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DE Morning Briefing Update

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U.S. ECONOMIC DATA AND EVENT OUTLOOK

Date	Time (EST)		Economic Indicator	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
			(Consensus Ests. in parentheses, Green = DE Above, Red = DE Below)							
Thu										
4/9	8:30 AM	Mar	Producer Prices, Total (%m/m)	0.3	-0.1	0.2	0.5	-0.6	-0.6 (-0.4)	
			Ex-Food-and-Energy (%m/m)	0.2	-0.2	0.1	0.5	-0.3	-0.1 (0)	
	10:00 AM	Apr P	Michigan Sentiment	95.5	96.8	99.3	99.8	101.0	89.1	76 (75)
			Inflation Exp, 1Yr (%)	2.5	2.5	2.3	2.5	2.4	2.2	*2.1*
			Inflation Exp, 5-10Yr (%)	2.3	2.5	2.2	2.5	2.3	2.3	*2.2*
	10:00 AM		**Powell Webcast Speech**							

Global Economy and Markets

- **The Federal Reserve announced another set of loans up to $2.3 trillion to support households and employers.** The main objective of the move was to encourage financial institutions to support more employers. Besides relieving strains on the current flow of credit, the Fed Chair Jerome Powell said the measures could help “ensure that the eventual recovery is as vigorous as possible.”

- **The Fed’s actions include:** (1) setting up the Paycheck Protection Program Liquidity Facility (PPPLF) to extend credit to banks originating PPP loans, (2) expanding the Main Street Lending Program by up to $600 billion, with $75 billion in equity from the Treasury under the CARES act; (3) expanding the PMCCP, SMCCP, and TALF to a total of up to $850 billion, backed by $85 billion in credit protection from the Treasury, and (4) establishing a Municipal Liquidity Facility (MLF) of up to $500 billion in lending to relieve cash flow stresses of the state and local governments.

- **Initial Jobless Claims surged another 6.61 million during the week that ended Apr. 4, with Continuing Claims jumping to 7.46 million.** Initial claims for the prior week was revised up to 6.87 million. California, New York, and Michigan led the surge in Initial Claims. The Insured Unemployment Rate rose to a 40-year high of 5.1% for the week that ended Mar. 28, compared to 2.1% during the prior week. The current level of claims translates to an unemployment rate well above 10%, probably slightly lower than 15%, for April.

- **Canada’s Employment plunged by 1.01 million in March, with the Unemployment Rate surging to 7.8% from 5.6% in February.** The Labor Force Participation Rate dropped to 63.5% from 65%. Job losses mainly stemmed from the Services Sector, with the Accommodation and Food industry eliminating nearly 300,000 positions in the month.

- Global markets rebounded on Thursday. The Euro Stoxx 600 rose 1.2%, the FTSE 100 gained 2.1%, and the DAX climbed 1.55%. The Nikkei edged down 0.04%, the Hang Seng rose 1.38%, and the Shanghai Composite increased 0.37%.

- The yield on 10-year U.S. Treasuries hovered around 0.76%. Gold surged to $1725 and the dollar index fell to 99.7. The WTI Crude Oil climbed to $26.2 and the Brent rose to $34.

U.S. AND GLOBAL REVIEW – WEDNESDAY

Fedspeak Returning with Potential Addition to the Current Toolbox

After rolling out a number of facilities to support the financial markets and businesses, FOMC members are finally hitting the road again, though virtually this time, to provide updates on the current economy. The Federal Reserve Chair Jerome Powell is slated to deliver an economic update on Thursday (Apr. 9) through a webcast. The Cleveland Fed President Loretta Mester will hold a virtual forum to discuss the U.S. economy and the coronavirus. More Fed speakers are scheduled to appear in the next week as well.

Besides the updated economic assessment and outlook, the market is expecting the Fed to signal whether they would consider the widely speculated "yield-curve control." From the minutes for the Mar. 15 FOMC meeting, the Fed is certainly well-prepared to weigh in if the Treasuries market requires stabilizing amid the ongoing and upcoming economic turmoil. Although they might refuse to call it yield-curve control, just like they insisted on not considering the unlimited asset purchases as a quantitative easing program, the FOMC is capable of keeping Treasury yields in a desirable range with no upper limit of the balance sheet.

A few FOMC participants also brought up "a relaunch of the Term Auction Facility to encourage banks to take up additional funding." Others suggested discouraging banks from buying back shares and paying out dividends to focus on supporting businesses and households instead of shareholders.

On a separate note, the Fed seemed to have been more optimistic about the economic outlook than the consensus estimates in the market. Several FOMC members did not expect the negative effects on activity to be as long-lasting as those following the financial crisis in 2007-2009. Nevertheless, the optimism noted in the minutes may be some version of informal forward guidance to inject confidence into the public and the financial markets. Moreover, their assessment was made before the federal and state governments extended and tightened the containment measures.

The bottom line is, the Fed will remain vigilant to do whatever needed for cushioning the downside risks.

Pandemic Policy Update: $250B More in Small Business Loans May Come This Week; Fourth Wave Stimulus Bill Likely in May (M. Cary Leahey)

While another large ($1 trillion) fourth wave stimulus package may not be pulled together until May, a "smaller" interim package may come as early as this week. This "interim" package will consist of $250B in additional small business lending requested by the White House in addition to the $350B allocated to the PPP (Paycheck Protection Program) in the $2.2 trillion third wave bill. Democrats may demand some string to be attached to ensure that funds go to certain underserved borrowers.

The PPP will run out of money soon, as much as $70B of the initial $350B has been accounted for in just three days of chaotic operation. This is already twice the amount the SBA handles in a boom year. Estimates made based on D&B data suggest that as much as $1.2 trillion in small business lending will be needed to pay for 80% of their three-month operating costs. The typical small firm has only a one-month cash reserve for a rainy day.

There is a chance that other items will be added to this relatively clean bill. One long overdue item would be a hero's fund to provide hazardous duty pay to the wide variety of workers who are actually working outside. The fund would pay such workers $25K annually and that $15K bonuses would be provided for health care and medical aids.

Another $1 trillion bill coming in May. Virtually every Congressmen knows another large bill is coming. The Democrats for weeks have been touting a $750B package which would have included extended UI benefits, utility and other fixed payment relief for low- and middle-income families, and additional aid to state and localities. A hero's fund would surely put the cost at well over $1 trillion. Some are skeptical that Congress will even reconvene on April 20 slowing down how fast another bill can be crafted. In addition, work on a major fourth bill will divert attention from proper execution of the already enacted third wave bill, which we think is more important priority in the next 30 days.

What about infrastructure? Democrats have long wanted to increase infrastructure spending and even included enhanced rural broadband and health care facilities in their version of the fourth wave package. While these are laudable goals, Republicans want to avoid a situation where the Democrats use a crisis to get things, they have long wanted that they would not get if things were "normal."

In any event, it is important to remember that infrastructure spending and finding is dominated by the state and localities. States and localities represent over 40% of the public infrastructure budget and nearly 65% if energy and telecommunications sectors (40% of the total) are excluded. And less than one third of state and local construction budget is financed by the Federal government in the form of grants-in-aid. Unless the Federal government is willing to pony up much more that their usual share, it will be up to the municipalities to finance the long-anticipated infrastructure boom. That means additional municipal finance, perhaps handled by a new (yet to be named) Federal Reserve facility. If corporate debt can be purchased by the Fed, why not municipal debt, especially if it is being used to Rebuild America?

Talk of a major increase in private sector participation, which has been a centerpiece of Republicans thinking for decades is likely to remain talk. If there were profitable public infrastructure programs lying around, the private sector would have already funded them. And many of the easy ones (like the Dulles airport access road) have already been cherry-picked long ago.

Elsewhere in the world:

- The World Trade Organization (WTO) estimated a 13%-32% shrinkage in international merchandise trade in 2020 due to the COVID-19 pandemic. Although the unprecedented halt in economic activity around the world brings considerable difficulty in accurately estimating the impacts on the global economy, it is widely accepted that the slump will surpass the one in the financial crisis in 2008-2009.
- Japan's Core Machinery Orders increased 2.3% m/m in February unexpectedly despite weakness in demand from China. Information and communication electronics, retail trade, and wholesale trade led the increase of orders, which could be related to stockpiling and work-from-home needs. The short-term upbeat figure, however, would not translate into higher capital expenditure in the coming months due to the virus-containment measures worldwide.
- The Bank of France estimated a 6% contraction in the French GDP during Q1. The bank also estimated the loss of activity in one week of confinement to be 32%; capacity utilization rate in factories were 56% in March, compared with 78% in February.