WEEKLY UPDATE

3. 2. 1. Stop…!

US lawmakers have been locked in intense negotiations for months about the size and focus of a new recovery stimulus bill. The original draft from the Democrat-controlled House of Representatives called for over $3,000 billion in new spending while the Republican-controlled Senate has been unwilling to go above $1,000 bn. Democrats are now aiming for around $2,000 bn but talks have ground to a standstill and Congress is now in recess until mid-September. Will the recovery bill ever see the light of day? And what would it mean for the economy and markets?

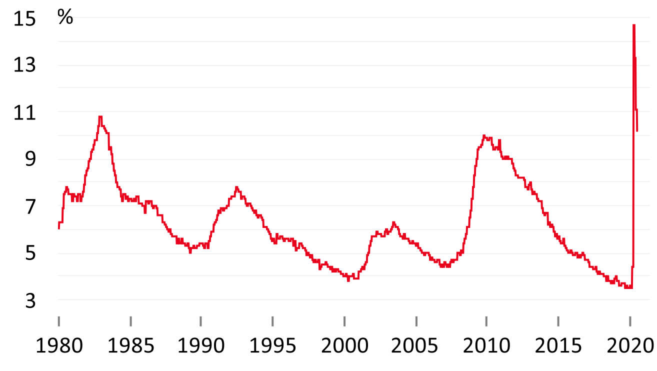
Recent economic data have highlighted that the recent wave of COVID-19 infections across much of the South and West of the country has begun to impinge on activity. The University of Michigan's consumer confidence index barely budged in August and remains well below February's levels. Regional business surveys by the Federal Reserve in New York and Philadelphia declined sharply in August. And initial weekly applications for unemployment benefits have bounced back over 1.1 million claims, cancelling last week's improvement. Moreover, the 28.3 million Americans who were receiving some sort of unemployment benefits at end-July have been hard hit in August – the extra $600 per week in benefits from the Federal Pandemic Unemployment Compensation scheme expired at the end of last month, leaving only State benefits which means a decline of over 60% in their incomes on average.

Against this backdrop, President Trump issued a flurry of executive orders on August 8. These include extra unemployment benefits of $400 per week for most claimants, 75% financed by tapping $44 bn from the Disaster Relief Fund, the remainder to be met by each State. However, the monthly cost of these benefits could amount to $40 bn, meaning it is unlikely that these payments will last more than a month. In addition, Trump ordered that employee payroll taxes be deferred until end-2020 for low earners (employer-side payroll taxes had already been deferred) to boost incomes for workers. However, these taxes will become due in 2021, meaning that workers and employers are likely to set the amounts aside so as to be able to meet next year's tax bills. Given that the President's initiatives are unlikely to provide lasting support for US households – if, indeed, they are actually implemented – much will ride on the ability of Congress to reach a compromise on the recovery bill. So far, the signs have not been encouraging.

When the House and Senate finally went into recess last week, both sides were adamant that it was now up to the other to make concessions. Moreover, little progress is likely during the two weeks of party conventions to formally appoint Biden and Trump as their candidates to contest the November 3 presidential election. This means that any breakthroughs in negotiations will have to wait until early September at best, perhaps after the Labor Day holiday on Monday September 7. And this would leave only a little more than three weeks until the end of the fiscal year on September 30 – if new spending legislation is not passed by then, the US might face a government shutdown in the run-up to the election.

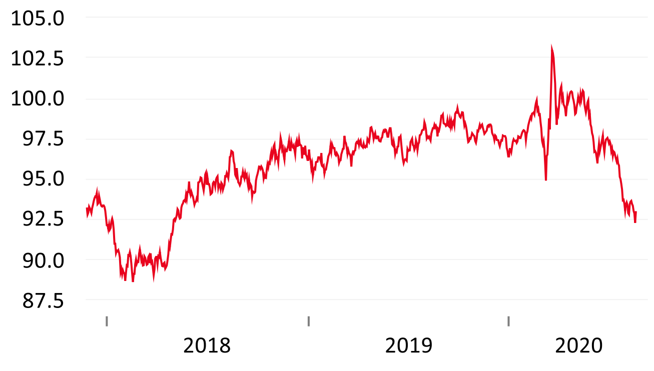
Bottom line. In our view, the US economy is exhibiting signs that a new stimulus package would be welcome. Moreover, both Democrats and Republicans agree that one is necessary – they only differ on its size and focus. In addition, neither side would relish being accused of forcing a shutdown as American voters head towards the polling booths. Thus, we expect a compromise deal to be struck by late-September. In the interim, markets could remain nervous and we would expect the uncertainty to continue to put downward pressure on the US dollar.

Unemployment remains above previous recession peaks
US unemployment rate, %



Sources: SGPB, Macrobond, data as of 21/08/2020

The dollar has weakened from its Spring highs
US dollar index – USD against major world currencies



Sources: SGPB, Macrobond, data as of 21/08/2020

Past performance should not be seen as a guarantee of future returns.

OUR MACRO COMMENTS

This week and next

EUROZONE

- Headline inflation came in at 0.4% YoY in July, up from +0.3% in June, while core inflation rose from 0.8% YoY to 1.2%. The highest contribution to inflation came from non-energy industrial goods and services.
- The flash composite PMI fell to 51.6 in August from 54.9 in July, disappointing market expectations. The shortfall was mainly driven by a sharp dip in services, as the fillip from ending lockdowns faded.

Next week's key events		*Per.*	*Prev.*	*Cons.*
28 Aug	Business Climate	Aug	-1.80	--
28 Aug	Economic Sentiment	Aug	82.3	--

UNITED KINGDOM

- UK headline inflation accelerated to the fastest rate in four months at 1.0% YoY in July from 0.6% in June.
- Retail Sales rose 3.6% in August, well ahead of forecasts taking sales 1.4% above August 2019's levels.
- The flash composite PMI for August surprised on the upside, hitting 60.1 after 57.0 in July. In contrast to the euro zone, gains were driven by services – the UK eased restrictions later than its neighbours.

Next week's key events		*Per.*	*Prev.*	*Cons.*
25 Aug	CBI Distributive Trades	Aug	4	--
21 Aug	Nationwide house price YoY	Aug	1.5%	--

UNITED STATES

- Initial jobless claims for the week ended August 15 rebounded from 971,000 to 1,106,000, well above expectations and suggesting that the job market has begun to lose steam.
- Regional Fed business surveys came in well below expectations. The New York Empire index fell to 3.7 in August from 17.2 while the Philadelphia report tumbled from 24.1 to 17.2.
- The NAHB housing market index showed a strong rebound in confidence in August while July housing starts hit almost 1.5 m units, close to February's levels.
- The flash estimate for the composite PMI hit 54.7 with both services and manufacturing surprising on the upside.

Next week's key events		*Per.*	*Prev.*	*Cons.*
25 Aug	Consumer Confidence	Aug	92.6	93.6
26 Aug	New Orders MoM	Jul	7.6%	3.3%

ASIA & EMERGING COUNTRIES

- Japan's GDP growth is estimated to have contracted 7.8% QoQ (-27.8% annualised) in the second quarter. This was the steepest quarterly decline in four decades, much more severe than the financial crisis, as the coronavirus pandemic emptied malls and crushed demand for cars and other exports.
- Taiwan's export orders in July rose 12.4% YoY, the fastest pace since January 2018, helped by robust demand for tech products and machinery.

Next week's key events		*Per.*	*Prev.*	*Cons.*
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Sources: DataStream, Bloomberg, 21 August 2020. Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Manager's Index.

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1.19	1.13
GBP/USD	1.32	1.26
EUR/CHF	1.08	1.08
USD/JPY	105.8	108.0
Brent	$44.9	$40
Gold (oz.)	$1947	$1800

NB no changes this week to our 3-month targets.

Forecast figures are not a reliable indicator of future performance.

MARKET PERFORMANCE

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-0.47 %	0 bp	→	-1 bp	-2 bp	-10 bp
3mth Euribor (EUR)	-0.49 %	0 bp	→	-23 bp	-11 bp	-7 bp
3mth Libor (USD)	0.25 %	-2 bp	↓	-13 bp	-166 bp	-190 bp
3mth Libor (GBP)	0.07 %	0 bp	→	-21 bp	-72 bp	-70 bp
10-year US Treasury bond	0.68 %	1 bp	→	-4 bp	-124 bp	-92 bp
10-year German bond	-0.47 %	-3 bp	↓	-1 bp	-29 bp	17 bp
10-year French bond	-0.19 %	-2 bp	↓	-17 bp	-31 bp	18 bp
10-year UK bond	0.24 %	0 bp	→	-1 bp	-59 bp	-23 bp

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0.2%	↑	4.5 %	0.6 %	-0.3 %
BAML EURO Corp HY	-0.1%	→	8.3 %	-2.3 %	0.6 %
BAML GBP Corp IG	0.1%	→	4.9 %	4.9 %	5.4 %
BAML US IG	-0.6%	↓	6.1 %	7.0 %	8.7 %
BAML US HY	-0.4%	↓	9.3 %	-0.1 %	3.9 %
BAML Global EM Sov. External Plus	-0.4%	↓	11.6 %	0.7 %	3.5 %

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1.18	0.5 %	↑	8.4 %	5.6 %	6.9%
EUR/CHF	1.08	0.8 %	↑	2.1 %	-0.2 %	-0.4%
GBP/USD	1.31	0.5 %	↑	6.9 %	-1.2 %	8.0%
USD/JPY	106.1	-0.7 %	↓	-1.5 %	-2.3 %	-0.5%
USD/BRL	5.56	2.3 %	↑	-3.4 %	38.3 %	36.4%
USD/CNY	6.92	-0.2 %	↓	-2.5 %	-0.6 %	-1.8%
USD/RUB	73.4	-0.4 %	↓	1.2 %	18.5 %	9.6%

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0.1 %	→	0.5 %	7.1 %	6.7 %
United Kingdom (3-7yr)	0.1 %	→	0.2 %	2.9 %	2.0 %
Germany (3-7yr)	0.1 %	↑	0.0 %	0.6 %	-1.7 %
Japan (3-7yr)	0.0 %	→	-0.2 %	-0.2 %	-1.2 %

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	572	0.2 %	↑	17.2 %	2.7 %	15.0 %
Eurostoxx 50	3 318	-1.4 %	↓	15.4 %	-9.4 %	1.2 %
DAX	12 977	-0.6 %	↓	17.2 %	-2.1 %	10.8 %
CAC 40	4 977	-1.9 %	↓	12.6 %	-15.1 %	-5.2 %
S&P 500	3 375	-0.1 %	→	16.0 %	5.8 %	17.7 %
FTSE 100	6 112	-2.3 %	↓	2.8 %	-17.1 %	-12.0 %
SMI	10 310	0.3 %	↑	5.6 %	0.3 %	8.5 %
Topix	1 614	0.5 %	↑	8.7 %	-4.9 %	10.8 %
IBOV Brazil	100 854	-1.2 %	↓	24.9 %	-12.8 %	1.4 %
MICEX Russia *	3 057	0.1 %	→	12.7 %	0.4 %	15.4 %
MSCI EM	1 099	0.5 %	↑	20.2 %	0.5 %	15.5 %
SENSEX 30 India	38 615	0.7 %	↑	28.7 %	-5.5 %	4.4 %
Hang Seng (H-K)	25 179	-0.2 %	↓	5.3 %	-8.4 %	-0.9 %
Shanghaï Composite	3 408	2.7 %	↑	17.6 %	11.7 %	18.2 %

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$45.4	-0.2 %	↓	30.6 %	-31.6 %	-23.6 %
Gold	$1 963	1.0 %	↑	12.9 %	29.1 %	30.8 %
Copper	$6 699	4.1 %	↑	25.8 %	8.9 %	16.6 %

Source: DataStream, on 19 August 2020.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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