Weekly Macro Review

w/c 6 April 2020

Key Themes

The sheer weight of the emerging US and global unemployment picture indicates that the demand shock from C-19 shutdowns will likely be significant.

Late in the week, the US Fed announced a further $2.3t in funding for several facilities designed to enable, essentially bridging finance, to a range of organisations in the US economy. This is the Fed stepping in as the backstop – both directly and indirectly, keeping rates low and ensuring the flow of credit within the financial system. Love it or hate it, these actions are helping to keep the US financial system on life support. It's likely we'll see continued upgrades and expansion of this support with the Fed essentially plugging gaps in liquidity if and when required.

While the financial system remains on life support, the economic situation is worsening. Whether these firms survive post C-19 is another story. The central question is - how quickly will demand return? When, if ever, will spending patterns "return to normal"?

In the last 3 weeks, over 16m US workers made an initial unemployment claim. This includes another alarming 6.6m initial claims this week. Mortgages applications declined again – as unemployment increased and uncertainty remains high. Home-owners/borrowers are taking advantage of the forbearance provision of the CARES Act with a significant number of borrowers applying for the program. Data for Mar highlighted that motor vehicle sales fell by a third versus the month prior. Within that, auto retail sales fell to the lowest monthly pace on record (going back to 1976).

Consumer sentiment data for early Apr continued to deteriorate – recording the largest fall in the series history. The Apr fall in sentiment around current economic conditions indicates just how hard consumers have been hit so far. We cannot discount the possibility that lasting damage has been done to spending patterns and that a swift 'V' shaped recovery is not likely.

Consumer sentiment data highlights that expectations about future conditions was not quite as negative. This was based on the expectation that quarantine measures would only be temporary. It's becoming obvious that shut-downs, in various forms, will likely continue.

What is also becoming apparent is the complexity and magnitude of the task to 'restart' a highly integrated, just-in-time, global supply chain.

Contents

US Data

Advance Initial Jobless Claims wk ending 4 Apr 2020

Initial claims were again alarming for the latest week.

Advance Initial Claims wk ending 4 Apr 2020 (SA); +6,606,000 persons

The NSA break down shows that some states continued record increases in the number of initial claims versus the week prior; Georgia (+254k claims), Michigan (+80k claims), Arizona (+43k claims) and Texas and Virginia (both +37k claims)

More states recorded a lower initial claims in the latest week, after the last two weeks' more significant increases. **But claims remain extremely elevated**. The largest week on week fall in initial claims was recorded in California – falling from 1.1m claims in wk ending 28 Mar to 925k claims in wk ending 4 Apr – but note that initial claims in California averaged approx. 40k per week in 2019.

Initial Claims prior wk ending 29 Mar 2020 (SA); +6,867,000 (revised higher by +219k persons – which was approx. the weekly average for the NATIONAL (SA) initial claims for 2019)

The largest increases in initial claims for the wk ending 28 Mar were; California (+871,992), New York (+286,596), Michigan (+176,329), Florida (+154,171), Georgia (+121,680), Texas (+120,759), and New Jersey (+90,438). The largest week on week decreases were recorded in Nevada (-20,356), Rhode Island (-8,047), and Minnesota (-6,678).

https://www.dol.gov/ui/data.pdf

Mortgage Applications wk ending 3 Apr

Despite increased support from the Fed, mortgage applications continued to decline in the latest week.

> "Mortgage applications fell last week, **as economic weakness and the surge in unemployment continues to weigh heavily on the housing market**. Purchase activity declined again, with the index dropping to its lowest level since 2015 and now down 33 percent compared to a year ago," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "With much less liquidity and tighter credit in the jumbo market, average loan sizes declined, and mortgage rates for jumbo loans increased to a high last seen in January."

Market Composite Index (mortgage loan application volume); -17.9% (SA) versus wk prior.

This week, the MBA included a snapshot of applications from California, NY and Washington – highlighting how much application volumes had declined in these embattled states;

	Week-Over-Week Change		Year-Over-Year Change	
State	% Change: Week Ending 4/3/2020	% Change: Week Ending 3/27/2020	% Change: Week Ending 4/3/2020	% Change: Week Ending 3/27/2020
CA	(15.9)	(16.5)	(47.5)	(36.4)
NY	(31.3)	(18.1)	(55.4)	(35.6)
WA	(38.0)	0.6	(59.9)	(32.5)

NOTE: Not seasonally adjusted, home purchase applications only

Source: Mortgage Bankers Association Weekly Applications Survey

Refi's activity declined by 19% versus the week prior but remained +144% above a year ago.

> "Refinance applications dropped 19 percent, reversing a 25 percent increase the week before. Given the ongoing rate volatility, along with the persistent lack of liquidity in certain sectors of the MBS market, we expect to see continued weekly swings in refinance activity."

The Purchase Index also declined by 12% versus the prior week and was 33% below the same week a year ago.

The MBA also released details this week of the large increase in mortgage forbearance – calling it "unprecedented". The CARES Act included a provision for mortgage forbearance for borrowers with federally backed mortgages. Borrowers in financial difficulty can request up to 180 days of forbearance with the possibility of another 180-day extension on top of that.

Loans in forbearance among companies that provided data for the entire period from 2 Mar – 1 Apr 2020:

Total loans in forbearance; from 0.25% to 2.66%

Ginnie Mae loans grew the most: 0.19% to 4.25%

> "The mortgage industry is committed to providing this much-needed forbearance as mandated by law under the CARES Act. It is expected that requests will continue to skyrocket at an unsustainable pace in the coming weeks, putting insurmountable cash flow constraints on many servicers - especially IMBs." https://www.mba.org/2020-press-releases/april/mba-survey-shows-spike-in-loans-in-forbearance-servicer-call-volume

https://www.mba.org/2020-press-releases/april/mortgage-applications-decrease-in-latest-mba-weekly-survey

University of Michigan Consumer Sentiment Prelim (Apr)

The decline in consumer sentiment this month broke all records. The decline in the prelim sentiment index for Apr was 18pts – the largest monthly drop in the series history. The current conditions index of sentiment fell by over 30pts – which was twice the size of the previous largest decline. Expected conditions also fell, but not to the same degree;

> "…the free-fall in confidence would have been worse were it not for **the expectation** that the infection and death rates from covid-19 would soon peak and allow the economy to restart."

According to this months' report, the messages building an expectation for a quick economic restart could spark a "renewed and deeper slump in confidence" if they don't come to fruition;

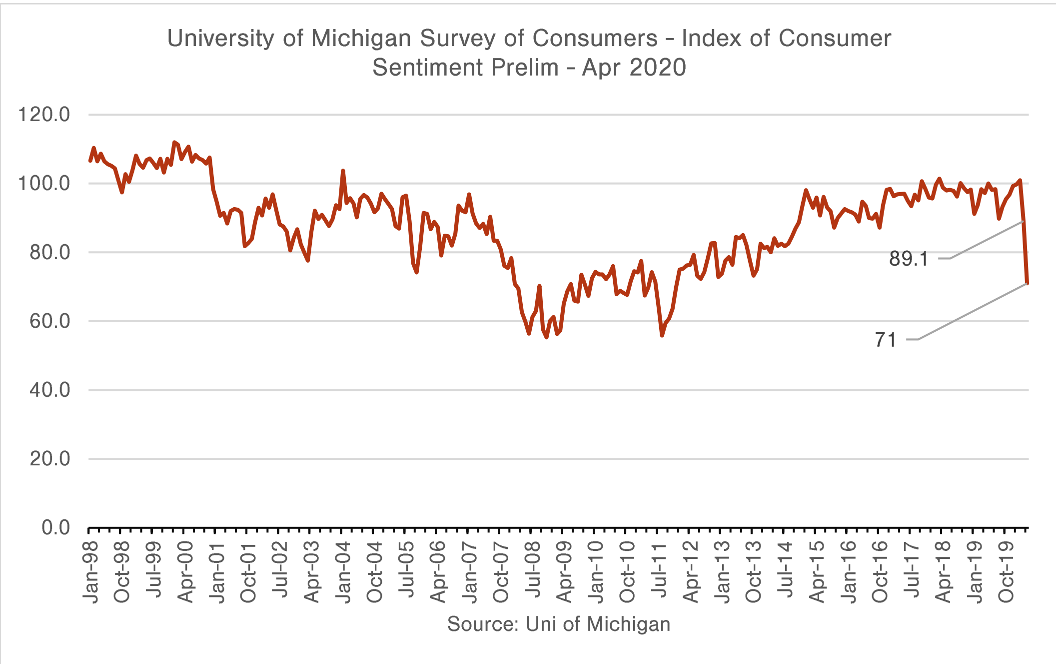
> "Consumers need to be prepared for a longer and deeper recession rather than the now discredited message that pent-up demand will spark a quick, robust, and sustained economic recovery."

The 7-day moving average has so far been a good barometer for how quickly sentiment is eroding and what to expect in the coming weeks (emphasis added);

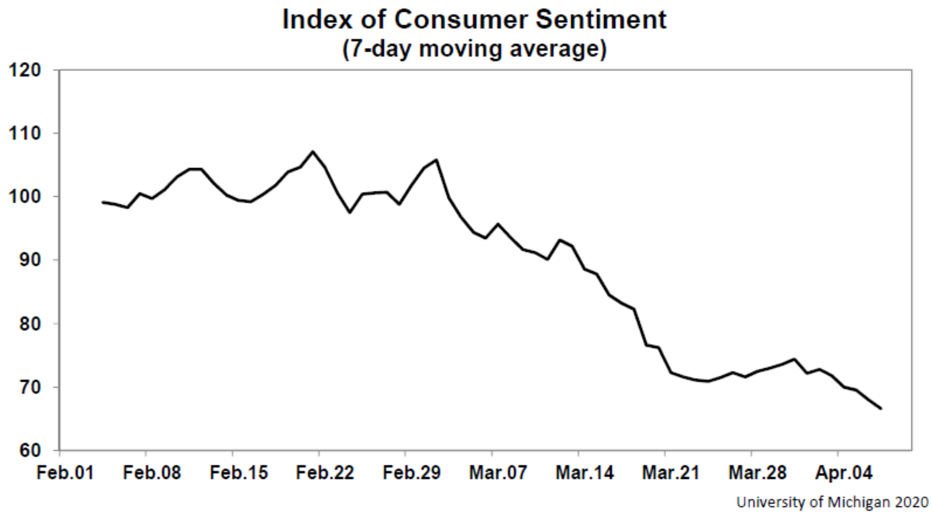
> "Continued declines in the seven-day average Sentiment Index can be expected in the weeks ahead. Sharp additional declines may occur **when consumers adjust their views to a slower expected pace of the economic recovery."**

<u>INDEX OF CONSUMER SENTIMENT</u>

Index of Consumer Sentiment – month; Apr Prelim 71 versus Mar 89.1



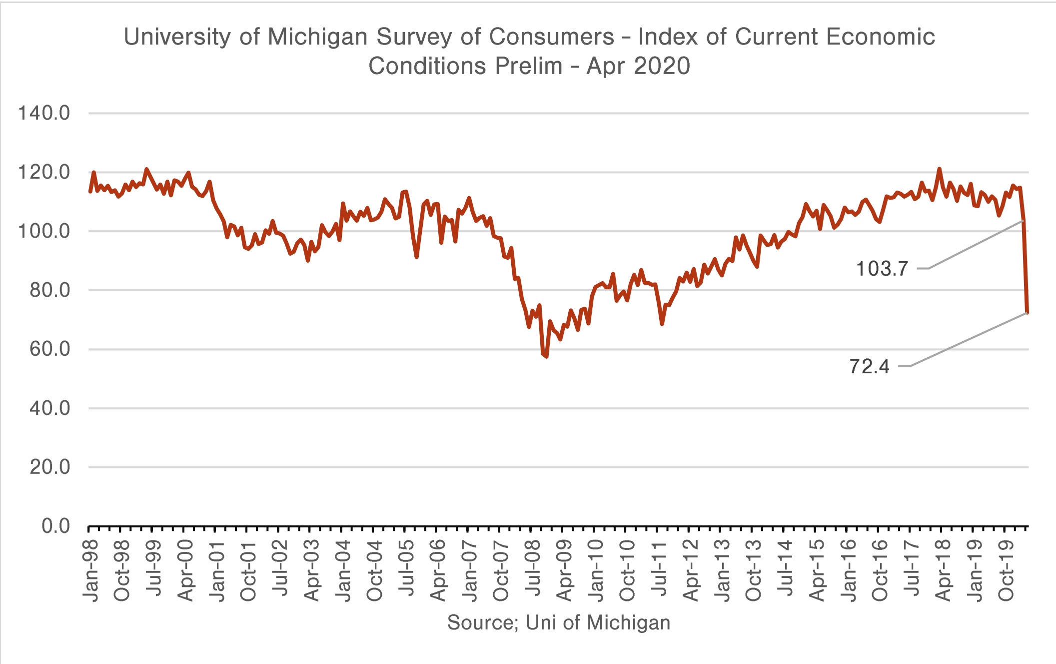
The seven-day moving average of consumer sentiment continues to fall;



<u>INDEX OF CURRENT CONDITIONS</u>

Index of Consumer Sentiment Current Conditions – month; Prelim Apr 72.4 versus Mar 103.7

The fall of 31.3pts highlights how quickly conditions have deteriorated for most consumers.



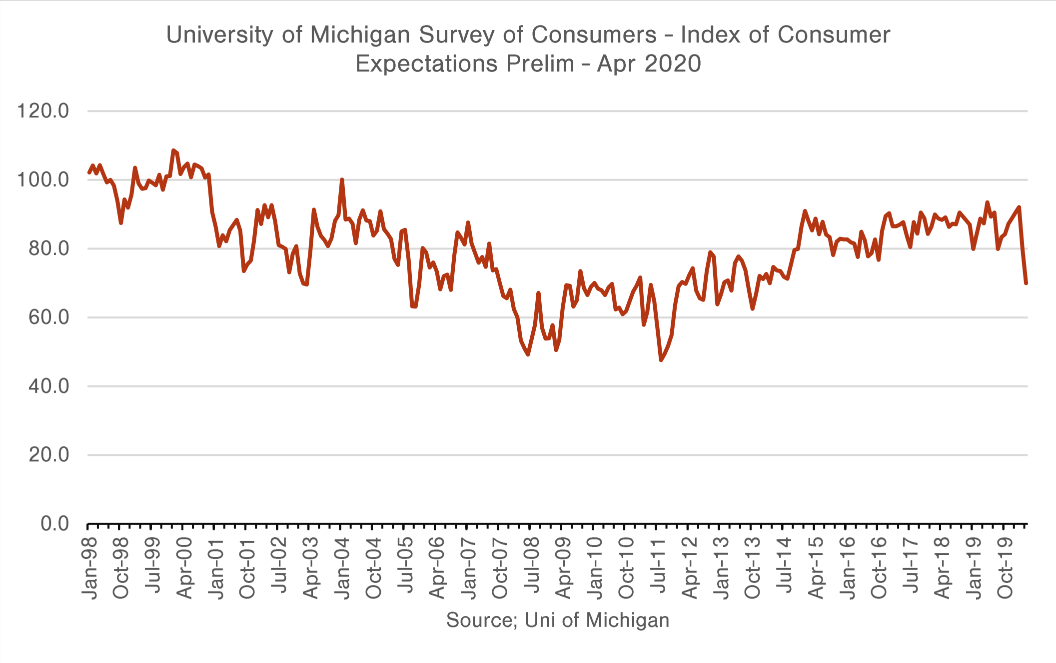
<u>INDEX OF EXPECTED CONDITIONS</u>

<u>Index of Consumer Expectations – month</u>; Prelim Apr 70 versus Mar 79

The smaller fall in expected conditions has been the result of messages around a near-term peak in the virus allowing the economy to restart. This is possibly creating an unrealistic expectation;

"A significant pillar that has prevented more drastic declines in consumer sentiment has been the widespread belief that the coronavirus crisis will be temporary."

"Consumers can be expected to differ on how low an infection rate would need to be for them to return to their normal routines. There will be a range of responses, some consumers moving quickly to their old spending patterns, and some much more slowly. It will take some time for the majority of consumers to again become comfortable enough to resume their normal spending patterns."



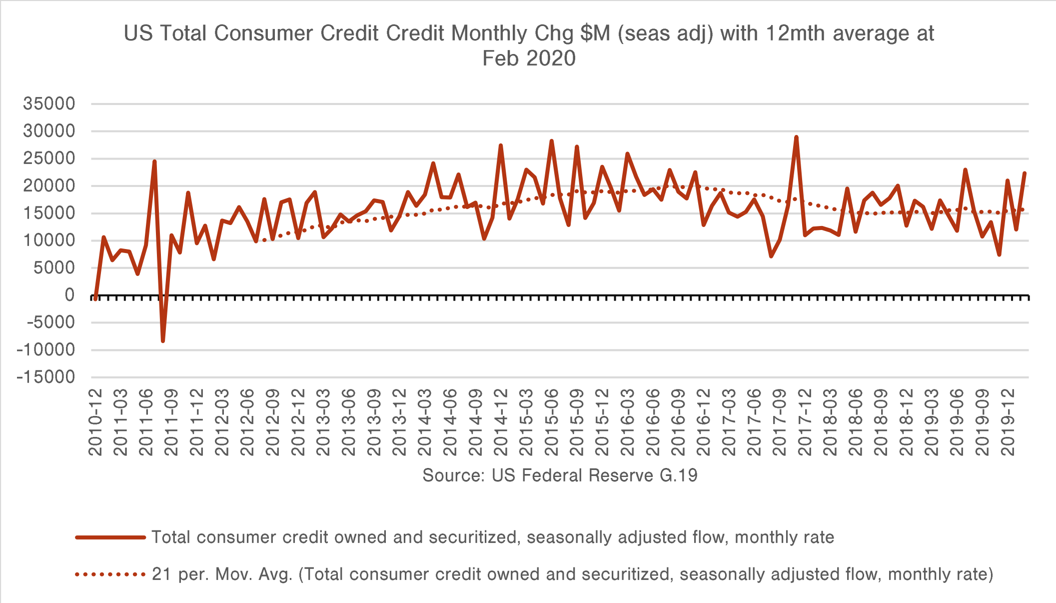
Special report; https://data.sca.isr.umich.edu/fetchdoc.php?docid=65035

http://www.sca.isr.umich.edu/

Consumer Credit G.19 (Feb)

Consumer credit growth accelerated in Feb – led by faster growth in non-revolving credit. Revolving credit growth also rebounded in Feb after declining in Jan.

Total Consumer Credit growth – month change; Feb +$22.3bn versus Jan +$12.1bn

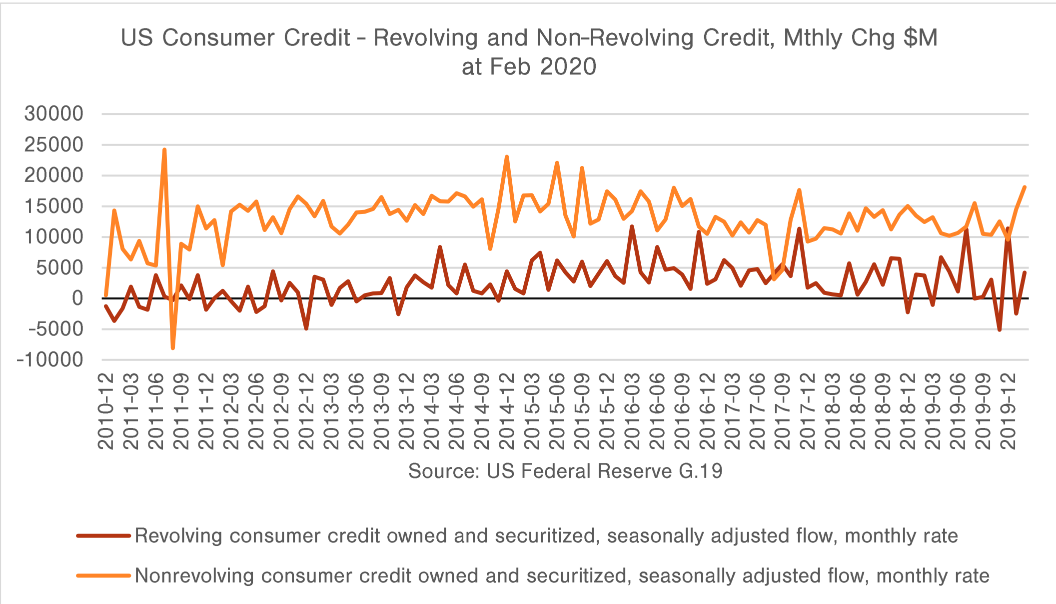


The annual year on growth of total consumer credit growth is now +4.5%. The recent peak in the pace of growth was the end of 2016 when growth was +6.8%.

The two main components of consumer credit are revolving (credit card) credit and non-revolving credit (mostly auto and student loans).

<u>Revolving Credit growth – month change</u>; Feb +$4.2bn versus Jan -$2.5bn

<u>Non-Revolving Credit growth – month change</u>; Feb +$18.1bn versus Jan +$14.5bn

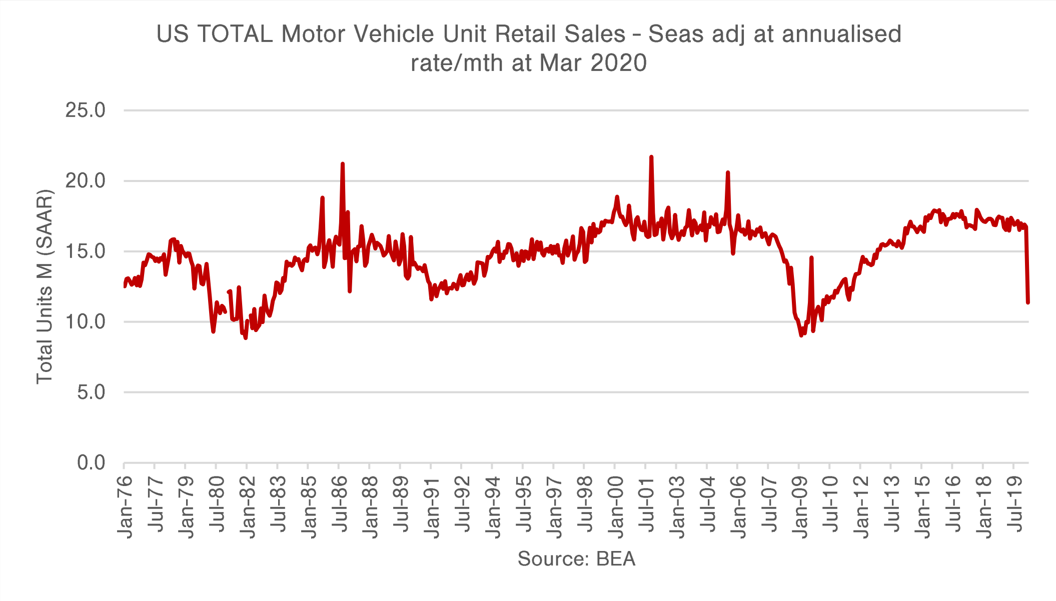


https://www.federalreserve.gov/releases/G19/current/g19.pdf

Motor Vehicle Sales (Mar)

Unit sales of Motor Vehicles fell by a third in Mar. Both Auto's and Light Trucks (SUV's) contributed to the overall decline.

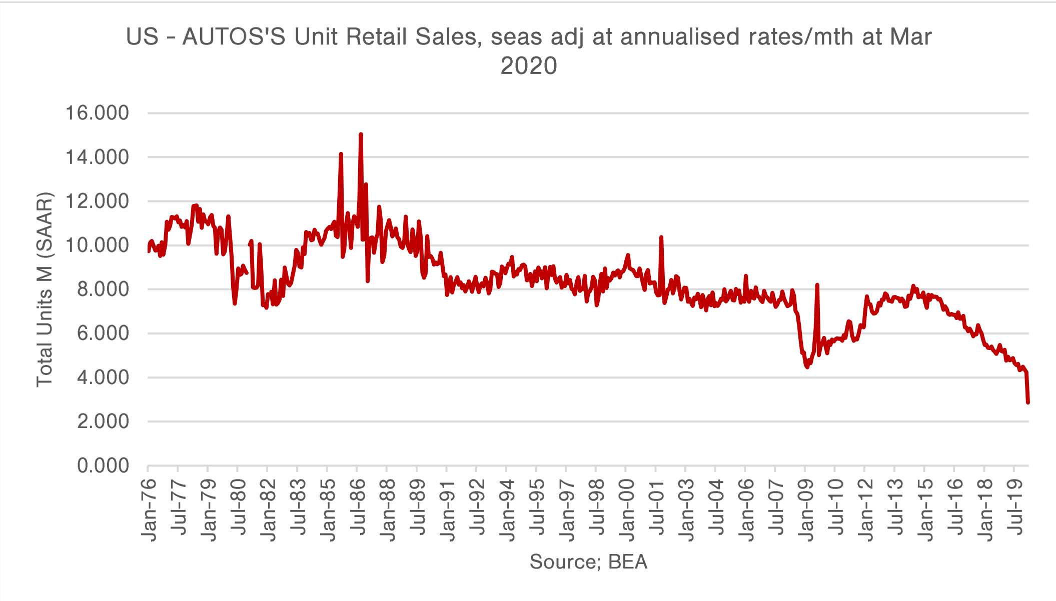
Total Motor Vehicles Sales – SAAR; Mar 11.7m units versus Feb 17.2m units



The annual pace of growth shifted from +1% in Feb to -34% in Mar (on a SAAR basis).

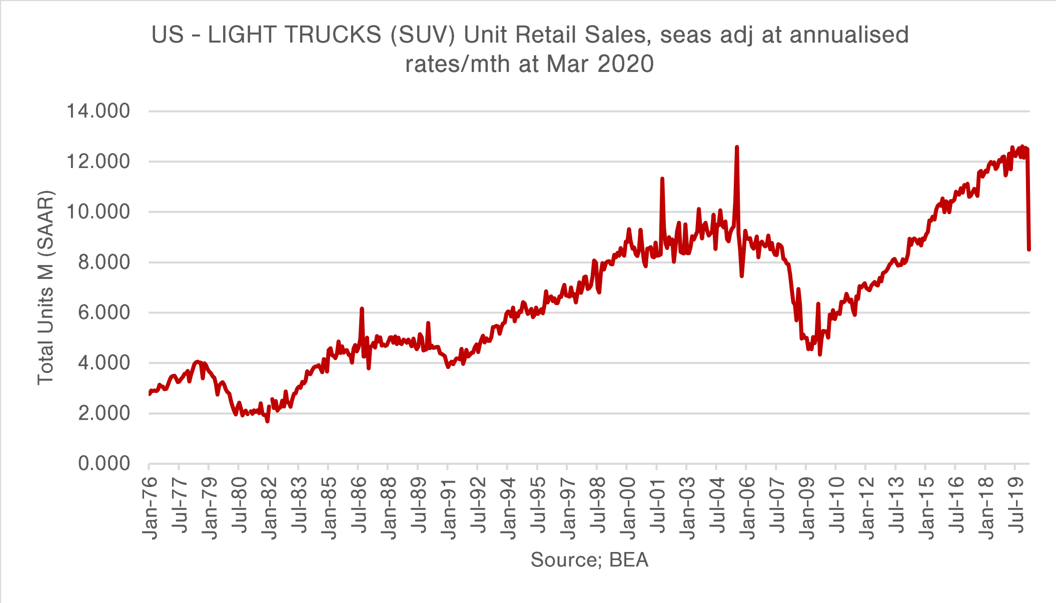
The two main components of consumer motor vehicle sales are Autos and Light Trucks (includes SUV's). The decline in Auto sales continued and the fall in Mar was severe.

Auto Sales – SAAR; Mar 2.86m units versus Feb 4.2m units

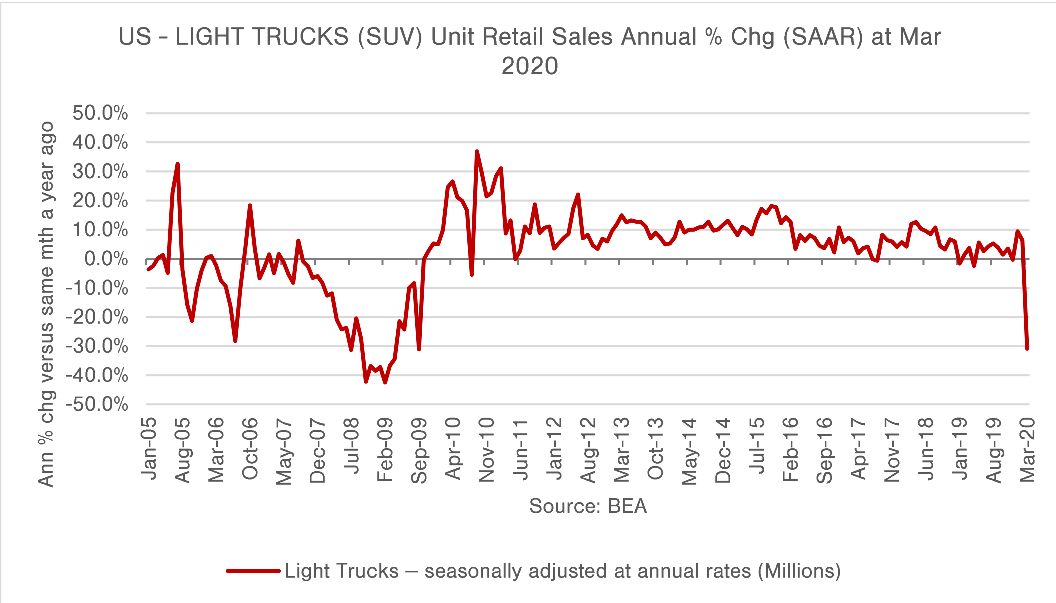


The long-term chart highlights how severe/dire the situation is now for Auto sales in the US – non-seasonally adjusted unit sales in Mar fell to the lowest level in the series history. To a large degree, the trend represents a shift in consumer preference from Autos to SUV's/Light Trucks.

<u>Light Truck Sales – SAAR</u>; Mar 8.5m units versus Feb 12.5m units



The annual pace of decline in Light Truck sales was severe in Mar, down -30%;



https://www.bea.gov/data/consumer-spending/main

PPI (Mar)

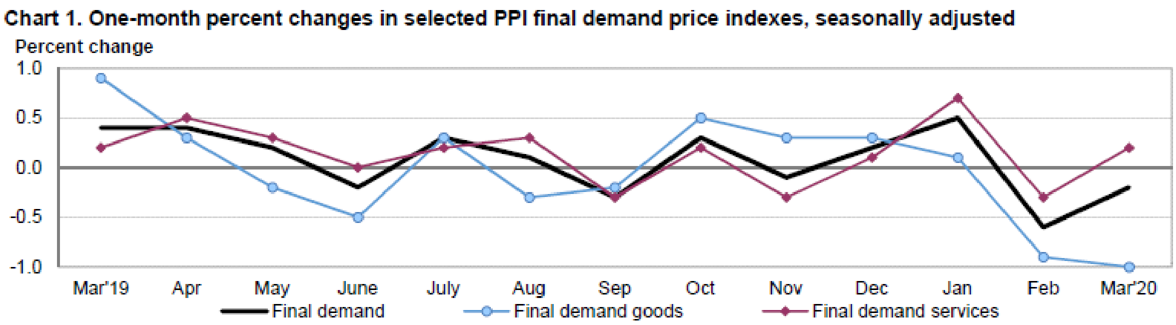
The US PPI declined further in the latest month, albeit at a slower pace. This was led by an accelerated decline in final demand goods producer prices – namely, energy prices. The more significant falls in energy prices occurred after the 5-6 Mar OPEC+ meeting.

> The Producer Price Index (PPI) pricing date was March 10. Response rates for March were consistent with those of February, and no changes in estimation procedures were necessary.

Note that the producer price index measures changes in prices from the perspective of the seller;

> The final demand portion of the FD-ID structure measures price change for commodities sold for personal consumption, capital investment, government, and export. The system is composed of six main price indexes: final demand goods; final demand trade services; final demand transportation and warehousing services; final demand services less trade, transportation, and warehousing; final demand construction; and overall final demand.

<u>PPI Final Demand – month change</u>; Mar -0.2% versus Feb -0.6%



The decline this month was led by a continued decline in final demand goods prices, which declined by -1% in Mar versus -0.9% in Feb (month on month). Food prices were unchanged this month after declining by -1.6% in Feb. Energy price declines accelerated from -3.6% in Feb to -6.7% in Mar.

> Eighty percent of the March decrease in the index for final demand goods can be traced to prices for gasoline, which dropped 16.8 percent. The indexes for diesel fuel, meats, jet fuel, liquefied petroleum gas, and industrial chemicals also moved lower.

Final demand services prices shifted from a -0.3% decline in Feb to +0.2% increase in Mar. Trade prices increased by +1.4% after declining by -0.7% in the month prior. While transportation and warehousing prices declined at an accelerated pace of -3.3% in Mar.

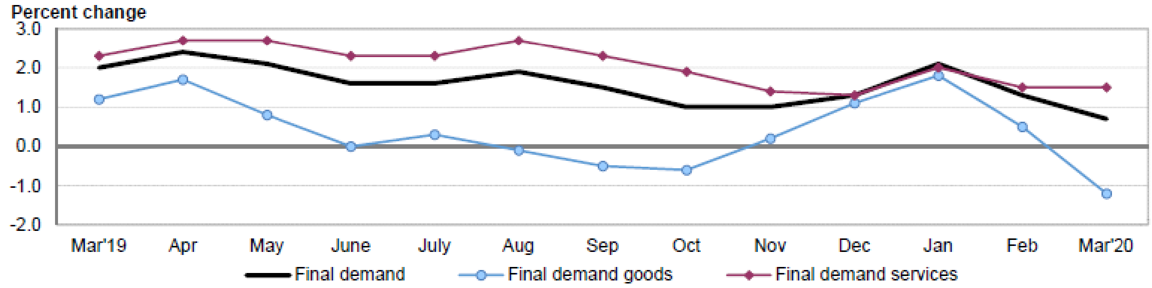
> Leading the March increase in the index for final demand services, margins for apparel, jewelry, footwear, and accessories retailing jumped 8.1 percent. The indexes for fuels and lubricants retailing; securities brokerage, dealing, and investment advice; loan services (partial); food retailing; and inpatient care also moved higher

On an annual basis, producer prices increased at a slower pace;

PPI Final Demand – annual change; Mar +0.7% versus Feb +1.3%

A year ago, the annual growth in the final demand PPI was +2%. The annual decline in goods prices was the main driver of lower annual PPI growth.

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



https://www.bls.gov/news.release/ppi.nr0.htm

CPI (Mar)

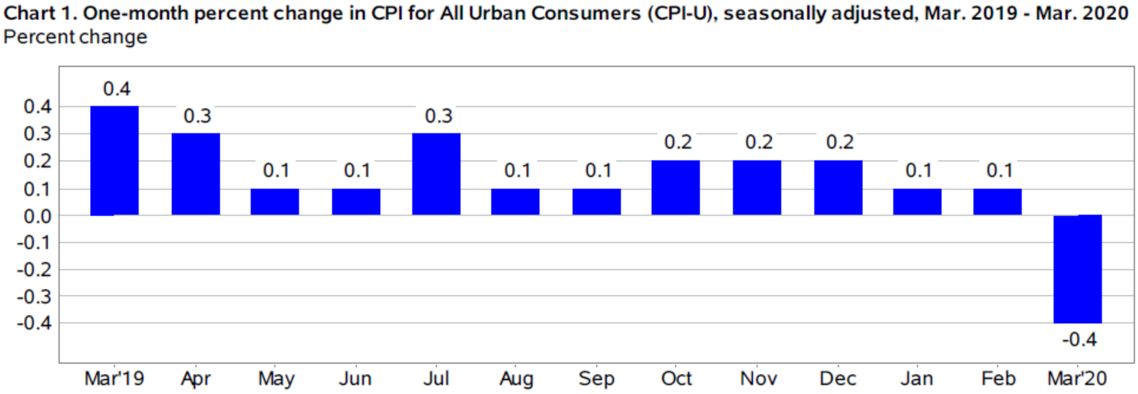
On a monthly basis, CPI growth declined due mostly to the fall in energy prices. Apparel, new vehicles and airline travel prices also declined in the month.

A similar dynamic was evident on an annual basis, with a much larger slow-down in headline CPI growth for Mar. This was due to the accelerated decline in energy prices.

Core CPI growth also slowed but not to the same degree. Slower growth in core CPI was due to annual declines in airline fares, apparel and new vehicle prices. Growth in shelter prices slowed slightly but growth remains elevated. Medical services prices continued to accelerate higher.

All Items CPI – month change; Mar -0.4% versus Feb +0.1%

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2019 - Mar. 2020



The large decline in the month was the result of;

An accelerated decline in energy prices for the month; Mar -5.8% versus Feb -2%.

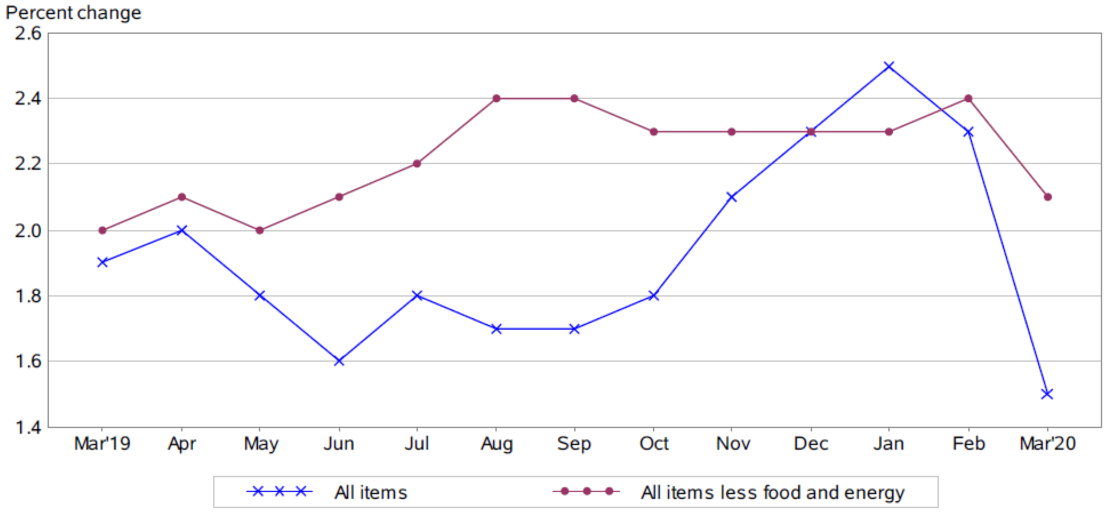
Food prices generally increased at a pace higher than all other prices; Mar +0.3% versus Feb +0.4%.

Some expenditure areas within core CPI also declined in the month; apparel (-2%), new vehicles (-0.4%) and airline airfares (-12.6%). These declines offset accelerated growth prices in areas such as medical services. Overall core CPI (all-items ex food & energy) for the month declined by -0.1% in Mar after +0.2% growth in Feb.

On an annual basis, growth in consumer prices also slowed;

<u>All-Items CPI – annual change</u>; Mar +1.5% versus Feb +2.3%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Mar. 2019 - Mar. 2020



The contribution of food prices to annual headline CPI growth was little changed versus the month prior (adding +0.27% pts in Mar versus +0.25% pts in Feb). Food prices increased at an annual pace of +1.9% in Mar versus +1.8% in Feb.

The decline in energy prices had a larger impact in Mar. Energy prices detracted -0.36% pts from headline growth in Mar versus adding +0.2% pts to headline CPI in Feb. Energy prices declined by -5.7% on an annual basis in Mar versus +2.8% in Feb.

Underlying core CPI growth slowed to a lesser degree and growth remained above headline CPI growth;

<u>Core CPI (ex food and energy prices) – annual change</u>; Mar +2.1% versus Feb +2.4%

The two components of core CPI are 1) Commodities less food and energy commodities and 2) Services less energy services.

<u>Commodities less energy commodities</u> prices declined on an annual basis in Mar by -0.2% (unchanged in Feb) – detracting -0.04% pts from headline growth. This was led by annual declines in apparel and new vehicle prices.

<u>Services less energy services</u> continued to contribute to the bulk of the headline price increase in the CPI (it accounts for 60% of the weight of the total index). The annual growth in prices for services increased by +2.8% in Mar, slowing from +3% in Feb. The slower growth was due mostly to a fall in transportation prices (airfares) and slower growth in shelter. This helped to offset accelerated growth in medical services prices.

Shelter made a smaller contribution to annual prices growth, but growth remains very elevated compared to other categories (+3% in Mar).

Medical services prices continued to grow at an elevated pace also +5.5% in Mar and made a larger contribution to headline annual price growth.

The decline in transportation services prices (airfares) was an offsetting factor. Transport services detracted -0.04%pts from headline growth in Mar versus adding +0.07%pts in Feb.

https://www.bls.gov/news.release/pdf/cpi.pdf

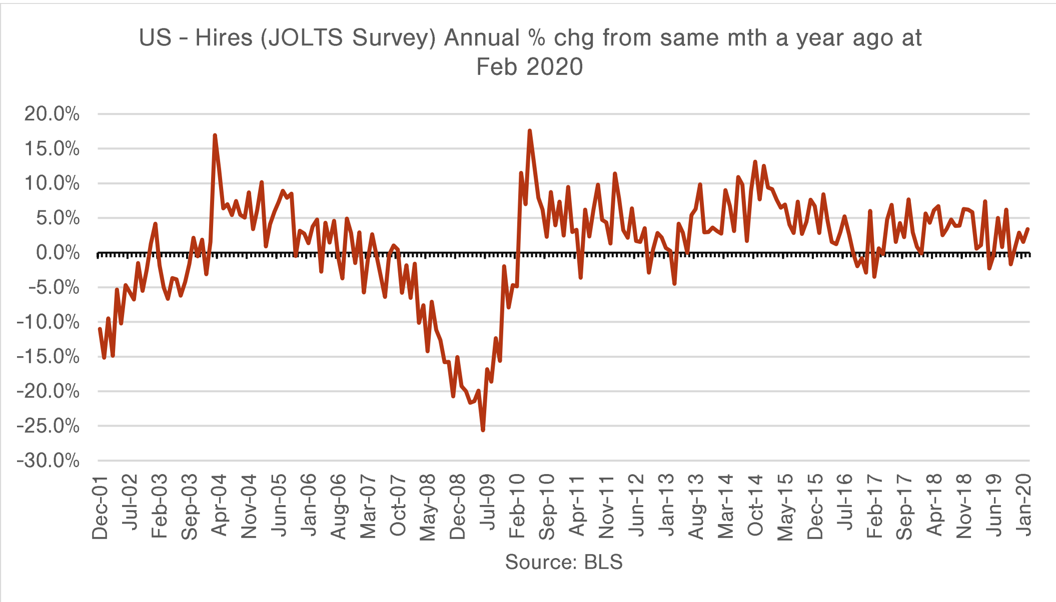
JOLTS (Feb)

The JOLTS data for Feb (as at the last business day of Feb) shows little advance weakness in labour market conditions. The number of quits declined both in the month and on an annual basis (the quit rate remained unchanged though). Layoffs and discharges increased slightly. Hires declined only slightly compared to the month prior, but remained above the 12-month average.

New Hires – month change (number of persons); Feb 5.9m (-0.5%) versus Jan 5.9m (0%)

The level in Feb was +0.7% above the 12-month SMA and the hire rate remained unchanged at 3.9% (also equal to the 12-month average).

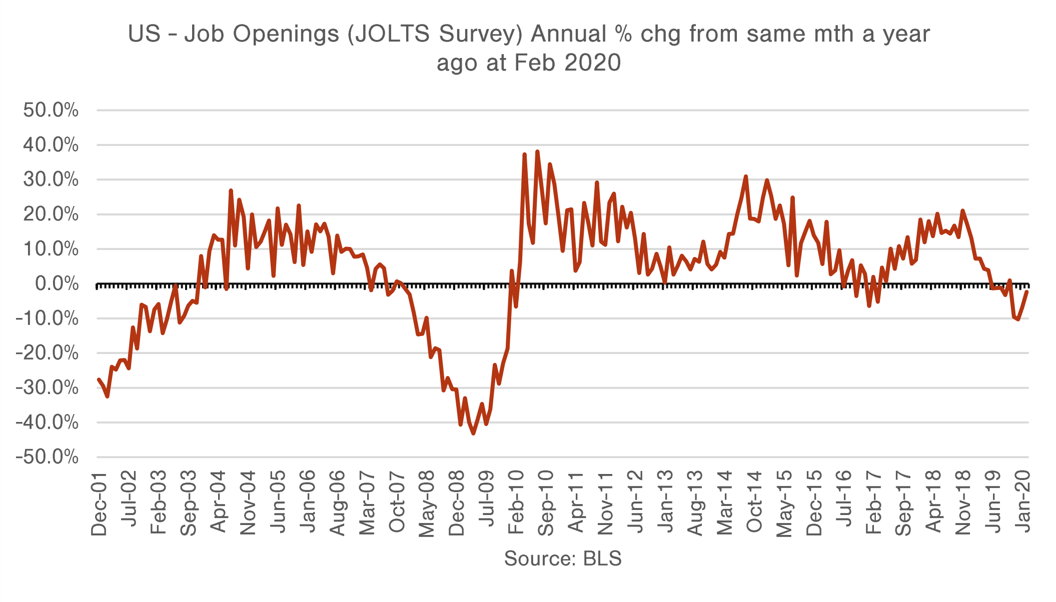
The annual growth accelerated from +1.6% in Jan to +3.4% in Feb;



Job Openings – month change; Feb 6.9m persons (-1.9%) versus Jan 7m persons (+7%)

The level in Feb remained 3% below the 12-month average, in line with the recent slow-down in openings. The openings rate was lower at 4.3%, still just below the 12-month average of 4.5%.

The annual decline in job openings slowed from -7% in Jan to -2.4% in Feb;



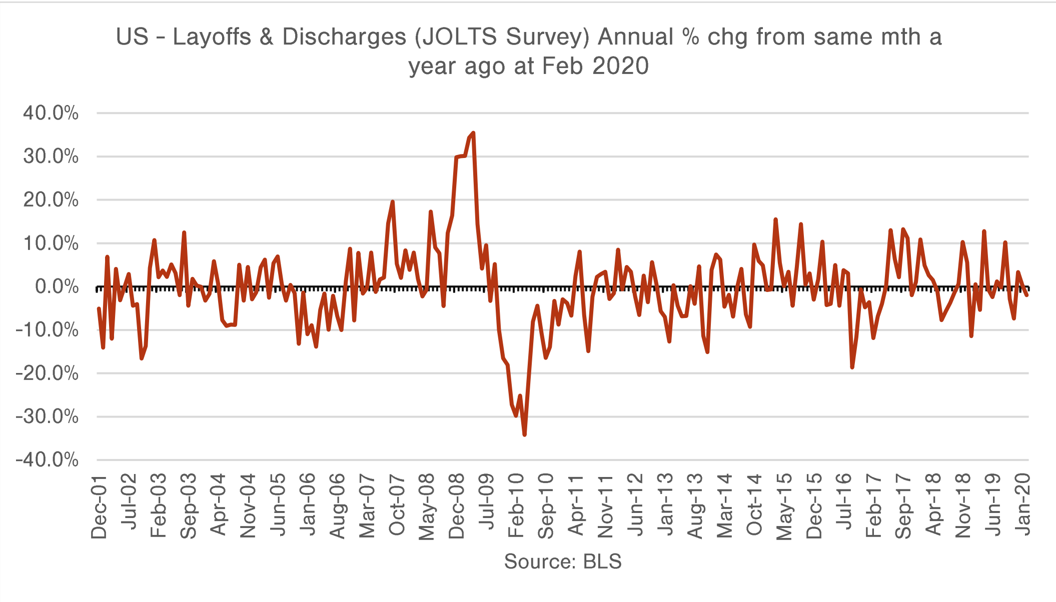
<u>Total Separations – month change</u>; Feb 5.6m persons (-2.5%) versus Jan 5.7m persons (-1%)

Separations can be in the form of involuntary layoffs and discharges (likely to start increasing next month) and voluntary quits. An increase in layoffs and discharges suggests weakening labour market/demand conditions. An increase in quits indicates more willingness to change jobs, indicating more confidence in labour market conditions.

<u>Layoffs and discharges – month change</u>; Feb 1.75m persons (+0.8%) versus Jan 1.74m persons (-8%).

The layoff rate increased slightly to 1.2% - and is equal to the 12-month average rate.

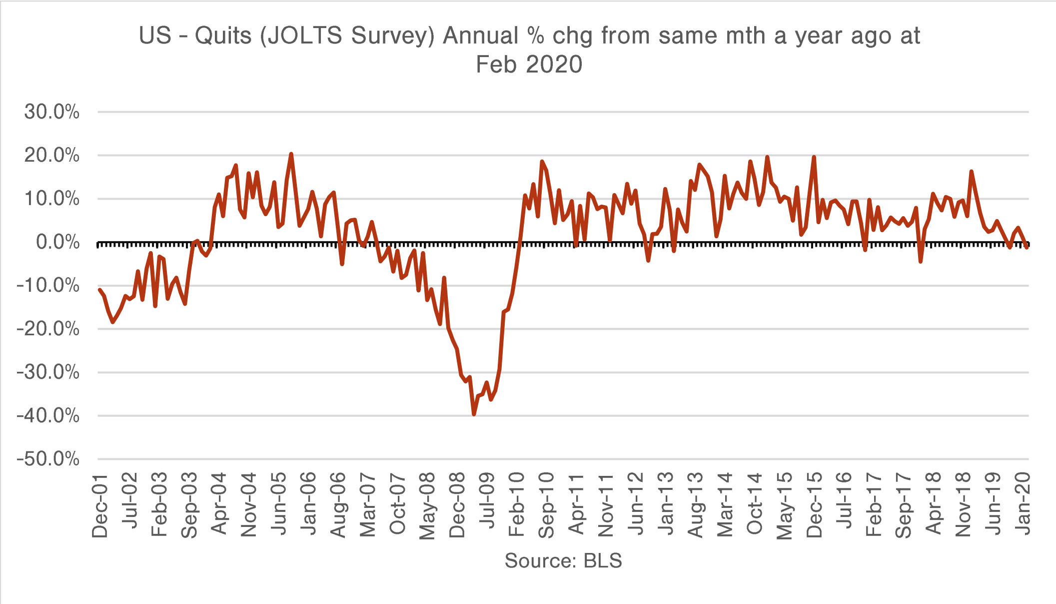
On a year ago basis, layoffs and discharges declined by 2%;



Quits – month change; Feb 3.5m persons (-2.2%) versus Jan 3.6m persons (+1.3%)

The quit rate was unchanged in the month at 2.3% and was equal to the 12-month average.

The slow-down in the growth of quits throughout 2019, and now the annual decline in quits, indicates some lower level of confidence in conditions even as of Feb.



https://www.bls.gov/news.release/jolts.nr0.htm

FOMC Announcement – additional $2.3 trillion in loans to support the economy

This funding will assist households and employers of all sizes and bolster the ability of state and local governments to deliver critical services during the coronavirus pandemic.

This policy announcement was focused on providing credit/lending support to various business and local governments via direct and indirect lending programs. The effect is twofold – provide credit/liquidity bridging loans to businesses/municipalities during quarantine shutdowns and ensure credit markets don't freeze by stepping in to backstop the system.

The success of these programs remains highly reliant on swift implementation.

The Fed has set up separate entities that will buy commercial paper, corporate bonds and ST municipal bonds and buy loans made to small business. Commercial and corporate bonds will be purchased directly via the primary facility and indirectly from the secondary market. At this stage, muni bonds will not be purchased on the secondary market.

The Fed is also providing support for the securitization market via the TALF. The Fed is aiming to increase demand for new issuance of ABS's (making sure there is demand for securities) via an expanded set of collateral, hopefully encouraging banks to make more loans.

There are four (4) parts to the announced plan;

Bolster the effectiveness of the Small Business Administration's Paycheck Protection Program (PPP)

The PPP provides loans to small business. The Fed will extend credit to the eligible financial institutions originating loans for small business.

> The Paycheck Protection Program Liquidity Facility (PPPLF) will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value;

Term sheet; https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a6.pdf

Main Street Lending Program

The Fed will purchase up to $600bn in small and med sized loans through this program.

> The Main Street Lending Program will enhance support for small and mid-sized businesses **that were in good financial standing before the crisis** by offering **4-year loans to companies employing up to 10,000 workers or with revenues of less than $2.5 billion**. **Principal and interest payments will be deferred for one year**. Eligible banks may originate new Main Street loans or use Main Street loans to increase the size of existing loans to businesses. Banks will retain a 5 percent share**, selling the remaining 95 percent to the Main Street facility, which will purchase up to $600 billion of loans**.

The Main Street loans come with conditions;

> Firms seeking Main Street loans must commit to make reasonable efforts to maintain payroll and retain workers. Borrowers must also follow compensation, stock repurchase, and dividend restrictions that apply to direct loan programs under the CARES Act.

Expanding the size and scope of the Primary and Secondary Market Corporate Credit Facilities (PMCCF and SMCCF)

The combined size of both these facilities has been upsized and will enable the purchase of certain non-investment grade securities.

All facilities (including TALF) are now restricted to a new definition of a US company (in line with the CARES Act);

> …restricts participation in the facility to businesses "created or organized in the United States or under the laws of the United States and that ha[ve] significant operations in and a majority of its employees based in the United States"

On 23 Mar, the Fed established the Primary Market Corporate Credit Facility (PMCCF) – enabling eligible corporate issuers to access credit, providing bridging finance for up to 4 years.

The Fed will lend to the special purpose vehicles to increase the size of the facilities (a max of up to $750bn combined in both facilities) and the US Treasury will increase its equity investment in both vehicles to $50bn and $25bn respectively. Updated term sheets were issued with a broader definition of an 'eligible issuer' – in line with the CARES act.

> The updated term sheet revises the per-issuer limits that will apply to the PMCCF. It states that eligible issuers may approach the PMCCF to **refinance outstanding debt, from the period of three months ahead of the maturity date of such outstanding debt. In addition, issuers may approach the PMCCF at any time to issue additional debt, provided their rating is reaffirmed at BB-/Ba3 or above** with the additional debt by each major NRSRO with a rating of the issuer.
>
> The maximum amount of outstanding bonds or loans of an eligible issuer that borrows from the Facility **may not exceed 130 percent of the issuer's maximum outstanding bonds and loans on any day between March 22, 2019 and March 22, 2020**. Furthermore, the maximum amount of instruments that the PMCCF and the SMCCF combined will purchase with respect to any eligible issuer is 1.5% of the combined potential size of the PMCCF and the SMCCF.
>
> **Pricing for the PMCCF will be issuer-specific**, informed by market conditions, plus a 100 basis point facility fee. If the loans or bonds are syndicated, the PMCCF will receive the same pricing as other syndicate members, plus a 100 bps facility fee on the PMCCF's share of the syndication.
>
> Borrowers may elect to defer interest and principal payments during the first six months of the loan, extendable at the Federal Reserve's discretion, in order to have additional cash on hand that can be used to pay employees and suppliers
>
> As in the original term sheet, the PMCCF will cease purchasing eligible corporate bonds and extending loans on September 30, 2020, unless the Federal Reserve extends the program

The new term sheet;
https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a5.pdf

Also on 23 Mar, the Fed established the secondary market corporate credit facility (SMCCF) – to purchase in the secondary market corporate bonds by investment grade US companies. The revised term sheet now includes the purchase of some ETF's that are US-listed and intended to provide exposure to a broad section of the high yield corporate bond market (in addition to ETF's whose investment objective is to provide broad exposure to the market for U.S. investment grade corporate bonds). Emphasis added;

> The **preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds**, and the remainder will be in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds.

The inclusion of non-investment grade bonds has created a stir in financial markets. From the statement, the purchase of these bonds is not limitless – and current settings could always be changed in the future. Eligible bonds must have a maturity of 4yrs of less and the facility may purchase up to 25% of any single bond issuance. Many prior junk bond ratings will not be eligible to access the facility. This initial focus is on aiding companies that were investment grade up to the crisis and have been downgraded since 22 Mar to at least BBB-/Baa3. At the moment, based on the term sheet, it appears that companies with a rating below that (i.e. CCC) are not eligible to access the facility.

The new term sheet;
https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a2.pdf

Term Asset-Backed Lending Facility (TALF)

Under the TALF, the Federal Reserve will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The size of the lending facility remains at $100bn. The updated term sheet expands the type of credit exposure underlying the Asset Backed Security to include equipment leases, leveraged loans and commercial mortgages, and eliminates “servicing advance receivables”.

> TALF will continue to support the issuance of asset-backed securities that fund a wide range of lending, including student loans, auto loans, and credit card loans
>
> eligible collateral will now include the triple-A rated tranches of both outstanding commercial mortgage-backed securities and newly issued collateralized loan obligations.

The new term sheet;
https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a1.pdf

Municipal Liquidity Facility

This will be focused on state and local municipalities.

> The facility will purchase up to $500 billion of short-term notes directly from U.S. states (including the District of Columbia), U.S. counties with a population of at least two million residents, and U.S. cities with a population of at least one million residents.
>
> Eligible state-level issuers may use the proceeds to support additional counties and cities.
>
> the Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.

Term sheet;
https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200409a3.pdf

09 April announcement link;
https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm

23 March announcement link;
https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm

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Europe

Germany Factory Orders (Feb)

It's likely that next month data will start to show a deterioration in orders. The objective with the Feb data here is to provide a baseline for the next few months.

German factory orders data has been weaker over the last year or so, but a small rebound had commenced in late 2019. I've posted both annual growth and the index levels for comparison.

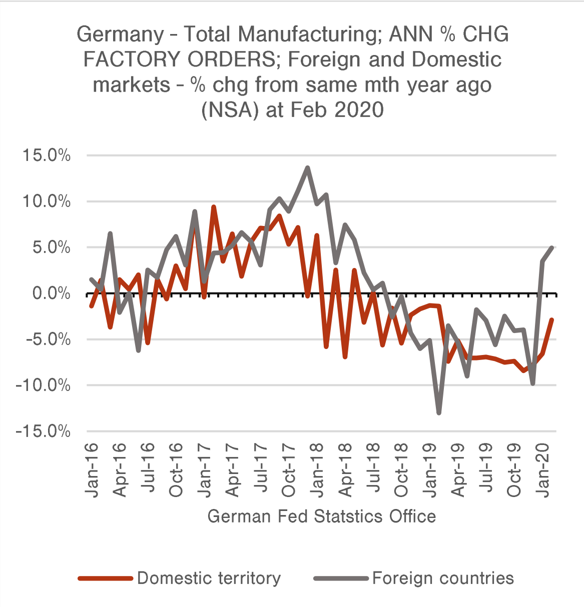
There is one consistent theme across all the sectors; annual growth in order volumes has been the result of faster growth in orders from foreign markets. Across all sectors (intermediate, capital, consumer, durable and non-durable goods) domestic orders remain below the same time a year ago.

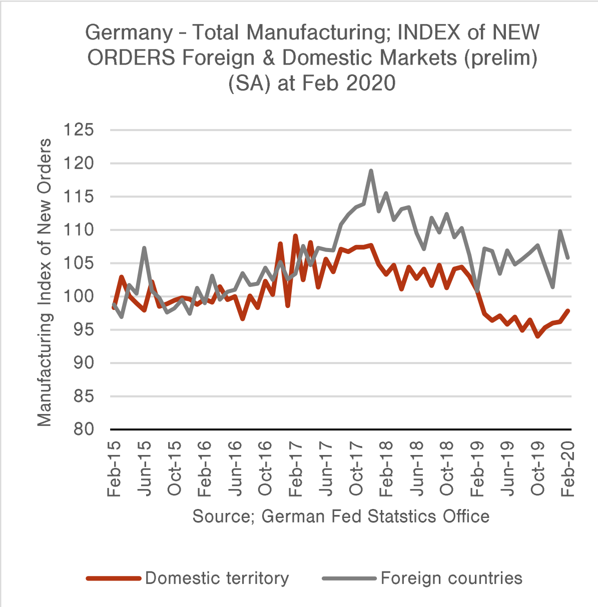
Total Manufacturing New Orders – month change; Feb -1.4% versus Jan +4.8%

The decline in orders for the month was led by foreign countries – orders declined from Euro area countries declined by -5% and from non-Euro area countries by -2.7%. Orders from the domestic market increased further by +1.7%.

On an annual basis, total orders are now +1.5% ahead of a year ago after being down as much as 9% back in Dec 2019. This is partly a base issue - the volume of orders remains 10% below the peak.

This is similar for the domestic market orders - the volume of orders is still 3% below a year ago and 10% below the recent peak. Foreign market orders are now 5% ahead of a year ago, but still 11% below the peak;





Intermediate Goods New Orders – Month change; Feb +0.9% versus Jan +3.1%

Orders for intermediate goods increased across the domestic market in the month by +1.1% and foreign markets by +0.5% (although orders from non-Euro area countries declined).

The volume of orders for intermediate goods across all markets remains 8% below the peak of Nov 2017. But in recent months, there has been a more sustained increase in volumes, such that growth versus a year ago is now positive at a total level. Orders for the domestic market remain 2.6% below a year ago.

Capital Goods New Orders – month change; Feb -3.4% versus Jan +6.2%

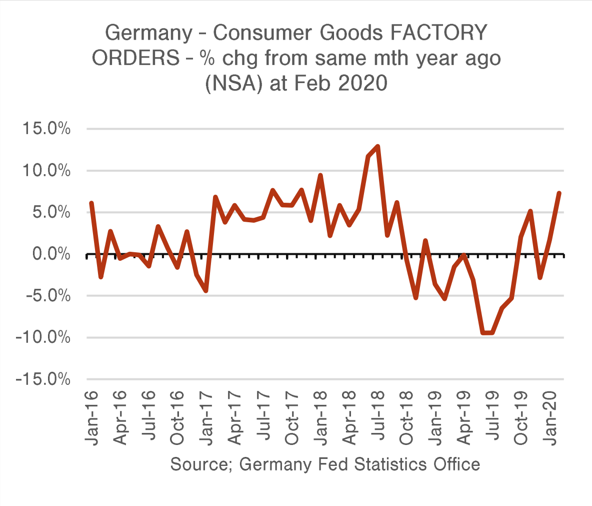
Orders for capital goods were weaker in Feb after a much stronger Jan. The weakness was led by a decline in orders from Euro area countries (-13%) and non-Euro area countries (-3%).

On an annual basis, the volume of new orders has remained mostly steady throughout 2019. The volume of new orders for capital goods remains 13% below the peak of Dec 2017. The total volume of orders versus a year ago is +0.2%;

Consumer Goods New Orders – month change; Feb +1.7% versus Jan +2.9%

The increase in consumer goods orders was led solely by Euro area markets. Domestic orders for consumer goods declined by -0.4% in Feb and orders by non-Euro area countries declined by -3.4%.

The index of new orders shows improvement in consumer goods orders throughout 2019, but total orders remain 6% below the Jul 2018 peak. On a year ago basis though, total consumer goods orders are now +7%;

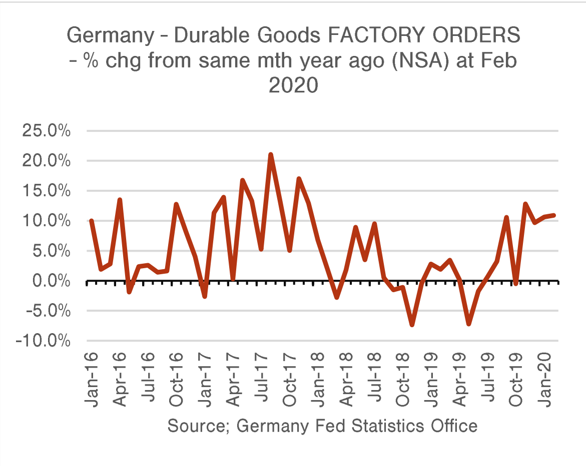


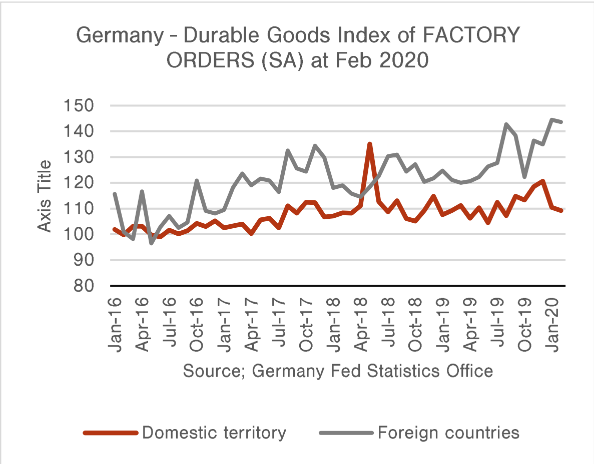
Durable Goods New Orders – month change; Feb -0.8% versus Jan +0.6%

The weakness in the month was led by the domestic market (with orders declining by -1% after declining by -8% in the month prior) and non-Euro area countries with orders there declining by 21%. Euro area orders of durable goods increased by 21% in Feb.

While total durable goods orders appear to continue to grow (there has been no peak/decline), there are differences by market. Foreign markets continue to be the main driver of growth while the domestic market growth has been lower.

Overall orders for durable goods are +10% versus the same month a year ago. Within that, domestic market orders are -0.1% versus a year ago and foreign orders are +19% versus a year ago;

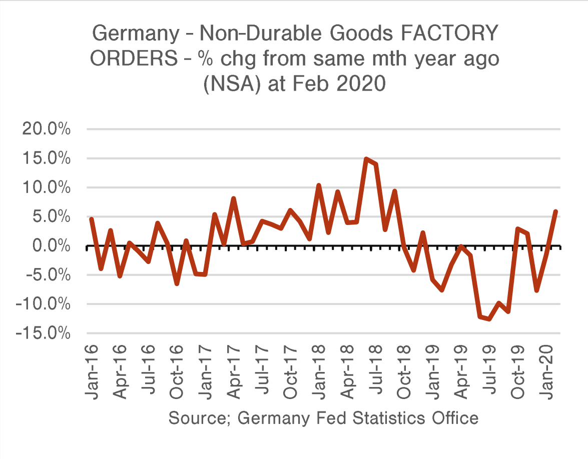




Non-Durable Goods New Orders – month change; Feb +2.8% versus Jan +3.8%

The growth in the month was led by foreign markets with orders growing by +4.8%. Non-durable goods orders from the domestic market declined by -0.2%.

The volume of orders for non-durable goods remains 10% below the Jul 2018 peak. The volume of orders has mostly trended sideways throughout 2019. That said, total orders are +6% versus the same month a year ago and this has been solely led by foreign markets +11.5%. Non-durable goods orders from the domestic market remain -1.5% below the same month a year ago.



https://www.destatis.de/EN/Press/2020/04/PE20_120_421.html;jsessionid=1BA862D4BB2756044BCCADA189910748.internet8711

Germany Industrial Production (Feb)

Going into this global slow-down, production growth across key sectors remained weak, despite the growth in the month.

On an annual basis, some sub-sectors in manufacturing were showing tentative signs of a rebound in recent months (intermediate, consumer and non-durable goods production), others (capital goods and especially durable goods) continued to weaken in Feb..

Production in mining and utilities remained weaker.

Construction was the only sector where output had continued to grow.

Total Industrial Production – month change; Feb +0.3% versus Jan +3.2%

The growth in the month was led by manufacturing (+0.5%) and utilities production (+3.4%), which offset monthly declines in construction (-1%) and mining and quarrying (-3.3%).

Total output remains 1.2% below a year ago and 5% below the Nov 2017 peak;

<u>Manufacturing Production – month change</u>; Feb +0.5% versus Jan +2.8%

The slower growth in manufacturing for the month was the result of a decline in capital goods production (-0.3%) and durable goods production (-1.4%). Production increased across consumer, non-durable and intermediate goods.

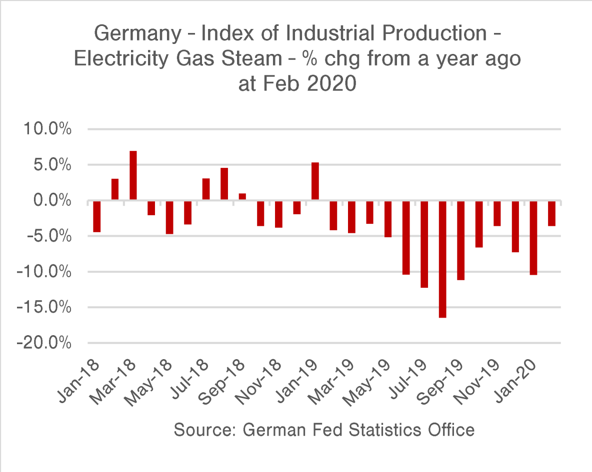
Actual production output across these sectors as of Feb indicate some rebound in the last few months across production of intermediate goods, consumer goods and non-durable goods. Production across these sectors remains below respective near-term peaks.

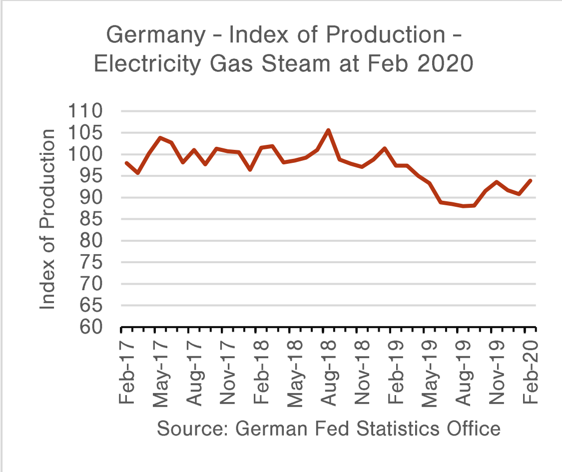
The decline in the production of capital goods appears to have stabilized as of Feb. The decline in the production of durable goods recorded a new low (versus the peak) in Feb. Both of these areas were already weak going into the global slow-down.

Annual change in manufcturing output remains 2% below a year ago and is 7% below the Nov 2017 peak;

<u>Utilities Production – month change</u>; Feb +3.4% versus Jan -1%

Production remains 4% below a year ago and 11% below the Aug 2018 peak in production;



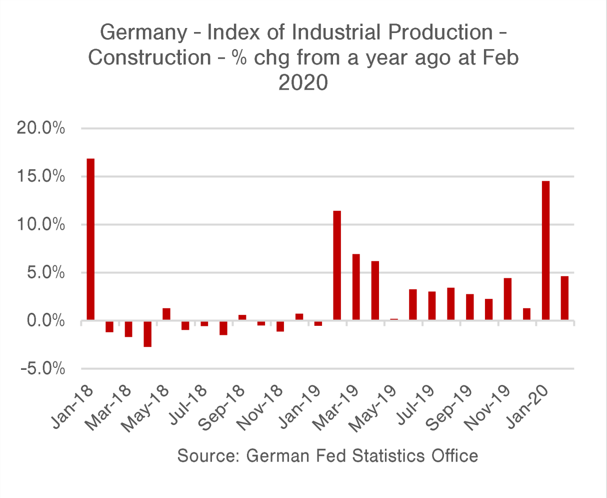


Mining and Quarrying Production – month change; Feb -3.3% versus Jan -0.1%

Mining production remains 7% below a year ago and continues to fall further below the May 2017 peak and is now 24% below that peak;

Construction Output – month change; Feb -1% versus Jan +6.4%

Construction growth remains more robust despite the decline in the month. Annual growth is +5% versus a year ago;



https://www.destatis.de/EN/Press/2020/04/PE20_121_421.html;jsessionid=F3EF04F6D3943FAF735EE9D9AC0A4FBE.internet8741

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Australia

RBA Rates Decision – 7 Apr 2020

There were no changes made to the current policy settings and rates remained on hold.

> "At its meeting today, the Board reaffirmed the targets for the cash rate and the yield on 3-year Australian government bonds of 25 basis points, as well as the other elements of the package announced on 19 March 2020."

> "The Board wishes the best to all Australians as our country deals with this very difficult situation."

https://www.rba.gov.au/media-releases/2020/mr-20-11.html

Housing Lending (Feb)

The value of housing lending fell in Feb. The decline in the month was the result of falls in investor and owner occupier finance commitments. Within owner occupiers, lending commitments for first home buyers (FHB's) still increased in the month. The FHB group has been the largest contributor to overall growth in financing commitments since the rebound in the market commenced back in May-Jun 2019, after the Federal election.

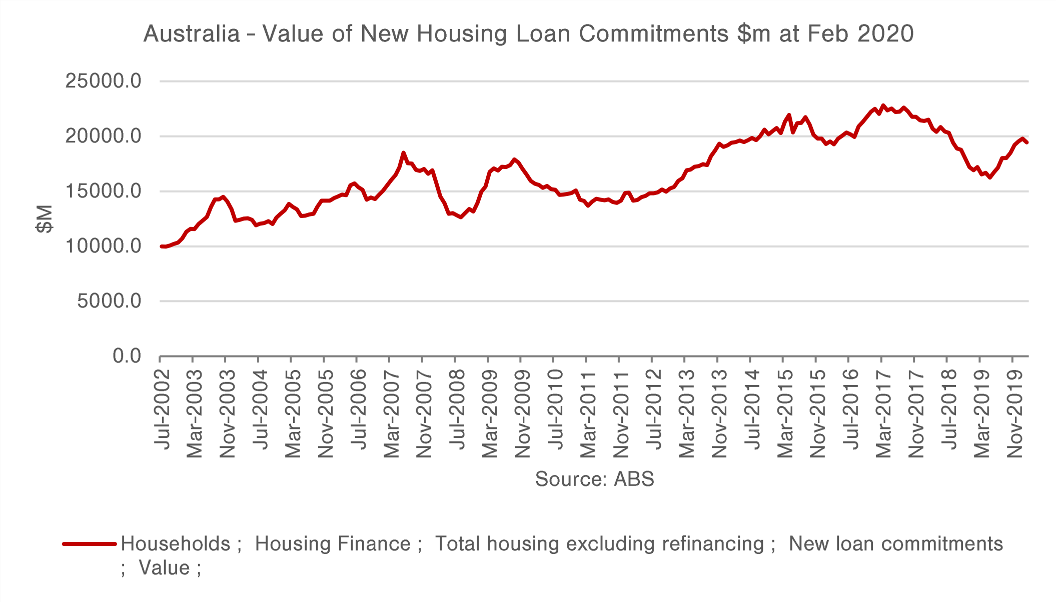
Values AUD.

It was noted on the Aus Bureau of Statistics website that the reference week in the month of Feb was when there were only a few cases of Covid-19 in Aus and before it was declared a pandemic.

> Quality assurance of data for the February 2020 quarter did not identify any notable impact to headline statistics.

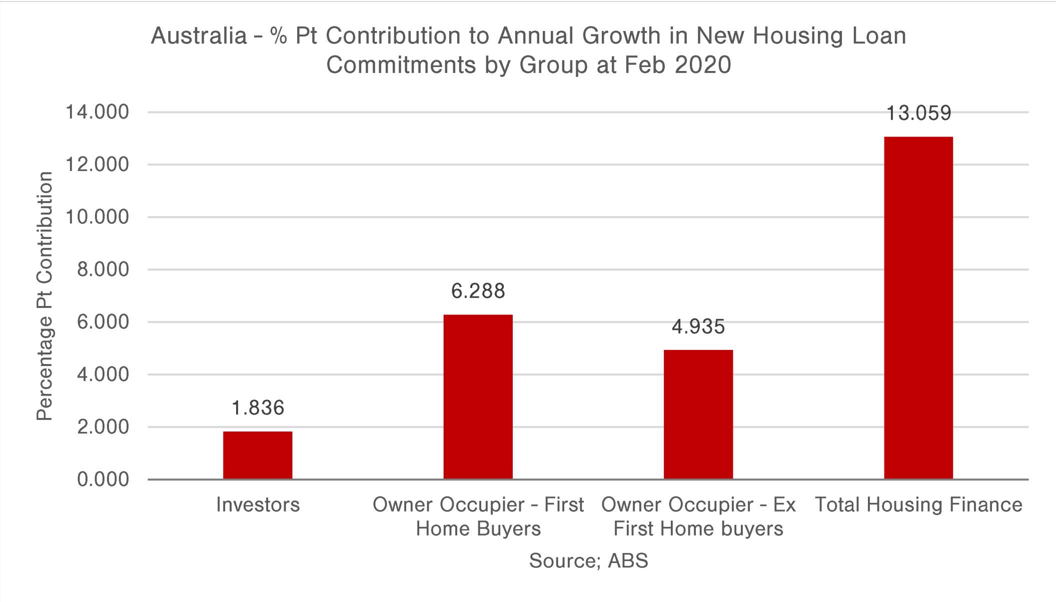
Total Housing Finance Commitments – Ex-refi's ($) – month change; Feb -2% (-$339m) versus Jan +1.3%

While total housing finance commitment have rebounded since mid-2019, the monthly value remains 15% below the peak.



The annual pace of growth in total finance commitments slowed from 17% in Jan to 13.1% in Feb.

Despite being the smallest proportion of total lending (but increasing), FHB's have been the largest contributor to overall housing finance growth versus a year ago;



Growth in lending for investors remains low and has barely rebounded since mid-2019. But the slack has been picked up by FHB's.

<u>Owner Occupiers Finance Commitments – Ex Refi's ($) – month change</u>; Feb -1.7% (-$238m) versus Jan +1.8%

Underlying this result is a difference between FHB's and all other owner occupiers.

Housing finance commitments for owner occupiers excluding FHB's declined by -2.4% in Feb (-$249m). Housing finance for FHB's still increased slightly by +0.3% (+$11m).

FHB's accounted for approx. 21% of the value of commitments in Feb.

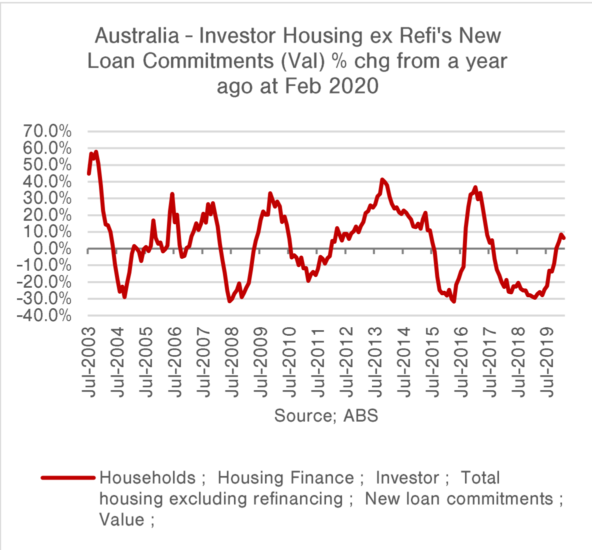
On an annual basis, total owner occupier housing finance commitments increased by 15.8% or $1.9bn versus the same month a year ago. Of this growth, FHB's accounted for $1.1bn of the growth and all other owner occupiers accounted for +$800m of the annual growth.

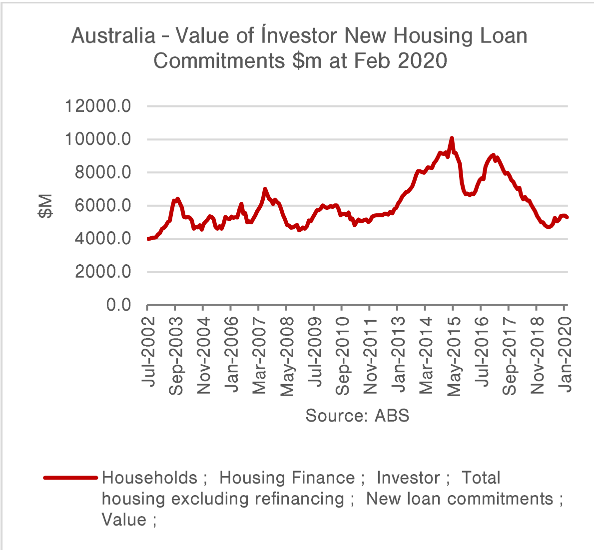
Despite the annual growth, lending remains 3% below the peak.

Investor Housing Finance Commitments – Ex Refis ($) – month change; Feb -1.9% (-$101m) versus Jan 0%.

Lending for investment properties remains under pressure. At the peak of the decline in May 2019, investment lending had fallen by 53% (compared to the recent peak). As of Feb 2020, lending remains 47% below that peak.

That said, the value of lending for investors is still +6% ahead of a year ago – which makes for a good headline but hides how little recovery there has been for investment lending.





https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5601.0Main+Features1Feb%202020?OpenDocument

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Trade

US-China Trade Talks

Timing for the commencement of the second phase of the deal remains unclear amid the breakout of the now global pandemic.

The USTR has confirmed progress on the implementation of phase one of the trade deal.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/usda-and-ustr-announce-continued-progress-implementation-us-china-phase-one-agreement

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR from the initial USTR objectives (emphasis added);

> The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture**.

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade

US-Japan Trade Talks

The focus in early 2020 will be on phase two of the deal – originally planned to begin from April or May this year;

> After the deal enters into force, the countries have agreed to conclude consultations for further trade talks within four months. Then discussions between their lead negotiators, Foreign Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer, will start again in earnest.
>
> The United States is seeking a full-fledged free trade agreement that covers areas including services and investment.
> https://www.japantimes.co.jp/news/2019/12/04/business/economy-business/upper-house-approves-united-states-japan-trade-deal/#.Xe3HTegzaUk

The issue for phase two talks is auto tariffs;

> Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.
>
> https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK

Details from the Congressional Research Service;
https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have,effect%20on%20January%201%2C%202020.

The summary of US negotiating objectives for the US-Japan trade talks;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

There are several fronts to the US-EU trade discussions.

Airline Subsidies

From 18 Oct, the US had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

Trade Deal Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

> "Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement."

https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

> ""I do not think we will reach an agreement if agriculture is not included," McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump."
> https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html

Digital Services

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a $2.4 billion list of French imports, a French diplomatic source said. https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

"USTR's decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies," Ambassador Robert Lighthizer said. **"Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey**. The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies." https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6-8 Jan 2020. https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances

and

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0

Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

Section 232 – Car and Truck Imports

Back in May 2019, President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK

The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the "escape hatch" for President Trump;

> A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, "the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security." It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump's statement provided some insight as to how the Commerce Dept justified the 'national security' grounds. There are other avenues for how these tariffs may be implemented.

NAFTA/USMCA

Now that all parties have ratified the new USMCA, the focus shifts to when the deal will take effect. This is so far likely to be early Jul 2020.

https://insidetrade.com/daily-news/july-1-now-earliest-usmca-can-enter-force-if-protocol-followed?utm_source=dlvr.it&utm_medium=twitter

https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/ambassador-lighthizer-statement-canadas-approval-usmca

US-UK Trade Talks

The likely priority for the UK will be the UK-EU trade deal negotiation to complete the Brexit transition.

The USTR has published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

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