Financial Market Weekly

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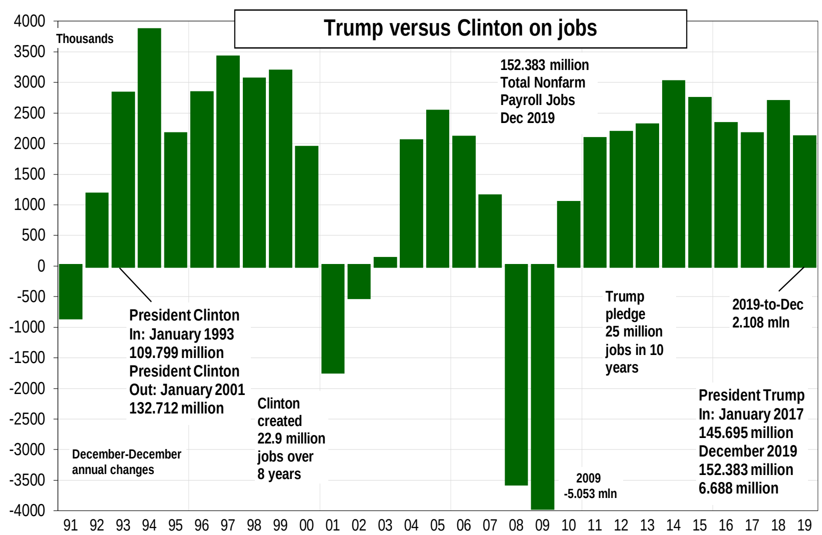
FEWER NEW JOBS IN DECEMBER ENDING THE YEAR ON A SOFT NOTE

Breaking economy news. Flash. Nonfarm payroll jobs rose 145K in December, darn close to our 150K expectation, although there were 14K of downward revisions to October/November. 145 minus 14 means 131 thousand new jobs were reported in Friday morning's report. We suspect the jobs number could be even weaker in January as 41 thousand of the jobs this month were in retail trade hiring during the holidays, and you know that won't continue. Similarly, the 20K gain in construction looks a little suspect even though the housing construction data are improving.



	Dec	Nov	Oct	Sep	Aug	Jul
Payroll jobs (000s)	145	256	152	193	219	166
Unemployment rate %	3.5	3.5	3.6	3.5	3.7	3.7
Unemployment (3 decimal)	3.496	3.535	3.562	3.517	3.687	3.712
Participation rate %	63.2	63.2	63.3	63.2	63.2	63.0
Average hourly earnings	$28.32	$28.29	$28.20	$28.12	$28.11	$27.99
MTM % Chg	0.1	0.3	0.3	0.0	0.4	0.3
YOY % Chg	2.9	3.1	3.1	3.0	3.2	3.2
Production Worker earnings	$23.79	$23.77	$23.73	$23.67	$23.60	$23.51
MTM % Chg	0.1	0.2	0.3	0.3	0.4	0.3
YOY % Chg	3.0	3.4	3.6	3.5	3.5	3.5

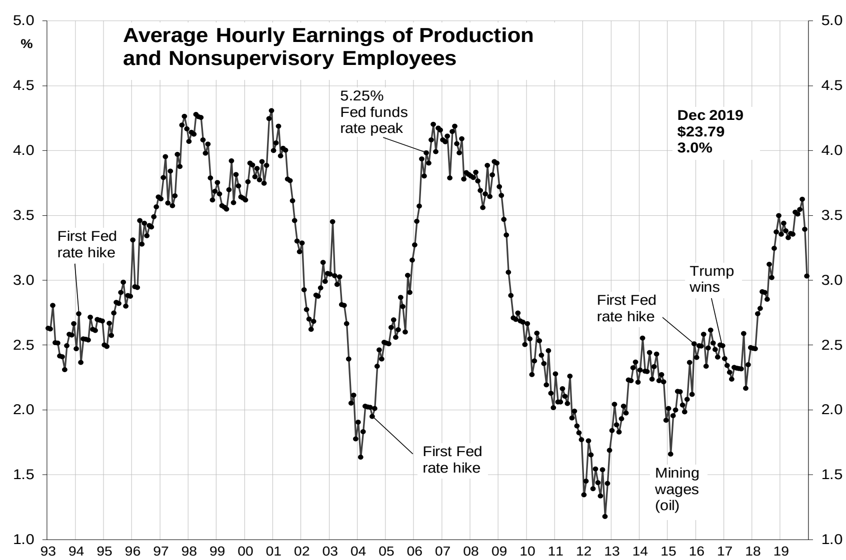
What's the market doing? Nothing. The biggest market moving economic statistic in the world fell with a thud on trading desks round the world on Friday morning. The Fed is on the sidelines in 2020 so the fixed income markets were not going to care all that much one way or the other. Unless there's a recession! Where job gains turn to job losses. Stocks are in their own universe reacting to who knows what, they keep grinding higher without much in the way of corporate earnings to report for all of 2019. Stocks are still winning on the biggest corporate tax cut in history, the gift that keeps on giving, and probably responsible for at least 20 percentage points of the 58 percent gain (at Thursday close) since Trump won the White House in the November 2016 election.

Net, net, the economy continues to plow ahead in this longest expansion in history and the labor market continues to fire on all cylinders fueling the economy's steady advance even if the speed of hiring is starting to slow. A lot of economic growth is due not just to whether consumers are spending or not, growth is also dependent on how many new workers with paychecks there are each year. The level of employment is 1.4% higher this December than it was a year ago, and while that is slower than the 1.8% December-December gain in 2018, 1.4% is enough to keep the economy's fortunes well away from the stall-speed shores of 1% economic growth. For now.

Payroll jobs in year eleven following the recession

Dec. 2018 Totals millions		Dec 19	Nov 19	Oct 19	12 months Dec 18 to Dec 19	12 months Dec 17 to Dec 18
150.275	Nonfarm Payroll Employment	145	256	152	2108	2679
127.790	Total Private (ex-Govt)	139	243	164	1947	2583
20.961	Goods-producing	-1	52	-29	176	631
0.705	Mining	-8	-9	-1	-24	63
12.809	Manufacturing	-12	58	-45	46	264
1.005	Motor Vehicles & parts	-1	39	-44	-18	23
7.400	Construction	20	2	14	151	307
106.829	Private Service-providing	140	191	193	1771	1952
27.788	**Trade, transportation, utilities**	40	-4	43	125	304
15.821	Retail stores	41	-14	31	9	14
3.105	General Merchandise	3	23	6	-18	9
3.108	Food & Beverage stores	-2	2	6	30	20
5.511	Transportation/warehousing	-10	12	3	57	216
1.512	Truck transport	-4	0	1	-2	44
0.750	Couriers/messengers	-9	5	1	23	54
1.170	Warehousing and storage	-2	6	-2	31	84
0.555	Utilities	1	1	-1	-2	-1
2.827	**Information**	3	8	0	12	6
8.615	**Financial**	6	14	16	122	115
2.703	Insurance	-1	2	1	29	31
2.287	Real Estate	1	7	8	63	67
1.316	Commercial Banking	2	2	-1	-2	-7
0.967	Securities/investments	1	-1	2	11	23
21.254	**Professional/business**	10	53	35	397	561
3.060	Temp help services	6	4	-5	-17	83
2.395	Management of companies	4	3	5	46	62
1.495	Architectural/engineering	3	7	0	38	42
2.162	Computer systems/services	1	10	5	81	86
1.140	Legal services	-2	3	1	11	1
1.034	Accounting/bookkeeping	5	3	4	37	39
23.912	**Education and health**	36	72	31	647	532
5.195	Hospitals	9	12	7	102	100
3.746	Educational services	1	9	-7	90	50
16.554	**Leisure and hospitality**	40	38	70	388	359
2.036	Hotel/motels	9	-1	14	40	23
12.074	Eating & drinking places	16	21	47	271	258
22.485	Government	6	13	-12	161	96
2.192	Federal ex-Post Office	2	-1	-17	30	9
5.183	State government	-8	2	1	2	19
2.487	State Govt Education	-3	3	-3	-9	10
14.504	Local government	14	13	5	131	74
7.974	Local Govt Education	3	5	-1	65	31

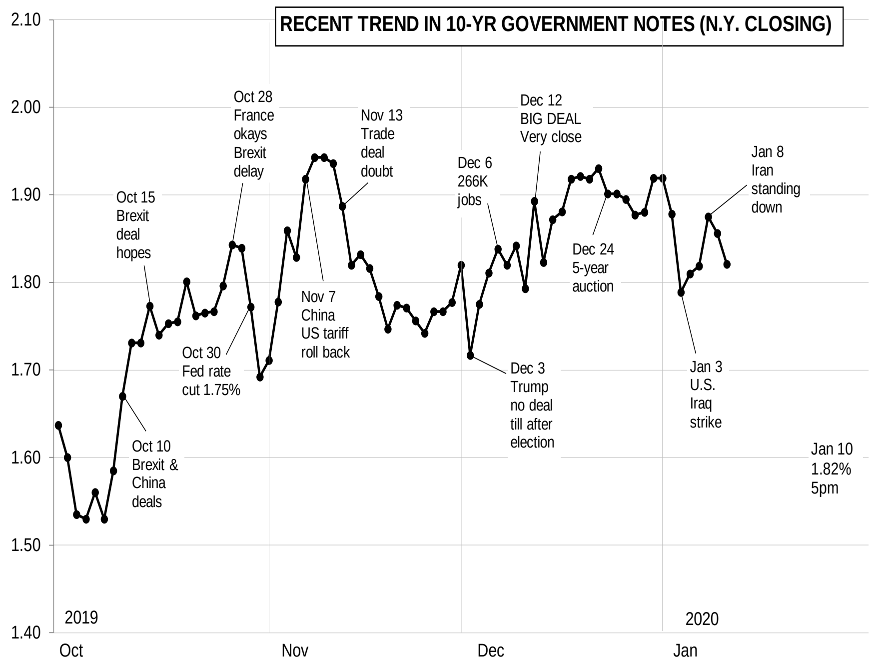
There are fewer new jobs in December with the labor markets ending the year on a soft note, but there isn't enough weakness in today's report to get the attention of Fed officials. Federal Reserve officials are on the sidelines in 2020 they have said, and today's less than stellar jobs report certainly is not going to have them jump up off the bench, shouting for rate hikes to cool the economy. By the same token, 145K jobs is not weak enough for them to advocate more rate cuts this year. They have taken out enough insurance for now against a slowing economy.



P.S. One final note on the employment report for most of you who probably only care about (yourselves) how much money your company is paying you. Collectively, workers, real workers: “average hourly earnings of production and nonsupervisory employees,” not their bosses, saw year-on-year wage increases of 3.0% in December ($23.79 an hour) which is less than the 3.6% year-on-year increase as recently as October 2019. Wage increases of 3% are nothing to point to as something that is wrong with the economy, are we at “full employment,” and all that nervous-nellie, hand-wringing stuff. If you must do a deeper dive into the unstable month-to-month wage data, wholesale trade industries (never understood what these were) and transportation and warehousing wages are down. Surprisingly, manufacturing ($22.46 +2.8%) and oil & gas drilling ($30.82 +7.3%) wages are still hanging in there. Stay tuned. Story developing.

MARKETS OUTLOOK

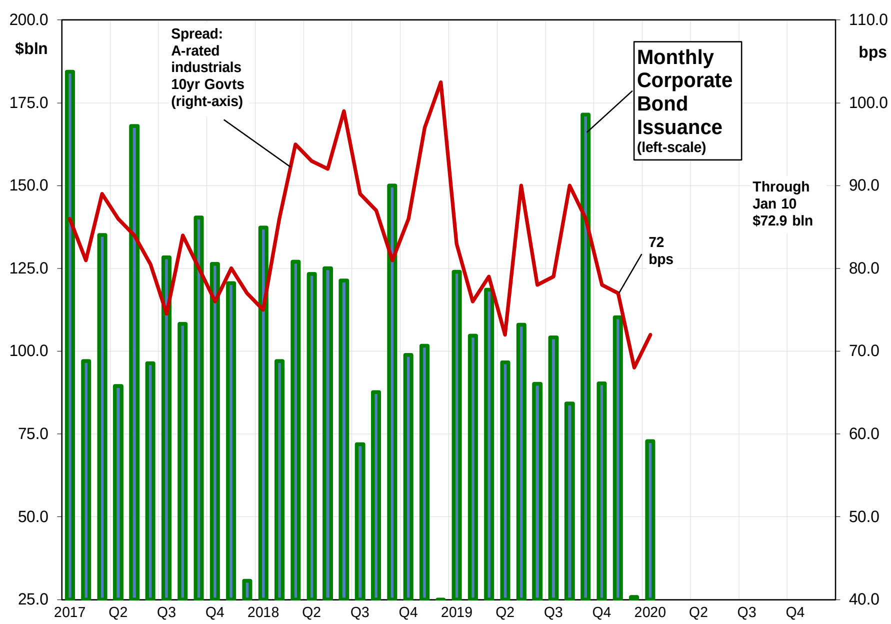
	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	2.30	2.30	2.40	2.50	2.60	2.70
10-Yr Note	2.41	2.01	1.67	1.92	1.85	1.90	2.10	2.20	2.30	2.40
5-Yr Note	2.23	1.77	1.55	1.69	1.65	1.75	1.90	2.05	2.15	2.25
2-Yr Note	2.26	1.76	1.62	1.57	1.60	1.70	1.80	2.00	2.10	2.20
3-month Libor	2.60	2.32	2.09	1.90	1.90	1.90	1.90	1.90	1.90	1.90
Fed Funds Rate	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
2s/10s spread	15	25	5	35	25	20	30	20	20	20



Yields closed 1.82% Tuesday night before the Iran counter attack on Iraq bases where U.S. troops were shortly before 630pm. 10-yr yields fell as low as 1.70% around 720pm. Bond yields and the stock market recovered: there was a Trump tweet "All is well!" around 945pm later that night, and a press conference with Trump the next day saying Iran was standing down, and 10-yr yields closed 1.875% on Wednesday. 10-yr yields were 1.85% before the weak jobs (and wages) report on Friday, rallying to 1.83% on the news, but coming back to 1.86% within a half hour before drifting lower, closing the week at 1.82%. Jobs report not expected to be the material change in the outlook the Fed is waiting for when they meet next on January 28-29.

CORPORATE BONDS: CATERPILLAR, GEORGIA POWER, TRANSOCEAN

Corporate offerings were $72.8 billion in the January 10 week's start to 2020. On Monday, Home Depot sold $2.0 billion 10s/30s. It priced a $750 million 2.95% 10-yr (m-w +15bp) at 93 bps (A2/A). The home improvement retailer will use the proceeds for general corporate purposes including share repurchases. Corporate bond yields (10-yr Industrials rated A2) were 72 bps above 10-yr Treasuries Friday versus 71 bps last Friday.



FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	8-Jan	1-Jan	25-Dec	18-Dec	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2347.714	2328.933	2328.862	2300.678	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1408.677	1408.677	1419.980	1422.436	0.000
Repurchase agreements	210.587	255.619	234.969	236.662	126.750
Primary credit (Discount Window)	0.000	0.032	0.001	0.039	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	3.728	3.728	3.729	0.079	62.000
Federal Reserve Assets	4197.8	4221.4	4213.9	4185.3	961.7
3-month Libor %	1.83	1.91	1.96	1.91	2.82
Factors draining reserves					
Currency in circulation	1802.383	1807.740	1802.362	1796.004	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	0.876	64.087	4.423	13.362	0.000
Reserve Balances (Net Liquidity)	1656.629	1548.849	1648.238	1631.448	24.964
Treasuries within 15 days	18.271	8.260	18.371	22.179	14.955
Treasuries 16 to 90 days	125.491	115.689	114.373	104.466	31.549
Treasuries 91 days to 1 year	344.202	341.875	345.124	328.716	69.272
Treasuries over 1-yr to 5 years	894.850	900.972	888.264	882.652	170.807
Treasuries over 5-yrs to 10 years	324.301	321.591	322.208	322.172	91.863
Treasuries over 10-years	640.599	640.547	640.522	640.493	101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08					

The Fed meets January 28-29, 2020 to consider its monetary policy. We haven't heard the refrain that every meeting is a live meeting lately. This one doesn't look very lively. The January meeting is not expected to produce any action on interest rates. Come to think of it, the market, December 2021 Eurodollar futures, has not tried to discount any more rate cuts since the Fed made the first of three rate cuts on July 31 last year. Fed Vice Chairman Clarida spoke this week. He was one of the first Fed officials talking about the three insurance-style rate cuts from the 1990s (twice), how those 90s rate cuts of 75 bps in total were able to stabilize the economy. Risk management rate cuts in an era before there was much risk management on Wall Street or in U.S. corporations. Clarida reiterated the new party line that monetary policy was in a good place for now unless there were material changes in the economic outlook.

A lot of headlines coming out of the American Economic Association annual meeting in San Diego last weekend January 3 to January 5. Yellen is the head of the group this year. Bernanke said there was more the Fed could do, didn't want to rule out negative rates. Before negative rates he said the Fed could cut rates from 1.75%, about 2 percent percentage points, down to zero, and they have 300 bps worth of firepower from forward guidance and QE. 500 bps of "easing" in total to fight a recession. Others like Summers said the Fed didn't have that many bps left in the toolkit. Both sides are counting on easy money Fed policy to lower 10-yr Treasury yields to zero, or certainly to 0.5 to 0.75 percent. We shouldn't have to say that that would hurt the financial system unnecessarily just to get mortgage rates down to 2.75% or so to help support the economy. It's just a one-shot stimulus if they tried this and then they would truly be out of bullets… unless you think somehow that QE on its own provides liquidity that helps the stock market to rally. And there are a surprising number of names who are coming around to this view. A very mixed up time for economists who want to stay relevant and reassure the public there is more monetary policy can do.

Year-ends for Interest Rates				
Percent %	2020	2021	2022	2023
Eurodollar futures	1.58	1.545	1.615	1.695
Fed's Dec forecast	1.75	2.0	2.25	---

Eurodollar futures price where 3-month Libor will be in the future.
Friday, January 10, 2020 3-month Libor 1.84%

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OTHER ECONOMIC NEWS THIS WEEK

Trade deficit on narrowing track for now till trade war tariffs are rescinded (Tuesday)

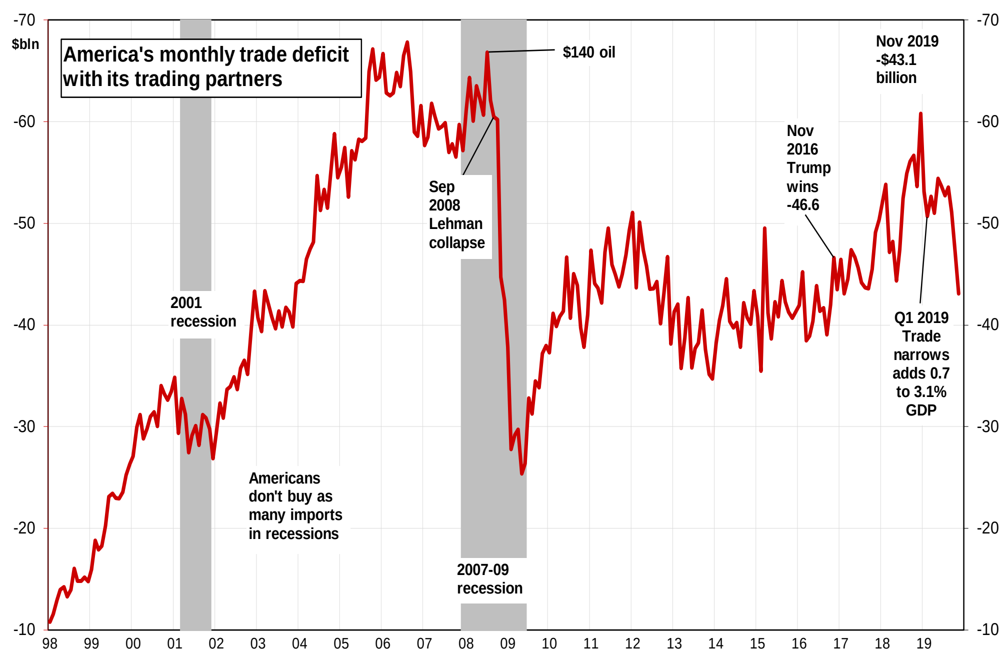
Breaking economy news. The November trade deficit narrowed to $43.1 billion in November from $46.9 billion. The change was $3.8 billion brought about by a $1.4 billion increase in exports of goods and services and a $2.5 billion drop in imports of goods and services. The economy and Fed policy are in a good place and now the trade data are as well with the trade deficit on a narrowing track until the trade tariffs are rescinded.

Over the first eleven months of 2019, imported goods from China are running about $60 billion lower than year ago levels. January to November 2019 imports from China are $320.8 billion versus $382.7 billion in January to November 2018.

And for all the concern about "Europe" from global central bankers and finance ministers, US exports of goods to the EU were $28.2 billion in November 2019 which is stronger than $26.9 billion in November 2018. The Dax stock index in Germany rose 25 percent in 2019 despite the stagnation of economies over in Europe.

Net, net, there was a dramatic narrowing of the trade deficit in November as Americans stopped their love affair for imported goods and wares from exotic countries overseas now that trade tariffs are increasing the costs of those goods. This is November data however before the phase one trade deal with China was announced by presidential tweet on December 12 so the downward trend in imports coming in from China is likely to slow if not partially reverse in coming months.

The data bounce around a lot certainly but imports from China were $36.5 billion in November a stunning reversal from $46.5 billion in November 2018 as America's trade war with the world is turning long-established global trade patterns upside down. The economy doesn't like change thrown its way and these trade tariffs, remaining near maximum strength levels of 25% levied on $250 billion of China imports, still count as a big, big change that is likely to have a negative impact on U.S. growth for years to come. This month's narrowing of the trade deficit boosts GDP in the fourth quarter but it is a one-off effect that won't continue. Trade war uncertainty will continue to weigh on business investment decisions until companies see both sides standing down from the long battle the last couple of years. Stay tuned. Story developing.

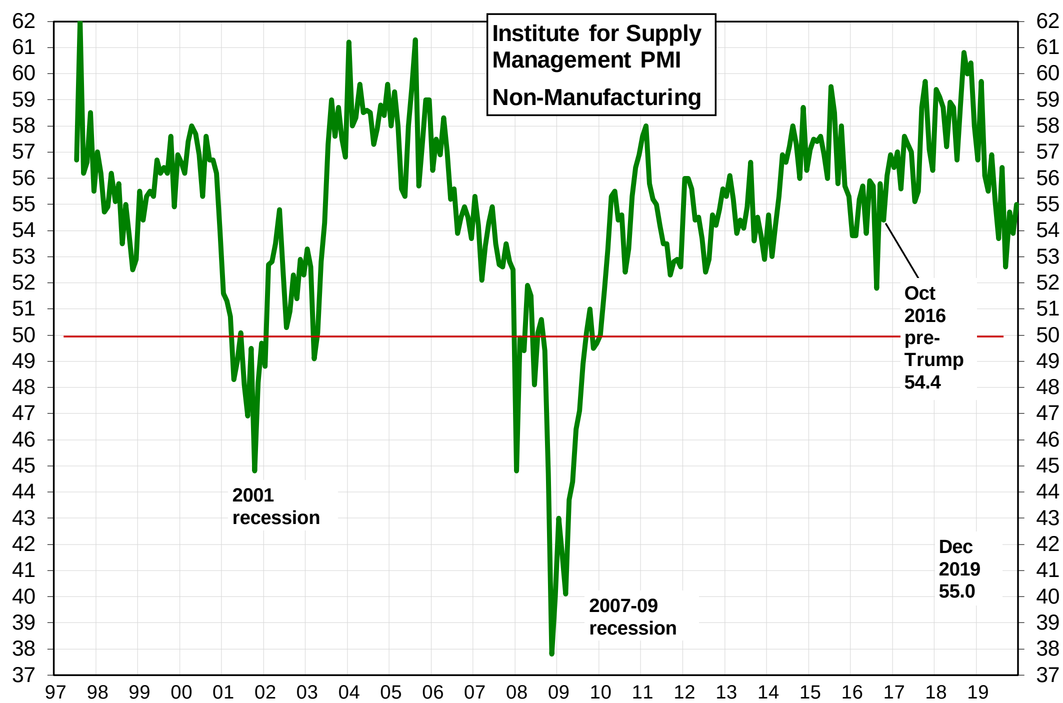


Services economy moving back up (Tuesday)

Breaking economy news. The ISM non-manufacturing index rose to 55.0 in December from 53.9 in November which breaks with the new low that ISM manufacturing made for December in a report out on Friday. This should be good news for stocks as it shows the vast majority of American industries are not being held back by the swirling winds of geopolitical uncertainty and makes us more confident that the recession forecasts of some this year will not be realized.

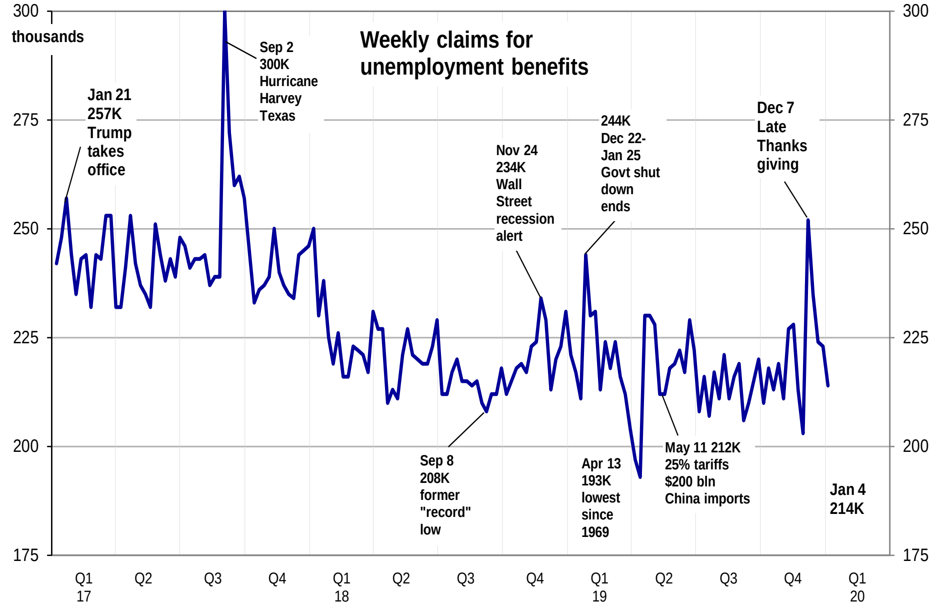
The Fed may be on the sidelines in 2020, but rate moves in just one direction are in the realm of being possible.

The one-way Federal Reserve is only thinking of rate cuts to support and extend the economic expansion this year. Any thought of rate hikes to fight inflation have been shelved for the duration. ISM purchasing managers in the services industries say that interest rate cuts aren't needed for now. The economy is better than you think. Bet on it.



Economy is behaving appropriately at the start of 2020 (Thursday)

Breaking economy news. Weekly jobless claims fall 9 thousand to 214 thousand in the January 4 week to start the year. Jobless claims have returned to normal levels showing the labor market is in a good place to help foster the business conditions necessary to extend the longest economic expansion in U.S. history. Despite trade wars and real wars, companies continue to keep a firm grip on their workers in one of the tightest labor markets in the nation's history. Right now, it's difficult to see how a recession could even get started because you can't have a recession without job losses and right now companies cannot afford to fire the workers they have because there is no one to take their place.



Net, net, jobless claims are low showing there is no distress in the labor markets that would qualify as a material change in the outlook requiring a response from the Federal Reserve. Fed officials can afford to cool their heels and sit on the sidelines for now as the downside risks to the economy are minimal and there is little chance that a recession is brewing in the immediate future.

The Fed is focused on getting inflation up to its 2% target and the labor market remains tight as a drum and doing its part to boost worker wages and foster the conditions for rising inflationary pressures. Financial conditions have improved immeasurably since the stumble at the start of the year from air strikes and the potential for all-out war in the Mideast between the U.S. and Iran. If the economy remains on track and the Federal Reserve is setting its policy to extend the expansion, corporate profits should pick up the pace allowing for another year of solid stock market performance in 2020. Stay tuned. Story developing.

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