



Fixed Income Group A Division of RJ O'Brien

The Missile

www.fixedincomegroup.com

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(All times are CST)

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

United States Browse 13:45:42 08/31/18 - 09/06/18

Economic Releases All Economic Releases View Agenda Weekly

	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	08/31	08:45				Chicago Purchasing Manager	Aug	63.0	--	65.5	--
22)	08/31	09:00				U. of Mich. Sentiment	Aug F	95.5	--	95.3	--
23)	08/31	09:00				U. of Mich. Current Conditions	Aug F	--	--	107.8	--
24)	08/31	09:00				U. of Mich. Expectations	Aug F	--	--	87.3	--
25)	08/31	09:00				U. of Mich. 1 Yr Inflation	Aug F	--	--	2.9%	--
26)	08/31	09:00				U. of Mich. 5-10 Yr Inflation	Aug F	--	--	2.5%	--
27)	09/04	08:45				Markit US Manufacturing PMI	Aug F	--	--	54.5	--
28)	09/04	09:00				Construction Spending MoM	Jul	0.5%	--	-1.1%	--
29)	09/04	09:00				ISM Manufacturing	Aug	57.6	--	58.1	--
30)	09/04	09:00				ISM Employment	Aug	--	--	56.5	--
31)	09/04	09:00				ISM Prices Paid	Aug	--	--	73.2	--
32)	09/04	09:00				ISM New Orders	Aug	--	--	60.2	--
33)	09/04					Wards Total Vehicle Sales	Aug	--	--	16.68m	--
34)	09/05	06:00				MBA Mortgage Applications	Aug 31	--	--	-1.7%	--
35)	09/05	07:30				Trade Balance	Jul	-\$47.5b	--	-\$46.3b	--
36)	09/06	06:30				Challenger Job Cuts YoY	Aug	--	--	-4.2%	--
37)	09/06	07:15				ADP Employment Change	Aug	188k	--	219k	--
38)	09/06	07:30				Nonfarm Productivity	2Q F	2.9%	--	2.9%	--
39)	09/06	07:30				Unit Labor Costs	2Q F	-0.9%	--	-0.9%	--

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 6731-4410-0 30-Aug-2018 13:45:42

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Fed Speak Calendar (All times are CST)

Calendars		Alerts	Export	Settings	Economic Calendars						
	United States	Browse	15:37:05	08/27/18	-	09/30/18					
Central Banks		All Central Banks		View <input checked="" type="radio"/> Agenda <input type="radio"/> Weekly							
	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	09/03	13:30				Fed's Evans Speaks on Policy Panel in Argentina					
22)	09/04	09:30				Fed's Evans Discusses Policy Normalization					
23)	09/05	15:00				Fed's Kashkari Speaks at Townhall in Bozeman, Montana					
24)	09/07	07:30				Fed's Rosengren Makes Opening Remarks at Boston Fed Conference					
25)	09/07	08:00				Fed's Mester Moderates Panel at Boston Fed conference					
26)	09/07	11:45				Fed's Kaplan Speaks at Energy Conference in Dallas					
27)	09/10	11:00				Fed's Bostic Discusses Economic Outlook					
28)	09/12	08:30				Fed's Bullard Speaks to CFA Society Chicago					
29)	09/12	13:00				U.S. Federal Reserve Releases Beige Book					
30)	09/13	12:15				Fed's Bostic Gives Speech on Economy and Monetary Policy					
31)	09/26	13:00				FOMC Rate Decision (Upper Bou...	Sep 26	2.25%	--	2.00%	--
32)	09/26	13:00				FOMC Rate Decision (Lower Bou...	Sep 26	2.00%	--	1.75%	--
33)	09/26	13:30				Fed's Powell Holds Press Conference Following FOMC Decision					
34)	09/28	15:45				Fed's Williams Speaks in New York at Money Markets Conference					
35)	09/29-10/02					Fed Chair Jerome Powell Delivers Keynote at NABE Conference					

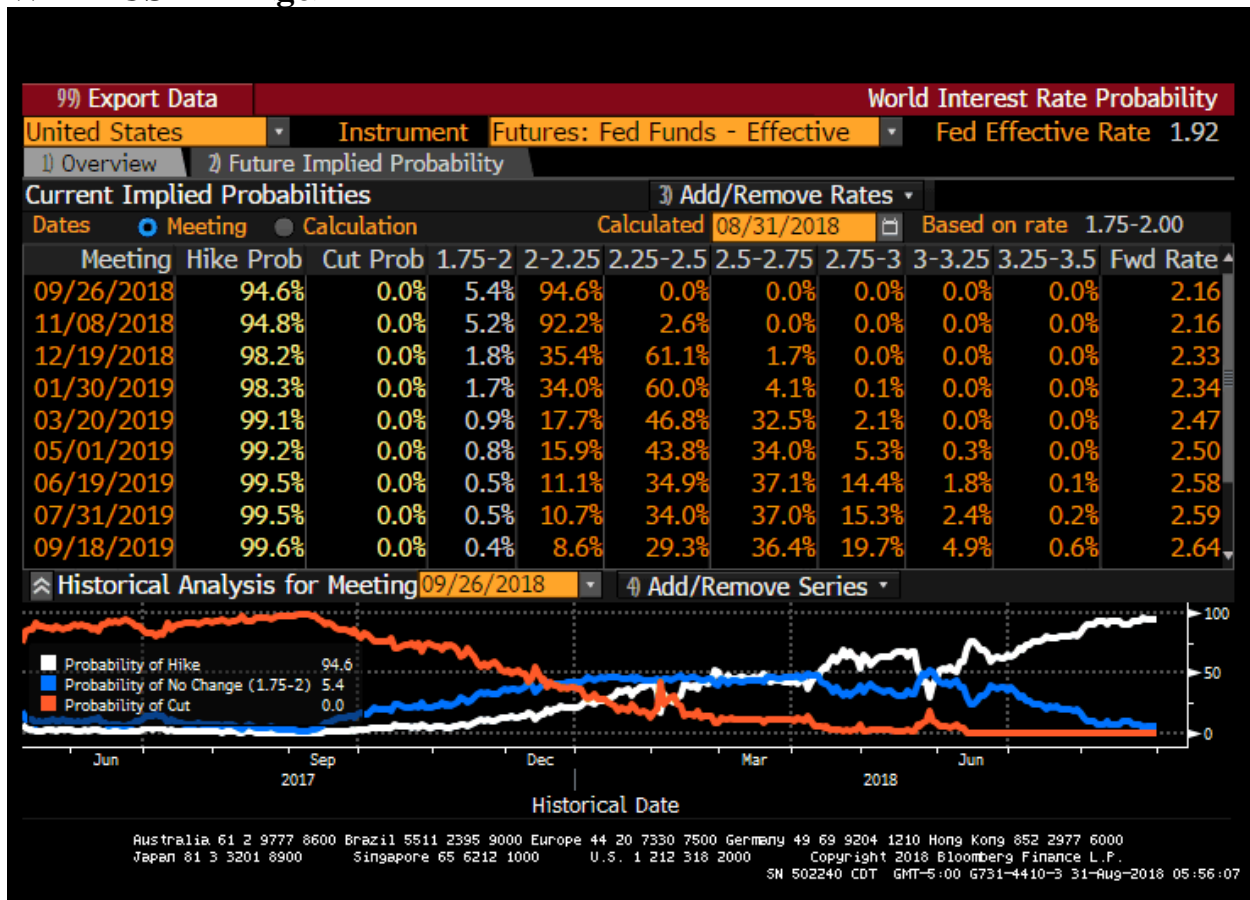
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	Next Offer	Next	Date	CUSIP	\$	Prior	Prior	
Bill Auctions	Announcement	Auction	Settles	Numbers	R	Bil	Auction	\$ Bln
Cash mgmt	TBA	TBA	TBA	TBA		TBA	02/13/2018	\$50
4-week	08/30/2018	09/04/2018	09/06/2018	912796QB8		TBA	08/28/2018	\$65
8-week	10/15/2018	10/16/2018	10/18/2018	TBA		TBA	n/a	n/a
3-month	08/30/2018	09/04/2018	09/06/2018	912796PE3		TBA	08/27/2018	\$51
6-month	08/30/2018	09/04/2018	09/06/2018	912796QZ5		TBA	08/27/2018	\$45
1-year	09/06/2018	09/11/2018	09/13/2018	TBA		TBA	08/14/2018	\$26
Note Auctions								
2-year	09/20/2018	09/24/2018	10/01/2018	TBA		TBA	08/27/2018	\$36
3-year	09/06/2018	09/11/2018	09/17/2018	TBA		TBA	08/07/2018	\$34
5-year	09/20/2018	09/25/2018	10/01/2018	TBA		TBA	08/28/2018	\$37
7-year	09/20/2018	09/27/2018	10/01/2018	TBA		TBA	08/29/2018	\$31
10-year	09/06/2018	09/12/2018	09/17/2018	TBA	R	TBA	08/08/2018	\$26
Bond Auctions								
30-year	09/06/2018	09/13/2018	09/17/2018	TBA	R	TBA	08/09/2018	\$18

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TIPS Auctions								
5-yr TIPS	12/13/2018	12/20/2018	12/31/2018	TBA	R	TBA	08/23/2018	\$14
10-yr TIPS	09/13/2018	09/20/2018	09/28/2018	TBA	R	TBA	07/19/2018	\$13
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	09/20/2018	09/25/2018	09/28/2018	TBA	R	TBA	08/29/2018	\$18
Buyback Operation								
Buyback	TBA	TBA	TBA	TBA	TBA	TBA	11/15/2017	\$.025

Current Implied Probability of Fed Rate Movement (Futures) WIRP US FFE <go>



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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, 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/fomeproitabl20180613.pdf>

Libor Set

1-Month Libor Set	2.11375	+.01000	(97.08625)
3-Month Libor Set	2.32125	-.00050	(97.67875)
6-Month Libor Set	2.53563	+.00175	(97.46437)
1-Year Libor Set	2.84000	-.00238	(97.16000)

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THEY SAID IT

“There are a lot of people that love it and some people that don’t,” Trump said Thursday in an Oval Office interview with Bloomberg News. “But I’m thinking about it very strongly.”

<https://www.bloomberg.com/news/articles/2018-08-30/trump-says-thinking-about-indexing-capital-gains-to-inflation?srnd=premium>

President Donald Trump said he’s considering a capital gains tax break by issuing a regulation that would index gains to inflation.

The capital gains change would slash tax bills for investors when selling assets such as stock or real estate by adjusting the original purchase price for inflation. The change has been a longtime goal of Trump’s top economic adviser, Larry Kudlow, who says the policy would spur job creation and economic growth because people wouldn’t be taxed on what he’s called “phantom income.”

Proponents of the move greeted Trump’s comments on Thursday as positive. Andy Roth, vice president of government affairs at the Club for Growth, said they signal there’s forward momentum on the issue. A new lobbying group was formed in August called the Center for a Free Economy to advocate for linking capital gains with inflation.

<https://www.bloomberg.com/news/articles/2018-08-31/trump-touts-benefit-of-capital-gains-break-experts-aren-t-sold?srnd=premium>

If capital gains were indexed, it would likely lead to a one-time bump, rather than a long-lasting stimulus, said Stephen Entin, a senior fellow at the Tax Foundation.

And applying the policy to old investments, not just new ones, is unlikely to provide robust growth. “You can’t incentivize investment in 2001,” said Daniel Hemel, a tax law professor at the University of Chicago. “That’s already a sunk cost.”

Aside from the economic growth debate, there are other obstacles. The move would likely face legal challenges from critics who say it gives an unfair advantage to investment income (compared to, say, interest earned on savings accounts or wages) and from those who say it needs congressional approval.

It’s still unknown whether Trump can cut capital gains taxes unilaterally, but Treasury is studying the issue. There isn’t a deadline for when the department will reach a conclusion, an official said last month.

President George H. W. Bush’s administration considered allowing gains to be indexed to inflation through regulation without Congress, but ultimately dropped the idea after a 1992 memo knocked it down. At the root of the issue is whether Treasury can change the definition of cost so taxpayers can use inflation in their calculations.

Grover Norquist, president of Americans for Tax Reform, has argued that the Bush-era memo was incorrect and produced a widespread misunderstanding for more than two decades.

But Hemel and David Kamin, a law professor at New York University, said in a draft research paper that “the same arguments that led officials in the first Bush administration to reject the idea in 1992 are applicable today.”

“This would be a further tax giveaway to the highest income categories,” said Steve Rosenthal, a senior fellow at the Urban-Brookings Tax Policy Center. “Capital gain income is overwhelmingly reported by rich guys.”

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“There’s no clear price reference after the peso plunge.”

<https://www.bloomberg.com/news/articles/2018-08-30/what-s-a-peso-worth-all-bets-are-off-as-argentina-pain-spreads?srnd=premium>

The last link in that chain is breaking down -- because Argentina’s currency is in freefall. It’s lost half its value this year, and some 20 percent this week alone. The slump threatens to spread havoc through the \$640 billion economy, rupturing supply chains for businesses and straining the finances of households.

Inflation has stuck above 30 percent and is set to accelerate on a weaker peso. Even for businesses that buy locally, it’s a struggle to keep up.

TN&Platex is Argentina’s biggest textile company. It’s able to quote prices for buyers that have the money to pay right now, says Chief Executive Officer Teddy Karagozian. But the currency volatility means he can’t offer the usual 60- or 90-day credit to clients, Karagozian said.

The central bank raised interest rates to 60 percent on Thursday, the world’s highest. A day earlier, Macri had shocked the nation — and investors -- with an appeal for quicker payouts from the International Monetary Fund, which [said](#) it’s considering the request.

Argentina’s \$50 billion [loan agreement](#) in June was the biggest in IMF history. The country was also on an IMF program when it crashed and defaulted in 2001. That was the catalyst for more than a decade of budget-busting left-populist government – and isolation from world financial markets, something that ended with [Macri’s election in 2015](#).

The lira rallied after Turkey raised taxes on dollar deposits, making it more attractive for investors to plough money into the local currency.

<https://www.bloomberg.com/news/articles/2018-08-31/lira-gets-a-helping-hand-as-turkey-raises-tax-on-dollar-deposits>

The lira snapped four days of losses after the government raised taxes on dollar deposits of up to a year and scrapped a 10 percent tax on lira accounts with maturities longer than a year. The currency is still heading for a loss of around 9 percent this week and is the second worst-performing emerging-market currency this year.

“It’s not good enough,” Trump said of the offer from Brussels during an Oval Office interview with Bloomberg News. “Their consumer habits are to buy their cars, not to buy our cars.”

<https://www.bloomberg.com/news/articles/2018-08-30/trump-says-eu-offer-for-no-auto-tariffs-is-not-good-enough?srnd=premium>

Trump’s comments come just hours after Trade Commissioner Cecilia Malmstrom told European Parliament lawmakers that the EU would be “willing to bring down even our car tariffs to zero, all tariffs to zero, if the U.S. does the same.” Autos were previously excluded from the discussions that focused on manufactured products bought and sold between the two markets. Trump compared the EU to China, where the president is engaged in another escalating trade war.

Last month, the U.S. and EU [agreed](#) not to impose new tariffs on each other after Trump and European Commission President Jean-Claude Juncker met at the White House. The two sides agreed to open discussions about a trade agreement on industrial goods but at U.S. insistence left out cars. Trump has set achieving zero tariffs, zero subsidies and zero non-tariff barriers for industrial goods as part of those talks.

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The next round of U.S. tariffs on Chinese imports — [\\$200 billion](#) worth — could come as soon as next week, after talks to avert them ended without resolution. China is set to retaliate promptly with duties on nearly everything it imports from the United States. Even as he signaled an initial deal with Mexico, President Donald Trump declared it wasn't time to restart negotiations with China; administration hardliners appear to believe that the Chinese economy is more fragile than it looks, increasing U.S. leverage. For their part, Chinese negotiators seem resigned to wait until after the U.S. midterm elections before pushing for new talks.

<https://www.bloomberg.com/view/articles/2018-08-30/trade-war-u-s-china-need-to-compromise-now?srd=premium>

China's apparent nonchalance suggests it still wants an easy way out of this conflict. Its negotiators have reportedly offered to buy more U.S. commodities — to bring down the bilateral trade deficit — and to refrain from devaluing China's currency to boost exports. But these moves would not address the main issue: China's failure to live up to its World Trade Organization obligations, especially in the way it bolsters its own high-tech sector through massive subsidies and by forcing foreign companies to transfer technology.

U.S. concerns about China's trade barriers, discrimination against foreign companies, and attempts to procure technology by any means are well-founded and widely shared. By ignoring or downplaying them, or taking half-measures to address them, China has already lost credibility internationally.

China's reluctance to reform runs counter to its long-term interests as well. It's pushed to the breaking point the multilateral trading system that has enabled the country's remarkable four-decade expansion — at a time when its economy is at risk of stalling before the country can break out of middle-income status. Meanwhile, the [subsidies and market barriers](#) associated with its "Made in China 2025" industrial plan are as likely to encourage fraud, inefficiency and waste as they are to generate innovation. China could foster greater competition and attract more investment by establishing a level playing field.

The Pentagon announced Thursday that [Boeing](#) won a contract worth \$805 million to build the Navy's first four carrier-based unmanned aerial refueling tankers.

<https://www.cnbc.com/2018/08/31/the-us-navy-just-got-one-step-closer-to-aerial-refueling-drones.html>

Boeing's drone tanker, the MQ-25 Stingray, will launch from a ship at sea and aerial refuel Navy fighter jets such as the F/A-18 Super Hornet, the EA-18G Growler, and the F-35C.

Per the contract, the defense giant will "provide the design, development, fabrication, test, verification, certification, delivery, and support of four MQ-25A unmanned air vehicles, including integration into the carrier air wing to provide an initial operational capability to the Navy."

The first four Stingrays are slated for delivery by August 2024.

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Iran has given ballistic missiles to Shi'ite proxies in Iraq and is developing the capacity to build more there to deter attacks on its interests in the Middle East and to give it the means to hit regional foes, Iranian, Iraqi and Western sources said.

<https://www.cnn.com/2018/08/31/iran-moves-missiles-to-iraq-in-warning-to-enemies-report.html>

Any sign that Iran is preparing a more aggressive missile policy in Iraq will exacerbate tensions between Tehran and Washington, already heightened by U.S. President Donald Trump's decision to pull out of a 2015 nuclear deal with world powers.

It would also embarrass France, Germany and the United Kingdom, the three European signatories to the nuclear deal, as they have been trying to salvage the agreement despite new U.S. sanctions against Tehran.

According to three Iranian officials, two Iraqi intelligence sources and two Western intelligence sources, Iran has transferred short-range ballistic missiles to allies in Iraq over the last few months. Five of the officials said it was helping those groups to start making their own.

"The logic was to have a backup plan if Iran was attacked," one senior Iranian official told Reuters. "The number of missiles is not high, just a couple of dozen, but it can be increased if necessary."

Japan's military wants record spending next year to help pay for major upgrades to defenses designed to shoot down North Korean ballistic missiles that Tokyo sees as a continued threat despite Pyongyang's promise to abandon nuclear weapons.

<https://www.cnn.com/2018/08/31/japan-to-spend-billions-on-us-missile-defense-to-deter-north-korea.html>

The Ministry of Defence budget proposal released on Friday calls for defense spending to rise 2.1 percent to 5.3 trillion yen (\$48 billion) for the year starting April 1.

If approved, it will be the seventh straight annual increase as [Prime Minister Shinzo](#)

[Abe](#) reinforces Japan's military to respond to any North Korea missile strike and counter China's growing air and sea power in the waters around Japan.

The proposed defense budget still has to face scrutiny by Ministry of Finance officials who may seek to curtail any rise in military outlays to secure funds for Japan's burgeoning health and welfare spending.

The biggest proposed outlay in the military budget will be on ballistic missile defense, with a request for 235 billion yen for two new powerful ground-based Aegis Ashore radar missile tracking stations built by [Lockheed Martin Corp.](#)

"We must table with Europe a serious negotiation on this," cabinet undersecretary Giancarlo Giorgetti said on the sidelines of a conference in Tuscany.

"If exceeding the 3 percent (of gross domestic product) ceiling is necessary to ensure safety in this country, then yes (it could be done)," he added.

<https://www.reuters.com/article/us-italy-budget-giorgetti/italy-could-exceed-eu-budget-ceiling-if-spending-needed-official-idUSKCN1LG1J8?il=0>

Italy could exceed the European Union's deficit ceiling next year if the extra spending is needed to make sure that the country's infrastructure, including schools and bridges, is safe, a senior government official said on Friday.

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EQUITIES

The S&P is **-3** 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

On Bloomberg type in ACDR <GO>

UK/EUROPE

In the UK the FTSE closed -0.42%.

In the UK, the 2s/10s swap curve is slightly steeper with yields mixed.

BOE Rate +0.50%. (No change).

Next meeting 09/13/18

On the European Continent

The CAC Index closed -1.02%.

The DAX Index closed -0.68%.

On the Continent, the 2s/10s swap curve is flatter with yields lower.

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

Deposit Facility Rate -.40%

Next meeting 09/13/18

Japan:

The TOPIX closed -0.22%.

The NIKKEI closed -0.02%.

In Japan, the 2s/10s swap curve is steeper with yields higher.

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

Next meeting 09/19/18

China:

The Hang Seng closed -0.98%.

The Shanghai Composite closed -0.46%.

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: 97-63.25 is the pivot. Below the pivot, you should be short, above long. Support is at 97-63.25** and 97-59.00^.

Resistance is at 97-67.5**.

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

** 2-STD Deviations from the pivot point.

Current trend would have you long 97.56 (7/20/18). I have elected to remain flat.



YTD (per contract)

2018 +36.5 ticks (+\$912.50)

2017 +33.0 ticks (+\$825.00)

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10yr/TYU8: 120-06.5 is the pivot point. Above you should be long, below short.
Support is at 120-06.5 and 119-16.5^*
Resistance is at 120-28.5

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

** 2-STD Deviations from the pivot point

Trend that had you short from 120-03.0 (7/20/19) has rolled over, resulting in a 10-tick winner. Current trend has you long from 119-25 (8/9/18).



YTD (per contract)

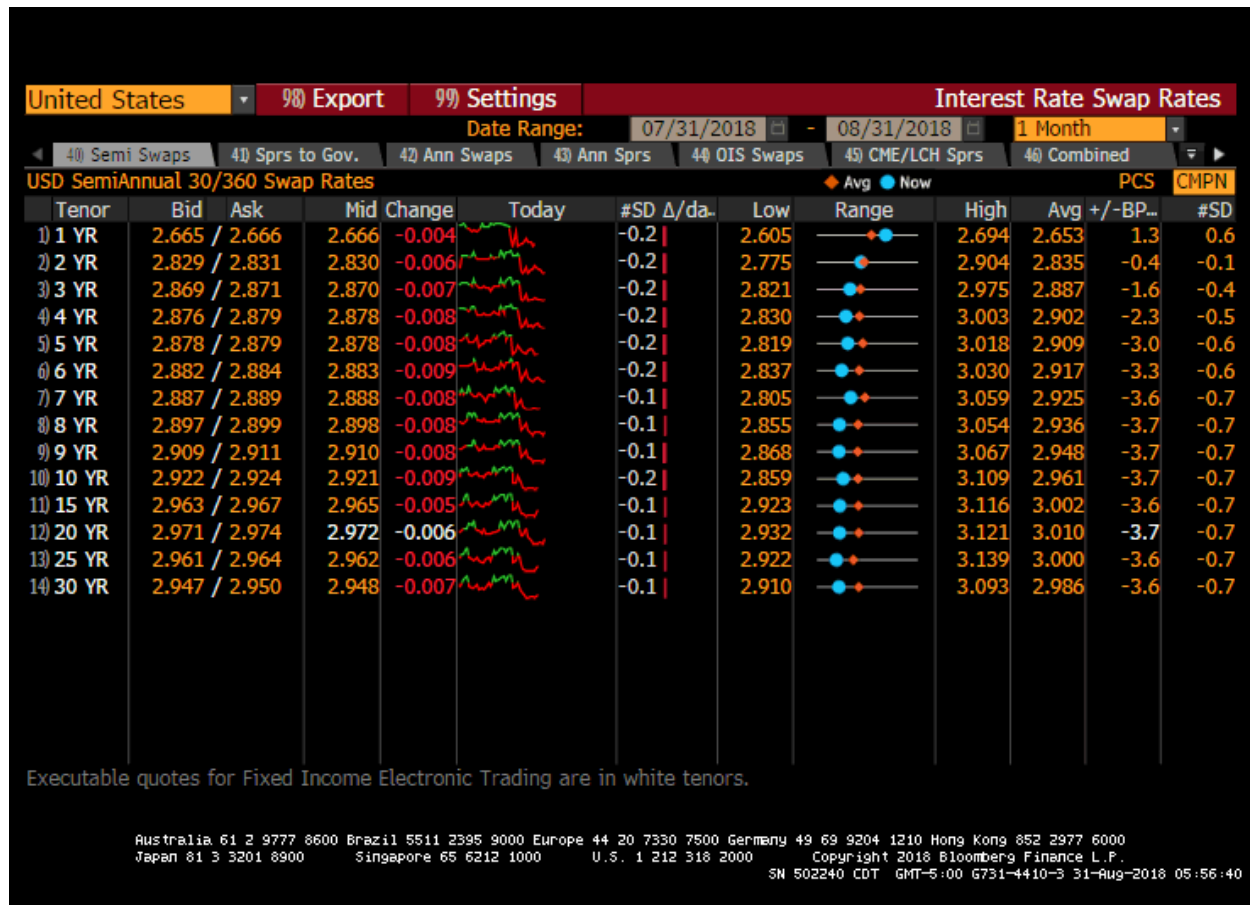
(2018) +108.0 futures ticks (\$31.25 per tick) or +\$3,375.00.

(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>



The Option Lab

Trade Log:

2. Bought the TY Week-2 120.00 put (at the money).

Paid 8/64ths (\$125) per contract (3/9/2018).

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

On March 9, the put was sold back at 7/64ths for a \$15.63 loss.

1. Bought 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.

On February 2, the put fly was sold back at 1.25 ticks for a \$31.25 win.

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 2nd quarter 2018

The results of this quarter's survey reflect agricultural finance conditions in the Eighth Federal Reserve District during the second quarter of 2018. **For the eighteenth consecutive quarter bankers who responded to the survey on net reported a decline in farm income when compared with the same period a year ago.** Similar to the previous survey, the results of this survey reflect some expectations of improving levels for farm income for the next quarter. While a majority of bankers still expect income to decline next quarter when compared with the third quarter of last year, slightly fewer bankers report that assessment. Bankers reported a similar assessment and outlook for capital spending. Responses about household spending also indicate a decline in that category when compared with responses a year ago. Bankers have reported lower comparative income levels since the fourth quarter of 2013, reaching a low point in the second quarter of 2016. This period correlates with an extended period of depressed prices for commodities. Survey responses indicate that the value of quality farm land fell during the second quarter of 2018 compared with a year ago but that cash rents for that property slightly improved. In contrast, the value for rangeland or pastureland rose during the second quarter while cash rents for that property fell. Responses to bank-related activities indicated that loan demand and available funds increased during the second quarter of 2018 as compared with a year ago. The rate of loan repayment slowed during the second quarter of 2018 on a comparative basis as reported by a majority of bankers. Both fixed and variable interest rates on all categories of loans rose during the quarter, relative to the previous quarter. This quarter's survey asked two special questions. Results of the first question indicate that a significant majority of respondents feel that the University of Missouri's projections that farm income will fall in 2018 by about 6.5 percent is

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about right. The second question asked about the impact lenders expected the new tax law will have on borrowers: Over 71 percent felt it would be either somewhat positive or significantly positive, while only 29 percent felt there would be either no effect or a somewhat negative effect.

<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>

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.	24 August 2018	1,044	-13	17 August 2018	+104	25 August 2017
Canada	24 August 2018	229	+17	17 August 2018	+12	25 August 2017
International	July 2018	997	+38	June 2018	+38	July 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.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/>

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TRANSPORTS

Association of American Railroads Rail Traffic Report.

For this week, total U.S. weekly rail traffic was 565,706 carloads and intermodal units, up 3.9 percent compared with the same week last year.

Total carloads for the week ending August 25 were 275,334 carloads, up 1.8 percent compared with the same week in 2017, while U.S. weekly intermodal volume was 290,372 containers and trailers, up 6 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 2,184 carloads, to 22,064; petroleum and petroleum products, up 1,980 carloads, to 11,332; and metallic ores and metals, up 1,587 carloads, to 25,451. Commodity groups that posted decreases compared with the same week in 2017 were coal, down 5,010 carloads, to 91,300; and miscellaneous carloads, down 27 carloads, to 9,881.

For the first 34 weeks of 2018, U.S. railroads reported cumulative volume of 8,901,367 carloads, up 1.7 percent from the same point last year; and 9,417,104 intermodal units, up 6 percent from last year. Total combined U.S. traffic for the first 34 weeks of 2018 was 18,318,471 carloads and intermodal units, an increase of 3.9 percent compared to last year.

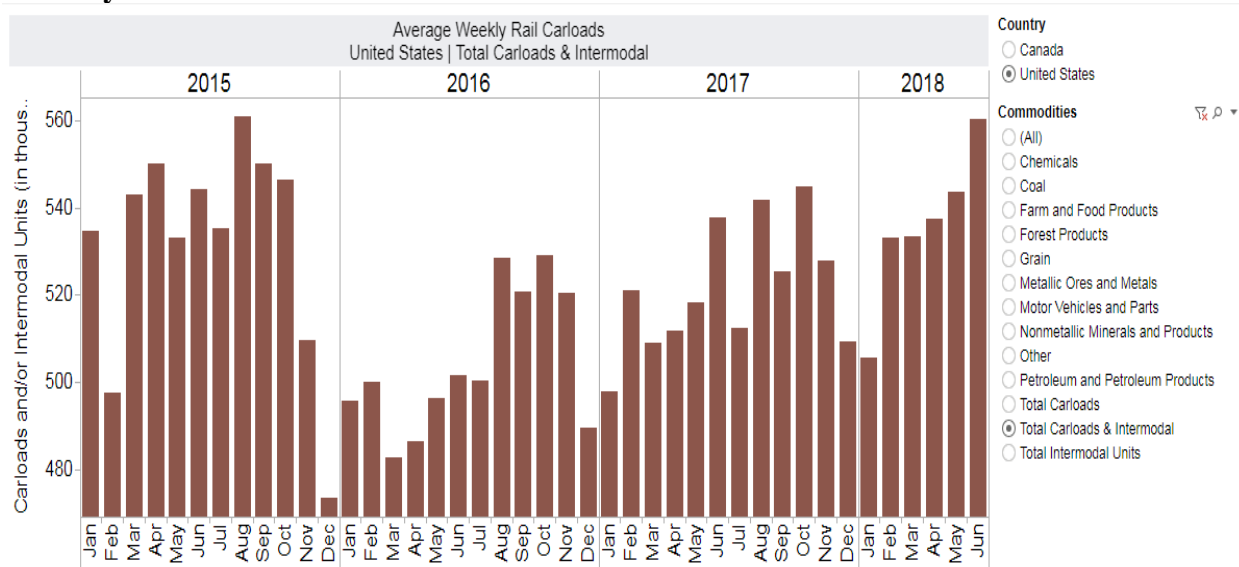
North American rail volume for the week ending August 25, 2018, on 12 reporting U.S., Canadian and Mexican railroads totaled 381,287 carloads, up 1.6 percent compared with the same week last year, and 383,099 intermodal units, up 4.8 percent compared with last year. Total combined weekly rail traffic in North America was 764,386 carloads and intermodal units, up 3.2 percent. North American rail volume for the first 34 weeks of 2018 was 24,685,171 carloads and intermodal units, up 3.5 percent compared with 2017.

Canadian railroads reported 85,021 carloads for the week, up 3.4 percent, and 72,983 intermodal units, up 2.9 percent compared with the same week in 2017. For the first 34 weeks of 2018, Canadian railroads reported cumulative rail traffic volume of 5,055,944 carloads, containers and trailers, up 3.9 percent.

Mexican railroads reported 20,932 carloads for the week, down 6.6 percent compared with the same week last year, and 19,744 intermodal units, down 4.3 percent. Cumulative volume on Mexican railroads for the first 34 weeks of 2018 was 1,310,756 carloads and intermodal containers and trailers.

<https://www.aar.org/news/rail-traffic-for-the-week-ending-august-25-2018/>

Monthly Rail Traffic Charts



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

**United States - Figures for the U.S. excludes the U.S. operations for Canadian railroads.



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

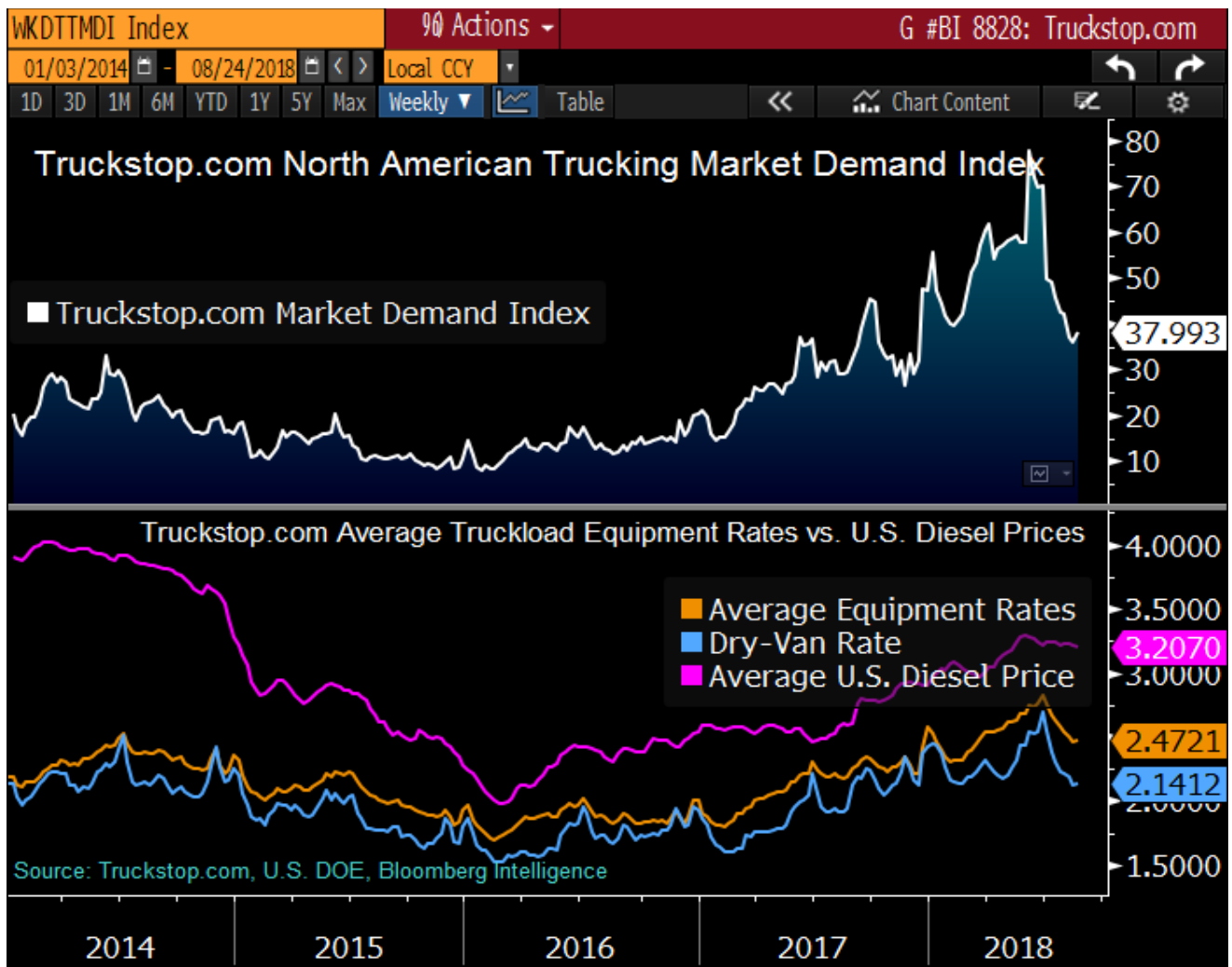
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Trailer Truck Demand (Bloomberg Intelligence) – 08/20/18

Relative North American spot-trucking demand fell 2.8% sequentially to 36.1 in the week ended Aug. 17, based on Truckstop.com's Market Demand Index (MDI), down about 48% from seasonal highs before the July 4 holiday. Capacity remains historically tight, even as it loosened for the seventh-straight week. Growth in spot rates, excluding fuel surcharges, has moderated from peak levels but is 15% higher in 3Q from the prior year. Rates will face harder comps in the coming weeks when they lap spikes from Hurricane Harvey.

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, which many carriers expect to rise in the high-single digits to mid-teens in 2018.

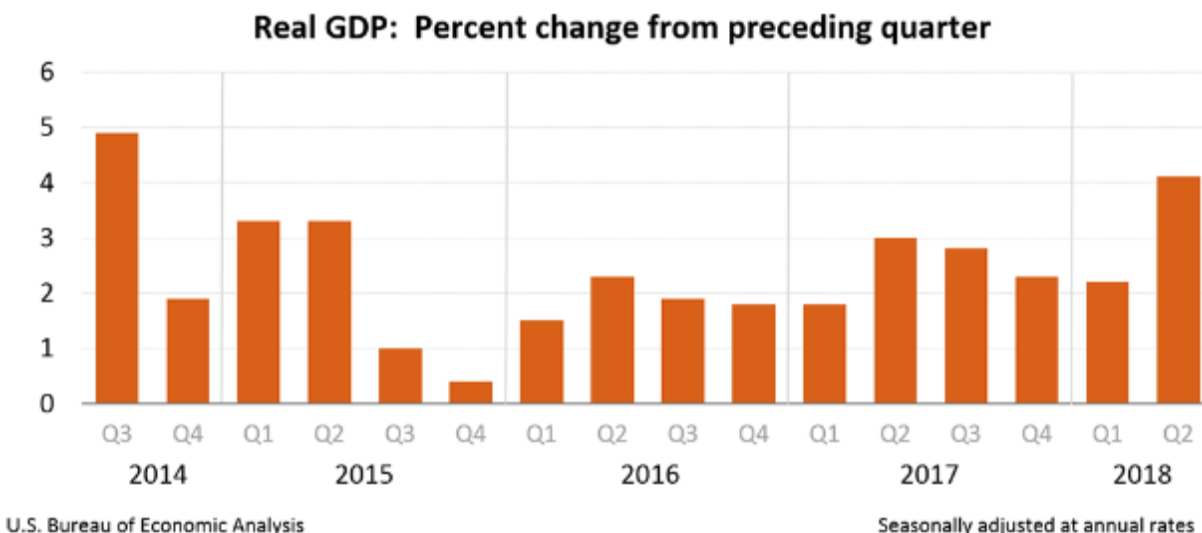
Lee A Klaskow at lklaskow1@bloomberg.net



GDP

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

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GDP-2Q is running at *3.57% as of 08/30/18 v. *3.73% on 08/24/18
***simple average of the three regionals.**

Atlanta Fed GDPNow...Q3 2018: 4.1 ...August 30, 2018

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2018 is **4.1 percent** on August 30, down from 4.6 percent on August 24. After the Advance Economic Indicators release from the U.S. Census Bureau on August 28, the nowcast of the contribution of net exports to third-quarter real GDP growth declined from -0.26 percentage points to -0.64 percentage points and the nowcast of third-quarter real gross private domestic investment growth declined from 16.1 percent to 15.5 percent.

The next GDPNow update is Tuesday, September 4. 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...Q3 2018: 2.0%...August 24, 2018

The New York Fed Staff Nowcast for 2018:Q3 stands at 2.0%.

News from this week's data releases decreased the nowcast for 2018:Q3 by 0.4 percentage point.

The negative impact of higher than expected manufacturers' inventories drove most of the decrease.

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

St. Louis Fed Real GDP Nowcast... Q3 2018: 4.60 %...August 24, 2018

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

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MANUFACTURING AT A GLANCE

JULY 2018

Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	58.1	60.2	-2.1	Growing	Slower	23
New Orders	60.2	63.5	-3.3	Growing	Slower	31
Production	58.5	62.3	-3.8	Growing	Slower	23
Employment	56.5	56.0	0.5	Growing	Faster	22
Supplier Deliveries	62.1	68.2	-6.1	Slowing	Slower	22
Inventories	53.3	50.8	2.5	Growing	Faster	7
Customers' Inventories	39.4	39.7	-0.3	Too Low	Faster	22
Prices	73.2	76.8	-3.6	Increasing	Slower	29
Backlog of Orders	54.7	60.1	-5.4	Growing	Slower	18
New Export Orders	55.3	56.3	-1.0	Growing	Slower	29
Imports	54.7	59.0	-4.3	Growing	Slower	18
OVERALL ECONOMY				Growing	Slower	111
Manufacturing Sector				Growing	Slower	23

Average for 12 months - 59.1

High - 60.8

Low - 57.3

<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

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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