Financial Market Weekly

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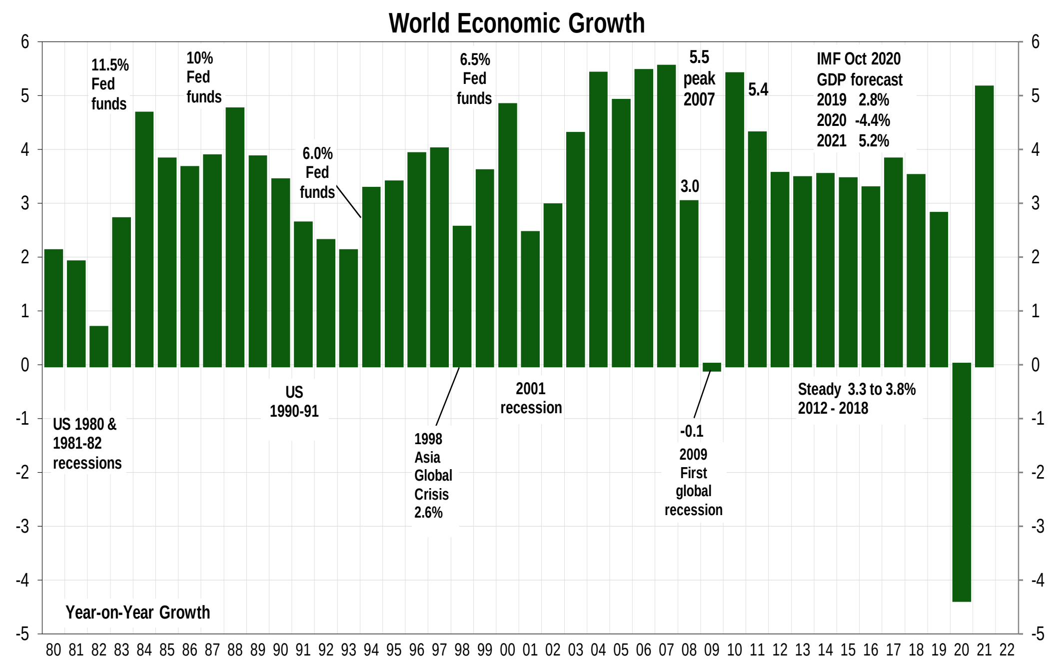
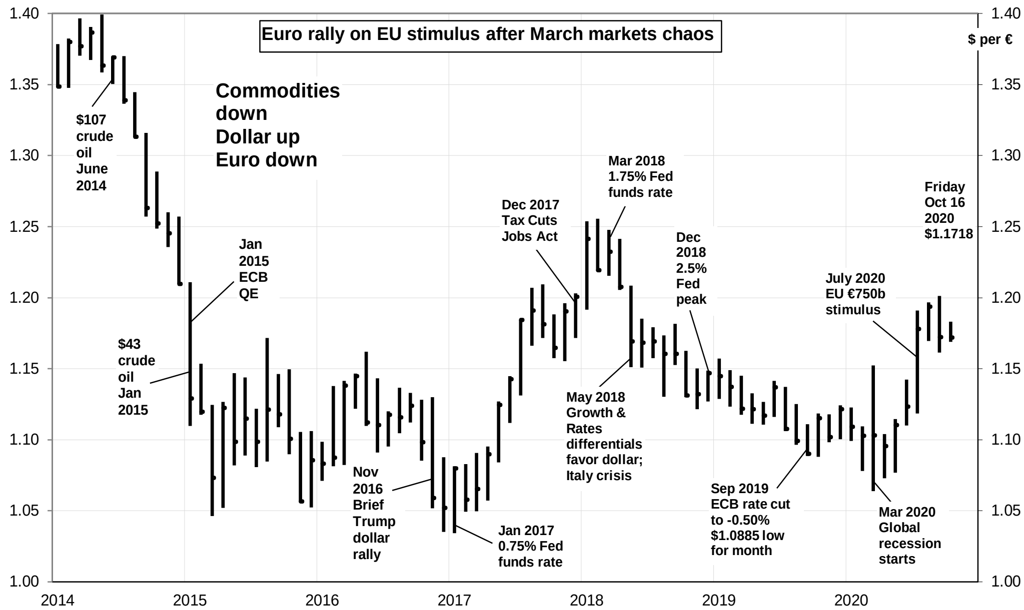
GLOBAL ECONOMY GOING TO TAKE SOME TIME TO RECOVER



Breaking economy news. Read all about it. The global economy was falling 4.9% in 2020 and now it is only going to drop 4.4%. The IMF puts out two major forecasts of the world economy in April and October each year. The October report was released at 830am ET on Tuesday this week. It is still hard to grasp what has happened, the magnitude of the drop in world output even if it does seem to be all but over meaning the bottom has been hit. The bottom of the economy made a few months ago is so far down that it is unlikely to be revisited even with a second wave of the coronavirus making its appearance in the U.K. and Europe, in the U.S. as well, which is leading to some new government restrictions being placed on the public. New curbs and restrictions in London and Paris anyway. As to the actual figures, world economic growth is forecast to drop 4.4% in 2020 and rise back by 5.2% in 2021 which would put the level of economic activity back to where it was in 2019. Two lost years from the pandemic.

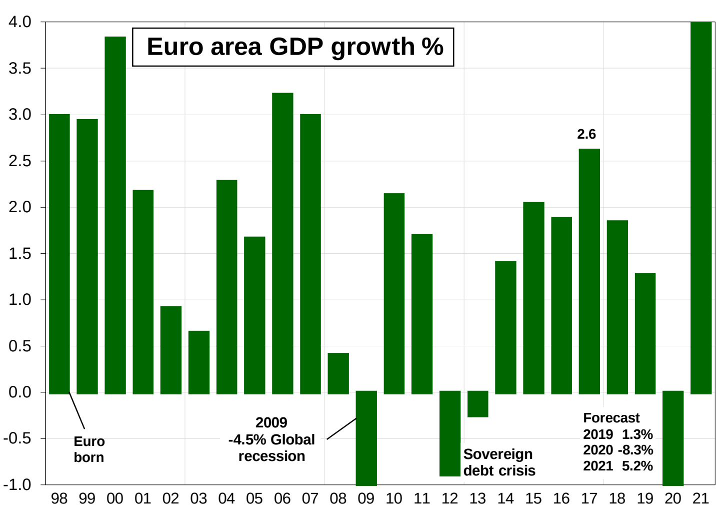
	World		Euro	IMF OCTOBER 2020 WORLD ECONOMIC GROWTH FORECASTS											
	GDP	U.S.	Area	Germany	France	Italy	Spain	UK	Japan	Canada	China	Russia	India	Brazil	Mexico
2019	2.8	2.2	1.3	0.6	1.5	0.3	2.0	1.5	0.7	1.7	6.1	1.3	4.2	1.1	-0.3
2020	-4.4	-4.3	-8.3	-6.0	-9.8	-10.6	-12.8	-9.8	-5.3	-7.1	1.9	-4.1	-10.3	-5.8	-9.0
2021	5.2	3.1	5.2	4.2	6.0	5.2	7.2	5.9	2.3	5.2	8.2	2.8	8.8	2.8	3.5

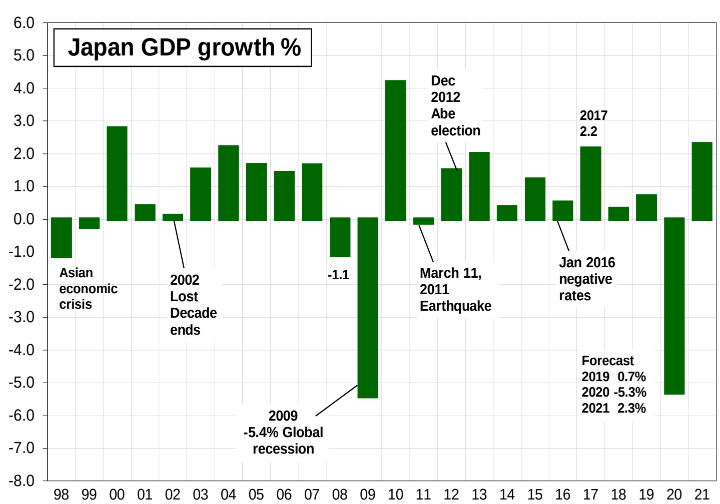
Because emerging market nations (China is an emerging developing nation) grow faster ordinarily than the developed world, it is hard for the entire global economy to decline. The only other down year for world economic growth was a -01% decline in 2009 "when the Americans let Lehman go bankrupt." The IMF looks for US real GDP to fall 4.3% this year and rally back by 3.1% in 2021. Our latest forecast is for real GDP to fall 4.0% this year and increase 3.4% in 2021. Close enough.



As far as Europe, growth is expected to rebound 5.2% in 2021, literally off the chart here, after plummeting 8.3% in 2020 according to the IMF forecast. After some confusion on direction during the worst of the financial crisis in March this year, the Euro has started to pick up somewhat. This dollar sell-off was mostly in July 2020 as the EU discussed and finally agreed on a €750 billion fund to aid the economy.

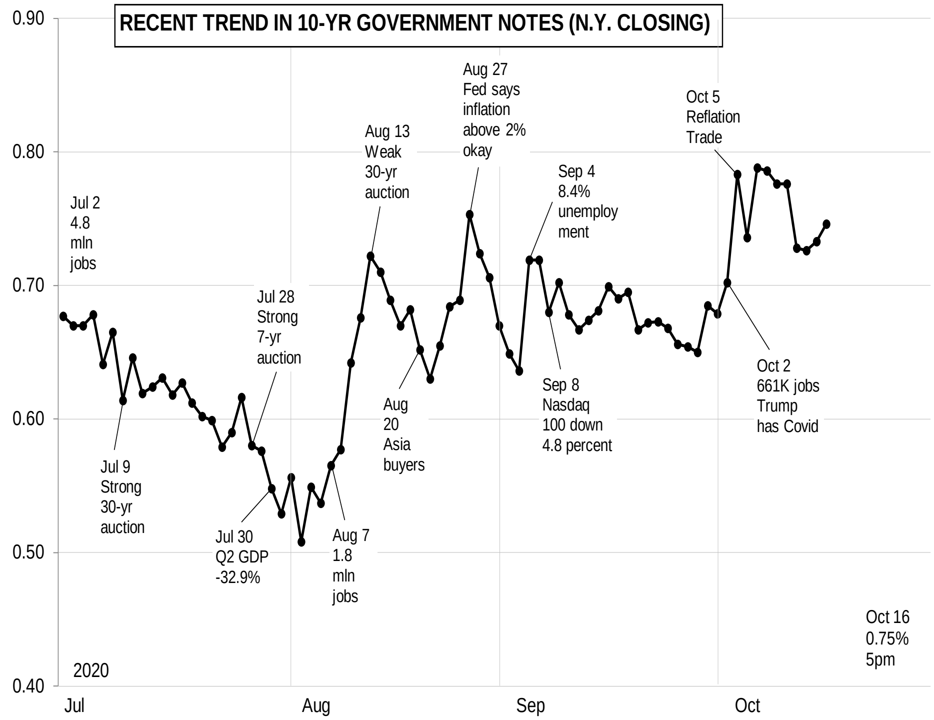
To conclude, the IMF world economic growth forecast shows it was pretty bad out there, but economic growth appears to be picking up rapidly and time will tell if the economy runs fast enough to put those who lost their jobs in the global recession back to work. We wouldn't be surprised to see unemployment falling faster than is commonly believed. Right here in the USA it looks like retail spending is greater than we anticipated even without an additional fiscal stimulus package from Washington. And don't hold your breath, stock market. No agreement looks likely with all of Washington waiting to see what will happen on November 3rd. Bet on it.





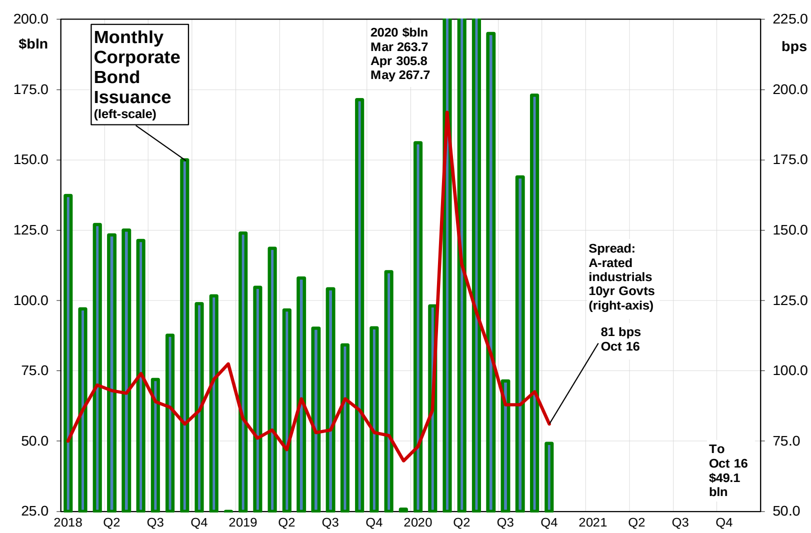
MARKETS OUTLOOK

	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 0.75% this week after 0.78% last week. Someone let some of the air out of the reflation trade rally in bond yields this week and it isn't clear who or why. The bond market was closed on Monday but we were in work at our desk in Manhattan cheering as equity markets soared with the S&P 500 rising 1.6%. On Tuesday bond yields fell at the open and again shortly after 8am ET for some reason. Yields kept falling and were at 0.69% on Thursday morning, the absolute low this week after the unexpected rise in jobless claims at 830am ET, but you would need a microscope to see the bond market reaction. Bond yields rose back starting 9am ET Thursday and the dominant theme of the week was that more Covid-19 restrictions on the economy would be seen due to rising cases in Europe and the U.K. Stay tuned.

CORPORATES: MOSTLY FINANCIALS, TOYOTA MOTOR CREDIT



Corporate bond offerings were $17.0 billion in the October 16 week versus $29.0 billion in the October 9 week. On Tuesday, Toyota Motor Credit Corp. sold $2.75 billion 2s/5s/FRNs. It priced a $1.0 billion 0.80% 5-yr (m-w +10bp) at 53 bps (A1/A+). The auto company will use the proceeds for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 81 bps above 10-yr Treasuries Friday versus 82 bps last week.

FEDERAL RESERVE POLICY

The Fed meets November 4-5, 2020 to consider its monetary policy. Not sure what there is to discuss. They say they don't talk about politics, the day after the November 3 election might test that. We won't get the transcript from this meeting for another five years. Every once in a while, a Fed official will say they need to provide more clarity on their asset purchases. The market does not seem to need clarity. The Fed buys $80 billion per month of Treasuries and 10-yr yields sit here close to 0.70%. We don't know if the market blue wave rumors with its multi-trillion-dollar fiscal package will turn out to be true, but if the deficit next year is only $1 trillion the Fed has got this.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	14-Oct	7-Oct	30-Sep	23-Sep	pre-LEH
Factors adding reserves					
U.S. Treasury securities	4484.978	4469.848	4445.477	4431.523	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2046.838	1982.789	1982.775	2024.868	0.000
Repurchase agreements	1.000	0.000	0.000	0.000	126.750
Primary credit (Discount Window)	2.769	2.939	3.437	3.359	23.455
MMLF	6.119	6.292	7.088	7.344	
PDCF	0.193	0.233	0.233	0.233	
Commerical Paper Funding Facility	8.559	0.859	8.589	8.588	
Paycheck Protection Facility	65.577	66.426	67.573	67.254	
Corporate Credit Facility (CCF)	45.300	45.164	45.042	44.972	
Municipal Liquidity Facility	16.549	16.548	16.547	16.546	
Main Street Lending Program	40.547	40.076	39.718	39.355	
Term Asset-Backed Facility (TALF II)	11.716	11.715	11.715	11.431	
Central bank liquidity swaps	7.478	15.838	23.895	31.950	62.000
Federal Reserve Assets	7199.8	7123.1	7103.7	7141.6	961.7
3-month Libor %	0.23	0.23	0.23	0.23	2.82
Factors draining reserves					
Currency in circulation	2042.774	2038.364	2032.544	2029.101	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	0.110	0.850	0.001	0.000
Reserve Balances (Net Liquidity)	2907.734	2863.357	2743.245	2848.082	24.964
Treasuries within 15 days	49.893	60.673	56.106	72.212	14.955
Treasuries 16 to 90 days	284.509	281.358	238.394	247.998	31.549
Treasuries 91 days to 1 year	656.000	648.353	694.799	671.972	69.272
Treasuries over 1-yr to 5 years	1697.513	1686.755	1673.536	1665.299	170.807
Treasuries over 5-yrs to 10 years	797.937	797.112	788.868	787.290	91.863
Treasuries over 10-years	999.126	995.597	993.773	986.752	101.337

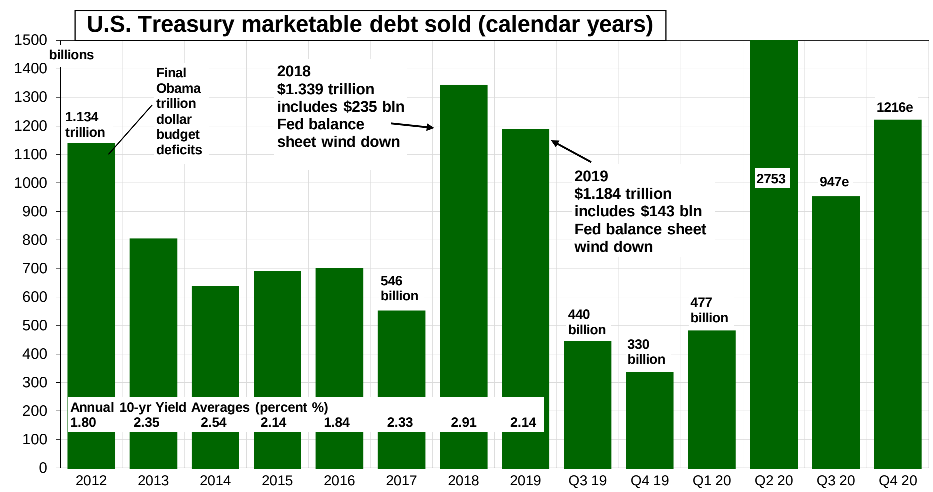
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

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 number is 3.1 trillion dollars. The Treasury released its September monthly Federal budget deficit at 2pm ET Friday, the final month of the fiscal year (FY) is normally delayed at least a week so they can announce the results to great fanfare we guess, hold a press conference etc. Better to bury the news this year. We'll have more to say about the $3.1 trillion budget deficit this year in next week's newsletter but the cat's out of the bag and there are no surprises. No surprises because the Treasury already sold the debt to pay for the Federal budget deficit which is what counts always. Will the Treasury debt sales put upward pressure on interest rates is the question always? The Treasury estimated at its August quarterly refunding announcement on August 3 that they would sell $947 billion in the final quarter of FY2020 ending September 30. Debt managers must have thought the world was ending or that there would be a multi-trillion-dollar stimulus bill because the new cash estimates were too high. The Treasury raised new cash of only $454 billion in the July-Sept quarter meaning new cash raised in FY20 was a staggering $4.0 trillion. (No wonder Fed Vice Chair Quarles said this week that given the size of the Treasury market, the Fed may stay involved with QE for a long, long time as in forever more. The final quarter of this calendar year, the estimate of $1216 billion looks too high as well given they only raised new cash of $74.5 billion in October. New Treasury financing estimates are out on Monday, November 2.



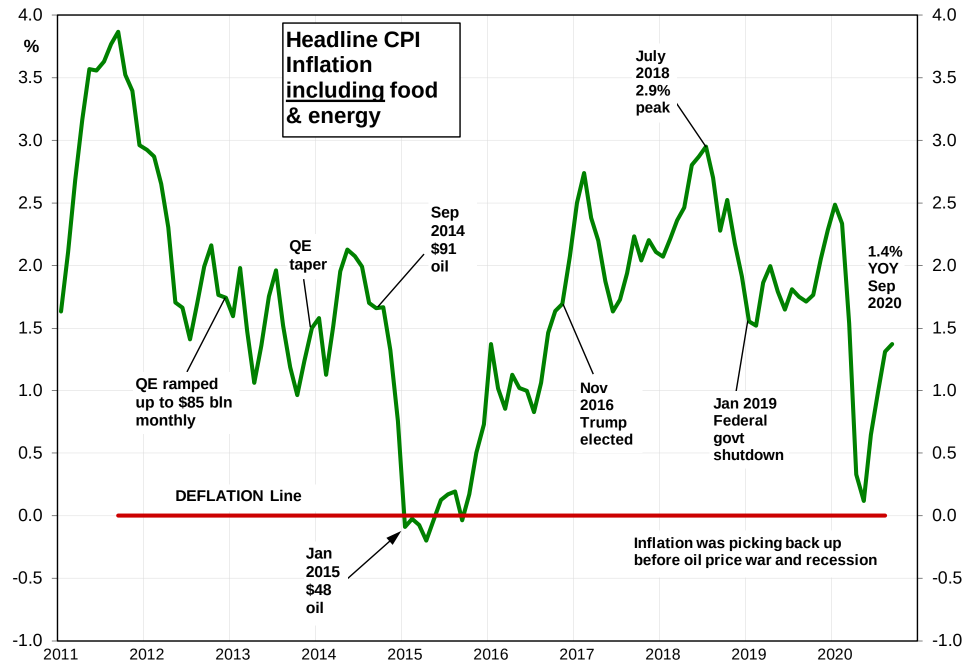
	U.S. Treasury New Cash Needs and Fed Treasury Purchases (QE)													
	Monthly Changes ($ billions)													
	Fiscal Year (FY) Ending September 2020												Total	FY 2021
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	FY 2020	Oct
Fed QE	67.808	73.007	80.364	80.246	64.952	504.312	993.047	138.093	87.892	96.159	64.996	86.918	2,337.8	39.501
New Cash	166.8	112.5	50.9	38.5	199.8	238.7	1368.6	699.2	685.2	102.2	175.4	176.5	4,014.3	74.5
Bills	79.1	59.0	-98.2	-12.5	160.3	92.8	1344.3	628.2	449.7	-0.7	-2.2	-47.8	2,651.9	-31.6
Coupons	87.6	53.4	149.2	51.1	39.5	145.8	24.2	71.0	235.5	102.9	177.6	224.3	1,362.1	106.1
Federal Reserve's 11 Lending Facilities (month-end outstanding)					0	58.352	94.641	136.343	204.607	203.100	197.237	196.505		194.560
Central bank liquidity swaps (month-end outstanding)					0.044	206.051	438.953	448.946	274.963	117.473	92.140	23.895		7.478

OTHER ECONOMIC NEWS THIS WEEK

Reflation trade sure has the inflation if used trucks is the measure of prices (Tuesday)

Breaking economy news. CPI inflation for September where headline is up 0.2% for the month and 1.4% year-on-year, and core prices for those who don't eat or put gasoline in their used car or truck rose 0.2% or 1.7% year-to-year. Speaking of used cars and trucks, these prices jumped 6.7% in September which means core CPI inflation would have been flat without the increase. This is the second month where used cars and trucks jumped as the increase in August was 5.4%.

In other trends, food at home inflation has slowed after jumping with the stay-at-home orders in March through June assuming you call food at home Fritos and pancake mix and coffee pods like we do. Food at home prices fell 0.4% in September and are up 4.1% the last year. Food away from home inflation has caught back up somehow even with restaurants closed in many areas of the country with an increase of 0.6% in September are up 3.8% the last year. And if you think there is a bubble in housing prices don't look to CPI where so-called shelter prices are up only 2.0% the last year.



Net, net, the economy somehow continues to strengthen after being nearly toppled by the pandemic as consumer prices continue to rebound from the outright deflation seen in March, April, and May. It's not a Great Depression anymore, you don't need a Nobel Prize to see that. But if you think inflation is completely back, have we got a deal for you as our local used car dealer would say. Fed officials are unlikely to take much comfort in the inflation figures today because used car and truck prices accounted for all of the overall rise in the index. One would think with the differential between used and new vehicles closing quickly, new cars might be getting more attractive at some point. Used cars and truck prices are up 10.3% the last year where new vehicles are up just 1.0%. Stay tuned. Story developing.

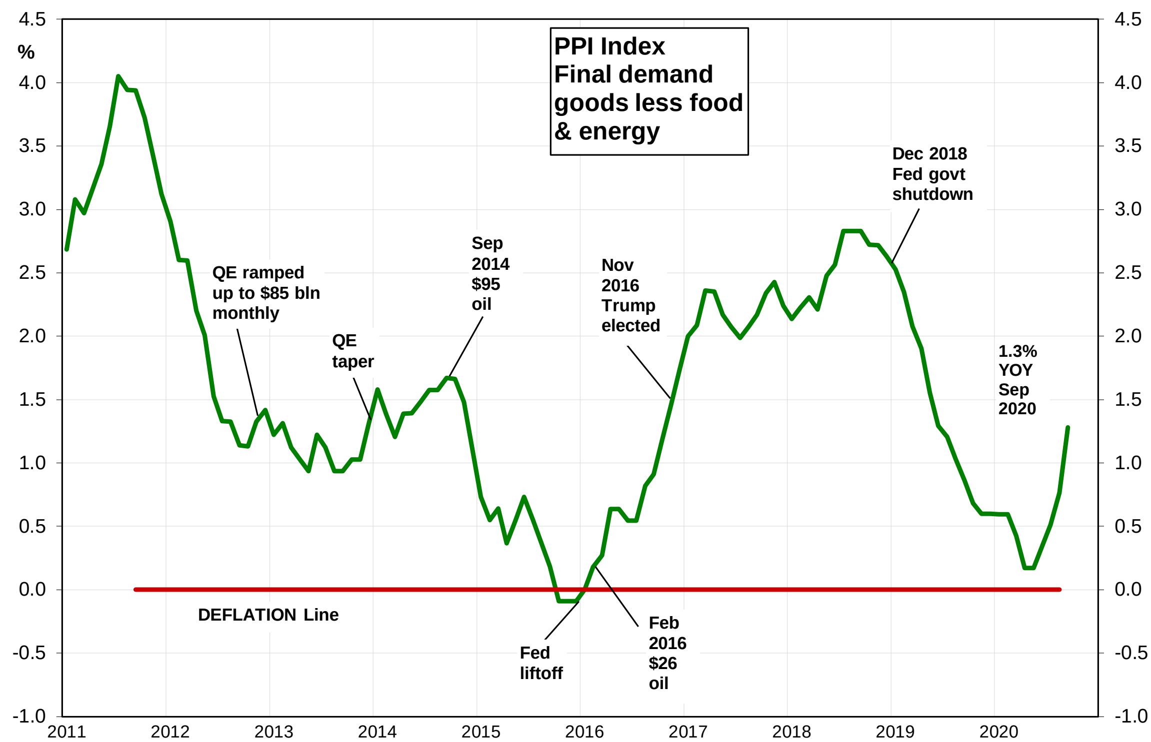
		Monthly Percent Changes			YOY %
Weight	CPI inflation	Jul 2020	Aug 2020	Sep 2020	Sep 2020
100.0	Total	0.6	0.4	0.2	1.4
14.2	Food	-0.4	0.1	0.0	3.9
7.9	Food at home	-1.1	-0.1	-0.4	4.1
5.7	Energy	2.5	0.9	0.8	-7.7
79.0	Ex-food & energy	0.6	0.4	0.2	1.7
3.7	New vehicles	0.8	0.0	0.3	1.0
2.5	Used cars/trucks	2.3	5.4	6.7	10.3
2.7	Clothing	1.1	0.6	-0.5	-6.0
1.6	Medical care goods	0.0	-0.1	0.0	0.9
33.5	Shelter	0.2	0.1	0.1	2.0
4.9	Transportation	3.6	0.0	-0.9	-5.1
7.3	Medical care services	0.5	0.1	0.0	4.9

Factories not back to normal but prices of some producer goods are climbing (Wednesday)

Breaking economy news. Producer prices for September. The PPI inflation index from the Bureau of Labor Statistics has never been the same after its makeover where they tried to bolt on services prices to what historically were just goods prices. Factories just produce goods for sale we always thought. Final demand PPI rose 0.4% in September: final demand goods rose 0.4% and final demand services rose 0.4%.

Final demand goods prices are normally thought to be commodity-type inflation and the rise of 0.4% in September pushes inflation of core goods to 1.3% year-to-year. Today's data are another sign that the recession, with its fear of deflation and falling prices, is in the rear-view mirror as the economy moves ahead and production restarts across the country. At the same time, not all prices are rising and the increase in final demand goods prices this month was mostly due to the sharp 14.7% jump in iron and steel scrap prices.

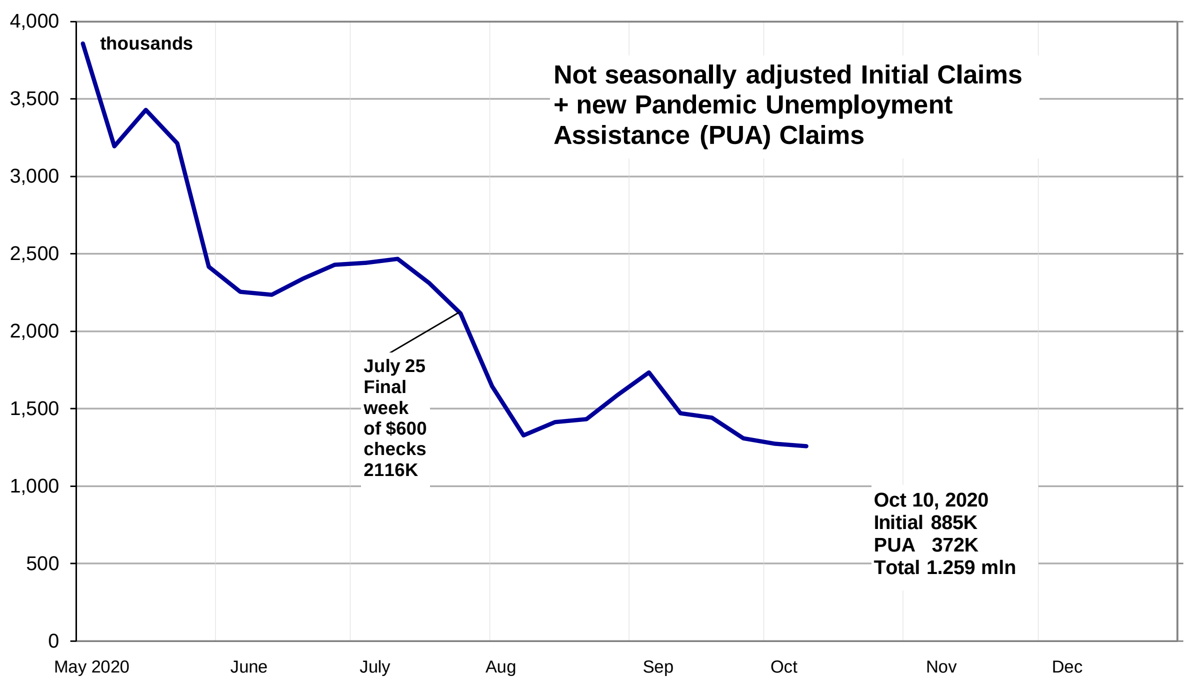
Net, net, the prices of factory goods are still in recovery mode from the slowdown in manufacturing activity starting in 2019 that hit companies during the trade wars. Producer prices of core goods have strengthened the last three months even if not all commodities are seeing stronger demand. Fed officials will remain cautious on the inflation outlook until producer price pressures heat up further. The Fed's inflation target is 2% and producer price inflation is less than 2%. With the recovery in factory output remaining well short of levels seen in February this year before the pandemic shut the economy down, the buildup of producer price pressures will take time. The prices of some producer prices are climbing, but factories are not back to normal yet. Stay tuned. Story developing.



Jobless claims data show labor market recovering (Thursday)

Breaking economy news. New filings for jobless benefits were 898 thousand in the October 10 week which is a modest increase from 845 thousand in the October 3 week and, believe it or not, the stock market seemed to fall on the dismal fundamental economic news although it is hard to be completely sure. Relax, stock investors, it's not all that bad for the economy as we look through all the different categories and programs that provide unemployment compensation in today's report. This is true even though California is still cleaning up the reporting of benefits and checking for fraud so their count of new claims just continues where it was for now at 226 thousand applying for the week which is a good chunk of the nationwide total we might add. California claims have been at "226 thousand" for five weeks now. Must be a lot to fix. Hope they can count votes better than joblessness.

Net, net, don't be fooled by the small uptick the number of people applying for unemployment benefits this week because taking the claims data in their entirety, it looks like the labor markets are improving at the start of October and that some jobless workers who lost their employment in the pandemic recession are getting paychecks once again. The total number of people receiving benefits under the regular state programs are declining and while some of these are undoubtedly applying for extended benefits, as the 6-month deadline for unemployment checks expires, it looks like some have fallen off the unemployment rolls permanently because they regained their old jobs or found new positions. Additionally, it is good news that the number of so-called gig workers filing in their own benefits program, who ordinarily do not qualify for jobless benefits, also declined to 373 thousand in the October 10 week from 464 thousand the week before. Slowly but surely, emphasis on the surely, jobless Americans are regaining their employment.



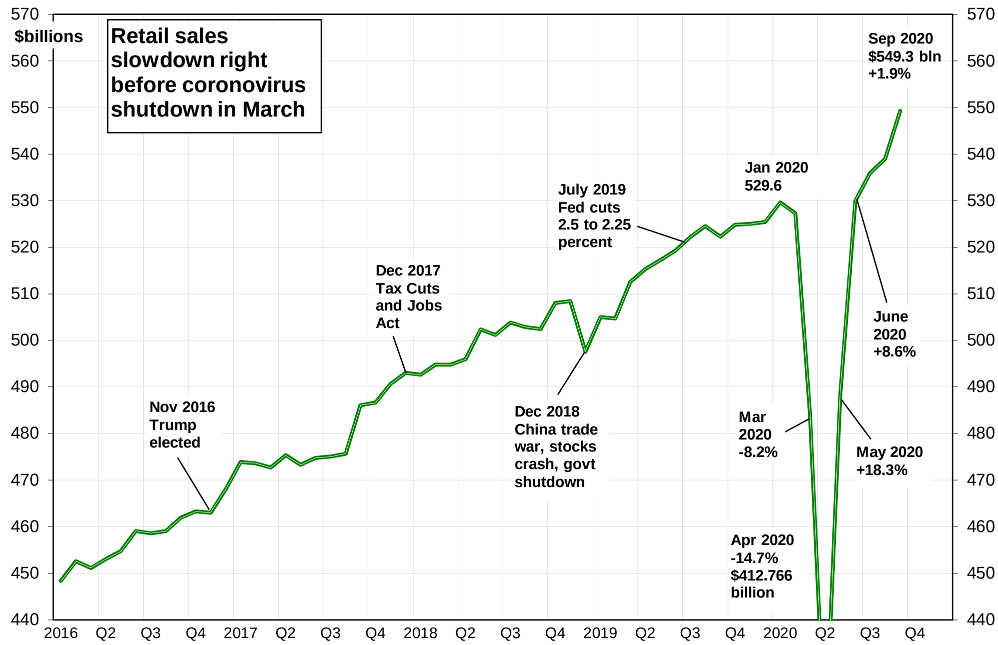
Retail sales blast-off with strongest consumer in history (Friday)

Breaking economy news. The unemployed have lost their $600 weekly checks at the end of July, but all that is forgotten as the retail spend at stores and malls is through the roof this month. Retail sales up 1.9% in September, after rising 0.6% in August and 1.1% in July. Wow. Concerned about the lack of additional stimulus money from Washington, forget about it, as there is so much momentum for consumer spending in September that real GDP will be stronger than we expected in the fourth quarter. Same story: it only took 5 months for retail sales to recover and make new all-time highs from the recession. How can that be?

Retail sales have literally blasted off. Retail sales are up 5.4% in September from year ago levels, so we aren't in a recession anymore. The spending does reflect the stay-at-home work environment although auto sales rising 10.9% the last year is an outlier perhaps. Year-to-year percent changes. Building material and garden supplies up 19.1%. Grocery stores up 9.6%. Health and personal care stores up 5.3%. Sporting goods, hobbies, books and music up 14.4%. Internet shopping up 23.8%. The losers the last year: Clothing stores down 12.5%. Electronics and appliance stores (don't ask) down 6.4%. Bars and restaurants down 14.4%. Gasoline stations (consumer buying cars and leaving them sit in the driveway) down 13.3%. Department stores down 7.3%.

Question: How long did it take before retail sales fully recovered from the Great Recession drop? 3 years and 5 months

There's winners and losers but the economy thinks it is winning and real GDP could be up a staggering amount in the third quarter. After falling 25.6% in the second quarter retail sales will rise 66.0% in the third quarter at an annual rate. Even without shoppers spending a dime more in October, November, December, retail sales will show a strong increase of 5.9% in the third quarter. Whoever becomes president will inherit a better economy than we thought just a few weeks ago as fears of Covid-19 is not stopping the money flowing through the economy like crazy right now. Sit down and strap in, retail sales are literally blasting off and we are seeing the strongest consumer in history even with millions and millions of unemployed.



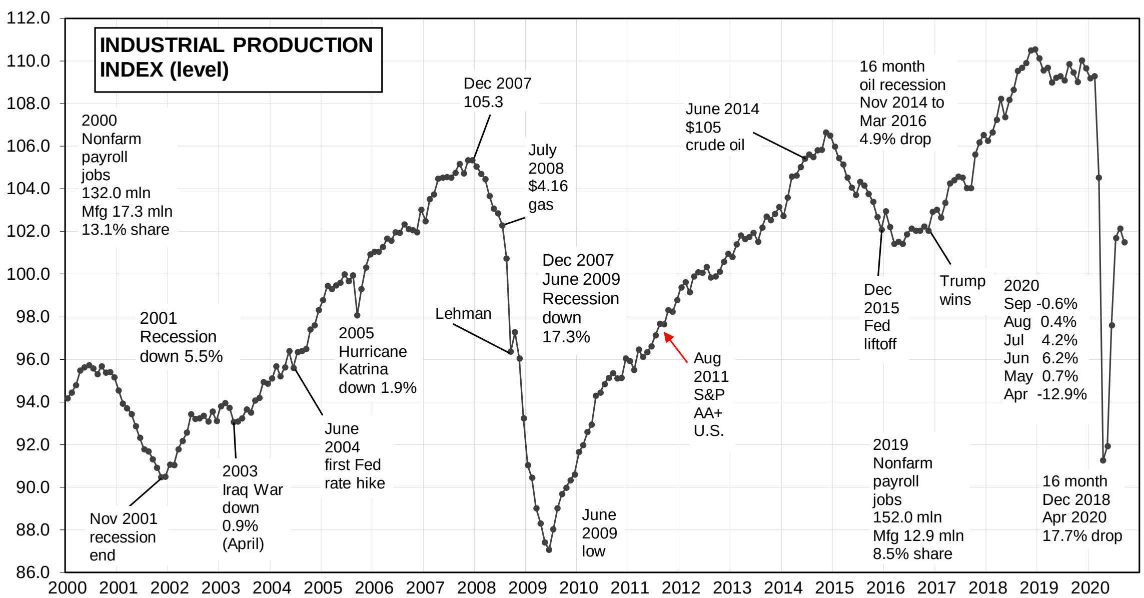
Net, net, recession, what recession is what shoppers are saying as they pull down the store shelves and buy everything they see. We are astonished at the rebound in retail sales and it looks like while consumers aren't spending dollars on vacations or going to the doctor, they are sure buying everything else that isn't nailed down. Real GDP 35% in the third quarter here we come. Bet on it. All on the backs of the consumer.

Oops, one step forward one step back for factory output (Friday)

Breaking economy news. Industrial production fell for the first time in months by 0.6% in September and it remains down 7.3% from year ago levels. Mining production was up 1.7%, but it is down 14.8% from year ago levels. Utilities are down 6.1% from last year but only after falling 5.6% in September so we can blame the weather (not much demand for air conditioning). Manufacturing output fell 0.3% in September after rising 1.2% in August.

Net, net, the party is over for U.S. factory production as output falls in September for the first time since April. The recovery in manufacturing has stalled with factory output down 6.0% from year earlier levels. Washington shouldn't bother halting the decades long trend of globalization, trying to incentivize companies to bring manufacturing back home to America, there isn't enough work for the factories we have to keep going. Stay tuned. Story developing. Hopefully there will be better days ahead for America's factories as consumer spending is strong and retailers will be needing to restock their depleted inventories.

Percent changes			Industrial Production September 2020		
Jul	Aug	Sep	YOY		Weight
4.2	0.4	-0.6	-7.3	Total Index	100.0
4.2	1.2	-0.3	-6.0	Manufacturing	75.3
3.7	-2.4	1.7	-14.8	Mining	14.2
4.9	-1.0	-5.6	-6.1	Utilities	10.4
			Manufacturing payroll jobs 12.2 million -643 YOY 10.2% of Private Payroll Jobs		



Analyst Certification

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