



MORNING BRIEFING

March 18, 2019

Bond Yields: Failure To Launch

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

(1) Lots of bonds. (2) Predicting the bond market is more about global inflation and monetary policies than about supply and demand. (3) Bearish bond gurus wrong so far. (4) Demography, debt, and deflation weighing on global growth, and keeping a lid on bond yields. (5) A world of hurt. (6) Yield curve spread signaling recession, while credit yield spreads sending all-clear message. (7) Fed data show big drop in US direct investment abroad led by plunge in reinvested earnings. (8) Are Trump's "America First" policies working?

Global Bonds I: The Bond Crop Never Fails. Why is the 10-year US Treasury bond yield still below 3.00%? There certainly has been no shortage of bonds, which should be bearish for bonds. The old saying "The bond crop never fails" has never been truer:

(1) At 2.59% on Friday, the bond yield is about unchanged from where it was in late 2017 just before the enactment of Trump's tax cuts ([Fig. 1](#)). Since then, the 12-month federal budget deficit has ballooned from \$681 billion through December 2017 to \$914 billion through January 2019 ([Fig. 2](#)).

(2) The Fed's holdings of US Treasuries and agencies have dropped by \$460 billion since the start of quantitative tightening (QT) during October 2017 through March 13 of this year ([Fig. 3](#)). Fed officials have been intimating that they may continue to pare the Fed's balance sheet by \$50 billion per month before suspending QT at the end of this year.

(3) The Fed's quarterly flow-of-funds data show that nonfinancial corporate (NFC) bonds outstanding rose to a record high of \$5.5 trillion at the end of last year, up \$116 billion y/y ([Fig. 4](#)). NFC loans rose to a record-high \$3.5 trillion at the end of last year.

As I observe in my 2018 book [Predicting the Markets](#), based on my 40 years in the business, I've never found that an analysis of supply and demand factors in the credit markets has been particularly helpful in predicting the bond yield. Much more important has been to get the inflation outlook right and to anticipate how the Fed will respond to actual and expected inflation.

In recent years, I've also learned that the US bond market has gone global. So it is strongly influenced by global inflation and how all the major central banks are responding to it. This approach has been more useful in explaining why the US bond yield remains so low, as I discuss in the next section.

Global Bonds II: A Geriatric World of Aches & Pains. Early last year, most bond gurus were predicting that the bond yield had nowhere to go but up, possibly to 4.00% or even 5.00%. They anticipated higher inflation attributable to Trump's stimulative tax cuts and widening deficits as well as the pass-through of rising costs attributable to Trump's tariffs.

However, the global economic outlook has been deteriorating since early last year. That seems to

coincide with the start of Trump's trade wars. On the other hand, as our YRI team has been reporting over the past year, there seem to be plenty of homegrown problems around the world.

Many countries are feeling the depressing economic impact of rapidly aging populations. In addition, many simply have too much debt. Their governments are finding that piling up even more debt just isn't having the anticipated stimulative impact on their geriatrically challenged economies. The major central banks continue to be frustrated as their ultra-easy monetary policies are failing to boost real growth and to lift inflation to their 2.0% targets. So far, their policies have mostly offset the forces of deflation resulting from aging demographics and too much debt.

Consider the following developments:

(1) *Leading indicators.* Early this month, global PMIs were released for February ([Fig. 5](#)). The global M-PMI was especially weak, led by a fall in the advanced economies component to 50.4, the lowest reading since May 2016. On the other hand, the global NM-PMI continued to meander around 53.0, as it has been doing for the past few months.

Last week, the OECD reported widespread weakness in its January Leading Indicators, with below-100 readings for Europe (98.9), Canada (98.9), the US (99.0), Australia (99.5), and Japan (99.8) ([Fig. 6](#)).

(2) *Inflation.* The core CPI inflation rate was 2.2% y/y in the 36 member countries of the OECD during January, and 1.7% among the G7 economies ([Fig. 7](#)). The headline CPI inflation rates during February were 1.5% in both the US and the Eurozone, and only 0.2% in Japan during January ([Fig. 8](#)). In China, the headline PPI inflation rate was just 0.1% last month, while the headline CPI was moderate at 1.5%.

(3) *Central banks.* Keep in mind that inflation rates remain subdued, below 2.0%, in the major developed economies around the world despite 10 years of ultra-easy monetary policies. The combined assets (in dollars) of the Fed, ECB, and BOJ are up three-fold since 2008, from \$5 trillion to \$15 trillion, yet the CPI of the G7 industrial economies is up just 17% over this same period ([Fig. 9](#)). No wonder the BOJ and ECB remain stuck with their negative-interest-rate policies, while the Fed has declared a pause in its monetary normalization program.

Also, it's no wonder that the US bond yield remains under 3.00% when the yields on comparable German (0.08%) and Japanese (-0.03%) bonds continue to hover around zero ([Fig. 10](#)).

(4) *Yield curve.* Last year, there was lots of angst provoked by the flattening of the yield curve, widely believed to be a leading indicator increasingly pointing toward an imminent recession ([Fig. 11](#)). The spread between the 10-year US Treasury yield and the federal funds rate plunged from around 100bps last summer to 25bps late last year. That seemed to confirm the dire signal of an impending recession that stock-market weakness seemed to be sending. This year, the stock market has recovered almost all that was lost late last year, even though the yield curve spread remains just above zero.

Could it be that the yield curve is signaling weak global economic growth and low inflation without necessarily implying a recession in the US? We think so, and the US stock market apparently supports our thesis. So why are global stock markets also doing so well? Perhaps there is too much pessimism about the global economic outlook.

(5) *Credit spreads.* While the flattening yield curve continues to trigger anxiety among those who see it as a recession signal, credit quality yield spreads have narrowed significantly so far this year. For example, the yield spread between the high-yield corporate bond and the 10-year US Treasury peaked most recently at 525 bps on December 24 ([Fig. 12](#)). It was down to 382 bps last Thursday. There's no

recession in the wings according to credit spreads.

Flow of Funds: Diving Deeper Into US Direct Investments. Last week, Melissa and I took a dive into the Fed's quarterly [Financial Accounts of the United States](#). One of our findings was a sharp drop in US direct investment abroad last year. We chalked it up to uncertainty attributable to Trump's trade wars squelching the willingness of US companies to invest abroad.

One of our accounts asked us if the drop might also reflect the leveling of the corporate tax playing field after Trump cut the US corporate statutory tax rate to 21% from 35% under the Tax Cut and Jobs Act (TCJA) at the start of 2018. Presumably, that might have convinced US corporations to invest more at home than abroad as well. There were other provisions in the TCJA that caused corporations to repatriate earnings parked overseas in liquid assets.

The Fed's [Table F.230](#) shows that direct investment includes equity, reinvested earnings, and intercompany debt. Here is a closer look at the data compiled by the Fed:

(1) *US direct investment abroad* has been hovering around \$300 billion per year since 2007 through 2017 ([Fig. 13](#)). Reinvested earnings accounted for most of direct investment since 2007. However, reinvested earnings plunged from \$322 billion during 2017 to -\$169 billion last year, leading the plunge in total US direct investment abroad from \$316 billion to -\$131 billion.

(2) *Foreign direct investment in the US* was \$292 billion last year, unchanged from the year before ([Fig. 14](#)). Interestingly, foreigners reinvested earnings in the US totaling \$150 billion last year, up from \$108 billion during 2017.

There is clearly some evidence in the data that Trump's "America First" policies caused US corporations to reinvest less of their earnings overseas and foreign companies to reinvest more of their earnings in the US.

(3) *The open question* is: Exactly what is "reinvested earnings" in the Fed's table on direct investment? How does this item relate to the "foreign earnings retained abroad" series in the Fed's [Table F.103](#) on nonfinancial corporate business? It would seem that there should be a difference between earnings that are reinvested versus retained abroad.

Nevertheless, the two series are nearly identical ([Fig. 15](#)). Total US earnings reinvested abroad fell \$870 billion (saar) during H1-2018, then rose \$195 billion (saar) during H2-2018.

The data imply that during H1-2018 TCJA led to the repatriation of \$937 billion in earnings, not the \$2 trillion to \$3 trillion that was widely (and wildly) expected. Apparently, most of earnings that had been held abroad were actually reinvested, adding to US direct investment abroad, which totaled \$6.4 trillion at the end of 2018 ([Fig. 16](#)).

In any event, we will be monitoring all these data series in the future to see if Trump's corporate tax reforms cause US corporations to invest more at home and less abroad. Our working hypothesis is that that will prove to be the case.

(4) *Technical note.* The Fed notes: "U.S. direct investment abroad is a category of cross-border investment where a U.S. resident has control of or a significant degree of influence on the management of a company abroad. The U.S. resident is considered to have control if he or she owns more than 50 percent of the voting power in the direct investment enterprise. Owning between 10 and 50 percent is considered a significant degree of influence. U.S. investment in a foreign company of less than 10

percent is considered portfolio investment and is counted as a U.S. purchase of foreign corporate equities (shown on tables F.223 and L.223). Equity, reinvested earnings and intercompany accounts detail for U.S. direct investment abroad is also shown. Direct investment debt positions between affiliated enterprises is considered intercompany lending.”

CALENDARS

US. Mon: NAHB Housing Market Index 63. **Tues:** Factory Orders 0.3%. (DailyFX estimates)

Global. Mon: Eurozone Trade Balance €15.0b, Japan Industrial Production. **Tues:** Germany ZEW Survey Current Situation & Expectations 13/-11, UK Employment Change & Unemployment Rate (3-month) 120k/4.0%, BOJ Minutes of January Policy Meeting, RBA Minutes of March Policy Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 2.9% for its biggest gain of the year. That performance ranked 24th of the 49 global stock markets we follow in a week when 40/49 countries rose in US dollar terms. That compares to the prior week's 25/49 ranking, when the US MSCI dropped 2.2% and 25 markets rose. The AC World ex-US index rose 2.7%, posting its biggest gain in nine weeks; that performance compares to a 2.1% decline a week earlier. All regions rose w/w, but EM Latin America (4.4%) was the best performer, ahead of EMU (3.7), BRIC (3.5), and EAFE (2.8). EMEA was the worst performer, albeit with a gain of 2.0%, followed by EM Eastern Europe (2.3) and EM Asia (2.5). Colombia was the best-performing country, rising 7.8%, followed by Argentina (5.6), Austria (5.4), Brazil (5.1), and Peru (5.1). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst, falling 2.8%, followed by Sri Lanka (-2.6), Morocco (-1.1), the Philippines (-0.6), and New Zealand (-0.5). The US MSCI's ytd ranking fell to 13/49 from 8/49 a week earlier, with its 12.9% ytd gain ahead of that of the AC World ex-US (10.2). All regions and nearly all countries are in positive territory ytd. Among the regions, those outperforming the AC World ex-US ytd include: BRIC (13.8), EMU (11.7), and EM Latin America (11.1). Regions underperforming the AC World ex-US: EMEA (6.6), EM Eastern Europe (9.1), EAFE (9.9), and EM Asia (10.0). The best country performers ytd: Colombia (25.4), Egypt (17.1), China (16.8), Canada (15.5), and Belgium (15.0). The worst-performing countries so far in 2019: Morocco (-4.8), Sri Lanka (-2.9), Malaysia (1.2), Poland (2.0), and Indonesia (2.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose last week as LargeCap posted its biggest gain in 15 weeks. LargeCap's 2.9% rise easily outpaced the gains for MidCap (1.9%) and SmallCap (1.4). LargeCap ended the week 3.7% below its record high on September 20, with MidCap and SmallCap 7.5% and 13.8% below their August 29 records, respectively. Among the 33 sectors, 30 moved higher last week compared to just four rising a week earlier. The biggest gainers in the latest week: MidCap Energy (7.3%), SmallCap Energy (6.4), LargeCap Tech (4.9), and MidCap Health Care (3.4). SmallCap Materials (-0.8) was the biggest decliner last week, followed by MidCap Consumer Discretionary (-0.6), and SmallCap Consumer Discretionary (-0.3). In terms of 2019's ytd performance, all three indexes are off to a great start. MidCap leads with a 14.0% gain ytd, ahead of LargeCap (12.6) and SmallCap (12.1). All 33 sectors are positive ytd, with the SmallCap and MidCap cyclicals leading the top performers: MidCap Tech (21.9), SmallCap Materials (20.3), SmallCap Energy (19.8), MidCap Communication Services (18.0), SmallCap Tech (17.9), and LargeCap Tech (17.8). The “stable” sectors are dominating the biggest underperformers so far in 2019: LargeCap Health Care (6.4), SmallCap Utilities (7.3), MidCap Consumer Staples (8.1), SmallCap Consumer Staples (8.1), and MidCap Consumer Discretionary (8.3).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 of the S&P 500 sectors rose last week, and four outperformed the S&P 500's 2.9% gain. That compares to two rising a week earlier, when six outperformed the S&P 500's 2.2% decline. Information Technology was the best-performing sector, with a gain of 4.9%, ahead of Health Care (3.2%), Energy (3.2), and Financials (3.0). Industrials was the biggest underperformer with a gain of 0.3%, followed by these underperforming sectors: Materials (1.7), Utilities (1.8), Real Estate (2.2), Consumer Staples (2.2), Communication Services (2.3), and Consumer Discretionary (2.6). All 11 sectors are higher so far in 2019, compared to just two sectors rising during 2018, when the S&P 500 fell 6.3%. These five sectors have outperformed the S&P 500's 12.6% rise ytd: Information Technology (17.8), Industrials (15.2), Real Estate (14.4), Energy (14.3), and Communication Services (14.3). The ytd laggards, albeit with gains: Health Care (6.4), Consumer Staples (8.7), Materials (9.7), Utilities (10.0), Financials (11.8), and Consumer Discretionary (11.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.5% as 16 of the 24 commodities moved higher. That compares to a 0.1% gain a week earlier, when eight commodities moved higher. The index is still in a correction with a drop of 13.9% from its high in early October after being down as much as 26.9% on December 24. Lean Hogs was last week's strongest performer with a stunning gain of 28.0%, followed by Wheat (5.2%), Crude Oil (4.6), and Zinc (2.9). Live Cattle was the biggest decliner, with a drop of 3.4%, followed by Natural Gas (-2.3), Heating Oil (-1.3), and Lead (-1.3). The S&P GSCI commodities index is up 15.5% ytd following a decline of 15.4% in 2018. The top-performing commodities so far in 2019: Lean Hogs (41.9), Unleaded Gasoline (41.7), Crude Oil (29.5), Brent Crude (24.6), and Nickel (21.1). The biggest laggards in 2019: Kansas Wheat (-9.4), Cocoa (-9.1), Wheat (-8.1), Natural Gas (-4.7), and Coffee (-4.0).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price index rose 2.9% last week, improving relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). The index's 50-dma relative to its 200-dma improved for the sixth time in seven weeks, but was in a Death Cross for a 15th week; it had been in a Golden Cross for 137 weeks through late November. It was last in a Death Cross for 17 weeks through April 2016 when its 50-dma bottomed at a then-four-year low of 4.5% below its 200-dma in March 2016. The current Death Cross reading of -1.3% is at a 13-week high and up from -5.2% in early February, which had matched the lowest reading since November 2011. It's still down from a 55-month high of 7.2% in February 2018. The S&P 500's 50-dma rose for the sixth time in seven weeks, after falling for 16 straight weeks in its worst downtrend since before the 2016 election. The index improved to 4.0% above its rising 50-dma from 2.2% a week earlier, but is down from 6.6% during mid-February, which was its highest since October 2011. That compares to a seven-year low of 12.0% below at the end of December. The 200-dma rose for a seventh week after falling in 11 of the prior 15 weeks in the first downtrend since May 2016, when it had been slowly declining for nine months. The S&P 500 improved to a 23-week high of 2.7% above its rising 200-dma from 0.3% below its rising 200-dma a week earlier. That compares to 14.5% below its falling 200-dma on December 24, which was the lowest since April 2009. However, it remains well below the seven-year high of 13.5% above its rising 200-dma during January 2018.

S&P 500 Sectors Technical Indicators ([link](#)): All 11 S&P 500 sectors traded above their 50-dmas, up from 10 a week earlier as Health Care moved above in the latest week. That's a dramatic improvement from early January when all 11 were below. The longer-term picture—i.e., relative to 200-dmas—shows nine sectors trading above currently, up from six a week earlier as Consumer Discretionary, Financials, and Health Care moved above in the latest week. When Utilities was the only sector above its 200-dma during December, that had been the lowest count since all 11 were below in January 2016 and represented a relatively swift reversal from the September 26 alignment, when all 11 sectors were above their 200-dmas. During the recent correction, two long-term 200-dma leaders left the building: Tech fell below its 200-dma for the first time in 121 weeks, and Consumer Discretionary fell below its 200-dma for the first time in 102 weeks. Energy and Materials are the only sectors still trading below

their 200-dmas. Four sectors are in the Golden Cross club (with 50-dmas higher than 200-dmas), unchanged from a week earlier. At the end of November, Consumer Discretionary and Tech left the Golden Cross club for the first time since April 2016. Among the laggards, Financials has been out of Golden Cross territory for 22 straight weeks and during 34 of the past 38 weeks, Materials has been out for 46 straight weeks, Energy for 18 weeks, and Industrials for 17 weeks. All 11 sectors had been in a Golden Cross in January 2018 (for the first time since a 26-week streak ended in October 2016). All 11 sectors have rising 50-dmas, unchanged since four weeks earlier when Utilities and Consumer Staples turned up. Seven sectors have rising 200-dmas, up from six a week earlier, as Tech flipped back above again. Energy, Financials, Industrials, and Materials are the only members of the falling 200-dma club. That compares to just two sectors with a rising 200-dma in early January in what was then the lowest count since all 11 sectors had falling 200-dmas two years before.

US ECONOMIC INDICATORS

Industrial Production ([link](#)): The weakening in car sales early this year is impacting manufacturing production, which contracted for the second month since reaching a new cyclical high in December. Factory output sank 0.4% in February and 0.9% over the two-month period as motor vehicle production tanked 7.8% over the two-month span. By market grouping, business equipment output dropped 1.0% in February after a 0.2% downtick in January, as transit equipment output tumbled 4.1% over the two-month period; production of industrial equipment contracted two of the past three months, by a total of 2.6%. Still, all remain at relatively high levels. Meanwhile, information processing output continued to set new record highs, climbing for the fourth month, by a total of 4.2%. Consumer goods production fell for the third month, by a total 1.5%, with durable and nondurable goods output down 2.5% and 1.1%, respectively.

Capacity Utilization ([link](#)): The headline capacity utilization rate fell in February, for the third month, to 78.2%, after rising to 78.8% in November—which was the highest since January 2015. It was 1.6ppts below its long-run (1972-2018) average. Meanwhile, the manufacturing capacity utilization rate slipped for the second month to a nine-month low of 75.4%, from 76.2% at the end of last year; it was almost 3.0ppts below its long-run average. The utilization rate for mining declined from a record high of 95.2% at the end of last year to 94.6% in February—well above its long-run average of 87.1%. Meanwhile, the utilization rate for mining sank to 94.6%, though remained well above its long-run average of 87.1%. The rate for utilities jumped to 78.6%, but it was still nearly 7.0ppts below its long-run average.

Regional M-PMI ([link](#)): The New York Fed—the first district to report on manufacturing for March—showed business activity remained anemic; the composite index was below 10 for the third straight month, “suggesting that growth has remained quite a bit slower so far this year than it was for most of 2018,” the report noted. The composite index slipped for the third time in four months from 21.4 in November to 3.7 this month—the weakest since May 2017. Both the new orders (to 3.0 from 7.5) and shipments (7.7 from 10.4) measures eased, posting the slowest growth since May 2017 and October 2016, respectively. Labor market indicators pointed to an increase in employment (13.8 from 4.1) but a small decline in hours worked (-3.4 from 2.5)—with the latter turning negative for the first time since 2016. Delivery time (1.4 from 5.0) and inventories (0.0 from -1.4) held steady this month. Input prices (34.1 from 27.1) accelerated for the first time in four months, while output prices (18.1 from 22.9) eased after accelerating the prior two months. Optimism about the six-month outlook was slightly lower than last month, with the index for future business conditions edging down 2.7 points to 29.6, as both the orders (29.0 from 35.7) and shipments (27.7 from 35.1) measures eased.

New Home Sales ([link](#)): New home sales—tabulated when contracts are signed—dropped sharply in January after jumping at a double-digit pace during the final two months of 2018. New home sales tumbled 6.9% at the start of this year, to 607,000 units (saar), after soaring 18.1% during the two

months ending December to a seven-month high of 652,000 units. A 26.8% plunge in purchases of homes yet to be constructed accounted for the drop in January sales; sales of homes already under construction jumped 11.3% after a two-month slide. Regionally, sales in the Midwest (-28.6%), South (-15.1), and Northeast (-11.4) fell at double-digit rates during the month, while sales in the West (27.8) jumped sharply; the South (6.2% y/y) is the only region with sales above year-ago levels. January's supply of new homes on the market slipped 1.5% to 336,000 (13.9% above January 2018), pushing the months' supply to 6.6 months—the second highest reading since 2011—from 6.3 the prior two months. The months' supply peaked at 7.2 in October—which was the highest since March 2011.

JOLTS ([link](#)): Job openings in January recovered to within 45,000 of November's 7.626 million record high. Openings rebounded 102,000 to 7.581 million after falling 147,000 at the end of last year. Hirings advanced 84,000 to 5.801 million, after declining 160,000 during the two months ending December, to within 76,000 of November's record-high 5.877 million. Separations increased 81,000 to 5.550 million after a two-month slide of 173,000; it was at a record high 5.675 million in July. The latest hiring and separations data yielded an employment advance of 251,000 in January, 60,000 below January's payroll increase of 311,000—understating the increase, after overstating it in three of the previous four months. Those quitting their jobs climbed 111,000 during the two months through January to a new record high of 3.490 million. January's private industry job-opening (5.1%) rate was just below its record high of 5.2% posted in October and November, while the quit rate was back up at its cyclical high of 2.6%. The hire rate (4.2) is in a volatile flat trend around its cyclical high. January's ratio of unemployed workers per job opening was below 1.00 for the 11th month—at 0.86—rising for the second month from November's record low of 0.79.

Consumer Sentiment ([link](#)): The Consumer Sentiment Index (CSI) recovered for the second month to 97.8 in mid-March after slumping to a 27-month low of 91.2 at the start of the year. The mid-March jump in sentiment was entirely attributed to households with incomes in the bottom two-thirds of the distribution—rising from 90.0 from 97.4—while sentiment fell from 101.7 to 98.5 among households with incomes in the top third. The divergence reflected how households evaluated their personal finances, as lower-income households expressed much more positive assessments, along with lower expected year-ahead inflation rates. Meanwhile, all income groups voiced more positive prospects for growth in the overall economy during the year ahead. The expectations component has rebounded 9.3 points the past two months, from 79.9 to 89.2, while the present situation component climbed from 108.5 to 111.2 this month—moving back toward its recent high of 116.1 at the end of last year. The latter was at a record high of 121.2 a year ago.

Import Prices ([link](#)): Import prices in February jumped 0.6% after an upwardly revised 0.1% gain in January—first reported as a 0.5% decline; these prices had dropped 3.1% during the two months through December. Nonpetroleum import prices ticked up 0.1% last month, after posting its steepest decline in four years in January (-0.6%). Meanwhile, petroleum prices rebounded 12.2% during the first two months of this year after plunging 28.0% the final two months of last year. Total import prices fell 1.3% y/y last month, narrowing slightly from January's -1.6%—which was the biggest yearly decline since August 2016. The yearly rate for petroleum import prices dropped from a recent peak of 44.6% last July to -7.9% y/y in February, while the rate for nonpetroleum prices turned negative for the first time since November 2016 in January, widening to -0.5% y/y last month. The rate for capital goods imports (-0.7% y/y) remained negative, after falling below zero in October for the first time since May 2017, while the rate for industrial materials & supplies (-3.2) has dropped dramatically from its recent high of 21.1% last July, posting its third negative reading since September 2016. Meanwhile, the yearly rate for consumer goods ex autos (0.1) could soon turn negative, while autos' (-0.5) rate fell further below zero; the rate for food prices (-3.4) turned negative last June for the first time in two years, and continued to fall in February—with the decline widening for the second month.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI ([link](#)): February's CPI rate confirmed the flash estimate, remaining below 2.0% for the fourth consecutive month. The headline rate ticked up to 1.5% y/y, after easing steadily from a six-year high of 2.3% in October to a nine-month low of 1.4% in January. Looking at the main components, energy (to 3.6% from 2.7% y/y) once again recorded the highest annual rate in February, accelerating slightly. Also moving higher were rates for food, alcohol & tobacco (2.3 from 1.8) and non-energy industrial goods (0.4 from 0.3)—though the latter has hovered just above zero the past couple of years. Meanwhile, the services (1.4 from 1.6) rate moved lower. The core rate—which excludes energy, food, alcohol, and tobacco—edged down from 1.1% to 1.0%; it was at 0.9% the final two months of 2018. Of the top four Eurozone economies, inflation rates in Germany (1.7% y/y) and France (1.6) were above the Eurozone's 1.5% rate, while rates in Spain (1.1) and Italy (1.1) were below. Ireland (0.7) posted the lowest annual inflation rate in the Eurozone, followed by Greece (0.8), Cyprus (0.8), and Portugal (0.9).

European Car Sales ([link](#)): EU passenger car registrations (a proxy for sales) for February fell y/y for the sixth straight month, though appears to be bottoming from the continuing downtrend that began with the introduction of the Worldwide Harmonised Light Vehicle Test Procedure (WLTP) last September. Sales fell 1.0% y/y in February, with some markets showing a slight recovery. After a five-month decline, demand increased modestly in Germany (2.7% y/y), France (2.1), and the UK (1.4), while sales in both Spain (-8.8) and Italy (-2.4) posted their sixth consecutive y/y decline. Sales during the first two months of 2019 were down 2.9% from the comparable year-ago period, led by declines in Spain (-8.4% y/y) and Italy (-4.9). Sales were relatively stable in Germany (0.6), France (0.5), and the UK (-0.6).

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