Financial Market Weekly

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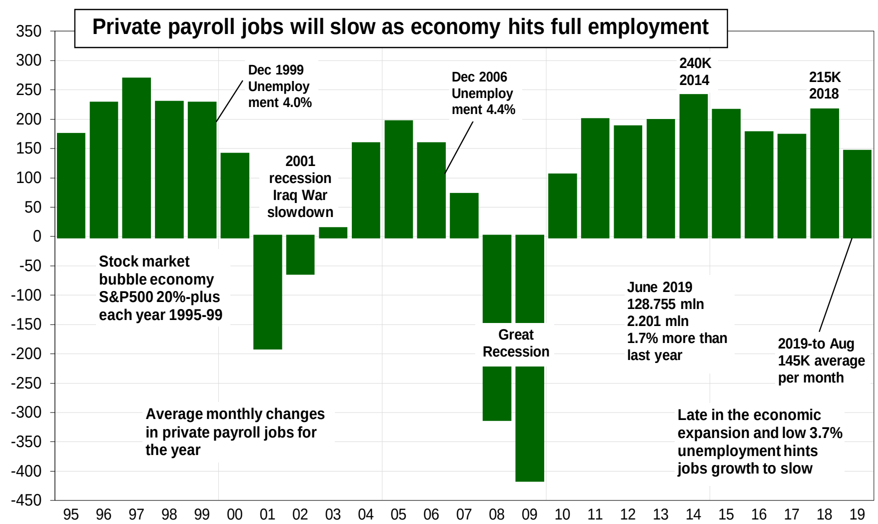
HIRING SLOWDOWN AS ECONOMY HIT WITH STRENGTHENING TRADE WAR HEADWINDS



Breaking economy news. Nonfarm payroll jobs slow to 130 thousand in August with 20K of downward revisions to June and July. That's 110 thousand more new jobs which counts as a slowdown, although the White House will not agree. The stock market is strangely calm with Dow futures up 114 points ten minutes after the payroll jobs report news heard round the world which was where it was at 830am New York time when the jobs data were released. Maybe stocks think the Fed will ride to the rescue with guns blazing. A rate cut is widely expected at the next Fed decision date on Wednesday, September 18. Today's soft patch jobs report seals the deal for a rate cut to 2.0% from Fed officials trying to fight off the uncertainty headwinds the economy faces.

	Aug	Jul	Jun	May	Apr	Mar
Payroll jobs (000s)	130	159	178	62	216	153
Unemployment rate %	3.7	3.7	3.7	3.6	3.6	3.8
Unemployment (3 decimal)	3.687	3.712	3.666	3.620	3.585	3.811
Participation rate %	63.2	63.0	62.9	62.8	62.8	63.0
Average hourly earnings	$28.11	$28.00	$27.91	$27.82	$2.75	$27.71
MTM % Chg	0.4	0.3	0.3	0.3	0.1	0.2
YOY % Chg	3.2	3.3	3.2	3.1	3.2	3.2
Production Worker earnings	$23.59	$23.48	$23.43	$23.38	$23.30	$23.25
MTM % Chg	0.5	0.2	0.2	0.3	0.2	0.3
YOY % Chg	3.5	3.4	3.4	3.4	3.3	3.4

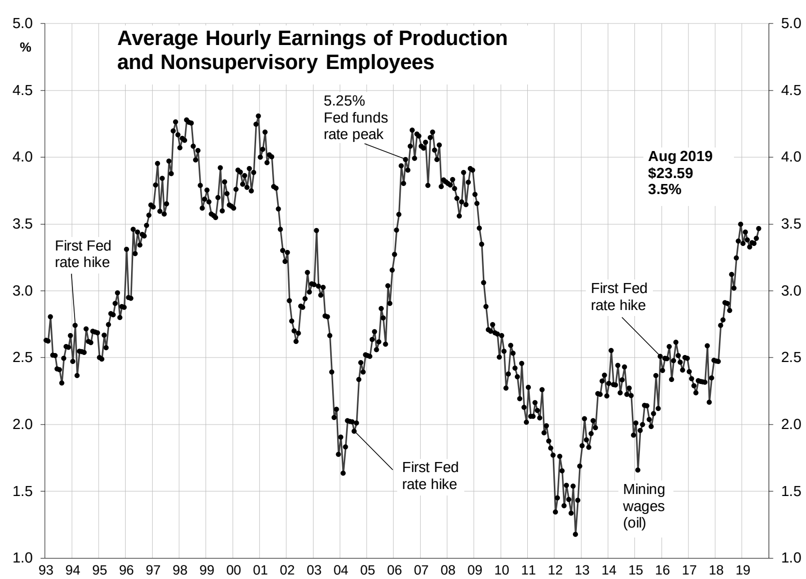
The 130K August number was even weaker if you figure that 25K of the total was from the temporary hiring of federal government workers to conduct the 2020 Census. At least manufacturers are still hiring, 3 thousand more jobs in August, as the ISM purchasing managers survey made it sound like factories were in recession and firing not hiring. Retail jobs are disappearing, been hearing that for a few years, but retail jobs were down 11 thousand in August. Construction jobs offset the retail loss with a gain of 14 thousand however. Temporary help jobs were up 15 thousand, the first increase in months, which may reflect caution on the part of companies as well as they cut costs by not hiring permanent workers.

Net, net, the escalation of America's trade war with China has injected an air of caution into businesses hiring plans. The trade war isn't pushing the economy over a cliff, and recession clouds are not darkening the skies, but the outlook remains a question mark as the China tariff headwinds have not reached full strength yet. The first tranche of the new 15% tariffs on the rest of the $300 billion of China imports just went into effect on September 1 with 15% tariffs on some critical goods the consumer enjoys like video game consoles, toys, and cell phones not taking effect until December 15.

Payroll jobs in year eleven following the recession

Dec. 2018 Totals millions		Aug 19	Jul 19	Jun 19	8 months Dec 18 to Aug 19	12 months Dec 17 to Dec 18
150.275	Nonfarm Payroll Employment	130	159	178	1266	2679
127.790	Total Private (ex-Govt)	96	131	161	1160	2583
20.961	Goods-producing	12	-2	27	153	631
0.705	Mining	-6	-5	-2	-7	63
12.809	Manufacturing	3	4	10	44	264
1.005	Motor Vehicles & parts	0	-2	-2	-10	23
7.400	Construction	14	-2	19	114	307
106.829	Private Service-providing	84	133	134	1007	1952
27.788	**Trade, transportation, utilities**	-11	2	8	18	304
15.821	Retail stores	-11	-5	-12	-74	14
3.105	General Merchandise	-15	-5	-9	-77	9
3.108	Food & Beverage stores	-1	5	-1	12	20
5.511	Transportation/warehousing	-1	0	20	52	216
1.512	Truck transport	-5	0	2	5	44
0.750	Couriers/messengers	4	7	7	24	54
1.170	Warehousing and storage	1	3	2	25	84
0.555	Utilities	-1	-1	1	-2	-1
2.827	**Information**	0	0	13	1	6
8.615	**Financial**	15	20	3	79	115
2.703	Insurance	7	12	-1	28	31
2.287	Real Estate	8	4	2	47	67
1.316	Commercial Banking	1	0	1	-6	-7
0.967	Securities/investments	-3	4	2	8	23
21.254	**Professional/business**	37	36	43	270	561
3.060	Temp help services	15	-8	-3	-23	83
2.395	Management of companies	10	2	7	36	62
1.495	Architectural/engineering	1	3	3	26	42
2.162	Computer systems/services	10	12	9	71	86
1.140	Legal services	4	0	1	8	1
1.034	Accounting/bookkeeping	-3	4	4	22	39
23.912	**Education and health**	32	71	48	415	532
5.195	Hospitals	9	2	11	58	100
3.746	Educational services	-5	24	8	61	50
16.554	**Leisure and hospitality**	12	-3	4	158	359
2.036	Hotel/motels	0	-7	8	23	23
12.074	Eating & drinking places	12	7	2	135	258
22.485	Government	34	28	17	106	96
2.192	Federal ex-Post Office	27	3	3	46	9
5.183	State government	6	12	6	0	19
2.487	State Govt Education	7	9	3	-4	10
14.504	Local government	0	14	9	57	74
7.974	Local Govt Education	1	15	-4	21	31

These trade tariffs are a slow-moving train wreck waiting to happen and it will take a miracle to keep the stock market on its feet and climbing to new highs this year if these tariffs keep on coming. If all the tariffs make it to 30% eventually it will subtract 0.8 to 0.9 percentage points from economic growth in 2020, in other words, the 2.0% real GDP figure in the second quarter of 2019 will slow to 1.1 to 1.2 percent in 2020 which is pretty much near the stall speed for the economy where bad things can happen, like geopolitical risks, and external shocks from overseas, which could flip the economy over into a recession.



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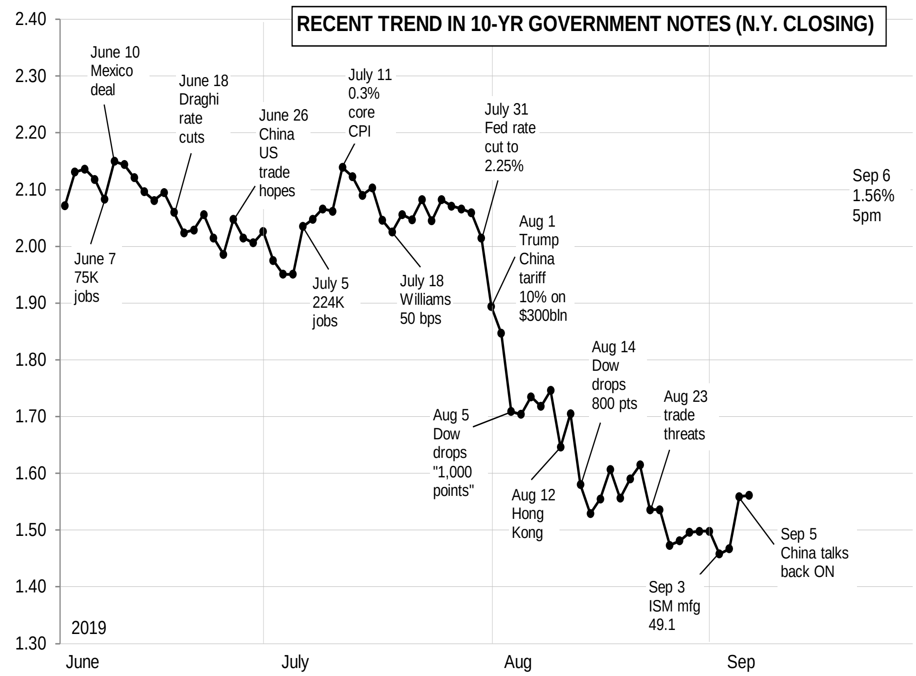
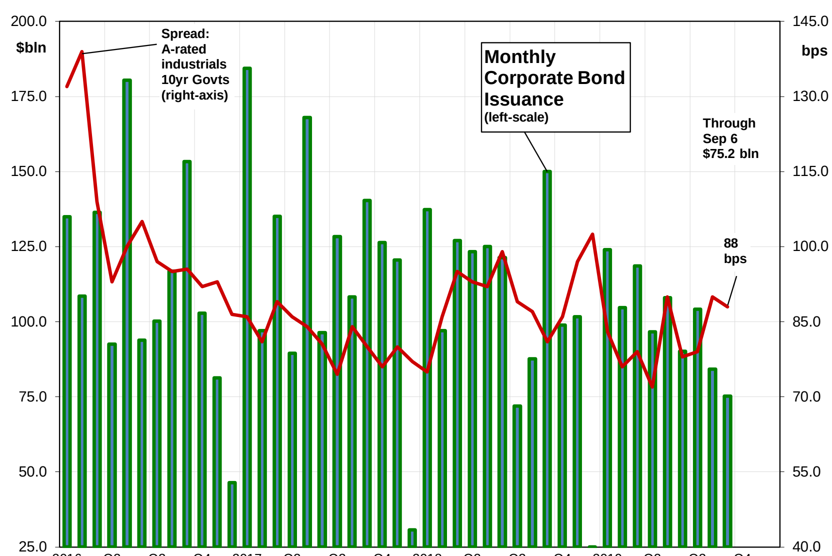
MARKETS OUTLOOK

	29-Mar 2019	28-Jun 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.81	2.53	2.25	2.30	2.40	2.50	2.50	2.70
10-Yr Note	2.41	2.01	1.75	1.80	2.00	2.10	2.20	2.40
5-Yr Note	2.23	1.77	1.50	1.55	1.80	1.90	2.00	2.20
2-Yr Note	2.26	1.76	1.50	1.60	1.70	1.80	2.00	2.20
3-month Libor	2.60	2.32	2.00	2.00	2.00	2.00	2.00	2.00
Fed Funds Rate	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00
2s/10s spread	15	25	25	20	30	30	20	20



Bond yields fell further over the cliff on Tuesday with the news of recession for manufacturing with the ISM index falling below 50. Bond yields fell to a new 2019 low of 1.43% with the 1.32% 2016 low before Trump's win in sight. China said the trade talks were back ON AGAIN around 9pm EDT Wednesday night which lifted bond yields back above 1.50%. We will wait for the news of the Fed's rate cut to 2.0% on September 18 before adjusting the interest rate forecast. Can't wait for the Fed to bleed the patient further to heal the economy with another cut. At least the 2-year 10-year curve stopped inverting this week and is no longer spreading the gospel of recession.

CORPORATE OFFERINGS JUMP ON PENT-UP DEMAND, SUPER-LOW RATES



Corporate offerings were $75.2 billion in the September 6 week versus $2.0 billion in the August 30 week. On Wednesday, Apple sold $7.0 billion 3s/5s/7s/10s/30s. It priced a $1.75 billion 2.2% 10-yr (m-w +15bp) at 78 bps (Aa1/AA+). The computer company will use the proceeds for general corporate purposes, including stock repurchases and dividend payments. Corporate bond yields (10-yr Industrials rated A2) were 88 bps above 10-yr Treasuries Friday versus 90 bps last Friday.

FEDERAL RESERVE POLICY

The Fed meets September 17-18 to consider its monetary policy. One rate cut is widely expected, a 25-bps drop (kerplunk) to 2.0% for the Fed funds rate. Is that all? Many more Wall Street economists are "forecasting" four rate cuts in total this year to 1.5%, but their "models" seem to have just one variable which is the collective market wisdom enshrined in the crazy, loco 1.5% 10-yr Treasury yield. Bond market sees 1.5%, then that's where the Fed funds rate should go. Four rate cuts doesn't sound like a "midcycle correction," before all is well, and the Fed can resume moving interest rates ever higher to more normal levels. Let the savers and pension funds eat cake.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	4-Sep	28-Aug	21-Aug	14-Aug	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2095.164	2095.130	2088.920	2080.710	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1489.605	1489.605	1500.670	1514.174	0.000
Primary credit (Discount Window)	0.002	0.005	0.075	0.000	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)	0.000	0.000	0.000	0.000	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	
Central bank liquidity swaps	0.872	0.069	0.043	0.045	62.000
Federal Reserve Assets	3089.0	3807.9	3813.0	3834.1	961.7
3-month Libor %	2.11	2.12	2.15	2.17	2.82
Factors draining reserves					
Currency in circulation	2765.745	1754.962	1751.265	1749.491	834.477
Term Deposit Facility	0.000	1.668	0.000	0.000	0.000
Reverse repurchases w/others	1.425	4.255	15.153	2.744	0.000
Reserve Balances (Net Liquidity)	1454.454	1504.243	1517.820	1511.264	24.964
Treasuries within 15 days	0.050	14.674	14.674	54.814	14.955
Treasuries 16 to 90 days	78.951	70.603	70.603	43.341	31.549
Treasuries 91 days to 1 year	265.484	268.484	268.484	251.235	69.272
Treasuries over 1-yr to 5 years	836.987	830.985	826.882	853.064	170.807
Treasuries over 5-yrs to 10 years	295.006	291.712	289.608	265.734	91.863
Treasuries over 10-years	618.685	618.672	618.670	612.521	101.337

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

Donald J. Trump 9-6-19 11:05PM EDT
@realDonaldTrump
China just enacted a major stimulus plan. With all the Tariffs THEY are paying to the USA, Billions and Billions of Dollars, they need it! In the meantime, our Federal Reserve sits back and does NOTHING!

Rosengren, Williams, Kaplan, Bullard, Evans, Kashkari, Rosengren, Williams, Kaplan, Bullard, Evans, Kashkari, Rosengren, Williams, Kaplan, Bullard, Evans, Kashkari. Enough. A lot of voices and news headlines from Fed officials this week, but what probably matters most is Trump's thoughts and Fed Chairman Powell's. The bond market continues to price in a 1.5% Fed funds rate which is in keeping with Trump's lower rates wishes. Trump tweeted April 30th that the economy would go up like a rocket with a 1-point cut. Powell spoke in Switzerland on Friday and he seems to be trying to steer the entire committee towards more rate cuts because of all the uncertainty, slowing world growth and stubbornly low inflation. Maybe he is leading the way ahead, although we admit he didn't given much hint of what is coming in two weeks, let alone later this year. All he said is the Fed seeks to keep the expansion going. And how better to do that than with some more rate cuts? He answered a lot of questions; some were interesting. Powell downplays the Fed's powers, not sure we would emphasize that the Emperor Has No Clothes, but it is inevitable that the public will come to that conclusion at some point just like what has happened over in Japan and the Euro area. Hopefully the Fed will have something up their sleeve to "improve financial conditions" as Bernanke used to say because we don't want the stock market to lose faith in the central bank and fall back to earth! Powell trotted out the observation of academics, economic historians really, saying it took at least 500 bps of Fed rate cuts to get the economy out of all the recessions since the 80s. Funny, we always thought the Fed was too early to cut rates most recessions when no one much cared, no one other than the stock market perhaps. What cannot be tested is whether the economy would have come back from recessions without the Fed lifting a finger, but maybe we will have a chance to see if this is indeed the case (as we would suspect) if the economy were to go into a recession in 2020 if not earlier as much of the country believes. Recession is not our forecast. There is a slight downward drift in industrial production, but not as worrisome as the 4 or 5 percent decline during the 2014-2016 oil crash yet.

One rate cut (26.5 bps) is discounted September 18. Two and a half rate cuts in total (60 bps) are discounted by the December 11 Fed decision date.

Odds of Rate Cuts Fed funds futures F9-6-2019	
	Fed meeting
26.5	September
60.0	December

BPS of cuts discounted at future Fed meetings

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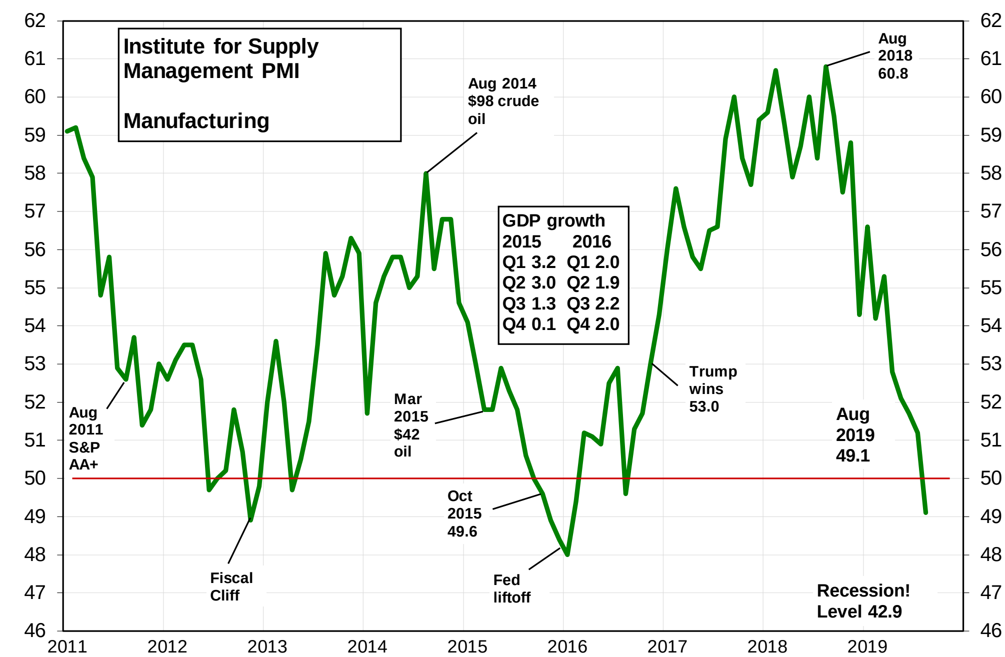
OTHER ECONOMIC NEWS THIS WEEK

Aiyeee! Manufacturers throw in the towel, see a factory RECESSION (Tuesday)

Breaking economy news. The manufacturing sector has broken and is now in a recession. It's official. The US trade war with the world has blown open a great big hole in manufacturers' confidence, and it will be a miracle if the broader economy can continue to roll on with manufacturing in decline. The ISM manufacturing survey of purchasing managers dropped sharply from 51.2 in July to 49.1 in August. An index reading of less than 50 means the manufacturing sector is declining. The stock market cratered on the news as investors' worst recession fears are starting to become a reality. Dow industrials were already down 242 points on the day at 10 o'clock, the first trading day back for the Street after the China tariffs went into effect on September 1, and ten minutes later Dow stocks were down 405 points as the market's recession fears spread like wildfire. Bond yields fell to new lows on the year as they await additional Fed stimulus ahead. 50 bps, anyone, anyone? The economy's sky is falling, look out below.

Net, net, the manufacturing sector has officially turned down and is falling for the first time this year as the China tariffs and slowdown in exports have really started to bite. The yield curve is inverted and is flashing red light recession warnings and now the real economic data are starting to flash warning signs too.



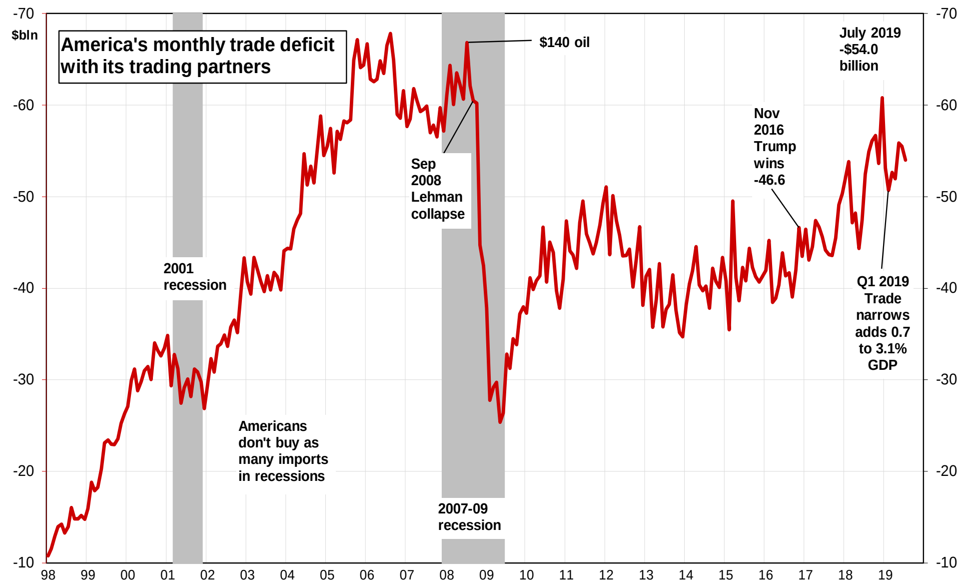
If the Trump trade tariffs are trying to bring factories back to the US, they aren't needed as existing factory production in the country is now in retreat. We don't need the factories and their output as it is, don't bother bringing more factories back because there are no jobs. The ISM manufacturing survey employment index tumbled from hiring to firing from 51.7 in July to 47.4 in August. No help wanted for the factories in America's heartland.

To look at what triggered the manufacturers' angst, one need look no further than the president's tweets the first day of August, a day after rate cut stimulus from the Federal Reserve, saying he would put 10% tariffs on the rest of America's $300 billion of imports from China. Stay tuned. Story developing. Developing badly. The market's worst trade war fears have become a reality as the tariffs and sanctions have blown the nation's manufacturing sector over the cliff. It's not a recession for the broader economy until the purchasing managers index falls from 49.1 today to 42.9, but that day may be coming sooner than you think and stock market investors are not taking any chances and are getting out while they can.

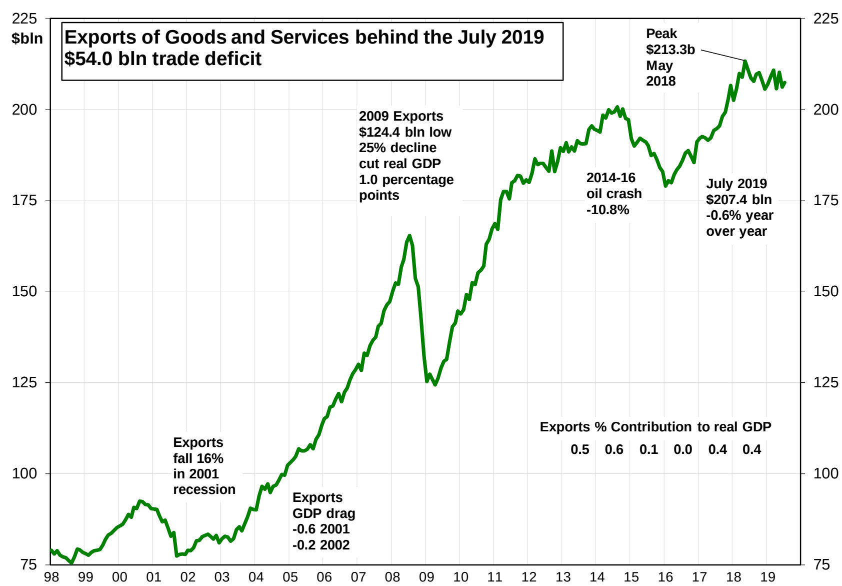
Trade deficit narrows, but world still ripping us off (Wednesday)

Breaking economy news. The trade deficit in July narrowed to $54.0 billion from $55.5 billion in June. The trade deficit was $46.6 billion in November 2016 when Trump was elected so the world is still ripping us off and the president's economics and trade negotiating teams need to up their game if they hope to win this war with America's trading partners.

It doesn't look like America is winning the trade war with our trading partners. Exports to China in the January to July period this year are $60.7 billion, a spectacular 18.8% loss in orders for US factories from the $74.2 billion of exports to China from January to July 2018. The trade sanctions are working with imports from China though as US imports are $260.6 billion so far this year, which is a 12.3% decline versus $297.1 billion in the first 7 months of 2018. We're winning! Our trade deficit with China is running $199.8 billion so far this year down from $222.9 billion in the comparable period in 2018, and this is before the tariffs on the rest of the $300 billion of China's imports were scheduled to go to 15%.



Net, net, investors and the markets are unlikely to see any reprieve in the trade war sanctions and tariffs and the Trump administration may even redouble their efforts to tame the massive red ink of the trade deficit where companies and consumers continue to buy more goods overseas than factories produce here in the US. Factories left the US starting three decades ago so it remains questionable how much one president can seek to change the course of commerce and economic history all in one term of office. Business is in the business of cutting costs since time immemorial in order to beat the competition, and it seems unlikely the factories that moved overseas will be coming back to the US with its higher cost of labor. Manufacturing workers wages were $22.16 an hour in July 2019 which is too much for companies to pay to produce your toys, or T-shirts, or iPhones here in the good old USA. This trade war with China is really a war with ourselves, our own companies did this. Blue Chip companies. Stay tuned. Story developing.



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