

# RJO Previews and Perspectives for Friday, Oct 16

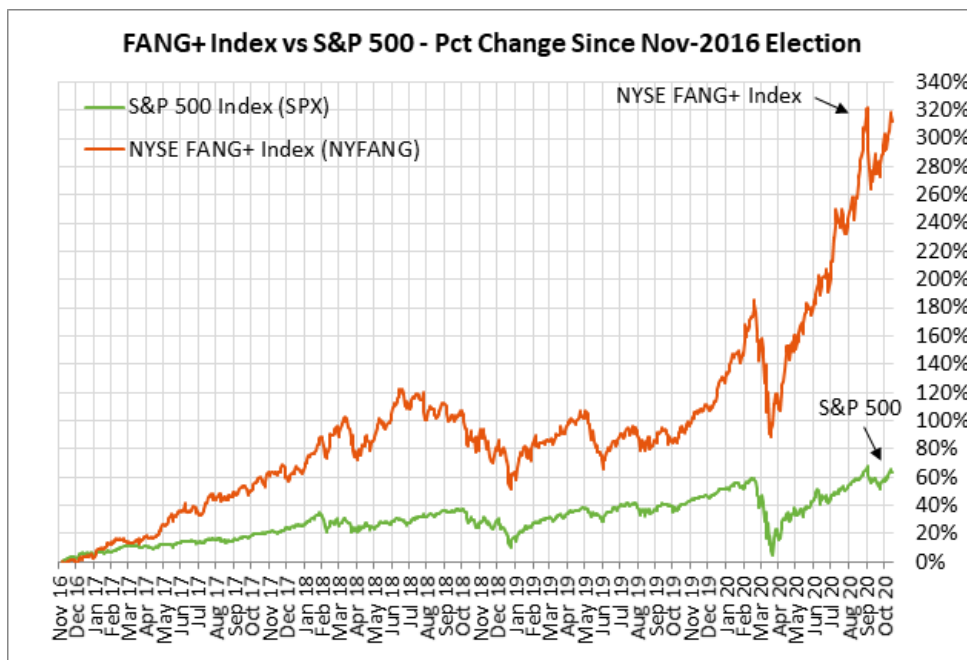
Posted on [10/15/2020 9:15:22 PM](#)

**President Trump says he would go above \$1.8 trillion on stimulus but negotiations continue at a glacial pace** -- President Trump on Thursday said he was willing to go higher than his most recent stimulus offer of \$1.8 trillion. However, he didn't specify a new figure, and there was no indication that Treasury Secretary Mnuchin communicated a higher offer to Speaker Pelosi. Mr. Trump did say he wouldn't go as high as Speaker Pelosi's demand for a \$2.2 trillion deal.

Speaker Pelosi and Treasury Secretary Mnuchin spoke again on Thursday. The Washington Post reported that they reached an agreement on the language for a national strategic Covid testing plan. While that was a step in the right direction, the two sides are still far apart on the top-line figures and still have various policy disagreements.

The stock market yesterday recovered from its early lows after President Trump said he would accept a deal above \$1.8 trillion, and after Speaker Pelosi told her caucus that a Covid relief package won't wait until January. However, not much has changed since Treasury Secretary Mnuchin on Wednesday said, "At this point getting something done before the election and executing on that would be difficult, just given where we are in the level of details."

Meanwhile, Senate Majority Leader McConnell yesterday again suggested that Senate Republicans would not accept a stimulus deal of \$1.8 trillion or larger. Senate McConnell plans to have the Senate vote next week on another \$500 billion stimulus plan as a messaging exercise to show voters that Senate Republicans are willing to provide some stimulus. That skinny bill is expected to again include another round of PPP aid, money for virus testing, and a Covid liability shield.



**Johnson will dramatically announce today whether he is walking away from the Brexit talks** -- UK officials yesterday said they were "disappointed" and "surprised" that EU leaders yesterday on the first day of their 2-day summit called on the UK to make more compromises before moving to the so-called "tunnel" stage of two weeks of intensive talks. UK officials said Prime Minister Johnson will respond today.

EU officials for the first time are starting to think that Mr. Johnson might be serious about walking away from the talks. However, even if Mr. Johnson today says he's walking away from the talks, it might be no worse than a car buyer walking out of car dealership, only to return later to force a better deal. The two sides have several more weeks to reach an agreement, which would leave enough time for EU approval and approval by EU national parliaments.

GBP/USD on Thursday closed with a fairly sharp loss of -0.79%, although it remained above Wednesday's 1-week low.

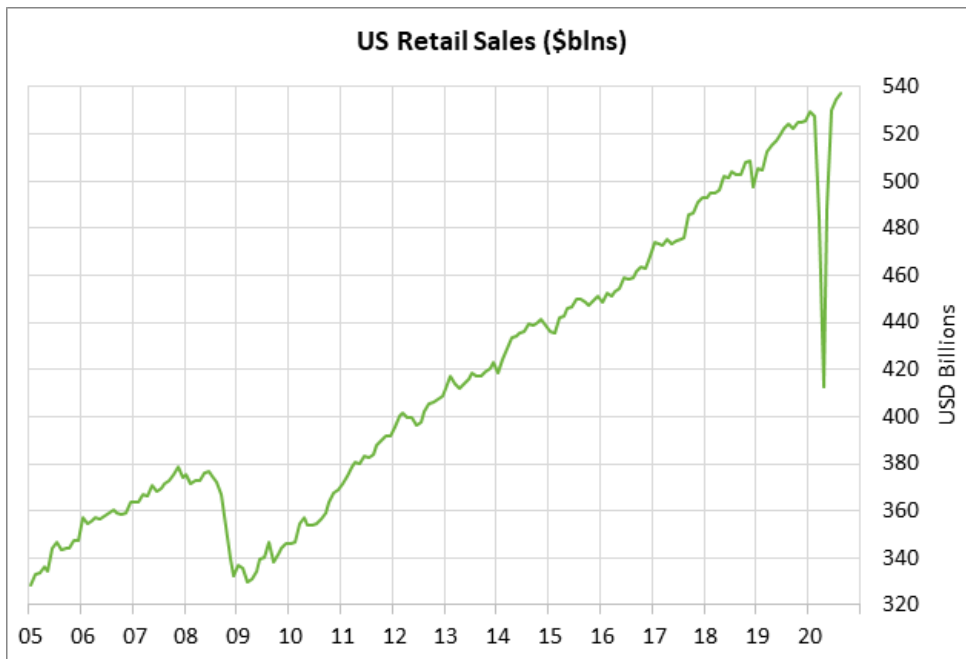
^GBPUSD - British Pound/U.S. Dollar - Daily OHLC Chart

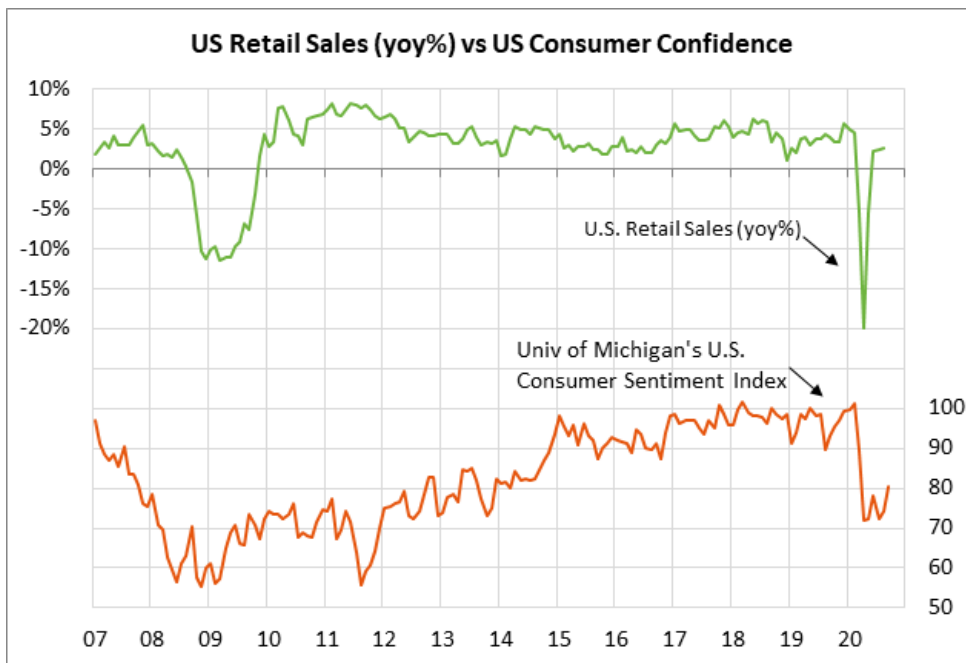


**U.S. consumer sentiment expected to be little changed but retail sales are expected to continue to rise** -- The consensus is for today's preliminary-Oct University of Michigan U.S. consumer sentiment index to show a slight gain of +0.1 to 80.5, adding to September's unexpected +6.3 point rise to a 6-month high of 80.4.

The consumer sentiment index has so far recovered only a small portion of its pandemic plunge, and would have to rise by another 20.6 points to reach the pre-pandemic level of 101.0 seen in February. U.S. consumer sentiment continues to be dampened by (1) the continued high level of U.S. unemployment, (2) concern about the prospects for an economic recovery with new U.S. Covid infections at a 2-month high, (3) the lack of new stimulus measures, and (4) political uncertainty ahead of the November 3 election.

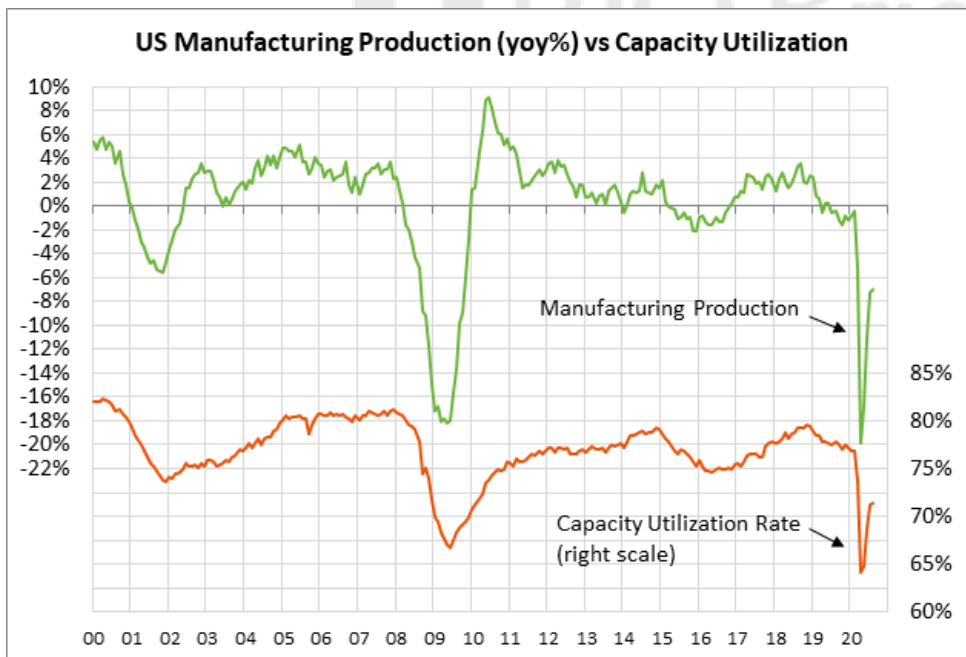
While consumer sentiment remains weak, consumers at least continue to boost their spending. In August, U.S. retail sales reached a new record high of \$537.5 billion and were up +2.5% y/y. The consensus is for today's Sep U.S. retail sales report to show increases of +0.8% m/m and +0.4% m/m ex-autos, adding to August's increases of +0.6% m/m and +0.7% m/m ex-autos. While retail sales have now risen for four straight months (May-Aug), there is concern that retail sales could sputter going into year-end since government stimulus measures have mostly expired and since pent-up consumer demand has already been met.



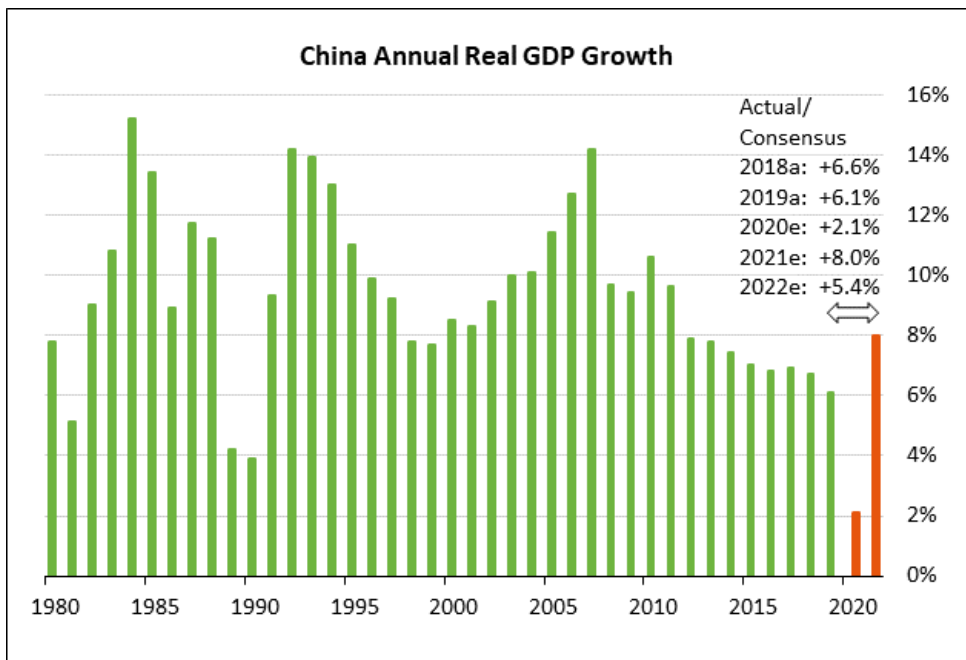


**U.S. manufacturing production expected to rise but has a long way to go** -- The consensus is for today's Sep manufacturing production report to show an increase of +0.6% m/m, adding to Aug's increase of +1.0% m/m. Meanwhile, the broader Sep industrial production report is expected to show an increase of +0.6% m/m, adding to Aug's increase of +0.4% m/m.

U.S. manufacturing production has risen for the last four months (May-Aug), and has regained two-thirds of the plunge seen in March-April on the pandemic shutdowns. However, U.S. manufacturing production in August was still down -6.9% y/y, showing that the U.S. manufacturing sector still has a long way to go before recovering its (1) pandemic losses, and (2) the losses seen in the latter half of 2019 when the U.S. manufacturing sector was in a recession due to the trade war and weak overseas economic growth.



**China Q3 GDP expected to finish overcoming Q1 plunge** -- The consensus is for Sunday night's (ET time) China Q3 GDP to show an increase of +3.3% q/q and +5.5% y/y, adding to the recovery seen in Q2 of +11.5% q/q and +3.2% y/y. China's GDP in the last three quarters of 2021 is expected to easily overcome the -10.0% q/q plunge seen in Q1, producing an expected GDP annual growth rate in 2020 of +2.1%. China's GDP is then expected to show a strong +8.0% rebound in 2022 before tailing off to +5.4% in 2022.



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