becomes our new base case scenario for 2019" with 25% US tariffs imposed on all Chinese goods. They added, "There is no clear sign of mitigating confrontation between China and the U.S. in the near term." In his 10/5 *Barron's* column, Randy Forsyth noted that the bank's strategists "estimate that 25% levies on all Chinese imports to the U.S. would trim earnings for the S&P 500 by $8 a share, from their original projection of $179 for 2019. 'Such a downgrade would mark the first of the Trump era and potentially end the U.S. stock market rally, even assuming a forward [price/earnings] multiple of 17, unless some other offset materializes,' they conclude."

I agree that Trump will probably slap Chinese goods with an across-the-board 25% tariff. I think that the US economy will be strong enough to boost S&P 500 earnings by 6.8% to $173 per share, which has been our number for next year for a while. I don't think that the escalating trade war with China will be the event that ends the bull market in the US (*Fig. 3*). However, it may already be marking the beginning of a severe and prolonged bear market in China (*Fig. 4*).

While financial markets were closed all last week in China for the Golden Week vacation, Hong Kong stocks fell for four consecutive days as investors grew increasingly concerned that the impact of the trade war is starting to show.

On Sunday, the People's Bank of China slashed the reserve requirement ratio for large banks (currently 15.5%) and small banks (13.5%) by 100 basis points effective October 15 (*Fig. 5*). This is the fourth such cut this year. The prime rate is also likely to be cut soon (*Fig. 6*). Beijing has pledged to expedite plans to invest heavily in infrastructure projects as the economy shows signs of cooling further, with investment growth recently slowing to a record low.

CNBC reported yesterday, "On the back of the central bank's announcement, China's mainland markets traded in negative territory for much of their first trading day following the Golden Week holiday. Both the Shanghai composite and the Shenzhen composite fell more than 3.7% by the end of the trading day." The two indexes peaked this year on January 24 and are down 23.7% and 25.0%, respectively (*Fig. 7*). China's MSCI is down 26.0% from its peak on January 26. Hong Kong's Hang Seng is down 21.0% from its peak also on that day (*Fig. 8*).

(5) *Cyber war.* The 10/4 *Bloomberg Businessweek* included a cover story titled "The Big Hack: How China Used a Tiny Chip to Infiltrate U.S. Companies." The story is based on information from multiple intelligence and business sources who confirmed that Chinese spies attacked almost 30 US companies, including Amazon and Apple, "by compromising America's technology supply chain, according to extensive interviews with government and corporate sources." Operatives of the People's Liberation Army inserted tiny microchips designed for spying in motherboards made in China and sold to American companies.

Both Amazon and Apple denied they had been hacked. Whether accurate or fake news, the story certainly could convince many companies to cut China out of their supply chains. That would fit in nicely with the Trump administration's campaign to move production out of China back to the US.

North Korea: The Big Stick. President Theodore Roosevelt famously stated that his foreign policy was based on a simple principle: "Speak softly and carry a big stick; you'll go far." President Trump's foreign policy is based on speaking loudly and tweeting often, while carrying a big stick.

On August 13, Trump approved a sizeable defense policy bill authorizing a top-line budget of $717 billion to cover a litany of defense spending on military hardware. In his foreign policy speech discussed above, Veep Pence clearly stated that the US is upping its defense spending partly to counter China's military expansion.

After he was elected President, Trump met with President Barack Obama. The outgoing Commander in Chief told the incoming one that his number-one problem and priority was to do something about North Korea. Trump immediately responded by aiming his big stick, and some very bellicose tweets, at the country's regime, with the following brief highlights:

(1) *Yesterday*. A year ago, in his first speech at the UN, Trump directed his big stick at North Korea as follows: "The United States has great strength and patience, but if it is forced to defend itself or its allies, we will have no choice but to totally destroy North Korea. Rocket Man is on a suicide mission for himself and for his regime. The United States is ready, willing and able, but hopefully this will not be necessary. That's what the United Nations is all about; that's what the United Nations is for. Let's see how they do. It is time for North Korea to realize that the denuclearization is its only acceptable future."

(2) *Today.* This year at the UN, Trump said: "In June, I traveled to Singapore to meet face to face with North Korea's leader, Chairman Kim Jong Un. We had highly productive conversations and meetings, and we agreed that it was in both countries' interest to pursue the denuclearization of the Korean Peninsula. Since that meeting, we have already seen a number of encouraging measures that few could have imagined only a short time ago. The missiles and rockets are no longer flying in every direction. Nuclear testing has stopped. … I would like to thank Chairman Kim for his courage and for the steps he has taken, though much work remains to be done. The sanctions [i.e., the big stick] will stay in place until denuclearization occurs."

(3) *Tomorrow*. On Monday, Secretary of State Mike Pompeo said that in his meeting with Kim Jong Un on Sunday, the leader of North Korea had agreed to allow inspectors into a key nuclear testing site that the North has claimed it blew up, a down payment on the country's commitment to denuclearize the country.

Iran: Aiming for Regime Change. Needless to say, Obama thought that he and his Secretary of State, John Kerry, had fixed the Iran problem. Trump disagreed, and on May 8, 2018 withdrew US support for the 2015 nuclear deal between Iran and a group of world powers: the P5+1 (i.e., the permanent members of the United Nations Security Council—the US, the UK, Russia, France, and China—plus Germany) as well as the European Union. He followed up with US sanctions on Iran.

Obama expressed regret about Trump's decision. Kerry met with Iranian officials and reportedly advised them to wait out Trump. The European Commission declared that the sanctions were illegal in Europe and banned European citizens and companies from complying with them.

Meanwhile, on August 16, Pompeo formed the Iran Action Group, comprising a handful of employees from the US State and Treasury departments. According to a 10/4 Bloomberg Businessweek article, they've "quietly toured the globe, visiting world capitals and corporate headquarters to persuade foreign governments and companies to shun the Iranian market. The choice they present has been simple: Do business with America, the biggest economy in the world, or do business with Iran and face sanctions and banishment from the U.S. financial system."

The article also observes: "The group's effort is putting to the test the proposition that the U.S. economy and dollar are so central to the global economic system that American sanctions alone will isolate Iran's economy. That runs counter to the conventional wisdom that Obama-era sanctions against Iran were effective only because other nations participated, particularly U.S. allies in Europe. …

"Trump is going further than any previous president in using American financial power as a weapon—in direct confrontation with his allies, daring them to keep doing business with Iran, even if that brings the threat of U.S. economic punishment and denial to the American market, which is 60 times the size of the Iranian economy." Put simply: Trump has warned that anyone who does business with Iran won't do business with America.

The impact on Iran's economy is severe already:

(1) *Big toll from lower oil exports.* Iran's exports of oil products have fallen 60% from a high point of 2.8 million barrels a day in April, the month before Trump backed out of the nuclear accord, to 1.1 million barrels per day during the first week of October. Iran derives 80% of its tax revenue from oil sales.

(2) *High inflation and unemployment.* Iran's central bank projects its inflation rate will reach 60% this year, observed a 9/19 UPI analysis by Struan Stevenson, coordinator of Campaign for Iran Change (*Fig. 9*). The Iranian rial has hit a record low against the US dollar (*Fig. 10*). The country's active work force is 26 million, of whom at least 10 million are jobless. Youth unemployment is at a staggering 40%.

(3) *Social unrest.* The same UPI report noted: "Nationwide protests and strikes, which began in December and quickly spread across the whole country, are continuing. Where the protests were initially aimed at the soaring price of food and other basic commodities and the failure to pay wages, the demonstrations have now turned against the despotic clerical government."

Trump's fiscal and trade policies have boosted the dollar, oil prices, and interest rates. The risk, of course, is that these developments could punish not only China but lots of other emerging market economies as well. In the US, higher oil prices along with higher interest rates could also weigh on the US economy. Those are the major foreseeable risks. For now, I don't see this all leading to a financial crisis or a recession. But I'm on alert: There sure are lots of poison pills out there!

CALENDARS

US. Tues: NFIB Small Business Optimism Index 108.0, Williams, Evans. **Wed:** PPI-FD Headline, Core, and Core Less Trade Services 0.2%/0.2%/0.2%, Atlanta Fed Business Inflation Expectations, Wholesale Trade Inventories 0.8%, MBA Mortgage Applications, Evans, Bostic. (Econoday estimates)

Global. Tues: Germany Trade Balance €16.2b, Japan Machine Orders -3.7%m/m/1.6%/y/y, Canada Housing Starts 208.4k, Australia Business & Consumer Confidence, Mexico CPI 5.01% y/y, IMF World Economic Outlook Report. **Wed:** UK GDP 0.1%m/m/0.6%3m/3m, UK Headline & Manufacturing Industrial Production 1.0%/1.1% y/y, UK Trade Balance - £1150, China Aggregate Financing, China New Yuan Loans 1340.0b, Japan Machine Tool Orders. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500/400/600 Forward Earnings (*link*): Forward earnings rose to record highs for all three indexes last week. LargeCap's was up from its first decline in 18 weeks a week earlier. A w/w decline in forward earnings has occurred at the start of earnings seasons in the past, but will be watched closely this time around as the impact of the China trade war could be starting to roost in US profit forecasts. Forward earnings activity has been relatively strong in the past 12 months: LargeCap's forward earnings have risen in 49 of the past 52 weeks, MidCap's in 50, and SmallCap's in 45. Earnings momentum remains healthy, as the yearly change in forward earnings is up from six-year lows in early 2016 and should remain strong in 2018. In the latest week, the rate of change in LargeCap's forward earnings was steady at 22.8% y/y. That's down from 23.2% in mid-September, which was the highest since January 2011 and compares to a six-year low of -1.8% in October 2015. MidCap's y/y change dropped to 23.4% from 23.5% a week earlier, down from mid-September's 24.1%, which had been the highest since April 2011 and compares to a six-year low of -1.3% in December 2015. SmallCap's rose to an eight-year high of 35.3% from 34.2% the week before, which compares to a six-year low of 0.3% in December 2015. Here are the latest consensus earnings growth rates for 2018, 2019, and 2020: LargeCap (22.6%, 10.3%, 9.7%), MidCap (21.3, 12.3, 11.0), and SmallCap (29.9, 15.2, 12.0).

S&P 500/400/600 Valuation (*link*): Forward P/E ratios fell broadly again last week, to levels not seen since February 2016 for the SMidCaps. LargeCap's weekly forward P/E of 16.5 is down from 16.7 a week earlier, a six-month high of 16.8 in mid-September, a multi-year high of 18.6 on January 26 (highest since May 2002), and of course is well below the tech-bubble record high of 25.7 in July 1999. Last week's level is up from a post-election low of 16.0 in late March, however, and the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap's forward P/E slid last week to 15.9 from 16.4 the week before, and is now the lowest since February 2016. MidCap's P/E is down from a 15-year high of 19.2 in February 2017 and the record high of 20.6 in January 2002; however, it is up from a three-year low of 15.0 in January 2016. MidCap's P/E has been at or below LargeCap's P/E for most of the time since August 2017—the first time that alignment has prevailed since 2009. SmallCap's P/E dropped from 17.5 to 16.7 last week, and is also the lowest since February 2016. That's well below its 51-week high of 20.2 in December 2017 (which wasn't much below the 15-year high of 20.5 in December 2016, when Energy's earnings were depressed), but is comfortably above its three-year low of 15.5 in February 2016. Looking at the three indexes' daily forward price/sales (P/S) ratios, most were higher w/w but remain at levels well below January highs: LargeCap's P/S fell w/w to 2.06 from 2.09, and is down from a record high of 2.19 on January 26; MidCap's was down to 1.28 from 1.33, which compares to its record high of 1.40, also on January 26; and SmallCap's fell to 0.99 from 1.03, which compares to its record high of 1.17 in November 2013, when Energy revenues were depressed.

S&P 500 Sectors Quarterly Earnings Outlook (*link*): With the books now closed on Q3 and earnings beginning to trickle in, analysts are making last-minute adjustments to their Q3 forecasts. Indeed, last week, the S&P 500's Q3-2018 EPS forecast dropped six cents w/w to $40.50. That's down 1.4% since the end of Q2, but up 7.3% ytd and 8.0% since the passage of the TCJA. The $40.50 estimate represents a forecasted pro forma earnings gain for Q3-2018 of 21.5%, down from 21.6% a week earlier and down from 22.1% at the end of Q1. That compares to Q2-2018's blended 24.9%, Q1-2018's 26.6% (which is the strongest since Q4-2010 and likely to mark the peak of the current earnings cycle), Q4-2017's 14.8%, Q3-2017's 8.5%, Q2-2017's 12.3%, and Q1-2017's 15.3%. The S&P 500's Q3-2018 forecasted earnings gain of 21.5% y/y would be its ninth straight gain after four declines. All 11 sectors are expected to record positive y/y earnings growth in Q3-2018, with eight at a double-digit percentage rate. That compares to all 11 positive during Q2, when nine rose at a triple- or double-percentage rate. Three sectors are expected to beat the S&P 500's forecasted y/y earnings gain of 21.5% during Q3, down from four during Q2. That compares to all 11 sectors rising y/y during Q2-2018, when nine rose at a double-digit pace and four outpaced the S&P 500. Analysts expect Energy to report another large profit jump in Q3 relative to very low earnings a year ago, with the pace slowing from Q2. The latest forecasted Q3-2018 earnings growth rates vs their blended Q2-2018 growth rates: Energy (101.5% in Q3-2018 vs 124.0% in Q2-2018), Financials (40.8, 27.5), Materials (28.8, 40.6), S&P 500 (21.5, 24.9), Tech (20.3, 29.0), Industrials (16.9, 20.2), Communication Services (14.8, 18.1), Consumer

Discretionary (12.7, 21.5), Health Care (10.8, 18.4), Consumer Staples (7.3, 13.9), Utilities (4.8, 8.7), and Real Estate (4.3, 3.3). On an ex-Energy basis, analysts expect S&P 500 earnings to rise 18.5% y/y in Q3, down from a blended 21.9% in Q2; that compares to 24.5% in Q1-2018, 12.7% in Q4-2017, and 6.1% in Q3-2017 (which was the slowest growth since ex-Energy earnings rose just 2.2% in Q2-2016). Looking ahead, the Q4-2018 estimate has risen for 3/11 sectors since the end of Q3 and dropped for 6/11. Energy is the best performer with its Q4-2018 forecast rising 1.0%, ahead of the 0.1% increases for Financials and Health Care. Real Estate is the biggest decliner, with its Q4-2018 forecast down 1.5% since the end of Q3, followed by Utilities (-1.0%) and 0.4% declines for Consumer Discretionary, Consumer Staples, and Industrials.

US ECONOMIC INDICATORS

Merchandise Trade (*link*): The real merchandise trade deficit widened again in August, suggesting trade should be a major drag on Q3 real GDP after being a big positive contributor during Q2. August's deficit swelled for the third month, to -$86.3 billion—the steepest gap since January 2006—after dropping sharply the prior three months from -$85.3 billion in February to -$75.5 billion in May. The average -$84.4 billion gap during the two months through August is considerably above the average monthly deficit of -$77.5 billion posted during Q2. Real exports contracted -3.5% during the three months through August (from May's record high), while real imports expanded 2.6% the past four months to a new record high. Real exports of food, feed & beverages (-10.0%) posted the biggest decline in August, after a six-month surge of 29.4%—to a new record high, while exports of consumer goods ex autos (10.4) recorded the biggest gain following a two-month slide of -10.0%. The remaining components show real exports of industrial supplies & materials (-4.6) and autos (-2.1) falling in August, while capital goods ex autos (0.1) was flat after a two-month drop of -3.9%. As for real imports, autos led gains, jumping 3.3% to a new record high, followed by consumer goods less autos (1.6) and industrial materials & supplies (1.4)—which reached a new cyclical high. Real imports of food, feed & beverages dipped -1.7% from July's record high, while imports of capital goods less autos remained in a volatile flat trend around its record high, falling -0.8% after a 1.2% gain and a -2.3% loss the prior two months.

Consumer Credit (*link*): Consumer credit in August expanded at roughly double the average monthly pace recorded during the first half of this year. Overall credit rose $20.1 billion after a $16.6 billion advance in July, which were the two strongest months this year behind May's $22.2 billion. Nonrevolving credit, which includes student and auto loans, climbed $15.2 billion in August, matching July's gain—its strongest two-month showing this year. Revolving credit accelerated $4.8 billion after rising $1.4 billion in July and falling -$0.7 billion in June.

GLOBAL ECONOMIC INDICATORS

Global Leading Indicators (*link*): In August, the OECD's composite leading indicators (CLIs)—designed to anticipate turning points in economic activity relative to trend six to nine months ahead—continued to point to an easing of growth momentum in the OECD (99.6) as a whole. In the major economies, easing growth momentum remains the assessment for the Eurozone (99.6) as a whole, including France (99.4) and Italy (99.8), while Germany's CLI (99.9) now points to stabilizing growth momentum, an upgrade from the prior month; the UK's (99.1) is still showing an easing in momentum. Looking at major non-European CLIs, those for the US (100.0) and Japan (99.7) continue to anticipate stable growth momentum, with similar signs emerging in Canada (99.5). Among major emerging economies, India's CLI (101.5) continues to point to growth gaining momentum, while Brazil's (102.6) is still pointing to growth easing momentum. Meanwhile, China's CLI (99.2) now shows stable growth, rather than gaining growth, momentum for its industrial sector, while Russia's (100.6) has improved from easing to stable growth momentum.

Germany Manufacturing Orders (*link*): "The strong order increase from outside the euro area shows that German industrial goods continue to be in demand globally, irrespective of trade conflicts," the Economy Ministry said in a statement. "A positive economic trend should take the upper hand again in the fourth quarter." Factory orders in August rebounded 2.0% after contracting six of the prior seven months by -8.1% to its lowest level since January 2017. Foreign orders jumped 5.8% after sliding -7.9% the previous two months, while domestic orders continued to bounce around recent lows, falling -2.9% in August after a 2.4% gain and a -2.7% loss the prior two months. The increase in foreign orders was driven by an 11.1% surge in billings from outside the Eurozone, after contracting by a like amount the first seven months of the year. August's gain was widespread, led by a double-digit gain in capital (13.7%) goods billings, with consumer (9.1) and intermediate (5.1) goods orders also posting robust gains. Meanwhile, foreign orders from within the Eurozone contracted for its sixth time this year, falling -2.2% in August and -13.8% ytd—with capital goods orders plunging -23.8% ytd, consumer goods orders rising 8.2% ytd, and billings of industrial goods declining a modest -2.1% ytd.

Germany Industrial Production (*link*): August industrial production unexpectedly fell for the third month since reaching a new record high in May. Germany's headline production—which includes construction—fell -0.3% in August and -2.3% the past three months, while output was flat excluding construction after a two-month drop of -2.2%. Construction output sank -1.8% during the month. Factory production slipped -0.1% after declines of -1.9% and -0.7% the prior two months. The main industrial groupings showed August's weakness was driven by capital goods production, which fell for the third month, by -0.7% m/m and -3.4% over the period. Meanwhile, consumer (1.4%) and intermediate (0.1) goods output rose in August after two-month declines of -2.2% and -2.5%, respectively. The news from IHS Markit's September survey wasn't encouraging, showing its M-PMI (to 53.7 from 55.9) fell to a 25-month low, depressed by the steepest drop in new export orders in over five years. Production levels exhibited their smallest gain since April 2016, while business confidence toward the year-ahead outlook for output was the gloomiest for over three years.

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