

U.S. ECONOMIC DATA AND EVENT OUTLOOK

Date	Time (EST)	Economic Indicator	(Consensus Ests. in parentheses, Green = DE Above, Red = DE Below)							
			Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	
Fri										
7/17	8:30 AM	Jun	Housing Starts (Thous)	1617	1567	1269	934	974	1150 (1180)	
			%m/m	1.9	-3.1	-19.0	-26.4	4.3	18.1 (21.2)	
	8:30 AM	Jun	Building Permits (Thous)	1536	1438	1356	1066	1216	1300 (1290)	
			%m/m	5.4	-6.4	-5.7	-21.4	14.1	6.9 (6.1)	
	10:00 AM	Jul P	Michigan Sentiment	99.8	101.0	89.1	71.8	72.3	78.1	81 (79)
			Inflation Exp, 1Yr (%)	2.5	2.4	2.2	2.1	3.2	3.0	2.7 (2.8)
			Inflation Exp, 5-10Yr (%)	2.5	2.3	2.3	2.5	2.7	2.5	2.5

Global Economy and Markets

- **Housing Starts rose to 11.9 Mil. in June from an upwardly revised 10.1 Mil. in May, in line with expectations.** Six-month average number of Housing Starts stayed at a relatively soft level after three consecutive plunges from February to April. Building Permits, on the other hand, climbed less than expected to 12.4 Mil. from 12.2 Mil. in the prior month. Previously, the NAHB Housing Market Index jumped to 72 in July from 58 in June, underlining the optimism in the Housing Sector as mortgage rates dipped below 3% this week.
- **The Eurozone Harmonized Index of Consumer Prices (HICP) grew 0.3% YoY in June (DE 0.3%), marking a rise from the annual rate of 0.1% in May.** The Food, Alcohol and Tobacco and Services categories were the two major contributors to June inflation. At the monthly level, CPI grew 0.3% for June (DE 0.3%) after a 0.1% contraction in the prior month. Excluding Energy, Food, Alcohol and Tobacco prices, HICP grew 0.8% YoY in June, down from 0.9% in May. The key takeaway is that inflation is still well below the 2% target. (Rohan Kumar)
- **The EU Summit began today. EU leaders will negotiate details regarding the large-scale fiscal recovery plan.** Any releases noting real progress towards a deal could give markets a burst. Luis de Guindos, Vice President of the European Central Bank, mentioned earlier today that he believes there could be a deal by the end of July. (Rohan Kumar)
- Global markets were mixed on Friday. The Euro Stoxx 600 edged up 0.01% and the FTSE 100 advanced 0.51%. The Nikkei declined 0.32%, the Hang Seng rebounded 0.47%, and the Shanghai Composite recovered 0.13%.
- The WTI Crude Oil hovered around \$40.6 and the Brent Crude Oil fell to \$43.1. The yield on 10-year U.S. Treasuries moderated to 0.60%. Gold stabilized above \$1800 and the dollar index slid to 96.1.

U.S. AND GLOBAL REVIEW – THURSDAY**June Retail Sales: Substantial Rebound (Rohan Kumar)**

Retail Sales rose 7.5% MoM in June (DE 6.1%; Consensus 5%) after an 18.2% rise in May. In year-over-year terms Retail Sales grew 1.1%, which marked the first positive YoY rate since February. Ex-Auto, the indicator increased 7.3% MoM (DE 2.3%; Consensus 5%) following the 12.1% gain in the prior month. **Removing both Auto and Gas, Retail Sales improved by 6.7% MoM** after a 12.1% rise in May.

Details

- Retail Sales from April to June showed an 8.1% contraction compared with the same period in 2019.
- Sales of Motor Vehicles and Parts rose 8.2% MoM for June, following the 48.7% MoM rise in May. Gas Station sales posted a 15.3% MoM gain.
- Furniture-related sales improved 32.5% MoM, while sales at Electronics and Appliance stores rallied 37.4%.
- Sales for Food Services and Drinking Places rebounded 20% MoM for June but were still down 26.3% YoY due to the collapse during lockdown. Meanwhile, sales at Food and Beverage stores fell 1.2% MoM yet were still up 12.4% YoY.
- Clothing-related sales surged 105.1% MoM and sales at Department Stores rose 19.8% MoM. Regardless, the two categories were down 23.2% and 10.6% YoY because of severe prior reductions.

Perspective

Retail Sales in June rose more than DE or Consensus anticipated. The release marks the second consecutive rise after severe contractions in March and April. Stores started to reopen in May and continued to do so for much of June. That gave consumers more channels for spending, and as public health and economic stability increased in May and June consumers actually used those channels.

In June, the indicator finally grew at a positive YoY rate which indicates Retail Sales has essentially recovered to pre-Pandemic levels. However, it is still possible that some of the rebound was due to pent-up demand. Also, future business restrictions and resulting economic harm could make Retail Sales stagnate, so there is ample reason to remain critical about the true pace of the recovery.

Economy Back in Business, Q2 GDP Show Strong Recovery (Lu Yu)

China's 2Q GDP growth returned positive at 3.2% YoY from 6.8% YoY contraction in the first quarter, higher than the market expectation of 2.4% YoY and registered a quarterly gain at 11.5%, **signaling China's economy bounced back strongly in 2Q**. Significant recovery in manufacturing output weighed on the resumption of economy in 2Q GDP, whereas limited improvements on consumption and soft investment continued to drag economic recovery.

June activity packed with mixed performance. **Industrial Production** continued to grow as expected by 4.8% YoY, recorded a second straight month high since December 2019. **Retail Sales** still struggled in negative territory with a narrower contraction of 1.8% YoY from -2.8% YoY in May, whereas the market projected it to be positive. **Urban Fixed Asset Investment** shrank 3.1% in the first half year of 2020, less than the drop of 6.3% in the first five months.

More Details

- All industry output reversed back to expansion in 2Q from contractions in 1Q, with Second industry output rebounded most at 4.7% YoY from -9.6% YoY, primary and tertiary industry grew by 3.3% YoY and 1.9% YoY, respectively.
- Manufacturing Output remained flat at 5.1% YoY from 5.2% YoY, with mining rose 1.7% YoY, and power supply surged 5.5% YoY from 3.6% YoY.
- Private Fixed Asset Investment maintained shrink 7.3% YTD YoY, narrowed contraction from -9.6% in prior month, whereas public investment momentum back to gain 2.1% YTD YoY, registered the first positive rate in 2020.

- Labor Market remained tight, but less severe as jobless rate edged down to 5.7% in 2Q from 5.9% in 1Q.

Bottom Line

China's economy has shown strong recovery, thanks to the step-up of business and production resumptions with strict control of the pandemic amid a global recession. The momentum production encourages an optimistic outlook on the second half year economy growth, together with a supportive bullish stock market. However, high unemployment rate is still a major concern, which stressed to hold back consumer spending due to the still weak external demand. A wary of risks of second wave infections may keep slow recovery in spending and investment, making them non-negligible drags of real economy. **It is challenging to sustain the economy growth**, under the pressure of weak job market and soft investment, as well as the escalated tension with U.S.

Looking ahead, GDP growth is likely to remain momentum up in 2020. **DE forecasts the GDP to grow strongly in 2020, with Q3 and Q4 projected to be 5.6% YoY and 5.9% YoY on yearly change.**

Elsewhere in the world,

- Jobless Claims rose 1.3 Mil., slightly more than expected, in the week ending Jul. 11. Continuing Claims declined to 17.34 Mil. in the week ending Jul. 4 from 17.76 Mil. as employers rehired workers back. The Labor Market will likely recover very slowly amid persistent Pandemic concerns.
- Philadelphia Fed Business Outlook Index moderated less than expected, down to 24.1 for July from 27.5 for June. Delivery time shortened, reflecting eased disruption in the supply chain. New orders and shipments continued to increase, suggesting further recovery in demand.
- The European Central Bank announced that interest rates will stay steady (DE and Consensus unch.). The Main Refinancing Operations, Deposit Facility and Marginal Lending Facility rates will remain at 0%, -0.5% and 0.25%, respectively. Rates will stay low until inflation gets close to the 2% target. (Rohan Kumar)
- The UK employment release showed that Payroll Employment contracted by 649,000 between March and June, with most job losses before June. The Claimant Count, or number of people receiving unemployment benefits, fell by 28,100 in June (DE +100,000) after rising 566,400 in May. The June figure came as a surprise, but it's important to note that the total Claimant Count of 2.631 M is still very high. The takeaway is that the Pandemic shook the labor markets, but that the rate of contraction was less severe in June. (Rohan Kumar)
- The UK's three-month Unemployment Rate for May remained at the April level of 3.9% (DE and Consensus 4%). Although many people lost jobs, many also stopped looking for jobs thus keeping the rate steady. The three-month Average Weekly Earnings figure contracted 0.3% YoY for May (DE 0.7%; Consensus -0.3%) after a 1% YoY rise in April. (Rohan Kumar)
- Yesterday, the Bank of Canada (BoC) decided to maintain the benchmark interest rate at 0.25% (DE and Consensus 0.25%). This came as no surprise, and rates should stay low for at least a year, as inflation is still well below the target. The BoC projects GDP to contract 7.8% for 2020 and then rebound 5.1% in 2021. (Rohan Kumar)