

# Financial Market Weekly

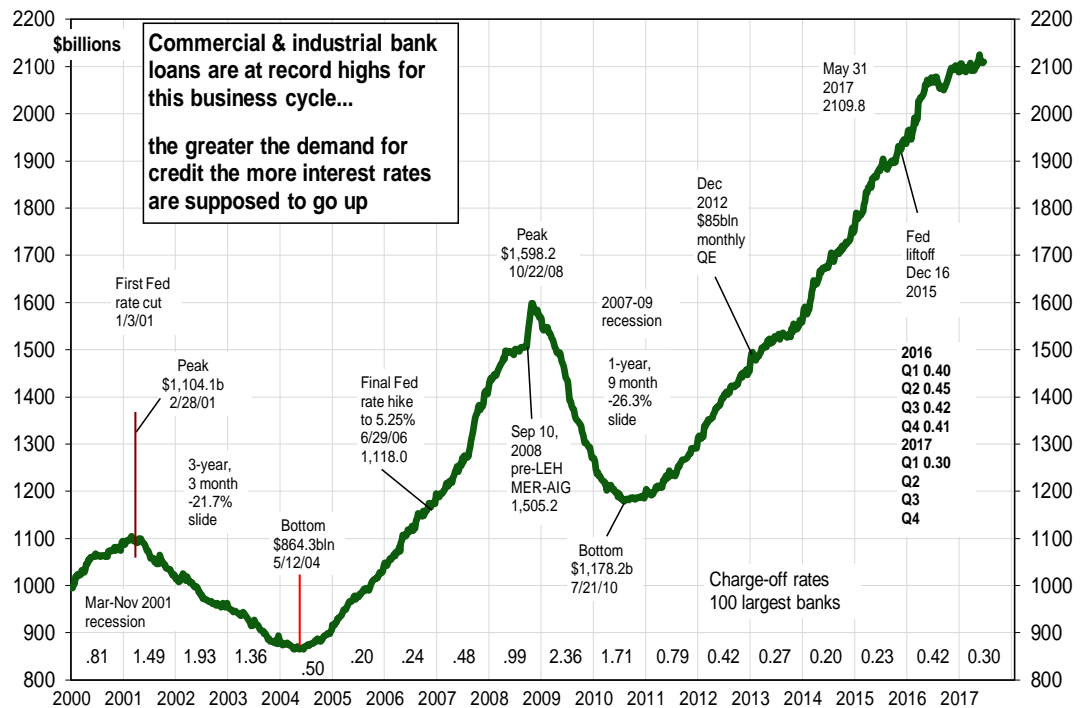
**CHRISTOPHER S. RUPKEY, CFA**  
**MANAGING DIRECTOR**  
**CHIEF FINANCIAL ECONOMIST**  
**ECONOMIC RESEARCH OFFICE (NEW YORK)**  
**(212) 782-5702**  
**crupkey@us.mufg.jp**

9 JUNE 2017

**MUFG Union Bank**  
 A member of MUFG, a global financial group

## WAITING FOR BANKS TO LEND AGAIN

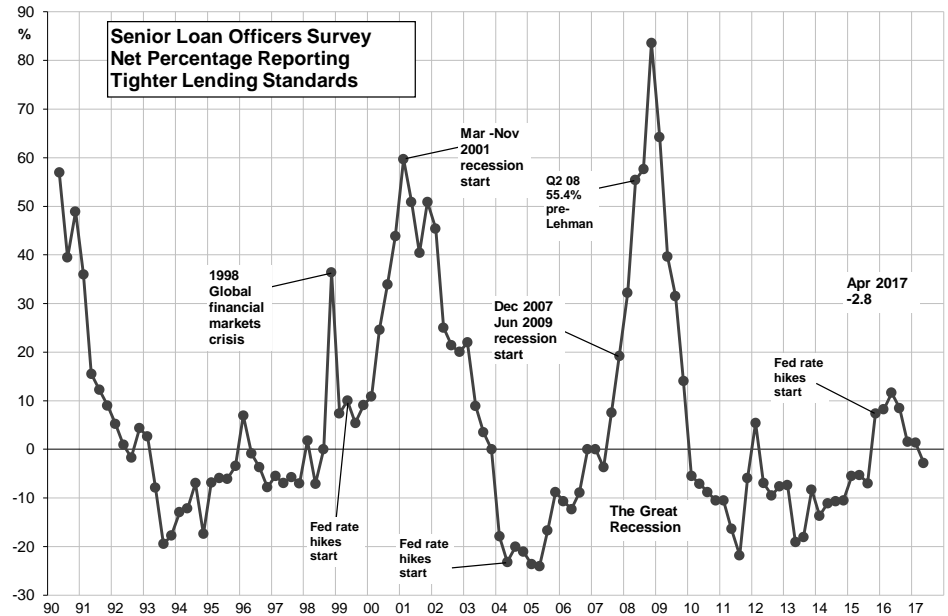
A bill to repeal Dodd-Frank was voted out of the House this week. It is unlikely to pass the Senate in its present form and make its way to the President's desk for signature however. While we wait for the Dodd-Frank reforms, reforms that will enable banks to lend again, lending that will lead to greater investment and to the creation of jobs, jobs, jobs, we thought we would look at bank lending this week. The statistics. Not fake news.



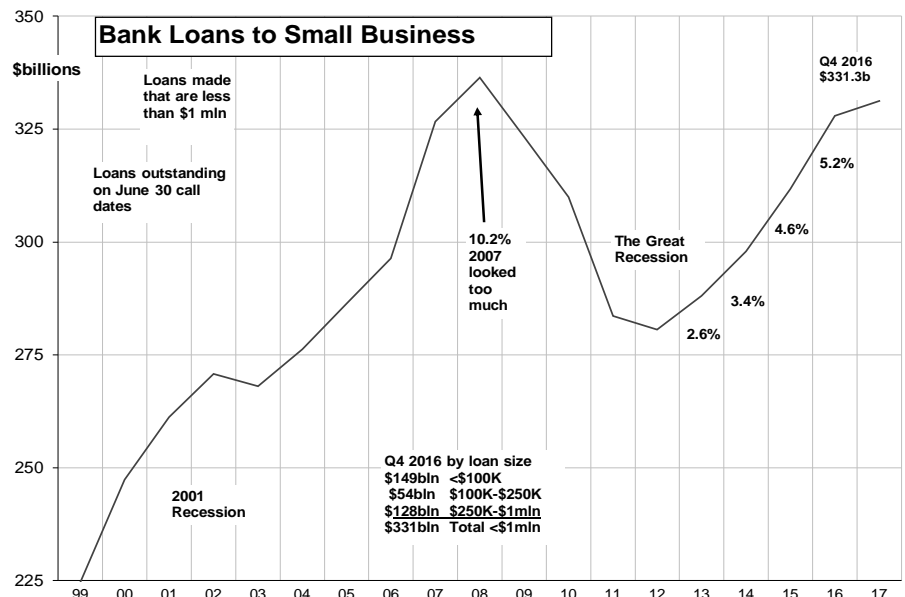
**Trump February 3, 2017**  
 "Frankly, I have so many people, friends of mine that have nice businesses that can't borrow money, they just can't get any money because the banks just won't let them borrow because of the rules and regulations in Dodd-Frank."

Commercial & industrial loans (C&I) at banks have risen more slowly since mid-2016. Prior to mid-2016, it would not be an exaggeration to say loans to corporations had been made at an explosive rate that far exceeded the credit bubble a decade ago. Higher interest rates have not slowed C&I loan growth recently with the Fed funds rate at 1.0%. Maybe C&I loans can be thrown in with other economic indicators showing the economy is showing signs of its age as it starts its ninth year of expansion next month.

We aren't sure why C&I loans have stopped rising of course. It probably started with the fallout from the 2014 oil crash. But the Fed's Senior Loan Officer Opinion Survey on bank lending practices showed the tightening of credit conditions at the end of 2015, however slight, continues to come back down. Charge-offs at the 100 largest banks rose to 0.42 percentage points in 2016 from a benign 0.20 percentage points in the halcyon days of 2014.



The April survey of senior loan officers did not show much change. There are 43 large banks with more than \$20 billion of domestic assets and only 2 of these said they had eased credit standards in the last three months. More did say the maximum size of credit lines had eased somewhat (9 banks), costs of credit lines eased somewhat (7 banks) and the spread of loan rates over the cost of funds were narrower (11 banks).



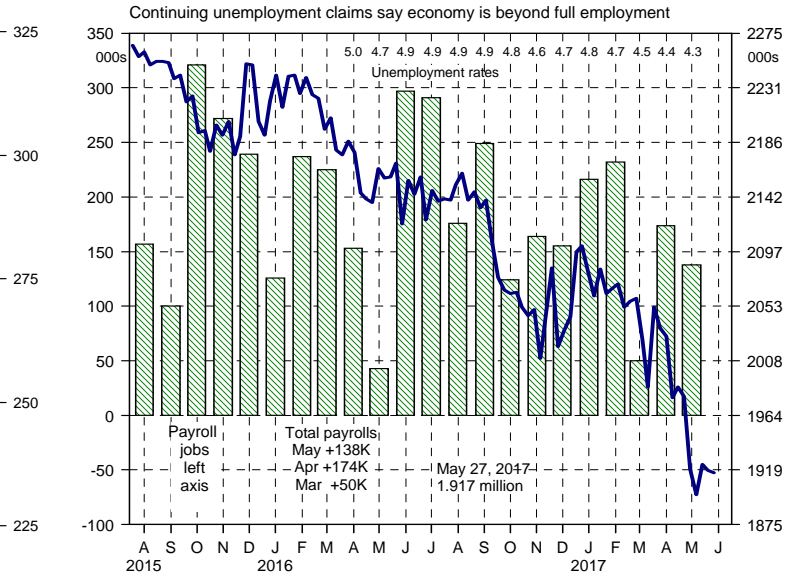
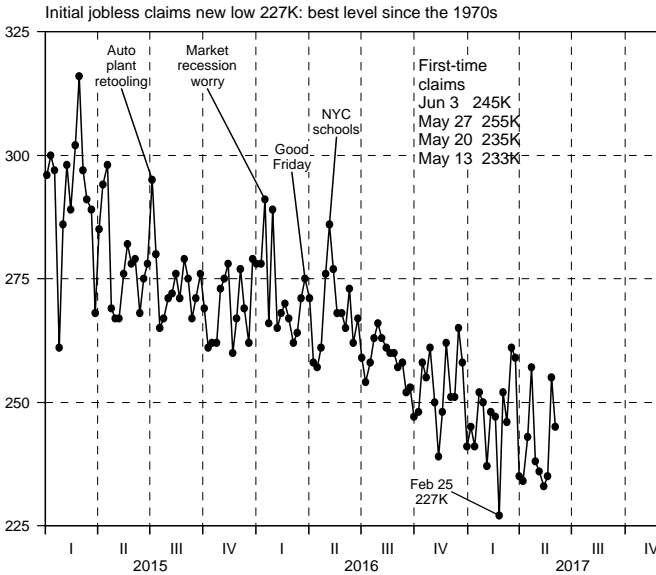
We don't know who President Trump's friends were that couldn't get money from banks. Perhaps they deal in commercial real estate which has its own issues. The senior loan officer survey said banks reported tighter lending standards for commercial real estate. Small business lending continues to rise so we should not be waiting for banks to lend again. They are.

Small business loans outstanding rose \$16.2 billion or 5.2% to \$327.9 billion in the year ending June 2016, an increase that a couple of the large banks in the Fed's senior loan officer survey could have taken down by themselves. That isn't the way it works however as these small business loans originate from the 5,856 banks across the country. Some in Congress say regulations are strangling banks and causing them to close or otherwise be sold. There were 7,513 banks in 2008 before Lehman so the industry could be seeing rapid change. In conclusion, bank lending continues, and for commercial & industrial loans it looks like many companies have enough credit for now as demand seems to be slowing after many years of expansion.

## JOBLESS CLAIMS—BETTER THAN BEST TIMES NOW FOR LABOR MARKET

Unemployment claims were 245K in the June 3 week. Claims been a little jumpy, but are still at rock bottom lows. That's 245,000 out of 139 million workers covered by unemployment insurance. Back in 2000, when claims were also at cyclical lows (259K 4-15-00), the worker population was smaller at 124 million. Not a lot of churn in the labor force-people coming and going. It's tight. Nonfarm payroll jobs of 138K in May have been weak for three straight months, which is reminiscent of the slowing in Q4 2016 that eventually bounced: we expect more 200K months ahead.

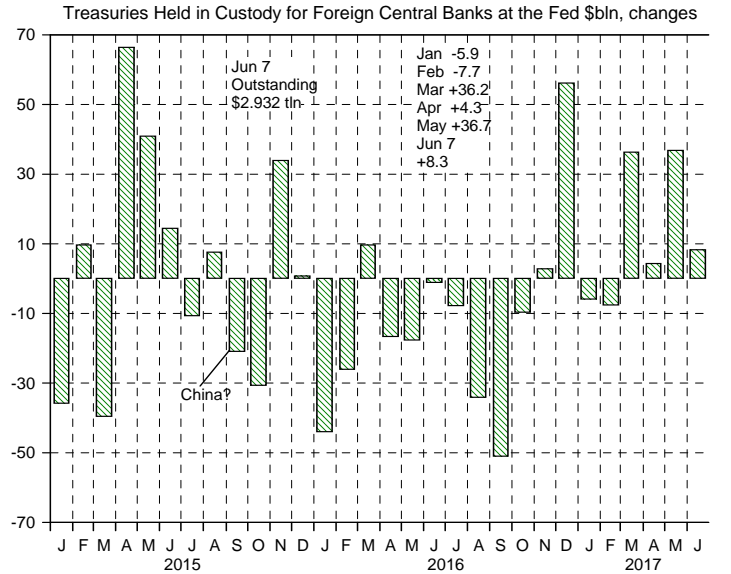
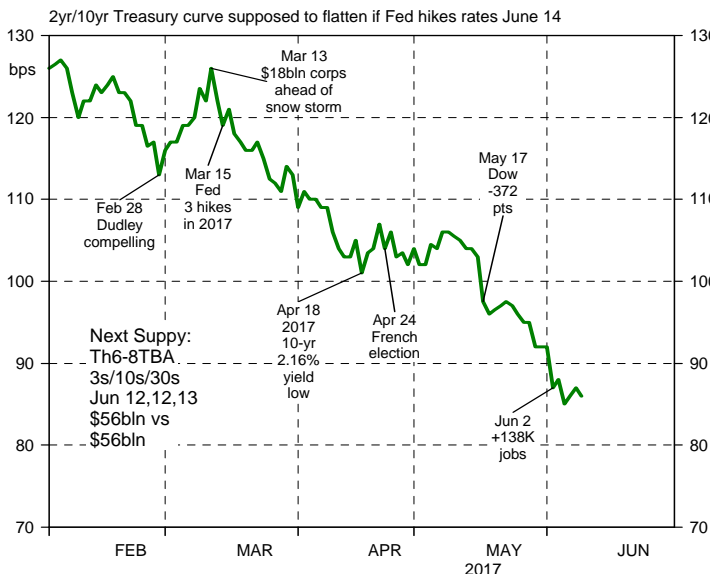
President takes Office	Unemployment
Clinton	Jan 1993 7.3%
Bush	Jan 2001 4.2%
Obama	Jan 2009 7.8%



## TREASURY CURVE BREAKS 100 BPS, MORE NARROWING TO WAIT ON FED

The yield curve between 2-yrs and 10-yrs was 86 bps on Friday versus 83 bps last week. Market continues to trade more like bots are entering technical trades rather than real money carefully considering the fundamentals. No trend: 10-yr yields close 2.16% low for 2017 last Friday, fall as far as 2.13% on Tuesday this week before bond rally fizzles out. Much was made of Thursday's big three news events but volatility remained subdued. Will revise rates forecast next week after the Fed.

	31-Mar 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
30-Yr Bond	3.03	3.10	3.20	3.40	3.60	3.70	3.80
10-Yr Note	2.40	2.50	2.70	3.00	3.20	3.40	3.50
5-Yr Note	1.93	2.10	2.40	2.70	3.00	3.20	3.30
2-Yr Note	1.25	1.50	1.75	2.00	2.25	2.50	2.75
3-month Libor	1.15	1.50	1.70	1.95	2.20	2.45	2.70
Federal Fund Rate	1.00	1.25	1.50	1.75	2.00	2.25	2.50
2s/10s spread	115	100	95	100	95	90	75



## FEDERAL RESERVE POLICY

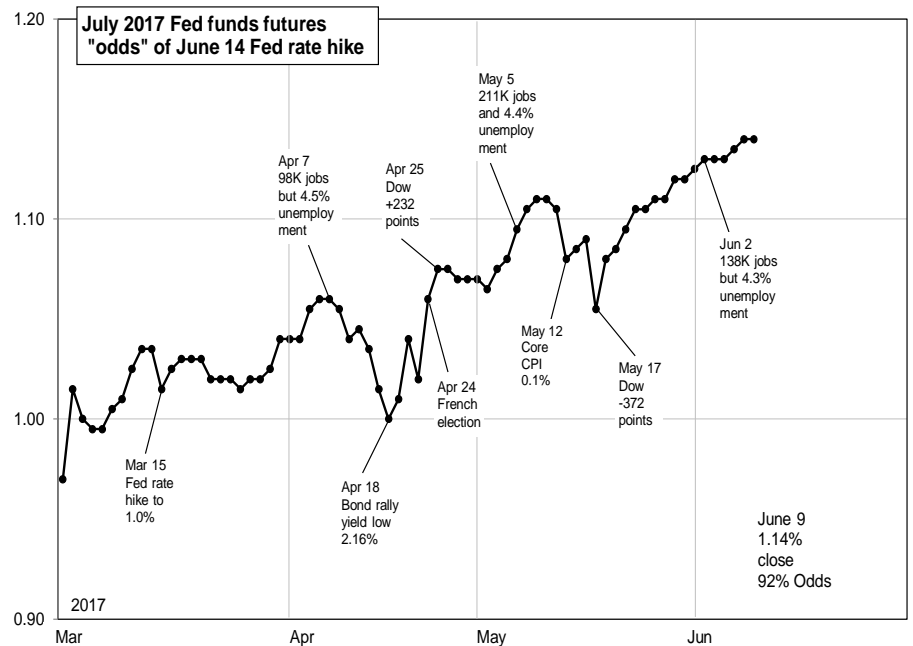
The Fed meets June 13-14 to consider its monetary policy. Yellen will hold a press conference after the meeting from 230pm to 330pm EDT, to explain the Fed's reasons behind what is widely expected to be a 25 bps rate hike in the Fed funds rate to 1.25%. Normal interest rates are 3% according to the Fed and we can hear again why interest rates won't be normal until the end of 2019-two and a half years away from right now today.

The Fed has two objectives, maximum employment which has been met, and 2.0% inflation which has not. We never understood the Fed's concern about inflation being too low; it's not as if there is any real risk of deflation as this is not an economy facing stagnation or weakened demand. We like the Fed Chair's original comment a few years ago that the Fed funds rate should be at normal when the unemployment rate comes back down to normal. Well, that condition has been met: the unemployment rate is 4.3%. The lowest unemployment got during the Greenspan housing bubble economy years of 2004 to 2006 was 4.4% when the Fed raised rates as high as 5.25%. The Fed funds rate is now just 1% with basically the same identically strong labor market conditions showing the economy is at full employment.

We will wait for the latest update from Yellen at next week's press conference on her reasons for why interest rates are not substantially higher. 4.3% unemployment is on target. Check. Made it. Core PCE inflation of 1.5% year-to-year is not at 2.0% target (not that the American public cares, they aren't waiting for inflation to be great again). No check of the box for this objective. We hope it isn't inflation that Yellen is waiting on to normalize rates more promptly. The Greenspan Fed in 2004 to 2006

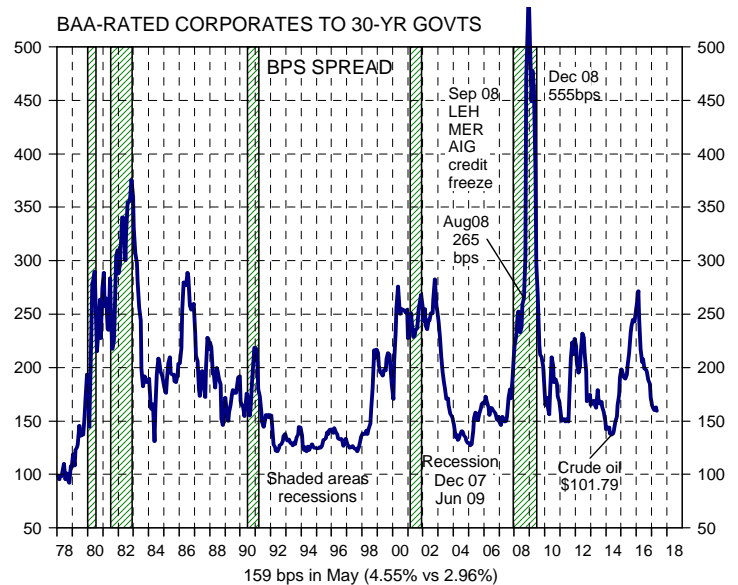
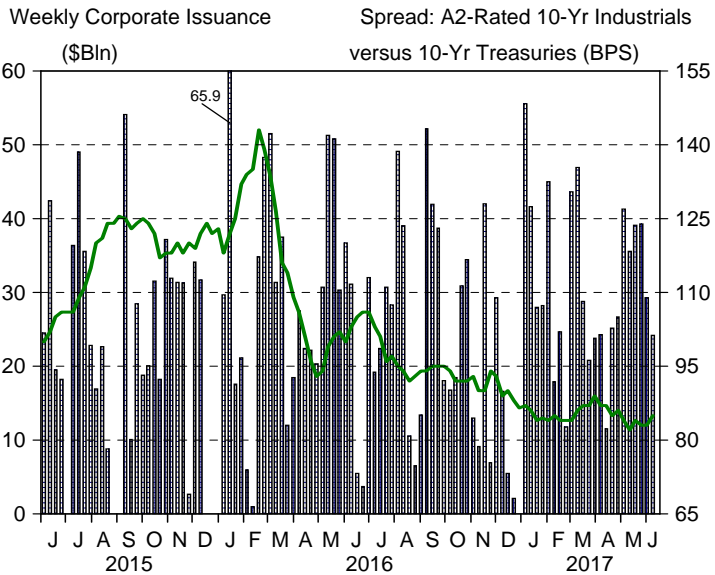
that Yellen was a part of normalized rates 200 bps per year (we didn't call it "tightening" or taking away the punch bowl or similarly cutting the legs out from under the economy) and this Fed is having trouble communicating that they will move rates up even 75 bps per year. We do not think a 25 bps rate hike next is going to halt the economic expansion. A 25 bps rate hike next week to 1.25% will still be 100 bps short of CPI inflation which is 2.2% in April; money continues to be free. Money has been available at negative rates for so long that even corporations have stopped borrowing looking at the graph of commercial & industrial loans on the front page of the Financial Market Weekly this week. They have borrowed enough and the Fed has waited too long.

Selected Fed assets and liabilities						Sep 10
Fed H.4.1 statistical release						2008**
billions, Wednesday data						pre-LEH
	7-Jun	31-May	24-May	17-May		
<b>Factors adding reserves</b>						
U.S. Treasury securities	2464.783	2464.696	2464.660	2464.638		479.782
Federal agency debt securities	8.834	8.834	8.834	8.834		0.000
Mortgage-backed securities	1770.958	1770.958	1780.383	1778.109		0.000
Primary credit (Discount Window)	0.003	0.016	0.011	0.023		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	1.709		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
<u>Central bank liquidity swaps</u>	0.040	0.035	0.041	0.036		62.000
Federal Reserve Assets	4508.9	4505.9	4517.5	4513.6		961.7
3-month Libor %	1.22	1.21	1.20	1.18		2.82
<b>Factors draining reserves</b>						
Currency in circulation	1556.333	1556.472	1551.551	1548.437		834.477
Term Deposit Facility	0.000	0.000	16.347	0.000		0.000
Reverse repurchases w/others	165.138	270.326	184.946	167.270		0.000
<b>Reserve Balances (Net Liquidity)</b>	<b>2270.846</b>	<b>2129.606</b>	<b>2206.163</b>	<b>2247.673</b>		<b>24.964</b>
Treasuries within 15 days	0.000	0.000	11.910	11.910		14.955
Treasuries 16 to 90 days	47.806	44.608	44.608	44.608		31.549
Treasuries 91 days to 1 year	256.062	259.257	230.778	230.777		69.272
Treasuries over 1-yr to 5 years	1174.333	1174.320	1195.577	1195.573		170.807
Treasuries over 5-yr to 10 years	353.787	353.768	349.059	349.054		91.863
Treasuries over 10-years	632.794	632.743	632.730	632.716		101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08						



## CORPORATE BONDS: COMCAST, SEMPRA ENERGY, FORD, COACH, METLIFE

Corporate offerings were \$24.2 billion in the June 9 week versus \$29.3 billion in the June 2 week. On Thursday, HCA Healthcare priced \$1.5 billion 5.5% 30-yrs (m-w +50bp) at 264 bps (Ba1/BBB-). The health care services company (165 hospitals) will use the proceeds for general corporate purposes including acquisitions and to refinance debt (\$500 million 8% notes due 2018). Corporate bonds (10-yr Industrials rated A2) were 85 bps above 10-yr Treasuries on Friday versus 83 bps last Friday.



### TREASURY MARKET OUTLOOK

EXPECTED 10-YR 2-3 WEEK TRADING RANGE 2.00% to 2.75%

Week's 10-YR Range

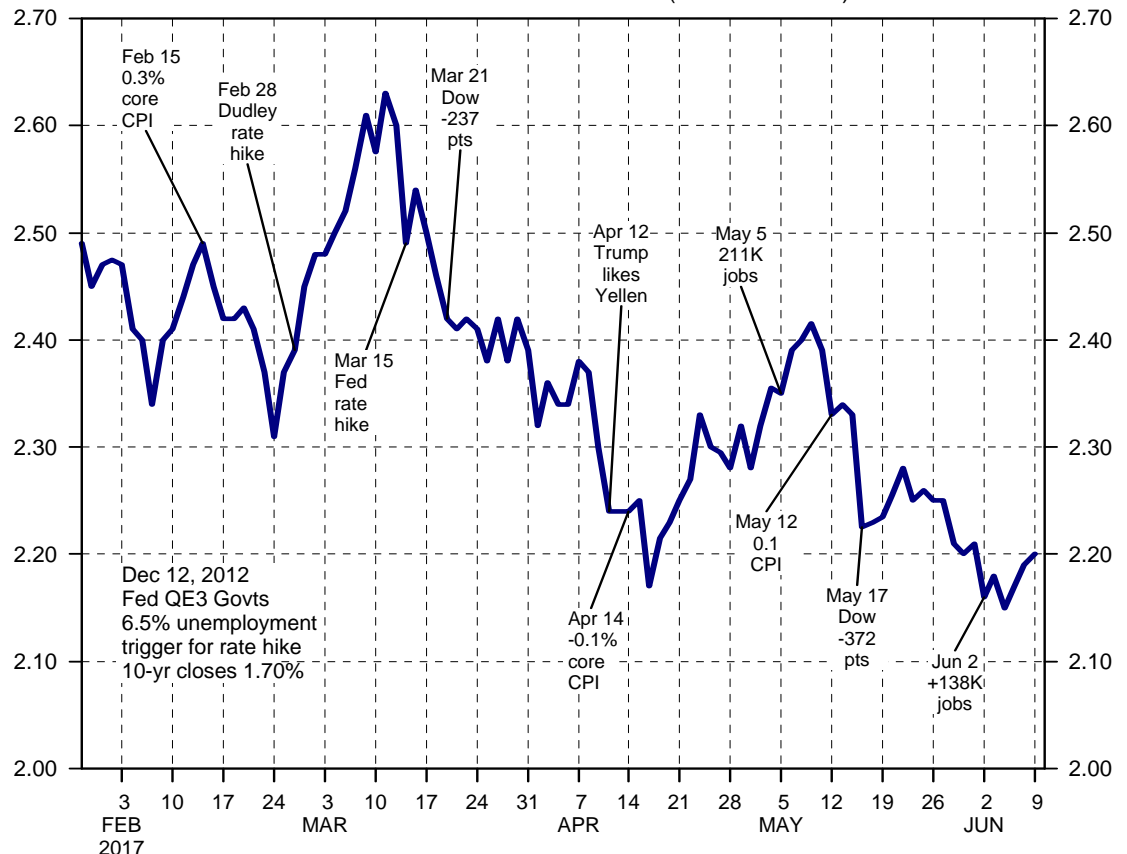
HIGH 102-06+ 2.13%

Tuesday, June 6, final move up on news headline China ready to buy more Treasuries

LOW 101-10 2.23%

Friday, June 9, Thursday risks didn't materialize: Comey testimony, British election, ECB meeting

### RECENT TREND IN 10-YR GOVERNMENT NOTES (N.Y. CLOSING)



## Analyst Certification

The views expressed in this report accurately reflect the personal views of **Christopher S. Rupkey**, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and no part of such analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein.

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by The Bank of Tokyo-Mitsubishi UFJ, Ltd. (collectively with its various offices and affiliates, "BTMU") or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by BTMU. BTMU hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While BTMU believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, BTMU makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that BTMU may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and BTMU is under no obligation to ensure that such other reports are brought to your attention.

Copyright 2017 MUFG All Rights Reserved

The articles and opinions in this publication are for general information only, are subject to change, and are not intended to provide specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. We are not offering or soliciting any transaction based on this information. We suggest that you consult your attorney, accountant or tax or financial advisor with regard to your situation. Although information has been obtained from sources we believe to be reliable, neither the authors nor MUFG guarantee its accuracy, and such information may be incomplete or condensed. Neither the authors nor MUFG shall be liable for any typographical errors or incorrect data obtained from reliable sources or factual information.

### About MUFG Americas Holdings Corporation

Headquartered in New York, MUFG Americas Holdings Corporation is a financial holding company and bank holding company with total assets of \$148.1 billion at December 31, 2016. Its main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides an array of financial services to individuals, small businesses, middle-market companies, and major corporations. As of December 31, 2016, MUFG Union Bank, N.A. operated 365 branches, comprised primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as two international offices. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUFG Americas Holdings Corporation is owned by The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Mitsubishi UFJ Financial Group, Inc., one of the world's leading financial groups. The Bank of Tokyo-Mitsubishi UFJ, Ltd. is a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc. Visit <http://www.unionbank.com/> or <http://www.mufgamerica.com/> for more information.

### About MUFG (Mitsubishi UFJ Financial Group, Inc.)

MUFG (Mitsubishi UFJ Financial Group, Inc.) is one of the world's leading financial groups, with total assets of approximately \$2.6 trillion (USD) as of December 31, 2016. Headquartered in Tokyo and with approximately 350 years of history, MUFG is a global network with more than 2,200 offices in nearly 50 countries. The Group has more than 140,000 employees and about 300 entities, offering services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group's operating companies include Bank of Tokyo-Mitsubishi UFJ, Mitsubishi UFJ Trust and Banking Corporation (Japan's leading trust bank), and Mitsubishi UFJ Securities Holdings Co., Ltd., one of Japan's largest securities firms.

Through close partnerships among our operating companies, the Group aims to "be the world's most trusted financial group," flexibly responding to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York (MTU) stock exchanges. Visit [www.mufg.jp/english/index.html](http://www.mufg.jp/english/index.html).