

May 2020: COVID Lockdowns Easing

Nearly all 50 states partially reopened from COVID lockdown by the end of the month. While consumer demand picked up somewhat, states found offices, bars, and restaurants continued to operate well below new capacity guidelines. People remain cautious about returning to normal. The US, Europe, and Australia called for an independent international investigation into the origins of the virus. Federal Reserve speakers signaled the Fed has more tools in its policy toolkit, including yield curve control, to complement other policies.

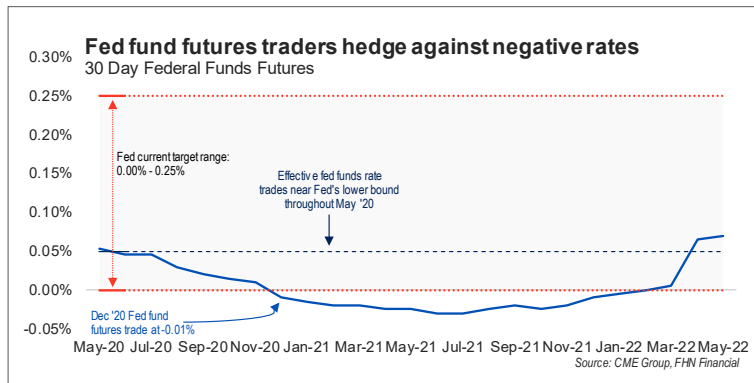
US-China tensions escalated. China passed the Hong Kong security law and the US removed Hong Kong's special trade status. China instructed state-owned enterprises to stop buying US agriculture. President Trump threatened to scrap the China phase one deal if China fails to meet import targets, though Secretary Mnuchin and Vice Premier Liu He said both sides are committed to the deal. Still, neither side is backing down from threats. The US may delist Chinese firms from US markets citing disclosure failures, after intensifying Huawei sanctions. The S&P rose 175 points to close above 3000, while 10-Year Treasury yields continued to trade sideways.

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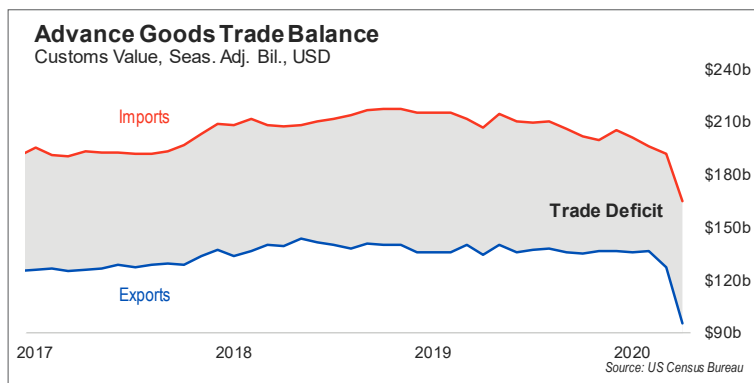
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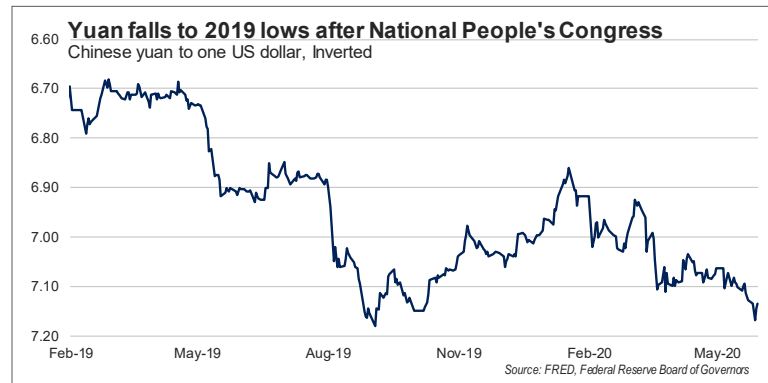
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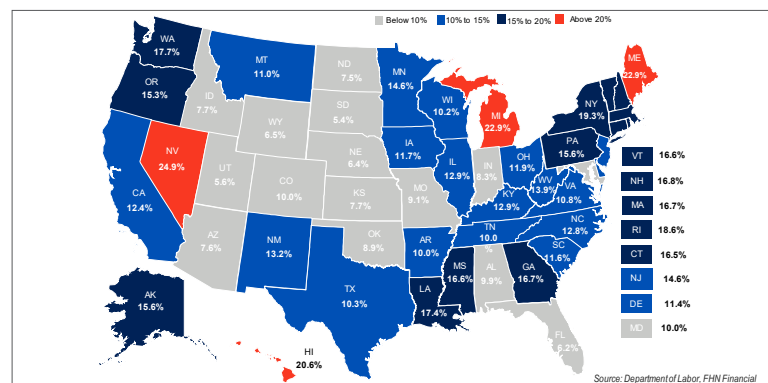
Through the month, Chair Powell emphasized unanimous FOMC opposition to using negative rates. Still, Fed fund futures and Eurodollar markets reflected traders' skepticism, as both priced increasing risk of negative yields. Lorie Logan, the Fed's SOMA manager, reassured participants the effective rate is not likely to fall below the Fed's zero lower bound, according to FOMC minutes.



April's advance estimate of trade in goods showed exports plummeted \$32.3 billion, or 25.3%, to \$95.4b. Despite negotiations to narrow the trade deficit, it has expanded by \$10.8b since COVID lockdowns to -\$69.7b. Imports fell 14% m/m, or \$26.8 billion, to \$165.1b.

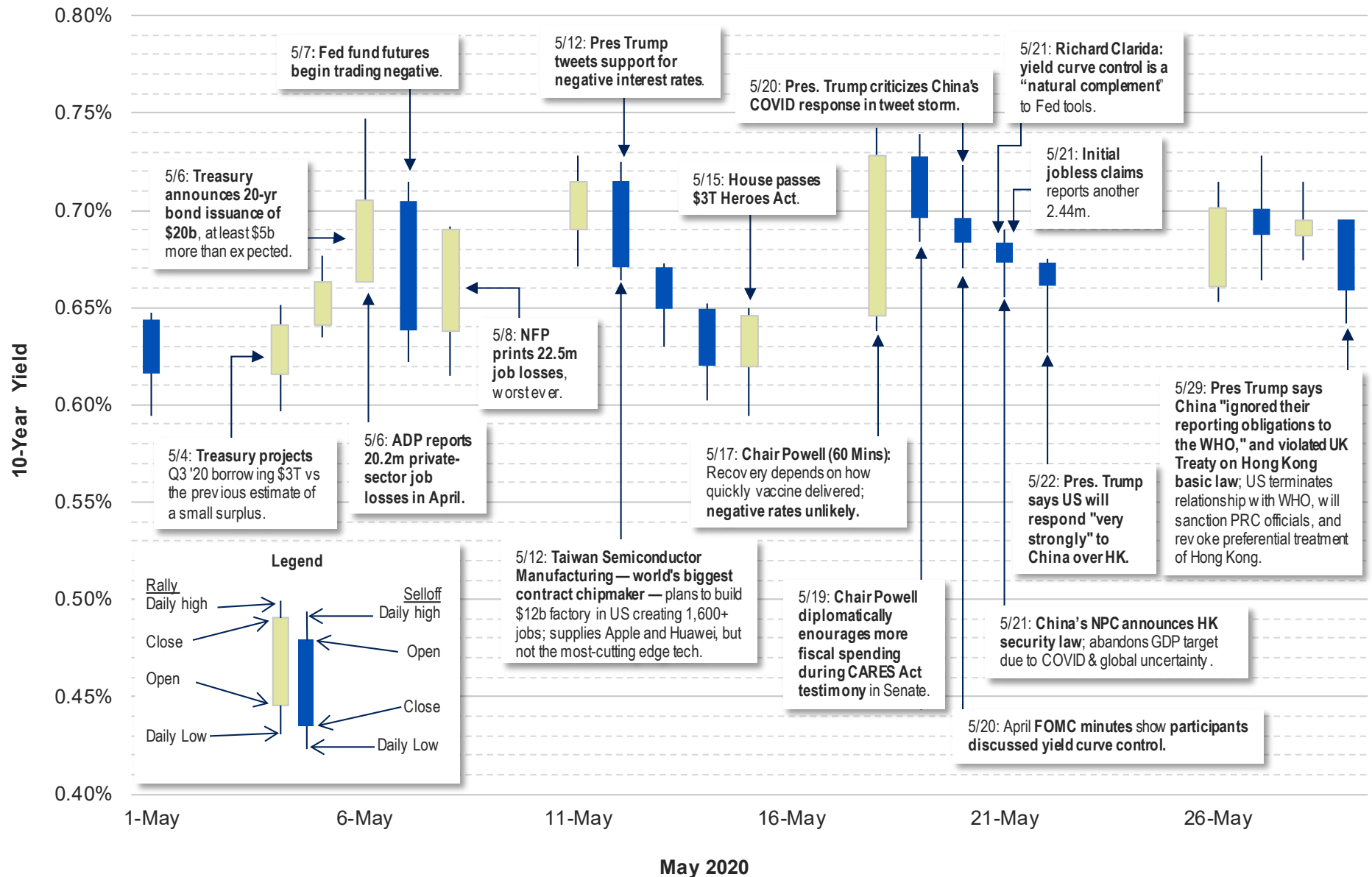


China's yuan tumbled after Premier Li Keqiang told delegates of the National People's Congress China will not target GDP in 2020 due to COVID and trade uncertainties. China raised military spending 6.6% y/y, or to roughly \$180b, and announced support for a sound legal and enforcement safeguarding Hong Kong's national security. The news unnerved international investors and President Trump who revoked Hong Kong's special trade status.

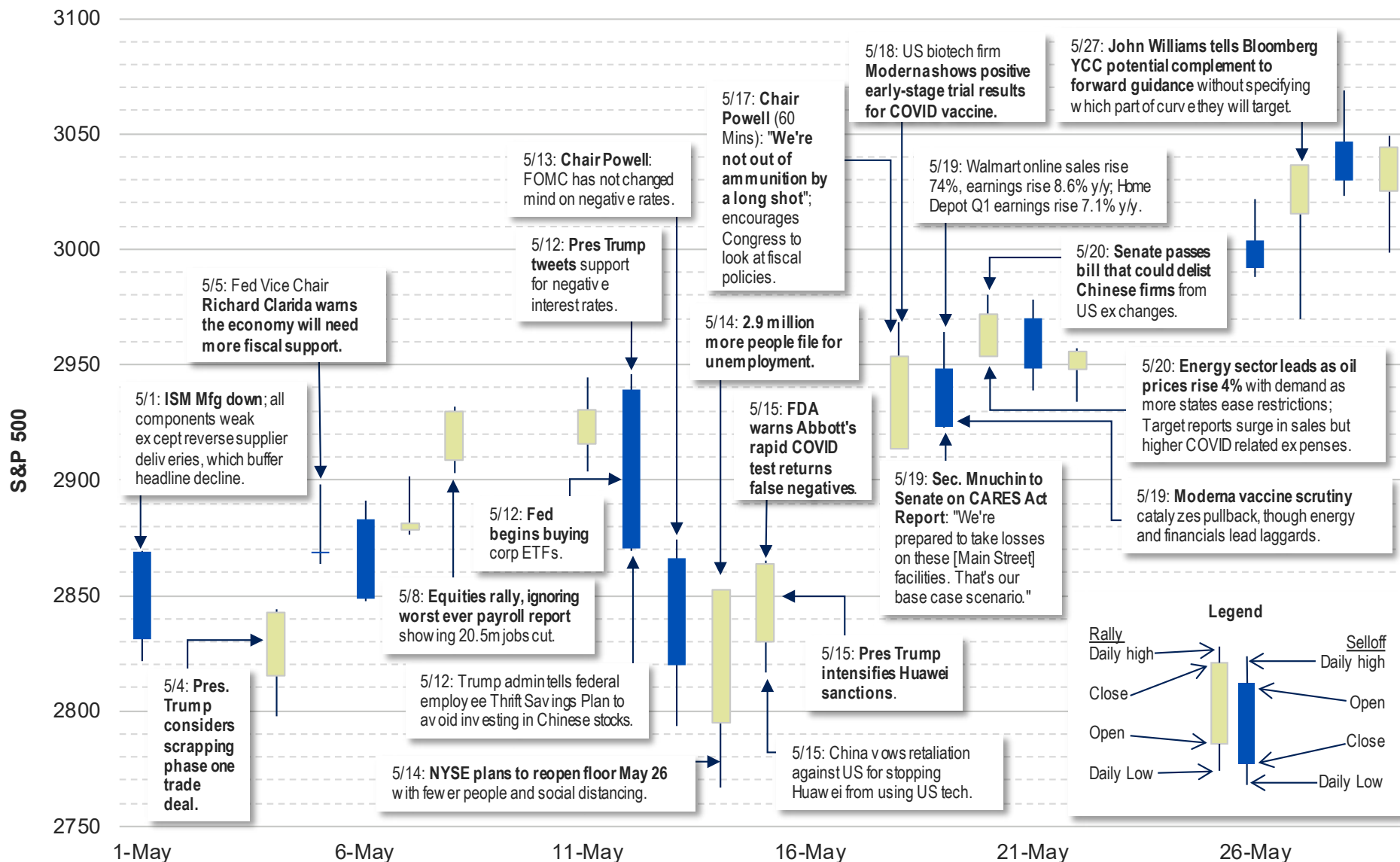


In May, over 12.3m Americans filed for unemployment. Since lockdowns started, 42.6m applicants filed for unemployment insurance, which takes the implied national unemployment rate to 27.3%. States with relatively low unemployment rates, such as Utah, S. Dakota, and Wyoming, either had [workers returning to work](#), mixed [industries](#) that include agriculture jobs, or substantial [drops in the state labor force](#) before COVID hit.

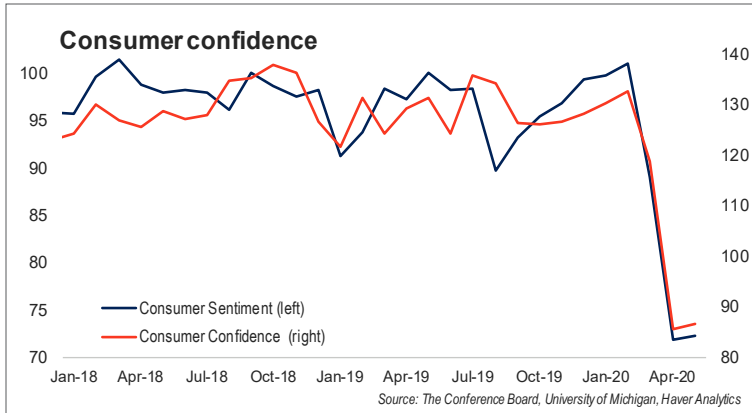
Market-Moving Events: 10-Year Treasury



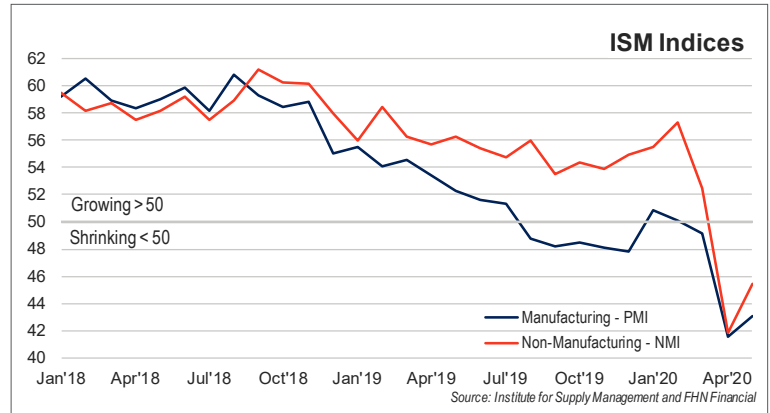
Market-Moving Events: S&P 500



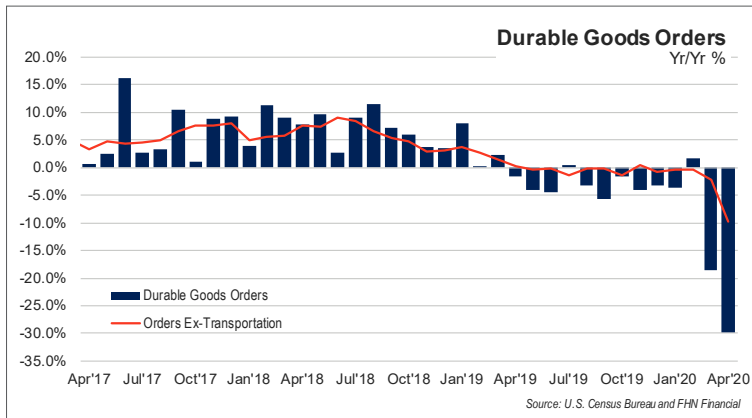
Data Watch: Key Economic Indicators



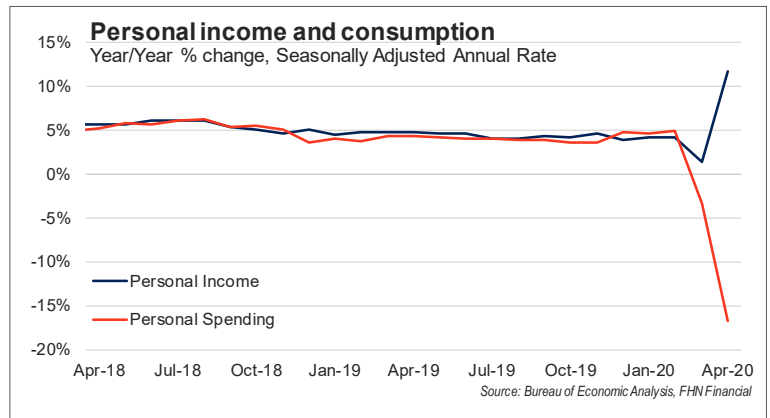
May's consumer sentiment and confidence surveys remained relatively flat. The sentiment survey's slight optimism reflects the boost consumers received from stimulus in the CARES Act. The confidence survey reflects consumers expecting a slight improvement in business conditions in the months ahead.



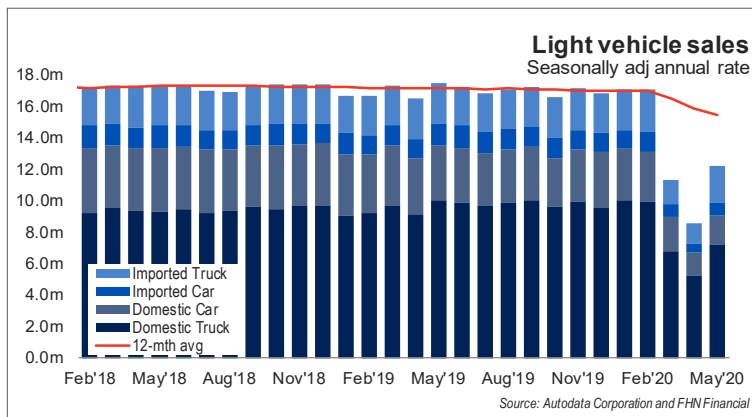
May's ISM Manufacturing rose from 41.5 to 43.1. Three of five components rose from contraction levels in the high 20s to contraction levels in the low 30s. Non-Manufacturing NMI rose from 41.8 to 45.4, signaling slower contraction as the economy reopens. Business activity jumped 15 points to 41.0.



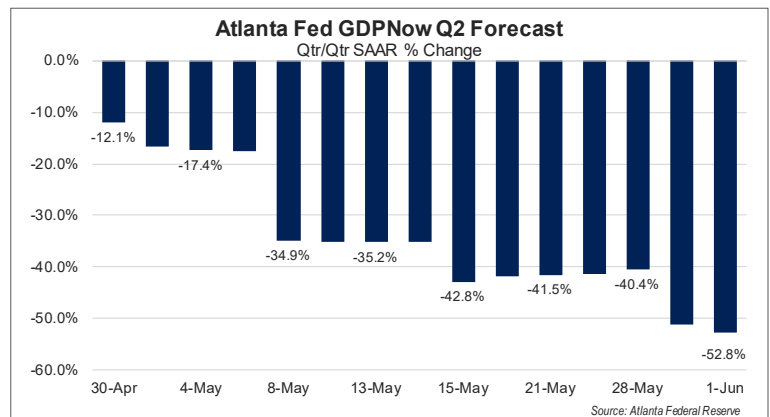
April's durable goods orders plunged 17.7% m/m and 29.8% y/y to \$168.7b. Transportation equipment led the drop with a 48.3% decline over March. Aircraft and parts were reported as -\$4.6b, suggesting more Boeing orders were cancelled as airlines chose equipment cuts over staff level cuts.



April's personal income rose 10.5% m/m, its largest ever rise due to \$3Trn government transfers to households. The CARES Act added \$300b in direct economic payments, and tax rebate distributions and reductions account for the rest. Consumption collapsed 13.3% m/m — the most ever — or nearly \$2T.



May auto sales rebounded from April's 8.6m to a 12.17m annualized pace. (Consensus was 12m.) Retail buyers returned "by about 86%," according to Bob Carter, Toyota's EVP of sales for N. America. Carter told [CNBC](#), "fleet commercial buyers," such as rental car companies, have returned by about 20%.



The Atlanta Fed's GDPNow forecast has been tracking a 52.8% annualized q/q contraction in Q2, led by a 58.1% ann. q/q drop in consumption. The model plugs in data as it is released. They have essentially all of April's data incorporated, without the May/June reopening data. Hopefully, the revisions will start going the other way soon.

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