

FFTW Weekly Commentary

FOR PROFESSIONAL INVESTORS

Sweet Data O'Mine

November 7, 2016

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Key takeaways

- A packed week for scheduled data that included several central bank meetings, as well as the U.S. employment release
- Early in the week, essentially "no change" to rate policies was signaled by several major central banks, including the Bank of England, the Bank of Japan and the U.S. Federal Reserve
- Unemployment data showed a healthy rate of growth despite coming in slightly lower than expectations
- Overall, the economic and market based news points towards slow and steady improvement

Full commentary

Early in the week, "no change" to rate policies was signaled by several major central banks, including the Bank of England, the Bank of Japan and the U.S. Federal Reserve (Fed). Specifically for the Fed, policy makers left interest rates unchanged while reinforcing expectations for a hike at the December meeting. In their statement following the November 3rd meeting, the Federal Open Market Committee (FOMC) concluded "that the case for an increase in the federal funds rate continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives". Regarding their inflation objective, the Fed noted that the pace of price gains has "increased somewhat" and measures of inflation compensation "have moved up". The markets had low expectations that the Fed would hike in November ahead of the elections. As a result, Fed funds futures markets were little changed after the announcement, predicting a 78% probability of a hike in December. Combining statements from both the September and November meetings, where the Fed continued to express confidence in the labor market, the economy and improvement in inflation; most market participants have resolved that the Fed has provided a low hurdle to clear for a rate move in December.

Supporting the Fed's confidence in the labor market, Friday's unemployment data showed a healthy rate of growth despite coming in slightly lower than expectations. U.S. non-farm payrolls rose by 161,000 jobs in October, versus 173,000 expected; previous months were revised higher by 44,000 jobs. For the year, the economy has added approximately 181,000 jobs per month. Additionally, the unemployment rate dropped back below 5% to 4.875% unrounded. Average hourly earnings for private-sector workers, one of the main bright spots of the report, surprised with an increase of 0.4% for the month and a year-over-year increase of 2.8%. This annual increase represents the fastest rate of wage growth in seven years, indicates that economic growth is absorbing labor market slack and implies that employers are competing more to hire and retain their workers – all solid signals for the economy.

Finally, another element of market uncertainty has passed as the mid-October U.S. Securities and Exchange Commission (SEC) Money Market Reform implementation date triggered huge disruption in the front-end of the curve. Over \$1 trillion of redemptions from prime money market funds moved to U.S. government money market funds (MMF) to avoid the new market based net asset value (NAV), Variable NAV, and liquidity fees and redemption gates being required for institutional prime funds. The London inter-bank offered rate (LIBOR) had increased across the curve as issuers raised rates to attract non-MMF investors. However, since implementation, the effects of MMF reform have faded, markets have normalized, and focus has returned to the Fed, the economy and the U.S. elections.

Overall, the economic and market based news points towards slow and steady improvement, supportive of the gradual rate policy promoted by the Fed, and the wait-and-see guidance from several global central banks.



This week's market developments

Monday, October 31

- Germany Retail Sales growth decreased to -1.4% m.o.m.
- UK Mortgage Approvals increased to 62,900 for September
- Eurozone GDP growth (advance estimate) remained at 0.3% q.o.q. (s.a.) for the Third Quarter
- US Personal Income growth decreased to 0.3% m.o.m. (s.a.) for September
- US Personal Spending growth increased to 0.5% m.o.m. (s.a.) for September

Tuesday, November 1

- Markit UK Manufacturing PMI decreased to 54.3 for October
- US Construction Spending growth decreased to -0.4% m.o.m. (s.a.) for September
- US ISM Manufacturing growth increased to 51.9 for October

Wednesday, November 2

- US ADP Employment Change decreased to 147,000 for October

Thursday, November 3

- Markit UK Services PMI increased to 54.5 for October
- US Factory Orders growth increased to 0.3% for September

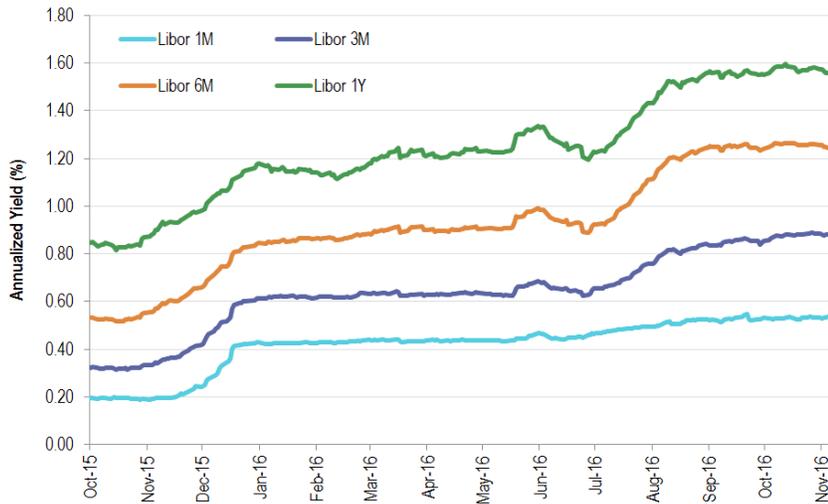
Friday, November 4

- US Change in Nonfarm Payrolls growth increased to 161,000 for October
- US Unemployment Rate decreased to 4.9% for October

Source: Bloomberg, as of end November 7, 2016



Chart of the Week Annualized Libor Yields (%)



Source: Bloomberg, as of end November 7, 2016



Next week's market developments

Monday, November 7

- Germany Factory Orders growth is expected to decrease to -0.6% m.o.m. (s.a.) for September
- Eurozone Retail Sales growth is expected to decrease to -0.3% m.o.m. (s.a.) for September

Tuesday, November 8

- Germany Industrial Production growth is expected to decrease to -0.5% m.o.m. (s.a.) for September
- UK Industrial Production growth is expected to decrease to 0.0% m.o.m. (s.a.) for September
- UK Manufacturing Production growth is expected to increase to 0.4% m.o.m. (s.a.) for September

Wednesday, November 9

- Japan Machine Orders growth is expected to increase to -1.5% m.o.m. (s.a.) for September

Thursday, November 10

- Japan PPI growth is expected to increase to -2.6% y.o.y. (s.a.) for October
- Japan Tertiary Industry Index growth is expected to decrease to -0.2% m.o.m. (s.a.) for September

Friday, November 11

- US University of Michigan Sentiment (preliminary estimate) is expected to increase to 88.0 for November

Source: Bloomberg, as of end November 7, 2016



Central Bank Watch

| | Last move | Date of move | Current policy rate | Implied 3m rate on March 2016 Interest Rates Futures Contract | Next meeting |
|-----|------------------|-------------------|---------------------|---|-------------------|
| Fed | +25 basis points | December 16, 2015 | 0.25 % - 0.50 % | 0.50 % | December 14, 2016 |
| ECB | -5 basis points | March 10, 2016 | 0.00% | -0.18 % | December 8, 2016 |
| BoJ | -20 basis points | February 16, 2016 | -0.10 % - 0.00% | 0.06 % | December 20, 2016 |
| BoE | -25 basis points | August 4, 2016 | 0.25 % | 0.41 % | December 15, 2016 |

Source: Bloomberg, as of end November 7, 2016

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