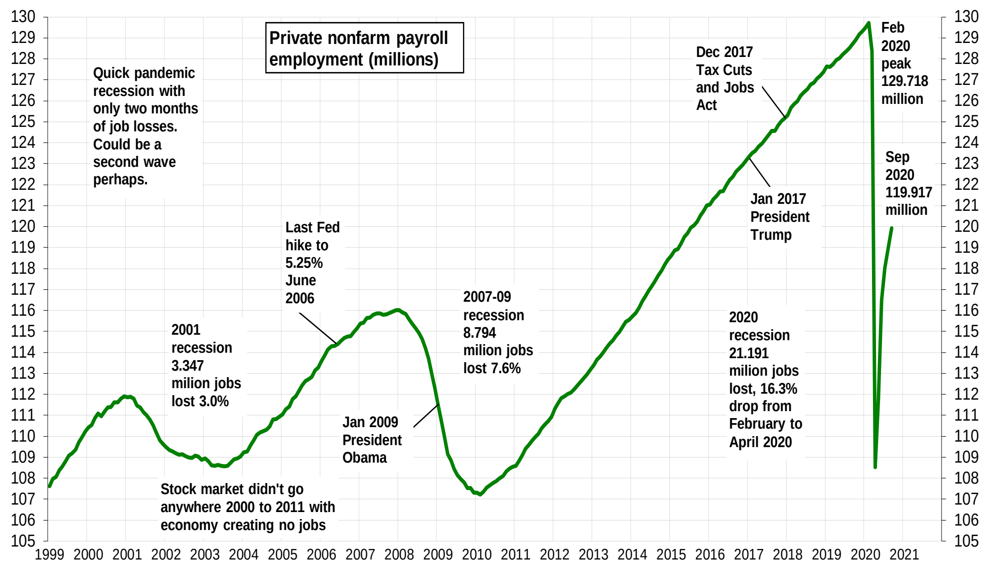
Financial Market Weekly

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

2 OCTOBER 2020

LABOR MARKET RECOVERY SLOWS SOMEWHAT THIS MONTH



It may mean nothing for the outlook, but the labor market recovery slowed somewhat this month. The monthly employment situation report was overshadowed by the news overnight when the President tweeted he had coronavirus sending the Dow industrials down 500 points a little after midnight. Heading into today's number, the unemployment rate was already looking likely to show the worst economy of any president running for reelection in modern economic history. The unemployment rate in September 2020 is 7.9%. When President Carter tried to win a second term and lost, the unemployment rate before the election was 7.5% in September 1980. When President Bush tried to win a second term and lost, the unemployment rate was 7.6% in September 1992. This is the highest unemployment and worst economy for any president facing reelection in history and it will be a miracle if the incumbent can pull off a win in these unsettled and uncertain economic times.

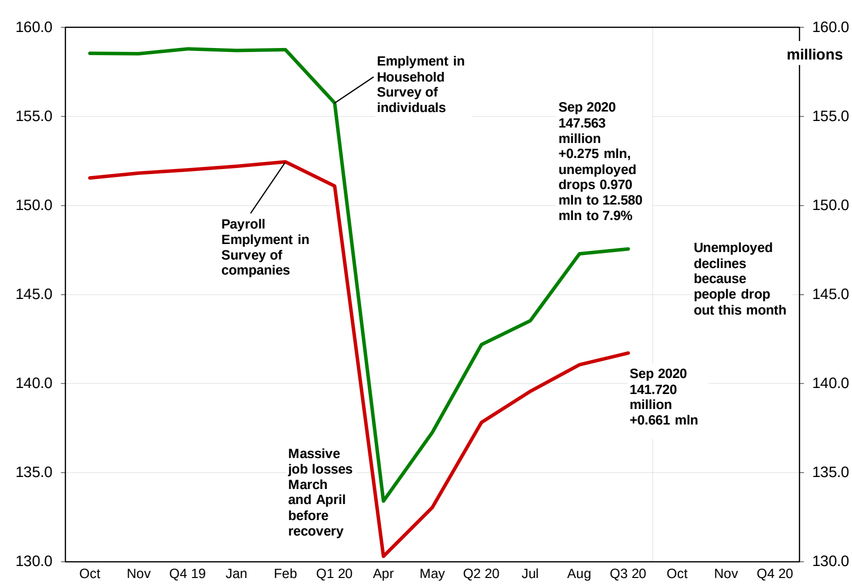
Monthly changes (000s)	Sep	Aug	Jul	Jun	May	Apr
Payroll employment	661	1489	1761	4781	2725	-20787
Private jobs	877	1022	1526	4729	3236	-19835
Leisure/Hospitality jobs	318	143	633	1979	1405	-7575
Unemployment rate %	7.9	8.4	10.2	11.1	13.3	14.7
Not in labor force (mln)	100.599	99.720	100.503	100.273	101.820	103.415
Average hourly earnings						
Production Workers	$24.79	$24.78	$24.64	$24.73	$24.97	$25.12
MTM % Chg	0.0	0.6	-0.4	-1.0	-0.6	4.2
YOY % Chg	4.6	4.8	4.7	5.4	6.6	7.7

The economy just turned down in this recession in March so there can't be that much good news to report yet on how the labor markets are healing. Right now, the jobless workers behind that 7.9% unemployment rate total 12.580 million which doesn't count those who gave up and dropped out of the labor force or who have to work part-time because the weak economy hasn't produced enough full-time jobs.

Payroll jobs rose just 661 thousand in September which is still a lot, but the level of payroll employment is 10.7 million short or 7 percent less than the best economy in 50 years in February before the pandemic recession took the economy down. Services employment has taken the worst hit. Bars and restaurants employment is down 2.3 million since February. Retail shops and malls jobs down 483 thousand since February. Health care and social assistance jobs are down 1.0 million from February. Millions of others in other industries are also still out of work.

Payroll jobs fall from February peak as recession begins

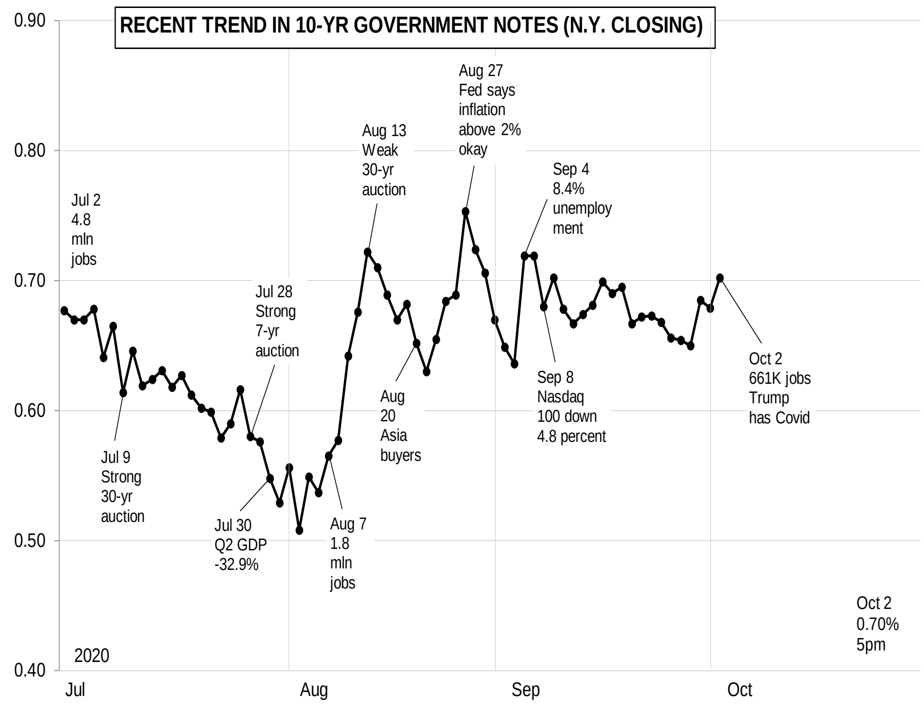
Data in thousands	Sep 20	Aug 20	Jul 20	7 months Feb 20 Sep 20	Sep 2020	Feb 2020
Nonfarm Payroll Employment	661	1489	1761	-10,743	141,720	152,463
Total Private (ex-Govt)	877	1022	1526	-9,801	119,917	129,718
Goods-producing	93	45	66	-1,142	20,063	21,205
Mining	1	-8	-6	-89	562	651
Manufacturing	66	36	41	-647	12,205	12,852
Motor Vehicles & parts	14	-4	44	-80	919	999
Construction	26	17	31	-394	7,245	7,639
Private Service-providing	784	977	1460	-8,659	99,854	108,513
Trade, transportation, utilities	237	354	284	-1,103	26,727	27,830
Retail stores	142	261	254	-483	15,189	15,672
General Merchandise	20	116	-15	191	3,238	3,047
Food & Beverage stores	8	7	-18	50	3,140	3,090
Transportation/warehousing	74	82	48	-304	5,374	5,678
Truck transport	5	10	2	-73	1,454	1,527
Air transportation	-2	11	17	-107	404	511
Couriers/messengers	10	9	11	89	937	848
Warehousing and storage	32	34	-6	46	1,254	1,208
Utilities	3	0	1	-4	542	546
Information	27	26	-11	-276	2,618	2,894
Financial	36	26	15	-162	8,683	8,845
Insurance	8	5	3	9	2,826	2,818
Real Estate	20	13	9	-158	2,200	2,359
Commercial Banking	-2	-2	-5	-21	1,373	1,394
Securities/investments	4	1	2	6	975	969
Professional/business	89	188	162	-1,386	20,164	21,550
Temp help services	8	102	126	-465	2,475	2,940
Management of companies	11	3	-8	-96	2,351	2,447
Architectural/engineering	13	17	0	-39	1,501	1,540
Computer systems/services	12	13	-5	-73	2,179	2,253
Legal services	3	2	3	-47	1,114	1,160
Accounting/bookkeeping	2	-1	1	-24	1,014	1,038
Education and health	40	170	219	-1,397	23,189	24,586
Hospitals	-6	9	27	-126	5,135	5,261
Educational services	-69	71	25	-355	3,474	3,829
Leisure and hospitality	318	143	633	-3,840	13,027	16,867
Hotel/motels	51	17	8	-725	1,366	2,091
Eating & drinking places	200	104	524	-2,318	9,985	12,303
Government	-216	467	235	-942	21,803	22,745
Federal ex-Post Office	-34	245	34	260	2,525	2,265
State government	-48	19	-9	-264	4,935	5,199
State Govt Education	-49	19	-12	-250	2,240	2,490
Local government	-134	198	215	-939	13,740	14,679
Local Govt Education	-231	139	184	-585	7,457	8,042



To conclude, the recovery in jobs lost after the pandemic recession is starting to slow which casts a pall over the economic outlook where millions of Americans are without hope of getting their former positions back any time soon. The virus is in the driver's seat in controlling the speed of the recovery and right now the economy is in the slow lane unless Congress and the White House can settle their differences and provide additional stimulus to support those jobless Americans who have lost their paychecks and livelihoods and hope.

MARKETS OUTLOOK

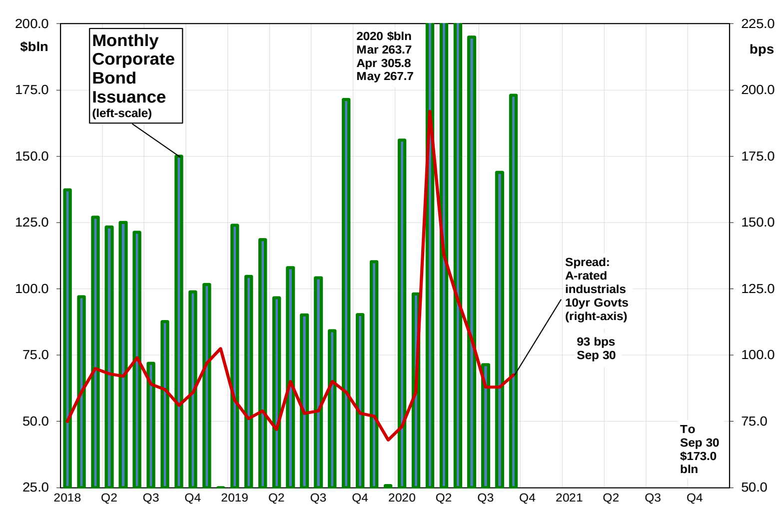
	30-Sep 2019	31-Dec 2019	31-Mar 2020	30-Jun 2020	30-Sep 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
30-Yr Treasury	2.11	2.39	1.32	1.41	1.46	1.40	1.40	1.50	1.60	1.70
10-Yr Note	1.67	1.92	0.67	0.66	0.69	0.70	0.70	0.80	0.90	1.00
5-Yr Note	1.55	1.69	0.38	0.29	0.28	0.30	0.30	0.40	0.50	0.60
2-Yr Note	1.62	1.57	0.25	0.15	0.13	0.20	0.20	0.20	0.30	0.30
3-month Libor	2.09	1.90	1.45	0.30	0.23	0.20	0.20	0.20	0.20	0.20
Fed Funds Rate	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2s/10s spread	5	35	42	51	56	50	50	60	60	70



Bond yields closed 0.70% this week after 0.66% last week. Not all that much happened in bonds given the strong recovery in stocks from the S&P 500 low on September 24 that was down 10.6% from record highs. The most talked about stories were politics: the first Trump-Biden debate Tuesday night, and Trump's announcement early Friday morning in New York that he had tested positive. Trump's Covid announcement disrupted the market reaction to the all-important monthly jobs report. Even though we aren't sure what Fed officials might do with the jobs report weaker or stronger in terms of its monetary policy. The jobs report missed expectations: government jobs declined in August, school teachers and census workers, and the unemployment rate fell, but partly due to people giving up and dropping out.

CORPORATES: MONDELEZ, TEMASEK, SOUTHERN CAL ED, BEST BUY

Corporate bond offerings were $20.1 billion in the October 2 week versus $34.3 billion in the September 25 week. On Tuesday, Danaher Corporation priced a $1.0 billion 2.6% 30-yr (m-w +20bp) at 123 bps (Baa1/BBB+). The diversified industrial and medical conglomerate will use the proceeds for general corporate purposes including the refinancing of debt, working capital, and capex. Corporate bond yields (10-yr Industrials rated A2) were 91 bps above 10-yr Treasuries Friday versus 94 bps last week.



FEDERAL RESERVE POLICY

The Fed meets November 4-5, 2020 to consider its monetary policy. Hard to separate politics from the markets and Fed policy as the Tuesday, November 3 national elections date approaches. Good timing for the Fed to start its two-day meeting the morning after the election results. Hope they are awake. It's impossible to know what will happen for the economic outlook and market reaction even if you knew the winner for president today. Speaking of impossible, President Trump's positive Covid tweet at 1254am ET Friday morning sent the Dow industrials futures down 500 points but the low for the day was set at 135am ET. Not much of a reaction in stock futures to the 661K jobs report and shares went up strongly anyway at the 930am ET opening, maybe due to some "stimulus talks" optimism. We almost forgot. This is the Federal Reserve Policy section. There have been other decades when the market waited to see if fiscal policy would act so the Federal Reserve did not have to. Those days are gone, although Fed officials aren't saying much about their only policy tool they have that can be adjusted in the near term. Fed QE purchases of U.S. government securities remain at $80 billion per month or $960 billion per year. No change in purchases seems imminent and QE could be one reason 10-yr Treasury yields closed at 0.70% this week much to the chagrin of the 10,000 baby boomers retiring each day and living off their savings.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	30-Sep	23-Sep	16-Sep	9-Sep	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4445.477	4431.523	4407.005	4393.621	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1982.775	2024.868	2005.035	1949.599	0.000
Repurchase agreements	0.000	0.000	0.000	0.000	126.750
Primary credit (Discount Window)	3.437	3.359	3.036	2.710	23.455
MMLF	7.088	7.344	7.440	7.889	
PDCF	0.233	0.233	0.258	0.243	
Commerical Paper Funding Facility	8.589	8.588	8.588	8.588	
Paycheck Protection Facility	67.573	67.254	67.181	67.489	
Corporate Credit Facility (CCF)	45.042	44.972	44.923	44.790	
Municipal Liquidity Facility	16.547	16.546	16.544	16.543	
Main Street Lending Program	39.718	39.355	38.959	38.899	
Term Asset-Backed Facility (TALF II)	11.715	11.431	11.430	11.147	
Central bank liquidity swaps	23.895	31.950	52.274	72.069	62.000
Federal Reserve Assets	7103.7	7141.6	7113.1	7059.2	961.7
3-month Libor %	0.23	0.23	0.23	0.25	2.82
Factors draining reserves					
Currency in circulation	2032.544	2029.101	2029.177	2030.151	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	0.850	0.001	0.055	0.001	0.000
Reserve Balances (Net Liquidity)	2743.245	2848.082	2869.309	2906.853	24.964
Treasuries within 15 days	56.106	72.212	59.413	42.916	14.955
Treasuries 16 to 90 days	238.394	247.998	257.882	279.463	31.549
Treasuries 91 days to 1 year	694.799	671.972	668.093	656.032	69.272
Treasuries over 1-yr to 5 years	1673.536	1665.299	1658.504	1662.166	170.807
Treasuries over 5-yrs to 10 years	788.868	787.290	778.237	770.951	91.863
Treasuries over 10-years	993.773	986.752	984.876	982.093	101.337

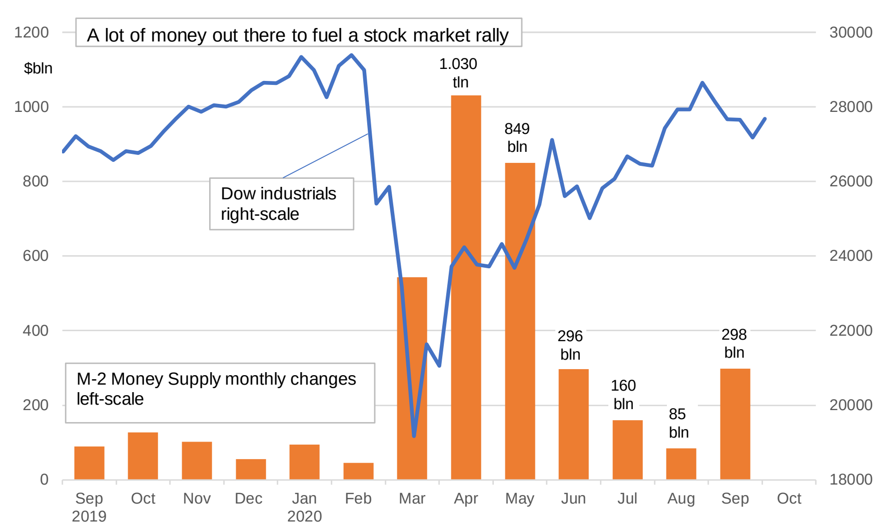
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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 make remarks after the all-important monthly jobs report on Friday where the unemployment rate did fall from 8.4 to 7.9 percent, a pretty significant drop of half a percentage point, but still miles away from "full employment?" Fed Chair Powell is already on record as saying the 3.5% unemployment rate earlier this year before the recession was a good thing for him, "something to shoot for" our quote not his. But in weighing the situation, we should remember Powell was a Trump appointee and his four-year term in office ends in early February 2022. We can't find any Fed comments after the jobs report, just a few stray headlines on a long way to go and the report was disappointing, and GDP growth will be slow and unemployment high even if there is a vaccine. We couldn't verify the source or the veracity of some of these comments.

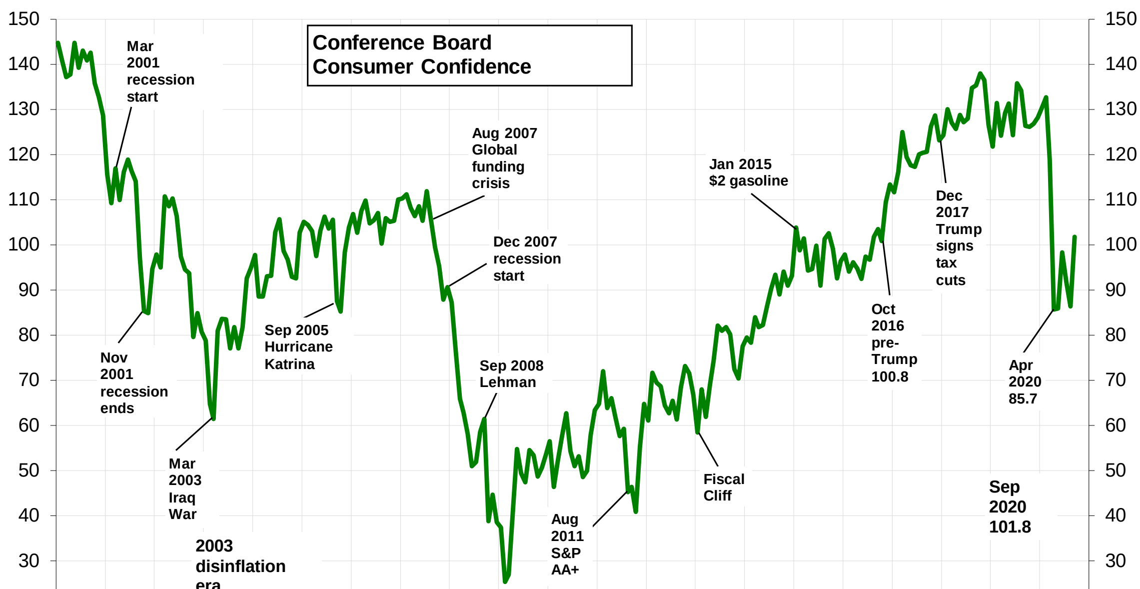


OTHER ECONOMIC NEWS THIS WEEK

Consumer confidence rebounds sharply telling us the recession is all but over (Tuesday)

Breaking economy news. The consumer confidence index jumped 15.5 points to 101.8 in September from the down in the dumps lows a month ago at 86.3 in August. Confidence levels are still well short of where they were at the start of the year before the pandemic struck economic activity down starting in mid-March, but the sheer magnitude of today's rise tells us the consumer thinks the worst days of the recession are over. The economy is not out of the woods yet as 20.0 percent said jobs were hard to get and 57.1 percent said employment opportunities were not so plentiful, but today's overall recovery in consumer confidence is a big step forward for the economy and is supportive of stronger growth in the fourth quarter even if Washington remains unable to provide additional fiscal stimulus.

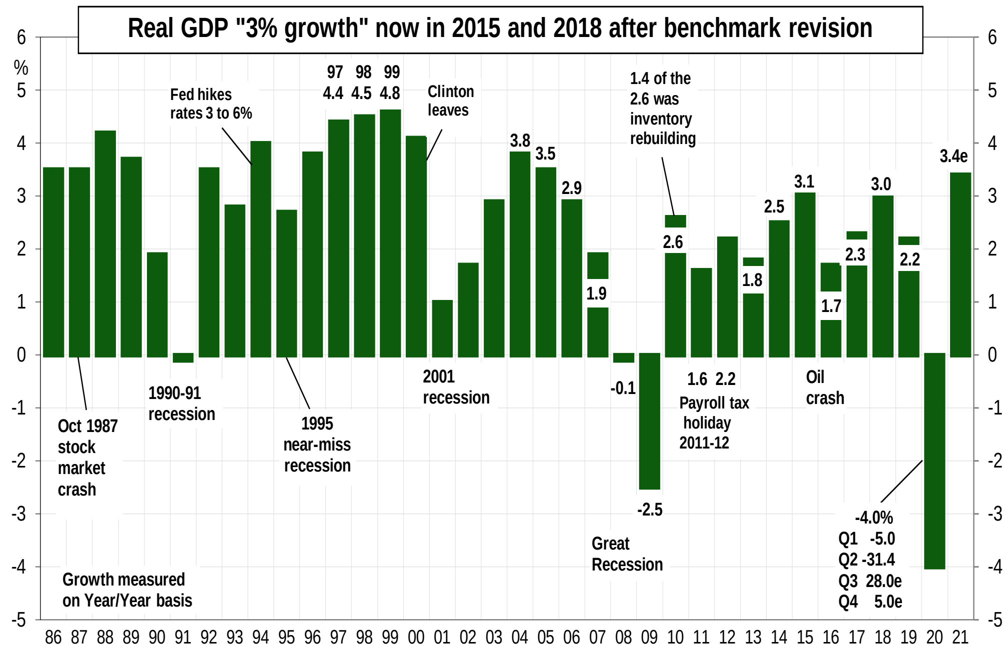
Net, net consumer confidence soared to new heights and shows no uncertainty at all ahead of the presidential election and a possible third wave outbreak of the deadly coronavirus this fall. There had been a disconnect between how consumers said they felt and what they were actually doing with retail sales at the shops and malls off the charts this quarter. Consumers have been buying everything that wasn't nailed down this quarter with purchases setting a new record and now they are finally ready to tell the world how great they feel about the economy and the future outlook.



Consumers are literally brimming with confidence as we head into the fall and this may make Washington less willing to vote through a new multi-trillion dollar fiscal stimulus measure. Clearly those jobless Americans going a second month without the $600 weekly unemployment checks were not surveyed this month because the consumer looks positively giddy. The big confidence rebound on the part of the consumer coupled with record purchases of goods and some services in the third quarter sounds the death knell for the doom and gloom forecasts for the economy. The recession is over. Bet on it.

Last bad GDP report ahead of the best quarter for growth in U.S. history (Wednesday)

Breaking economy news. Third look at second quarter GDP. Forget about it as it is water under the bridge with the third quarter ending today and the advance estimate for Q3 2020 GDP growth released on Thursday, October 29. In today's report, Q2 2020 real GDP was revised to -31.4% from -31.7% a month ago. It is a big pandemic-sized drop in economic output, but this will be the last bad GDP report ahead of the best quarter for growth in U.S. history. This is looking like a short recession that will be just two quarters long and we haven't seen such a brief downturn like this since the 1980s. Hopefully, the record job losses will also recover just as fast as spending in the economy.



Much of the recovery will depend on consumer purchases of services. Health care services cut GDP growth by 7.5 percentage points in the second quarter. Consumer spending at restaurants and hotels cut GDP growth by 5.4 percentage points in the second quarter. Recreation services cut GDP growth by 4.4 percentage points in the second quarter. Until the virus stops spreading and the social distancing rules go away, real GDP growth in the fourth quarter will face significant headwinds and limit a full recovery.

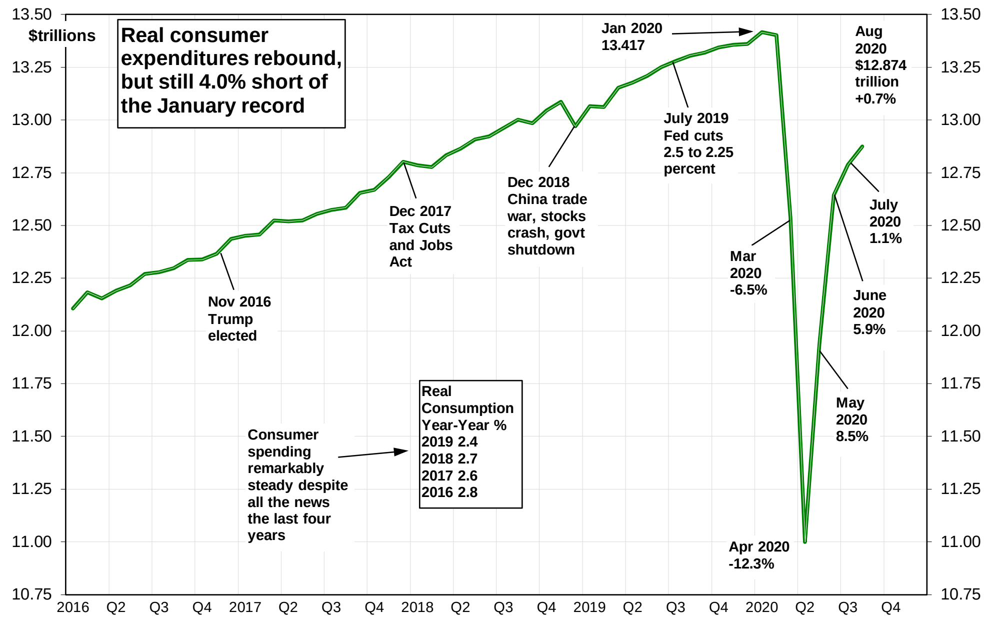
Net, net, the economy's worst days are clearly behind us as the rebound in consumer spending and, surprisingly, business investment, is one that is destined for the history books for the quarter ending today. Treasury Secretary Mnuchin said GDP in the third quarter would be 25 to 35 percent so we don't need to bother with forecasting the number ourselves which is likely to be in the middle of that range. All bets and forecasts are off for fourth quarter growth as GDP will be impacted by the election and the spread of the coronavirus in ways that are hard to tell right now. Stay tuned. Story developing.

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20p	Q2 20r	Q2 20f
REAL GDP	2.9	1.5	2.6	2.4	-5.0	-32.9	-31.7	-31.4
REAL CONSUMPTION	1.8	3.7	2.7	1.6	-6.9	-34.6	-34.1	-33.2
CONSUMPTION	1.3	2.5	1.8	1.1	-4.8	-25.1	-24.8	-24.0
Durables	0.1	0.9	0.4	0.2	-0.9	0.0	0.0	0.0
Nondurables	0.5	0.7	0.4	-0.1	1.0	-2.2	-2.0	-2.1
Services	0.7	0.9	1.0	1.0	-4.8	-22.9	-22.8	-22.0
INVESTMENT	0.7	-1.0	0.3	-0.6	-1.6	-9.4	-8.7	-8.8
Business Plant	0.2	0.1	0.1	-0.2	-0.1	-1.2	-1.1	-1.1
& Equipment and	0.1	-0.2	-0.1	-0.1	-0.9	-2.1	-2.0	-2.0
Intellectual Property	0.2	0.2	0.2	0.2	0.1	-0.3	-0.4	-0.5
Homes	-0.1	-0.1	0.2	0.2	0.7	-1.8	-1.7	-1.6
Inventories	0.2	-1.0	-0.1	-0.8	-1.3	-4.0	-3.5	-3.5
EXPORTS	0.2	-0.5	0.1	0.4	-1.1	-9.4	-9.2	-9.5
IMPORTS	0.3	-0.3	-0.1	1.1	2.3	10.1	10.1	10.1
GOVERNMENT	0.4	0.9	0.4	0.4	0.2	0.8	0.8	0.8
Federal defense	0.2	0.2	0.2	0.3	0.0	0.2	0.2	0.2
Fed nondefense	-0.1	0.4	0.1	0.0	0.1	1.0	1.0	1.0
State and local	0.3	0.3	0.1	0.2	0.1	-0.4	-0.4	-0.4
Below line: Percentage point contributions to Q2 2020 -31.4% real GDP								
First estimate for Q3 is Thursday, Oct 29								

Economic stew with income down, unemployment claims high, inflation arising (Thursday)

Breaking economy news. Jobless claims and personal income report for August. The two economic statistics are tied together in unholy matrimony today with the sharp 2.7% decrease in personal income tied directly to the decline in unemployment insurance benefits. Blame the loss of those $600 weekly unemployment checks at the end of July, and get ready for the loss of those replacement $300 weekly checks in a matter of days as the well runs dry on the limited funding provided for these benefits that was never authorized by Congress.

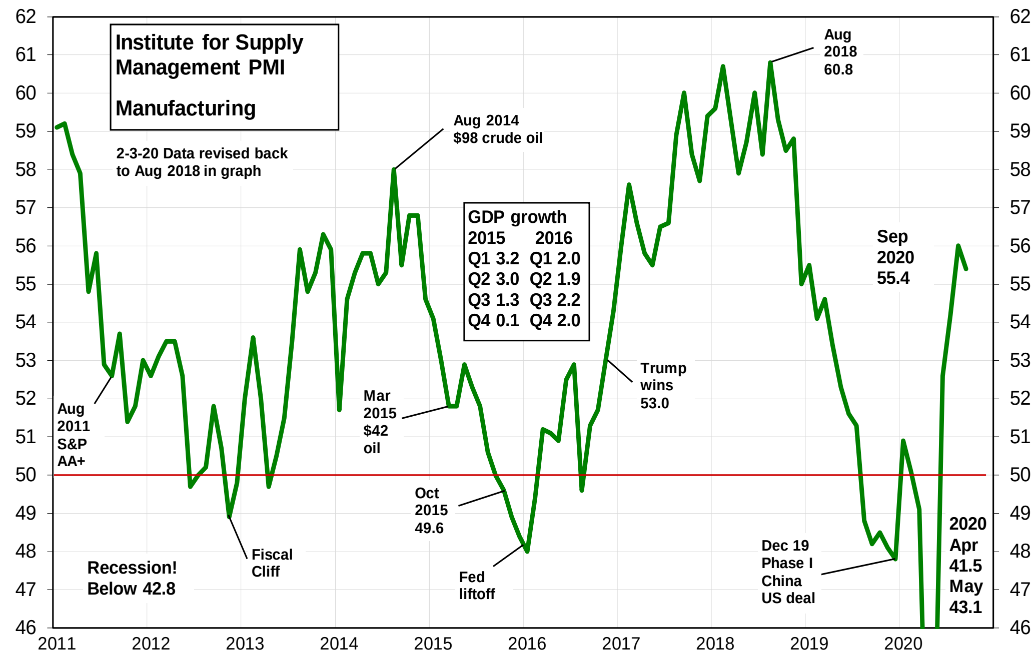
Weekly jobless claims are still too high to call the recession over because at 837 thousand this week they remain higher than any single week of job losses during the Great Recession over a decade ago. The recovery's wheels are spinning in the sand and will be unable to gain traction as long as new layoffs continue at this fast and furious pace. Jobless claims were 837K in the September 26 week however California is taking two weeks off to try and process their backlogs and "implement fraud prevention technology." This will make the weekly claims statistics harder to read for a few weeks as California is the most populous state in the union.



Real consumer spending is slowing to a 0.7% rise in August from a 1.1% increase in July. The rapid turnaround in sales from pandemic lockdown to the states opening back up will send the economy up by a record amount in the third quarter. Real consumption expenditures plunged 33.2% in the second quarter but are rising 37.6% in the third quarter with only September data left to go. There's inflation in the report today as well, the Fed's preferred PCE measure of inflation. It does not look like inflation is dead. Bags of chips and pancake mix prices are through the roof. In August, headline PCE inflation is 1.4% and core PCE inflation is 1.6%, both year-to-year increases, so the Fed may be closer to achieving its 2% target than we thought.

Net, net, the road to normal looks longer today with pent-up consumer demand reaching the exhaustion phase and high-profile layoffs from major corporations growing every day. It's going to be a slow return to normal for the economy you can bet on that. Corporate bankruptcies by the thousands, new layoffs in the millions, and yet somehow the stock market sees a steady and slow recovery where the economy is healing and on the road to profitability. The reality is the best economy in history at the start of the year was a myth that arose during the long political campaign that never ends. The progress made from the 4.7% unemployment rate when President Obama left office to the best economy in fifty years unemployment rate of 3.5% in February 2020 before the pandemic is a modest improvement that was reached on long-standing economic momentum rather than new specific policies out of Washington. Unemployment is 8.4% today and the return to normal depends on the uncertain course of the virus. Stay tuned and stand by. We will let you know when more readers are needed.

Purchasing managers say production, orders not as strong, and firing not hiring (Thursday)



Breaking economy news. The survey of manufacturing executives from the Institute of Supply Management (ISM). The index cooled if that is the word to 55.4 in September from 56.0 in August which was the best recovery level from the pandemic recession. There is no new downturn expected by purchasing managers where the index slips below the 50.0 expansion/contraction line, but sentiment is not as strong as it was in late 2017 when the biggest corporate tax cut in history was imminent and executives had high hopes for the future. The biggest problem seems to focus on the supply chain which has been disrupted and parts used in production are either hard to get or more expensive or both. Purchasing managers say prices are moving up the most since 2018.

Net, net, the revival of U.S. manufacturing is running into some headwinds which makes one wonder how factories can return from overseas if the manufacturing here is stopping short of full recovery levels. Even before the pandemic, manufacturing was already in a downturn for all of 2019 as the trade war with China hurt U.S. exports and disrupted supply chains globally. Business conditions are improving and most industries are positive about the 2021 outlook, but 2020 isn't over yet and the strength of demand for companies' goods and services remains a question mark as the coronavirus continues to spread and with the presidential election just a month away.

ISM manufacturing index

	Sep 20	Aug 20	Jul 20	Jun 20	May 20	Apr 20
PMI index	55.4	56.0	54.2	52.6	43.1	41.5
Prices	62.8	59.5	53.2	51.3	40.8	35.3
Production	61.0	63.3	62.1	57.3	33.2	27.5
New orders	60.2	67.6	61.5	56.4	31.8	27.1
Supplier deliveries	59.0	58.2	55.8	56.9	68.0	76.0
Employment	49.6	46.4	44.3	42.1	32.1	27.5
Export orders	54.0	53.3	50.4	47.6	39.5	35.3

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.