Financial Market Weekly

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

MUFG | 1251 Avenue of the Americas
New York, New York 10020

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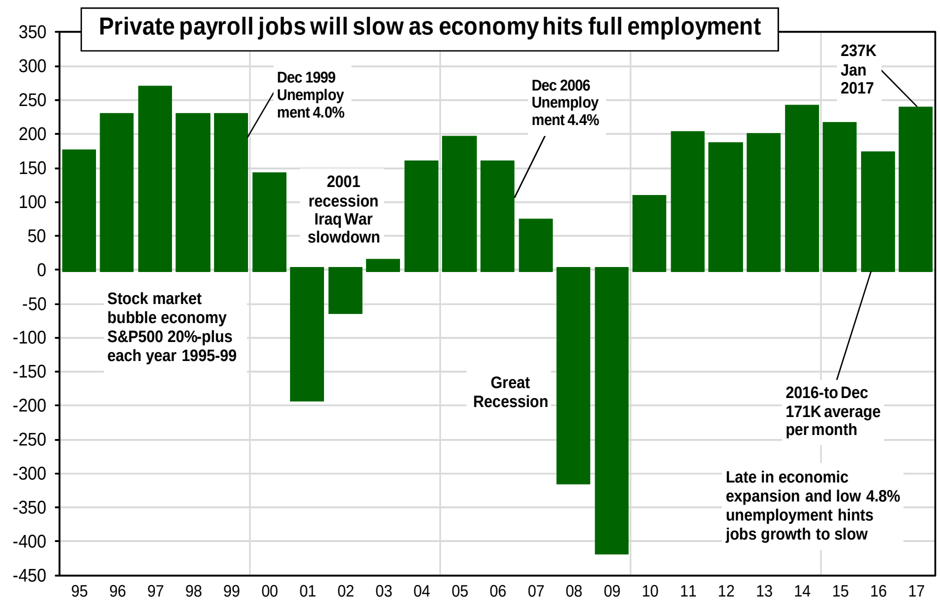
BIG JOBS 227K IN JANUARY AFTER DOWNWARD REVISIONS LAST YEAR



The January monthly employment situation report. 227K jobs (237K private jobs) is understandable given the slower pace of new jobs created in December 157K, November 164K, and October 124K. The annual benchmark revision knocked down October/November by 51K. It remains an open question whether the economy under a Trump administration can continue to manufacture new jobs at a 200K monthly pace in the future given the demographic headwinds where the labor market has hit full employment. There are no unemployed workers, especially skilled ones, this late in the business cycle. The labor market pool is coming up empty and will be the spoiler in the President's campaign promise to create 25 million jobs the next ten years. Wrong. Won't be happening, especially if the President builds a wall or limits immigration. The economy is unlikely to require the services of 55-year old Americans in the heartland.

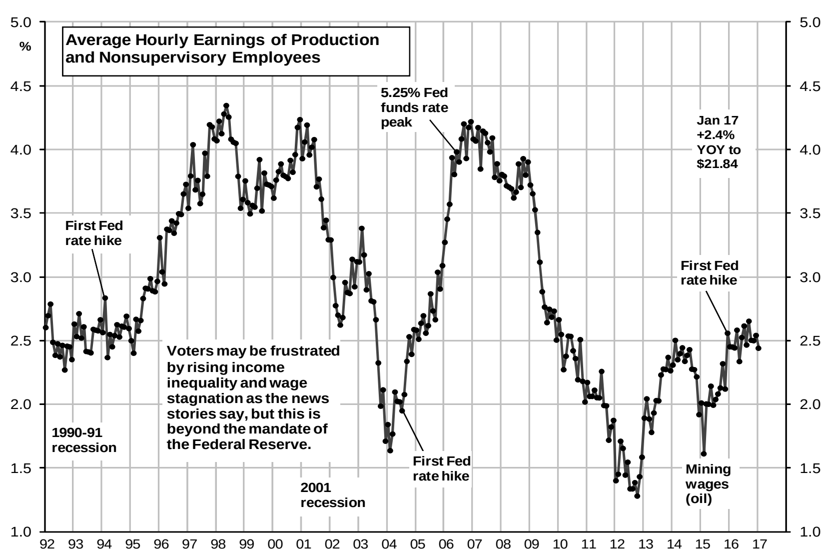
The report was mixed today and the excitement over stronger wage gains this time last month has led to disappointment today. We can't wait to read the newspaper stories tomorrow after last month's news of a better deal for workers finally was celebrated. Average hourly earnings were up 2.9% year-on-year last month and now "down" to 2.5% only for today's January data. Too much was made of the “recovery” in wages. What else was mixed? The unemployment rate went up to 4.8% some 7.635 million people looking for work. The number itself is not comparable with December's 4.7% because of the annual revision. This is not a big deal the economy is still at full employment as it is ever going to be in this eight year economic expansion. During the campaign, Trump downplayed the "5%" unemployment rate, saying it was more like 20% because of the 95 million in the labor force who have given up looking for work. Politicians do often say things that don't add up, some more than others. Underemployment, counting those who work part-time but yearn for full-time employment, the famous U-6 number was 9.2% in December and rose to 9.4% in January. It is down from 9.9% in January 2016 and nowhere near the 20% figure suggested by the President.

The breakdown for payroll jobs. 237K private jobs but manufacturing jobs rose just 5K showing Trump has a lot on his plate to bring manufacturing jobs back to America from overseas. Federal jobs up 4K in January probably for the last time as President Trump announced a hiring freeze. Reasons why the 227K may not hold up centers in the strong job gains reported in construction, retail stores, and even financial jobs. Construction jobs added 36K with residential building adding 9K and the residential specialty trade people who are parked outside my front door all the time pounding nails across the street adding 11K. This can't last. The 32K financial jobs a surprise, Dodd-Frank is not gone yet, although real estate jobs were 12K and insurance +9K. Finally retail jobs were up 34K in December and 46K in January. Wasn't the Internet going to destroy bricks and mortar stores? Anyway these gains won't last and January's retail gains centered in clothing shops (18K), electronics and appliance stores (8K), and furniture stores (+6K).

Payroll jobs in year eight following the recession

Dec. 2015 Totals millions		Jan 17	Dec 16	Nov 16	12 months Dec 15 to Dec 16	12 months Dec 14 to Dec 15
143.085	Nonfarm Payroll Employment	227	157	164	2242	2713
120.987	Total Private (ex-Govt)	237	165	178	2054	2561
19.730	Goods-producing	45	15	35	47	253
0.691	Mining	5	2	7	-75	-151
12.359	Manufacturing	5	11	0	-23	68
0.925	Motor Vehicles & parts	3	3	1	19	33
6.628	Construction	36	2	28	145	336
101.257	Private Service-providing	192	150	143	2007	2308
27.043	**Trade, transportation, utilities**	44	54	15	357	379
15.678	Retail stores	46	34	-13	224	186
3.143	General Merchandise	1	-4	-7	44	30
3.060	Food & Beverage stores	5	3	3	43	10
4.956	Transportation/warehousing	-4	19	22	98	185
1.455	Truck transport	-1	2	2	9	13
0.638	Couriers/messengers	-7	8	13	31	30
0.880	Warehousing and storage	9	8	8	67	106
0.557	Utilities	-1	0	0	0	3
2.762	**Information**	3	-4	-12	2	25
8.188	**Financial**	32	23	12	177	146
2.559	Insurance	9	8	-2	45	55
2.110	Real Estate	12	3	8	59	41
1.294	Commercial Banking	4	2	1	17	11
0.916	Securities/investments	2	-3	-1	15	25
19.882	**Professional/business**	39	32	46	530	538
2.930	Temp help services	15	-13	26	36	97
2.224	Management of companies	3	6	3	35	35
1.400	Architectural/engineering	6	7	2	29	9
1.944	Computer systems/services	13	6	5	87	97
1.121	Legal services	-1	3	0	5	5
0.968	Accounting/bookkeeping	-7	-2	-2	30	12
22.318	**Education and health**	24	45	31	548	644
4.958	Hospitals	4	9	9	119	136
3.518	Educational services	-9	1	2	76	86
15.413	**Leisure and hospitality**	34	17	44	343	517
1.939	Hotel/motels	-4	1	4	10	30
11.273	Eating & drinking places	30	25	24	286	417
22.098	Government	-10	-8	-14	188	152
2.170	Federal ex-Post Office	3	2	-9	25	24
5.089	State government	-9	-7	-4	-8	31
2.411	State Govt Education	-7	0	-4	-1	25
14.235	Local government	-5	-6	-4	154	89
7.875	Local Govt Education	-3	5	-19	63	28

Today's employment report strikes a blow in the hopes for a faster pace of rate hikes from the slow and steady Federal Reserve. Big jobs today but what about tomorrow will be the concern from Fed officials. The big January jobs number could simply be playing catch-up from the softer numbers seen last quarter. The payroll gains were not widespread among sectors. The Fed has penciled in three rate hikes this year and with today's underwhelming jobs report they will be unlikely to act before there is more certainty in Trump's tax proposals that could boost growth and make easier monetary conditions from the Federal Reserve less necessary.



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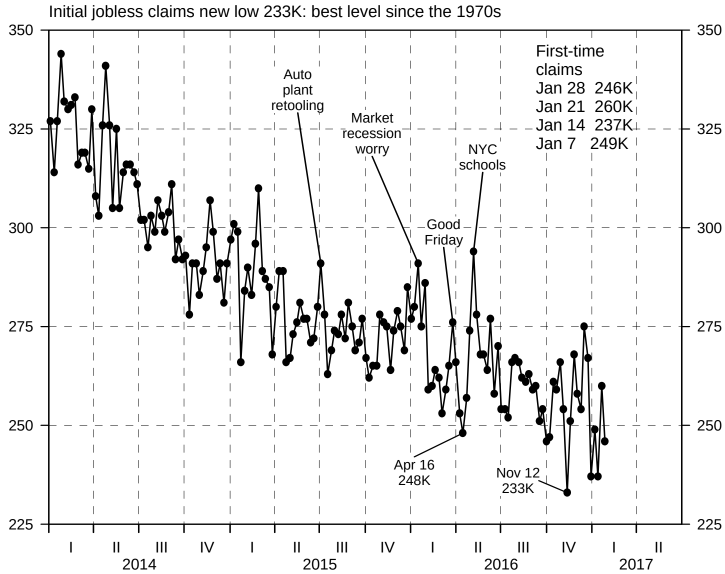
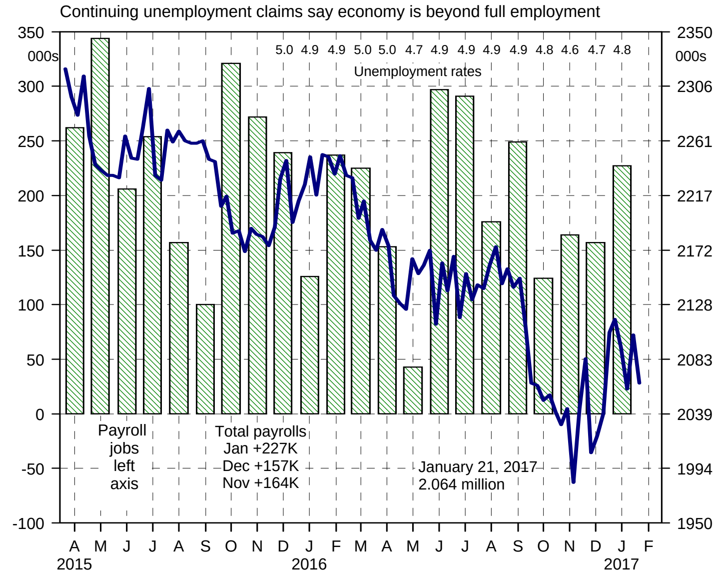
JOBLESS CLAIMS—BEST OF BEST TIMES RIGHT NOW FOR LABOR MARKET

Unemployment claims near the lows for this cycle: 233K November 12 week. Jobless claims were 246K in the latest January 28 week. The latest trend is one of improvement with most weeks in 2017 printing 250K or lower. Maybe this helped produce the 227K January payroll jobs number reported today. One thing that is certain is that the economy is at full employment as much as it is ever going to be in this cycle. If the economy is at full employment there is no pressing need for fiscal stimulus to create jobs. The timing is completely off. Historically, no other administration has done fiscal stimulus with the economy where it is today.

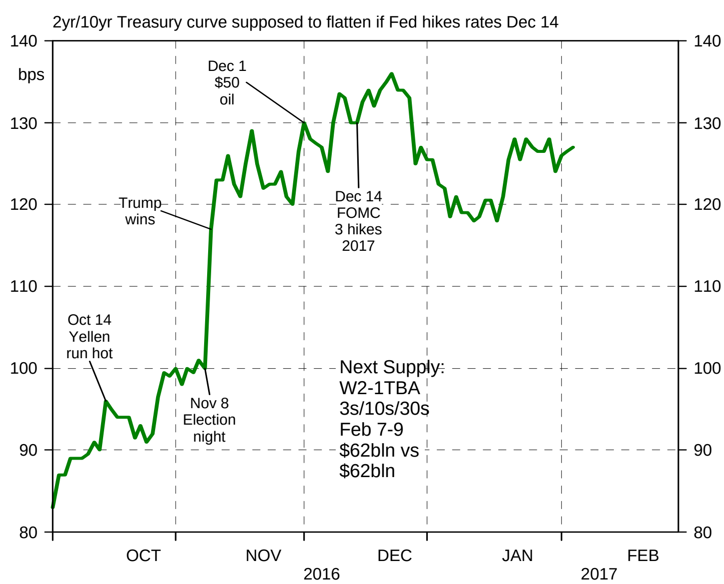


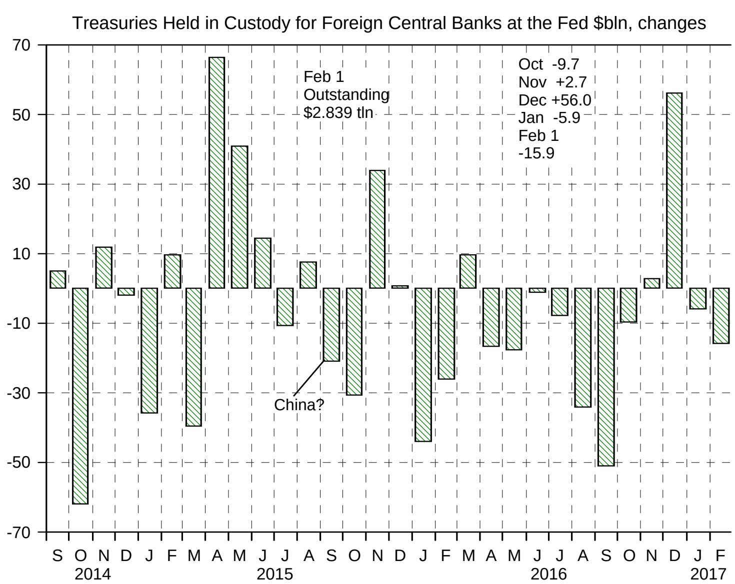


TREASURY CURVE STEEPER: TRUMP FISCAL STIMULUS MUMBO JUMBO

	30-Dec 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
30-Yr Bond	3.07	3.10	3.10	3.20	3.40	3.60	3.70
10-Yr Note	2.45	2.40	2.50	2.70	3.00	3.20	3.40
5-Yr Note	1.93	2.00	2.10	2.40	2.70	3.00	3.20
2-Yr Note	1.19	1.60	1.80	2.00	2.20	2.50	2.75
3-month Libor	1.00	1.25	1.50	1.70	1.95	2.20	2.45
Federal Fund Rate	0.75	1.00	1.25	1.50	1.75	2.00	2.25
2s/10s spread	126	80	70	70	80	70	65

The yield curve between 2-yrs and 10-yrs was 127 bps on Friday versus 126 bps last week. 10-year Govts closed the week at 2.47%, after closing 2.48% the week before. Even with the Fed meeting "news" Wednesday and Friday's all important monthly jobs report, 10-yr yields closed each night within 3 bps of last week's 2.48% close. The market needs more Fed rate hikes to push 10-yr yields higher. Tax and spend policies from Washington are going to take a long time to put together.





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FEDERAL RESERVE POLICY

The Fed met January 31-February 1 to consider its monetary policy. They didn't do anything. They didn't provide a hint that they might hike rates in March. The Fed provided hints in press statements a meeting ahead of hiking rates the last two times in December 2015 and in December 2016. No such signal that March was likely. The market seized on a few words in the Fed statement Wednesday: "Measures of consumer and business sentiment have improved of late." Wow, ya think? If they are feeling it then they gotta spend it however, and right now the latest Fed forecasts for GDP growth are modest at 2.1% this year and 2.0% in 2018. No evidence of stronger growth yet the Fed said on December 14 with updated forecasts to be released on March 15.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	1-Feb	25-Jan	18-Jan	11-Jan	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2463.426	2463.462	2463.504	2463.548	479.782
Federal agency debt securities	16.180	16.180	16.180	16.180	0.000
Mortgage-backed securities	1744.636	1744.594	1750.940	1741.398	0.000
Primary credit (Discount Window)	0.000	0.000	0.046	0.004	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)	1.705	1.707	1.705	1.704	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	0.392	0.465	0.615	2.626	62.000
Federal Reserve Assets	4500.1	4498.9	4506.7	4498.5	961.7
3-month Libor %	1.03	1.04	1.03	1.02	2.82
Factors draining reserves					
Currency in circulation	1500.147	1499.320	1503.245	1504.110	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	133.730	108.360	130.118	158.820	0.000
Reserve Balances (Net Liquidity)	2172.093	2137.012	2118.818	2110.927	24.964
Treasuries within 15 days	7.159	7.356	7.356	3.103	14.955
Treasuries 16 to 90 days	41.249	34.350	34.350	41.249	31.549
Treasuries 91 days to 1 year	167.127	153.339	153.341	150.765	69.272
Treasuries over 1-yr to 5 years	1210.166	1233.263	1233.270	1232.315	170.807
Treasuries over 5-yrs to 10 years	407.659	405.066	405.075	402.988	91.863
Treasuries over 10-years	630.067	630.088	630.113	633.127	101.337

**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08

The market did not think it was a good jobs report with average hourly earnings annuals falling to 2.5% from 2.9% in last month's report. Presidents Evans, Trump, and Williams were okay with it. Trump sans-tweets looked a little more presidential this morning at the meeting of his CEO economic advisory group led by Blackstone's Schwarzman. Trump opened saying, "227,000 jobs, great spirit in the country right now. So we're very happy about that. I think that it's gonna continue big league. We're bringing back jobs, we're bringing down your taxes, we're getting rid of your regulations." Dovish Chicago Fed President Evans called the jobs report healthy; in his December forecast, he had two rate hikes this year, but says he could see three hikes. San Francisco Fed President Williams was more confident in a Bloomberg TV interview at 130pm EST: "There are some arguments for, potentially, if the data are coming in consistent with my view, that March makes sense." Maybe he's waiting on the Fed's PCE inflation indicator in a Wednesday, March 1 release where the January inflation "might" hit 1.9 or 2.0 percent up from 1.6% year-to-year in December where it is now. Inflation at target, why is the Fed funds rate less than 1%? Or maybe he wants to see another month of jobs data due out on Friday, March 3. There's always something out there to wait for, but we are hoping for a consistent, measured four rate hikes per year pace from Fed officials soon. The economy is better than they think. Let's go.

February 1, 2017 Press Statement Paragraph 1, 2 and 3

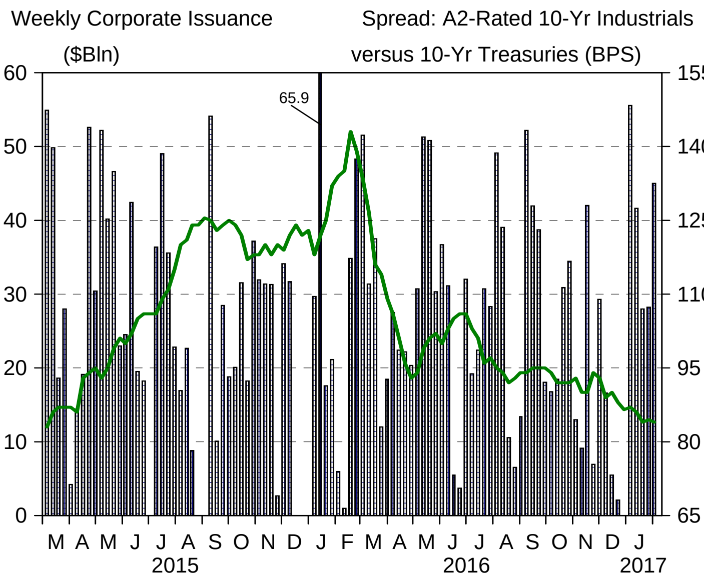
Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has continued to expand at a moderate pace. Job gains remained solid and the unemployment rate stayed near its recent low. Household spending has continued to rise moderately while business fixed investment has remained soft. Measures of consumer and business sentiment have improved of late. Inflation increased in recent quarters but is still below the Committee's 2 percent longer-run objective. Market-based measures of inflation compensation remain low; most survey-based measures of longer-term inflation expectations are little changed, on balance.

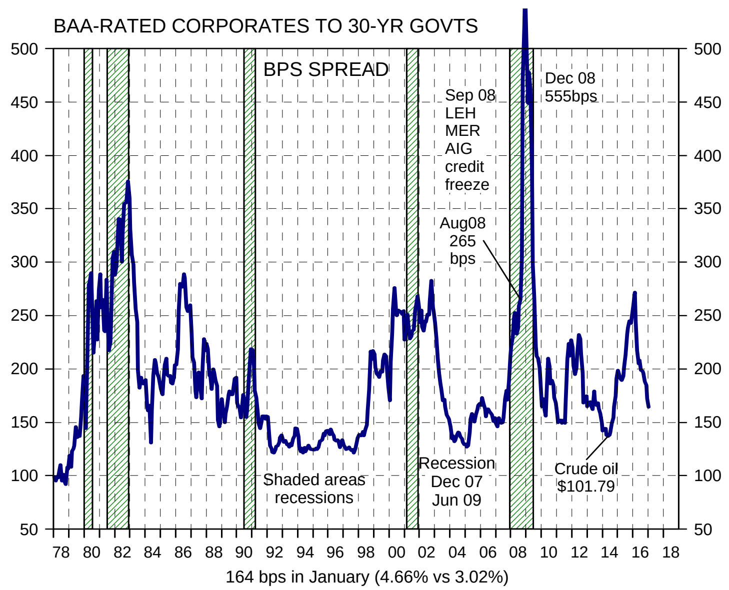
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will rise to 2 percent over the medium term. Near-term risks to the economic outlook appear roughly balanced. The Committee continues to closely monitor inflation indicators and global economic and financial developments.

In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1/2 to 3/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a return to 2 percent inflation.

CORPORATE BONDS: NATIONAL RURAL, SEAGATE TECH, CROWN CASTLE

Corporate bond offerings were $45.0 billion in the February 3 week versus $28.2 billion in the January 27 week. Microsoft, AT&T, and Apple were $37.0 billion of the total. On Thursday, Johnson Controls priced $500 million 4.5% 30-yrs (m-w +25bp) at 145 bps (Baa1/BBB+). The electrical equipment manufacturer will use the proceeds for general corporate purposes, including partial commercial paper repayment. Corporate bonds (10-yr Industrials rated A2) were 84 bps above 10-yr Treasuries on Friday versus 85 bps last Friday.





TREASURY MARKET OUTLOOK

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

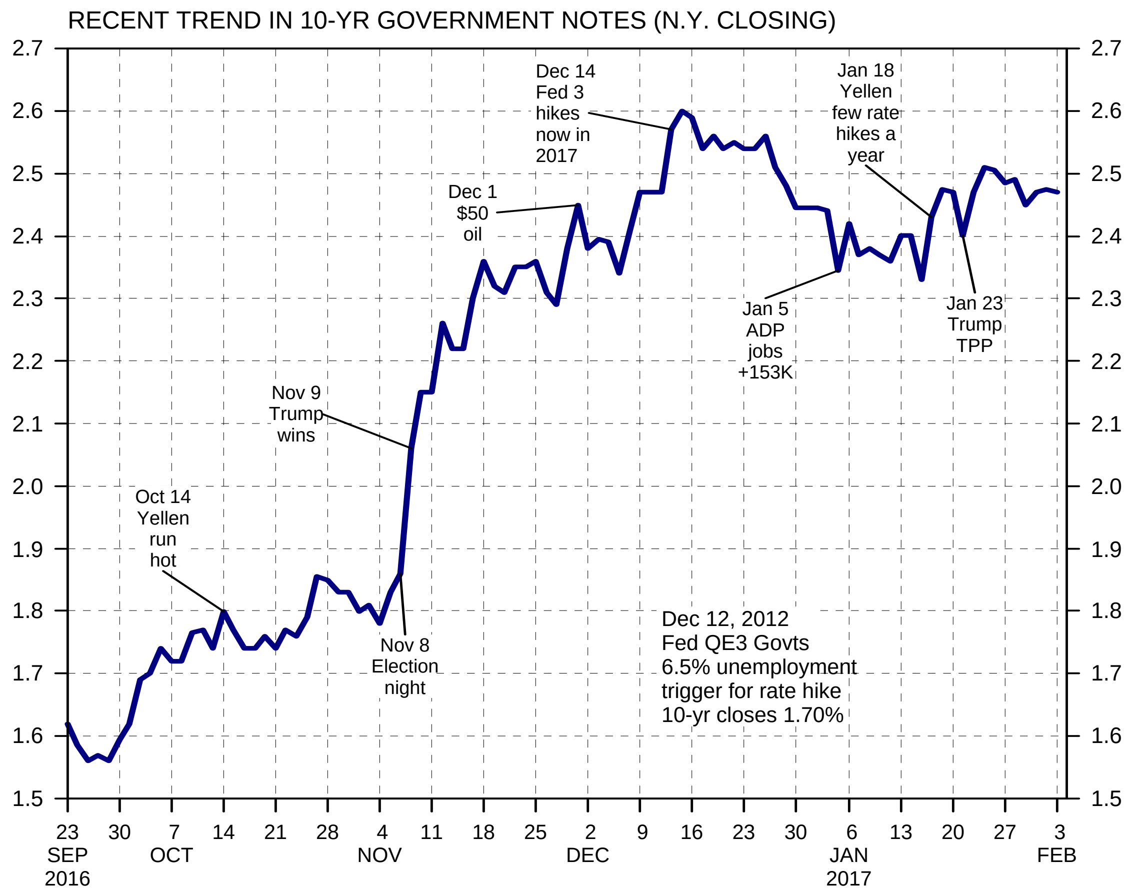
Week's 10-YR Range

HIGH 96-10+ 2.42%

Friday, February 3, after real +227K jobs report with less wages

LOW 95-17+ 2.52%

Wednesday, February 1, ADP jobs +246K, ISM mfg 56.0



Analyst Certification

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