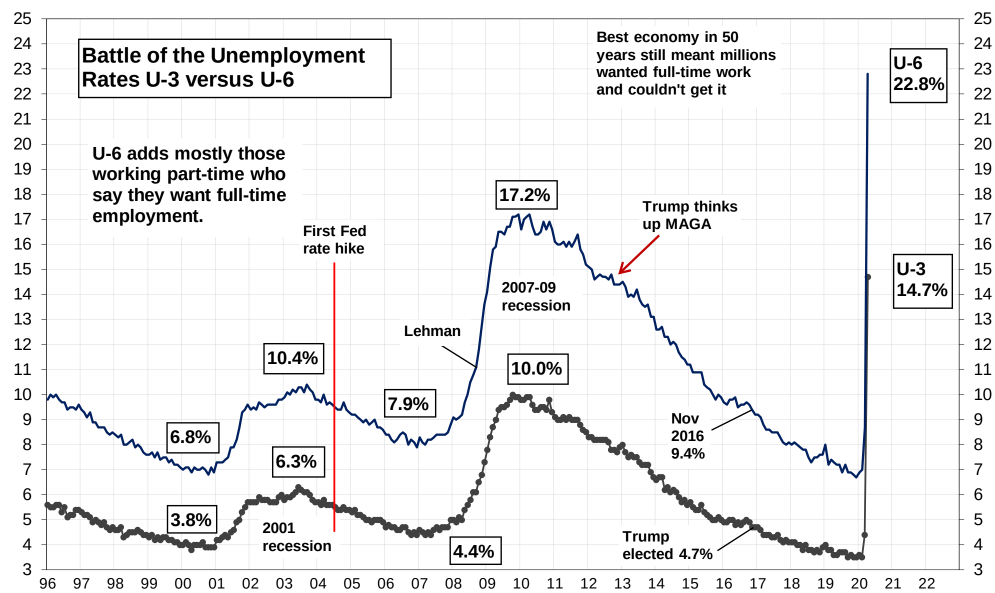
Financial Market Weekly

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

29 MAY 2020

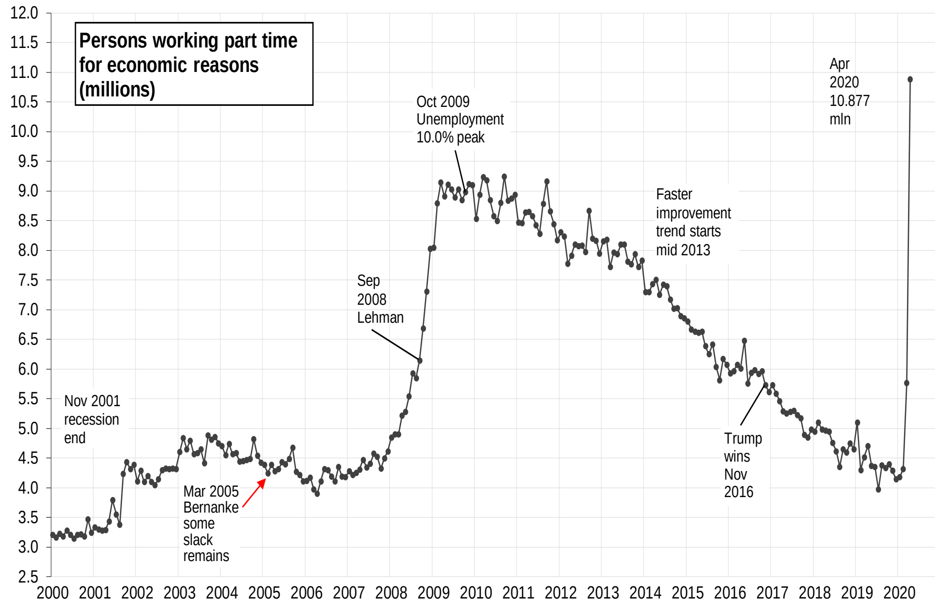
SECONDARY LABOR MARKET STATISTICS DON'T LOOK VERY GOOD EITHER



Let's get real. The labor market cannot be analyzed in the standard way in this recession because the jobless numbers are sky-high and off the charts of what has ever happened before in modern day economic history looking back to the 1970s. The 1970s when they gave the first American the Nobel Prize for economics. The 18 month long Great Recession from December 2007 to June 2009 saw an unemployment rate of 10.0% at the peak with 15.352 million out of work. The peak was in October 2009 several months after the recession ended. The unemployment rate is 14.7% today for the month of April with 23.078 million out of work. The velocity of the economy's jump off the cliff into the recession abyss is startling with 6.877 million people applying for unemployment benefits in the March 28 week. Just one week of filings: the worst week of job losses. The biggest one-week total of initial jobless claims filings for unemployment benefits in the entire Great Recession was just 665 thousand after Lehman. That's right. This recession is ten times worse on the Recession Richter Scale when it comes to job losses. GDP may fall 30 or 40 percent in the second quarter but the focus should be on job losses which is at the heart of every recession.

14.7% U-3 Traditional unemployment rate
15.1% U-4 adds discouraged workers
16.0% U-5 adds persons "marginally attached"
22.8% U-6 adds part-timers for eco reasons

Okay. Secondary labor market indicators. Maybe the President wasn't that far off when he said unemployment was 50% in the heat of the last election campaign. Trump said he thought of running when Romney lost the election to Obama in November 2012 and U-6 unemployment was still almost 15% then long after the 2007-09 recession ended. U-6 is larger than traditional unemployment and is thought of by many as a misery index of sorts. However, most of the U-6 unemployment is the count of part-time workers who tell the surveys, that while they have part-time work and a paycheck which is more than the unemployed can say, they can't find full-time work because the economy is weak and there is no such work available. Bernanke pointed to this part-time wanting full-time back in 2005 and said there was still slack in the economy "so don't raise interest rates." These secondary labor market indicators don't add all that much additional information on the labor market as they move in sync with the unemployment rate. The unemployment rate peaked in the Great Recession in October 2009 at 10.0% the same time the number of people saying they couldn't get full-time positions due to the economy also peaked. This points out that the trend of these labor market indicators, rising or declining, is more important than the level… even if the levels today are extraordinary and off the charts.



One other indicator is the number of Americans not in the labor force, not participating in life, which normally rises with the increase in the population each year where there is the same more or less steady percentage of people not in the labor force. This meltdown of the economy over the last two months has sent the numbers not in the labor force skyward. There were 103.415 million not in the labor force in April, an increase of 8.333 million from February, and if these were added back to the 23.078 million of unemployed then the April unemployment rate would be 20.1% not the reported 14.7%. Stay tuned. Jobless claims are still increasing, but the jobless rate should be near the peak as others on the unemployment rolls find work as the states reopened in May.

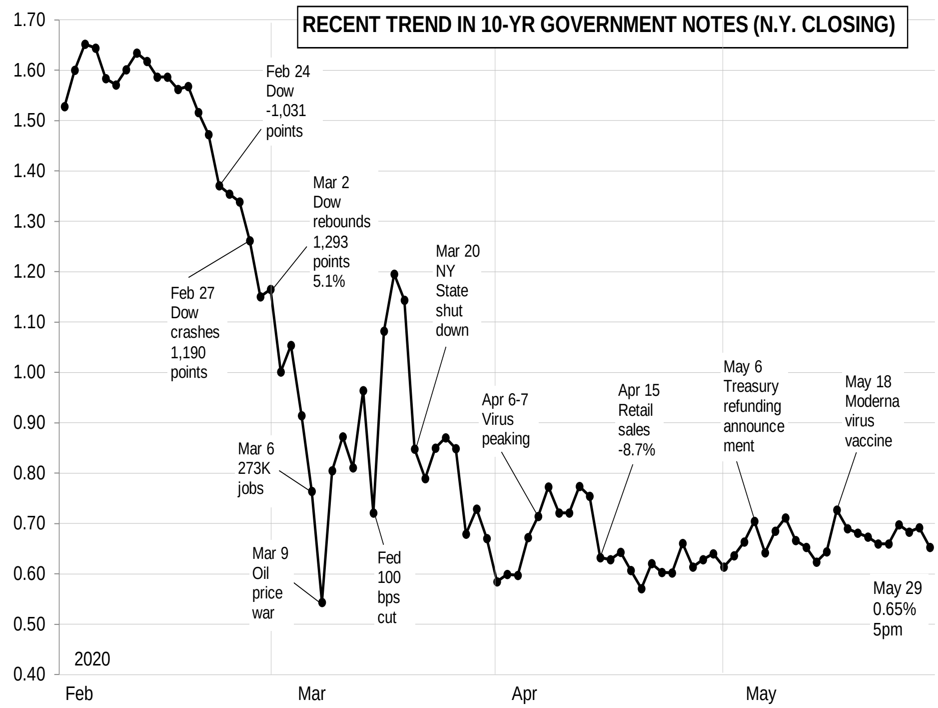
BREAKDOWN OF THOSE NOT IN THE LABOR FORCE

Thousands, NSA	Apr 20	Apr 19	Change
Total not in labor force	104,066	96,596	7,470
Don't want job now	94,306	91,645	2,661
Want a job	9,761	4,951	4,810
Did not search for work in a year	6,935	2,892	4,043
Searched in last year, not in the past 4 weeks	2,825	2,059	766
Not available to work now	614	642	-28
Marginally attached, can work now	2,211	1,417	794
Discouraged	585	454	131
Reasons other than discouraged	1,626	963	663
Family obligations	74	145	-71
In school or training	69	147	-78
Poor health or disability	97	106	-9
Other (childcare/transport issue)	1,386	565	821

To conclude, looking at just a few more of these secondary labor market indicators, the story doesn't change about how bad it is out there. Unemployment is close to the peak, but it is likely to still be above 10% later this year and well into 2021. 10% was the worst point of the 2007-09 recession.

MARKETS OUTLOOK

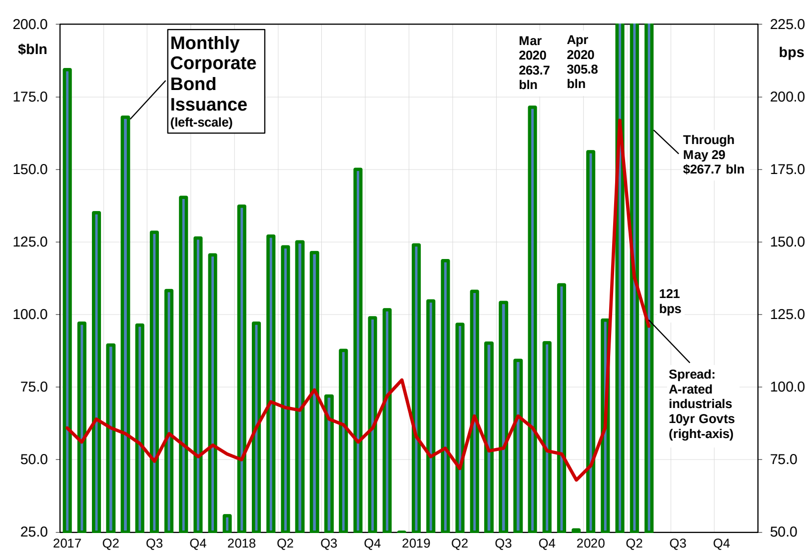
	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.32	1.30	1.30	1.40	1.50	1.60
10-Yr Note	2.41	2.01	1.67	1.92	0.67	0.70	0.70	0.80	0.90	1.00
5-Yr Note	2.23	1.77	1.55	1.69	0.38	0.30	0.40	0.60	0.70	0.80
2-Yr Note	2.26	1.76	1.62	1.57	0.25	0.20	0.30	0.30	0.40	0.40
3-month Libor	2.60	2.32	2.09	1.90	1.45	0.40	0.30	0.20	0.20	0.20
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	50	40	50	50	60



Another exciting week of trading. 10-year Treasury yields moving down to 0.65% on Friday from 0.66% a week ago. The Fed must be happy with this week's fixing as they throttled back their government securities purchases next week to $4.5 billion a day from $5.0 billion per day this week. It's still in the Fed meeting press statement issued on April 29 that "the Federal Reserve will continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions." No update since on why they are doing QE. The next step will be a promise to fix 10-yr yields at 0.65% for the next 8 years so we can all make our plans accordingly.

CORPORATES: STRYKER, TOTAL SA, MARRIOTT, MICROCHIP TECHNOLOGY

Corporate bond offerings were $40.4 billion in the May 29 week versus $51.0 billion in the May 22 week. On Wednesday, The Hershey Company sold $1.0 billion 5s/10s/30s. It priced a $350 million 1.7% 10-yr (m-w +20bp) at 105 bps (A1/A). The chocolate company will use the proceeds to repay part of its commercial paper issued ($800 million outstanding) and for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 121 bps above 10-yr Treasuries Friday versus 128 bps last Friday.



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	27-May	20-May	13-May	6-May	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4109.512	4089.331	4057.268	4020.191	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1835.110	1862.841	1783.761	1605.380	0.000
Repurchase agreements	181.101	157.351	157.354	172.700	126.750
Primary credit (Discount Window)	18.198	19.535	24.239	26.494	23.455
MMLF	33.244	36.449	39.820	42.763	
PDCF	6.241	7.501	10.288	14.903	
Commerical Paper Funding Facility	12.794	4.293	4.292	3.988	
Paycheck Protection Facility	49.211	45.090	40.580	29.181	
Corporate Credit Facility (CCF)	34.853	1.801	0.305		
Municipal Liquidity Facility	0.000				
Central bank liquidity swaps	448.946	446.103	440.934	444.885	62.000
Federal Reserve Assets	7145.9	7085.8	6982.7	6769.9	961.7
3-month Libor %	0.36	0.36	0.39	0.45	2.82
Factors draining reserves					
Currency in circulation	1948.196	1938.599	1929.840	1921.765	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Treasury credit facilities contribution	66.500	49.000	47.500		
Reverse repurchases w/others	4.326	9.726	13.825	1.175	0.000
Reserve Balances (Net Liquidity)	3828.162	3304.221	3263.431	3165.605	24.964
Treasuries within 15 days	55.608	66.859	102.681	104.760	14.955
Treasuries 16 to 90 days	279.039	274.175	217.461	213.636	31.549
Treasuries 91 days to 1 year	564.220	557.843	561.643	558.517	69.272
Treasuries over 1-yr to 5 years	1577.552	1568.066	1584.494	1568.584	170.807
Treasuries over 5-yrs to 10 years	719.915	711.258	686.628	675.810	91.863
Treasuries over 10-years	913.177	911.130	904.361	898.885	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
CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

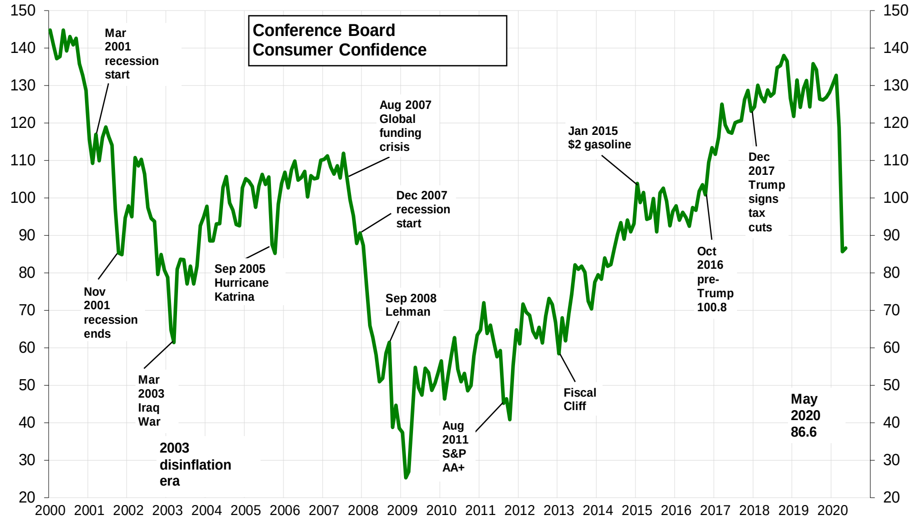
The Fed meets June 9-10, 2020 to consider its monetary policy. The Fed balance sheet added a new line for the Municipal Liquidity Facility even if no purchases have hit the balance sheet yet. Fed Chair Powell spoke on Friday about "red lines" being crossed when they took swift action this recession, and we guess this is one of them. We don't have to worry about the Fed taking a loss and so being unable to lend against good collateral because of the U.S. Treasury credit facilities contribution at $66.5 billion this week if the backstop is needed. We were not worried about the Fed taking a loss ourselves as they print money don't they and any loss on a $7.1 trillion balance sheet would just be a number on a piece of paper. The only worry would be that this is still just lending which needs to be paid back by people who may never have the revenue to do so. When the Fed traditionally made loans in a crisis, it was to financial institutions that could be shut down by regulators or merged if they failed. Wonder what Bagehot thinks now. The economist who started it all in 1873 saying as we summarize here: central banks can lend freely against good collateral at a very high rate of interest to solvent borrowers. It sounds good, except for the "penalty" rate (ouch), even if there are not always a lot of solvent borrowers with good collateral in a financial panic and recession. Lehman Brothers did not qualify. Anyway, at the moment there are 7 lending facilities on the Fed's balance sheet lending freely which together total $136.343 billion this week: Money Market Mutual Fund Liquidity, Primary Dealer Credit, Paycheck Protection Program Liquidity, Commercial Paper Funding, Corporate Credit (2 facilities), and Municipal Liquidity. No one we have talked to is aware of red lines being crossed; the markets have no problem with what the Fed is doing with their lending. <u>They might wonder time to time where the $7.1 trillion balance sheet is going.</u> Powell was asked about this in his interview on Friday, how big could the balance sheet get. He didn't really answer other than to say he didn't worry about the big balance sheet leading to "money-printing" inflation. "I would say of course our balance sheet can't go to infinity. I would say that I'm comfortable with where we are now and the path that we're on and don't see risks based on what we're doing right now to inflation or to financial stability."

U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)
Monthly Changes ($ billions)
Fiscal Year (FY) Ending September 2020

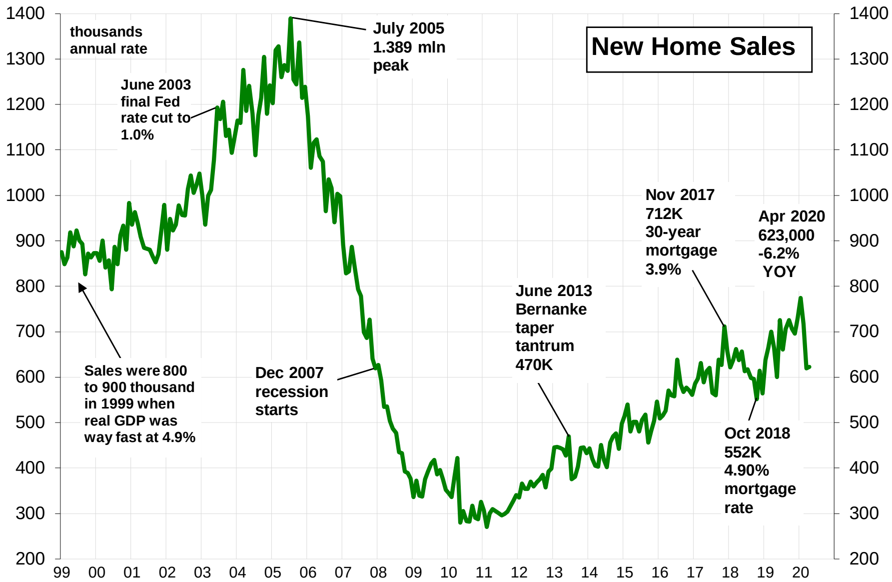
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	2,001.8
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	2,875.0
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	2,253.0
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	621.8

OTHER ECONOMIC NEWS THIS WEEK

Green shoots for the economy with stable new home sales and consumer confidence (Tuesday)



Breaking economy news. New home sales and consumer confidence. New home sales after revisions going back to 2015 rose 0.6 percent in April and would have been up even more without a sharp 6.3% drop in the West. All the other regions were up in April including the locked-down Northeast. The negative effect on new home sales from the coronavirus pandemic appears to be in the past if these data are to be believed. Median home sales prices are down 5.2% in April to $309,900 from $326,900 in March and were also below year-earlier levels of $339,000 in April 2019. Home prices are still relatively stable and are not showing any sign of a housing bubble bust like that which occurred in the Great Recession over a decade ago. At least consumers are not under water in this recession where their home is worth less than their mortgages.



Consumer confidence is also bucking the negative-news trend somehow in May even though there are over 38 million fewer working consumers with paychecks since the pandemic shelter-in-place orders went out in the middle of March. That is the number of Americans applying for jobless benefits and we guess they were either not surveyed or they expect to get their jobs back shortly as the states reopen. Consumer confidence was 86.6 in May which is slightly better than the 85.7 reading in April. Keep in mind the confidence index was way up at 132.6 in February so consumers have already factored in the worrying pandemic news. Today's stable consumer confidence reading is telling the markets that the worst is over for now based on the sentiment of consumers who are starting to walk the streets again as the states reopen.

Net, net, the worst may be over for the economy if new home sales and consumer confidence are important for setting the economy's sails in a new direction away from the stormy seas of recession. The economic data have been so darn grim lately with job losses in the tens of millions that the green shoots of optimism from better consumer confidence and new home sales are welcome. We still can't see a V-shaped recovery, but at least this is looking like the shortest recession in history which will be measured in months not years.

2.123 million more jobless claims. Buy stocks! (Thursday)

Breaking economy news. Weekly jobless claims. The total number on the government unemployment rolls fell a few million, but if things are so good out there, why did 2.123 million new people apply for unemployment benefits in the May 23 week? A confusing picture was presented by today's weekly jobless claims data, but all in all, the sky is no longer growing darker perhaps. Frankly, we were already betting that the peak of unemployment was going to come in May or at worst a month later in June. This would be the shortest jobs market meltdown for any recession or depression in economic history, starting in February from a 3.5% unemployment rate to a peak jobless rate over 20% depending on labor force dropouts only three or four months later. We think the 40.767 million new jobless claims filings in the ten weeks since the mid-March coronavirus pandemic lockdown tells the true story of the wreckage out there in the country and the enormous long-term damage done to the economy.

Net, net, the coronavirus pandemic has struck the labor market hard like an earthquake that no one saw coming and the shaking isn't over yet as the job losses continue to come with each aftershock. Job losses started with leisure and hospitality and retail shops at the mall, but now unemployment is spreading everywhere because if restaurant and bar workers don't have the money to buy anything, then this will affect the livelihoods of factory workers, accountants, computer system designers and even those in management and consulting services. Everyone is at risk if someone else in the economic food chain loses their work and cannot spend the money that makes the economy grow.

Claims since 14.7% unemployment report
May 23
2123
May 16
2446
May 9
2687
May 2
3176
Apr 25
3846K
Apr 18
4442K

The only ray of hope is that the total number of people receiving benefits came back down a few million to 21.052 million in the May 16 week from 24.912 million in the May 9 week. This news must be tempered by the still rising trend of jobless gig workers in their own Pandemic Unemployment Assistance program where the total receiving assistance is 7.793 million for May 9 from 6.120 million for the May 2 week.

This may be near the peak of joblessness as the states reopen this month, but that will be cold comfort to the maybe 40 million Americans out of work whether they are in the official count by the Labor Department or not and have simply dropped out of the labor force and given up. There won't be jobs for everyone as the economy opens back up. Times are tough and it is bleak out there. It's still true that it's a recession when you lose your job, but it is a depression when I lose my job.

Stock market investors may be of a new generation that are unfamiliar of just what a recession is and are oblivious to the pain and suffering of those who cannot support themselves. Companies don't make money in hard times; they lose money and that means earnings will not support current valuations in stocks let alone if stocks continue to climb back to the start of the year highs.

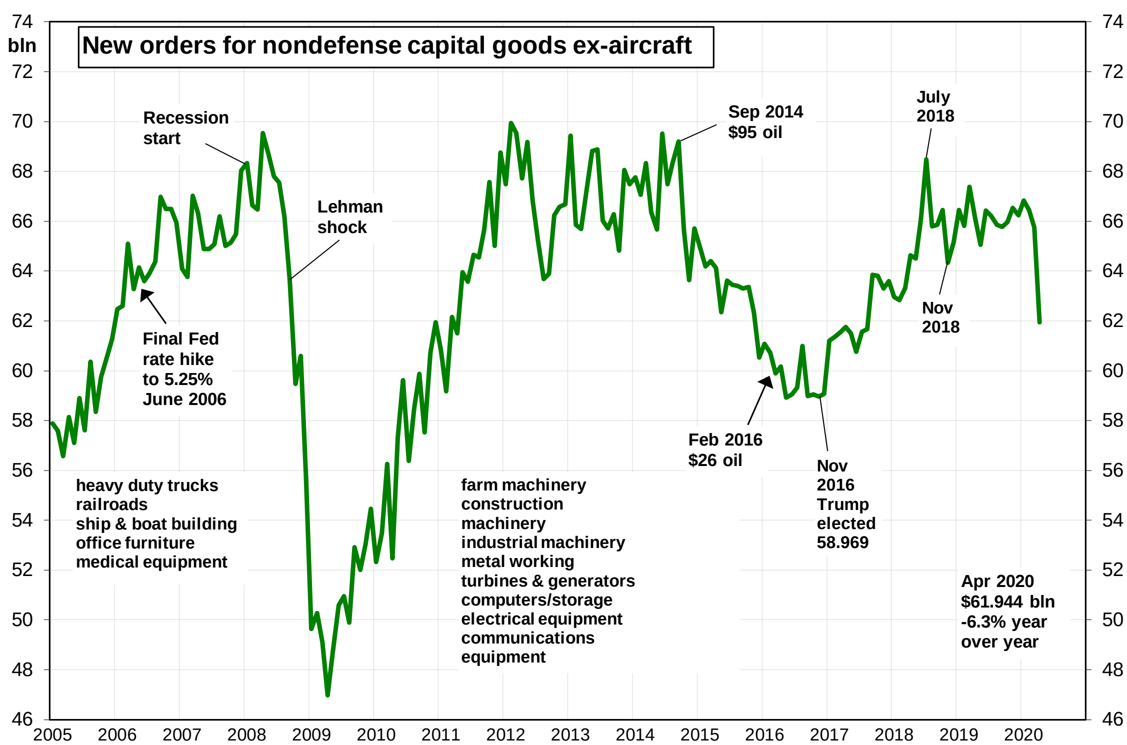
Nevertheless, it is going to be another great day for the Dow, as job losses put investors in a buying mood. Since the mid-March lockdown of the country, the Dow has rallied 7 out of the last 9 Thursdays after the reports of millions of Americans filing for unemployment compensation. Jobless claims Thursday is Dow rally day for those who still have the money to buy Bitcoin, we mean a lottery ticket, we mean buy the stock market. It's all the same dream. Bet on it.

Durable goods orders bite the dust (Thursday)

Breaking economy news. Durable goods orders. Nondefense capital goods orders ex-aircraft are business investment spending and right now they are tumbling: -5.8% in April and -1.1% in March. We aren't even to May yet and orders are tumbling in this recession. In April, Primary metals down 13.8%, Fabricated metal products off 12.0%, Machinery -6.8%. Not all areas were hard hit as computers only fell 1.0%, and communications equipment new orders rose 1.7% perhaps as companies sent workers home to work.

Net, net, you can have a recovery from the consumer side of the economy after the recession ends and spending starts up again, but business investment always lags as companies are either cautious or simply don't have the balance sheets and money to spend after corporate earnings nosedive during the worst of the recession when the demand for their goods and services simply evaporates. One day everyone wants all of a company’s products, the next day, no one wants anything that they have for sale.

Once the money is gone from financial losses it's gone. One key driver of investment in recent years has been oil and gas drilling and that's not coming back anytime soon. The oil markets are over-supplied and this is a global recession not just a USA recession. Demand is down all over the world. Stay tuned. Story developing. Investment is a key ingredient of sustainable economic growth and with businesses canceling orders left and right, investment spending is not going to come back for a long, long time.



Personal income up 10.5% while personal spending falls 13.6%. Thanks Uncle Sam (Friday)

Consumer spending falls off a cliff in April

We tried to graph consumer spending, but gave up because it wouldn't fit in the chart box after falling 52.8% at an annual rate in Q2 2020. Better just to write this quarter off.

Positive growth resumes in Q3 2020.

Breaking economy news. The billions continue to get thrown around the economy in this recession making it hard to analyze what is going on out there. The numbers are too big to compare to anything we have ever seen before. Somehow the Cares Act $300 billion of support payments to individuals (those $1,200 one-time checks) got annualized as an additional $2.588 trillion of personal income in the economy pushing up the total personal income level in April to $20.674 trillion from $18.708 trillion in March. As a nation, we're rich for as long as everyone hangs onto their $1,200 checks instead of spending it on rent and food and water now that you lost your job. This personal income increase is just a one-off unless the House bill to provide another emergency check gets through the Senate and signed off by the White House.

Okay, that was interesting, what else is in the April personal income report? First maybe we should look to the advance trade deficit data for goods in April where the deficit widened to $69.7 billion from $65.0 billion in March. This is just chump change in an economy that may be falling 40% in the second quarter. If you are in manufacturing though, you won't like that exports of goods fell 25.2% in April which means you don't have to work as many hours on the factory floor to make goods to send overseas because they aren't buying them.

Consumer spending in real terms fell 13.2% in April after declining 6.7% in March. We are still amazed at the sharp decline in March as the country didn't issue stay-at-home orders until the middle of the month for most of the states. Inflation is down and out and unlikely to be of concern to Fed officials for years and years. Overall PCE inflation fell 0.5% due to energy and is rising 0.5% year-over-year.

Net, net, consumer spending took a terrifying fall in April and if the Cares Act spending was supposed to be cushioning the blow to the economy it didn't show up because April was a complete disaster which will be recorded as the worst month for the American economy in history. You can throw those 30 or 40 percent GDP declines this quarter out the window because right now with just April data and May and June left to go, real consumer spending is down over 50 percent. Wow. This is what happens when you shut down the American economy to fight the spread of the coronavirus; you cause a Great Depression hit to spending not the more modest, normal recession loss of consumer spending.

The good news is April is looking like the month that GDP hits bottom as the states opened back up in May and consumers awakened from their slumber. Real consumer spending is down a little over 50% at an annual rate in the second quarter, but if spending bounces 10% in May and another 5% in June, then the quarter will be down only around 35%, and the third quarter will be back on the solid ground of positive economic growth. This is a coronavirus pandemic recession with a terrifying fall that has scared the daylights out of everyone but the stock market, but better days lie ahead, and this is likely to be the shortest recession in U.S. history even if it was also the deepest. April is the bottom on spending. Bet on it.

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.