Financial Market Weekly

MUFG UNION BANK, N.A.
ECONOMIC RESEARCH (NEW YORK)
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MUFG Bank, Ltd.
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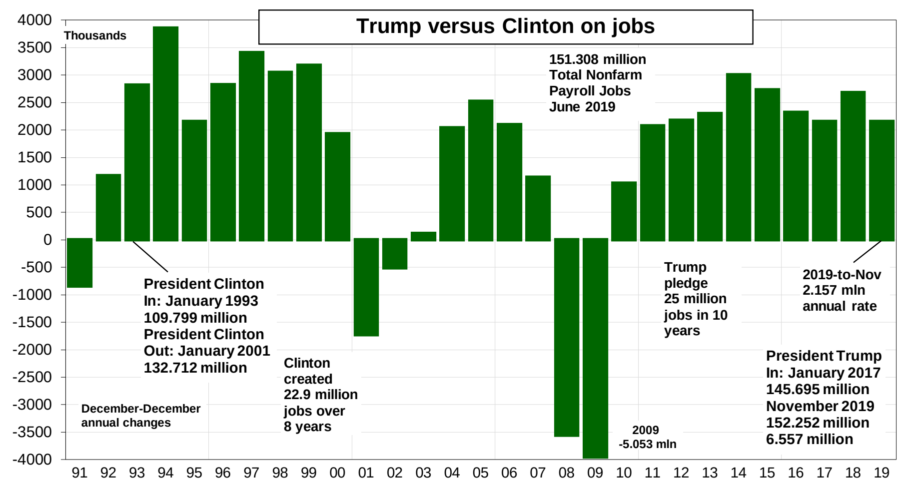
ANOTHER BOOMING-ECONOMY JOBS REPORT JUST IN TIME FOR THE HOLIDAYS

Okay. Maybe it doesn't look so great from the perspective of the graph here on annual changes in new payroll jobs. But still. This economy is unstoppable if the labor market is your go-to indicator of current business conditions. You can't have a recession without job losses where the level of payroll employment turns down.



For a second month in a row the monthly jobs report has beat market expectations. The economy isn't slowing, it's winning as some would say. Winning couldn't be more true with 266 thousand more jobs in November and 41 thousand of upward revisions to September and October.

And the stellar jobs numbers are real, it isn't just the end of the GM strike with motor vehicle industry headcount rebounding 41.3 thousand to 990.5 thousand in November after 42.8 thousand of losses in October.

	Nov	Oct	Sep	Aug	Jul	Jun
Payroll jobs (000s)	266	156	193	219	166	178
Unemployment rate %	3.5	3.6	3.5	3.7	3.7	3.7
Unemployment (3 decimal)	3.535	3.562	3.517	3.687	3.712	3.666
Participation rate %	63.2	63.3	63.2	63.2	63.0	62.9
Average hourly earnings	$28.29	$28.22	$28.12	$28.11	$27.99	$27.91
MTM % Chg	0.2	0.4	0.0	0.4	0.3	0.3
YOY % Chg	3.1	3.2	3.0	3.2	3.2	3.2
Production Worker earnings	$23.83	$23.76	$23.67	$23.60	$23.51	$23.43
MTM % Chg	0.3	0.4	0.3	0.4	0.3	0.2
YOY % Chg	3.7	3.8	3.5	3.5	3.5	3.4

Jobs have rebounded the last two reports, however this year, through November, jobs are up 1.977 million or a 2.157 million annual rate. In the twelve months ending 2018, after the Tax Cuts and Jobs

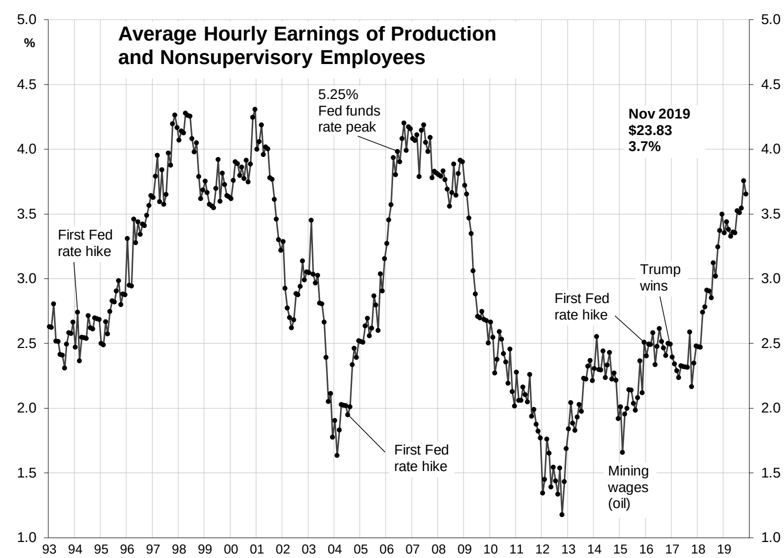
Act we guess, jobs were up stronger at 2.679 million. Manufacturing jobs are up just 56K in 2019 through November, where manufacturing jobs added 264K in the 2018 year ending December. That's 200K of the difference, the result of lower oil prices, less oil & gas drilling, and the trade war which has purchasing managers saying manufacturing is in a recession.

Wages were up big for production workers not their bosses. Wages are rising 3.7% year-to-year after today's report where last month's employment report on November 1 said wages were up 3.5% year-to-year. Working men and women are getting an extra 13 cents or $23.83 an hour.

To conclude, this economy just won't stop and even with the wheels of growth slowing down to a modest 2 percent, the labor markets continue to astound us by pumping out millions of jobs. New workers with pay checks will keep the economy humming as the clock changes and the economy moves into the decade of the 20s. It won't be the roaring 1920s economy a century ago, but this economy is still climbing and shattering the records for longevity. The business cycle hasn't been repealed, there will still be booms and busts, but right now those clouds of recession still remain well offshore despite troubled economies elsewhere in the world and a U.S. trade war with China that has paused, but still remains far from settled. For CEOs and CFOs it's time to cheer up. We hope we don't see more surveys at the start of 2020 like we did early in 2019 finding 70 percent of CEOs expect a recession by the end of the year. Leave forecasting for economists. The outlook for 2020 looks good. Bet on it.

Payroll jobs in year eleven following the recession

Dec. 2018 Totals millions		Nov 19	Oct 19	Sep 19	11 months Dec 18 to Nov 19	12 months Dec 17 to Dec 18
150.275	Nonfarm Payroll Employment	266	156	193	1977	2679
127.790	Total Private (ex-Govt)	254	163	183	1818	2583
20.961	Goods-producing	48	-25	11	177	631
0.705	Mining	-7	1	1	-13	63
12.809	Manufacturing	54	-43	2	56	264
1.005	Motor Vehicles & parts	41	-43	1	-15	23
7.400	Construction	1	14	9	130	307
106.829	Private Service-providing	206	188	172	1641	1952
27.788	**Trade, transportation, utilities**	14	36	25	96	304
15.821	Retail stores	2	22	12	-26	14
3.105	General Merchandise	22	5	16	-23	9
3.108	Food & Beverage stores	3	7	12	34	20
5.511	Transportation/warehousing	16	6	9	74	216
1.512	Truck transport	1	1	-4	1	44
0.750	Couriers/messengers	5	3	4	34	54
1.170	Warehousing and storage	8	-1	4	36	84
0.555	Utilities	1	-2	-1	-4	-1
2.827	**Information**	13	-6	6	8	6
8.615	**Financial**	13	16	6	115	115
2.703	Insurance	3	2	2	32	31
2.287	Real Estate	4	8	2	59	67
1.316	Commercial Banking	2	-1	1	-5	-7
0.967	Securities/investments	-2	1	0	8	23
21.254	**Professional/business**	38	43	27	380	561
3.060	Temp help services	5	4	10	-13	83
2.395	Management of companies	0	4	4	39	62
1.495	Architectural/engineering	8	0	2	35	42
2.162	Computer systems/services	6	4	-1	76	86
1.140	Legal services	3	1	0	12	1
1.034	Accounting/bookkeeping	1	2	2	28	39
23.912	**Education and health**	74	30	57	612	532
5.195	Hospitals	10	4	11	88	100
3.746	Educational services	14	-3	9	98	50
16.554	**Leisure and hospitality**	45	70	56	355	359
2.036	Hotel/motels	4	13	0	35	23
12.074	Eating & drinking places	25	49	32	261	258
22.485	Government	12	-7	10	159	96
2.192	Federal ex-Post Office	-2	-16	2	28	9
5.183	State government	0	5	-1	12	19
2.487	State Govt Education	3	0	-4	-3	10
14.504	Local government	13	4	9	116	74
7.974	Local Govt Education	7	-1	-1	64	31



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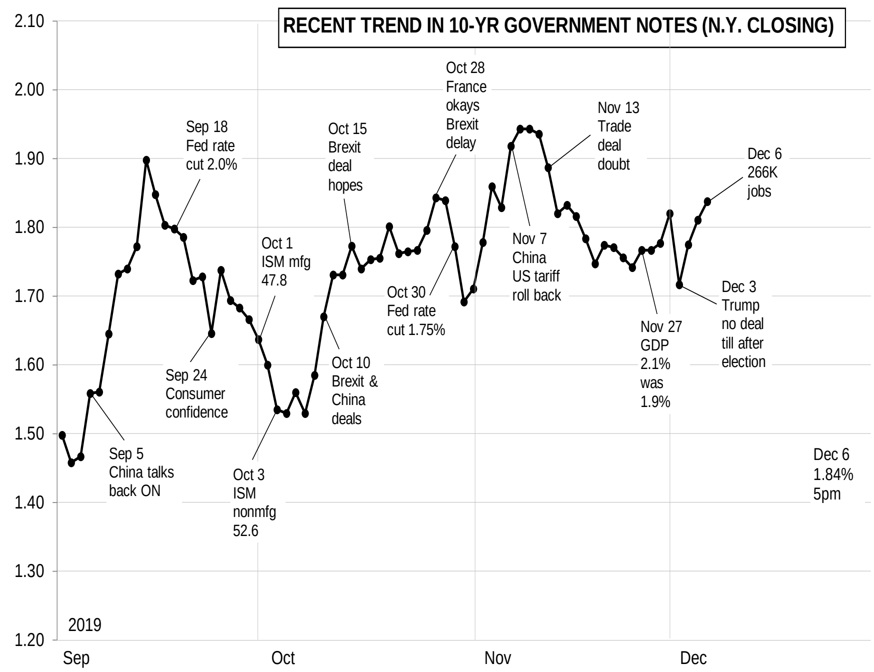
MARKETS OUTLOOK

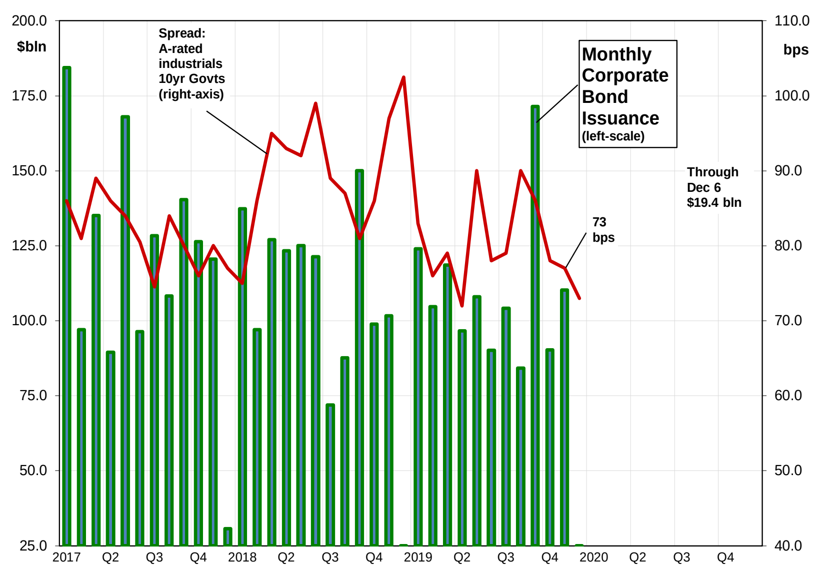
	29-Mar 2019	28-Jun 2019	30-Sep 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
30-Yr Treasury	2.81	2.53	2.11	2.20	2.25	2.30	2.40	2.50	2.70
10-Yr Note	2.41	2.01	1.67	1.75	1.80	1.90	2.10	2.20	2.40
5-Yr Note	2.23	1.77	1.55	1.55	1.65	1.75	1.85	2.05	2.25
2-Yr Note	2.26	1.76	1.62	1.60	1.60	1.70	1.80	2.00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



A more volatile week with a sharp 10 bps drop in bond yields Tuesday (1.82-1.72) as Trump told a NATO press conference in London that maybe there wouldn't be a China deal before the 2020 election. A Bloomberg story saying the China-U.S. talks were still on at 406am EST Wednesday started Treasury yields on their climb back. It was a complicated week with Dow stocks falling 268 points Monday (Trump tweets new tariffs on steel and aluminum imports from Brazil and Argentina; bonds didn't react) and Dow stocks fell 280 points Tuesday. Stocks rallied back 337 points Friday on the stronger jobs report, and bond yields lifted from 1.79% to 1.86% in five minutes after the jobs report. Let's see if the Fed meeting news can beat this.

CORPORATE BONDS: AT&T, CHARTER COMMUNICATIONS, DOMINION ENERGY

Corporate offerings were $19.4 billion in the December 6 week versus $4.4 billion in the November 29 week. On Wednesday, Broadridge Financial Solutions Inc. priced a $750 million 2.9% 10-yr (m-w +20bp) at 115 bps (Baa1/BBB+). It provides investor communications and tech-driven solutions to banks, broker-dealers, asset/wealth managers, and will use the proceeds to repay revolving credit loans. Corporate bond yields (10-yr Industrials rated A2) were 73 bps above 10-yr Treasuries Friday versus 77 bps last Friday.



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FEDERAL RESERVE POLICY

The Fed meets December 10-11 to consider its monetary policy. Powell has said the current stance is likely to remain appropriate as long as the economy stays where it is with the Brexit and China trade war risks diminishing. Based on Friday's employment report for November, it looks like the risks to the outlook continue to diminish otherwise why would companies hire 266 thousand more workers? Duh. Since the Fed meeting on October 29-30, a meeting where they did nothing (seems to be a lot of that), there have been not one but two more stellar monthly jobs reports. Fed officials today are like Fed officials of yesterday where they say their policy isn't based on just one number. But it pretty much is. Nonfarm payroll jobs. The U.S.-China trade war is throwing up a lot of uncertainty, but it isn't stopping companies from hiring more workers. Two big employment reports since the October Fed meeting each with big upward revisions. Friday, November 1: 128K more payroll jobs in October with 95K of upward revisions equals 223K more jobs out there in the country. Friday, December 6, 266K more payroll jobs in November with 41K of upward revisions equals 307K more jobs. Fed Chair Powell just cited one concern for the economy was a looming downward revision of about 500K to the the level of payroll jobs in the year ending March 2019, turning a 210K monthly average jobs year into a 170K year, but the economy sure isn't slowing right now near the end of this year.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	4-Dec	27-Nov	20-Nov	13-Nov	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2259.853	2248.498	2220.361	2201.529	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1423.725	1423.724	1437.197	1450.089	0.000
Repurchase agreements	208.007	207.243	199.159	209.609	126.750
Primary credit (Discount Window)	0.001	0.020	0.007	0.016	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	0.047	0.047	0.048	0.041	62.000
Federal Reserve Assets	4113.7	4100.5	4078.6	4096.1	961.7
3-month Libor %	1.89	1.91	1.90	1.91	2.82
Factors draining reserves					
Currency in circulation	1793.762	1792.322	1785.928	1787.932	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	0.000	0.506	26.097	1.762	0.000
Reserve Balances (Net Liquidity)	1593.719	1559.719	1530.158	1542.664	24.964
Treasuries within 15 days	8.372	10.203	10.034	41.805	14.955
Treasuries 16 to 90 days	110.535	97.984	96.881	66.967	31.549
Treasuries 91 days to 1 year	301.082	303.961	282.729	287.950	69.272
Treasuries over 1-yr to 5 years	881.241	882.505	876.899	867.266	170.807
Treasuries over 5-yrs to 10 years	322.057	317.323	317.309	310.038	91.863
Treasuries over 10-years	636.566	636.521	636.510	627.503	101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08					

What to do with the two rate hikes they have in the forecast. Keep in mind the forecasts submitted at the September meeting didn't foresee a third rate cut in October to 1.75%. Only 7 out of 17 wanted a 1.75% Fed funds rate by the end of the year. What to do with the September forecast that from a 2.0% Fed funds rate as a low point they looked to do nothing in 2020 (good at that), one rate hike to 2.25% in 2021, and one hike to 2.5% in 2022. We think the jobs reports were strong enough to keep rate hikes in the picture: nothing in 2020, one rate hike to 2.0% in 2021 and one rate hike to 2.25% in 2022. A long time to wait for a lousy 50 bps. The bond market will never be the same.

Fed Individual Forecasts					
Fed funds rate at year-end					Longer
Votes	2019 End	2020 End	2021 End	2022 End	run
1	1.625	1.625	1.625	1.625	2.000
2	1.625	1.625	1.625	1.875	2.250
3	1.625	1.625	1.625	1.875	2.375
4	1.625	1.625	1.625	1.875	2.500
5	1.625	1.625	1.875	2.125	2.500
6	1.625	1.625	1.875	2.125	2.500
7	1.625	1.625	1.875	2.125	2.500
8	1.875	1.625	2.125	2.125	2.500
9	1.875	1.875	2.125	2.375	2.500
10	1.875	1.875	2.125	2.375	2.500
11	1.875	2.125	2.125	2.375	2.500
12	1.875	2.125	2.375	2.375	2.750
13	2.125	2.125	2.375	2.375	2.750
14	2.125	2.125	2.375	2.625	2.750
15	2.125	2.125	2.375	2.625	3.000
16	2.125	2.125	2.375	2.875	3.250
17	2.125	2.375	2.625	2.875	
Median	1.875	1.875	2.125	2.375	2.500
Meeting	Sep 19	Sep 19	Sep 19	Sep 19	Sep 19

Eurodollar futures say one more Fed rate cut				
Year-ends for Interest Rates				
Percent %	2019	2020	2021	2022
Eurodollar futures	1.89	1.565	1.555	1.635
Fed's Sept forecast	2.0	2.0	2.25	2.5
Eurodollar futures price where 3-month Libor will be in the future.				
Friday, December 6, 2019 3-month Libor 1.89%				

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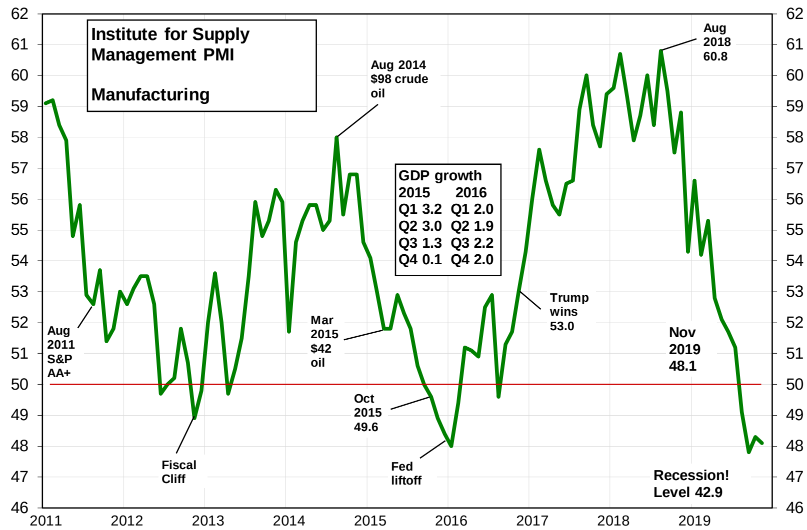
OTHER ECONOMIC NEWS THIS WEEK

Purchasing managers play topsy-turvy with markets around the globe (Monday)

Breaking economy news. The ISM manufacturing survey disappointed the markets by falling to 48.1 in November from 48.3 in October. New orders were especially weak falling to 47.2 in November from 49.1 October which throws some cold water reality on the durable goods orders data last week that showed business investment on equipment rebounded in October. Up in October maybe, but down in November maybe. Purchasing managers say that manufacturing is not out of the manufacturing recession woods yet.

And we hate to be the bearer of bad news, but we will briefly mention that a second report out at 10 o'clock this morning shows businesses have stopped investing in new structures in October where construction started the fourth quarter with a sharp 1.2% drop. Construction in Lodging -1.1%, Offices -0.2%, Commercial -2.4%, Transportation -2.5%, Communication -1.9%, Power -1.3%, Manufacturing -0.4%. Companies have stopped building for the future because they are concerned about the uncertain economic outlook.



Net, net, American manufacturers are losing the trade war according to the surveys of purchasing managers in China which say factory output is still positive and adding to their economy, where here in the U.S., purchasing managers say manufacturing remains in a recession.

The world economy stopped spinning and seemed to stabilize in the minds of many investors after the more positive reports from China Purchasing Managers in surveys released over the weekend. The President's tweets slapping import tariffs back on steel from Argentina and Brazil gave markets the jitters however as it is a reminder that the trade war will not be solved overnight. The stock market's early gains in the futures markets melted away after the President's early morning tweet. The President reminded us yet again he is a "Tariff Man" and this long trade battle with America's trading partners isn't over yet. Stay tuned. Story developing.

ISM manufacturing index

	Nov 19	Oct 19	Sep 19	Aug 19	July 19	June 19
PMI index	48.1	48.3	47.8	49.1	51.2	51.7
Prices	46.7	45.5	49.7	46.0	45.1	47.9
Production	49.1	46.2	47.3	49.5	50.8	54.1
New orders	47.2	49.1	47.3	47.2	50.8	50.0
Employment	46.6	47.7	46.3	47.4	51.7	54.5
Export orders	47.9	50.4	41.0	43.3	48.1	50.5

Downward jagged path of ISM Services index still holds above recession level (Wednesday)

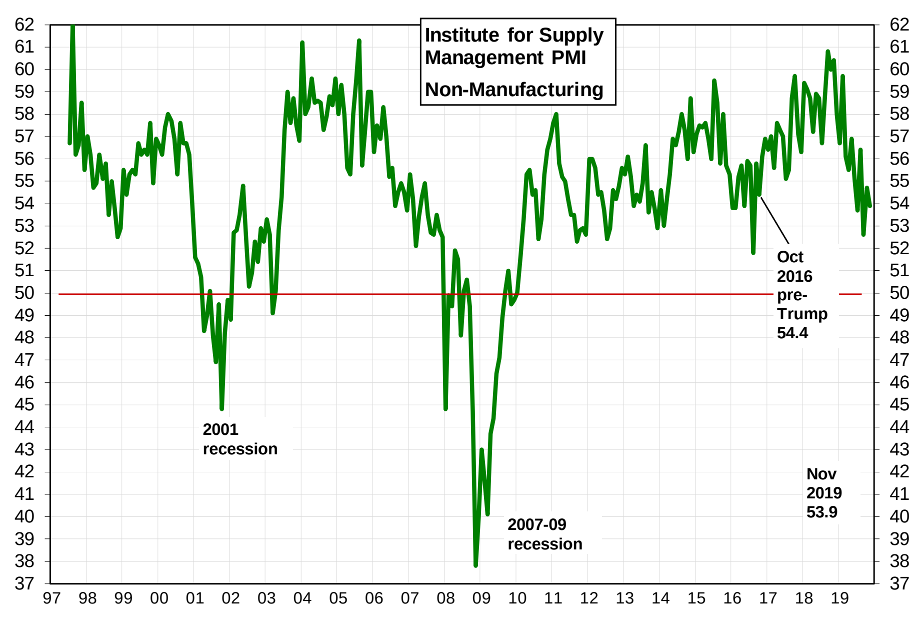
Breaking economy news. ISM Services index for November slipped back to 53.9 from 54.7 in October. The downtrend in the services sector survey of purchasing managers continues from the peak for this economic expansion back in September 2018 around the time the Federal Reserve was tightening policy and pushing interest rates up from 2.25% in September 2018 to 2.5% in December 2018. The Fed has cut interest rates three steps back down this year, but it hasn't been enough to put a smile on the faces of purchasing managers in the services sector. The downward jagged trend continues although the absolute level is holding above the 50 level which divides an expanding services sector from one that is in recession. The Institute of Supply Management says an index reading above 48.6 indicates the overall economy is still expanding not falling.

The decline in the index in November seems to reflect the tariffs that are impacting the prices of many products that services companies use to provide their services to other companies and consumers. China's not paying for all the tariffs apparently.

Net, net, the services economy isn't in recession yet like the manufacturing sector is according to industry executives. The downtrend in this sentiment indicator shows service sector executives are plainly worried about the outlook. The news wasn't all bad as executives are seeing better new orders activity, and they are hiring more workers.

The market is right to ignore this latest economic data that helps Fed officials read the tea leaves of the outlook. Stocks and bond yields rose after the data as the risk-on tone improved markedly on headlines this morning at 4 o'clock in New York that the China and U.S. trade talks were still progressing. Stay tuned. Story developing.

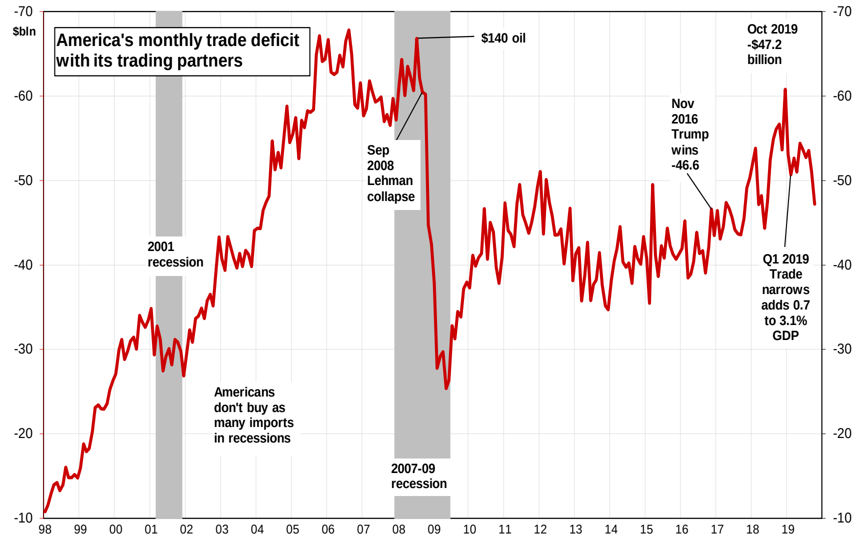
The ISM services survey is down but not out when it comes to forecasting better times ahead. CEOs and CFOs were not correct at the start of this year when they forecast a recession, and keep your fingers crossed, we wouldn't be forecasting a recession in 2020 either.



No recession as imports and jobless claims plummet, boosting Q4 GDP growth (Thursday)

Breaking economy news. Jobless claims plummet 10K to rock-bottom lows of 203K in the November 30 week.

The trade deficit narrowed to $47.2 billion in October from $51.1 billion in September, pretty much as expected after the preliminary data on trade in goods was released last Tuesday. America is winning the trade war today with exports falling $433 million to $207.120 billion in October, while imports collapsed $4.332 billion to $254.319 billion. Trade policy is working today: you make imports more expensive by slapping on some tariffs then they won't come to America's shores.



China, what's happening with our trade with China. Also plummeting as tariffs have taken a big bite out of importers and exporters plans. Through October this year, exports are 14.4% lower than last year at $87.6 billion. Through October this year, imports are 14.6% lower than last year at $382.1 billion. Interesting how trade has fallen the same percentage against imports and exports. But America is winning because imports are down $65.1 billion while exports are down $14.7 billion. Yes America is winning except for the fact that U.S. companies are scrambling to figure out how to get their supply chain inputs that they need to produce goods for Americans here. Yes America is winning except for the fact that consumer goods imported from China are going to cost more when they hit the store shelves, and more tariffs on the final tranche of roughly $160 billion of consumer goods imported from China are scheduled to go into effect on December 15, a time's up deadline ticking away like a time bomb for the US economy that is supported mostly by the consumer right now.

Net, net, the economy's recession scare is history with the labor markets strong as a bull, and the narrowing of the trade deficit helping the economy to grow at least 1-1/2 percent this quarter. There's no other way to spin today's economic data, the evidence is unimpeachable with the trade war tariffs cutting the amount of goods America imports from China and the world, and the sharp decline in the number of Americans applying for jobless benefits because they have been laid off. The business of America is booming right now despite the 2020 election rhetoric telling voters the economy isn't working for them. Stay tuned. Story developing. For today anyway, the economy is stronger than markets think.

Analyst Certification

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