Financial Market Weekly

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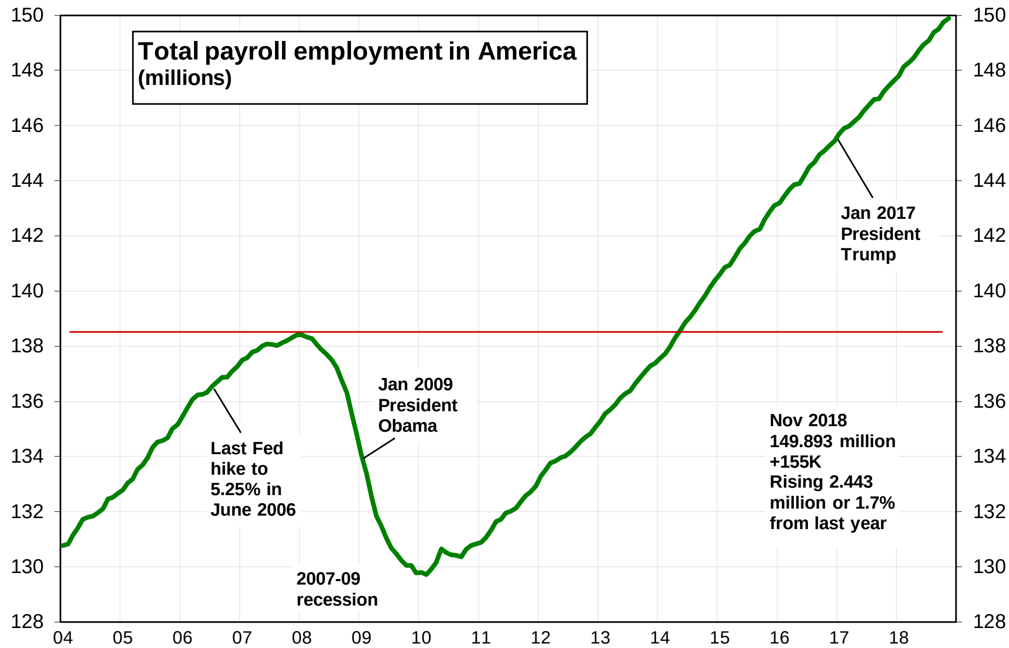
7 DECEMBER 2018

JOBS, JOBS, JOBS, USA, USA, USA, BLAH, BLAH, BLAH



Payroll jobs rose 155K in November, and this means… We can't do it. Can't write the same stuff. Same darn trend in jobs creation since the recession ended regardless of who is president, Bush, Obama, Trump, Clinton. Doesn't seem to matter who is in the White House. The trend is the trend, a rising one, rising along with the increase in the population, interrupted only by recessions. And we would note that not one, but two recessions started during the Bush presidency years. None started under Obama, and none under Trump yet (yet for you doubters).

	Nov	Oct	Sep	Aug	Jul	Jun
Payroll jobs (000s)	155	237	119	286	165	208
Unemployment rate %	3.7	3.7	3.7	3.9	3.9	4.0
Unemployment (3 decimal)	3.671	3.735	3.683	3.853	3.871	4.048
Participation rate %	62.9	62.9	62.7	62.7	62.9	62.9
Average hourly earnings	$27.35	$27.29	$27.25	$27.17	$27.07	$26.99
MTM % Chg	0.2	0.1	0.3	0.4	0.3	0.2
YOY % Chg	3.1	3.1	2.8	3.0	2.8	2.8
Production Worker earnings	$22.95	$22.88	$22.82	$22.76	$22.67	$22.63
MTM % Chg	0.3	0.3	0.3	0.4	0.2	0.2
YOY % Chg	3.2	3.2	2.8	2.9	2.8	2.8

As for the details today, 155K payroll jobs in November and 12K downward revisions to October and September. Unemployment at 3.7% was unchanged for a third consecutive month. Not a deep labor pool bench for companies to draw on. Wages were 3.1% year-on-year the same as 3.1% last month. Participation rate was 62.9% same as last month.

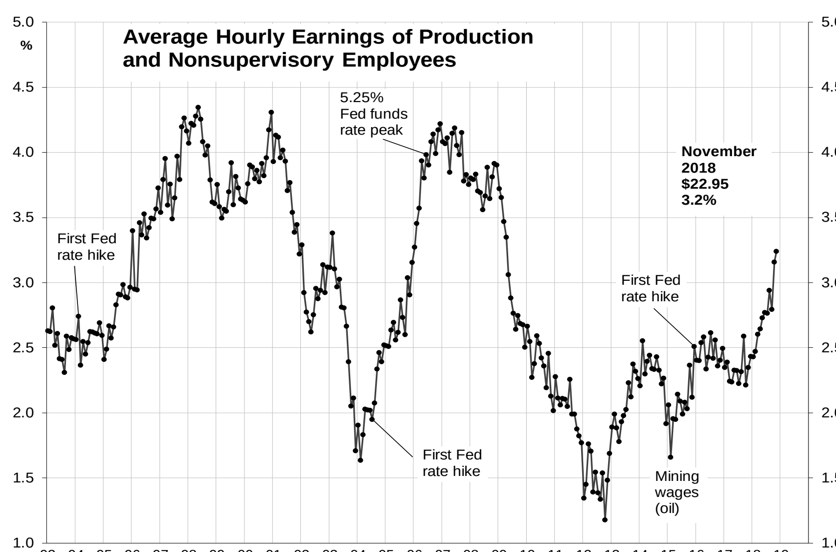
Not a lot to report, other than trying to explain why jobs weren't 200K this month. All in all, a solid report showing the stock market gyrations (stop, please!) and mixed messages from Washington on the trade war have not stopped businesses from hiring more workers to help the economy grow. Job layoffs were elevated in recent weeks, but the only fallout today was 155K new payroll jobs down from 237K last month. Don't panic yet with rising unemployment claims from Ben Bernanke's leading of leading economic indicators.

2.268 million jobs have been created so far in 2018 which eclipses the 2.188 million new payroll jobs added in 2017, and is just 76K away with one month to go to beat the 2.344 million new hires by businesses in 2016. Can't be that bad, surely, yet.

Payroll jobs in year ten following the recession

Dec. 2017 Totals millions		Nov 18	Oct 18	Sep 18	11 months Dec 17 to Nov 18	12 months Dec 16 to Dec 17
147.625	Nonfarm Payroll Employment	155	237	119	2268	2188
125.294	Total Private (ex-Govt)	161	251	117	2221	2163
20.328	Goods-producing	29	53	37	541	509
0.648	Mining	-2	3	4	56	53
12.558	Manufacturing	27	26	19	249	207
0.956	Motor Vehicles & parts	-1	6	1	12	4
7.072	Construction	5	24	15	240	250
104.966	Private Service-providing	132	198	80	1680	1654
27.593	**Trade, transportation, utilities**	53	19	1	316	169
15.861	Retail stores	18	-7	-27	50	-29
3.122	General Merchandise	39	0	-4	66	-51
3.100	Food & Beverage stores	3	5	-1	7	3
5.236	Transportation/warehousing	25	16	25	183	135
1.460	Truck transport	5	0	5	33	9
0.708	Couriers/messengers	10	9	9	72	39
1.011	Warehousing and storage	6	7	9	52	43
0.554	Utilities	0	1	0	-1	-3
2.776	**Information**	-8	8	-7	-17	-36
8.511	**Financial**	6	12	17	111	142
2.664	Insurance	4	3	2	24	38
2.220	Real Estate	2	9	12	60	60
1.323	Commercial Banking	-1	-1	0	-4	5
0.951	Securities/investments	6	-1	3	26	20
20.677	**Professional/business**	32	58	52	530	458
2.998	Temp help services	8	17	13	87	96
2.308	Management of companies	1	3	4	33	38
1.456	Architectural/engineering	6	8	-1	44	45
2.065	Computer systems/services	8	10	5	75	47
1.137	Legal services	-2	0	1	-1	5
0.982	Accounting/bookkeeping	-1	4	0	34	-3
23.380	**Education and health**	34	39	9	443	458
5.124	Hospitals	13	13	11	104	70
3.696	Educational services	-6	-6	-22	35	77
16.207	**Leisure and hospitality**	15	56	5	237	354
2.014	Hotel/motels	-7	1	-5	15	31
11.844	Eating & drinking places	21	33	-10	179	261
22.331	Government	-6	-14	2	47	25
2.182	Federal ex-Post Office	-2	2	1	9	-12
5.129	State government	-13	-17	8	-14	-16
2.462	State Govt Education	-6	-19	8	-7	-1
14.407	Local government	4	1	-8	52	56
7.938	Local Govt Education	-2	-2	-13	18	28

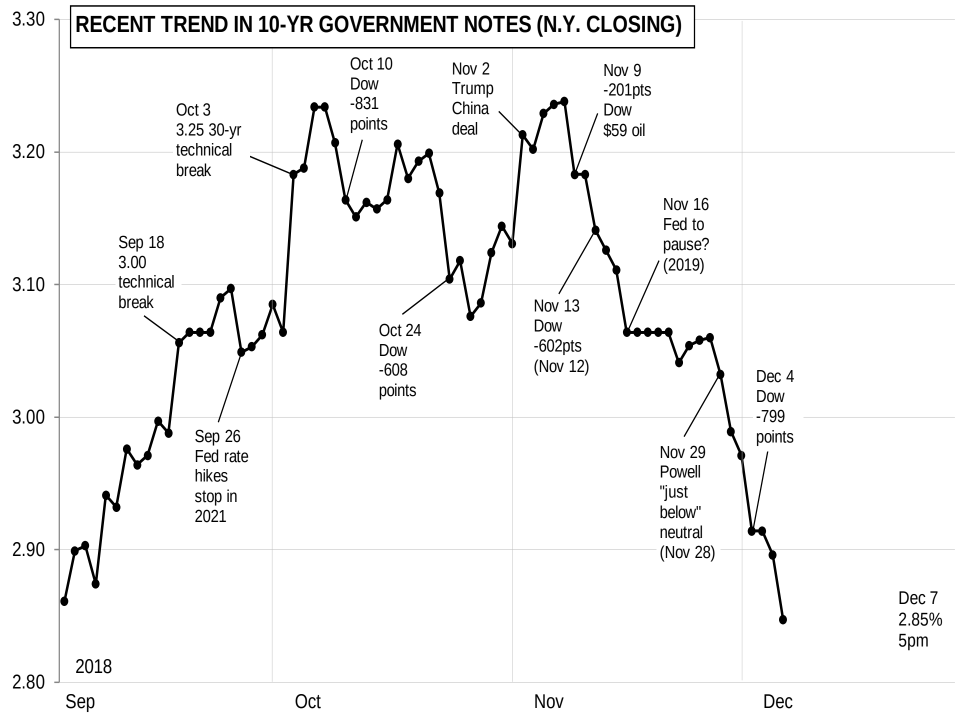
Okay, why not 200K jobs this month? How short was 155K, keeping in mind the markets and world have so many other headlines to deal with which help frame the 2019 economic outlook from China itself, Washington, Paris, the stock market collapse. Who is running US trade policy with the world? (Answer: just keep up with Trump's tweets.) Construction jobs just 5K not the 24K last month was part of the miss. Leisure/hospitality added 15K not 56K. Professional/business added 32K not 58K. At least worker wages are rising, 3.2% in November year-on-year, a little more than 2.5% CPI inflation.



MARKETS OUTLOOK

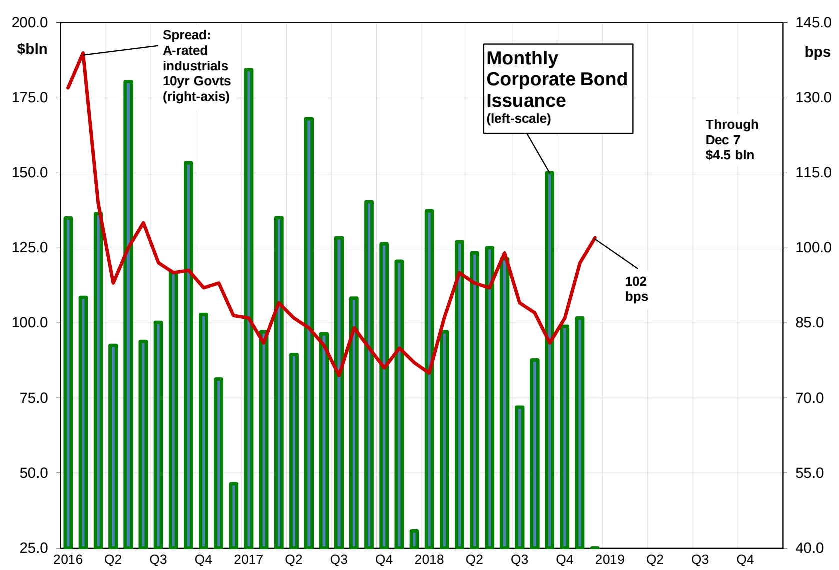
	28-Sep 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
30-Yr Treasury	3.21	3.25	3.40	3.45	3.65	3.60	3.80	3.85	3.85	3.95	3.95
10-Yr Note	3.06	3.10	3.20	3.30	3.50	3.50	3.70	3.80	3.80	3.95	3.95
5-Yr Note	2.95	3.00	3.10	3.20	3.40	3.45	3.65	3.75	3.80	3.95	3.95
2-Yr Note	2.82	2.90	3.00	3.15	3.40	3.40	3.60	3.75	3.80	4.00	4.00
3-month Libor	2.40	2.70	2.95	3.20	3.45	3.45	3.70	3.90	3.90	4.20	4.15
Fed Funds Rate	2.25	2.50	2.75	3.00	3.25	3.25	3.50	3.75	3.75	4.00	4.00
2s/10s spread	24	20	20	15	10	10	10	5	0	(5)	(5)
Libor/funds spd	15	20	20	20	20	20	20	15	15	20	15

The bond market rally continued this week with yields following the stock market sell-off lower. Treasuries closed 2.85% on Friday down 14 bps from 2.99% the Friday before. Yields dropped 6 bps on Tuesday to 2.91% tracking the Dow industrials 799 point loss ahead of Wednesday's markets closing for the President Bush funeral. The stock market losses are on the mixed signals from the administration about the prospects for the Trump-Xi trade deal and some Brexit fears as well. Throw in some recession is coming risks as the yield curve's narrowing as well. Three-month Libor is 2.77% which should slow the rally up, and the August 2.81% low is resistance ahead as well.



CORPORATE BONDS: BAIDU, MOODY'S, NXP SEMICONDUCTORS, CATERPILLAR

Corporate offerings were $4.5 billion in the December 7 week versus $36.8 billion in the November 30 week. On Monday, Moody's sold $800 million 10s/30s. It priced a $400 million 4.25% 10-yr (m-w +25bp) at 135 bps (---/BBB+). The rating agency will use the proceeds for general corporate purposes and has $400 million notes coming due July 2019. Corporate bond yields (10-yr Industrials rated A2) were 102 bps above 10-yr Treasuries this week versus 97 bps last Friday.



FEDERAL RESERVE POLICY

The Fed meets December 18-19 to consider its monetary policy. The odds of a rate hike to 2.5% are 70%. The odds of a rate hike in March came down to zero percent Friday from 28% a week ago.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	5-Dec	28-Nov	21-Nov	14-Nov	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2240.551	2253.117	2253.085	2270.420	479.782
Federal agency debt securities	2.409	2.409	2.409	2.409	0.000
Mortgage-backed securities	1653.470	1653.468	1661.830	1670.825	0.000
Primary credit (Discount Window)	0.010	0.004	0.015	0.110	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)	0.007	0.007	0.007	0.007	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	0.194	0.068	0.058	0.047	62.000
Federal Reserve Assets	4133.7	4144.9	4154.1	4193.6	961.7
3-month Libor %	2.77	2.71	2.68	2.63	2.82
Factors draining reserves					
Currency in circulation	1706.179	1706.501	1706.046	1702.792	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	3.135	1.559	16.205	0.660	0.000
Reserve Balances (Net Liquidity)	1736.305	1758.681	1757.502	1799.528	24.964
Treasuries within 15 days	0.000	24.916	24.916	34.304	14.955
Treasuries 16 to 90 days	90.541	78.011	78.011	59.403	31.549
Treasuries 91 days to 1 year	302.120	306.254	306.254	310.003	69.272
Treasuries over 1-yr to 5 years	964.792	961.680	961.676	993.899	170.807
Treasuries over 5-yrs to 10 years	264.547	263.727	263.716	255.606	91.863
Treasuries over 10-years	618.551	618.528	618.512	617.206	101.337

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

The market does not see a rate hike in March 2019. Just generally, there is confusion over timing now that Powell will talk to the market after every meeting next year Draghi-style. Keeping markets in suspense, will they, won't they, like the reality TV show Washington has become, forcing us to watch every day, every week, every Fed meeting in this case. Fed Chair Powell is insisting all 8 Fed meetings are going live with press conferences in 2019, where before only the four press conference meetings, March, June, September, December were live to the extent any change in policy was possible. Eight times a year is too frequent for us, not sure the Fed Chair will have a lot to say, and it confuses the issue on when those 2019 rate hikes might come. The September Fed forecasts show three rate hikes in 2019, and we are hard put to come up with a reason for them to choose which of the meeting decision dates to raise rates: January 30, March 20, May 1 (our birthday, that's good reason for a rate hike), June 19, July 31, September 18, October 30, December 11. They were only looking to hike rates three times in 2019, telling the markets it could be at any of these eight meetings is a bit much. New uncertainty.

Eurodollar futures never look for a Fed rate hike ever again.

Year-ends for Interest Rates

Percent %	2018	2019	2020	2021
Eurodollar futures	2.805	2.905	2.785	2.765
Fed's Sept forecast	2.5	3.25	3.5	3.5

Eurodollar futures price where 3-month Libor will be in the future.
Friday, December 7, 2018 3-month Libor 2.77%

Meanwhile, adding to the 2019 confusion, there seems like a move afoot from various quarters, friends and not-friends, to get the Fed to hit the pause button on their rate hikes after raising rates a final time this year. Treasury secretary Mnuchin who meets with Powell weekly, said the president was pleased with Powell's dovish speech last week which triggered a 600 point rally in the Dow industrials. All Powell "said" was rates were slightly below neutral, not sure the Fed Chair thought he was all that dovish. The Wall Street Journal put out a Fed story late Thursday (helping stocks cut their losses?) saying Fed officials were debating whether to take a wait and see approach next year, scaling back some of those three rate hikes they see next year potentially, and rebranding "data-dependent" as some new policy regime that would give them flexibility. Then after the jobs data on Friday, NEC head Kudlow told Bloomberg TV that the president held the same view to pause the rate hikes as Fed officials were apparently coming to see the wisdom of for themselves. Talk about getting rolled. You don't speak up then others will speak for you. We still have three rate hikes next year as a forecast in March, June, and September, and don't want to change it right now. Are we clear? Crystal.

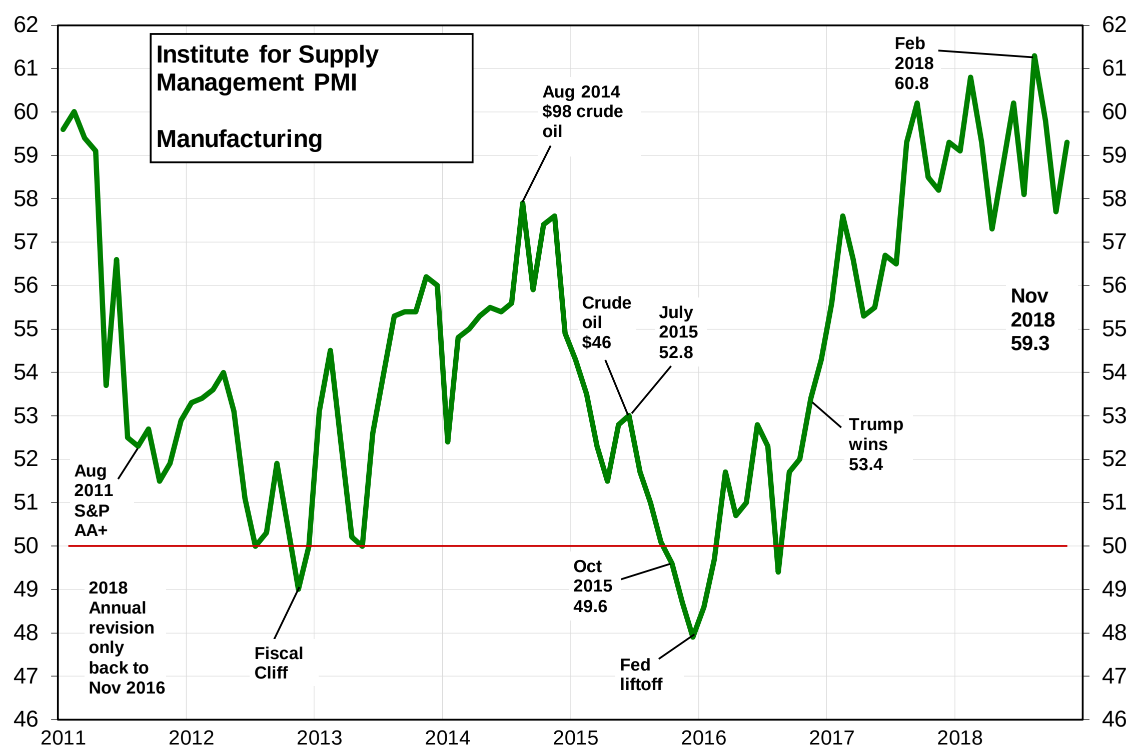
OTHER ECONOMIC NEWS THIS WEEK

Manufacturing survey is strong with factory jobs coming back home to USA (Monday)

Breaking economy news. The ISM manufacturing survey rebounded after two down months. The index moved up 1.6 points from 57.7 in October to 59.3 in November. Price pressures are well off with so-called prices paid tumbling 10.9 points to 60.7. Crude oil prices declined sharply bringing inflation and inflation expectations of manufacturers down with it, and this means the Fed will not have to raise interest rates as high to curb any incipient inflation pressures.

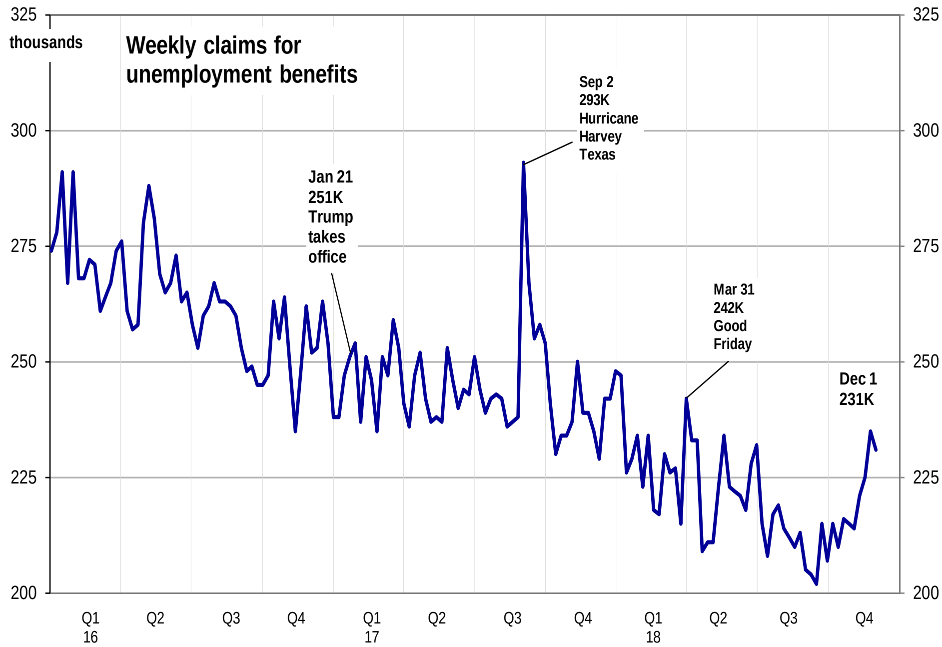
Need a new job with better pay? Make a beeline to your local factory as the ISM employment index rose 1.6 points to 58.4 in November. We were starting to worry about our forecast for 200K payroll jobs on Friday with unemployment claims a little higher lately, but maybe it will all work out.

Net, net, manufacturing's engines are humming and factory shop floors are hiring more workers keeping the economy on track to break the longest run in modern economic history. Executives at manufacturers haven't lost their confidence yet in this economy which has trade wars and supply chain disruptions, tariff threats, and stock market turbulence thrown in its way. Nothing but nothing is keeping manufacturing executives from seeing the bright side of life. The stock market has rebounded since November and maybe now the Fed won't need to take the punch bowl away from the economy with higher interest rates all of which sets manufacturers up for an even stronger finish to the year when the final survey for December comes out next month. Stay tuned. Story developing.

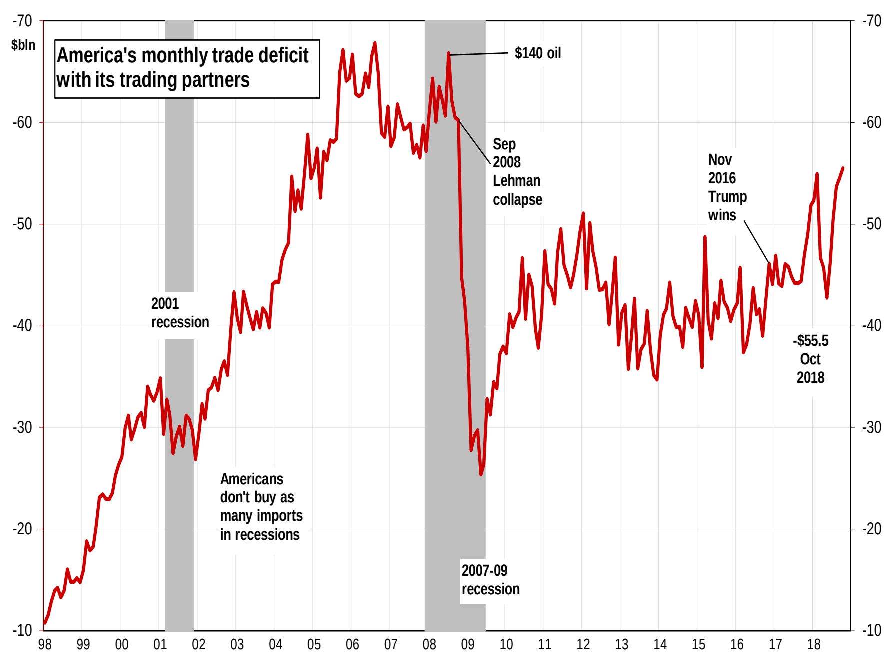


Job market outlook cools, trade deficit still growing despite sanctions, tariffs (Thursday)

Breaking economy news. October trade data, December 1 jobless claims, and if you must the unreal ADP jobs report for November, keeping in mind we get the real jobs report in 24 hours. (Okay, ADP jobs 179K in November slower than 225K in October, and along with rising jobless claims makes us question our forecast for 200K payroll jobs tomorrow.)



We are writing this quickly because we can't take our eyes off stock futures down over 300 points. They dropped down over 400 points last night at the 6pm opening on news the US was detaining the CFO of Huawei. 487 points in 2 minutes which seemed to be flash crash, fat-finger, fake selling on no real investor volume all part of the miracle of electronic trading without human intervention. Huawei arrest. Forget the trade war it is now all-out economic war with China apparently. We are awaiting the next tweets from Washington to correct this latest swoon in the stock market.



Unemployment claims remain high at 231K in the December 1 week. They were just at 202K in the September 15 week which was the lowest since 1969, but the layoffs have increased further in November apparently in part related to the sharp decline in the stock market and crude oil prices as well. The worldwide concern over slower growth seems to have finally made it to our shores here in the USA. Companies don't lay off workers unless they are concerned about the economic outlook. This is bad.

Trump has shelved the 25 percent tariffs on $200 billion of imported goods from China, but this de-escalation may be too little too late for the economy. The damage has been done. Trump administration claims that there would be short-term pain associated with the tariffs to correct the wrongs now looks like it might be more of a long-term drag on investor and business confidence. The odds of recession the next two years have risen dramatically, and if one does occur, it will be the Trump recession. The first time in our memory that an economic downturn could be tied to the White House, looking back to the time President Carter told Americans to put away their credit cards (they did) triggering the 1980 recession.

Meanwhile the trade deficit is still widening to $55.5 billion in October from $54.6 billion in September. Trade wars, tariffs, sanctions, quotas, are supposed to lead to less trade not more trade. Exports of goods are 8.1% greater than last year at $141.5 billion, and imports of goods are 10.1% higher than last year at $219.6 billion.

Net, net, there are distinct signs that the labor market has reached its peak with jobless claims remaining elevated and the ADP jobs report cooling somewhat. We will find out the truth of the matter soon enough with the real monthly jobs report on Friday. Job layoffs are increasing which fits hand and glove with the uncertainty businesses are facing over tariffs and the the stock market turbulence may have also dented confidence as well for companies who may be trimming their staff just a little just in case. Stay tuned. Story developing badly. Jobless claims need to come back down ASAP or there may be some real problems for the economic outlook ahead.

San Diego's Navarro CNBC Friday after stocks close

What we do is focus on structural changes that will basically put in place changes that will deliver long-term economic growth. And look, we had the jobs report today. Fantastic numbers on that. One of the great things about that jobs report was the fact that three quarters of the people that were counted in the new numbers today were people who weren't in the unemployment line. They were people who came off the couches. These are the Trump voters. These are people during the campaign we talked about as being discouraged workers left behind by the Obama administration. So that's great news. We are putting in place -- we have the tax cuts on the corporate side, which are attracting new investments. Steel and aluminum tariffs attract new investments. Everything we do is designed to restructure this economy in a way so that we have long-term growth driven by investment, higher productivity, higher real wages. And that's what is showing up in the data. So in terms of this stock market, I really think it is a false narrative to blame all of this volatility on China policy and the tariffs. That's just a false narrative. Trade is a very small percentage with China of our overall economy. What we have basically in my judgement is a Federal Reserve policy which over the past year and a half has led to higher interest rates which have had implications in the housing market, which have strengthened the dollar in a way that has hurt our growth in terms of exports. And the Fed to their credit is moving towards this data-dependent approach where they will actually look and see whether the kinds of rate hikes they have been doing are actually warranted. So I think the market is crunching through that right now. But the underlying fundamentals are bullish in this economy and it's -- the market is basically a predictor of whether the economy is going to be strong. And I think that you're going to see the market will be fine when it takes a good look at this economy.

Trump Economics Manifesto from Peter Navarro

Okay the trade and jobless claims data was on Thursday, and the jobs report was Friday, but we want to include here the comments of Navarro on CNBC on Friday after stocks closed down 558 points for the day and 1,149 points (-4.5%) for the week. Felt like more than that given all the volatility.

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