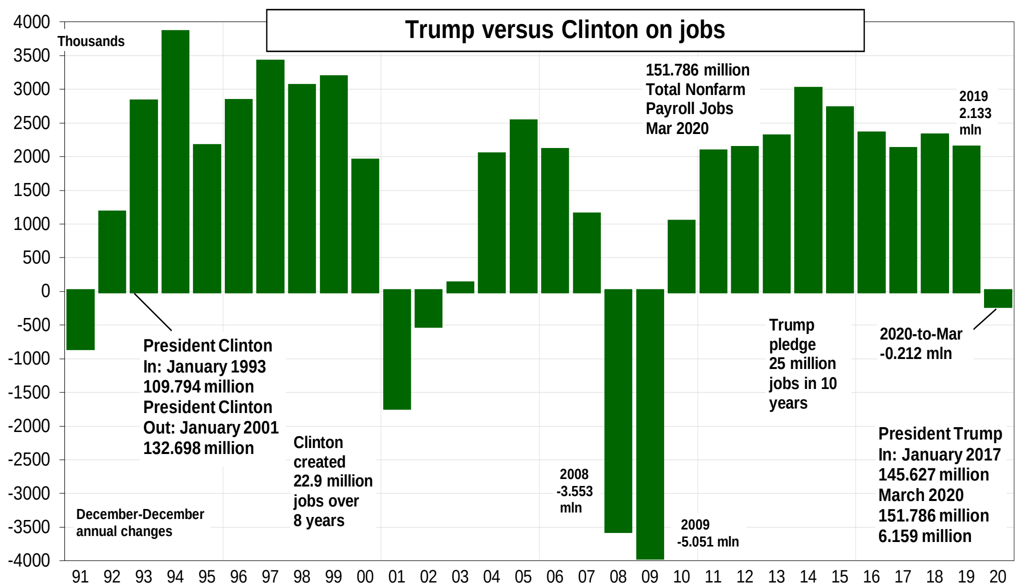
Financial Market Weekly

MUFG UNION BANK, N.A.
ECONOMIC RESEARCH (NEW YORK)
CHRISTOPHER S. RUPKEY, CFA
MANAGING DIRECTOR
CHIEF FINANCIAL ECONOMIST
(212) 782-5702
crupkey@us.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

3 APRIL 2020

FIRST MONTH OF JOB LOSSES AFTER AMERICA SHUTS DOWN



The fastest recession in history started with the lost jobs in March and all are hoping the bad times will all be over the fastest in history as well. There was a short 1980 recession that lasted 6 months. Today's monthly payroll jobs report has been upstaged by the last two weeks of applications for unemployment benefits totaling nearly ten million. The 701 thousand lost payroll jobs is just a down payment on the immense losses that are already here and have yet to be counted. What is next month's payroll jobs figure going to be? Down 9 million? Down 15 million. No one is working and no one who employs workers can afford to pay them much longer so these layoffs will continue until Americans can leave their homes and go back to work and start shopping and dining out again.

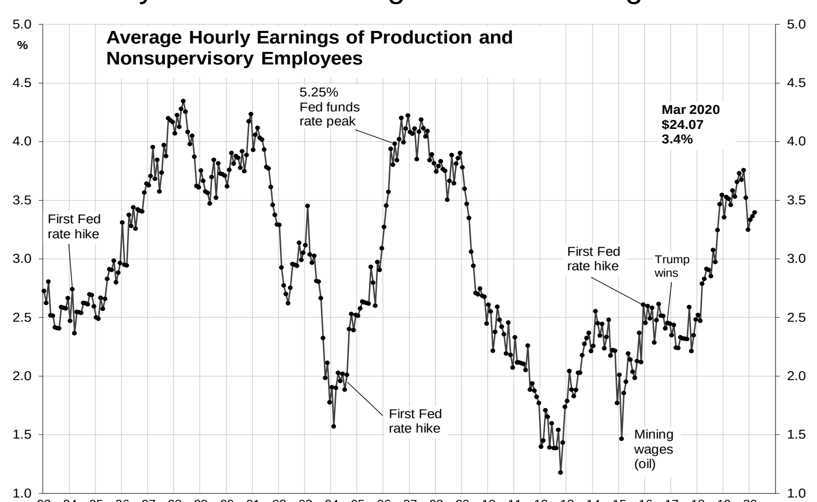
	Mar	Feb	Jan	Dec	Nov	Oct
Payroll jobs (000s)	-701	275	214	184	261	185
Unemployment rate %	4.4	3.5	3.6	3.5	3.5	3.6
Unemployment (3 decimal)	4.383	3.517	3.579	3.496	3.536	3.563
Participation rate %	60.0	63.4	63.4	63.2	63.2	63.3
Average hourly earnings	$28.62	$28.51	$28.43	$28.37	$238.34	$28.24
MTM % Chg	0.4	0.3	0.2	0.1	0.4	0.3
YOY % Chg	3.1	3.0	3.1	3.0	3.3	3.2
Production Worker earnings	$24.07	$23.97	$23.88	$23.84	$23.81	$23.76
MTM % Chg	0.4	0.4	0.2	0.1	0.2	0.3
YOY % Chg	3.4	3.4	3.3	3.2	3.5	3.8

How bad is it? There were 8.604 million payroll jobs lost over 2008 and 2009 in the last recession. In this recession starting March 2020, these are pandemic-scale job losses that were impossible to imagine just a few weeks ago even. The country is literally shutting down. The survey covers the first half of March so manufacturing jobs only fell 18 thousand to 12.839 million as many factories were initially slow to shut their doors and they will likely hang onto their workers for a longer time awaiting the restart go-ahead from the states and the Federal government. Retail stores also fell only modestly by 46.2 thousand in March to 15.624 million. There's little change in employment at hospitals, but doctors offices are down 12 thousand to 2.711 million and dentists are down 17 thousand to 960 thousand. By far the biggest drop in employment is the 417 thousand jobs lost in food services and drinking places which now total 11.865 million. With 80 percent of bars and restaurants all but shut down nationwide, the losses just from this one employment category could be perhaps 8 or 9 million next month? At least Uncle Sam still wants you. The Federal government hiring 17 thousand in March for the 2020 Census.

Payroll jobs fall in March as recession begins

Dec. 2019 Totals millions		Mar 20	Feb 20	Jan 20	3 months Dec 19 to Mar 20	12 months Dec 18 to Dec 19
151.998	Nonfarm Payroll Employment	-701	275	214	-212	2133
129.319	Total Private (ex-Govt)	-713	242	179	-292	1949
21.136	Goods-producing	-54	57	13	16	188
0.661	Mining	-6	2	-3	-7	-31
12.866	Manufacturing	-18	13	-22	-27	61
0.998	Motor Vehicles & parts	-2	9	-8	-1	-13
7.555	Construction	-29	41	38	51	153
108.183	Private Service-providing	-659	185	166	-308	1741
27.809	**Trade, transportation, utilities**	-49	-2	23	-28	143
15.672	Retail stores	-46	1	-3	-48	-32
3.061	General Merchandise	10	2	-14	-2	-19
3.088	Food & Beverage stores	1	0	3	4	16
5.656	Transportation/warehousing	-5	-1	23	17	118
1.526	Truck transport	0	1	1	2	4
0.846	Couriers/messengers	-2	-12	13	0	76
1.192	Warehousing and storage	8	6	8	23	25
0.548	Utilities	1	0	-1	0	-4
2.883	**Information**	2	3	11	16	29
8.814	**Financial**	-1	31	9	39	149
2.808	Insurance	1	10	7	17	52
2.349	Real Estate	-3	11	-2	6	66
1.393	Commercial Banking	-3	3	-1	-1	4
0.969	Securities/investments	1	2	-1	2	9
21.503	**Professional/business**	-52	36	20	4	375
2.950	Temp help services	-50	-4	-4	-57	-43
2.448	Management of companies	3	2	3	8	47
1.530	Architectural/engineering	-1	9	-1	7	37
2.239	Computer systems/services	4	6	8	18	85
1.156	Legal services	-2	2	4	4	14
1.037	Accounting/bookkeeping	4	3	-3	5	28
24.465	**Education and health**	-76	65	69	58	621
5.242	Hospitals	0	10	9	19	85
3.810	Educational services	-15	-1	29	12	92
16.784	**Leisure and hospitality**	-459	44	24	-391	369
2.100	Hotel/motels	-29	-2	-4	-35	48
12.203	Eating & drinking places	-417	51	29	-338	250
22.679	Government	12	33	35	80	184
2.244	Federal ex-Post Office	20	10	9	38	43
5.184	State government	-14	8	6	0	11
2.481	State Govt Education	-9	6	2	-1	-8
14.648	Local government	8	17	21	46	135
8.039	Local Govt Education	0	4	5	9	68

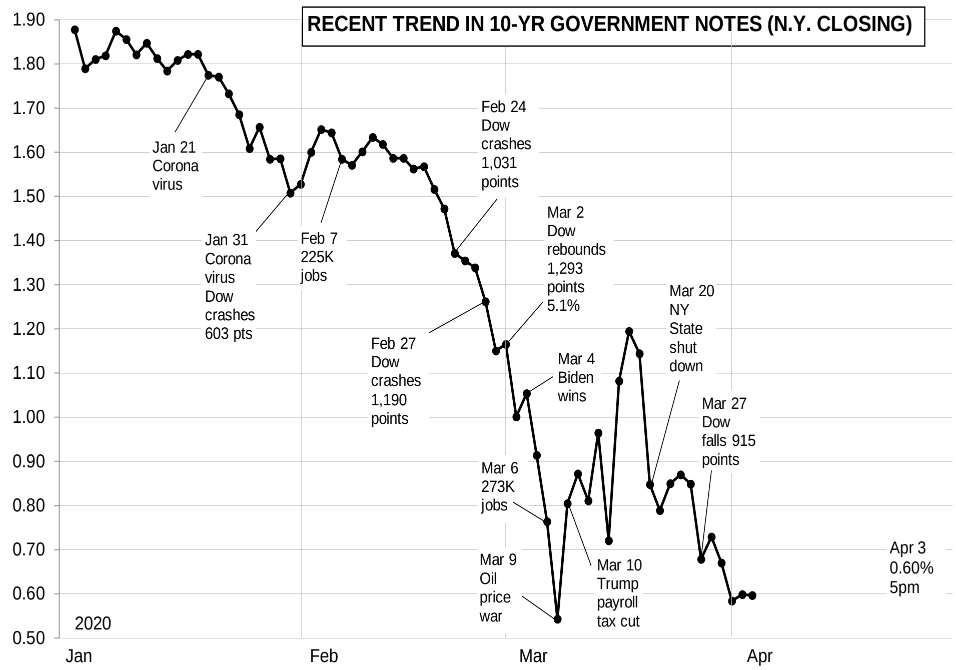
In conclusion, the -701K jobs report covering the first half of March may have been surprisingly large this month, but next month's report will not come as a surprise. The month of April will have the first depression-magnitude job losses the country has seen since the 1930s. The unemployment rate moved up from 3.5% in February to 4.4% in March, but the labor market could easily become depression-like very quickly where one out of four of your neighbors is no longer getting a paycheck. Stay tuned. The worst is yet to come. We'd say brace yourselves, but you already are.



MUFG

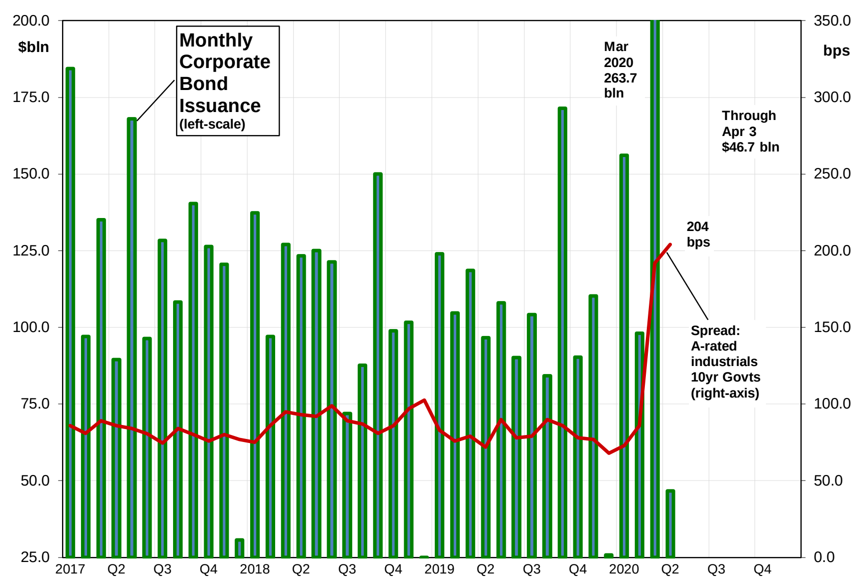
MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.32	1.20	1.10	1.20	1.20	1.30
10-Yr Note	2.41	2.01	1.67	1.92	0.67	0.70	0.70	0.80	0.90	1.00
5-Yr Note	2.23	1.77	1.55	1.69	0.38	0.40	0.50	0.60	0.70	0.80
2-Yr Note	2.26	1.76	1.62	1.57	0.25	0.30	0.30	0.30	0.40	0.40
3-month Libor	2.60	2.32	2.09	1.90	1.45	1.10	1.00	0.80	0.60	0.50
Fed Funds Rate	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	15	25	5	35	42	40	40	50	50	60



10-year Treasury yields closed 0.60% versus 0.68% a week ago. Thursday and Friday yield ranges were calm trading between 0.56 and 0.63 percent. If you want to put 0.6% yielding 10-yr notes in your 60/40 investment portfolios, it's unclear how a bond rally would offset declining stocks from here, while if 10-yr yields move up to 1.2%, you would lose 5.4% of your principal. In the meantime, what's the difference between QE and Fed money-printing to fund the Federal budget deficit voted out of congress? On Friday, the Fed scaled back next week's daily Treasury purchases to $50 billion. We assume they will buy more if yields rise above 1%.

CORPORATES: ORACLE, SYSCO, EXELON, GENERAL MILLS, UNION PACIFIC RUSH TO BOLSTER LIQUIDITY AHEAD OF SEVERE ECONOMIC STRESS



Corporate offerings were $97.8 billion in the April 3 week versus $109.9 billion in the March 27 week. On Tuesday, Visa Inc. sold $4.0 billion 7s/10s/20s. It priced a $1.5 billion 2.05% 10-yr (m-w +25bp) at 140 bps (Aa3/AA-). The credit card company will use the proceeds for general corporate purposes. The company said in a regulatory filing that there had been a "rapid deterioration of cross-border travel-related spending." Corporate bond yields (10-yr Industrials rated A2) were 204 bps above 10-yr Treasuries Friday versus 209 bps last Friday.

FEDERAL RESERVE POLICY

The Fed meets April 28-29, 2020 to consider its monetary policy. Difficult to know what Fed policy is anymore. Interest rates are zero. Do we need to monitor the economy closely in this recession to see if policymakers will throw the market a bone, we mean to see if Fed officials will cut rates again? Answer: No. Don't worry about the market. The Fed is the market. The Fed's balance sheet this week is handing out money literally everywhere. Discount window borrowing goes to banks: $43.744 billion. Central bank liquidity swaps giving 348.544 billion dollars to foreign banks. MMLF and PDCF handouts and more lending facilities to come. Even the public is hording cash, seems to have no fear of catching the virus from touching paper money, with the amount of dollars in circulation rising $79 billion since the end of February to $1.879 trillion. Money in circulation only rose for all of 2019 by $86 billion. $100 billion more money was printed by the Treasury for the Fed to give banks to stock the cash machines across America in 2018. Corporations and the public as well are hoarding cash and building liquidity in these extraordinary times we live in. It's impossible to forecast what lies ahead, but one measure that extreme panic is starting to fade will be if the public stops taking cash out of the banks each week. Stay tuned.

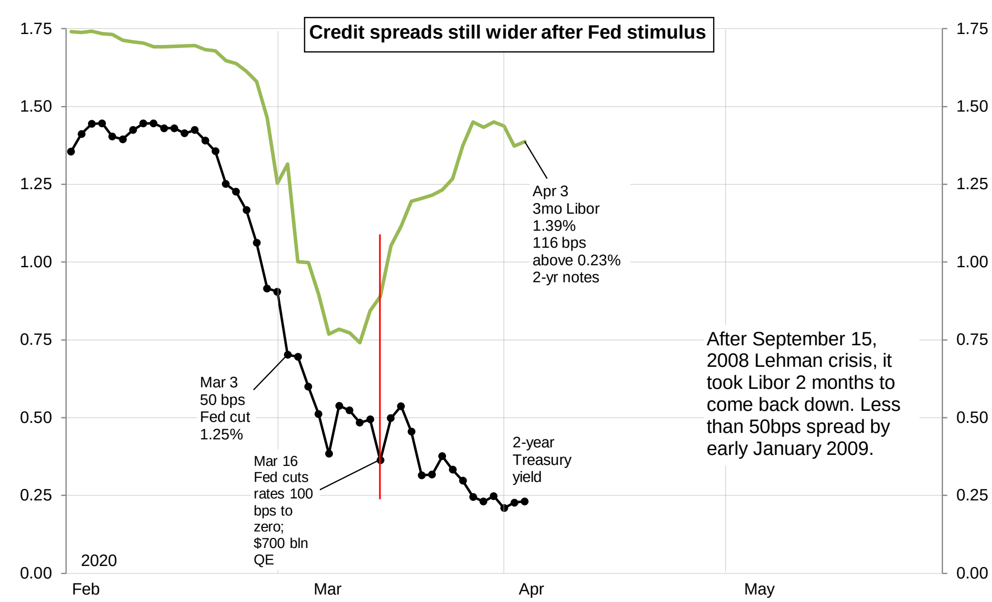
Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	1-Apr	25-Mar	18-Mar	11-Mar	pre-LEH
Factors adding reserves					
U.S. Treasury securities	3340.832	2978.372	2640.771	2523.031	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1457.721	1384.563	1366.676	1371.846	0.000
Repurchase agreements	263.050	352.355	441.945	242.375	126.750
Primary credit (Discount Window)	43.744	50.768	28.224	0.011	23.455
MMLF	52.667	30.634	0.000	0.000	
PDCF	33.050	27.718	0.000	0.000	
Central bank liquidity swaps	348.544	206.051	0.045	0.058	62.000
Federal Reserve Assets	5859.6	5302.6	4716.5	4360.0	961.7
3-month Libor %	1.44	1.27	1.12	0.77	2.82
Factors draining reserves					
Currency in circulation	1879.230	1872.242	1843.254	1818.957	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	207.828	97.411	0.477	1.325	0.000
Reserve Balances (Net Liquidity)	2684.398	2347.747	1945.393	1779.990	24.964
Treasuries within 15 days	36.238	44.037	35.806	21.427	14.955
Treasuries 16 to 90 days	233.009	221.051	211.429	221.961	31.549
Treasuries 91 days to 1 year	468.063	430.067	387.117	378.403	69.272
Treasuries over 1-yr to 5 years	1298.345	1111.145	966.762	915.101	170.807
Treasuries over 5-yrs to 10 years	509.228	436.318	357.666	327.906	91.863
Treasuries over 10-years	795.949	735.754	681.991	658.232	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

MMLF: Money Market Mutual Fund Liquidity Facility: loans secured by assets bought by banks from money market funds

PDCF: Primary Dealer Credit Facility: o/n and term funding with maturities to 90 days

FED QE Govts Purchases		
Week	Daily	$bln
334.3	Apr 3	58.5
	Apr 2	58.5
	Apr 1	72.9
	Mar 31	72.9
	Mar 30	71.5
358.910	Mar 27	71.500
	Mar 26	73.680
	Mar 25	70.948
	Mar 24	68.953
	Mar 23	73.829
272.137	Mar 20	72.122
	Mar 19	74.998
	Mar 18	45.007
	Mar 17	40.006
	Mar 16	40.004
965.347	Grand Total	



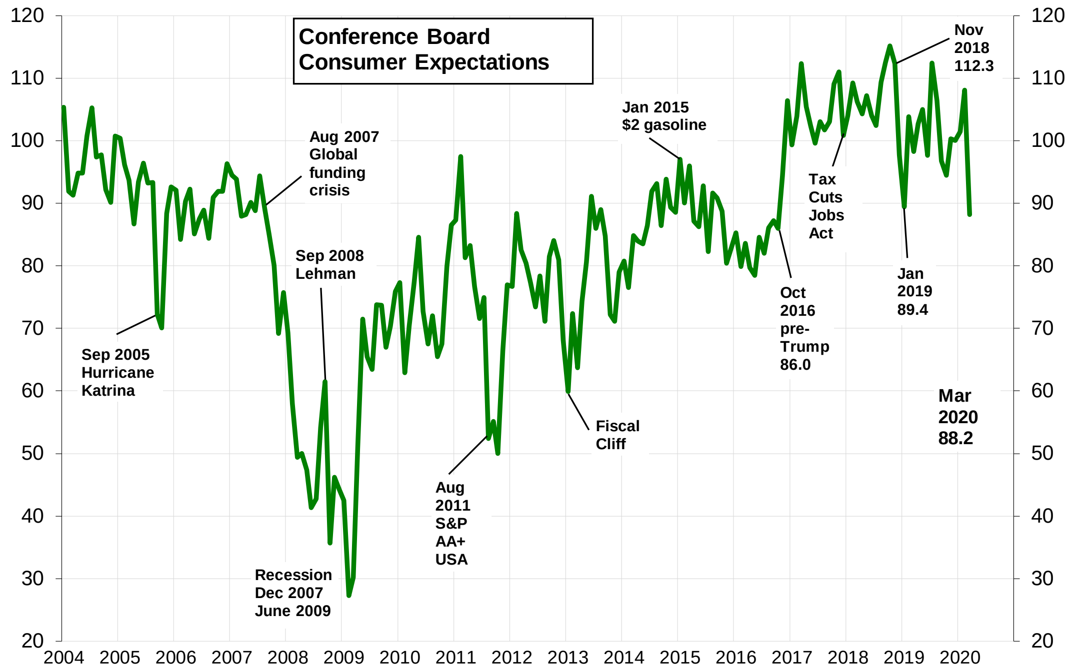
MUFG

OTHER ECONOMIC NEWS THIS WEEK

Consumer confidence down and expecting worse to come (Tuesday)

Breaking economy news. If the markets are even trading on economic news. In the old days, the economy was monitored closely in a recession to see whether conditions were worsening enough for the Fed to give the markets another rate cut. This recession is different as the Fed has front-loaded everything they got. Companies are borrowing with the lower interest rates but only to stave off financial ruin not to build new factories or order new equipment or invest in tomorrow.

Consumer confidence was reported today though most consumers are at home trying to figure out how to get food in the door. Or groceries left at the door. Not sure how anyone had time to take a survey. The consumer confidence index dropped to 120.0 in March from 132.6 in February. Expectations fell nearly 20 points to 88.2 in March from 108.1 in February. Confidence is down with consumers expecting the worst is yet to come.



Net, net, consumer confidence fell sharply and with most of the country stuck at home, consumers are expecting even darker days ahead. Consumers are saying jobs are not as plentiful at 44.9 in March down from 46.5 in February, but this doesn't yet reflect the jarring reality that millions will lose their jobs as America shuts down to fight the spread of the coronavirus. Consumers were already expecting the worst was yet to come in March and they are right to do so as job layoffs are soaring. The consumer confidence index is likely to continue to fall as the hit to the economy is going to be even harder than it was in the Great Recession over a decade ago. We are starting to lose confidence ourselves that the economy can be restarted as easily as government officials are saying as the expected length of the coronavirus shutdown grows ever longer. Businesses that are financially bankrupt from a loss of sales don't tend to reopen and rehire workers especially when a recession turns into a longer-lasting depression. Stay tuned. You have little else to do. Story developing. Oh, and wash your hands!

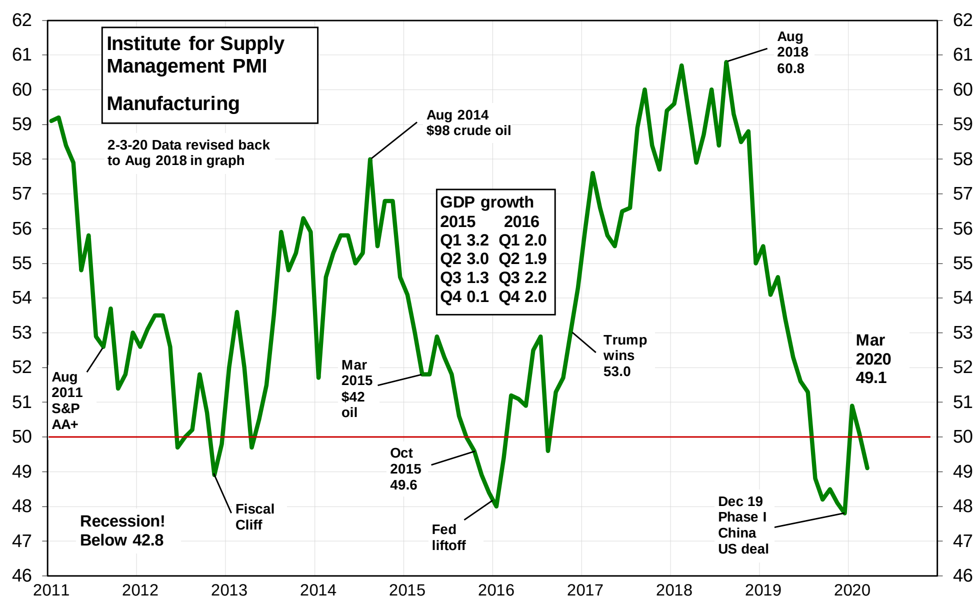
Manufacturing is back in recession joining the rest of the economy (Wednesday)

Even economists are not having any fun making predictions as this hurricane blew in quicker than anyone could have imagined.

Breaking economy news. The ISM purchasing managers' index for manufacturing fell back below the 50 level that divides a growing manufacturing sector from one that is in decline. The index was 49.1 in March versus 50.1 in February. The index would have been down further if not for a surge in the supplier deliveries component that has a 20% weight. Supplier deliveries jumped to 65.0 in March from 57.3 in February as business reported dramatically slower delivery times. The overall 49.1 ISM manufacturing index would have been about 1.5 percentage points lower if supplier deliveries were not freezing up. There's no one to drive the delivery trucks if everyone is working from home. According to ISM, an index reading of less than 42.8 means the broader economy is in a recession.

We won't have long to wait for ISM factory executives saying the economy is in a recession. If America's optimistic president is warning the worst of the pandemic is yet to come, what factory in their right mind would keep the doors open and workers on the payroll. With only a few actual data points so far, the results indicate this is looking more like a depression than a garden-variety recession.

You can stimulate the economy and put workers back to work but Washington can't erase those stinging financial losses which are going to stick and become a permanent drag on growth and investment. American companies' balance sheets are going to be permanently scarred and this could keep the economy limping along in the recovery for months if not years to come. Why should stocks rally when there's going to be no "E" in those PE ratios for years and years. Stocks are cheap and they are going to stay that way. The best laid plans of Fed officials have gone haywire as U.S. companies are borrowing to stay alive for a few more months not to invest more in the country's future. The tables have been turned upside down in this pandemic crisis where more borrowing does not mean more economic growth. These emergency loans are never going be paid back and may bankrupt the economic recovery.

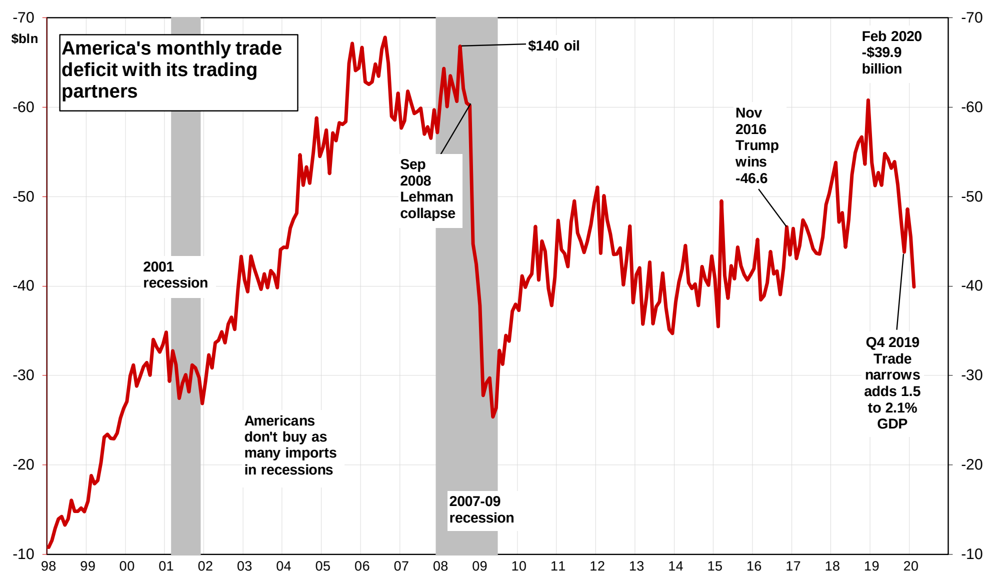


Job layoffs going global as world trade collapses (Thursday)

Breaking economy news. Unemployment claims were 6.648 million in the March 28 week following 3.307 million in the March 21 week. The trade deficit narrowed to $39.9 billion in February from $45.5 billion in January. Job layoffs break the ceiling again this week shattering records in a sign this economy has skipped recession and has already moved deep into the depression zone. A zone where bad things can happen like you and you and you can lose your jobs instead of just reading about it in a newspaper. If you can find a newspaper. American workers have nowhere to hide as the job layoffs are going to go global as world trade collapses.

It's not all bad news. The trade deficit in February is narrowing and that's a good thing as it will add to GDP growth and right now there is limited growth ahead so any sector of the economy that can lend a hand is welcome. Americans buy less imported goods in a recession, that's a fact, an ironic fact that reduced imports add to GDP growth. The trade deficit in goods with China is down if that counts as good news to $42.1 billion in the first two months of the year from $59.2 billion in the first two months of 2019. The trade tariffs are working.

We knew that massive job losses were coming because of reports that many workers were unable to file a claim for benefits even after waiting on line for hours. Everywhere you look Washington and state governments were not prepared for the rapid spread of the virus and the devastating damage that would be done to the economy if businesses were shut down and workers sent home. In a normal recession, job layoffs build over the many months of recession until they peak. In this pandemic-based recession, the job losses are immediate where the economy's weakest hour is right now. 3.3 million jobless claims last week and 6.6 million this week means the number of unemployed behind the best economy in fifty years with the lowest 3.5% unemployment rate is going from 5.787 million in February to 15.742 million in April, an unemployment rate of 9.6%. It makes us wonder if Friday's all-important employment report covering the month of March deserves to be covered at all.



Net, net, job layoffs are soaring faster than any time in recorded history, and if the sharp drop in export and import volumes between the U.S. and its trading partners is any indication it's going to stay that way. Take a look at history where famine and deadly pandemics have led to the permanent loss of economic output in countries where the same number of workers going into the crisis are no longer needed coming out of the crisis. This looks bad and it is bad. The worst jobless claims in U.S. history means the economy has fallen into the abyss. Stay tuned. Story developing.

Analyst Certification

The views expressed in this report accurately reflect the personal views of **Christopher S. Rupkey**, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and no part of such analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

About Mitsubishi UFJ Financial Group, Inc.'s U.S. Operations including MUFG Americas Holdings Corporation

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of $341.4 billion at December 31, 2019. As part of that total, MUFG Americas Holdings Corporation (MUAH), a bank holding company and intermediate holding company, has total assets of $170.8 billion at December 31, 2019. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of December 31, 2019, MUFG Union Bank, N.A. operated 349 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru and Canada as well as branches, agencies and representative offices in the U.S.
Visit https://www.unionbank.com/ or https://www.mufgamericas.com/ for more information.

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with over 3,000 locations in more than 50 countries. The Group has over 180,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit https://www.mufg.jp/english.