

# The Aerial View

## Fixed Income & Markets Update

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### Employment Starts the Year with a Bang - Hike Risk Now Skewed Towards Four Increases

- **Both Non-Farm and Average Hourly Wages beat expectations**
- **Yields continue marching higher following report, 10y now at 2.84%**
- **Odds of three hikes by year-end now at 70%, at least 50% chance of a hike in each quarter this year**



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The first employment report of 2018 started the year with a bang, as both the headline non-farm figure and wage components beat expectations.

Wages have clearly been the market focus for the past several quarters, so a beat on average hourly earnings, which shows a 2.9% y/y growth rate, caught the market's attention. The last time we had a beat on the wage front was in September 2017, and there have only been two instances where wage growth exceeded expectations in all of 2017. The last report that reported both better than expected jobs and higher than expected wages last occurred in mid-2016, so the market has taken notice of these two beats.

There were a few blemishes in the report, with a decline in average hours worked and a slight increase in the U6 measurement of marginally displaced workers. The highlights of the report were a +200 increase in monthly non-farm payrolls, which included a +12,000 increase to last month's now revised +160,000 jobs. This compares to the +180,000 expectation.

Average hourly earnings rose 0.3% (m/m) after a 10 bps increase was applied to

December's figure, which raised the y/y growth in wages to 2.9%, its highest level since 2009. The unemployment rate was changed at 4.1%, while the U-6 increased to 8.2% from 8.1%. Average work week decreased to 34.3 hours from 34.5 hours, a fairly large move which may be explained by the cold weather, and is therefore being somewhat discounted by the market.

Overall, this report supports the Fed's contention that the jobs market is nearing full capacity and wage and inflation pressure has begun to make its way into the data. With almost full odds priced in for a March rate hike, investors have moved towards the second, third, or even possible fourth rate hike this year.

Our thought has been that the risk has always been towards four hikes versus two and recent data supports that view. At this point, the market is implying a 70% chance of three hikes by year end, a figure that has increased from just 30% after the December hike. It is additionally worth noting that Bloomberg data indicates that there is at least even odds of a hike in each quarter this year.

Yields have continued their progression higher following the employment report, with rates up to 4 bps higher in yield. The average move over the past six months from a non-farm report has been closer to 1.5 bps, so the significance of the report is being reflected in the price action. The curve is somewhat mixed, as the short and long end is outperforming, and therefore the mid-to-long belly is seeing the biggest increase in yields.

Stocks have improved slightly since just before 8:30 AM, but still look to open in the red. The USD is slightly stronger, although the EUR is mostly unchanged. Commodities are also slightly weaker on USD strength.

#### Employment Starts the Year with a Bang, Both NFP and Wages Beat

Rates	Pre Announce	Current (@9:15 AM)	Change vs Pre-release	Curves	Pre Announce	Current (@9:15 AM)	Change
2 Year Treasury	2.149	2.172	2.2	2s/10s Curve	63	66	2
5 Year Treasury	2.560	2.602	4.2	2s/30s Curve	88	88	1
7 Year Treasury	2.715	2.760	4.5	5s/10s Curve	22	23	0
10 Year Treasury	2.786	2.830	4.3	5s/30s Curve	47	45	-2
30 Year Treasury	3.030	3.057	2.7	10s/30s Curve	24	23	-2

  

Equities	Pre Announce	Current (@9:15 AM)	Change	Commodities	Pre Announce	Current (@9:15 AM)	Change
Dow Mini	25,924	25,922	-2.0	WTI	\$ 65.85	\$ 65.59	\$ (0.26)
S&P Mini	2,806	2,804	-1.5	Brent	\$ 69.47	\$ 69.07	\$ (0.40)
NASDAQ Mini	6,878	6,871	-6.5	Gold	\$1,345.12	\$ 1,335.01	\$ (10.1)

  

Currency	Pre Announce	Current (@9:15 AM)	Change
Dollar Index	88.837	89.191	0.35
Eur/USD	1.249	1.245	0.00
GBP/USD	1.421	1.415	-0.01
USD/JPY	109.900	110.370	0.47

Source: Bloomberg

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