

There's More Than Huawei To Find Conflict With China

IN REVIEW

- **U.S. employment** rose 4.8 million in June, down 14.66 million from February. The **unemployment rate** slid from 13.3% to 11.1%.
- The **ISM manufacturing index** entered expansion, up 9.5 points to 52.6 in June, while the **non-manufacturing index** rose from 45.4 to 57.1. Activity rebounded, but employment was a weak spot.
- **Initial claims** slid 99,000 to 1.314 million in W/E July 4. Continuing claims fell 698,000 to 18.062 million in W/E June 27.
- Furlough schemes kept the **EA unemployment rate** relatively unchanged in May—ticking up from 7.3% in April to 7.4%, though it may rise as furlough schemes wind down.
- **EZ retail sales** rose 17.8% M/M in May as restrictions eased, but remain down 7.4% from February.
- Manufacturing is lagging services in Germany's export-dependent economy. **Factory orders** and **industrial production** underwhelmed, rising 15.4% M/M and 7.8% M/M in May, respectively.
- **China's Caixin and official PMIs** remained in expansion in June, amid recovery in China. Manufacturing is leading, but weak external demand remains a weight.
- **China CPI** rose slightly from 2.4% Y/Y in May to 2.5% Y/Y in June amid higher food prices. The **PPI** eased from -3.7% Y/Y to -3% Y/Y due to stronger commodity prices.
- **Japan household spending** sank 16.2% Y/Y in May, but is likely a bottom as spending showed signs of improvement at the end of May.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 7/14	NFIB Small Business Optimism	97.0	▲	94.4
Tue 7/14	Consumer Price Index	0.6% M/M	▲	-0.1% M/M
Wed 7/15	Empire Manufacturing	6.0	▲	-0.2
Wed 7/15	Industrial Production	4.6% M/M	▲	1.4% M/M
Wed 7/15	Beige Book	--		--
Thu 7/16	Initial Claims			1314k
Thu 7/16	Retail Sales	5.5% M/M	▼	17.7% M/M
Thu 7/16	Philly Fed Business Outlook	20.0	▼	27.5
Thu 7/16	NAHB Housing Market Index	60	▲	58
Fri 7/17	Housing Starts	1180k	▲	974k
Fri 7/17	Building Permits	1300k	▲	1220k
Fri 7/17	U Mich. Sentiment (Prelim)	80.0	▲	78.1
Europe				
Tue 7/14	EZ Industrial Production	8.1% M/M	▲	-17.1% M/M
Tue 7/14	Germany ZEW Survey Expectations	67.0	▲	63.4
Tue 7/14	U.K. Industrial Production	5.2% M/M	▲	-20.3% M/M
Tue 7/14	U.K. Consumer Price Index	0.0% M/M	-	0.0% M/M
Wed 7/15	ECB Monetary Policy Meeting	0.0%	-	0.0%
Thu 7/16	U.K. Unemployment Rate	4.0%	▲	3.9%
Fri 7/17	EZ Consumer Price Index	0.3% Y/Y	▲	0.1% Y/Y
Asia Pacific				
Tue 7/14	China Exports	-2.0% Y/Y	▲	-3.3% Y/Y
Wed 7/15	BOJ Policy Balance Rate			-0.1%
Thu 7/16	China Q2 GDP	2.5% Y/Y	▲	-6.8% Y/Y
Thu 7/16	China Industrial Production (YTD)	-1.5% Y/Y	▲	-2.8% Y/Y
Thu 7/16	China Retail Sales (YTD)	-11.0% Y/Y	▲	-13.5% Y/Y
Thu 7/16	China Property Investment (YTD)	1.0% Y/Y	▲	-0.3% Y/Y
Thu 7/16	China Fixed Assets ex Rural (YTD)	-3.4% Y/Y	▲	-6.3% Y/Y

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

U.S.

- **Retail sales** are expected to improve in June, but to a lesser degree than in May. Meanwhile, **housing data** should rise in June amid pent-up demand.

Europe

- The **ECB** will likely be in wait-and-see mode. The economic fallout and the impact of monetary measures need to be assessed further before the next moves are likely to be taken, but minor tweaks (to the reserve tiered system, for example) are possible.

Asia Pacific

- **China's 2Q GDP** is expected to rise, given timing of virus containment and reopening. Meanwhile, **activity data** should continue to improve in June.
- The **BOJ** will likely hold rates steady in July while they monitor current policy.

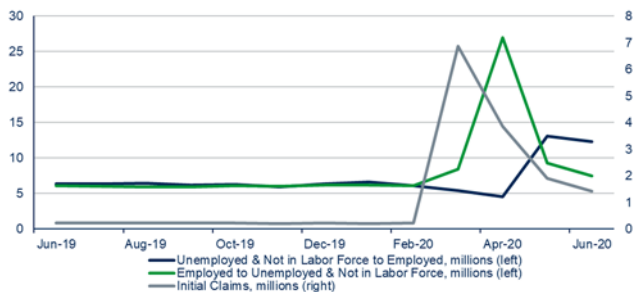
10 July 2020 / *The Week Ahead*

THE HIGHLIGHTS

U.S. Employment: Positive Beat But Wavering Outlook

U.S. employment surprised to the upside in June, rising 4.8 million. Gains were broad-based across industries, though leisure and hospitality led with payrolls up over 2 million. The unemployment rate slid from 13.3% in May to 11.1% in June, though misreporting understated the pain. There are signs of caution, as employment remains down 15 million from February. The June report did not account for new COVID hot spots. Higher-frequency data suggest easing at the end of June, and initial claims remain stubbornly high.

U.S. EMPLOYMENT



Source: Bloomberg and BLS. As of July 9, 2020.

Labor market flows data partially explain the perceived disconnect between the still-elevated initial claims data and the improving nonfarm payrolls figure. A net 7.5 million workers were separated from their jobs in June: 3.845 million workers went from employed to unemployed while 3.6 million moved out of the labor force. However, job losses were offset by 12 million becoming employed. This is important to monitor, because if hiring does not keep up, the employment picture could deteriorate given the still elevated level of job separations. The June report also showed increases in those permanently unemployed. The share of those unemployed noting permanent layoff rose from 11.1% in April to 20.9% in June, while the share on temporary layoffs fell from 78.3% in April to 59.5% in June. While some of the decline in temporary layoff may be those returning to work, the rising permanent layoffs suggests a slower decline in the unemployment rate over the months ahead.

European Commission Downgrade

The European Commission downgraded its summer economic forecast from spring estimates—expecting a sharper contraction in 2020 and a slower rebound in 2021—due to a more gradual lifting of lockdowns. The euro area is expected to contract 8.7% in 2020 (previously -7.7%) and rebound 6.1% in 2021. The European Commission noted differentiation by region, upwardly revising Germany's 2020 GDP forecast by two tenths of a percentage point, while downgrading France, Italy, and Spain's 2020 forecasts.

Federal Reserve Balance Sheet

The Fed's balance sheet has stabilized and even shrunk after topping out in June at \$7.2 trillion amid waning demand for emergency credit facilities. Repo

volumes dropped to zero this week for the first time since operations began. Emergency foreign swap lines rolled off significantly, while Treasury and bond purchases slowed. Purchase programs could scale back if liquidity improves.

Policy

Fiscal Stimulus: U.K. Chancellor Rishi Sunak said the latest fiscal measures will cost £30B, taking direct measures to around £189B, along with tax deferrals and approved loan support of £123B. The announcement includes a firm retention bonus of £1k per employee returning from furlough through January, a youth employment scheme (£2.1B), reduced VAT tax for hospitality (£4.1B), infrastructure investment of £5.6B and others, including a £1.57B package for arts, heritage and culture sectors. The bill will have £1.15B for cultural organizations in England delivered through a mix of grants and loans.

Hong Kong: Growing tensions over Hong Kong could lead to executive orders from the Trump administration on China, manufacturing, immigration and prescription drug prices. China won't rule out blocking Hong Kong citizens from leaving, while Facebook and Twitter stopped data requests from Hong Kong authorities amid fears China's new security law will criminalize anti-government protests. Talks of limiting Hong Kong banks buying U.S. dollars to punish China for undermining Hong Kong's dollar peg to the USD appear less likely, as it could punish Hong Kong more than the Mainland.

Tech: Beijing threatened consequences after U.K. PM Boris Johnson announced preparations to phase-out Huawei equipment in the U.K.'s 5G telecom networks as soon as this year. A National Cybersecurity Centre report concluded that new U.S. sanctions mean Huawei will have to use untrusted technology, making security risks impossible to control. If the U.S. imposes sanctions, which they have done, the U.K. government believes that could have a significant impact on the reliability and safety of using Huawei equipment. The U.S. announced preparations this week for a federal contract ban for companies using Huawei and plans to finalize regulations for any company using equipment or services in day-to-day operations from Huawei and four other Chinese companies, which will no longer be able to sell to the U.S. government unless they acquire a hard-to-come-by waiver.

Digital Policy: Margrethe Vestager, the EU's digital policy and antitrust czar, outlined a strategy to establish new legal boundaries against alleged anticompetitive behavior of big tech U.S. companies like Google, Amazon and Facebook. Proposals include content liability, establishing business entities in Europe, listing prohibited practices and new investigative powers for Brussels.

No for Bank Runs: China imposed a program to keep large transactions in check amid heightened concerns over the state of its financial system as bad debt balloons in the wake of the coronavirus outbreak. The PBOC this month kicked-off a pilot plan in Hebei province that would require retail and business clients to pre-report any large withdrawals or deposits. The two-year program will expand to Zhejiang and Shenzhen in October, encompassing more than 70 million people

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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	0 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.10%	-1 bps	3 bps	9 bps	-145 bps	-238 bps	-145 bps
3 Month USD Libor	0.27%	-3 bps	-4 bps	-104 bps	-156 bps	-206 bps	-164 bps
3 Month Euribor	-0.43%	-2 bps	-7 bps	-18 bps	-4 bps	-8 bps	-5 bps
3 Month U.S. T-Bill	0.15%	1 bps	-2 bps	-6 bps	-139 bps	-208 bps	-140 bps
2-Year U.S. Treasury	0.16%	-1 bps	-6 bps	-10 bps	-142 bps	-172 bps	-141 bps
10-Year U.S. Treasury	0.66%	-3 bps	-22 bps	-11 bps	-122 bps	-138 bps	-126 bps
10-Year German Bund	-0.44%	-5 bps	-13 bps	-13 bps	-18 bps	-9 bps	-26 bps
10-Year U.K. Gilt	0.17%	-5 bps	-16 bps	-21 bps	-62 bps	-64 bps	-65 bps
10-Year JGB	0.02%	-2 bps	-2 bps	2 bps	3 bps	19 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.49%	N/A	0.2%	1.6%	0.7%	10.8%	8.8%
Barclays Capital U.S. TIPS	0.72%	N/A	0.5%	2.2%	2.6%	8.8%	6.5%
Barclays Capital U.S. Aggregate	1.21%	64	0.4%	1.3%	3.0%	9.2%	6.5%
Barclays Capital Global Aggregate	0.93%	55	0.6%	1.2%	4.2%	5.3%	3.6%
Barclays Capital U.S. ABS	0.83%	66	0.1%	0.8%	3.2%	4.9%	3.4%
Barclays Capital U.S. MBS	1.27%	63	0.1%	0.0%	0.3%	5.7%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.07%	142	0.9%	2.2%	9.2%	10.6%	6.1%
BAML Euro Corporate Investment Grade	0.81%	141	0.5%	0.4%	5.1%	-0.5%	-1.0%
Barclays Capital U.S. Corporate High Yield	6.50%	589	1.0%	-1.1%	11.5%	1.0%	-2.6%
BAML European Currency High Yield Non-Financial	4.88%	536	0.5%	-0.4%	9.5%	-1.8%	-4.4%
CS U.S. Leveraged Loans	6.90%	666	0.4%	-0.5%	8.1%	-2.0%	-4.2%
CS Western European Leveraged Loans Non-USD	6.15%	609	0.2%	0.0%	10.7%	-1.7%	-3.2%
JPM CEMBI Broad Diversified	4.87%	431	0.5%	1.7%	11.2%	3.9%	0.4%
JPM EMBI Global Diversified	5.37%	459	0.9%	2.3%	13.5%	1.4%	-1.6%
JPM GBI-EM Global Diversified	4.53%	N/A	0.0%	-1.9%	10.5%	-2.3%	-6.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,169.94	1.82%	1.8%	-1.8%	15.8%	8.6%	-0.9%
Euro STOXX 600 (Local)	366.48	2.08%	1.5%	-2.0%	12.2%	-6.0%	-11.9%
U.K. FTSE 100 (Local)	6,156.16	4.82%	0.0%	-4.9%	8.4%	-18.5%	-18.4%
Japan Nikkei 225 (Local)	22,438.65	2.22%	1.4%	-3.2%	15.9%	4.2%	-5.1%
China Shanghai Composite (Local)	3,403.44	2.00%	12.5%	15.9%	20.9%	16.0%	11.6%
MSCI AC World (Local)	540.37	2.23%	2.4%	0.4%	16.2%	5.3%	-2.5%
MSCI Emerging Markets (Local)	1,070.14	2.46%	7.0%	7.8%	21.7%	9.9%	1.6%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	337.25	2.6%	4.9%	21.7%	-21.8%	-20.0%	-22.7%
WTI Crude (\$/bbl)	40.91	2.6%	7.2%	63.8%	-31.4%	-28.7%	-33.1%
Copper (\$/lb)	2.81	3.6%	9.5%	23.6%	-0.2%	6.0%	0.7%
Gold (\$/oz)	1,811.10	2.3%	7.1%	9.9%	15.2%	29.4%	19.6%
U.S. Dollar Index	96.43	-0.8%	-0.2%	-3.7%	-0.9%	-1.0%	0.0%
Euro (USD/EUR)	1.13	0.6%	0.2%	4.3%	1.9%	1.0%	0.9%
British Pound (USD/GBP)	1.26	1.1%	-0.8%	1.7%	-3.9%	0.6%	-4.9%
Japanese Yen (Yen/USD)	107.52	0.0%	-1.0%	-1.1%	-1.0%	-1.1%	-1.1%
Chinese Yuan (CNY/USD)	7.02	-0.6%	-0.8%	-0.7%	1.1%	2.0%	0.7%

Source: FactSet and Bloomberg. As of July 8, 2020.

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*As of March 31, 2020

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