



Fixed Income Group A Division of RJ O'Brien

**The Missile**

[www.fixedincomegroup.com](http://www.fixedincomegroup.com)

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(All times are CST)

9 <GO> to Save as Default

1) Calendars 2) Alerts 3) Export 4) Settings Economic Calendars

United States Browse 15:47:07 01/05/18 - 01/11/18

Economic Releases All Economic Releases View Agenda Weekly

	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	01/05	07:30				Revisions: Seasonally Adjusted Household Survey data					
22)	01/05	07:30	▲	▲	▲	Change in Nonfarm Payrolls	Dec	190k	--	228k	--
23)	01/05	07:30	▲	▲	▲	Two-Month Payroll Net Revision	Dec	--	--	--	--
24)	01/05	07:30	▲	▲	▲	Change in Private Payrolls	Dec	193k	--	221k	--
25)	01/05	07:30	▲	▲	▲	Change in Manufact. Payrolls	Dec	18k	--	31k	--
26)	01/05	07:30	▲	▲	▲	Unemployment Rate	Dec	4.1%	--	4.1%	--
27)	01/05	07:30	▲	▲	▲	Underemployment Rate	Dec	--	--	8.0%	--
28)	01/05	07:30	▲	▲	▲	Average Hourly Earnings MoM	Dec	0.3%	--	0.2%	--
29)	01/05	07:30	▲	▲	▲	Average Hourly Earnings YoY	Dec	2.5%	--	2.5%	--
30)	01/05	07:30	▲	▲	▲	Average Weekly Hours All Empl	Dec	34.5	--	34.5	--
31)	01/05	07:30	▲	▲	▲	Labor Force Participation Rate	Dec	--	--	62.7%	--
32)	01/05	07:30	▲	▲	▲	Trade Balance	Nov	-\$49.9b	--	-\$48.7b	--
33)	01/05	09:00	▲	▲	▲	ISM Non-Manf. Composite	Dec	57.6	--	57.4	--
34)	01/05	09:00	▲	▲	▲	Factory Orders	Nov	1.1%	--	-0.1%	--
35)	01/05	09:00	▲	▲	▲	Factory Orders Ex Trans	Nov	--	--	0.8%	--
36)	01/05	09:00	▲	▲	▲	Durable Goods Orders	Nov F	--	--	1.3%	--
37)	01/05	09:00	▲	▲	▲	Durables Ex Transportation	Nov F	--	--	-0.1%	--
38)	01/05	09:00	▲	▲	▲	Cap Goods Orders Nondef Ex Air	Nov F	--	--	-0.1%	--
39)	01/05	09:00	▲	▲	▲	Cap Goods Ship Nondef Ex Air	Nov F	--	--	0.3%	--

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2018 Bloomberg Finance L.P.  
SN 502240 CST GMT-6:00 H367-2344-3 04-Jan-2018 15:47:07

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**Fed Speak Calendar**  
(All times are CST)

1) Calendars ▾		2) Alerts		3) Export ▾		4) Settings ▾		Economic Calendars			
	United States	Browse		15:03:59		12/14/17		-		01/15/18	
Central Banks		All Central Banks		View		Agenda		Weekly			
Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised	
21)	01/03 13:00				FOMC Meeting Minutes	Dec 13	--	--	--	--	
22)	01/04 23:00				Fed's Bullard Speaks at Economics Convention in Philadelphia						
23)	01/05 11:30				Fed's Mester Speaks on Panel on Monetary Policy Coordination						
24)	01/06 09:15				Fed's Mester Speaks on Financial Stability at Conference						
25)	01/08 11:40				Fed's Bostic Speaks on Economic Outlook in Atlanta						

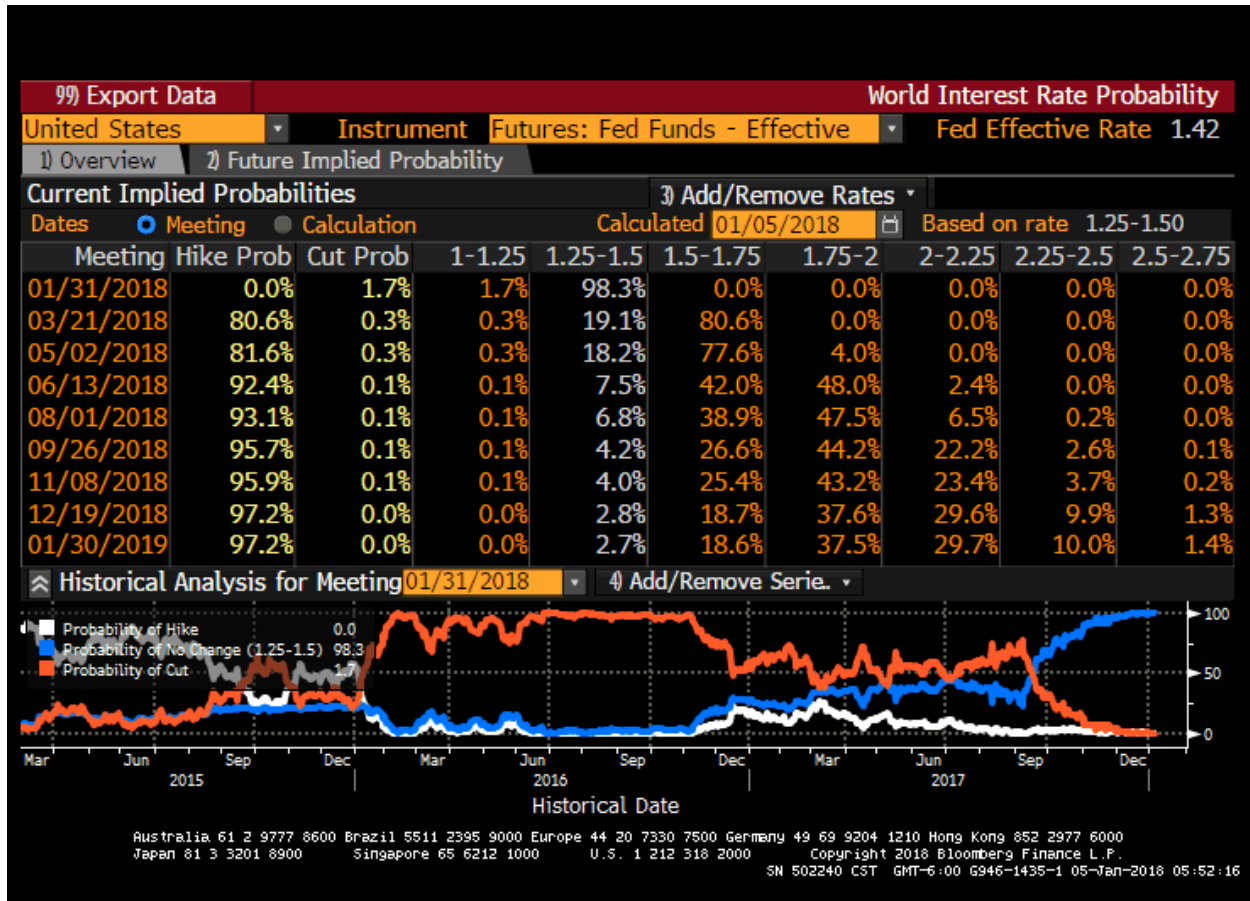
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	Next Offer	Next	Date	CUSIP	\$	Prior	Prior
<b>Bill Auctions</b>	Announcement	Auction	Settles	Numbers	R	Bl	Auction
<b>Cash mgmt</b>	TBA	TBA	TBA	TBA	TBA	12/08/2017	\$9
4-week	01/08/2018	01/09/2018	01/11/2018	TBA	TBA	01/02/2018	\$50
3-month	01/04/2018	01/08/2018	01/11/2018	912796PA1	TBA	01/02/2018	\$48
6-month	01/04/2018	01/08/2018	01/11/2018	912796PQ6	TBA	01/02/2018	\$42
1-year	01/25/2018	01/30/2018	02/01/2018	TBA	TBA	01/02/2018	\$20
<b>Note Auctions</b>							
2-year	01/18/2018	01/23/2018	01/31/2018	TBA	TBA	12/26/2017	\$26
3-year	01/04/2018	01/09/2018	01/16/2018	9128283Q1	TBA	12/11/2017	\$24
5-year	01/18/2018	01/24/2018	01/31/2018	TBA	TBA	12/27/2017	\$34
7-year	01/18/2018	01/25/2018	01/31/2018	TBA	TBA	12/28/2017	\$28
10-year	01/04/2018	01/10/2018	01/16/2018	9128283F5	R	12/11/2017	\$20
<b>Bond Auctions</b>							
30-year	01/04/2018	01/11/2018	01/16/2018	912810RZ3	R	12/12/2017	\$12

<b>TIPS Auctions</b>								
5-yr TIPS	04/12/2018	04/19/2018	04/30/2018	TBA	R	TBA	12/21/2017	\$14
10-yr TIPS	01/11/2018	01/18/2018	01/31/2018	TBA	TBA	11/16/2017	\$11	
30-yr TIPS	TBA	TBA	TBA	TBA	TBA	10/19/2017	\$5	
<b>Floating Rate Note</b>								
2-year FRN	01/18/2018	12/27/2017	12/29/2017	9128283B4	R	\$13	11/21/2017	\$13
<b>Buyback Operation</b>								
Buyback	TBA	TBA	TBA	TBA	TBA	11/15/2017	\$.025	

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# Implied Probability of Fed Rate Movement (Futures)



## Libor Set

<b>1-Month Libor Set</b>	<b>1.55250</b>	<b>-.00250</b>	<b>(98.44750)</b>
<b>3-Month Libor Set</b>	<b>1.70393</b>	<b>+.00012</b>	<b>(98.29607)</b>
<b>6-Month Libor Set</b>	<b>1.86507</b>	<b>+.00676</b>	<b>(98.13493)</b>
<b>1-Year Libor Set</b>	<b>2.14953</b>	<b>+.01119</b>	<b>(97.85047)</b>

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**Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, December 2017**  
Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Variable	Median <sup>1</sup>					Central tendency <sup>2</sup>					Range <sup>3</sup>				
	2017	2018	2019	2020	Longer run	2017	2018	2019	2020	Longer run	2017	2018	2019	2020	Longer run
	Change in real GDP	2.5	2.5	2.1	2.0	1.8	2.4-2.5	2.2-2.6	1.9-2.3	1.7-2.0	1.8-1.9	2.4-2.6	2.2-2.8	1.7-2.4	1.1-2.2
September projection	2.4	2.1	2.0	1.8	1.8	2.2-2.5	2.0-2.3	1.7-2.1	1.6-2.0	1.8-2.0	2.2-2.7	1.7-2.6	1.4-2.3	1.4-2.0	1.5-2.2
Unemployment rate	4.1	3.9	3.9	4.0	4.6	4.1	3.7-4.0	3.6-4.0	3.6-4.2	4.4-4.7	4.1	3.6-4.0	3.5-4.2	3.5-4.5	4.3-5.0
September projection	4.3	4.1	4.1	4.2	4.6	4.2-4.3	4.0-4.2	3.9-4.4	4.0-4.5	4.5-4.8	4.2-4.5	3.9-4.5	3.8-4.5	3.8-4.8	4.4-5.0
PCE inflation	1.7	1.9	2.0	2.0	2.0	1.6-1.7	1.7-1.9	2.0	2.0-2.1	2.0	1.5-1.7	1.7-2.1	1.8-2.3	1.9-2.2	2.0
September projection	1.6	1.9	2.0	2.0	2.0	1.5-1.6	1.8-2.0	2.0	2.0-2.1	2.0	1.5-1.7	1.7-2.0	1.8-2.2	1.9-2.2	2.0
Core PCE inflation <sup>4</sup>	1.5	1.9	2.0	2.0		1.5	1.7-1.9	2.0	2.0-2.1		1.4-1.5	1.7-2.0	1.8-2.3	1.9-2.3	
September projection	1.5	1.9	2.0	2.0		1.5-1.6	1.8-2.0	2.0	2.0-2.1		1.4-1.7	1.7-2.0	1.8-2.2	1.9-2.2	
Memo: Projected appropriate policy path															
Federal funds rate	1.4	2.1	2.7	3.1	2.8	1.4	1.9-2.4	2.4-3.1	2.6-3.1	2.8-3.0	1.1-1.4	1.1-2.6	1.4-3.6	1.4-4.1	2.3-3.0
September projection	1.4	2.1	2.7	2.9	2.8	1.1-1.4	1.9-2.4	2.4-3.1	2.5-3.5	2.5-3.0	1.1-1.6	1.1-2.6	1.1-3.4	1.1-3.9	2.3-3.5

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The September projections were made in conjunction with the meeting of the Federal Open Market Committee on September 19-20, 2017. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the September 19-20, 2017, meeting, and one participant did not submit such projections in conjunction with the December 12-13, 2017, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

<http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20171213.pdf>

## THEY SAID IT

**North Korea agreed on Friday to hold official talks with the South next week, the first in more than two years, hours after the United States and South Korea delayed a military exercise amid a standoff over the North's nuclear and missile programs.**

<https://www.reuters.com/article/us-northkorea-southkorea/north-korea-agrees-to-talks-after-u-s-south-korea-postpone-military-drills-idUSKBN1EU06O>

The meeting will take place at the border truce village of Panmunjom where officials from both sides are expected to discuss the Winter Olympics, to be held in the South next month, and other inter-Korean relations, South Korean Unification Ministry spokesman Baik Tae-hyun told reporters.

North Korea asked for further negotiations about the meeting to be carried out via documented exchanges, Baik said.

[North Korean leader Kim Jong Un opened the way for talks with South Korea in a New Year's Day speech in which he called for reduced tensions and flagged the North's possible participation in the Winter Olympics.

**“Does it bode well for the hawks? Not really,” said Piet PH Christiansen, senior ECB and euro-area analyst at Danske Bank A/S in Copenhagen. “We’re going to see very slow normalization of monetary policy and they’re definitely not going to hike interest rates fast.”**

<https://www.bloomberg.com/news/articles/2018-01-05/euro-area-inflation-slows-undermining-calls-for-ecb-to-curb-qe>

Despite solid economic growth, euro-area inflation slowed to 1.4 percent last month from 1.5

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percent, and the underlying rate unexpectedly failed to rise from a meagre 0.9 percent. The data highlight the difficulty for the ECB in judging when to pull back, even as some Governing Council members warn of the dangers of postponing the decision too long.

**“It doesn’t get any better than to have the president recognize the importance of farmers and ranchers to the rural economy,” said Kalena Bruce, a 32-year-old rancher from Cedar County, Missouri, where Trump beat Hillary Clinton by a 5 to 1 margin in the 2016 presidential election. “Rural America still supports President Trump.”**

<https://www.bloomberg.com/news/articles/2018-01-05/farmers-gave-trump-their-votes-now-they-re-looking-for-a-return>

Several of his policy stances -- from [threatened withdrawal](#) from the North American Free Trade Agreement, to immigration restrictions that could [choke the flow](#) of migrants to harvest U.S. crops, to [cutting crop-insurance](#) payments popular in agriculture -- run contrary to the positions represented by Farm Bureau, the biggest U.S. farmer organization.

“A lot of farm interests have felt overlooked or ignored in the first year of the Trump administration,” he said. “Farm Bureau is the place where you can get the most people in one place and rally the troops.”

The Farm Bureau has a far reach, with offices in 2,795 of the nation’s 3,144 counties. It’s long been recognized as the top farmer group in Washington, where agribusiness is listed as the 10th-biggest industry in campaign contributions, just behind energy and ahead of construction, transportation and defense, according to the Center for Responsive Politics in Washington. The Farm Bureau spent more than \$3 million on lobbying in 2017, second only to Monsanto Co. among organizations that serve farmers.

**"Why is Donald Trump thinking differently than what he promised the people of Colorado in 2016?" Gardner said in a speech Thursday on the Senate floor, evoking Trump’s campaign promise to leave the issue of marijuana legalization to states. "Thousands of jobs at risk, millions of dollars in revenue, and certainly the question of constitutional states rights -- very much at the core of this discussion."**

<https://www.bloomberg.com/news/articles/2018-01-05/marijuana-crackdown-by-sessions-leaves-gop-fearing-2018-backlash>

On Thursday, Sessions rescinded policies adopted by President Barack Obama’s Justice Department that helped states legalize recreational marijuana. The previous approach created guardrails for federal prosecution of the sale and possession of cannabis, which remains illegal under federal law, and allowed legalized marijuana to flourish in states across the country. Under the new policy, U.S. attorneys in states where pot is legal may now prosecute cases where they see fit.

GOP control of Congress hangs in the balance, with all House seats and a third of Senate seats on the ballot in 2018. The question for Republicans is whether complaining publicly about the administration’s decision will be enough to inoculate them from Democratic opponents’ criticism during the campaign.

The issue looms large in Colorado, Nevada and California, which legalized marijuana and where several congressional Republicans already are facing tough re-election battles. Nevada Senator Dean Heller and Representative Mark Amodei are Democratic targets, as is Colorado Representative Mike Coffman. And some half-dozen GOP-held California House seats are in play, including three [rated](#) "toss up" that are represented by Steve Knight, Dana Rohrabacher and

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Darrell Issa.

"This is a freedom issue," Rohrabacher said Thursday in a conference call with reporters, calling for a change in federal law to protect legal marijuana in states. "I think Jeff Sessions has forgotten about the Constitution and the 10th Amendment," which gives powers to the states.

**"This just juices up the Democratic base," Peter Trubowitz, professor of international relations and director of the United States Center at the London School of Economics, told CNBC on Friday.**

<https://www.cnbc.com/2018/01/05/trump-offshore-drilling-plan-could-help-democrats-in-midterm-elections.html>

Trump's plan, presented by the Department of the Interior in a draft proposal on Thursday, would offer offshore blocks to oil and gas drillers in practically the entire U.S. outer continental shelf, opening the door to drilling in the Atlantic and Pacific oceans.

The drilling proposal has triggered significant opposition from Democratic leaders and environmentalists in particular, but has garnered Republican criticism as well.

Governor Rick Scott of Florida and Larry Hogan of Maryland, both Republicans, [have urged](#) Trump to remove their states from consideration. Hogan vowed to oppose the plan "to the fullest extent that is legally possible."

According to Interior Secretary Ryan Zinke, the draft proposal offers about 90 percent of the U.S. outer continental shelf for leasing, representing the [largest lease sale in history](#). This sharply reverses an Obama administration ban on drilling in much of the Arctic and Atlantic oceans, which was meant to be indefinite.

Zinke added that while the proposal has been put forth, "nothing is final yet."

**Like the retail version of the movie *Groundhog Day*, Sears Holdings is starting out 2018 the same way it started out 2017. Four days into the new year, Sears just announced the closing of 103 stores. Last year on this date it announced 150 store closings.**

<http://www.costar.com/News/Article/Sears-Closing-Another-103-Stores/197021>

The retailer said it will close 64 Kmart stores and 39 Sears stores by early April, leaving it with about 875 locations.

Sears said it will continue right sizing its store footprint in number and size and close unprofitable stores in favor of investing more in its digital capabilities. The company informed store employees at the stores slated for closure that it will be closing them between early March and early April. Liquidation sales will begin as early as Jan. 12.

**"Construction firms appear to be very optimistic for both private-sector and public sector construction," said Stephen Sandherr, CEO for the Arlington, VA-based AGC.**

<http://www.costar.com/News/Article/Rising-Costs-Labor-Shortage-May-Add-to-Commercial-Construction-Delays-in-Coming-Year/196821>

Three-quarters of construction firms expect to expand their payrolls this year amid rising confidence that economic conditions will remain strong as tax rates fall and the Trump Administration and Congress pursue business deregulation, according to AGC's 2018 Construction Industry Hiring and Business Outlook.

Of the more than 1,000 construction companies and contracting firms that participated in the

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survey, 44% expect net expansion of demand for all types of construction services, the highest in the history of the 10-year-old survey.

**Four months after [India](#) and [China](#) deescalated a Himalayan border spat, Beijing appears to be ramping up the pressure in another territory disputed by both countries. India considers Arunachal Pradesh, lying east of Bhutan, to be one of its 29 states, but China claims the area as part of southern Tibet. The territory, a key focus of a 1962 war fought between the Asian giants, lies along the Sino-Indian border, which is represented by a demarcation line called the Line of Actual Control.**

<https://www.cnbc.com/2018/01/04/reports-of-chinese-construction-in-indian-state-of-arunachal-pradesh.html>

In the final days of December, Chinese personnel crossed that line and began road construction in Arunachal Pradesh's Upper Siang district, several Indian media outlets reported this week. The Chinese team had advanced around 1 kilometer and then returned after being confronted by Indian troops, who seized the construction equipment, [Press Trust of India](#) and [The Indian Express](#) reported on Wednesday.

Indian media have said there was "no face off" between the two parties and that the issue was being resolved in meetings. In response, Chinese Foreign Ministry Spokesperson Geng Shuang said on Wednesday that he was "not aware" of the matter, adding that his country has "never recognized the so-called Arunachal Pradesh."

**The United States said on Thursday it was suspending at least \$900 million in security assistance to Pakistan until it takes action against the Afghan Taliban and the Haqqani network militant groups.**

<https://www.reuters.com/article/us-usa-pakistan-aid/u-s-suspends-at-least-900-million-in-security-aid-to-pakistan-idUSKBN1ET2DX>

The U.S. State Department announced the decision, saying it reflected the Trump administration's frustration that Pakistan has not done more against the two groups that Washington says use sanctuaries in Pakistan to launch attacks in neighboring Afghanistan that have killed U.S., Afghan and other forces.

**"I want to debate this and do as much as possible to make sure disposable incomes rise," Hitachi Ltd ([6501.T](#)) Chief Executive Toshiaki Higashihara told reporters at a new year's reception on Friday. "I approve of raising disposable incomes, because in the end this will improve the economy by raising consumption."**

<https://www.reuters.com/article/us-japan-economy-wages-analysis/japanese-companies-begin-to-buckle-as-abe-p pressures-them-to-raise-wages-idUSKBN1EU136>

The nation is having its best run of economic growth in a decade, stocks prices are the highest in 26 years, and corporate profits are near an all-time high. At the same time, the labor market, which is already the tightest among major economies, is only set to get tighter as the nation's population both shrivels and ages rapidly.

And as annual negotiations with labor unions start to ramp up, there are signs that some big companies may be bending as Abe pushes for increases of 3 percent or more, though others are still expected to drag their feet.

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## EQUITIES

The S&P is +8 and the NASDAQ is +26.

Particulars for companies to make money (**low interest rates, growth and some wage inflation**) remain in place. I am dollar cost averaging into a mix of equities.

Currently 70% Equities, 20% Bonds and 10% Money Markets.

Earnings:

[www.moneycentral.msn.com/investor/market/earncalendar](http://www.moneycentral.msn.com/investor/market/earncalendar)

**On Bloomberg type in ACDR <GO>**

## UK/EUROPE

**In the UK the FTSE closed +0.32%.**

In the UK, the yield curve is steeper with yields higher.

**BOE Rate +0.50%. (no change)**

**Next meeting 02/08/18**

### On the European Continent

**The CAC Index closed +0.88%.**

**The DAX Index closed +1.09%.**

On the Continent, the yield curve is steeper with yields higher.

**ECB Main Refinancing Operations Rate +0.00% (no change)**

**Deposit Facility Rate -.40%**

**Next meeting 01/25/18**

## ASIA

### Japan:

**The TOPIX closed +0.89%.**

**The NIKKEI closed +0.89%.**

In Japan, the yield curve is steeper with yields higher.

**BOJ Policy Balance Rate -0.10% (no change)**

**Next meeting 01/23/18**

### China:

**The Hang Seng closed +0.25%.**

**The Shanghai Composite closed +0.18%.**

### PBOC

**Deposit Rate: 1.50%**

**Lending Rate: 4.35%**

**7-Day Repo Rate: 2.8998%**

**Reserve Requirement Ratio: 17.00%**

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## THE TREND

EDH8: 98-22.0 is the pivot. Below the pivot you should be short, above long.  
Support is at 98-18.5\*\*.

Resistance is at 98.220^ and 98-25.5\*\*.

^Pivot Point is a simple 20-day moving average.

\*\* 2-STD Deviations from the pivot point.

Current trend has you short from 98-22.5.



**YTD 2018 -2 futures ticks (\$25 per tick) or -\$50.00 per contract**

**YTD 2017 +33.0 futures ticks (\$25 per tick) or +\$825.00 per contract.**

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**10yr/TYH8: 123-30.5** is the pivot point. Above you should be long, below short.

Support is at **123-07.5\*\***

Resistance is at **123-30.5^** and **124-22.0\*\***

^Pivot Point is a simple 20-day moving average.

\*\* 2-STD Deviations from the pivot point

**Current trend has you short from 124-21.0 (12/13/17).**

**I am short from 124-01.0 (12/29/17)**



**YTD (2018)**

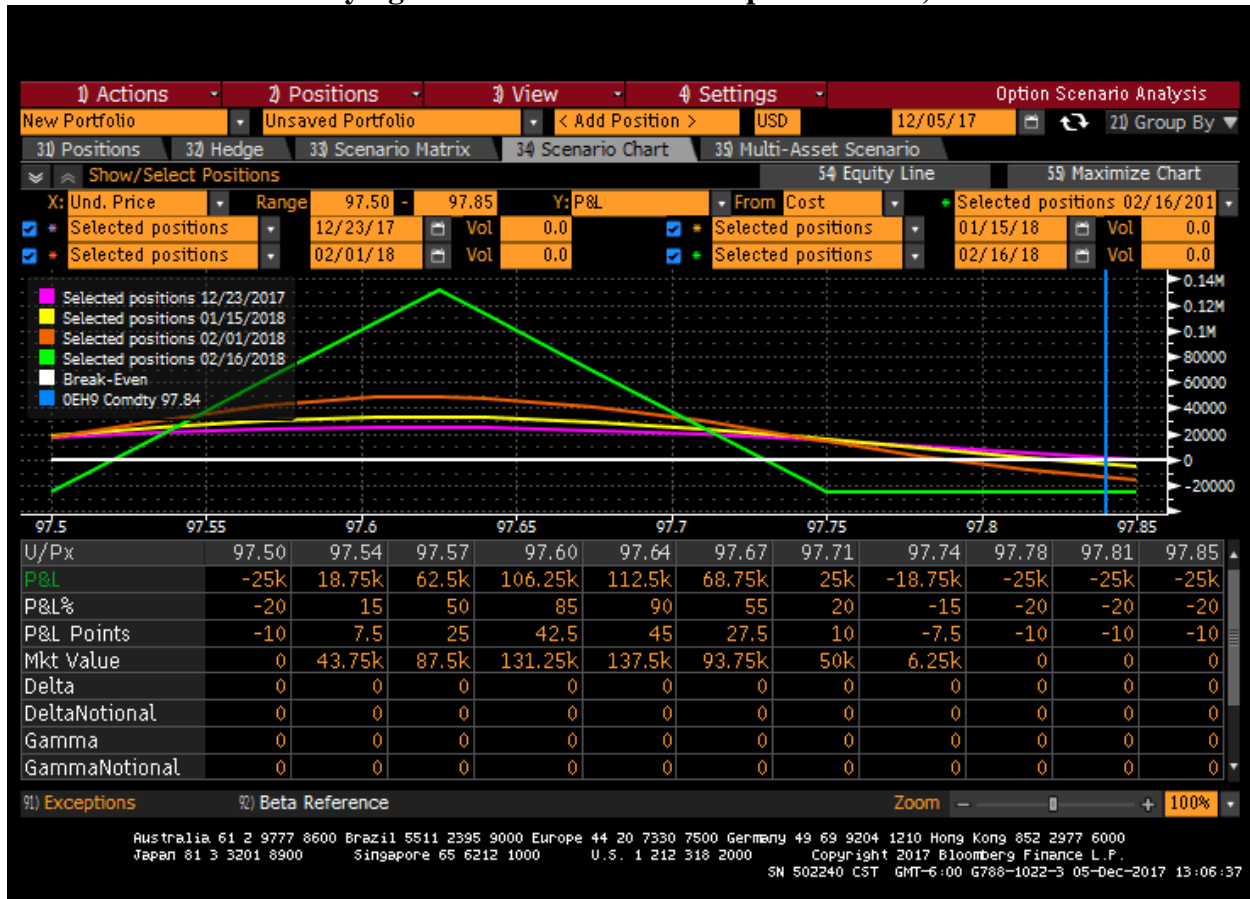
**(2017) +93.0 futures ticks (\$31.25 per tick) or +2,906.25 per contract.**

**(2016) +377.5 futures ticks (\$31.25 per tick) or +\$11,796.88**

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# The Option Lab

Long the Short Feb. 97.75/97.625/97.50 put fly. Paid 2.0 ticks (\$50) per contract (12/07/17). Short Feb. has an underlying contract of EDH9 but expires Feb. 16, 2018.



Settle last night was 3.25 (\$81.25).

Option Book 2018 YTD realized:

Option Book 2017 YTD realized: **-\$228.13** per contract.

Option Book 2016 YTD realized: **+\$43.75** per contract.

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# US-SWAPS IRSB <GO>

United States		98 Export	99 Settings	Interest Rate Swap Rates								
Date Range:				12/05/2017	-	01/05/2018	1 Month					
40 Semi Swaps		41 Sprs to Gov.	42 Ann Swaps	43 Ann Sprs	44 OIS Swaps	45 CME/LCH Sprs						
USD SemiAnnual 30/360 Swap Rates												
Tenor	Bid	Ask	Mid	Change	Today	#SD	Δ/da	Low	Range	High	Avg +/-BPS	#SD
1) 1 YR	1,958 / 1,962	1,960	0,006			0.1	1,794	1,962	1,879	8.3	1.8	
2) 2 YR	2,143 / 2,145	2,144	0,003			0.1	1,971	2,149	2,059	8.6	1.7	
3) 3 YR	2,237 / 2,241	2,239	0,006			0.1	2,066	2,244	2,154	8.7	1.8	
4) 4 YR	2,287 / 2,290	2,288	0,008			0.2	2,121	2,295	2,210	8.0	1.7	
5) 5 YR	2,320 / 2,323	2,322	0,009			0.2	2,161	2,344	2,251	7.2	1.6	
6) 6 YR	2,351 / 2,354	2,353	0,010			0.2	2,201	2,363	2,287	6.7	1.5	
7) 7 YR	2,379 / 2,383	2,381	0,011			0.2	2,236	2,393	2,323	6.0	1.4	
8) 8 YR	2,407 / 2,410	2,409	0,013			0.3	2,269	2,421	2,354	5.6	1.3	
9) 9 YR	2,434 / 2,436	2,435	0,014			0.3	2,300	2,453	2,385	5.1	1.2	
10) 10 YR	2,459 / 2,465	2,462	0,016			0.4	2,328	2,498	2,413	5.1	1.2	
11) 15 YR	2,548 / 2,551	2,549	0,014			0.3	2,425	2,595	2,511	3.9	1.0	
12) 20 YR	2,590 / 2,593	2,591	0,014			0.3	2,469	2,647	2,561	3.2	0.8	
13) 25 YR	2,601 / 2,604	2,602	0,014			0.4	2,481	2,664	2,572	3.1	0.8	
14) 30 YR	2,596 / 2,599	2,598	0,012			0.3	2,477	2,664	2,572	2.8	0.7	

Executable quotes for Fixed Income Electronic Trading are in white tenors.

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2018 Bloomberg Finance L.P.  
 SN 502240 CST GMT-6:00 G946-1435-1 05-Jan-2018 05:53:22

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## The Fundamentals

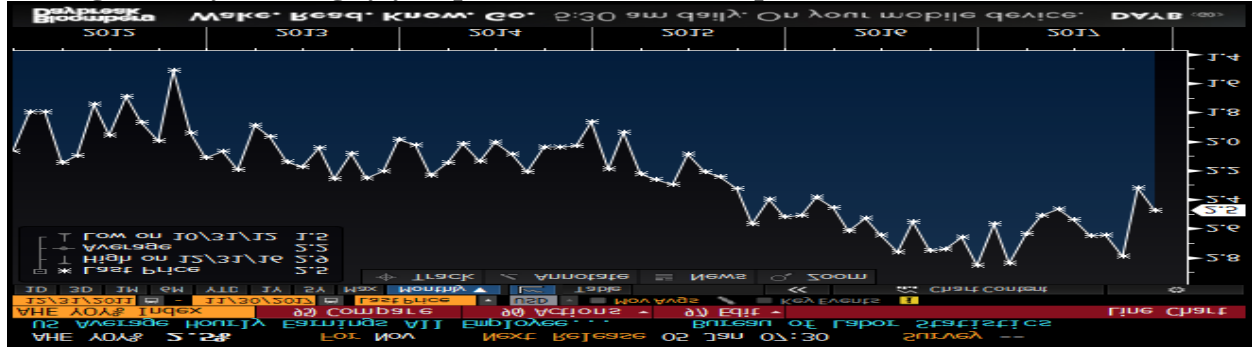
### LABOR

#### Bureau of Labor and Statistics

<http://www.bls.gov/news.release/>

CPI, ECI, Employment situation PPI, CPI, Productivity and Costs, Real Earnings and US import/exports.

#### Average Hourly Earnings y/y Department of Labor Department.



#### St. Louis Fed Agriculture Finance Monitor 3rd quarter 2017

According to the latest survey of agricultural bankers in the Eighth Federal Reserve District, farm income declined during the third quarter of 2017 compared with a year earlier. Bankers were modestly more optimistic when asked about the prospects for farm income in the fourth quarter. Compared with their expectations registered in the second-quarter survey, proportionately MORE BANKERS REPORTED AT THE DEMAND FOR LOANS, the rate of loan repayment, and farm income were stronger than they initially expected.

Quality farmland values rose 1.1 percent in the third quarter from a year earlier, while ranchland and pastureland values increased by slightly more, 4 percent. By contrast, cash rents fell in the third quarter. In the third quarter of 2017, proportionately more bankers reported an increased demand for loans. However, proportionately more bankers also reported a decline in the availability of funds and in the rate of loan repayment. Compared with the second-quarter averages, interest rates were modestly higher among most loan categories in the third quarter, regardless of whether the loans were fixed rate or variable rate. This issue contained three special questions. The first question asked about loan repayment problems. Nearly 60 percent of bankers reported that operating loans (lines of credit) were expected to have the largest repayment problems, while nearly a quarter of respondents reported no expected increase in repayment problems. The second question asked about the performance of loans that have been restructured in the past year. Nearly 70 percent of respondents reported that the restructuring has been in line with expectations.

<https://files.stlouisfed.org/files/htdocs/publications/ag-finance/2017-11-09/2017-third-quarter.pdf>

#### How do Farm Incomes Compare to the average population

<https://www.ers.usda.gov/faqs/#Q4>

#### Charge-off Delinquency Rates on Loans and Leases at Commercial Banks

<https://www.federalreserve.gov/releases/chargeoff/delallsa.htm>

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## ENERGY

### Baker Hughes Rig Count

Area	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	29 December 2017	929	-2	22 December 2017	+271	30 December 2016
Canada	29 December 2017	136	-74	22 December 2017	-21	30 December 2016
International	November 2017	942	-9	October 2017	+17	November 2016

<http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsoverview>

#### What is U.S. electricity generation by energy source?

In 2016, about 4.08 trillion kilowatt hours (kWh) of electricity<sup>1</sup> were generated at utility-scale facilities in the United States.<sup>2</sup> About 65% of this electricity generation was from fossil fuels (coal, natural gas, petroleum, and other gases), about 20% was from nuclear energy, and about 15% was from renewable energy sources. The U.S. Energy Information Administration (EIA) estimates that an additional 19 billion kWh (or about 0.02 trillion kWh) of electricity generation was from small-scale solar photovoltaic systems in 2016.<sup>3</sup>

#### Major energy sources and percent shares of U.S. electricity generation at utility-scale facilities in 2016<sup>1</sup>

**Natural gas = 33.8%**

**Coal = 30.4%**

**Nuclear = 19.7%**

**Renewables (total) = 14.9%**

**Hydropower = 6.5%**

**Wind = 5.6%**

**Biomass = 1.5%**

**Solar = 0.9%**

**Geothermal = 0.4%**

**Petroleum = 0.6%**

**Other gases = 0.3%**

**Other nonrenewable sources = 0.3%**

**Pumped storage hydroelectricity = -0.2%<sup>4</sup>**

<http://www.eia.gov/tools/faqs/faq.php?id=427&t=3>

**Renewable Fuels Association** <http://www.ethanolrfa.org/>

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## TRANSPORTS

### Association of American Railroads Rail Traffic Report.

U.S. railroads originated 998,168 carloads in December 2017, up 2.5 percent, or 24,606 carloads, from December 2016. U.S. railroads also originated 1,065,965 containers and trailers in December 2017, up 5.3 percent, or 53,980 units, from the same month last year. Combined U.S. carload and intermodal originations in December 2017 were 2,064,133, up 4 percent, or 78,586 carloads and intermodal units from December 2016.

“Rail traffic finished 2017 on a positive note,” said AAR Senior Vice President John T. Gray. “In December, total carloads were up for the first time in six months, and 14 of the 20 carload categories we track saw year-over-year gains - the most for any month in almost three years. Meanwhile, intermodal volume was up for the 11th straight month and set a new annual record, breaking the previous mark set in 2015.”

In December 2017, 14 of the 20 carload commodity categories tracked by the AAR saw carload gains compared with December 2016. These included: crushed stone, sand & gravel, up 15,632 carloads or 23.1 percent; metallic ores, up 6,875 carloads or 35.2 percent; and chemicals, up 4,277 carloads or 3.5 percent. Commodities that saw declines in December 2017 from December 2016 included: grain, down 5,542 carloads or 6.1 percent; motor vehicles & parts, down 2,625 carloads or 4.1 percent; and nonmetallic minerals, down 1,424 carloads or 8.9 percent.

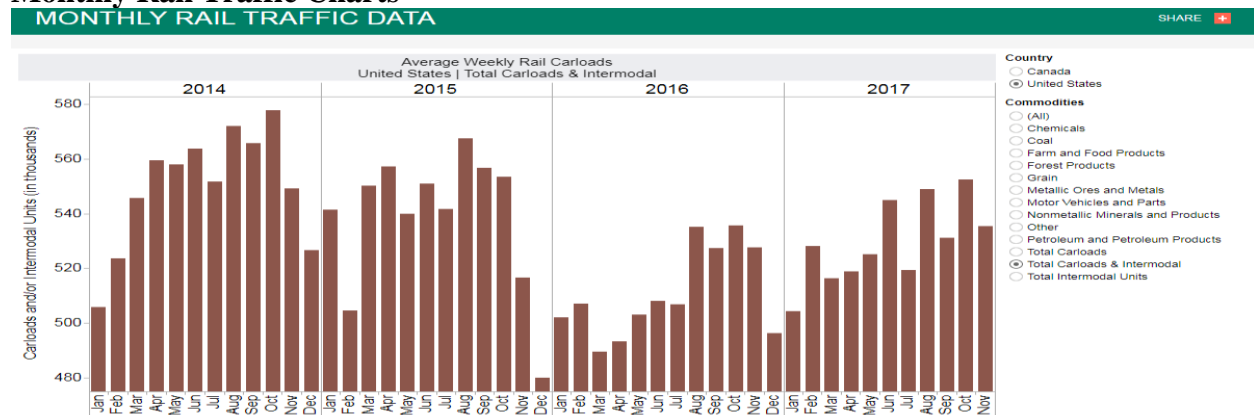
“Rail traffic is a useful gauge of the state of the economy, and it shows that the economy's momentum strengthened in the fourth quarter of 2017,” Gray added. “Coal, grain, and petroleum products are not nearly as GDP-dependent as most other categories of rail traffic. If you exclude them, U.S. rail carloads were up 5.2% in the fourth quarter of 2017, their biggest quarterly percentage gain in more than three years. Railroads are well positioned to provide the safe, efficient and cost-effective service our economy will need if it is to continue to grow in the months and years ahead.”

Excluding coal, carloads were up 23,290 carloads, or 3.6 percent, in December 2017 from December 2016. Excluding coal and grain, carloads were up 28,832 carloads, or 5.2 percent. Total U.S. carload traffic for 2017 was 13,478,126 carloads, up 2.9 percent, or 381,266 carloads, from the same period in 2016; and 14,011,834 intermodal units, up 3.9 percent, or 521,121 containers and trailers, from 2016.

Total combined U.S. traffic for the full year of 2017 was 27,489,960 carloads and intermodal units, an increase of 3.4 percent compared to last year.

<https://www.aar.org/newsandevents/Press-Releases/Pages/2017-12-27-railtraffic.aspx>

## Monthly Rail Traffic Charts



<https://www.aar.org/Pages/Freight-Rail-Traffic-Data.aspx>

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## Trailer Truck Demand

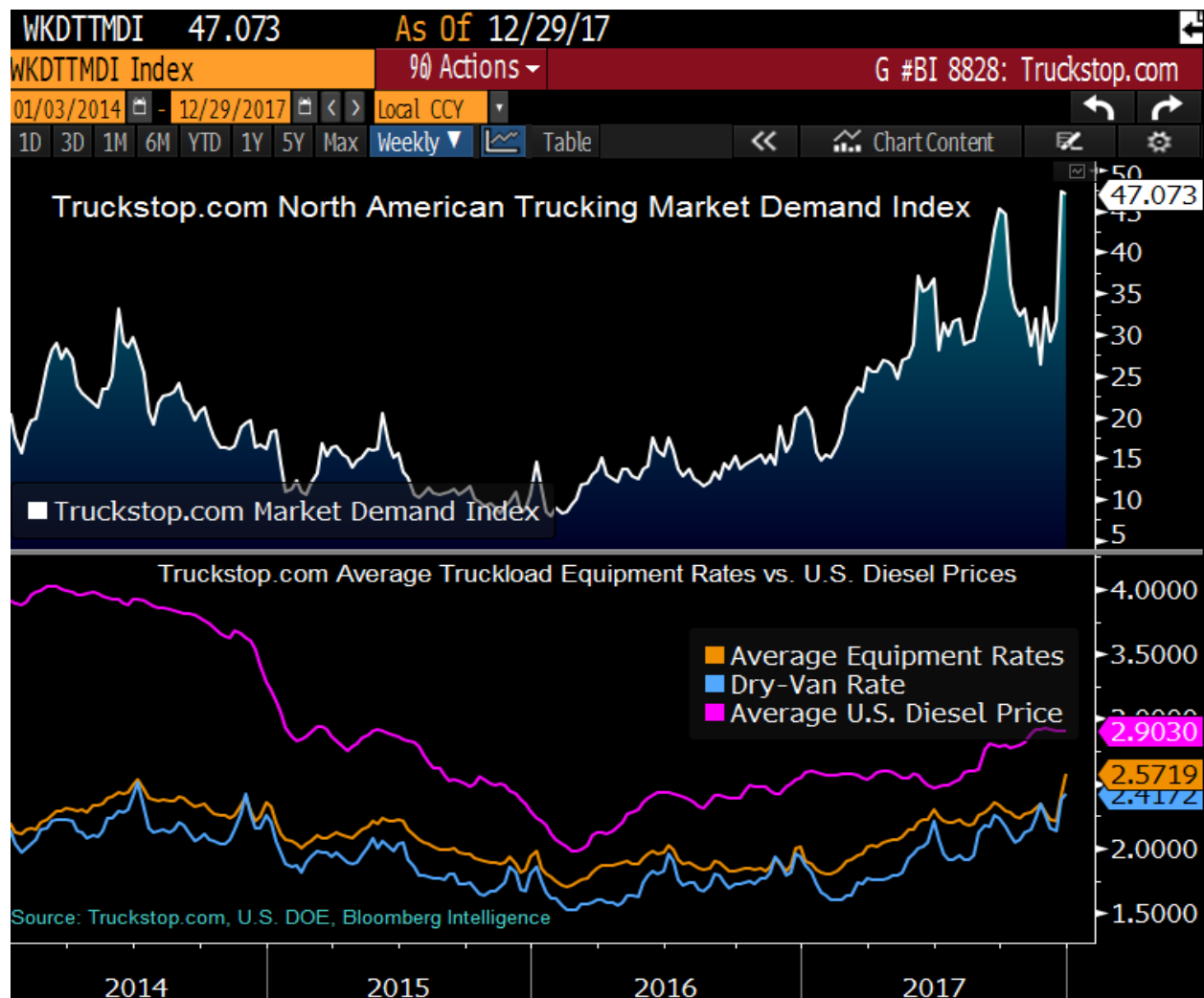
(Bloomberg Intelligence) – 01/02/18

Truckstop.com Market Demand Index, Average Rates

(Bloomberg Intelligence) --Relative North American spot trucking demand surged in 2017, finishing the year up 117% on average. Tighter capacity, driven by an improved demand environment and hurricane-related relief efforts, helped push the number of available loads 59% higher, while available trucks declined 27%. Average spot rates, excluding fuel surcharges, rose 21% to \$1.85 a mile. Rate increases will build momentum in 2018 as newly implemented electronic logging device capacity constraints should continue to provide upward pressure. USA Truck and Knight-Swift traditionally have more exposure to the spot market vs. other truckload carriers such as Werner, J.B. Hunt and Marten.

To contact the analyst for this research:

Lee A Klaskow at [klaskow1@bloomberg.net](mailto:klaskow1@bloomberg.net)



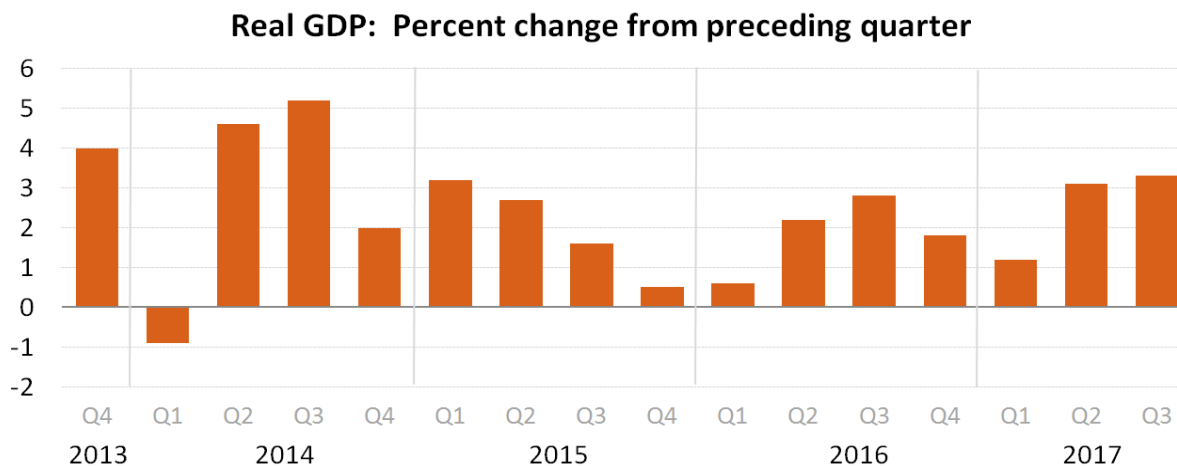
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## GDP

U.S. Department of Commerce, Bureau of economic analysis

<http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

GDP, Personal Income, Outlays, Consumer Spending, Corporate Profits and Fixed Assets



U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

**GDP-4Q is running at 3.31% on December 29, up from 3.17% on December 29, 2017**

### Atlanta Fed GDPNow...Latest forecast Q4: 3.2 percent — January 3, 2018

The GDPNow model forecast for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2017 is **3.2 percent** on January 3, up from 2.8 percent on December 22. The forecast of real consumer spending growth increased from 2.9 percent to 3.3 percent after this morning's Manufacturing ISM Report On Business from the Institute for Supply Management, while the forecast of real private fixed-investment growth increased from 7.9 percent to 8.9 percent after the ISM report and this morning's construction spending release from the U.S. Census Bureau. The model's estimate of the dynamic factor for December—normalized to have mean 0 and standard deviation 1 and used to forecast the yet-to-be released monthly GDP source data—increased from 0.44 to 1.50 after the ISM report. The forecast of the contribution of net exports to fourth-quarter real GDP growth fell from -0.46 percentage points to -0.60 percentage points after the Census Bureau's Advance Economic Indicators release on December 28.

*The next GDPNow update is **Friday, January 5**. Please see the "Release Dates" tab below for a full list of upcoming releases.*

<https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1>

### New York Fed Nowcast...Q4 2017: 3.9%...December 29, 2017

The New York Fed Staff Nowcast stands at 3.9% for 2017:Q4 and 3.2% for 2018:Q1.

The only data release this week was wholesale inventories, and it left the nowcast for both quarters broadly unchanged.

<https://www.newyorkfed.org/research/policy/nowcast>

### St. Louis Fed Real GDP Nowcast... Q4 2017: 2.82%...December 22, 2017

<https://fred.stlouisfed.org/series/GDPNOW>

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Manufacturing at a Glance  
December 2017

Index	Series Index Oct	Series Index Sep	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	59.7	58.2	+1.5	Growing	Faster	16
New Orders	69.4	64.0	+5.4	Growing	Faster	16
Production	65.8	63.9	+1.9	Growing	Faster	16
Employment	57.0	59.7	-2.7	Growing	Slower	15
Supplier Deliveries	57.9	56.5	+1.4	Slowing	Faster	20
Inventories	48.5	47.0	+1.5	Contracting	Slower	3
Customers' Inventories	42.0	45.5	-3.5	Too Low	Faster	6
Prices	69.0	65.5	+3.5	Increasing	Faster	22
Backlog of Orders	56.0	55.0	+1.0	Growing	Faster	11
New Export Orders	58.5	56.0	+2.5	Growing	Faster	22
Imports	57.5	54.5	+3.0	Growing	Faster	11
<b>OVERALL ECONOMY</b>				Growing	Faster	103
<b>Manufacturing Sector</b>				Growing	Faster	16

Average for 12 months - 57.6  
High - 60.8  
Low - 54.8

<https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1>

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**US Census Bureau (Manufacturers' Shipments, Inventories and Orders).**

**<http://www.census.gov/manufacturing/m3/>**

**Our Nation in numbers**

**The Constitution gives us four missions...**

- 1. Establish Justice and Ensure Domestic Tranquility.**
- 2. Provide for the Common Defense.**
- 3. Promote the General welfare.**
- 4. Secure the Blessings of Liberty to Ourselves and Our Posterity.**

**[www.usafacts.org](http://www.usafacts.org)**

**US Foreign Assistance**

**<http://foreignassistance.gov/>**

**CBOT Non-Commercial Net Total – Futures Only**

**<http://www.cmegroup.com/trading/interest-rates/cftc-tff/main.html>**

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