

Central Banks Talking the Talk after Walking the Walk

IN REVIEW

- **NFIB small business optimism index** rose from 98.8 in July to 100.2 in August. Hiring plans improved, but uncertainty on the outlook increased over the month.
- **JOLTS job openings** beat expectations, rising 617,000 to 6.62 million in July. Openings are now 5.5% below February levels.
- Seasonally adjusted **initial claims** held steady at 884,000 in W/E September 5, though methodology changes make it less comparable to data prior to August 29. The NSA figure rose for a fourth-straight week. Continuing claims rose 93,000 to 13.4 million in W/E August 29, suggesting a possible labor market stall.
- **U.S. PPI** rose 0.3% M/M in August, more than expected, as demand may be gradually aiding pricing powers.
- **EA 2Q GDP** was upwardly revised from -12.1% Q/Q to -11.8% Q/Q, according to the final estimate—still the largest recorded contraction.
- **China CPI** decelerated from 2.7% Y/Y to 2.4% Y/Y in August, amid lower pork prices. **PPI** rose from -2.4% Y/Y to -2% Y/Y. Policymakers will likely remain in “wait-and-see” mode, but softer inflation gives the PBOC more room to act if needed.
- **China exports** rose 9.5% Y/Y in August aided by base effects, but were down 1% M/M. **Imports** slid 2.1% Y/Y, amid falling prices.
- **Japan 2Q GDP** was revised lower from -27.8% Q/Q SAAR to -28.1%. Worryingly, investment was weaker and inventory stockpiles were greater than originally recorded.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 9/15	Empire Manufacturing	5.5	▲	3.7
Tue 9/15	Industrial Production	1.0% M/M	▼	3.0% M/M
Wed 9/16	Retail Sales	0.9% M/M	▼	1.2% M/M
Wed 9/16	NAHB Housing Market Index	78	-	78
Wed 9/16	FOMC Meeting	0%-0.25%	-	0%-0.25%
Thu 9/17	Initial Claims			884k
Thu 9/17	Building Permits	1535k	▲	1495k
Thu 9/17	Housing Starts	1463k	▼	1496k
Fri 9/18	U. of Mich. Sentiment	74.8	▲	74.1
Europe				
Mon 9/14	EZ Industrial Production	2.7% M/M	▼	9.1% M/M
Tue 9/15	German ZEW Survey Expectations	70.0	▼	71.5
Tue 9/15	U.K. Unemployment Rate			3.9%
Wed 9/16	U.K. Consumer Price Index			0.4% M/M
Thu 9/17	BOE Bank Rate	0.1%	-	0.1%
Fri 9/18	U.K. Retail Sales			3.6% M/M
Asia Pacific				
Mon 9/14	Japan LDP Presidential Election	--		--
Tue 9/15	China Industrial Production (YTD)	5.2% Y/Y	▲	4.8% Y/Y
Tue 9/15	China Retail Sales (YTD)	-8.8% Y/Y	▲	-9.9% Y/Y
Tue 9/15	China Property Investment (YTD)	4.1% Y/Y	▲	3.4% Y/Y
Tue 9/15	China Fixed Asset ex Rural (YTD)	-0.4% Y/Y	▲	-1.6% Y/Y
Thu 9/17	BOJ Policy Balance Rate			-0.1%
Fri 9/18	Japan Consumer Price Index	0.2% Y/Y	▼	0.3% Y/Y

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

U.S.

- **Retail sales** are expected to hold up in August. While the expiration of the \$600/week UI benefit is weighing on high frequency spending data by those unemployed, strength in other cohorts, as of now, is offsetting this weakness.
- Following the Federal Reserve’s change to their inflation framework, we watch for forward guidance at next week’s **FOMC meeting**.

Europe

- **The BOE** is set to remain on hold at its meeting on Thursday. Meanwhile, the September **ZEW Survey** for the EMU and Germany will give another gauge of the strength of the recovery.

Asia Pacific

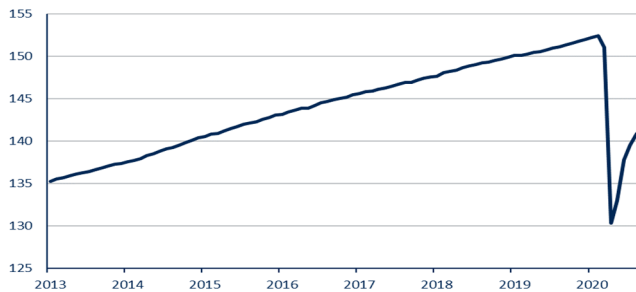
- **China activity data** for August is expected to improve amid rebounding demand.
- The **Liberal Democratic Party presidential election** will be on Monday, with an extraordinary Diet session on September 16 in which they will name the new PM.
- The **BOJ** is not likely to change course on policy despite change of Prime Minister.

THE HIGHLIGHTS

U.S. Employment

While there is still much pain in the labor market, with nonfarm payrolls down 11.5 million from February, job gains have been impressive since May. The lifting of lockdowns, reopening of stores, initial release of pent-up demand, and stimulus-driven spending paved the way for easy job gains at the beginning of this recovery. However, job gains are likely to continue at a more moderate pace than we initially saw in May and June, and the labor market recovery may follow a wavier path from here.

U.S. NONFARM PAYROLLS, MILLIONS



Source: Bloomberg. As of September 10, 2020.

In August, nonfarm payrolls rose 1.371 million. The topline figure was boosted by 238,000 temporary 2020 Census workers, but overall job gains were fairly broad-based across industries. The unemployment rate slid from 10.2% in July to a better-than-expected 8.4% in August. The decline was for the right reasons, as the labor force rose while the number of unemployed slid.

While the labor market is continuing its impressive recovery, the question of permanent scarring remains. Though the number of temporary unemployed declined, the number of permanently unemployed jumped again in August. If the permanent layoffs are more structural, this could lead to a slower decline in the unemployment rate. Additionally, the duration of temporary layoffs is lengthening, with two-thirds unemployed for 15 weeks or more. This should also be monitored, as the longer one is out of work, generally the harder it is to become employed again.

ECB Meeting

The ECB did not announce major changes in the current policy stance, as expected. President Christine Lagarde did however hint at more stimulus to be added through the pandemic emergency purchase program (PEPP), most likely in December. The new economic projections were also released, with GDP forecasts improving and inflation remaining as subdued as the latest forecast round (in June). By its own projections, the ECB will miss its 2% inflation target for the next two years, justifying further easing.

Policy

Brexit: U.K. Prime Minister Boris Johnson stated that, if there is no breakthrough by October 15, Britain will accept a no-deal scenario and move

on. The U.K. also published sections of the internal market bill allegedly designed to secure seamless trade between England, Wales, Scotland and Northern Ireland after Brexit. The bill would override key parts of the Brexit withdrawal agreement signed by the U.K. and the EU in November 2019, in areas including state aid and Northern Ireland customs. If pursued, this would constitute an infringement of international law and would likely foil any hope of a trade deal between the U.K. and the EU—its biggest trading partner. Several officials involved in the negotiations confirm that the impasse still exists over key topics such as state aid and fisheries.

U.S.-China Tensions: The Trump administration banned imports from three companies in the Xinjiang region of China over Beijing's alleged repression of the Uighur Muslim minority group, and it plans to add six more firms and target cotton, textiles and tomatoes from the area. The measures could have a broad impact on the textile industry, which relies heavily on Chinese cotton. Xinjiang is China's top cotton-producing region, making up around 80% of total output. While China doesn't export the fiber, its domestic textiles industry relies on Xinjiang cotton for its garment industry. Although China remains the United States' primary source of apparel imports, its market share has been falling steadily, from a high of 39.2% in 2010 to 29.8% for 2019. The administration is also weighing whether to place export restrictions on SMIC, one of China's semiconductor manufacturers. This is the same step U.S. officials imposed on Huawei, and the move could hurt semiconductor equipment makers going forward, as the PRC holds around 60% of the industry's market share. While SMIC only represents 5% of semiconductor manufacturing, a bigger risk is if the White House targets other Chinese chipmakers too, which is possible. Despite the tension, a report found nearly 71% of survey respondents from over 200 U.S. companies with operations in China said they had no plans to shift production out of the country.

U.S. Fiscal Spending: Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi agreed on a clean continuing resolution to fund the government that will be separate from stimulus negotiations. The funds will likely run through the beginning of December. The Senate GOP had planned to introduce a small coronavirus relief bill, worth ~\$500 billion, and would repurpose the ~\$350 billion in unspent CARES Act programs, including \$204 billion from a Treasury lending facility for the Fed. The stimulus bill was expected to include a \$300 billion boost to weekly unemployment benefits until December 27, additional PPP funding, liability protections, and \$10 billion for the U.S. Postal Service. The bill was defeated however, as it did not meet the 60 votes needed to break the Democratic filibuster. There is growing pessimism as to whether Democrats and Republicans can reach a compromise given longstanding differences on the size and scope of a stimulus bill. The prolonged negotiations may continue to weigh on consumer confidence, which remains depressed.

11 September 2020 | The Week Ahead

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	-100 bps	-200 bps	-150 bps
U.S. SOFR	0.09%	0 bps	0 bps	1 bps	-100 bps	-203 bps	-146 bps
3 Month USD Libor	0.25%	0 bps	0 bps	-6 bps	-52 bps	-189 bps	-166 bps
3 Month Euribor	-0.49%	-2 bps	-2 bps	-13 bps	-3 bps	-6 bps	-11 bps
3 Month U.S. T-Bill	0.12%	1 bps	3 bps	-6 bps	-27 bps	-183 bps	-143 bps
2-Year U.S. Treasury	0.14%	0 bps	1 bps	-6 bps	-19 bps	-143 bps	-144 bps
10-Year U.S. Treasury	0.70%	6 bps	14 bps	-13 bps	20 bps	-92 bps	-122 bps
10-Year German Bund	-0.46%	1 bps	6 bps	-13 bps	41 bps	11 bps	-27 bps
10-Year U.K. Gilt	0.23%	-1 bps	11 bps	-9 bps	10 bps	-37 bps	-60 bps
10-Year JGB	0.03%	-1 bps	2 bps	1 bps	21 bps	29 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.51%	N/A	-0.4%	-1.0%	1.1%	7.6%	8.7%
Barclays Capital U.S. TIPS	0.70%	N/A	-0.5%	0.3%	4.2%	9.2%	9.0%
Barclays Capital U.S. Aggregate	1.16%	56	-0.4%	-0.9%	1.4%	7.0%	6.8%
Barclays Capital Global Aggregate	0.91%	48	-0.4%	-0.5%	2.8%	5.6%	5.7%
Barclays Capital U.S. ABS	0.58%	44	0.0%	0.2%	1.4%	4.4%	4.0%
Barclays Capital U.S. MBS	1.21%	53	-0.1%	-0.1%	0.1%	4.6%	3.7%
Barclays Capital U.S. Corporate Investment Grade	1.97%	130	-0.9%	-1.8%	2.8%	8.2%	6.9%
BAML Euro Corporate Investment Grade	0.52%	114	-0.1%	0.3%	2.0%	0.2%	0.6%
Barclays Capital U.S. Corporate High Yield	5.56%	494	-0.5%	0.1%	3.2%	4.0%	1.4%
BAML European Currency High Yield Non-Financial	4.07%	459	0.1%	1.2%	2.8%	0.4%	-1.5%
CS U.S. Leveraged Loans	5.86%	562	0.4%	1.9%	2.9%	1.2%	-0.7%
CS Western European Leveraged Loans Non-USD	5.37%	531	0.8%	1.9%	2.4%	0.2%	-0.7%
JPM CEMBI Broad Diversified	4.42%	385	-0.1%	0.4%	3.9%	5.9%	3.3%
JPM EMBI Global Diversified	5.01%	417	-0.9%	-0.3%	5.1%	3.1%	1.9%
JPM GBI-EM Global Diversified	4.43%	N/A	0.1%	0.6%	0.2%	0.4%	-4.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,398.96	1.72%	-5.1%	1.6%	6.4%	16.3%	6.6%
Euro STOXX 600 (Local)	369.65	2.12%	-0.4%	1.7%	0.0%	-4.3%	-11.1%
U.K. FTSE 100 (Local)	6,012.84	4.63%	1.2%	-0.3%	-5.1%	-16.9%	-20.3%
Japan Nikkei 225 (Local)	23,032.54	2.22%	-0.9%	3.1%	-0.3%	8.0%	-2.6%
China Shanghai Composite (Local)	3,254.63	2.21%	-4.4%	-3.0%	10.1%	7.6%	6.7%
MSCI AC World (Local)	570.93	2.08%	-3.7%	1.4%	5.5%	10.8%	2.3%
MSCI Emerging Markets (Local)	1,085.75	2.30%	-3.0%	-0.7%	8.5%	12.5%	3.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	341.06	-3.6%	-1.2%	5.1%	11.7%	-16.8%	-21.8%
WTI Crude (\$/bbl)	38.05	-8.4%	-7.6%	-2.4%	22.5%	-34.3%	-37.8%
Copper (\$/lb)	3.04	1.2%	8.9%	16.9%	20.4%	16.5%	8.8%
Gold (\$/oz)	1,947.20	0.0%	-4.1%	13.6%	16.4%	29.0%	28.5%
U.S. Dollar Index	93.26	0.4%	-0.2%	-3.2%	-1.7%	-5.1%	-3.3%
Euro (USD/EUR)	1.18	-0.3%	0.2%	4.0%	3.4%	6.8%	5.2%
British Pound (USD/GBP)	1.30	-2.3%	-0.4%	2.2%	-0.8%	5.3%	-1.9%
Japanese Yen (Yen/USD)	106.24	0.1%	0.3%	-1.4%	3.6%	-0.9%	-2.2%
Chinese Yuan (CNY/USD)	6.85	0.3%	-1.6%	-3.4%	-1.5%	-4.0%	-1.7%

Source: FactSet and Bloomberg. As of September 9, 2020.

11 September 2020 | *The Week Ahead*

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