



# The Aerial View

## Fixed Income & Markets Update

### Non-Farm Payroll ends 2017 on Weaker Footing, Fed still in Play for March

- **US adds 148,000 jobs against an expected 190,000 new hires**
- **Disappointment offset somewhat by upward revision of November rolls**
- **Unemployment holds at 4.1% but underemployment ticks up to 8.1%**



**Marvin Loh**  
Senior Global Market Strategist, BNY Mellon

[Email >](#)

The employment picture became a bit more clouded in the final reading for 2017, with non-farm payrolls increasing just +148,000 versus a +190,000 expectation and a +252,000 prior month (revised) reading. The +24,000 revision to the November report provided a modest offset to the weak print, although the two-month adjustments reduced late 2017 hiring by 9,000.

Other components of the non-farm report were less jarring, with the unemployment rate (U3) steady at 4.1%, an uptick in the underemployment rate (U6) to 8.1% (+ 10 bps), while the participation rate held steady at 62.7%. The wage picture was also mostly steady, with +0.3% m/m gains, which equated to a steady 2.5% y/y increases in average hourly earnings. Given that the Fed effectively believes we are at full employment, the lack of a more substantive gain in wages will become the primary conundrum for the new Powell Fed.

Our main takeaway is that while the report is a disappointment in the sizeable headline miss, it is mostly consistent with the late stages of our current expansion. In retrospect, we have had eight years of steadily employment gains, representing one of the longest expansionary periods that has pushed unemployment to near its lowest levels in 50 years.

with this year, as its earnings and price multiples will require acceleration from current levels. Having said that, we do not see anything in the current report that will dissuade the consensus view that a hike is forthcoming in March, with odds still pointing to an 80%+ chance that it will occur. While the doves will be emboldened to wait until inflation rears its head, they are noticeably absent from the voting rolls this year.

We will point out that gains from the manufacturing sector provide some hope that productivity gains will support another year of above trend economic performance. Following two quarters of 3+% GDP, expectations have firmed that we can post another 3% gain in the 4Q:17 period. This optimism is supported by GDPNOW and NOWCAST which stands at 3.2% and 3.9% at the moment.

One data point does not make a trend, although this employment report will lower that enthusiasm slightly. The wildcard is the economic impact of the tax bill, which has caused most growth estimates to increase at least a little in 2018 and 2019.

The markets are mostly unchanged following the report, with yields marginally lower in the belly and slightly higher at the long end. We have noted that this week's strong data (ISM, ADP) had little impact on shaking the range, and today's report is consistent with that response. Stock are unchanged this AM after starting the year off with gains of between 1.5%-2.5% in the US. Dollar weakness is also evolving as an important theme, and today's report ultimately supports concerns that have driven the USD lower.

**NFP ends 2017 with Headline Miss, Other Indicators Stable**

Rates	Pre Announce	Current (@9:15 AM)	Change vs Pre-release
2 Year Treasury	1.960	1.954	-0.6
5 Year Treasury	2.277	2.263	-1.3
7 Year Treasury	2.392	2.380	-1.2
10 Year Treasury	2.462	2.453	-0.9
30 Year Treasury	2.796	2.792	-0.4

Curves	Pre Announce	Current (@9:15 AM)	Change
2s/10s Curve	50	50	0
2s/30s Curve	83	84	0
5s/10s Curve	18	19	0
5s/30s Curve	52	53	1
10s/30s Curve	33	34	1

Equities	Pre Announce	Current (@9:15 AM)	Change
Dow Mini	25,142	25,125	-17.0
S&P Mini	2,732	2,731	-0.5
NASDAQ Mini	6,629	6,624	-4.8

Commodities	Pre Announce	Current (@9:15 AM)	Change
WTI	\$ 61.34	\$ 61.41	\$ 0.07
Brent	\$ 67.33	\$ 67.55	\$ 0.22
Gold	\$1,318.43	\$ 1,315.98	\$ (2.5)

Currency	Pre Announce	Current (@9:15 AM)	Change
Dollar Index	92.063	92.019	-0.04
Eur/USD	1.205	1.203	0.00
GBP/USD	1.355	1.355	0.00
USD/JPY	113.280	113.200	-0.08

Source: Bloomberg

Please direct questions or comments to:

[AerialView@BNYMellon.com](mailto:AerialView@BNYMellon.com)

---

If you no longer wish to receive information from BNY Mellon please [Click here](#)

The Bank of New York Mellon 225 Liberty Street, New York, NY 10286

[Disclaimer](#)

## **bnymellon.com**

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2017 The Bank of New York Mellon Corporation. All rights reserved.