Fed's Evans Speaks; Comey Testifies in Russia Hearing

By Ben Baris and Geoff King

What to Watch: The U.S. House Intelligence Committee holds the first scheduled public hearing on its investigation into Russia’s interference in the 2016 presidential campaign at 10 a.m. FBI Director James Comey has been asked to testify along with National Security Agency Chief Mike Rogers.

Economics: Chicago Fed President Charles Evans will speak at 1:10 p.m. on current economic conditions and monetary policy at a National Association for Business Economics luncheon in New York.

Government: The five leading French presidential candidates hold their first televised debate of the campaign at 4 p.m. Follow the TOPLive blog for real-time coverage here. The American Bankers Association begins its Government Relations Summit in Washington, running through March 22. Speakers include U.S. Senator Sherrod Brown, an Ohio Democrat who is the ranking member of the Senate Banking, Housing and Urban Affairs Committee, and Representative Jeb Hensarling, a Republican from Texas and chairman of the House Financial Services Committee.

Markets: Equities retreated in Europe, Australia and New Zealand, as did S&P 500 Index futures. Japan’s stock market was closed Monday for a holiday. Indexes rose in Hong Kong, Malaysia and Thailand. The Australian 10-year yield resumed a retreat after rising at the end of last week. Oil fell for the ninth day in 11.

(All times local for New York.)

As Yellen Complains GDP Is 'Noisy,' the Fed Makes a Racket

First-quarter GDP estimates from regional Fed banks show widely different views of the economy, with the New York Fed pegging growth at a rather robust 2.8 percent on an annualized basis and its Atlanta counterpart putting it at a tepid 0.9 percent. Welcome to the turbulent world of so-called “nowcasting,” the science of estimating how fast the economy is growing in the current quarter by using computational methods to crunch numbers in real time.

In these instances, there’s no economist tweaking the estimates according to experience or intuition. Estimates are strictly model-driven. So why are the results so different? The short answer, according to Stephen Stanley, chief economist at New York-based Amherst Pierpont Securities, is that the two estimates are “trying to answer different questions.”

— Christopher Condon

Commentary in This Issue

A busy Fedspeak docket this week will provide officials ample opportunity to refine the message from the March FOMC meeting: Bloomberg Intelligence economists.

The University of Michigan’s Richard Curtin discusses the large partisan divide in the preliminary March consumer sentiment survey with Carl Riccadonna.

G-20

Finance chiefs of the world’s largest economies set aside a pledge to avoid protectionism and signed up to a fudged statement on trade instead, in response to the Trump administration’s call to rethink the global order for commerce.

Central Bank Watch

In a written explanation, Minneapolis Fed President Neel Kashkari, the lone dissenter at last week’s FOMC meeting, said that he would prefer the central bank publish a plan that explains how and when it will begin to normalize its balance sheet before hiking again, warning that financial conditions might tighten in response to that announcement.

Trump Watch

President Donald Trump is poised to nominate Makan Delrahim, a former Justice Department lawyer and counsel for the Senate Judiciary Committee, to lead the department’s antitrust division. (Link to terminal)
Week Ahead

Data Take Spring Break, Fedspeak in Full Bloom

By Carl Riccadonna, Yelena Shulyatyeva and Richard Yamarone, Bloomberg Intelligence economists

A busy Fedspeak docket will provide officials ample opportunity to refine the message from the March FOMC meeting, although Chair Yellen was clear in stressing there was no material change to policy makers’ outlook.

Monday, March 20

Chicago Fed President Charles Evans (voter) is scheduled to speak on the current state of the economy and monetary policy at a NABE luncheon in New York City. Evans has consistently assumed a moderately dovish policy view; recently he expressed a preference for two rate increases this year but signaled a willingness to tolerate three. His remarks will be monitored for clues regarding the conditions that would lead him to support the next rate increase, which markets anticipate in the June-July timeframe.

In previous comments, he expressed concerns on the central bank’s credibility regarding its inflation objective. The recent drop in longer-term inflation expectations in the March consumer sentiment data (to a new low) will likely foment his concerns and thus be a key point of discussion at his event.

Wednesday, March 22

Housing inventory scarcity in the beginning of 2017 amid higher mortgage costs pushed contract signings down to the lowest level in almost a year. At the same time, the level of existing home sales (contract closings) stood at a cyclical high, likely a result of increased demand at the end of last year ahead of even higher interest rates. Such divergence should diminish with a sharp decline in resales in February. Consensus is looking for a 2.3 percent drop to 5.56 million. BI Economics sees downside risk.

Thursday, March 23

Fed Chair Janet Yellen is scheduled to speak at a Fed community development conference in Washington. While any appearance of the Fed chair will be carefully monitored by market participants, given both her extensive remarks in the prior week’s post-meeting press conference and the topic of this event, it is unlikely that she will provide new insights on the the economy or the appropriate path of policy.

While weather-related disruptions may have distorted recent postings in the jobless claims data, the underlying trend is unmistakable: Demand for workers is strong, and employers have exhibited no desire to furlough staff due to an anticipated increase in demand and the difficulty that businesses have finding and training employees. Claims fell 2,000 to 241,000 in the week ended March 11. This latest report will be scrutinized since it coincides with the survey week of the monthly jobs report.

Weather may again provide a distortion following Winter Storm Stella. New home sales kicked off 2017 with a solid 3.7 percent gain. However, this pace is unlikely to be sustained, at least in the short run, due to the lack of inventory. Despite the recent modest pickup in supply, the level of inventories remains extremely low by historical standards, which should limit any significant acceleration in new home sales. Mortgage applications declined in February following the previous month’s increase. Consensus expects a modest 2 percent gain to 566,000, but BI Economics sees downside risk.

Minneapolis Fed President Neel Kashkari (voter) speaks on U.S. education outcomes and achievement gaps. While the topic of his speech suggests he will not focus on the current state of monetary policy, he may still choose to explain the reasons for his dissent at the March FOMC meeting. Kashkari voted against the action, preferring to maintain the existing target range for the federal funds rate.

Dallas Fed President Robert Kaplan (voter) will speak on the U.S. economy at the Chicago Council on Global Affairs and take questions from the audience and media, so this appearance has the potential for some insightful and potentially market-moving commentary. During his last public appearance in early March he said that the U.S. economy was experiencing "solid but not spectacular growth" and could withstand higher rates.

Friday, March 24

The focus on the durable goods report should be whether the ebullient gains in the sentiment surveys have permeated into the indicators of actual manufacturing output and new order demand. A slight gain should be expected since four of the five new order components of the regional Fed surveys registered additional gains last month — the one index fell but remained at an expansionary reading. Economists polled by Bloomberg appropriately anticipate a 1.2 percent increase in total new orders in February.
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Data & Events

Canada’s Debt-to-Income Ratio Posts Yet Another Record

Source: Statistics Canada, Bloomberg

One of the primary concerns held by the Bank of Canada is that the high level of indebtedness may result in households becoming “more prudent, restraining consumption and housing expenditures.” And since the ratio of debt to disposable personal income hit another record high in the fourth quarter, this indebtedness could be quite problematic in the event of an unforeseen shock. The debt-to-disposable-income ratio for households and non-profits serving the household sector was 169.2 in the fourth quarter, an increase from 168.7 in the third quarter.

— Richard Yamarone, Bloomberg Intelligence economist

Live chart on the Bloomberg terminal.

Calendar

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<thead>
<tr>
<th>TIME</th>
<th>COUNTRY</th>
<th>EVENT</th>
<th>SURVEY</th>
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<td>Real Disposable Income</td>
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<td>South Korea</td>
<td>Imports 20 Days YoY</td>
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<td>RBA March Rate Meeting Minutes</td>
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Source: Bloomberg. Surveys updated at 5:10 a.m. in New York.

Click on the highlighted releases to see the full range of economists’ forecasts on the terminal.

Overnight

Europe

- **European Central Bank**
  Governing Council member Ignazio Visco said the central bank could step away from its commitment to keep interest rates low for a long time after quantitative easing stops. While the ECB’s current guidance foresees that borrowing costs will stay at current or lower levels “for an extended period” and won’t rise until “well past” the end of bond-buying, the Bank of Italy governor said this period “could” be shortened.

- **German Chancellor Angela Merkel** and Japanese Prime Minister Shinzo Abe called for a concerted effort to defend free trade, saying global markets can be both open and fair.

  Two days after U.S. President Donald Trump and Merkel held inconclusive talks at the White House, the German and Japanese leaders opened the CeBIT technology show in Hanover, Germany, by advocating a trade accord between Japan and the European Union as a way to underscore the benefits of an interconnected global economy.

- **The Bank of Russia** plans to create a consolidation fund to bail out lenders and then sell them on the open market after a cleanup, bank Governor Elvira Nabiullina told reporters Monday in Baden-Baden, Germany.

Asia

- **Prime Minister Narendra Modi**’s election-win magic looks to be casting a spell on the Indian stock market. The S&P BSE Sensex index will climb more than 8 percent to 32,000 by the end of December from 29,513.27 on Monday, according to a median estimate of eight traders and investors surveyed by Bloomberg News on March 14, three days after Modi’s landslide victory in state elections.
Global Events Calendar

By Phyllis Halliday, James Amott and Stanley James

U.S. Federal Reserve Chair Janet Yellen gives a speech in Washington. A handful of Fed presidents will also speak.

Monday, March 20

● German Chancellor Angela Merkel and Japanese Prime Minister Shinzo Abe hold talks in Hanover, Germany, on trade and Asia, with a joint news conference planned for 13:15 CET (08:15 EDT).
● Scottish First Minister Nicola Sturgeon will seek authority from the country’s parliament for a Section 30 order to hold a second independence referendum.
● Former U.K. Prime Minister David Cameron gives a speech on the European Union and the rise of populism at Brown University. In Providence, Rhode Island, at 16:00 EDT.
● ECONOMY: Chicago Fed national activity index (Feb.), Chile GDP (4Q), Taiwan export orders (Feb.), Germany producer prices (Feb.), U.K. Rightmove House Prices (March), Russia retail sales and unemployment (Feb.).

Tuesday, March 21

● Kansas City Fed President Esther George will discuss the nation’s economic outlook at a Women in Housing and Finance luncheon. In Washington at 12:00 EDT. Cleveland Fed President Loretta Mester speaks at the University of Richmond as part of the Robins School of Business Executive Speaker Series. In Richmond, Virginia, at 18:00 EDT.
● ECONOMY: Tokyo G-30 meeting, France GDP (4Q), France current account balance (Feb.), Mexico manufacturing PMI (March), Canada CPI (Feb.), U.K. retail sales (Feb.), Poland unemployment (Feb.), South Africa current account (4Q).

Wednesday, March 22

● U.S. Secretary of State Rex Tillerson hosts foreign ministers and leaders of the 68-nation Global Coalition fighting the Islamic State, in Washington.
● Canadian Finance Minister Bill Morneau presents the country’s budget to the House of Commons.
● The Mexico Banking Association’s convention in Acapulco will feature speeches by Mexico Central Bank Governor Agustin Carstens at 18:40 local time and Finance Minister Jose Antonio Meade at 19:00 (21:00 EDT). Ends March 24.
● ECONOMY: U.S. existing home sales (Feb.), MBA mortgage applications (weekly) and FHFA home-price index (Jan.), Brazil IPCA-15 inflation (March), Japan trade (Feb.), Taiwan unemployment rate (Feb.), South Africa current account (4Q).

Thursday, March 23

● Dallas Fed President Robert Kaplan will speak at the Chicago Council on Global Affairs in a moderated Q&A session on the U.S. economic outlook and monetary policy. In Chicago at 18:00 local time (19:00 EDT).
● The new Dutch lower house of parliament meets and takes the first steps toward the formation of a coalition government following Liberal Prime Minister Mark Rutte’s election victory.
● French Republican presidential candidate Francois Fillon gives a two-hour television interview at 21:00 (16:00 EDT).
● Swiss National Bank publishes its annual report. 07:25 in Zurich (02:25 EDT).
● The ECB publishes its economic bulletin. 10:00 in Frankfurt (05:00 EDT).
● CENTRAL BANKS: Bank of Korea holds first of four annual board meetings on financial stability, New Zealand rate decision, Philippines rate decision, Poland minutes.
● ECONOMY: U.S. new home prices (Feb.), jobless claims (weekly), Bloomberg consumer comfort (weekly) and Kansas City Fed manufacturing index (March), Mexico CPI (bi-weekly), Singapore CPI (Feb.), euro-area consumer confidence (March), Germany GfK consumer confidence (April), French business confidence (March), U.K. retail sales (Feb.), Poland unemployment (Feb.), Turkey consumer confidence (March).

Friday, March 24

● St. Louis Fed President James Bullard will speak to the Economic Club of Memphis. In Memphis, Tennessee from 19:30 local time (20:30 EDT).
● CENTRAL BANKS: Russia rate decision with real-time coverage on the TOPLive blog. Colombia rate decision.
● ECONOMY: U.S. durable goods orders (Feb.), Canada CPI (Feb.), U.S. Markit manufacturing PMI (March prelim.), Brazil current account balance (Feb.), Mexico retail sales (Jan.), New Zealand trade balance (Feb.), Malaysia CPI (Feb.), Vietnam CPI (March), Markit euro-zone manufacturing, services PMI (March), Markit/BME Germany manufacturing PMI (March), France GDP (4Q) and Markit manufacturing PMI (March).
U. Michigan Consumer Sentiment

Richard Curtin, Director of the University of Michigan Surveys of Consumers, spoke with Bloomberg Intelligence chief U.S. economist Carl Riccadonna following the release of the preliminary March consumer sentiment survey.

Q: Is the extreme nature of the partisan divide telling us we need to interpret the message from the sentiment index and sub-indices differently than we have in the past?
A: I think it is certainly true that this polarization has affected consumer behavior. Even Republicans recognize that there’s lots of uncertainty about what economic policies will be passed and what the regulations will be. And that’s why I emphasized that we have this unusual situation where we have a rise in optimism and a rise in uncertainty.

The index that we favor, we would always describe it as ranging from optimism and confidence to pessimism and uncertainty. And so the optimism and confidence went together and the pessimism and uncertainty went together, and that was the dimension.

Now we have optimism and uncertainty. And so I certainly think it will affect consumer spending. But I also expect that this is not a stable situation, and it will resolve one way or another. And that could lead to more volatility in domestic spending over the course of the next year or so.

Q: Do you have an overall sense of what consumers are most focused on?
A: The two big issues in the recent surveys are employment or unemployment and government policies. The partisan divide in both of those was very sharp. And that is one reason why I think you could argue that this divide will continue, because when you look at the news that people are hearing, it appears that they are focusing on the news sources that are self-serving. The Republicans report much more positive news about the economy, about jobs and government policies, and Democrats report hearing much more negative news about those same two topics.

Q: How do you reconcile what consumers are seeing on the inflation front versus monetary policy makers?
A: Well, consumers expect a 2.2 percent annual inflation rate over the long term, and that would certainly technically be consistent with what the Fed sees as their inflation rate rising towards that 2 percent target. But the recent low, I think consumers are saying they don’t see any problem with most forms of rising prices. They expect them to remain rather steady at around 2 percent. But they are now making more distinctions about what prices you’re talking about.

This more nuanced assessment of price changes I think is new. And it is likely to develop more significantly over the months and years ahead, so that consumers’ inflation expectations or the summary is no longer useful for predicting behavior across all products and all situations, but they’re making these differences depending on the product or how much import prices affect and how much asset prices affect.

When you look at the vehicle market, we don’t see any of this concern about rising prices. The vehicle market has escaped that, largely because they can control their selling price through incentives and so forth. This is not totally inconsistent, but what’s more troublesome, even to the Fed, is that they have to start making their policy more subject.

Q: Is there anything in the sentiment details here that troubles you to think that maybe it’s more than just a growth blip in the first quarter, but a bigger problem of a longer weak patch?
A: I don’t think so. I must say, I agree with [Fed Chair Janet] Yellen’s comment that the first quarter is simply noise. But I would hasten to add that it’s going to be more noisy as we go forward, and we’ll see some great months and some awful months because of this uncertainty that we have baked into this partisan divide.

And so I don’t disagree that people are simply hesitant to spend, given they know very little about what the details of the policies that [President Donald] Trump will advance to Congress or what regulations he will actually change. But I don’t think that will clear up any time soon.

This interview has been edited and condensed.