

Oil Jumps; Jobs Slump; More Fiscal Help Coming

IN REVIEW

- **U.S. weekly mortgage applications** rose 15.3% for the week ended March 28, as a drop in mortgage rates aided by Fed MBS purchases boosted refinancing. Purchase applications fell 10.3%, as housing demand remains weak.
- **Initial claims** doubled the prior week's record-high level to 6.648 million in the week ended March 28, totaling over 10 million in March.
- The **ADP employment report** noted the first decline in private payrolls since hurricanes in 2017, down 27,000 in March. Small business jobs fell the most since 2009, while mid-size and large businesses added workers. Losses appear less striking than layoffs due to the timing data is collected.
- The **ISM manufacturing index** slid from 50.1 to 49.1 in March, artificially boosted by longer supplier delivery times due to supply chain disruptions. Manufacturing is set to weaken as the virus spreads in the U.S.
- **EZ CPI** decelerated from 1.2% Y/Y to 0.7% Y/Y in March according to the preliminary estimate, driven by energy. Softness in prices will likely intensify as demand is restrained.
- The **PBOC** cut the 7-day repo rate from 2.4% to 2.2%—the largest cut since 2015—when it injected 50 billion yuan (USD \$7.1 billion) into the banking system.
- **South Korea trade** was weaker than expected. Exports slid 0.2% Y/Y while imports fell 0.3% Y/Y in March. Trade data is likely to worsen amid the pandemic.

WATCH LIST

Date		Consensus	Previous
U.S.			
Tue 4/7	JOLTS Job Openings		6963
Wed 4/8	MBA Mortgage Applications		15.3%
Wed 4/8	FOMC Meeting Minutes	--	--
Thu 4/9	Producer Price Index	-0.3% M/M	▲ -0.6% M/M
Thu 4/9	Initial Claims		6648k
Thu 4/9	U Mich. Sentiment (Prelim)	82.0	▼ 89.1
Fri 4/10	Consumer Price Index	-0.3% M/M	▼ 0.1% M/M
Europe			
Mon 4/6	EZ Sentix Investor Confidence		-17.1
Tue 4/7	Germany Industrial Production	-0.8% M/M	▼ 3.0% M/M
Tue 4/7	Italy Retail Sales		0.0% M/M
Asia Pacific			
Fri 4/10	China Producer Price Index	-1.1% Y/Y	▼ -0.4% Y/Y
Fri 4/10	China Consumer Price Index	4.9% Y/Y	▼ 5.2% Y/Y
Fri 4/10	Japan Producer Price Index	-0.7% M/M	▼ -0.4% M/M

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- **Continuing claims** are likely to spike amid record filings and as individuals receive unemployment insurance. States continue working through a backlog of initial claims and volumes remain high as the CARES Act expanded those who qualify for unemployment insurance.
- **Job openings** will likely understate the pause in hiring across the U.S., as the data is for February. Openings are likely to drop off in March in the midst of what resembles a nation-wide hiring freeze, outside of grocery stores and food and consumer product delivery positions.

Europe

- **Italy announced it is working on a second fiscal package**, expected to be larger than the first fiscal stimulus bill worth €25 billion (with €340 billion of loans and guarantees, for a total of 20% GDP). It is expected to prolong measures of the first bill by six months, extend wage support to less-protected workers, and launch a public infrastructure plan focused on areas such as health care and digitalization.
- Real-time **consumer spending indicators**, such as high street foot traffic and restaurant bookings, are set to show continued weakness in consumer-facing sectors.

Asia Pacific

- **Japan is set to announce a record-breaking fiscal stimulus bill.** As the number for COVID-19 cases rises in Japan, more social distancing measures or lockdowns may be announced, which would significantly hurt the economy.

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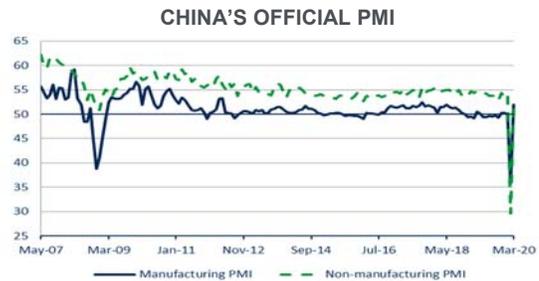
THE HIGHLIGHTS

Initial Claims Keep Climbing

Initial claims for unemployment insurance benefits skyrocketed W/E March 28, doubling the previous week's record. Initial claims rose from an upwardly revised 3.307 million to 6.648 million—totaling over 10 million in March. While accommodation and food services led losses, other industries joined the fray, notably retail and wholesale trade and construction. Continuing claims jumped 1.245 million to 3.029 million for W/E March 21, the most since July 2013. Continuing claims will rise as states manage backlogs, layoffs persist and more individuals become eligible under the CARES Act. As previously noted, new filings will be more-accurately reflected in the April Employment Report, given timing of data collection; expect a U.S. record-setting jump in next month's report. Job cut announcements surged 292% M/M in March, according to Challenger, Gray & Christmas, and excludes hundreds of thousands of furloughed workers. Entertainment/leisure led all sectors, followed by the service industry—including food service vendors—and retailers, though retailers announced the largest hiring plans. Challenger noted that there was a jump in hiring plans among grocers, food delivery services, and consumer products delivery services.

Is China's Recovery Too Good to be True?

China will give the first hints at what share our recovery will take, be it a V, U, L or another fancy shape—every economist's current debate, as all eyes turn to China's PMI numbers. China's official and Caixin PMIs both showed stabilization in March; China's official manufacturing PMI rose from 35.7 to 52 while the non-manufacturing PMI jumped from 29.6 to 52.3. A PMI above 50 means companies saw a sliver more activity than last month (50 would signal continued deterioration). These increases provided a sign of hope as the world looks to China as a possible guide for recovery, but its path forward is not clear. The PMI print details showed that new export orders—though rising from 28.7 to 46.4—remained in contractionary territory. As the virus spreads through Europe and the U.S., weaker global demand will weigh on China's export-dependent economy and recovery. Other high-frequency data shows there is still room to run. Pollution in Tier-1 cities remains 30% below average levels, and coal consumption—though rising—remains below levels in recent years.



Source: Bloomberg. As of April 2, 2020.

Markets Update

Outlook remains uncertain in the weeks since markets rebounded from lows and volatility muted. The recent equity rally, while a welcome relief, was led by defensive sectors and coincided with still-depressed oil prices, U.S. Treasury yields continuing to drop and the U.S. dollar still elevated. This is usually not the formula needed to say that we are past the worst of the rout. Caution is needed going forward, given these signals.

Policy

Removing Fees: U.K. Chancellor of the Exchequer Rishi Sunak waived import duties and value-added tax on vital medical equipment amid tensions surrounding National Health Service capacities. The measure removes tariffs up to 12% of the value of ventilators, protective clothing, virus tests and other gear from outside the EU.

Asia: The virus, which emerged in Asia and spread to the West, is at risk of a second wave. Following a recent uptick in cases tied to international travelers, China, Hong Kong, Singapore and Taiwan barred foreigners from entry this week. Japan's cases, where infections have remained relatively controlled, started to rise last month in Tokyo as overseas travelers returned. The country barred visitors from most of Europe and moved to deny entry to travelers from 49 more countries, the U.S. among them. South Korea, after an early peak in infections, initially required some arriving travelers to quarantine for 14 days upon arrival; it expanded the list this week to cover the entire world. Hong Kong, which had reported single-digit new cases daily, suddenly saw this spike as high as 65 in one day.

OPEC: Agreed production limits by OPEC and its allies ended this week. President Trump tweeted that he expects Saudi Arabia and Russia to cut oil production by 10-15 million barrels. At 10 million BPD this would equate to ~45% of their production. Oil prices surged ~25% on the news.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	-150 bps	-150 bps	-175 bps	-225 bps	-150 bps
U.S. SOFR	0.01%	0 bps	-159 bps	-154 bps	-187 bps	-245 bps	-154 bps
3 Month USD Libor	1.44%	17 bps	-3 bps	-47 bps	-65 bps	-116 bps	-47 bps
3 Month Euribor	-0.34%	3 bps	8 bps	4 bps	9 bps	-3 bps	4 bps
3 Month U.S. T-Bill	0.09%	12 bps	-118 bps	-146 bps	-171 bps	-229 bps	-146 bps
2-Year U.S. Treasury	0.22%	-9 bps	-67 bps	-136 bps	-133 bps	-210 bps	-136 bps
10-Year U.S. Treasury	0.62%	-21 bps	-52 bps	-129 bps	-102 bps	-187 bps	-129 bps
10-Year German Bund	-0.47%	-16 bps	14 bps	-28 bps	8 bps	-42 bps	-28 bps
10-Year U.K. Gilt	0.31%	-11 bps	-11 bps	-51 bps	-17 bps	-78 bps	-51 bps
10-Year JGB	0.01%	-3 bps	14 bps	3 bps	17 bps	9 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.56%	N/A	1.2%	3.3%	8.6%	14.2%	8.6%
Barclays Capital U.S. TIPS	0.84%	N/A	0.1%	-1.1%	2.4%	7.9%	2.4%
Barclays Capital U.S. Aggregate	1.61%	99	1.5%	-0.5%	3.3%	9.5%	3.3%
Barclays Capital Global Aggregate	1.23%	84	2.3%	-2.1%	-0.2%	4.6%	-0.2%
Barclays Capital U.S. ABS	2.15%	190	2.4%	-1.6%	0.2%	3.3%	0.2%
Barclays Capital U.S. MBS	1.41%	69	0.0%	1.1%	2.8%	7.3%	2.8%
Barclays Capital U.S. Corporate Investment Grade	3.46%	278	3.9%	-7.3%	-3.8%	5.2%	-3.8%
BAML Euro Corporate Investment Grade	1.81%	238	1.1%	-6.8%	-6.1%	-3.4%	-6.1%
Barclays Capital U.S. Corporate High Yield	9.73%	909	4.9%	-12.4%	-13.6%	-8.1%	-13.6%
BAML European Currency High Yield Non-Financial	7.38%	784	2.8%	-12.8%	-14.5%	-10.3%	-14.5%
CS U.S. Leveraged Loans	10.50%	995	5.6%	-12.8%	-13.6%	-10.1%	-13.5%
CS Western European Leveraged Loans Non-USD	9.98%	982	3.8%	-14.3%	-14.5%	-12.1%	-14.5%
JPM CEMBI Broad Diversified	6.62%	606	1.5%	-11.7%	-10.4%	-3.8%	-10.4%
JPM EMBI Global Diversified	7.18%	648	0.4%	-14.8%	-14.4%	-8.0%	-14.4%
JPM GBI-EM Global Diversified	5.44%	N/A	0.3%	-12.4%	-16.5%	-8.4%	-16.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,470.50	2.33%	-0.2%	-16.2%	-23.1%	-12.1%	-23.1%
Euro STOXX 600 (Local)	310.77	2.97%	-0.8%	-17.3%	-25.3%	-19.0%	-25.3%
U.K. FTSE 100 (Local)	5,454.57	6.02%	-4.1%	-17.1%	-27.7%	-25.5%	-27.7%
Japan Nikkei 225 (Local)	18,065.41	2.38%	-7.6%	-14.6%	-23.6%	-16.0%	-23.6%
China Shanghai Composite (Local)	2,734.52	2.43%	-1.7%	-5.1%	-10.3%	-13.7%	-10.3%
MSCI AC World (Local)	426.00	3.06%	-0.9%	-16.0%	-22.8%	-13.9%	-22.8%
MSCI Emerging Markets (Local)	827.26	3.31%	-0.8%	-14.8%	-20.7%	-15.4%	-20.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	247.12	-9.6%	-31.1%	-43.3%	-38.6%	-43.8%	-43.3%
WTI Crude (\$/bbl)	20.31	-2.1%	-54.7%	-66.8%	-62.1%	-67.0%	-66.8%
Copper (\$/lb)	2.19	-1.9%	-13.9%	-21.5%	-14.1%	-24.9%	-21.5%
Gold (\$/oz)	1,576.55	-1.8%	-2.1%	4.1%	7.0%	21.9%	4.1%
U.S. Dollar Index	99.67	-1.4%	1.6%	3.4%	0.5%	2.5%	3.4%
Euro (USD/EUR)	1.09	0.8%	-0.6%	-2.7%	0.1%	-2.6%	-2.7%
British Pound (USD/GBP)	1.24	5.7%	-2.7%	-6.2%	1.6%	-5.5%	-6.2%
Japanese Yen (Yen/USD)	107.12	-3.9%	-0.7%	-1.4%	-0.7%	-3.7%	-1.4%
Chinese Yuan (CNY/USD)	7.11	0.1%	1.7%	2.0%	-0.5%	5.9%	2.0%

Source: FactSet and Bloomberg, As of April 2, 2020.

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