

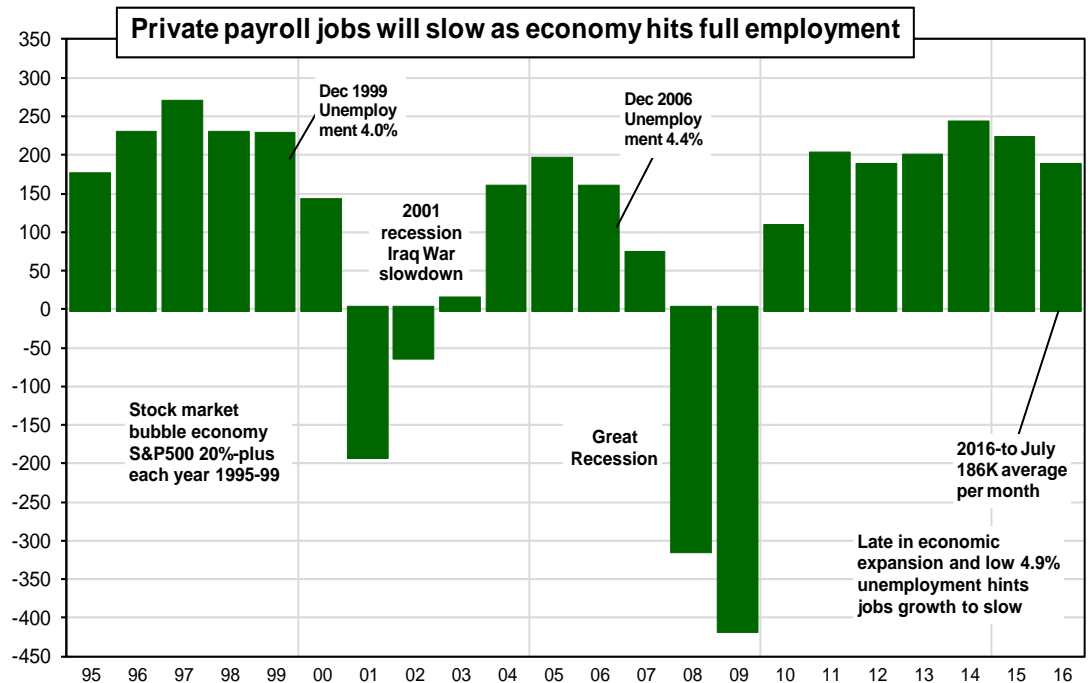
CHRISTOPHER S. RUPKEY, CFA
 MANAGING DIRECTOR
 CHIEF FINANCIAL ECONOMIST
 ECONOMIC RESEARCH OFFICE (NEW YORK)
 (212) 782-5702
 crupkey@us.mufg.jp

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MUFG | 1251 Avenue of the Americas
 New York, New York 10020

255K PAYROLL JOBS IN JULY AND A 292K INCREASE IN JOBS IN JUNE PUT A RATE HIKE BACK ON THE TABLE IN SEPTEMBER (WE THINK)

255K payroll jobs in July (month after Brexit) and 18K of upward revisions to May/June. You want wages, all of you with stagnant wages, we got that too. Average hourly earnings up 0.3% in July and running 2.6% above last year levels. What's the market doing? Don't ask. The bond market? Put a stake in it, it's dead. Even the computers are not trading the markets this morning on the news. 10-yr Treasury yields were 1.50% at the news release time and are trading 3



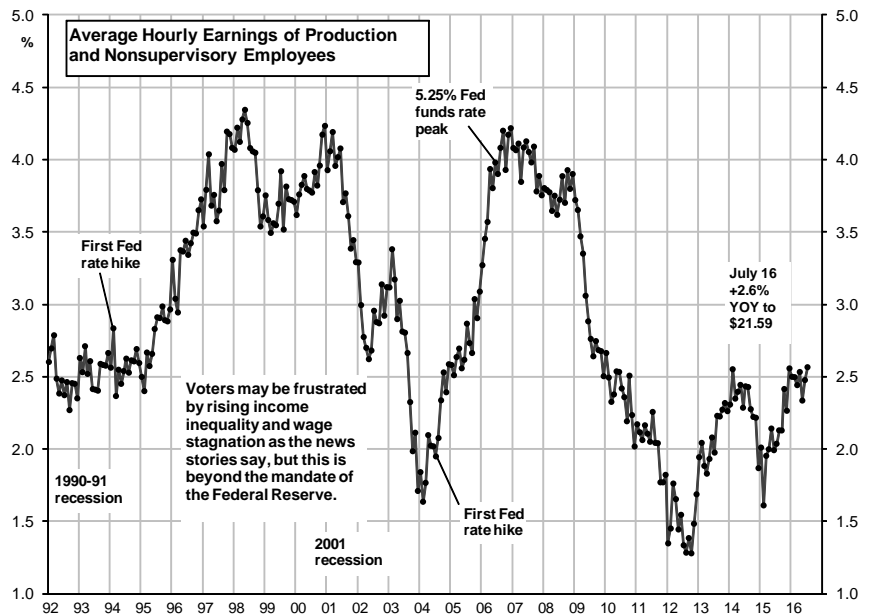
	Jul	Jun	May	Apr	Mar	Feb
Payroll jobs (000s)	255	292	24	144	186	233
Unemployment	4.9	4.9	4.7	5.0	5.0	4.9
Unemployment (3 decimal)	4.878	4.899	4.692	4.984	5.001	4.918
Average hourly earnings	\$25.69	\$25.61	\$25.59	\$25.53	\$25.45	\$25.39
MTM % Chg	0.3	0.1	0.2	0.3	0.2	0.0
YOY % Chg	2.6	2.6	2.5	2.5	2.3	2.4

bps higher at 1.53% twenty minutes later. We know it is a summer Friday in August, but come on.

255K payroll jobs. Who would have thought it. What happened? Well, payroll jobs we thought might have been slowing as the economy hits the wall of full employment... but not today! Got another big

one. The million dollar question. The slow GDP growth of 1.2% in the second quarter took a September Fed rate hike off the table, can 255K payroll jobs in July and 292K in June put a rate hike back on the table in September? Our first response is let's see Yellen get out of this one and find something in the data to once again not raise rates in September. She is speaking at Jackson Hole on Friday, August 26, so let's see if she provides some guidance. We'll tell you one thing, if 6 out of 12 Fed Presidents wanted to hike rates in June, there will be at least 8 out of 12 voting against Yellen on the decision to hike rates in September.

What kind of jobs? Well here's a shocker. Manufacturing jobs after falling 17K in May has gained 15K in June and another 9K in July. What happened to the "industrial recession" out there in the country? Construction jobs are adding 14K in July after declining in April, May and June. Retail trade up 15K, Financial +18K, Business services +70K, Education, health +36K, Leisure, hospitality +45K. Local government education (in summertime?) +22K. The only thing they aren't hiring is lawyers, their number standing unchanged at 1.123 million of them. That's enough. Anyway, jobs galore. There's no significant slack out there in the labor market. The entire economy has a great big Help Wanted sign over it. Go get your new job today.

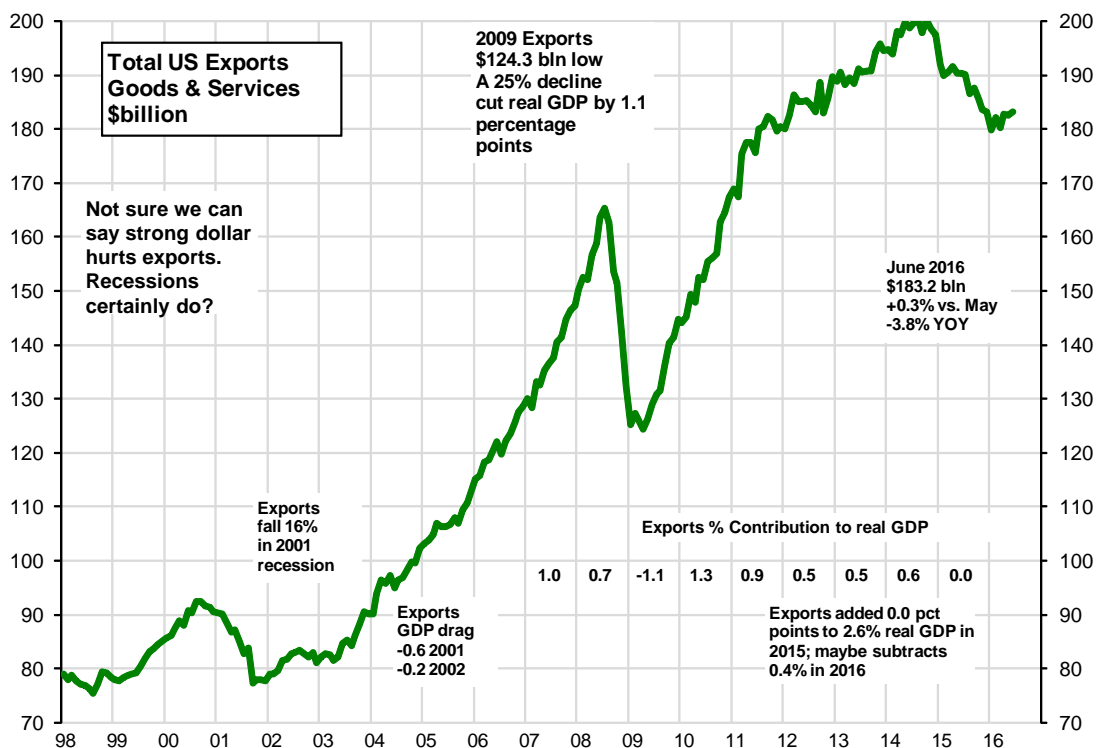


Payroll jobs in seventh year of expansion following recession

Dec. 2015		7 months	12 months
Totals		Dec 15 to	Dec 14 to
millions		Jul 16	Dec 15
143.146	Nonfarm Payroll Employment	255	2744
121.106	Total Private (ex-Govt)	217	2651
19.678	Goods-producing	16	186
0.710	Mining	-6	-135
12.320	Manufacturing	9	26
0.918	Motor Vehicles & parts	7	26
6.597	Construction	14	296
101.428	Private Service-providing	201	2465
27.114	Trade, transportation, utilities	29	458
15.761	Retail stores	15	284
3.164	General Merchandise	2	53
3.068	Food & Beverage stores	2	23
4.889	Transportation/warehousing	12	110
1.464	Truck transport	2	21
0.624	Couriers/messengers	2	10
0.841	Warehousing and storage	3	66
0.564	Utilities	1	9
2.763	Information	0	30
8.190	Financial	18	149
2.573	Insurance	4	70
2.105	Real Estate	7	36
1.264	Commercial Banking	0	-19
0.921	Securities/investments	3	30
19.981	Professional/business	70	621
2.944	Temp help services	17	96
2.247	Management of companies	1	58
1.425	Architectural/engineering	7	34
1.951	Computer systems/services	8	104
1.124	Legal services	0	7
1.004	Accounting/bookkeeping	8	45
22.378	Education and health	36	701
4.999	Hospitals	17	177
3.502	Educational services	-14	67
15.342	Leisure and hospitality	45	441
1.926	Hotel/motels	6	17
11.220	Eating & drinking places	21	359
22.040	Government	38	93
2.164	Federal ex-Post Office	2	17
5.108	State government	5	20
2.435	State Govt Education	5	19
14.164	Local government	30	51
7.814	Local Govt Education	22	-5

So the economy continues to power forward despite the uncertainty and geopolitical risks out there in the world. The most reliable economic statistic in America, nonfarm payroll employment, signals the economy is moving forwards not backwards. All that presidential election rhetoric and huge crowds saying there are no jobs out there have it completely wrong. As sure as the Fed is printing money, the economy is printing jobs, and we mean literally millions of them. In June 144.448 million Americans were on company and government payrolls which is an increase of 2.447 million from last year. Those saying America is crippled couldn't be any more wrong about the current state of the economy. Check your facts, this economy says the economy is going up not down. What happens in China or in Europe or in the United Kingdom means very little for the economy here in the USA. It's cranking. Spitting out jobs like there is no tomorrow. We don't know why the presidential candidates are not trying to ride the economy's coattails to victory in November. The jobs data shows the economy is better than voters think. Bet on it.

P.S. One other report released at the same time as payroll jobs this morning also counts as good news. The trade balance data for June were released. It now looks like nominal exports to the rest of the world have stopped their decline. The worries were starting to gang up on the market last year where the strong dollar trend and weak world economic growth was restraining U.S. exports and so hurting manufacturing which produces the goods for sale with our trading partners. But no more as it looks like the trend has stopped falling. Exports added nothing to last year's 2.6% rise in real GDP, and the drag on growth on average in 2016 could be 0.4 percentage points. But this is the average, and exports actually added to economic growth in the second quarter.



FEDERAL RESERVE POLICY

The Fed meets September 20-21 to consider its monetary policy. An interesting jobs report, but what does Yellen think about it? Saying the Fed is still "data dependent" does not seem to cut it. In September 2015 she said her vote, her Dot in the rates forecast, was for a December hike. Clear enough, even if the market refused to believe the Chair even. She has not made a statement to us in the markets and so publicly to the FOMC since then about when to restart the rate hikes. As time goes on, it is clear that the Committee (Yellen) believes that any hike in interest rates, even 25 bps from 0.50 to 0.75 percent, might slow growth. So don't do it.

The public is asleep on this issue, doesn't seem upset that rates are not being returned to normal, but no matter.

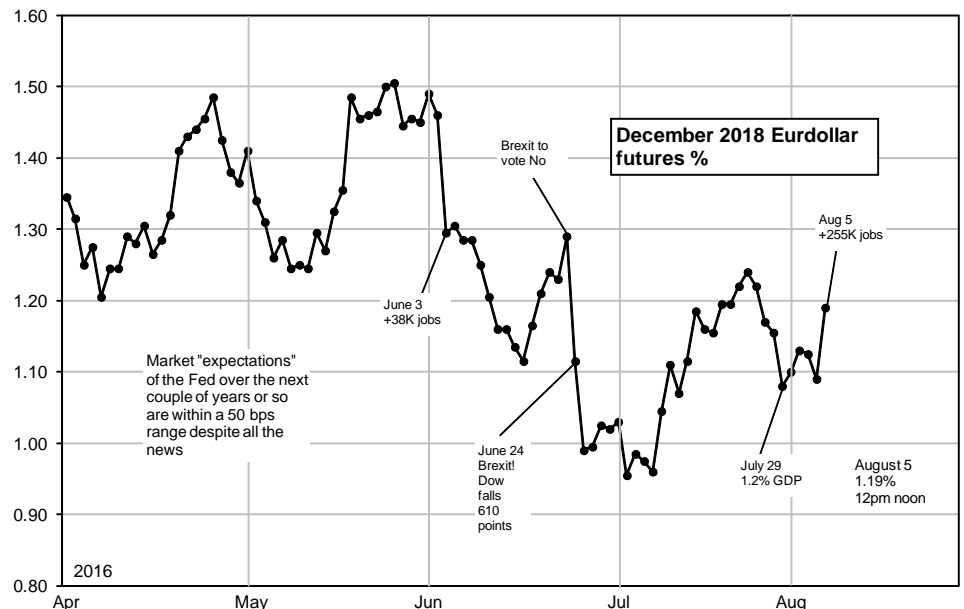
The jobs report was strong; but let's see what Yellen says at Jackson Hole on Friday, August 26. The committee of 17 people remains split, so she will have to lead the way. We will leave a September rate hike in the forecast until Yellen speaks. We hope she does not start talking up the new uncertainty of the presidential election.

What else doesn't the market believe? Assuming the market of today is the market of days gone by. We are skeptical that there is really an interest rate view in the Eurodollar futures yield curve going out the next ten years. We think interest rate swapping from fixed to paying floating rates has lowered the curve artificially as everyone crowds into the trade and tries to reduce interest expense. The June Fed forecasts look for a 2.25% Fed funds rate at the end of 2018. The Fed says 7 rate hikes to the end of 2018, and the December 2018 Eurodollar futures say just 3 and the third one is a stretch. December 2018 Eurodollar futures closed at 1.21% on Friday where current 3-month Libor is 0.79% or 29 bps higher than the top of the Fed's current target.

Selected Fed assets and liabilities					Sep 10
billions, Wednesday data					2008**
	3-Aug	27-Jul	20-Jul	13-Jul	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2462.865	2462.763	2462.652	2462.541	479.782
Federal agency debt securities	22.492	22.492	22.492	25.096	0.000
Mortgage-backed securities	1741.104	1741.091	1757.254	1743.541	0.000
Primary credit (Discount Window)	0.002	0.103	0.015	0.123	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)	1.705	1.702	1.713	1.712	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	0.930	0.180	0.185	2.220	62.000
Federal Reserve Assets	4512.4	4509.8	4526.7	4517.7	961.7
3-month Libor %	0.78	0.75	0.70	0.68	2.82
Factors draining reserves					
Currency in circulation	1464.930	1462.592	1462.600	1464.626	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	68.075	67.687	79.368	48.357	0.000
Reserve Balances (Net Liquidity)	2403.064	2332.237	2318.251	2327.301	24.964
Treasuries within 15 days	6.351	7.193	7.193	3.647	14.955
Treasuries 16 to 90 days	20.332	20.153	20.153	27.346	31.549
Treasuries 91 days to 1 year	152.989	147.720	147.715	146.458	69.272
Treasuries over 1-yr to 5 years	1190.620	1197.151	1197.133	1195.901	170.807
Treasuries over 5-yrs to 10 years	454.273	452.309	452.290	451.872	91.863
Treasuries over 10-years	638.301	638.237	638.167	637.317	101.337

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

Fed Individual Forecasts				
Fed funds rate by year-end				Longer
Votes	2016 End	2017 End	2018 End	run
1	0.625	0.625	0.625	2.750
2	0.625	1.375	2.125	2.750
3	0.625	1.375	2.125	2.750
4	0.625	1.375	2.125	3.000
5	0.625	1.375	2.125	3.000
6	0.625	1.375	2.375	3.000
7	0.875	1.375	2.375	3.000
8	0.875	1.625	2.375	3.000
9	0.875	1.625	2.375	3.000
10	0.875	1.625	2.375	3.250
11	0.875	1.625	2.625	3.250
12	0.875	1.875	2.875	3.250
13	0.875	1.875	2.875	3.250
14	0.875	1.875	2.875	3.500
15	0.875	2.125	3.000	3.750
16	1.125	2.250	3.250	3.750
17	1.375	2.375	3.375	
Median	0.875	1.625	2.4	3.0
Meeting	Jun 2016	Jun 2016	Jun 2016	Jun 2016



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