

**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
<b>Wed</b>									
7/29	8:30 AM	Jun	Goods Trade Balance (\$B)	-65.6	-58.9	-64.9	-70.7	-75.3	-72.5 (-75.2)
			Wholesale Invent. (%m/m)	-0.6	-0.7	-1.1	0.2	-1.2	-0.3 (-0.4)
			Retail Invent. (%m/m)	0.0	-0.3	1.1	-3.8	-6.2	0.3 (-1.5)
	10:00 AM	Jun	Pending Home Sales (%m/m)	5.3	2.3	-20.8	-21.8	44.3	14.2 (14.5)
	2:00 PM		FOMC Rate Decision	DE and Consensus: Hold the federal funds rate at the 0%-0.25% range until the U.S. economy is on track to recover steadily.					

**Global Economy and Markets**

- **U.S. Goods Trade Deficit contracted more than expected in June, down to -\$70.6B from -\$75.3B in May** (DE -\$72.5B; Consensus -\$75.2B). Exports of Goods picked up 13.9% MoM, more than the 4.8% MoM increase in Imports. Auto Exports and Imports more than doubled the levels in May respectively, but were still considerably lower than pre-Pandemic levels. Imports of Industrial Supplies declined 19.2% MoM following a 5.5% rebound in the prior month.
- **Wholesale and Retail Inventories declined for the second straight month in June.** Wholesale Inventories dropped 2% MoM following a 1.2% decrease, and Retail Inventories declined 2.6% after a 6.2% plunge. Lower Inventories weighed on real output in the quarter. Looking ahead, Inventories will likely continue to trim in Q3.
- **In the UK, there were 40,000 New Mortgage Approvals in June (DE 25,000), up from 9,300 in May. The May figure was the lowest of the Pandemic, and the latest release suggests a considerable rebound.** Back in February – before the collapse – there were 73,700 Approvals. Net Mortgage Lending in June totaled to £1.9 billion, compared with £1.3 billion in May, but was still far below pre-Pandemic levels of over £4 billion. (Rohan Kumar)
- **French Consumer Confidence fell slightly to 94 in July, from 96 in June, and remained below the long-term average of 100.** To put that into perspective, the indicator read 103 in March and the trough of the Pandemic was at 93 in May. Fears of Unemployment are still high, and consumers' intentions to save over the next year increased substantially. (Rohan Kumar)
- Global markets were generally up on Wednesday. The Euro Stoxx 600 rose 0.09% and the FTSE 100 climbed 0.19%. The Nikkei plunged 1.15%, the Hang Seng jumped 0.45%, and the Shanghai Composite surged 2.06%.
- The WTI Crude Oil edged down to \$41.4 and the Brent Crude Oil hovered around \$43.7. The yield on 10-year U.S. Treasuries fell to 0.58%. Gold stabilized around \$1960 and the dollar index further softened to 93.6.

**Rates on Hold As FOMC Weighs Unconventional Tools and Reassesses Outlook**

The FOMC is expected to hold all policy levers unchanged (DE and Consensus) in the upcoming meeting, but Chair Jerome Powell should give an updated assessment of the economy during the press conference on Wednesday afternoon.

Chair Powell is expected to provide a clearer forward guidance—clarifying what economic conditions the Committee deems necessary before even considering raising interest rates. More detailed plans for future asset purchases are expected to emerge as well. The FOMC is expected to consider changing the composition of its securities purchases to better support the economy.

Besides, the Committee will likely discuss more about yield curve control after previous Fed Chairs Ben Bernanke and Janet Yellen said it could help during a hearing in Congress. Although Chair Powell has been very cautious when asked about possibly adopting yield caps, the persistent uncertainty surrounding the outlook may push the FOMC to consider this option more seriously.

## U.S. AND GLOBAL REVIEW – TUESDAY

### Consumer Confidence Takes a Hit (July) After Prior Gains (Rohan Kumar)

The **Conference Board Consumer Confidence Index fell to 92.6 in July** (DE 97; Consensus 94.7) from 98.3 in June. The contraction, which came after improvements in the prior two months, was due to **significantly worse Expectations**.

Uncertainty regarding the Pandemic is clouding consumers' projections of the labor market and the economy as a whole.

### Data Details – Fall in Expectations Masks Present Situation Recovery

- The **Expectations Index tumbled from 106.1 to 91.5** after gains in three straight months. Meanwhile, the **Present Situation improved for the second time in a row, rising from 86.7 to 94.2**.
- Of respondents, 31.6% expect business conditions to improve over the next six months – a considerable drop from 42.4% in June. Meanwhile, 19.3% expect business conditions to worsen, up from 15.2%. **The majority of respondents anticipate stagnation, as 49.1% said conditions will stay the same** compared with 42.4% in the prior month.
- On the employment front, 20.3% anticipate fewer jobs compared with 14.4% in June. Concurrently, the share of respondents expecting more jobs fell from 38.4% to 30.6%.
- The rise in the Present Situation Index was largely due to **respondents shifting their current assessment from “bad” to “normal.”** Some labor market gains also paved the way as 20% of those surveyed viewed jobs as “hard to get,” down from 23.3%.

Chart 1



Sources: The Conference Board, Decision Economics, Inc. (DE)

### Perspectives – Consumer Spending Could Halt

The Recovery has made considerable gains, with labor markets somewhat strengthening. That said, the Pandemic resurgence is making consumers rather wary about the next six months, and this uncertainty silences the improved Present Situation.

The **fall in Confidence came predominantly for households making at least \$50,000**. This is rather bearish for consumer spending. Uncertainty incentivizes saving over discretionary spending, and this is especially true for higher-income households.

For a strong Recovery the high-income group needs to spend more, but this is hard to imagine considering the falling Confidence.

- U.S. lawmakers continued to negotiate the next fiscal stimulus after Senate Republicans presented their \$1 trillion plan on Monday afternoon. In GOP's plan, the \$600 weekly Unemployment Benefits top-up will be slashed to \$200 per week until states can work out a mechanism to provide 70% of workers' previous wages.
- Other components of the plan are largely expected, including (1) a second direct payments of \$1200, (2) aid to school of \$105 billion, (3) extension of the Paycheck Protection Program with \$60 billion additional forgivable loans to eligible small businesses, (4) liability protection for businesses, schools, and other organizations.
- The European Central Bank (ECB) asked banks to pause shareholder payouts for another quarter, at least until January, and "to be extremely moderate with regard to variable remuneration." The ECB said the freeze on dividend and share buybacks was a trade-off for regulatory relief it granted the banks amid the Pandemic. This extension reflected prolonged and heightened uncertainty regarding the outlook.
- Japan's Capital Spending for Q1 was revised down to 0.1% YoY from 4.3% YoY in the preliminary release. Capital Spending Ex Software was revised down to -1.4% YoY from 3.5% YoY. Company Sales shrank 7.5% with Company Profits contracting 28.4%. The broad downward revision was caused by

an unusually small sample used for the initial release. As a result, GDP figure for Q1 is expected to be revised down in the final release.

- In the UK, the CBI Distributive Trades Survey Diffusion Index increased to 4 in July from -37 in June. This indicates that in July, a larger share of Retailers cited sales growth from a year ago than the portion noting reductions. The rebound was spurred by a year-over-year increase in Grocery Sales and less severe contractions for Non-Essential Retailers. The improvement in the indicator is bullish for consumer spending. (Rohan Kumar)