

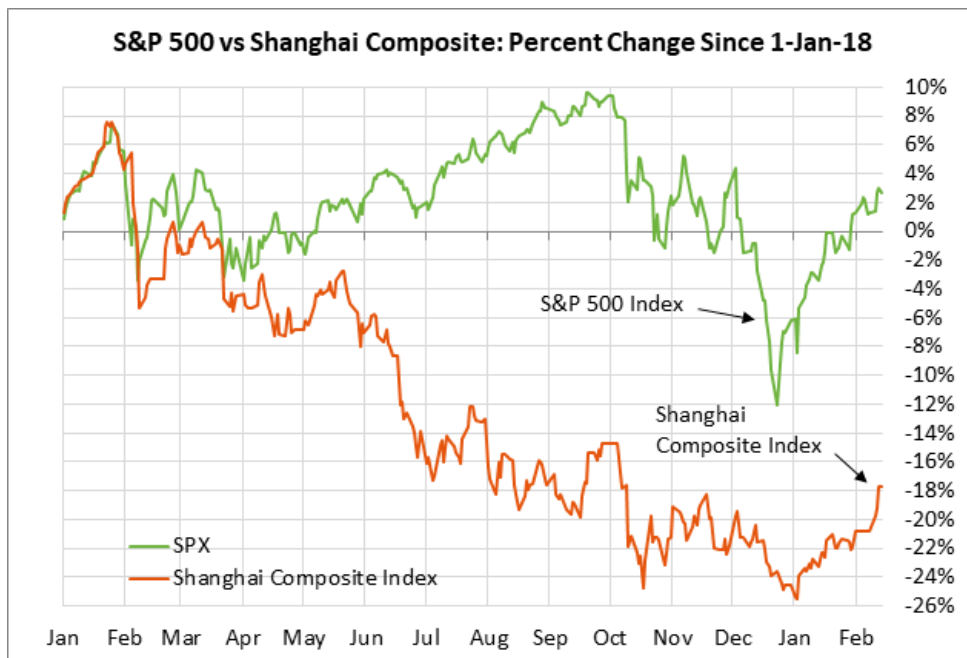
RJO Previews and Perspectives for Friday, Feb 15

Posted on 2/14/2019 7:35:56 PM

Trump administration floats possibility of 60-day tariff deadline extension -- Bloomberg on Thursday reported that the U.S. and China are far apart on structural issues and that little progress on those issues has been made this week. However, Bloomberg also reported that President Trump is considering a 60-day extension of the March 1 deadline for raising tariffs to 25% from 10% on \$200 billion of Chinese goods.

A deadline extension is the most that the markets could have hoped to get this week given that China is resisting U.S. demands on structural issues and that the two sides just started drafting a proposed agreement. A deadline extension would mean another 60 days of uncertainty for the markets, but that would obviously be much better than higher tariffs on March 1 that would cause further pain for the Chinese economy and by extension the global economy and the global stock markets.

The markets today are hoping for a joint statement after this week's trade talks conclude to get a reading on exactly how far apart the two sides are. Chinese President Xi today will meet with the U.S. trade delegation, according to the South China Post, which is potentially a favorable sign of his support for the talks.





U.S. auto tariff recommendation expected today -- The markets are braced for the likelihood that the Commerce Department today (i.e., before Sunday's deadline) will release its recommendations on whether the U.S. should impose a tariff of up to 25% on imported autos on national security grounds. The President will then have 90 days to make a final decision.

The global stock markets will likely sell off sharply if President Trump ultimately goes ahead with auto tariffs on the EU, Japan and other countries since autos are a significant macroeconomic sector and since U.S. auto tariffs (and retaliatory tariffs) would hurt earnings for most global auto companies. The EU has said that it already has a list of retaliatory tariffs on U.S. products that it will impose if President Trump goes ahead with tariffs on European autos.

U.S. government shutdown threat is over for this fiscal year -- President Trump on Thursday announced that he will sign the border security bill and the spending bills, which would avert another U.S. government shutdown at midnight Friday when the continuing resolution expires. The Senate passed the bills on Thursday and the bills are expected to easily pass the House by Friday.

The good news is the spending bills will fund the government for the remainder of the fiscal year through September 30, which means there will not be another threat of a U.S. government shutdown at least until the beginning of the new fiscal year on October 1. President Trump on Thursday also said that he will declare a national emergency over border security to try to get funding for the wall, but that process will be a sideshow without much impact for the markets.

Prime Minister May will soldier on with her Brexit strategy even after Thursday's embarrassing loss -- Prime Minister May will soldier on with her Brexit strategy even after she suffered an embarrassing loss on Thursday when Parliament on a non-binding basis voted down the Brexit plan that it previously approved on Jan 29, which was Ms. May's separation agreement plus the substitution of the Irish backstop with "alternative measures."

Despite Thursday's vote, Ms. May has no option but to continue with her strategy of trying to convince the EU to allow a softer Irish backstop that might help her push a Brexit separation plan through Parliament. Ms. May continues to insist that Parliament's choice is between her Brexit plan and a no-deal Brexit on March 29, which would be an economic disaster.

Ms. May now has two weeks until the next Brexit votes in Parliament on Feb 27. In those votes, Parliament could pass the Cooper-Boles amendment, which states that there will be an extension of the Brexit deadline if Parliament has not approved a Brexit separation plan by March 13. The betting odds for a no-deal Brexit by April 1 are currently at 7/4 (37% probability), up from 25% a few weeks ago, according to oddschecker.com.

^GBPUSD - British Pound/U.S. Dollar - Daily OHLC Chart

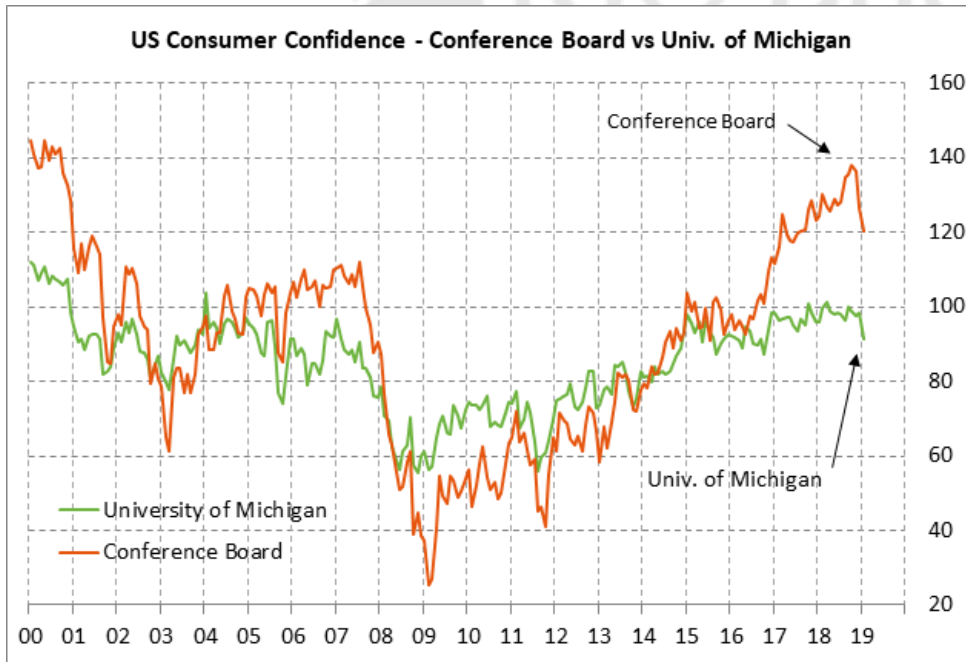


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MARKET INSIGHTS

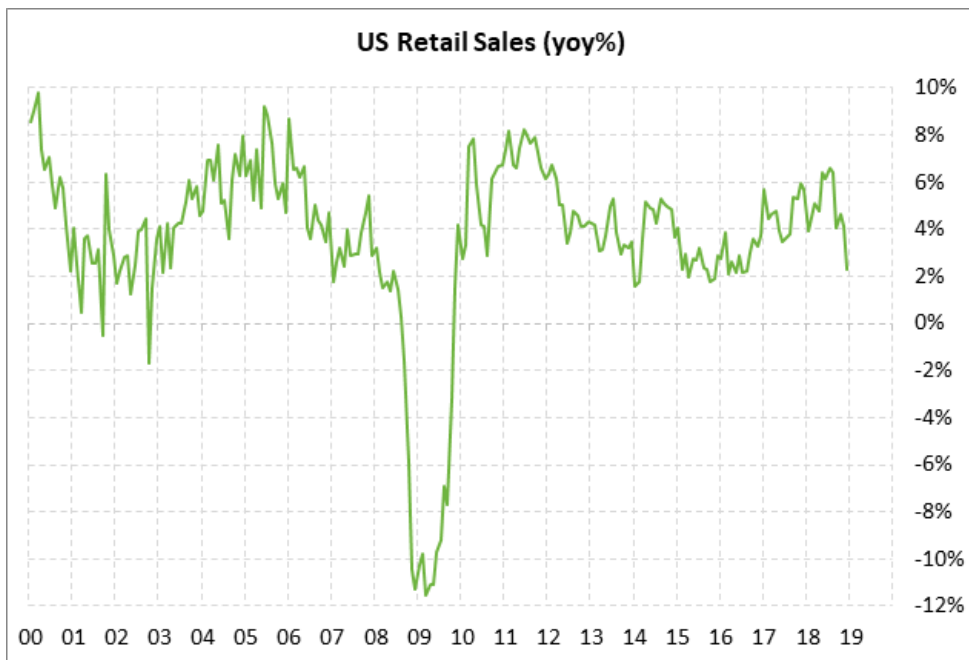
U.S. consumer sentiment expected to rebound higher from Dec's 2-1/4 year low -- The consensus is for today's preliminary-Feb University of Michigan U.S. consumer sentiment index to rebound higher by +2.3 points to 93.5, after Jan's -7.1 point drop to a 2-1/4 year low of 91.2. U.S. consumer sentiment took a hit in December due to the steep Q4 stock market correction and the U.S. government shutdown that began on Dec 22.

However, U.S. consumer sentiment is expected to improve in January thanks in large part to the solid recovery in the stock market, which was prompted largely by the Fed's shift to a neutral policy. In addition, the U.S. government shutdown ended on Jan 25. The markets are anxiously waiting to see whether retail sales rebounded in January after yesterday's potentially alarming report that Dec retail sales fell by -1.2% m/m.

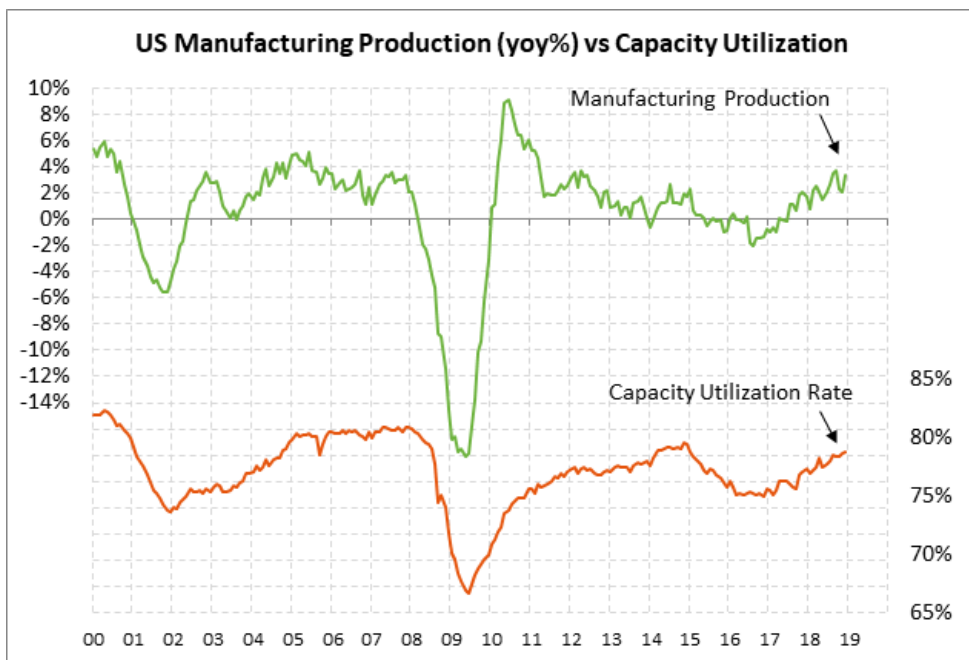
US Consumer Confidence - Conference Board vs Univ. of Michigan



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U.S. manufacturing production expected stable after Dec's surge – The market consensus is for today's U.S. Jan manufacturing production report to be unchanged m/m after Dec's +1.1% surge. Meanwhile, Jan industrial production is expected to show a small +0.1% m/m gain, adding to Dec's rise of +0.3% m/m. The U.S. manufacturing sector is so far holding its own despite the Q4 stock market correction and weaker Chinese and European economic growth. The ISM manufacturing index in January rebounded higher by +2.3 points to 56.6 after Dec's -4.5 point decline to 54.3.



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