



Fixed Income Group A Division of RJ O'Brien

**The Missile**

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

United States Browse 15:24:09 06/07/18 - 06/13/18

Economic Releases All Economic Releases View Agenda Weekly

	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	06/07	07:30	🔔	📈	📈	Initial Jobless Claims	Jun 2	220k	--	221k	--
22)	06/07	07:30	🔔	📈	📈	Continuing Claims	May 26	1738k	--	1726k	--
23)	06/07	08:45	🔔	📈	📈	Bloomberg Consumer Comfort	Jun 3	--	--	55.2	--
24)	06/07	11:00	🔔	📈	📈	Household Change in Net Worth	1Q	--	--	\$2076b	--
25)	06/07	14:00	🔔	📈	📈	Consumer Credit	Apr	\$14.000b	--	\$11.622b	--
26)	06/08	07:45				Bloomberg June United States Economic Survey					
27)	06/08	09:00	🔔	📈	📈	Wholesale Trade Sales MoM	Apr	--	--	0.3%	--
28)	06/08	09:00	🔔	📈	📈	Wholesale Inventories MoM	Apr F	0.0%	--	0.0%	--
29)	06/12	05:00	🔔	📈	📈	NFIB Small Business Optimism	May	104.8	--	104.8	--
30)	06/12	07:30	🔔	📈	📈	CPI MoM	May	0.2%	--	0.2%	--
31)	06/12	07:30	🔔	📈	📈	CPI Ex Food and Energy MoM	May	0.2%	--	0.1%	--
32)	06/12	07:30	🔔	📈	📈	CPI YoY	May	2.7%	--	2.5%	--
33)	06/12	07:30	🔔	📈	📈	CPI Ex Food and Energy YoY	May	2.2%	--	2.1%	--
34)	06/12	07:30	🔔	📈	📈	CPI Index NSA	May	--	--	250.546	--
35)	06/12	07:30	🔔	📈	📈	CPI Core Index SA	May	--	--	256.450	--
36)	06/12	07:30	🔔	📈	📈	Real Avg Weekly Earnings YoY	May	--	--	0.4%	--
37)	06/12	07:30	🔔	📈	📈	Real Avg Hourly Earning YoY	May	--	--	0.2%	--
38)	06/12	13:00	🔔	📈	📈	Monthly Budget Statement	May	--	--	\$214.3b	--
39)	06/13	06:00	🔔	📈	📈	MBA Mortgage Applications	Jun 8	--	--	4.1%	--

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-5:00 G641-5529-2 06-Jun-2018 15:24:09

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

Calendars		Alerts		Export		Settings		Economic Calendars		
United States		Browse		05:48:04		06/04/18		06/30/18		
Central Banks		All Central Banks				View		Agenda Weekly		
Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	06/13 13:00				FOMC Rate Decision (Upper Bou...	Jun 13	2.00%	--	1.75%	--
22)	06/13 13:00				FOMC Rate Decision (Lower Bo...	Jun 13	1.75%	--	1.50%	--
23)	06/13 13:30				Fed's Powell Holds Press Conference Following FOMC Decision					
24)	06/19 06:00				ECB's Lane and St. Louis Fed Bullard speak in Sintra, Portugal					
25)	06/20 08:30				Draghi, Lowe and Powell speak in Sintra, Portugal					

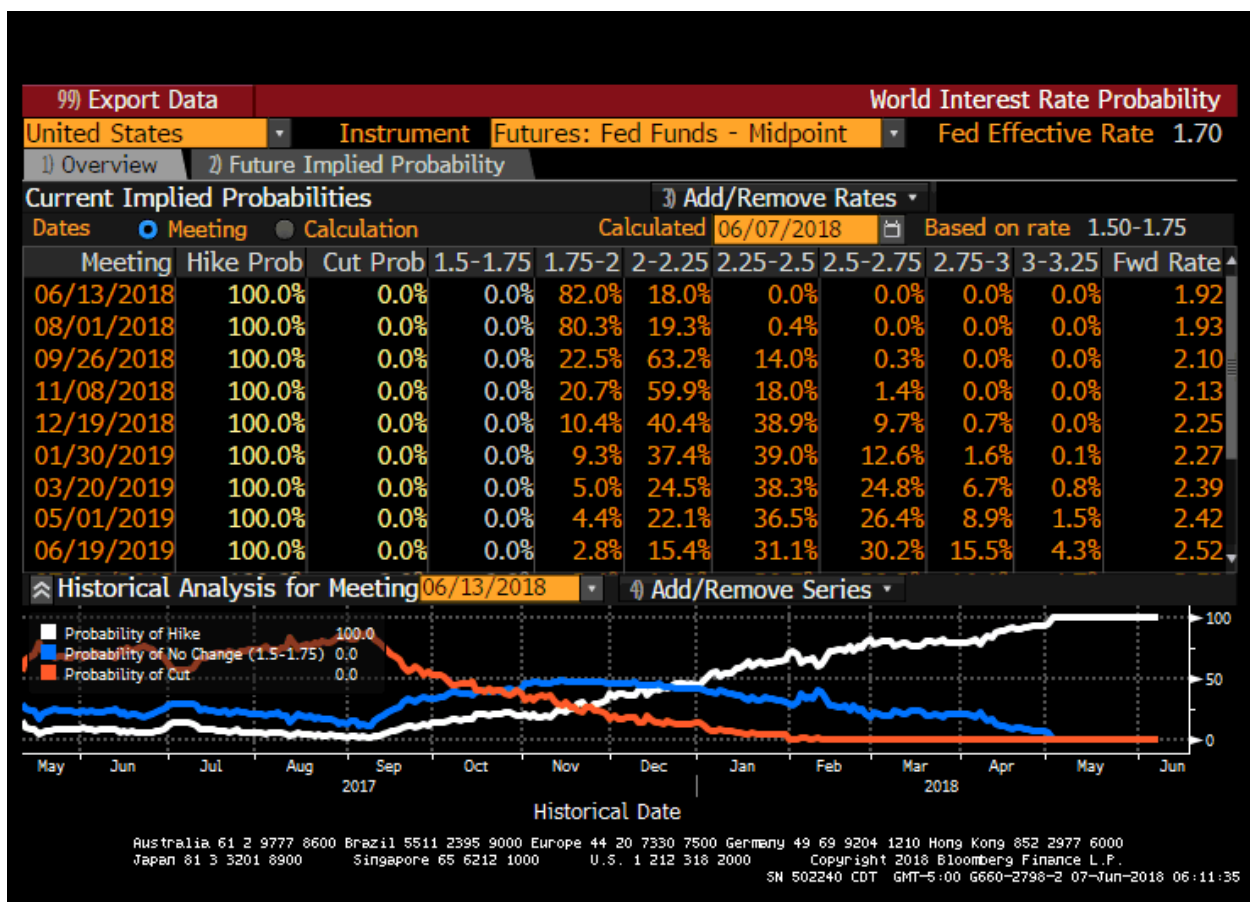
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Previous		Next		Send		Actions		Translate		News: News Story	
06/05/2018 13:56:18 [BN]											
Bill Auctions	Announcement	Auction	Settles	Numbers	R	Bil	Auction	\$ Bln			
Cash mgmt	TBA	TBA	TBA	TBA		TBA	02/13/2018	\$50			
4-week	06/11/2018	06/12/2018	06/14/2018	TBA		TBA	06/05/2018	\$35			
3-month	06/07/2018	06/11/2018	06/14/2018	912796NV7		TBA	06/04/2018	\$48			
6-month	06/07/2018	06/11/2018	06/14/2018	912796QN2		TBA	06/04/2018	\$42			
1-year	06/14/2018	06/19/2018	06/21/2018	TBA		TBA	05/22/2018	\$26			
Note Auctions											
2-year	06/21/2018	06/26/2018	07/02/2018	TBA		TBA	05/22/2018	\$33			
3-year	06/07/2018	06/11/2018	06/15/2018	9128284T4		TBA	05/08/2018	\$31			
5-year	06/21/2018	06/27/2018	07/02/2018	TBA		TBA	05/23/2018	\$36			
7-year	06/21/2018	06/28/2018	07/02/2018	TBA		TBA	05/24/2018	\$30			
10-year	06/07/2018	06/11/2018	06/15/2018	9128284N7	R	TBA	05/09/2018	\$25			
Bond Auctions											
30-year	06/07/2018	06/12/2018	06/15/2018	9128284N7	R	TBA	05/10/2018	\$17			

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TIPS Auctions									
5-yr TIPS	08/16/2018	08/23/2018	08/31/2018		TBA	R	TBA	04/19/2018	\$16
10-yr TIPS	07/12/2018	07/19/2018	07/31/2018		TBA		TBA	05/17/2018	\$11
30-yr TIPS	06/14/2018	06/21/2018	06/29/2018		TBA	R	TBA	02/15/2018	\$7
Floating Rate Note									
2-year FRN	06/21/2018	06/27/2018	06/29/2018		TBA	R	TBA	05/23/2018	\$16
Buyback Operation									
Buyback		TBA	TBA	TBA	TBA		TBA	11/15/2017	\$.025

## Current 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

Percent

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/fomeprojtabl20180321.pdf>

## Libor Set

<b>1-Month Libor Set</b>	<b>2.04368</b>	<b>+.01677</b>	<b>(97.95632)</b>
<b>3-Month Libor Set</b>	<b>2.32713</b>	<b>+.00625</b>	<b>(97.67287)</b>
<b>6-Month Libor Set</b>	<b>2.49188</b>	<b>+.00813</b>	<b>(97.50812)</b>
<b>1-Year Libor Set</b>	<b>2.75375</b>	<b>+.01287</b>	<b>(97.24325)</b>

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## THEY SAID IT

**“This week has, and will likely continue to be, all about the handoff from last week’s risk off rally to next week’s onslaught of Tier 1 market events.”**

**From Mike Novack at CIBC**

On Monday the market will be taking down 3s and 10s supply, with recent history suggesting that Monday twin auctions tend to see larger concessions built in for supply. We would expect the market to continue to grind back towards 3% into the auction, now that we’ve closed up the gap from last week, with 10s likely cheapening up further on the fly between now and then. We’ll be looking at that 2.99/3.0 zone in 10s, or 119-03 in TY, as first areas of support.

Those auctions will serve as the appetizer to the rest of the week. On Tuesday we’ll get CPI and 30yr supply (along with the much ballyhooed Trump/Kim summit), Wednesday FOMC, and Thursday ECB and retail sales. With data this cycle looking a bit better, and most shops looking for Q2 GDP in the mid 3% area, we think the FOMC forecasts will be interesting. The most interesting for us will be the 2018 dot, with only 1 of the 6 median dots needing to move higher to shift the overall median to 4 hikes for 2018. We think that is supportive of the recent downside pressure in edz8, which should also see the curve flatten out of supply (as long as CPI isn’t a disaster, of course). The market is also starting to get its hopes up for the ECB next Thursday, with yesterday’s “sources” story being supported overnight by several ECB speakers. We do not doubt that the ECB plans to discuss what to do about their purchase program, but given the recent events in Italy we think they are more likely to defer that decision to July. This would follow last year, when the market was initially looking for a decision in Sep, but had to wait until Oct for the announcement.

“I don’t think they can change policy based on fear,” said Bricklin Dwyer, senior economist at BNP Paribas in New York. Emerging-market turmoil “is noise right now, justifiable noise. But does it shift the outlook for the U.S? The answer is, not yet.”

<https://www.bloomberg.com/news/articles/2018-06-07/fed-on-track-to-raise-rates-regardless-of-emerging-market-woes>

Emerging markets struggling with higher U.S. interest rates are likely to get little sympathy from the Federal Reserve.

Currencies of such nations have been hammered in a spreading selloff amid worries that their economies won’t cope with higher U.S. borrowing costs. That’s prompted central bankers in India and Indonesia to raise interest rates and [urge Fed caution](#), while officials in [Brazil](#) are bracing for challenging times too.

Chairman Jerome Powell explicitly pushed back against criticism early last month in Zurich, [saying](#) the role of U.S. monetary policy on foreign domestic financial conditions was “often exaggerated.” His colleague, Governor Lael Brainard, mentioned emerging markets in a May 31 [speech](#), but spent far more time discussing the upside risks posed by fiscal stimulus. Even if exports are tempered by foreign economic woes, trade fights, and a somewhat stronger dollar, some \$1.5 trillion in fiscal stimulus and a \$300 billion increase in federal spending are supporting domestic U.S. demand with “a huge tailwind,” said Torsten Slok, chief international economist at Deutsche Bank AG in New York.

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**"Right now, there's no question: it's feeling strong. I mean, if we're in the sixth inning, we have our sluggers coming to bat right now," Buffett told CNBC's [Squawk Box](#) in the interview airing Thursday.**

<https://www.cnbc.com/2018/06/07/buffett-says-economy-is-feeling-strong.html>

"I'm no good at predicting out two or three or five years from now, although I will say this: there's no question in my mind that America's going to be far ahead of where we are now 10, 20 and 30 years from now," the 87-year-old billionaire added. "But right now, business is good. There's no question about it."

But Buffett added that a strong economy doesn't necessarily mean it's a good time to buy stocks. "The decision on the stock market should be made independent of the current business outlook," Buffett said. "I don't think you should buy stocks based on what you think the next six months or year is going to bring."

"This economy is on fire," he said from a back table at the cafe the other day, watching as the lunchtime crowd lined up for the Asian Zing Salad and Big Mo's Toaster hamburger.

<https://www.bloomberg.com/news/articles/2018-06-06/shale-country-dangles-100-pay-raises-as-labor-market-runs-dry>

Jerry Morales, the mayor of Midland, Texas, and a local restaurateur, are being whipsawed by the latest Permian Basin shale-oil boom.

Fire, of course, can be dangerous. In the country's busiest oil patch, where the [rig count](#) has climbed by nearly one third in the past year, drillers, service providers and trucking companies have been poaching in all corners, recruiting everyone from police officers to grocery clerks. So many bus drivers with the [Ector County Independent School District](#) in nearby Odessa quit for the shale fields that kids were sometimes late to class. The George W. Bush Childhood Home, a museum in Midland dedicated to the 43rd U.S. president, is smarting from a volunteer shortage. The oil industry has such a ferocious appetite for workers that it'll hire just about anyone with the most basic skills. "It is crazy," said Jazmin Jimenez, 24, who zipped through a two-week training program at New Mexico Junior College in Hobbs, about 100 miles north of Midland, and was hired by [Chevron Corp.](#) as a well-pump checker. "Honestly I never thought I'd see myself at an oilfield company. But now that I'm here -- I think this is it."

That's understandable, considering the \$28-a-hour she makes is double what she was earning until December as a guard at the Lea County Correctional Facility in Hobbs. When the boom goes bust, as history suggests they all do, shale-extraction businesses won't be able to out-pay most employers anymore. Jimenez said she'll take the money as long as it lasts.

First Argentina. Then Turkey. Could Brazil be next?

<https://www.bloomberg.com/news/articles/2018-06-06/el-erian-warns-brazil-may-be-next-domino-as-em-contagion-spreads>

Mohamed El-Erian hinted at exactly that as the Brazilian real led major currency losses Wednesday, even after the nation's central bank offered \$1.5 billion in extra swap contracts to keep it above water.

Brazilian policymakers are in a "tricky position -- and there's little room for error," El-Erian, the chief economic adviser to Allianz SE and a Bloomberg Opinion contributor, wrote on [Twitter](#).

Because Paul Gruenwald had a front row seat for the Asia crisis, Bloomberg News asked for his analysis of the current selloff in emerging markets, which has rattled Argentina and Turkey and

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prompted other leading economists such as Carmen Reinhart to forecast a [rocky period](#) ahead. The current emerging market tensions reflect the stronger dollar and higher U.S. rates, both of which reflect a relatively strong U.S. economy. Countries with some combination of high external financing requirements, high U.S. dollar-denominated debt and large foreign investor pools will be most affected. Under the assumption that markets are discriminating across these vulnerabilities, there shouldn't be a crisis.

<https://www.bloomberg.com/news/articles/2018-06-06/asia-crisis-veteran-says-this-em-selloff-is-different>

### **Do strong underlying fundamentals matter if the market turns?**

If markets are discriminating then EM countries with strong fundamentals should be OK. But that doesn't always happen. However, such episodes of generalized, non-discriminating risk reduction should be short-lived so countries with good fundamentals -- including ample reserve buffers (see, for example, Korea in 2008-09) should be able to weather the storm.

### **Are you concerned about debt? If so, can you detail where?**

The debt levels become more of a concern if funding conditions become tight and debt needs to be rolled over and/or rates rise more quickly than expected, which leads to debt servicing issues and less spending on other goods and services. We would need a much quicker pace of policy normalization -- a Fed-behind-the-curve scenario -- to see this happen.

### **s there a risk to central bank independence?**

I don't think so. Central banks may need to use some combination of higher on-shore rates and reserve drawdowns to help battle any storms. This does not necessarily compromise their independence, unless they are being ordered to do so by the government.

### **What's your biggest concern? Who is most vulnerable?**

We really don't have a list of countries, but we do have a list of characteristics. We would note that in Asia Pacific, India and Indonesia -- two victims of the 2013 Taper Tantrum -- are better placed this time around with lower current-account deficits, although they have seen some modest pressures and Bank Indonesia did raise rates.

### **How would you describe overall conditions today versus 1997?**

I see markets as much more discriminating as regards EM. In the old days we would see a generalized EM selloff, sometimes with significant collateral damage hitting countries that were well-run but lumped together with all emerging markets, good and bad. With much more and more timely information now available, it is a good thing that markets are more discriminating.

With the stroke of a pen, the commander in chief can [forgive someone for their crime](#) and restore the civil rights they lost. The move can go virtually unchallenged by other branches of government, and with that kind of sweeping power often comes [questions](#) and [controversy](#). Here's how presidential pardons work.

<https://www.cnn.com/2018/06/06/trump-us-presidential-pardons-history-clemency-constitution.html>

Presidential pardoning power was written into the Article II, Section 2, of the Constitution. It went into effect in 1789. [It says](#) the president "shall have Power to grant Reprieves and Pardons for Offenses against the United States, except in Cases of Impeachment."

So as long as it doesn't have to do with impeachment, most federal, but not state, crimes are [fair game for pardoning](#).

There's no limit to how many people a president can pardon. Franklin D. Roosevelt [holds the record](#) with a whopping 2,819 during his time in office from 1933 to 1945.

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## EQUITIES

The S&P is +5 and the NASDAQ is +3.

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 +0.10%.**

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

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

**Next meeting 06/21/18**

### On the European Continent

**The CAC Index closed +0.31%.**

**The DAX Index closed +0.24%.**

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

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

**Deposit Facility Rate -.40%**

**Next meeting 06/14/18**

### ASIA

#### Japan:

**The TOPIX closed +0.64%.**

**The NIKKEI closed +0.87%.**

In Japan, the swap curve is flatter with yields mixed.

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

**Next meeting 06/15/18**

#### China:

**The Hang Seng closed +0.81%.**

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

#### 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

EDU8: 97-54.0 is the pivot. Below the pivot, you should be short, above long. Support is at 97-48.0\*\*.

Resistance is at 97-54.0^ and 97-60.5\*\*.

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

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

Current trend has you short from 97-53.5 (6/1/18).



### YTD (per contract)

**2018 +38.0 ticks (+\$950.00)**

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

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**10yr/TYU8: 119-06.5** is the pivot point. Above you should be long, below short.

Support is at **117-22.0\***

Resistance is at **119-06.5^** and **120-23.0\*\***

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

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

**Current trend has you long from 118-31.0 (5/23/18)**



**YTD (per contract)**

**(2018) +98.0 futures ticks (\$31.25 per tick) or +\$3,062.25.**

**(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: 05/07/2018 - 06/07/2018 1 Month							
40 Semi Swaps		41 Sprs to Gov.		42 Ann Swaps		43 Ann Sprs		44 OIS Swaps		45 CHE/LCH Sprs			
USD SemiAnnual 30/360 Swap Rates													
Tenor	Bid	Ask	Mid	Change	Today	#SD	Δ/da	Low	Range	High	Avg +/-BPS	PCS	CMPN
1) 1 YR	2.591 / 2.594	2.593	0.011			0.3	2.434	2.594	2.553	4.1	1.3		
2) 2 YR	2.799 / 2.802	2.800	0.015			0.3	2.544	2.832	2.757	4.5	0.8		
3) 3 YR	2.888 / 2.891	2.889	0.016			0.2	2.606	2.952	2.851	4.0	0.6		
4) 4 YR	2.932 / 2.934	2.933	0.015			0.2	2.647	3.015	2.900	3.4	0.5		
5) 5 YR	2.958 / 2.960	2.959	0.016			0.2	2.674	3.055	2.928	3.2	0.4		
6) 6 YR	2.978 / 2.979	2.978	0.016			0.2	2.695	3.081	2.950	2.9	0.4		
7) 7 YR	2.993 / 2.998	2.996	0.017			0.2	2.717	3.114	2.967	3.1	0.4		
8) 8 YR	3.010 / 3.013	3.012	0.015			0.2	2.744	3.122	2.984	2.9	0.4		
9) 9 YR	3.027 / 3.029	3.029	0.016			0.2	2.767	3.140	3.001	2.8	0.4		
10) 10 YR	3.040 / 3.050	3.045	0.016			0.2	2.788	3.182	3.018	3.2	0.4		
11) 15 YR	3.086 / 3.089	3.088	0.017			0.2	2.850	3.205	3.063	2.5	0.4		
12) 20 YR	3.093 / 3.094	3.093	0.015			0.2	2.870	3.214	3.073	2.0	0.3		
13) 25 YR	3.078 / 3.079	3.078	0.016			0.2	2.835	3.201	3.060	1.9	0.3		
14) 30 YR	3.056 / 3.058	3.057	0.016			0.2	2.844	3.178	3.039	1.9	0.3		

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 6660-2798-2 07-Jun-2018 06:14:33

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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.



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

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

#### 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, ranchland 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

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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 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>

### Baker Hughes Rig Count

<b>ENERGY</b> 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.	1 June 2018	1,060	+1	25 May 2018	+144	2 June 2017
Canada	1 June 2018	99	+18	25 May 2018	0	2 June 2017
International	April 2018	978	+6	March 2018	+22	April 2017

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

### EV Outlook 2018

#### Executive summary:

Sales of new electric cars worldwide surpassed 1 million units in 2017 – a record volume. This represents a growth in new electric car sales of 54% compared with 2016. Electric cars accounted for 39% of new car sales in Norway in 2017 – the world’s most advanced market of electric cars in terms of sales share. 2 Iceland and Sweden, the next two most successful markets, achieved 11.7% and 6.3% electric car sales share, respectively, in 2017. 3 More than half of global sales of electric cars were in the People’s Republic of China (hereafter, “China”), where electric cars had a market share of 2.2% in 2017. Electric cars sold in the Chinese market more than doubled the amount delivered in the United States, the second-largest electric car market globally. Electrification of other transport modes is also developing quickly, especially for two-wheelers and buses. In 2017, sales of electric buses were about 100 000 and sales of two-wheelers are estimated at 30 million; for both modes, the vast majority was in China.

<https://www.iea.org/gevo2018/>

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

In 2017, about 4,015 billion kilowatthours (kWh) (or 4.01 trillion kWh) of electricity were generated at utility-scale facilities in the United States.<sup>1</sup> About 63% of this electricity generation was from fossil fuels (coal, natural gas, petroleum, and other gases). About 20% was from nuclear energy, and about 17% was from renewable energy sources. The U.S. Energy Information Administration estimates that an additional 24 billion kWh of electricity generation was from small-scale solar photovoltaic systems in 2017.<sup>2</sup>

U.S. electricity generation by source, amount, and share of total in 2017 <sup>1</sup>		
Energy source	Billion kWh	Share of total
<b>Total - all sources</b>	4,015	
<b>Fossil fuels (total)</b>	2,495	62.7%
Natural gas	1,273	31.7%
Coal	1,208	30.1%
Petroleum (total)	21	0.5%
Petroleum liquids	13	0.3%
Petroleum coke	9	0.2%
Other gases	14	0.4%
<b>Nuclear</b>	805	20.0%
<b>Renewables (total)</b>	687	17.1%
Hydropower	300	7.5%
Wind	254	6.3%
Biomass (total)	64	1.6%
Wood	43	1.1%
Landfill gas	11	0.3%
Municipal solid waste (biogenic)	7	0.2%
Other biomass waste	3	0.1%
Solar (total)	53	1.3%
Photovoltaic	50	1.2%
Solar thermal	3	0.1%
Geothermal	16	0.4%
Pumped storage hydropower <sup>3</sup>	-6	-0.2%
<b>Other sources</b>	13	0.3%

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

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## **TRANSPORTS**

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

U.S. railroads originated 1,319,420 carloads in May 2018, up 3.2 percent, or 41,078 carloads, from May 2017. U.S. railroads also originated 1,398,203 containers and trailers in May 2018, up 6.6 percent, or 86,010 units, from the same month last year. Combined U.S. carload and intermodal originations in May 2018 were 2,717,623, up 4.9 percent, or 127,088 carloads and intermodal units from May 2017.

In May 2018, 15 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with May 2017. These included: crushed stone, sand & gravel, up 16,811 carloads or 13.7 percent; chemicals, up 9,368 carloads or 6.1 percent; and coal, up 6,707 carloads or 1.7 percent. Commodities that saw declines in May 2018 from May 2017 included: nonmetallic minerals, down 4,187 carloads or 17 percent; metallic ores, down 2,254 carloads or 6.6 percent; and all other carloads, down 2,076 carloads or 6.9 percent.

“In May, U.S. rail carloads were higher in 15 of the 20 carload commodity categories the AAR tracks, including nearly all of the major ones,” said AAR Senior Vice President of Policy and Economics John T. Gray. “In addition, intermodal volume in May was the second highest for any month in history. Right now, the economy is clicking, and railroads are both beneficiaries and enablers of that. One potential cloud on the horizon, though, involves trade. Freight railroads are essential to the flow of goods and rely on sensible trade policy. We’re hopeful that federal policymakers will recognize that an unnecessary trade war would do far more harm than good.” Excluding coal, carloads were up 34,371 carloads, or 3.9 percent, in May 2018 from May 2017. Excluding coal and grain, carloads were up 31,198 carloads, or 4.1 percent.

Total U.S. carload traffic for the first five months of 2018 was 5,666,645 carloads, up 1.2 percent, or 66,071 carloads, from the same period last year; and 5,993,584 intermodal units, up 6 percent, or 336,944 containers and trailers, from last year.

Total combined U.S. traffic for the first 22 weeks of 2018 was 11,660,229 carloads and intermodal units, an increase of 3.6 percent compared to last year.

### **Week Ending June 2, 2018**

Total U.S. weekly rail traffic was 509,740 carloads and intermodal units, up 3.2 percent compared with the same week last year, which also included the Memorial Day holiday.

Total carloads for the week ending June 2 were 252,162 carloads, up 0.2 percent compared with the same week in 2017, while U.S. weekly intermodal volume was 257,578 containers and trailers, up 6.3 percent compared to 2017.

Eight of the 10-carload commodity groups posted an increase compared with the same week in 2017. They included nonmetallic minerals, up 1,690 carloads, to 36,410; petroleum and petroleum products, up 1,629 carloads, to 10,810; and chemicals, up 1,392 carloads, to 31,129. Commodity groups that posted decreases compared with the same week in 2017 were coal, down 6,380 carloads, to 76,242; and grain, down 332 carloads, to 22,537.

North American rail volume for the week ending June 2, 2018, on 12 reporting U.S., Canadian and Mexican railroads totaled 352,936 carloads, up 1.5 percent compared with the same week last year, and 339,482 intermodal units, up 3.2 percent compared with last year. Total combined weekly rail traffic in North America was 692,418 carloads and intermodal units, up 2.3 percent. North American rail volume for the first 22 weeks of 2018 was 15,720,523 carloads and intermodal units, up 3.2 percent compared with 2017.

Canadian railroads reported 79,929 carloads for the week, up 6.4 percent, and 65,817 intermodal units, down 2.2 percent compared with the same week in 2017. For the first 22 weeks of 2018,

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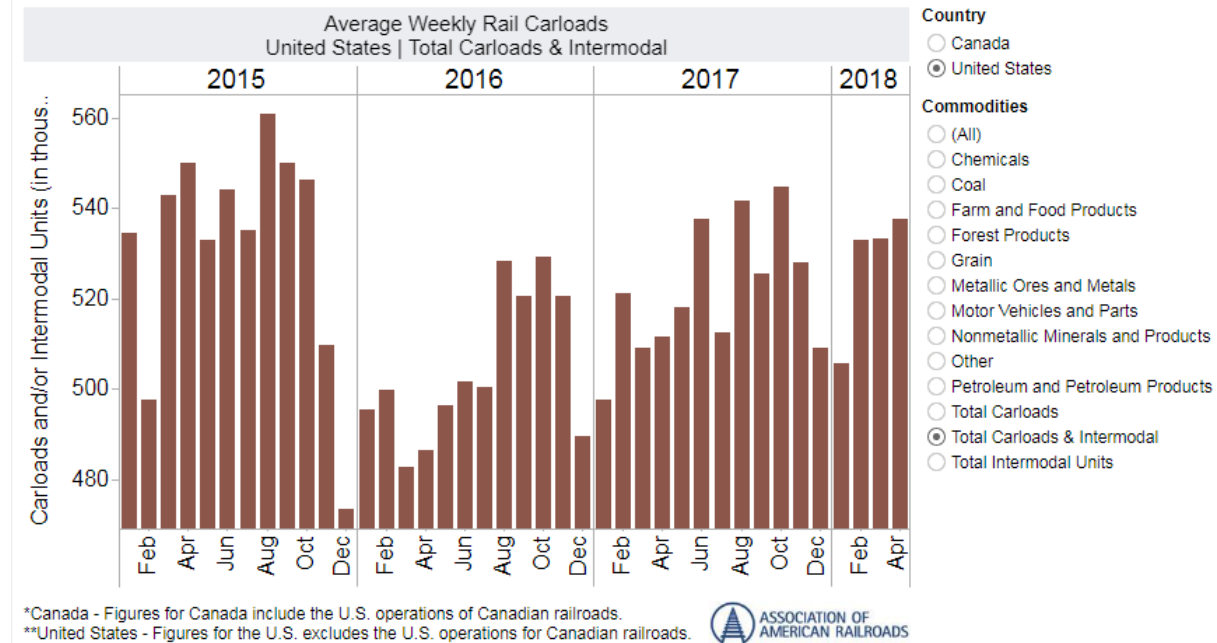
Canadian railroads reported cumulative rail traffic volume of 3,227,394 carloads, containers and trailers, up 3.4 percent.

Mexican railroads reported 20,845 carloads for the week and 16,087 intermodal units.

Cumulative volume on Mexican railroads for the first 22 weeks of 2018 was 832,900 carloads and intermodal containers and trailers.

<https://www.aar.org/news/rail-traffic-for-the-week-ending-june-2-2018/>

### Monthly Rail Traffic Charts



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

### Trailer Truck Demand

(Bloomberg Intelligence) – 06/04/18

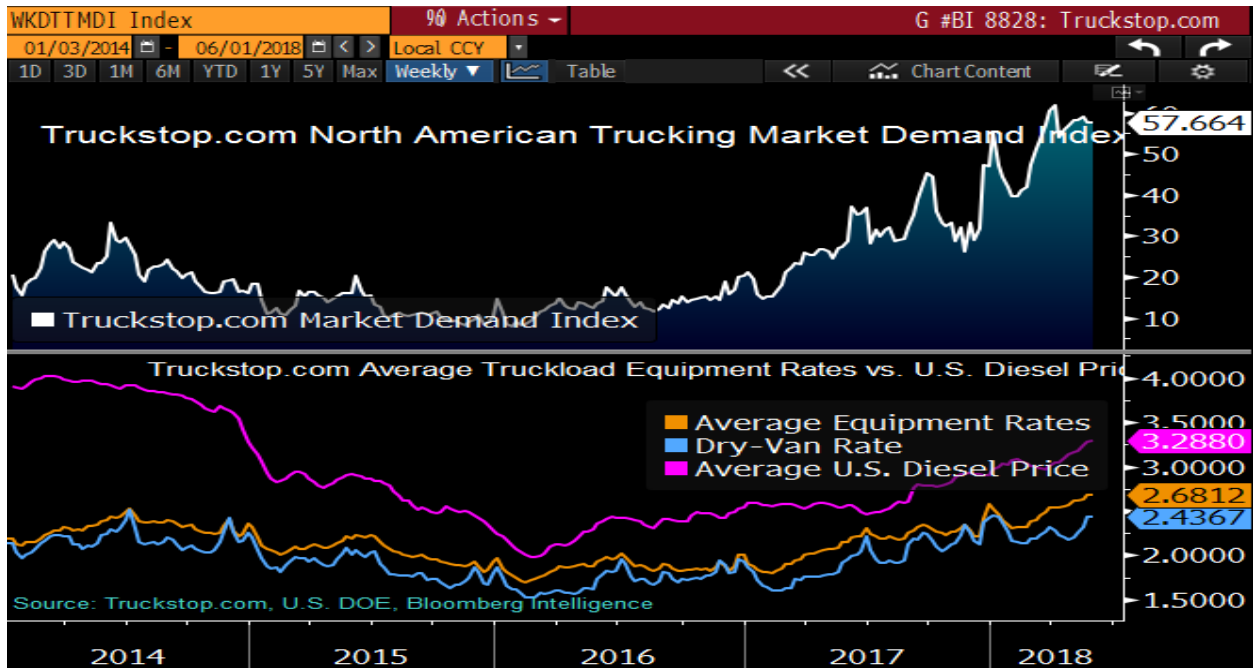
Relative North American spot-trucking demand fell 2.3% sequentially to 57.8 in the week ended May 25, based on Truckstop.com's Market Demand Index. Capacity loosened for just the second time in the past 15 weeks, as the decline in available loads (2.9%) exceeded the decrease in truck availability (0.6%). Still, average spot rates, excluding fuel surcharges, rose 2.2% to a new high of \$2.31 a mile. Limited driver availability, economic activity and regulatory constraints have created the strongest pricing environment in recent history.

Companies Impacted: USA Truck, Knight-Swift, J.B. Hunt, Werner 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:

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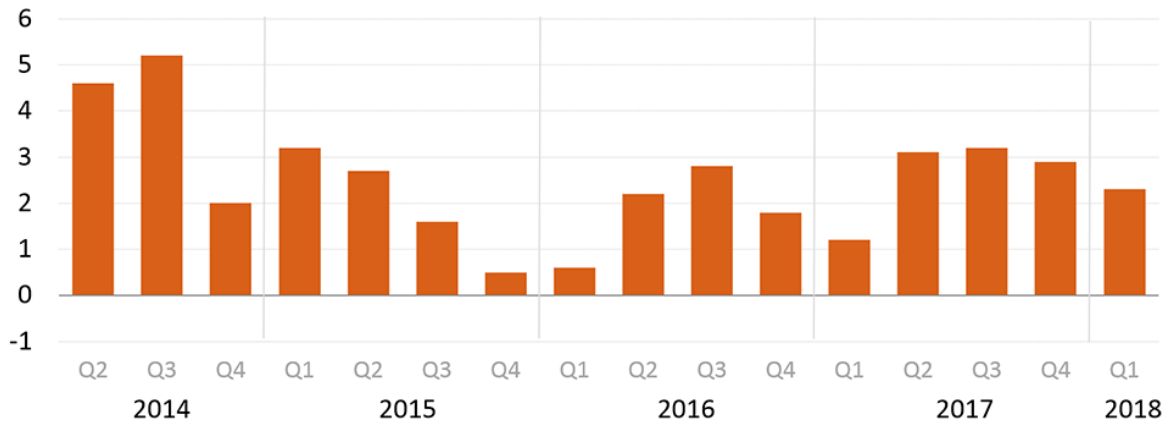
## GDP

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

### Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

**GDP-2Q is running at \*4.10% as of 6/6/18 v. \*4.31% as of 6/1/18**

**\*simple average of the three regionals.**

### Atlanta Fed GDPNow...Latest forecast Q2 2018: 4.5 % —June 6, 2018

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2018 is 4.5 percent on June 6, down from 4.8 percent on June 1. On Monday, June 4, the nowcasts for second-quarter real consumer spending growth and second-quarter real private nonresidential equipment investment growth decreased from 3.5 percent and 6.1 percent, respectively. This information is not to be construed as an offer to sell or a solicitation or an offer to buy the commodities herein named. The factual information of this report has been obtained from sources believed to be reliable, but is not necessarily all-inclusive and is not guaranteed as to the accuracy, and is not to be construed as representation by R.J O'Brien & Associates. The risk of trading futures and options can be substantial. Each investor must consider whether this is a suitable investment. Past performance is not indicative of future results.

respectively, to 3.3 percent and 4.3 percent, respectively, after a manufacturing report from the U.S. Census Bureau and the light vehicle sales release from the U.S. Bureau of Economic Analysis (BEA). This morning, the nowcast of the contribution of net exports to second-quarter real GDP growth inched down from 0.42 percentage points to 0.31 percentage points after the international trade release from the Census Bureau and the BEA.

*The next GDPNow update is **Friday, June 8**. 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...Q2 2018: 3.3%...June 1, 2018**

The New York Fed Staff Nowcast stands at 3.3% for 2018:Q2.

This week's data releases increased the nowcast for 2018:Q2 by 0.3 percentage point.

Positive surprises from personal consumption expenditures, wholesale inventories, and construction data accounted for the increase.

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

### **St. Louis Fed Real GDP Nowcast... Q2 2018: 4.49%...June 6, 2018**

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

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**MANUFACTURING AT A GLANCE**  
MAY 2018

Index	Series Index May	Series Index Apr	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	58.7	57.3	+1.4	Growing	Faster	21
New Orders	63.7	61.2	+2.5	Growing	Faster	29
Production	61.5	57.2	+4.3	Growing	Faster	21
Employment	56.3	54.2	+2.1	Growing	Faster	20
Supplier Deliveries	62.0	61.1	+0.9	Slowing	Faster	20
Inventories	50.2	52.9	-2.7	Growing	Slower	5
Customers' Inventories	39.6	44.3	-4.7	Too Low	Faster	20
Prices	79.5	79.3	+0.2	Increasing	Faster	27
Backlog of Orders	63.5	62.0	+1.5	Growing	Faster	16
New Export Orders	55.6	57.7	-2.1	Growing	Slower	27
Imports	54.1	57.8	-3.7	Growing	Slower	16
<b>OVERALL ECONOMY</b>				Growing	Faster	109
<b>Manufacturing Sector</b>				Growing	Faster	21

Average for 12 months - 58.7

High - 60.8

Low - 56.5

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

**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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