# What to focus on in Global Macro for the week of April 13th, 2020

## Macro Themes on the Radar:

Global Monetary and Fiscal authorities continue the deluge of liquidity and support programs. Markets have started to rally; "Don't fight the Fed" is back.

The size and scope of the support have been unprecedented. For the most part, all these programs are focused on restoring liquidity to markets and insuring the access and flow of credit.

I would point out that for the most part the programs are loans or payment postponements and will need to be repaid at some point. Yes, there is the $1,200 payment to eligible consumers and the Paycheck Protection Program that is designed as a transfer payment via small businesses to employees, but these are the exception. It remains to be seen if more debt for companies and consumers is a sustainable answer to the large productivity shock we have seen. As a recent Brookings Institute piece said: "Financial stabilization policies can provide liquidity to prevent unnecessary insolvencies. But a longer-term solution to the economic costs of the coronavirus has to involve fiscal transfers, with a solution for how to share across society the costs of this pandemic."

Unless we get more direct payments to consumers and small businesses thereby mutualizing the lost cash flow, the legacy of the pandemic will be that consumers and companies end up with a lot more debt than when this started. That is bad for growth going forward.

Taking the mutualization path would reduce private debt exposure, but of course balloon already skyrocketing government deficits and debt even further.

Bonds should hate this, but they don't. If they can't go down because of QE buying, then another valve will be used by the markets to relieve the pressure.

Either way, there will be more debt globally going forward.

Sudden economic shocks like this tend to accelerate already existing trends. Government deficits and debt have been rising for the last two decades and accelerating since the GFC. Now they are exploding.

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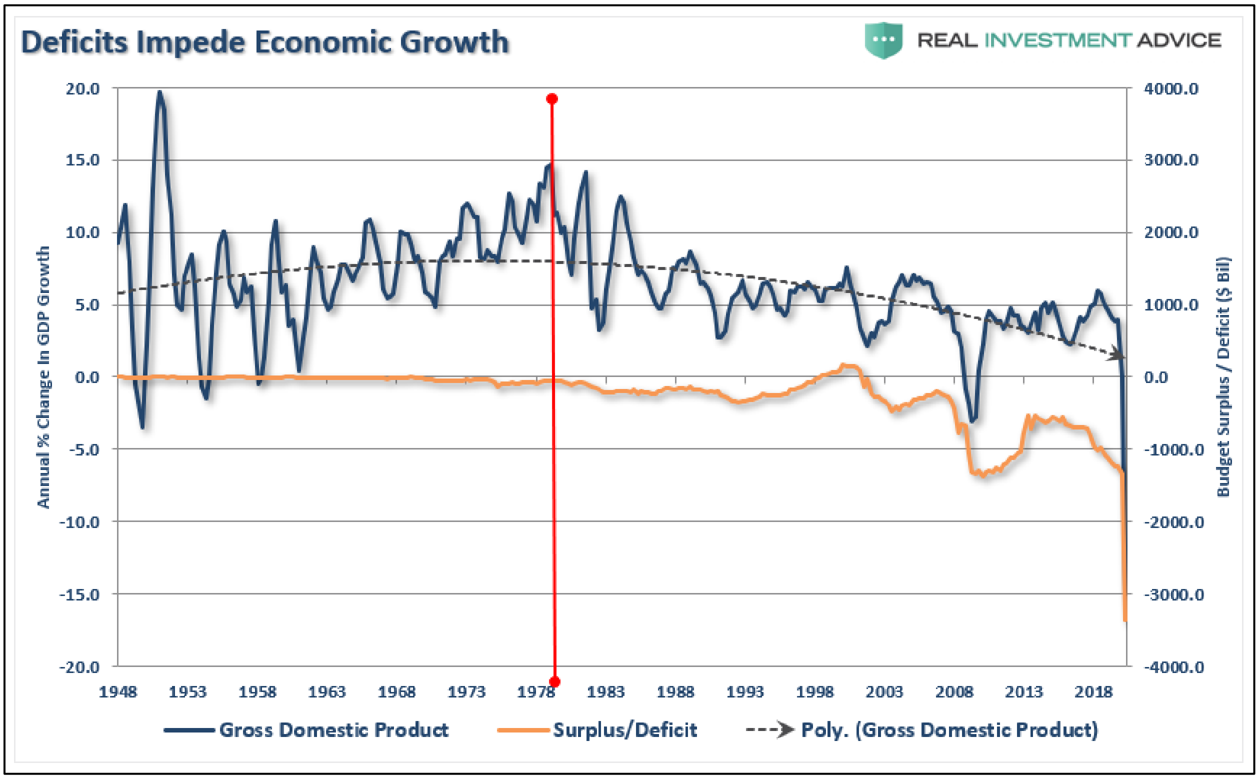
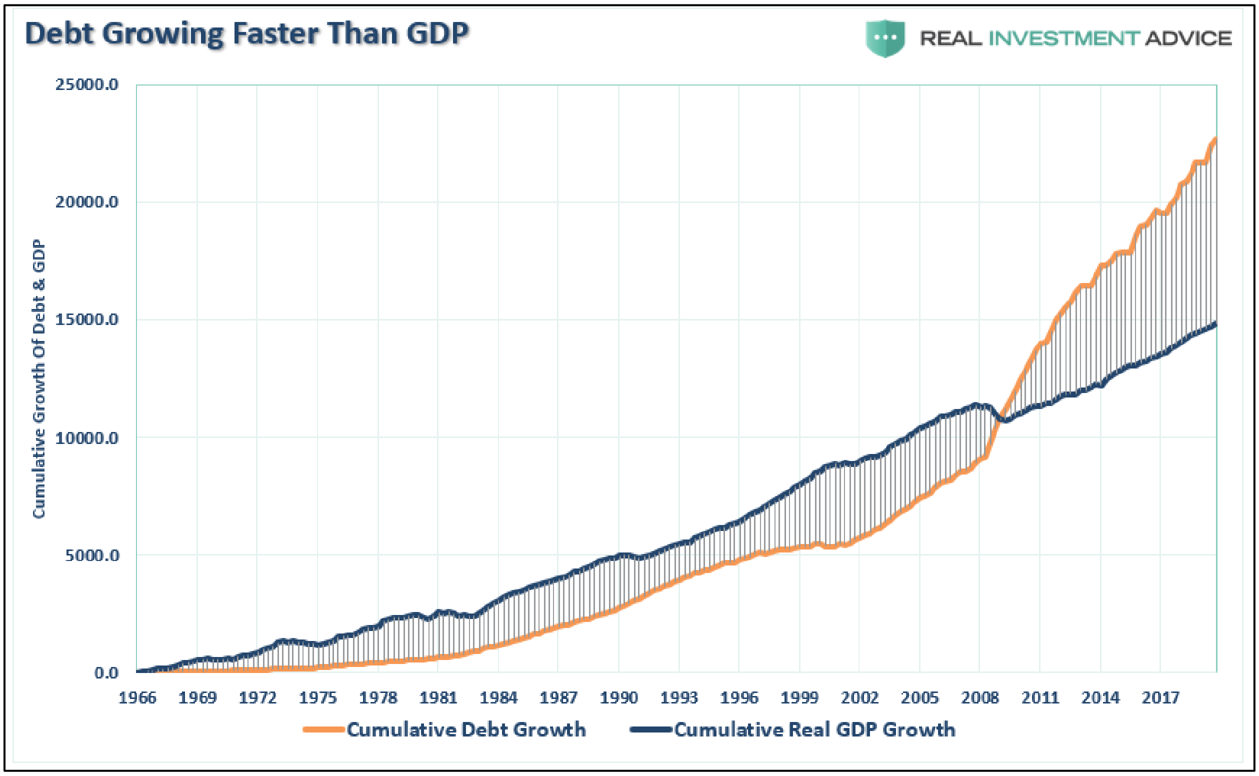
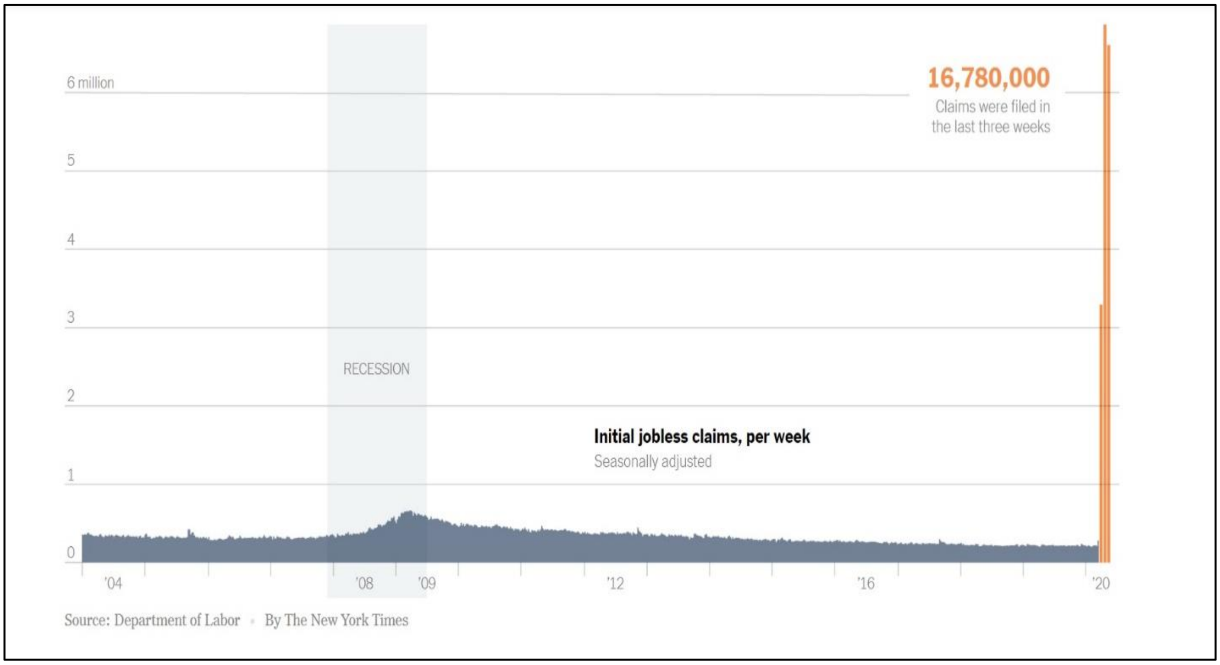
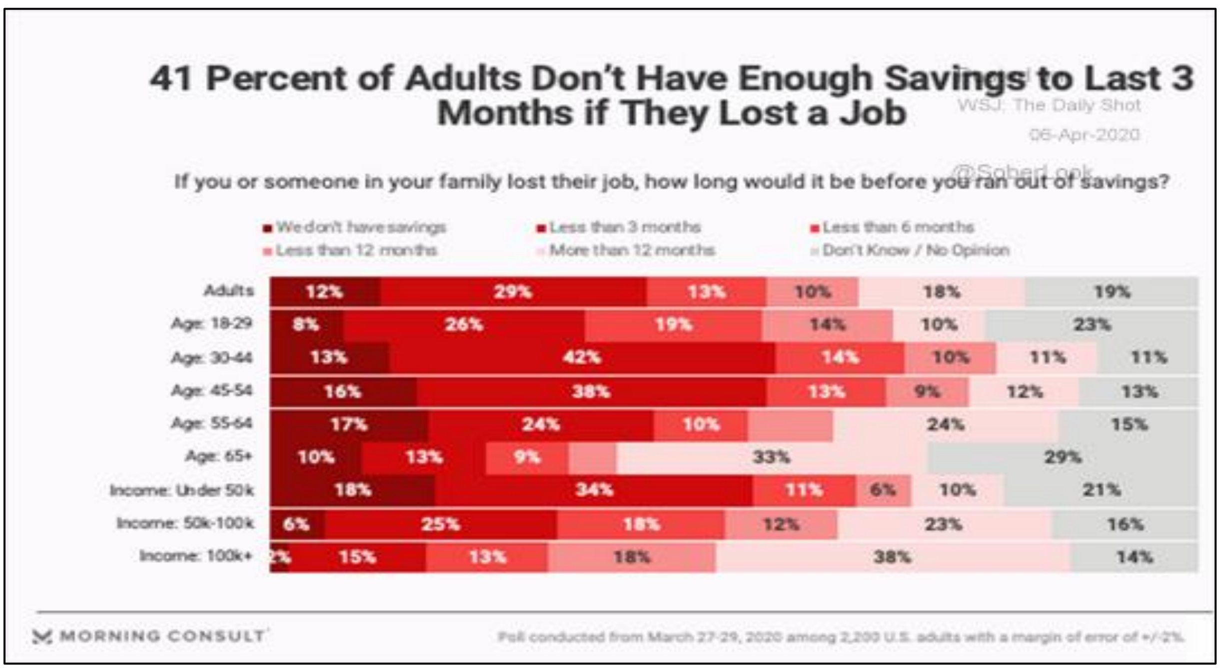


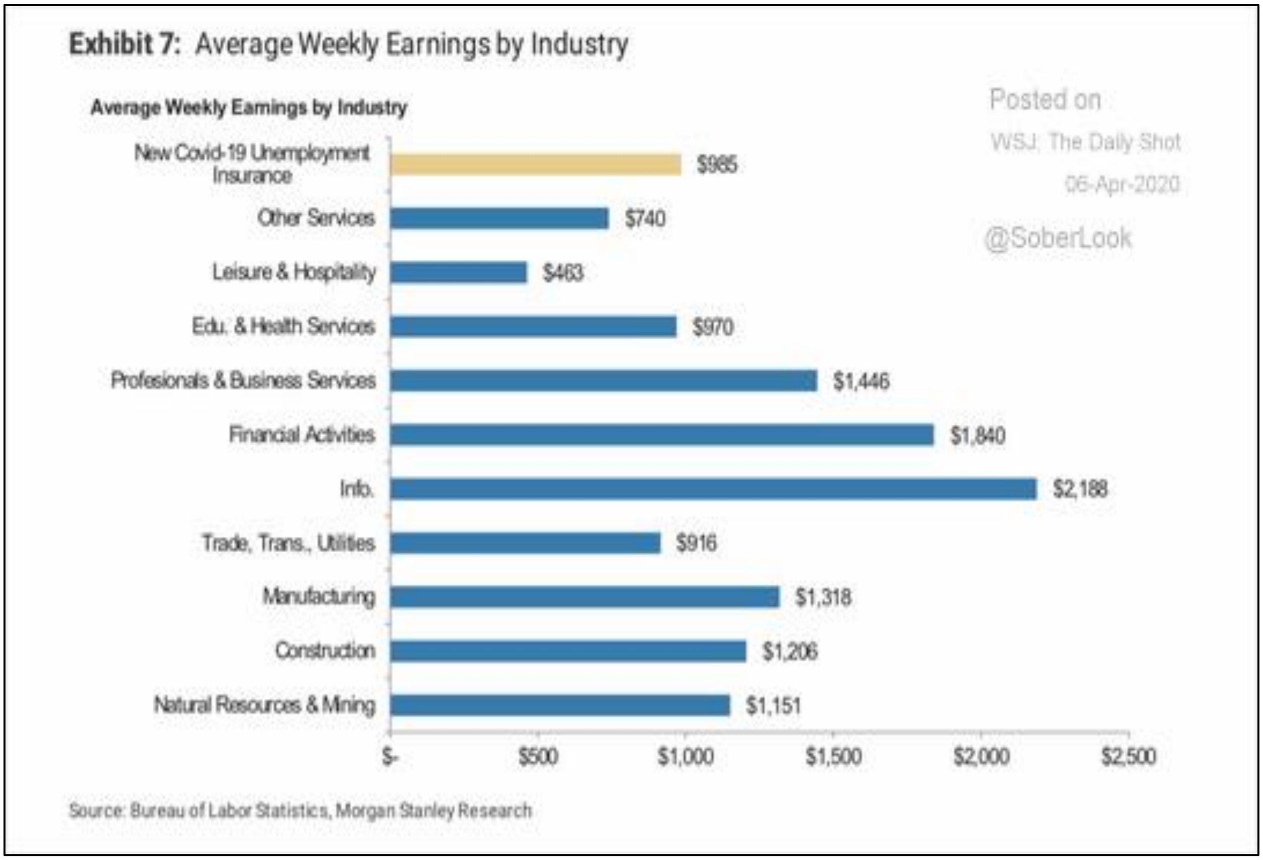
As the shutdown has taken hold, the jump in Initial Claims for Unemployment has been breathtaking.




The bad news is that a lot of people in the US don't have much of a buffer…



The good news is that at least some of those losing their jobs are well covered by the enhanced Unemployment Insurance.




If these companies are still viable once the virus lockdowns are relaxed most employees should be able to get back to work and employment numbers should rapidly rebound. That's a big IF.

**Small Businesses are key…**

A recent CBS News [piece] discusses some of the issues small businesses are having with the Paycheck Protection Program.

This is an interview with the owner of a brewing company with 25 employees.

*Q: You were hoping to spend the loan in such a way that it would be fully forgiven and effectively be a grant?*

*A: That was the plan. And at this point I am forced to think of it as a loan, and the last thing I need in a situation where my business has been cut into a fraction of what it once was is to take on more debt.*

*The PPP was really designed to not be debt, but to help businesses that have been dramatically impacted and ordered to shut down indefinitely. For us it's going to end up being a low-interest loan unless Congress can respond and change the rules to recognize the businesses that need it most aren't getting the assistance that was intended by the PPP.*

*Q: Can you use the money to hire back your employees — wouldn't that qualify you for forgiveness?*

*A: Before this crisis, we had about 25 people working at Rising Tide. We have laid off all but four of our employees. They are on furlough and we hope to hire them back, but it wouldn't make sense for us to bring them back at this point because our operations are so dramatically curtailed.*

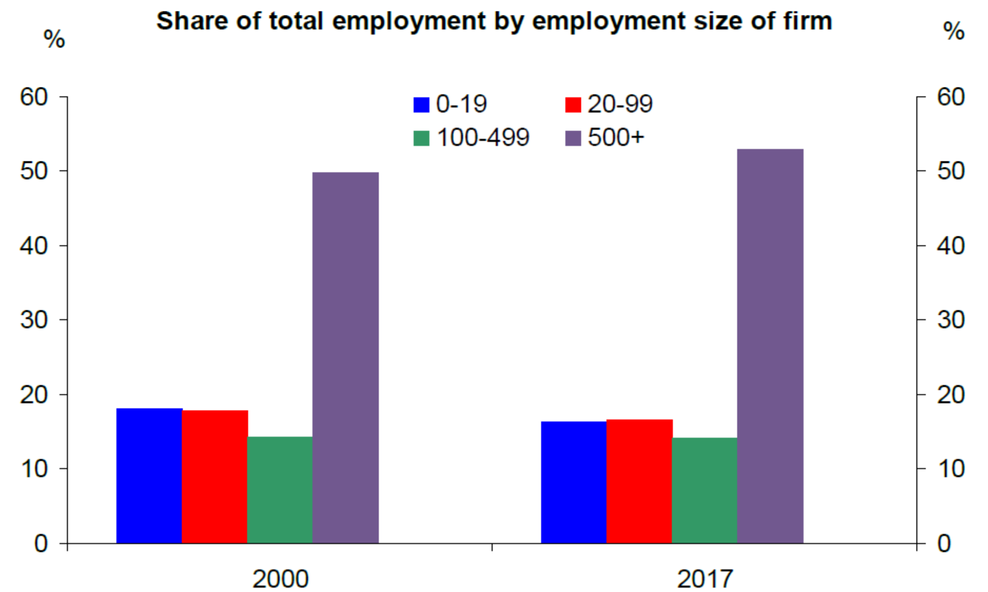
*Q: So, you wouldn't have anything for your workers to do at this stage.*

*A: Right. Our employees were on furlough long before the PPP was passed, and it doesn't make sense for us to immediately try and bring them back, particularly with the enhanced unemployment benefits they can access at this point.*

A big hurdle for the US economy created by the virus outbreak is the challenges that small business will face over the coming months.

Here are a few slides from Deutsche Bank that might help illustrate the role of small businesses in the economy.

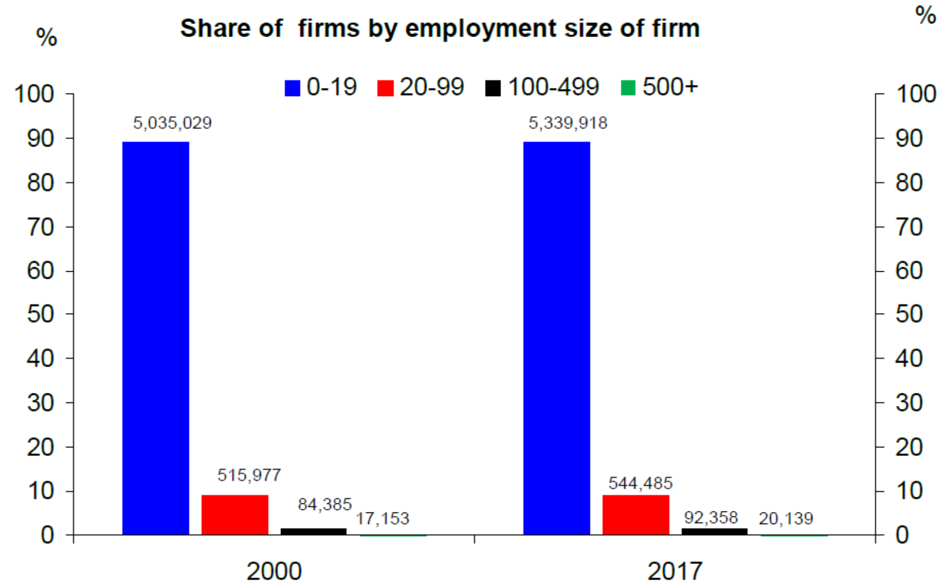
Small and medium-sized businesses account for 50% of total employment in the US economy




Source: Census, DB Global Research



There are 5.9mn companies in the US. 90% of these have less than 20 employees




Note: Total number of Firms in 2000 and 2017 were 5,734,538 and 5,996,900 respectively

Source: Census, DB Global Research

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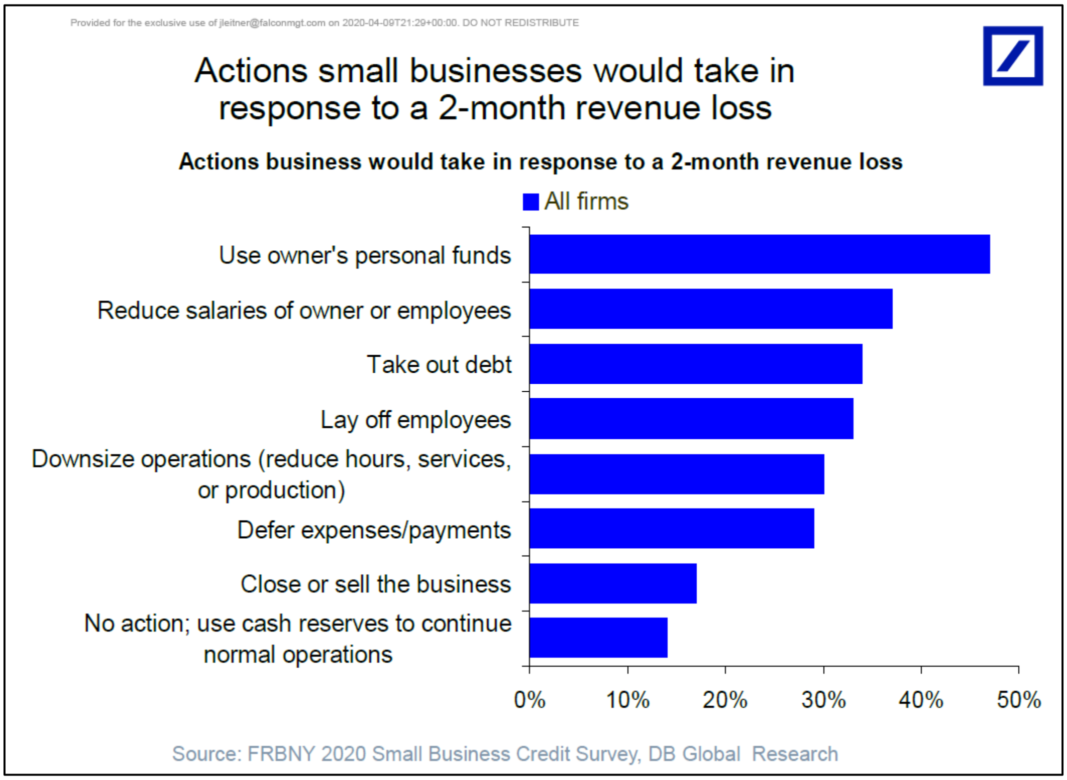
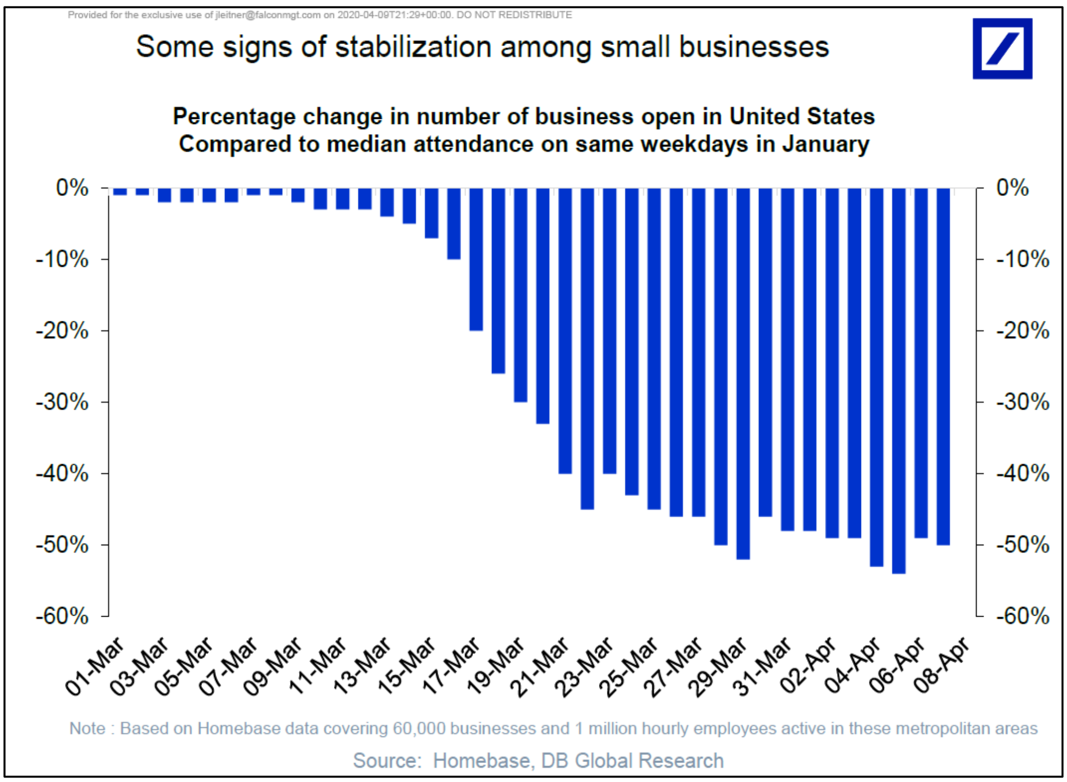
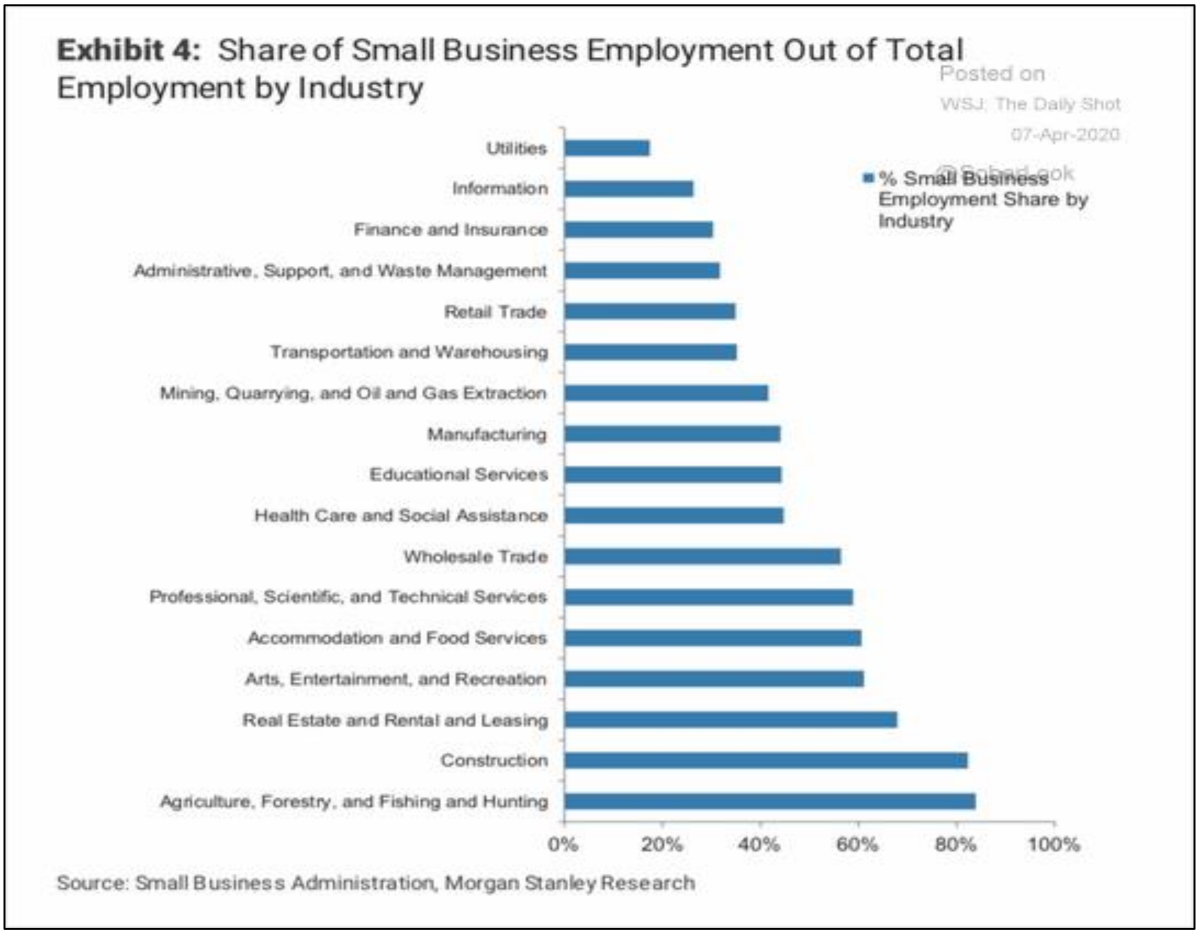





**<u>What to Focus on Now:</u>**

**USD**

As the list of programs from the Fed and Treasury grow and the flooding of the global system with dollars via the FX swap lines continues, the dollar has come off the boil a bit.

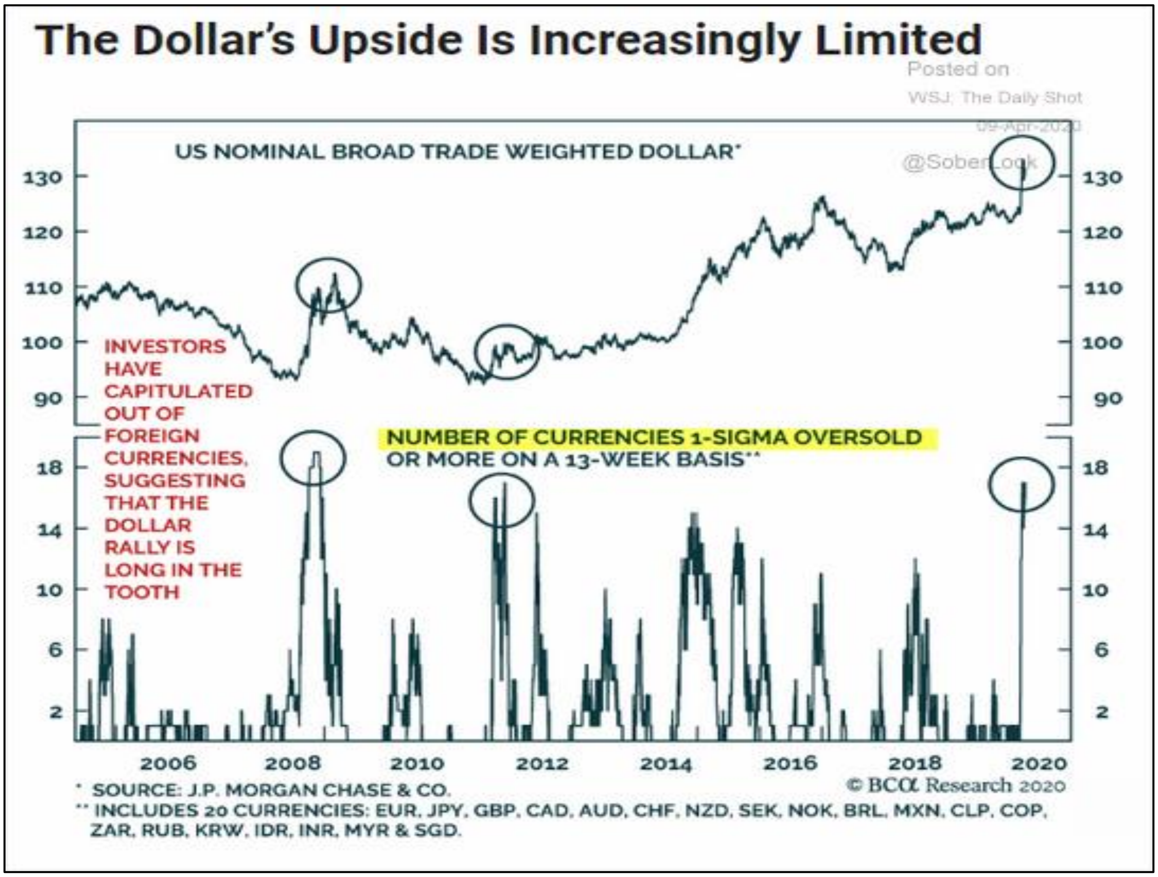
Of course, what you are comparing the dollar to matters, and there has been a lot of dispersion in currencies depending on whether you are looking at USD vs. Developed Markets, Emerging Markets, commodity currencies or negatively yielding ones.

Most analysts are increasingly bearish the USD. Nordea recently offered this chart… as they look at USD vs. Developed Markets.

Chart 4: Enough USDs have been printed to weaken the dollar by almost 10% now

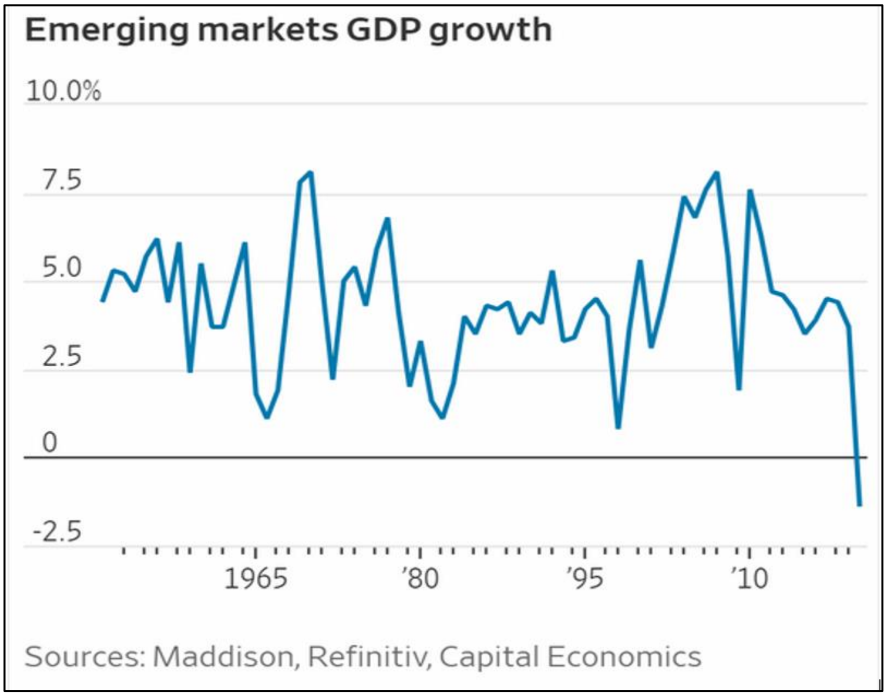

Of course, currencies are a relative game and at this point the reactions to the virus, especially on the fiscal side, are still being rolled out. Who will out-do who, and how effective will the measures be? Looking at the massive US accommodation in isolation may not lead to the results you might otherwise expect.

Others are looking at it more broadly and arguing that most currencies are severely oversold vs. the USD. However, as we know oversold and overbought can just as well lead to a range trade as a big reversal. I would say the jury is out. We are seeing some dollar weakness now for sure, but will it last? I have my doubts…

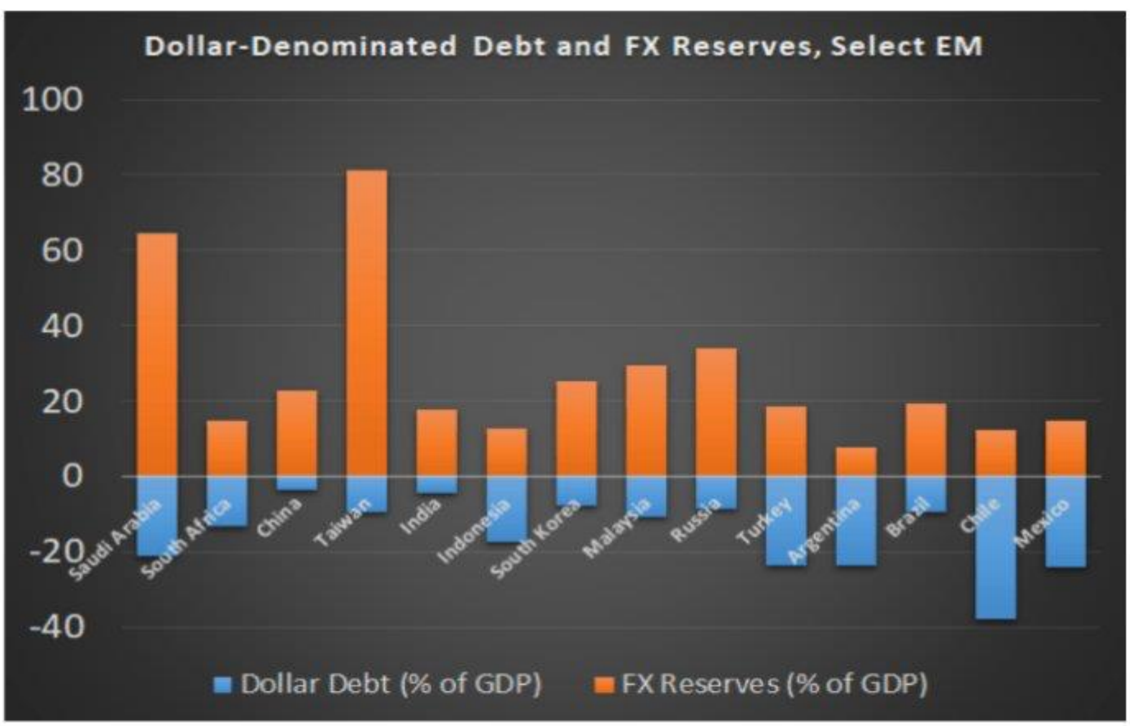



EMFX, not only oversold but undervalued? Problem is it can stay that way for a while …

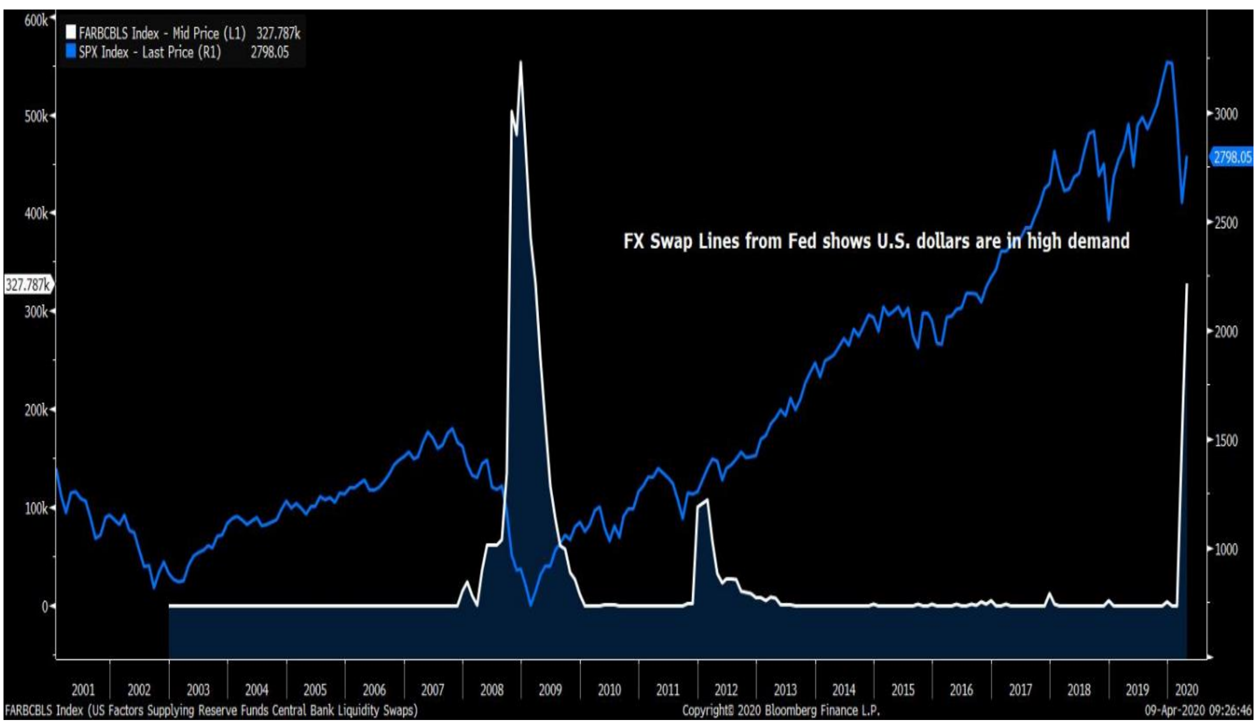
EM growth is in real trouble…




And don't forget the USD debt… for some it will be a long road back.



So far, although the USD has started to weaken a bit, overall the need for USD liquidity has continued.

I would say that for the first time in years, FX has the potential to remain interesting and a performance differentiator. Not only have some of the usual pressure escape valves been shut by CB market intervention, but policy differences in both magnitude and approach will matter as we see the end of the crises come into view. If the US outperforms the USD demand could transition from being driven by a frantic shortage to an allocation preference.

**Credit**

Corporate America is also taking on more debt. Some is without a doubt precautionary, while some is clearly to fill the cashflow gap that has opened up.

Table 1: Large Companies Have Tapped Banks For At least $208 bil Across Multiple Sectors

Disclosed draws on revolvers or new loans, $ mil

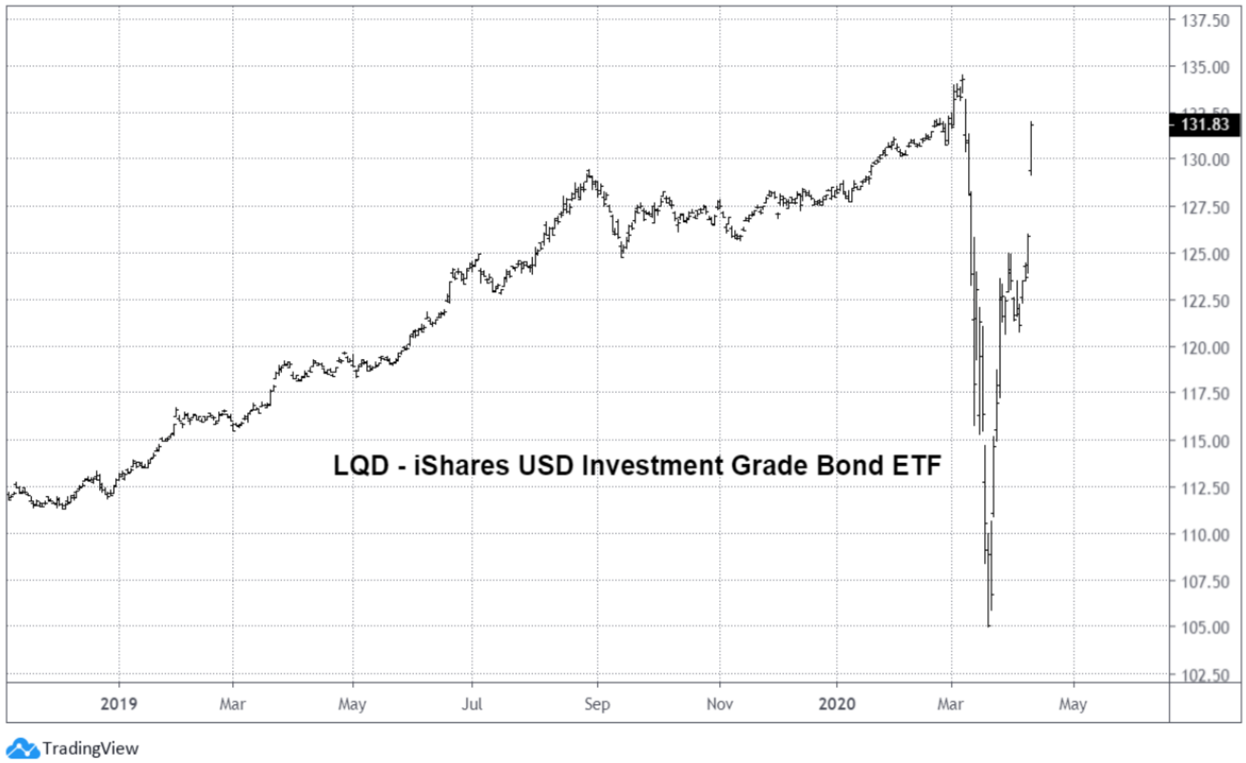
| | Borrowed Amount | Facility Size | Borrowings as % of Facility |
|---|---|---|---|
| Auto & Auto Parts | 38,442 | 45,291 | 85% |
| Retail | 23,559 | 35,516 | 66% |
| Consumer Staples | 19,435 | 24,600 | 79% |
| Energy and Commodities | 18,990 | 21,434 | 89% |
| Aerospace and Defense | 18,175 | 18,825 | 97% |
| Hotels, Resorts, and Cruise Lines | 17,758 | 20,410 | 87% |
| Airlines | 12,460 | 12,976 | 96% |
| REITs | 12,250 | 19,409 | 63% |
| Tech | 9,191 | 13,128 | 70% |
| Industrials | 7,452 | 12,331 | 60% |
| Services | 5,799 | 9,400 | 62% |
| Restaurants | 5,285 | 10,802 | 49% |
| Casinos and Gaming | 4,720 | 5,336 | 88% |
| Other Consumer Discretionary | 4,355 | 6,272 | 69% |
| Materials | 2,241 | 3,622 | 62% |
| Broadcasting and Media | 1,893 | 4,420 | 43% |
| Transportation | 1,874 | 1,950 | 96% |
| Healthcare | 1,744 | 2,662 | 66% |
| Other | 2,821 | 3,990 | 71% |
| **Aggregate** | **208,444** | **272,372** | **77%** |

Source: LCD, Bloomberg, company reports, and J.P. Morgan calculations.

Not only are they drawing down the credit lines, but IG companies are issuing at a fast pace. Clearly the Fed is helping facilitate this with its buying of IG and now HY paper.

The HY activity has been misrepresented in some quarters. They are buying newly minted HY, i.e. the debt of companies that are Fallen Angels (recently downgraded below investment grade) but were IG before March 22nd. In addition, they are buying some HY ETF's like HYG, largely to help big US companies like Ford Motor Comp. that were already represented in the holdings of those ETF's.

The resulting jump in both HY and IG has been dramatic.



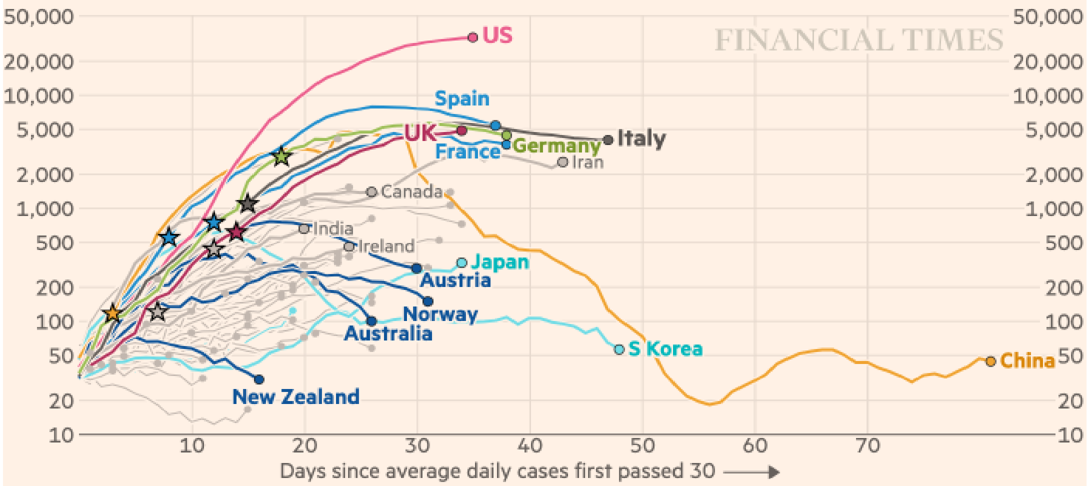

Unfortunately, this is another step towards the destruction of price discovery and the masking of risk.... I get why they are doing it, but we are getting further and further away from markets priced according to fundamental return expectations vs. "buy what the Fed buys".

**Relative performance**

With China and potentially South Korea now acting as templates for what happens as the number of new cases falls, it will be interesting to see how other countries compare.

Italy and Spain have turned the corner, with numbers of new cases now in decline, following in China's footsteps

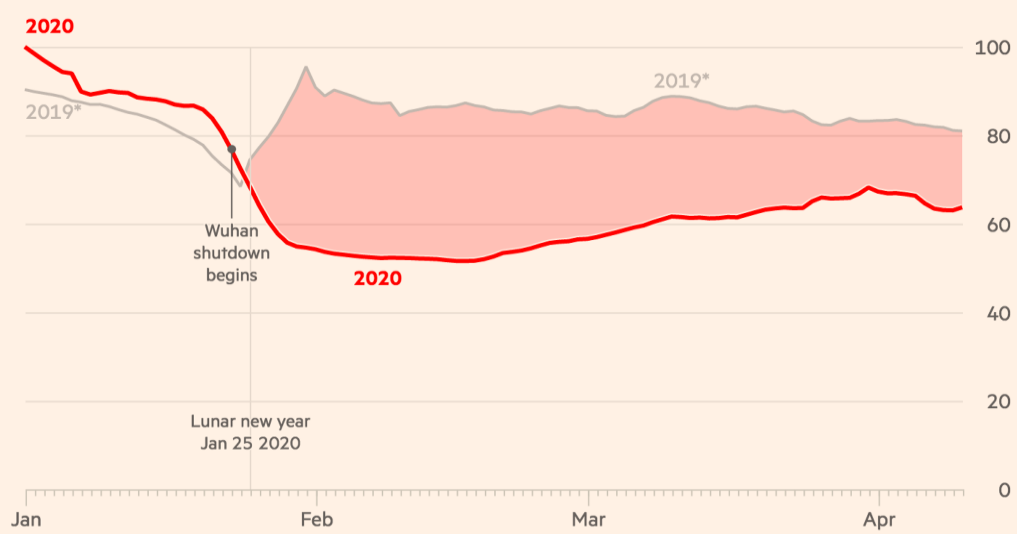
Daily confirmed cases (7-day rolling avg.), by number of days since 30 daily cases first recorded
Stars represent national lockdowns ★




FT graphic: John Burn-Murdoch / @jburnmurdoch
Source: FT analysis of European Centre for Disease Prevention and Control; FT research. Data updated April 11, 19:00 GMT


Covid 19's impact on the Chinese economy

FT China Economic Activity Index (Jan 1 2020 = 100), last updated Apr 10

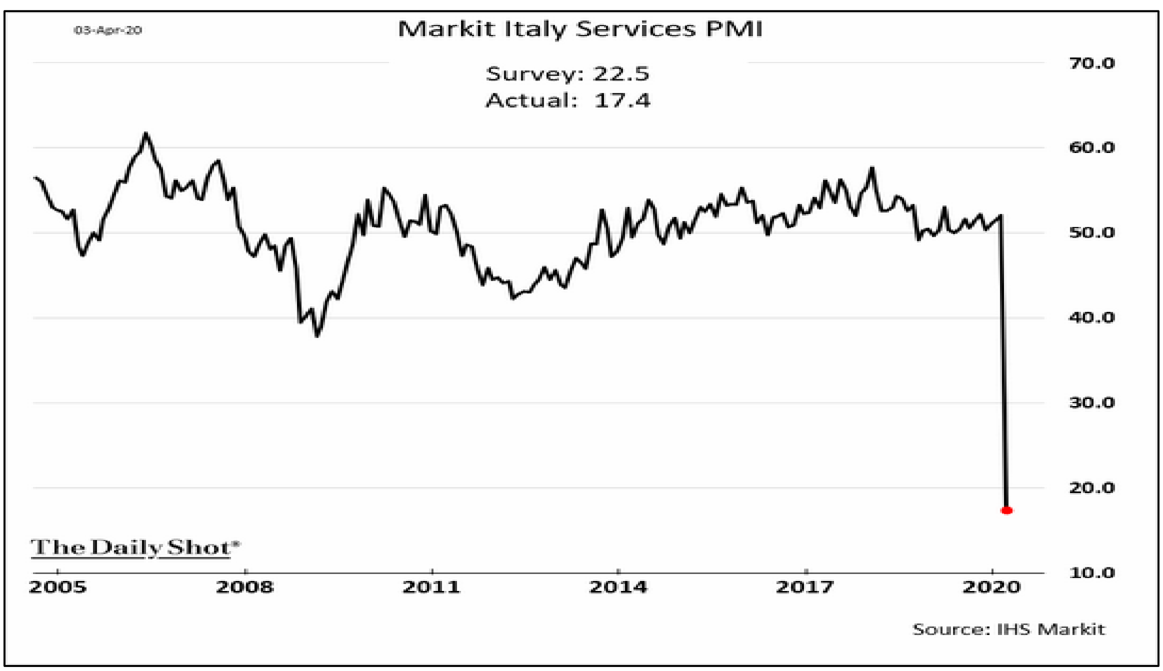



*2019 values at same number of days before/after the lunar new year
Sources: WIND; EntGroup; FT research

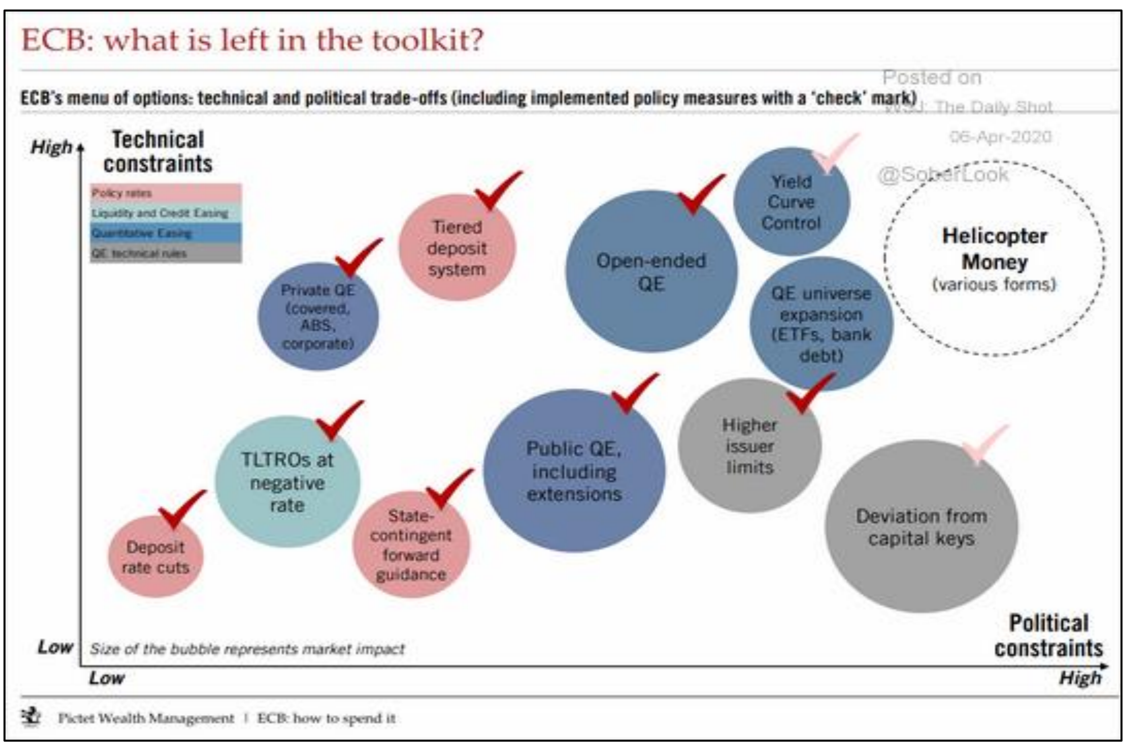
There may be a number of interesting relative trades, both in FX and in equities, that develop as this evolves.

So far US outperformance continues to hold vs. Europe.


Italy and Spain have had a brutal time and we still await a resolution with regard to how they will be funded by the Eurozone… a beefed-up ESM is most likely.




The US Federal Reserve and Treasury have combined forces, with the Treasury providing the first-loss capital and the Fed providing the leverage. The structure in Europe, with its lack of a shared Treasury, makes programs like this more difficult.



The US has also continued to hold up well vs. EM. As long as this outperformance persists against both Europe and EM, I think it will be hard for the dollar to weaken materially. Worth watching for information value and a potential trade.


**Commodities**

Gold has been working as every country on earth continues to create more currency. So far USD and Gold have been the two real safe havens.

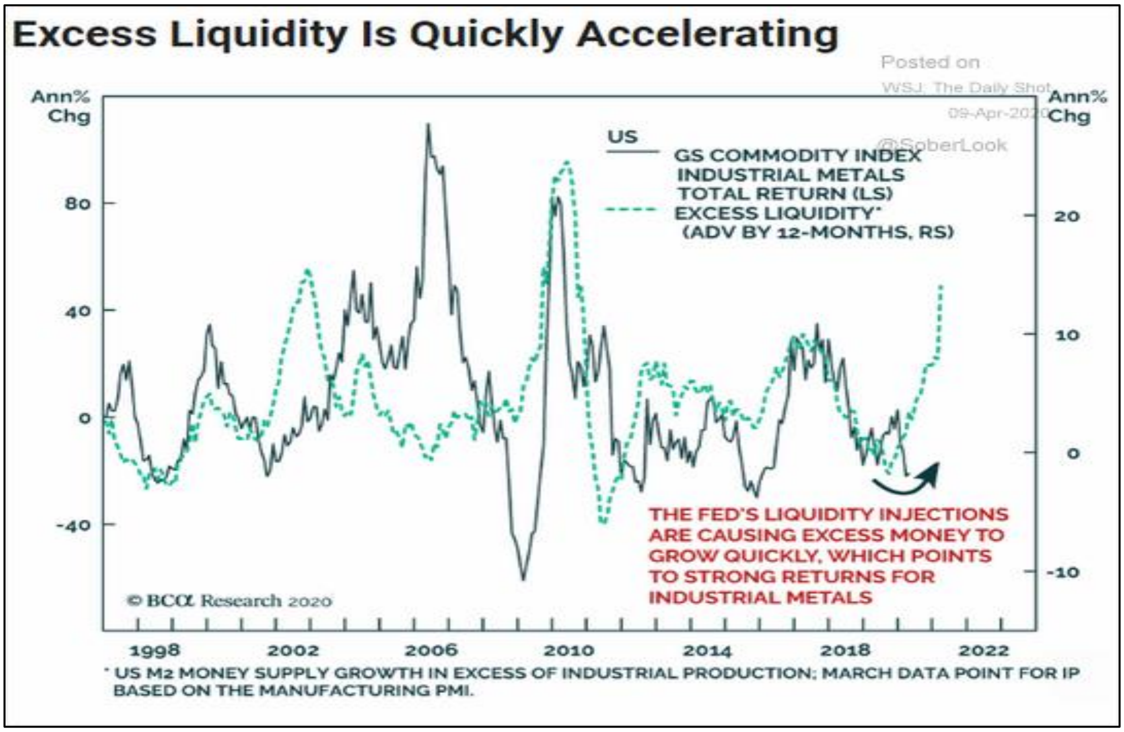
Silver has been thrown in with the industrial metals so far and not been able to perform as a result.

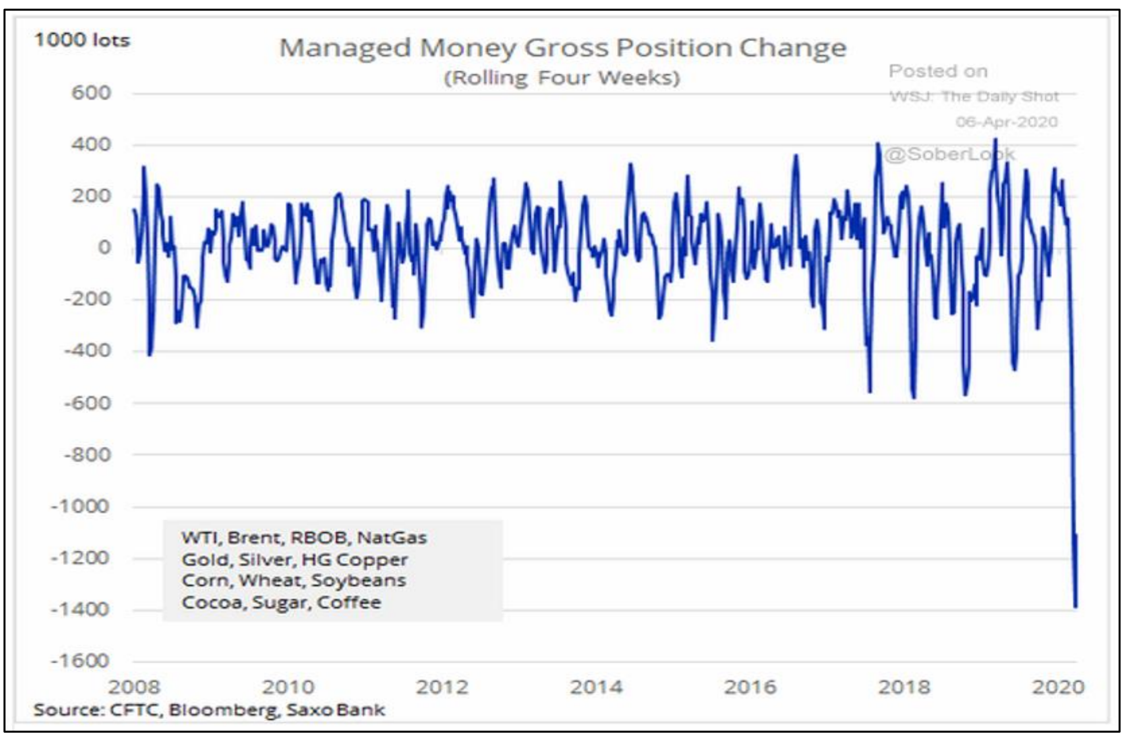
If the USD bears are right and/or global growth can start to recover, commodities are clearly a place to look.

Historically this kind of liquidity provision has been supportive, although I would guess a lot of that has to do with the USD coming under pressure.

As discussed, watch the USD, as a big move in that will be impactful across markets.

At least for the industrial commodities you don't have to fight the positioning…



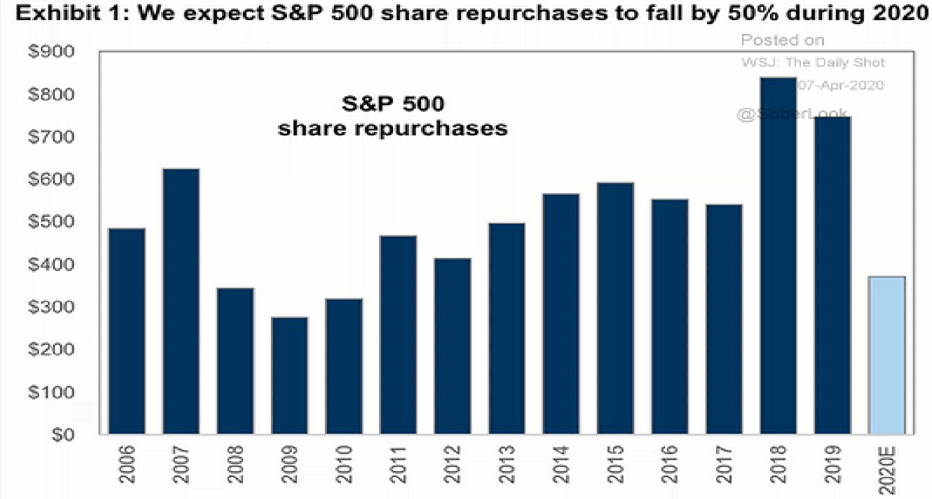
Can Gold Miners come back to life?


TradingView

## Buybacks

Buybacks are assumed to fall considerably this year. Given the fresh stigma and uproar about companies doing aggressive buybacks and then quickly coming to the government for bailouts, I wouldn't be surprised if they all but grind to a halt in the coming quarters.

Exhibit 1: We expect S&P 500 share repurchases to fall by 50% during 2020




Source: Compustat, Goldman Sachs Global Investment Research

**Here is a nice running tally of what the US has done so far from Lance Roberts at RIA.**

- March 6th – $8.3 billion *“emergency spending”* package.
- March 12th – Federal Reserve supplies **$1.5 trillion in liquidity.**
- March 13th – President Trump pledges to reprieve student loan interest payments
- March 13th – President Trump declares a *“National Emergency”* freeing up $50 billion in funds.
- March 15th – Federal Reserve cuts rates to zero and launches **$700 billion in “Q.E.”**
- March 17th – Fed launches the **Primary Dealer Credit Facility** to buy corporate bonds.
- March 18th – Fed creates the **Money Market Mutual Fund Liquidity Facility**
- March 18th – President Trump signs “coronavirus” relief plan to expand paid leave *($100 billion)*
- March 20th – President Trump invokes the Defense Production Act.
- March 23rd – Fed pledges **“Unlimited QE”** of Treasury, Mortgage, and Corporate Bonds.
- March 23rd – Fed launches two Corporate Credit Facilities:
  - **Primary Market Facility** *(Issuance of new 4-year bonds for businesses.)*
  - **Secondary Market Facility** *(Purchase of corporate bonds and corporate bond ETF’s)*
- March 23rd – Fed launches the **Term Asset-Backed Security Loan Facility** *(Small Business Loans)*
- April 9th – Fed launches several new programs:
  - **Paycheck Protection Program Loan Facility** *(Purchase of $350 billion in SBA Loans)*
  - **Main Street Business Lending Program** *($600 billion in additional Small Business Loans)*
  - **Municipal Liquidity Facility** *(Purchase of $500 billion in Municipal Bonds.)*
  - Expanded funding for **PMCCF, SMCCF and TALF up to $850 billion.**

Data remains of questionable value at this point, but here are the dates of the more noteworthy upcoming releases.

## Important Macro Data Releases and Events for the Week

| | |
|---|---|
| Monday 4/13/2020 | Easter Monday Holiday |
| Tuesday 4/14/2020 | Trade Data |
| Wednesday 4/15/2020 | Retail Sales |
| | Industrial Production |
| | BoC Interest Rate Decision, Statement and Monetary Policy Report |
| Thursday 4/16/2020 | Unemployment Rate (Mar) |
| | All Industry Activity Index MoM (Feb) |
| | Initial Jobless Claims Forecast: - , Prior: 6.606m |
| | Initial Jobless Claims 4-week ave. Forecast: - , Prior: 4,265m |
| | Continuing Claims Forecast: - , Prior: 7.455m |
| Friday 4/17/2020 | GDP YoY (Q1) Forecast: -6%, Prior: 6% |
| | NBS Press Conference |
| | Industrial Production YoY (Mar) Forecast: -5.6%, Prior: -13.5% |

Stargazer Asset Management

GDP QoQ (Q1) Forecast: -10%, Prior: 1.5%

Retail Sales YoY (Mar) Forecast: -8.8%, Prior: -20.5%

Saturday 4/18/2020 — IMF **MEETING**

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