

# Aerial View

## Morning Briefing

---

Nov 23, 2020

## Monday Morning Macro - Policy Tightening

- **The COVID-19 surge is affecting the short term outlook – but policy is tightening**
- **Two unemployment insurance programs affecting 12-13 million people to expire in a month**
- **Emergency lending facilities withdrawn from Fed; pressure to loosen policy further**



**John Velis PhD**  
FX and Macro Strategist,  
Americas, BNY Mellon

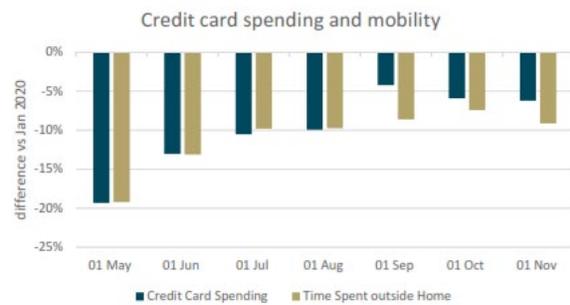
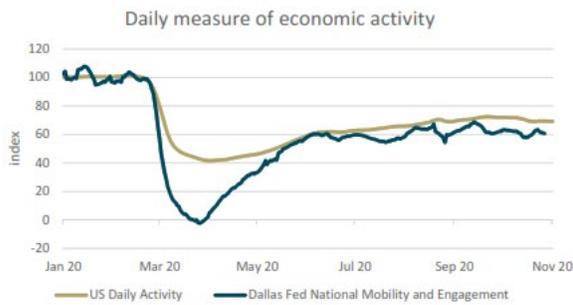
[Email >](#)

### Vaccine Optimism Versus COVID-19 Pessimism

Median consensus forecasts still have the US economy growing by 4% in the 4th quarter and around the same pace (3.8%) for 2021, maintaining a roughly steady trajectory. We are not as optimistic.

The spread of COVID-19 infections is dampening our outlook for the near term. As the accompanying charts show, daily measures of mobility and engagement are starting to decline. Credit card spending and time spent away from home are also turning lower over the last month.

### ***Inflection Point***



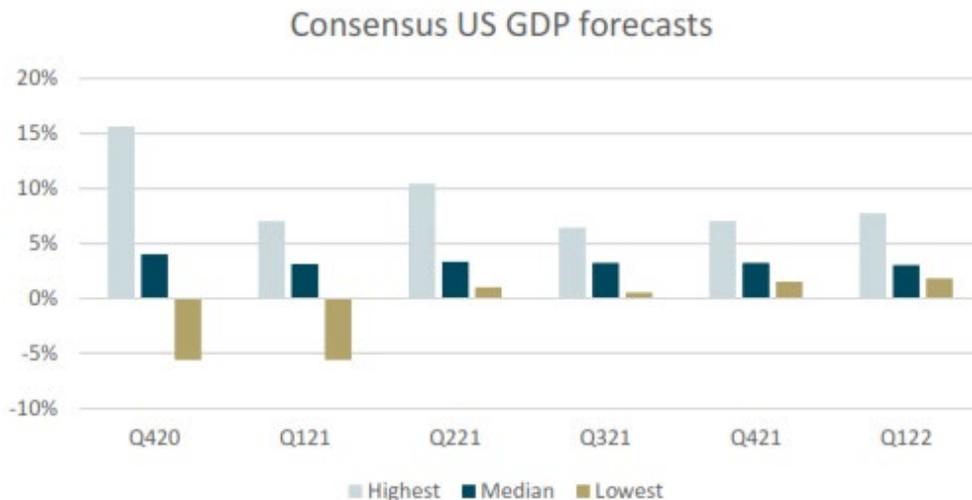
Source: BNY Mellon Markets, Federal Reserve Bank of Dallas, Opportunity Insights; data as of November 18, 2020 or earlier

Obviously the vaccine is a game-changer, but we think that markets and forecasters were pricing in the probability of a vaccine that would become available and effective at some point in 2021 even before the news actually broke.

There has been some reflation excitement in the equity market and some narrowing of premia, but we note that the 5s30s curve is actually flattening by just under 20 basis points than it was on the day after the election. The ten-year UST yield is currently lower than it was on the day before the election.

The interim period between now and when the vaccine becomes effective is beginning to concern the bond market. We think it is only a matter of time before the consensus median sees some downward revision. Instead of the steadily growing trajectory implied by the blue bars in the chart below, we expect much lower, likely slightly negative growth in Q4. This could last into early Q1 with COVID-19 stress running into vaccine optimism.

### Consensus Sees Steady Growth



Source: BNY Mellon Markets, Bloomberg; data as of November 20, 2020

At the same time the outlook – as we see it – is deteriorating. We see policy tightening, at least in a *de facto* sense. The expected termination of two pandemic unemployment insurance programs is looming at the end of the year, affecting over 12 million persons. The US Treasury’s removal of some of the Federal Reserve’s 13(3) lending programs, while not directly affecting financial conditions at the moment, represents a constraint on monetary policy and one less tool in the Fed’s toolbox.

## *Two major pandemic unemployment insurance programs to expire in December*

### **End of Pandemic Unemployment Programs is a Form of Fiscal Tightening**

As of the end of October, the latest date for which we have data, 13 million people were covered by supplemental unemployment insurance associated with the CARES Act. The Pandemic Unemployment Assistance (PUA) program covered employees who were not covered by regular state unemployment insurance programs (such as gig economy workers, sole proprietors, etc.) and covers over 8.5 million people. The Pandemic Unemployment Emergency Assistance (PEUA) grants an additional 13 weeks of coverage on top of regular state benefits once the latter run out, and currently covers 4.4 million people.

Both of these programs are scheduled to cease on December 31, 2020, with final payments scheduled for December 26th. This will represent a material drag on aggregate income as we head into 2021.

As the accompanying charts show, personal income less government transfers is still below pre-pandemic levels; incomes are still being propped up by government spending – which of course, include the PUA and PEUA. The chart at right shows the initial rise and subsequent decline in total government transfers as well as unemployment insurance payments from the federal government, which also included the supplemental \$600 per week associated with the Extended Benefits program which expired at the end of July.

### ***Without Transfers, Personal Income Still Lagging***



Source: BNY Mellon Markets, Bloomberg; data through September 30, 2020

With stimulus negotiations still stalled, we view the chances that these programs will be extended as minimal for the time being. Although we remain hopeful that the post-election political landscape will eventually settle down and enable some serious negotiations to resume for the time being, we cannot assume that this *de facto* fiscal tightening will be avoided.

## *Pressure on the Fed to loosen policy, even as backstops are wound down*

### **Closing of Special Lending Facilities**

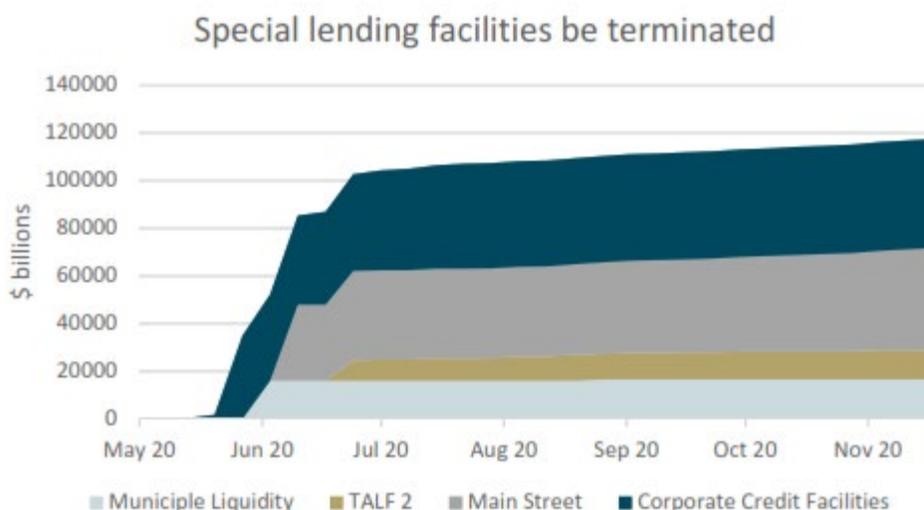
Opinions are still mixed regarding the US Treasury's decision to wind up the Federal Reserve's special lending facilities, implemented during the darkest days of the pandemic. In wrapping up and requesting the return of \$455 billion in untapped capital provided to the Fed by Treasury, Secretary Mnuchin argued that these facilities were meant to provide emergency support and aid in the smooth functioning of credit markets, which had come under pressure in the spring and were no longer needed.

The Fed clearly wanted the Municipal Liquidity Facility, the Term Asset-Back Securities Loan Facility, the Main Street Lending Facilities, and the Corporate Credit Facilities to remain funded into 2021, providing a backstop to these markets. In fact just two days before the Treasury announced its intention to wrap up the program, Chair Powell was vocally arguing for their extension, in a speech that was viewed as rather pessimistic about the short term economic outlook and has darkened with the resurgence of COVID-19 around the country and globally.

It is true that spread markets are behaving well now, and the take-up of these special lending facilities remains quite small, so terminating them would be inconsequential. As the accompanying chart shows, total commitments on the Fed's balance sheet for these four programs sums to just \$117 billion and have been barely growing since this summer, only \$25 billion of which are backed by Treasury funding.

Secretary Mnuchin has suggested that the unused funds, once transferred back to the Treasury, could be used to provide more conventional stimulus as part of a new negotiated relief package – although it is unclear these monies could be so easily repurposed as a matter of law.

### **Small Take-up of Liquidity Facilities**



Source: BNY Mellon Markets, Federal Reserve, Bloomberg; data as of November 18, 2020

We nevertheless view the removal of these facilities as a *de facto* tightening of monetary policy, although extremely small and at the margins. It is true that these facilities are miniscule in comparison to the size and nature of the accommodation provided by the Fed's asset purchases programs and near-zero policy rates (which are expected to stay that way for several years). Furthermore, the Fed will keep \$25 billion in monies already loaned against to recapitalize some additional lending, and could tap the Exchange

Stabilization Fund, which currently has a capacity of around \$95 billion.

We think, as we said at the outset of this piece, the economy is in a delicate spot. There is pressure on the Fed to provide additional accommodation, and the central bank – along with the IMF – is outwardly voicing its concern over the near term outlook. The expectation of some form of intervention at the long end of the curve is growing, and the termination of the lending facilities is adding to the pressure.

Please direct questions or comments to:

[AerialView@BNYMellon.com](mailto:AerialView@BNYMellon.com)

---

Disclaimer

## **bnymellon.com**

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.