Financial Market Weekly

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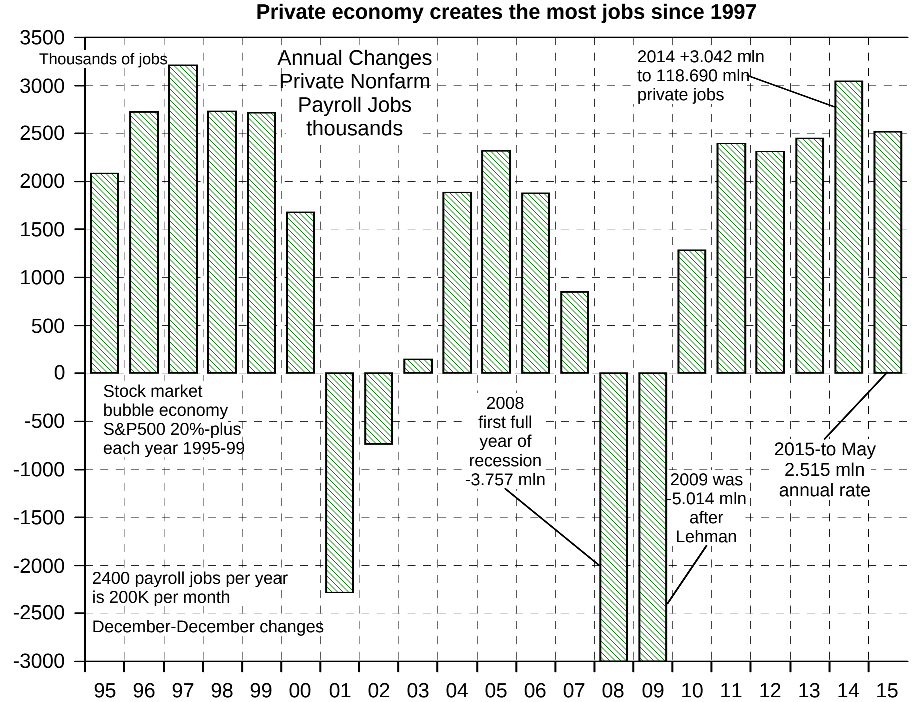
280K PAYROLL JOBS, +32K REVISIONS-THE GROWTH SLOWDOWN IS OVER

Private economy creates the most jobs since 1997



Yes, but is the economic expansion and pace of jobs creation sustainable? Remember that? Bernanke needed to be assured of this first before tapering QE. And here we are today, two years later waiting for who knows what before they raise rates and give savers a chance recoup their lost wealth. The jobless have had their time. There is no output gap opened up during the Great Recession that needs to be healed. Fed policy needs to help savers. Put rates back to normal, back to normal levels like in the good old days before 2008 as Fed Vice Chairman Fischer called them in a speech last week. It was cold this winter and real GDP fell 0.7% in Q1 2015 (consumer spending okay though +1.8%), but don't tell that to payroll employment. Payroll jobs rolled 200K-plus for an entire year, March 2014 to February 2015, not completely sure why, before the dreaded slowdown (you weren't hoping for one were you?) to 126K in March in the report on April 3 which just happens to coincide with the 1.80% 10-yr yield low for the last four months. But now the labor market parties on with job gains of 221K last month and now 280K more jobs in May. That pothole for jobs in March that was revised down to 85K last month has now been filled in a little and is +119K. That's it this winter. 119K slow jobs in March and that was it. 280K in May even with the 17K drag from mining and drilling job losses.

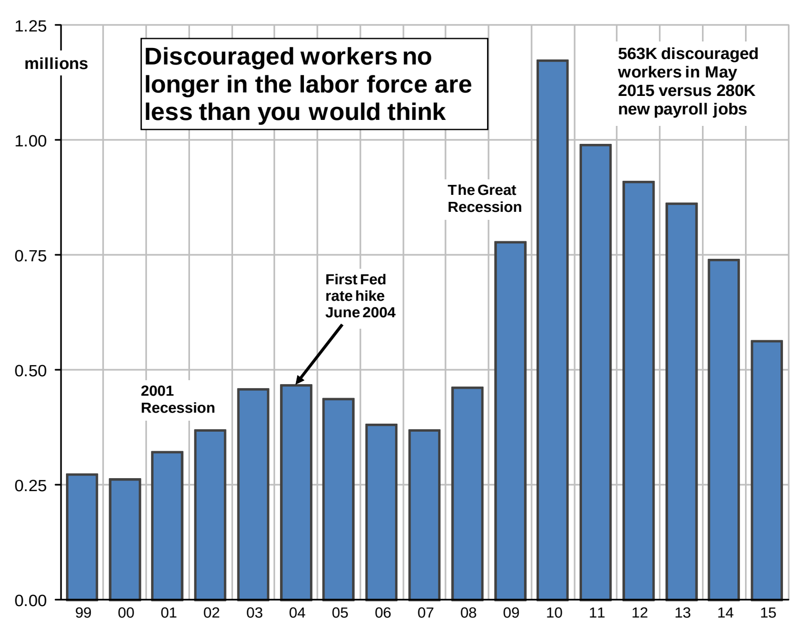
Full Labor Market Recovery Despite 2% GDP					
	2011	2012	2013	2014	2015
Payroll jobs mln	2.080	2.257	2.388	3.116	2.609
Private jobs mln	2.396	2.315	2.452	3.042	2.515
Unemployment %	8.5	7.9	6.7	5.6	5.5
Rate Change	-0.8	-0.6	-1.2	-1.2	-0.1
Real GDP %	1.7	1.6	3.1	2.4	-0.7
Year-end changes, Q1 2015 GDP -0.7%					
Year-end changes (annualized 2015 jobs)					May jobs

So the big three numbers from the monthly report, all were good with one qualification. 280K payroll jobs in May with 32K of upward revisions; average hourly earnings (wages) up 0.3% in May and now running 2.3% year-on-year; and the unemployment rate up a tenth to 5.5%, barely, 5.508% in May from 5.443% in April. The sting of the unemployment rate uptick is lessened because it "looks like" it happened because people dropped back into the labor force looking for work, which is exactly what Fed Chair Yellen wants. More people "participating" will lower the inequality in the country, Fed officials, central bankers, should like that.

Payroll jobs in sixth year of expansion following recession

Dec. 2014 Totals millions		May 15	Apr 15	Mar 15	5 months Dec 14 to May 15	12 months Dec 13 to Dec 14
140.592	Nonfarm Payroll Employment	280	221	119	1087	3116
118.690	Total Private (ex-Govt)	262	206	117	1048	3042
19.489	Goods-producing	6	21	-20	78	595
0.859	Mining	-17	-15	-15	-68	41
12.301	Manufacturing	7	1	6	34	215
0.902	Motor Vehicles & parts	7	4	6	24	50
6.275	Construction	17	35	-12	112	338
99.201	Private Service-providing	256	185	137	970	2447
26.669	**Trade, transportation, utilities**	50	23	39	191	510
15.497	Retail stores	31	13	32	135	224
3.138	General Merchandise	5	2	11	25	46
3.020	Food & Beverage stores	0	5	0	11	53
4.738	Transportation/warehousing	13	11	2	22	166
1.441	Truck transport	9	2	-5	9	47
0.616	Couriers/messengers	-1	0	-4	-27	45
0.557	Utilities	1	1	1	4	7
2.767	**Information**	-3	8	-2	16	43
8.049	**Financial**	13	8	13	62	135
2.506	Insurance	6	5	7	33	83
2.070	Real Estate	0	-1	4	7	56
1.284	Commercial Banking	2	-2	-1	-4	-20
0.888	Securities/investments	1	2	-2	8	17
19.439	**Professional/business**	63	66	39	237	704
2.863	Temp help services	20	16	16	40	174
2.190	Management of companies	4	0	6	14	55
1.403	Architectural/engineering	5	2	5	19	48
1.814	Computer systems/services	10	11	5	42	79
1.120	Legal services	0	2	-1	2	-3
0.922	Accounting/bookkeeping	-6	-2	7	9	58
21.718	**Education and health**	74	64	42	283	488
4.815	Hospitals	16	15	10	64	42
3.439	Educational services	17	4	7	42	65
14.948	**Leisure and hospitality**	57	10	6	158	482
1.896	Hotel/motels	12	-7	1	10	19
10.917	Eating & drinking places	17	18	-8	111	401
21.902	Government	18	15	2	39	74
2.134	Federal ex-Post Office	4	2	2	8	-12
5.079	State government	0	1	-4	4	23
2.430	State Govt Education	1	2	-4	10	23
14.091	Local government	15	12	4	29	62
7.796	Local Govt Education	10	8	-1	12	33

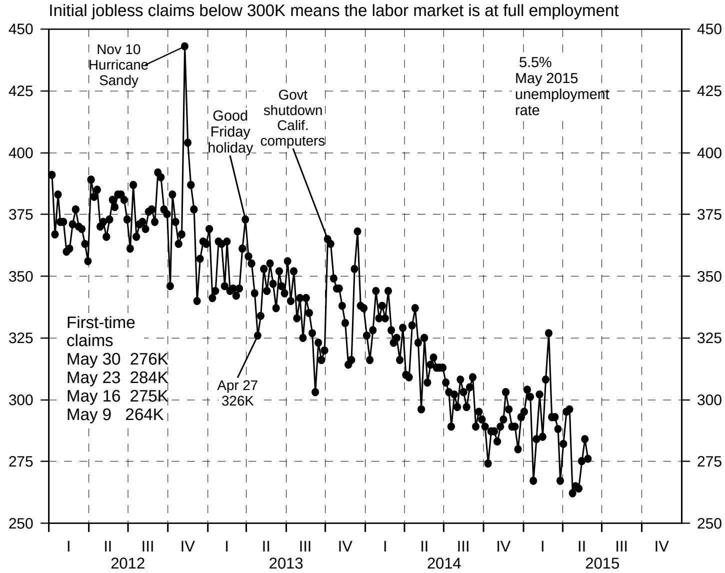
We hate to poor cold water on this interpretation of labor force drop-ins. It is likely a statistical one-month trick. Yellen said on May 22 "we aren't there yet" in her judgment. And the, then 5.4%, unemployment rate "probably does not fully capture the extent of slack in the labor market." Reminds of us when Fed Governor Bernanke used to claim there was still slack in the labor market even after months and months of Fed rate hikes by the Greenspan Fed in 2004-05. The number of people not in the labor market who are discouraged however is less than you think. The recession is long over with just 563K discouraged workers not in the labor force in May. The labor market is stronger, with less slack, low-wages, part-timers, drop outs, than Fed Chair Yellen thinks.



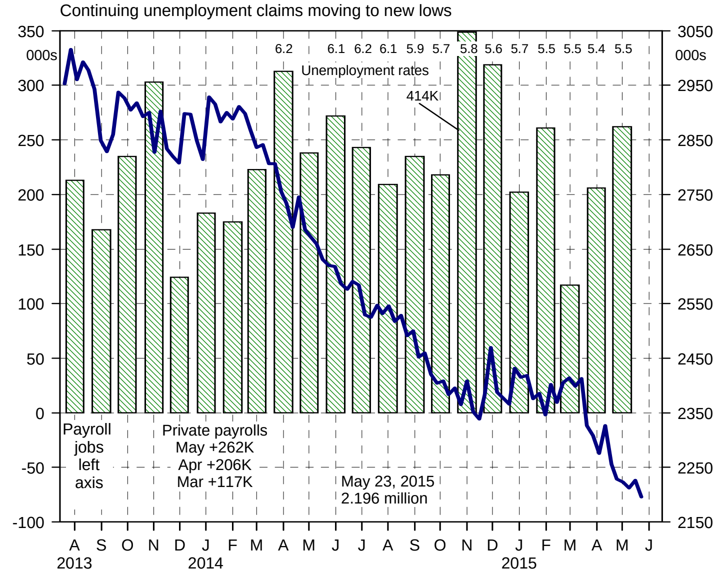
JOBLESS CLAIMS, BETTER, LOWER THAN ANY TIME IN RECORDED HISTORY

Unemployment claims fell a little to 276K in the May 30 week. There is little room for first time jobless claims to fall in this economic expansion. The best labor market before the 1990-91 recession was 282K in 1989. The best labor market before the 2001 recession was 259K in the year 2000. The best labor market before the not so great recession was 282K in 2006. Current labor market conditions are as good as they are going to get. The Fed funds rate should already be locked in the 3.75% neutral position. Rates are 0.25% today. Policymakers are seriously behind the curve.

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



Continuing unemployment claims moving to new lows

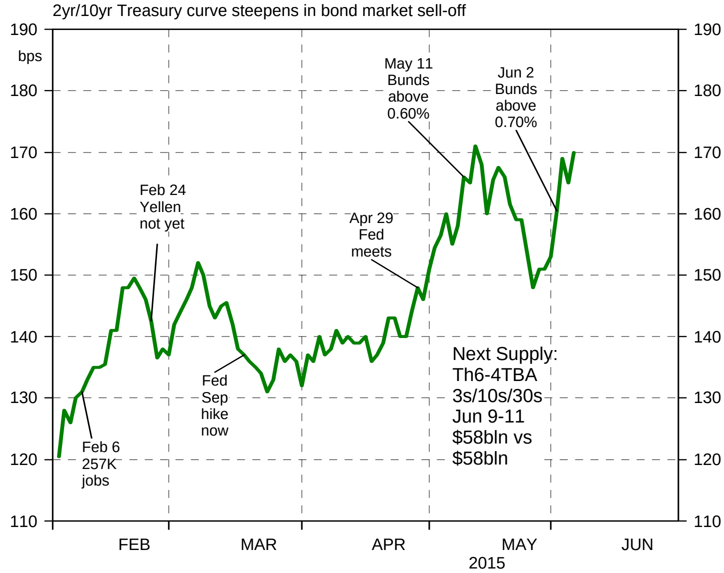


TREASURY CURVE STEEPENS ON SELL-OFF IN THE LONG END: 2.43% 10-YRS

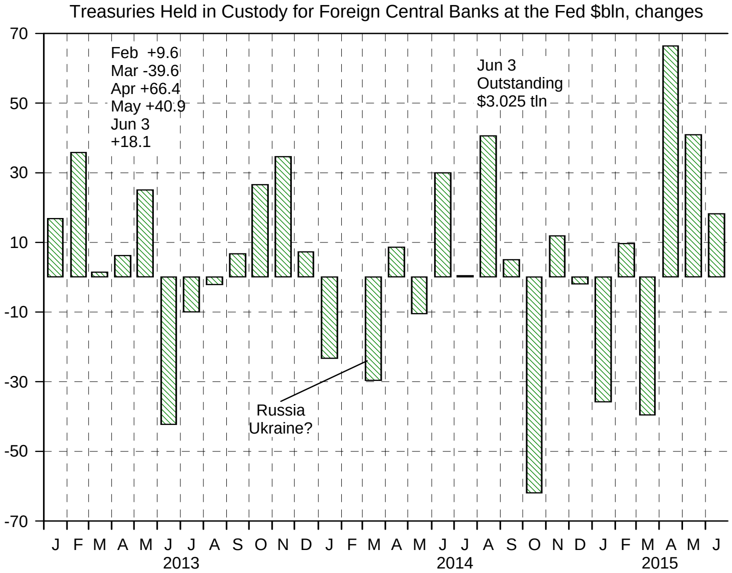
The yield curve between 2-yrs and 10-yrs was +171 bps on Friday versus +151 bps last week. New 2015 yield high of 2.43% made after 280K jobs report on Friday, where market was 2.34% before the report at 830am. A week with dueling headlines, Fed Governor Brainard Tuesday with her "deep damage" from recession followed hours later by huge 17.7 million car & light truck sales in May. IMF Lagarde says Thursday Fed should delay liftoff until 2016 followed by strong 280K jobs report Friday.

	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

2yr/10yr Treasury curve steepens in bond market sell-off



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



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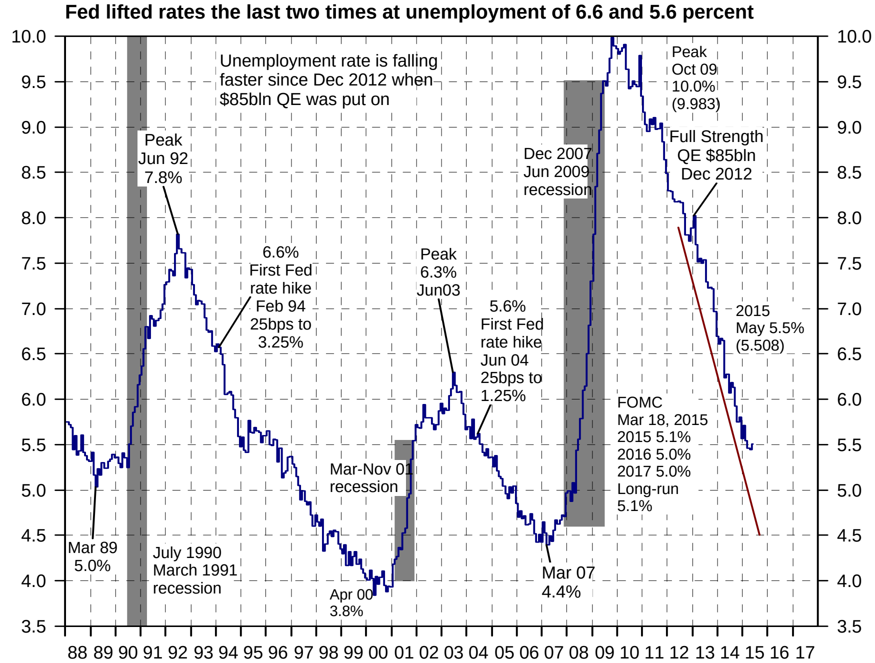
FEDERAL RESERVE POLICY

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	3-Jun	27-May	20-May	13-May	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2460.749	2460.639	2460.486	2460.069	479.782
Federal agency debt securities	35.895	35.895	35.895	35.895	0.000
Mortgage-backed securities	1722.436	1722.434	1737.463	1743.840	0.000
Primary credit (Discount Window)	0.019	0.005	0.004	0.006	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)	1.700	1.697	1.697	1.697	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	0.000	0.000	0.000	0.000	62.000
Federal Reserve Assets	4510.0	4508.1	4524.8	4545.5	961.7
3-month Libor %	0.28	0.28	0.28	0.28	2.82
Factors draining reserves					
Currency in circulation	1368.585	1369.717	1366.219	1364.762	834.477
Term Deposit Facility	145.702	79.919	0.000	0.000	0.000
Treasury supplemental bill auctions	0.000	0.000	0.000	0.000	0.000
Reserve Balances (Net Liquidity)	2490.044	2536.919	2588.146	2643.845	24.964
Treasuries within 15 days	0.000	0.000	0.000	1.448	14.955
Treasuries 16 to 90 days	1.289	1.289	1.289	0.002	31.549
Treasuries 91 days to 1 year	129.567	104.319	104.318	91.583	69.272
Treasuries over 1-yr to 5 years	1098.741	1119.218	1119.196	1090.726	170.807
Treasuries over 5-yrs to 10 years	586.944	591.678	591.648	633.003	91.863
Treasuries over 10-years	644.209	644.136	644.035	643.572	101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08					

The Fed meets June 16-17 to consider its monetary policy. Before the stellar jobs report on Friday, we thought a rate hike was a strong possibility. 7 out of 17 members thought June was liftoff time at the March meeting. There were 280K jobs in May, but the unemployment rate went up a tenth to 5.5%. The Committee thought full employment unemployment was 5.0-5.2 percent at the March meeting, a ballpark, general level that Yellen seems to agree with. She then muddied the waters of our understanding of Fed policy on May 22 saying the then 5.4% unemployment rate was not fully reflective of slack out there in the economy, perhaps implying the unemployment rate could fall to 4.5% before she would be in favor of raising rates? We hope not. We will hold out a while longer on June still being a live meeting for liftoff. There were 17.7 million car & light truck sales reported this week for May which could push up retail sales strongly in the report on June 11 before the Fed meets. Policy does not need to be "data-dependent." The whole issue is that Economics textbooks say the Fed funds rate should be at neutral 3.75% levels when the economy is at full employment, so the Fed is behind the curve, and their March forecasts don't look for 3.75% until the end of 2018. Yellen, we guess, steers the Committee towards this go-slow pace because of the "headwinds after the Great Recession." But based on our reading of current economic conditions, the Fed should be moving the Fed funds rate to normal levels starting right now. Two Fed governors spoke this week with dovish comments in support of Yellen's delay in liftoff. Fed Governor Brainard said soft data raised questions about the outlook, and maybe their policy could "support further healing in the labor market, which is appropriate following deep damage from the Great Recession." Fed Governor Tarullo also spoke. Hopefully, the stronger economic data at week's end put their concerns to rest. We don't see the "deep damage." The economy is stronger than the Fed thinks. We will be interested to see how the Fed's interest rate forecasts change (if they do) at the June meeting because a solid majority of 14 out of 17 saw the first rate hike in September at the latest with 7 of 17 saying June liftoff. We hope those votes for June are still there.

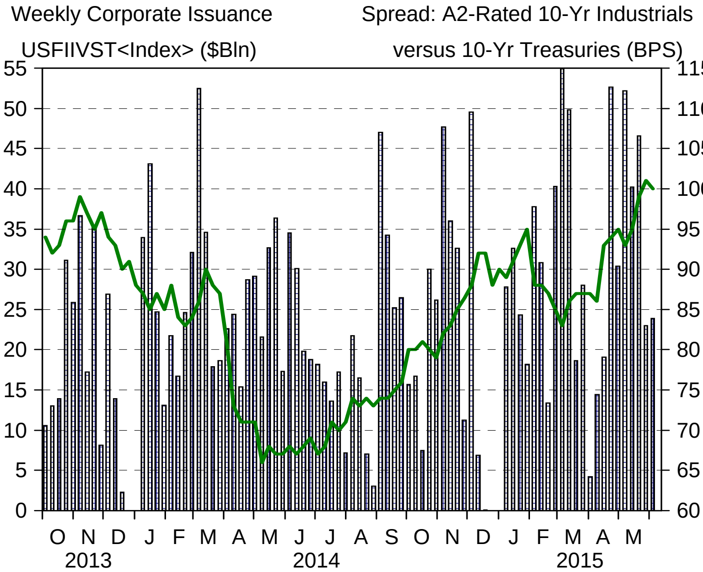
Fed lifted rates the last two times at unemployment of 6.6 and 5.6 percent

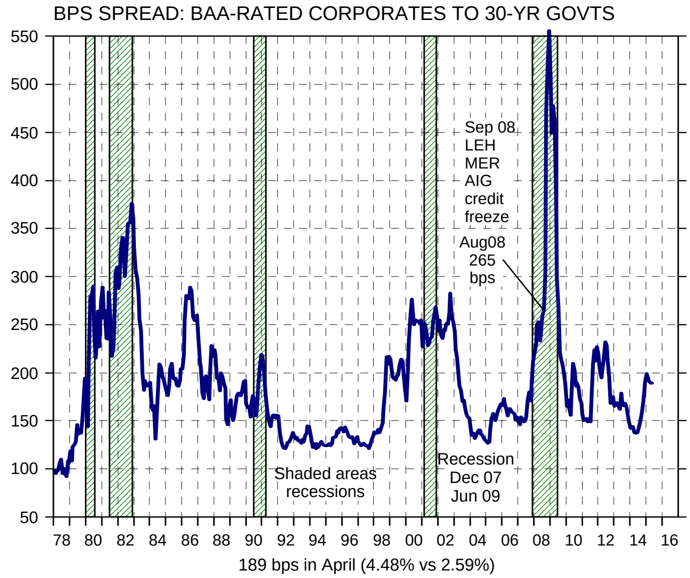


FOMC	Mar 2015 "Majority Rules"	
Year-end	**Fed funds rate forecasts**	
2015	0.75	14 of 17 say 0.75 or higher
2016	1.75	15 of 17 say 1.75 or higher
2017	2.75	16 of 17 say 2.75 or higher
Long-run	3.75	

CORPORATE BONDS: DOW CHEMICAL, STARBUCKS, MARATHON OIL

Corporate bond offerings were $23.9 billion in the June 5 week versus $23.0 billion in the May 29 week. On Monday, Precision Castparts Corp. sold $2.0 billion 5s/10s/20s/30s. It priced $850 million 3.25% 10-yrs (m-w +20bp) at 110 bps (A2/A-). The manufacturer of complex metal components and products will use the proceeds to pay down commercial paper and $500 million notes due in December 2015. Corporate bonds (10-yr Industrials rated A2) were 100 bps above 10-yr Treasuries on Friday versus 101 bps last Friday.





TREASURY MARKET OUTLOOK

EXPECTED 10-YR 2-3 WEEK TRADING RANGE 1.90% to 2.30%

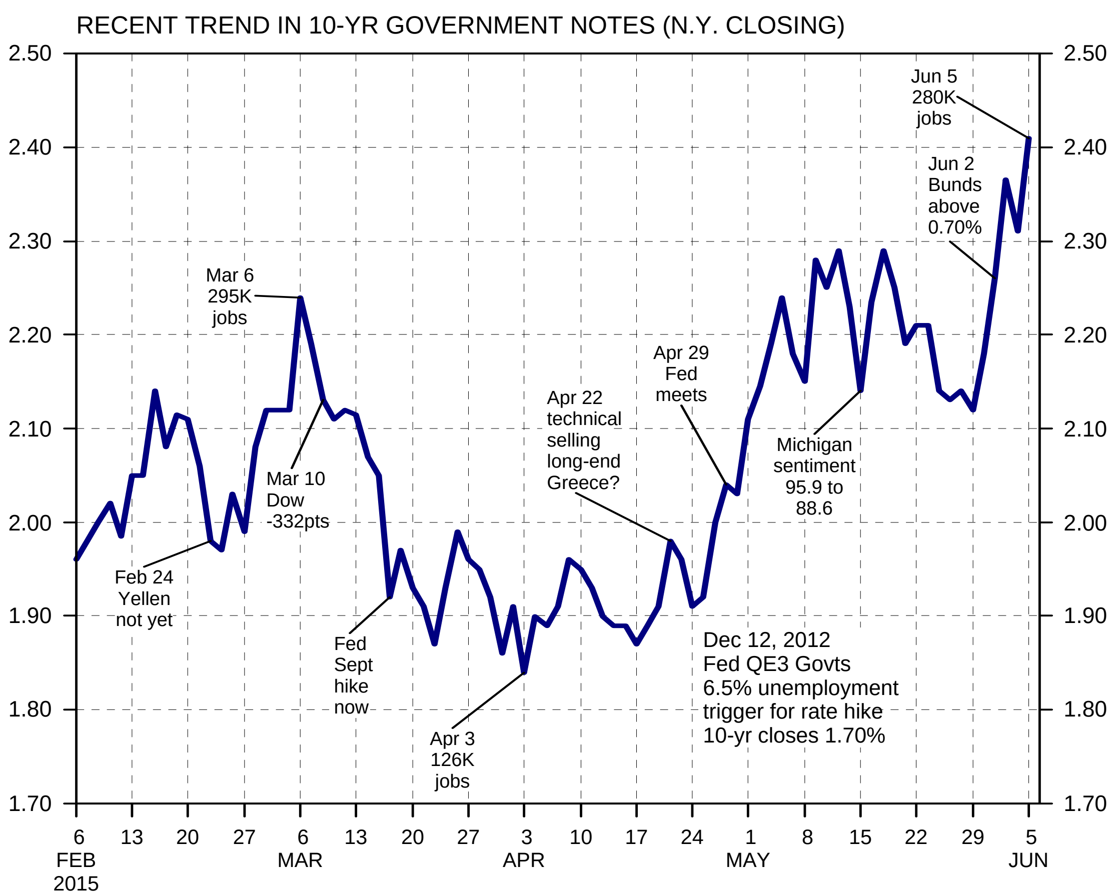
Week's 10-YR Range

HIGH 100-06 2.10%

Monday, June 1, start of the sell-off week highs

LOW 97-09 2.43%

Friday, June 5, 280K jobs where consensus forecast 230K



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