July 2nd, 2020

MARKETS
REMINDER: The Daily will take the day off Friday, July 3rd. She will return Monday, July 6th.
Three Things…

- And the good US economic news just keeps pouring in. We remind you again of the flip in ADP's June Payrolls and surge in June Mfg. ISM from yesterday. Well that good news was followed up by more good news today:
- Non-Farm Payrolls exploded out of the gate in June, rising 4.8 Mln (mkt +3.0 to +5.0 Mln), while the May Payroll report was revised upwards by 190k. Despite this, we are still about 13 Mln jobs short of the black-hole record collapse seen in April. So, given this data, we spell recovery with a fat-bottomed "U". The Unemployment Rate dropped more than 2 percentage points, to 11.1% also beating forecasts for 12.3%. We will not go into the deep-dive details re: Unemployment but suffice it to say, Minorities' rates of Unemployment remain several percentage points higher than averages indicate. The Participation Rate jumped which suggests furloughed employees were reentering the workforce, at least the job search part of that process. The dark cloud over this is that Average Hourly Earnings fell sharply, -1.2% (mkt -0.6%), as most of the returning workers seem to be in lower paying service-providing jobs. And there's one caveat—this survey is taken mid-month, so most of the data were collected PRIOR to the re-imposition of the latest closures. Still, all in all, a great report.
- In a more current read on Employment, Weekly Jobless Claims eased, rising 1.43 Mln in the week ended June 27th, nearly 60k less than last week's Claims. The 4-week average shed 120k to 1.503 Mln, more good news from the employment front. As with Payrolls, however there is a dark cloud hanging over this report—Continuing Claims ROSE 60k to 19.29 Mln. However, this is nearly 1.0 Mln less than 2 weeks ago, so perhaps less of a dark cloud and more of a momentary shadow?

- And last on today's full calendar, the May Trade Deficit widened from -$49.76 Bln to -$54.60 Bln. The worsening trade condition is due almost entirely to the -4.4% drop in US Exports. It is hard to say whether that is due entirely to the global economic collapse or the on-again US' trade war against most of the developed world. Imports declined 0.9%. Once again, the "culprit" seems to be the widening deficit with China, which grew from -$22.47 Bln to -$29.96 Bln. This may suggest a more latent strength in US Consumer demand, as most of these imports are targeted at the retail sector.

FOREIGN EXCHANGE

The dollar is trading lower this morning with the DXY index down 0.276 to 96.922. The dollar slid on positive risk sentiment as news trickles in about positive vaccine developments and as gov'ts work to contain the virus. Risk remains as the US reported more than 50K cases in a single day for the first time. The rise cannot be explained by increased testing as confirmed or suspected Covid hospitalizations have also been increasing and the percent of tests coming back positive has been creeping higher in most of the country outside the Northwest. More states are pulling back on reopening plans most significantly California which implemented new restrictions on a wider set of businesses in counties covering more than 70% of the population. There's some evidence that the shutdown is having an effect on consumer spending. Spending by JPMorgan's credit and debit card holders fell 13% y/y in the week through June 27th compared with a decline of 9.6% the previous week. The pull back in spending according to the bank was broad based and not limited to the 4 states experiencing the worst spread of the virus. The FOMC minutes published yesterday didn't provide any unexpected insights. The possibility of cementing low interest rates either through forward guidance or yield curve control was discussed, but the Fed didn't see any immediate need for action on that front. As the population grapples with corona fatigue the central bankers seem to be grappling with stimulus fatigue. Central bankers seem to have taken a wait and see approach regarding the virus. The general consensus is that monetary policy has done its bit and its now up to fiscal policy. Central bankers are nevertheless cautious with Fed Chair Powell saying that the path ahead for the US economy remains "extraordinarily uncertain." St. Louis Fed President James Bullard is warning that a growing number of bankruptcies related to the Covid outbreak could lead to a financial crisis. He added that this is a possibility and not his base case. Emerging markets are trading better against the dollar with the Mexican peso, S. African rand, Brazilian real up 0.9%, 0.8% and 0.8% respectively up against the dollar. In a totally expected result, Russians went to the polls to vote on a change in the constitution that would allow President Putin to remain President until 2036. The election was so certain that results were released 5 hours before polls closed. The Russian ruble is up 0.5% to trade at 70.27. Oil prices are trading higher with the WTI futures contract up 0.64 cents to $40.48. This boosted the Norwegian Krone sending it up 0.4% against the dollar to 9.4780.

- The offshore Chinese yuan is trading little changed at 7.0730. China's central bank seems to be signaling that it is slowing down the pace of monetary easing amid indications that the economy is recovering. Since early May the PBOC has allowed a steady increase in money market rates and the highest 10 yr. sovereign bond yield in 5 months. The PBOC did inject liquidity 2 weeks ago but Governor Yi Gang is taking his time to deliver. Yi has told markets to start thinking about an "exit" from looser financial policies seen earlier this year, even as the country's recover remains uncertain. One reason for the PBOC's restraint could be in regulatory concerns over arbitrage practices where companies borrow cheaply from banks and then invest the proceeds in higher yielding structured deposits. This would be money that doesn't make its way into the real economy. Manufacturing surveys released this week show a continued recovery in both demand and supply. China reported that passenger car sales in the 3 week ending June 27th fell 37% y/y making the 4th straight weekly decline. China's finance ministry has taken up the slack by issuing a record amount of special purpose bonds as the PBOC pursues a more restrained strategy, shelving for the moment the country's deleveraging campaign.

- The Japanese yen is trading a little weaker against the dollar at 107.60. Even as the B of J buys buckets of gov't bonds, the country had the worst performing bond market in in the first half of the year and the 2nd half doesn't look like its going to get much better. The yield curve is steepening which may be by design. The B of J in its latest buying plan said it was going to buy more short term rather than long term bonds. The difference between 10 yr and 30 yr bonds stands at 60 bps. Japan's finance ministry said that it would issue 60 tln yen (558 bln USD) of bonds for the fiscal year ending March 2021. Analysts had expected insurance companies and other investors to pick up the buying slack, but so far that hasn't happened. Traders will be looking at the demand for 10 and 30 yr bonds when they go on sale next Tuesday.

GLOBAL MARKETS

- This string of solid US economic news is playing itself out in US and global indices. So far, the Dow has gained in 3 of the past 4 session, while the other two main indices—NASDAQ and the S&P, have rallied every day this week. US Treasuries are trading in similar fashion, with 10's and 20's adding 2 and 3-basis points respectively. Shorter duration maturities are flat to lower, tipping the yield curve slightly into something of a bull market steepening.
- Some portfolio managers however, are starting to consider the very real possibility of a Democratic President, and are selling Dollars, and beginning to rebalance out of US stocks. This latter would be a natural event anyway, given the outsized gains in US indices (particularly the NASDAQ, which added more than 30% in Q2), versus the 24% gain on the German DAX, and the 13% rise in China's CSI 300 blue chip index.

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