# Financial Market Weekly

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**MUFG Bank, Ltd.**
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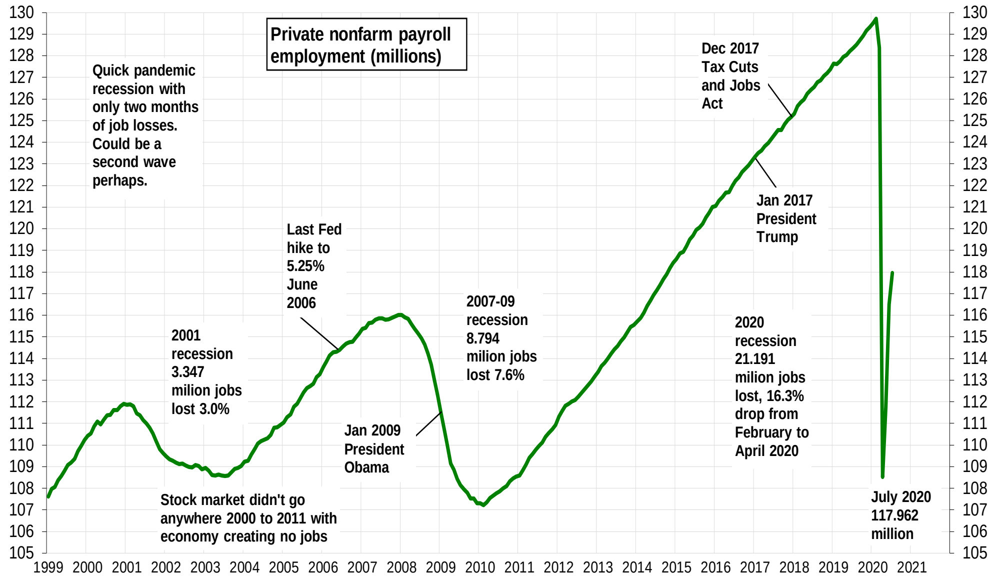
## JOBS INCREASE 1.8 MILLION IN JULY, BUT LESS THAN LAST MONTH




Friday was the monthly employment data, the biggest market-moving economic number in the world. Fed Chair Powell just talked about a slowdown in "high-frequency" economic data like credit card spending at Wednesday, July 29's press conference and sure enough here it is. Maybe an exaggeration, you don't need a job to spend for one thing, but it's true enough that payroll employment increased just 1.8 million in July after rising 4.8 million in June. Powell also said no one has a handle on the employment figures at this stage in what is the biggest economic downturn since the Great Depression. The job losses are massive and hard to count. Only the stock market thinks things are going well for the nation and that better days and better corporate earnings lie ahead.

| Monthly changes (000s) | Jul | Jun | May | Apr | Mar | Feb | Jan |
|---|---|---|---|---|---|---|---|
| Payroll employment | 1763 | 4791 | 2725 | -20787 | -1373 | 251 | 214 |
| Private jobs | 1462 | 4737 | 3236 | -19835 | -1356 | 220 | 179 |
| Leisure/Hospitality jobs | 592 | 1981 | 1405 | -7575 | -743 | 59 | 24 |
| Unemployment rate % | 10.2 | 11.1 | 13.3 | 14.7 | 4.4 | 3.5 | 3.6 |
| Not in labor force (mln) | 100.503 | 100.273 | 101.820 | 103.415 | 96.845 | 95.082 | 94.896 |
| Average hourly earnings | | | | | | | |
| Production Workers | $24.63 | $24.74 | $24.97 | $25.12 | $24.10 | $23.96 | $23.88 |
| MTM % Chg | -0.4 | -0.9 | -0.6 | 4.2 | 0.6 | 0.3 | 0.2 |
| YOY % Chg | 4.6 | 5.4 | 6.6 | 7.7 | 3.5 | 3.3 | 3.3 |

The unemployment rate fell to 10.2% in July, still a bit above the worst recorded in the Great Recession with its 10.0% peak unemployment rate in October 2009. There are 16.338 million unemployed behind that 10.2% rate in July which stands in contrast to the over 31 million receiving unemployment compensation so they better be unemployed for the most part. This does not count the 5.421 million who dropped out of the labor force between February and July presumably because there is no work and they have given up.

In conclusion, the labor market is still in recession and even if spending and new orders have rebounded somewhat, the jobs market recovery slowed in July as the second wave of the coronavirus took a toll and put new limitations on many states' plans to reopen.

The jobs recovery is on very shaky ground with almost 13 million payroll jobs lost since the recession began in February and without seat belts for the unemployed provided by additional fiscal stimulus the economy could be in for a very bumpy ride. There cannot be sustainable economic growth if the country has to carry on with the crushing weight of massive unemployment.

**Payroll jobs fall in March as recession begins**

| Dec. 2019 Totals millions | | Jul 20 | Jun 20 | May 20 | 7 months Dec 19 to Jul 20 | 12 months Dec 18 to Dec 19 |
|---|---|---|---|---|---|---|
| 151.998 | Nonfarm Payroll Employment | 1763 | 4791 | 2725 | -12416 | 2133 |
| 129.319 | Total Private (ex-Govt) | 1462 | 4737 | 3236 | -11357 | 1949 |
| 21.136 | Goods-producing | 39 | 515 | 676 | -1208 | 188 |
| 0.661 | Mining | -7 | -6 | -21 | -92 | -31 |
| 12.866 | Manufacturing | 26 | 357 | 240 | -754 | 61 |
| 0.998 | Motor Vehicles & parts | 39 | 211 | 39 | -70 | -13 |
| 7.555 | Construction | 20 | 163 | 456 | -360 | 153 |
| 108.183 | Private Service-providing | 1423 | 4222 | 2560 | -10149 | 1741 |
| 27.809 | **Trade, transportation, utilities** | 291 | 974 | 383 | -1686 | 143 |
| 15.672 | Retail stores | 258 | 827 | 386 | -914 | -32 |
| 3.061 | General Merchandise | -19 | 168 | 78 | 36 | -19 |
| 3.088 | Food & Beverage stores | -19 | 30 | 55 | 26 | 16 |
| 5.656 | Transportation/warehousing | 38 | 87 | -25 | -448 | 118 |
| 1.526 | Truck transport | 2 | 4 | 2 | -88 | 4 |
| 0.508 | Air transportation | 16 | -5 | -49 | -113 | 10 |
| 0.846 | Couriers/messengers | 9 | 22 | 24 | 71 | 76 |
| 1.192 | Warehousing and storage | -6 | 60 | 13 | -3 | 25 |
| 0.548 | Utilities | 0 | -3 | -2 | -10 | -4 |
| 2.883 | **Information** | -15 | 10 | -40 | -319 | 29 |
| 8.814 | **Financial** | 21 | 23 | 19 | -185 | 149 |
| 2.808 | Insurance | 5 | 1 | -2 | 5 | 52 |
| 2.349 | Real Estate | 15 | 20 | 16 | -175 | 66 |
| 1.393 | Commercial Banking | -5 | 1 | 0 | -13 | 4 |
| 0.969 | Securities/investments | 2 | 0 | 2 | 1 | 9 |
| 21.503 | **Professional/business** | 170 | 318 | 160 | -1601 | 375 |
| 2.950 | Temp help services | 144 | 144 | 47 | -568 | -43 |
| 2.448 | Management of companies | -12 | 5 | -16 | -116 | 47 |
| 1.530 | Architectural/engineering | 0 | 9 | 2 | -60 | 37 |
| 2.239 | Computer systems/services | -7 | -7 | -6 | -87 | 85 |
| 1.156 | Legal services | 2 | 7 | 6 | -49 | 14 |
| 1.037 | Accounting/bookkeeping | 1 | 15 | 35 | -22 | 28 |
| 24.465 | **Education and health** | 215 | 567 | 388 | -1490 | 621 |
| 5.242 | Hospitals | 27 | 2 | -35 | -108 | 85 |
| 3.810 | Educational services | 24 | 104 | 28 | -337 | 92 |
| 16.784 | **Leisure and hospitality** | 592 | 1981 | 1405 | -4257 | 369 |
| 2.100 | Hotel/motels | 3 | 219 | -110 | -809 | 48 |
| 12.203 | Eating & drinking places | 502 | 1477 | 1461 | -2537 | 250 |
| 22.679 | Government | 301 | 54 | -511 | -1059 | 184 |
| 2.244 | Federal ex-Post Office | 32 | 0 | -7 | 71 | 43 |
| 5.184 | State government | 33 | 10 | -37 | -185 | 11 |
| 2.481 | State Govt Education | 30 | 13 | -29 | -178 | -8 |
| 14.648 | Local government | 241 | 44 | -466 | -939 | 135 |
| 8.039 | Local Govt Education | 215 | 64 | -288 | -452 | 68 |

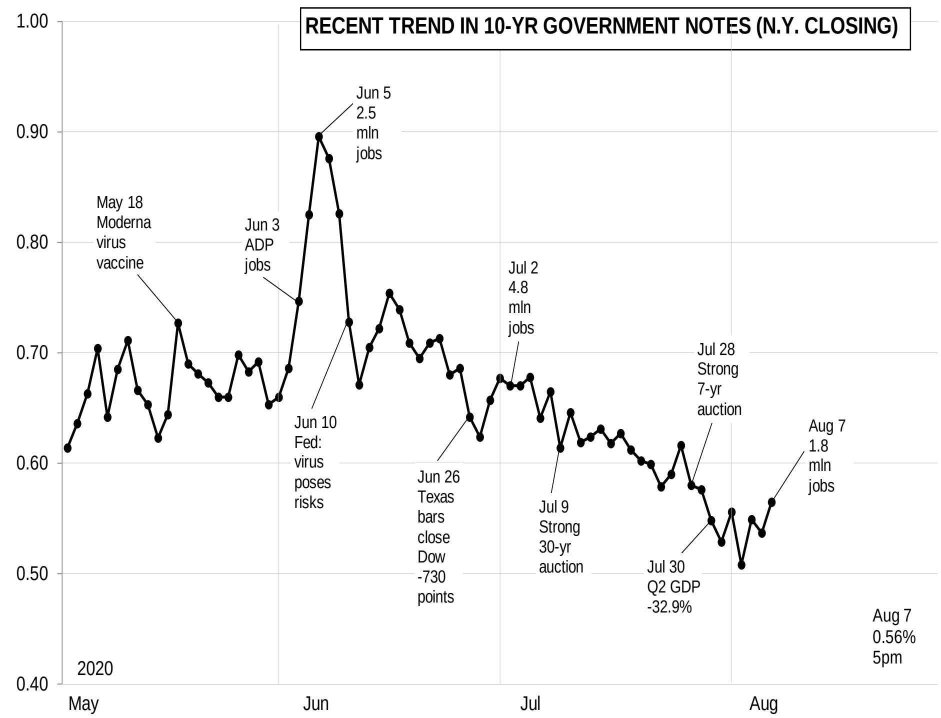
Millions are holding onto the hope that their jobs and former way of life before the coronavirus will still be there and they can be called back from furlough by their employers and go to work. Today's jobs report limits the hopes of many for better days ahead. There has been progress, but 1.763 million new jobs in July are just a drop in the bucket and not nearly enough. It is still a recession out there if you are jobless and can't find work.

Finally, those $600 a week, $15 an hour, $31,200 a year Federal unemployment checks expired at the end of July. These are on top of the regular state programs and our research on the internet (check it out) found the highest state benefits are in Massachusetts at $823 a week, and the lowest in Mississippi at $235 per week, meaning the high-low in unemployment assistance around the nation from the “Government” is $835 to $1,423 per week, $20.87 to $35.57 an hour. The average hourly earnings of Leisure & Hospitality workers were $14.50 an hour in July 2020 in today’s report, so the $15 payment is icing on the cake.

## MARKETS OUTLOOK

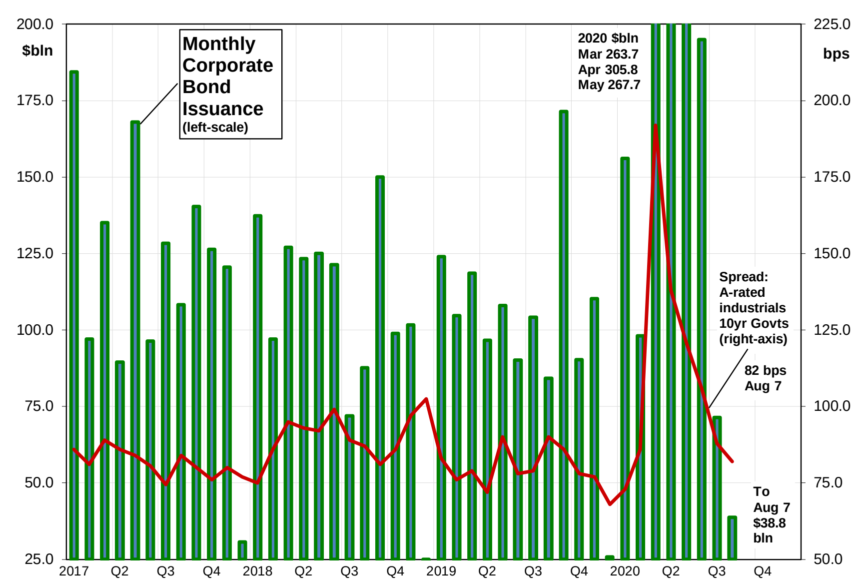
| | 28-Jun 2019 | 30-Sep 2019 | 31-Dec 2019 | 31-Mar 2020 | 30-Jun 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 | Q3 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| 30-Yr Treasury | 2.53 | 2.11 | 2.39 | 1.32 | 1.41 | 1.40 | 1.40 | 1.50 | 1.60 | 1.70 |
| 10-Yr Note | 2.01 | 1.67 | 1.92 | 0.67 | 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 0.56% this week versus 0.53% last week. There was a 2020 record low daily close for bond yields this week at 0.51% on Tuesday. Bond yields were as low as 0.31% intraday in 2020 on March 9 which was the day of the Saudi Russia oil price war news. The bond market may be trading even if it is still struggling with its reason for being, the latest example coming on Monday at 3pm on the Treasury new cash needs announcement ahead of next week's quarterly refunding auctions of 3-years, 10-years, 30-years. The Treasury said new cash needs this quarter were revised up a few hundred billion to $947 billion and bond yields just sat there on the news.




## CORPORATES: ALPHABET, ACTIVISION, TEXTRON, REGENERON, LOEWS

Corporate bond offerings were $38.8 billion in the August 7 week versus $25.7 billion in the July 31 week. On Tuesday, AutoZone priced a $600 million 1.65% 10-yr (m-w +20bp) at 117 bps (Baa1/BBB). The auto parts retailer will use the proceeds to repay its $500 million 4% notes due in November. Corporate bond yields (10-yr Industrials rated A2) were 82 bps above 10-yr Treasuries Friday versus 88 bps last week.



# FEDERAL RESERVE POLICY

The Fed meets September 15-16, 2020 to consider its monetary policy. Nothing to do if interest rates are zero. We hope they don't give us more information on the "guidance" they will give us, be it time based "we won't raise rates till 2025" or economic data based "we won't raise rates until inflation goes above 2 percent and stays there for three years to undo the damage done to the economy from years and years of too-low inflation." However, low inflation was it still seems enough to kill-off the savings returns for baby-boomers, where the Fed's low rates policy hurts the retirements of those 10 thousand lucky Americans turning 65 years old each year.

| **Selected Fed assets and liabilities** | | | | | Sep 10 |
|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | 2008** |
| billions, Wednesday data | 5-Aug | 29-Jul | 22-Jul | 15-Jul | pre-LEH |
| **Factors adding reserves** | | | | | |
| U.S. Treasury securities | 4305.651 | 4293.563 | 4265.878 | 4253.229 | 479.782 |
| Federal agency debt securities | 2.347 | 2.347 | 2.347 | 2.347 | 0.000 |
| Mortgage-backed securities (MBS) | 1933.466 | 1933.380 | 1970.600 | 1948.388 | 0.000 |
| Repurchase agreements | 0.000 | 0.000 | 0.000 | 0.000 | 126.750 |
| Primary credit (Discount Window) | 2.809 | 3.611 | 4.578 | 5.058 | 23.455 |
| | | | | | |
| MMLF | 12.253 | 14.273 | 17.541 | 18.635 | |
| PDCF | 1.163 | 1.788 | 1.899 | 1.699 | |
| Commerical Paper Funding Facility | 8.646 | 8.900 | 10.105 | 10.659 | |
| Paycheck Protection Facility | 67.820 | 70.816 | 68.503 | 67.989 | |
| Corporate Credit Facility (CCF) | 44.351 | 44.210 | 44.046 | 43.423 | |
| Municipal Liquidity Facility | 16.087 | 16.086 | 16.085 | 16.084 | |
| Main Street Lending Program | 37.601 | 37.588 | 37.518 | 37.515 | |
| Term Asset-Backed Facility (TALF II) | 10.123 | 9.439 | 9.439 | 9.439 | |
| Central bank liquidity swaps | 105.663 | 117.473 | 121.992 | 154.850 | 62.000 |
| Federal Reserve Assets | 6993.9 | 6997.0 | 7013.4 | 7007.2 | 961.7 |
| 3-month Libor % | 0.24 | 0.26 | 0.26 | 0.27 | 2.82 |
| **Factors draining reserves** | | | | | |
| Currency in circulation | 2000.875 | 1992.869 | 1985.894 | 1981.644 | 834.477 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Treasury credit facilities contribution | 114.000 | 114.000 | 114.000 | 114.000 | |
| Reverse repurchases w/others | 0.000 | 0.001 | 0.000 | 0.001 | 0.000 |
| **Reserve Balances (Net Liquidity)** | 2753.531 | 2685.376 | 2659.658 | 2732.649 | 24.964 |
| Treasuries within 15 days | 119.829 | 75.015 | 74.899 | 58.895 | 14.955 |
| Treasuries 16 to 90 days | 208.908 | 256.470 | 259.225 | 279.380 | 31.549 |
| Treasuries 91 days to 1 year | 642.929 | 644.020 | 637.534 | 633.384 | 69.272 |
| Treasuries over 1-yr to 5 years | 1639.244 | 1627.218 | 1607.135 | 1604.839 | 170.807 |
| Treasuries over 5-yrs to 10 years | 745.463 | 746.156 | 745.867 | 738.129 | 91.863 |
| Treasuries over 10-years | 949.280 | 944.684 | 941.219 | 938.604 | 101.337 |

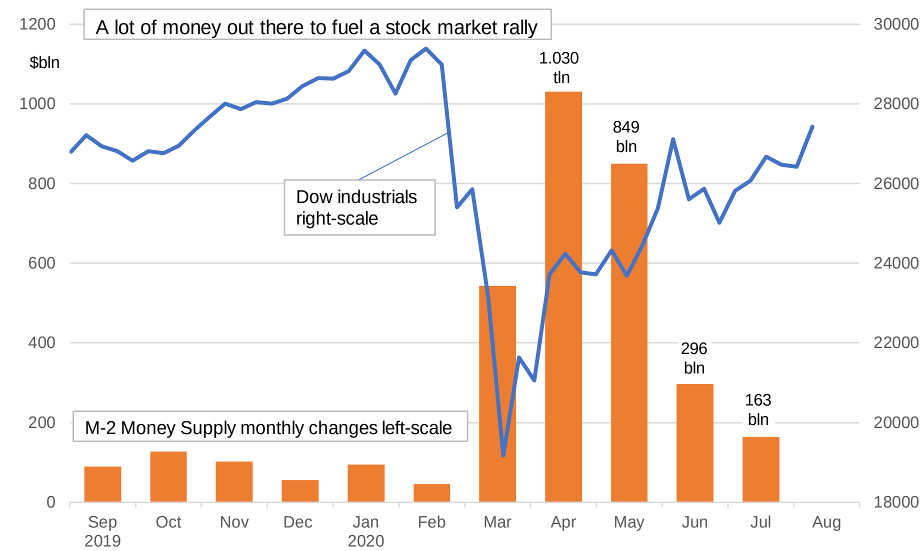
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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)

Did any Fed officials comment after the 1.8 million jobs report on Friday? If not, then we can go back to the Powell press conference on his question about QE: it can't just be all for "market-functioning" reasons, can it? Indeed, they are still buying $80 billion per month which is more than the $45 billion monthly purchases done under Bernanke. Powell: "…thanks to those purchases, we have substantially restored, not fully but substantially restored functioning in markets. This is absolutely critical. … And <u>we've always said though that we understand, accept and are fine with the fact that those purchases are also fostering a more accommodative stance of monetary policy which would tend to support macroeconomic outcomes</u>. So, it's doing both, and you know, we've understood that for some time. … In terms of our strategy, you know, that just remains to be seen. … You know, we cut rates close to zero right at the beginning, we ramped up asset purchases and those have really helped. <u>And we gave forward guidance on both of those things which the markets appear to understand, and market pricing is consistent with those</u>." We think that means QE purchases will continue.




| U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)<br>Monthly Changes ($ billions)<br>Fiscal Year (FY) Ending September 2020 | | | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | FY 2020 |
| Fed QE | 67.808 | 73.007 | 80.364 | 80.246 | 64.952 | 504.312 | 993.047 | 138.093 | 87.892 | 96.159 | 12.088 | 2,198.0 |
| New Cash | 166.8 | 112.5 | 50.9 | 38.5 | 199.8 | 238.7 | 1368.6 | 699.2 | 685.2 | 102.2 | 37.2 | 3,699.6 |
| Bills | 79.1 | 59.0 | -98.2 | -12.5 | 160.3 | 92.8 | 1344.3 | 628.2 | 449.7 | -0.7 | -25.3 | 2,676.7 |
| Coupons | 87.6 | 53.4 | 149.2 | 51.1 | 39.5 | 145.8 | 24.2 | 71.0 | 235.5 | 102.9 | 62.5 | 1,022.7 |
| Federal Reserve's 11 Lending Facilities (month-end outstanding) | | | | | 0 | 58.352 | 94.641 | 136.343 | 204.607 | 203.100 | 198.044 | |
| Central bank liquidity swaps (month-end outstanding) | | | | | 0.044 | 206.051 | 438.953 | 448.946 | 274.963 | 117.473 | 105.663 | |

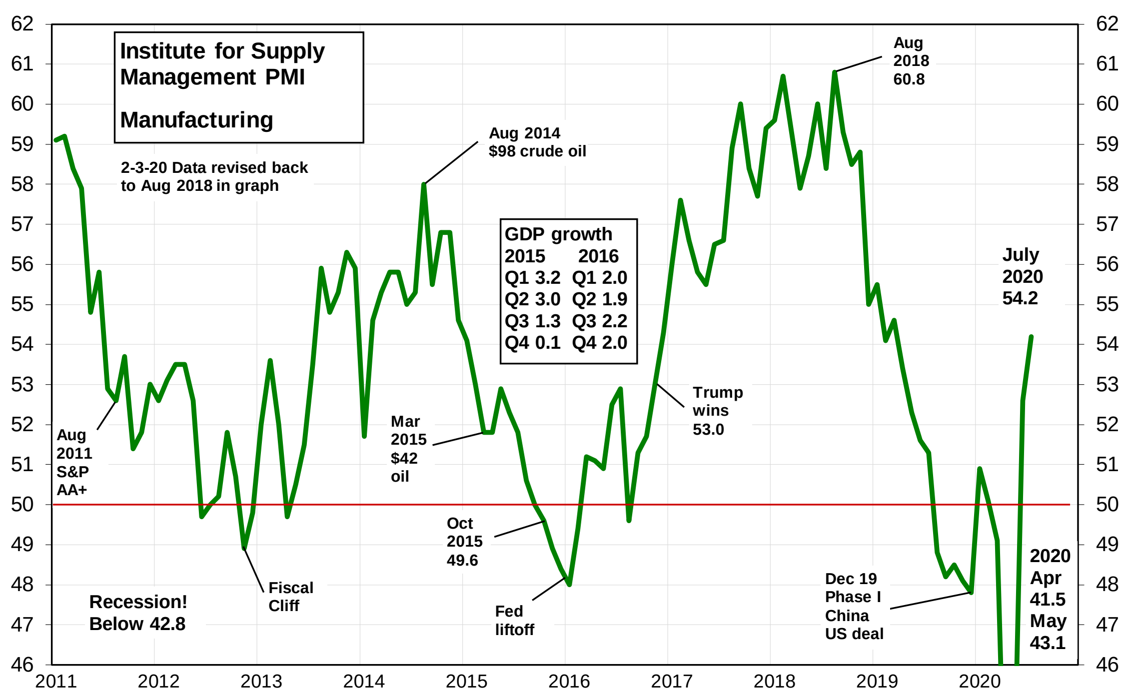
## OTHER ECONOMIC NEWS THIS WEEK

### No second wave virus fears for manufacturing purchasing managers (Monday)

Breaking economy news. Executives in manufacturing are saying their sector of the economy is go-go-go for a second month. Last month, the ISM purchasing managers survey said manufacturing was out of recession with an index reading back above 50 and now July is even better with the index at 54.2 versus 52.6 in June.

There were only three out of eighteen industries that were in decline: Transportation Equipment; Machinery; and Fabricated Metal Products. The transportation business was down almost 70 percent according to one participant. Meanwhile, orders in Chemical Products were seeing an increase in orders of 35 to 40 percent. Uncertainty remains high, but conditions for most industries are improving.

Net, net, manufacturing executives are seeing no pullback in demand in July despite the second wave of the deadly coronavirus spreading to the South and the West of the country. Business executives' confidence in the economic recovery remains unshaken. The stock market took the favorable economic news and sent share prices to the highs of the session. The day started with stock futures rising from the lows before 4am NY time on better manufacturing purchasing manager survey results out of Europe and now it is getting a kick higher on bullish manufacturing survey results from purchasing managers here in the States. The stock market continues to rise on its win-win approach to the economic news where if the economy is weak, like after seeing GDP fall over 30 percent, then buy tech, and if the economic data are good, then back up the truck and buy it all.



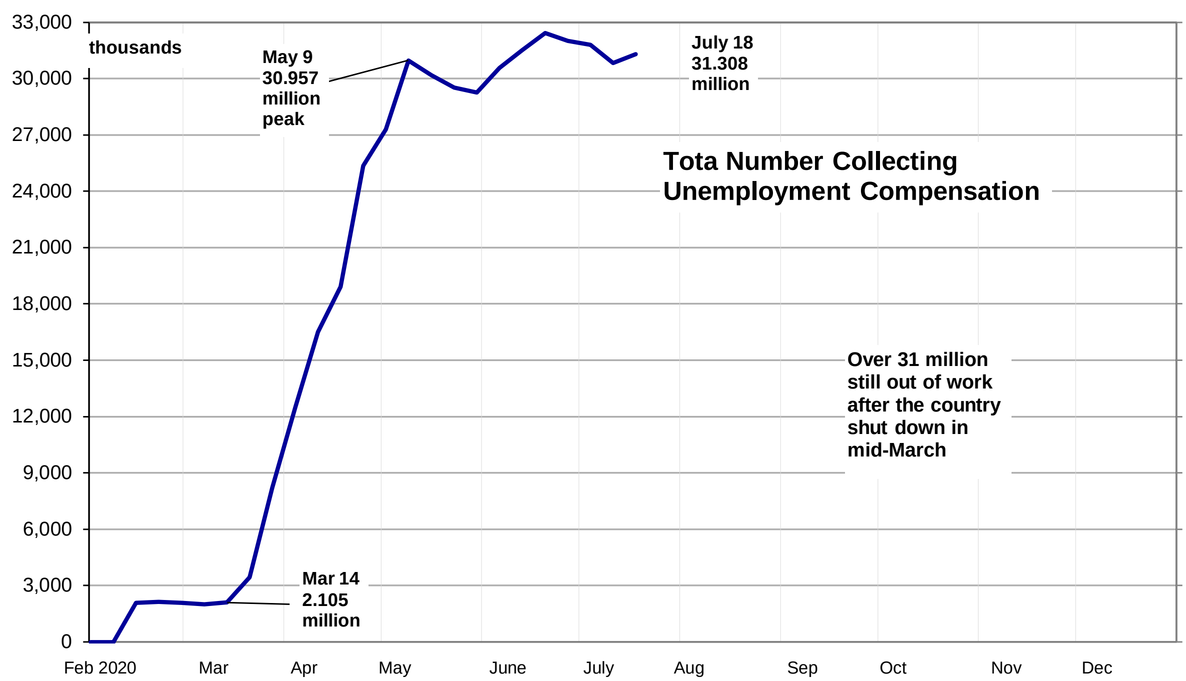
## Jobless claims down... perhaps (Thursday)

Breaking economy news. Initial unemployment claims fell 248 thousand to 1.186 million in the August 1 week and not seasonally adjusted claims are just 984 thousand.

The pressure is coming off just slightly in the labor markets with unemployment claims coming down from recent highs. But we cannot be sure or not if this is good news for the recovery or whether it is the lapse in those 600 dollar weekly checks from the Federal government that is now a disincentive for some newly jobless workers to file. There are anecdotal reports that some states are tightening the eligibility requirements for unemployment benefits where jobless workers need to aggressively search for new employment opportunities to continue to receive assistance. Any way you look at it, the party may be over for those getting government assistance after being made redundant for this recession. Unless the unemployment rate starts to climb, both Federal and state governments may be growing more reluctant to bail out jobless workers.

Net, net, we hope elected officials don't become too complacent. 1.186 million filing for jobless claims is nearly double the worst week of the last recession over a decade ago. Today's jobless claims are an ominous sign that many Americans are unable to get back to work after the coronavirus lock down of the economy earlier this year. There has been a rebound in shopping and spending and retail sales, but there aren't enough dollars flowing through the economy to help keep it growing if the government stops its support.

Withdrawing those 600 dollar weekly unemployment checks for jobless workers now is like taking away medicine from a sick patient when they need it the most. The economy doesn't care whether it is a disincentive or not, it just needs the dollars in circulation or the recovery's growth rate is going to slow.



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