

## The ECB Put a Lot of PEPP in Their Step

### IN REVIEW

- **U.S. personal income** rose 10.5% M/M in April while **personal spending** sank 13.6% M/M, leading the **savings rate** to jump to 33%.
- The **core PCE deflator** fell 0.4% M/M in April and decelerated from 1.7% Y/Y in March to 1% Y/Y.
- **Initial claims** slid 249,000 to 1.877 million in W/E May 30. Continuing claims rose 649,000 to 21.487 million in W/E May 23.
- **U.S. weekly home purchase applications** rose 5.3% in W/E May 29, the highest since January.
- **ISM indices** improved modestly in May but remain in contractionary territory. The **manufacturing index** rose 1.6 points to 43.1, as activity decreased less than in April. The **non-manufacturing index** rose 3.6 points to 45.4, led by a 15-point rise in the business activity index, while employment was weak.
- **EZ retail sales** fell 11.7% M/M in April. Declines were broad-based, but southern Europe was hit harder.
- **EZ unemployment rate** rose from 7.1% to 7.3% in April, softened by furloughs and unemployment classifications due to lockdowns.
- **China's official manufacturing PMI** was in expansion but slid from 50.8 to 50.6 in May, weighed down by weak global demand. The **non-manufacturing PMI** rose from 53.2 to 53.6, aided by construction. The **Caixin manufacturing PMI** edged up from 49.4 to 50.7 while the **services PMI** rose from 44.4 to 55.
- **Japan vehicle sales** sank 40.2% Y/Y in May, amid country-wide lockdowns.

### WATCH LIST

Date		Consensus		Previous
<b>U.S.</b>				
Tue 6/9	NFIB Small Business Optimism	91.5	▲	90.9
Tue 6/9	JOLTS Job Openings			6191
Wed 6/10	MBA Mortgage Applications			-3.9%
Wed 6/10	Consumer Price Index	0.0% M/M	▲	-0.8% M/M
Wed 6/10	FOMC Meeting	0%-0.25%	■	0%-0.25%
Thu 6/11	Producer Price Index	0.1% M/M	▲	-1.3% M/M
Thu 6/11	Initial Claims			1877k
Fri 6/12	Import Prices	0.8% M/M	▲	-2.6% M/M
Fri 6/12	U Mich. Sentiment (Prelim)	76.0	▲	72.3
<b>Europe</b>				
Mon 6/8	EZ Sentix Investor Confidence			-41.8
Wed 6/10	OECD Economic Outlook	--		--
Thu 6/11	Eurogroup Meeting	--		--
Fri 6/12	U.K. Industrial Production	-13.9% M/M	▼	-4.2% M/M
Fri 6/12	EZ Industrial Production	-20.0% M/M	▼	-11.3% M/M
<b>Asia Pacific</b>				
Sun 6/7	China Exports	-6.5% Y/Y	▼	3.5% Y/Y
Sun 6/7	China Imports	-7.8% Y/Y	▲	-14.2% Y/Y
Tue 6/9	Japan Machine Tool Orders (Prelim)			-48.3% Y/Y
Wed 6/10	China Producer Price Index	-3.2% Y/Y	▼	-3.1% Y/Y
Wed 6/10	China Consumer Price Index	2.6% Y/Y	▼	3.3% Y/Y
Wed 6/10	Japan Producer Price Index	-2.5% Y/Y	▼	-2.3% Y/Y

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

### U.S.

- While the June **FOMC meeting** on Wednesday will not likely bring about a change in the Fed Funds rate, we watch for the Committee's economic projections, the dot pot, as well as whether or not they strengthen forward guidance.
- **Inflation data** is expected to come in soft in May amid weak demand. However, we look to the details, as consumers' baskets have shifted during lockdowns.

### Europe

- The **Eurogroup meeting** will see euro area finance ministers discuss the proposed Recovery Fund. Don't expect a quick decision—negotiations should last into autumn.
- The **OECD economic outlook** will be released Wednesday, and downward revisions to global GDP growth from the interim March 2020 outlook are likely given the virus spread and economic data widely surprising to the downside.

### Asia Pacific

- **China inflation** is set to come in soft in May, while **exports** are expected to decline further in May amid weak global demand.

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## THE HIGHLIGHTS

### U.S. Personal Income, Spending & Savings

Despite lockdowns, U.S. personal income soared at a record pace of 10.5% M/M (or \$2 trillion) in April, contrary to the consensus expectation for a 5.9% decline. Stimulus checks and increased unemployment insurance boosted personal income by \$3 trillion, more than offsetting the \$1 trillion (or 8% M/M) decline in wages and a 12.2% M/M decline in proprietor income. The unemployment insurance component jumped 518% M/M and stimulus checks led to a 491% M/M rise in other government social benefits.

U.S. PERSONAL INCOME AND SPENDING, M/M%



Source: Bloomberg. As of June 4, 2020.

Personal spending plummeted by a record \$2 trillion, or 13.6% M/M, in April. The decline was broad-based across industries in goods and services. The large jump in income and drop in spending led the savings rate to rise a staggering \$4 trillion, to 33%—almost double its prior peak in 1975. While the savings rate will likely decline in the coming months, the jump suggests consumers will be more timid about spending as restrictions ease.

### ECB Meeting

As expected, the ECB left interest rates unchanged and focused on non-standard measures, expanding its pandemic-related bond-buying program by €600 billion, bringing the total envelope to €1.35 trillion. Even if only €234 billion of €750 billion available under the purchase program was used, the ECB wanted to assure markets that euro area government funding is secure. Markets took note: EU bonds rallied, particularly the so-called EU periphery.

### Policy

**U.S. Stimulus:** White House officials may propose reducing enhanced unemployment benefits to \$250–300/week in H2 (from \$600/week, expiring in July) and are considering salary-based limits. The administration is also weighing a tourism tax deduction or credit to encourage vacation spending and additional aid for states facing shortfalls due to COVID-19 expenses. Democrats and Republicans continue debating the next stimulus round; while the market has expected a compromise, it may not be finalized until July. Meanwhile, there seems to be bipartisan agreement around Congress easing restrictions related to the Paycheck Protection Program.

**China:** State-owned traders Cofco and Sinograin were ordered to suspend purchases, and Chinese buyers have canceled a number of U.S. pork orders. Private companies have not been told to halt imports. State-owned Chinese firms bought at least three cargoes of U.S. soybeans, totaling 180,000 tons, even though Beijing ordered a halt after President Trump said the U.S. would end special treatment for Hong Kong. Chinese state purchases of U.S. corn and cotton were also put on hold.

**Stimulus: Germany** announced a second stimulus package of €130 billion. The main measures are a deep cut in VAT and transfers to households with children. **South Korea** unveiled a ₩35.3 trillion (\$28.8 billion) supplementary budget, raising the total stimulus to ₩270 trillion (about 14% of GDP). The latest budget directs spending to protect jobs, vaccine progress and discount coupons to boost consumption. More loans will be made to small- to medium-sized businesses hit by slumping sales. There are also signs that emerging-market central banks are looking more at quantitative easing after a round of rate cuts. **Saudi Arabia** announced it will pump \$13 billion into the country's banks to recover from the lockdown and plunging oil prices.

**E.U. Tax:** The single market tax proposal could affect 70,000 companies with global revenue exceeding €750 million and amount to a 0.2% of revenue payment. The proposal is one of several levies that could help repay the virus recovery plan; the tax would take effect in 2024 or later. Around €10 billion could be raised without excessively weighing on any individual firm. A plastics tax or a carbon footprint tax on imports could also be levied.

**OPEC** and its non-cartel allies announced extensions to current output cuts, now slated for 9.7 million bpd in May and June as Saudi Arabia and Russia agreed to another month of crude output cuts. The OPEC+ meeting was moved to June 4 but the group faced noncompliance by members including Iraq and Nigeria, which delayed talks, and a collaborative effort may not begin until the compliance issues are resolved. Further cuts will likely be determined on a monthly basis going forward.

**Travel Bans:** The U.S. plans to bar Chinese airlines from flying to the United States starting June 16, pressuring Beijing to allow U.S. carriers to resume flights. The move is intended to penalize China after Beijing failed to comply with an existing agreement on flights between the two countries. The U.S. will reconsider the action if China allows U.S. carriers to fly to China. China eased restrictions, allowing 50–150 international flights per week into the mainland.

**Brexit:** The deadline to extend a transition period beyond 2020 is June 30. The EU demands the trade deal include minimum standards in employment, environment and competition law to maintain a level-playing field. The two sides have started mapping out a deal as they work out which positions leave room for maneuvering. Britain will default to trading with the bloc on terms set by the World Trade Organization if an agreement cannot be reached by year-end, leaving businesses and consumers grappling with the return of tariffs and quotas on roughly 50% of British exports to the EU.

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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	0 bps	-150 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.06%	0 bps	3 bps	-158 bps	-149 bps	-234 bps	-149 bps
3 Month USD Libor	0.33%	-4 bps	-21 bps	-99 bps	-156 bps	-215 bps	-158 bps
3 Month Euribor	-0.34%	-6 bps	-7 bps	12 bps	6 bps	-2 bps	4 bps
3 Month U.S. T-Bill	0.16%	1 bps	5 bps	-76 bps	-141 bps	-217 bps	-139 bps
2-Year U.S. Treasury	0.19%	2 bps	0 bps	-52 bps	-135 bps	-163 bps	-138 bps
10-Year U.S. Treasury	0.76%	9 bps	13 bps	-24 bps	-95 bps	-132 bps	-116 bps
10-Year German Bund	-0.37%	5 bps	23 bps	25 bps	-3 bps	-16 bps	-18 bps
10-Year U.K. Gilt	0.27%	7 bps	2 bps	-11 bps	-42 bps	-69 bps	-55 bps
10-Year JGB	0.01%	1 bps	4 bps	12 bps	4 bps	11 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.59%	N/A	-0.6%	-0.9%	1.9%	10.1%	7.8%
Barclays Capital U.S. TIPS	0.79%	N/A	-0.1%	0.2%	0.2%	7.2%	4.5%
Barclays Capital U.S. Aggregate	1.38%	70	0.0%	0.3%	1.0%	8.8%	5.2%
Barclays Capital Global Aggregate	1.05%	61	0.7%	0.5%	-0.7%	5.2%	2.1%
Barclays Capital U.S. ABS	1.21%	98	0.3%	1.2%	0.2%	4.0%	2.4%
Barclays Capital U.S. MBS	1.44%	65	0.0%	0.1%	1.7%	6.3%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.35%	160	0.7%	2.1%	-1.0%	9.9%	3.2%
BAML Euro Corporate Investment Grade	1.04%	153	0.6%	0.4%	-3.2%	0.0%	-2.3%
Barclays Capital U.S. Corporate High Yield	6.27%	562	2.4%	6.6%	-2.4%	3.4%	-2.9%
BAML European Currency High Yield Non-Financial	5.09%	550	2.0%	4.3%	-4.3%	-0.3%	-5.3%
CS U.S. Leveraged Loans	7.26%	696	1.6%	5.1%	-4.5%	-2.5%	-5.1%
CS Western European Leveraged Loans Non-USD	6.32%	623	2.1%	4.1%	-3.7%	-2.3%	-4.1%
JPM CEMBI Broad Diversified	5.23%	458	1.2%	4.9%	-4.3%	3.9%	-2.0%
JPM EMBI Global Diversified	5.67%	478	1.7%	8.0%	-6.7%	1.9%	-4.2%
JPM GBI-EM Global Diversified	4.50%	N/A	3.8%	9.7%	-2.7%	4.5%	-4.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,122.87	1.85%	2.9%	10.6%	4.5%	16.1%	-2.5%
Euro STOXX 600 (Local)	368.92	2.30%	5.5%	9.3%	-3.2%	-0.4%	-11.3%
U.K. FTSE 100 (Local)	6,382.41	4.72%	3.9%	10.7%	-5.0%	-11.2%	-15.4%
Japan Nikkei 225 (Local)	22,613.76	2.22%	5.6%	15.3%	7.3%	10.8%	-4.4%
China Shanghai Composite (Local)	2,923.37	2.29%	3.1%	2.2%	-2.3%	1.2%	-4.2%
MSCI AC World (Local)	528.80	2.32%	3.7%	10.2%	-0.4%	8.9%	-4.6%
MSCI Emerging Markets (Local)	988.02	2.75%	5.4%	6.3%	-2.4%	4.3%	-6.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	313.91	5.6%	22.4%	-15.4%	-23.6%	-22.5%	-28.0%
WTI Crude (\$/bbl)	37.29	13.7%	89.1%	-21.1%	-33.6%	-30.0%	-39.0%
Copper (\$/lb)	2.50	3.9%	7.7%	-3.2%	-4.3%	-6.0%	-10.6%
Gold (\$/oz)	1,705.35	0.6%	1.1%	5.6%	15.4%	29.5%	12.6%
U.S. Dollar Index	97.28	-1.8%	-1.8%	0.1%	-0.5%	0.1%	0.9%
Euro (USD/EUR)	1.12	2.2%	1.9%	0.4%	1.2%	0.2%	0.0%
British Pound (USD/GBP)	1.26	3.1%	0.4%	-1.7%	-3.1%	-0.3%	-4.9%
Japanese Yen (Yen/USD)	108.83	0.9%	1.8%	1.2%	0.3%	0.4%	0.1%
Chinese Yuan (CNY/USD)	7.11	-0.6%	0.8%	1.8%	0.9%	2.9%	2.1%

Source: FactSet and Bloomberg. As of June 3, 2020.

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