



## MORNING BRIEFING

October 12, 2020

### Don't Fight T-Fed

Check out the accompanying [chart collection](#).

(1) Crossing the border into the fiscal realm. (2) Fed is here to help finance the debt. (3) Consolidating the Treasury and the Fed into "T-Fed." (4) "Feddie" is still here for us too. (5) Has the Fed been capping the bond yield since MMT Day? (6) Buying all of the Treasury's new bond issues. (7) MMT has boosted demand deposits and M2 growth. (8) Hooked on fiscal stimulus, Fed officials begging for more. (9) ECB and BOJ are on board the MMT Magical Mystery Tour along with the Fed.

**The Fed I: Birth of T-Fed.** What a difference a pandemic makes. Prior to the Great Virus Crisis (GVC), Fed officials were either dismissive of Modern Monetary Theory (MMT) or remained silent on the subject since it crosses into the realm of fiscal policy. Fed officials have had a very long tradition of never crossing that line. They do monetary policy. Congress and the White House do fiscal policy. Period! Nothing to see here. Move on.

Since the GVC, Fed officials repeatedly and frantically have been exhorting the fiscal authorities to do much more to support the economy. They've made it very clear that they will continue to help finance the resulting federal deficits by purchasing most, if not all, of the Treasury debt issued to pay for more fiscal stimulus. They've certainly been doing so since March 23, when they implemented QE4ever, which has already mostly financed the \$2.2 trillion CARES Act signed by President Donald Trump on March 27. Consider the following:

(1) *Consolidating the Treasury & the Fed.* Over the past 12 months through August, the federal budget deficit totaled a record \$2.92 trillion ([Fig. 1](#)). Over the same period, the Fed's holdings of Treasuries is up by a record \$2.26 trillion. Now that the Treasury and the Fed have joined forces in the MMT crusade to drown the virus in liquidity, we might as well consolidate the two of them into "T-Fed." The result is that the federal government needed to borrow just \$663 billion from the public over the past 12 months through August ([Fig. 2](#))!



(2) *The Fed's portfolio of Treasuries*. The Fed held a record \$4.45 trillion in US Treasuries at the end of September ([Fig. 3](#)). That amounts to 24.2% of the Treasury's marketable debt outstanding ([Fig. 4](#)). The Fed owns 20.0% and 36.9% of US marketable Treasury notes and bonds, respectively ([Fig. 5](#)).

(3) *Good ol' Freddie*. During the Great Financial Crisis, mortgage giants Fannie Mae and Freddie Mac were placed in conservatorship on September 7, 2008. The Fed rose to the occasion and was transformed by then-Fed Chair Ben Bernanke into "Freddie." QE1 was introduced on November 25, 2008. In this first round of quantitative easing, the Fed committed to purchase \$1.24 trillion in mortgage-backed securities and agency debt ([Fig. 6](#)). Since QE4ever, the Fed has purchased \$618 billion in such securities, bringing their total to a record \$1.98 trillion during September. The result has been record-low mortgage rates, which has contributed to the housing boom caused by de-urbanization in response to the pandemic and mounting urban crime ([Fig. 7](#)).

**The Fed II: De Facto Yield-Curve Targeting.** What if another big round of deficit-financed fiscal spending pushes up bond yields and mortgage rates? That would be a big setback for MMT crusaders. The 10-year Treasury bond yield has averaged 0.68% since MMT Day (March 23) through Friday's close. It rose to 0.79% on Friday, up from the record low of 0.52% on August 4 ([Fig. 8](#)).

Have no fear; the Fed is here with YCT (yield-curve targeting), which it will use if necessary to supplement MMT by keeping a lid on bond yields. Actually, the remarkable stability of the bond yield near record lows since March 23 suggests that the Fed may be capping the bond yield below 1.00% without officially saying so.

Ever since March 23, Powell repeatedly has stated that the Fed intends to keep interest rates close to zero for a very long time. At his June 10 [press conference](#), he famously said: "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." He reiterated that policy in his July 29 [press conference](#), saying: "We have held our policy interest rate near zero since mid-March and have stated that we will keep it there until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals."

Remember that the Fed lowered the federal funds rate by 100bps to zero on March 15. No target was set for the bond yield at that time or has been since then—so far. At the June 10



presser, Nick Timiraos of the *WSJ* asked Powell about the possibility of “yield caps.” Powell revealed that at the latest meeting of the Federal Open Market Committee (FOMC), the participants received a briefing on the historical experience with YCT and said that they would evaluate it in upcoming meetings. Here is the excerpt on YCT from the June 10 FOMC meeting [Minutes](#):

“The second staff briefing reviewed the yield caps or targets (YCT) policies that the Federal Reserve followed during and after World War II and that the Bank of Japan and the Reserve Bank of Australia are currently employing. ... [T]hese three experiences suggested that credible YCT policies can control government bond yields, pass through to private rates, and, in the absence of exit considerations, may not require large central bank purchases of government debt. But the staff also highlighted the potential for YCT policies to require the central bank to purchase very sizable amounts of government debt under certain circumstances ... and the possibility that, under YCT policies, monetary policy goals might come in conflict with public debt management goals, which could pose risks to the independence of the central bank.”

So how might the Fed be keeping a lid on the 10-year bond yield? Simple: The Fed has been buying all the bonds that the Treasury has been issuing in recent months and then some. From February through September, the Treasury issued \$259 billion in bonds with maturities exceeding 10 years. Over that same period, the Fed purchased \$338 billion of such bonds.

**The Fed III: How To Print Money.** Fed Chair Jerome Powell’s important interview on *60 Minutes* with Scott Pelley was aired on May 17. Pelley asked where Powell got the trillions of dollars that the Fed spent on purchasing bonds since March 23: “Did you just print it?” Powell forthrightly responded: “We print it digitally. So as a central bank, we have the ability to create money digitally. And we do that by buying Treasury bills or bonds or other government guaranteed securities. And that actually increases the money supply. We also print actual currency, and we distribute that through the Federal Reserve banks.”

Powell also acknowledged that there was no precedent for the scale of QE4ever: “The asset purchases that we’re doing are a multiple of the programs that were done during the last crisis.” Let’s review how T-Fed’s actions since MMT Day have boosted the M2 monetary aggregate:



(1) *US Treasury's deposit account at the Fed.* The Treasury has been borrowing at a record pace in the Treasury market to fund the various government support programs aimed at reducing the economic damage and pain resulting from the GVC. The federal budget deficit has totaled a record-shattering \$1.9 trillion from March through September. As a result, the US Treasury General Account at the Fed has jumped from \$439 billion at the end of February to \$1.7 trillion during the October 7 week ([Fig. 9](#)).

(2) *The Fed's US Treasury purchases.* Over that same period, the Fed facilitated the Treasury's massive borrowing with massive purchases of US Treasuries, totaling \$1.99 trillion. The Fed now owns a record \$4.46 trillion in US Treasuries as of the October 7 week ([Fig. 10](#)).

(3) *Commercial bank deposits and cash.* The Fed also facilitated the mad dash for cash that started during February as the viral pandemic triggered a widespread pandemic of fear. The Fed's purchases of Treasuries and agency securities from the public boosted commercial bank deposits by \$2.28 trillion from the end of February through the September 30 week as the public sold securities to raise cash ([Fig. 11](#)).

The huge 20% y/y jump in this liability item on banks' balance sheets was offset on the asset side by "cash" assets, which are basically the banks' reserve balances at the Fed ([Fig. 12](#)). They really aren't cash per se, since the banks can't make loans with these deposits at the Fed. They can make more loans by lending out the increase in their deposits less reserve requirements, which were lowered to zero on March 15. When they do so, the banks also create more deposits. That's the way a fractional-reserve banking system works. (By the way, the answer to the oft-asked question of why the banks don't lend out all that cash on their balance sheets is that they can't, because it is a balancing item determined totally by the Fed's balance sheet!)

(4) *Commercial bank loans.* The Fed's MMT maneuvers also facilitated the \$781 billion jump in commercial bank loans from the end of February through the May 13 week ([Fig. 13](#)). Commercial and industrial loans soared \$715 billion over this same period as businesses cashed in their lines of credit, fearing a cash crunch ([Fig. 14](#)). The surge in loan demand was easily funded by the increase in deposits. Indeed, the brief surge in borrowing by banks during the weeks of February 12 through March 25 has been more than reversed subsequently ([Fig. 15](#)).



(5) *Companies issuing bonds and paying down lines of credit.* Now many businesses that had rushed to draw their lines of credit during the mad dash for cash earlier this year are paying them down. Nonfinancial corporations raised a record \$1.44 trillion over the past 12 months through August at record-low yields, thanks to the Fed's backstopping the corporate bond market as part of QE4ever ([Fig. 16](#)). And what are the banks doing with the cash from the loan paydowns? They are buying Treasuries and agencies to the tune of \$527 billion since the start of this year through the September 30 week ([Fig. 17](#)).

**The Fed IV: MMT Junkies.** T-Fed was born on March 23, the day that the Fed adopted QE4ever. Ever since then, Fed officials have been basically saying: "More, more, more!" They want another round of MMT. They don't call it that, but that's what they are asking for.

Fed Chair Jerome Powell was asked about MMT during congressional testimony on February 26, 2019. He hated it back then: "The idea that deficits don't matter for countries that can borrow in their own currency I think is just wrong," the Fed chair said. The "US debt is fairly high to the level of GDP—and much more importantly—it's growing faster than GDP, really significantly faster. We are going to have to spend less or raise more revenue."

Powell rejected the notion that the Fed should enable fiscal spending: "[T]o the extent that people are talking about using the Fed—our role is not to provide support for particular policies," he said. "Decisions about spending, and controlling spending and paying for it, are really for you." In effect, he told Congress: "Fiscal policy is your domain. Leave us out of it."

Again: What a difference a pandemic makes! Consider the following:

(1) *March.* In his [March 3](#) and [March 15](#) unscheduled press conferences, Powell said it wasn't the Fed's "role to give advice to the fiscal policymakers" and that fiscal policy would need to be handled on a "discretionary" basis.

(2) *April.* Powell's fiscal pivot occurred during his April 29 [press conference](#) Q&A, when he said: "I have longtime been an advocate for the need for the United States to return to a sustainable path from a fiscal perspective at the federal level. We have not been on such a path for some time, which means ... that the debt is growing faster than the economy. This is not the time to act on those concerns. This is the time to use the great fiscal power of the United States to ... do what we can to support the economy and try to get through this with as little damage to the longer-run productive capacity of the economy as possible."



(3) *June*. During his June 10 [press conference](#), in prepared remarks, Powell said: “I would stress that [the Fed has] lending powers, not spending powers. The Fed cannot grant money to particular beneficiaries. ... Elected officials have the power to tax and spend and to make decisions about where we, as a society, should direct our collective resources. The CARES Act and other legislation provide direct help to people and businesses and communities. This direct support can make a critical difference not just in helping families and businesses in a time of need, but also in limiting long-lasting damage to our economy.”

(4) *July*. During his July 29 [press conference Q&A](#), Powell stated: “Fiscal policy ... can address things that we can’t address. If there are particular groups that need help, that need direct monetary help—not a loan, but an actual grant as the PPP program showed—you can save a lot of businesses and a lot of jobs with those in a case where lending a company money might not be the right answer. The company might not want to take a loan out in order to pay workers who can’t work because there’s no business.”

(5) *September*. In prepared remarks at his September 16 [presser](#), Powell said: “The path forward will also depend on the policy actions taken across all parts of the government to provide relief and to support the recovery for as long as needed.” In the Q&A, he warned that “as the months pass ... if there isn’t additional support and there isn’t a job for some of those people who are from industries where it’s going to be very hard to find new work, then that will start to show up in economic activity. It will also show up in things like evictions and foreclosures and, you know, things that will scar and damage the economy.”

(6) *October*. At the National Association for Business Economics virtual annual meeting on October 6, Powell [reiterated](#) his call for more MMT: “By contrast, the risks of overdoing it seem, for now, to be smaller. Even if policy actions ultimately prove to be greater than needed, they will not go to waste. The recovery will be stronger and move faster if monetary policy and fiscal policy continue to work side by side to provide support to the economy until it is clearly out of the woods.”

An October 7 *WSJ* [editorial](#) commented: “It’s important to understand how unusual this is. The Fed’s job is monetary policy and financial regulation. Yet here is a Fed chief lobbying Congress, and the public, on behalf of one side of a fiscal debate.”



(7) *Other talking Fed heads.* And the beat goes on ... On Thursday, Dallas Fed President Robert Kaplan said in a Bloomberg Television interview: “I think the Fed can do more, and I’m sure we’ll look at all our options, but those aren’t substitutes for fiscal policy.”

The same day, Boston Fed President Eric Rosengren emphasized in an [interview](#) with Bloomberg News: “There’s a limit to how far we can push the 10-year Treasury rate or the mortgage-backed rate down.” He added: “That’s not to say we shouldn’t do it. It just says the magnitude of the impact, when rates are already so low, is probably much less than what we want, which is why I think you’re hearing Federal Reserve speakers call out for more fiscal policy.”

**The Fed V: MMT’s Best Friends Forever.** The Fed isn’t the only central bank that has embraced MMT. Arguably, the Bank of Japan (BOJ) led the way with its zero-interest-rate policy, which has been in place since the late 1990s. The People’s Bank of China certainly has enabled China’s commercial banks to finance lots of government spending since 2008.

In her September 4, 2019 speech as the new president of the European Central Bank (ECB), Christine Lagarde called on “the other economic policy makers” to do “what they had to do” to stimulate economic growth. And that was before the pandemic. Since the World Health Organization declared the pandemic on March 11, the ECB’s assets have soared by €2.0 trillion to a record €6.7 trillion ([Fig. 18](#)). This past July, the European Union approved a €750 billion economic recovery fund, which will be financed by issuing common debt, providing more bonds for the ECB to buy.

On Thursday, September 17, BOJ Governor Haruhiko Kuroda pledged to work closely with the country’s new Prime Minister Yoshihide Suga to support the economy. So far, Suga has indicated that he is not focused on the inflation target. Instead, a top priority of his administration is protecting jobs, [reported](#) Reuters. Suga’s emphasis on jobs may influence Kuroda to deemphasize the importance of the inflation target, as Powell’s Fed has recently done. Since the last week of February through the September 25 week, the BOJ’s balance sheet has soared 18% in yen ([Fig. 19](#)).

The three major central banks are all MMT’s BFFs (best friends forever). Their combined balance sheet has jumped \$6.8 trillion to a record \$21.2 trillion since the February 21 week through the September 25 week ([Fig. 20](#)). Here in dollars are each of their increases over this



period and their most current record highs: Fed (\$3.0 trillion \$7.0 trillion), ECB (\$2.5 trillion, \$7.6 trillion), and BOJ (\$1.3 trillion, \$6.6 trillion).

It's good to have friends.

## CALENDARS

**US:** **Mon:** IMF/World Bank Virtual Annual Meeting. **Tues:** CPI Headline & Core CPI 1.4%/1.8% y/y, NFIB Small Business Optimism Index, IMF/World Bank Virtual Annual Meeting. (DailyFX estimates)

**Global:** **Mon:** Japan Machine Tool Orders, China New Yuan Loans ¥1.7t, China Total Social Financing ¥3.15t, China M2 10.4% y/y, Guindos, Lagarde, Schnabel. **Tues:** Eurozone ZEW Economic Sentiment Index 74, Germany CPI -0.2%m/m/-0.2%y/y, UK Employment Change & Unemployment Rate -24k/4.3%, UK Claimant Count Change 80k, Japan Industrial Production -13.3% y/y, EU General Affairs Council Meeting, Buch, Wuermeling. (DailyFX estimates)

## STRATEGY INDICATORS

**Global Stock Markets Performance** ([link](#)): Last week saw the US MSCI index rise 3.9% for its second straight weekly gain and its biggest increase since early June. The index ranked 19th of the 49 global stock markets we follow in a week when 44 of the 49 countries rose in US dollar terms and the AC World ex-US index rose 3.3%. The US MSCI index was out of a correction for a 15th week after slipping back the week before that for the first time in five weeks; it's now 2.6% below its record high on September 2. EM Latin America was the best-performing region last week with a gain of 5.9%, followed by BRIC (3.9%), EM Asia (3.9%), and EMU (3.7). EMEA was the biggest underperformer, albeit with a gain of 1.6%, followed by EM Eastern Europe (1.9) and EAFE (3.0). Mexico was the best-performing country last week, gaining 7.6%, followed by Argentina (7.4), Israel (7.3), and Austria (6.9). Among the 21 countries that underperformed the AC World ex-US MSCI last week, Sri Lanka fared the worst with a decline of 1.6%, followed by the Philippines (-1.1), Jordan (-0.6), Chile (-0.6), and Turkey (-0.2). The US MSCI's ytd ranking remained steady w/w at 6/49 as its ytd gain improved to 9.6% from 5.4% a week earlier. It had been losing ground during September to the AC World ex-US, which rose 3.0ppts w/w to a 4.2% ytd decline. EM Asia is the best regional performer ytd, with a gain of 10.5%, followed by BRIC (4.0). The worst-performing regions ytd: EM Latin America (-34.1), EM Eastern Europe (-30.1), EMEA (-21.2), EMU (-6.3), and EAFE (-6.2). The best country performers ytd: Denmark (30.7), China (18.5), Taiwan (16.4), Sweden



(10.7), and Finland (10.6). The worst-performing countries so far in 2020: Colombia (-45.5), Brazil (-39.0), Greece (-37.9), Hungary (-32.7), and Turkey (-31.7).

**S&P 1500/500/400/600 Performance** ([link](#)): All of these indexes rose for a second week and posted their biggest gains since early June. LargeCap's 3.8% gain was well below the increases for SmallCap (5.7%) and MidCap (4.9). LargeCap improved to 2.9% below its record high on September 2 and has been out of a bear market for 26 weeks and out of a correction for 15 straight weeks. MidCap was out of a correction for a second week, improving to 5.2% below its record high on February 20. SmallCap moved back out of bear market for the first time in five weeks as it improved to 15.7% below its August 29, 2018 record high. All 33 sectors rose last week, up from 31 rising a week earlier. Fifteen sectors are out of a correction now, of which six are LargeCaps, five are MidCaps, and four are SmallCaps. Three MidCap sectors ended the week at a record high: Consumer Staples, Health Care, and Tech. SmallCap Energy was the best performer last week, with a gain of 10.3%, ahead of SmallCap Tech (8.0), MidCap Tech (7.8), MidCap Energy (7.4), and SmallCap Materials (7.2). SmallCap Real Estate and MidCap Communication Services were the biggest underperformers last week, albeit with gains of 0.4%, followed by MidCap Real Estate (1.0) and LargeCap Real Estate (1.4). LargeCap is the only index that's risen for the year so far, with a gain of 7.6%, ahead of MidCap (-3.2) and SmallCap (-9.3). Fourteen of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (31.2), LargeCap Consumer Discretionary (27.8), MidCap Health Care (17.8), MidCap Consumer Staples (13.6), and MidCap Consumer Discretionary (12.5). The biggest laggards of 2020 to date: SmallCap Energy (-55.0), MidCap Energy (-51.2), LargeCap Energy (-48.8), SmallCap Financials (-26.5), and SmallCap Real Estate (-25.4).

**S&P 500 Sectors and Industries Performance** ([link](#)): All of the 11 S&P 500 sectors rose last week, with seven outperforming the composite index's 3.8% gain. That compares to a 1.5% gain for the S&P 500 a week earlier, when ten sectors rose and five outperformed the index. Materials' 5.1% gain made it the best performer for the week, ahead of Energy (5.0%), Tech (4.6), Utilities (4.6), Health Care (4.1), Industrials (4.0), and Consumer Discretionary (3.9). Real Estate was the week's biggest underperformer, with a decline of 1.4%, followed by Communication Services (2.2), Consumer Staples (2.7), and Financials (3.7). The S&P 500 fell 3.9% in September for its first decline in six months. The S&P 500 is now up 7.6% so far in 2020, with just four sectors ahead of the index and six sectors in positive territory. The leading sectors ytd: Information Technology (31.2), Consumer Discretionary (27.8), Communication Services (9.3), and Materials (8.3). The laggards of 2020 so far: Energy (-48.8), Financials (-



18.0), Real Estate (-4.7), Utilities (-1.8), Industrials (-0.8), Consumer Staples (4.5), and Health Care (6.3).

**Commodities Performance** ([link](#)): Last week, the S&P GSCI index soared 6.8% for its biggest gain since early May, paced by increases for 22 of the 24 commodities that we follow. It's now down 18.9% from its recent high on January 6 and still in a severe bear market at 28.2% below its four-year high on October 3, 2018. Natural Gas was the best performer last week, with a gain of 23.8%, followed by Heating Oil (10.5%), GasOil (10.1), and Crude Oil (10.1). Feeder Cattle was the biggest decliner for the week, with a drop of 3.8%, followed by Cocoa (-2.0). Twelve of the 24 commodities that we follow are higher so far in 2020, up from ten a week earlier. The best ytd performers: Silver (40.1), Natural Gas (37.9), Gold (26.5), Soybeans (11.5), and Kansas Wheat (10.2). The worst performers ytd: GasOil (-42.8), Heating Oil (-40.8), Brent Crude (-34.6), Crude Oil (-33.2), and Unleaded Gasoline (-29.7).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 rose 3.8% last week and improved relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). The index moved back above its 50-dma after three weeks below and was above its 200-dma for a 15th week. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. Turning to how the dmAs compare relative to one another, the index's 50-dma relative to its 200-dma improved for a 21st week after 12 declines, putting the index in a Golden Cross (with 50-dmas higher than 200-dmas) for a 14th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March 2019. The index's 50-dma improved last week to 8.6% above its 200-dma from 8.2% above in the prior week. That's the most that the former has exceeded the latter since May 2012, when the 50-dma peaked at 8.8% above its 200-dma. The 50-dma had been 9.9% below the 200-dma in mid-May, which was the most that the former had lagged the latter since May 2009. During late February, the 50-dma had been 7.6% above the index's 200-dma. Turning to the individual dmAs, the S&P 500's 50-dma rose for a 21st week after declining for 12 straight weeks. The price index improved to 2.8% above its rising 50-dma from 0.5% below a week earlier, but is down from an 11-week high of 7.6% at the end of August. It had been trading above its 50-dma since late April and peaked in early June at 11.7% above the index's 50-dma, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The 200-dma rose for a 21st week as well. It had been rising for 39 weeks through early March. The index was above its 200-dma for a 15th week after falling below the



week before that for the first time in five weeks. It ended the week 11.6% above its rising 200-dma, up from 7.7% a week earlier and 13.7% at the end of August, which was the highest reading since February 2011. Last week's 11.6%-above reading is up from the 26.6% below registered on March 23—the lowest reading since March 2009 and down from a two-year high of 11.2% in mid-February. For perspective, the current 200-dma reading compares to a seven-year high of 13.5% above the index's (rising) 200-dma during January 2018 and 14.5% below on December 24, 2018 (then the lowest since April 2009). At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up from six a week earlier and just one the week before that. That compares to all 11 sectors above in the three weeks around the start of June. These two sectors are still below their 50-dmas: Communication Services and Energy. Ten sectors traded above their 200-dmas, up from nine a week earlier. Energy is the only sector trading below its 200-dma. That compares to just one sector (Health Care) above its 200-dma in early April. Eight sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. The three sectors still in a Death Cross: Energy, Financials, and Utilities. At the prior low during February 2019, just two sectors (Real Estate and Utilities) were in the club. Energy has not been in a Golden Cross for 101 straight weeks. Ten sectors have a rising 50-dma, up from nine a week earlier. Energy is the only sector with a falling 50-dma. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That's a big improvement from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Six sectors have rising 200-dmas, unchanged from a week earlier. Sectors with falling 200-dmas: Energy, Financials, Industrials, Real Estate, and Utilities. Financials' 200-dma was down for a 31st week, so long for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

## GLOBAL ECONOMIC INDICATORS

**UK GDP** ([link](#)): The UK economy remained on an upswing in August, though the pace slowed despite an easing of lockdown restrictions and government subsidies for dining in restaurants. The ONS said: "Although August 2020 saw the fourth consecutive month of growth it was the slowest rate of expansion since April 2020 and production industries growth was relatively subdued." GDP expanded for the fourth month, climbing 2.1% in August (less than half the expected gain), following average monthly increases of 7.8% the prior two months; the level



was 9.2% below pre-COVID-19 levels. Production industries (0.3%) growth was at a relative standstill in August, after averaging gains of 6.9% the prior three months, with the gain in manufacturing slowing to 0.7% in August from 6.9%, 12.0%, and 7.8% the prior three months; mining fell 4.1% in August and 5.5% during the two months ending August. Here's a look at the four-month performance of the four sectors, along with where they stand relative to pre-pandemic levels: construction (60.4% & -12.0%), production (22.4 & -6.1), services (19.5 & -9.8)—boosted by accommodations & food services (873.1 & -13.7) and agriculture (3.7 & -5.1). Here's the same exercise for manufacturing (30.1% & -8.5%), which is included in the production sector.

**UK Industrial Production** ([link](#)): Output rose in August for the fourth month, expanding only 0.3% after advances of 5.2%, 9.9%, and 5.6% the prior three months; it's within 6.1% of its pre-pandemic level. Production had contracted a record 23.3% during the two months ending April. The increase in factory production eased to 0.7% in August, after a three-month surge of 29.2%. Here's the fourth-month performance by the main industrial groupings, and where they stand relative to their respective pre-pandemic highs: capital (42.7% & -14.8%), intermediate (38.8 & -6.6), consumer durable (33.9 & -6.9), and consumer nondurable (10.2 & -2.0) goods. Looking ahead, IHS Markit's September survey showed manufacturing activity increased for the fourth successive month, though the rate of growth eased slightly—with the M-PMI dipping to 54.1 in September, from August's two-and-a-half-year high of 55.2. The report notes that the foundation of the ongoing recovery is centered in new orders—with new business rising for the third consecutive month. Solid gains were recorded by the intermediate, consumer, and capital goods sectors—with the steepest gains posted in intermediate goods. As for company size, large manufacturers saw the fastest growth, small manufacturers the slowest.

**France Industrial Production** ([link](#)): Production advanced in August for the fourth straight month, though the pace of advance continued to slow from the double-digit gains posted during May and June. Output increased by 1.3% in August and by 42.2% over the past four months, after plunging 34.1% during the two months through April; August's output was 6.3% below February's pre-pandemic level. Manufacturing production climbed 1.1% in August and 47.7% during the four months ending August—following a two-month plunge of 37.3%. Factory output is 7.4% below its pre-pandemic level. Consumer durable goods (337.8%) production posted the strongest four-month gain, driven by motor vehicle production, followed by capital (73.3), intermediate (54.9), and consumer nondurable (15.1) production—with the latter taking a step back in August (-2.3%). Production in these industrial groupings were 3.9%, 9.9%, 6.3%, and 5.1%, respectively, below their February pre-pandemic readings. IHS Markit's



September survey's M-PMI (to 51.2 from 49.8) showed France's manufacturing was expanding again, after a quick trip into contractionary territory in August following expansion in June and July. Both output and new orders increased further, and there were signs that business confidence is gaining momentum.

**Italy Industrial Production** ([link](#)): Italy's industrial production continued to post impressive increases in August, expanding 7.7% m/m and 76.6% during the four months ending August, surpassing its pre-pandemic level. September's IHS Markit survey suggests more of the same. Manufacturing jumped 7.1% in August and 85.9% over the four months ending August to within a tick of its pre-pandemic reading. Similar to France, consumer durable (699.4%) goods production posted the biggest four-month gain, followed by capital (112.2), intermediate (80.9), and consumer nondurable (36.6) goods. September's IHS Markit survey revealed manufacturing activity accelerated for the fifth month, from 31.1 in April to 53.2 last month—its best reading since June 2018. According to the report, client demand improved both domestically and from abroad, providing a further boost to this sector, leading to sustained and solid growth of both output and total new orders. This enabled firms to take on additional staff for the first time since May 2019, in preparation for future demand.

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