WELLS FARGO

Weekly — September 24, 2021

# Weekly Economic & Financial Commentary

United States: **Housing Data and FOMC Outcome Show Economic Recovery Still Intact**

- The FOMC left monetary policy essentially untouched, but hinted at a forthcoming taper of bond purchases. Housing data for the month of August came in mixed, but generally showed still-strong activity. Existing home sales fell during the month, as rapid home price appreciation continues to take some air out of buyer demand, while new home sales rose modestly. Meanwhile, housing starts strengthened, although all the gain was in multifamily construction. The Leading Economic Index (LEI) advanced in August, which shows the economic recovery is still very much intact despite the Delta variant wave and pervasive supply side constraints.
- Next week: Durable Goods Orders (Mon), Personal Income & Spending (Fri), ISM Manufacturing (Fri)

International: **European Monetary Policy Roundup**

- Several G10 central banks made monetary policy announcements this week. Norway's central bank became the first G10 central bank to raise interest rates, with a policy rate increase of 25 bps and signals of more to come. The Bank of England (BoE) held policy steady, but repeated that a modest tightening in policy would still likely be needed at some point. We expect the BoE to begin its tightening cycle with hikes in May and November 2022. The Swedish and Swiss central banks also held policy steady, with no change likely from either in the foreseeable future.
- Next week: China PMIs (Thu), Japan Tankan survey (Fri), Eurozone CPI (Fri)

Interest Rate Watch: **Tapering "May Soon Be Warranted"**

- The Federal Open Market Committee (FOMC) voted unanimously to keep the target range for the fed funds rate unchanged at 0.00% to 0.25%. The Committee also decided to keep its monthly pace of asset purchases unchanged at $80 billion of Treasury securities and $40 billion of mortgage-backed securities, but said that tapering "may soon be warranted."

Topic of the Week: **What Is All the Fuss About Evergrande?**

- Evergrande, one of China's largest real estate developers, injected volatility in global financial markets this week due to concerns that the company could default on its debts. Given its sheer size and the importance of the real estate sector to China's economy, an Evergrande default could weigh on China's economy and possibly spill over into the prospects for the global economy.

**Wells Fargo Securities U.S. Economic Forecast**

| | Actual | | | | Forecast | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2022 | | | | 2020 | 2021 | 2022 | 2023 |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Real Gross Domestic Product [1] | 6.3 | 6.6 | 4.6 | 5.7 | 4.2 | 4.1 | 3.4 | 2.8 | -3.4 | 5.9 | 4.5 | 3.0 |
| Personal Consumption | 11.4 | 11.9 | 0.9 | 2.7 | 3.4 | 4.0 | 3.2 | 2.3 | -3.8 | 7.7 | 3.5 | 2.6 |
| Consumer Price Index [2] | 1.9 | 4.8 | 5.3 | 5.4 | 5.1 | 3.5 | 2.5 | 2.3 | 1.2 | 4.3 | 3.3 | 2.3 |
| "Core" Consumer Price Index [2] | 1.4 | 3.7 | 4.2 | 4.4 | 4.6 | 3.2 | 2.3 | 2.3 | 1.7 | 3.4 | 3.1 | 2.5 |
| Quarter-End Interest Rates [3] | | | | | | | | | | | | |
| Federal Funds Target Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.25 | 0.25 | 0.50 |
| Conventional Mortgage Rate | 3.08 | 2.98 | 2.90 | 3.20 | 3.45 | 3.60 | 3.70 | 3.75 | 3.12 | 3.04 | 3.63 | 3.83 |
| 10 Year Note | 1.74 | 1.45 | 1.45 | 1.70 | 1.90 | 2.00 | 2.10 | 2.15 | 0.89 | 1.59 | 2.04 | 2.23 |

Forecast as of: September 09, 2021
[1] Compound Annual Growth Rate Quarter-over-Quarter [3] Annual Numbers Represent Average

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

Please find our full U.S. Economic Forecast here.

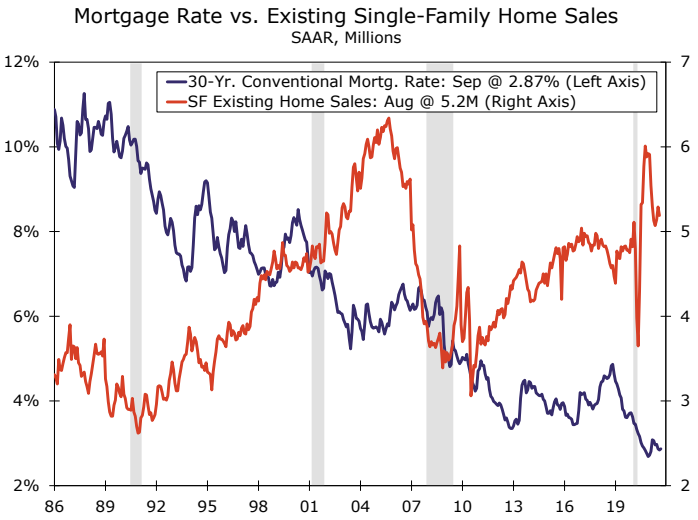
## U.S. Review

### Housing Data and FOMC Outcome Show Economic Recovery Still Intact

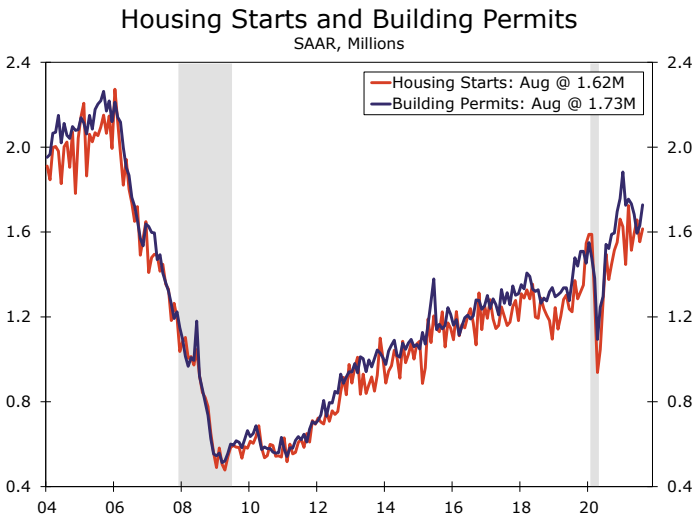
Attention this week was primarily focused on the outcome of the September 21-22 Federal Open Market Committee (FOMC) meeting. As broadly expected, committee members did not make any major changes to monetary policy. Officials elected to keep the target range for the fed funds rate unchanged at 0.00% to 0.25%, and also decided to maintain its monthly pace of asset purchases. Notably, however, the FOMC said that scaling back its bond buying program "may soon be warranted."

Overall, the FOMC hinting that tapering is on the horizon reflects still-bright prospects for economic growth this year, even with headwinds such as the Delta wave of COVID and near-ubiquitous supply side constraints. Since July of last year, the FOMC's monthly pace of asset purchases have amounted to $80 billion of Treasury securities and $40 billion of mortgage-back securities (MBS). The FOMC's MBS purchases have been called into question recently, as the housing market, which was one of the first sectors of the economy to recover from last year's sharp economic contraction, has not been an area that one would think is in need of targeted monetary policy support. What's more, some have raised concerns that these MBS purchases are adding too much fuel to a housing market that is already on fire. The purpose of the MBS purchases and bond buying program, however, is not solely about supporting any one sector of the economy. Rather, the intent of the asset purchases is to keep interest rates low, while reducing general market volatility by ensuring the plumbing of the financial system is free of clogs. For more on September's FOMC meeting, please see the Interest Rate Watch.

While the housing market clearly has benefited from low mortgage rates, the main driver behind the surge in activity mostly has been owed to buyers in desperate search of more livable spaces to accommodate virtual activities and to increase the tolerability of spending more time at home. Some evidence for this claim is that existing home sales have cooled down significantly over the past few months, all while mortgage rates have remained exceptionally low. For context, the average 30-year commitment rate was just 2.8% in August, which is close to the record lows hit last year. During that same month, existing sales declined 2.0% to a 5.88 million-unit pace. Compared to recent history, this is still a strong pace of sales, which exceeds the pace hit at any point between 2010 and 2019. That said, sales are now running a bit slower than the feverish 6.66 million-unit pace seen in January 2021.




Source: NAR, Freddie Mac and Wells Fargo Securities




Source: U.S. Department of Commerce and Wells Fargo Securities

Like many areas of the economy, supply constraints are the major culprit behind the recent moderation in housing. The number of homes available for sale at the end of August totaled just 1.29 million units, which was down 1.5% from the prior month, and 13.4% lower than August 2020. Exceptionally tight supplies combined with robust demand have fueled a rapid run-up in home prices. Home price appreciation has moderated somewhat in recent months, but as of August, the median price of an existing home is still up 14.9% year-over-year. Skyrocketing prices and dwindling inventory levels appear to be pushing many buyers back to the sidelines, notably the large entry-level buyer-

cohort who tend to be more price sensitive. It is not surprising, therefore, to see that home sales have cooled off.

Some relief in terms of supply looks to be on the way. During August, housing starts rose 3.9%, while building permits jumped 6.0%. Single-family starts, which declined slightly during the month, are still running strong at a 1.1 million-unit pace. The drop in single-family starts also likely had more to do with supply shortages than weakening demand. The September NAHB/Wells Fargo Housing Market Index (HMI) rose one point in September to 76, which indicates that builders are still confident that they can sell just about anything they are able to build. New home sales rose 1.5% during August. The 740,000-unit pace registered during the month was the strongest since April. New home sales arguably would be even stronger if builders had more completed new homes to show prospective buyers. While lumber supplies have improved recently, ongoing shortages of other essential building materials, such as windows, cabinets, and electric breaker boxes, have made completing construction on single family homes a significant challenge.

On the other hand, fast-rising home prices and low single family supply have been a boon for the multifamily sector. Multifamily units accounted for all of the strength in overall housing starts during August. As evidenced by the upturn in rents and the pickup in leasing activity, demand for apartments has strengthened considerably this year, which has encouraged developers to move forward with projects. The recovery in the apartment market also reflects the still-promising economic outlook. The Leading Economic Index (LEI) increased by a healthy 0.9% in August, the largest monthly gain since May. The message from August's LEI as well as the still-strong housing data and the Fed's taper hint is that, although the resurgence in COVID cases and supply chain bottlenecks are major headwinds, they are not currently gale-force winds that stand to completely derail the economic recovery. (Return to Summary)

## U.S. Outlook

**Weekly Domestic Indicator Forecasts**

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|---|---|---|---|---|---|
| 27-Sep | Durable Goods Orders | Aug | 0.7% | 0.6% | -0.1% |
| 1-Oct | Personal Income | Aug | 0.2% | 0.1% | 1.1% |
| 1-Oct | Personal Spending | Aug | 0.6% | 0.6% | 0.3% |
| 1-Oct | PCE Deflator (MoM) | Aug | 0.3% | 0.4% | 0.4% |
| 1-Oct | ISM Manufacturing Index | Sep | 59.5 | 60.2 | 59.9 |

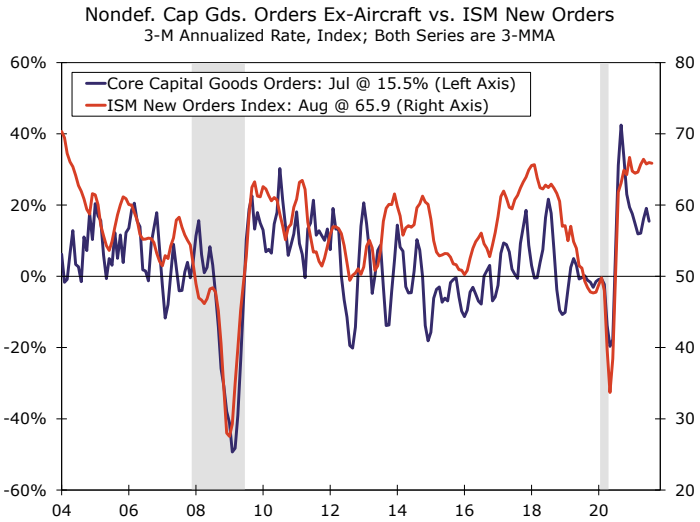
Forecast as of September 24, 2021

Source: Bloomberg LP and Wells Fargo Securities

### Durable Goods Orders • Monday

We expect orders for durable goods advanced 0.6% last month after slipping modestly in July. The ISM manufacturing new orders index for August indicated that the demand backdrop remained quite strong during the month. While we wouldn't be surprised to see orders grow broadly, the usually-volatile transportation sector looks to have been a fairly neutral force in August. Orders for autos may give back a bit after the large 5.8% gain in July, while aircraft orders should pick up based on the 53 gross new orders reported by Boeing for August.

Excluding aircraft and defense goods, core capital goods orders have experienced a remarkably fast recovery to date, with orders roughly 9% ahead of their pre-pandemic peak. As we've stressed in recent months, even as demand for goods subsides, the need for businesses to replenish scant inventory levels should keep orders strong. The same goes for production, as severe supply constraints are weighing on fulfillment, which has given way to a rapid rise in unfilled orders. That said, shipments have continued at a solid clip, and another gain in shipments for August in next week's report would be a positive indication for third quarter equipment spending.

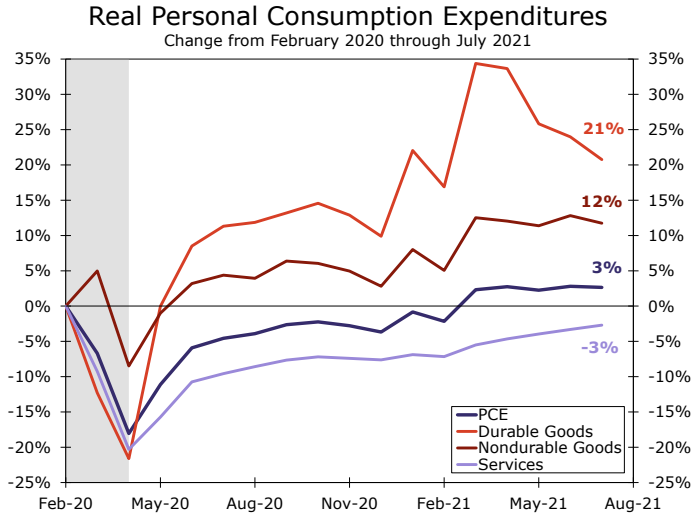



Source: U.S. Department of Commerce, Institute for Supply Management and Wells Fargo Securities

## Personal Income & Spending • Friday

We expect personal income rose 0.1% in August, a gain that could have been even larger if not for dwindling stimulus. There will be a lot to unpack under the headline estimate of personal income next week, as August's data should reflect some states having discontinued the enhanced unemployment benefits, PPP funding for sole proprietors continuing to expire and the Child Tax Credit being sent to households. Excluding transfer payments, personal income growth was likely stronger, as we expect to see another solid pickup in wages & salaries income. All told, we expect personal income to more or less move sideways through the end of the year.

All eyes will be on the spending side of next week's release to see how overall consumption has fared amid the latest rise in COVID cases. We're forecasting a decent gain of 0.6% in spending for August. The retail sales data surprised to the upside, advancing 0.7%, but COVID-sensitive sectors like grocery stores (+2.1%), restaurants (0.0%) and non-store retailers (+5.3%) all indicated some pullback during the month. Similarly, high-frequency mobility measures have plateaued with the recent rise in cases. Services spending will likely demonstrate some of this reluctance with a more muted increase, but since each successive wave of COVID has been less devastating economically, we don't anticipate a large contraction in services spending for August. We'll also be paying close attention to the inflation estimates and the implications for consumers' purchasing power. Inflation likely ate into some of the gain in August spending, as we forecast the PCE deflator rose 0.4% last month.

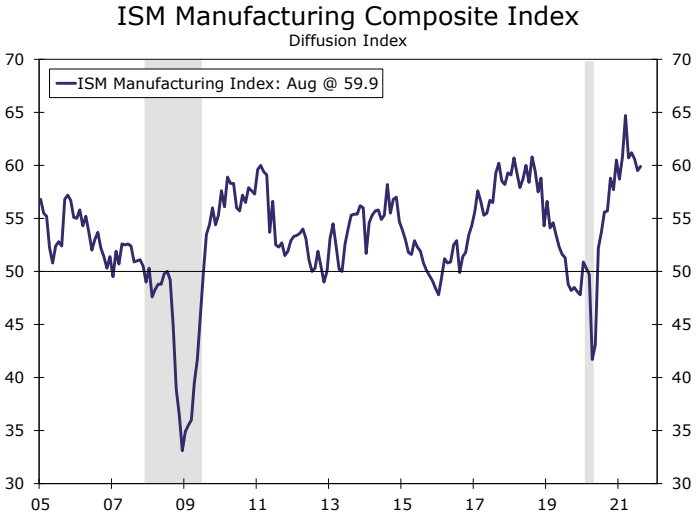



Source: U.S. Department of Commerce and Wells Fargo Securities

## ISM Manufacturing • Friday

The ISM Manufacturing index likely continued to portray a manufacturing sector where activity has remained remarkably resilient despite severe supply chain shortages. We forecast the ISM index rose to 60.2 in September from 59.9 a month earlier. Indices on general business conditions in September from the New York and Philadelphia Fed improved 16 and 11 points, respectively, during the month, while a similar measure from the Kansas City Fed declined. Still, regional PMI data reported thus far suggest the national ISM index held up in September.

Although it is fairly clear bottlenecks are worsening rather than improving, we continue to look to the ISM for glimpses of easing in supply chains. Last month, the index exhibited incremental improvement in many of the underlying categories that have defined the struggles of the COVID era, but severe labor shortages are weighing on hiring and production. Furthermore, despite notable upward moves in the inventory components last month, COVID outbreaks abroad remain a top concern for production. The bottom line: even despite continued incremental improvement, supply bottlenecks will likely be around for a while yet. (Return to Summary)




Source: Institute of Supply Management and Wells Fargo Securities

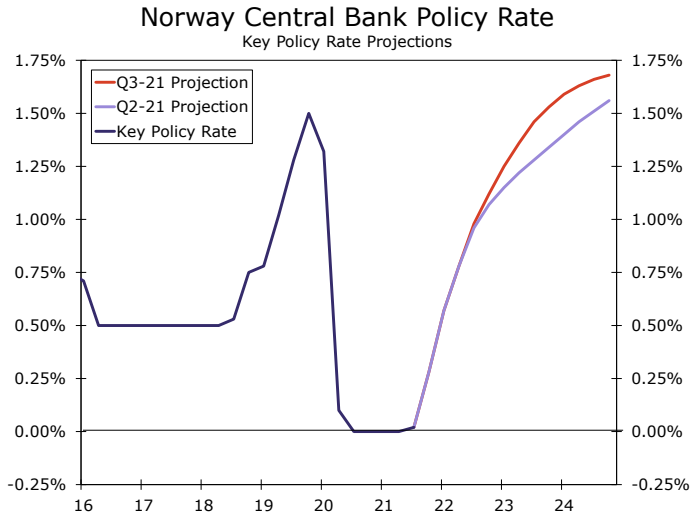
## International Review

### European Monetary Policy Roundup

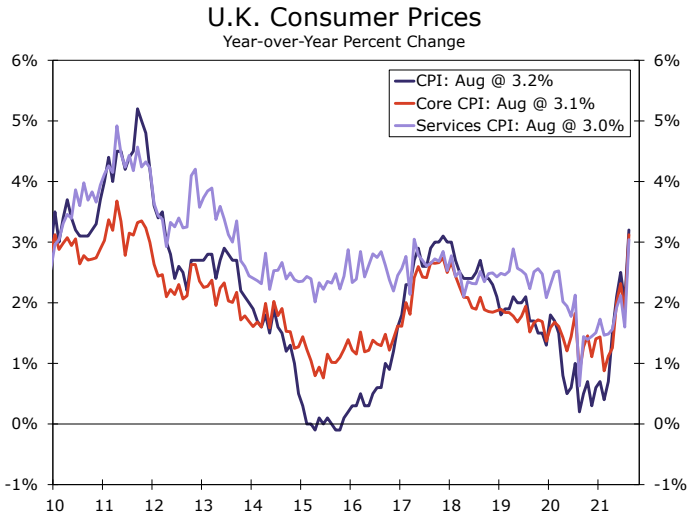
It was a particularly busy week across Europe, with several G10 central banks making monetary policy announcements. Norway's central bank, the Norges Bank, became the first G10 central bank to raise interest rates as the economy returns to a more normal growth path. In a widely expected move, the Norges Bank lifted its Deposit rate by 25 bps to 0.25%, With the central bank's projections also pointing to ongoing growth in mainland GDP (3.9% for 2021 and 4.5% for 2022), the Norges Bank also signaled future rate hikes should be forthcoming. In its statement, it explicitly said the policy rate would likely be raised further in December, while the revised interest rate path from its economic projections sees the policy rate rising to 1.12% by Q4-2022. We are in agreement on the December 2021 increase, but the rate path for 2022 still looks a touch light to us. For calendar year 2022, we expect cumulative further rate hikes of 75 bps to 100 bps.

In the U.K., the Bank of England held monetary policy steady, against a backdrop of an economy affected by slowing growth and inflation cross-currents. The central bank's forecast for the level of real GDP in Q3-2021 was revised down around 1% since its August projections, noting supply disruptions. On inflation, the central bank cited increased natural gas prices as an upside risk and said cost pressures are still elevated, even if they are likely to be transitory. Importantly, after the Bank of England said in August that some modest tightening of monetary policy over the forecast period was expected, this week it said "some developments during the intervening period appear to have strengthened that case". Given the announcement, we have brought forward our expected timing of rate hikes by a quarter, and now anticipate a 15 bp policy rate hike in May 2022 (to 0.25%) and a 25bp rate hike in November 2022 (to 0.50%).

The monetary policy announcement from Sweden was perhaps notable for a lack of central bank action or intent. Despite relative firm GDP growth forecasts of 4.7% for 2021 and 3.6% for 2022, Sweden's central bank held its policy rate at 0.00% and projected that rate to remain unchanged through the end of if its forecast period in late 2024. In fact, the central bank said further monetary easing could still be forthcoming if inflation prospects weaken. Finally, the Swiss National Bank held its policy rate at -0.75%, said the Swiss franc remains highly valued, and repeated that it remains willing to intervene in the foreign exchange market as necessary, in order to counter upward pressure on the Swiss franc. We do not expect any change to the Swiss National Bank's expansionary monetary policy for the foreseeable future.




Source: Norges Bank and Wells Fargo Securities




Source: Datastream and Wells Fargo Securities

Meanwhile, with respect to economic data, PMI surveys showed a moderate slippage of growth momentum for September. The Eurozone manufacturing PMI fell to 58.7 (from 61.4 in August), while perhaps more importantly, the service PMI fell to 56.3 in September (from 59.0 in August). In the U.K., the September manufacturing PMI fell more than expected to 56.3, while the September services PMI eased further to 54.6.

### Emerging Economy Central Banks Also Part of the Monetary Policy Action

There was also action this week from emerging market central banks. In Brazil, in the face of accelerating inflation, the central bank raised its Selic rate by 100 bps to 6.25%. Policymakers said that "for the next meeting, the Committee foresees another adjustment of the same magnitude," adding that the pace of increase was appropriate to have inflation converge to its target over time. In terms of its outlook, the central bank projected CPI inflation to end 2021 at 8.5% before slowing to 3.7% next year.

Meanwhile, Turkey's central bank went in the other direction, delivering a surprise 100 bp policy rate cut to 18.00%. The central bank said a revision in its monetary policy stance was needed, and that monetary tightness is having a contractionary effect on lending. Still, the rate cut was viewed by many as a response to pressure from President Erdogan to lower interest rates, likely a contributing factor to the Turkish lira falling to a new record low following this week's announcement. (Return to Summary)

## International Outlook

**Weekly International Indicator Forecasts**

| Date | Indicator | Period | Consensus | Wells Fargo | Prior |
|---|---|---|---|---|---|
| 30-Sep | China Manufacturing PMI | Sep | 50.2 | - | 50.1 |
| 30-Sep | China Services PMI | Sep | 50.8 | - | 47.5 |
| 1-Oct | Japan Lrg Manufacturers Index | Q3 | 13 | - | 14 |
| 1-Oct | Japan Lrg Non-Manufacturers Index | Q3 | 0 | - | 1 |
| 1-Oct | Eurozone CPI (YoY) | Sep | 3.3% | - | 3.0% |

Forecast as of September 24, 2021

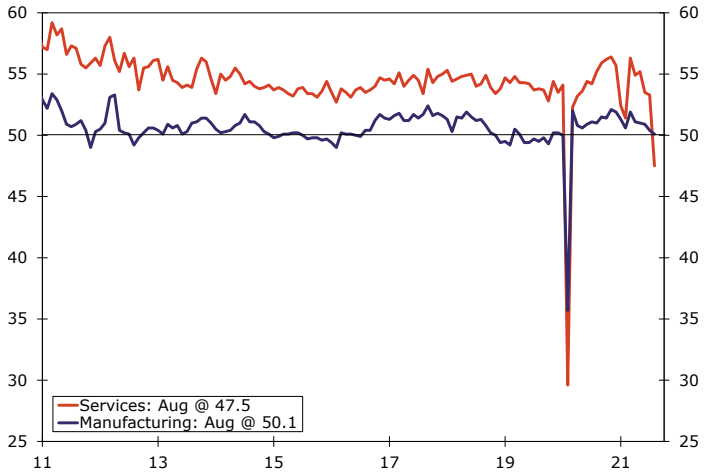
Source: Bloomberg LP and Wells Fargo Securities

### China PMIs • Thursday

China's economy has come under renewed pressure during the third quarter as an increased—albeit modest—spread of COVID cases has resulted in widespread restrictions re-imposed. August retail sales in particular were softer than expected, while growth in industrial output also eased.

Next week's September PMI surveys will be closely watched for insights on whether the economy remained under pressure as the quarter came to a close. That said, the service sector is expected to show some improvement, with the consensus forecast is for the services PMI to rise to 50.8, back above the breakeven 50 level. The manufacturing PMI is also expected to edge higher to 50.2. As uncertainties surrounding China's economy have accumulated during 2021, we have revised our outlook for China's GDP growth lower. Even with the anticipated improvement in September, the risks surrounding our Chinese GDP outlook (0.7% quarter-over-quarter for Q3, and 8.2% for full-year 2021) are likely still tilted to the downside.

Chinese PMI Surveys

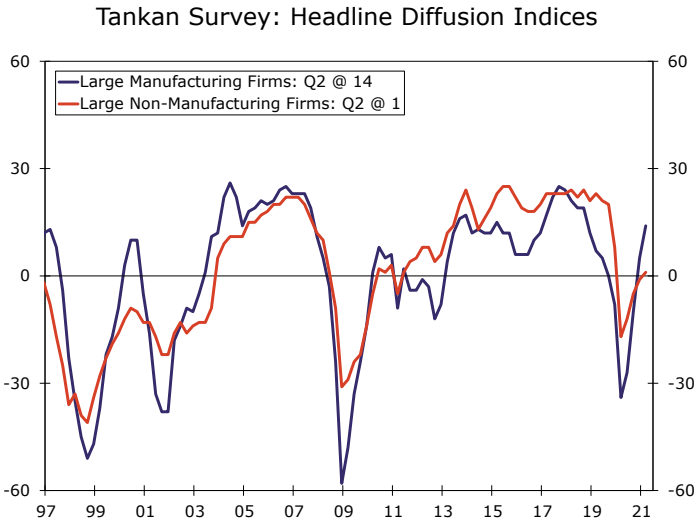



Source: Datastream and Wells Fargo Securities

## Japan Tankan Survey • Friday

Japan's economy has struggled for long periods during 2021 as a state of emergency and associated restrictions have weighed on activity. Earlier this month, for example, the government extended the state of emergency for 19 areas—including Tokyo and Osaka—to the end of September. As a result, after a surprise gain in Japan's Q2 GDP and the subsequent Tokyo Olympics, it's possible Japan's economy lost some momentum during the third quarter.

The Q3 Tankan survey should offer some early insight into how Japan's economy fared during the third quarter and, at the margin, could reveal some softening between Q2 and Q3. The large manufacturers' diffusion index is expected to slip to one point to +13, while the large non-manufacturers diffusion index is expected to slip one point to zero. Meanwhile, capital spending plans for the current fiscal year are expected to soften slightly to an anticipated increase of 9.3%. We currently forecast Japanese GDP growth of 0.3% quarter-over-quarter (not annualized) for Q3, but would not be entirely surprised if economic growth slowed to a standstill during the current quarter.

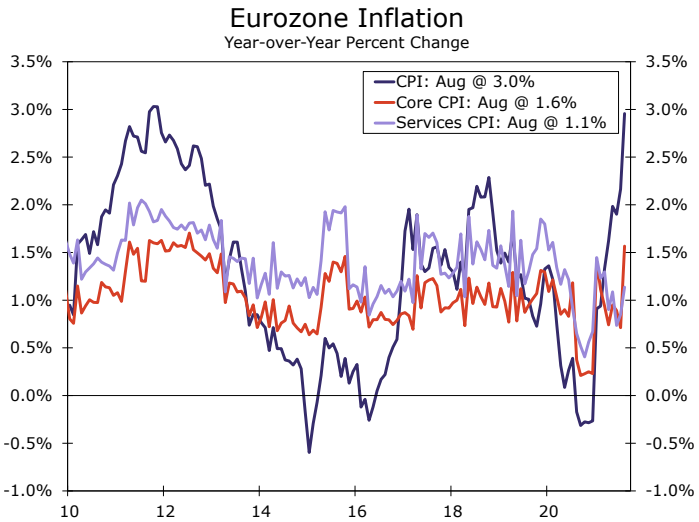


Source: Datastream and Wells Fargo Securities

## Eurozone CPI • Friday

Next week's Eurozone September CPI will be closely watched for potential clues on the path of European Central Bank (ECB) monetary policy in the months ahead. Like other developed economies, the Eurozone region has faced upward price pressures as a result of supply disruptions and associated product shortages. This is clearly evident in the increases seen in the price components of the Eurozone PMI surveys, and were also reflected in producer prices, which rose 12.1% year-over-year in July.

However, price increases at the consumer price level have been far less pronounced. The headline CPI rose 3.0% year-over-year in August. However, the core CPI rose a lesser 1.6% and the services CPI an even lesser 1.1%. For September, the headline CPI is expected to quicken further to 3.3% year-over-year, while the core CPI is expected to rise 1.8%. As long as the core or services inflation remains relatively contained, we expect any shift by the European Central Bank away from its accommodative monetary policy stance to be gradual. In fact, during 2022 we expect the reduction in the pandemic-related bond purchases to be substantially offset by an increase in the pace of its regular bond purchases, meaning the overall tapering of the ECB's bond purchases should occur only gradually. (Return to Summary)



Source: Datastream and Wells Fargo Securities

## Interest Rate Watch

### Tapering "May Soon Be Warranted"

Of all of the central bank meetings occurring this week, the most closely watched was the Federal Reserve's. In Chair Powell's August virtual Jackson Hole speech, he had signaled his support for starting to taper the Fed's asset purchases by year-end "if the economy evolved broadly as anticipated." A sharp slowdown in hiring in August and dampened service sector activity as COVID concerns re-emerged raised some doubts around whether Powell and most of his colleagues still supported the view that an announcement would likely to be warranted as soon as the FOMC's next meeting in November. But the message from this week's meeting was clear that most members are not terribly concerned about the latest bumps on the economy's growth path.

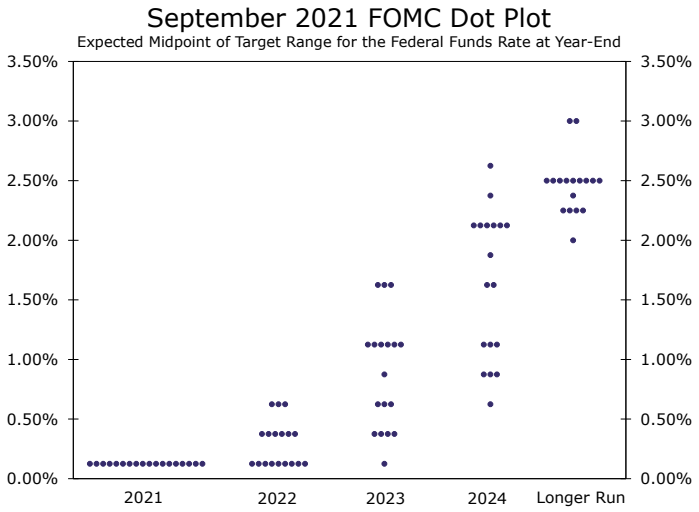
The post-meeting statement was updated to say that "if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted." The statement was unanimously approved by voting members.

In his post-meeting press conference, Powell emphasized that the criteria for tapering—substantial further progress on the FOMC's maximum employment and price stability goals—was cumulative. It seems widely agreed upon that the inflation side of that benchmark had been met. The labor market, however, has been the hangup. Yet even with August's disappointing jobs report, the labor market is still moving in the right direction. In the press conference, Powell shared that, in his view, substantial further progress on employment "is all but met." When pressed on what he would need to see in the September jobs report, the only one to be released between now and the November meeting, he said he would need to see a "reasonably good" jobs report, and that for him, "it wouldn't take a knockout, great, super strong employment report."

All told, it seems like economic conditions would have to deteriorate meaningfully between now and the November meeting for the FOMC not to announce the start of tapering at its next meeting. However, the chance of conditions worsening enough to make the FOMC hold off just a bit longer are far from zero, given the ongoing pandemic, the potential for a government shutdown and the debt ceiling standoff in the next six weeks.

This week's meeting also brought insight into the FOMC's medium-term outlook for the economy and policy. The Summary of Economic Projections showed that the Committee is less constructive on growth and the labor market this year, although it expects to see stronger GDP growth in 2022. As for inflation, it appears stickier than officials presumed in June. Projections for the core PCE deflator were revised up for 2021 to 2023, with the first stab at the 2024 projection showing inflation likely to still be above 2%.

With unemployment expected to be below the FOMC's longer-run estimate from 2022 to 2024 and inflation expected to be above 2%, expectations for the fed funds rate are to move higher. The dot plot now has the Committee evenly split on whether liftoff will occur by the end of 2022. Only one member now sees the fed funds rate remaining unchanged through the end of 2023—there were five members in June—with the median looking for 75 bps of rate hikes by the end of 2023. Every member thinks that rates will be higher by the end of 2024. We continue to forecast that the Fed will remain on hold through the end of next year. Although we look for 75 bps of rate hikes in 2023, we forecast that they all will occur in the second half of the year. (Return to Summary)




Source: Federal Reserve Board and Wells Fargo Securities

## Topic of the Week

### What Is All the Fuss About Evergrande?

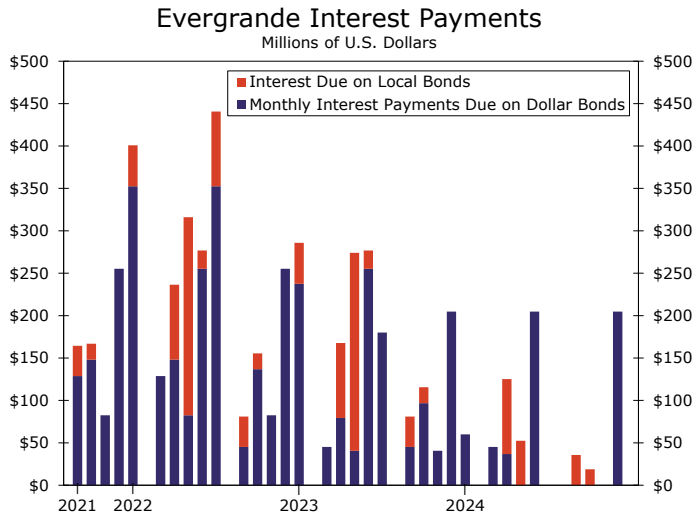
Developments tied to Evergrande, one of China's largest real estate developers, injected volatility into global financial markets early this week due to concerns that the company could default on its debts. Historically, the company has relied heavily on leverage to fund property development operations as well as expansion to industries outside real estate, and has racked up over $300 billion in liabilities. These liabilities are becoming an issue amid China's push for "common prosperity" and the goal to reduce the cost of living. Declining home and rental prices have resulted in Evergrande struggling to generate sufficient cash flow to repay bondholders and has the company on the brink of default. Evergrande first sparked liquidity concerns in 2020, and since then, confidence in the company's ability to repay debt has deteriorated. Given the sheer size of Evergrande and the importance of the real estate sector to China's economy, an Evergrande default could weigh on China's economy and possibly spill over into the prospects for the global economy. Equity markets soldoff significantly earlier in the week, while yields of non-investment grade issuers, particularly within the real estate sector, spiked. Markets calmed on Wednesday when Evergrande privately resolved an interest payment on a local currency denominated bond with creditors. In addition, the People's Bank of China (PBoC) injected a significant amount of liquidity into China's financial system in an effort to ease a cash crunch and sooth financial markets.

However, just because Evergrande made one debt payment this week does not mean the company's debt burden is alleviated. Evergrande still has around $670 million in outstanding interest payments to make this year, which as of now is unclear if they will be made. In addition, most of these payments are denominated in U.S. dollars, which also complicates the company's ability to service its debts. While Evergrande has deservingly received headlines given its size and financial predicament, corporate debt is quite elevated across China. Non-financial corporate debt as a percentage of GDP has risen to 159%, up from closer to 100% in 2006. To put those numbers in perspective, the U.S. corporate debt burden is much smaller. At present, the corporate debt-to-GDP ratio in the U.S. is only 85%, while the trajectory of that debt has been much flatter.

However, we tend to believe a default, or even an Evergrande bankruptcy, would be manageable and would not take down China's financial system or economy, or have contagion effects to the broader global economy. Non-Chinese banks have limited exposure to China's corporate sector, and we tend to believe this lack of exposure should mitigate most of the impact. If the fallout from Evergrande or deleveraging in the real estate sector more broadly does meaningfully slow growth in China, we have laid out which emerging market countries may feel the effects most acutely in a separate report.

Looking at the United States specifically, it appears that the direct financial effects from the Evergrande fallout would be fairly manageable. The emergence of unappreciated counter party risks can have a deleterious impact on credit channels that facilitate investment and spending by businesses and individuals. Fortunately, reports of direct exposure to Evergrande among U.S. banks have thus far been negligible. While U.S. banks' exposure to China more broadly has grown meaningfully over the past two decades, it remains fairly small in comparison to the sector's $22 trillion in assets. Similarly, U.S. exports to China have grown to $125 billion from $16 billion in 2000, but this equates to only about 0.6% of U.S. GDP. Moreover, U.S. exports to China are largely made up of soybeans, circuits, motor vehicles and aircraft, rather than materials used to support China's real estate sector.

While the United States' measurable links to China remain relatively minor in the context in the large, diverse U.S. economy, disruptions in China, the world's second largest economy, can certainly still be felt. As noted previously, U.S. financial markets pulled back sharply in the wake of Evergrande news earlier this week. Moreover, a slowdown in China can have material impacts on global growth that could weigh on the United States. (Return to Summary)




Source: Bloomberg LP and Wells Fargo Securities

# Market Data • Mid-Day Friday

## U.S. Interest Rates

| | Friday 9/24/2021 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| 1-Month LIBOR | 0.09 | 0.09 | 0.15 |
| 3-Month LIBOR | 0.13 | 0.12 | 0.23 |
| 3-Month T-Bill | 0.03 | 0.03 | 0.09 |
| 1-Year Treasury | 0.07 | 0.05 | 0.09 |
| 2-Year Treasury | 0.27 | 0.22 | 0.13 |
| 5-Year Treasury | 0.94 | 0.86 | 0.28 |
| 10-Year Treasury | 1.44 | 1.36 | 0.67 |
| 30-Year Treasury | 1.97 | 1.90 | 1.41 |
| Bond Buyer Index | 2.15 | 2.14 | 2.22 |

## Foreign Exchange Rates

| | Friday 9/24/2021 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| Euro ($/€) | 1.172 | 1.173 | 1.167 |
| British Pound ($/£) | 1.369 | 1.374 | 1.275 |
| British Pound (£/€) | 0.856 | 0.854 | 0.916 |
| Japanese Yen (¥/$) | 110.690 | 109.930 | 105.410 |
| Canadian Dollar (C$/$) | 1.266 | 1.276 | 1.336 |
| Swiss Franc (CHF/$) | 0.924 | 0.932 | 0.927 |
| Australian Dollar (US$/A$) | 0.726 | 0.727 | 0.705 |
| Mexican Peso (MXN/$) | 20.067 | 20.018 | 22.153 |
| Chinese Yuan (CNY/$) | 6.466 | 6.466 | 6.829 |
| Indian Rupee (INR/$) | 73.691 | 73.485 | 73.905 |
| Brazilian Real (BRL/$) | 5.331 | 5.290 | 5.510 |
| U.S. Dollar Index | 93.303 | 93.195 | 94.354 |

Source: Bloomberg LP and Wells Fargo Securities

## Foreign Interest Rates

| | Friday 9/24/2021 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| 3-Month Euro LIBOR | -0.56 | -0.56 | -0.52 |
| 3-Month Sterling LIBOR | 0.08 | 0.07 | 0.07 |
| 3-Month Canada Banker's Acceptance | 0.45 | 0.45 | 0.51 |
| 3-Month Yen LIBOR | -0.07 | -0.09 | -0.10 |
| 2-Year German | -0.69 | -0.70 | -0.70 |
| 2-Year U.K. | 0.38 | 0.29 | -0.05 |
| 2-Year Canadian | 0.49 | 0.46 | 0.26 |
| 2-Year Japanese | -0.10 | -0.12 | -0.14 |
| 10-Year German | -0.23 | -0.28 | -0.50 |
| 10-Year U.K. | 0.93 | 0.85 | 0.22 |
| 10-Year Canadian | 1.37 | 1.28 | 0.56 |
| 10-Year Japanese | 0.06 | 0.05 | 0.01 |

## Commodity Prices

| | Friday 9/24/2021 | 1 Week Ago | 1 Year Ago |
|---|---|---|---|
| WTI Crude ($/Barrel) | 73.82 | 71.97 | 40.31 |
| Brent Crude ($/Barrel) | 77.83 | 75.34 | 41.94 |
| Gold ($/Ounce) | 1753.16 | 1754.34 | 1868.07 |
| Hot-Rolled Steel ($/S.Ton) | 1855.00 | 1857.00 | 592.00 |
| Copper (¢/Pound) | 428.95 | 424.25 | 296.75 |
| Soybeans ($/Bushel) | 12.69 | 12.59 | 10.12 |
| Natural Gas ($/MMBTU) | 5.12 | 5.11 | 2.25 |
| Nickel ($/Metric Ton) | 19,374 | 19,416 | 14,385 |
| CRB Spot Inds. | 620.38 | 618.19 | 458.13 |

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