

# Financial Market Weekly

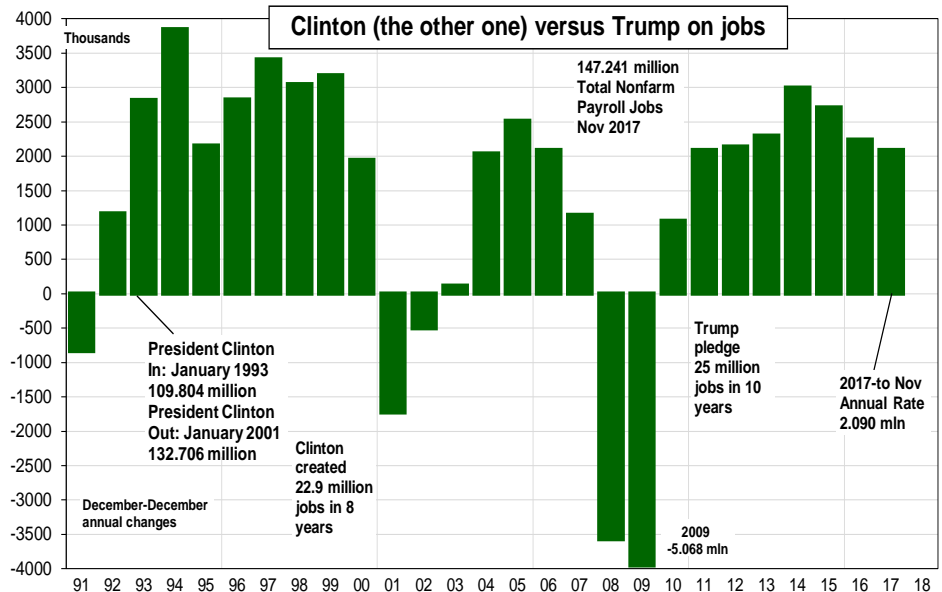
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## FORGET ABOUT 228 THOUSAND NEW JOBS, BRING ME MORE WAGES

Payroll jobs 228K November, 244K October, with the 38K September hurricane effect even further away in the rear view mirror. Unemployment rate 4.1% same as last month, lowest since the late nineties. And wages rose 0.2% in November instead of the 0.3% consensus forecast and October was revised to -0.1% from 0.0. Earnings clawbacks in October, blame Wall Street.



The monthly employment situation report has tons of stuff in it, but the markets just look at these three things. Don't know why traders aren't interested in more color on the labor market that the Bureau of Labor Statistics provides economists each month. It's not as if traders are doing anything else during the day and it's only going to get worse with the Fed guiding us every single step of the way on rates the next three years. Zero volatility. 10-yr Treasury yields were 2.38% at 830am jobs tee time, and closed the day at 2.38%.

	Nov	Oct	Sep	Aug	Jul	Jun
Payroll jobs (000s)	228	244	38	208	138	210
Unemployment rate %	4.1	4.1	4.2	4.4	4.3	4.4
Unemployment (3 decimal)	4.118	4.065	4.220	4.442	4.350	4.357
Participation rate %	62.7	62.7	63.1	62.9	62.9	62.8
Average hourly earnings	\$26.55	\$26.50	\$26.53	\$26.42	\$26.39	\$26.27
MTM % Chg	0.2	-0.1	0.4	0.1	0.5	0.2
YOY % Chg	2.5	2.3	2.8	2.6	2.6	2.5
Production Worker earnings	\$22.24	\$22.19	\$22.22	\$22.14	\$22.09	\$22.03
MTM % Chg	0.2	-0.1	0.4	0.2	0.3	0.2
YOY % Chg	2.3	2.2	2.5	2.4	2.3	2.3

What was behind the 228K gain in payroll jobs? We keep waiting for the slowdown in hiring because we are at full employment. Not yet. Construction up a strong 24K in November so we can bet housing starts are going to be moving up and adding to GDP growth again. There was something for the President as well, we want to keep him happy. Manufacturing jobs increased 31K in November follow-

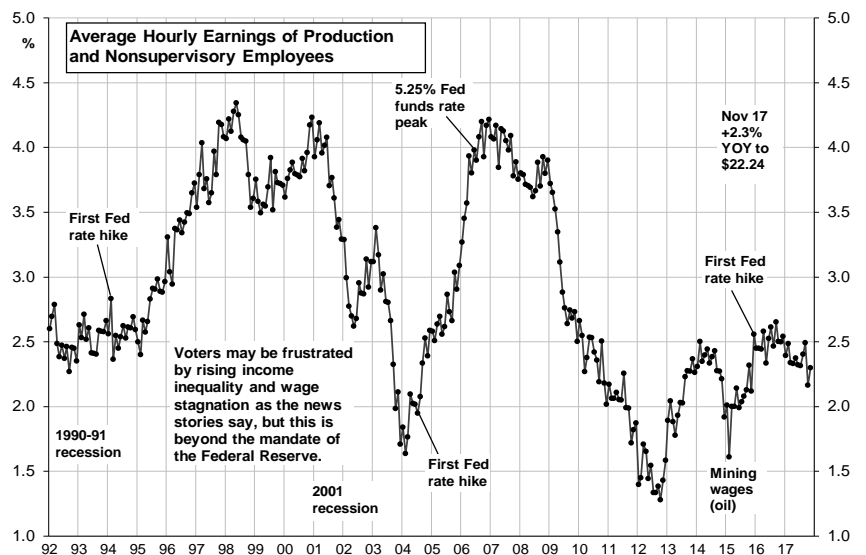
ing on a solid gain of 23K in October. Fabricated metals +7,400, Machinery +8,300, Computer and electronics +3,800, Electrical equipment and appliances +2,000, Food manufacturing +1,800... if you are looking. It is a bit of a mystery where factories found the help they need as we know they have needed people for a while now. The JOLTS data said manufacturing job openings were 326K in September, down from 435K factory help wanted in August due to the hurricane. They needed 326K in September and hired 23+31=54K since then.

Concerned about retailers? Bricks and mortar stores seeing less foot traffic. Not this month. Retail jobs increased by 19K as stores are open for business this holiday season. Nothing else looks seriously wrong in this report. Leisure and hospitality has been batted around by the storms in recent months, down 75K in September, up 104K in October and now just 14K more jobs in November. It should probably be a little stronger than 14K.

America remains strong and companies continue to onboard new workers at a fast clip, faster than might be expected for this the ninth year of steady economic forward motion since the recession ended. Companies don't need tax cuts to create more jobs that's for sure. The fact that workers' wages are rising just 2.5% the last year is just a small quibble in the greater scheme of things. The overall picture today from this report is one of solid growth and this will keep the Fed on its gradual path of normalizing its policy in the year to come, winding the balance sheet of liquidity down, and giving us the next installment of higher short-term interest rates at next week's meeting.

### Payroll jobs in year nine following the recession

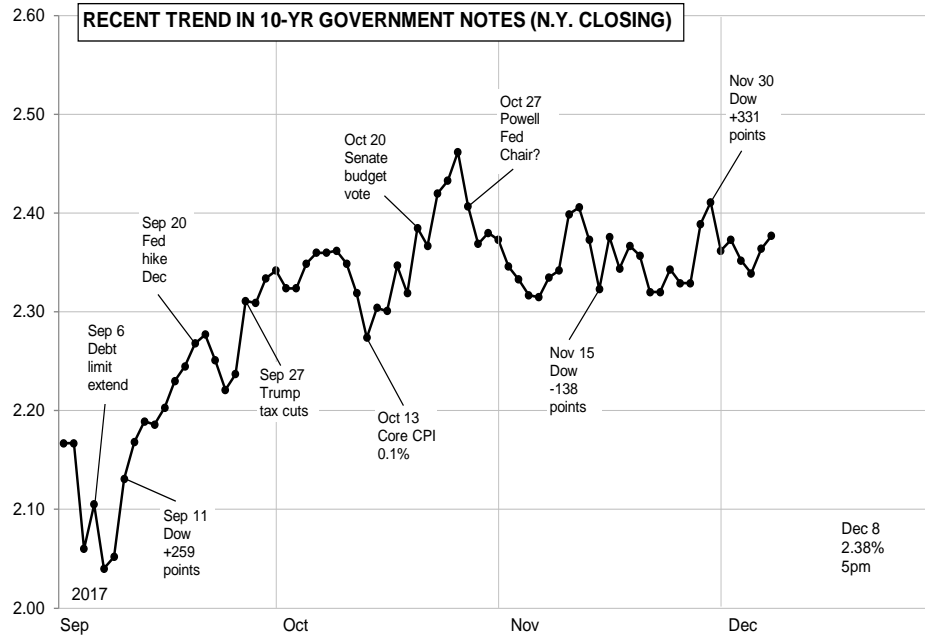
Dec. 2016		Nov 17	Oct 17	Sep 17	11 months Dec 16 to Nov 17	12 months Dec 15 to Dec 16
Totals						
145.325	Nonfarm Payroll Employment	228	244	38	1916	2240
123.026	Total Private (ex-Govt)	221	247	50	1874	2039
19.794	Goods-producing	62	34	26	405	64
0.617	Mining	5	2	4	63	-75
12.343	Manufacturing	31	23	9	171	-16
0.942	Motor Vehicles & parts	2	-1	-3	-2	17
6.783	Construction	24	10	13	172	155
103.232	Private Service-providing	159	213	24	1469	1975
27.374	Trade, transportation, utilities	32	14	38	96	331
15.881	Retail stores	19	-2	12	-36	203
3.180	General Merchandise	7	-9	2	-48	37
3.097	Food & Beverage stores	6	1	-4	-15	37
5.048	Transportation/warehousing	11	8	18	76	92
1.465	Truck transport	2	1	3	13	10
0.668	Couriers/messengers	2	1	-1	8	31
0.943	Warehousing and storage	8	7	4	32	63
0.557	Utilities	0	0	1	-3	0
2.762	Information	-4	-8	-5	-59	0
8.364	Financial	8	7	12	128	176
2.605	Insurance	-2	-6	11	27	46
2.169	Real Estate	8	9	6	56	59
1.311	Commercial Banking	0	2	-3	5	17
0.933	Securities/investments	3	1	2	21	18
20.416	Professional/business	46	54	30	512	534
2.962	Temp help services	18	18	10	134	32
2.259	Management of companies	-1	3	-1	25	35
1.427	Architectural/engineering	3	4	3	45	27
2.032	Computer systems/services	4	5	3	45	87
1.126	Legal services	1	0	1	3	5
1.000	Accounting/bookkeeping	4	0	1	13	32
22.871	Education and health	54	24	23	421	553
5.077	Hospitals	2	6	6	60	119
3.604	Educational services	13	-11	15	72	85
15.744	Leisure and hospitality	14	104	-75	274	331
1.950	Hotel/motels	2	1	5	13	11
11.549	Eating & drinking places	19	86	-64	235	276
22.299	Government	7	-3	-12	42	201
2.200	Federal ex-Post Office	-2	2	-1	-8	30
5.085	State government	1	-8	-24	-22	-4
2.414	State Govt Education	1	-4	-19	-7	3
14.395	Local government	9	2	12	75	160
7.945	Local Govt Education	6	3	10	54	69



## MARKETS OUTLOOK

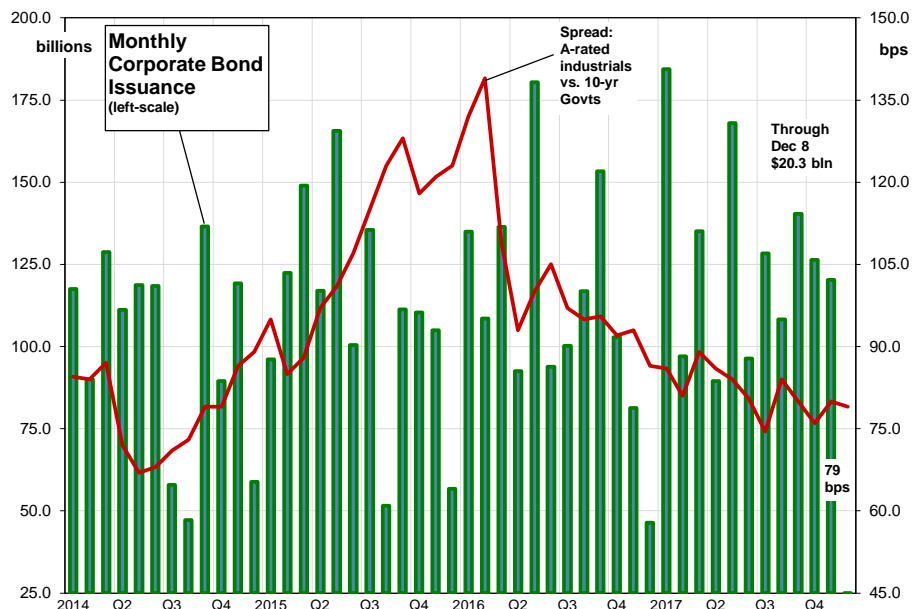
	8-Dec 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
30-Yr Treasury	2.77	2.90	3.00	3.10	3.30	3.40	3.50	3.60	3.70	3.80	3.80
10-Yr Note	2.38	2.50	2.70	2.80	3.00	3.20	3.30	3.40	3.50	3.70	3.70
5-Yr Note	2.14	2.20	2.40	2.60	2.80	3.00	3.15	3.30	3.40	3.60	3.60
2-Yr Note	1.79	1.95	2.20	2.45	2.65	2.85	3.10	3.30	3.40	3.60	3.80
3-month Libor	1.55	1.90	2.10	2.30	2.60	2.80	3.10	3.30	3.30	3.55	3.80
Fed Funds Rate	1.25	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75
2s/10s spread	59	55	50	35	35	35	20	10	10	10	(10)

10-year Treasury yields close 2.38% this week after 2.36% last week. That doesn't quite explain what happened or rather what didn't happen. Monday, Tuesday, Wednesday, Thursday, Friday closes. 2.37, 2.35, 2.34, 2.36, 2.38 percent. Hopefully, market volatility will pick up next week with the Fed meeting on Wednesday. We will see if the Fed continues to pencil in three 25 bps rate hikes in 2018 ending the year at 2.25%.



## CORPORATE BONDS: BAKER HUGHES, SCHWAB, SEMPRA ENERGY

Corporate offerings were \$20.3 billion in the December 8 week versus \$29.3 billion in the December 1 week. On Monday, J. M. Smucker Co. sold \$800 million 2s/10s. It priced \$500 million 3.375% 10-yrs (m-w +15bp) at 100 bps (Baa2/BBB). The food and beverage company will use the proceeds to repay \$500 million senior notes due in March and for general corporate purposes. Corporate bonds (10-yr Industrials rated A2) were 79 bps above 10-yr Treasuries this week versus 80 bps last Friday.



## FEDERAL RESERVE POLICY

The Fed meets December 12-13 to consider its monetary policy. Fed funds futures odds of a rate hike to 1.5% are 94%: they are going. We're bracing ourselves for a dot or two to vanish off the gradual pace of rate hikes the Committee currently envisions for the next two years. Three rate hikes in 2018, and 2 rate hikes in 2019. Hope not. Slow enough trip back to normal as it is. For Fed officials, it seems to be all about inflation, inflation, inflation, and not positioning interest rates against the potential inflation that may yet emerge from the too low 4.1% unemployment rate. They need to see the actual inflation in black and white or they will balk on a rate hike sometime, somewhere down the road. Core PCE inflation is 1.4% currently (1.447 just missed 1.5%) and they want it all: 2.0%. They have really painted themselves into a corner on this low inflation concern, and we wouldn't be surprised if they chicken out and revise down the path of rates, and even adjust downward the fabled (made up) longer run Fed funds rate forecast of just 2.75% that Yellen brought up at her Joint Economic Committee (JEC) testimony last month.

There is also speculation about the Fed's GDP forecasts given the Tax Cuts and Jobs Act is closing in on the final steps for passage. House Ways and Means Congressman Kevin Brady who is running the show on delivering the pro-growth tax reform to Trump's desk this year has said this legislation will usher in a New Era of Economic Growth. That may be. But let's wait and see what the Fed thinks about this. At the moment, they have weaker growth forecasts than private surveys of economists do. The Fed's call is 2.1% 2018, 2.0% 2019, and 1.8% 2020. We still think the Fed's GDP growth forecasts are a red herring on whether the Fed will lift rates and how fast the next few years... at least for now. It is probably early to expect them to bump up growth forecasts in response to the massive tax cuts on their way later this year to Trump's desk for signature. At 2pm EST, December 13 we will first look at the dots, making sure the three 2018 rate hikes are there, and then at core PCE inflation currently 1.9% YOY they say in Q4 2018 because if inflation doesn't get there next year, then the three rate hikes may not happen. Those three rate hikes still conditional; and not on a measured pace no-matter-what path like Greenspan did it.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	6-Dec	29-Nov	22-Nov	15-Nov	pre-LEH
<b>Factors adding reserves</b>					
U.S. Treasury securities	2454.474	2456.959	2456.822	2456.641	479.782
Federal agency debt securities	4.391	4.391	4.391	6.757	0.000
Mortgage-backed securities	1767.096	1767.095	1778.683	1775.854	0.000
Primary credit (Discount Window)	0.005	0.024	0.010	0.003	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	1.709	1.709	1.710	1.710	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	0.000
Central bank liquidity swaps	0.035	0.035	0.035	0.035	62.000
Federal Reserve Assets	4483.9	4484.5	4497.5	4495.3	961.7
3-month Libor %	1.52	1.48	1.46	1.42	2.82
<b>Factors draining reserves</b>					
Currency in circulation	1602.906	1599.963	1598.883	1593.044	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	76.368	67.019	51.634	35.038	24.964
<b>Reserve Balances (Net Liquidity)</b>	<b>2158.636</b>	<b>2271.171</b>	<b>2329.834</b>	<b>2357.806</b>	<b>2,000</b>
Treasuries within 15 days	0.000	7.869	7.869	7.869	14.955
Treasuries 16 to 90 days	97.060	65.013	65.010	48.442	31.549
Treasuries 91 days to 1 year	328.413	335.543	335.542	352.103	69.272
Treasuries over 1-yr to 5 years	1095.454	1117.114	1117.078	1117.050	170.807
Treasuries over 5-yrs to 10 years	310.425	308.302	308.286	292.840	91.863
Treasuries over 10-years	623.122	623.118	623.038	638.336	101.337

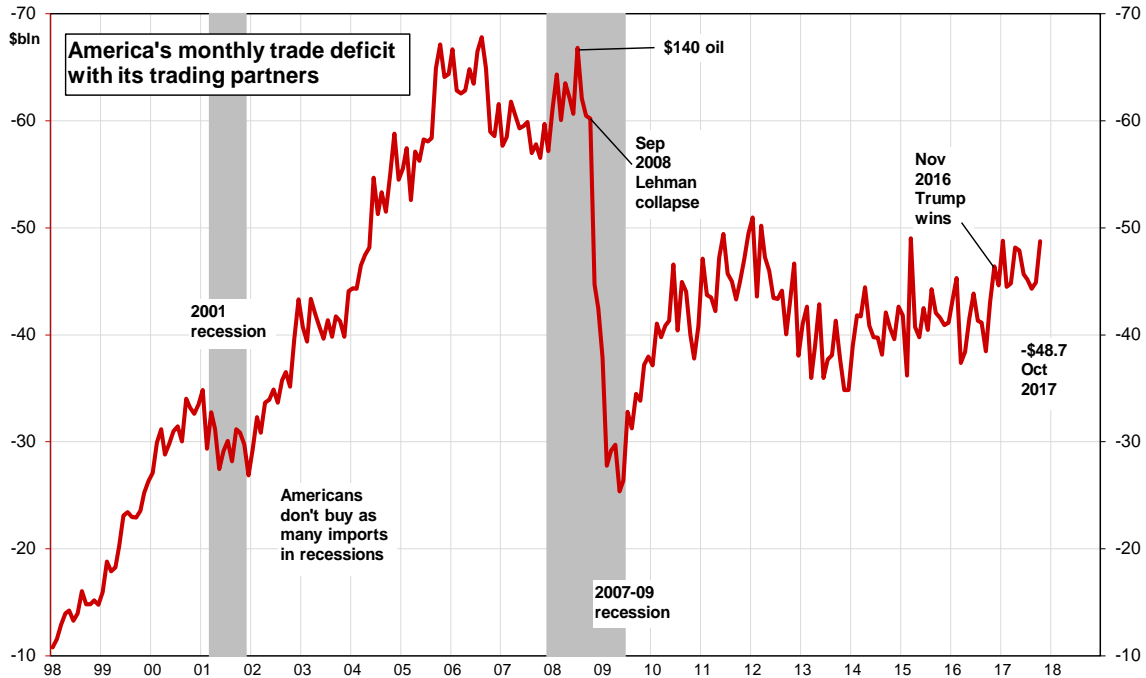
Balance sheet unwind: Treasury security holdings dropped \$11.2 billion from \$2.465 trillion on October 25, 2017.

Fed Individual Forecasts					
Fed funds rate by year-end					
Votes	2017 End	2018 End	2019 End	2020 End	Longer run
1	1.125	1.125	1.125	1.125	2.250
2	1.125	1.125	1.625	2.375	2.500
3	1.125	1.625	2.125	2.375	2.500
4	1.125	1.875	2.375	2.500	2.500
5	1.375	1.875	2.375	2.625	2.500
6	1.375	2.125	2.500	2.625	2.750
7	1.375	2.125	2.625	2.750	2.750
8	1.375	2.125	2.625	2.875	2.750
9	1.375	2.125	2.750	2.875	2.750
10	1.375	2.125	2.875	2.875	3.000
11	1.375	2.125	2.875	3.000	3.000
12	1.375	2.375	3.125	3.125	3.000
13	1.375	2.375	3.125	3.500	3.000
14	1.375	2.375	3.250	3.500	3.000
15	1.375	2.500	3.375	3.625	3.500
16	1.625	2.625	3.375	3.875	
17					
Median	1.375	2.125	2.688	2.875	2.750
Meeting	Sep 2017	Sep 2017	Sep 2017	Sep 2017	Sep 2017

## OTHER ECONOMIC NEWS THIS WEEK

### Record imports as foreign U.S. factories continue to shovel it in

Breaking economy news. America first has a lot of work cut out for it with imports surging to all-time record highs in October. America's trade deficit with the world swung out to \$48.7 billion in October from \$44.9 billion in September which will take some steam out the recent trend of stronger economic growth. GDP was 3.1% in the second quarter, and 3.3% in the third quarter, but the early start to the fourth quarter in the terms of trade will make a third consecutive 3% growth rate challenging to say the least.



Net, net, the trade deficit in the goods America trades with the rest of the world worsened dramatically in October which leaves the Trump economics team empty handed when it comes to its mission to improve the unfair terms of trade which sent factories offshore starting a couple of decades ago. Exports of goods fell \$321 million in October to \$130.321 billion, while imports jumped \$3.513 billion to \$199.397 billion. China imported goods, coming in from U.S. factories over there, rising to a record \$48.2 billion, an increase of \$2.8 billion in October. Mexico a record \$28.7 billion in October and increase of \$2.9 billion. To be fair October tends to be the peak month each year for imports from both Mexico and China so we are unlikely to see these scary import records again for some time. But who wants to be fair. Fake news brings in more readers. Read it here. The economy is better than you think. Bet on it.



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