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Negotiations Needed; Filling the Board

According to Premier Li Keqiang, we *"must uphold multilateralism, the rules of free trade... If there are problems, negotiation is needed to solve them."* He went on to indicate that his government wouldn't devalue its currency to boost exports. Keqiang's comments came as officials indicated that China plans to cut the average tariff rates on imports from the majority of its trading partners, including the U.S. As the escalating trade war has begun to negatively impact China's trade, officials have indicated action as soon as next month.

Earlier this week, the Trump administration imposed tariffs on \$200 billion of Chinese imports. The tariffs will start at 10% before ramping up to 25% on January 1st. China responded by imposing tariffs on \$60 billion of U.S. goods. The U.S. has furthermore threatened tariffs on an additional \$267 billion of Chinese goods.

According to reports, U.S. companies repatriated \$169.5B in foreign profits in the second quarter, more than in previous periods but a decline from \$294.9B in Q1, the first quarter after Congress passed tax reform, imposing a one-time 15.5% tax on accumulated foreign cash and a tax of 8% for other noncash assets.

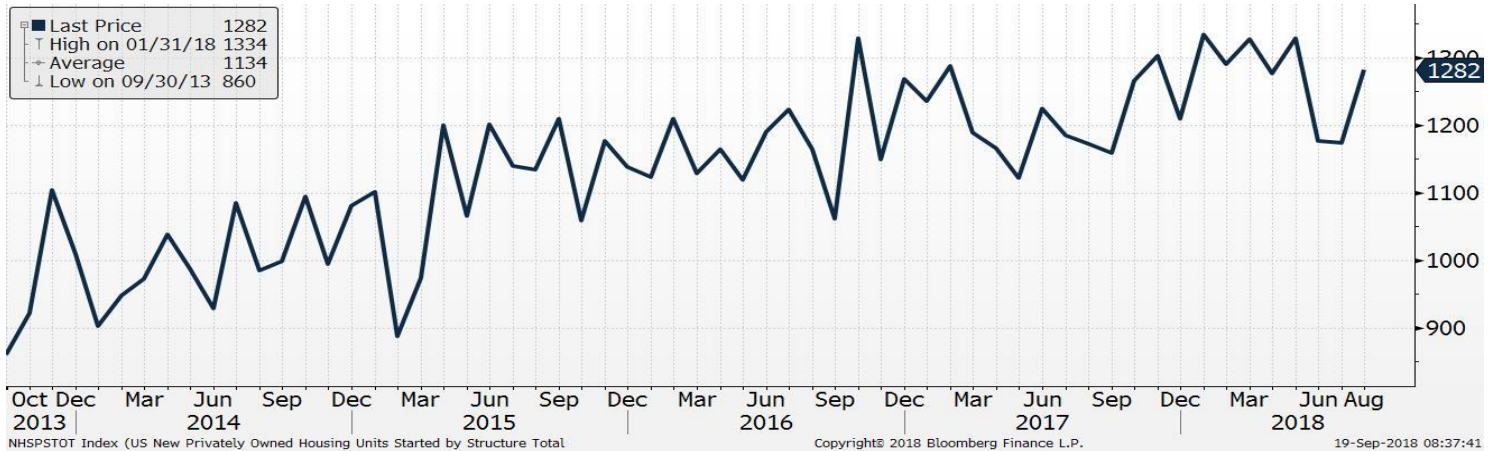
Former Federal Reserve economist, Nellie Liang, has been nominated to a seat on the central bank's board of governors. According to reports, she's known for a strong background on financial and monetary stability, including crisis response, and established the bank's Division of Financial Stability in 2010.

Nellie Liang marks the sixth Trump nominee to the Fed's seven-seat board of governors. Three including Chairman Jerome Powell, Vice Chairman Richard Clarida and Vice Chairman for Bank Supervision Randal Quarles have been confirmed by the Senate.

According to Secretary of State Mike Pompeo, North Korean talks will be completed by January 2021. Pompeo said in a statement released yesterday, *"We welcome... the permanent dismantlement of all facilities at Yongbyon and the Tongchang-ri site in the presence of U.S. and international inspectors. On the basis of these important commitments, the U.S. is prepared to engage immediately in negotiations to transform U.S.-DPRK relations."*

Yesterday, housing starts rose 9.2% in August, following a 0.3% decline the month prior, pulling the annual pace up from 1,174k to 1,282k, a three-month high. According to *Bloomberg*, starts were expected to rise 5.7% in August. Single family starts rose 1.9% and multi-family starts popped 29.3% in August. Year-over-year, housing starts rose 9.4% in August, led by a 38.1% rise in multi-family starts. Single family starts, however, fell 0.2% from this time last year, a two-month low.

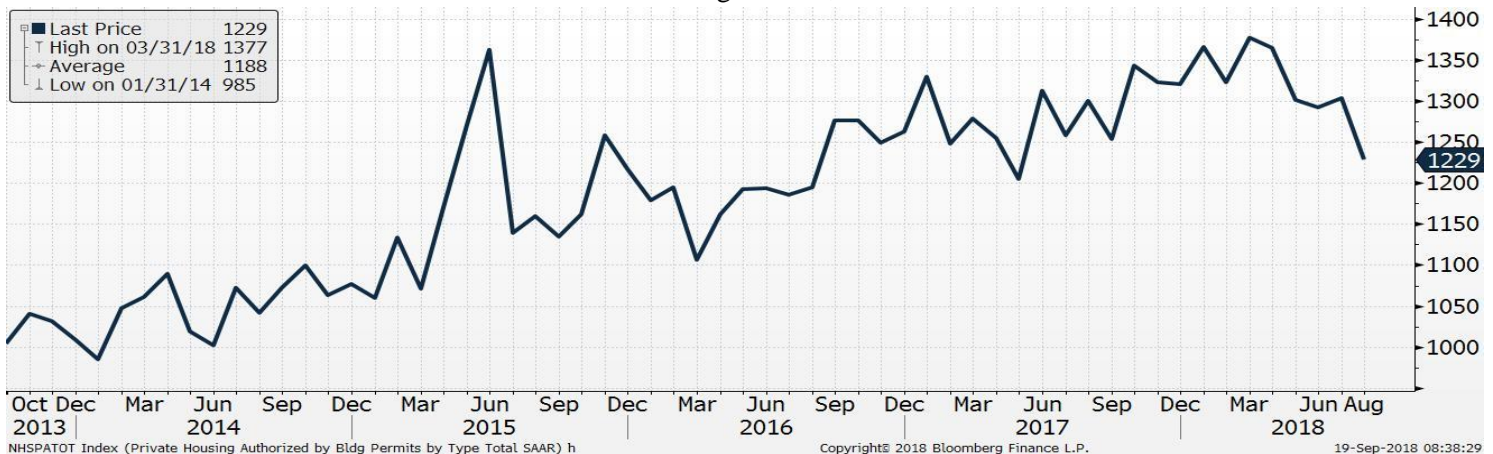
U.S. Housing Starts, SAAR



Source: Bloomberg

Building permits unexpectedly fell 5.7% in August from 1,303k to a 1,229k unit pace, the lowest since May 2017. According to *Bloomberg*, permits were expected to rise 0.5% in August. Year-over-year, building permits declined 5.5% in August, down from a more robust 8% pace reported in May. Single family permits fell 6.1% in August but increased 2.1% year-over-year. Multi-family permits, furthermore, declined 4.9% in August and fell 17.7% over the past 12 months, the third consecutive month of an annual decline.

U.S. Building Permits, SAAR



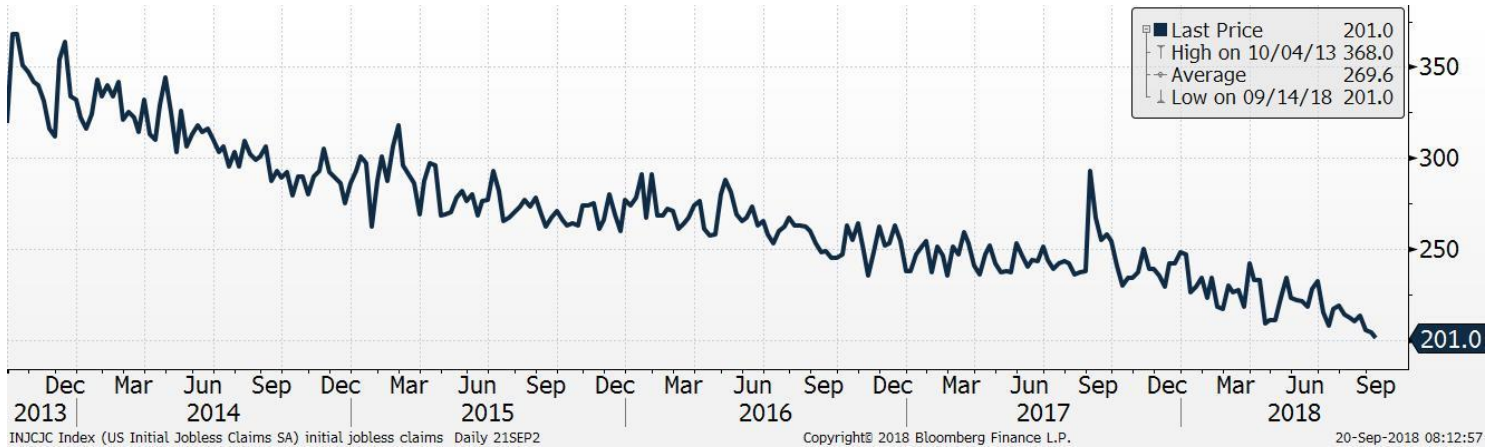
Source: Bloomberg

On a regional basis, starts improved in three out of the four regions in August; starts rose 9.1% in the Midwest, 6.5% in the South and increased 19.1% in the West. On the other hand, starts were unchanged in the Northeast in August.

Bottom Line: Housing activity appears to have rebounded in August following a disappointing July. With permits, however, creeping lower, new home construction is likely to remain increasingly volatile and under pressure in the final months of 2018 as a result of still-fragile fundamentals including overall affordability. Discerning underlying momentum, however, in terms of the housing market looking out to 2019 will be furthermore disrupted by the impact of the hurricane as the reconstruction effort gets underway in the coming weeks and months.

This morning, initial jobless claims fell 3k from 204k to 201k in the week ending September 15. The four-week average declined from 208k to 206k.

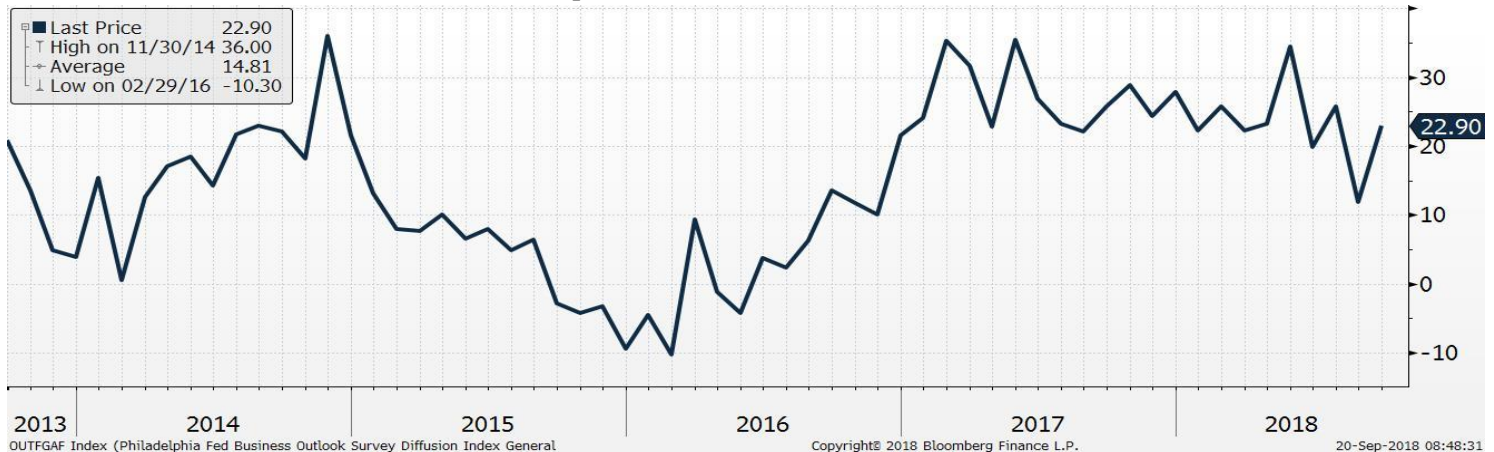
U.S. Initial Jobless Claims, SA



Source: Bloomberg

The Philly Fed Index rose from 11.9 to a reading of 22.9 in September, more than the expected rise to 18.0, according to *Bloomberg* and a two-month high.

Philadelphia Fed Business Outlook Index, SA



Source: Bloomberg

In the details, new orders rose from 9.9 to 21.4, shipments increased from 16.6 to 19.6 and employment rose to a reading of 17.6 in September, a three-month high. On the weaker side, inventories declined from +15.4 to -3.5 and prices paid fell from 55.0 to 39.6 in September, an eight-month low.

The Leading Index rose 0.4% in August, one-tenth of a percentage point shy of the 0.5% rise expected and following a 0.7% gain in July.

U.S. Leading Index, MoM



Source: Bloomberg

Existing home sales were unexpectedly unchanged in August at a 5.34m pace, following four consecutive months of decline. According to *Bloomberg*, existing home sales were expected to rise 0.5% in August. Single family sales and multi-family sales were both flat in August. Year-over-year, single family sales declined 1.0% in August, and multi-family sales dipped 4.8%. From a price standpoint, the median price of a previously owned home rose 4.6% in the second month of Q3 from a year earlier to \$265k.

U.S. Existing Home Sales, SAAR



Source: Bloomberg

-Lindsey Piegza, Ph.D., Chief Economist

Glossary

DPRK – Democratic People's Republic of Korea

MoM – Month over Month

SA – Seasonally Adjusted

SAAR – Seasonally Adjusted Average Rate

Economic Releases

Date Time	Event	Period	Prior	Revised	Surv(H)	Surv(L)	Surv(M)	Actual
09/18/18 09:00	NAHB Housing Market Index	Sep	67	--	68	65	66	67
09/18/18 15:00	Total Net TIC Flows	Jul	\$114.5b	\$189.7b	\$108.5b	\$30.0b	\$46.0b	\$52.2b
09/18/18 15:00	Net Long-term TIC Flows	Jul	-\$36.5b	--	--	--	--	\$74.8b
09/19/18 06:00	MBA Mortgage Applications	14-Sep	-1.80%	--	--	--	--	1.60%
09/19/18 07:30	Current Account Balance	2Q	-\$124.1b	-\$121.7b	-\$100.8b	-\$132.0b	-\$103.4b	-\$101.5b
09/19/18 07:30	Housing Starts	Aug	1168k	1174k	1300k	1150k	1240k	1282k
09/19/18 07:30	Housing Starts MoM	Aug	0.90%	-0.30%	11.30%	-1.50%	5.70%	9.20%
09/19/18 07:30	Building Permits	Aug	1311k	1303k	1345k	1200k	1310k	1229k
09/19/18 07:30	Building Permits MoM	Aug	1.50%	0.90%	3.20%	-7.90%	0.50%	-5.70%
09/20/18 07:30	Philadelphia Fed Business Outlook	Sep	11.9	--	26.9	10	18	22.9
09/20/18 07:30	Initial Jobless Claims	15-Sep	204k	--	215k	200k	210k	201k
09/20/18 07:30	Continuing Claims	8-Sep	1696k	--	1710k	1700k	1705k	1645k
09/20/18 08:45	Bloomberg Economic Expectations	Sep	57	--	--	--	--	--
09/20/18 08:45	Bloomberg Consumer Comfort	16-Sep	59	--	--	--	--	--
09/20/18 09:00	Leading Index	Aug	0.60%	--	0.70%	0.10%	0.50%	--
09/20/18 09:00	Existing Home Sales	Aug	5.34m	--	5.55m	5.25m	5.37m	--
09/20/18 09:00	Existing Home Sales MoM	Aug	-0.70%	--	3.90%	-1.70%	0.50%	--
09/20/18 11:00	Household Change in Net Worth	2Q	\$1028b	--	--	--	--	--
09/21/18 08:45	Markit US Manufacturing PMI	Sep P	54.7	--	55.3	54.4	55	--
09/21/18 08:45	Markit US Services PMI	Sep P	54.8	--	56	54.5	55	--
09/21/18 08:45	Markit US Composite PMI	Sep P	54.7	--	--	--	--	--
09/24/18 07:30	Chicago Fed Nat Activity Index	Aug	0.13	--	--	--	--	--
09/24/18 09:30	Dallas Fed Manf. Activity	Sep	30.9	--	31.2	30	31	--

Source: Bloomberg

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