

Prognosis Negative Amid Trade Tension Remission

IN REVIEW

- **U.S. retail sales** fell 16.4% M/M in April. Weakness was broad-based as nonstore retailers was the only sub-component that increased with more consumers shifting to e-commerce.
- **Initial claims** slid from 2.687 million to 2.438 million in W/E May 16. Continuing claims rose to 25.073 million in W/E May 9.
- **Housing starts and permits** sank 30.2% M/M and 20.8% M/M, respectively, in April. April is likely a bottom, as the **NAHB housing market index** rose 7 points to 37 in May with current and future components rising modestly.
- **U.S. weekly mortgage purchase applications** rose 6.4% in W/E May 15, the fifth-consecutive weekly rise, pointing to a rebound in May.
- **German ZEW survey** showed that while current conditions remain extremely constrained, activity is set to rebound, as expectations rose more than was anticipated.
- **U.K. CPI** sharply decelerated from 1.5% Y/Y in March to 0.8% Y/Y in April, dragged down by energy prices. Apparel also fell sharply, while reporting disruptions likely understated weakness in prices.
- **U.K. jobless claims** jumped 856,500 in March, suggesting the unemployment rate will spike in Q2.
- **China activity data** improved in April, though consumer-facing sectors lagged manufacturing.
- **Japan 1Q20 GDP** contracted 0.9% Q/Q, with broad-based weakness. However, restrictions were not implemented until April, meaning Q2 GDP should be much worse.

WATCH LIST

Date		Consensus		Previous
U.S.				
Tue 5/26	FHFA House Price Index	0.6% M/M	▼	0.7% M/M
Tue 5/26	Consumer Confidence	87.0	▲	86.9
Tue 5/26	New Home Sales	500k	▼	627k
Wed 5/27	MBA Mortgage Applications			-2.6%
Wed 5/27	Beige Book	-		-
Thu 5/28	GDP 1Q (Second Estimate)	-4.8%	-	-4.8%
Thu 5/28	Advance Durable Goods Orders	-18.0% M/M	▼	-14.7% M/M
Thu 5/28	Initial Claims			2438k
Thu 5/28	Pending Home Sales	-17.5% M/M	▲	-20.8% M/M
Fri 5/29	Personal Spending	-12.6% M/M	▼	-7.5% M/M
Fri 5/29	Core PCE Deflator	1.1% Y/Y	▼	1.7% Y/Y
Europe				
Mon 5/25	German IFO Business Climate	78.3	▲	74.3
Tue 5/26	Germany Gfk Consumer Confidence	-19.0	▲	-23.4
Fri 5/29	EZ Consumer Price Index (Estimate)	0.4% Y/Y	-	0.4% Y/Y
Asia Pacific				
Fri 5/29	Japan Retail Sales	-6.8% M/M	▼	-4.5% M/M
Fri 5/29	Japan Industrial Production (Prelim)	-5.0% M/M	▼	-3.7% M/M
Fri 5/29	Japan Vehicle Production			-11.0% Y/Y
Mon 5/25-29	China NPC Meeting	-		-

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

U.S.

- Consumer confidence is key to the return of demand and, therefore, the path and timing of the recovery, but we expect the **Conference Board consumer confidence index** to show consumer confidence remained weak in May.
- **Personal spending** data is expected to see a larger contraction in April than that seen in March amid lockdown orders. However, high frequency data is pointing to some improvement in May.

Europe

- As countries lift restrictions across Europe, Germany appears to be a leader in the recovery, as seen in high frequency data and investor sentiment. We therefore look to the **IFO Business Climate** and **consumer confidence** data to get a sense of confidence amid businesses and consumers in Germany.

Asia Pacific

- **Japan's April retail sales and industrial production** data will give us a first look at how restrictive measures are affecting hard economic data. Unlike most major economies, Japan did not implement restrictive measures until April, so the biggest impact in economic data has not yet been seen.

22 May 2020 / *The Week Ahead*

THE HIGHLIGHTS

U.S. Housing Market Set for a Modest Rebound

Housing starts plummeted a record 30.2% M/M to the lowest level since February 2015, with weakness in both single- and multifamily. Permits fell 20.8% M/M to a five-year low, while existing home sales plunged by the most in a decade, falling 17.8% M/M. However, high frequency data is pointing to a modest rebound in the housing sector in May.



Source: Bloomberg. As of May 21, 2020.

Weekly mortgage purchase applications have risen for five consecutive weeks. Additionally, the NAHB housing market index rose 7 points to 37 in May—better than expected—with improvement in the present situation, six-month expectations, and prospective buyer traffic. Low mortgage rates, pent up demand and limited supply position housing well as restrictions lift.

Global Flash PMIs Show Continued Contraction in May

Global flash PMIs improved in May but remain at depressed levels. Some activity is encouraging as economies reopen, but the recovery will be lengthy.

MARKIT FLASH PMIS

Region	Jan-20	Feb-20	Mar-20	Apr-20	May-20
U.S. Manufacturing	51.9	50.7	48.5	36.1	39.8
U.S. Services	53.4	49.4	39.8	26.7	36.9
EZ Manufacturing	47.9	49.2	44.5	33.4	39.5
EZ Services	52.5	52.6	26.4	12.0	28.7
UK Manufacturing	50.0	51.7	47.8	32.6	40.6
UK Services	53.9	53.2	34.5	13.4	27.8
Japan Manufacturing	48.8	47.8	44.8	41.9	38.4
Japan Services	51.0	46.8	33.8	21.5	25.3

Source: Bloomberg. As of May 21, 2020.

Weakness was broad-based across services and manufacturers' sectors, while businesses across the globe reduced output charges in hopes of increasing sales. In Japan, the manufacturing PMI fell further into contractionary territory, unlike in other regions, while the services contraction eased slightly.

FOMC Minutes

There was minimal surprise to April's deliberations of the FOMC, but participants did hint of possible policy developments, including outcome-based forward guidance, or making explicit economic outcomes—such as the level of unemployment or inflation. A few members also noted Yield Curve Control, or capping short- to medium-term Treasury yields at specific levels.

No specific view on negative rates was offered, though Desk surveys attaching almost no probability to the FOMC implementing negative rates were noted.

Policy

E.U. Stimulus: German Chancellor Angela Merkel and French President Emmanuel Macron agreed to support a 500 billion euro (\$546 billion) aid recovery package for the European Union. Funds will be managed as part of the E.U.'s multi-annual budget and raised through bond issuance by the European Commission. Budget money is fungible but this is as close to "coronabonds" as it gets. All 27 members will need to approve and, while widely welcomed, Austria remains opposed to the deal's direct handouts.

U.S. Stimulus: The next fiscal stimulus package is in the works as states face budget deadlines and may struggle to support unemployment when the Paycheck Protection Program (PPP) expires June 30. Federal Reserve Chairman Jerome Powell announced that the central bank is prepared to use its full range of tools and leave the benchmark lending rate near zero until the economy recovers. He anticipates matters will get worse before they get better. The remarks on a path to recovery contrasted those of Treasury Secretary Steven Mnuchin, who appeared more confident in the U.S. economy rebounding sooner and emphasized the importance of an expeditious reopening rather than greater stimulus.

WHO: The World Health Organization was overshadowed by President Trump's ultimatum to halt U.S. funding and reconsider its membership without improvements in the next 30 days, widening battles with Beijing and the U.N. health organization. Trump previously suspended payments for 60 days over what he called its "China centric" coronavirus response. China brushed off its handling of the initial outbreak and pledged another \$2 billion.

Trade Tension: China has already barred meat imports from four Australian slaughterhouses for "technicalities" and placed tariffs on Australian barley, likely in reaction to Australia's criticism of China's initial virus response. Any additional tariff threats will probably depend on how Australia addresses China's objections. China is Australia's most important trading partner, with agricultural shipments alone totaling A\$16 billion (\$10 billion) in 2018-19. Meanwhile, the U.S. Senate voted unanimously to render the listings of Chinese companies in the U.S. harder. The impasse in EU-British talks coincides with geopolitical tensions that emerged years before the coronavirus pandemic but now appear to be magnified by it. British foreign and economic policy priorities may have to shift toward the wider international stage, particularly with regard to the U.S., and trade talks are currently underway.

Hong Kong: During the National People's Conference, China's lawmakers were preparing to pass measures that would curb separation, sedition, foreign interference and terrorism in Hong Kong, seen as a further reach into the city's affairs that caused protests in the past year. The legislation would still require several procedural steps, including approval by the NPC's decision-making Committee, which could come as early as next month.

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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	-150 bps	-150 bps	-225 bps	-150 bps
U.S. SOFR	0.01%	-3 bps	-1 bps	-159 bps	-156 bps	-238 bps	-154 bps
3 Month USD Libor	0.36%	-3 bps	-74 bps	-132 bps	-154 bps	-217 bps	-155 bps
3 Month Euribor	-0.28%	-3 bps	-3 bps	13 bps	13 bps	3 bps	10 bps
3 Month U.S. T-Bill	0.12%	-1 bps	3 bps	-142 bps	-144 bps	-225 bps	-143 bps
2-Year U.S. Treasury	0.16%	0 bps	-4 bps	-123 bps	-140 bps	-206 bps	-141 bps
10-Year U.S. Treasury	0.68%	3 bps	5 bps	-85 bps	-106 bps	-173 bps	-124 bps
10-Year German Bund	-0.47%	6 bps	-2 bps	-3 bps	-11 bps	-39 bps	-28 bps
10-Year U.K. Gilt	0.23%	1 bps	-10 bps	-35 bps	-49 bps	-92 bps	-59 bps
10-Year JGB	0.00%	0 bps	-2 bps	4 bps	11 bps	5 bps	2 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.52%	N/A	-0.2%	-0.4%	5.8%	13.2%	8.6%
Barclays Capital U.S. TIPS	0.68%	N/A	0.6%	1.4%	2.7%	9.8%	5.0%
Barclays Capital U.S. Aggregate	1.37%	77	0.5%	0.3%	2.9%	10.5%	5.1%
Barclays Capital Global Aggregate	1.04%	68	0.6%	0.8%	1.2%	6.0%	1.4%
Barclays Capital U.S. ABS	1.45%	125	0.2%	1.3%	0.8%	4.3%	1.9%
Barclays Capital U.S. MBS	1.31%	63	0.2%	0.7%	2.7%	7.4%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.54%	187	1.7%	0.8%	-0.8%	10.3%	2.0%
BAML Euro Corporate Investment Grade	1.30%	188	-0.1%	0.4%	-4.7%	-1.1%	-3.5%
Barclays Capital U.S. Corporate High Yield	7.59%	691	1.4%	1.1%	-8.1%	-1.7%	-6.9%
BAML European Currency High Yield Non-Financial	6.09%	655	0.6%	0.7%	-9.8%	-4.9%	-9.0%
CS U.S. Leveraged Loans	8.34%	805	0.6%	1.1%	-8.6%	-5.7%	-8.0%
CS Western European Leveraged Loans Non-USD	7.31%	723	-0.1%	2.1%	-7.6%	-5.2%	-7.0%
JPM CEMBI Broad Diversified	5.65%	506	1.3%	3.0%	-6.3%	2.1%	-4.1%
JPM EMBI Global Diversified	6.12%	535	2.9%	5.2%	-8.9%	-0.2%	-6.8%
JPM GBI-EM Global Diversified	4.57%	N/A	3.1%	4.6%	-8.2%	0.8%	-9.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	2,971.61	1.94%	5.5%	5.5%	-11.4%	6.7%	-7.3%
Euro STOXX 600 (Local)	342.82	2.30%	2.6%	2.1%	-20.3%	-9.2%	-17.6%
U.K. FTSE 100 (Local)	6,067.16	4.97%	2.8%	4.4%	-18.4%	-17.0%	-19.6%
Japan Nikkei 225 (Local)	20,595.15	2.33%	1.6%	4.7%	-12.3%	-3.3%	-12.9%
China Shanghai Composite (Local)	2,883.74	2.30%	-0.5%	1.1%	-4.8%	0.5%	-5.5%
MSCI AC World (Local)	497.81	2.55%	4.2%	3.7%	-13.1%	1.2%	-9.7%
MSCI Emerging Markets (Local)	931.50	2.97%	2.1%	3.3%	-11.6%	0.1%	-11.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	301.52	10.5%	16.6%	-25.2%	-27.4%	-32.0%	-30.9%
WTI Crude (\$/bbl)	33.52	32.1%	-190.6%	-37.7%	-40.9%	-46.9%	-45.2%
Copper (\$/lb)	2.47	5.0%	5.7%	-4.9%	-6.8%	-9.8%	-11.7%
Gold (\$/oz)	1,748.30	2.3%	3.7%	8.0%	18.8%	36.9%	15.4%
U.S. Dollar Index	99.12	-1.1%	-0.8%	-0.7%	1.2%	1.2%	2.8%
Euro (USD/EUR)	1.10	1.4%	1.0%	1.7%	-0.7%	-1.5%	-2.1%
British Pound (USD/GBP)	1.23	0.4%	-1.6%	-4.7%	-5.0%	-3.7%	-7.4%
Japanese Yen (Yen/USD)	107.44	0.3%	-0.2%	-4.2%	-1.1%	-2.3%	-1.1%
Chinese Yuan (CNY/USD)	7.11	0.2%	0.4%	1.3%	1.0%	2.8%	2.0%

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

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