Financial Market Weekly

MUFG UNION BANK, N.A.
ECONOMIC RESEARCH (NEW YORK)
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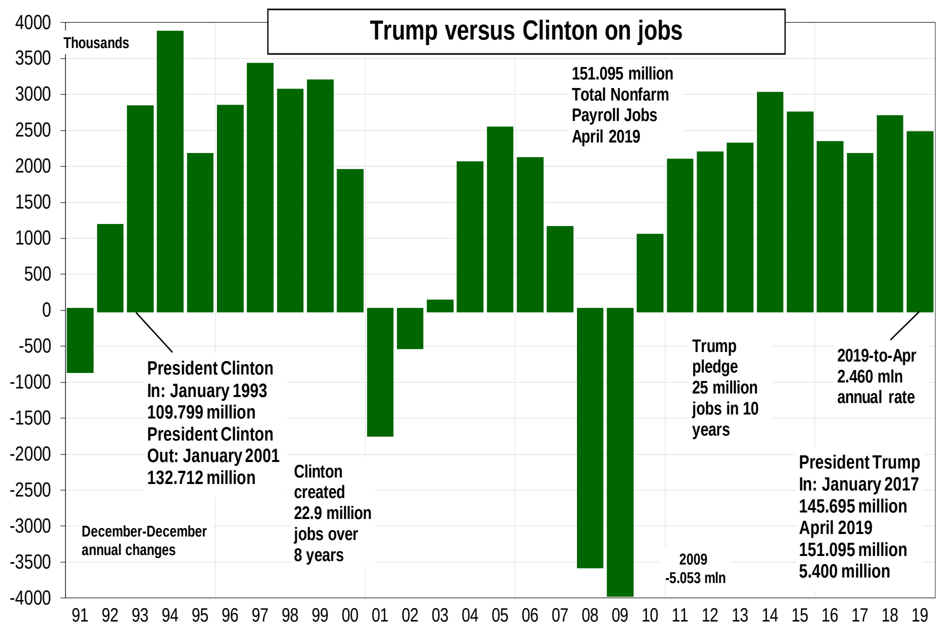
NO LABOR MARKET SHORTAGE TODAY. BUSINESS HIRES 263 THOUSAND MORE WORKERS



Breaking economy news. Markets and Fed officials have talked themselves silly, worrying about the downside risks to the economy. Businesses are having none of it, and despite the surveys saying CEOs think recession is on the way, companies hired 263K more workers in April to start the second quarter off with a bang. Wow. The new low on the unemployment rate at 3.6% this year is now the lowest since 1969. Best years of your life are back. Wow. Powell is patient? Come on get a grip. USA, USA, USA. Rate hike, rate hike, rate hike. Geez. Remember when Yellen said the Fed funds rate should be at normal levels when the unemployment rate fell back to normal levels? We would like to think interest rates will move up later this year if we weren't afraid of the thunder and noise that would bring from the White House that would squash any attempt by the Fed to do the right thing and normalize its policy.

	Apr	Mar	Feb	Jan	Dec	Nov
Payroll jobs (000s)	263	189	56	312	227	196
Unemployment rate %	3.6	3.8	3.8	4.0	3.9	3.7
Unemployment (3 decimal)	3.585	3.811	3.821	4.004	3.856	3.696
Participation rate %	62.8	63.0	63.2	63.2	63.1	62.9
Average hourly earnings	$27.77	$27.71	$27.66	$27.56	$27.53	$27.43
MTM % Chg	0.2	0.2	0.4	0.1	0.4	0.3
YOY % Chg	3.2	3.2	3.4	3.2	3.3	3.3
Production Worker earnings	$23.31	$23.24	$23.17	$23.11	$23.09	$22.99
MTM % Chg	0.3	0.3	0.3	0.1	0.4	0.4
YOY % Chg	3.4	3.3	3.4	3.4	3.5	3.4

What's the market think? Clueless as usual. No more signals for Fed officials from the markets. The Fed is the market. 10-yr yields were 2.56% at 830am eco news post-time and are 2.56% ten minutes later. The stock market was up 88 points and now up 110 points ten minutes later. We'd say back up the truck and buy stocks, but we are afraid of another tweet or news headlines hinting that the US-China trade talks have stalled. Ouch.

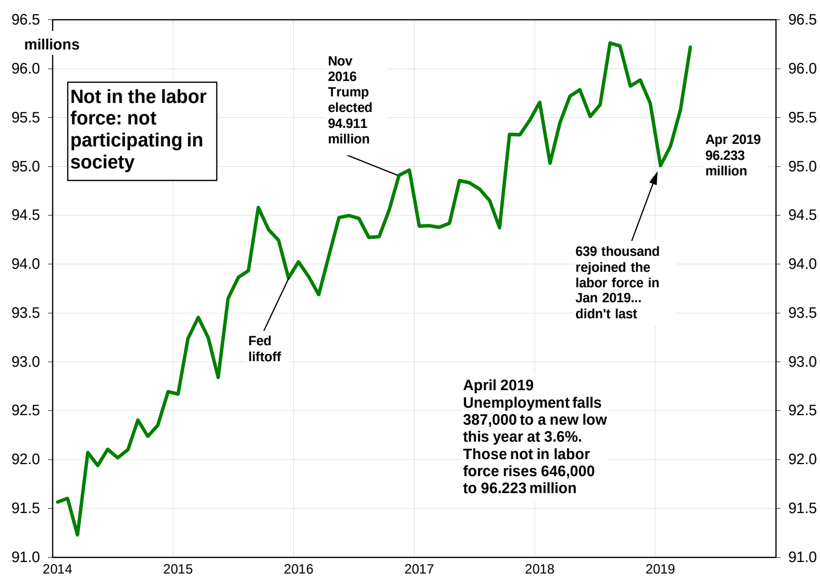
Any fly in the ointment problem with the data today, any sign that the employment data aren't as good as you think? Manufacturing new hires, there were some, despite the drop in the ISM manufacturing purchasing managers index, an increase of 4K. Construction jobs added a lot, 33K and retail stores dropped 12K. No real smoking gun here for a story of weakness. The jobs report looks solid as a rock.

There's always something for the doom and gloom bond market vigilantes seeing weakness and rate cuts everywhere. Well, the participation rate is down to 62.8% in April from 63.0% in March. Something for the politicians to latch on to and tell you why America isn't great again. The unemployment rate fell from 3.8% in March to 3.6% in April, the number of unemployed fell 387 thousand because, because, take a breath, 646 thousand more people left the labor force. Drop-outs! On every street corner of America. Okay. Just don't go there. This is not a sign of economic distress or weakness. We're just saying it and won't explain it (again).

Net, net, the economy is roaring like a lion at full strength at the start of the second quarter. The economy isn't going to be limping across the ten-year finish line for growth longevity in June, it is going to soar across. Let's see if the Trump economics team is still calling for rate cuts after today's out of the ball park hit from 263 thousand new jobs in April. The economy is better than you think. Don't hedge it, bet on it.

Payroll jobs in year ten following the recession

Dec. 2018 Totals millions		Apr 19	Mar 19	Feb 19	4 months Dec 18 to Apr 19	12 months Dec 17 to Dec 18
150.275	Nonfarm Payroll Employment	263	189	56	820	2679
127.790	Total Private (ex-Govt)	236	179	46	758	2583
20.961	Goods-producing	34	21	-19	116	631
0.705	Mining	-2	1	-2	3	63
12.809	Manufacturing	4	0	8	29	264
1.005	Motor Vehicles & parts	-2	-6	2	-7	23
7.400	Construction	33	20	-23	86	307
106.829	Private Service-providing	202	158	65	642	1952
27.788	**Trade, transportation, utilities**	5	-12	-9	32	304
15.821	Retail stores	-12	-16	-14	-32	14
3.105	General Merchandise	-9	-11	-21	-55	9
3.108	Food & Beverage stores	2	2	5	11	20
5.511	Transportation/warehousing	11	2	-6	37	216
1.512	Truck transport	-1	0	1	5	44
0.750	Couriers/messengers	1	1	-12	4	54
1.170	Warehousing and storage	5	2	4	22	84
0.555	Utilities	-3	1	1	-3	-1
2.827	**Information**	-1	7	-7	-13	6
8.615	**Financial**	12	13	5	36	115
2.703	Insurance	4	8	1	10	31
2.287	Real Estate	8	7	5	31	67
1.316	Commercial Banking	-4	-3	-2	-9	-7
0.967	Securities/investments	1	2	2	3	23
21.254	**Professional/business**	76	24	54	159	561
3.060	Temp help services	18	-6	7	-7	83
2.395	Management of companies	7	3	7	20	62
1.495	Architectural/engineering	-2	5	3	11	42
2.162	Computer systems/services	14	13	6	35	86
1.140	Legal services	-1	1	0	3	1
1.034	Accounting/bookkeeping	1	4	5	9	39
23.912	**Education and health**	62	69	19	218	532
5.195	Hospitals	8	9	5	34	100
3.746	Educational services	10	4	-17	24	50
16.554	**Leisure and hospitality**	34	37	-1	163	359
2.036	Hotel/motels	-1	1	3	10	23
12.074	Eating & drinking places	25	28	-2	107	258
22.485	Government	27	10	10	62	96
2.192	Federal ex-Post Office	13	-4	6	15	9
5.183	State government	-11	0	2	-8	19
2.487	State Govt Education	-1	2	-2	1	10
14.504	Local government	27	14	1	57	74
7.974	Local Govt Education	13	7	-1	30	31



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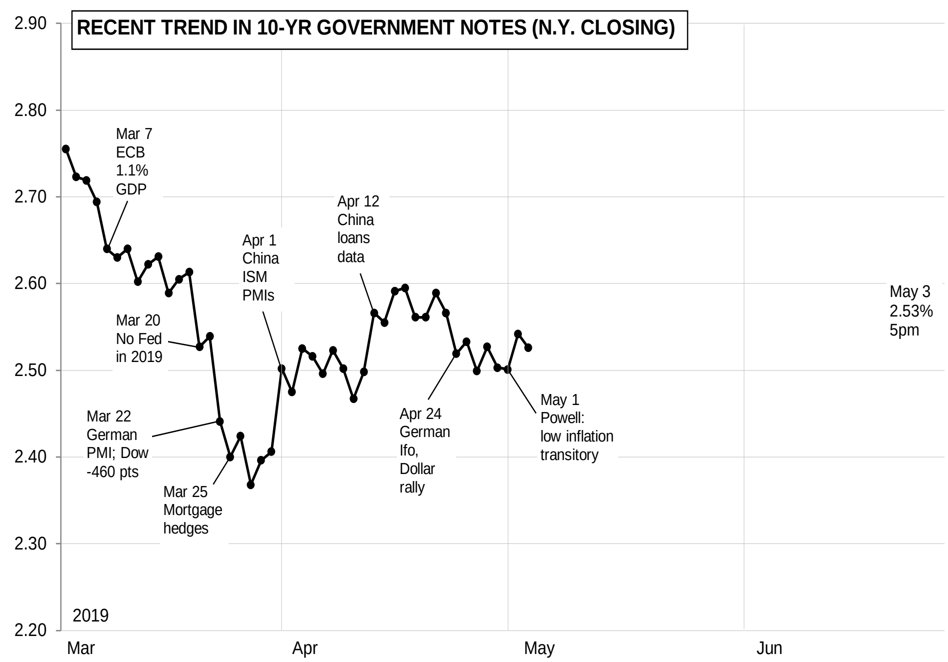
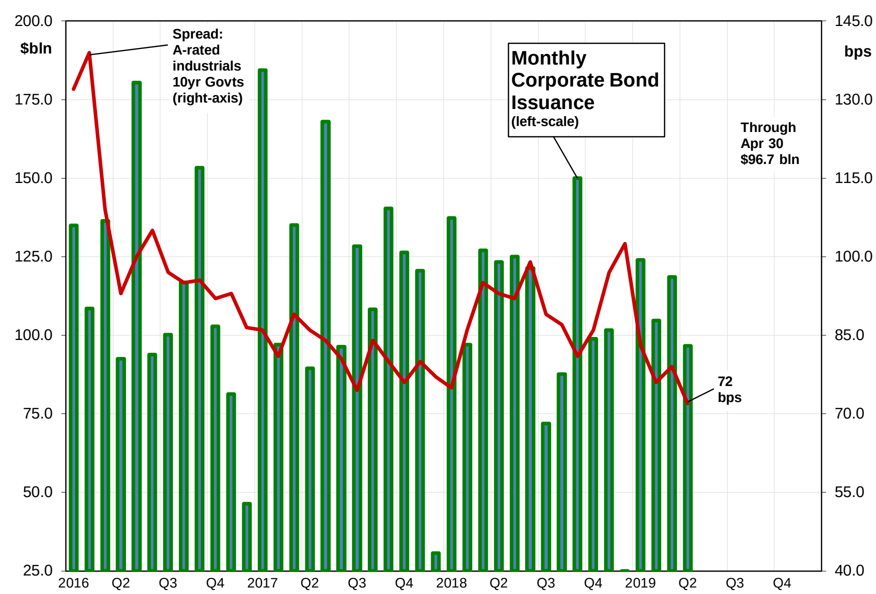
MARKETS OUTLOOK

	29-Mar 2018	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.81	3.00	3.00	3.10	3.10	3.25	3.20	3.20
10-Yr Note	2.41	2.60	2.70	2.90	2.90	3.10	3.10	3.10
5-Yr Note	2.23	2.45	2.60	2.80	2.80	3.05	3.05	3.05
2-Yr Note	2.26	2.45	2.50	2.70	2.70	2.90	2.95	3.00
3-month Libor	2.60	2.60	2.60	2.90	2.90	3.10	3.10	3.10
Fed Funds Rate	2.50	2.50	2.50	2.75	2.75	3.00	3.00	3.00
2s/10s spread	15	15	20	20	20	20	15	10



Not a lot happened this week for bonds despite a Fed meeting and the monthly jobs report. 10-yr yields closed between 2.50 and 2.54 percent each day. 10-yr yields moved up from 2.50 to 2.54 percent on Thursday on perhaps some second thoughts on the Wednesday Fed meeting where Powell said low inflation was transitory (poof, gone!) and that global risks had moderated somewhat. Yields might have climbed even higher, but for a news headline around 1130am EDT saying the China-US talks may have hit an 'impasse.' Stocks fell on the news with the Dow industrials down 250 points. Bond yields won't lift too far until Fed rate cut odds fade: 68% chance of one cut this year.

CORPORATES: BOEING, STARBUCKS, FORD MOTOR, LOWES, PACCAR, AON



Corporate offerings were $23.3 billion in the May 3 week versus $10.3 billion in the April 26 week. On Monday, Philip Morris sold $1.65 billion 5s/10s. It priced a $750 million 3.375% 10-yr (m-w +15bp) at 100 bps (A2/A). The global tobacco products company will use the proceeds to repay outstanding commercial paper and 2% notes and FRNs due 2020. Corporate bond yields (10-yr Industrials rated A2) were 76 bps above 10-yr Treasuries this week versus 74 bps last Friday.

FEDERAL RESERVE POLICY

The Fed met April 30 - May 1 to consider its monetary policy. Consider the economic data, consider financial conditions, consider what the White House demands. The Trump Administration helped push through a tax cut when it wasn't needed, when the stimulus wasn't necessary because the economy wasn't in a recession. Now the Trump Administration wants rate cuts. Big ones. Rate cuts aren't needed either because the economy isn't in a recession.

Selected Fed assets and liabilities

Fed H.4.1 statistical release billions, Wednesday data	1-May	24-Apr	17-Apr	10-Apr	Sep 10 2008** pre-LEH
Factors adding reserves					
U.S. Treasury securities	2123.954	2153.544	2153.409	2153.443	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1575.433	1583.393	1587.938	1592.912	0.000
Primary credit (Discount Window)	0.000	0.014	0.005	0.010	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	0.055	0.055	0.055	0.055	62.000
Federal Reserve Assets	3937.4	3976.3	3979.7	3984.7	961.7
3-month Libor %	2.58	2.59	2.59	2.60	2.82
Factors draining reserves					
Currency in circulation	1730.760	1728.622	1728.061	1728.355	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	0.027	9.515	0.015	56.676	0.000
Reserve Balances (Net Liquidity)	1460.010	1472.812	1524.297	1646.560	24.964
Treasuries within 15 days	38.475	31.746	31.746	0.180	14.955
Treasuries 16 to 90 days	43.808	82.182	82.182	111.741	31.549
Treasuries 91 days to 1 year	275.285	263.735	263.734	265.651	69.272
Treasuries over 1-yr to 5 years	902.502	908.702	908.683	908.927	170.807
Treasuries over 5-yrs to 10 years	258.659	262.007	249.260	249.207	91.863
Treasuries over 10-years	605.225	605.171	617.804	617.738	101.337

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

The market reaction to the Fed meeting results starting at 2pm EDT. The press statement at 2pm EDT added the fact that now inflation for items other than food and energy are running below 2%. Whoa. We're doomed. Bond market thought so. 10-yr yields at 2.48% at 2pm came down to nearly 2.45% on this. Then barely 3 minutes into the Powell press conference starting at 230pm, 10-yr yields rose as Powell said they had reason to believe the lower core PCE inflation was "transitory." Ah-ha. Yields were back to 2.51% by 245pm EDT. Sounds like a tempest in a teapot this analysis of the market's movement on the Fed's pronouncements, 2.48 to to 2.45 to 2.51 percent for the bond market reaction, but there you go. Wonder what Main Street America thinks.

Odds of Rate Cuts
Fed funds futures

F5-3-2019	
10%	2.25% June
34%	2.25% September
68%	2.25% December

Odds at June, September, December Fed meetings

Powell said the Committee isn't worried about too low inflation which appears to rule out a rate cut for now. This is going to make the Trump administration a little cross as they try to engender faster rocket ship growth that can put the President back in the White House for a second term.

By the Fed's own metrics that drives monetary policy decisions they are missing on their inflation goal, but Powell signaled they are unperturbed by inflation at current levels. Too low inflation? It's nothing Powell said. Transitory. Won't last. Idiosyncratic though he listed the reasons. Portfolio management services prices are weighing down core PCE inflation that was barely 1.6% in March. Airfare and apparel prices are also keeping core consumer inflation low and this is also expected to be temporary.

Net, net, the Fed is in no rush to come to a judgment on interest rates and thinks the current setting is fine for now. We think the market is misguided in thinking low inflation will drive rates cuts, at least one, later this year. Missing on the inflation target is a lot more serious if unemployment was significantly higher as it was 6 or 7 years ago. Right now, the low inflation is not low because of weak economic demand that is the traditional reason for cutting interest rates.

Weak demand and job losses are why the Fed eases monetary policy. Don't believe that those rate cuts in the mid-90s were for risk management reasons just in case. The Fed cut rates in the 90s because they feared recession was near. You were not there then so you don't know and either does Rich Clarida who was off teaching somewhere in the 90s. With the stock market up 17.5 percent this year and GDP 3.2 percent this is not the time for additional monetary stimulus unless you want to be reelected.

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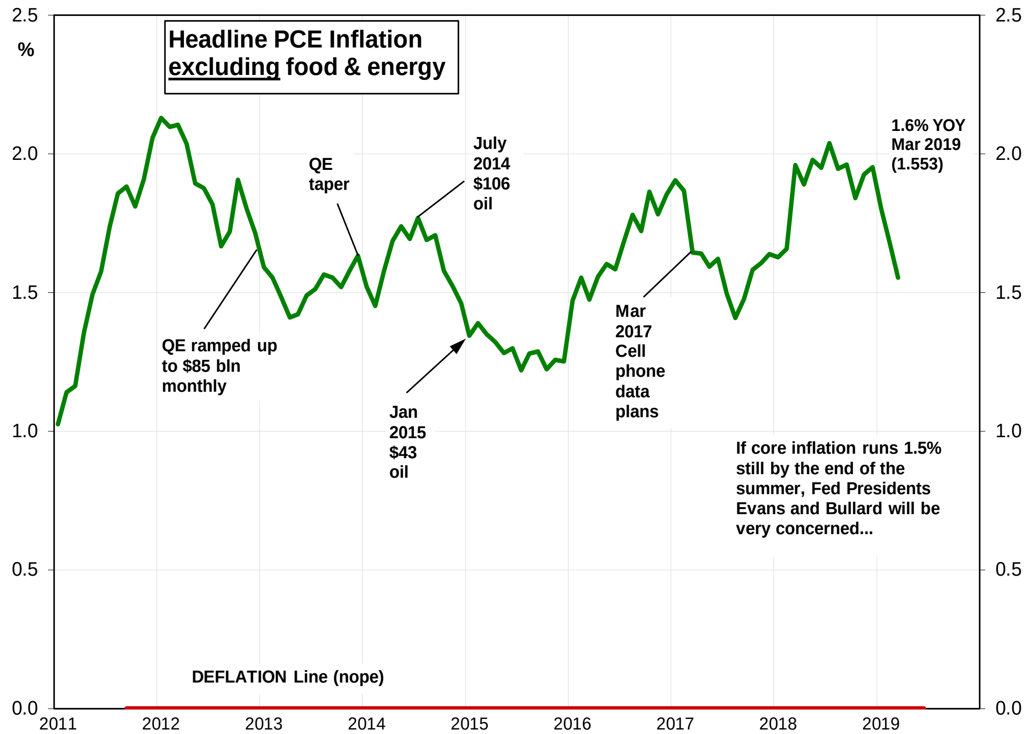
OTHER ECONOMIC NEWS THIS WEEK

Real consumer spending jumps while core consumer inflation cools (Monday)

Breaking economy news. February and March consumer spending and inflation data. Real consumer spending strengthened at the end of the first quarter, but core consumer inflation cooled and headline inflation didn't get the bounce from higher gasoline prices that CPI inflation did in March. Headline PCE inflation is running 1.5% in March while headline CPI inflation is rising 1.9%.

Real consumer spending was strong in March and January was revised upward as well. Consumers spent more than they did in the cold winter first quarter of 2018 at least. Real consumer expenditures were 0.5% in Q1 2018 and 1.2% in Q1 2019. Because of the jump in spending for March, the second quarter is primed for strong growth as the March level is already pushing growth up 1.8% in Q2 2019 with April, May, June spending reports left to go.

Net, net, the economy looks in better shape than it did at the turn of the year with consumers back in the game and spending more. But the Fed is likely to remain on hold for the time being because core consumer inflation has slowed somewhat. Before today's reports, core PCE inflation was 1.8% year over year, and now it 1.6%. (Just missed a 1.5% print as the 3-decimal change 1.553%.)



Inflation isn't weak enough to set off any alarm bells for Federal Reserve officials, but it also is far enough away from the 2.0% target to keep the Fed policy of patience cemented in place. Weaker core inflation is unlikely to make the Fed impatient enough to deliver the rate cuts that the market and Trump administration are hoping for.

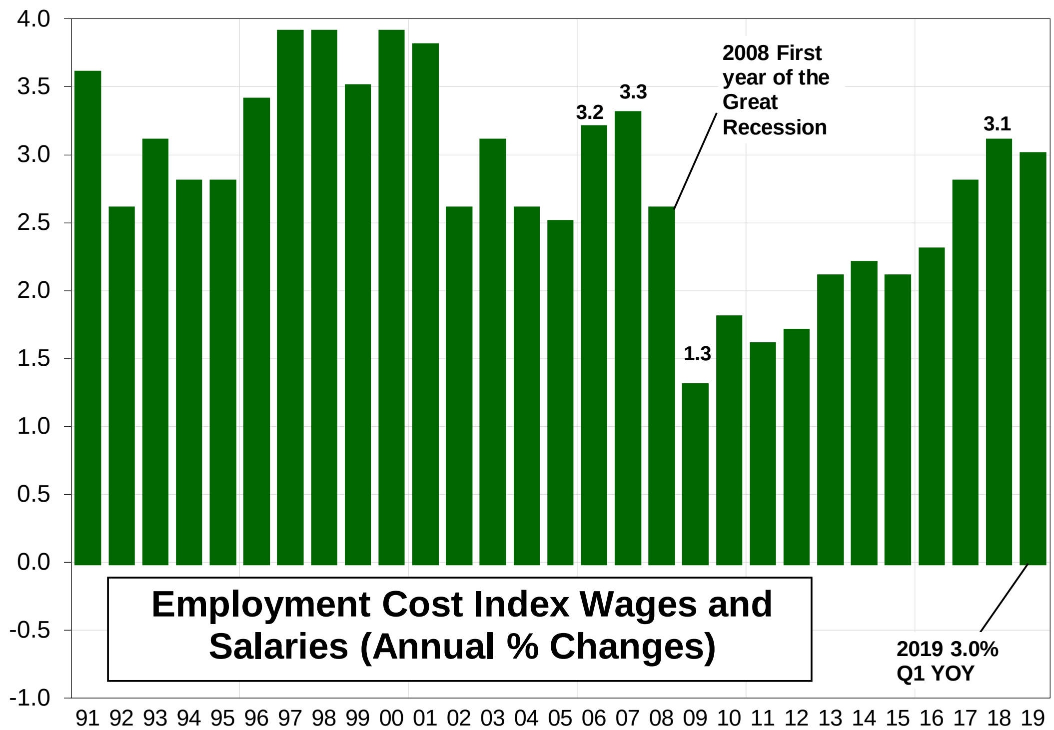
With consumers emerging from hibernation, the future for economic growth looks secure in 2019. Consumer spending strengthened and this will keep the market's recession fears at bay. The market worries about deflation however got a boost with core inflation cooling to 1.6%, and this will keep expectations for rate cuts alive for now. The Trump economics team is likely to keep their call for the Federal Reserve to reverse a couple of those rate hikes last year. With an election right around the corner, the Trump administration wants to stoke the economy's fires and get it running as hot as they can with everything they've got in what is expected to be a tight election race. Stay tuned. Story developing. The economy is in a sweet spot for now with not enough inflation to cause the Fed to raise rates and take the punch bowl away, and with inflation not low enough to worry Fed officials that economic demand is weakening which could require rate cuts to help support financial conditions.

Income inequality a little less so today with wages arising (Tuesday)

Breaking economy news. Employment cost index for the first quarter. The headline number was 0.7% in Q1 for civilian workers. We focus on Private Industry workers (non-government) whose compensation rose 2.8% the last year, 3.0% increase in wages and 2.4% rise in benefits.

Net, net, the labor market is tight as a drum and this is leading companies to give workers a better share of the spoils, and after the biggest corporate tax cut in history, what could be fairer? Wages and salaries are increasing 3.0% the last twelve months for private industry workers. You really have to go back the housing bubble years to see wages rising any quicker. Wages rose 3.2% in 2006 and 3.3% in 2007 even if increasing inflation ate away at what workers could actually spend at the shops and malls back then.

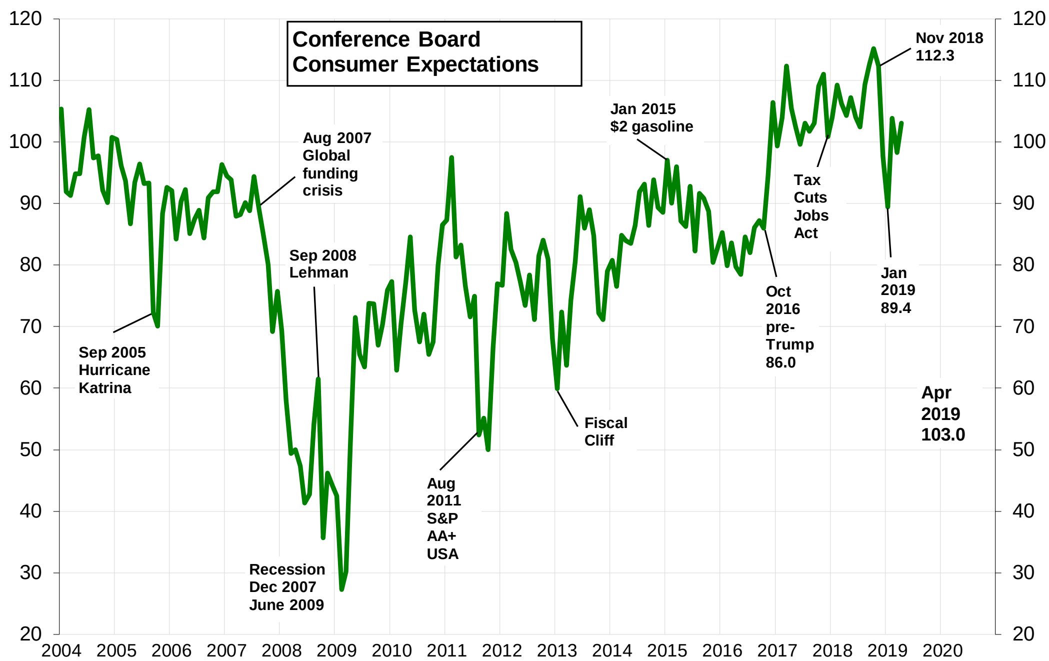
The bottom line is that income inequality in the nation is a little less today with workers starting to see more of the fruits of their labor. The economic returns to labor is probably not going to increase any faster, but who knows, with the country running out of workers and the unemployment at decades lows, maybe companies will have to pay even more for their help to bring more staff in or keep their workers happy. Stay tuned. Story developing.



Consumer spirits begin to soar leaving Federal shutdown blues behind (Tuesday)

Breaking economy news. Consumer confidence continues to show improvement from the Washington chaos and tumbling financial markets at year end. Federal Reserve officials meeting today will find this confidence reading a welcome relief as it is another sign in the tea leaves that a recession forecast is simply not in the cards. Confidence is now higher than it was in December and in January which means the worst is over for the economy for now. The Fed will have to weigh just how patient they need to be when they meet today, keeping in mind there were still six votes at the March meeting for rate hikes in 2019 even if the majority of 11 votes took rate hikes completely off the table this year.

It looks like central bankers around the world may have retreated to the sidelines too quickly in recent months. The news this morning of better economic growth in Europe with the first quarter GDP report better than the fourth quarter of last year, calls into question the ECB's recent additional stimulus proposal and the need to postpone rate hikes for a longer period of time. Consumer confidence says they economy is not going off the rails in USA, USA, USA either as it looks like the outlook for growth is strengthening.



Net, net, the consumers' spirits are beginning to soar after finally leaving those Federal government shutdown blues behind. Confidence bottomed in January at 121.7 and have climbed back to 129.2 in April. Consumers are literally brimming with confidence at the start of the second quarter which bodes well for the economic outlook later on this year. There's no stopping this expansion if the consumer comes out of their shells and starts shopping again. Consumers are absolutely critical in the growth equation as their spending makes up two-thirds of GDP. The economy will shatter records for growth this July and become the longest expansion in history if the consumer stays in the driver's seat. Bet on it.

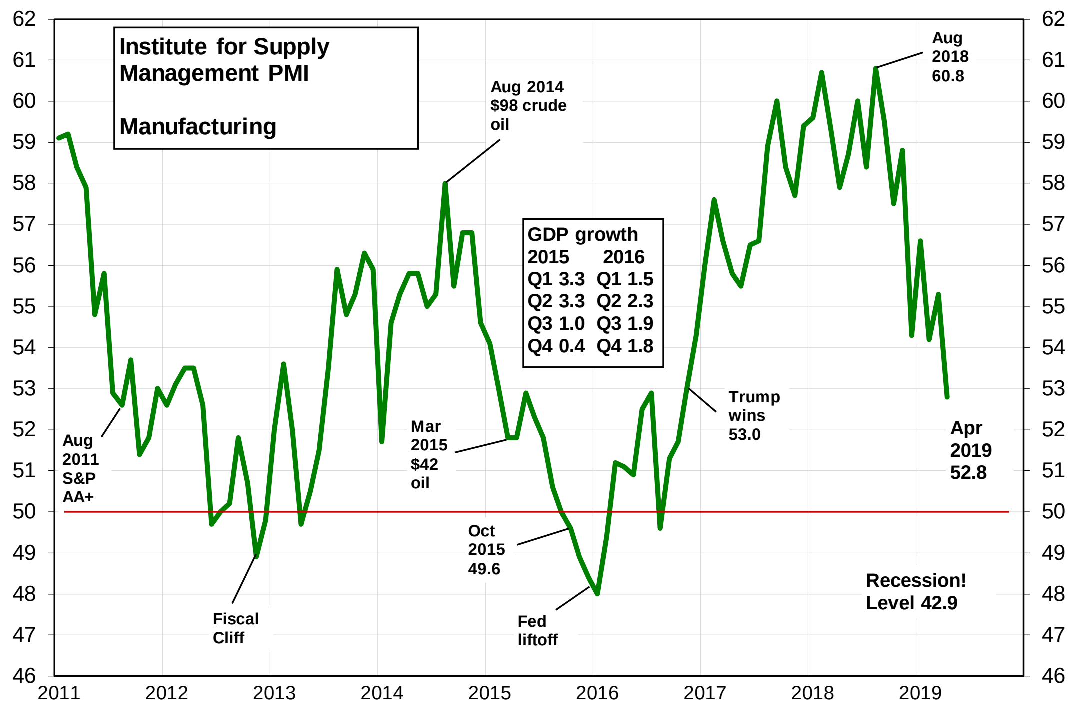
How's the labor market doing?
Conference Board asks the consumer.

Indexes	Apr 19	Mar 19	Feb 19	Jan 19	Dec 18	;Nov 18	Oct 18
Confidence	129.2	124.2	131.4	121.7	126.6	136.4	137.9
Expectations	103.0	98.3	103.8	89.4	97.7	112.3	115.1
Jobs are:	Apr 19	Mar 19	Feb 19	Jan 19	Dec 18	;Nov 18	Oct 18
Plentiful	46.8	42.5	45.7	46.7	45.5	46.8	45.4
Not so	39.9	43.7	42.6	40.7	42.3	40.6	41.2
Hard to get	13.3	13.8	11.7	12.6	12.2	12.6	13.4

Manufacturing sees no orders, no jobs, no inflation, no nothing (Wednesday)

Breaking economy news. As in breaking or braking, we can't decide which, the ISM manufacturing survey looks sick after dropping 2.5 points to 52.8 in April which is a new low for 2019. The economy is improving lately with the consumer spending more than they have in months, but the upbeat tone has not extended to the nation's factories. The Exports component of the ISM manufacturing survey plummeted in April by 2.2 points to 49.5. It looks like the trade war fight with tariffs slapped on both sides has finally started to curtail American exports to its trading partners. The chickens have come home to roost for the Trump administration that was hell-bent on getting fairer trade for American companies as so far, the trade war is bringing less trade for American companies.

Net, net, factory jobs aren't coming back to America yet as the manufacturing sector is clearly in a rut and it looks increasingly like the tariff wars are hurting factory production more than they are helping. Uncertainty is what kills off the economy and right now the lingering uncertainty of whether there will be a US agreement on trade, be it with China, or with Mexico and Canada, is leading manufacturing company executives to tap the brakes on production and hiring as they are seeing a sharp reduction in orders. The index for manufacturing orders at 51.7 in April is right back down in the dumps where is was in October 2016 (53.7) before Trump won the election partly on the promise to bring back factories and jobs to the USA.



One thing is for certain, the economy isn't completely out of the woods from the slowdown that started late last year if the manufacturing sector is spinning its wheels and unable to gain traction. Fed officials have a dilemma on their hands as President Trump just gained some ammunition to fight the Fed's rate hikes that he sees as tighter monetary policy. Are big rate cuts coming like the President argued for in a tweet on the first day of the Fed's meeting? Stay tuned. Story developing.

ISM manufacturing index

	Apr 19	Mar 19	Feb 19	Jan 19	Dec 18	Nov 18	Oct 18
PMI index	52.8	55.3	54.2	56.6	54.3	58.8	57.5
Prices	50.0	54.3	49.4	49.6	54.9	60.7	71.6
Production	52.3	55.8	54.8	60.5	54.1	59.9	59.3
New orders	51.7	57.4	55.5	58.2	51.3	61.8	58.0
Employment	52.4	57.5	52.3	55.5	56.0	57.7	56.5
Export orders	49.5	51.7	52.8	51.8	52.8	52.2	52.2

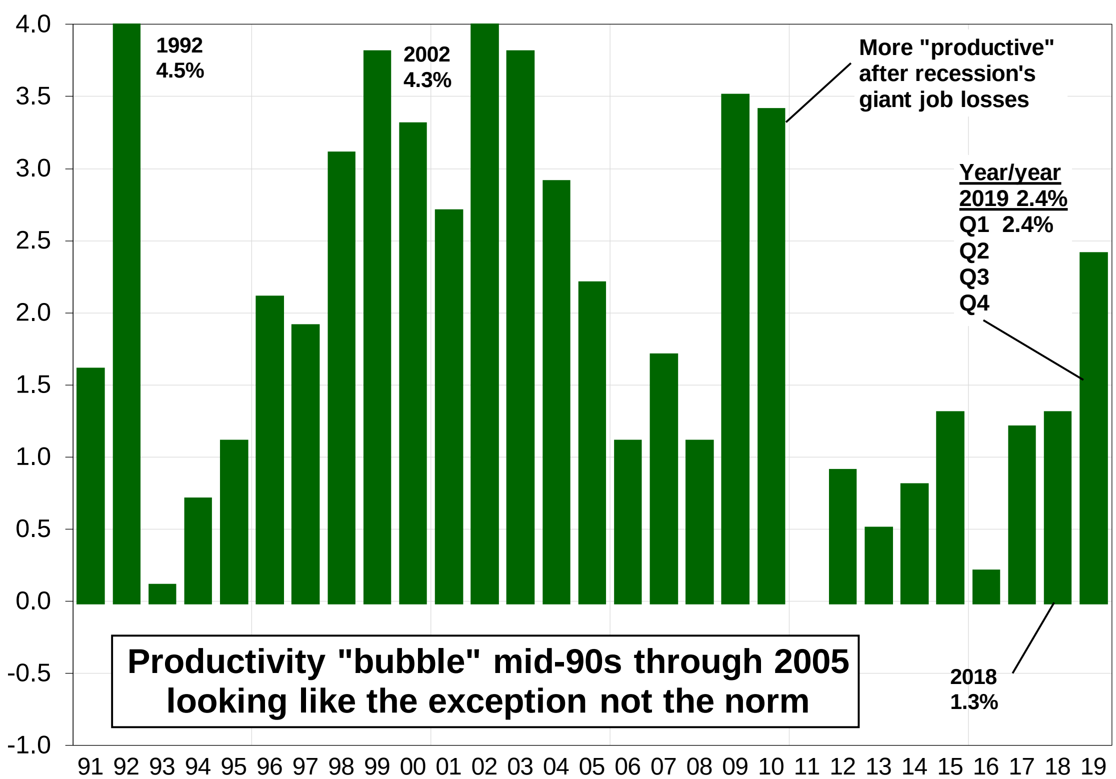
Productivity strong, job layoffs stick (Thursday)

Breaking economy news. Productivity starts the year out with a bang, rising 3.6 percent in the first quarter (2.4% year-over-year). Job layoffs remain stuck at higher levels of 230 thousand in the April 27 week the same as the April 20 week. Claims had been the lowest since the 60s just a week before this at 193 thousand in the April 13 week so it is hard to believe the labor market is suddenly seizing up. Although we admit car sales tumbled in April as reported yesterday to 16.4 million from 17.4 million in March all at annual rates which is a sharp drop of over 5 percent that is going to wreck the retail sales report later this month. Maybe blame the rise in gasoline prices.

Net, net, productivity is picking up this year which bodes well for the longer term economic outlook. The labor force is slowing with the retiring baby boomers so growth needs all the help it can get. The 3.6 percent productivity advance won't hold but it may increase close to the year on year rate of 2.4 percent in Q1 2019 which is better than 1.3 percent in 2018 and 1.2 percent in 2017.

Job layoffs are elevated for a second week but we still expect weekly jobless claims to settle lower after the problems with adjusting for the Good Friday holiday and spring breaks for some.

Productivity is the key to longer term economic growth and today's positive numbers mean the economy is likely to shatter records for longevity later this summer when it breaks the ten-year expansion from the Clinton years. The Fed is on the sidelines for now which is probably a good thing as the economy isn't overheating and at the same time downside risks have not materialized to a meaningful degree. Onward and upward for now.



Analyst Certification

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The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of $326.5 billion at September 30, 2018. As part of that total, MUFG Americas Holdings Corporation (MUAH), a bank holding company and intermediate holding company, has total assets of $161.0 billion at September 30, 2018. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of September 30, 2018, MUFG Union Bank, N.A. operated 354 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia, as well as 22 PurePoint® Financial Centers. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, private placements, collateralized financings, securities borrowing and lending transactions, and domestic and foreign debt and equities securities transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru and Canada as well as branches, agencies and representative offices in the U.S. Visit https://www.unionbank.com/ or https://www.mufgamericas.com/ for more information.

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with over 1,800 locations in more than 50 countries. The Group has over 150,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit https://www.mufg.jp/english.