Weekly — August 4, 2023

Weekly Economic & Financial Commentary

United States: **First Glimpse Points to July Activity Remaining Firm**

- Following last week's data, which brought some encouraging updates showing ongoing strong growth and easing inflation, this week continued with the first look at key July indicators, including more evidence that the labor market continues to gradually cool.
- Next week: Consumer Credit (Mon.), NFIB Small Business Optimism (Tues.), CPI (Thu.)

International: **Central Bank Bonanza**

- This week, multiple central banks met to assess monetary policy. Policymakers across the G10 and emerging markets gathered to discuss economic conditions as well as set interest rates. Results varied as select institutions opted for additional tightening, some held monetary policy settings steady, while others opted for interest rate cuts.
- Next week: China Activity Data (Mon.-Fri.), Reserve Bank of India (Thu.), Central Bank of Mexico (Thu.)

Credit Market Insights: **A Sweltering Summer for Credit Markets**

- Credit markets are feeling the heat. The quarterly SLOOS report released on Monday detailed tightened lending standards and gradually weakening loan demand during the second quarter. The report shows that as credit has gotten expensive, consumers have pulled back on borrowing and lenders' risk appetites have dimmed. In addition, the Small Business Administration implemented a lending policy overhaul this week that aims to widen small business' access to credit.

Topic of the Week: **Down but Not Out**

- Fitch Ratings downgraded the United States' long-standing credit rating from the top rating of "AAA" to "AA+." This is only the second time in U.S. history that a credit rating agency has downgraded the country's sovereign credit rating. Such a move raises concerns over an increase of the federal government's borrowing costs.

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Wells Fargo U.S. Economic Forecast

	Actual						Forecast		Actual		Forecast	
	2022				2023				2021	2022	2023	2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product [1]	-1.6	-0.6	3.2	2.6	2.0	2.4	1.7	0.2	5.9	2.1	1.7	0.1
Personal Consumption	1.3	2.0	2.3	1.0	4.2	1.6	1.9	1.2	8.3	2.7	2.1	0.3
Consumer Price Index [2]	8.0	8.6	8.3	7.1	5.8	4.1	3.2	3.0	4.7	8.0	4.0	2.5
"Core" Consumer Price Index [2]	6.3	6.0	6.3	6.0	5.6	5.2	4.4	3.9	3.6	6.1	4.8	3.1
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	0.25	2.02	5.31	4.13
Conventional Mortgage Rate	4.27	5.58	6.01	6.36	6.54	6.71	6.70	6.45	3.03	5.38	6.60	5.83
10 Year Note	2.32	2.98	3.83	3.88	3.48	3.81	3.75	3.60	1.45	2.95	3.66	3.16

Forecast as of: July 13, 2023 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Please see our full U.S. Economic Forecast.

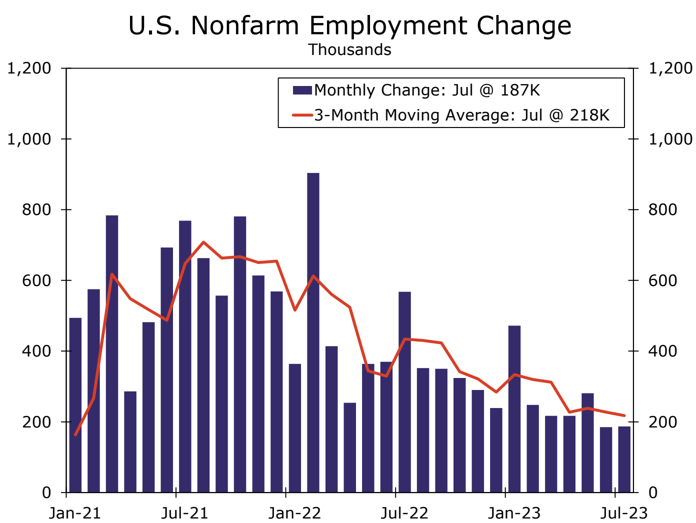
U.S. Review

First Glimpse Points to July Activity Remaining Firm

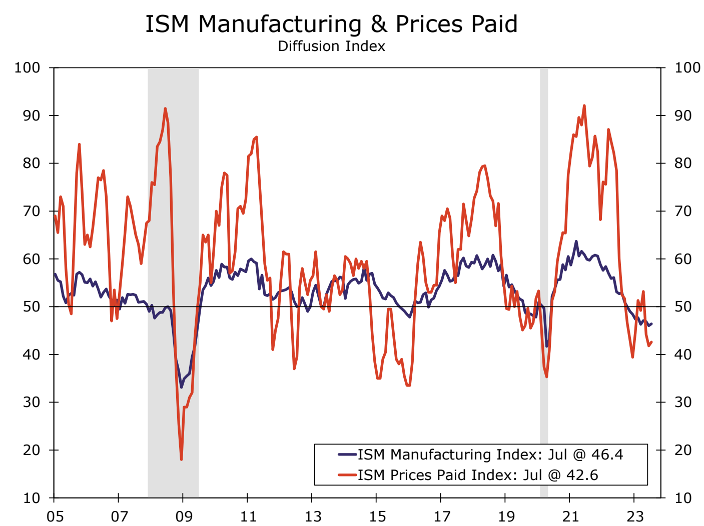
Following last week's data, which brought some encouraging updates showing ongoing strong growth and easing inflation, this week continued with the first look at key July indicators, including more evidence that the labor market continues to gradually cool.

The big release of the week was the July nonfarm payroll report, which showed employers adding 187K net new jobs last month. A downside miss to the consensus expectation of 200K, July's performance marks the second straight month below 200K, the weakest two-month performance in two and a half years, and marks the sixth consecutive month of downward revisions to the previous month's estimate. Employment growth was broad-based, though reliant on a 87K gain in health care & social assistance. Modest gains from construction, financial activities and hospitality also contributed to private sector job growth. Weakness was also evident with job losses in professional & business services, manufacturing, information and temporary help, a reminder that the Fed's monetary policy tightening efforts are having a cooling effect on some of the more cyclical parts of the economy. The unemployment rate fell for the second straight month to 3.5%, a tick above the 53-year low in January and April of this year and a reminder that the labor market remains tight even with the lower-than-expected headline payroll readings. Average hourly earnings beat expectations and rose 0.4% month-over-month in July. The three-month annualized pace of 4.9% stands above the year-over-year pace of 4.4%, indicating upward pressures are still evident, according to this measure of wages. That said, the more comprehensive Employment Cost Index showed that labor costs rose at the slowest pace in two years during the past quarter, which should temper FOMC concerns about the stronger-than-expected average hourly earnings performance.

Continued cooling in the labor market was evident elsewhere. Job openings declined in June to more than a two-year low to 9.58 million from a downwardly revised 9.62 million in May. The job openings rate remained unchanged in June at 5.8% with the downward trend extending in many of the sectors where vacancy rates remain the highest, including leisure & hospitality. The ratio of job openings per unemployed person held broadly steady at a still-historically elevated 1.61. Although lower than at the start of the year at 1.9, the ratio remains well above its pre-pandemic average of 1.2. On balance, while labor demand remains elevated, the JOLTS data suggest there is an incremental slowing in demand as compared to the prior month.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: Institute for Supply Management and Wells Fargo Economics

Beyond the labor market, there were some instructive updates with business sentiment in the manufacturing and services sectors. The ISM manufacturing index improved in July, though remained in contractionary territory for the ninth straight month at a level of 46.4. The modestly positive July gain reflects mixed results across components, with firmer readings in inventories, new orders, production and supplier deliveries more than offsetting a sharp deterioration in the employment index. The improvement in new orders was apparently driven by domestic demand, with new export orders falling to a seven-month low. Encouragement was seen on the prices front, as the prices paid index remained in contractionary territory for the fifth time in the past seven months. The downward performance remains consistent with deflationary pressures for goods and is consistent with survey respondents' comments of softening input cost pressures. On balance, the headline ISM manufacturing index remains in a range that is historically consistent with declines in factory output, though still well short of the low-40 readings typically seen in a recession.

The headline ISM services index fell in July to a level of 52.7, albeit remaining consistent with moderate service sector activity gains. The underlying composition was weak with the business activity, new orders and employment components all decreasing. Nonetheless, July's headline index remains above the series of lackluster readings from March to May, suggesting that service sector activity remains on somewhat stronger footing as compared to that period. The prices paid index reversed course in July following months of declines, suggesting that disinflationary momentum in the services sector is diminishing. Overall, the ISM services performance remains consistent with muted economic growth and continued disinflation at the start of Q3, which the Fed will consider as it meets again in late September.

On the Fed front, the latest Senior Loan Officer Opinion Survey showed that while the early-spring banking crisis has faded, credit conditions remain remarkably tight. See Credit Market Insights for more detail on the survey. Essentially no banks expect to ease their lending standards for commercial & industrial loans over the remainder of the year, with 40% expecting them to tighten further. Despite the better-than-expected economic performance during the first half of the year, credit conditions have historically only ever been this tight during or running up to a recession. The fact that banks anticipate tightening lending standards further in the second half of the year increases the likelihood of an additional drag on economic growth. This is something to be mindful of as the economy navigates the coming quarters.

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U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
7-Aug	Consumer Credit	Jun	$13.5B	--	$7.24B
8-Aug	NFIB Small Business Optimism	Jul	90.5	--	91.0
10-Aug	CPI (MoM)	Jul	0.2%	0.2%	0.2%
10-Aug	CPI (YoY)	Jul	3.3%	3.3%	3.0%
10-Aug	Core CPI (MoM)	Jul	0.2%	0.2%	0.2%
10-Aug	Core CPI (YoY)	Jul	4.8%	4.7%	4.8%

Forecast as of August 04, 2023

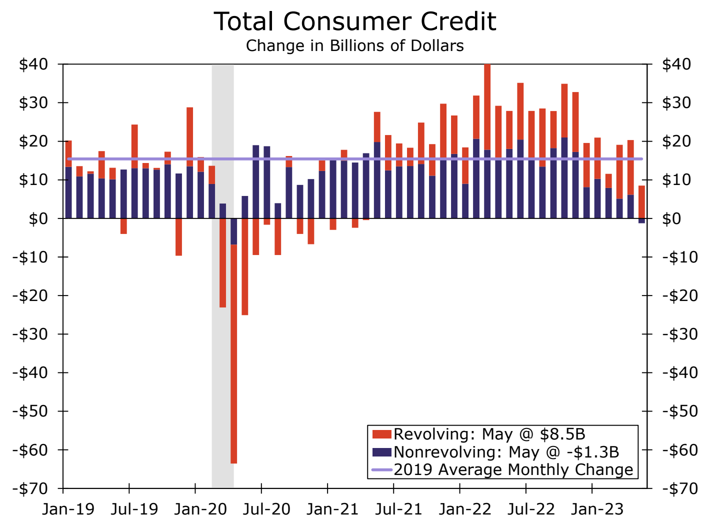
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Consumer Credit • Monday

We often refer to a three-legged stool of savings, income and credit when describing the factors enabling consumers to spend. Excess savings accumulated during the pandemic were fundamental in sustaining spending throughout the period of high and rising inflation but have since dwindled to a remnant of their prior size. As consumers burn through those savings, real income gains have become an increasingly important force propelling consumers.

Consumer credit is the final leg. Consumers over the past few years have leaned more heavily on credit to fund their purchases, a trend that persisted despite the broad run-up in financing costs. That seemed to change in recent months implying that consumers may finally be reacting to higher interest rates. As the nearby chart shows, total credit outstanding in May registered its smallest monthly uptick in over two years. Yet this deceleration was almost entirely driven by a downshift in nonrevolving credit, which has retreated since the fall of 2022. Revolving credit may be stalling but has yet to lose momentum to the same extent despite the average interest rate on a credit card reaching a record high of 20% in Q2.

Consumers' willingness to pull out the plastic is likely in part due to hearty income gains allowing them to sustain higher debt levels. As discussed in Credit Market Insights, the ongoing tightening of consumer lending standards remains a significant headwind that we expect to weigh on spending in the months ahead. But if the latest personal spending report is any indication, the upturn in durable goods purchases in June likely required a corresponding increase in credit over the month. Economists surveyed by Bloomberg estimate that total outstanding credit expanded by $13.5 billion in June, which would be nearly double the prior month's reading of $7.2 billion.

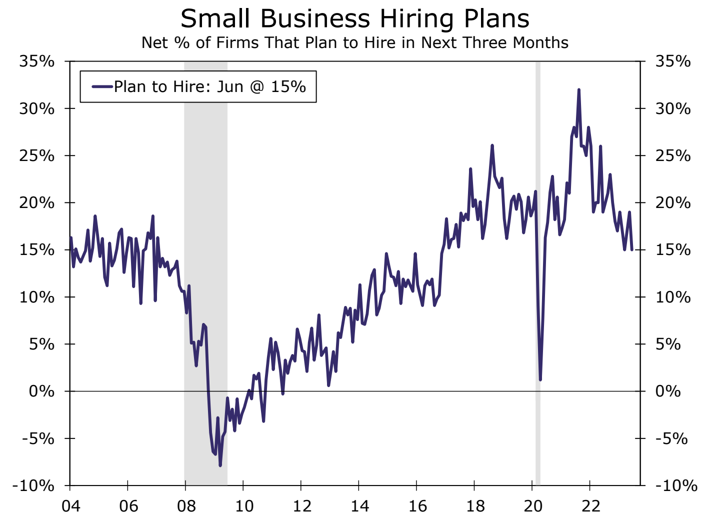


Source: Federal Reserve Board and Wells Fargo Economics

NFIB Small Business Optimism • Tuesday

Small business sentiment seems to be perking up despite ongoing trepidation about a potential recession. The NFIB Small Business Optimism Index shot up 1.6 points in June, the largest monthly upswing since August 2022. June revealed upturns in the share of owners expecting the economy to improve over the next six months and the share thinking that now is a good time to expand. These incremental improvements reflect a resilient economy that has not buckled under the headwinds of high inflation or interest rates. Instead, easing inflation over the past few months has become a new tailwind for consumers, and businesses seem to have found the confidence to invest despite higher financing costs. These developments suggest that the once-elusive path to soft landing may now be viable.

Although sentiment is improving, small business outlooks are still historically restrained. As of June, the Optimism Index has measured below its long-term average for 17 consecutive months. Furthermore, hiring intentions are set on a downward trend, foreshadowing a potential labor market slowdown. In June, the net percentage of small businesses intending to expand their payrolls tied for its lowest reading since the pandemic recession. A rising portion of market commentators may be convinced that the U.S. can avoid a downturn, but small business owners will likely need to see additional improvements in the real economy before they feel the same.



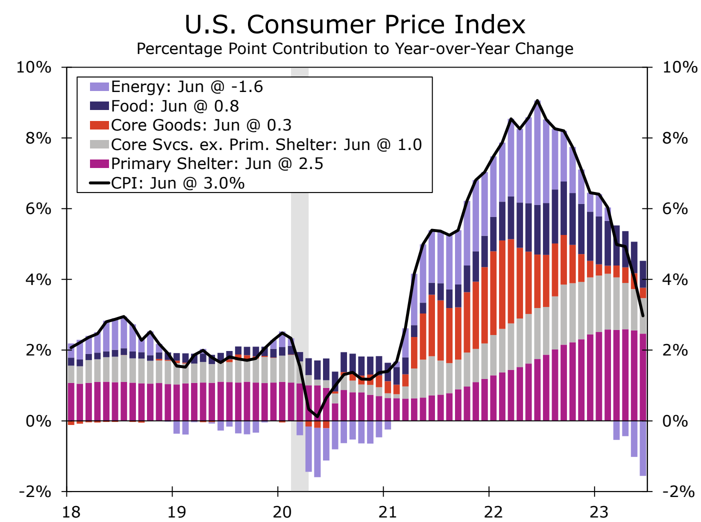
Source: NFIB and Wells Fargo Economics

Consumer Price Index • Thursday

Consumer price inflation is steadily moderating. Headline CPI rose just 3.0% year-over-year in June, the lowest annual rate since March 2021. A large portion of this downdraft can be attributed to slowing food inflation and an outright decline in energy prices relative to their highs in the summer of 2022. Core inflation has been a much tougher nut to crack, registering a firmer 4.8% annual rate. But even core CPI started to demonstrate some downward momentum in June, driven by softer goods prices and the ongoing disinflation from primary shelter.

We expect the disinflationary trend continued in July and estimate a 0.2% bump in both the headline and core measures over the month. Looking under the hood, we expect faster deflation for vehicles and other goods in July, counteracted by slightly firmer services prices for travel and medical care. If realized, these prints would translate to a 3.3% annual headline rate and a 4.7% annual core rate.

Through the monthly noise, inflation appears set on a downward path. However, progress in the coming months is likely to be slower and noisier than June's print alone would suggest. We expect monthly gains in core inflation to pick up slightly in Q4 as the disinflationary momentum from waning goods prices fades and health insurance prices rebound toward the end of the year.



Source: U.S. Department of Labor and Wells Fargo Economics

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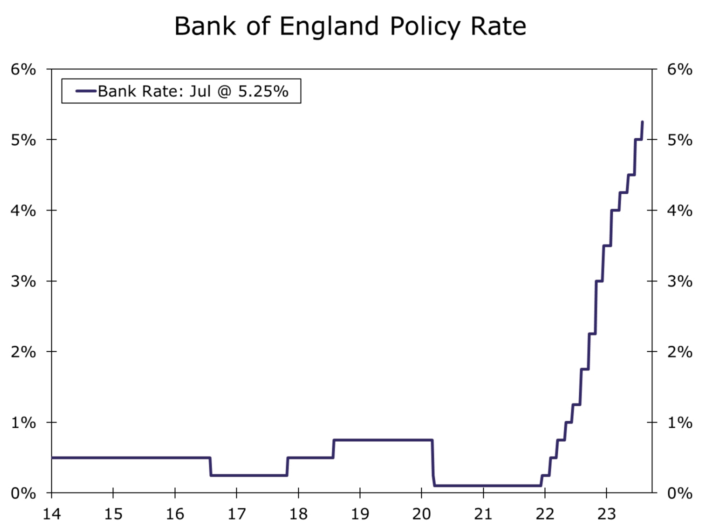
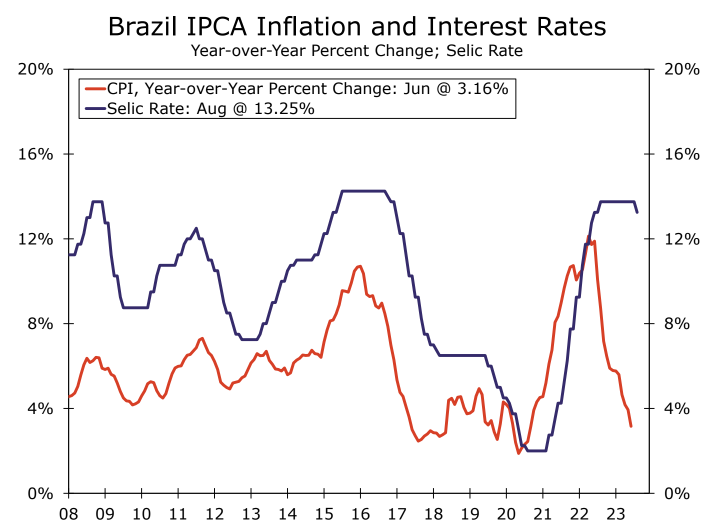
International Review

Central Bank Bonanza: Part I

This week, multiple central banks met to assess monetary policy. Policymakers across the G10 and emerging markets gathered to discuss economic conditions as well as set interest rates. Results varied as select institutions opted for additional tightening, some held monetary policy settings steady, while others opted for interest rate cuts. As far as G10 central banks, the Reserve Bank of Australia (RBA) kept interest rates on hold despite financial markets and economists at least partly expecting additional tightening. Australian policymakers cited softening inflation as justification for no action, and while they noted future rate hikes could be warranted if inflation picks up, they stated that they prefer to gauge the impact of prior tightening before acting again. In our view, the RBA has likely achieved its peak policy rate as the disinflation process should continue going forward. The Bank of England on the other hand decided additional tightening was still needed to help bring inflation back to target levels. BoE policymakers went for a 25 bps hike to bring the key rate to a 15-year high of 5.25%. While the hike matched financial market expectations, the decision was split among BoE policymakers. Two members voted for a 50 bps hike, one voted for no hike, while the majority expressed a desire for 25 bps of tightening. The official statement noted that additional hikes could be necessary and that the policy rate will be kept at elevated levels for an extended period of time. Additional tightening is still likely forthcoming, and rate cuts in the U.K. seem to still be a ways off.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Central Bank Bonanza: Part II

In the emerging markets, the divergence in monetary policy was more apparent. Policymakers in Thailand voted for another 25 bps rate hike, while the Central Bank of Colombia kept rates steady. On the other hand, and arguably more notable, the Brazilian Central Bank (BCB) cut its Selic rate by 50 bps to 13.25%. The decision to cut rates 50 bps was more aggressive easing than financial markets were priced for, and BCB policymakers seemed split on the decision as well. According to the BCB August statement, policymakers were split 5-4 in their decision to cut the Selic rate 50 bps. Underpinning the more aggressive rate cut was a strong disinflation process as well as reduced fiscal risks associated with the Lula administration, which in the view of BCB policymakers, should keep inflation and inflation expectations anchored. Forward guidance indicated BCB cuts of a similar magnitude are likely going forward. In response to the BCB's decision, we have adjusted our Selic rate forecast lower and now believe the main policy rate in Brazil will end this year at 11.75%. While Latin American central banks have policy space to lower interest rates, we had felt regional central banks would take a more gradual path of easing. Thematically, we believed that while Latin American central banks would start easing cycles well ahead of the Federal Reserve, policymakers would take a more measured approach to interest rate cuts and ease monetary policy gradually to protect against another round of inflationary pressures transmitted through FX depreciation. With the BCB now expected to move quickly to ease monetary policy, the short-term outlook for the Brazilian real, in our view, has worsened. In our August

International Economic Outlook, readers should expect to see a forecast of more short-term BRL depreciation, and possibly a less optimistic longer-term view.

Recent decisions to aggressively lower interest rates in Brazil and Chile may also be watched closely by policymakers across Latin America. Regional central banks in Colombia, Peru and Mexico—institutions our framework identifies as having policy space to cut rates this year—will likely take notice of how financial markets react to the Central Bank of Chile and BCB's aggressive rate cuts. Markets have not necessarily digested initial rate cuts well as the Chilean peso and Brazilian real have underperformed in response to their respective monetary policy decisions. If market participants apply sharp depreciation pressure to the Chilean peso and Brazilian real, regional peer central banks could choose to take the more gradual approach to rate cuts in the coming months. Outside of Chile and Brazil, we believe the Central Bank of Colombia as well as policymakers at the Central Bank of Peru and Banxico will indeed choose a more cautious pace of interest rate cuts; however, the evolution of local currencies and local currency performance could become the driving force of monetary policy decisions in the short term.

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International Outlook

Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
8-Aug	China Trade Balance	Jul	$68.0B	--	$70.6B
8-Aug	China CPI (YoY)	Jul	-0.5%	--	0.0%
10-Aug	Reserve Bank of India Rate Decision	10-Aug	6.50%	6.50%	6.50%
10-Aug	Central Bank of Mexico Rate Decision	10-Aug	11.25%	11.25%	11.25%

Forecast as of August 04, 2023

Source: Bloomberg Finance L.P. and Wells Fargo Economics

China Activity Data • Monday-Friday

A slew of Chinese data will be released next week, including China's trade balance, July CPI and PPI inflation and FX reserve position. As far as the trade balance, we will be able to gather insight into demand, both domestically and externally, when export and import numbers are updated. Sluggish domestic demand has been one of the key reasons why China's economy has been underwhelming over the course of this year. Inflation data will also be watched as China is approaching a deflationary environment. Should the CPI decline and PPI decline further, markets could worry deflation will slow China's economy further and spread around the world.

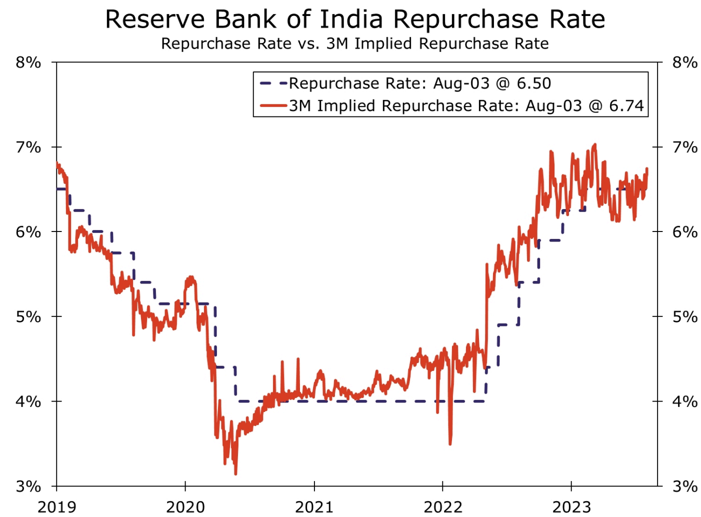
Recently, we revised our China GDP forecast lower and now believe the economy can grow 5.2% this year. Weak domestic consumption, a struggling property sector and a large debt burden have all acted as a drag on China's economy. Also, authorities seem reluctant to move ahead with large-scale fiscal stimulus to support activity. Next week's data will give us further evidence of whether slowdown is intensifying, or if China's economy is starting to stabilize.

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Reserve Bank of India • Thursday

Policymakers at the Reserve Bank of India (RBI) are unlikely to make material changes to monetary policy settings next week, and we expect interest rates to be kept on hold. However, any RBI commentary around a potential pivot to interest rate cuts will be notable as inflation, for the most part, has trended lower in India. On the other hand, India's economy is vulnerable to El Niño and weather disruptions that can interrupt the disinflation process. We will be looking for any commentary on whether El Niño will sway RBI policymakers as well.

India's economy is set to grow at one of the quickest paces in the world this year. As of now, we forecast the economy to grow 6%, quicker than China and most other Southeast Asia peer economies. A strong pace of growth should delay an RBI easing cycle until later this year, and also keep policymakers rather measured in their approach to interest rate cuts. With inflation hovering around the RBI's target range, we ultimately believe Indian policymakers will deliver rate cuts in Q4-2023. We look for 50 bps total by the end of this year and will be focused on whether policymakers indeed start to prepare markets for a shift to more accommodative monetary policy.



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Central Bank of Mexico • Thursday

Mexico's economy remains resilient despite a very aggressive pace of monetary tightening from Banxico policymakers. Strong local consumption has supported activity; however, strong exports have also enhanced overall economic growth. Most of this resilience can be attributed to the resilience of the U.S. economy, given close to 80% of Mexico's exports go to the United States. In addition, inflation has been trending lower. Next week, policymakers will deliver an official assessment of local economic conditions as well as how monetary policy should be set in response.

Overall, we do not expect any rate changes next week, and we expect policymakers to signal that interest rates are still on hold for the time being. In fact, we expect little meaningful change from prior statements and the theme of “restrictive policy for an extended period of time” is likely to be delivered. In our view, Banxico policymakers are not ready to discuss rate cuts just yet, and given the resilient economy, are more likely to deliver cuts in Q1-2024 than toward the end of this year.

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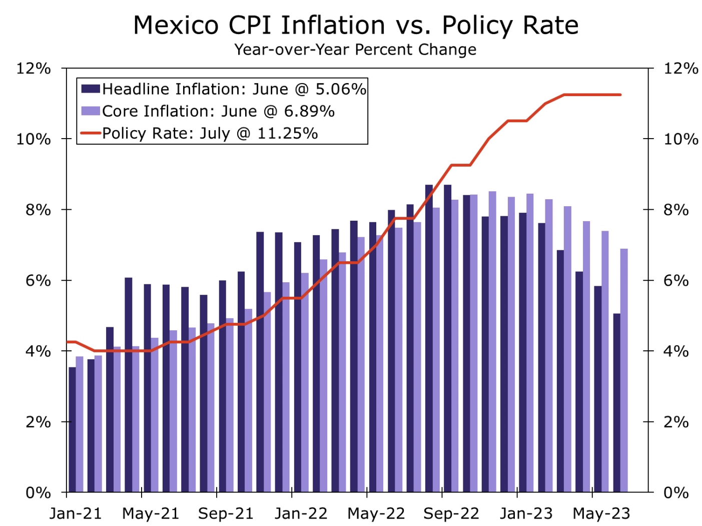


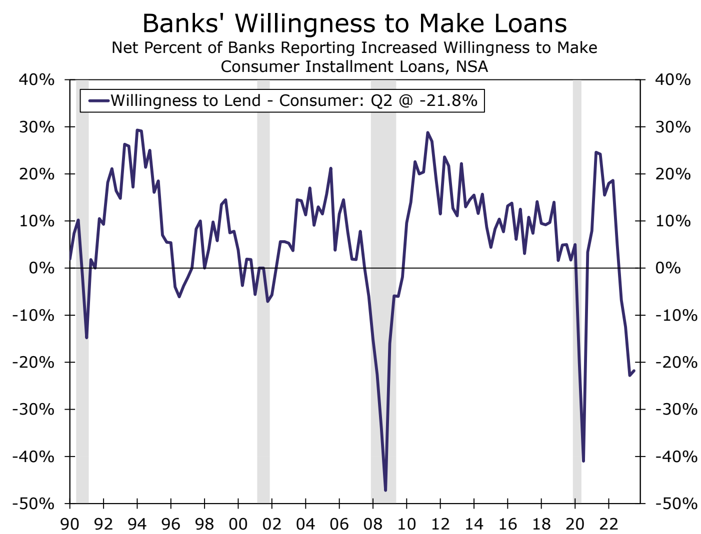
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Credit Market Insights

A Sweltering Summer for Credit Markets

Credit markets are feeling the heat. The quarterly Senior Loan Officer Opinion Survey (SLOOS) released on Monday detailed tightened lending standards and gradually weakening loan demand during the second quarter. Over the past 17 months, the Federal Reserve has raised interest rates a cumulative 525 bps, the fastest pace of hikes since the 1980s. The SLOOS report reveals that as credit has gotten expensive, consumers have pulled back on borrowing and lenders' risk appetites have dimmed.

Banks have been, on average, less willing to make consumer loans since late 2022, and Q2-2023 saw similar trends with a net 22% of banks less willing to make consumer loans (chart). Demand for consumer loans weakened in the quarter, and the net percentage of banks tightening their credit card loan standards lifted 6pp to 36%. However, there is one consumer exception. Plans to tighten standards for auto loans fell to 15% in Q2 from 28% in Q1, possibly on the heels of strong vehicle sales so far this year. July's solid 15.7 million annualized vehicle sales pace, which is up 18% year-over-year, demonstrates that consumers are still interested in opening some new lines of credit, at least for right now.



Source: Federal Reserve Board and Wells Fargo Economics

On the business side, the net percentage of banks tightening standards for commercial and industrial loans to large and middle-sized firms ticked up to 51% from 46% in Q1. The net percentage of banks increasing spreads of loan rates to that same group increased four percentage points to 68%. Demand for C&I loans remained moderately weak for a majority of respondents, with the top reason for softer demand being decreased customer investment in plants and equipment.

The SLOOS paints a similar picture in real estate. Major net shares of banks reported tightening standards and sinking demand for all commercial real estate (CRE) loan types. Banks are also tightening lending standards and seeing a slight weakening in demand for residential real estate, but to a lesser extent than CRE. Moderate net shares of banks are tightening standards on HELOCs, qualified mortgage and subprime loans, while only modest shares are tightening standards on GSE-eligible and government loans. Despite mortgage rates reaching nearly 7% in July, demand for single-family homes has been resilient thus far.

Credit is strapped amid the pessimistic business outlook, but small businesses remain resilient despite the headwinds. In the most recent NFIB Small Business Optimism Survey, a net 6% of regular borrowers reported it was harder to obtain a loan in June than it was three months ago, and a net 8% of borrowers expect credit conditions to worsen in coming months. What's more, the average rate paid on short-maturity loans reached 9.2%, which is the highest reading since June 2007. High interest rates continue to apply pressure to small businesses, but conditions have not deteriorated significantly just yet.

Indeed, the Small Business Administration (SBA) implemented a lending policy overhaul this week that aims to widen small business' access to credit, most of which took effect on Aug. 1. The new regulations make it easier for non-bank institutions, like licensed financial technology firms, to make SBA loans and generally incentivize more lenders to issue loans through renewed fee structures. The new loan standards will cover up to $5 million for starting or expanding a small business and cover 85% of potential losses.

Both businesses and consumers are facing increasingly tough credit conditions. That being said, markets are uncertain if another rate hike is incoming in September. Monetary policy has a lagged effect on the economy, so the coming quarter will be telling in how businesses and consumers adapt to tightened credit conditions. The FOMC, while encouraged by decelerating prices, will wait to see to what extent elevated interest rates cool the economy before deciding if it should hike once more.

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Topic of the Week

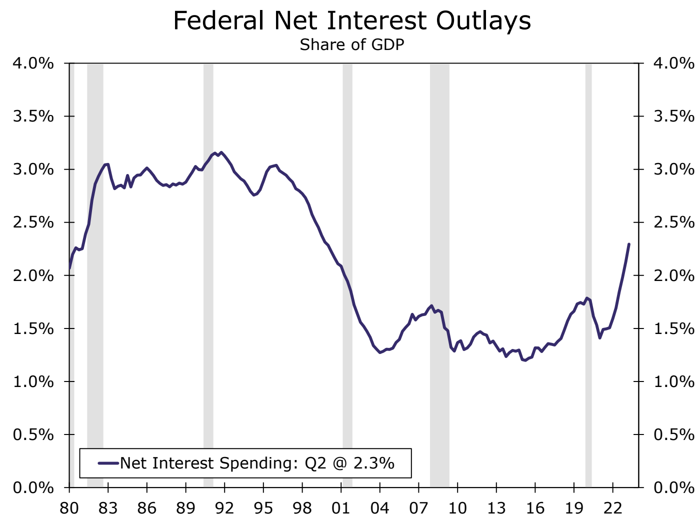
Down but Not Out

On Tuesday afternoon, in a largely unexpected move, Fitch Ratings downgraded the United States' long-standing credit rating from the top rating of "AAA" down one notch to "AA+." Fitch is one of three major U.S. credit rating firms along with Standard & Poor's and Moody's. This is only the second time in U.S. history that a credit rating agency has downgraded the country's sovereign credit rating, the other instance being in 2011 by Standard & Poor's. In both instances, the downgrades followed tense debt-ceiling debates where deals were struck in the 11th hour. Fitch Ratings initially put the country's rating on a negative watch in May, and the agency reported "expected fiscal deterioration over the next three years" and the "growing general government debt burden" as key drivers to the rating change this week.

A ratings downgrade raises concerns that such a move will increase the federal government's borrowing costs. Think of this somewhat like consumer credit—lower credit scores tend to lead to higher financing costs, all else equal. If investors believe the government's creditworthiness has deteriorated, then they could demand a higher rate of return to compensate for the increased risk.

The federal debt certainly has grown since before the pandemic. The debt-to-GDP ratio has increased from 79% in Q4-2019 to 95% today. Encouragingly, debt-to-GDP is down from its pandemic peak of 104.6%, as the economy has returned to full employment. Somewhat more concerning is the government's rising interest burden. The FOMC has raised the federal funds rate aggressively since March 2022 in an effort to reduce inflation, and Treasury yields have climbed alongside the policy rate. Current government interest outlays remain manageable, and as a share of GDP, they are still below the levels experienced in the 1980s and much of the 1990s despite a much higher debt burden today (chart).

That said, the longer-term fiscal outlook is very sensitive to interest rate assumptions. If interest rates remain high but inflation subsides, elevated *real* interest rates will pressure the federal budget. Back in the 1990s, the 10-year Treasury yield averaged 6.7% despite annual inflation that averaged just a bit more than 3%. We doubt the United States economy is headed back to that kind of interest rate environment anytime soon, but the case for structurally higher interest rates is clearly stronger today than it was a year or two ago. This week's downgrade serves as a reminder that the low interest world of the 2010s may not prevail in the years to come.



Source: U.S Department of Treasury, U.S Department of Commerce and Wells Fargo Economics

To that point, the 10-year Treasury yield increased 13bps this week to 4.08%, closer to the cycle-high of 4.24% reached in October 2022. We doubt much of this move can be attributed to the downgrade specifically, but part of it may be attributable to the federal government's quarterly refunding announcement this week. Once a quarter, the U.S. Treasury communicates its debt management policies, plans and projections, and this week's announcement included larger-than-expected projected borrowing by the government in the coming months. Accordingly, auction sizes for U.S. Treasury securities went up by more than forecasters were anticipating.

Fortunately, the United States' ability to pay its bills is supported by the world's biggest economy, which generates $27 trillion of GDP annually and possesses over $140 trillion of household net worth. Fitch noted in its downgrade that the "implementation of a fiscal adjustment to address rising mandatory spending or to fund such spending with additional revenues, resulting in a medium-term decline in the general government debt-to-GDP ratio" could lead to a future credit rating upgrade. Whether federal fiscal policymakers will follow this path remains an open question.

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Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 8/4/2023	1 Week Ago	1 Year Ago
SOFR	5.30	5.31	2.29
Effective Fed Funds Rate	5.33	5.33	2.33
3-Month T-Bill	5.40	5.41	2.40
1-Year Treasury	5.21	5.25	2.94
2-Year Treasury	4.82	4.87	3.04
5-Year Treasury	4.19	4.18	2.79
10-Year Treasury	4.08	3.95	2.69
30-Year Treasury	4.22	4.01	2.97
Bond Buyer Index	3.75	3.60	3.21

Foreign Exchange Rates

	Friday 8/4/2023	1 Week Ago	1 Year Ago
Euro ($/€)	1.103	1.102	1.025
British Pound ($/£)	1.277	1.285	1.216
British Pound (£/€)	0.864	0.857	0.843
Japanese Yen (¥/$)	141.870	141.160	132.890
Canadian Dollar (C$/$)	1.333	1.324	1.287
Swiss Franc (CHF/$)	0.872	0.870	0.955
Australian Dollar (US$/A$)	0.660	0.665	0.697
Mexican Peso (MXN/$)	17.058	16.687	20.347
Chinese Yuan (CNY/$)	7.171	7.149	6.749
Indian Rupee (INR/$)	82.841	82.256	79.473
Brazilian Real (BRL/$)	4.852	4.732	5.213
U.S. Dollar Index	101.846	101.622	105.693

Source: Bloomberg Finance L.P. and Wells Fargo Economics

Foreign Interest Rates

	Friday 8/4/2023	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.50	3.46	-0.04
3-Month U.K. Govt Bill Yield	5.38	5.28	1.77
3-Month Canadian Govt Bill Yield	5.06	5.04	2.66
3-Month Japanese Govt Bill Yield	-0.09	-0.11	-0.15
2-Year German Note Yield	3.01	3.05	0.34
2-Year U.K. Note Yield	4.92	4.99	1.85
2-Year Canadian Note Yield	4.59	4.68	3.16
2-Year Japanese Note Yield	0.03	-0.03	-0.09
10-Year German Bond Yield	2.56	2.49	0.80
10-Year U.K. Bond Yield	4.38	4.33	1.89
10-Year Canadian Bond Yield	3.56	3.52	2.68
10-Year Japanese Bond Yield	0.65	0.57	0.18

Commodity Prices

	Friday 8/4/2023	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	82.48	80.58	88.54
Brent Crude ($/Barrel)	86.02	84.99	94.12
Gold ($/Ounce)	1941.08	1959.49	1791.28
Hot-Rolled Steel ($/S.Ton)	803.00	824.00	813.00
Copper (¢/Pound)	387.15	392.65	348.15
Soybeans ($/Bushel)	14.45	14.77	15.39
Natural Gas ($/MMBTU)	2.58	2.64	8.12
Nickel ($/Metric Ton)	21,369	21,459	22,275
CRB Spot Inds.	558.29	560.91	602.08

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