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July 9th, 2020

MARKETS
Three things…

- We received some good economic news today, which gives some, repeat SOME fundamental underpinnings to the asymptotic rally seen in mainland Chinese and Hong Kong equities. Producer Prices rose 0.5% in June, the largest monthly increase since 2018. This is the first uptick in PPI since the pandemic and suggests that industrial and manufacturing demand had mostly recovered to near pre-pandemic levels by quarter's end. For the full year, PPI "rose" -3.0% (mkt -3.2%), up from the -3.7% seen in May. Consumer Prices rose from 2.4% to 2.5%, as expected. Rising food prices were main contributor to the uptick in CPI, with pork prices jumping 3.6% just in June alone.
- In Europe, we got a pair of reports, one from Germany, the other from the UK, that had markedly different impacts on the markets. Germany's May Trade Surplus rose from € 3.6 Bln to € 7.1 Bln, in line with forecasts. Both exports and imports rose 9.0% & 3.5% respectively, but each was far short of the massive double-digit declines seen over the previous two months. Most of Germany's trading partners remained in lockdown in May, so the export picture in particular remained subdued. The recovery has begun, albeit slowly. The DAX is up 1.5% at mid-session on rising tech and consumer stocks
    - In the UK we got the latest RICS Residential Market survey for June, The RICS is an index, which nets the number of homes with rising versus falling prices. RICS rose from -32 to -15 (mkt -25). So, today's data are something of bad-news as not-so-bad news, although NOT really good news. the FTSE 100 dropped ½% at mid-session, dragged lower by HSBC (remember the HKD peg) and weaker energy stocks.
- In US economic news, Weekly Jobless claims for the week ended July 4th dropped nearly 100k to 1.314 Mln (mkt 1.37 Mln). We also saw sharp improvements in the 4-week and Continuing Claims reports. The 4-week

fell 63k to 1.437 Mln, while Continuing Claims shed more than 750, to 18.06 Mln, and are down nearly 7 Mln from the peak of 24.9 Mln seen in early May. All things considered, this is a positive employment related report, and one of the most current, “real-time” pieces of economic news we have.

FOREIGN EXCHANGE

The dollar is slightly lower in very quiet trading with the DXY dollar index at 96.36, as markets look past growing infection rates and focus on economic recovery stories. The dollar has the potential to go much lower on a technical basis as the 50-day moving average of the index crossed below the 200-day moving average. This is called the “death cross.” Providing further fuel is the fact that FX dollar short positions fell last week providing room for the dollar to drop further. CFTC data showed the value of net dollar short positions fell to 13.9 bln from 16.8 bln the previous week. The net dollar position is calculated from net contracts on the IMM in the euro, yen, British pound, Swiss franc, Canadian and Australian dollars. We’ll have to see how this plays out. EM FX is benefiting from a rally in Chinese equities which have risen 16% in July. The offshore Chinese yuan is also trading below the psychologically significant 7.00 at 6.9850. The Russian ruble is up 0.8% at 70.55, the S. African rand is up 0.7% at 16.8100, Brazilian real is up 0.9% at 5.2930 and the Mexican Peso is up 0.4% at 22.5500. The Turkish lira seems to have become a pegged currency trading at 6.8600 since June 18th. The Turkish lira hasn’t benefited from the rally in EM currencies and therefore is quite vulnerable should EM FX take a turn for the worse. Later today, Biden is expected to talk about his economic policy plans. The market is expecting a moderate approach to fiscal policy and taxes with the emphasis on manufacturing and innovation. The risk is towards a more progressive policy as the team has been working with members of Bernie Sanders’ team.

- The offshore Chinese yuan is trading at 6.9850. The yuan may benefit from the fact that the PBOC seems to have slowed down its easing while the Fed is likely looking to do more. Investors seem to have a FOMO (fear of missing out) attitude towards China as money pours into the country lifting equities bonds and the yuan. There are indicators that should lead to some concern. Passenger car sales fell 6.2% y/y in June after sales turned positive for the first time in May this year. Although a disappointment, the overall recovery remains trend remains. China’s CPI inflation rose to 2.5% y/y in June from 2.4% in May. The rise in inflation is mainly due to an increase in food prices, with pork prices rising 82% due to slower production. PPI inflation fell 3.0% y/y compared to a drop of 3.7% in May. The drop in PPI is a result of rising commodity prices, steady recovery in manufacturing and improvement in market demand. The drop in PPI gives the central bank some room to ease further although the easing is expected to be more targeted. Overall, the data remains on the softish side pointing to a gradual recovery. On the diplomatic side, China’s foreign minister Wang Yi said, “Current US policy towards China is based on strategic misjudgments that lack factual evidence and is full of emotional catharsis and McCarthy style paranoia.” On Wednesday, Mike Pompeo said the US would start a dialogue soon with the EU on ways to meet the China challenge. He went on, “Xi’s impact on the world is not good for free peoples and democracy loving people and the world will come together to respond to that." This would be an effective way to confront China.

GLOBAL MARKETS

- It seems that the gravitational forces of the swiftly moving Chinese markets are beginning to hold sway even over the normally skeptical, frugal German investor. The two main Chinese indices rallied 1.4% each today while tech-heavy & start up marketplace ChiNext added 3.5%.
- This was enough to add to market sentiment at least in Germany, where the DAX posted a 1.5% gain late in the session.
- In early US trading, the Dow is Flat, while the S&P and NASDAQ are up ¼% and ¾% respectively on that same rise in tech stocks. In a somewhat perverse move today, shares in Ford Motor Company dropped 1.0% despite reports that the firm's sales in China in the second quarter rose 3.0% over Q2 2019.the first year over year increase in 3 years.
- Despite relatively positive moves in equities, we continue to see demand for the ultimate safe haven—US Treasuries—even in the face of a glut in supply. Yesterday's auction of $29 Bln in 10-year notes at a record low "high yields" of just 0.653%, where it happens to be trading now. both of the closely watched yield curves—the 3-month/10-year, and the 2-year/10-year—are flat on the session at 49-bp and 50-bp respectively.

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