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 6) Browse 05:48:45 07/10/18 - 07/17/18

Economic Releases | All Economic Releases | View Agenda Weekly

	Date Time	Event	Period	Surv(M)	Actual	Prior	Revised
21)	07/10 04:20	NFIB Small Business Optimism	Jun	106.9	107.2	107.8	--
22)	07/10 09:00	JOLTS Job Openings	May	6620	--	6698	--
23)	07/11 06:00	MBA Mortgage Applications	Jul 6	--	--	-0.5%	--
24)	07/11 07:30	PPI Final Demand MoM	Jun	0.2%	--	0.5%	--
25)	07/11 07:30	PPI Ex Food and Energy MoM	Jun	0.2%	--	0.3%	--
26)	07/11 07:30	PPI Ex Food, Energy, Trade MoM	Jun	0.2%	--	0.1%	--
27)	07/11 07:30	PPI Final Demand YoY	Jun	3.1%	--	3.1%	--
28)	07/11 07:30	PPI Ex Food and Energy YoY	Jun	2.6%	--	2.4%	--
29)	07/11 07:30	PPI Ex Food, Energy, Trade YoY	Jun	--	--	2.6%	--
30)	07/11 09:00	Wholesale Trade Sales MoM	May	0.5%	--	0.8%	--
31)	07/11 09:00	Wholesale Inventories MoM	May F	0.5%	--	0.5%	--
32)	07/12 07:30	Initial Jobless Claims	Jul 7	225k	--	231k	--
33)	07/12 07:30	Continuing Claims	Jun 30	1730k	--	1739k	--
34)	07/12 07:30	CPI MoM	Jun	0.2%	--	0.2%	--
35)	07/12 07:30	CPI Ex Food and Energy MoM	Jun	0.2%	--	0.2%	--
36)	07/12 07:30	CPI YoY	Jun	2.9%	--	2.8%	--
37)	07/12 07:30	CPI Ex Food and Energy YoY	Jun	2.3%	--	2.2%	--
38)	07/12 07:30	CPI Index NSA	Jun	252.092	--	251.588	--
39)	07/12 07:30	CPI Core Index SA	Jun	257.361	--	256.889	--

Fed Speak Calendar
(All times are CST)

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

United States 6) Browse 09:12:02 07/06/18 - 08/31/18

Central Banks All Central Banks View Agenda Weekly

	Date Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	07/11 15:30				Fed's Williams Speaks with Community Leaders in Brooklyn					
22)	07/12 07:30				Fed's Kashkari Speaks on Panel Discussing Immigration					
23)	07/12 11:15				Fed's Harker Speaks at Rocky Mountain Economic Summit					
24)	07/13 10:00				Fed Releases Monetary Policy Report to Congress					
25)	07/13 11:30				Fed's Bostic Holds Town Hall Chat in Northern Virginia					
26)	07/17 09:00				Powell to Deliver Semi-Annual Testimony Before Senate Panel					
27)	07/18 13:00				U.S. Federal Reserve Releases Beige Book					
28)	08/01 13:00				FOMC Rate Decision (Upper Bou...	Aug 1	2.00%	--	2.00%	--
29)	08/01 13:00				FOMC Rate Decision (Lower Bo...	Aug 1	1.75%	--	1.75%	--
30)	08/22 13:00				FOMC Meeting Minutes	Aug 1	--	--	--	--

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4) Previous 3) Next 66) Send 98) Actions 99) Translate News: News Story

07/09/2018 12:26:49 [BN]

Bill Auctions	Announcement	Auction	Settles	Numbers	R	Bil	Auction	$ Bln
Cash mgmt	TBA	TBA	TBA	TBA		TBA	02/13/2018	$50
4-week	07/16/2018	07/10/2018	07/12/2018	912796PU7		$35	07/02/2018	$35
3-month	07/12/2018	07/16/2018	07/19/2018	912796QD4		TBA	07/09/2018	$48
6-month	07/12/2018	07/16/2018	07/19/2018	912796QT9		TBA	07/09/2018	$42
1-year	07/12/2018	07/17/2018	07/19/2018	912796QR3		TBA	06/19/2018	$26
Note Auctions								
2-year	07/19/2018	07/24/2018	07/31/2018	TBA		TBA	06/26/2018	$34
3-year	08/01/2018	07/10/2018	06/15/2018	912828Y20		$33	06/11/2018	$32
5-year	07/19/2018	07/25/2018	07/31/2018	TBA		TBA	06/27/2018	$36
7-year	07/19/2018	07/26/2018	07/31/2018	TBA		TBA	06/28/2018	$30
10-year	08/01/2018	07/11/2018	06/15/2018	9128284N7	R	$22	06/11/2018	$22
Bond Auctions								
30-year	08/01/2018	07/12/2018	06/15/2018	912810SC3	R	$14	05/10/2018	$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

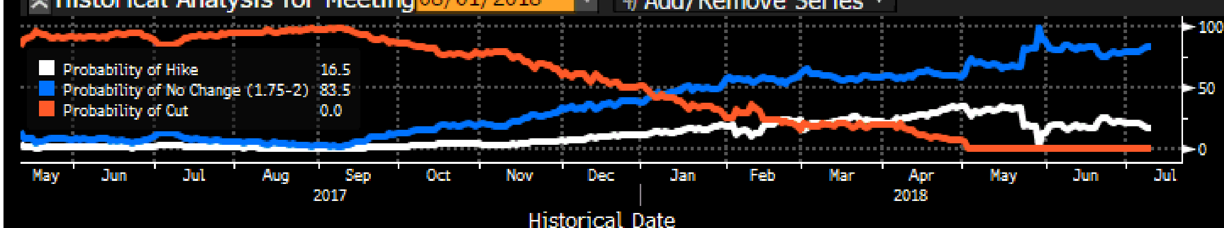
1) Overview 2) Future Implied Probability

Current Implied Probabilities 3) Add/Remove Rates

Dates Meeting Calculation Calculated 07/10/2018 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	16.5%	0.0%	0.0%	83.5%	16.5%	0.0%	0.0%	0.0%	0.0%	1.92
09/26/2018	86.2%	0.0%	0.0%	13.8%	72.4%	13.8%	0.0%	0.0%	0.0%	2.13
11/08/2018	87.0%	0.0%	0.0%	13.0%	69.2%	17.0%	0.8%	0.0%	0.0%	2.14
12/19/2018	94.9%	0.0%	0.0%	5.1%	35.2%	48.6%	10.6%	0.5%	0.0%	2.29
01/30/2019	95.3%	0.0%	0.0%	4.7%	32.8%	47.5%	13.6%	1.3%	0.0%	2.31
03/20/2019	97.5%	0.0%	0.0%	2.5%	19.3%	40.5%	29.9%	7.2%	0.6%	2.43
05/01/2019	97.9%	0.0%	0.0%	2.1%	16.9%	37.4%	31.4%	10.5%	1.6%	2.47
06/19/2019	98.6%	0.0%	0.0%	1.4%	12.2%	30.9%	33.3%	17.1%	4.4%	2.54
07/31/2019	98.7%	0.0%	0.0%	1.3%	11.4%	29.4%	33.1%	18.4%	5.4%	2.56

Historical Analysis for Meeting 08/01/2018 4) Add/Remove Series



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 G660-1366-3 10-Jul-2018 05:48:19

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	**2.06650**	**-.01100**	**(97.93350)**
3-Month Libor Set	**2.33744**	**+.00431**	**(97.66256)**
6-Month Libor Set	**2.51188**	**+.00313**	**(97.48812)**
1-Year Libor Set	**2.78094**	**+.00500**	**(97.21906)**

THEY SAID IT

Temasek is among large investors recalibrating their expectations after a global stock rally came to a shuddering halt and U.S President Donald Trump embarked on a series of trade spats, especially with China. Highlighting increased risks in the "near-term," the state fund said Tuesday it also expects global growth to cool.
https://www.bloomberg.com/news/articles/2018-07-10/temasek-may-slow-investment-for-up-to-18-months-as-risks-rise
The value of the firm's portfolio climbed 12 percent to S$308 billion ($227 billion) in the year to March 31, the second straight record.
Temasek made S$29 billion in new investments, up from S$16 billion in the previous year. Divestments totaled S$16 billion.
Total shareholder return in Singapore dollars was 12.2 percent, down from 13.4 percent in the previous period. Over 10 years, the total shareholder return in Singapore dollars was 5 percent. From inception in 1974: 15 percent.
Temasek expects to continue with a large position in Chinese banks, executives said at the briefing Tuesday. China will be able to address challenges and re-balance its economy, even though that transition may mean slower growth, they said.
Sovereign wealth fund China Investment Corp. on Monday announced that it generated a 17.6 percent return in U.S. dollar terms on its overseas investments for 2017, the best annual performance in its decade-long history, as global stocks rallied throughout the period. CIC is boosting allocations to direct and alternative investments for more stable returns and to cut exposure to volatile public markets, company executives have said.

Few countries manage to pull off soft landings, and trade conflict makes the task even trickier. China's size means its domestic choices ricochet beyond its shores. If ever there was a test of China's readiness and willingness to be a global economic leader and not just a big economy, this is it.
https://www.bloomberg.com/view/articles/2018-07-08/trade-war-muddles-china-s-battle-to-curb-debt
There are signs that China is worried by the risk of too great a slowdown and is starting to tweak its monetary policy. The People's Bank of China declined to follow the Federal Reserve's increase in interest rates last month, contrary to the predictions of many economists. Then on June 24, the PBOC said it would lower the amount of cash some lenders must hold as reserves.
For the better part of two years, China has been tapping the brakes on its $12 trillion economy. While gross domestic product grew almost 7 percent last year, the expansion is forecast to slow to about 6 percent over the next couple of years. That's still solid, but because China is the world's largest manufacturer and biggest exporter, and because it accounts for more than a third of global economic growth, the slackening matters. It's showing up in weaker euro-zone growth and a slide in South Korean exports.
The trade war will be another factor weighing on China as its expansion slows. Industrial production and retail sales fell short of forecasts in May, while investment in fixed assets like factories, roads, power plants and the like had its worst start to the year since data began to be published in 1999.
The meshing of the domestic and international challenges was perfectly illustrated by the cut in reserve requirements. While it was announced on June 24, the reduction was timed to take effect on July 5, the eve of Trump's imposition of the first $34 billion in tariffs on imports from China.

The sequencing links the step to trade without explicitly saying so.
The easing was designed to achieve two things. Five hundred billion yuan ($75 billion) was unlocked for big banks to facilitate debt-for-equity swaps, which can reduce debt and help spruce up balance sheets. Another 200 billion was freed for smaller lenders to help small businesses.
The PBOC was at pains to emphasize that this wasn't a vanilla-flavored loosening of policy.
The central bank said it will "keep implementing prudent and neutral monetary policy, and create a favorable monetary and financial environment for high quality development and supply-side reform." Translation: We aren't reversing course (yet), but we are alert to the risks and want to take out a bit of insurance. There's little prospect China will roll back on its tough overall line, given that President Xi Jinping has cited financial risks as a "critical battle," according to Hayden Briscoe of UBS Asset Management.

China's Debt Bomb
https://www.bloomberg.com/quicktake/chinas-debt-bomb
It's a bomb! A mountain! A horror movie and a treadmill to hell! To doomsayers, China's $27 trillion pile of public and private debt is a threat to the global economy. Or maybe it's just a manageable byproduct of the boom that created the world's second-biggest economy. Either way, the buildup has been breathtaking, with borrowing quadrupling in seven years by one estimate. (China doesn't give a complete tally). Weaning the nation off that debt without intensifying an economic slowdown is tricky. Because China is a key driver of global growth, the solution is everybody's concern. Cleaning up the nation's banks is one approach. Propping up borrowers to prevent defaults is another. The latter could leave the country mired in bad debt and susceptible to years of stagnation.
The Situation
China's borrowings soared to about 264 percent of GDP in 2016 from 163 percent in 2008, outpacing the surge in the U.S. and U.K. before the financial crisis. Local and provincial governments have borrowed about $4 trillion — the size of Germany's economy — and some used shorter-term, off-balance-sheet borrowing to fund dubious real estate or infrastructure projects. The problem could be bigger still because of the frantic rate of new lending, which makes it hard to know how many loans are not being repaid. The picture is complicated by shadow banking practices, including banks' wealth management products — likened by some to Western lenders' exposures in the subprime crisis. Chinese authorities are gradually allowing more defaults, while banks have begun exchanging high-interest loans to local governments for low-cost bonds in a state-backed program that may expand to 15 trillion yuan ($2.2 trillion). Lenders have been busy swapping debt for equity, but are feeling the strain: one indicator of banking stress surged to a record last year amid warnings of the need to raise fresh capital. A Communist Party newspaper declared in 2016 that high leverage was China's "original sin" and the country could not borrow its way to long-term economic health. Yet the splurge continues: outstanding credit is expanding at more than 15 percent per year, way above the growth in GDP. In May, Moody's Investors Service cut its rating on China's debt for the first time since 1989, challenging the view that the nation's leadership will be able to rein in leverage while maintaining the pace of economic growth.

George Gleason isn't one of those chief executives who make the job look easy. Rather, he'll tell you (and tell you) it's hard. Not up-at-dawn hard. Up-at-midnight hard. That's when he got out of bed to write the remarks for his bank's first-quarter earnings statement,

finally hitting "send" one March morning at 5:30 from a hotel room in Washington, after a full week of client meetings on the road. Gleason, who runs [Bank of the Ozarks](), an institution in Little Rock with [$22 billion in assets](), even makes being interviewed look hard. In response to an emailed list of questions, he composed five pages of answers in red, then referred to the printout frequently when we met at the bank's headquarters in April. "I should have numbered these pages," he said.

At 64, Gleason is bald, with white eyebrows that give him an incongruous baby face. He speaks in maxims that indeed sound predrafted: "If a loan doesn't meet our credit-quality standards, we don't make it." Most of his career he was a respected but little-known community banker. During the post-recession gentrification wave that's seemingly blanketed U.S. cities in barre studios and artisanal toast, he's become something else: the country's largest construction lender.

That this superlative—based on data compiled by Real Capital Analytics Inc. for multifamily housing, hotels, and other commercial properties in the first nine months of last year—should go to a relatively small Arkansas bank and not, say, [Wells Fargo & Co.](), with 87 times the assets, is a measure of the skittishness many lenders still feel when it comes to real estate. Memories of empty Miami condo towers, vacant Silicon Valley office parks, and half-finished Las Vegas casinos don't easily fade.

https://www.bloomberg.com/news/features/2018-07-10/how-a-tiny-bank-from-the-ozarks-got-big-and-outpaced-wall-street

Where others have stayed away or placed forbidding restrictions on deals, Bank of the Ozarks has jumped in—making Gleason look, depending on whom you believe, like a contrarian genius or the driver of a turnip truck that's about to careen off the road. At a conference convened in New York City last year by Commercial Observer, the industry publication Jared Kushner's family owns, property finance specialist Simon Ziff, who's firmly in the genius camp, opened one panel by asking how many times Gleason and his bank would be mentioned. "He's one of the most important real estate bankers in America today," Ziff says.

For the better part of a decade, German authorities say, dozens of banks and brokerages helped investors snatch billions of euros from the national treasury by exploiting an interpretation of the tax code that appeared to let multiple people claim ownership of the same shares of stock and—crucially—the right to a refund of taxes withheld from dividends. "They seemed to be creating money from nothing," says Tobias Rudolph, a criminal defense lawyer in Nuremberg. "Common sense should have told anyone that this couldn't be right."

https://www.bloomberg.com/news/articles/2018-07-10/the-tax-dodge-that-cost-the-german-treasury-billions

The deals involved a type of short sale made just before a company was due to pay a dividend. (In conventional [short sales](), investors sell stock they don't own, hoping to profit by repurchasing it later at a lower price.) When German companies pay dividends, they withhold about a quarter of the money to cover any taxes the shareholder might later owe. Shareholders get certificates showing how much was deducted, and the amount can be credited against their tax bill or, if they owe no additional taxes, refunded. In the case of the short sales in question, two parties claimed to own the same stock and got certificates. Prosecutors say that in some instances, three or more

investors may have received certificates for the same withholding tax.
The practice came to light about a decade ago when officials at various tax offices started questioning requests for refunds on murky transactions totaling hundreds of millions of euros. As they dug more deeply, they stopped honoring the certificates and alerted prosecutors. A 2012 reform of the tax code brought the practice to a halt, but authorities had accepted the certificates for years, and lawmakers did little to tighten the rules despite repeated warnings, so the debate today centers on whether the trades were legal before 2012. Banks, funds, and investors that participated in the trades relied on legal opinions from lawyers that said the transactions were allowed. But prosecutors say those documents oversimplified the matter and that it was clear the transactions involved double-dipping on the refunds.

"Today's signing represents a new level of cooperation between China and Germany," BMW Chief Executive Officer Harald Krueger said in the statement.
https://www.bloomberg.com/news/articles/2018-07-10/bmw-finalizes-accord-to-start-producing-electric-minis-in-china
BMW AG will make Mini cars in China for the first time, sealing a joint-venture agreement to produce electric vehicles with partner Great Wall Motor Co. in the world's largest automotive market.
The 50-50 owned venture will make battery-powered vehicles for both partners at a new plant in Jiangsu Province, BMW said in a statement Tuesday. The expansion is the German luxury carmaker's second this week in China, part of a parade of accords announced at a Berlin summit with Chancellor Angela Merkel and Chinese Premier Li Keqiang in attendance.

Growing Ties

Monday's German-Chinese partnerships come as U.S. relations fray

Companies	Announcement
CATL/State of Thueringia	Chinese battery maker CATL chose Germany's Thueringia state to site a battery factory.
BMW/CATL	Automaker BMW announced it would buy $4.7 billion worth of battery cells from CATL.
BMW/Brilliance	BMW announced it would expand its joint venture with Brilliance Automotive .
BMW/Great Wall	BMW announced it had signed a joint venture with Great Wall Motor Co. to make Mini cars in China.
Siemens/State Power Investment	Engineering firm Siemens announced it will work on development of large gas turbines with China's State Power Investment Co.
Siemens/Alibaba	Siemens announced it would offer its Mindsphere software on the Alibaba cloud in mainland China starting in 2019.
Volkswagen & Seat/Jianghuai Automobile	Automaker Volkswagen announced it would build a research and development facility in China with Seat and Anhui Jianghuai Automobile Group.
BASF	Chemical company BASF said it will spend as much as $10 billion on a second chemical complex in China.

Iran's vice president acknowledged on Tuesday that U.S. sanctions would hurt the economy, but promised to "sell as much oil as we can" and protect banking.
https://www.reuters.com/article/us-iran-nuclear-usa/iran-vows-to-sell-as-much-oil-as-it-can-in-face-of-u-s-sanctions-idUSKBN1K010W
Eshaq Jahangiri said Washington was trying to stop Iran's petrochemical, steel and copper exports. "America seeks to reduce Iran's oil sales, our vital source of income, to zero," he said, according to Fars news agency.
"It would be a mistake to think the U.S. economic war against Iran will have no impact," Jahangiri added.
On Tuesday, the U.S. ambassador to Germany also called on Berlin to block an Iranian bid to withdraw large sums of cash from bank accounts in Germany.
Jahangiri said Iran's foreign ministry and the central bank have taken measures to facilitate Iran's banking operations despite the U.S. sanctions. He did not elaborate.

U.S. carmaker Tesla Inc has hiked prices on its Model X and S cars by about 20 percent in China, the first automaker to do so in the world's top automotive market in response to mounting trade tensions between the countries.
https://www.reuters.com/article/us-usa-trade-china/tesla-moves-first-to-hike-prices-in-china-as-trade-war-hits-car-makers-idUSKBN1JZ1AK
The move is the earliest indication of how much higher Chinese tariffs on certain U.S. imports will flow through to buyers, with other automakers likely to follow suit or shift a greater portion of production to China.
"It's only chapter one of this story," said James Chao, a Shanghai-based analyst at consultancy IHS Markit, who expects more companies worldwide to be hurt by the trade spat.

Tesla is planning to build large new plant in China, Bloomberg News reported Tuesday.
https://www.cnbc.com/2018/07/10/tesla-shares-rises-on-report-carmaker-plans-massive-china-factory.html
Bloomberg said the company is due to sign a memorandum of understanding on the factory with "local entities" in Shanghai, according to its sources. The plant will have a capacity to make 500,000 vehicles per year, the media outlet reported.
Shares of Tesla rose 2.6 percent in Tuesday's premarket session after the report.
Reuters later cited a local media report that said Tesla signed agreements with the Shanghai municipal government, Shanghai Lingang Area Development Administration and Lingang Group to allow it to open the factory.

"NATO countries must pay MORE, the United States must pay LESS," Trump said in a tweet Tuesday. Later in front of the White House, he told reporters that "NATO has not treated us fairly but I think we'll work something out."
https://www.cnbc.com/2018/07/10/trump-the-us-spends-many-times-more-protecting-nato-countries.html
"The U.S. is spending many time more than any other country in order to protect them" and it's "not fair to the U.S. taxpayer," Trump said in another tweet.
And the president linked that spending to his trade battles, writing, "Not fair to the U.S. taxpayer. On top of that we lose $151 Billion on Trade with the European Union. Charge us big Tariffs (&

Barriers)!"
Trump will face fellow leaders on Wednesday and Thursday at the NATO summit in Brussels, where defense spending is expected to be a thorny subject of discussion. Ahead of the NATO summit in Brussels this week, he has repeatedly blasted the alliance's members for not meeting a 2014 pledge to spend 2 percent of their gross domestic product (GDP) on defense.
NATO's 2017 report noted that "European allies and Canada increased spending on defense by almost 5 percent — meaning there have now been three consecutive years of growth since 2014." Still, the report showed that in 2017 only five NATO members had met the 2 percent target – the U.S., U.K., Greece, Poland and Estonia.

"We're in a situation where there's no obvious parliamentary majority for any form of Brexit, which is viable, we've got various asymmetric negotiations with the EU-27 (the other countries in the EU), there's very little flexibility on the EU-27 side. The last 48 hours have shown that essentially the U.K. may be reaching the limits of the concessions that it's able to make and yet we are still nowhere near a sort of credible, realistic package," he added. https://www.cnbc.com/2018/07/10/what-a-no-brexit-deal-means-for-markets.html
Goods entering the European customs union from abroad face controls — in total there are 405 checks, with beef going through 22 steps. However, once they are inside the customs union there are no further checks. If the U.K. leaves the customs union then the same controls will be applied to goods originating in the U.K.
"The U.K is not currently subject to any of these controls. However, if we leave the EU without a deal, that will change. This will lead to a significant increase in administration for most goods and a risk of substantial delays at borders," the British Retail Consortium (BRC) said in a statement at the end of June.
The BRC added that food and beverage products could see the cost of importing from the EU go up by as much as 29 percent and non-food goods could face increases of up to 7 percent in the case of clothing and textiles.
However, some analysts are still confident that Theresa May will overcome the impasse and reach an agreement with the EU.
Karen Ward, chief market strategist for EMEA at J.P. Morgan Asset Management, said in an email Monday that "the fragmentation of financial services that would be caused if no deal is reached would raise the cost of capital for European businesses and could disrupt the much needed recovery in the euro zone."
As a result, she is confident that there will be a deal with the EU before the end of this year — one in which the U.K. and the EU will have a relationship relatively similar to the one they currently have.

EQUITIES
The S&P is **+5** and the NASDAQ is **+25.**
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 +0.32%.
In the UK, the 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 **+0.52%.**
The DAX Index closed +0.28%.
On the Continent, the swap curve is steeper with yields higher.
ECB Main Refinancing Operations Rate +0.00% (No change).
Deposit Facility Rate -.40%
Next meeting 07/26/18

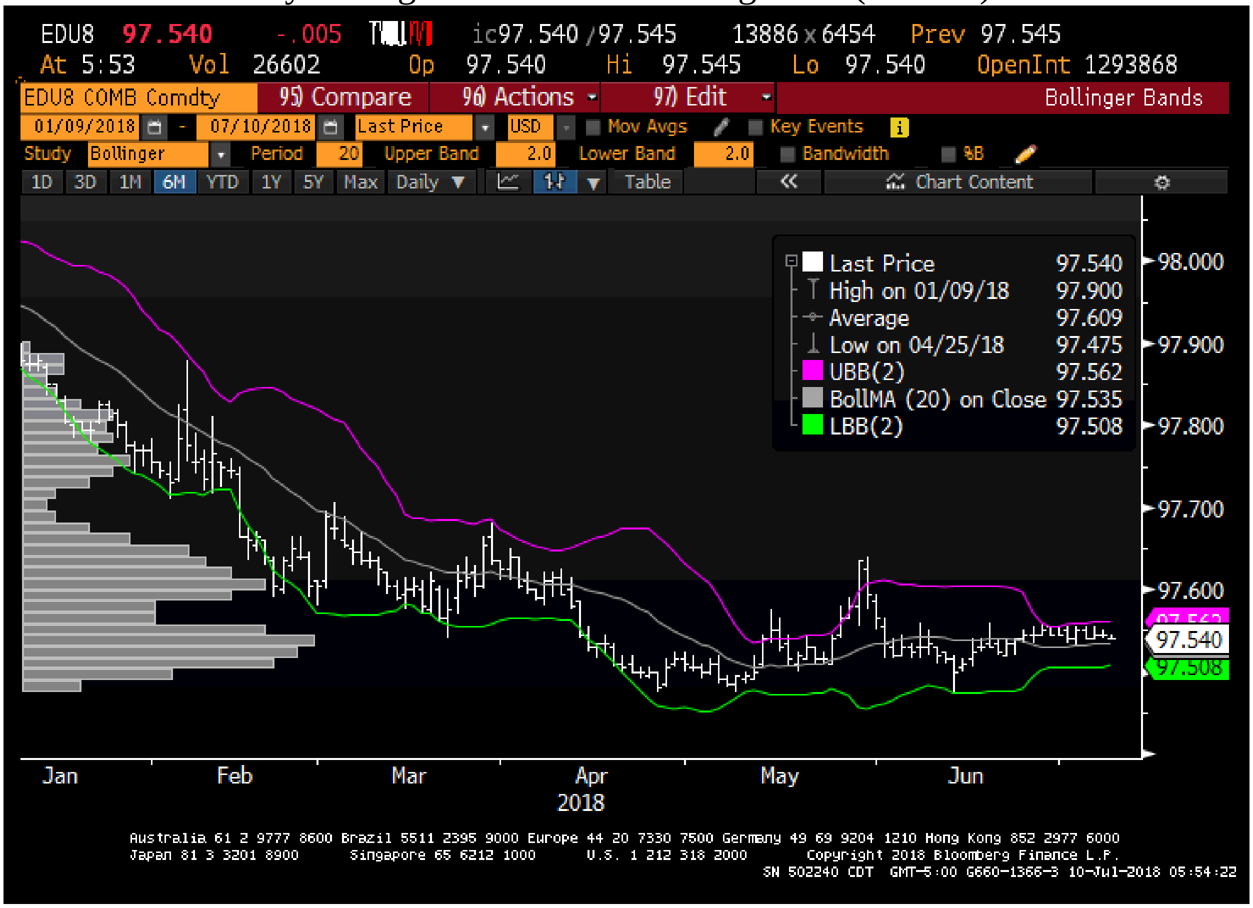
ASIA
Japan:
The TOPIX closed +0.25%.
The NIKKEI closed +0.66%.
In Japan, the swap curve is undulating between steeper and flatter with yields mixed.
BOJ Policy Balance Rate -0.10% (No change).
Next meeting 07/31/18

China:
The Hang Seng closed -0.02%.
The Shanghai Composite closed +0.44%.
PBOC
Deposit Rate: 1.50%
Lending Rate: 4.35%
7-Day Repo Rate: 2.7603%
Reserve Requirement Ratio: 17.00%

THE TREND

EDU8: 97-53.5 is the pivot. Below the pivot, you should be short, above long.
Support is at 97-51.0** and 97.53.5^.
Resistance is at 97-56.0**.
^Pivot Point is a simple 20-day moving average.
** 2-STD Deviations from the pivot point.

Trend would have you long but I have elected to go flat. (6/26/18).



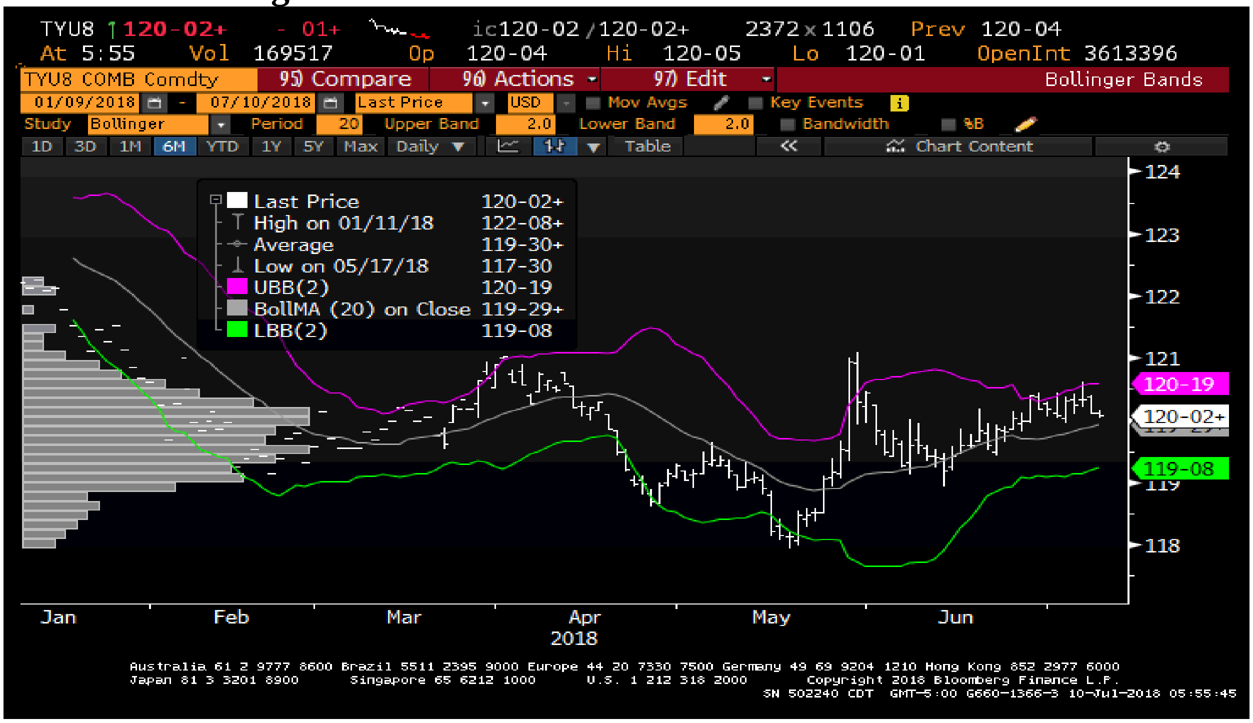
YTD (per contract)
2018 +36.5 ticks (+$912.50)
2017 +33.0 ticks (+$825.00)

10yr/TYU8: **119-29.5** is the pivot point. Above you should be long, below short.
Support is at **119-08.0 and 119-29.5^***
Resistance is at **120-19.0**

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

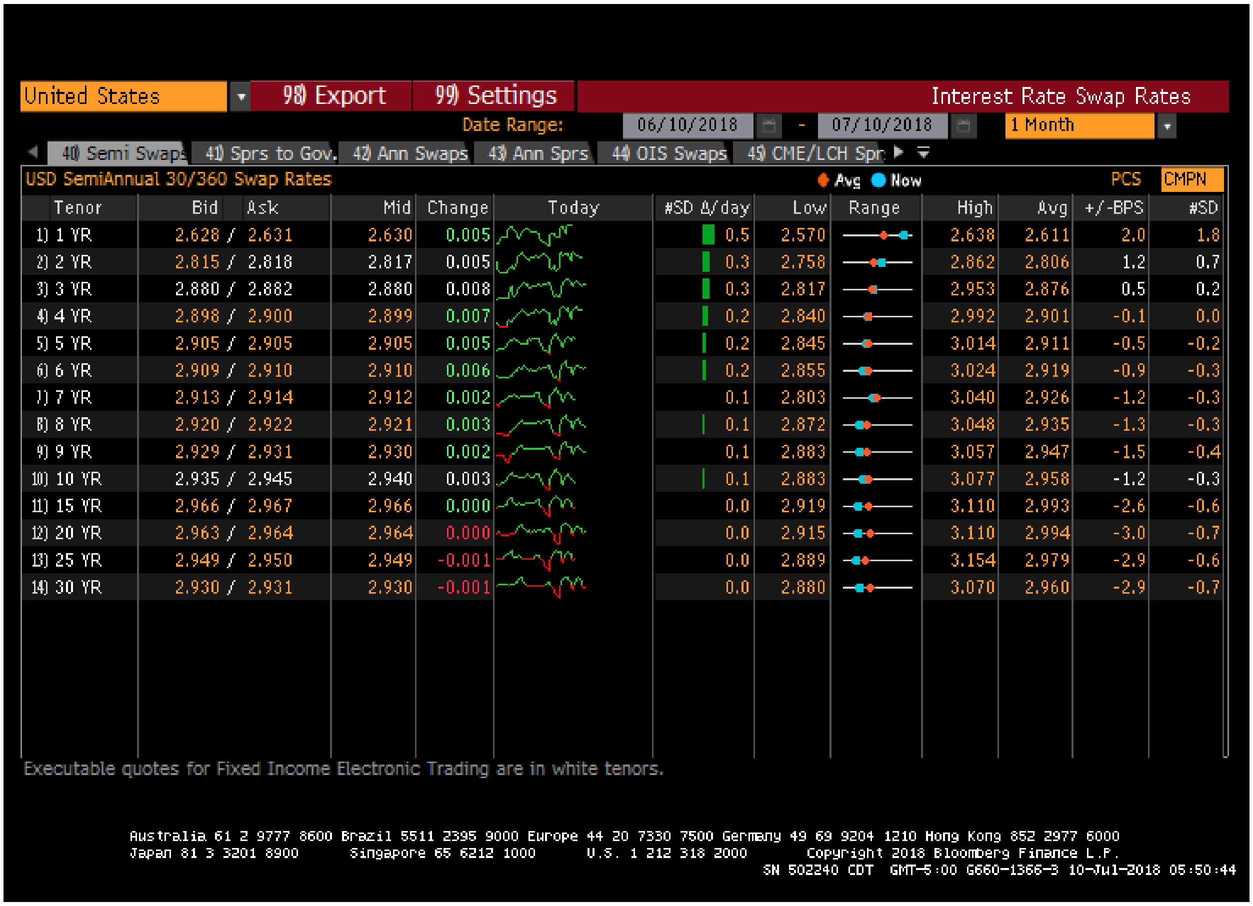
** 2-STD Deviations from the pivot point

Current trend has you long from 119-25.0 (6/22/18).
I have elected to go flat and wait for a clearer trend.



YTD (per contract)
(2018) +106.0 futures ticks ($31.25 per tick) or +$3,312.50.
(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: 06/10/2018 - 07/10/2018 | 1 Month

40) Semi Swaps | 41) Sprs to Gov. | 42) Ann Swaps | 43) Ann Sprs | 44) OIS Swaps | 45) CME/LCH Spr

USD SemiAnnual 30/360 Swap Rates — Avg / Now — PCS CMPN

Tenor	Bid	Ask	Mid	Change	#SD Δ/day	Low	High	Avg	+/-BPS	#SD
1) 1 YR	2.628	2.631	2.630	0.005	0.5	2.570	2.638	2.611	2.0	1.8
2) 2 YR	2.815	2.818	2.817	0.005	0.3	2.758	2.862	2.806	1.2	0.7
3) 3 YR	2.880	2.882	2.880	0.008	0.3	2.817	2.953	2.876	0.5	0.2
4) 4 YR	2.898	2.900	2.899	0.007	0.2	2.840	2.992	2.901	-0.1	0.0
5) 5 YR	2.905	2.905	2.905	0.005	0.2	2.845	3.014	2.911	-0.5	-0.2
6) 6 YR	2.909	2.910	2.910	0.006	0.2	2.855	3.024	2.919	-0.9	-0.3
7) 7 YR	2.913	2.914	2.912	0.002	0.1	2.803	3.040	2.926	-1.2	-0.3
8) 8 YR	2.920	2.922	2.921	0.003	0.1	2.872	3.048	2.935	-1.3	-0.3
9) 9 YR	2.929	2.931	2.930	0.002	0.1	2.883	3.057	2.947	-1.5	-0.4
10) 10 YR	2.935	2.945	2.940	0.003	0.1	2.883	3.077	2.958	-1.2	-0.3
11) 15 YR	2.966	2.967	2.966	0.000	0.0	2.919	3.110	2.993	-2.6	-0.6
12) 20 YR	2.963	2.964	2.964	0.000	0.0	2.915	3.110	2.994	-3.0	-0.7
13) 25 YR	2.949	2.950	2.949	-0.001	0.0	2.889	3.154	2.979	-2.9	-0.6
14) 30 YR	2.930	2.931	2.930	-0.001	0.0	2.880	3.070	2.960	-2.9	-0.7

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).
1/64th = $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.

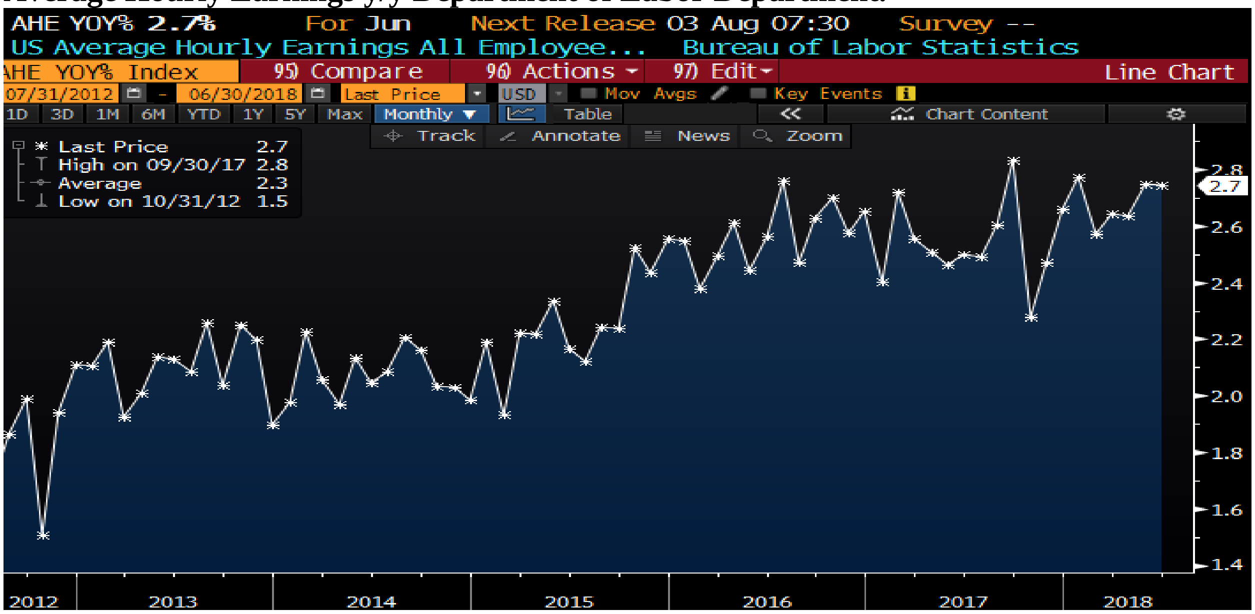
1. Long the Short Feb. 97.75/97.625/97.50 put fly. Paid 2.0 ticks ($50) per contract (12/07/17).
Short Feb. has an underlying contract of EDH9 but expires Feb. 16, 2018.
The put fly was sold on 2/7/18 for a 1.25 tick ($31.25) winner.

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.	06 July 2018	1,052	+5	29 June 2018	+100	07 July 2017
Canada	06 July 2018	182	+10	29 June 2018	+7	07 July 2017
International	May 2018	967	-11	April 2018	+10	May 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.

U.S. railroads originated 1,080,769 carloads in June 2018, up 2.0 percent, or 21,098 carloads, from June 2017. U.S. railroads also originated 1,159,973 containers and trailers in June 2018, up 6.3 percent, or 68,689 units, from the same month last year. Combined U.S. carload and intermodal originations in June 2018 were 2,240,742, up 4.2 percent, or 89,787 carloads and intermodal units from June 2017.

In June 2018, 14 of the 20 carload commodity categories tracked by the AAR each month saw carload gains compared with June 2017. These included: petroleum & petroleum products, up 7,411 carloads or 19.7 percent; crushed stone, sand & gravel, up 7,276 carloads or 7.1 percent; and chemicals, up 4,608 carloads or 3.7 percent. Commodities that saw declines in June 2018 from June 2017 included: coal, down 9,396 carloads or 2.7 percent; nonmetallic minerals, down 3,552 carloads or 18.8 percent; and waste & nonferrous scrap, down 618 carloads or 3.8 percent.

“Rail traffic in June was consistent with a healthy economy,” said AAR Senior Vice President of Policy and Economics John T. Gray. “In June, 14 of the 20 commodity categories the AAR tracks each month saw carload gains — the third straight month in which at least 14 categories were up. That’s the longest such streak since late 2014. Meanwhile, record intermodal volume for June speaks to the high value proposition that rail customers associate with intermodal service. For now, things are looking good for the railroads and the economy despite the many threats, such as a potential trade war, that could bring change quickly.”

Excluding coal, carloads were up 30,494 carloads, or 4.3 percent, in June 2018 from June 2017. Excluding coal and grain, carloads were up 25,979 carloads, or 4.2 percent.

Total U.S. carload traffic for the first six months of 2018 was 6,747,414 carloads, up 1.3 percent, or 87,169 carloads, from the same period last year; and 7,153,557 intermodal units, up 6.0 percent, or 405,633 containers and trailers, from last year.

Total combined U.S. traffic for the first 26 weeks of 2018 was 13,900,971 carloads and intermodal units, an increase of 3.7 percent compared to last year.

Week Ending June 30, 2018

Total U.S. weekly rail traffic was 564,243 carloads and intermodal units, up 4.6 percent compared with the same week last year.

Total carloads for the week ending June 30 were 270,916 carloads, up 0.7 percent compared with the same week in 2017, while U.S. weekly intermodal volume was 293,327 containers and trailers, up 8.5 percent compared to 2017.

Eight of the 10 carload commodity groups posted an increase compared with the same week in 2017. They included petroleum and petroleum products, up 2,494 carloads, to 11,354; chemicals, up 1,739 carloads, to 33,563; and metallic ores and metals, up 738 carloads, to 26,054.

Commodity groups that posted decreases compared with the same week in 2017 were coal, down 4,635 carloads, to 83,214; and grain, down 7 carloads, to 23,433.

North American rail volume for the week ending June 30, 2018, on 12 reporting U.S., Canadian and Mexican railroads totaled 377,509 carloads, up 2.7 percent compared with the same week last year, and 380,866 intermodal units, up 8.8 percent compared with last year. Total combined weekly rail traffic in North America was 758,375 carloads and intermodal units, up 5.7 percent.

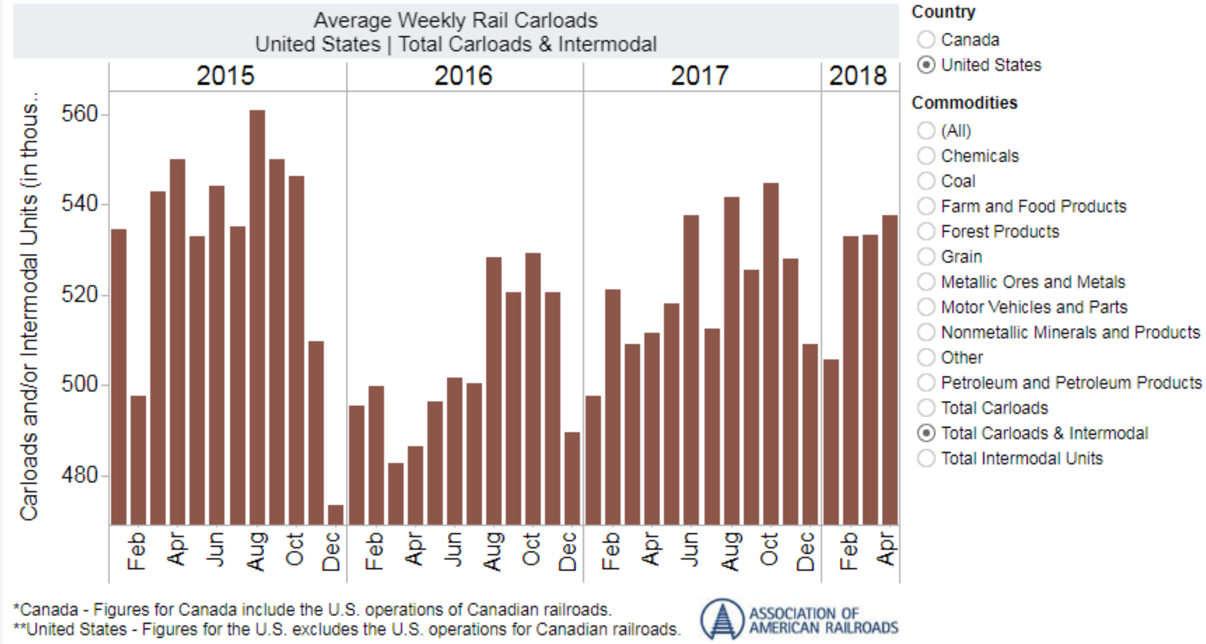
North American rail volume for the first 26 weeks of 2018 was 18,733,684 carloads and intermodal units, up 3.3 percent compared with 2017.

Canadian railroads reported 84,694 carloads for the week, up 7.1 percent, and 69,286 intermodal units, up 4.6 percent compared with the same week in 2017. For the first 26 weeks of 2018, Canadian railroads reported cumulative rail traffic volume of 3,840,282 carloads, containers and trailers, up 3.6 percent.

Mexican railroads reported 21,899 carloads for the week and 18,253 intermodal units. Cumulative volume on Mexican railroads for the first 26 weeks of 2018 was 992,431 carloads and intermodal containers and trailers.

https://www.aar.org/news/rail-traffic-for-the-week-ending-june-30-2018/

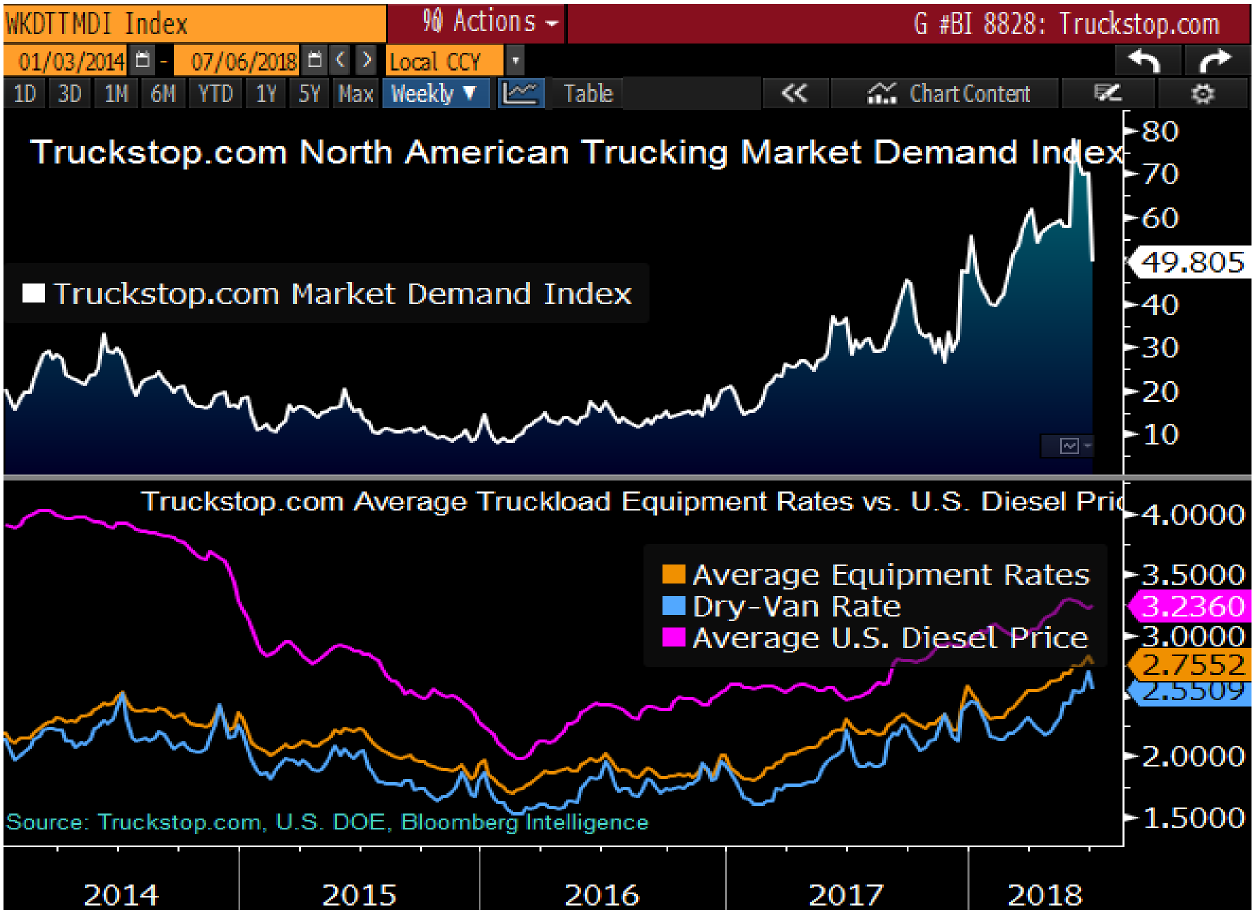
Monthly Rail Traffic Charts



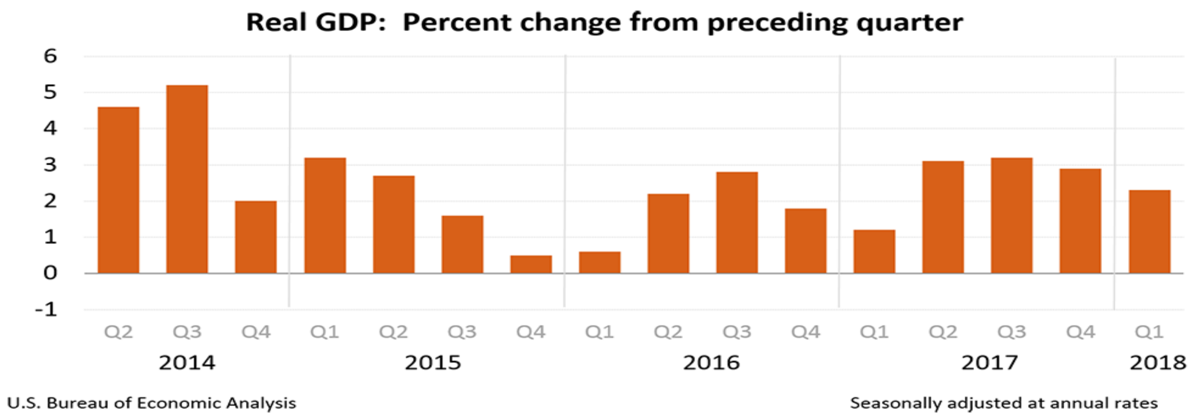
https://www.aar.org/data-center/rail-traffic-data/

Trailer Truck Demand
(Bloomberg Intelligence) – 07/02/18

Relative North American spot-trucking demand inched 0.5% higher sequentially to 70 in the week ended June 29, based on Truckstop.com's Market Demand Index. The MDI has climbed 125% on average in 2018, which indicates very tight market capacity relative to last year. Average spot rates, excluding surcharges, jumped 2.5% for one of the largest sequential gains of 2018. Rates are up 25% this year as 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:
Lee A Klaskow at lklaskow1@bloomberg.net



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 *3.48% as of 7/6/18 v. *3.66% as of 7/2/18
***simple average of the three regionals.**

Atlanta Fed GDPNow…Q2 2018: 3.8 % —July 6, 2018
The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2018 is 3.8 percent on July 6, down from 4.1 percent on July 2. Since the last GDPNow update on Monday, July 2, the nowcasts of second-quarter real consumer spending growth and second-quarter real gross private domestic investment growth have declined from 2.9 percent and 7.1 percent, respectively, to 2.7 percent and 6.0 percent, respectively. These declines more than offset an increase in the nowcast of the contribution of net exports to second-quarter real GDP growth from 0.62 percentage points to 0.70 percentage points after this morning's international trade release from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis.
*Bureau of Economic Analysis. The next GDPNow update is **Wednesday, July 11**.*
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: 2.8%...July 6, 2018
The New York Fed Staff Nowcast stands at 2.8% for 2018:Q2 and 2.7% for 2018:Q3.
News from this week's data releases left the nowcast for 2018:Q2 broadly unchanged and increased the nowcast for 2018:Q3 by 0.2 percentage point.
Positive surprises from the ISM manufacturing survey accounted for the increase.
https://www.newyorkfed.org/research/policy/nowcast

St. Louis Fed Real GDP Nowcast… Q2 2018: 3.84%…July 6, 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

John Coleman
312-373-5190
800-367-3349
© 312-515-3067
johncoleman@bloomberg.net

Brian Rachwalski
312-373-5191
800-367-3349
© 312-515-3066
brachwalski@bloomberg.net

Rob Powell
312-373-5197
800-367-3349
© 312-560-7112
robpowell@bloomberg.net

Dan Sobolewski
312-373-5191
800-367-3349
© 312-505-6364
dsobolewski@bloomberg.net

Jeff Bauman
312-286-0491
jeffbau@bloomberg.net

Evan Vollman
312-373-5452
800-367-3650
evollman@bloomberg.net

Rich Goldblatt
312-373-5450
800-367-3650
© 312-515-6019
futurestic@bloomberg.net

Corrine Abele
312-373-4847
800-367-3349
cabele@rjobrien.com

Rocco Chierici
312-373-5439
800-367-3650
© 312-515-3069
rocco1@bloomberg.net

Matthew Surwillo
312-373-4958
800-367-3349
msurwillo@rjobrien.com