Week In Review

April 13, 2018

Trade

President Xi laid out plans for easing foreign investment restrictions in China, including foreign ownership of financial firms. President Trump stated that the U.S. and China are likely to be able to negotiate over trade and avoid implementation of recently announced tariffs. Trump also tweeted that the U.S. may want to rejoin TPP talks, although current parties to those talks said that they would not reopen negotiations on already settled matters.

Our Take: This week's developments were a pullback from the extreme rhetoric and statements issued by both the Trump administration and the Chinese government last week. Rejoining the TPP talks would be a welcome development and a move toward freer trade and investment flows.

Inflation

Consumer prices fell 0.1% in March, while producer prices rose 0.3%. Core prices (excluding food and energy) rose 0.2% at the consumer level and 0.3% for producers. Year-over-year, consumer prices have risen 2.4%, while producer prices have increased 3.0%.

Our Take: Increased economic growth projections due to tax cuts led to expectations of higher prices. Early returns show this may actually be happening, especially with regard to wholesale prices. Both producer and, to a somewhat lesser extent, consumer prices are trending higher. While a trade war might slow the trend, continually increasing prices will provide the Fed cover should they desire to hike rates.

FOMC Minutes

This week, the Federal Reserve Open Market Committee (FOMC) released the minutes from its March meeting. The minutes show that "all participants" expected both the economy to strengthen and inflation to rise "in coming months." There were signs of optimism throughout the minutes, as members noted solid gains in industrial production, services, and manufacturing. Areas of weakness, like consumer spending, were viewed as transitory. One exception to the optimism came from the threat of a trade war, which poses downside risks to the economy. However, members judged that even with the trade uncertainty, most other signs for the economy looked solid. The committee also noted that the tax cuts and increased fiscal spending could further boost the economy. This potentially stronger economic outlook is raising concern with some members that the pace of rate increases may be faster than previously expected.

Our Take: The minutes show a more hawkish consensus building within the Fed. In a rare show of unity, all members saw some further firming of monetary policy as likely to be needed, reinforcing the view that they will raise rates again by the June meeting.

Oil

IEA inventory data indicated that OPEC and Russia are close to eliminating the excess inventory glut that built up prior to their production cut deal. Part of this success is due to unplanned outages in OPEC members' production and part is due to greater demand. Crude prices have risen to the high $60s per barrel, although part of this is due to geopolitical concerns over the potential for regional escalation of the Syrian conflict.

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Our Take: The reduction in inventory has taken longer and required greater cuts than initially planned due to the re-emergence of U.S. shale production as prices rose above $40 per barrel. This source of crude production will likely continue to force OPEC and Russia to forego market share in order to maintain the current level of crude prices. Given the current dynamic, crude prices are unlikely to be sustainable significantly above current levels for long periods of time.

Municipals

During the first quarter of 2018, state and local governments sold almost $643 million of municipal bonds that will be used to finance sports facilities. This marks the largest amount of sports facilities bonds issued in a single quarter since at least 2000 according to Reuters. The Iowa Board of Regents will sell $32.9 million of revenue bonds to finance additional improvements to Kinnick Stadium at the University of Iowa. Last week the University of Illinois issued revenue bonds to fund a football performance center along with a track and soccer complex.

Our Take: In the House version of the tax bill, professional sports stadiums would no longer be able to issue tax-exempt debt to finance sports stadiums. Even though this did not become a part of the final tax bill, teams and their host cities may be looking to issue debt sooner rather than later. Universities believe that improvements to athletic facilities will lead to more successful and profitable teams, as better athletes will be drawn to their schools.

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