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

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**
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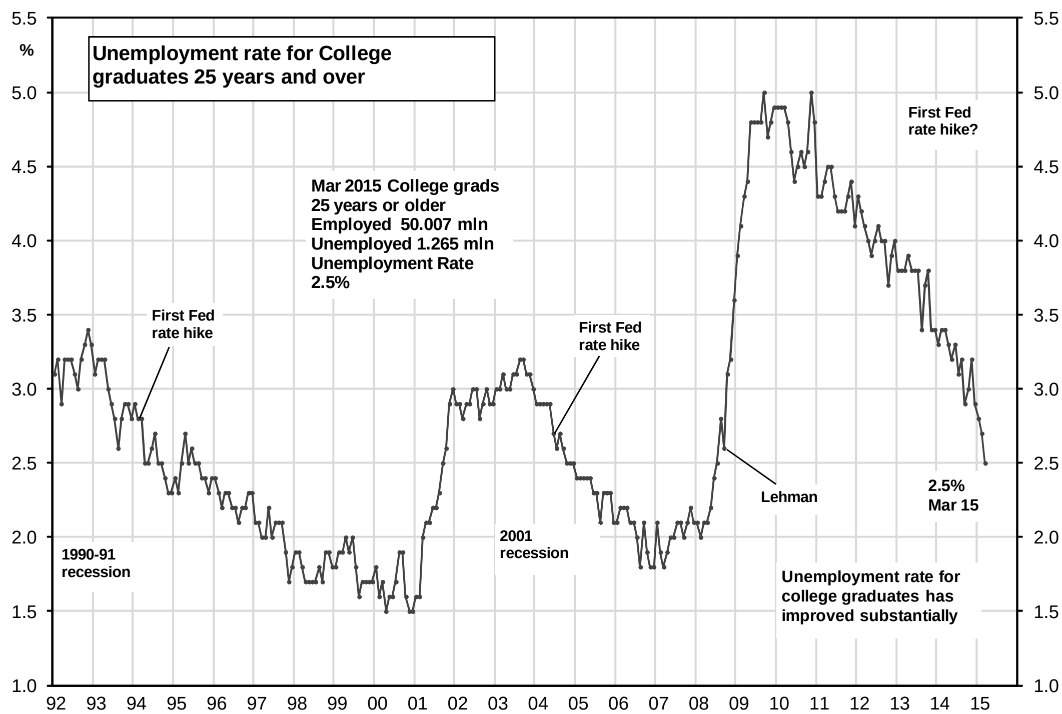
# THEY TOLD US 200K MONTHLY PAYROLL JOBS WERE NOT SUSTAINABLE, AND A YEAR LATER, SURE ENOUGH, THEY WERE RIGHT!




America's Great Jobs Machine faltered in Friday's report with just 126K new jobs in March, and 69K of downward revisions to January and February. So a net increase of 57K. Peanuts. 10-yr Treasury yields fell from 1.89% at 830am right before the report to as low as 1.80% in the Good Friday holiday abbreviated trading session. Stock markets were closed, but that didn't stop Dow futures falling 165 points before closing at 915am after only 45 minutes of "trading." We aren't sure why stocks are falling if the economy is weak and the Fed is delaying liftoff, but it was a holiday-shortened session.

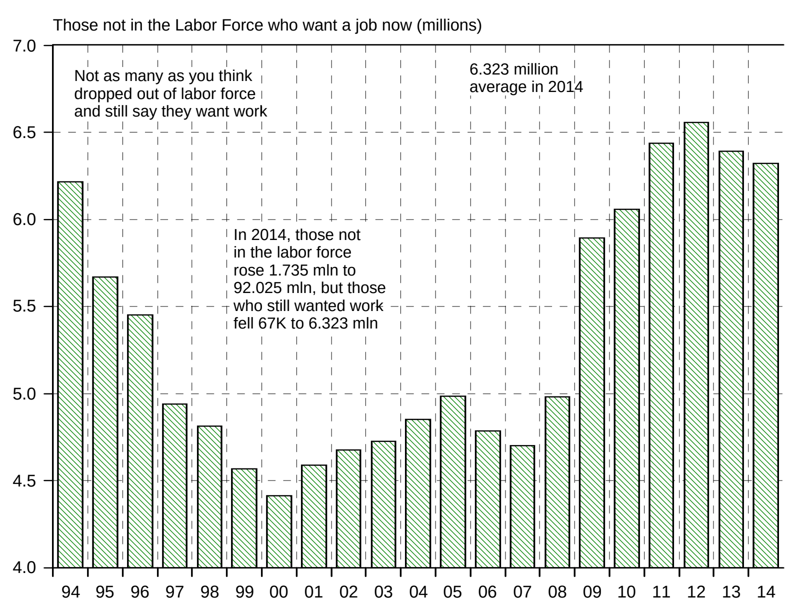
More on this economic news to come, but first, on Thursday, before the monthly employment report, Yellen gave opening remarks at the Ninth Biennial Federal Reserve System Community Development Research Conference focusing on economic mobility, as in income inequality, the gap between rich and poor. She said she was looking forward to the remarks from Fed Governor Brainard, which would be of special interest to Yellen she said, as Brainard would focus on how young adults are faring in the economy and what have been the implications for entering the job market at a time of "significantly constrained opportunities." The news headlines of Brainard's speech did not disappoint: "Brainard

Says Recession Scars Haunting America's Young Workers." Brainard said, "There is a risk that the high rates of unemployment, low labor force attachment, and stagnant wages experienced by those who have come of age in the years surrounding the Great Recession may have long-lasting consequences." Well, the Great Recession ended back in June 2009, things are better now than they were back then, and there was some good news in today's jobs report, in that unemployment for college graduates 25 years or older dropped further, down to 2.5% in March. It is now lower than it was the last two times the Fed raised rates coming out of the recessions in the early 90s and 2001. There is no longer a role for the Fed's low rates monetary policy to play if they are trying to help college graduates.

A lot is still being made about, too much so, on how, yes, unemployment fell today but only because people dropped out of the labor force, discouraged that there was no work out there. The number of unemployed persons fell 130K in March to 8.575 million, but at the same time the number of people not in the labor force rose 277K to 93.175 million in March. First off, this does not sound accurate given the 3.128 million payroll jobs created last year. There can't be no work out there. Many many people are dropping out of the labor force because they want to. About half of the increase of those not in the labor force since 2008 have been due to the elderly (those turning 65) and those claiming disability. There were dropouts during the weak labor market after the recession with unemployment not peaking until October 2009. But the stressed labor market dropouts have stopped, as can be seen in the count of those not in the labor force (92.025 million in 2014) who actually still want a job (6.323 million in 2014). Things are not as bad as you think out there.

**Payroll jobs in sixth year of expansion following recession**

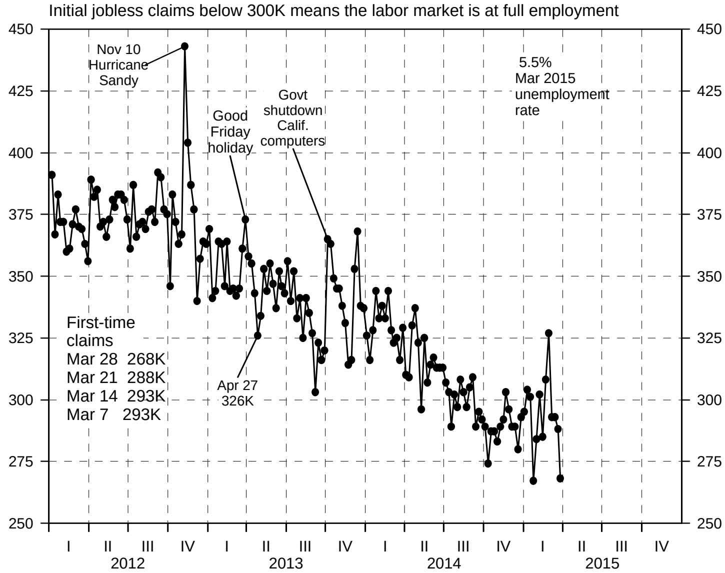
| Dec. 2014 Totals millions | | Mar 15 | Feb 15 | Jan 15 | 3 months Dec 14 to Mar 15 | 12 months Dec 13 to Dec 14 |
|---|---|---|---|---|---|---|
| 140.592 | Nonfarm Payroll Employment | 126 | 264 | 201 | 591 | 3116 |
| 118.690 | Total Private (ex-Govt) | 129 | 264 | 202 | 595 | 3042 |
| 19.489 | Goods-producing | -13 | 20 | 51 | 58 | 595 |
| 0.859 | Mining | -11 | -11 | -7 | -30 | 41 |
| 12.301 | Manufacturing | -1 | 2 | 17 | 18 | 215 |
| 0.902 | Motor Vehicles & parts | 1 | 1 | 4 | 5 | 50 |
| 6.275 | Construction | -1 | 29 | 41 | 69 | 338 |
| 99.201 | Private Service-providing | 142 | 244 | 151 | 537 | 2447 |
| 26.669 | **Trade, transportation, utilities** | 41 | 52 | 35 | 128 | 510 |
| 15.497 | Retail stores | 26 | 32 | 35 | 93 | 224 |
| 3.138 | General Merchandise | 11 | 4 | 8 | 23 | 46 |
| 3.020 | Food & Beverage stores | 0 | 2 | 5 | 7 | 53 |
| 4.738 | Transportation/warehousing | 10 | 10 | -13 | 6 | 166 |
| 1.441 | Truck transport | -7 | 4 | 1 | -2 | 47 |
| 0.616 | Couriers/messengers | 3 | -2 | -20 | -18 | 45 |
| 0.557 | Utilities | 0 | 0 | 0 | 0 | 7 |
| 2.767 | **Information** | 2 | 7 | 6 | 15 | 43 |
| 8.049 | **Financial** | 8 | 7 | 19 | 34 | 135 |
| 2.506 | Insurance | 6 | 4 | 10 | 20 | 83 |
| 2.070 | Real Estate | 1 | 4 | 2 | 7 | 56 |
| 1.284 | Commercial Banking | -2 | -2 | -1 | -5 | -20 |
| 0.888 | Securities/investments | 0 | 1 | 4 | 5 | 17 |
| 19.439 | **Professional/business** | 40 | 42 | 20 | 102 | 704 |
| 2.863 | Temp help services | 11 | -8 | -8 | -4 | 174 |
| 2.190 | Management of companies | 7 | 5 | 1 | 12 | 55 |
| 1.403 | Architectural/engineering | 4 | 3 | 4 | 11 | 48 |
| 1.814 | Computer systems/services | 4 | 7 | 8 | 19 | 79 |
| 1.120 | Legal services | -1 | 3 | -2 | -1 | -3 |
| 0.922 | Accounting/bookkeeping | 7 | 7 | 3 | 17 | 58 |
| 21.718 | **Education and health** | 38 | 57 | 42 | 137 | 488 |
| 4.815 | Hospitals | 8 | 10 | 13 | 31 | 42 |
| 3.439 | Educational services | 8 | 23 | -8 | 23 | 65 |
| 14.948 | **Leisure and hospitality** | 13 | 70 | 24 | 107 | 482 |
| 1.896 | Hotel/motels | -2 | 0 | 6 | 4 | 19 |
| 10.917 | Eating & drinking places | 9 | 66 | 25 | 99 | 401 |
| 21.902 | Government | -3 | 0 | -1 | -4 | 74 |
| 2.134 | Federal ex-Post Office | -1 | -3 | 2 | -2 | -12 |
| 5.079 | State government | -4 | -2 | 2 | -4 | 23 |
| 2.430 | State Govt Education | -2 | 0 | 4 | 2 | 23 |
| 14.091 | Local government | 3 | 1 | 1 | 5 | 62 |
| 7.796 | Local Govt Education | 0 | 0 | 1 | 0 | 33 |



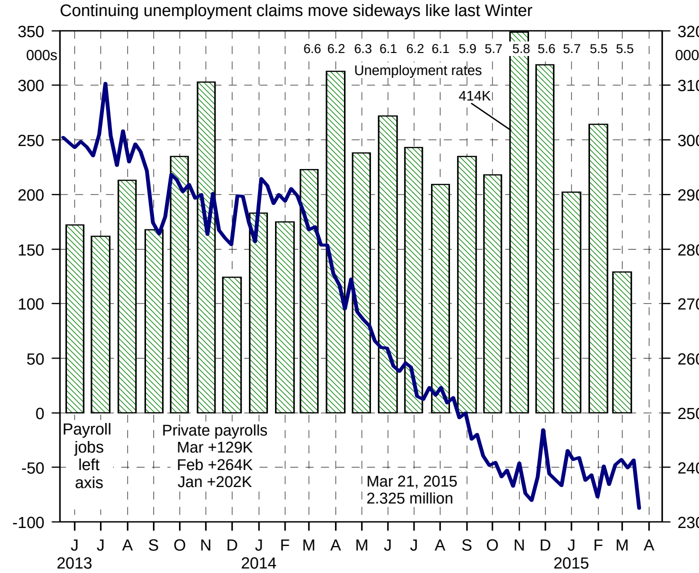
# JOBLESS CLAIMS FAR BELOW 300K FULL EMPLOYMENT LINE

Unemployment claims fell 20K to 268K in the March 28 week. The data had their annual revision this week, this year back to 2010, which smoothes the trend out. The sideways trend is still there from October, and we wonder if that finally translated into a slowdown in monthly payroll jobs to 126K on Friday. It was never clear why monthly payroll jobs grew that fast for so long, so we don't want to make too much of this. Claims are basically lower now than in the economic expansions before the last two recessions, which means: this is as good as it gets for current labor market conditions. We don't understand the Fed's arguments that there is still appreciable slack out there. It is not true.

Initial jobless claims below 300K means the labor market is at full employment




Continuing unemployment claims move sideways like last Winter

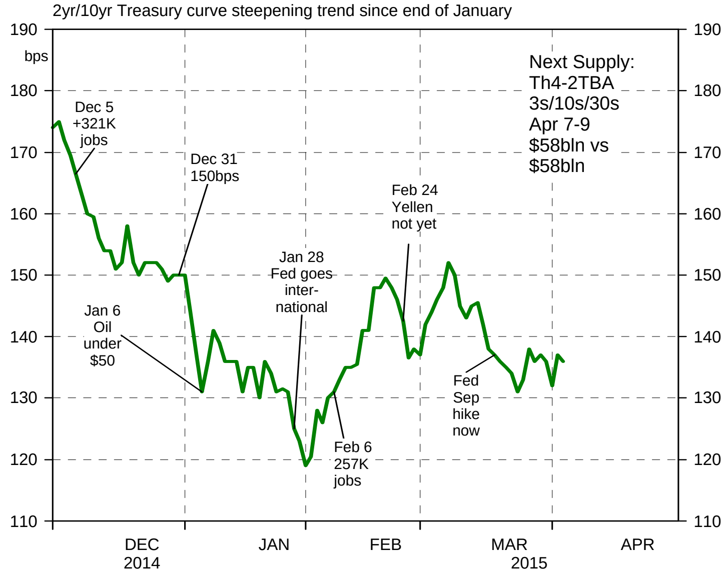



# TREASURY CURVE STEEPENED: FED LIFTOFF, PAYROLL JOBS, CORP SUPPLY

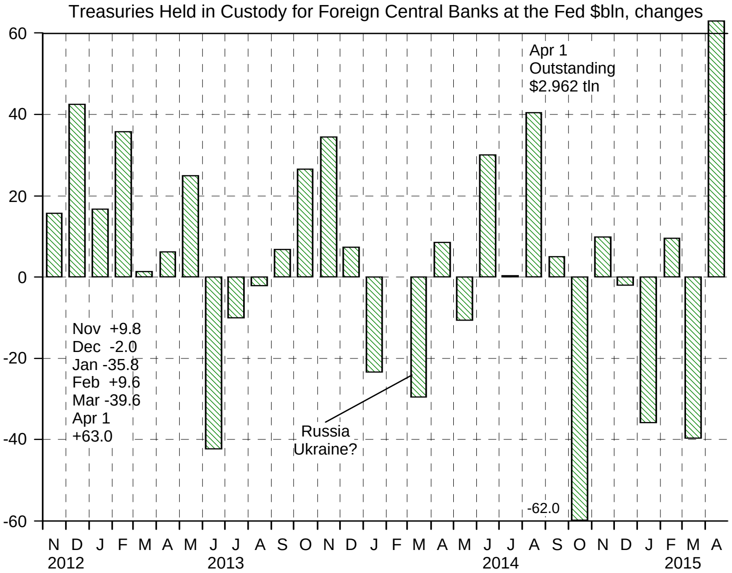
| | 31-Mar 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Q1 2016 | Q2 2016 |
|---|---|---|---|---|---|---|
| 30-Yr Bond | 2.49 | 3.20 | 3.40 | 3.60 | 3.60 | 3.70 |
| 10-Yr Note | 1.92 | 2.60 | 2.90 | 3.10 | 3.20 | 3.30 |
| 5-Yr Note | 1.37 | 2.10 | 2.40 | 2.60 | 2.80 | 2.90 |
| 2-Yr Note | 0.56 | 1.20 | 1.75 | 1.90 | 2.10 | 2.30 |
| 3-month Libor | 0.26 | 0.60 | 0.85 | 1.10 | 1.35 | 1.60 |
| Federal Fund Rate | 0.25 | 0.50 | 0.75 | 1.00 | 1.25 | 1.50 |
| 2s/10s spread | 136 | 140 | 115 | 120 | 110 | 100 |

The yield curve between 2-yrs and 10-yrs was +136 bps on Friday versus +136 bps last week. We lowered the forecast for 10-yr yields to 3.1% at the end of this year, and kept the Fed liftoff in June. We still have not seen how bonds will react to the first Fed rate hike, so we don't want to lower how high yields will go. We are puzzled why Yellen would say people looking for measured moves like Greenspan did in 2004-06 will be disappointed. Rates need to move up to 3.75% neutral now.

2yr/10yr Treasury curve steepening trend since end of January




Treasuries Held in Custody for Foreign Central Banks at the Fed $bln, changes



# FEDERAL RESERVE POLICY

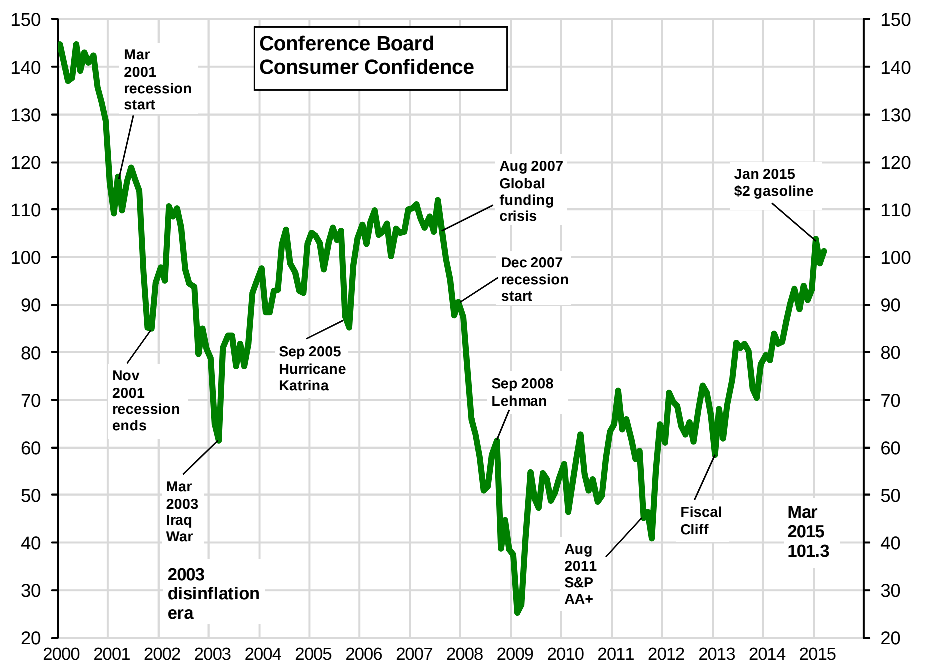
| Selected Fed assets and liabilities | | | | | Sep 10 |
|---|---|---|---|---|---|
| Fed H.4.1 statistical release | | | | | 2008** |
| billions, Wednesday data | 1-Apr | 25-Mar | 18-Mar | 11-Mar | pre-LEH |
| **Factors adding reserves** | | | | | |
| U.S. Treasury securities | 2459.578 | 2459.666 | 2459.787 | 2459.908 | 479.782 |
| Federal agency debt securities | 36.877 | 36.877 | 36.877 | 36.877 | 0.000 |
| Mortgage-backed securities | 1731.928 | 1731.909 | 1745.914 | 1740.252 | 0.000 |
| Primary credit (Discount Window) | 0.043 | 0.002 | 0.000 | 0.001 | 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) | 1.691 | 1.692 | 1.692 | 1.692 | 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 | 0.810 | 0.003 | 0.002 | 0.002 | 62.000 |
| Federal Reserve Assets | 4526.0 | 4524.5 | 4539.8 | 4533.1 | 961.7 |
| 3-month Libor % | 0.27 | 0.27 | 0.27 | 0.27 | 2.82 |
| **Factors draining reserves** | | | | | |
| Currency in circulation | 1359.773 | 1357.352 | 1356.260 | 1356.049 | 834.477 |
| Term Deposit Facility | 0.000 | 0.000 | 0.000 | 107.229 | 0.000 |
| Treasury supplemental bill auctions | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Reserve Balances (Net Liquidity)** | 2667.663 | 2737.802 | 2726.319 | 2692.693 | 24.964 |
| Treasuries within 15 days | 0.001 | 0.001 | 0.001 | 0.001 | 14.955 |
| Treasuries 16 to 90 days | 1.899 | 1.899 | 1.899 | 1.900 | 31.549 |
| Treasuries 91 days to 1 year | 63.822 | 40.235 | 40.235 | 40.235 | 69.272 |
| Treasuries over 1-yr to 5 years | 1112.868 | 1125.170 | 1125.187 | 1125.205 | 170.807 |
| Treasuries over 5-yrs to 10 years | 637.917 | 649.232 | 649.255 | 649.278 | 91.863 |
| Treasuries over 10-years | 643.072 | 643.130 | 643.209 | 643.289 | 101.337 |

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

The Fed meets April 28-29 to consider its monetary policy. Upon reflection, nothing has really changed despite the softer 126K employment report today. The Fed has not made any moves yet to put in place a policy that will be appropriate for where the economy is heading. Where the economy will be two years from now. It is pretty obvious the Fed funds rate needs to be at 3.75% neutral levels by then.

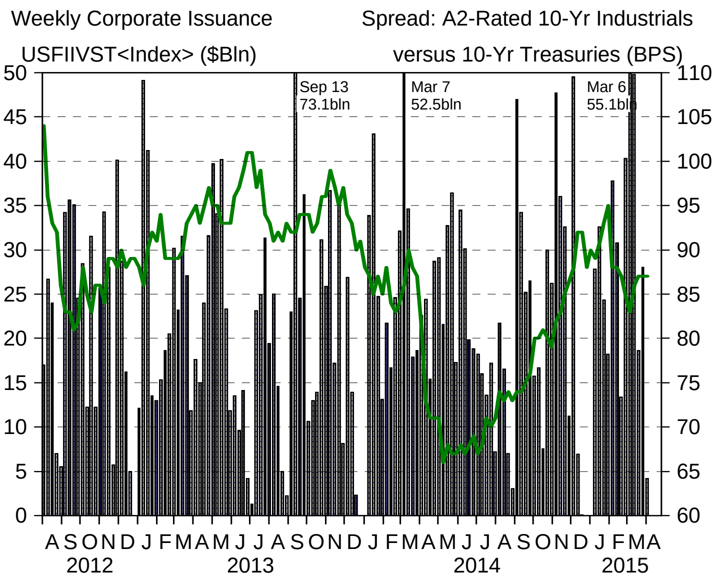
Fed Chair Yellen ruled out a rate hike at the upcoming April meeting at the press conference on March 18, but every meeting after that one this year is a live one. We expect the June 16-17 meeting will be the liftoff. There are two more monthly employment reports before they meet, and unemployment could be close enough to the full employment 5.0-5.2 unemployment rate zone to trigger a move. Bernanke hasn't left the building still. There was a news headline before Friday where Bernanke said the Fed was "groping" for where full employment was. He once said they would sit down to talk about whether to raise rates, when unemployment fell to (improved) 6.5%, the threshold that wasn't. Yellen has taken the 5.0% low side of course of the 5.0-5.2 percent full employment unemployment zone as the new goal line. 5.0% versus 5.5% unemployment today means we are talking about 700 thousand people out of 8.5 million unemployed today and 15.3 million at the peak in 2010. We don't think 700,000 people represents that much slack, so-called idle resources in the economy, this long after the recession ended. This is especially true given that the number of unemployed fell 1.8 million in just the last year, so 5.0% full employment unemployment could be here by September. The economy is moving along that well. The Greenspan Fed raised rates coming out of his two recessions when the unemployment rate fell to, improved to, 6.6 and 5.6 percent. The arguments for delaying any longer are not very convincing. Yellen attempted to tell us why the delay this time in her March 27 speech, and it centers around the Great Recession when "people were terrified." People aren't terrified any more based on consumer confidence reported this week. We don't hear people in the streets discussing the words "Great Recession" or "financial crisis." Policy makers still seem to be overly cautious. But the current thinking, based on the majority of Fed members is that the Fed funds rate will be at least 2.75% by the end of 2017, a 100 bps annual pace of rate hikes that looks to be half the speed of the "measured" Greenspan rate hikes in 2004-2006. Bring it on.

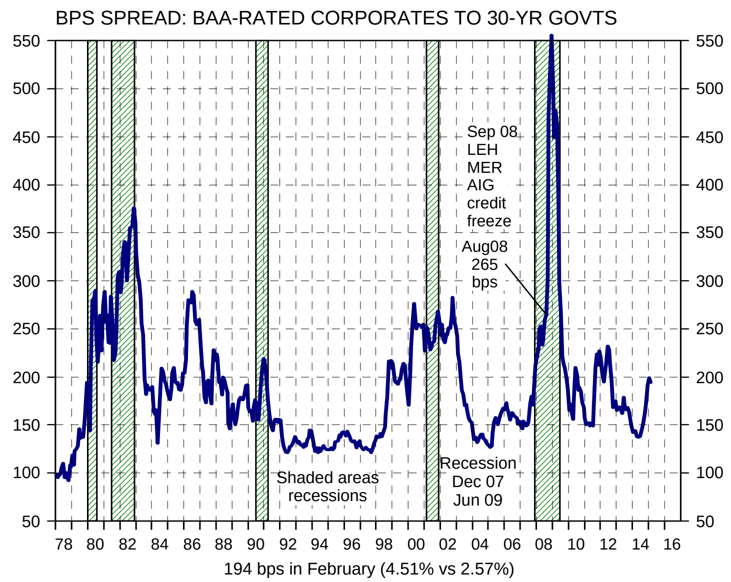
| FOMC | Mar 2015 "Majority Rules" | |
|---|---|---|
| Year-end | Fed funds rate forecasts | |
| 2015 | 0.75 | 14 of 17 say 0.75 or higher |
| 2016 | 1.75 | 15 of 17 say 1.75 or higher |
| 2017 | 2.75 | 16 of 17 say 2.75 or higher |
| Long-run | 3.75 | |



# CORPORATES: TELSTRA CORP, AES CORP, MOLEX ELECTRONICS

Corporate bond offerings were $4.2 billion in the April 3 week versus $28.0 billion in the March 27 week. On Tuesday, Union Electric priced $250 million 3.65% 30-yrs (m-w +20bp) at 112.5 bps (A2/A). The electric company, doing business as Ameren Missouri, a subsidiary of Ameren Corp., will use the proceeds to repay outstanding short-term debt. Corporate bonds (10-yr Industrials rated A2) were 87 bps above 10-yr Treasuries on Thursday versus 87 bps last Friday.




## TREASURY MARKET OUTLOOK

EXPECTED 10-YR 2-3 WEEK TRADING RANGE 1.80% to 2.30%

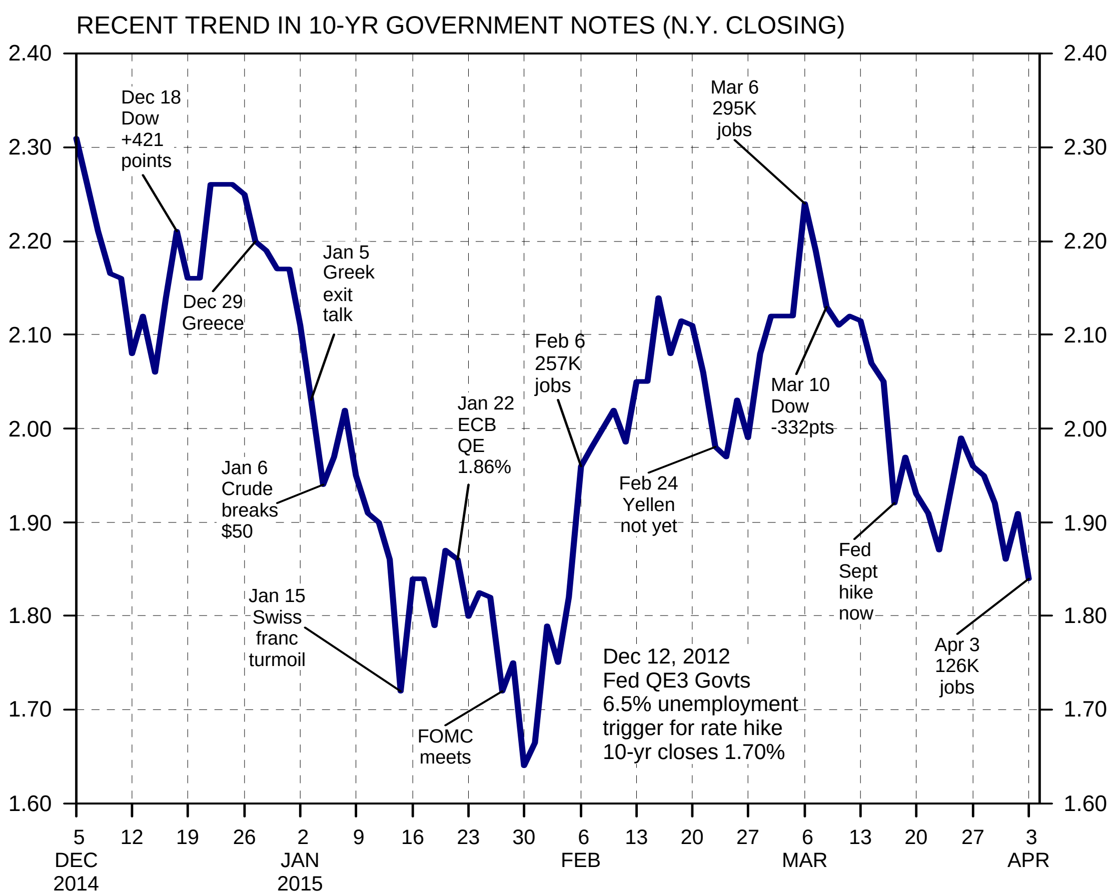
Week's 10-YR Range

**HIGH 101-25+ 1.80%**

Friday, April 3, payroll jobs rise just 126K in March versus 245K expected

**LOW 100-07+ 1.97%**

Monday, March 30, start of the week lows



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