

Readying for Record Breaking Rebounds in GDP

IN REVIEW

- **U.S. industrial production** slid 0.6% M/M in September, led by a 5.6% drop in utilities amid autumn temperatures, while manufacturing slid a more modest 0.3%, and mining rose 1.7%. Capacity utilization, at 71.5%, remains well below pre-crisis 76.2%.
- **University of Michigan consumer sentiment** rose 0.8 points to 81.2 in the preliminary October print. While current conditions slid amid slowing job gains and higher COVID-19 cases, this was offset by a rise in expectations for the year ahead.
- **Initial claims** slid 55,000 to 787,000 in W/E October 17. The completion of California's review led data to be revised lower. Continuing claims fell 1.024 million to 8.373 million in W/E October 10 as regular benefits continue to exhaust.
- **German consumer confidence** deteriorated for the third-straight month to -3.1, well below pre-crisis levels. COVID-19 resurgence and rising unemployment are taking their toll on the biggest EU economy.
- **U.K. CPI** accelerated to 0.5% Y/Y in September as the Eat Out to Help Out scheme expired, though weaker demand and a VAT extension should keep inflation subdued.
- **China activity data** improved in September. A better-than-expected acceleration in retail sales points to a rebound in domestic demand.
- **The PBOC** held policy steady at their October meeting amid data showing an impressive recovery.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 10/26	New Home Sales	1010k	▼	1011k
Tue 10/27	Advance Durable Goods Orders	0.5% M/M	-	0.5% M/M
Tue 10/27	FHFA House Price Index	0.7% M/M	▼	1.0% M/M
Tue 10/27	Consumer Confidence	101.9	▲	101.8
Thu 10/29	Initial Claims			787k
Thu 10/29	GDP Q3 (Advanced Estimate)	32.0% Q/Q	▲	-31.4% Q/Q
Thu 10/29	Pending Home Sales	3.5% M/M	▼	8.8% M/M
Fri 10/30	Personal Income	0.3% M/M	▲	-2.7% M/M
Fri 10/30	Personal Spending	1.0% M/M	-	1.0% M/M
Fri 10/30	PCE Deflator	0.2% M/M	▼	0.3% M/M
Fri 10/30	Employment Cost Index	0.5% Q/Q	-	0.5% Q/Q
Europe				
Mon 10/26	German IFO Business Climate	93.0	▼	93.4
Thu 10/29	ECB Monetary Policy Meeting	0.0%	-	0.0%
Fri 10/30	EZ Unemployment Rate	8.3%	▲	8.1%
Fri 10/30	EZ 3Q GDP (Advanced Estimate)	9.4% Q/Q	▲	-11.8% Q/Q
Asia Pacific				
Tue 10/27	China Industrial Profits			19.1% Y/Y
Thu 10/29	Japan Retail Sales	-7.2% Y/Y	▼	-1.9% Y/Y
Thu 10/29	BOJ Policy Rate			-0.1%
Fri 10/30	Japan Industrial Production	2.7% M/M	▲	1.0% M/M

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

U.S.

- **3Q20 GDP** is set to notch a record jump following a sharp Q2 contraction. While the rebound is largely old news, the data will be released five days before Election Day.
- **Personal income, spending, and savings** for September will be released October 30. Recovering compensation to employees and fiscal stimulus via executive orders should support income. Further use of savings should support spending.

Europe

- **Preliminary Q3 GDP** in four major EU economies could show a record rebound, with bigger jumps in countries that saw bigger Q2 drops. France, Spain and Italy should post post double-digit non-annualized Q/Q growth; Germany high-single digits.
- **Absent new policy at the ECB meeting**, expect a hint of further stimulus at its December 10 meeting, as well as an extension of PEPP's June 2021 deadline.
- **EZ inflation** is expected to stabilize in October before increasing slightly, following its precipitous drop into negative territory.

Asia Pacific

- **The BOJ** is expected to hold policy steady at its October 29 meeting but downgrade growth and inflation in their new quarterly projections, due to a sharper-than-expected Q2 contraction and a slow recovery in consumption.

THE HIGHLIGHTS

China 3Q GDP

China continues to lead the global economic recovery, with 3Q20 GDP growth accelerating from 3.2% Y/Y in Q2 to 4.9% Y/Y, just below the 5.5% consensus. Manufacturing rebounded while the services sector lagged. Retail sales growth accelerated faster-than-expected in September, suggesting that the services recovery—still with a way to go—is picking up into Q4. China looks set to return to pre-crisis GDP levels sooner than other major economies, but downside risks (such as rising cases elsewhere) weigh on external demand.

U.S. Retail Sales

U.S. retail sales rose a faster-than-expected 1.9% M/M in September, pushing sales 4% above pre-crisis levels. Gains were broad-based, supported by spending of pent-up savings, extra unemployment insurance benefits via Trump’s executive orders, and delayed back-to-school shopping.



Source: Bloomberg. As of October 22, 2020.

Twelve of the 13 major retail categories rose over the month. Apparel, sporting goods, and autos led the monthly increase; electronics and appliance stores regressed. September’s rosy spending should slow without new fiscal support.

U.S. Housing Market

Leading indicators suggest continued U.S. housing market strength, but supply constraints could weigh on construction. The NAHB housing market index rose 2 points to a record high of 85 in October, with improvements in both current and future components. Building permits—a proxy for future construction—rose the fastest since 2007, up 5.2% M/M in September, and housing starts rose 1.9% M/M. Starts and permits were stronger for single-family than multifamily, a pandemic-related shift. Record-low interest rates are elevating demand despite an easing pace of job gains. However, supply constraints—record-low inventories, and shortages of lots, labor and materials—could weigh on construction timelines and push prices higher.

Federal Reserve’s Beige Book

Economic recovery continued at a “slight-to-modest” pace in the October report. Economic activity improved in all Federal Reserve Districts but varied by sector. The housing market continued its solid performance, while

commercial real estate saw divergence, with industrial, warehouse and lab space performing well, while retail and office space didn’t. Variance in hiring reporting was notable from new furloughs to tight labor markets due to health and childcare concerns, which led to increased wages and flexibility.

EU Common Debt Issuance Sees Booming Demand

The European Union issued €17 billion (\$20.1 billion) for its new unemployment benefit scheme, and investors offered to pay interest to the EU to buy its debt, requesting €233 billion and agreeing to pay 0.23% to own the 10-year bonds. Investors also agreed to zero-interest payments to lend to the EU for 20 years. Their rationale is clear: investors may make money if interest rates become even more negative or on the FX side. The ECB is a buyer of these bonds through its asset purchase programs, as are foreign central banks, which bought a large share.

Policy

U.S. Fiscal Stimulus: House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin narrowed their differences but remain ~\$300 billion apart on a fifth coronavirus relief bill. Liability protections, funding levels for state and local governments, small business funding, the child tax credit, childcare programs and language surrounding spending on health care and testing provisions remain as sticking points. Senate Republicans continue to push back against a larger deal, preferring smaller, more targeted measures. Still, Majority Leader Mitch McConnell said the Senate would consider a bipartisan deal but has reportedly warned that Pelosi is not negotiating in good faith.

Brexit: Negotiators restarted talks with the goal of finding a deal by November 13. British officials are prepared to water-down Prime Minister Boris Johnson’s controversial Brexit legislation to revive the talks, a pressure point for the EU. The EU has signaled flexibility on contentious fishing issues and the two jurisdictions’ resolution mechanism in the future. Positive responses from both sides could signal a (narrow) deal is near.

China: A new law is set that would restrict sensitive exports vital to national security and expand China’s policy options as competition grows with the U.S. over technology access could be adopted soon by the National People’s Congress Standing Committee. The Export Control Law would protect China’s national security by regulating the export of sensitive materials and technologies that appear on a control list and apply to all companies in China, including foreign-invested ones. The measure would put China on a similar footing as the U.S., which uses strategic export controls against its adversaries.

EU Tariffs: President Trump said the U.S. will strike back if the EU proceeds with tariffs on \$4 billion of American products after the bloc won the WTO’s permission to hit American goods with tariffs in its ruling over illegal state aid provided to Boeing. The EU will likely wait until after the U.S. election but its targeted list of U.S. industries includes: aircraft, coal, farm products and seafood. U.S. Trade Representative Robert Lighthizer’s demand that Airbus repay billions of dollars in aid to European governments was rejected.

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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	0 bps	-175 bps	-150 bps
U.S. SOFR	0.07%	-2 bps	-1 bps	-4 bps	6 bps	-179 bps	-148 bps
3 Month USD Libor	0.21%	-2 bps	-1 bps	-5 bps	-83 bps	-172 bps	-170 bps
3 Month Euribor	-0.51%	0 bps	0 bps	-6 bps	-27 bps	-10 bps	-12 bps
3 Month U.S. T-Bill	0.09%	-2 bps	-1 bps	-3 bps	-1 bps	-157 bps	-146 bps
2-Year U.S. Treasury	0.15%	2 bps	1 bps	0 bps	-6 bps	-145 bps	-143 bps
10-Year U.S. Treasury	0.81%	9 bps	14 bps	21 bps	24 bps	-98 bps	-111 bps
10-Year German Bund	-0.60%	-2 bps	-6 bps	-14 bps	-11 bps	-25 bps	-41 bps
10-Year U.K. Gilt	0.24%	2 bps	10 bps	10 bps	-6 bps	-50 bps	-58 bps
10-Year JGB	0.03%	1 bps	2 bps	3 bps	2 bps	18 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.57%	N/A	-0.6%	-0.9%	-1.2%	7.7%	8.0%
Barclays Capital U.S. TIPS	0.77%	N/A	-0.3%	0.0%	1.3%	10.0%	9.0%
Barclays Capital U.S. Aggregate	1.23%	56	-0.4%	-0.5%	-0.7%	7.0%	6.4%
Barclays Capital Global Aggregate	0.90%	47	0.3%	0.5%	1.8%	7.0%	6.6%
Barclays Capital U.S. ABS	0.54%	38	0.0%	0.0%	0.6%	4.5%	4.2%
Barclays Capital U.S. MBS	1.35%	57	0.0%	0.1%	-0.1%	4.3%	3.5%
Barclays Capital U.S. Corporate Investment Grade	2.00%	124	-0.6%	-0.5%	-1.0%	8.3%	6.7%
BAML Euro Corporate Investment Grade	0.37%	110	0.1%	0.7%	1.5%	1.6%	1.6%
Barclays Capital U.S. Corporate High Yield	5.31%	467	-0.1%	1.3%	2.7%	4.5%	2.1%
BAML European Currency High Yield Non-Financial	4.07%	466	0.1%	0.0%	2.1%	0.6%	-1.3%
CS U.S. Leveraged Loans	5.87%	562	0.1%	0.3%	3.0%	2.0%	-0.2%
CS Western European Leveraged Loans Non-USD	5.32%	526	0.1%	0.4%	3.1%	0.9%	0.1%
JPM CEMBI Broad Diversified	4.54%	388	-0.2%	0.0%	1.9%	5.0%	3.3%
JPM EMBI Global Diversified	5.08%	412	-0.8%	-1.0%	0.2%	2.1%	0.3%
JPM GBI-EM Global Diversified	4.44%	N/A	0.8%	-0.9%	-0.5%	-2.1%	-4.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,435.56	1.67%	-1.5%	4.8%	5.9%	16.4%	7.9%
Euro STOXX 600 (Local)	360.79	2.12%	-2.7%	1.1%	-4.2%	-8.5%	-13.2%
U.K. FTSE 100 (Local)	5,776.50	4.57%	-2.7%	-0.5%	-7.9%	-19.4%	-23.4%
Japan Nikkei 225 (Local)	23,639.46	2.22%	0.1%	1.2%	3.3%	4.8%	-0.1%
China Shanghai Composite (Local)	3,325.02	2.13%	-0.5%	0.2%	0.1%	13.1%	9.0%
MSCI AC World (Local)	579.35	2.04%	-1.5%	2.3%	3.8%	11.0%	3.7%
MSCI Emerging Markets (Local)	1,137.91	2.19%	-0.1%	2.6%	5.2%	15.0%	7.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	360.11	-0.6%	3.7%	4.9%	57.8%	-10.9%	-17.4%
WTI Crude (\$/bbl)	40.03	-2.0%	2.0%	-4.1%	349.3%	-24.9%	-34.5%
Copper (\$/lb)	3.19	4.8%	5.4%	8.6%	40.9%	21.2%	14.3%
Gold (\$/oz)	1,924.15	0.7%	0.8%	4.4%	14.4%	29.0%	27.0%
U.S. Dollar Index	92.61	-0.8%	-1.1%	-2.6%	-7.6%	-4.8%	-3.9%
Euro (USD/EUR)	1.19	1.0%	1.1%	3.4%	9.3%	6.5%	5.8%
British Pound (USD/GBP)	1.32	0.9%	2.9%	3.2%	7.2%	1.4%	-0.6%
Japanese Yen (Yen/USD)	104.42	-0.7%	-0.1%	-2.3%	-3.0%	-3.8%	-3.9%
Chinese Yuan (CNY/USD)	6.66	-1.2%	-1.7%	-4.8%	-6.1%	-5.8%	-4.4%

Source: FactSet and Bloomberg. As of October 21, 2020.

23 October 2020 | *The Week Ahead*

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