



Fixed Income Group A Division of RJ O'Brien

**The Missile**

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

ECO <go>  
(All times are CST)

No Scheduled Event For Today

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

United States Browse 08:58:01 05/15/18 - 05/21/18

Economic Releases All Economic Releases View Agenda Weekly

	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	05/15	07:30				Empire Manufacturing	May	15.0	--	15.8	--
22)	05/15	07:30				Retail Sales Advance MoM	Apr	0.3%	--	0.6%	--
23)	05/15	07:30				Retail Sales Ex Auto MoM	Apr	0.5%	--	0.2%	--
24)	05/15	07:30				Retail Sales Ex Auto and Gas	Apr	0.4%	--	0.3%	--
25)	05/15	07:30				Retail Sales Control Group	Apr	0.4%	--	0.4%	--
26)	05/15	09:00				Business Inventories	Mar	0.1%	--	0.6%	--
27)	05/15	09:00				NAHB Housing Market Index	May	69	--	69	--
28)	05/15	15:00				Total Net TIC Flows	Mar	--	--	\$44.7b	--
29)	05/15	15:00				Net Long-term TIC Flows	Mar	--	--	\$49.0b	--
30)	05/15-05/18					Mortgage Delinquencies	1Q	--	--	5.17%	--
31)	05/15-05/18					MBA Mortgage Foreclosures	1Q	--	--	1.19%	--
32)	05/16	06:00				MBA Mortgage Applications	May 11	--	--	-0.4%	--
33)	05/16	07:30				Revisions: Housing Starts					
34)	05/16	07:30				Housing Starts	Apr	1310k	--	1319k	--
35)	05/16	07:30				Housing Starts MoM	Apr	-0.7%	--	1.9%	--
36)	05/16	07:30				Building Permits	Apr	1350k	--	1354k	1379k
37)	05/16	07:30				Building Permits MoM	Apr	-2.1%	--	2.5%	4.4%
38)	05/16	08:15				Industrial Production MoM	Apr	0.6%	--	0.5%	--
39)	05/16	08:15				Manufacturing (SIC) Production	Apr	0.5%	--	0.1%	--

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 CDT GMT-6:00 G601-2252-2 14 May-2018 08:58:01

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

Calendars		Alerts		Export		Settings		Economic Calendars			
United States		Browse		14:37:17		05/15/18		- 05/31/18			
Central Banks		All Central Banks				View		Agenda		Weekly	
	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	05/15	07:00				Fed's Kaplan discusses Outlook for Energy Market, Economy					
22)	05/15	09:00				Fed Nominees Clarida and Bowman Testify Before Senate Panel					
23)	05/15	12:00				Fed's Williams to Speak at Economic Club of Minnesota					
24)	05/16	07:30				Fed's Bostic to Give Economic Update					
25)	05/16	16:30				Fed's Bullard Speaks to Media					
26)	05/17	09:45				Fed's Kashkari Speaks at Moderated Q&A in Minneapolis					
27)	05/17	12:30				Fed's Kaplan Speaks in Moderated Q&A					
28)	05/18	02:00				Fed's Mester Speaks at ECB on Macroprudential, Monetary Policy					
29)	05/18	08:15				Fed's Kaplan Speaks in Moderated Q&A					
30)	05/18	08:15				Fed's Brainard Speaks About Community Reinvestment Act					
31)	05/21	11:15				Fed's Bostic Speaks to Atlanta Economics Club					
32)	05/21	13:05				Fed's Harker Speaks in New York					
33)	05/21	16:30				Fed's Kashkari Speaks at Moderated Q&A in Escanaba, MI					
34)	05/23	13:00				FOMC Meeting Minutes	May 2	--	--	--	--
35)	05/24	03:15				Fed's Dudley Speaks on Reference Rate Reform at BoE Event					
36)	05/24	13:00				Fed's Harker Speaks About Technology's Impact on Labor Market					
37)	05/25	08:00				Fed's Powell Joins Riksbank's 350th Anniversary Conference					
38)	05/25	10:45				Fed's Kaplan, Evans and Bostic Speak at Dallas Fed					
39)	05/30	13:00				U.S. Federal Reserve Releases Beige Book					

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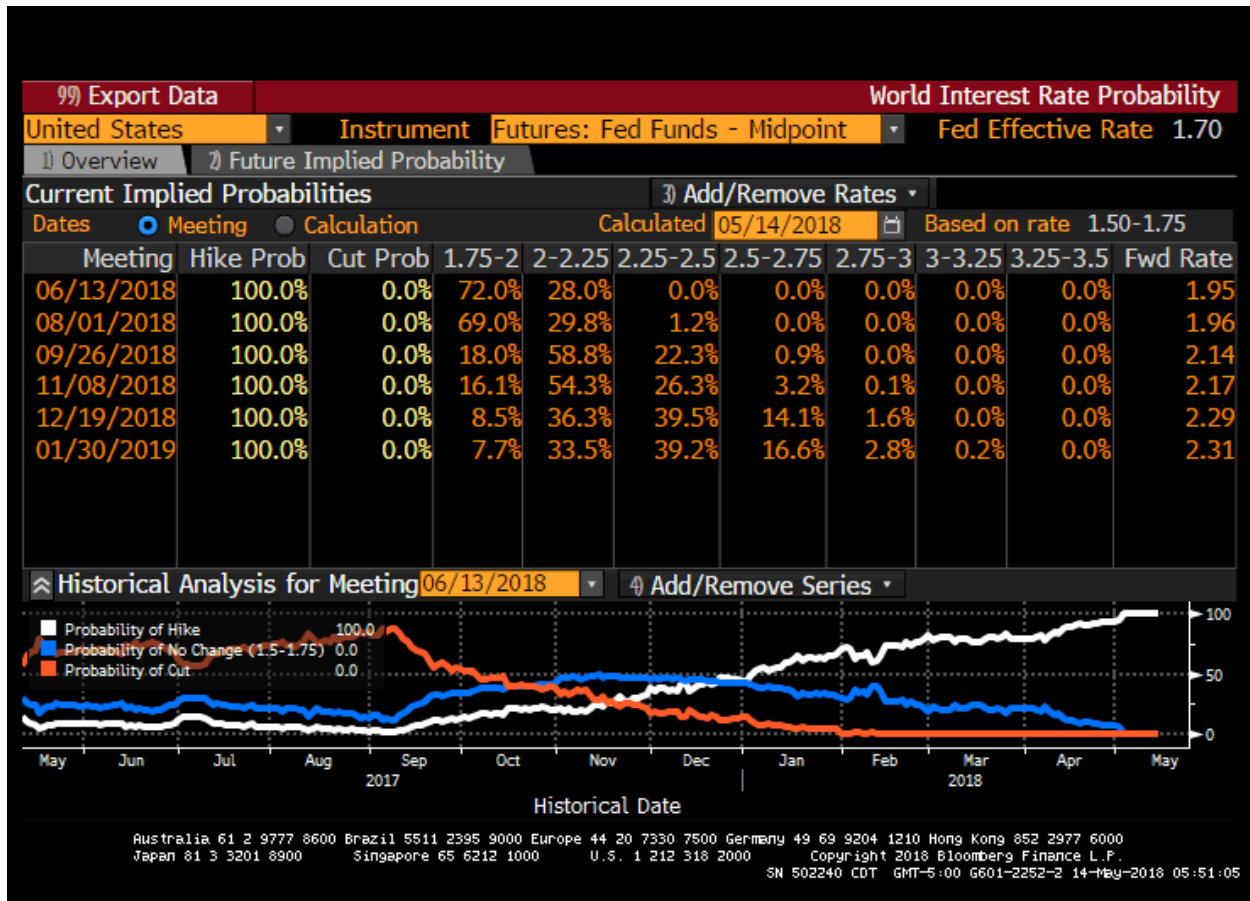
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4) Previous 3) Next 66) Send 98) Actions ▾				News: News Story				
05/14/2018 13:44:05 [BN]				Translate to... <input type="text"/> <input type="button" value="Q"/>				
	Next Offer	Next	Date	CUSIP	\$	Prior	Prior	
Bill Auctions	Announcement	Auction	Settles	Numbers	R	Bil	Auction	\$ Bln
Cash mgmt	TBA	TBA	TBA	TBA		TBA	02/13/2018	\$50
4-week	05/21/2018	05/15/2018	05/17/2018	912796PL7		\$45	05/08/2018	\$45
3-month	05/17/2018	05/21/2018	05/24/2018	912796PV5		TBA	05/14/2018	\$48
6-month	05/17/2018	05/21/2018	05/24/2018	912796QK8		TBA	05/14/2018	\$42
1-year	05/17/2018	05/22/2018	05/24/2018	912796QH5		TBA	04/24/2018	\$26
<b>Note Auctions</b>								
2-year	05/17/2018	05/22/2018	05/31/2018	9128284Q0		TBA	04/24/2018	\$32
3-year	06/07/2018	06/11/2018	06/15/2018	TBA		TBA	05/08/2018	\$31
5-year	05/17/2018	05/23/2018	05/31/2018	9128284S6		TBA	04/25/2018	\$35
7-year	05/17/2018	05/24/2018	05/31/2018	9128284R8		TBA	04/26/2018	\$29
10-year	06/07/2018	06/11/2018	06/15/2018	TBA	R	TBA	05/09/2018	\$25
<b>Bond Auctions</b>								
30-year	06/07/2018	06/12/2018	06/15/2018	TBA	R	TBA	05/10/2018	\$17

<b>TIPS Auctions</b>								
5-yr TIPS	TBA	TBA	TBA	TBA		TBA	04/19/2018	\$16
10-yr TIPS	05/10/2018	05/17/2018	05/31/2018	TBA	R	TBA	03/22/2018	\$11
30-yr TIPS	06/14/2018	06/21/2018	06/29/2018	TBA	R	TBA	02/15/2018	\$7
<b>Floating Rate Note</b>								
2-year FRN	05/17/2018	04/25/2018	04/30/2018	9128284K3		\$17	03/28/2018	\$18
<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)



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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, March 2018**  
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>			
	2018	2019	2020	Longer run	2018	2019	2020	Longer run	2018	2019	2020	Longer run
Change in real GDP	2.7	2.4	2.0	1.8	2.6-3.0	2.2-2.6	1.8-2.1	1.8-2.0	2.5-3.0	2.0-2.8	1.5-2.3	1.7-2.2
December projection	2.5	2.1	2.0	1.8	2.2-2.6	1.9-2.3	1.7-2.0	1.8-1.9	2.2-2.8	1.7-2.4	1.1-2.2	1.7-2.2
Unemployment rate	3.8	3.6	3.6	4.5	3.6-3.8	3.4-3.7	3.5-3.8	4.3-4.7	3.6-4.0	3.3-4.2	3.3-4.4	4.2-4.8
December projection	3.9	3.9	4.0	4.6	3.7-4.0	3.6-4.0	3.6-4.2	4.4-4.7	3.6-4.0	3.5-4.2	3.5-4.5	4.3-5.0
PCE inflation	1.9	2.0	2.1	2.0	1.8-2.0	2.0-2.2	2.1-2.2	2.0	1.8-2.1	1.9-2.3	2.0-2.3	2.0
December projection	1.9	2.0	2.0	2.0	1.7-1.9	2.0	2.0-2.1	2.0	1.7-2.1	1.8-2.3	1.9-2.2	2.0
Core PCE inflation <sup>4</sup>	1.9	2.1	2.1		1.8-2.0	2.0-2.2	2.1-2.2		1.8-2.1	1.9-2.3	2.0-2.3	
December projection	1.9	2.0	2.0		1.7-1.9	2.0	2.0-2.1		1.7-2.0	1.8-2.3	1.9-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	2.1	2.9	3.4	2.9	2.1-2.4	2.8-3.4	3.1-3.6	2.8-3.0	1.6-2.6	1.6-3.9	1.6-4.9	2.3-3.5
December projection	2.1	2.7	3.1	2.8	1.9-2.4	2.4-3.1	2.6-3.1	2.8-3.0	1.1-2.6	1.4-3.6	1.4-4.1	2.3-3.0

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 December projections were made in conjunction with the meeting of the Federal Open Market Committee on December 12-13, 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 December 12-13, 2017, meeting, and one participant did not submit such projections in conjunction with the March 20-21, 2018, 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/fomcprojtabl20180321.pdf>

## Libor Set

<b>1-Month Libor Set</b>	<b>1.93875</b>	<b>+.00500</b>	<b>(98.06125)</b>
<b>3-Month Libor Set</b>	<b>2.32063</b>	<b>-.00937</b>	<b>(97.67927)</b>
<b>6-Month Libor Set</b>	<b>2.49250</b>	<b>-.00813</b>	<b>(97.50750)</b>
<b>1-Year Libor Set</b>	<b>2.75386</b>	<b>-.00362</b>	<b>(97.24614)</b>

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## THEY SAID IT

**With the spread between 5- year and 30-year Treasuries narrowing last week to the lowest levels in more than a decade, here are some of their recent comments:**

James Bullard, president of the Federal Reserve Bank of St. Louis, [says](#) Monday the central bank's policies are to blame for the flattening and it should take care not to invert the curve by aggressive rate hikes. Bullard is not a voter this year and opposes further rate hikes.

Bullard [says](#) May 11 that it's getting close to "crunch time" on yield curve inversion.

**Dallas Fed chief Robert Kaplan, speaking on May 4, [says](#) that "it would give me great pause" if raising rates would invert the yield curve. Kaplan doesn't vote on monetary policy this year.**

Chicago Fed's Charles Evans, speaking on April 20, [says](#) the yield curve is less of a concern than it had been a few months ago, given the increase in deficits that's being reported and additional funding needs. Evans does not vote on policy this year.

**Fed Governor Randal Quarles, speaking April 18, [says](#) "I'm not viewing the current flattening of the yield curve as a particular signal of recession."**

John Williams, who will become New York Fed president in June, [said](#) April 17 that a truly negative yield curve was a powerful recession warning but "the flattening of the yield curve that we've seen is so far a normal part of the process, as the Fed is raising interest rates, long rates have gone up somewhat." Williams, now head of the San Francisco Fed, votes on policy this year.

**A Fed study released April 3 [found](#) that an inverted yield curve remains a powerful signal of a looming recession and that is still the case even if the current ultra-low level of U.S. interest rates are taken into account.**

Philadelphia Fed boss Patrick Harker, speaking March 29, [says](#) he expects the yield curve to steepen over the medium term, but "if that doesn't occur in a way that I anticipate, then I'd be willing to slow the pace of increases." Harker doesn't vote on policy this year.

**Eric Rosengren, president of the Boston Fed, [said](#) Jan. 12 that a flatter yield curve doesn't signal a recession and "I actually am not as worried about it."**

<https://www.bloomberg.com/news/articles/2018-05-15/what-fed-officials-are-saying-about-the-flattening-yield-curve>

**America's budget deficit and unemployment rate are heading in opposite directions — something that's never happened during post-World War II peacetime and could cause a significant jump in interest rates.**

<https://www.cnbc.com/2018/05/14/goldman-deficit-unemployment-rate-disconnect-could-fuel-higher-interest-rates.html>

Goldman Sachs projects, for instance, that [the 10-year Treasury note](#) could be yielding 3.6 percent next year.

The deficit increase is coming due to the recent barrage of [fiscal stimulus from Congress](#), including a \$1.5 trillion tax cut approved in December 2017 and a \$1.3 trillion spending bill aimed at keeping the government operating through the end of the fiscal year.

Normally such moves would come in the early stages of an economic recovery. The U.S. economy, though, is in the eighth year of its post-financial crisis expansion, middling as it has been.

The [unemployment rate is now at 3.9 percent](#) and falling, while the budget deficit was at \$668

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billion in 2017 and is expected, according to the Congressional Budget Office, to [top \\$1 trillion by 2020](#). That's a dual phenomenon that is highly uncommon in the U.S., according to Goldman economists.

**Seattle's city council on Monday approved a new tax for the city's biggest companies, including**

**[Amazon](#), to combat a housing crisis attributed in part to a local economic boom that has driven up real estate costs at the expense of the working class.**

<https://www.cnbc.com/2018/05/14/seattle-city-councils-new-tax-on-companies-including-amazon.html>

Amazon, the city's largest employer, said after the vote that it would go ahead with planning for a major downtown office building that it earlier had put on hold over its objections to a much stiffer tax plan originally proposed.

As passed on a 9-0 vote after a boisterous public hearing, the measure would apply to most companies grossing at least \$20 million a year, levying a tax of roughly 14 cents per employee per hour worked within the city — about \$275 annually for each worker.

That "head tax" formula is designed to raise \$45 million to \$49 million a year over the five-year life of the tax — down from an original \$75 million annually — to build more affordable housing and support services for the homeless. The tax would end after five years unless renewed by the city.

**“ZTE, the large Chinese phone company, buys a big percentage of individual parts from U.S. companies,” Trump said in a [tweet](#). “This is also reflective of the larger trade deal we are negotiating with China and my personal relationship with President Xi.”**

<https://www.bloomberg.com/news/articles/2018-05-14/trump-s-reversal-on-china-s-zte-penalty-sparks-bipartisan-rebuke>

Trump shocked many in Washington with a tweet Sunday that he was working with Chinese President Xi Jinping to give ZTE “a way to get back into business, fast.” Trump said “too many jobs in China” had been lost and that his Commerce Department “has been instructed to get it done!”

**Commerce Secretary Wilbur Ross [told](#) reporters Monday at the National Press Club in Washington that the department is now considering “alternative remedies” for ZTE’s sanctions violations and will seek to resolve the issue “very, very promptly.”**

Senator Marco Rubio, a Florida Republican, [tweeted](#) Monday that the U.S. would be “crazy” to allow ZTE to operate in the U.S. “without tighter restrictions.”

“Any telecomm firm in #China can be forced to act as a tool of Chinese espionage without a court order or other review process,” Rubio said.

Those concerns were echoed by Senate Democratic Leader Chuck Schumer, who said in a statement Monday that the plan was “a bad deal if there ever was one.”

“The toughest thing we could do, the thing that will move China the most, is taking tough action against actors like ZTE,” Schumer said. “But before it’s even implemented, the president backs off. This leads to the greatest worry, which is that the president will back off on what China fears most — a crackdown on intellectual property theft — in exchange for buying some goods in the short run.”

And Representative Tim Ryan, an Ohio Democrat, noted that Trump’s tweets had highlighted layoffs in China even as autoworkers were losing their job in his home state.

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"On top of that, the NSA, FBI, and CIA all have cyber security concerns with ZTE," Ryan said. "The Pentagon even stopped selling its phones in its bases. Your willingness to throw a lifeline to ZTE and China puts our national security at risk. What happened to America First?"

Gina Haspel, nominated by Trump to lead the CIA, said during her confirmation hearing last week that she wouldn't use a phone manufactured by Chinese telecom manufacturer [Huawei Technologies Co.](#)

"I don't even have a social media account, but I wouldn't -- I wouldn't use Huawei products," Haspel said.

"It certainly sends a bad signal about sanctions on companies that do business with Iran and for the normal procedures at Commerce," in terms of "the consistency with U.S. sanctions and follow-through," said [Adam Segal](#), director of the Digital and Cyberspace Policy Program at the Council on Foreign Relations in New York.

"I don't think this tweet tells us that the U.S. is going to relax its suspicion of ZTE products sold in the U.S.," said Stewart Baker, a partner at Steptoe & Johnson and a former assistant secretary for policy at the Department of Homeland Security. "This was about whether to cut ZTE off entirely from U.S. products that it needs as components for the systems it sells around the world. The U.S. can and probably will work to keep ZTE out of the U.S.; the tweet is about whether the U.S. is going to put ZTE out of business entirely."

The U.S. blockade forced the suspension of most operations at ZTE, which employs about 75,000 people. The firm's shares were suspended from trading in Hong Kong last month.

**ZTE faces two likely scenarios, according to analysts Edison Lee and Timothy Chau at Jefferies: Commerce may conclude ZTE's violation is a careless mistake and will lift the ban without additional penalty, or the U.S. agency could suspend the ban temporarily, subject to further investigations and negotiations. Lee and Chau said the second scenario is much more likely, which would make it harder for ZTE to sign up new, overseas customers because of the uncertainty over its future.**

**Britons got their first real pay increase in more than a year in the first quarter as wage growth overtook the rate of inflation.**

<https://www.bloomberg.com/news/articles/2018-05-15/u-k-workers-get-a-real-pay-increase-as-labor-market-tightens>

Average earnings excluding bonuses rose 2.9 percent from a year earlier, the fastest pace since August 2015, the [Office for National Statistics](#) said Tuesday. Consumer-price inflation averaged 2.7 percent in the same period and the rate is expected to slow further as the effect of the pound's 2016 losses fade.

Total earnings growth slowed to 2.6 percent after a big increase in bonus payments in December fell out of the calculation. Excluding bonuses, private-sector pay growth accelerated to 3 percent, with the figure for March alone reaching 3.1 percent.

There was less positive news on productivity, as output per hour declined 0.5 percent following gains averaging 0.9 percent over the previous two quarters.

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**Oil futures prices have soared past three-year highs, OPEC's deal has cut millions of barrels of inventory worldwide and investors are betting in record numbers that prices could rocket past \$80 and even hit \$90 a barrel this year.**

<https://www.reuters.com/article/us-global-oil-trading/investors-see-big-oil-surge-but-physical-markets-suggest-caution-idUSKCN1IG0GG>

But physical markets for oil shipments tell a different story. Spot crude prices are at their steepest discounts to futures prices in years due to weak demand from refiners in China and a backlog of cargoes in Europe. Sellers are struggling to find buyers for West African, Russian and Kazakh cargoes, while pipeline bottlenecks trap supply in west Texas and Canada.

The divergence is notable because traditionally, physical markets are viewed as a better gauge of short-term fundamentals. Crude traders who peddle cargoes to refineries worldwide say speculators are on shaky ground as they drive futures markets above \$70 a barrel, their highest levels for three-and-a-half years, on concerns about tighter supply from Venezuela and the potential impact of U.S. sanctions on supply from Iran.

**Firefighters doused the blazing [Tesla Inc.](#) Model X's battery pack, and then company engineers removed about one-quarter of its power cells before the vehicle was deemed safe to tow off of a California freeway.**

<https://www.bloomberg.com/news/articles/2018-05-15/electric-car-era-threatens-firefighters-with-new-roadside-risks>

That didn't prevent the powerful and highly flammable lithium-ion battery cells from reigniting. The car caught fire twice more within 24 hours of the March 23 fatal crash, and again six days later, according to a safety bulletin from the fire department in Mountain View.

Fires on electric vehicles are rare, but the volatile chemistry of their batteries and the need for special training on how to extinguish them raises new safety questions as automakers are poised to dramatically increase production. Techniques for putting out burning gasoline-fueled vehicles could make worse a blaze in a battery powered one.

**Sports fans on Monday shrugged off a U.S. Supreme Court ruling that could open the door to legalize sports betting, saying it would likely have little impact on baseball, basketball and football games already subject to off-the-books gambling.**

<https://www.reuters.com/article/us-usa-court-gambling-fans/sports-fans-wager-supreme-court-ruling-wont-ruin-their-fun-idUSKCN1IG08U>

The nation's top court struck down a 1992 law that widely outlawed gambling on college and professional sports, calling it unconstitutional and likely touching off a rush by gaming businesses and states to cash in on an expected multibillion-dollar industry.

"There is certainly the potential for harm to the integrity of the games but that risk already exists in a wholly unregulated shadow economy that exploits gamblers with usurious interest rates and robs them of any vehicle to seek redress if they are ripped off," said Charles Adams, a 46-year-old lawyer and former judge.

"Most importantly, the current situation is a significant funding resource for organized crime. That ends with legalization," Adams said.

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**Many of the biggest names in the technology industry are consumed with developing an artificial general intelligence, or AGI. Unlike today's leading artificial intelligence software, an AGI wouldn't need flesh-and-blood trainers to figure out how to translate English to Mandarin or spot tumors in an X-ray. In theory, it would have some measure of independence from its creators, solve complex, novel problems on its own, and herald an era in which humankind is no longer superior to machines.**

<https://www.bloomberg.com/news/features/2018-05-15/google-amazon-and-facebook-owe-j-rgen-schmidhuber-a-fortune>

The consensus among our pitiful fleshbrains is that if humans ever manage to create an AGI, it'll arise in Mountain View, Calif., Beijing, or Moscow. All three cities are near world-class AI research universities and are home to companies that have pumped billions into the AGI race. There exists, however, a chance that the breakthrough will come from the Swiss city of Lugano. Yes, Lugano.

The picturesque slice of Switzerland's southern tip is home to about 60,000 people, including a computer scientist named [Jürgen Schmidhuber](#). He's a professor, a researcher, and the co-founder of a 25-employee AI startup called [Nnaisense](#). (Pronounced like "nascence," the name is proof that Silicon Valley holds no monopoly on ridiculous company names.) Schmidhuber is a pioneer who effectively figured out how to give AI systems memories. His ideas appear in one form or another in just about every smartphone, social network, and digital assistant. He's not shy to mention these things, or to cite reams of documentation to back himself up, or to say things like, "My team plans to change the course of human history," in between bites of salmon lasagna at a Lugano cafe.

**Noted astrophysicist Neil deGrasse Tyson, among others, have [claimed](#) that the world's first trillionaire will make his or her fortune in space minerals. According to NASA, the minerals that lie in the belt of asteroids between Mars and Jupiter hold wealth equivalent to a staggering [\\$100 billion for every person on Earth](#).**

<https://www.cnn.com/2018/05/15/mining-asteroids-could-be-worth-trillions-of-dollars.html>

There's a lack of legal clarity over the ownership of space resources, however, and laws presiding over space are largely ambiguous in general, according to Ian Christensen, the director of private sector programs at the Secure World Foundation, a space-related think tank.

"There are some gaps in the law, and some things need to be clarified to provide more certainty on current laws," Christensen told CNBC, adding there is no single authority responsible for the allocation of resources in space.

The most comprehensive law today is the United Nations-sponsored [Outer Space Treaty of 1967](#), but confusion between countries remains.

"When it comes to the use of space resources, the area is fairly vague and it can be interpreted in either direction," Rebecca Keller, a senior science and technology analyst at political risk consultants Stratfor told CNBC. "Governments and even experts in the field are still debating over the appropriate uses of these resources, and it remains a difficult question to answer."

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## EQUITIES

The S&P is **-7** and the NASDAQ is **-29**.

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 +0.25%.**

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

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

**Next meeting 06/21/18**

### On the European Continent

**The CAC Index closed +0.07%.**

**The DAX Index closed -0.13%.**

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

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

**Deposit Facility Rate -.40%**

**Next meeting 06/14/18**

### ASIA

#### Japan:

**The TOPIX closed -0.04%.**

**The NIKKEI closed -0.21%.**

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

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

**Next meeting 06/15/18**

#### China:

**The Hang Seng closed -1.23%.**

**The Shanghai Composite closed +0.57%.**

#### PBOC

**Deposit Rate: 1.50%**

**Lending Rate: 4.35%**

**7-Day Repo Rate: 2.7603%**

**Reserve Requirement Ratio: 17.00%**

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## THE TREND

EDM8: 97-64.0 is the pivot. Below the pivot, you should be short, above long.  
Support is at 97-57.5\*\*.

Resistance is at 97-64.0^ and 97-70.0\*\*.

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

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

Current trend has you short from 97-66.5 (4/11/18).



### YTD (per contract)

**2018 +34.5 ticks (+\$862.50)**

**2017 +33.0 ticks (+\$825.00)**

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**10yr/TYM8: 119-15.5 is the pivot point. Above you should be long, below short.**

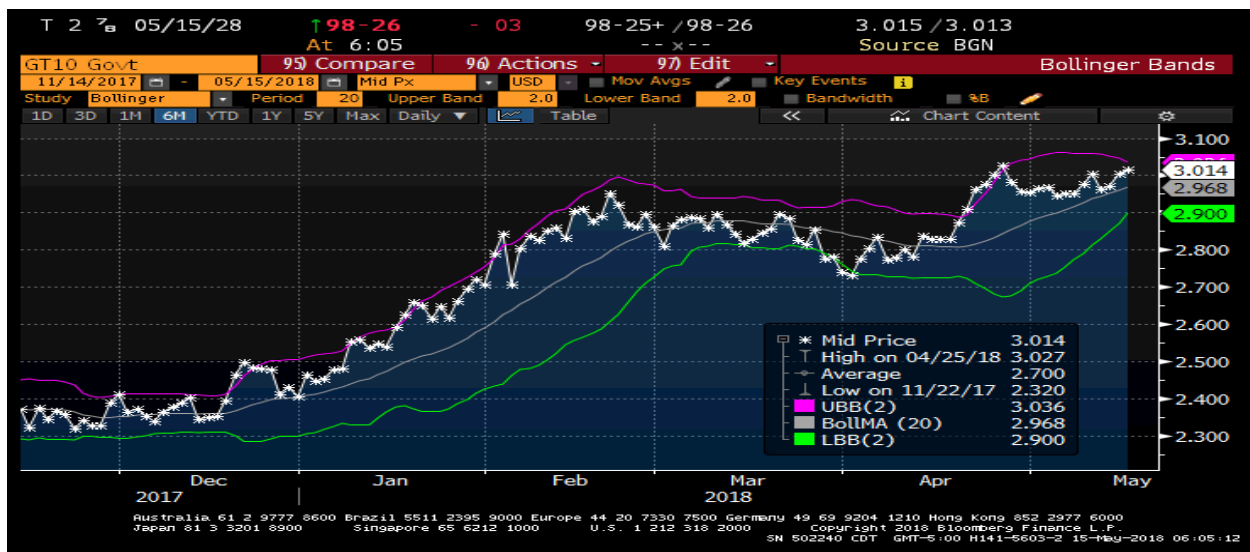
**Support is at 118-31.5\*\***

**Resistance is at 119-15.5^ and 119-31.5\*\***

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

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

**Current Trend has you short TYM8 from 120-19.0 (4/12/18).**



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**YTD (per contract)**

**(2018) +52.0 futures ticks (\$31.25 per tick) or +\$1,625.00.**

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

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

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# US-SWAPS IRSB <GO>

United States		98 Export		99 Settings		Interest Rate Swap Rates							
Date Range:						04/15/2018	-	05/15/2018	1 Month				
USD SemiAnnual 30/360 Swap Rates													
Tenor	Bid	Ask	Mid	Change	Today	#SD	Δ/day	Low	Range	High	Avg	+/-BPS	#SD
1) 1 YR	2,536 / 2,538		2,536	0.000		0.0	2,504	2,504	2,504 - 2,504	2,583	2,549	-1.1	-0.6
2) 2 YR	2,760 / 2,762		2,761	0.002		0.1	2,671	2,671	2,671 - 2,671	2,791	2,749	1.3	0.5
3) 3 YR	2,867 / 2,868		2,867	0.004		0.1	2,754	2,754	2,754 - 2,754	2,888	2,844	2.5	0.8
4) 4 YR	2,921 / 2,922		2,922	0.007		0.2	2,787	2,787	2,787 - 2,787	2,936	2,889	3.3	0.9
5) 5 YR	2,953 / 2,955		2,954	0.009		0.2	2,792	2,792	2,792 - 2,792	2,975	2,914	4.1	1.0
6) 6 YR	2,977 / 2,979		2,978	0.011		0.3	2,809	2,809	2,809 - 2,809	2,990	2,932	4.7	1.1
7) 7 YR	2,996 / 2,996		2,996	0.014		0.3	2,778	2,778	2,778 - 2,778	3,024	2,947	4.9	1.0
8) 8 YR	3,013 / 3,015		3,014	0.015		0.3	2,827	2,827	2,827 - 2,827	3,032	2,961	5.4	1.1
9) 9 YR	3,030 / 3,031		3,030	0.014		0.3	2,837	2,837	2,837 - 2,837	3,051	2,975	5.6	1.1
10) 10 YR	3,046 / 3,046		3,046	0.014		0.3	2,849	2,849	2,849 - 2,849	3,089	2,988	5.8	1.1
11) 15 YR	3,089 / 3,090		3,090	0.017		0.3	2,892	2,892	2,892 - 2,892	3,116	3,033	5.7	1.1
12) 20 YR	3,099 / 3,099		3,098	0.016		0.3	2,907	2,907	2,907 - 2,907	3,130	3,046	5.3	1.1
13) 25 YR	3,084 / 3,086		3,085	0.017		0.3	2,895	2,895	2,895 - 2,895	3,272	3,033	5.3	1.1
14) 30 YR	3,063 / 3,064		3,063	0.017		0.3	2,876	2,876	2,876 - 2,876	3,099	3,013	5.1	1.0

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 502340 CDT GMT-5:00 H141-5603-2 15-May-2018 05:48:02

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## The Option Lab

### Trade Log:

2. Long the TY Week-2 120.00 put (at the money) from 8/64ths (3/9/2018).

1/64<sup>th</sup> = \$15.625

8/64ths = \$125 per contract purchased.

120-00.00 strike price on the option equates to a TY yield of ~2.895%.

TY Week-2 in March expire today (3/9/18). Sold option back out at 7/64ths for a \$15.63 loss.

1. 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.

The put fly was sold on 2/7/18 for a 1.25 tick (\$31.25) winner.

**Option Book 2018 YTD realized: +\$15.62 per contract.**

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

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

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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 1st quarter 2018

For the seventeenth consecutive quarter, agricultural bankers in the Eighth Federal Reserve District, on net, reported that farm income had declined compared with a year earlier. This quarter's survey assesses agricultural finance conditions during the first quarter of 2018. Bankers also reported that farm household spending and capital expenditures remained below year-earlier levels in the first quarter. Compared with the previous survey, slightly more bankers were more optimistic about the prospects for farm income, household income, and capital expenditures over the next three months. Quality farmland values fell slightly in the first quarter from a year earlier, as did cash rents on quality farmland. By contrast, rangeland or pastureland values rose sharply in the first quarter, as did cash rents on this type of land. Judging from the expectations for several farm-related metrics reported last quarter, respondents generally believe that economic conditions in the farm economy in the first quarter of 2018 were modestly better than anticipated three months earlier. Interest rates on four of the six fixed- and variable-rate loan categories rose slightly in the first quarter. There were three special questions in this quarter's survey. Results from the first question indicated that nearly all bankers made loans to row crop farmers, while roughly three-quarters made loans to farmers with cattle operations. The second and third special questions looked at off-farm income for farmers. Nearly four of five bankers reported that half or less of the farmers they lend to have full- or part-time off-farm jobs. A similar percentage

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indicated that half or less of the farmers they lend to would have difficulty servicing their farm-related debt without off-farm income.

<https://research.stlouisfed.org/publications/regional/ag-finance/2018/05/10/2018-first-quarter/>

### 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>

## 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.	11 May 2018	1,045	+13	4 May 2018	+160	12 May 2017
Canada	11 May 2018	79	-7	4 May 2018	-1	12 May 2017
International	April 2018	978	+6	March 2018	+22	April 2017

<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%**

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**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>**

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

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

## **TRANSPORTS**

### **Association of American Railroads Rail Traffic Report.**

For this week, total U.S. weekly rail traffic was 545,937 carloads and intermodal units, up 7.5 percent compared with the same week last year.

Total carloads for the week ending May 5 were 265,563 carloads, up 6.4 percent compared with the same week in 2017, while U.S. weekly intermodal volume was 280,374 containers and trailers, up 8.5 percent compared to 2017.

Nine of the 10-carload commodity groups posted an increase compared with the same week in 2017.

They included nonmetallic minerals, up 4,192 carloads, to 41,092; coal, up 4,023 carloads, to 77,468; and grain, up 3,250 carloads, to 25,100. One commodity group posted a decrease compared with the same week in 2017: miscellaneous carloads, down 2,575 carloads, to 8,201.

For the first 18 weeks of 2018, U.S. railroads reported cumulative volume of 4,612,788 carloads, up 0.9 percent from the same point last year; and 4,875,755 intermodal units, up 5.9 percent from last year. Total combined U.S. traffic for the first 18 weeks of 2018 was 9,488,543 carloads and intermodal units, an increase of 3.4 percent compared to last year.

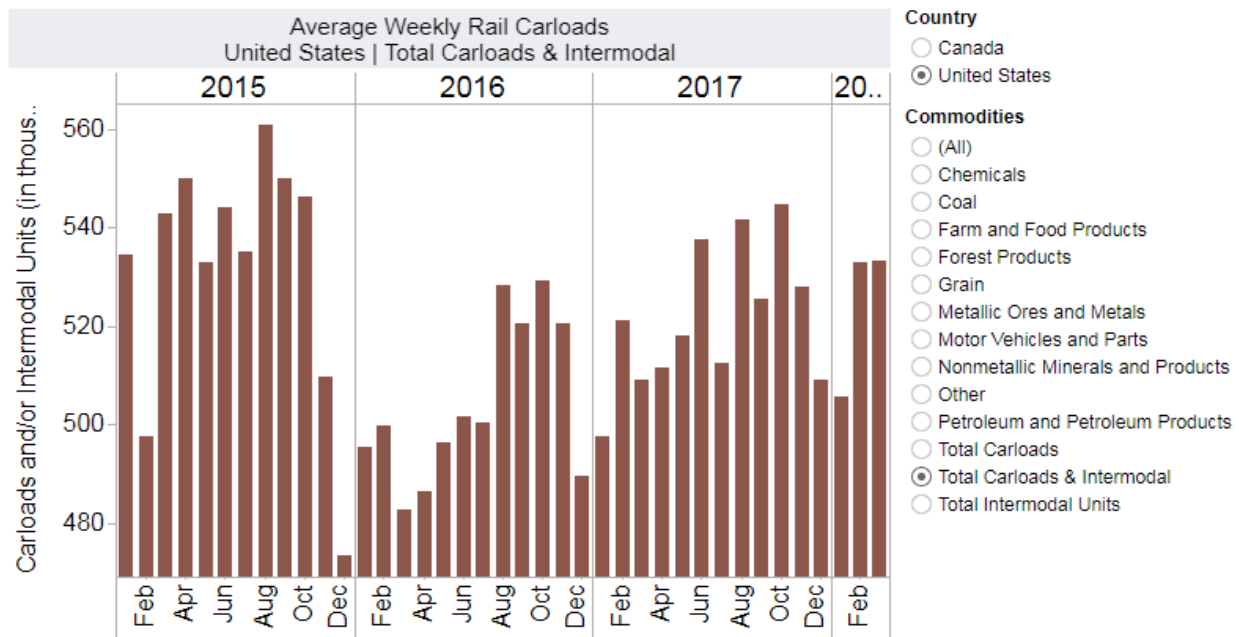
North American rail volume for the week ending May 5, 2018, on 12 reporting U.S., Canadian and Mexican railroads totaled 371,260 carloads, up 6.4 percent compared with the same week last year, and 366,970 intermodal units, up 7.4 percent compared with last year. Total combined weekly rail traffic in North America was 738,230 carloads and intermodal units, up 6.9 percent. North American rail volume for the first 18 weeks of 2018 was 12,792,179 carloads and intermodal units, up 3 percent compared with 2017.

Canadian railroads reported 86,114 carloads for the week, up 5.8 percent, and 71,685 intermodal units, up 7 percent compared with the same week in 2017. For the first 18 weeks of 2018, Canadian railroads reported cumulative rail traffic volume of 2,622,890 carloads, containers and trailers, up 2.9 percent. Mexican railroads reported 19,583 carloads for the week and 14,911 intermodal units. Cumulative volume on Mexican railroads for the first 18 weeks of 2018 was 680,746 carloads and intermodal containers and trailers.

<https://www.aar.org/news/rail-traffic-for-the-week-ending-may-5-2018/>

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## Monthly Rail Traffic Charts



\*Canada - Figures for Canada include the U.S. operations of Canadian railroads.

\*\*United States - Figures for the U.S. exclude the U.S. operations for Canadian



<https://www.aar.org/data-center/rail-traffic-data/>

### Trailer Truck Demand (Bloomberg Intelligence) – 05/14/18

Relative North American spot-trucking demand rose 0.5% sequentially to 58.3 in the week ended May 11, based on Truckstop.com's Market Demand Index. Capacity slightly tightened as growth in available loads (1%) outpaced available trucks (up 0.5%). For the first time in 14 weeks, average spot rates, excluding fuel surcharges, inched lower (down 0.1%). Rates are up 27% in 2018, driven by a number of factors that have tightened capacity including new regulations, economic activity and limited driver availability.

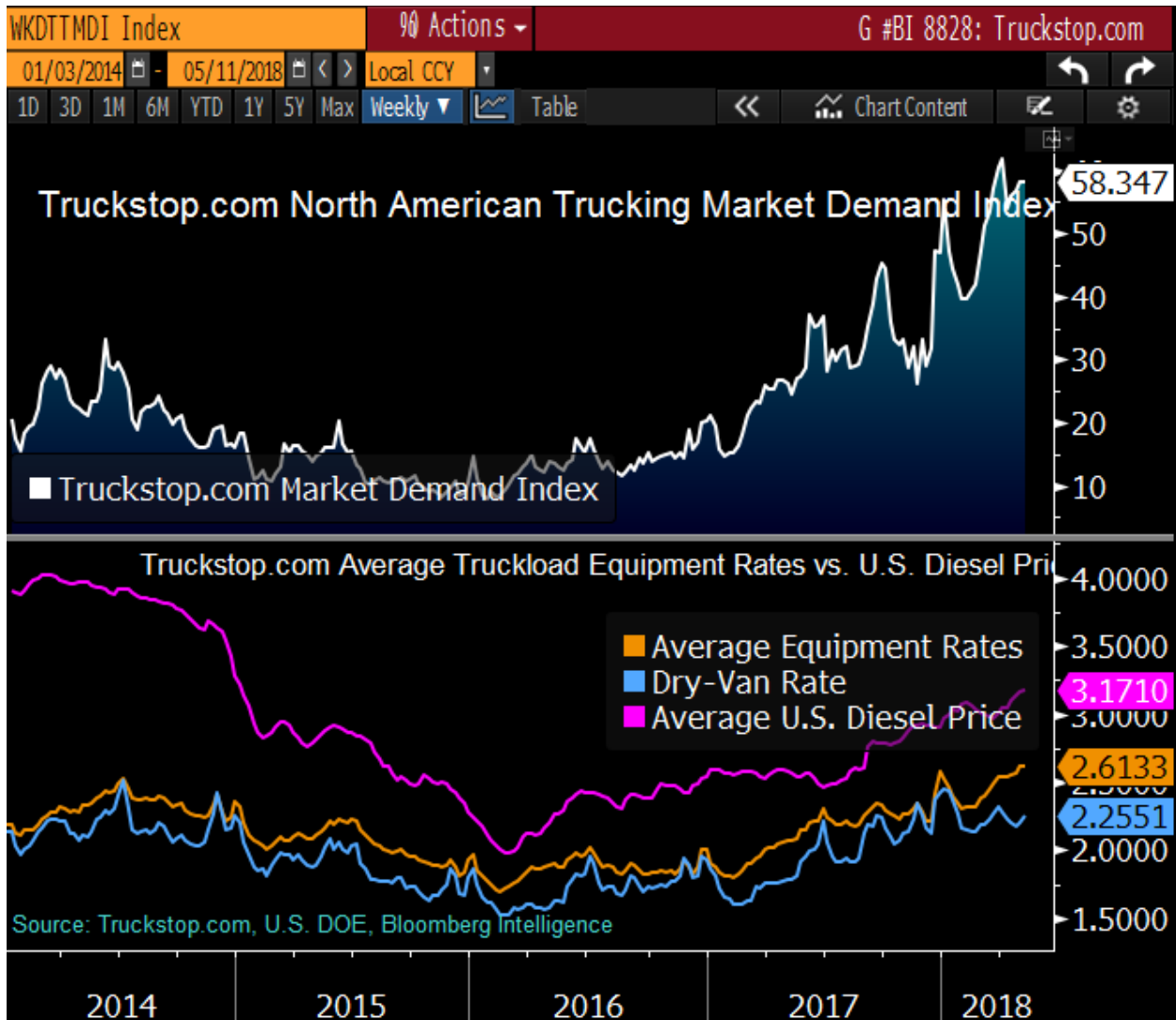
Companies Impacted: USA Truck, Knight-Swift, J.B. Hunt, Werner, Schneider, Marten and other publicly traded carriers operate mostly in the contract market with varying spot exposure. Spot can be a leading indicator of contractual pricing. Some carriers are raising spot exposure to take advantage of higher rates.

To contact the analyst for this research:

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

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## GDP

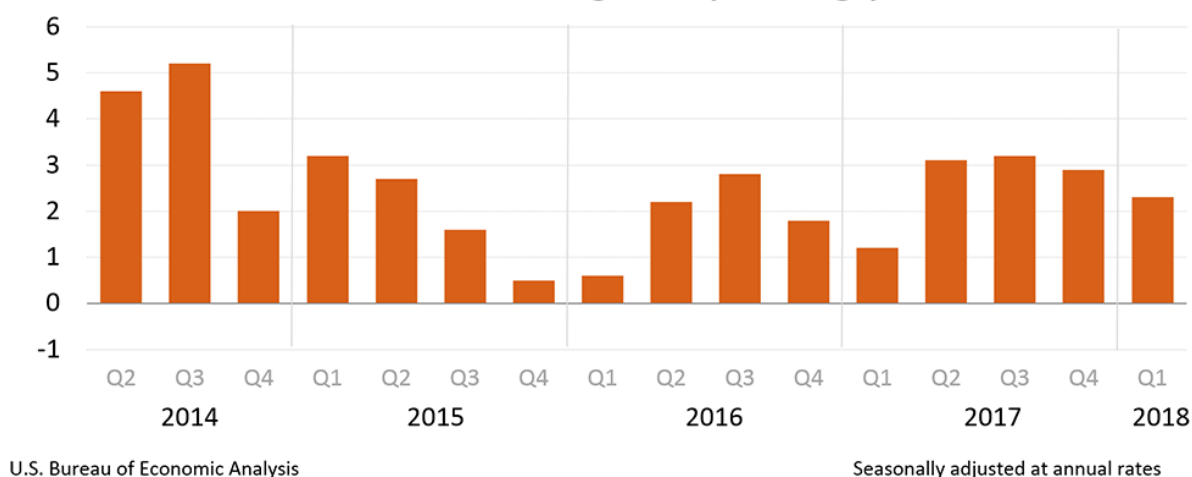
U.S. Department of Commerce, Bureau of economic analysis

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

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

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## Real GDP: Percent change from preceding quarter



**GDP-2Q is running at \*3.68% as of 5/11/18 v. \*3.68% as of 5/09/18**  
**\*simple average of the three regionals.**

### **Atlanta Fed GDPNow...Latest forecast Q2 2018: 4.0% —May 9, 2018**

*The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2018 is **4.0 percent** on May 9, unchanged from May 3. The nowcasts of second-quarter real consumer spending growth and second-quarter real private fixed investment growth inched down from 3.1 percent and 5.6 percent, respectively, to 3.0 percent and 5.4 percent, respectively, after Friday's employment report from the U.S. Bureau of Labor Statistics. The nowcast of the contribution of inventory investment to second-quarter real GDP growth increased from 0.67 percentage points to 0.78 percentage points after this morning's wholesale trade release from the U.S. Census Bureau.*

*The next GDPNow update is **Tuesday, May 15**. Please see the "Release Dates" tab below for a full list of upcoming releases.*

<https://www.frbatlanta.org/cqer/research/gdpnow.aspx>

### **New York Fed Nowcast...Q1 2018: 3.0%...May 11, 2018**

The New York Fed Staff Nowcast stands at 3.0% for 2018:Q2.

News from this week's data releases left the nowcast for 2018:Q2 broadly unchanged.

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

### **St. Louis Fed Real GDP Nowcast... Q2 2018: 4.03%...May 9, 2018**

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

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## MANUFACTURING AT A GLANCE

APRIL 2018

Index	Series Index Apr	Series Index Mar	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	57.3	59.3	-2.0	Growing	Slower	20
New Orders	61.2	61.9	-0.7	Growing	Slower	28
Production	57.2	61.0	-3.8	Growing	Slower	20
Employment	54.2	57.3	-3.1	Growing	Slower	19
Supplier Deliveries	61.1	60.6	+0.5	Slowing	Faster	19
Inventories	52.9	55.5	-2.6	Growing	Slower	4
Customers' Inventories	44.3	42.0	+2.3	Too Low	Slower	19
Prices	79.3	78.1	+1.2	Increasing	Faster	26
Backlog of Orders	62.0	59.8	+2.2	Growing	Faster	15
New Export Orders	57.7	58.7	-1.0	Growing	Slower	26
Imports	57.8	59.7	-1.9	Growing	Slower	15
<b>OVERALL ECONOMY</b>				Growing	Slower	108
<b>Manufacturing Sector</b>				Growing	Slower	20

Average for 12 months - 58.4

High - 60.8

Low - 55.5

<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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