MERION CAPITAL GROUP

GLOBAL ECONOMIC STRATEGY

GREEN SHOOTS IN CHINA

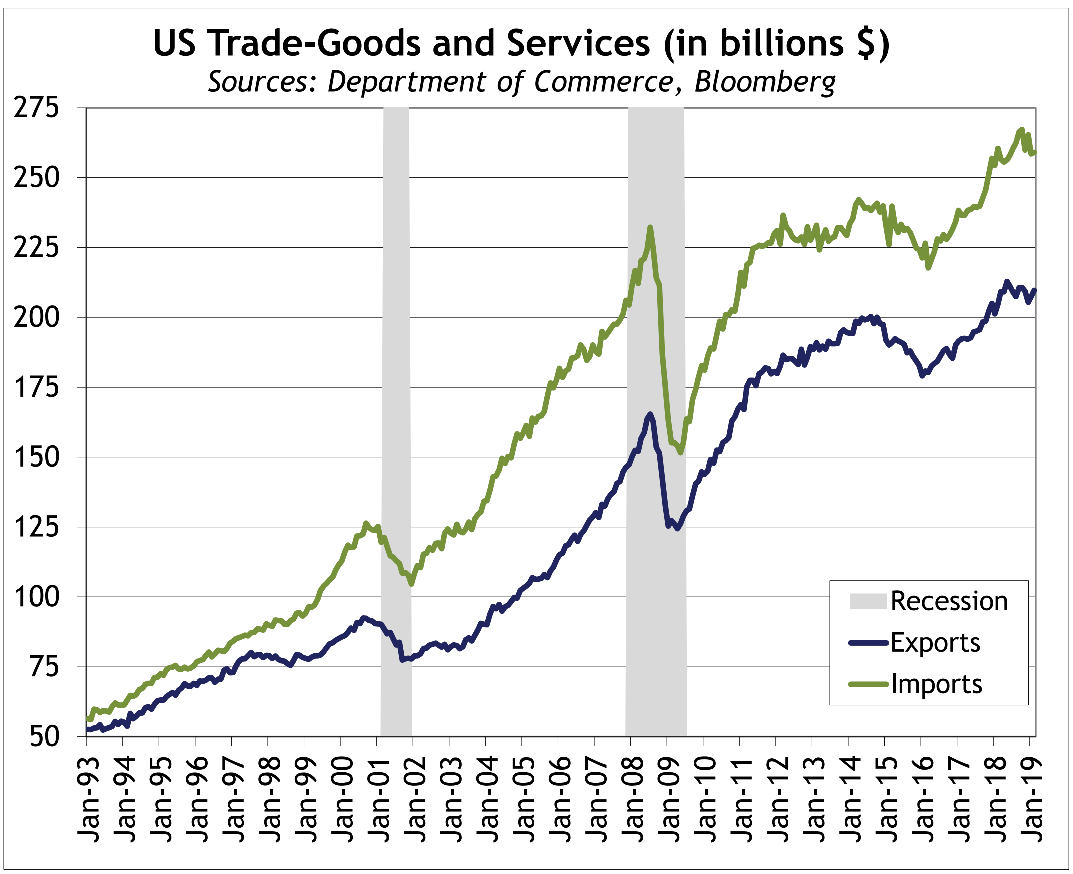
April 17, 2019

FAST FACTS ABOUT TODAY'S ECONOMIC DATA:

**** U.S. Trade Balance improved once again as China and EU imports plunged in February.***
**** U.S. Mortgage Purchase Applications at 9 year high.***
**** China Q1 GDP comes in just above expectations (+6.4% Y/Y) thanks to Industrial Production.***
**** Yet Japan Trade Balance worsened as exports to China fell -9.4% Y/Y.***

US TRADE DEFICIT IMPROVED ONCE AGAIN IN FEBRUARY:

According to the U.S. Department of Commerce, the **trade deficit improved +$1.752 billion M/M to -$49.382 billion (seasonally-adjusted) in February**. In fact, this is the lowest deficit since June 2018 and the average deficit of -$50.258 billion thus far in Q1 2019 is significantly lower than -$55.654 billion in Q4, which should be a benefit to Q1 GDP. In the month, **Exports increased +$2.335 billion M/M to $209.69 billion** (+1.13% M/M and +2.43% Y/Y). Also, **Imports increased +$0.585 billion M/M to $259.073 billion** (+0.23% M/M but down -0.52% Y/Y). Note that the DXY Index increased +0.61% M/M and the Trade Weighted Dollar Index increased +0.06% M/M.



Services Trade Balance:

In the month, the trade balance of services increased +$0.542 billion to +$22.628 billion. Exports increased +$0.236 billion to $70.142 billion and Imports declined -$0.305 billion to $47.514 billion.

Goods Trade Balance:

In the month, the trade balance of goods increased by +$1.209 billion to -$72.011 billion. In the month, Exports increased +$2.099 billion to $139.548 billion and Imports increased +$0.89 billion to $211.559 billion.

Goods Deficits by Geographic Region: Winning in China & EU:

- The goods deficit with **China improved by +$9.708 billion to -$24.761 B as imports fell -$8.41 B**.
- The goods deficit with **EU improved by +$2.5 billion to -$9.155 B as imports fell -$1.813 B**.
- The goods deficit with **OPEC improved by +$1.661 billion to +$0.411 B as imports fell -$1.794 B**.

- The goods deficit with **Mexico worsened by -$1.635 billion to -$7.403 B as exports fell -$1.704 B**.
- The goods deficit with **Japan worsened by -$0.744 billion to -$5.938 B as exports fell -$0.879 B**.

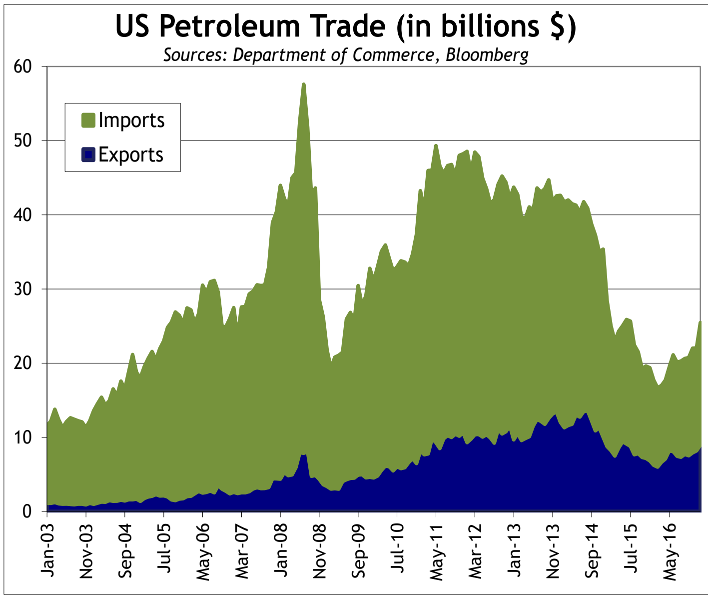
Balance of Goods by Selected Countries and Areas (in millions NSA)

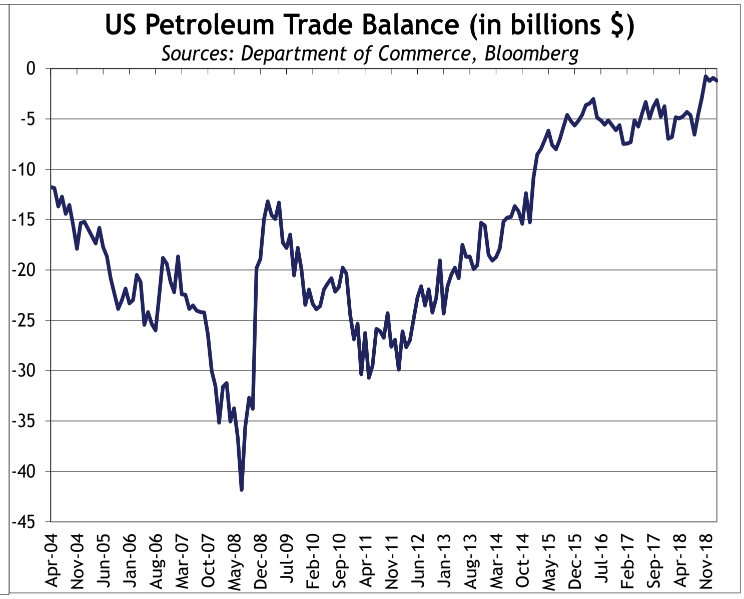
	Feb-19				Jan-19		
	M/M	Balance	Exports	Imports	Balance	Exports	Imports
China	$ 9,708	$ (24,761)	8,434	33,194	$ (34,469)	7,134	41,604
EU	$ 2,500	$ (9,155)	28,523	37,678	$ (11,655)	27,836	39,491
OPEC	$ 1,661	$ 411	3,947	3,535	$ (1,250)	4,080	5,329
Canada	$ 622	$ (127)	23,120	23,247	$ (749)	22,643	23,392
Russia	$ 580	$ (507)	548	1,055	$ (1,087)	472	1,559
India	$ 331	$ (1,934)	2,675	4,609	$ (2,265)	2,663	4,927
Brazil	$ (105)	$ 748	2,955	2,207	$ 853	3,399	2,546
Japan	$ (744)	$ (5,938)	11,399	5,461	$ (5,194)	11,534	6,340
Mexico	$ (1,635)	$ (7,403)	20,210	27,613	$ (5,768)	21,914	27,682

Sources: U.S. Department of Commerce, Bloomberg

Petroleum Trade Balance Slipped in February:

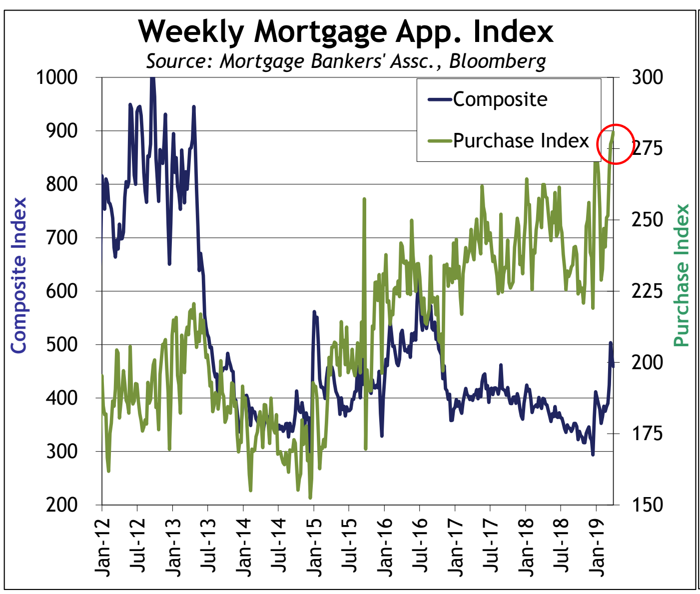
In the month, **the trade balance of petroleum slipped -$0.264 billion to -$1.184 billion.** Petroleum exports increased +$0.439 billion to $13.899 billion whereas imports increased +$0.703 billion to $15.083 billion.

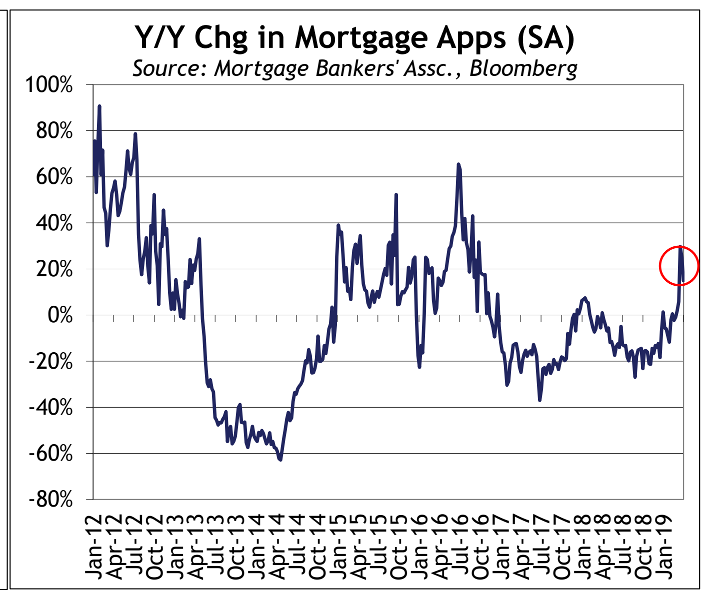




U.S. MORTGAGE APPLICATIONS DOWN -3.5% BUT PURCHASE APPS AT 9 YEAR HIGH:

According to the Mortgage Bankers Association, the Composite Index of **U.S. Mortgage applications fell for the second consecutive week, down -3.5% W/W to 459.0** (seasonally-adjusted). Thus, mortgage applications slowed to +14.9% Y/Y on an adjusted basis (versus +25.0% Y/Y prior). However, the decline last week was led entirely by refis, as the **Refi Index fell -8.2% W/W and slowed to +26.4% Y/Y** (+42.5% Y/Y prior). Conversely, **the Purchase Index increased for the sixth consecutive week, up +0.9% W/W and +7.0% Y/Y to 280.7, which is the highest level since April 2010** (+12.5% Y/Y prior). Note, mortgage applications declined in the week as the **average 30 year mortgage rate increased +4 basis points to 4.44%**.

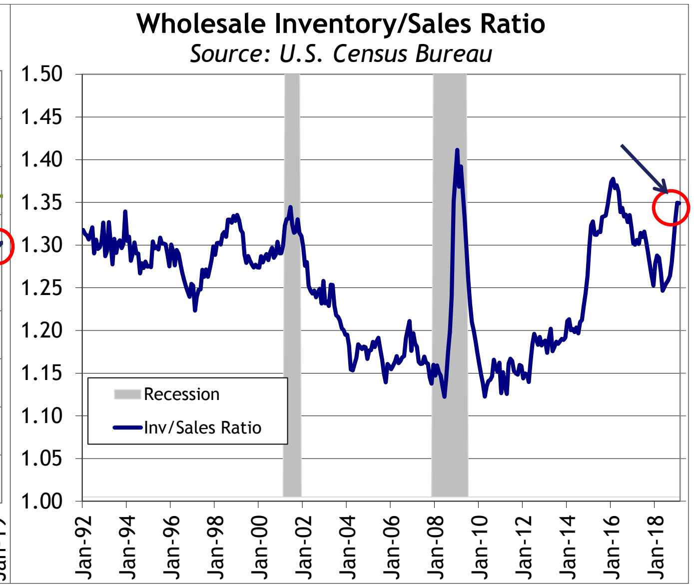




U.S. WHOLESALE INVENTORIES INCREASED FOR 16TH MONTH IN A ROW TO RECORD HIGH:

According to the U.S. Census Bureau, **Wholesale inventories increased for the 16th month in a row, up +0.21% M/M and +6.94% Y/Y to a record high $668.892 billion in February** (versus +7.32% Y/Y prior). In the month of February, Durable Goods inventories increased +0.15% M/M and Non-Durable Goods inventories increased +0.31% M/M. Moreover, **Wholesale Sales increased for the first time in five months, up +0.26% M/M and +2.08% Y/Y** (+1.66% Y/Y prior). Thus, the **Wholesale Inventory/Sales Ratio was unchanged at**

1.35, which is the worst reading since November 2016. Recognize that spikes in the Inventory/Sales ratio can be a recession indicator (although it also gives plenty of false flags).



CHINA Q1 2019 GDP INCREASED +6.4% Y/Y – BESTING THE LOWERED EXPECTATIONS:

Today, the National Bureau of Statistics of China reported that **Q1 2019 Real GDP increased +1.4% Q/Q and +6.4% Y/Y** (versus +1.5% Q/Q and +6.74% Y/Y in Q4). On a nominal basis, Q1 GDP was 21,343.3 billion yuan, which is an increase of +7.8% Y/Y (versus +9.1% Y/Y prior).

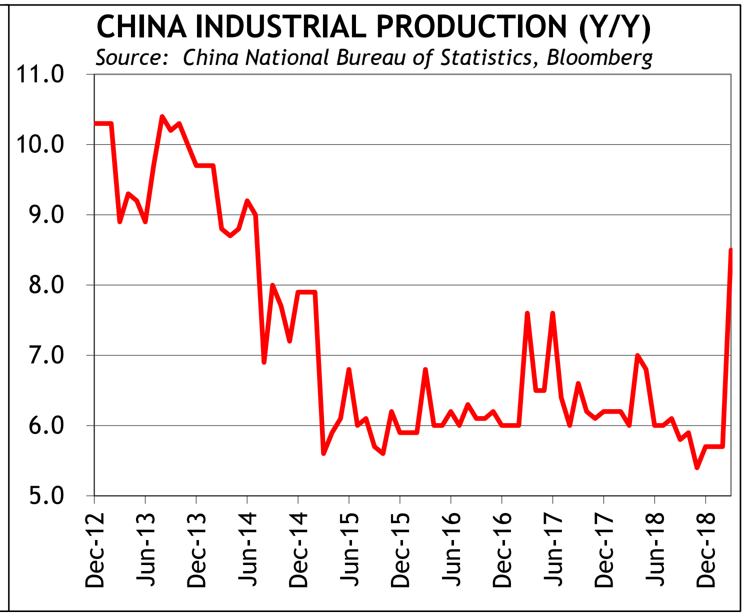
Primary Industry: On a nominal basis, increased +2.3 Y/Y to 876.9 billion yuan. Slowed to +2.7% real cumulative Y/Y (+3.5% Y/Y previously).

Secondary Industry: On a nominal basis, increased +6.8% Y/Y to 8,234.6 billion yuan. Accelerated slightly to +6.1% real cumulative Y/Y (+65.8% Y/Y previously).

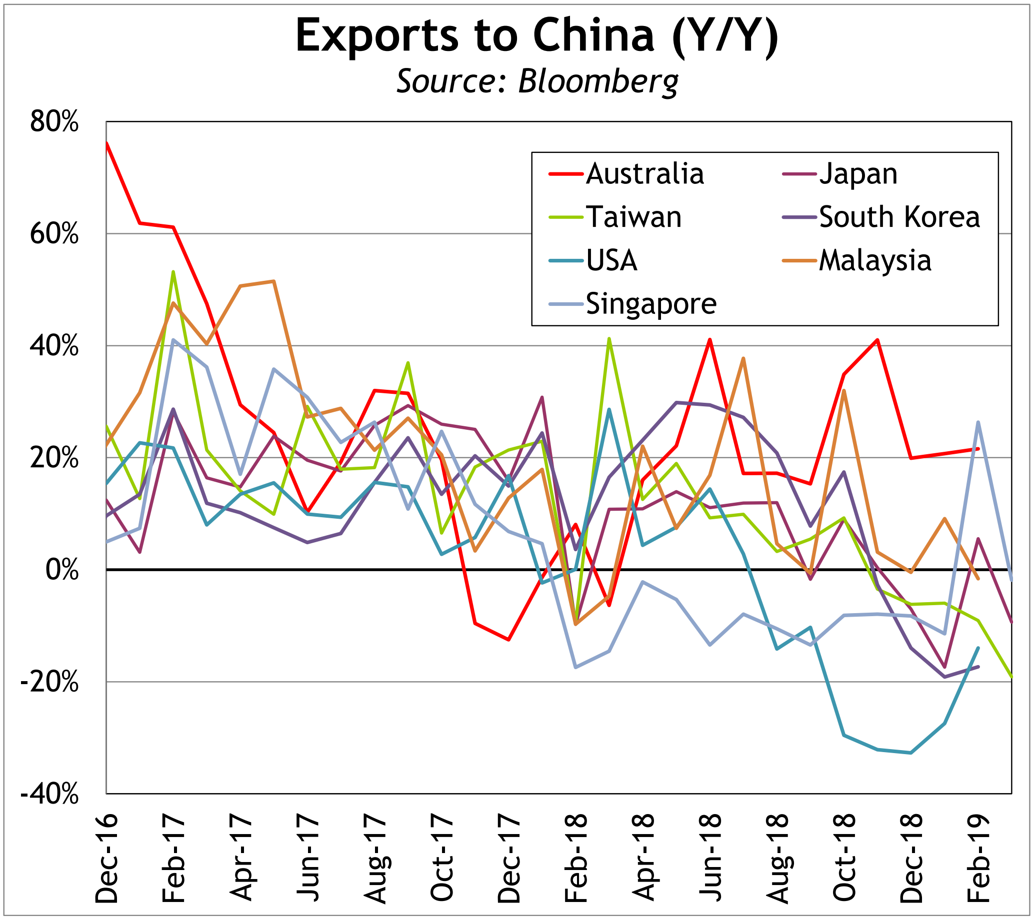
Tertiary Industry: On a nominal basis, increased +9.0% Y/Y to 12,231.7 billion yuan. Slowed slightly to +7.0% real cumulative Y/Y (+7.6% Y/Y previously).

CHINA RETAIL SALES, FIXED ASSET INVESTMENT, & INDUSTRIAL PRODUCTION ACCELERATED IN MARCH:

The National Bureau of Statistics of China also released their reports on Industrial Production, Fixed Asset Investment, and Retail Sales and the results showed that activity in China accelerated in March. In the month of March, **China Retail Sales increased +0.91% M/M and accelerated to +8.7% Y/Y** (versus +8.2% prior) and China Fixed Asset Investment increased +0.45% M/M and +6.3% cumulatively YTD Y/Y (+6.1% prior). Furthermore, **Industrial Production increased +1.0% M/M and +8.5% Y/Y** (versus +5.7% prior), which is the highest level since July 2014.



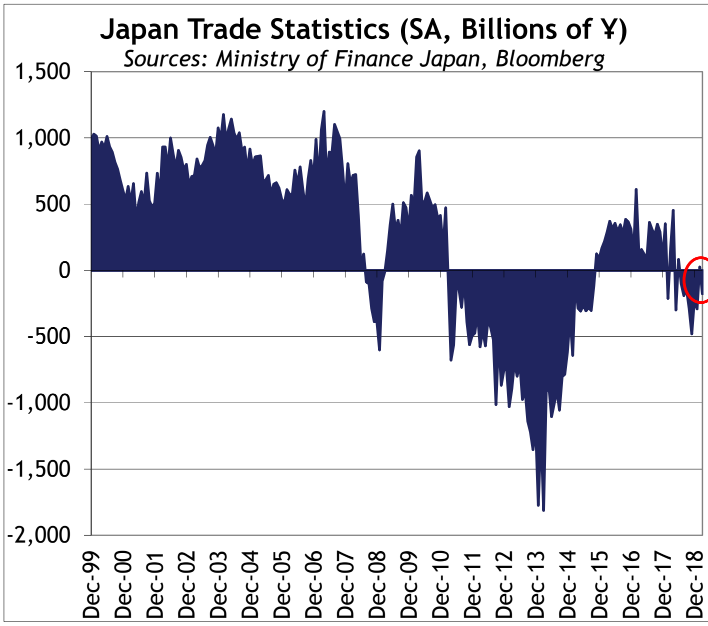
We generally take the data from China with a grain of salt. Was all of the improvement due to the spike in Industrial Production and Retail Sales in March? **All signs were that China worsened thru January and February, it is truly hard to believe that a surge in March salvaged the entire quarter. It is even more difficult for us to believe that China GDP is up +6.4% Y/Y. Especially when exports to China from many of its major trading partners are down Y/Y**, including the aforementioned -14.0% Y/Y from the US and -9.4% Y/Y from Japan (more on that below).



JAPAN TRADE BALANCE WORSENED AS CHINA EXPORTS FELL -9.4% Y/Y:

According to Japan's Ministry of Finance, **Japan's trade balance fell -¥204.3 billion to -¥177.8 billion in the month of February. In fact, this is the eighth negative trade balance in the past nine months.** On a seasonally-adjusted basis, exports fell -1.0% M/M whereas imports increased +2.1% M/M. On a Y/Y basis, **Japan exports fell -2.4% Y/Y (versus -1.2% Y/Y prior), while imports increased +1.1% Y/Y** (-6.6% Y/Y prior). Nonetheless, the trade balance on a not seasonally adjusted basis increased +¥0.194 trillion to ¥0.529 trillion.

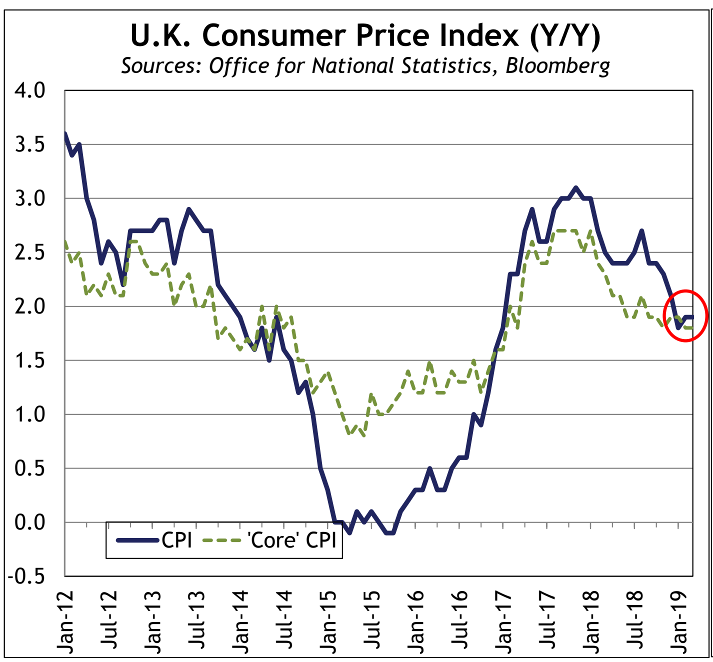
It should be noted that **exports to the China declined -9.4% Y/Y (+5.6% Y/Y prior); however, exports to the EU increased +7.3% Y/Y (+2.5% Y/Y prior) and exports to the U.S. increased +4.4% Y/Y** (versus +2.0% Y/Y prior). Furthermore, Petroleum imports rebounded +16.4% M/M and improved to -5.6% Y/Y to ¥682.0 billion (-11.2% Y/Y previously). Note that Japan imports roughly 90% of its energy.

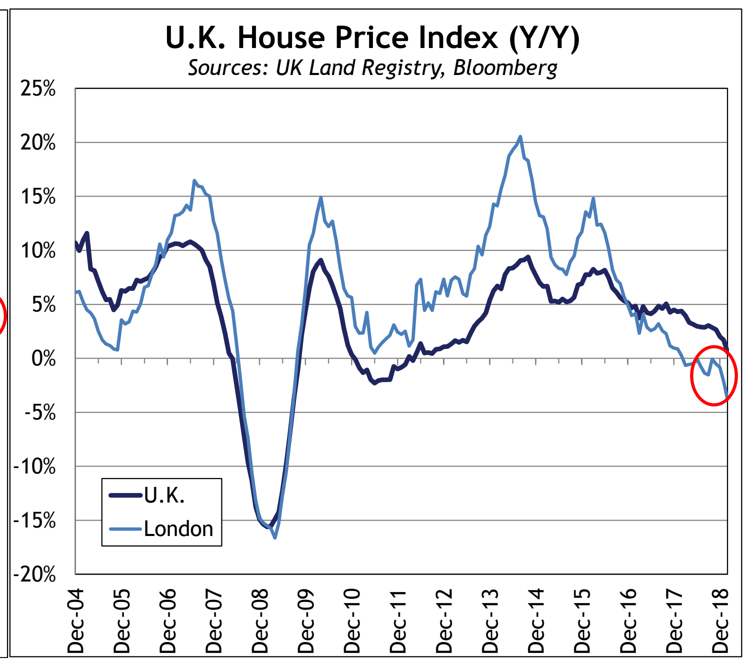


U.K. INFLATION UP +1.9% Y/Y IN MARCH:

According to the Office for National Statistics, U.K. consumer inflation increased +0.19% M/M in March (versus +0.47% prior). Nonetheless, **inflation on a year over year basis accelerated to +1.90% Y/Y (versus +1.81% Y/Y prior). This remains below the Bank of England's target of 2% inflation**. Also, 'Core' CPI increased +0.19% M/M but slowed slightly to +1.90% Y/Y (+1.91% Y/Y prior).

In a related note, **the U.K. House Price Index declined for the sixth consecutive month, down -0.85% M/M to £226,234 in February**. Thus, house prices slowed to +0.56% Y/Y (+1.69% Y/Y prior), which is the slowest pace since May 2012. Note, London House Prices fell -2.00% M/M and -3.78% Y/Y (-2.21% Y/Y prior).





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DISCLOSURE APPENDIX