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

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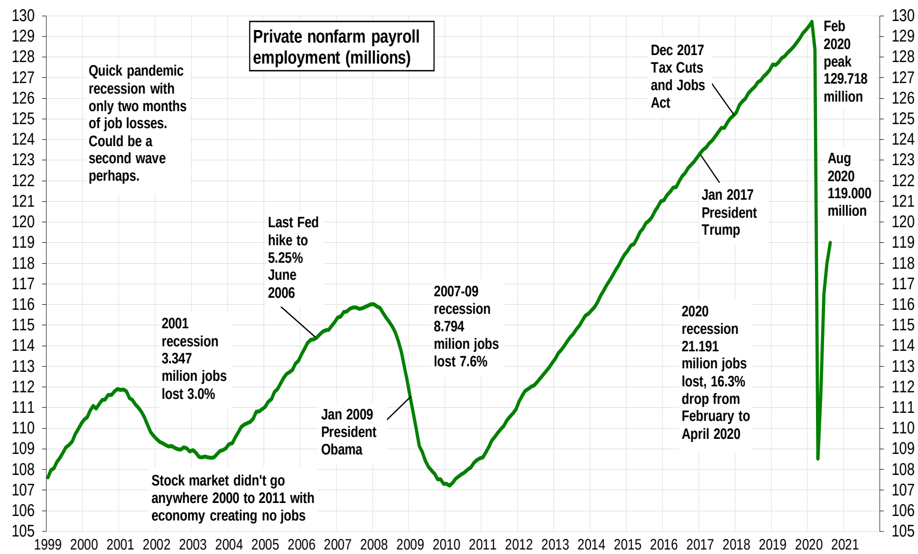
MORE JOBS THIS MONTH, BUT STILL A LOSS OF OVER TEN MILLION FROM FEBRUARY



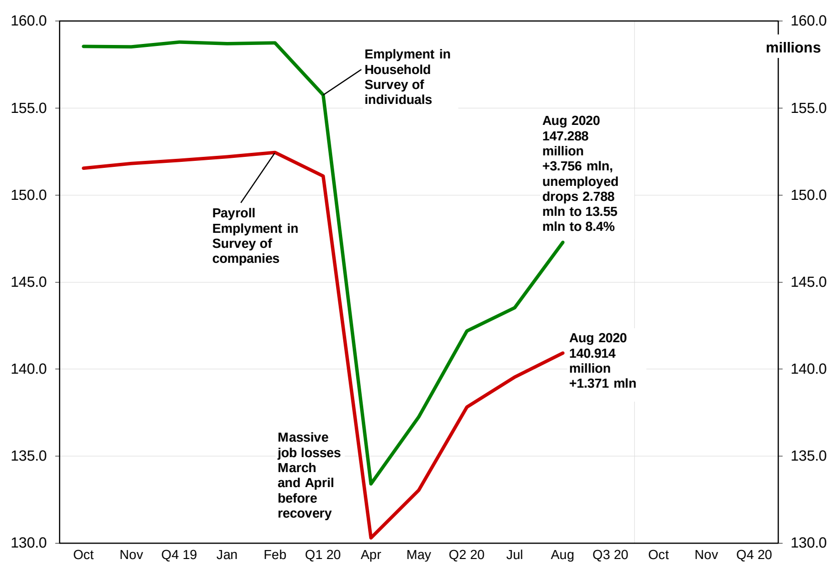
In today's monthly employment report, the unemployment rate dropped more than expected to 8.4% in August from 10.2% in July. We can thank the Household Survey measure of employment that found 3.756 million more jobs out there in August, 2.8 million full-time jobs and 1 million that usually work part time. In contrast, payroll employment only increased 1.371 million in August and 238 thousand of those were temporary 2020 census workers. The payroll jobs number minus census workers was just 1.133 million. Ouch. Don't tell the rally in stock futures and bond yields this morning who think the unexpected drop in unemployment heralds a return to the best economy ever at the start of the year before the pandemic lockdown of the country. Yeah, the Fed will be raising rates again before you know it.

We can't call this a Great Depression economy anymore with its unemployment of about 25%, but the economy is not completely back to normal and our guess is unemployment is still in double-digits if you count those who gave up and dropped out of the labor force and those who can only find part-time employment because the economy is bad. The BLS thinks the report today was nothing to crow about. Every line of commentary talking about this month's job gains ends with the same dour refrain that employment is well short of the best economy in fifty years in February. Who are they voting for November 3rd anyway? Retail jobs increased 249K in August, but are 655K below February. Professional and business services increased 197K, but are 1.5 million below February. Leisure and hospitality increased 174K, but are 4 million below February. Education and health services increased 147K, but are 1.5 million below February. Good news with 22,000 returning jobs at dentists offices. Like pulling teeth writing this report from home as a teleworker today with the dog barking.

To conclude, the economy is recovering with a sharp rebound in retail sales and business new orders and while the labor market gains are on a slower path, the job gains are undeniable. The spread of the coronavirus cases to new regions of the country in August and the loss of those $600 weekly unemployment checks at the end of July, did not stop companies from bringing back more workers this month after being furloughed during the pandemic earlier this year. The virus is in the driver's seat controlling the speed of the labor market recovery, and despite the fears of another outbreak this fall, businesses are slowly returning to normal.

Payroll jobs fall from February peak as recession begins

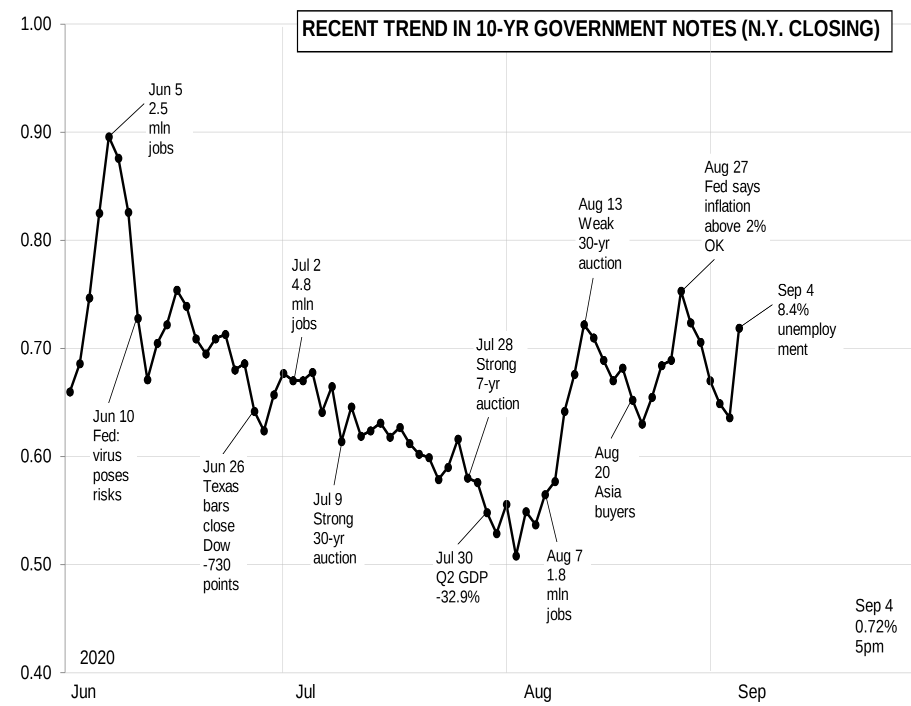
Data in thousands	Aug 20	Jul 20	Jun 20	6 months Feb 20 Aug 20	Aug 2020	Feb 2020
Nonfarm Payroll Employment	1371	1734	4781	-11,549	140,914	152,463
Total Private (ex-Govt)	1027	1481	4729	-10,718	119,000	129,718
Goods-producing	43	61	485	-1,242	19,963	21,205
Mining	-2	-7	-7	-85	566	651
Manufacturing	29	41	333	-720	12,132	12,852
Motor Vehicles & parts	-5	45	188	-94	905	999
Construction	16	27	159	-425	7,214	7,639
Private Service-providing	984	1420	2560	-9,476	99,037	108,513
Trade, transportation, utilities	341	266	994	-1,371	26,459	27,830
Retail stores	249	236	858	-655	15,017	15,672
General Merchandise	116	-15	169	171	3,218	3,047
Food & Beverage stores	4	-20	39	36	3,126	3,090
Transportation/warehousing	78	49	-25	-381	5,297	5,678
Truck transport	10	2	5	-78	1,450	1,527
Air transportation	8	17	-5	-108	403	511
Couriers/messengers	8	9	21	75	923	848
Warehousing and storage	34	-6	59	14	1,222	1,208
Utilities	1	1	-3	-7	539	546
Information	15	-9	7	-312	2,582	2,894
Financial	36	13	20	-191	8,654	8,845
Insurance	3	3	3	-2	2,816	2,818
Real Estate	23	8	18	-170	2,189	2,359
Commercial Banking	1	-5	-1	-17	1,377	1,394
Securities/investments	1	1	-1	1	970	969
Professional/business	197	153	311	-1,475	20,075	21,550
Temp help services	107	122	145	-472	2,468	2,940
Management of companies	4	-11	5	-110	2,338	2,447
Architectural/engineering	14	-1	10	-56	1,484	1,540
Computer systems/services	13	-5	-8	-86	2,166	2,253
Legal services	0	2	7	-53	1,108	1,160
Accounting/bookkeeping	-2	0	12	-28	1,011	1,038
Education and health	147	222	567	-1,457	23,129	24,586
Hospitals	14	28	2	-113	5,148	5,261
Educational services	57	26	101	702	3,530	2,829
Leisure and hospitality	174	621	1979	-4,139	12,728	16,867
Hotel/motels	15	5	222	-781	1,311	2,091
Eating & drinking places	134	525	1468	-2,488	9,815	12,303
Government	344	253	52	-831	21,914	22,745
Federal ex-Post Office	247	34	-3	296	2,561	2,265
State government	-2	10	17	-218	4,981	5,199
State Govt Education	-4	6	21	-205	2,285	2,490
Local government	95	214	37	-909	13,770	14,679
Local Govt Education	32	183	57	-462	7,580	8,042



The good news is the tremendous uncertainty the economy and the nation faces is not stopping the return of many of the millions of the jobs lost during the pandemic recession's worst days in March and April. There's a lot of work to do and a lot of economic growth is still needed to put paychecks back in jobless workers hands. We fear however that Washington will lose its will to provide additional stimulus monies with the sharp drop in the unemployment rate from 10.2 percent to 8.4 percent today. Today's rapid improvement in the labor market will tell many Senators that the economy is on the right course for now. Time will tell if the loss of additional fiscal stimulus will slow the return of all those jobs lost since the start of the year in February.

MARKETS OUTLOOK

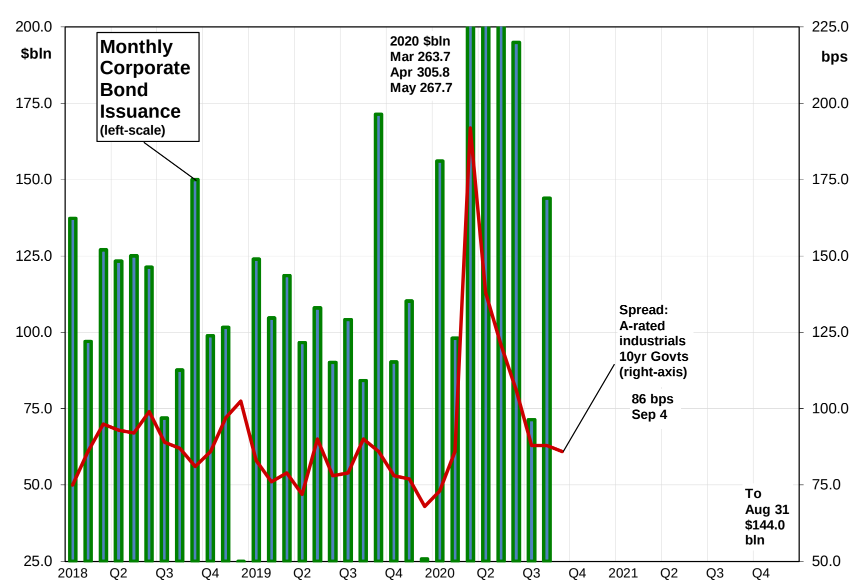
	28-Jun 2019	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
30-Yr Treasury	2.53	2.11	2.39	1.32	1.41	1.40	1.40	1.50	1.60	1.70
10-Yr Note	2.01	1.67	1.92	0.67	0.66	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.77	1.55	1.69	0.38	0.29	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.76	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



Bond yields didn't seem to care if the stock market jumped to a new record high on Wednesday, or collapse 807 points Thursday on the sell-off in tech shares. Bond yields moved steadily lower the first four days of the week retracing the prior week's yield rally. All that changed on Friday after the jobs report. 10-year Treasury yields were 0.64% at 830am ET Friday and moved steadily higher to 0.72% despite the S&P 500 being down 3.1% intraday at one point. Neither the stock market or the bond market moves are completely explainable at this point. The 8.4% unemployment rate fell much more than the expected 9.8%. That's it. Powell said the jobs report was okay on Friday in an interview but it would still be years before the Fed hikes rates and yet bond yields kept rising anyway.

CORPORATES: MONDELEZ INTERNATIONAL, W R BERKLEY, HOST HOTELS

Corporate bond offerings were $5.7 billion in the September 4 week versus $18.0 billion in the August 28 week. On Wednesday, Mondelez International sold $1.0 billon 10s/30s. It priced a $500 million 1.5% 10-yr (m-w +15bp) at 92 bps (Baa1/BBB). The food and beverage company will use the proceeds for general corporate purposes, including the repayment of commercial paper and other debt. Corporate bond yields (10-yr Industrials rated A2) were 86 bps above 10-yr Treasuries Friday versus 89 bps last week.



FEDERAL RESERVE POLICY

The Fed meets September 15-16, 2020 to consider its monetary policy. A lot of Fed speakers this week starting with Fed Vice Chair Clarida who is in a position of communications czar. He talked about the latest change in the principles about allowing the inflation overshoot and not doing anything about it. We cannot say this monetary policy change was not well considered because it was conceived over the course of a series of meetings around the country over the last year-and-a-half. Inflation above 2% good for some maybe. But 2 percent inflation will erode the real spending power of the savings of the public over time if the Fed keeps interest rates at zero. Telling the public inflation can run above 2% for years without a rate hike will erode even more of workers savings in the bank. Keeping rates lower for longer will not encourage any more investment than there was ever going to be and the unemployment rate will fall at the rate it was going to without the Fed's intervention. It seems doubtful that raising interest rates slowly over time is tightening that could send the economy into a tailspin. At the very least, if Fed officials are not going to do anything for the next several years, maybe a decade, the institution could be downsized where all 12 regional banks are probably unnecessary especially as their locations were chosen based on the population centers in the early 1900s. We forgot to mention Powell spoke to National Public Radio after the jobs report on Friday. We can't figure out if it was a pep talk given the stock market sell off or a cautionary tale hinting the economic recovery could stall anyway. He reiterated it was going to be a long time before the economy is fully recovered because payroll employment levels are still 11 or 12 million lower than at the start of the year. At the worst point of the pandemic recession in April, 22.160 million payroll jobs had disappeared. Payroll jobs fell 8.705 million in the 2007-09 recession and the lost jobs were not made up until May 2014. Near the end he said he didn't think the Fed stimulus was causing a stock market bubble. "You know, the connection between low interest rates and sort of excessive exuberance in the financial markets is not as tight as you might think." Powell probably didn't want to go there, but was questioned about it. He also admitted there is not a limit and there could be QE infinity. He said as a practical matter they were only limited by their mandate, which we would add is to return the economy to normal.

Selected Fed assets and liabilities
Fed H.4.1 statistical release

billions, Wednesday data	2-Sep	26-Aug	19-Aug	12-Aug	Sep 10 2008** pre-LEH
Factors adding reserves					
U.S. Treasury securities	4386.637	4358.559	4345.544	4320.093	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	149.236	1949.228	1977.897	1933.548	0.000
Repurchase agreements	0.000	0.000	0.000	0.000	126.750
Primary credit (Discount Window)	2.956	2.704	2.818	2.690	23.455
MMLF	9.141	9.961	10.839	11.484	
PDCF	0.243	0.243	0.693	0.693	
Commerical Paper Funding Facility	8.588	8.588	8.588	8.603	
Paycheck Protection Facility	68.090	68.158	67.800	68.177	
Corporate Credit Facility (CCF)	44.756	44.604	44.480	44.413	
Municipal Liquidity Facility	16.541	16.541	16.089	16.088	
Main Street Lending Program	38.687	38.371	37.983	37.734	
Term Asset-Backed Facility (TALF II)	11.146	10.771	10.771	10.124	
Central bank liquidity swaps	88.967	92.140	95.780	99.782	62.000
Federal Reserve Assets	7065.5	7039.0	7059.3	7005.9	961.7
3-month Libor %	0.25	0.26	0.25	0.26	2.82
Factors draining reserves					
Currency in circulation	2021.810	2013.961	2009.715	2006.288	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	0.014	0.009	0.112	0.103	0.000
Reserve Balances (Net Liquidity)	2850.600	2875.399	2821.849	2828.170	24.964
Treasuries within 15 days	51.692	64.117	62.806	116.715	14.955
Treasuries 16 to 90 days	263.002	237.185	237.795	222.451	31.549
Treasuries 91 days to 1 year	663.688	663.816	664.486	632.529	69.272
Treasuries over 1-yr to 5 years	1662.079	1648.650	1647.558	1642.529	170.807
Treasuries over 5-yrs to 10 years	766.933	771.901	762.621	754.625	91.863
Treasuries over 10-years	979.243	972.889	970.278	951.244	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

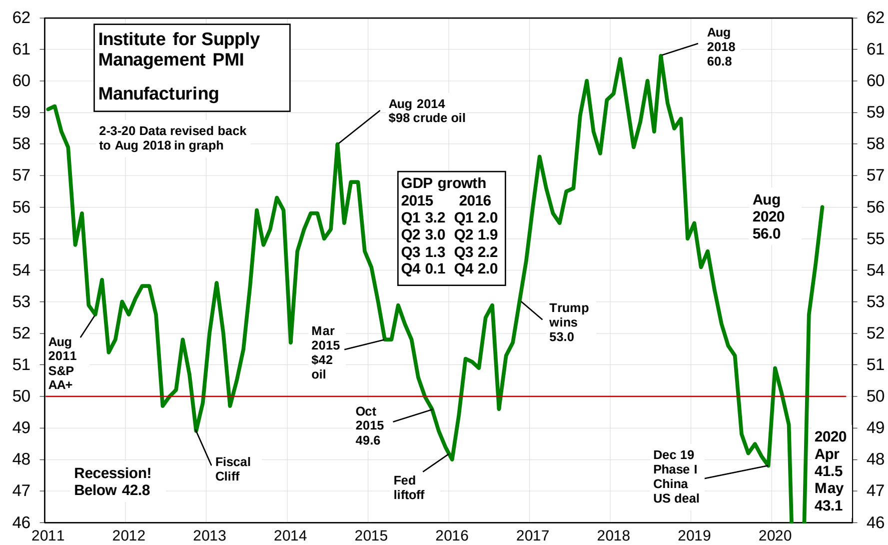
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Total FY 2020
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	28.078	2,279.0
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.6	92.6	3,930.6
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	4.2	2,703.9
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	88.4	1,226.2
Federal Reserve's 11 Lending Facilities (month-end outstanding)					0	58.352	94.641	136.343	204.607	203.100	197.237	197.193	
Central bank liquidity swaps (month-end outstanding)					0.044	206.051	438.953	448.946	274.963	117.473	92.140	88.967	

OTHER ECONOMIC NEWS THIS WEEK

Manufacturing executives seeing the most new orders since the last recession (Tuesday)

Breaking economy news. The ISM manufacturing survey for August and construction spending for July. ISM manufacturing executives are more upbeat as the new orders roll in and the stock market continues to make new highs, implicitly showing companies are more valuable than ever in the eyes of investors. The ISM manufacturing survey index rose to 56.0 in August from 54.2 in July. It was 53.4 back in November 2016 when Trump won the presidency. This survey represents good news ahead because the actual manufacturing industrial production index from the Federal Reserve said while factory output rose 3.4% in July, it remains down 7.7% from last year levels. Nevertheless, factory executives are seeing the strongest orders since the last recession in the mid-2000s with the index jumping 6.1 points to 67.6 in August.

Businesses were cautious about their expenditures on the construction of new structures. Private construction fell 1.0% to $466.86 billion in July and is down 4.3% from last year. Manufacturing is hanging in there with a gain of 0.2% in July, and communication is up 1.2% and transportation rose 3.2%, but other categories are significantly weaker. Commercial fell 3.2% and healthcare fell 3.4%, and office building fell 0.7%.



Net, net, executives at manufacturing companies continue to be optimistic about the outlook even as the Federal government pandemic stimulus programs start to sputter, and attempts to limit bankruptcies and foreclosures, and those paycheck protection schemes, are all set to fade. Washington has lost its will to fight the recession or at least help those jobless workers still caught up by the worst downturn since the Great Depression. Time will tell if companies should be more vigilant about expansion plans and limit inventories and capex in the current environment where the economic outlook remains highly uncertain. The economy isn't back to normal regardless of what these upbeat surveys of purchasing manager executives are telling us.

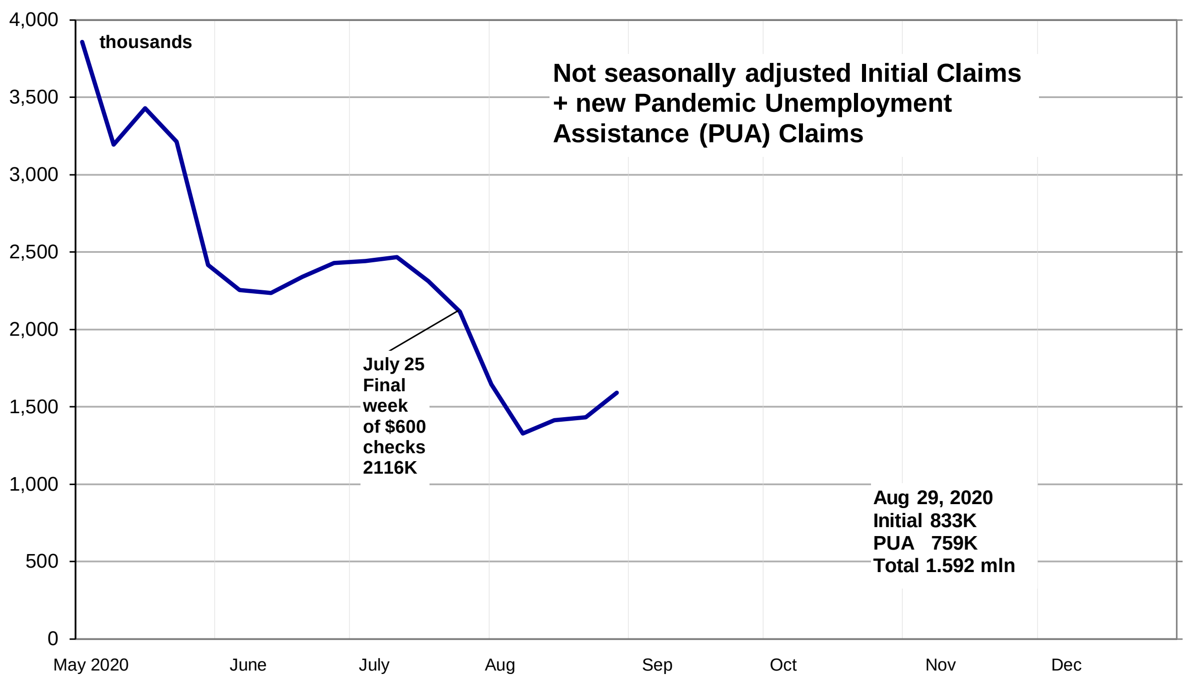
ISM manufacturing index

	Aug 20	Jul 20	Jun 20	May 20	Apr 20	Mar 20
PMI index	56.0	54.2	52.6	43.1	41.5	49.1
Prices	59.5	53.2	51.3	40.8	35.3	37.4
Production	63.3	62.1	57.3	33.2	27.5	47.7
New orders	67.6	61.5	56.4	31.8	27.1	42.2
Supplier deliveries	58.2	55.8	56.9	68.0	76.0	65.0
Employment	46.4	44.3	42.1	32.1	27.5	43.8
Export orders	53.3	50.4	47.6	39.5	35.3	46.6

New seasonal adjustment brings claims down: labor market just as bad as ever (Thursday)

Breaking economy news. Initial jobless claims fell to 881K in the August 29 week which is a 130K improvement from 1.011 million claims in the August 22 week. There are new seasonal adjustment factors this week which brings down the joblessness slightly and leads to questions whether Washington is cooking the books and trying to cover up the massive unemployment out there in the country. America is great again if you don't count the record unemployment. In the August 15 week, there were a staggering 29.2 million people getting unemployment assistance and if there is some double-counting going on, it is odd that it hasn't been corrected somehow over the last several months. The labor market looks just as bad as it was and it will be a miracle if economic growth can continue at such a fast clip during this recovery if it has to drag along millions and millions of workers without paychecks who must have largely exhausted their six-months of emergency savings by now.

Net, net, we shouldn't be fooled by the sudden change in seasonal adjustment factors that brings down the count of newly fired workers this week because the labor market isn't getting any better. Without the newfangled adjustments, the raw number of claimants is shockingly high if this recession is truly over. Not seasonally adjusted first-time filers for jobless benefits were 833 thousand this week versus 825K the week before. The new job losses for the self-employed, filing in a separate Pandemic Unemployment Assistance program, were 759 thousand this week which is an increase from 607 thousand the week before. Adding the two programs, we find the distressing fact that the labor markets are just as bad as they ever were with a total of 1.592 million (833 + 759) new jobless workers in the August 29 week. We say don't be fooled about the severity of this ongoing labor market recession because 1.592 million claims from workers who lost their jobs is over double the worst week of the Great Recession over a decade ago.



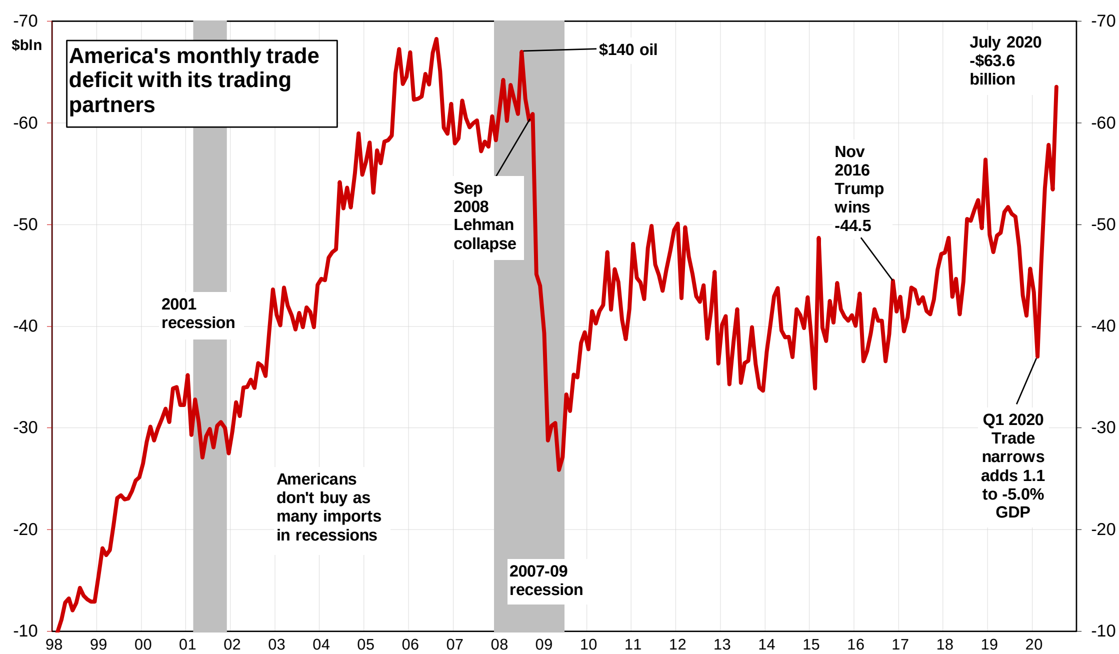
Weak exports recovery not good for American factories, trade deficit soars (Thursday)

Breaking economy news. The U.S. trade deficit in July rose to $63.556 billion from $53.461 billion in June. In rough numbers, exports of only $168 billion in July are well below the $209 billion level seen in January and February before the pandemic struck. Imports have had a bigger bounce back even if they are short of January and February levels, and that is why the trade deficit has exploded.

The trade battle with China is one of the few the U.S. is winning. Both sides put on tariffs, and through July this year US exports of goods to China are $58.5 billion little changed from $60.6 billion in the first seven months of 2019. Imports of goods from China through July this year are $221.9 billion which is much lower than the $260.1 billion in the first seven months of 2019. We leave it to you to tally the total trade imbalance and see how much the country gained.

Net, net, there's a global recession that harms exporters and importers both here and abroad, but one still wonders about all those great trade deals made in the last few years by the Trump administration because America is getting ripped off worse than ever with the trade deficit in July soaring to $63.6 billion which is a one-month record amount of red ink since Trump took office in January 2017. Americans sure like their imports even with 25 percent tariffs on $250 billion of goods imported from China.

Meanwhile, while consumers buy more goods from abroad, U.S. factories are struggling to sell their products to the rest of the world. Stay tuned. Story developing. America's trade war with the world the last few years produced few winners just like real wars. The handful of battles won and trade agreements signed has not leveled the playing field and made America a winner in world trade. We are still selling less than we are buying.



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