

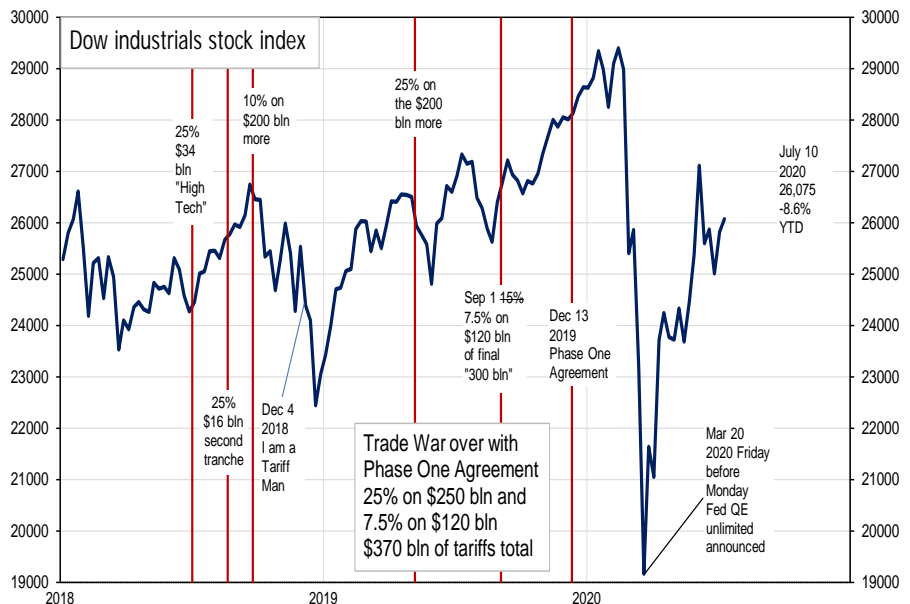
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U.S.-CHINA TRADE TALKS UPDATE

It has been a while since we reviewed the trade picture, American exports and imports and the long-running deficit. When we were in school, trade deficits were a good thing as it helped with other countries' economic development as we bought their goods; now the thinking is the world is ripping us off and taking our jobs. Trump told reporters on Air Force One on Friday that he was not thinking about a Phase Two trade agreement with China. "The relationship with China has been severely damaged," he said.



The stock market spent many days in 2018 and in 2019 selling off as the China-U.S. trade war escalated, but there was little reaction to the Friday comment from the president. In fact, the stock market rallied Friday morning at 830am ET on the PPI inflation report. Haha. There was no market reaction to the economic news, trading the economic fundamentals, it was actually the 830am report that the Gilead drug Remdesivir cut the Covid-19 mortality risk by 62%.

It took a long time to get to Phase One so it is perhaps no surprise Phase Two is going nowhere for now. The president announced the near completion of Phase One at the Oval Office press conference with Vice Premier Liu He on October 11, 2019. The US trade rep put out a press release on December 13, 2019 announcing the Phase One agreement.

	Tariff	Amount	Total
July 6, 2018	25%	34	34
Aug 23, 2018	25%	16	50
Sep 24, 2018	10%	200	250
May 10, 2019	25%	200	250
Dec 13, 2019	7.5%	120	370

"The United States first imposed tariffs on imports from China based on the findings of the Section 301 investigation on China's acts, policies, and practices related to technology transfer, intellectual property, and innovation. The United States will be maintaining 25 percent tariffs on

approximately \$250 billion of Chinese imports, along with 7.5 percent tariffs on approximately \$120 billion of Chinese imports.” Then there was the signing of the agreement at the White House on January 15, 2020. U.S. soybean exports to China have gone nowhere since January, perhaps partly on less demand, as the IMF forecasts have evolved, China economic growth was seen rising 6.0% this year in the January economic outlook, and now in the June IMF update, China growth is seen rising just 1.0% in 2020. China did have tariffs on U.S. soybeans in retaliation for a time. Accumulated soybean exports to China in this 2020 marketing year were 11.4 billion tons at the end of January and are still 13.0 billion tons on July 2 with a couple of months left to go for the year. Doesn’t sound like trade relations are back to normal after Phase One.

Soybean Futures \$/bushel	Soybean Marketing		Grand Total
	Year (MY)	China	
\$ 13.13	9/1/2011	24.444	39.993
\$ 13.64	9/6/2012	23.506	36.739
\$ 14.58	9/5/2013	21.522	36.243
\$ 13.32	9/4/2014	27.602	44.526
\$ 9.81	9/3/2015	29.640	49.801
\$ 9.49	9/1/2016	29.855	50.839
\$ 9.82	8/31/2017	36.148	58.117
\$ 9.67	9/6/2018	27.681	56.349
\$ 8.79	9/5/2019	13.369	46.770
\$ 9.13	1/30/2020	11.395	26.770
\$ 8.87	7/2/2020	12.956	37.764

Millions of tons

All of this discussion is moot for now with the world economy in a steep downturn. The U.S. is winning if a reduction in the U.S.-China trade deficit and more importantly the imports of goods side was the goal. Phase One stopped the tariff escalation at 25% on the first \$250 billion for now, and 7.5% on the next \$120 billion of “footwear, textiles, clothing” for now, but it is a moving target as consumer and business demand is falling around the world. At the worst point in 2018, U.S. goods imports from China were \$540 billion and the trade deficit was \$418 billion. Imports will be just \$360 billion in 2020 if the declining trend of the first five months of 2020 versus the first five months of 2019 continues through the end of the year. We are winning, but the trade tariffs are bringing in less according to the U.S. Treasury whether you believe China is paying it or U.S. manufacturers and their customers are. Customs duties in May were \$3.8 billion which is a \$45.6 billion annual rate, and the peak in October 2019 was \$7.7 billion that month or an annual rate of \$92.4 billion. Chump change either way given the Federal budget deficit is running \$2.7 trillion in the first three-quarters of the fiscal year.

\$millions	Exports	Imports	Deficit
2018	120,289.3	539,243.1	-418,953.9
2019	106,447.3	451,651.4	-345,204.2
2020e	100,299.3	360,836.6	-260,366.7
Jan-May 2020 exports down 5.8% vs. 2019			
Jan-May 2020 imports down 20.1% vs. 2019			
Jan-May 2020 deficit down 24.6% vs. 2019			

To conclude, Washington got its wish and America’s trade deficit with China has fallen dramatically the last couple of years. The outlook is uncertain however and it looks like it could be a long wait for the White House’s hope for a zero, zero, zero world one day with zero trade barriers, zero tariffs, and zero government subsidies. At the moment there are 25% tariffs on \$250 billion of China imported goods, and 7.5% tariffs on about \$120 billion more, mostly consumer goods. As the trade war escalated the last few years it was commonly believed that business fixed investment was postponed and growth was slower due the trade war uncertainty. The trade talks are on the back burner now and there may not be new talks in the future. However, business investment is down now due to the coronavirus recession and it may have trouble recovering until export demand picks back up again after the world shut down this year.

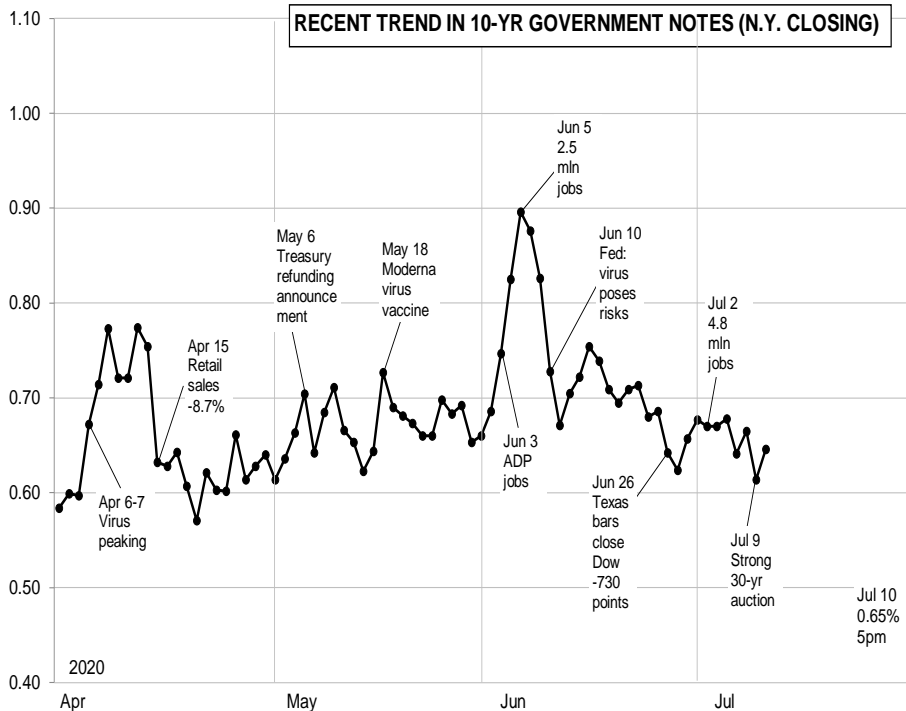
2018		2019			2020		
Q4	Q1	Q2	Q3	Q4	Q1	Q2*	
17.828	16.867	15.777	20.311	21.146	18.019	7.947	

*Q2 is April and May with June data released July 13

MARKETS OUTLOOK

	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
30-Yr Treasury	2.53	2.11	2.39	1.32	1.41	1.40	1.40	1.50	1.60	1.70
10-Yr Note	2.01	1.67	1.92	0.67	0.66	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.77	1.55	1.69	0.38	0.29	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.76	1.62	1.57	0.25	0.15	0.20	0.20	0.20	0.30	0.30
3-month Libor	2.32	2.09	1.90	1.45	0.30	0.30	0.30	0.20	0.20	0.20
Fed Funds Rate	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	25	5	35	42	51	50	50	60	60	70

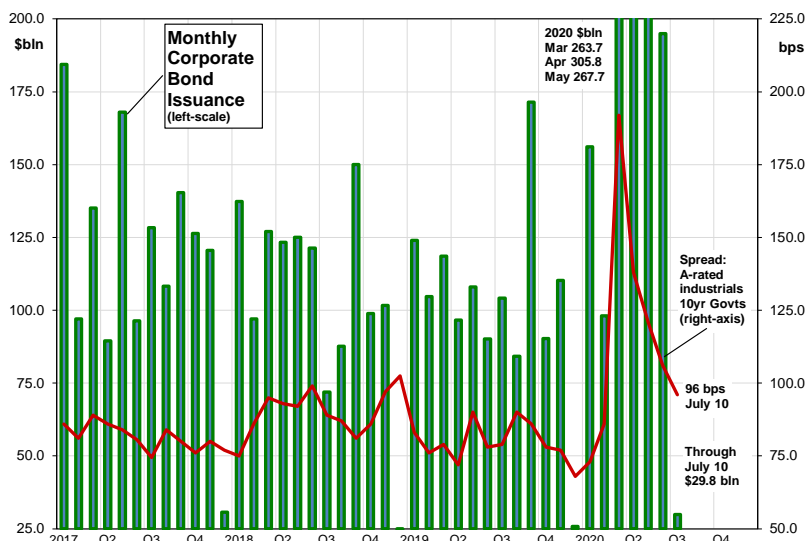
10-yr year yields closed at 0.65% this week versus 0.67% last week. The range was wide however from 0.71% on Monday to 0.57% on Friday. Bonds followed the stock market's reaction to a few news stories. Starting Thursday around 930am with 10-yr yields at 0.65% there was a headline saying the Trump administration was getting ready to ban companies using Huawei from Federal contracts. Around 1015am Thursday the Supreme Court ruled NY prosecutors at least could get Trump's tax returns and, with a declining yield



trend, there were very strong auction results at 1pm ET for the Treasury's 30-yr sale. Yields and stocks might have ended the week lower except for the positive news on Gilead's Remdesivir drug Friday.

CORPORATES: ENBRIDGE, SIMON PROPERTY, CATERPILLAR, VALE

Corporate bond offerings were \$29.6 billion in the July 10 week versus \$17.0 billion in the July 3 week. On Thursday, Choice Hotels International priced a \$450 million 3.7% 10-yr (m-w +50bp) at 315 bps (Baa3/BBB-). The hotel chain (Econo Lodge, Rodeway Inn) will use the proceeds to repay its \$250 million unsecured term loan and to fund the tender offer for its 5.75% 2022 notes. Corporate bond yields (10-yr Industrials rated A2) were 96 bps above 10-yr Treasuries Friday versus 99 bps last week.



FEDERAL RESERVE POLICY

The Fed meets July 28-29, 2020 to consider its monetary policy. Not a lot to watch out for. Nothing much is happening with Fed officials at home doing nothing just like teleworkers at private companies around the country. There's always QE we guess. Stock market seems to like it. The Fed is buying \$80 billion government securities this month (Bernanke Fed bought \$45 billion per month) which is \$4 billion per day. The Fed will announce Monday, July 13 at 3pm ET what their next schedule will be. Some parts of the markets are grumbling already the Fed isn't doing enough. M-2 money supply soared 1.073 trillion to \$17.176 trillion in April. There was "only" \$313 billion more M-2 money supply in June to buy stocks.

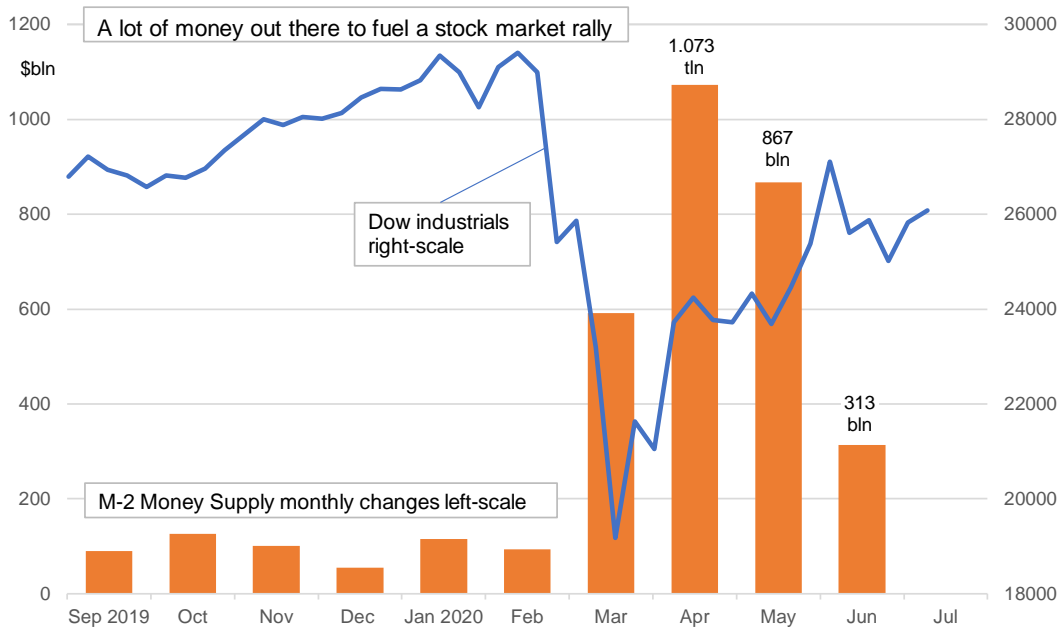
Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data					pre-LEH
Factors adding reserves					
U.S. Treasury securities	4231.355	4213.220	4197.404	4169.340	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1911.401	1911.381	1943.441	1918.741	0.000
Repurchase agreements	0.000	61.201	70.201	79.053	126.750
Primary credit (Discount Window)	4.846	5.860	6.237	7.479	23.455
Factors draining reserves					
MMLF	18.927	20.637	22.889	24.680	
PDCF	1.874	2.486	3.624	5.306	
Commerical Paper Funding Facility	12.802	12.799	12.798	12.797	
Paycheck Protection Facility	67.685	68.133	62.597	57.552	
Corporate Credit Facility (CCF)	42.644	41.940	40.617	38.916	
Municipal Liquidity Facility	16.082	16.081	16.080	16.079	
Main Street Lending Program	37.503	37.502	37.502	31.876	
Term Asset-Backed Facility (TALF II)	8.753	8.753	8.500		
Central bank liquidity swaps	179.095	225.414	274.963	352.470	62.000
Federal Reserve Assets	6969.4	7057.2	7131.0	7143.4	961.7
3-month Libor %	0.27	0.30	0.28	0.32	2.82
Reserve Balances (Net Liquidity)					
Treasuries within 15 days	66.114	64.471	64.328	70.365	14.955
Treasuries 16 to 90 days	270.043	250.820	274.008	276.151	31.549
Treasuries 91 days to 1 year	618.085	635.460	605.122	587.886	69.272
Treasuries over 1-yr to 5 years	1607.239	1597.928	1592.447	1581.775	170.807
Treasuries over 5-yrs to 10 years	735.426	732.150	735.883	729.159	91.863
Treasuries over 10-years	934.448	932.391	925.617	924.006	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)



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	Jun	Jul	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	87.892	15.816	2,105.5
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	685.2	85.6	3,645.8
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	449.7	46.0	2,748.6
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	235.5	39.7	897.0
Federal Reserve's 11 Lending Facilities (month-end outstanding)					0	58.352	94.641	136.343	204.607	206.270	
Central bank liquidity swaps (month-end outstanding)					0.044	206.051	438.953	448.946	274.963	179.095	

OTHER ECONOMIC NEWS THIS WEEK

First manufacturing and now it's the services sector that's flying high (Monday)

Breaking economy news. Buy stocks. First it was manufacturing executives and now it is the services industry screaming they are back. Recession, what recession is what services sector purchasing managers are saying. The economy has healed already, get on with it. There are no second wave coronavirus fears for the services sector and you would never know that 11.5 million service sector employees have lost their jobs this year if you look at the latest survey from the Institute for Supply Management. Hang onto your hats, service sector executives say the June index soared 11.7 points to 57.1 from 45.4 in May. The service sector only contracted for two months this year they said which hardly makes this recession a recession. America opened back up for business in June as the states reopened following the coronavirus pandemic shutdown in March and purchasing managers are not yet showing any concern about a second wave of virus cases whatsoever.

There were fourteen service industries expanding in June. There were only three services industries in decline: (1) Mining, (2) Other services, (3) Management of companies and support services.

Net, net, recession, we don't see no recession is what purchasing manager executives in the services sector of the economy are saying. Thousands of retail shops and bars and restaurants are closing or soon will be after the coronavirus pandemic stopped the flow of traffic and crashed sales and revenues and tipped many businesses into financial bankruptcy and yet, purchasing managers say the outlook for the service sector is looking up. Stay tuned. Story developing. It's summertime and the services sector is hot. Bet on it.



More job openings especially in the biggest labor market in the South (Tuesday)

Breaking economy news. There were more job openings at the end of May with 5.397 million available which is 401 thousand more than in April. Believe it or not, the stock market seems to believe this is good news as it beat expectations and the report stopped the selling this morning for now. 5.397 million openings in May is still short of the 5.867 million job positions available across the country back in November 2016 when the president was elected. Not enough factory jobs have been brought back to America yet even if the manufacturing sector says they need to hire 328 thousand workers at the end of May.

Regionally, the biggest labor market in the South saw the sharpest increase in job openings to 2.07 million in May while the Northeast job postings were unchanged at 972 thousand in May. We will see if the South continues to need help in the months to come as there have been some rollbacks in the plans to reopen in many southern states.

Net, net, the labor market is hard to read right now with many cross-currents and anomalies as the country starts to get back up to speed. The millions of job openings don't match up well with the millions of workers on furlough waiting to be called back to their jobs. Retail is hiring and needs 668 thousand employees in May which is an increase from 521 thousand in April. Hotels, bars and restaurants incredibly say they need to bring aboard 469 thousand workers in May which is an increase from 273 thousand in April. It is hard to imagine these millions of job postings across the country are real. Our guess is many of the openings are merely leftovers from the best labor market in 50 years at the start of a year.

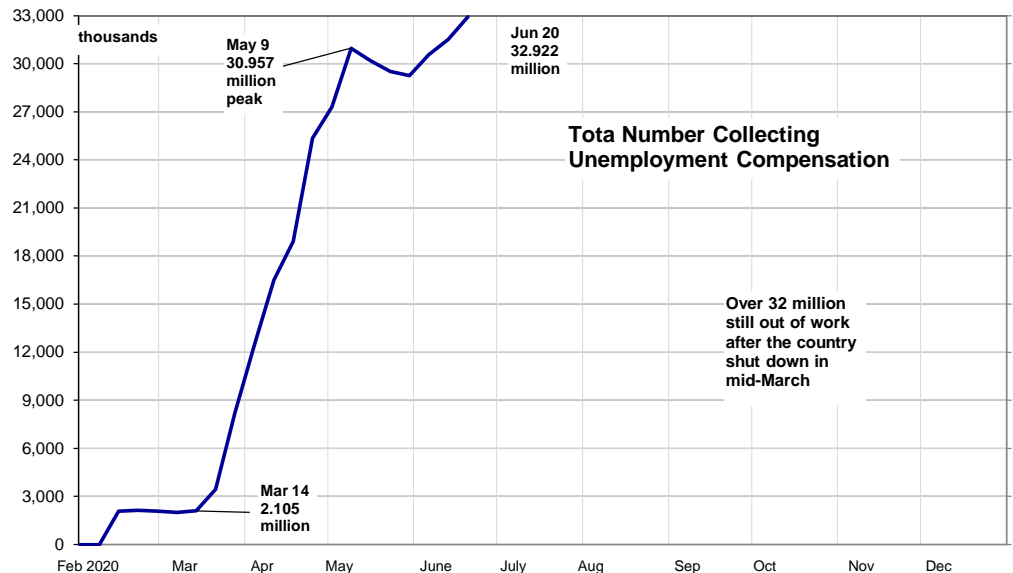
The stock market reaction aside, we have our doubts about the veracity of this latest batch of labor market stats. Can companies remain in business and service their debts and pay the overhead including staff while they wait two or three years to recover the sales lost in the pandemic is the million-dollar question. And this assumes the pandemic is even over yet with the threat of a second or third wave out there on the horizon. Time will tell where the jobs market is going and Americans certainly have plenty of time working from home now. Bet on it. Buy stocks and bet on it.



This week's jobs stats have "rescue me" written all over it-don't lose your job (Thursday)

Breaking economy news. Jobless claims of 1.314 million in the July 4 week may have been held down due to the holiday, but don't be fooled, the economy's troubles aren't over yet, not by a long shot. A staggering 32.922 million people received unemployment benefits in the June 20 week because they were not working. The total number out of work and receiving benefits is the worst yet in this recession. We can't keep getting record amounts of unemployed and pretend that the economy is okay and the recession is in its final days.

Don't lose your job. It's bad out there. 1.314 million fired this week are still much more than the worst of the Great Recession over a decade ago when 665 thousand claims were filed in one week during March 2009. That recession wasn't over until June 2009 and the unemployment rate didn't reach its 10.0% peak until October 2009.



Net, net, Washington better get its act together and inject some more fiscal stimulus monies in to the economy or business and economic activity and jobs could sink back closer to those crushing record lows made back in April. We have never seen an economy lift out of recession when 1.3 million Americans apply for benefits in a week after they have been laid off from work. For the labor market, it is not the second wave that is holding jobs in suspension, it is the fears of the second wave and even a third wave that is holding the economy back and making the road to recovery an even longer one.

The second wave of the coronavirus has thrown a monkey wrench into the government's plans to reopen the economy as social distancing measures are delaying business as usual and many companies are shutting back down for good which risks turning their furloughed employees into the ranks of the permanently unemployed. The recession may be technically over economists say when production and factory output hits bottom, but it is going to feel like a recession for millions of jobless Americans for a very long time. Washington has taken extraordinary steps to help companies keep workers on the payroll this recession, but the clock is ticking and time is running out to save the economy. If the recovery is delayed by a second wave, the economy is going to need even more money to keep it afloat until the virus threat passes and life can return to normal. It will return to normal someday, won't it?

No inflation at the producer level to worry Fed officials. Economy running cold. (Friday)

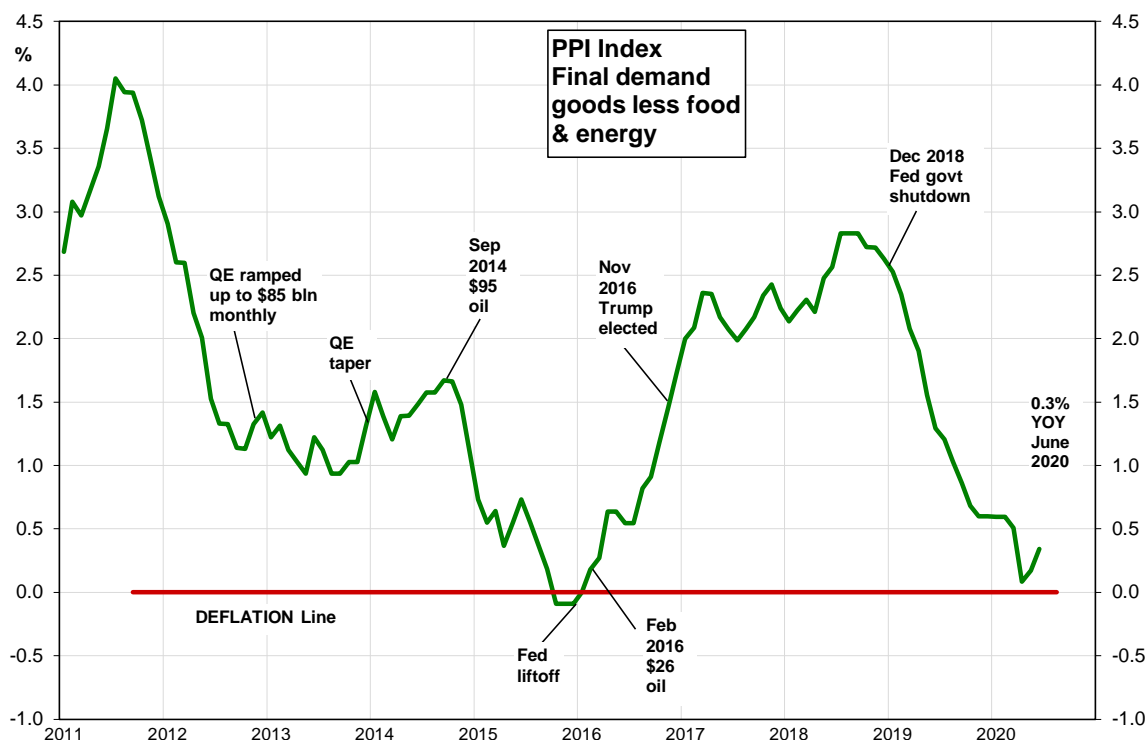
Breaking economy news. There is no inflation at the producer level to worry Fed officials as the economy continues to run cold and the threat of inflation heating up remains a very low risk. PPI final demand prices fell 0.2% in June and are 0.8% lower than a year ago.

Final demand services prices fell 0.3% in June and Trade services prices fell a sharp 1.8%. Trade services prices are an attempt to measure the change in margins received by wholesalers and retailers assuming they could find any retailers to survey this month during the pandemic.

Final demand goods prices rose a second month in a row largely due to the rebound in energy prices for a second month. Energy goods fell 19% in April, and increased 4.5% in May and 7.7% in June.

Net, net, producer prices were down in June and there are warnings for services industries in the months ahead after final demand services prices fell for a third consecutive month. The country was still opening up in early June and yet services prices were not rebounding despite more retail shops and bars and restaurants coming back online.

The message for Fed officials if they needed convincing at all is that the worst economy since the Great Depression is keeping inflationary pressures on the back burner for now and that interest rates will need to remain at very low levels for the next few years at a minimum. The economy is running cold at the moment and with the second wave spread of the coronavirus and Washington prepared to let the extra \$600 weekly unemployment benefits lapse at the end of the month, demand in the economy is likely to cool and inflation is unlikely to heat up in the future.



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