Fixed Income Group A Division of RJ O'Brien

The Missile

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(All times are CST)

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

United States | 6) Browse | 10:14:32 | 07/30/18 - 08/03/18

Economic Releases | All Economic Releases | View Agenda Weekly

	Date Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	07/30 09:00				Pending Home Sales MoM	Jun	0.4%	--	-0.5%	--
22)	07/30 09:00				Pending Home Sales NSA YoY	Jun	--	--	-2.8%	--
23)	07/30 09:30				Dallas Fed Manf. Activity	Jul	31.0	--	36.5	--
24)	07/31 07:30				PCE Core YoY	Jun	2.0%	--	2.0%	--
25)	07/31 07:30				Personal Income	Jun	0.4%	--	0.4%	--
26)	07/31 07:30				Personal Spending	Jun	0.4%	--	0.2%	--
27)	07/31 07:30				Real Personal Spending	Jun	--	--	0.0%	--
28)	07/31 07:30				PCE Deflator MoM	Jun	0.1%	--	0.2%	--
29)	07/31 07:30				PCE Deflator YoY	Jun	2.4%	--	2.3%	--
30)	07/31 07:30				PCE Core MoM	Jun	0.1%	--	0.2%	--
31)	07/31 07:30				Employment Cost Index	2Q	0.7%	--	0.8%	--
32)	07/31 08:00				S&P CoreLogic CS 20-City MoM	May	--	--	0.20%	--
33)	07/31 08:00				S&P CoreLogic CS 20-City YoY N	May	--	--	6.56%	--
34)	07/31 08:00				S&P CoreLogic CS 20-City NSA I	May	--	--	210.17	--
35)	07/31 08:00				S&P CoreLogic CS US HPI NSA I	May	--	--	200.86	--
36)	07/31 08:00				S&P CoreLogic CS US HPI YoY N	May	--	--	6.41%	--
37)	07/31 08:45				Chicago Purchasing Manager	Jul	61.8	--	64.1	--
38)	07/31 09:00				Conf. Board Consumer Confiden	Jul	126.0	--	126.4	--
39)	07/31 09:00				Conf. Board Present Situation	Jul	--	--	161.1	--

Fed Speak Calendar
(All times are CST)

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

United States | 6) Browse | 14:42:57 | 07/23/18 - 08/31/18

Central Banks | All Central Banks | View Agenda Weekly

	Date Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	08/01 13:00				FOMC Rate Decision (Upper Bou...	Aug 1	2.00%	--	2.00%	--
22)	08/01 13:00				FOMC Rate Decision (Lower Bo...	Aug 1	1.75%	--	1.75%	--
23)	08/22 13:00				FOMC Meeting Minutes	Aug 1	--	--	--	--

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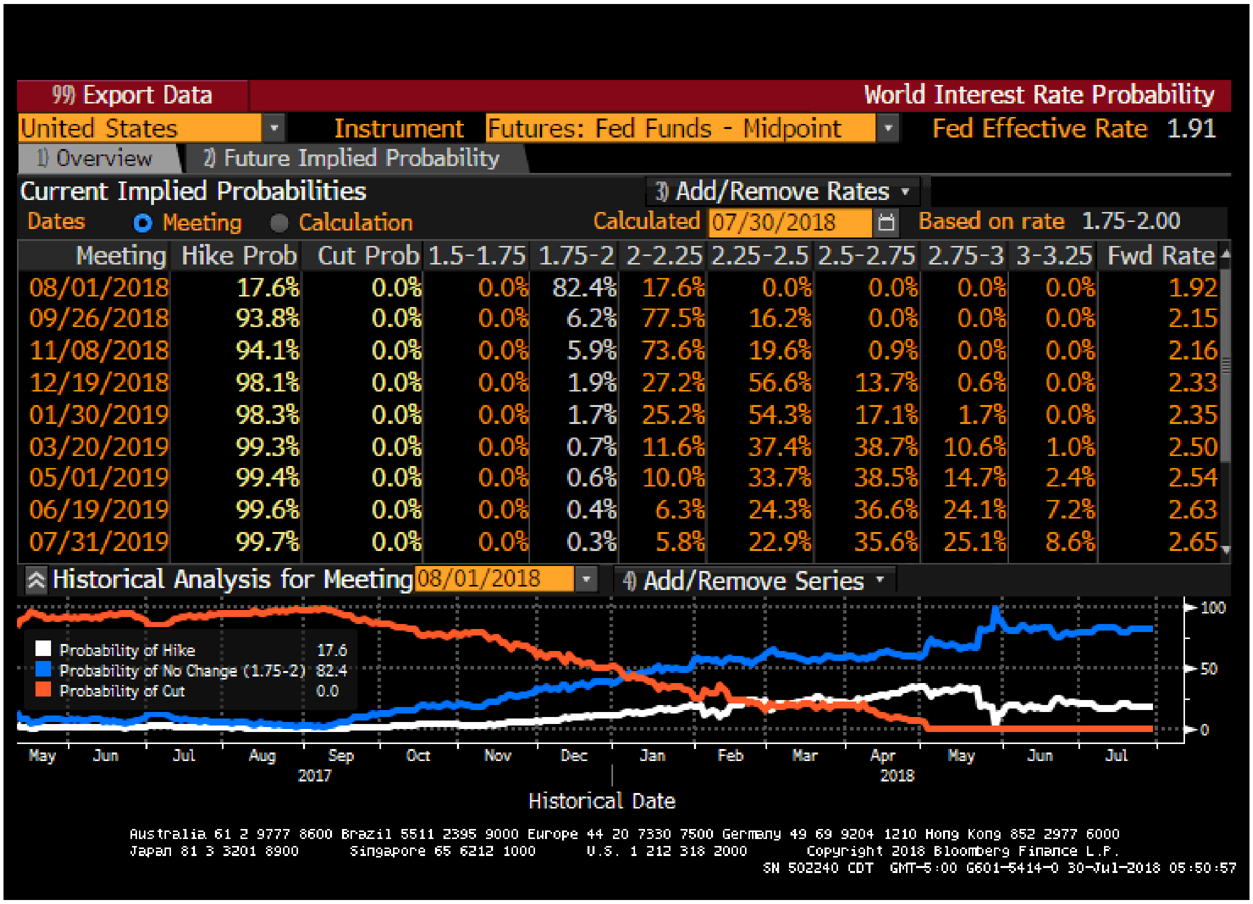
4) Previous 3) Next 60) Send 98) Actions 99) Translate — News: News Story

07/26/2018 12:16:21 [BN]

Bill Auctions	Announcement	Auction	Settles	Numbers	R	Bil	Auction	$ Bln
Cash mgmt	TBA	TBA	TBA	TBA		TBA	02/13/2018	$50
4-week	07/30/2018	07/31/2018	08/02/2018	TBA		TBA	07/24/2018	$55
3-month	08/02/2018	07/30/2018	08/02/2018	912796QF9		$51	07/23/2018	$51
6-month	08/02/2018	07/30/2018	08/02/2018	912796PP8		$45	07/23/2018	$45
1-year	08/09/2018	08/14/2018	08/16/2018	TBA		TBA	07/17/2018	$26
Note Auctions								
2-year	08/23/2018	08/27/2018	08/31/2018	TBA		TBA	07/24/2018	$35
3-year	08/01/2018	08/07/2018	08/15/2018	TBA		TBA	07/10/2018	$33
5-year	08/23/2018	08/28/2018	08/31/2018	TBA		TBA	07/25/2018	$36
7-year	08/23/2018	08/29/2018	08/31/2018	TBA		TBA	07/26/2018	$30
10-year	08/01/2018	08/08/2018	08/15/2018	TBA		TBA	07/11/2018	$22
Bond Auctions								
30-year	08/01/2018	08/09/2018	08/15/2018	TBA		TBA	07/12/2018	$14
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	10/11/2018	10/18/2018	10/31/2018	TBA	R	TBA	06/21/2018	$5
Floating Rate Note								
2-year FRN	07/19/2018	06/27/2018	06/29/2018	9128284K3	R	$16	05/23/2018	$16
Buyback Operation								
Buyback	TBA	TBA	TBA	TBA		TBA	11/15/2017	$.025

Current Implied Probability of Fed Rate Movement (Futures)



99) Export Data — World Interest Rate Probability

United States | Instrument: Futures: Fed Funds - Midpoint | Fed Effective Rate 1.91

1) Overview | 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 07/30/2018 — Based on rate 1.75-2.00

Meeting	Hike Prob	Cut Prob	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	Fwd Rate
08/01/2018	17.6%	0.0%	0.0%	82.4%	17.6%	0.0%	0.0%	0.0%	0.0%	1.92
09/26/2018	93.8%	0.0%	0.0%	6.2%	77.5%	16.2%	0.0%	0.0%	0.0%	2.15
11/08/2018	94.1%	0.0%	0.0%	5.9%	73.6%	19.6%	0.9%	0.0%	0.0%	2.16
12/19/2018	98.1%	0.0%	0.0%	1.9%	27.2%	56.6%	13.7%	0.6%	0.0%	2.33
01/30/2019	98.3%	0.0%	0.0%	1.7%	25.2%	54.3%	17.1%	1.7%	0.0%	2.35
03/20/2019	99.3%	0.0%	0.0%	0.7%	11.6%	37.4%	38.7%	10.6%	1.0%	2.50
05/01/2019	99.4%	0.0%	0.0%	0.6%	10.0%	33.7%	38.5%	14.7%	2.4%	2.54
06/19/2019	99.6%	0.0%	0.0%	0.4%	6.3%	24.3%	36.6%	24.1%	7.2%	2.63
07/31/2019	99.7%	0.0%	0.0%	0.3%	5.8%	22.9%	35.6%	25.1%	8.6%	2.65

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, June 2018

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]				Central tendency[2]				Range[3]			
	2018	2019	2020	Longer run	2018	2019	2020	Longer run	2018	2019	2020	Longer run
Change in real GDP	2.8	2.4	2.0	1.8	2.7 – 3.0	2.2 – 2.6	1.8 – 2.0	1.8 – 2.0	2.5 – 3.0	2.1 – 2.7	1.5 – 2.2	1.7 – 2.1
March projection	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
Unemployment rate	3.6	3.5	3.5	4.5	3.6 – 3.7	3.4 – 3.5	3.4 – 3.7	4.3 – 4.6	3.5 – 3.8	3.3 – 3.8	3.3 – 4.0	4.1 – 4.7
March projection	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
PCE inflation	2.1	2.1	2.1	2.0	2.0 – 2.1	2.0 – 2.2	2.1 – 2.2	2.0	2.0 – 2.2	1.9 – 2.3	2.0 – 2.3	2.0
March projection	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
Core PCE inflation[4]	2.0	2.1	2.1		1.9 – 2.0	2.0 – 2.2	2.1 – 2.2		1.9 – 2.1	2.0 – 2.3	2.0 – 2.3	
March projection	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	
Memo: Projected appropriate policy path												
Federal funds rate	2.4	3.1	3.4	2.9	2.1 – 2.4	2.9 – 3.4	3.1 – 3.6	2.8 – 3.0	1.9 – 2.6	1.9 – 3.6	1.9 – 4.1	2.3 – 3.5
March projection	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

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 March projections were made in conjunction with the meeting of the Federal Open Market Committee on March 20–21, 2018. 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 March 20–21, 2018, meeting, and one participant did not submit such projections in conjunction with the June 12–13, 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/fomcprojtabl20180613.pdf

Libor Set

1-Month Libor Set	**2.08150**	**+.00475**	**(97.91850)**
3-Month Libor Set	**2.34313**	**+.00075**	**(97.65687)**
6-Month Libor Set	**2.53050**	**+.00062**	**(97.46950)**
1-Year Libor Set	**2.82125**	**-.00013**	**(97.17875)**

THEY SAID IT

"The biggest reason for this operation was the risk that the 10-year yield would rise significantly away from zero," said Takenobu Nakashima, a quantitative strategist at Nomura Securities Co. in Tokyo. "The BOJ clearly wanted to send a message it will defend the 10-year target around zero percent."
https://www.bloomberg.com/news/articles/2018-07-30/boj-conducts-third-fixed-rate-operation-in-week-as-yields-rise
Speculation the BOJ may make tweaks to its bond purchases and negative-interest-rate policy to limit their side effects has sent yields tripling in the past week, while also spurring a steepening in global debt markets. The central bank may allow a bigger trading range for 10-year yields, or consider adjusting its annual target to expand its balance sheet, according to analysts.
The purchase on Monday was significantly larger than the 94 billion yen bought in a similar operation on Friday, as prevailing bond prices were below where the BOJ was buying, allow investors to take advantage of the spread.
Any tweaks would be the first since the central bank announced yield-curve control in September 2016. Monday's fixed-rate operation was the seventh since the policy was introduced, and the first time it has conducted three operations within a single week.
The dilemma for Governor Haruhiko Kuroda is that even as calls to adjust policy grow louder, persistently weak inflation dictates the need to maintain stimulus. Winding it back would strengthen the yen, further undermining efforts to spur price-gains, while also hitting Japanese exporters.
While Kuroda and his board have said they would consider discussing an exit from the stimulus policy from fiscal 2019, they have also reiterated that there would be no change until the BOJ's inflation target of 2 percent has been reached.

"Italy is the country which is closer to the U.S. unilateral approach to foreign policy -- at least in terms of method, if not always on policies," said Gianluca Pastori, a professor at Milan's Sacro Cuore University. "What's now to be seen is whether there's actual convergence between the two."
https://www.bloomberg.com/news/articles/2018-07-30/italy-s-conte-to-meet-trump-as-allies-step-up-anti-eu-rhetoric
Italy's Prime Minister Giuseppe Conte is set to burnish his government's ties with the Trump administration, after his deputy premiers stoked tensions with the European Union.
The meeting at the White House on Monday comes after President Donald Trump signed a truce in the trade confrontation with the EU last week. Yet it also comes at a time when Conte's two political sponsors, who share Trump's anti-establishment rhetoric, have stepped up their confrontation with European partners.
League leader and Deputy Prime Minister Matteo Salvini said Italy would back the U.K. in trade talks with the EU, in an interview with the Sunday Times newspaper. Five Star leader Luigi Di Maio said in an interview the government will forge ahead with its bold spending plans, setting up a clash with the bloc's fiscal rules.

Gennaioli and Shleifer take their cue from a number of recent papers hinting that recessions are actually possible to predict years in advance, if one simply pays attention to the right variables. One of these is a 2013 paper by Robin Greenwood and Samuel Hanson, showing that when junk bond issuance increases and credit spreads narrow, a credit bust

often tends to follow two or three years later. Another is a 2016 paper by Matthew Baron and Wei Xiong, showing a similar result for bank lending instead of corporate bonds. A third recent paper, by David López-Salido, Jeremy C. Stein, and Egon Zakrajšek, adds term spreads to Greenwood and Hanson's list of forecasters, and find that together these indicators give a decent amount of warning about recessions two or three years down the road. Other papersfind a correlation between rapid credit growth and heightened recession risk.

https://www.bloomberg.com/view/articles/2018-07-29/what-economists-still-don-t-get-about-2008-crisis

Gennaioli and Shleifer explain these patterns by turning to their own preferred theory of human irrationality — the theory of extrapolative expectations. Basically, this theory holds that when asset prices rise — home values, stocks and so on — without a break, investors start to believe that this trend represents a new normal. They pile into the asset, pumping up the price even more, and seeming to confirm the idea that the trend will never end. But when the extrapolators' money runs out, reality sets in and a crash ensues. Gennaioli, Shleifer, and their coauthors have been only one of several teams of researchers to investigate this idea and its implications in recent years.

When extrapolative expectations are combined with an inherently fragile financial system, a predictable cycle of booms and busts is the result. At some point during good economic times, irrational exuberance takes hold, pushing stock prices, house values, or both into the stratosphere. When they inevitably come down, banks collapse, taking the rest of the economy with them.

This story, if it became the standard model of the business cycle, would represent a true revolution in macroeconomics. It discards two pillars of recent macroeconomic thought — rational expectations, and shock-driven unpredictable recessions. It would represent a triumph for Minsky's ideas, and for those outside the academy who have long urged macroeconomists to pay more attention to debt markets and human psychology. And if the code of booms and busts can finally be cracked, there may be ways for central banks, regulators or other policy makers to head off crises before they begin, instead of cleaning up afterward.

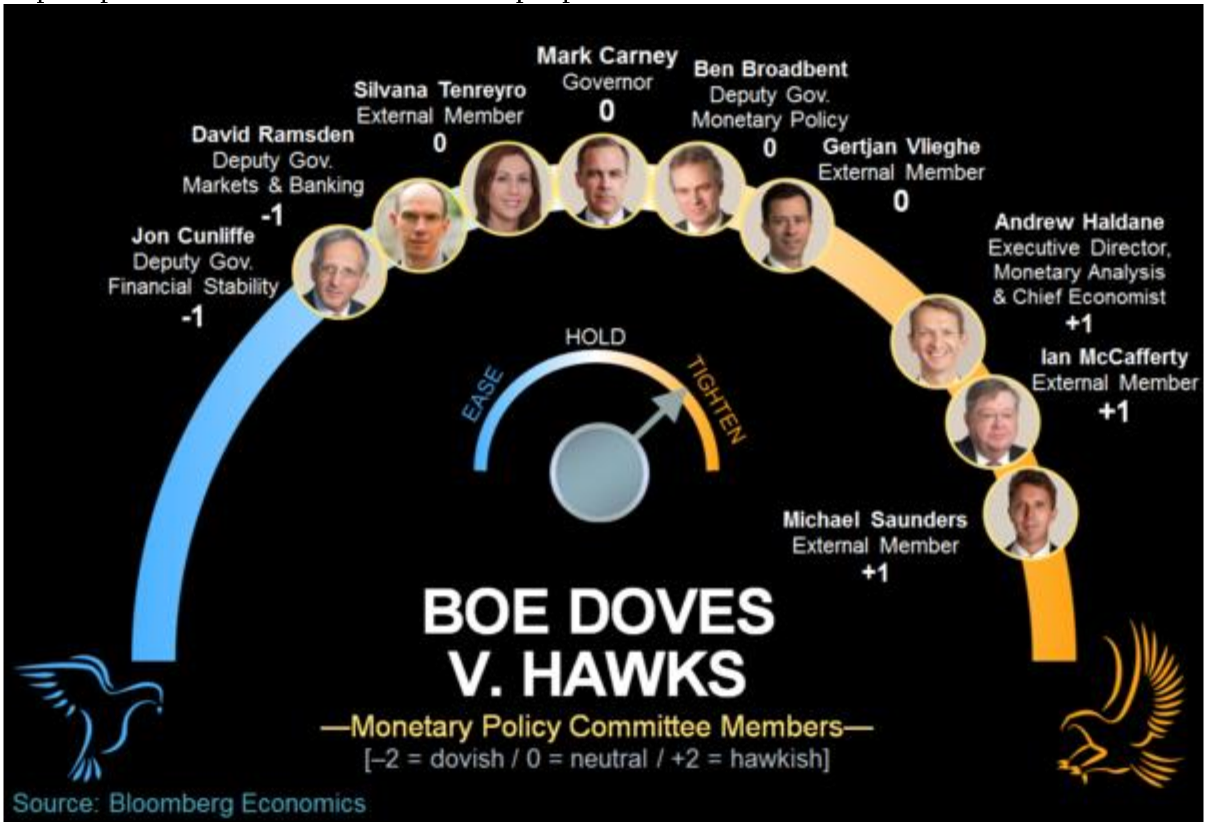
U.K. consumers maintained their appetite for debt in June as the Bank of England considers whether to raise interest rates for only the second time since 2007.

https://www.bloomberg.com/news/articles/2018-07-30/u-k-june-consumer-borrowing-holds-steady-on-credit-cards

Unsecured lending rose 8.8 percent from a year earlier, the same rate as in the previous two months, the U.K. central bank said on Monday. Consumers added 1.6 billion pounds ($2.1 billion) to their debts in June -- above the average of the previous six months. Credit cards are accounting for an increasing share of consumer credit, outpacing personal loans, overdrafts and car finance, the BOE said.

A report this month showed Britons are increasingly struggling with credit card debt, with a "significant increase" in defaults on credit card loans largely driving the gain in defaults across unsecured lending last quarter. Monday's report showed that is proving no bar to further borrowing, with credit card lending increasing an annual 9.5 percent in June, compared to 8.5 percent growth in other loans.

As Bank of England policy makers prepare for their interest rate decision on Aug. 2, expectations are running high for the first tightening since November.
Traders see the odds of a hike at about 90 percent. A Bloomberg survey showed 79 percent of economists expect a quarter-point increase to 0.75 percent, and most expect a 7-2 split, with Jon Cunliffe and Dave Ramsden voting to keep rates where they are.
https://www.bloomberg.com/news/articles/2018-07-27/these-nine-boe-policy-makers-may-decide-to-raise-interest-rates-jk44fjuq
Three officials already voted to raise borrowing costs in June, so only two will have to join them to precipitate a move. Here are the nine people who will decide:



President [Donald Trump](#) called on Congress to enact sweeping immigration reform, including a border wall, and threatened a federal government shutdown if Democrats refused to back his proposals.
https://www.cnbc.com/2018/07/29/trump-threatens-government-shutdown-over-immigration-border-security.html
Earlier this year, the White House released a proposal for merit-based immigration, which floundered in Congress amid tepid support from within the president's own party. Meanwhile, Democratic leaders, who have embraced legalization of "Dreamers" as a rallying cry on immigration reform, have been galvanized by the administration's family separation policy. The administration's framework included a $25 billion "trust fund" for a border wall, a path to citizenship for "Dreamer" immigrants, and an end to foreign visa lotteries that would end a program "riddled with abuse." In an analysis of the proposal, the libertarian Cato Institute called the plan "draconian", and said it would reduce legal immigration by up to 44 percent per year.

Building on President Donald Trump's "Indo-Pacific" strategy, U.S. Secretary of State Mike Pompeo will announce a series of investment initiatives in Asia on Monday focusing on digital economy, energy, and infrastructure.
https://www.cnbc.com/2018/07/30/pompeo-to-announce-initiatives-focusing-on-digital-economy-energy-an.html
The announcement, to be made at a U.S. Chamber of Commerce forum in Washington, comes at a time when trade frictions with China have given U.S. trade diplomacy a sharper edge.
"The Indo-Pacific is an absolute priority of U.S. policymakers in the executive branch and in Congress," Brian Hook, Pompeo's senior policy advisor, told journalists in a conference call.
Countries in the region have been worried by Trump's "America first" policy, withdrawal from the Trans Pacific Partnership trade deal, and pursuit of a trade conflict with China that threatens to disrupt regional supply chains.
Hook said the United States approach to development of the region was not aiming to counter China's Belt and Road Initiative, which comprises of mostly state-led infrastructure projects linking Asia, parts of Africa and Europe.
"It is a made in China, made for China initiative," he said. "Our way of doing things is to keep the government's role very modest and it's focused on helping businesses do what they do best."
Critics of Beijing's Belt and Road Initiative, which aims to recreate the ancient Silk Road, say it is more about spreading Chinese influence and hooking countries on massive debts. Beijing says it is simply a development project that any country is welcome to join.

The Russian government, previously considered a significant holder of U.S. debt, has been steadily — and sharply — paring down the vast majority of its holdings of U.S. Treasury securities.
Russian holdings of Treasury securities declined 84 percent between March and May, falling to $14.9 billion from $96.1 billion in just two months, according to a U.S. Treasury Department report released July 18.
Financial bloggers have pounced on the news as being potentially ominous, but a few analysts suspect the transactions are more closely related to Russia's sanctions-hit economy, and portfolio allocation.
https://www.cnbc.com/2018/07/29/treasury-department-report-shows-russian-holdings-of-us-debt-plunged.html
The country's moves in the Treasury market come amid a growing furor over Moscow's suspected meddling in the U.S. general election in 2016, which has led to sanctions on its economy. Russia's sell-off of U.S. debt in May also coincided with the benchmark 10-year Treasury note yield, which moves inversely to the note's price, briefly touching its highest level since 2011.
"While this liquidation by the Russians is curious, the amount they held, along with the amount they sold, is really insignificant to the multi-trillion dollar Treasury market," Giddis, head of fixed income capital markets at Raymond James, said on Sunday.
"If I had to wager, I would bet that this is part sanctions and part portfolio adjustment and little to do with a real market move," he added. "If this was China or Japan, then the story would be quite different, and so the muted market movement, or lack thereof, pretty much tells the story of the move."

The White House is trying to defend its economy from long-standing abuses of the post-WWII world order.
https://www.cnbc.com/2018/07/30/us-china-trade-beijing-should-rethink-its-trade-surplus---commentary.html
Some countries continue to ignore the rules of international trade adjustment, enshrined in the International Monetary Fund's original Articles of Agreement, and in constant calls by the Group of 20 (the world's main economic forum) for a balanced global economy.
Countries like China, that have a huge trade surplus, will have to reckon with that. Alleged obstructions to market access and violations of intellectual property rules are only part of the problem.
An equally serious issue is that countries with large and systematic trade surpluses are also running inappropriate economic policies. By deliberately producing much more than they are consuming — and dumping huge excess supplies on the rest of the world — the surplus countries are, by design, export-driven economies living off their trade partners.
Current account surplus countries such as China, Japan and South Korea are getting richer by accumulating net foreign assets, including the huge and well remunerated claims on the United States. By contrast, America is getting poorer with $8 trillion, and counting, of net foreign liabilities.
How can anyone blame the White House for trying to put an immediate end to that decades-old mismanagement of the U.S. economy?
Perhaps China should give a thought to that.
Another consideration is that China's huge domestic and foreign investments come, in large part, from the money it earns on its export sales to America. In other words, China is recycling its U.S. trade surpluses in the form of soaring investments around the world.
China, like any other country, can be called out — within the appropriate WTO committees — for suspected trade violations, but the White House cannot keep blaming China for decades-long wealth and technology transfers at the U.S. expense. The blame is with previous administrations that unforgivably mismanaged trade relations with China.

China offered Britain talks on a post-Brexit free trade deal on Monday, reaching out to London as Beijing remains mired in an increasingly bitter trade war with Washington, even as a senior Chinese diplomat reiterated its door remained open for dialogue.
https://www.cnbc.com/2018/07/30/china-tempts-britain-with-free-trade-says-door-to-us-talks-open.html
China has been looking for allies in its fight with the United States, initiated by the Trump administration, which says China's high-tech industries have stolen intellectual property from American firms and demanded Beijing act to buy more U.S. products to reduce a $350 billion trade surplus.
Britain has pushed a strong message to Chinese companies that it is fully open for business as it prepares to leave the European Union next year, and China is one of the countries with which Britain would like to sign a post-Brexit free trade deal.
Speaking to reporters in Beijing after meeting British Foreign Secretary Jeremy Hunt, the Chinese government's top diplomat, State Councillor Wang Yi, said both countries agreed to step up trade with and investment in each other.
Hunt said Wang had made an offer "to open discussions about a possible free trade deal done between Britain and China post Brexit".

EQUITIES

The S&P is **-2** and the NASDAQ is **-13.**
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
On Bloomberg type in ACDR <GO>

UK/EUROPE
In the UK the FTSE closed -0.13%.
In the UK, the 2s/10s swap curve is steeper with yields higher.
BOE Rate +0.50%. (No change).
Next meeting 08/02/18

On the European Continent
The CAC Index closed **-0.26%.**
The DAX Index closed -0.16%.
On the Continent, the 2s/10s swap curve is steeper with yields higher.
ECB Main Refinancing Operations Rate +0.00% (No change).
Deposit Facility Rate -.40%
Next meeting 09/13/18

Japan:
The TOPIX closed -0.43%.
The NIKKEI closed -0.74%.
In Japan, the 2s/10s swap curve is unchanged with yields flat.
BOJ Policy Balance Rate -0.10% (No change).
Next meeting 07/31/18

China:
The Hang Seng closed -0.17%.
The Shanghai Composite closed -0.16%.
PBOC
Deposit Rate: 1.50%
Lending Rate: 4.35%
7-Day Repo Rate: 2.7603%
Reserve Requirement Ratio: 17.00%

THE TREND

EDU8: 97-55.0 is the pivot. Below the pivot, you should be short, above long.
Support is at 97-52.0** and 97.55.0^.
Resistance is at 97-58.0**.
^Pivot Point is a simple 20-day moving average.
** 2-STD Deviations from the pivot point.

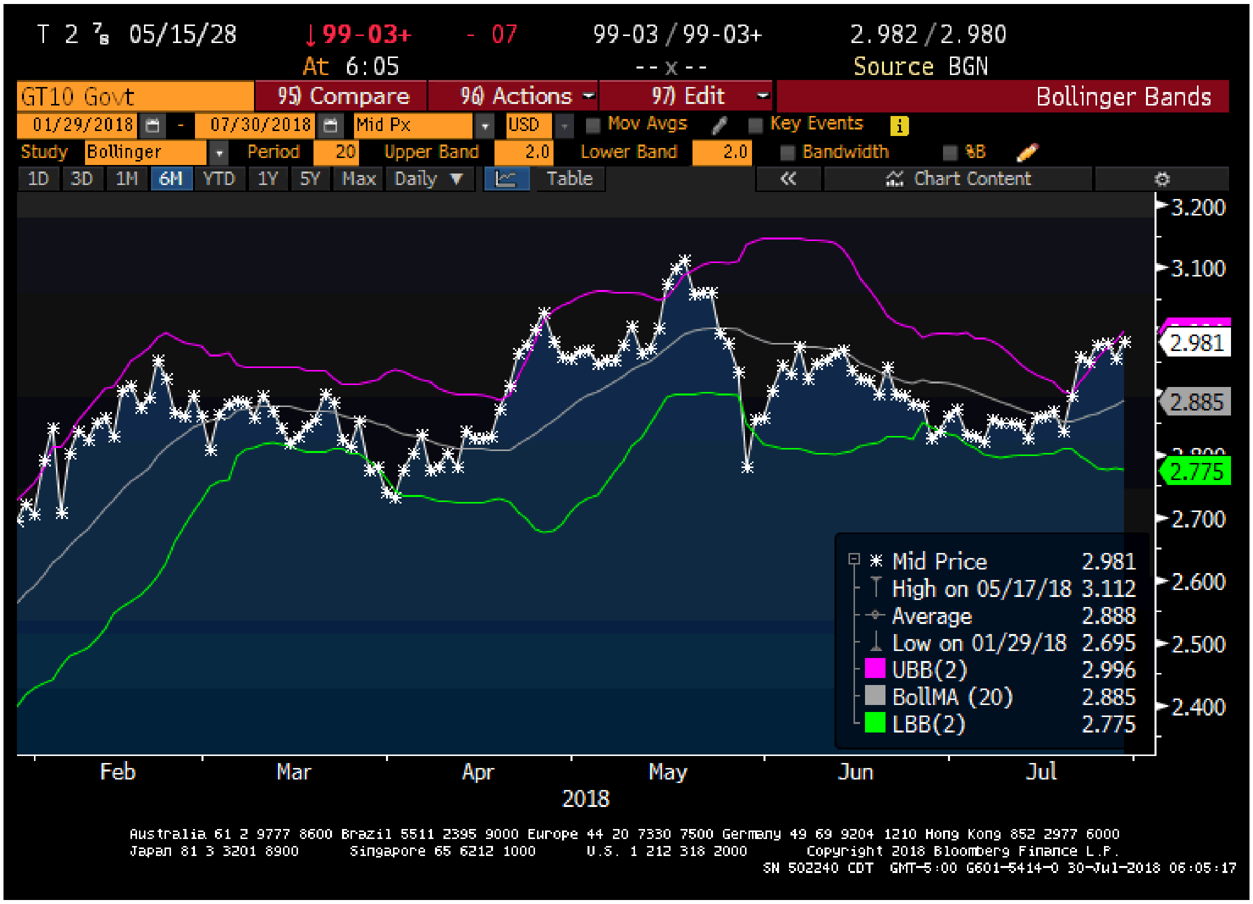
Current trend would have you long. I have elected to remain flat.

YTD (per contract)
2018 +36.5 ticks (+$912.50)
2017 +33.0 ticks (+$825.00)

10yr/TYU8: **119-31.0** is the pivot point. Above you should be long, below short.
Support is at **119-08.5 and 119-31.0^***
Resistance is at **120-21.0**

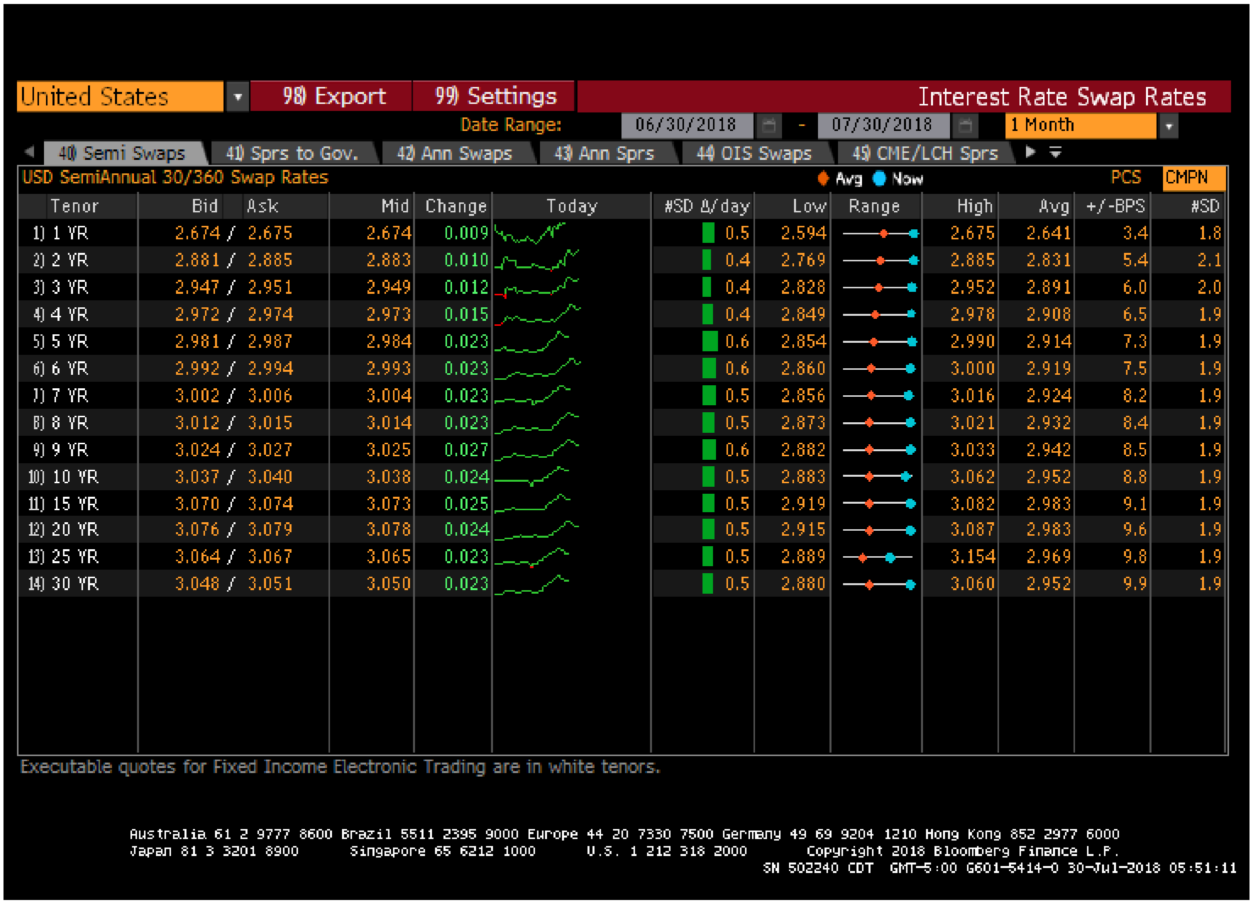
******^Pivot Point is a simple 20-day moving average**.**
** 2-STD Deviations from the pivot point

Current trend has you short from 120-03.0 (7/20/19).



YTD (per contract)
(2018) +98.0 futures ticks ($31.25 per tick) or +$3,062.50.
(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.

US-SWAPS
IRSB <GO>



United States | 98) Export | 99) Settings | Interest Rate Swap Rates

Date Range: 06/30/2018 - 07/30/2018 | 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 | Avg | Now | PCS | CMPN

Tenor	Bid / Ask	Mid	Change	Today	#SD Δ/day	Low	Range	High	Avg	+/-BPS	#SD
1) 1 YR	2.674 / 2.675	2.674	0.009		0.5	2.594		2.675	2.641	3.4	1.8
2) 2 YR	2.881 / 2.885	2.883	0.010		0.4	2.769		2.885	2.831	5.4	2.1
3) 3 YR	2.947 / 2.951	2.949	0.012		0.4	2.828		2.952	2.891	6.0	2.0
4) 4 YR	2.972 / 2.974	2.973	0.015		0.4	2.849		2.978	2.908	6.5	1.9
5) 5 YR	2.981 / 2.987	2.984	0.023		0.6	2.854		2.990	2.914	7.3	1.9
6) 6 YR	2.992 / 2.994	2.993	0.023		0.6	2.860		3.000	2.919	7.5	1.9
7) 7 YR	3.002 / 3.006	3.004	0.023		0.5	2.856		3.016	2.924	8.2	1.9
8) 8 YR	3.012 / 3.015	3.014	0.023		0.5	2.873		3.021	2.932	8.4	1.9
9) 9 YR	3.024 / 3.027	3.025	0.027		0.6	2.882		3.033	2.942	8.5	1.9
10) 10 YR	3.037 / 3.040	3.038	0.024		0.5	2.883		3.062	2.952	8.8	1.9
11) 15 YR	3.070 / 3.074	3.073	0.025		0.5	2.919		3.082	2.983	9.1	1.9
12) 20 YR	3.076 / 3.079	3.078	0.024		0.5	2.915		3.087	2.983	9.6	1.9
13) 25 YR	3.064 / 3.067	3.065	0.023		0.5	2.889		3.154	2.969	9.8	1.9
14) 30 YR	3.048 / 3.051	3.050	0.023		0.5	2.880		3.060	2.952	9.9	1.9

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

The Option Lab

Trade Log:
2. Long the TY Week-2 120.00 put (at the money) from 8/64ths (3/9/2018).
$1/64^{th}$ = $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.

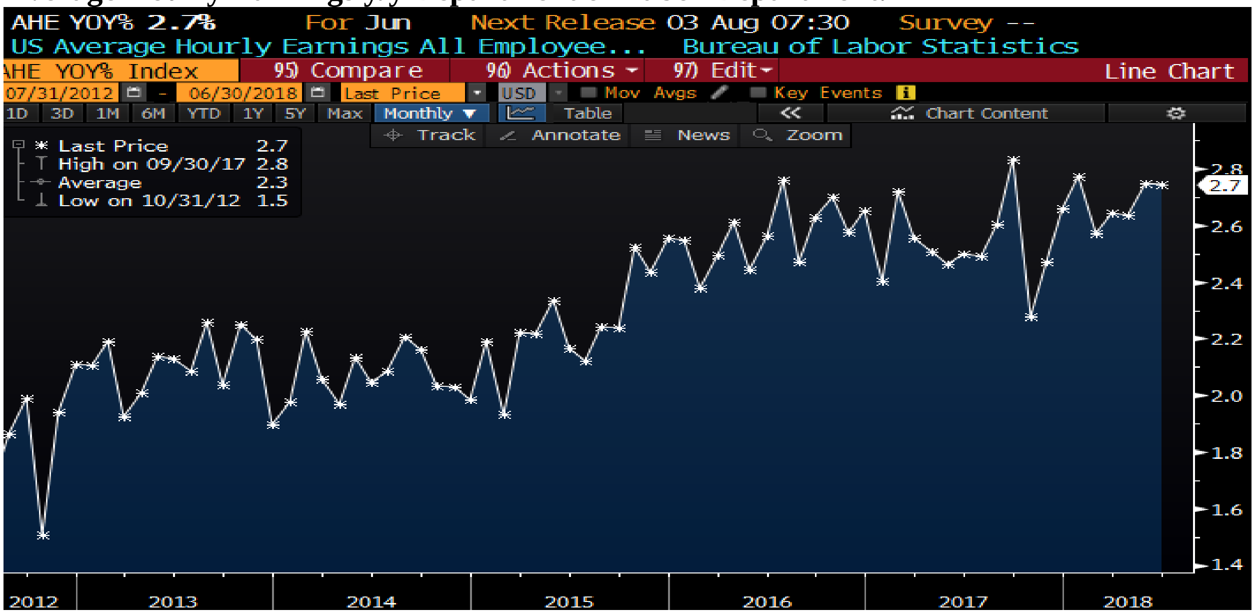
1. Long the Short Feb. 97.75/97.625/97.50 put fly. Paid 2.0 ticks ($50) per contract (12/07/17).
Short Feb. has an underlying contract of EDH9 but expires Feb. 16, 2018.
The put fly was sold on 2/7/18 for a 1.25 tick ($31.25) winner.

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.

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 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

Area	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	27 July 2018	1,048	+2	20 July 2018	+90	28 July 2017
Canada	27 July 2018	223	+12	20 July 2018	+3	28 July 2017
International	June 2018	959	-8	May 2018	-1	June 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/

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.[1] 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.[2]

U.S. electricity generation by source, amount, and share of total in 2017[1]

Energy source	Billion kWh	Share of total
Total - all sources	4,015	
Fossil fuels (total)	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%
Nuclear	805	20.0%
Renewables (total)	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[3]	-6	-0.2%
Other sources	13	0.3%

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

TRANSPORTS

Association of American Railroads Rail Traffic Report.

For the first 29 weeks of 2018, U.S. railroads reported cumulative volume of 7,524,473 carloads, up 1.6 percent from the same point last year; and 7,973,779 intermodal units, up 6.2 percent from last year. Total combined U.S. traffic for the first 29 weeks of 2018 was 15,498,252 carloads and intermodal units, an increase of 3.9 percent compared to last year.

For this week, total U.S. weekly rail traffic was 553,024 carloads and intermodal units, up 4.9 percent compared with the same week last year.

Total carloads for the week ending July 21 were 265,338 carloads, up 3.8 percent compared with the same week in 2017, while U.S. weekly intermodal volume was 287,686 containers and trailers, up 5.9 percent compared to 2017.

Eight of the 10-carload commodity groups posted an increase compared with the same week in 2017. They included grain, up 3,359 carloads, to 23,767; petroleum and petroleum products, up 2,009 carloads, to 11,102; and chemicals, up 1,785 carloads, to 32,043. Commodity groups that posted decreases compared with the same week in 2017 were coal, down 2,469 carloads, to 85,865; and forest products, down 82 carloads, to 10,313.

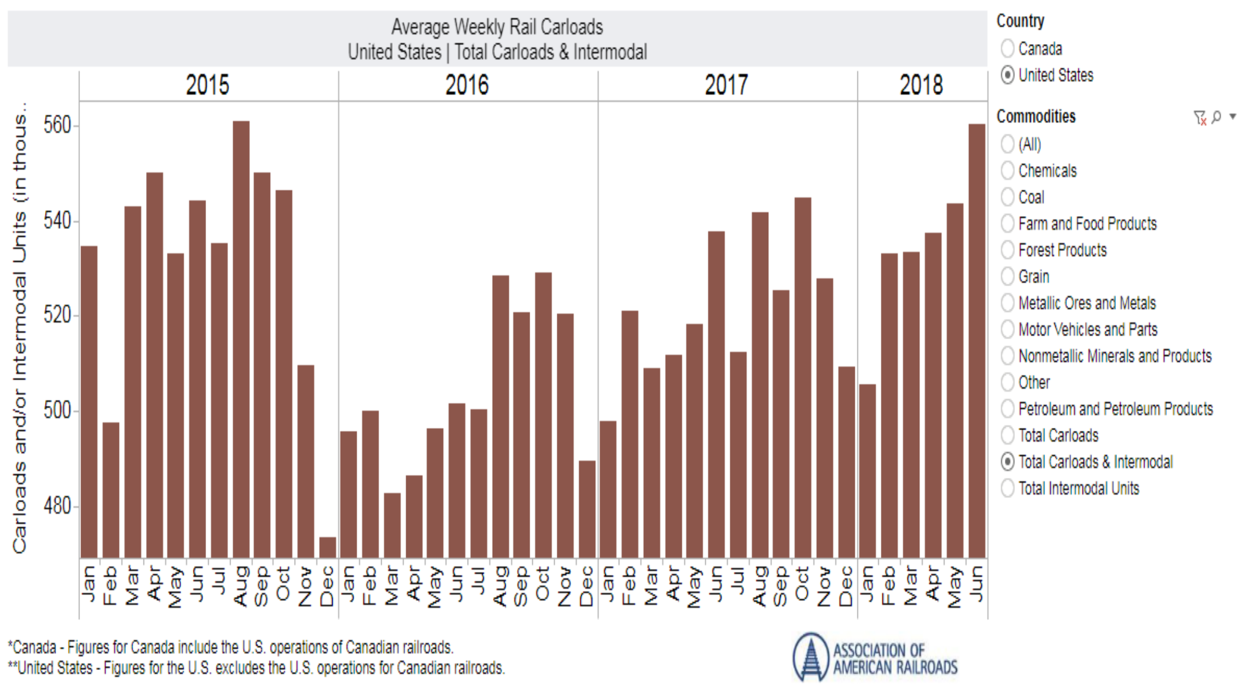
North American rail volume for the week ending July 21, 2018, on 12 reporting U.S., Canadian and Mexican railroads totaled 367,733 carloads, up 4.3 percent compared with the same week last year, and 374,898 intermodal units, up 4.7 percent compared with last year. Total combined weekly rail traffic in North America was 742,631 carloads and intermodal units, up 4.5 percent. North American rail volume for the first 29 weeks of 2018 was 20,890,754 carloads and intermodal units, up 3.6 percent compared with 2017.

Canadian railroads reported 80,302 carloads for the week, up 7.2 percent, and 69,249 intermodal units, up 2.9 percent compared with the same week in 2017. For the first 29 weeks of 2018, Canadian railroads reported cumulative rail traffic volume of 4,282,727 carloads, containers and trailers, up 3.8 percent.

Mexican railroads reported 22,093 carloads for the week, down 0.5 percent compared with the same week last year, and 17,963 intermodal units, down 4.9 percent. Cumulative volume on Mexican railroads for the first 29 weeks of 2018 was 1,109,775 carloads and intermodal containers and trailers.

https://www.aar.org/news/rail-traffic-for-the-week-ending-july-21-2018/

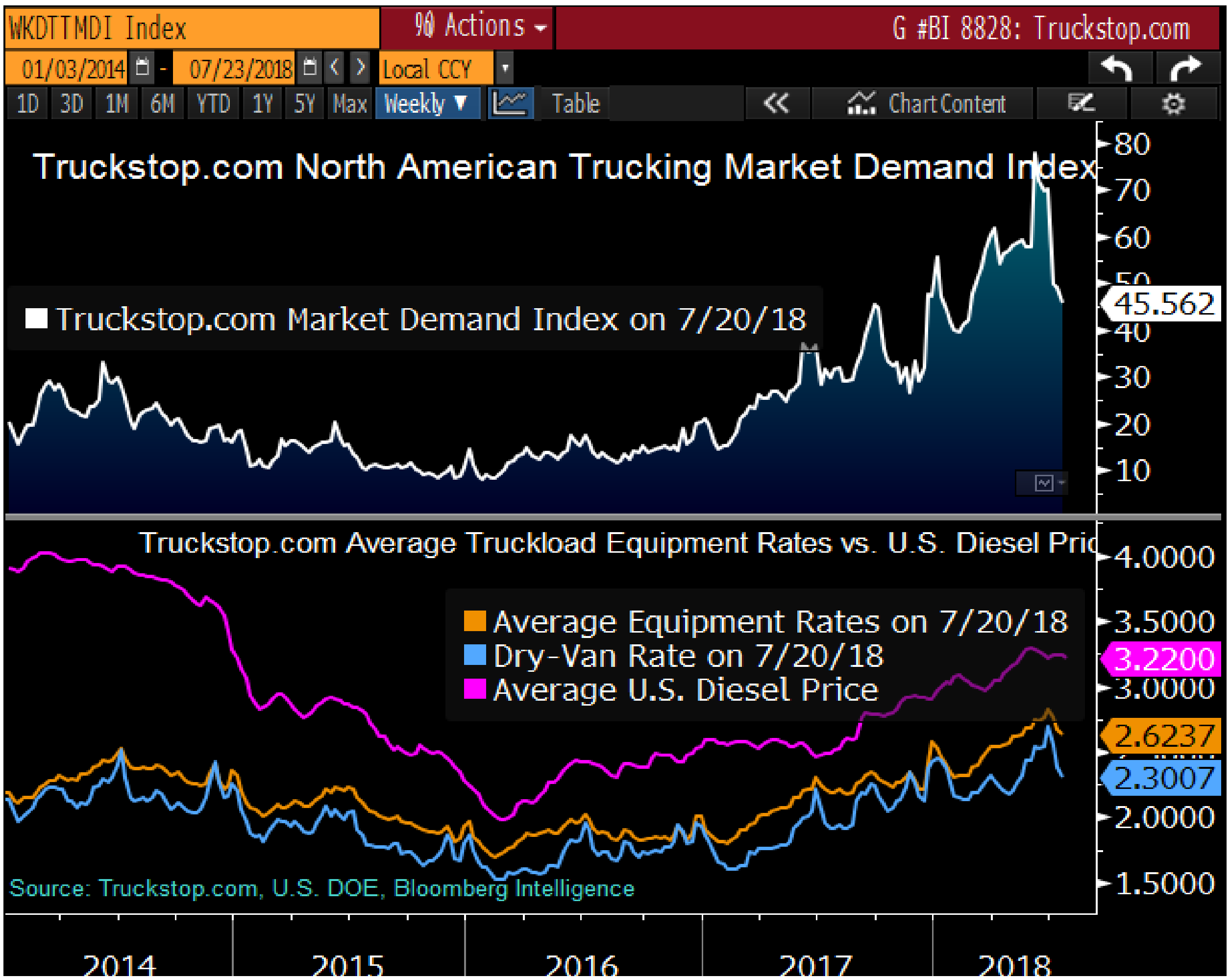
Monthly Rail Traffic Charts



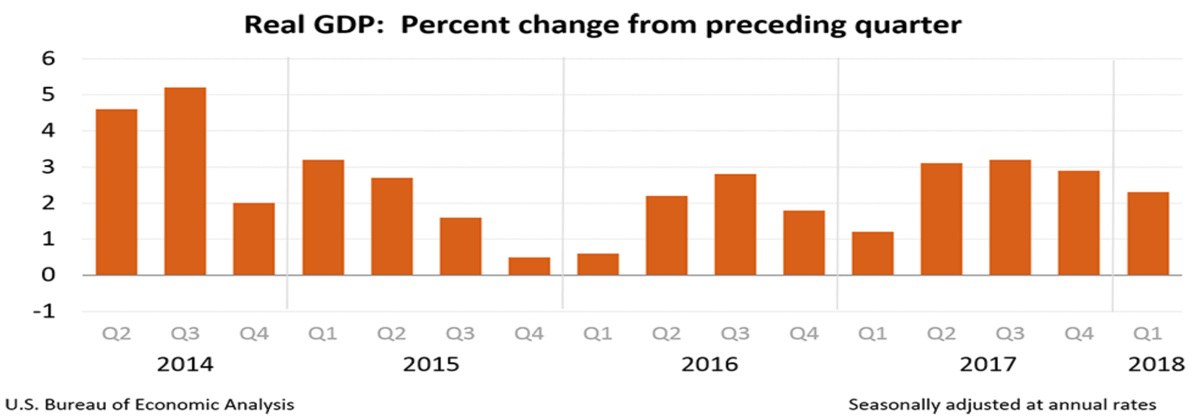
https://www.aar.org/data-center/rail-traffic-data/

Trailer Truck Demand
(Bloomberg Intelligence) – 07/23/18

(Bloomberg Intelligence) -- Relative North American spot-trucking demand fell 6.8% sequentially to 45.6 in the week ended July 20, based on Truckstop.com's Market Demand Index (MDI), down about 35% from seasonal highs before the July 4th holiday. Capacity loosened for the third straight week as available loads declined 6.6%, while truck availability inched slightly higher (0.3%). Average spot rates, excluding fuel surcharges, (down 1.8%) also declined for the third consecutive week. Rates are still about 16% higher vs. the same period a year ago. 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 pricing can be a leading indicator of contractual pricing. Some carriers are raising spot exposure to take advantage of higher rates.



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



GDP-2Q is running at *3.51% as of 7/26/18 v. *3.94% as of 7/18/18
***simple average of the three regionals.**

Atlanta Fed GDPNow…Q2 2018: 3.8 %...July 26, 2018
The final GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2018 is 3.8 percent on July 26, down from 4.5 percent on July 18. After this morning's advance releases on durable manufacturing, private inventories, and foreign trade in goods from the U.S. Census Bureau, the nowcasts of the contributions of inventory investment and net exports to second-quarter real GDP growth declined from 0.72 percentage points and 0.32 percentage points, respectively, to 0.58 percentage points and -0.10 percentage points.
*Bureau of Economic Analysis. The next GDPNow update is **Thursday, July 27**.*
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: 2.7%...July 27, 2018
Today's advance estimate of real GDP growth for 2018:Q2 from the Commerce Department was 4.1%. The latest New York Fed Staff Nowcast for 2018:Q2 was 2.8%.
https://www.newyorkfed.org/research/policy/nowcast

St. Louis Fed Real GDP Nowcast… Q2 2018: 3.82%…July 26, 2018
https://fred.stlouisfed.org/series/GDPNOW

MANUFACTURING AT A GLANCE

JUNE 2018

Index	Series Index Jun	Series Index May	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	60.2	58.7	+1.5	Growing	Faster	22
New Orders	63.5	63.7	-0.2	Growing	Slower	30
Production	62.3	61.5	+0.8	Growing	Faster	22
Employment	56.0	56.3	-0.3	Growing	Slower	21
Supplier Deliveries	68.2	62.0	+6.2	Slowing	Faster	21
Inventories	50.8	50.2	+0.6	Growing	Faster	6
Customers' Inventories	39.7	39.6	+0.1	Too Low	Slower	21
Prices	76.8	79.5	-2.7	Increasing	Slower	28
Backlog of Orders	60.1	63.5	-3.4	Growing	Slower	17
New Export Orders	56.3	55.6	+0.7	Growing	Faster	28
Imports	59.0	54.1	+4.9	Growing	Faster	17
OVERALL ECONOMY				Growing	Faster	110
Manufacturing Sector				Growing	Faster	22

Average for 12 months - 59.0

High - 60.8

Low - 56.5

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

US Foreign Assistance
http://foreignassistance.gov/

CBOT Non-Commercial Net Total – Futures Only
http://www.cmegroup.com/trading/interest-rates/cftc-tff/main.html

The Fixed Income Group at R.J. O'Brien

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