

COVID-19 Cases May Curtail Consumer Demand

IN REVIEW

- **NFIB small business optimism index** rose 6.2 points to 100.6, led by a 37-point rise in the sales expectations subcomponent. However, earnings expectations slid.
- The **U.S. CPI** accelerated from -0.1% M/M in May to 0.6% M/M in June, led by higher gasoline, vehicle insurance and food prices, while shelter prices weakened. Core CPI rose a more modest 0.2% M/M.
- **U.S. industrial production** rebounded in June, up 5.4% M/M, but down 11% from February. Vehicle and parts output soared 105% after rising 120.1% in May.
- **Initial claims** slid a mere 10,000 to 1.3 million in W/E July 11—the smallest decline since March. Continuing claims fell 422,000 to 17.338 million in W/E July 4.
- **EZ industrial production** rebounded 12.4% M/M in May amid reopenings, but outbreaks elsewhere will likely keep a lid on the recovery.
- **U.K. CPI** rose from 0.5% Y/Y in May to 0.6% Y/Y in June due to higher games and clothing prices, while food prices decelerated. A reduced VAT for hospitality and tourism should keep inflation weak.
- The July **German ZEW survey** underwhelmed amid weaker expectations and a more modest rise in current conditions.
- **China 2Q20 GDP** rose 3.2% Y/Y—better than expected—after falling 6.8% in Q1. Government spending was a boon while consumers lagged.
- The **BOJ** kept rates steady and is keeping focus on corporates rather than reflation in the near-term.

WATCH LIST

Date		Consensus		Previous
U.S.				
Wed 7/22	MBA Mortgage Applications			5.1%
Wed 7/22	FHFA House Price Index	0.4% M/M	▲	0.2% M/M
Wed 7/22	Existing Home Sales	4.75m	▲	3.91m
Thu 7/23	Initial Claims			1300k
Fri 7/24	Markit Manufacturing PMI (Prelim)	51.8	▲	49.8
Fri 7/24	Markit Services PMI (Prelim)			47.9
Fri 7/24	New Home Sales	700k	▲	676k
Europe				
Fri 7/24	U.K. Retail Sales	9.0% M/M	▼	12.0% M/M
Fri 7/24	U.K. Markit Manufacturing PMI (Prelim)	52.0	▲	50.1
Fri 7/24	U.K. Markit Services PMI (Prelim)	51.0	▲	47.1
Fri 7/24	EZ Markit Manufacturing PMI (Prelim)	49.3	▲	47.4
Fri 7/24	EZ Markit Services PMI (Prelim)	50.6	▲	48.3
Asia Pacific				
Mon 7/20	PBOC Meeting	--		--
Tue 7/21	Japan Consumer Price Index	0.1% Y/Y	-	0.1% Y/Y
Wed 7/22	Jibun Bank Japan Mfg PMI (Prelim)			40.1
Wed 7/22	Jibun Bank Japan Service PMI (Prelim)			45.0
Thu 7/23	Japan Markets Closed for Marine Day	--		--
Fri 7/24	Japan Markets Closed for Sports Day	--		--

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

U.S.

- **Housing data** are expected to improve in June amid solid fundamentals, pent-up demand and improvement in higher frequency indicators such as home purchase applications—which are above pre-crisis levels.
- The **Markit Flash Manufacturing PMI** is expected to improve in July along with other manufacturing data as factories reopen and demand improves.

Europe

- The **EZ Markit Flash PMIs** are largely expected to improve in July amid reopening measures, though services is anticipated to fare better than manufacturing due to weaker external demand.

Asia Pacific

- The **PBOC** is expected to keep the one- and five-year loan prime rate steady at the July meeting, though they may have room to cut the Reserve Requirement Ratio.
- We watch for **Japan's Markit Flash PMIs** as high-frequency data suggests economic data has bottomed in Japan, but concerns are rising amid increased COVID-19 cases.
- **Markets in Japan will be closed** on Thursday, July 23 and Friday, July 24 due to the Marine Day and Sports Day holidays.

THE HIGHLIGHTS

U.S. Retail Sales Strong, But Consumer Demand May Fall

U.S. retail sales rose 7.5% M/M in June after jumping 18.2% M/M in May, bringing retail sales about in-line with pre-crisis levels. The better-than-expected improvement shows consumers spending strongly amid pent-up demand, but dynamics have shifted since June and consumer demand is waning amid new COVID-19 spikes. Within the June report, 10 of the 13 categories notched gains, led by a 105.1% M/M rise in apparel, followed by electronics/appliance, and furniture. Restaurant spending was also strong as easing restrictions allowed more dining.



Source: Bloomberg. As of July 16, 2020.

However, tightening restrictions and rising COVID-19 cases following the June data collection are showing early indications of weighing on consumer spending—such as weaker daily card spending and fewer OpenTable bookings. While greater restrictions on dining, bars, and leisure activity will be a weight on spending, consumer demand is the bigger driver of business activity. Increased concerns about economic recovery and health risks may weigh on future consumer demand even with more fiscal support. Retail sales have been aided by government stimulus checks and the additional \$600/week unemployment insurance. However, stimulus checks have largely been spent and the extra \$600/week is expiring at the end of July. Consumers emerged from lockdown with strong spending, but weaker labor market data along with rising COVID-19 cases suggests this momentum may be difficult to sustain, particularly in discretionary categories.

ECB Meeting

Following this week's meeting, there were no changes from the ECB, as widely expected. The ECB feels they are in a good place on policy at the moment. Experience with a two-tier system seems to be working as intended. A second virus wave is a concern, though the baseline forecast accommodates this.

Policy

Hong Kong: President Donald Trump signed into law a bipartisan bill that requires sanctions on Chinese officials who crack down on Hong Kong

residents' rights to free speech and peaceful assembly, as well as the Chinese banks that do business with those officials. Trump also signed an executive order to end preferential U.S. treatment for Hong Kong, a blow to its status as an international financial center and putting it on equal footing with mainland China. The Chinese will also tax the global income of its citizens living in Hong Kong, undermining the financial hub's appeal to thousands of bankers and other white-collar workers from the mainland. Many residents now face a tax rate as high as 45%—up from about 15% previously.

Chinese Listings: The Trump administration plans to scrap a 2013 agreement between U.S. and Chinese auditing authorities, foreshadowing a broader crackdown on U.S.-listed Chinese firms sidestepping American disclosure rules. The U.S. has long complained of China's information access, and the lack of transparency has prompted U.S. officials to prepare exiting the deal soon. There are 156 Chinese companies listed on U.S. exchanges with a total market capitalization of \$1.2 trillion.

OPEC+: Cartel countries and their allies will withhold 7.7 million barrels a day from the market in August, compared with current cuts of 9.6 million. The group's two largest members, Russia and Saudi Arabia, publicly backed the move, and other ministers participating had agreed in principle this week.

Tech: Under the blueprint agreed upon by Prime Minister Boris Johnson, operators cannot add any new Huawei components to their 5G networks after December 31. Equipment made by the Shenzhen-based company that's already installed will need to be removed from 5G infrastructure by 2027. Other developed economy countries will likely follow this move.

France: French President Emmanuel Macron is developing another €100 billion recovery plan for the French economy, in addition to the €460 billion committed since the pandemic began. Package investments should create jobs for young people, with a focus on training for those without work during the downturn. Separately, the U.S. issued 25% tariffs on \$1.3 billion of French products but will delay the charge until January 2021 as differences are addressed over digital tax on U.S. tech companies. Cosmetics, soap and handbags are among the items that could be affected by the tariffs.

India Trade Deal: Trade Minister Piyush Goyal said trade talks with the EU have started, and he is open to free trade agreement discussions with the U.K. A comprehensive free trade agreement between the EU and India was suspended in 2013 after six years of talks. Items to be discussed include: pharmaceuticals, textiles, handicrafts, leather, furniture and machinery.

Defense: China will impose sanctions on U.S. defense contractors after the U.S. approved a \$620 million missile parts deal with Taiwan. Lockheed Martin is the largest beneficiary of foreign military sales to Taiwan, with the most recent deal bringing total spending to \$8.6 billion. China also warned it could blacklist FedEx, while Ford Motor Co.'s main joint venture partner in China was fined 162.8 million yuan (\$23.6 million) last year, days after the U.S. banned doing business with Huawei.

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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	0.13%	3 bps	4 bps	10 bps	-143 bps	-233 bps	-142 bps
3 Month USD Libor	0.27%	0 bps	-3 bps	-86 bps	-156 bps	-203 bps	-164 bps
3 Month Euribor	-0.44%	-1 bps	-9 bps	-19 bps	-5 bps	-8 bps	-6 bps
3 Month U.S. T-Bill	0.14%	-1 bps	-3 bps	-2 bps	-142 bps	-199 bps	-141 bps
2-Year U.S. Treasury	0.15%	-1 bps	-4 bps	-5 bps	-140 bps	-168 bps	-142 bps
10-Year U.S. Treasury	0.63%	-3 bps	-8 bps	-1 bps	-116 bps	-146 bps	-129 bps
10-Year German Bund	-0.44%	0 bps	1 bps	3 bps	-23 bps	-19 bps	-26 bps
10-Year U.K. Gilt	0.17%	0 bps	-3 bps	-13 bps	-50 bps	-69 bps	-65 bps
10-Year JGB	0.02%	0 bps	2 bps	0 bps	1 bps	14 bps	4 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.48%	N/A	0.3%	0.7%	0.2%	11.4%	9.1%
Barclays Capital U.S. TIPS	0.69%	N/A	0.3%	1.6%	1.7%	9.0%	6.9%
Barclays Capital U.S. Aggregate	1.18%	63	0.3%	1.1%	2.0%	9.8%	6.9%
Barclays Capital Global Aggregate	0.92%	55	0.5%	1.1%	3.3%	5.8%	4.1%
Barclays Capital U.S. ABS	0.84%	67	0.1%	0.3%	2.9%	4.8%	3.4%
Barclays Capital U.S. MBS	1.26%	65	0.0%	0.0%	0.3%	5.7%	3.6%
Barclays Capital U.S. Corporate Investment Grade	2.01%	138	0.7%	2.6%	5.8%	11.8%	6.9%
BAML Euro Corporate Investment Grade	0.77%	137	0.3%	0.6%	3.3%	-0.3%	-0.7%
Barclays Capital U.S. Corporate High Yield	6.22%	563	0.6%	1.2%	6.7%	1.6%	-2.0%
BAML European Currency High Yield Non-Financial	4.82%	530	0.2%	0.8%	5.9%	-1.6%	-4.2%
CS U.S. Leveraged Loans	6.80%	656	0.4%	0.3%	6.3%	-1.8%	-3.9%
CS Western European Leveraged Loans Non-USD	6.16%	609	-0.1%	0.6%	7.0%	-1.8%	-3.2%
JPM CEMBI Broad Diversified	4.83%	431	0.3%	1.4%	8.9%	4.2%	0.6%
JPM EMBI Global Diversified	5.37%	462	0.1%	2.4%	11.4%	1.3%	-1.5%
JPM GBI-EM Global Diversified	4.49%	N/A	1.0%	0.5%	9.9%	-2.1%	-5.4%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,226.56	1.80%	1.8%	5.3%	16.5%	9.2%	0.9%
Euro STOXX 600 (Local)	373.87	2.07%	2.0%	5.9%	15.7%	-3.6%	-10.1%
U.K. FTSE 100 (Local)	6,292.65	4.72%	2.2%	3.8%	12.4%	-16.5%	-16.6%
Japan Nikkei 225 (Local)	22,945.50	2.22%	2.3%	6.6%	17.4%	5.8%	-3.0%
China Shanghai Composite (Local)	3,361.30	2.10%	-1.2%	16.3%	19.6%	14.2%	10.2%
MSCI AC World (Local)	549.79	2.20%	1.6%	6.3%	17.0%	6.4%	-0.9%
MSCI Emerging Markets (Local)	1,066.29	2.48%	-0.4%	8.7%	19.3%	8.0%	1.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	339.95	0.8%	7.2%	25.5%	-20.1%	-21.1%	-22.1%
WTI Crude (\$/bbl)	41.13	0.5%	11.0%	106.1%	-28.9%	-30.6%	-32.7%
Copper (\$/lb)	2.87	2.0%	11.8%	24.1%	0.0%	6.0%	2.7%
Gold (\$/oz)	1,804.60	-0.4%	5.5%	5.0%	16.5%	27.8%	19.1%
U.S. Dollar Index	96.08	-0.4%	-0.6%	-3.4%	-1.2%	-0.9%	-0.3%
Euro (USD/EUR)	1.14	0.8%	1.3%	4.7%	2.4%	1.4%	1.7%
British Pound (USD/GBP)	1.26	0.2%	0.4%	1.0%	-3.1%	0.9%	-4.7%
Japanese Yen (Yen/USD)	106.84	-0.6%	-0.5%	-0.5%	-2.9%	-1.1%	-1.7%
Chinese Yuan (CNY/USD)	6.99	-0.4%	-1.5%	-1.0%	1.5%	1.6%	0.3%

Source: FactSet and Bloomberg. As of July 16, 2020.

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