

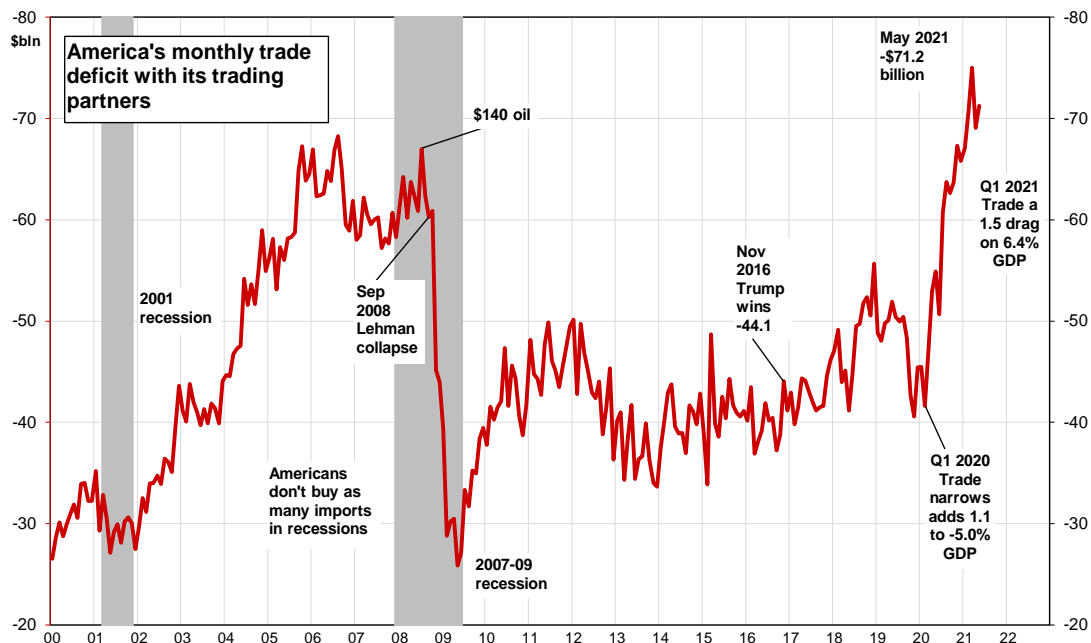
Financial Markets This Week

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TRADE DEFICIT HASN'T TURNED YET AFTER THE PANDEMIC

Breaking economy news or maybe not. First off, the May 2021 trade deficit data was released last Friday at the same time of the monthly employment situation report for June with the 850K gain in payroll jobs. Guess which got more air time. Secondly, it isn't



news as the U.S. almost always runs a deficit with its trading partners buying more than we sell. That used to be a good thing that we help other areas of the world develop but trade has become more political even though Washington is under new management and no longer says the U.S. is getting ripped off. The trade deficit in goods is the greatest in China at \$310.2 billion in 2020, followed by the European Union at \$184.2 billion. The trade wars have not been completely vanquished and there are concerns about supply chain availability for many inputs for factory production here, and the number of good-paying manufacturing jobs, as we come out of recession. It is remarkable to note how the normal trend during recessions where the trade deficit narrows as U.S. demand for everything, including imports, declines... that trend has been turned upside down.

Trade War 2020			
Trade deficit in goods			
\$ billions		Exports	Imports
China	310.2	124.4	434.7
EU	184.2	231.2	415.4
Germany	57.6	57.4	115.0
Mexico	113.7	211.4	325.2
Japan	55.7	63.7	119.4
Vietnam	69.7	9.9	79.6
South Korea	25.0	50.9	76.0
Canada	-14.9	255.3	270.3
World	911.0	1,424.9	2,335.9

U.S. exports to the world are better now than before the pandemic in early 2020. Over the first five months of 2021 exports are \$696.7 billion which is an increase of 19.7% from \$582.2 billion in the first five months of 2020. The U.S. China phase I trade deal was signed in December 2019. Total U.S. soybean exports bounced back and are running \$10.7 billion so far this year. Corn exports have seen the biggest increase to \$9.5 billion in 2021 so far versus \$3.8 billion in the comparable period of 2020. Autos/parts exports rebounded from the recession last year up 35.3% to \$60.6 billion. American goods exports are diverse and no one category dominates, at least for now with

Civilian aircraft down 4.2% in 2021 to \$8.1 billion. Consumers like foreign goods, but the U.S. does export consumer goods overseas with \$27.4 billion of Pharmaceutical preparations in 2021, 32.5% of total Consumer goods exports.

Imports of foreign goods are still much greater than U.S. exports. \$1.136 trillion through May this year up 22.3% from 2020. Medical equipment is up 35.5% to \$24.8 billion this year. Computers are \$43.4 billion up 32.6% this year and Computer accessories up 19.4% to \$26.5 billion. Semiconductors are in the news and imports are up 11.7% to \$27.8 billion. The stay-at-home economy continues at least with Furniture up 47.1%, Household appliances up 55.2%, Toys, games, sporting goods up 87.5%. Cell phones continue to see demand, rising 34.2% so far in 2021 to \$49.1 billion. The bottom line is it is going to be hard to break America's addiction to foreign goods which are produced more cheaply in overseas markets.

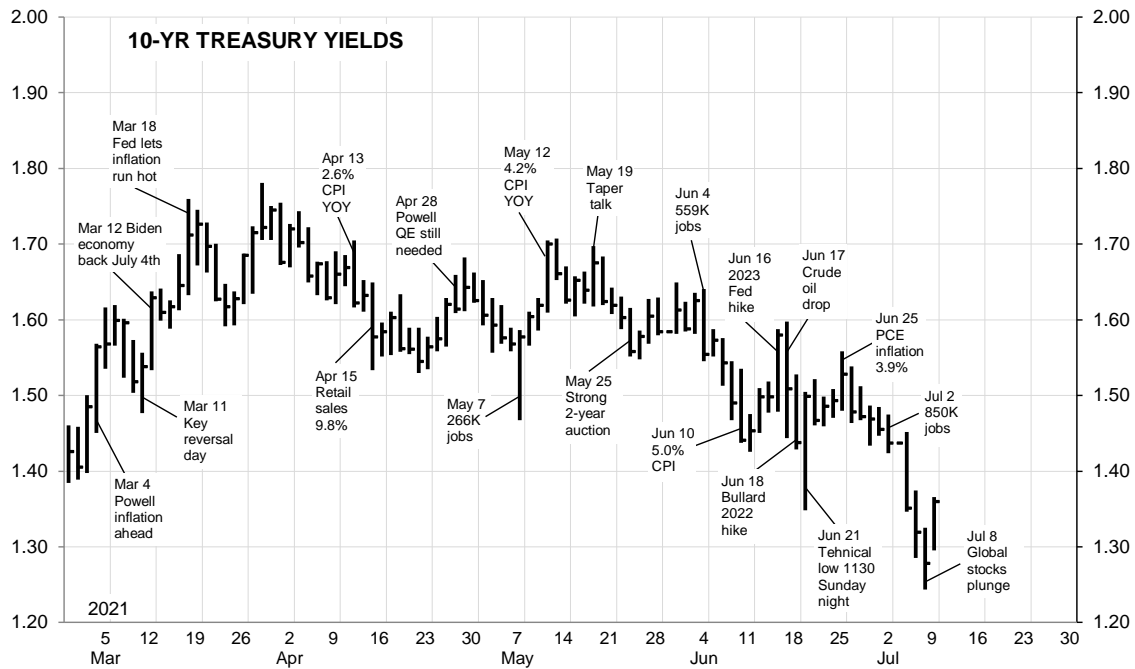
U.S. Exports of Goods to the Rest of the World

Millions of dollars	May 2021	Apr 2021	2021 YTD	2020 YTD
Total *	144,969	144,574	696,795	582,288
<u>Foods, feeds, beverages</u>	13,981	13,683	68,331	55,289
Meat, poultry, etc.	2,326	2,089	10,182	8,941
Corn	2,099	2,007	9,539	3,894
Soybeans	1,706	1,712	10,743	8,383
<u>Industrial supplies, materials</u>	52,312	52,171	246,765	194,140
Crude oil	5,154	5,715	24,203	22,333
Petroleum products, other	5,645	5,086	22,980	18,111
<u>Capital Goods ex-autos</u>	43,786	44,238	210,300	195,568
Semiconductors	5,969	5,540	26,695	22,313
Electric apparatus	3,557	3,557	17,449	15,691
Medical equipment	3,530	3,384	16,601	15,385
Engines-civilian aircraft	3,013	2,924	14,028	18,585
Telecom equipment	2,935	2,889	13,950	13,006
Civilian aircraft	1,364	2,781	8,101	8,461
<u>Auto vehicles, parts, engines</u>	11,369	11,915	60,680	44,836
<u>Consumer goods</u>	17,956	16,977	83,387	68,450
Pharma preparations	6,190	5,389	27,460	23,735
Cell phones	2,659	2,346	12,394	9,573
Gem diamonds	1,450	1,427	6,512	4,307
<u>Other goods</u>	5,565	5,588	27,331	24,005
* Total Exports of goods on Census Basis				

U.S. Imports of Goods from the Rest of the World

Millions of dollars	May 2021	Apr 2021	2021 YTD	2020 YTD
Total *	233,130	230,486	1,136,547	929,368
<u>Foods, feeds, beverages</u>	15,385	14,544	70,896	62,621
<u>Industrial supplies, materials</u>	52,252	49,684	241,411	209,282
Crude oil	10,765	9,968	46,072	36,435
Finished metal shapes	2,431	2,389	14,314	20,123
<u>Capital Goods ex-autos</u>	62,577	63,705	309,296	258,190
Computers	7,383	8,669	43,350	32,690
Computer accessories	5,444	5,420	26,529	22,223
Semiconductors	5,944	5,521	27,826	24,909
Electric apparatus	5,773	5,578	27,365	20,767
Telecom equipment	5,273	5,850	27,477	23,301
Medical equipment	5,141	5,281	24,810	18,317
<u>Auto vehicles, parts, engines</u>	29,187	29,359	148,996	110,680
<u>Consumer goods</u>	63,984	63,719	318,409	244,297
Pharma preparations	14,286	12,875	70,302	68,825
Cell phones	9,717	10,507	49,152	36,622
Toys, games, sporting goods	5,224	4,758	24,800	13,225
Furniture, household goods	4,167	4,282	20,347	13,829
Household appliances	3,354	3,298	17,416	11,220
<u>Other goods</u>	9,745	9,475	47,538	44,298
* Total Imports of goods on Census Basis				

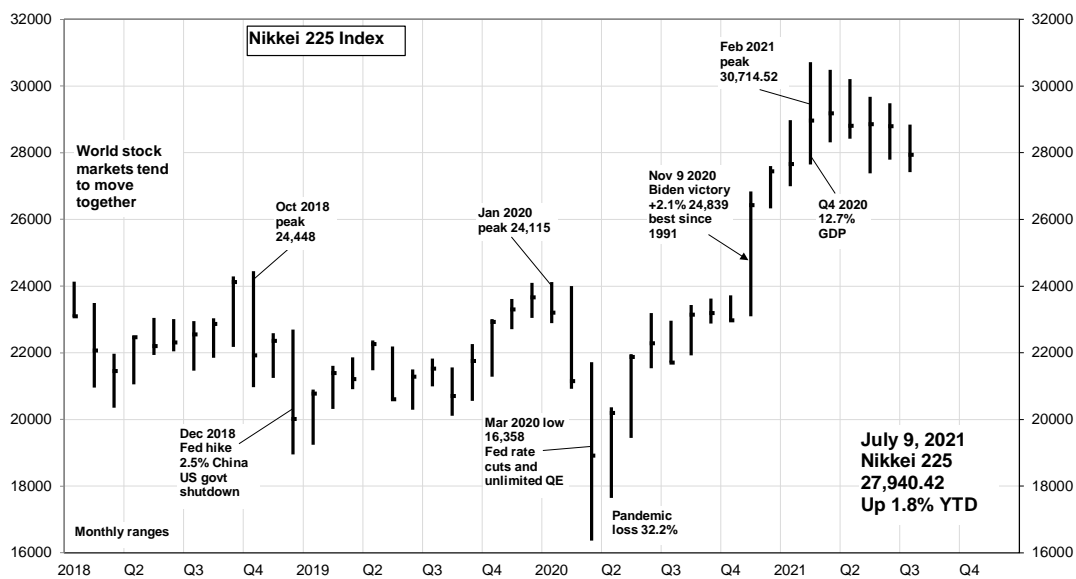
INTEREST RATES



Yields in the bond market plunged on Tuesday and the reason is not completely clear. There is commentary suggesting the bond market knows an economic slowdown is coming, but the drop in 10-year yields from 1.44% at last week’s Friday close to 1.35% on Monday seems to have followed weakness in the stock market which had something to do with Chinese stock listings in the U.S. and at 10am ET the ISM services index fell from 64.0 in May to 60.1 in June. Bond market volatility increased with a low of 1.25% Thursday when stocks cratered briefly. Bonds Friday closed at 1.36%.

Nikkei 225 stocks highest since 1990 in February, but rally loses steam

Japan was in the news declaring a state of emergency in Tokyo with the rise in Covid cases. The Olympic games are still on but minus spectators. Global stocks fell sharply Thursday on a growth scare and the Covid Delta variant. US stocks bottomed Thursday before 7am ET, but Japan stocks opening on Friday, kept falling as they did every day of the July 9 week, ending on Friday down 2.9% for the week to 27,940.



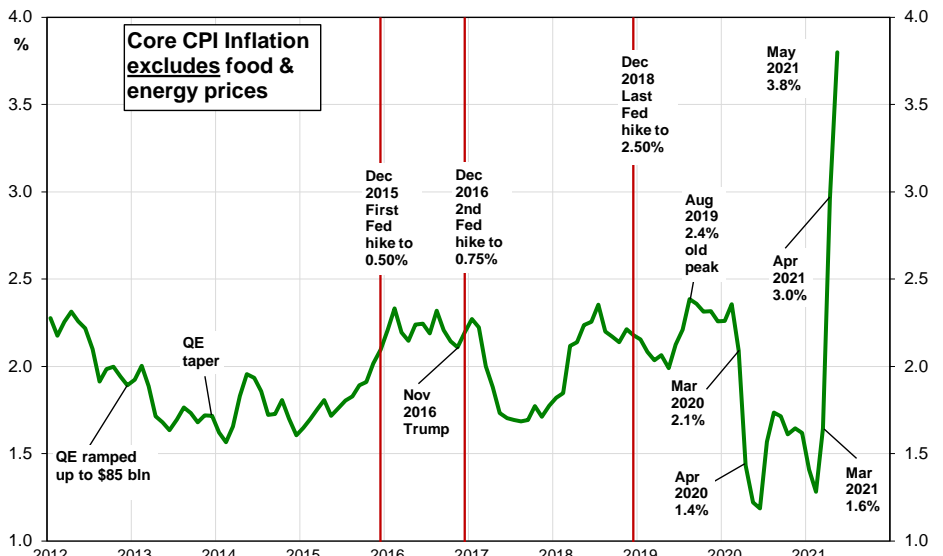
FEDERAL RESERVE POLICY

The Fed meets on July 27-28, 2021 to consider its monetary policy. The stock market read the Fed meeting minutes and came to the conclusion that the Hear-no, See-no, Speak-no Evil policymakers were not any closer to scaling back their unprecedented monetary stimulus. Inflation, what inflation? Fed officials didn't see no inflation and the Fed meeting minutes didn't speak of inflation as a worry or risk for the economy. There wasn't a hint when the announcement on tapering might come besides the comments of some that they were closer to thinking about tapering than they had been. We were struck by how the Fed looked at the record high number of job openings and still thought the labor market wasn't any closer to the improvement they thought was necessary before they could pare back those monthly \$120 billion of QE purchases. Incredible. Fed officials continue their purchases at emergency strength even though the emergency is over. The emergency is over and the Fed minutes even said that Covid was less of a drag on the economy and agreed to drop language in the press statement saying: "the ongoing public health crisis continues to weigh on the economy." The minutes cited the primary dealers survey as saying "traders" didn't look for the Fed to begin tapering before Q1 2022. Perhaps Fed officials take comfort in the survey and see no need to rush.

Selected Fed assets and liabilities					March 11 2020**
Fed H.4.1 statistical release	7-Jul	30-Jun	23-Jun	16-Jun	pre-Covid
billions, Wednesday data					
Factors adding reserves					
U.S. Treasury securities	5201.725	5183.385	5163.445	5153.771	2523.031
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347
Mortgage-backed securities (MBS)	2319.637	2319.637	2354.155	2328.124	1371.846
Repurchase agreements	0.000	0.000	0.000	0.000	242.375
Primary credit (Discount Window)	0.406	0.477	0.461	0.584	0.011
MMLF	0.000	0.000	0.000	0.000	
PDCF	0.000	0.000	0.000	0.000	
Commerical Paper Funding Facility	0.000	0.000	8.554	8.554	
Paycheck Protection Facility	88.376	90.626	87.129	86.591	
Corporate Credit Facility (CCF)	25.931	25.902	25.863	25.844	
Municipal Liquidity Facility	10.742	10.740	10.738	10.736	
Main Street Lending Program	30.555	30.547	30.538	30.529	
Term Asset-Backed Facility (TALF II)	4.689	4.689	4.762	4.762	
Central bank liquidity swaps	0.521	0.568	0.483	0.500	0.058
Federal Reserve Assets	8147.1	8126.9	8151.2	8113.5	4360.0
3-month Libor %	0.12	0.15	0.15	0.12	0.77
Factors draining reserves					
Currency in circulation	2188.852	2183.581	2179.557	2178.952	1818.957
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	724.898	851.929	733.877	765.114	372.337
Treasury credit facilities contribution	40.278	40.278	50.278	50.278	
Reverse repurchases w/others	785.720	991.939	813.650	520.942	1.325
Reserve Balances (Net Liquidity)	3856.203	3511.630	3765.713	3905.735	1779.990
Treasuries within 15 days	76.653	79.125	80.188	79.372	21.427
Treasuries 16 to 90 days	295.430	267.131	299.927	292.109	221.961
Treasuries 91 days to 1 year	658.430	678.379	647.609	656.183	378.403
Treasuries over 1-yr to 5 years	2002.523	1995.709	1983.709	1982.040	915.101
Treasuries over 5-yrs to 10 years	954.433	950.972	947.593	943.249	327.906
Treasuries over 10-years	1214.256	1212.068	1204.418	1200.819	658.232

**March 11, 2020 start of coronavirus lockdown of country
 MMLF: Money Market Mutual Fund Liquidity Facility; loans secured by assets bought by banks from money market funds
 PDCF: Primary Dealer Credit Facility; o/n and term funding with maturities to 90 days
 CCF: Corporate credit facility: Primary market (PMCCF) and Secondary Market (SMCCF)

The "substantial further progress" requirement had not been met yet for the Fed to taper according to the June Fed meeting minutes released Wednesday at 2pm ET. The "substantial further progress" language was put out there at the December 2020 meeting when the unemployment rate was 6.7% and it was 5.8% in the June 2021 meeting minutes. In fact, some Fed officials were urging the committee to be patient which



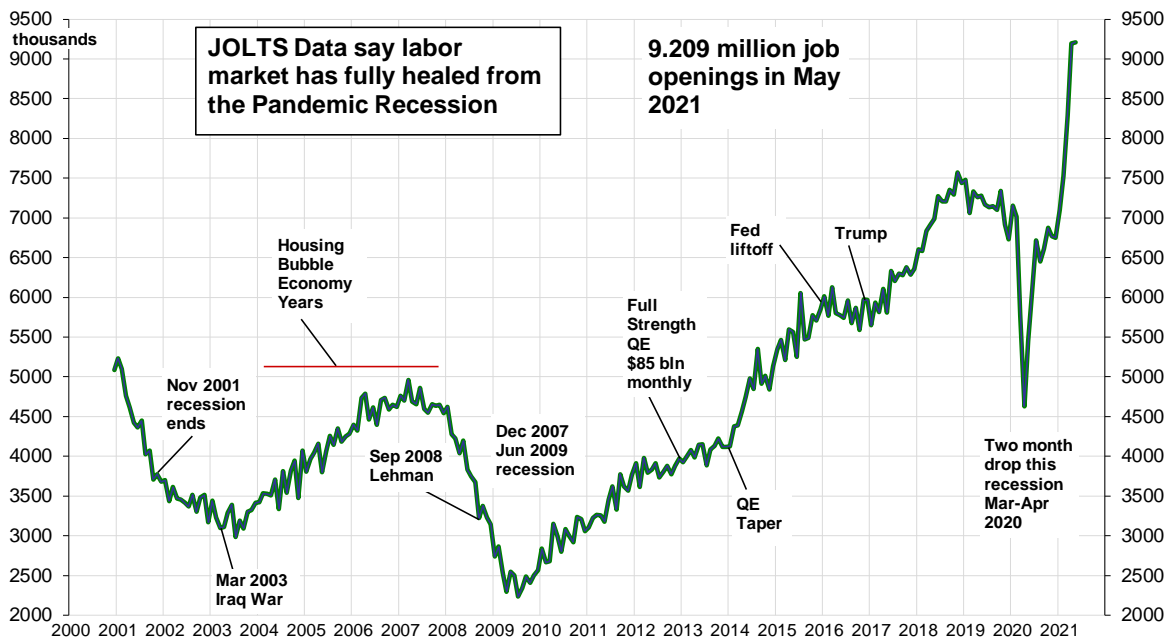
must mean the committee is more split than the minutes suggested. There have been Fed comments since the June 2021 meeting saying the timing of rate hikes needed to be brought forward. For us, it doesn't seem appropriate to keep adding money to the banking system if the economy creates 850K new payroll jobs in June, the uptick in the unemployment rate from 5.8 to 5.9 percent notwithstanding. But last Friday's employment situation is unlikely to change Fed officials' minds. Maybe the July 27-28, 2021 Fed meeting is going to be less interesting than we thought. Stay tuned. QE taper story developing slowly. In the meantime, looking forward to June CPI inflation due out on Tuesday, July 14 at 830am ET. It can't get much worse than it is currently for inflation, and now that the bond market rally is no longer fearing inflation, Fed officials are likely to continue to maintain the inflation outbreak is temporary.

OTHER ECONOMIC NEWS

Record job openings mean wages and inflation going up (Wednesday)

Breaking economy news. The number of job openings hit a new record in May at 9.209 million up slightly from 9.193 million in April. Manufacturing needs 814 thousand workers, retail stores need 974 thousand, hotels and restaurants want to hire 1.248 million. We have never seen such a high demand for labor this early in any recovery from recession in U.S. history. Record job openings mean the economy has skipped the recovery phase and shifted into a higher gear of faster economic growth that looks more like the best economy in fifty years before the pandemic.

Net, net, this has been a recession like no other with the record levels of job openings calling into question the claims of Washington policy officials that additional stimulus is still needed to aid the recovery. We are faced with two conflicting data sources one that says millions are unemployed and still out of work from the recession and the other saying job openings are in the millions, record levels which we ordinarily only see when the economy is experiencing a boom. Today's record 9.3 million of job openings tells us the economy is better than many thought. The wage-spiral from the 70s is back and it's time for the fiscal stimulus from Washington to wind down. The labor market is on fire. Record job openings mean wages and inflation are going up. Bet on it.



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