

No Liftoff on the Horizon

IN REVIEW

- **U.S. nonfarm payrolls** surprised to the upside, rising 2.5 million in May, while the **unemployment rate** slid from 14.7% to 13.3%.
- **NFIB small business optimism** rose from 90.9 to 94.4 in May amid better business conditions views but remains below pre-COVID levels.
- **Initial claims** slid 355,000 to 1.542 million in W/E June 6. Continuing claims fell 339,000 to 20.929 million in W/E May 30.
- **U.S. weekly home purchase applications** rose 5.3% in W/E June 5, passing pre-COVID levels.
- **U.S. CPI** fell for a third month, down 0.1% M/M in May as weaker energy, vehicle insurance, and apparel prices offset rises in food and shelter. Core CPI eased from 1.4% Y/Y to 1.2% Y/Y. **PPI** rose 0.4% M/M amid higher food and energy prices, as services slid 0.2%.
- **Euro area Q1 GDP** fell 3.6% Q/Q in the first quarter, according to the final estimate, a touch better than the previous estimate of -3.8% Q/Q.
- **Euro area Sentix Investor Confidence** improved in June as investor expectations rose from -3 to 21.8.
- **German factory orders** were worse than expected, falling 25.8% M/M in April, but this should be the trough as restrictions lift.
- **China exports** slid 3.3% Y/Y amid weak external demand. **Imports** fell 16.7% Y/Y due to lower prices.
- **China inflation** weakened in May, giving the PBOC wherewithal to cut rates further. **CPI** slowed from 3.3% Y/Y to 2.4% Y/Y. **PPI** fell 3.7% Y/Y.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 6/15	Empire Manufacturing	-28.8	▲	-48.5
Tue 6/16	Retail Sales	7.8% M/M	▲	-16.4% M/M
Tue 6/16	Industrial Production	2.8% M/M	▲	-11.2% M/M
Tue 6/16	NAHB Housing Market Index	45	▲	37
Wed 6/17	MBA Mortgage Applications			9.3%
Wed 6/17	Housing Starts	1100k	▲	891k
Wed 6/17	Building Permits	1225k	▲	1074k
Thu 6/18	Philadelphia Fed Manufacturing Survey	-27.5	▲	-43.1
Thu 6/18	Initial Claims			1542k
Europe				
Tue 6/16	German ZEW Survey Expectations	56.0	▲	51.0
Tue 6/16	U.K. Jobless Claims Change			856.6k
Tue 6/16	U.K. Unemployment Rate	4.5%	▲	3.9%
Wed 6/17	U.K. CPI	0.6% Y/Y	▼	0.8% Y/Y
Thu 6/18	BoE Bank Rate	0.1%	—	0.1%
Thu 6/18	ECB Economic Bulletin	--		--
Fri 6/19	U.K. Retail Sales	2.0% M/M	▲	-15.2% M/M
Asia Pacific				
Mon 6/15	China Industrial Production (YTD)	-3.0% Y/Y	▲	-4.9% Y/Y
Mon 6/15	China Retail Sales (YTD)	-13.5% Y/Y	▲	-16.2% Y/Y
Mon 6/15	China Property Investment (YTD)	-0.8% Y/Y	▲	-3.3% Y/Y
Mon 6/15	China Fixed Assets ex Rural (YTD)	-6.0% Y/Y	▲	-10.3% Y/Y
Tue 6/16	BOJ Policy Balance Rate			-0.1%
Fri 6/19	Japan Consumer Price Index	0.2% Y/Y	▲	0.1% Y/Y

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

U.S.

- **Retail sales** are set to show improvement in May. Higher frequency credit and debit card data showed meaningful rises in spending over the month, aided heavily by stimulus check and unemployment insurance—particularly among the lower-income cohorts.
- Though remaining at low levels, **manufacturing data** is set to improve from April lows as restrictions ease and domestic demand improves.

Europe

- The MPC may expand the Asset Purchase Facility at the **BOE meeting** on June 17, though will likely refrain from cutting rates at this month's meeting.

Asia Pacific

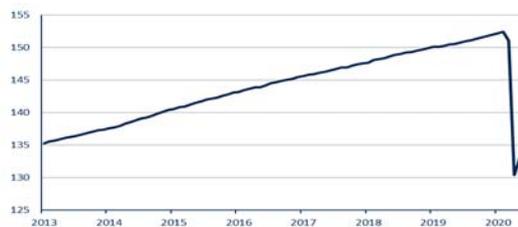
- The **BOJ** will assess the impacts of the measures already implemented at their two-day meeting ending on June 16, though they are expected to keep rates unchanged.
- **China activity data** is set to improve further in May as domestic demand strengthens.

THE HIGHLIGHTS

U.S. Employment Report Leads to Cautious Optimism

The U.S. Employment Report blew expectations out of the water in May. Contrary to the consensus forecast for a 7.5 million decline, nonfarm payrolls rose 2.5 million over the month, and the unemployment rate slid from 14.7% to 13.3%, supported by reopening measures and PPP payments. Nuances understate the pain, though, as the number of unemployed in May was less than those receiving unemployment insurance (and new regulations permit benefits without looking for a job—classifying them as out of the labor force). Moreover, the Household Survey response rate was 15 percentage points lower than pre-COVID levels, misclassifications continued to weigh on the unemployment rate, and new BLS estimation techniques will lead data to be noisy in coming weeks and months and raises chances of large revisions.

U.S. NONFARM PAYROLLS, MILLIONS



Source: Bloomberg. As of June 11, 2020.

In May, the number of permanently unemployed increased—suggesting more lasting damage than was in the April report, which touted a record share of unemployed on temporary layoff. Despite uncertainty around the numbers, it appears we may have passed the nadir, barring another wave of COVID cases, though it is hard to imagine an unemployment rate below 10% at year-end.

FOMC Meeting

The Fed Funds rate is likely to remain at its zero-lower bound for several years. At the June FOMC meeting, no members signaled rate increases in 2020 and 2021, with only two members penciling in rate hikes in 2022, as they do not project inflation to hit their 2% target through 2022. Increased holdings of Treasury and Agency MBS at least at the current pace to maintain smooth market functioning were noted. The FOMC economic projections showed a 6.5% decline in GDP in 2020 followed by a 5% rebound in 2021—a sharper contraction and faster recovery than current consensus forecast. The projections also called for an unemployment rate of 9.3% in 2020, sliding to 6.5% in 2021, and 5.5% in 2022—a touch better than consensus.

Policy

U.S. Stimulus: For Monetary, the Fed announced it would expand its upcoming Main Street Lending Program to allow more small- and mid-sized businesses to receive support. Changes include: lowering minimum loan amounts to \$250K from \$500K, increasing maximum loans for all facilities, increasing loan term options to five years (from four), extending repayment

periods to two years (from one), raising the Fed's participation to 95% for all loans. For fiscal, Republicans have pushed back on a big stimulus package and do not plan to discuss a relief bill until July. Senate Republicans and the White House seem focused on the \$1T range, well below the ~\$3T package passed by House Democrats. Republicans do not support another round of \$1,200 stimulus checks or an extension of the \$600-per-week of additional unemployment benefits. Treasury Secretary Steven Mnuchin supported the idea of additional fiscal stimulus to put more money into the economy, targeting travel, retail, leisure and other small businesses reopening.

China Tension: Boris Johnson is preparing to announce laws to prevent foreign takeovers that pose a risk to national security, a response to growing China concerns. Downing Street is pressing to make it mandatory for British companies to report attempted takeovers that could give rise to security risks, backed by the threat of criminal sanctions. Mark Tucker, HSBC's chairman, claimed the bank could face reprisals in China if Huawei cannot sell equipment for Britain's next generation of mobile networks. President Donald Trump ordered U.S. regulators to tighten scrutiny of New York-listed Chinese companies in the next 60 days. Chinese tech companies are tapping Hong Kong for secondary listings after the U.S. Senate last month approved a bill requiring U.S.-listed foreign companies to disclose levels of government control. It would also require Chinese companies to comply with U.S. oversight of their audits or face being delisted. With more than 550 Chinese firms listed on U.S. stock exchanges, enquiries about U.S. listings have halved this year compared to 2019 levels. This may make it harder for U.S. investors to capture the benefits of growth in China. Despite worsening rhetoric, China continued to buy American soybeans this week. China pledged to buy \$36.5B in American agricultural goods in 2020 and has purchased \$4.65B so far.

U.S. Election: Trump's re-election chances fell with NBER's determination the U.S. economy entered a recession in February, and unemployment could increase. Incumbents with a recession in the two years leading to re-election have been ousted, and every president with an unemployment increase in an election year has lost. If Trump can stabilize the country and the economy recovers, the race may become more competitive. Expect changes to healthcare reform and corporate tax structures if Democrats sweep.

Stimulus: Hong Kong's government announced a 5B USD COVID package for Cathay Pacific and will be issued HKD 19.5B of preference shares, HKD 1.95B of warrants, and provide a HKD 7.8B bridging loan. The pact includes a HKD 11.7B rights issue to shareholders, led by Swire Pacific and Air China.

Trade Deal: Britain began negotiating a post-Brexit trade agreement with Japan this week, which both sides hoped would take effect by end-of-year. Britain wanted a deal that builds on Japan's existing agreement with the EU, including areas such as digital trade. Japan was Britain's fourth-biggest non-EU trading partner in 2019, with total trade between the two countries of 31.4 billion pounds (39.9 billion USD). Britain is negotiating free trade deals around the world, including last month's formal negotiations with the U.S.

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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	-100 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.07%	1 bps	1 bps	-104 bps	-148 bps	-232 bps	-148 bps
3 Month USD Libor	0.32%	-1 bps	-12 bps	-47 bps	-157 bps	-212 bps	-159 bps
3 Month Euribor	-0.35%	-1 bps	-11 bps	13 bps	4 bps	-3 bps	3 bps
3 Month U.S. T-Bill	0.17%	1 bps	5 bps	-26 bps	-138 bps	-209 bps	-138 bps
2-Year U.S. Treasury	0.18%	-2 bps	3 bps	-31 bps	-148 bps	-172 bps	-140 bps
10-Year U.S. Treasury	0.75%	-1 bps	7 bps	-1 bps	-109 bps	-139 bps	-117 bps
10-Year German Bund	-0.34%	3 bps	20 bps	48 bps	-3 bps	-11 bps	-15 bps
10-Year U.K. Gilt	0.28%	1 bps	4 bps	7 bps	-51 bps	-61 bps	-54 bps
10-Year JGB	0.02%	1 bps	3 bps	8 bps	3 bps	15 bps	4 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	0.2%	-0.4%	0.5%	10.7%	8.0%
Barclays Capital U.S. TIPS	0.73%	N/A	0.8%	0.8%	3.0%	8.5%	5.3%
Barclays Capital U.S. Aggregate	1.30%	66	0.5%	1.1%	1.2%	9.5%	5.7%
Barclays Capital Global Aggregate	1.00%	58	0.9%	2.3%	-0.8%	5.7%	3.1%
Barclays Capital U.S. ABS	1.05%	85	0.4%	1.2%	0.4%	4.5%	2.8%
Barclays Capital U.S. MBS	1.32%	59	0.2%	0.1%	1.7%	6.6%	3.7%
Barclays Capital U.S. Corporate Investment Grade	2.23%	151	1.1%	4.3%	1.8%	11.0%	4.3%
BAML Euro Corporate Investment Grade	0.87%	136	0.9%	1.8%	-0.7%	0.4%	-1.4%
Barclays Capital U.S. Corporate High Yield	6.40%	574	0.9%	6.7%	3.1%	3.0%	-2.0%
BAML European Currency High Yield Non-Financial	4.84%	524	1.1%	6.2%	2.4%	-0.1%	-4.3%
CS U.S. Leveraged Loans	6.69%	640	1.8%	5.9%	1.3%	-1.0%	-3.5%
CS Western European Leveraged Loans Non-USD	5.91%	583	1.1%	4.2%	0.5%	-1.2%	-3.0%
JPM CEMBI Broad Diversified	4.99%	437	1.5%	5.7%	0.6%	4.9%	-0.5%
JPM EMBI Global Diversified	5.52%	466	1.2%	7.7%	1.5%	1.9%	-3.1%
JPM GBI-EM Global Diversified	4.61%	N/A	-0.2%	7.9%	2.6%	2.5%	-4.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,190.14	1.81%	2.2%	9.1%	11.3%	12.7%	-0.4%
Euro STOXX 600 (Local)	368.15	2.08%	-0.2%	7.9%	9.7%	-2.7%	-11.5%
U.K. FTSE 100 (Local)	6,329.13	4.76%	-0.8%	6.6%	6.2%	-14.2%	-16.1%
Japan Nikkei 225 (Local)	23,124.95	2.22%	2.3%	14.6%	16.4%	9.4%	-2.2%
China Shanghai Composite (Local)	2,943.75	2.30%	0.7%	1.7%	-1.8%	3.2%	-3.5%
MSCI AC World (Local)	539.76	2.28%	1.7%	9.2%	14.7%	7.6%	-3.0%
MSCI Emerging Markets (Local)	1,012.51	2.71%	1.9%	8.9%	7.8%	3.7%	-5.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	327.43	4.3%	17.7%	2.7%	-22.6%	-19.3%	-24.9%
WTI Crude (\$/bbl)	39.54	5.9%	59.9%	14.7%	-33.2%	-25.9%	-35.3%
Copper (\$/lb)	2.66	6.4%	10.3%	4.9%	-3.6%	-0.3%	-4.9%
Gold (\$/oz)	1,722.05	1.0%	1.1%	4.0%	17.6%	29.6%	13.7%
U.S. Dollar Index	95.96	-1.4%	-3.8%	-0.5%	-1.5%	-0.8%	-0.4%
Euro (USD/EUR)	1.14	1.2%	4.4%	0.1%	2.4%	0.3%	1.1%
British Pound (USD/GBP)	1.28	1.3%	2.4%	-1.4%	-3.1%	0.5%	-3.7%
Japanese Yen (Yen/USD)	107.25	-1.5%	0.8%	3.4%	-1.3%	-1.2%	-1.3%
Chinese Yuan (CNY/USD)	7.07	-0.6%	-0.2%	1.7%	0.4%	1.9%	1.5%

Source: FactSet and Bloomberg. As of June 10, 2020.

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*As of March 31, 2020

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