

U.S. Inflation & U.K. Consumer Test Positive

IN REVIEW

- **NAHB housing market index** edged down 1 point to 74 in February, remaining near its cycle-high. **Housing starts** slid less than expected in January (-3.6% M/M) after surging 17.7% in December, aided by warm weather. **Permits** beat expectations, up 9.2% M/M, amid heightened demand.
- **U.S. PPI** surprised to the upside, rising 2.1% Y/Y (0.5% M/M), with core PPI up 1.7% Y/Y (0.5% M/M).
- **U.S. retail sales** rose 0.3% M/M in January. Excluding autos and gas, sales were up 0.4%, while the control group was unchanged. Building materials gained 2.1% M/M as warm weather boosted demand.
- **The German ZEW survey** disappointed in February as Covid-19 weighs on investor sentiment. Expectations fell from 26.7 to 8.7 and current situation slid to -15.7.
- **U.K. job gains** beat expectations, rising 180k in December driven by full-time employment, and the unemployment rate held steady at 3.8%. Average weekly earnings moderated to 2.9% Y/Y, weighed down by base effects.
- **U.K. retail sales** surprised to the upside, rising 1.6% M/M excluding fuel, signaling a confidence boost after Brexit and supporting Q1 GDP.
- **Japan GDP** contracted more than expected, dropping 6.3% Q/Q SAAR in Q4, weighed down by the consumption tax hike and typhoons.
- **Japan trade balance** widened less than expected to -¥1312.6 billion in January. Covid-19 is set to weigh on February's data.

WATCH LIST

Date		Consensus		Previous
U.S.				
Mon 2/24	President Trump's Trip to India	--		--
Tue 2/25	FHFA House Price Index	0.4% M/M	▲	0.2% M/M
Tue 2/25	Consumer Confidence	132.5	▲	131.6
Wed 2/26	New Home Sales	710k	▲	694k
Thu 2/27	GDP 1Q (Second Estimate)	2.2%	▲	2.1%
Thu 2/27	Advance Durable Goods Orders	-1.5% M/M	▼	2.4% M/M
Fri 2/28	Personal Spending	0.3% M/M	▬	0.3% M/M
Fri 2/28	Core PCE Deflator	1.7% Y/Y	▲	1.6% Y/Y
Sat 2/29	South Carolina Democratic Primary	--		--
Europe				
Mon 2/24	German IFO Business Climate	95.0	▼	95.9
Tue 2/25	German GDP 4Q (Final)	0.0% Q/Q	▬	0.0% Q/Q
Fri 2/28	German CPI	1.6% Y/Y	▼	1.7% Y/Y
Fri 2/28	France GDP 4Q (Final)	-0.1% Q/Q	▬	-0.1% Q/Q
Asia Pacific				
Thu 2/27	Japan Retail Sales	0.3% M/M	▲	0.2% M/M
Thu 2/27	Japan Industrial Production	0.3% M/M	▼	1.2% M/M
Fri 2/28	China's Official Manufacturing PMI	46.0	▼	50.0
Sat 2/29	South Korea Exports			-6.1% Y/Y

Arrows indicate consensus forecast compared to the previous period.

U.S.

- The **PCE deflator** is expected to edge higher in January, following the upward surprises of the CPI and PPI. However, even if the PCE deflator, the Fed's preferred measure, inches closer to 2%, the Fed likely won't raise rates.
- On the **U.S. policy front**, President Donald Trump is traveling to India for a two-day trip to discuss a trade deal between the two countries. Meanwhile, we watch for the results of the South Carolina Democratic primary election on Saturday to see how candidates fare in a notably more diverse state.

Europe

- **German IFO business climate index** will indicate how Covid-19 is affecting business confidence in the export-dependent country.
- **France GDP** will likely come in on the weaker side, as strikes surrounding pension reform and reduced inventories may weigh on the headline. However, growth should be stronger in the first quarter.

Asia Pacific

- **China's official manufacturing PMI** should give some indication to the degree in which Covid-19 is weighing on manufacturing as factories remain shuttered.

THE HIGHLIGHTS

Covid-19 Weekly Checkup

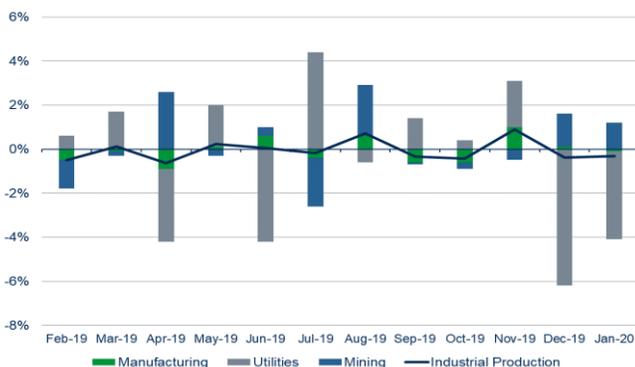
As China announced that it will lower its own growth forecast for the year, the 2020 session of the National People’s Congress (NPC) may be postponed for the first time until the end of March. This would provide more time for officials to assess the impact of the virus and adapt their growth and policy targets, as well as budget plans. The government would be ready to announce fiscal measures, to complement the ongoing monetary support, including possibly lowering corporate taxes, if needed. The meeting could still take place on March 5 if infection cases outside of Hubei continue to decline.

Easing: China’s banks lowered benchmark borrowing costs for new corporate and household loans, with one-year loan prime rates moving to 4.05% from 4.15%. The five-year tenor was set at 4.75%, down from 4.8%. The central bank had already cut the rates on its short-term funds and one-year loans to commercial lenders. While the PBOC provided liquidity, and central banks in the Philippines, Thailand and Malaysia cut interest rates, most major central banks haven’t signaled any easing plans.

Industrial Production: Weather & Boeing at Play

U.S. industrial production fell for the second-consecutive month in January, sliding 0.3% M/M, largely due to unseasonably warm weather and the toll from a Boeing production halt. The weather measurably reduced the demand for utilities, which fell 6.2% M/M and 4% M/M in December and January, respectively. While warm weather weighed on utilities and industrial production, it aids housing starts and construction.

U.S. INDUSTRIAL PRODUCTION, M/M%



Source: Bloomberg. As of February 19, 2020.

The Boeing production halt showed up in January industrial production data, as aircraft and parts production slumped 10.7% M/M – the largest decline since the Great Recession. Excluding aircraft and parts production, factory output rose 0.3% M/M in January. Capacity utilization fell 0.3 ppts to 76.8 – its lowest level since September 2017 and below its long-run average.

4Q Earnings

Approximately 87% of the S&P 500 has reported 4Q earnings, with revenues up 3.6% Y/Y and earnings up 1.6% Y/Y, according to Bloomberg. So far, the biggest positive earnings surprises have come from consumer discretionary and information technology. About 61% of the companies that report in the current season for the Stoxx 600 have announced results, with sales and earnings relatively unchanged at -0.3% Y/Y and 0.3% Y/Y, respectively. So far, earnings have surprised to the upside.

Policy

U.S. Trade: President Trump plans to allow sales of General Electric-made jet engines to China and halt other proposed restrictions on American exports. The technology is superior to its Chinese counterparts and U.S. policymakers would like to keep it that way.

U.S. Sanctions were enacted on a unit of Russia’s largest oil producer, Rosneft PJSC, for maintaining ties with Venezuela’s Nicolás Maduro and state-run oil company PDVSA. Rosneft helped deliver two million barrels of crude last month to West Africa from Venezuela. It can take weeks, however, for market effects from sanctions to be fully seen.

Huawei: The U.S./Europe fight over Chinese technology threatens to split the transatlantic military alliance. U.S. officials warned that installing Huawei kit could undermine cooperation with U.S. allies. The Trump administration is considering rule changes to limit Huawei or Chinese firms’ access to critical technology, including changes to the “Foreign Direct Product Rule,” which would force companies using U.S. chip-making technology to obtain a license to supply goods to Huawei. Another similar approach would use the “De Minimis Rule” to lower the threshold of U.S. content in semiconductors that are allowed to be exported to Huawei from 25% to as low as 10%. One sweeping rule change would include U.S. manufacturing equipment in the definition of U.S. content, rendering most semis unexportable to China.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	0 bps	0 bps	-50 bps	-75 bps	0 bps
3 Month USD Libor	1.70%	-1 bps	-12 bps	-20 bps	-46 bps	-95 bps	-21 bps
3 Month Euribor	-0.40%	1 bps	-1 bps	1 bps	2 bps	-9 bps	-2 bps
3 Month U.S. T-Bill	1.58%	1 bps	2 bps	2 bps	-32 bps	-84 bps	3 bps
2-Year U.S. Treasury	1.42%	-2 bps	-14 bps	-16 bps	-11 bps	-108 bps	-15 bps
10-Year U.S. Treasury	1.57%	-6 bps	-27 bps	-22 bps	-3 bps	-108 bps	-35 bps
10-Year German Bund	-0.42%	-4 bps	-21 bps	-8 bps	24 bps	-49 bps	-23 bps
10-Year U.K. Gilt	0.60%	-2 bps	-6 bps	-13 bps	13 bps	-63 bps	-22 bps
10-Year JGB	-0.05%	0 bps	-4 bps	5 bps	19 bps	-2 bps	-3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.56%	N/A	0.4%	1.8%	1.9%	8.7%	2.3%
Barclays Capital U.S. TIPS	1.72%	N/A	0.4%	1.5%	2.4%	9.0%	1.9%
Barclays Capital U.S. Aggregate	2.05%	41	0.3%	1.5%	2.1%	9.5%	2.0%
Barclays Capital Global Aggregate	1.27%	38	-0.2%	0.4%	0.7%	6.0%	0.2%
Barclays Capital U.S. ABS	1.73%	29	0.1%	0.6%	1.1%	4.8%	1.0%
Barclays Capital U.S. MBS	2.27%	44	0.1%	0.6%	1.2%	6.4%	0.9%
Barclays Capital U.S. Corporate Investment Grade	2.57%	96	0.5%	1.9%	3.4%	14.4%	2.7%
BAML Euro Corporate Investment Grade	0.32%	89	0.2%	1.0%	1.3%	5.7%	1.3%
Barclays Capital U.S. Corporate High Yield	5.09%	344	0.2%	0.5%	3.6%	9.7%	1.2%
BAML European Currency High Yield Non-Financial	2.84%	326	0.2%	0.3%	2.8%	8.3%	0.9%
CS U.S. Leveraged Loans	5.93%	453	0.1%	-0.1%	2.5%	5.7%	0.7%
CS Western European Leveraged Loans Non-USD	4.46%	407	0.0%	0.2%	1.4%	4.0%	0.7%
JPM CEMBI Broad Diversified	4.60%	308	0.3%	1.1%	3.5%	11.8%	2.3%
JPM EMBI Global Diversified	4.70%	302	0.5%	1.4%	4.8%	12.4%	2.3%
JPM GBI-EM Global Diversified	4.92%	N/A	-0.4%	-1.0%	2.2%	7.8%	-1.2%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,386.15	1.69%	0.3%	1.9%	9.1%	24.3%	5.1%
Euro STOXX 600 (Local)	433.90	3.36%	0.6%	2.2%	7.0%	17.6%	4.3%
U.K. FTSE 100 (Local)	7,457.02	4.39%	-1.0%	-2.8%	1.8%	3.9%	-1.1%
Japan Nikkei 225 (Local)	23,400.70	1.95%	-1.9%	-2.7%	0.5%	9.8%	-1.1%
China Shanghai Composite (Local)	2,975.40	2.25%	1.7%	-3.3%	1.4%	8.0%	-2.4%
MSCI AC World (Local)	579.87	2.31%	0.1%	0.9%	7.5%	19.9%	3.9%
MSCI Emerging Markets (Local)	1,103.69	2.66%	-0.2%	-2.4%	5.5%	11.6%	0.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	403.64	3.0%	-5.5%	-1.5%	1.1%	-4.8%	-7.5%
WTI Crude (\$/bbl)	53.56	4.7%	-8.5%	-2.5%	-4.8%	-4.6%	-12.4%
Copper (\$/lb)	2.61	0.2%	-8.3%	-1.5%	0.6%	-9.3%	-6.5%
Gold (\$/oz)	1,604.20	2.6%	3.0%	9.2%	7.2%	20.2%	5.9%
U.S. Dollar Index	99.71	0.7%	2.2%	1.9%	1.4%	3.3%	3.4%
Euro (USD/EUR)	1.08	-0.9%	-2.7%	-2.6%	-2.7%	-4.8%	-3.9%
British Pound (USD/GBP)	1.30	-0.2%	-0.6%	0.2%	6.7%	-0.6%	-2.2%
Japanese Yen (Yen/USD)	110.95	0.8%	0.7%	2.3%	4.2%	0.4%	2.1%
Chinese Yuan (CNY/USD)	6.99	0.3%	2.0%	-0.4%	-0.7%	3.3%	0.4%

Source: FactSet and Bloomberg. As of February 19, 2020.

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