Weekly Economic Review: August 6th – August 10th, 2018

Top Headline: Lira Continues its Decline

The Turkish Lira hit fresh lows this past week, as policy moves from the nations central bank failed to ease the decline. The currency was down some 7% against the USD in early trading Monday morning, and has fallen by more than 40% this year as Turkey continues to face economic and political instability. Turkey's central bank aimed to boost liquidity in the market by lowering reserve requirements for banks. This impacted the currency only minimally, however, as it did not amount to a tightening of monetary policy or a bolstering of the central bank's reserve balances. The latter is important given Turkish companies' heavy reliance on foreign currency debt funding. Concerns about possible contagion effects are spreading, as many other emerging market currencies have also weakened of late.

Other News

Consumer inflation continues to climb, with headline and core CPI rising by 2.9% and 2.4% year-over-year. These numbers suggest that the demand side of the economy is healthy and thus that the Federal Reserve can continue raise interest rates at is stated clip. However, after years of gains, wage growth has failed to keep up with the rise in inflation. As such, real wages declined for the first time since 2014 (although real compensation rose due to an increase in hours worked). This may only be a temporary blip, as headline inflation may ease following weaker energy price growth, and wage growth may rise as the labor market tightens further. If instead inflation continues to rise, it could bolster the case for a faster pace of rate hikes.

On Tap This Week

Retail sales data for July is set to be released this week.

Past Week's Releases

	Date	Indicator	Period	Prev.	Exp.	Act.	Comment
T	8/7/18	Consumer Credit	Jun	$24.3B r↓	$15.0B	$10.2B	Consumer credit slowed down significantly
Th	8/9/18	Initial Jobless Claims♦	Aug 4th	219K r↑	220K	213K	Low claims signal tight labor markets
Th	8/9/18	Producer Price Index	Jul	0.3%	0.2%	0.0%	PPI steady on for businesses
Th	8/9/18	Producer Price Index Core	Jul	0.3%	0.2%	0.1%	
F	8/10/18	Consumer Price Index	Jul	0.1%	0.2%	0.2%	Consumer price inflation held steady
F	8/10/18	Consumer Price Index Core	Jul	0.2%	0.2%	0.2%	

Actual < Expected   Actual > Expected   ♦Leading Indicator

Market Activity

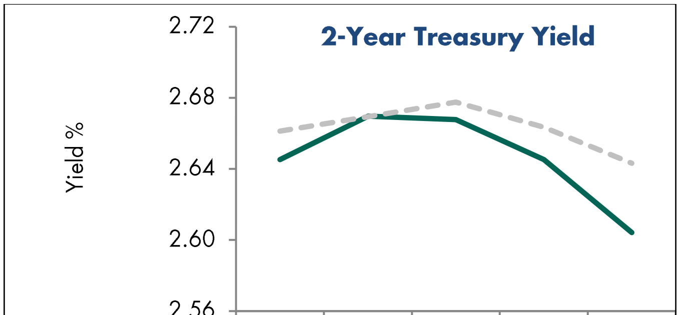
Indicator	Open	Close	ΔWeek	Δ3M
DJIA	25463	25313	-0.59%	2.32%
S&P 500	2840.4	2833.3	-0.25%	4.05%
USD*	95.16	96.36	1.26%	4.00%
10-Year Treasury+	2.95%	2.87%	-0.08%	-0.09%

*ICE U.S. Dollar Index Spot Price
+Absolute change in yield over specified period

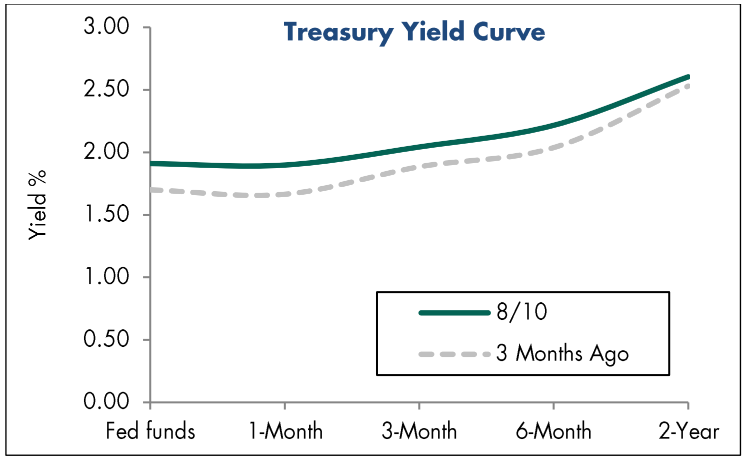
Upcoming Releases

	Date	Indicator	Period	Prev.	Exp.
W	8/15/18	Retail Sales	Jul	0.5%	0.1%
W	8/15/18	Sales Less Autos	Jul	0.4%	0.4%
W	8/15/18	Industrial Production	Jul	0.6%	0.4%
W	8/15/18	Capacity Utilization	Jul	78%	78.2%
Th	8/16/18	Housing Starts♦	Jul	1173K	1273K
Th	8/16/18	Building Permits♦	Jul	1273K	1308K
Th	8/16/18	Initial Jobless Claims♦	Aug 11th	213K	215K

Yield Curve Highlights



	M	T	W	T	F
8/6 - 8/10	2.65	2.67	2.67	2.65	2.60
7/30 - 8/3	2.66	2.67	2.68	2.66	2.64



Detailed Economic Releases

8/7/2018	Prev.	Exp.	Act.
Consumer Credit	$24.3B r ↓	$15.0B	$10.2B

Consumer credit missed expectations in June coming in $5B lower than expected and undershooting June's downwardly revised growth number by about $14.1B. The decline was driven by an apparent switch in consumer behavior from borrowing to paying down credit card debt, which in the last month saw its biggest monthly increase since November. Revolving credit fell by $0.2B for the month while nonrevolving credit rose a moderate $10.4B for the month.

Summary: Consumer credit growth decreased significantly in July as consumers switched from borrowing to paying off credit card debt.

8/9/2018	Prev.	Exp.	Act.
Initial Jobless Claims	219K r↑	220K	213K

First time claims for jobless benefits decreased by 6,000 in the week ending August 10th, coming in below expectations at 213K. The 4-week moving average, which smooths out volatility inherent in the weekly number, was down slightly to 214,250. Continuing claims for unemployment benefits, in lagging data for the week of July 28th, rose to 1.755 million. The insured unemployment rate, which tends to track the overall jobless rate, held at 1.2%

Summary: Jobless claims remain at historic lows indicating increasingly tight labor markets.

8/9/2018	Prev.	Exp.	Act.
Producer Price Index	0.3%	0.2%	0.0%
Producer Price Index Core	0.3%	0.2%	0.1%

The Producer Price Index came in flat in July, following strong growth for May and June. The unexpectedly low result was a consequence of a 0.5% drop in energy costs (electricity, gasoline, natural gas, and heating oil) after a 0.8% rise in June, and a sharp 0.8% decrease in trade services prices, following a 0.7% increase in June. This resulted in the first monthly decline for the services subcategory since December. Prices excluding food, energy, and trade services did show some upward pressure, rising by 0.3% for the month which was near the top range of analysts' expectations, while prices for final goods continued on last month's trajectory, growing at 0.1%. Personal consumption, sometimes seen as a preview of the CPI, was down 0.1% for July after growing by 0.3% the previous month.

Summary: Monthly PPI unexpectedly slowed in June on the back of lower energy prices and weaker price growth for trade services.

8/10/2018	Prev.	Exp.	Act.
Consumer Price Index	0.1%	0.2%	0.2%
Consumer Price Index Core	0.2%	0.2%	0.2%

Despite a lackluster PPI report, the CPI accelerated in July posting a 0.2% increase in both the regular and the core metrics. This brings the annual CPI inflation number to 2.9%, unchanged from June, and the core up 0.1% to 2.4% year-over-year. The latter showed the strongest annual growth since September 2008. Price growth was mainly driven by the index for shelter, growing by 0.3% for the month and 3.5% year-on-year, transportation, up 0.3%, and food & beverages, up 0.1%. The index was held down by a falling energy prices, though still contributing positively to the annual number, lower medical care prices, and lower apparel prices which continued their slide from June. With core CPI inflation at its highest rate in almost 10 years, it appears likely that the Fed will stay the course.

Summary: Core CPI climbed to the highest annual rate in nearly 10 years.

About Us

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Matthew Paniati
Research Analyst

Spyros Qendro, CFA
Research Analyst

Capital Advisors Group, Inc.
29 Crafts Street, Suite 270
Newton, MA 02458
Tel: 617.630.8100
Fax: 617.630.0023
www.capitaladvisors.com
info@capitaladvisors.com