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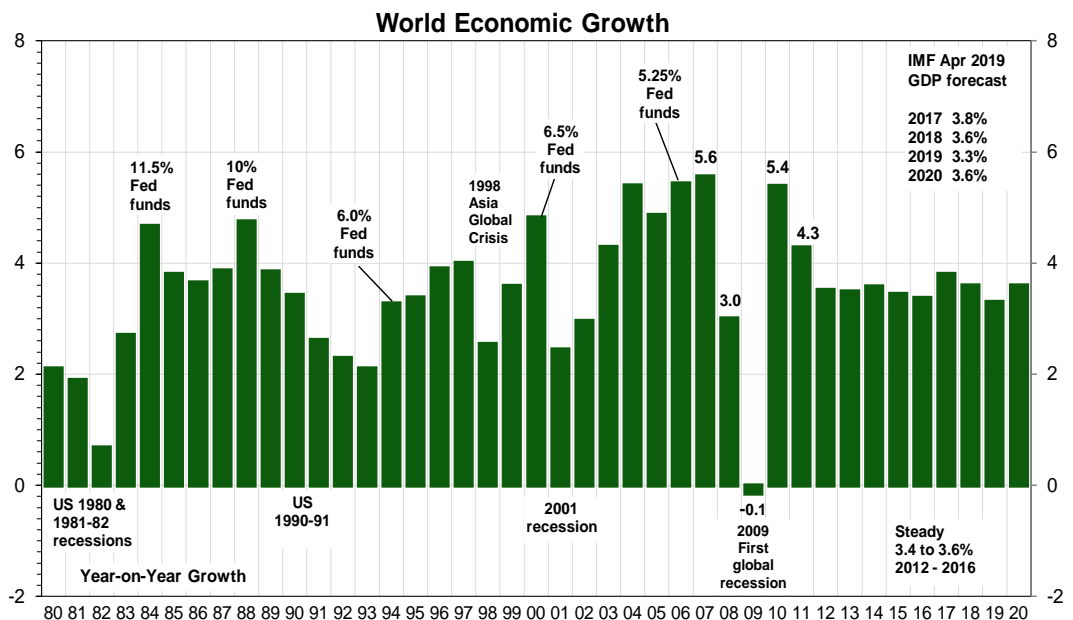
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## IMF WORLD ECONOMIC OUTLOOK HELPS ALONG THE FED'S WORRIES ABOUT EXTERNAL RISKS: EUROPE, BREXIT, CHINA, TRUMP TRADE WAR

The IMF met this week and warned in its World Economic Outlook (WEO) about the risks to the world economy. There are two major forecasts each year in April and in October, and then they do less comprehensive

Updates to the forecast in January and July. The WEO title this month is "Growth Slowdown,

Precarious Recovery." The Fed is worried about the world economy and its effect here on US economic growth. World growth risks are one of the reasons why the Fed scurried to the sidelines. The IMF presentations and the WEO writeup of the forecast are more worrying than the actual forecast itself. World economic growth was revised down to 3.3% in 2019 from 3.5% in the January forecast. The news headlines of the WEO forecast at 9am EDT Tuesday morning said the 3.3% forecast was the weakest since the global crisis in 2009 when



### March Fed Meeting Minutes

Participants commented on a number of risks associated with their outlook for economic activity. A few participants noted that there remained a high level of uncertainty associated with international developments, including ongoing trade talks and Brexit deliberations, although a couple of participants remarked that the risks of adverse outcomes were somewhat lower than in January. Other downside risks included the possibility of sizable spillovers from a greater-than-expected economic slowdown in Europe and China, persistence of the softness in spending, or a sharp falloff in fiscal stimulus.

the world economy had its first recession in modern economic history looking back as far as 1980. This is kind of a technicality however because growth had been 3.3% in 2016 before being revised to 3.4% in this month's WEO outlook forecast. Despite all the warnings over the years, it is remarkable how steady world growth has been with a tight range of 3.4 to 3.6% growth from 2012 through 2016. Anyway, the good news is the IMF sees world growth rebounding, precarious as it is, from 3.3% this year to 3.6% in 2020.

Ongoing trade tensions, and lingering uncertainty from financial market turbulence late in 2018, appear to have been responsible for the IMF growth downgrade. They also noted the weakness in industrial production data and in the surveys of purchasing managers. We are keeping our fingers crossed that this will be another misfire warning on world economic growth and nothing worse will occur. IMF officials may be thinking the same thing when they said at the meetings late in the week that policymakers "do no harm." IMF First Deputy Managing Director David Lipton said, "We see downside risk and that means one has to be very careful." Central bankers and world leaders have been warned.

## IMF WEO Warnings Over the Years

### IMF World Economic Outlook (WEO) Titles

Apr 2019	Growth Slowdown, Precarious Recovery
Jan 2019	A Weakening Global Expansion
Oct 2018	Challenges to Steady Growth
Jul 2018	Less Even Expansion, Rising Trade tensions
Apr 2018	Cyclical Upswing, Structural Change
Jan 2018	Brighter Prospects, Optimistic Markets, Challenges Ahead
Oct 2017	Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges
Jul 2017	A Firming Recovery
Apr 2017	Gaining Momentum?
Jan 2017	A Shifting Global Economic Landscape
Oct 2016	Subdued Demand: Symptoms and Remedies
Jul 2016	Uncertainty in the Aftermath of the U.K. Referendum
Apr 2016	Too Slow for Too Long
Jan 2016	Subdued Demand, Diminished Prospects
Sep 2015	Adjusting to Lower Commodity Prices
Jul 2015	Slower Growth in Emerging Markets, a Gradual Pickup in Advanced Economies
Apr 2015	Uneven Growth: Short- and Long-Term Factors
Jan 2015	Cross Currents

	World		Euro	IMF APRIL 2019 WORLD ECONOMIC GROWTH FORECASTS												
	GDP	U.S.	area	Germany	France	Italy	Spain	UK	Japan	Canada	China	Russia	India	Brazil	Mexico	
2017	3.8	2.2	2.4	2.5	2.2	1.6	3.0	1.8	1.9	3.0	6.8	1.6	7.2	1.1	2.1	
2018	3.6	2.9	1.8	1.5	1.5	0.9	2.5	1.4	0.8	1.8	6.6	2.3	7.1	1.1	2.0	
2019	3.3	2.3	1.3	0.8	1.3	0.1	2.1	1.2	1.0	1.5	6.3	1.6	7.3	2.1	1.6	
2020	3.6	1.9	1.5	1.4	1.4	0.9	1.9	1.4	0.5	1.9	6.1	1.7	7.5	2.5	1.9	

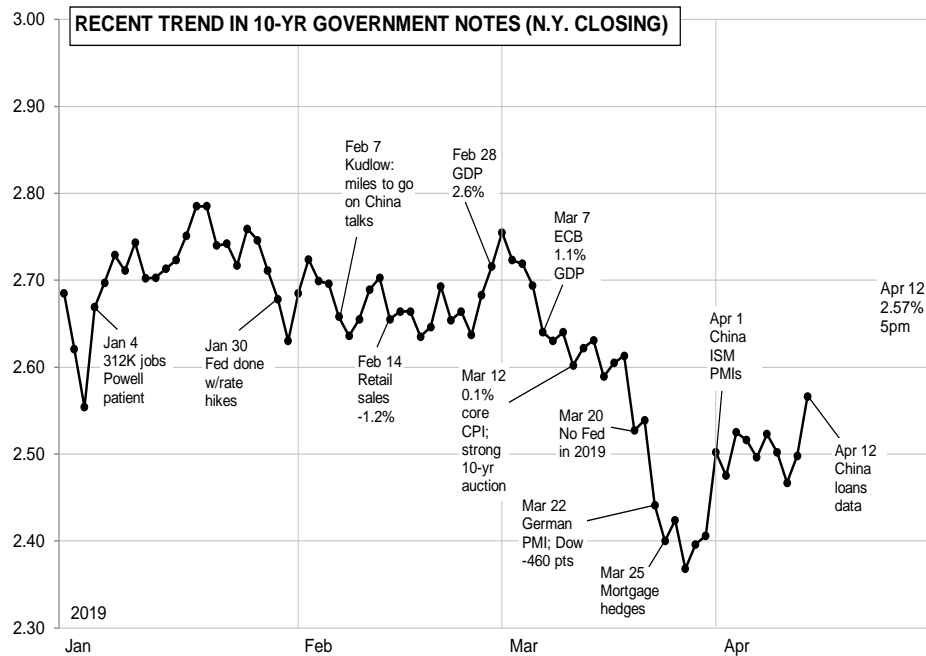
### Communiqué of the Thirty-Ninth Meeting of the International Monetary Finance Committee (IMFC)

The global expansion continues, but at a slower pace than anticipated in October. Growth is projected to firm up in 2020, but risks remain tilted to the downside. These include trade tensions, policy uncertainty, geopolitical risks, and a sudden sharp tightening of financial conditions against a backdrop of limited policy space, historically high debt levels, and heightened financial vulnerabilities. Other longstanding challenges also persist... In line with central banks' mandates, monetary policy should ensure that inflation remains on track toward, or stabilizes around targets, and that inflation expectations remain anchored. Central bank decisions need to remain well communicated and data dependent.

# MARKETS OUTLOOK

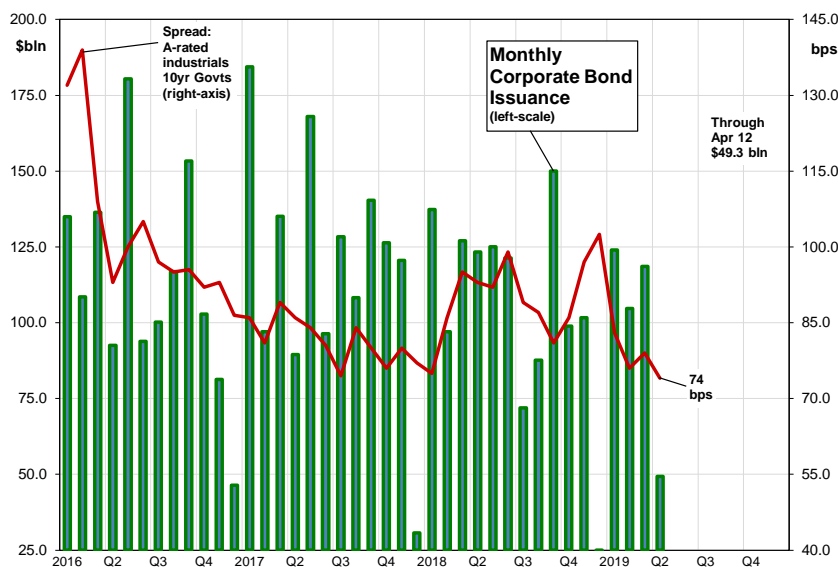
	29-Mar 2018	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.81	3.00	3.00	3.10	3.10	3.25	3.20	3.20
10-Yr Note	2.41	2.60	2.70	2.90	2.90	3.10	3.10	3.10
5-Yr Note	2.23	2.45	2.60	2.80	2.80	3.05	3.05	3.05
2-Yr Note	2.26	2.45	2.50	2.70	2.70	2.90	2.95	3.00
3-month Libor	2.60	2.60	2.60	2.90	2.90	3.10	3.10	3.10
Fed Funds Rate	2.50	2.50	2.50	2.75	2.75	3.00	3.00	3.00
2s/10s spread	15	15	20	20	20	20	15	10

Bond yields closed higher this week trading on international news. Draghi's ECB press conference talking on downside risks brought 10-yr Treasury yields as low as 2.46% on Wednesday. You had to be up early on Friday with China lending data released at 4am EDT that moved yields higher from the 2.49% level. Stocks also advanced on the China data. Oh, we forgot the Treasury auctioned 3s/10s/30s Tuesday through Thursday which didn't cause a splash or a ripple in the markets. The robots took it all. So much for our idea that the Federal budget deficit and QE wind down of Treasuries would push up bond yields. Fed's QE wind down finishes in September.



## CORPORATE BONDS: SAUDI ARABIAN OIL, TOYOTA MOTOR, LG CHEM

Corporate offerings were \$24.4 billion in the April 12 week versus \$24.9 billion in the April 5 week. On Wednesday, Public Storage priced a \$500 million 3.385% 10-yr (m-w +15bp) at 92 bps (A2/A). The self storage company will use the proceeds for general corporate purposes, including investment in self-storage facilities. Corporate bond yields (10-yr Industrials rated A2) were 74 bps above 10-yr Treasuries this week versus 77 bps last Friday.



# FEDERAL RESERVE POLICY

The Fed meets April 30 - May 1 to consider its monetary policy. We are seeing better economic data, the stock market (S&P 500) closed up 16.0% year-to-date on Friday. We can't remember a time the Fed cut rates with stocks up so much, but the President and his Men want one or two or three rate cuts. [Doesn't every President want rate cuts?] Anyway, stocks are up, economy looks stable and Fed officials' comments are saying they are comfortable with the Fed funds rate here, and don't want to be drawn into a discussion about whether the next move in interest rates are up or down. Down? Surely, there must be some looking for rate hikes this year, 6 said Yea, 11 said Nay, in the March 19-20 forecasts. Seems like yesterday. No is one owing up to restarting the gradual path of rate hikes. The Silent 6. Silent maybe because they are concerned about the downside risks to the outlook (Kuroda, Draghi, IMF, Carney) or incurring the wrath of the President's tweets by talking about higher interest rates. Wasn't going to be much of a path anyway, a stone's throw ahead at most with neutral rates not very far away, and no stomach, no will for moving interest rates above normal with inflation below 2.0%. (March meeting forecasts for normal/neutral, wait for it, 6 votes for 2.5%, 4 votes 2.75%, 4 votes 3.0%, and 2 votes for 3.25-3.5%, and one member not voting as they are not smart enough to guess.) Only six looking for rates to stop here. Yet, here we sit.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	10-Apr	3-Apr	27-Mar	20-Mar	pre-LEH
<b>Factors adding reserves</b>					
U.S. Treasury securities	2153.443	2153.308	2175.596	2175.537	479.782
Federal agency debt securities	2.347	2.347	2.347	2.409	0.000
Mortgage-backed securities (MBS)	1592.912	1592.723	1592.723	1599.472	0.000
Primary credit (Discount Window)	0.010	0.003	0.021	0.005	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	0.000	0.000	0.000	0.000	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	
<u>Central bank liquidity swaps</u>	0.055	1.365	0.066	0.068	62.000
Federal Reserve Assets	3984.7	3983.2	4003.4	4010.7	961.7
3-month Libor %	2.60	2.60	2.60	2.61	2.82
<b>Factors draining reserves</b>					
Currency in circulation	1728.355	1727.490	1723.754	1722.303	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	56.676	0.016	0.166	0.617	0.000
<b>Reserve Balances (Net Liquidity)</b>	<b>1646.560</b>	<b>1630.987</b>	<b>1632.788</b>	<b>1623.812</b>	<b>24.964</b>
Treasuries within 15 days	0.180	0.180	22.379	22.379	14.955
Treasuries 16 to 90 days	111.741	111.741	90.458	90.458	31.549
Treasuries 91 days to 1 year	265.651	265.650	270.528	270.527	69.272
Treasuries over 1-yr to 5 years	908.927	908.908	922.088	922.080	170.807
Treasuries over 5-yrs to 10 years	249.207	249.157	252.513	252.492	91.863
Treasuries over 10-years	617.738	617.673	617.630	617.602	101.337

\*\*September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

Odds of Rate Cuts	
Fed funds futures	
F4-12-2019	
10%	2.25% June
30%	2.25% September
52%	2.25% December
Odds at June, September, December Fed meetings	

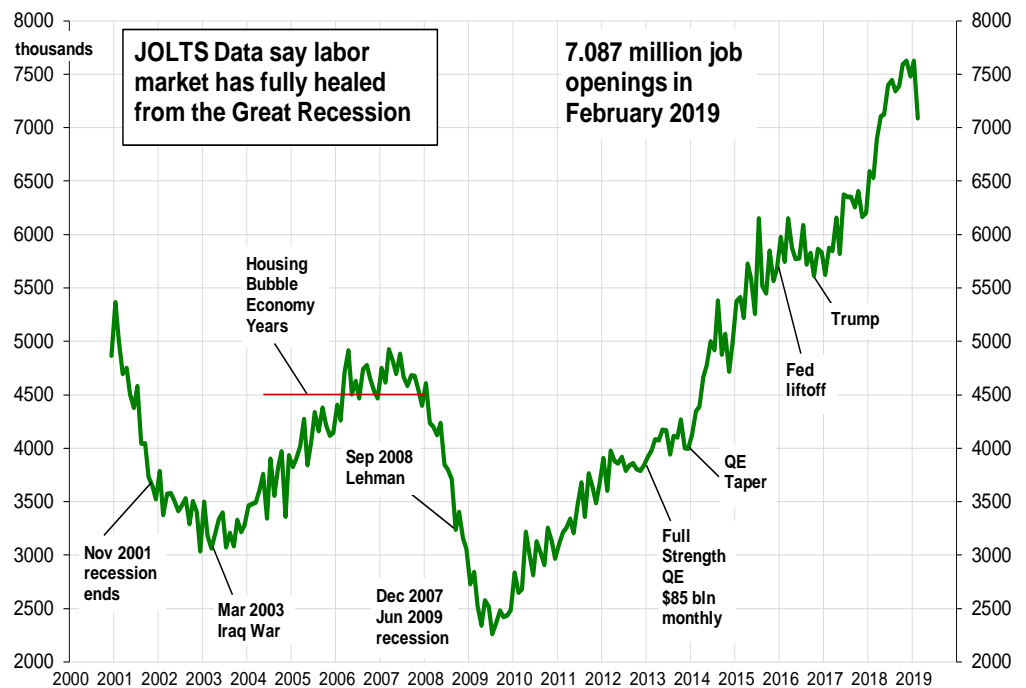


## OTHER ECONOMIC NEWS THIS WEEK

### Too late: Companies yank half a million job openings in February (Tuesday)

Breaking economy news. If you were looking to make a job change you waited too late as job openings around the country plummeted in February. JOLTS data gave the labor market a jolt of their own in February diving to 7.087 million which is a sharp 538 thousand drop from 7.625 million in January. Coming off almost all-time record highs in January, this news is alarming, but there are still millions of help wanted signs out there in the country so we hesitate to revise our outlook for the labor market overall. February was a weak month for new payroll jobs certainly and today's Jolts data mirrors the weakness in the 33K payroll jobs data last month. Payroll jobs rebounded to a gain of 196K in March.

Net, net, companies beat a hasty retreat to the sidelines pulling thousands of help wanted offerings down from those job boards as the business outlook for sales and revenues darkens. The financial market turbulence, trade war rhetoric, and Federal government shutdown ending January 25 apparently caused companies to step back to reassess the economic climate.

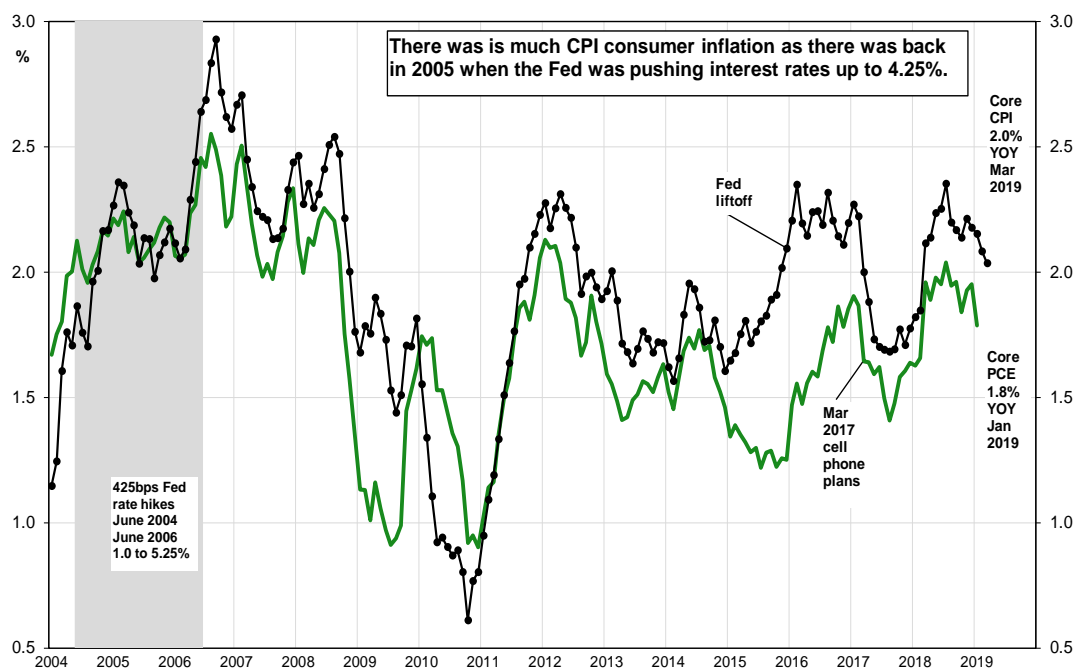


On the flip side of the gloom and doom story, near record numbers of workers are quitting their jobs in February and apparently are confident enough that they can find new employment and better wages elsewhere. 3.48 million quit their jobs in February basically the same as the all-time record of 3.483 million in January. Thank goodness for three and a half million quitters out there. There can't be too much wrong with the economy if they are confident enough to look for new employment. Stay tuned. Story developing.

## 0.1 Second in a Row, Say It Isn't So. No Core Inflation. (Wednesday)

Breaking economy news. Think it is breaking as in moving markets. It isn't really as the Fed has sucked all the life out the interest rate forecasting business. That or maybe the bond market is following 830am EDT headlines from the Draghi meeting today. Yep, following Draghi, bond yields first up and now down as the ECB prepares to ease its policy. Ha. ECB ease policy. With what? Hope the Fed doesn't think they can do what the ECB did and bring down all yields across to curve to zero and do irreparable damage the fixed income markets. At least zero interest rates over there boosted the Euro area economy.

March CPI inflation rises 0.4% to 1.9% year-to-year, and for core CPI inflation a 0.1% increase to 2.0% year-to-year. Core inflation pressures have slowed for a second consecutive month to a 0.1% increase. Market doesn't see this as important the fact that there might be less core inflation



pressures in the economy, less consumer inflation pressures meaning weaker demand on the road to recession. Maybe bonds are focused on headline pressures, the rise of 0.4%, and with gasoline prices still rising into April, next month's headline CPI will be higher and faster still.

Core inflation pressures were on the weak side this month as apparel prices dropped a sharp 1.9%. Medical care services and commodities rebounded from weakness in February, but not enough to move core inflation up 0.2%. The major source of inflation for the consumer according to the CPI report is the cost of housing, where shelter prices rose 0.4% in March and are up 3.4% the last year. There's no inflation for consumers unless they are buying a house or renting an apartment.

Net, net, it is looking like the first quarter was a complete bust when it comes to economic demand where March inflation limped along with barely a heartbeat for core consumer prices. Fed policy is likely to hold in place because economic activity is not robust enough to engender inflationary pressures. Time will tell if the President gets his way with interest rate cuts to stoke the engines of economic growth ahead of the 2020 elections. There isn't enough inflation for the Fed to resume its gradual rate hikes and there isn't any deflation worry in the data for the Fed to do a complete about face and cut interest rates either.

## More jobs, more inflation, more rate hikes, don't tell the President (Thursday)

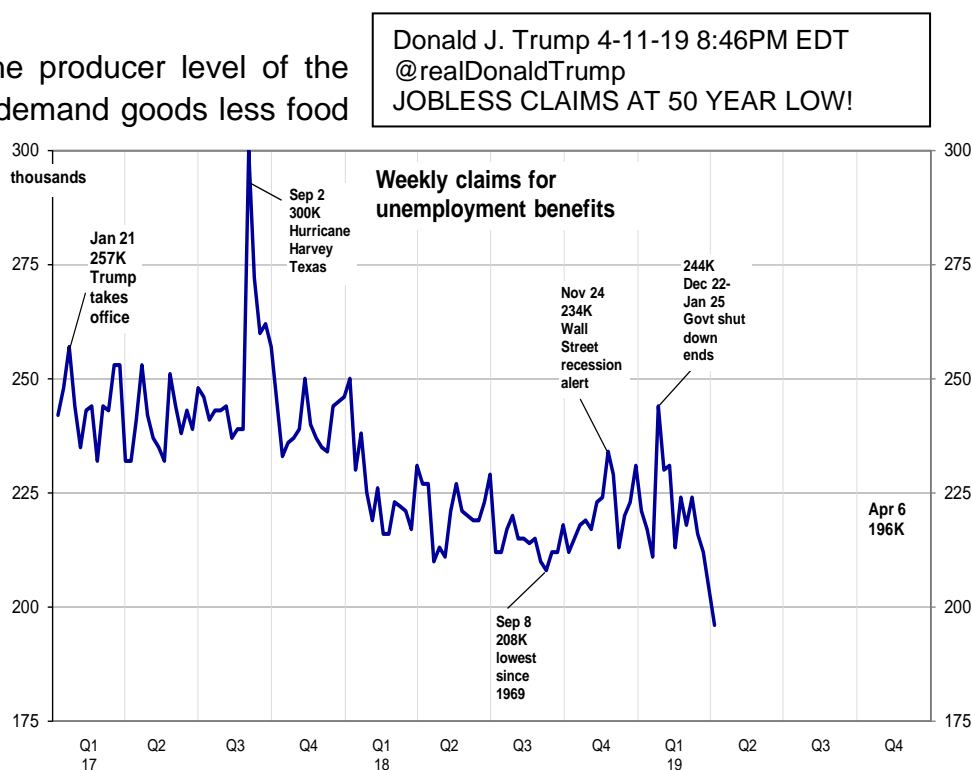
Breaking economy news. Weekly jobless claims and PPI inflation. More jobs and more inflation was the news today showing what a flash in the pan that growth scare was in the first quarter. The economy finishes a full ten years of growth in June and with no recessionary winds in sight, it looks as if the economy can keep on rolling along. Just as long as those growth phobiacs at the Fed don't raise rates too high taking away the punch bowl and ending the party.

Weekly jobless claims continue to tumble to new lows since the late 1960s showing the economy and labor market vital signs are healthy and not sick and weakly. April 6 jobless claims fell to 196K from an upward revised 204K in the March 30 week. The economy is starting the second quarter off with a bang if this latest temperature reading on the labor market is to be believed. Labor shortages mean higher wages and point to the risk of more inflation not less. Don't go overboard with all the back and forth blather on the Phillips Curve.

Inflation has a heartbeat at the producer level of the economic chain with PPI final demand goods less food and energy rising 0.2% in March after a gain of 0.1% in February and 0.3% in January. The first quarter was certainly not a soft patch for core producer goods prices.

Net, net, the economy's wheels continue to turn and any thought that growth was going to stop has to be reassessed. Fed officials are on the sidelines awaiting confirmation of what to do next. Today's reports certainly pour cold water on the idea

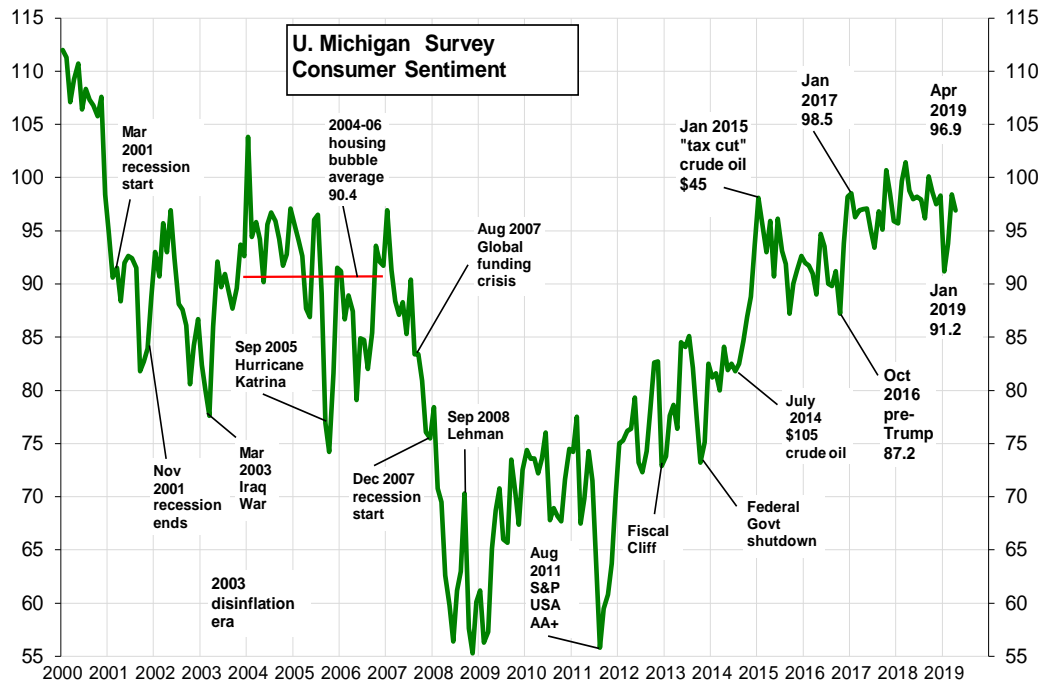
that rate cuts are needed to give the economy a shot in the arm. Businesses are hoarding labor in a way not seen since the 1960s and that can only mean wage pressures and inflation are going to climb over the next 12 to 18 months. The Fed's decision isn't up or down in rates, it is up or nothing on rates, and our bet is that they will be raising interest rates later on this year just as 6 of 17 Fed officials "voted" for in their forecasts provided at the March meeting.



## Consumer spirits not quite as optimistic even if import goods are cheaper (Friday)

Breaking economy news. Import prices and the Michigan consumer sentiment survey. The survey of consumer sentiment in April is 96.9 edging down slightly from 98.4 in March. At the low point in January, the index was down at 91.2 so there has been a recovery from the year-end financial market storms. The average confidence level for all of 2018's good times and bad tweets was 98.4, so consumer confidence remains supportive of spending and growth this year. The Fed is on the sidelines awaiting clarification of the outlook, but the consumer is telling them that the economy is just fine.

Import prices of nonenergy goods fell 0.2% in March which reverses the 0.2% increase in February. The stronger dollar is keeping a lid on the price of imported goods which means the US cannot import its way to strengthening inflation and inflation expectations. There's as much CPI inflation as there was in the



housing bubble years a decade ago, yet the public doesn't think about inflation much anymore. It has fallen off the map as a concern for the consumer.

Net, net, consumers remain upbeat relative to the scare they got at the turn of the year from the Federal government shutdown and plummeting stock market. They certainly stopped spending at the shops and malls in December, but the Nation's shopaholics have returned along with their confidence. Meanwhile, the Fed isn't getting any help with boosting inflation back to target from the world economy. The Fed can't import inflation to hit its target. The stronger dollar has stamped out inflation from nonenergy imported goods. Nonfuel import prices fell 0.8% in the last year ending March 2019 after rising 1.9% the year before that.

Consumer confidence isn't soaring, but they remain optimistic about the outlook overall and think current economic conditions are firm. This gives us greater confidence that there are no recession dangers out there on the horizon waiting to bring down one of the longest economic expansions in the nation's history.



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