BNY MELLON

The Aerial View

Morning Briefing

Oct 30, 2020

Big GDP Print Doesn’t Close the Gap

- **GDP came in just above expectations; the outlook going forward is muted**
- **Continuing claims aren’t as good as they look when accounting for special pandemic-related programs**
- **iFlow FX flows have been muted going into the elections, but there are plenty of extended positions**

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<u>GDP Represents Rebound, Not Recovery</u>

It was the strongest US GDP print in post-War history, and although it wasn’t much of a surprise, it will certainly give President Trump some much-needed good news to tout in his reelection campaign. Slightly beating expectations of 32%, headline GDP grew 33.1% (quarter-over-quarter, annualized), and most of the major categories behaved as we expected.

Personal consumption, which makes up almost 70% of US economic output, rose by nearly 41% (again, q/q annualized), and capital expenditures grew an impressive 28.5%.

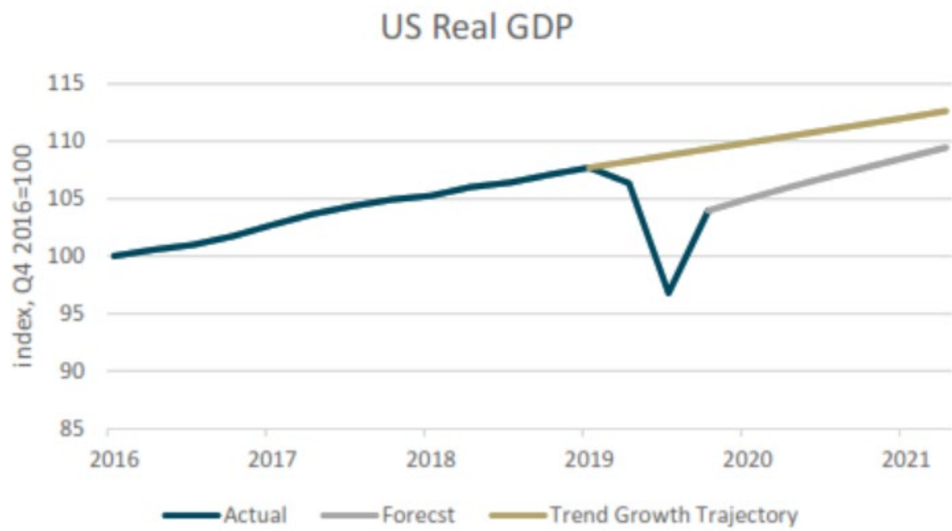
Nondefense government consumption, which had grown 37.6% in Q2 (the results of significant fiscal stimulus via the CARES Act) fell 18.1%. This represents a potential drag in Q4 without a Fiscal 4.0 package seemingly likely at the moment.

We caution that while the GDP print was impressive, it represents more of a rebound than a recovery. If we “de-annualize” GDP growth, in quarter-over-quarter terms, GDP rose by around 7.4%, after having fallen by around 9% in Q2 and just under 2.5% in quarterly terms in Q1. In other words, we are well short of where we were before the pandemic hit.

Furthermore, growth is expected to slow in Q4, and as coronavirus surges around the country and fiscal stimulus in the short term looks to be off the table, the risks are skewed to the downside.

As the accompanying chart shows, if GDP were to grow in line with the consensus forecasts from Q4 2020 through Q1 2022, the economy would still be operating well below where it would have been if it were to have continued on its pre-pandemic rate of growth of about 2% annualized.

Still Running Well Below Trend



Source: BNY Mellon Markets, Bloomberg; data through October 29, 2020

In addition, we reckon that most of the impressive Q3 growth was achieved in July and early August when the economy reopened after the sudden stop in March and April. Our nowcast, which we write about every Monday (click here), shows that most of the pickup in growth occurred earlier in the summer.

> ***The historically strong GDP print still doesn't close the gap opened during the pandemic***

Labor Market Still Showing Deep Scars

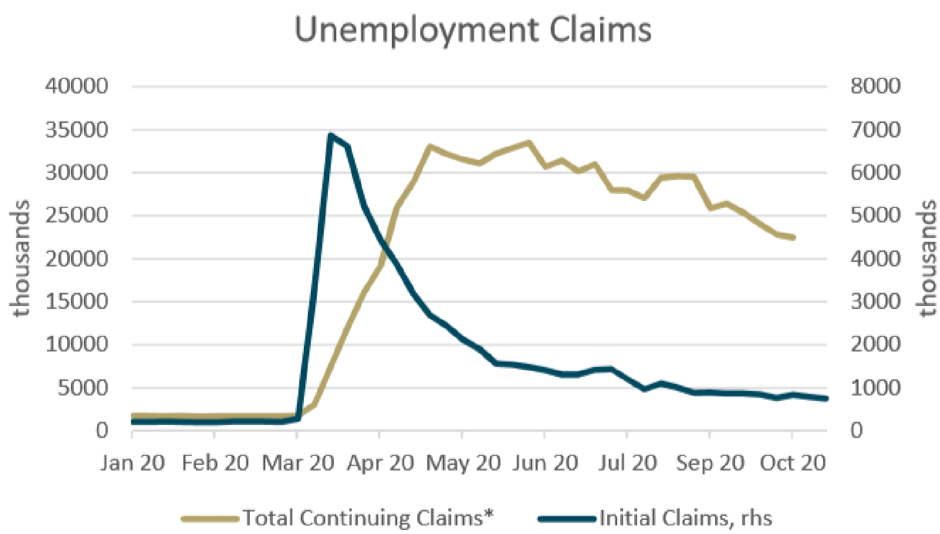
In addition to the GDP print, today we also saw the weekly jobless claims data. This too provided a mild upside surprise; initial claims came in at 751,000, below the expected 770,000 and last week’s 791,000. While this is the lowest initial claims we have seen in the 32 weeks of the pandemic, it still shows a labor market that is shedding jobs at a significant rate.

Continuing claims is also instructive. 7.8 million people remained on the regular state unemployment rolls. This too is the lowest number we have seen since COVID-19 arrived in the US. This may seem like good news, but in reality it reflects long-term unemployed who have exhausted their regular state unemployment insurance benefits.

If we add in those people who are still receiving benefits under two pandemic-related unemployment insurance programs there are still well over 22 million persons receiving benefits. Pandemic Unemployment Assistance is available to workers who are not covered by regular state unemployment insurance systems, like workers in the gig economy or small business owners and the self-employed. At 10.3 million as of October 9, that is still only slightly below the range in which this data series has moved since September.

The Pandemic Emergency Unemployment Assistance Program provides an additional 13 weeks of benefits through the CARES Act. At 3.7 million on October 9, this is up nearly a half-a-million claimants. The accompanying chart shows the still-extraordinarily high levels of total unemployment claims, including the pandemic-related programs.

Still a Lot of People Collecting Unemployment



**Note: Includes continuing state claims, Pandemic Unemloyment and Pandemic Emergency Assistance Claims*

Source: BNY Mellon Markets, Bloomberg; data through October 29, 2020

> ***There are still over 22 million people collecting unemployment insurance***

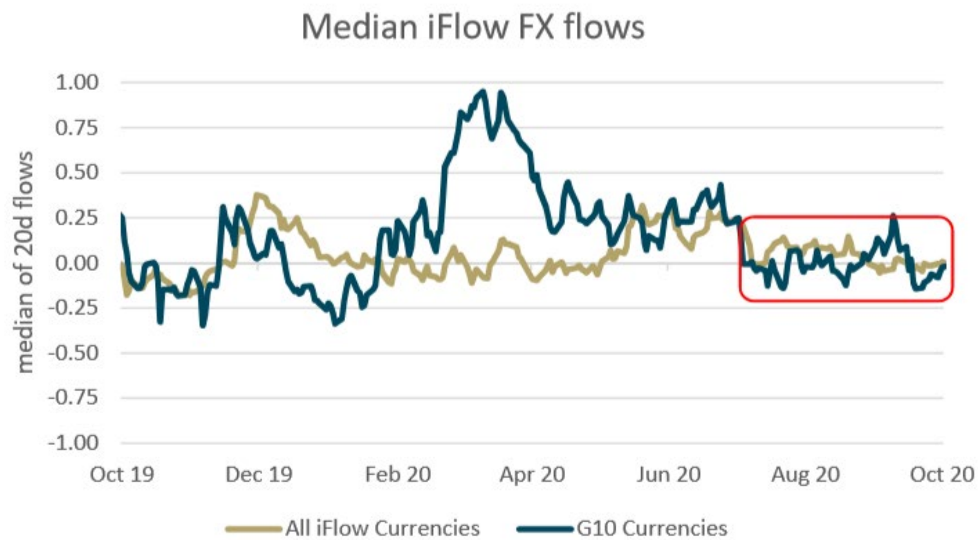
<u>FX Flows on Hold Leading into the Election</u>

Our iFlow data on currency flows have been notably muted in recent weeks. Equity markets have seen rising volatility all month and the VIX index of S&P volatility has risen from around 27 at the end of last week to over 40 by the middle of this week.

The MOVE index of Treasury market volatility has risen from 40 at the beginning of the month to over 60 now. Yet currency volatility is up only slightly, from around 7.75 to just 8.4 this week (CVIX).

It appears that going into the presidential election, investors are wary of making very large currency bets, especially in the G10. The accompanying chart shows the daily dispersion of our iFlow currency indicators across the G10, as well as the entire set of 37 currencies for which we calculate the data. It's been low and stable since this summer. Currency flows have shown relatively little movement over that time, and remain muted.

Low Dispersion in Currency Flows



Source: BNY Mellon Markets, iFlow; data as of October 28, 2020

This doesn't mean that post-election things will be as sleepy in FX. Our iFlow Cloud data, released earlier this week as part of our *iFlow Monthly,* shows plenty of currencies with large over- and underweights as of the beginning of this week.

In particular, euro holdings are quite underweight, and the EUR could move higher after the election is resolved, particularly if there is a Biden victory. APAC currencies are also exhibiting some significant non-neutral holdings: the CNY is underweight and seeing inflows.

In addition, these CNY underweights have been loss-making positions and could be at the point of a pain trade to be unwound. LatAm currencies show significant overweights in MXN and BRL, which have been profitable. Click here to see the most recent iFlow Cloud mapping currency holdings, flows and profitability.

The bottom line - although investors have been reluctant to make big currency moves (as we see from the muted flows), there are plenty of positions that can move once things are resolved.

Please direct questions or comments to:

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