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# Weekly Market Summary

September 7th, 2018

**Still Closely Monitoring that All-Important Friday US Job Report ?? Seriously ???**

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US Non-Farm Payrolls (“NFP”) are reported by the Bureau of Labour Statistics (“BLS”) on the first Friday of the following month, with occasional exceptions, at 8:30 am Eastern Time (currently 3:30 pm Bahrain time). The data - which accounts for approximately 80% of the workers who produce the entire gross domestic product (“GDP”) of the U.S. - are used to assist policymakers and economists with determining the current state of the economy and predicting future levels of economic activity. The major figure reported from the Non-Farm Payroll release is the number of additional jobs added from the previous month (based on the Establishment Survey - the assessment of some 400,000 business across the country), though the report also contains many valuable insights into the labour force and the overall health of the economy that have a direct impact on equity and bond prices, the value of the U.S. dollar and the prices of commodities (gold and others). Those extra statistics include the overall unemployment rate and a youth unemployment rate (based on the Household Survey), the labour force participation rate (a key statistic used to determine the true employment situation in the country), the average work week and the average hourly earnings and wage growth component (most crucial component currently, given the market’s increased focus on early signs of rising wages and inflation). If the same number of people are employed but are earning more or less money for that work, this basically has the same effect as if people had been added or subtracted from the labour force. Each month’s report may also include revisions to the previous two reports.

The US Federal Reserve carefully analyses trends in the Non-Farm Payroll employment series, and those are reported and discussed at regular Federal Open Market Committee (“FOMC”) meetings. The NFP series is also one of the key economic statistics that the National Bureau of Economic Research (“NBER”) studies to determine whether the economy is expanding (expansion) or contracting (recession). Expansions typically are periods of rising employment, whereas recessions are periods of falling jobs (mind you that such account can at best be characterized as too simplistic, given that employment is a well-known lagging economic indicator, and preliminary payroll releases are often subject to initial monthly updates and later on to annual benchmark revisions!).

As with all economic data, the estimate is a key part of the build-up! Economists around the globe look at their crystal balls or tweak their excel models and attempt to divine what the number will be (usually the outcome is very much the same, a monthly projection for 180,000 new jobs – give or take few extra thousands). The reaction to the number can be magnified depending on whether it is close to, distant from, above, or below the estimated figure. Just to add in another element in past years, the private ADP payroll is released two days earlier, and while not a direct correlation (terrible link if you ask me!), it is still an important part of the pre-release analysis for NFPs. Normally, economists and traders would often choose to sit back and wait for the digestion of the release in the broader market before expressing a view or taking a position. For this afternoon - and despite a recent rise in the pace of inflation, a looming trade war that threatens to slow U.S. exports & economic activity in general and a Fed pressing ahead with tighter monetary policy - the Bloomberg consensus forecast for August NFP remains for a healthy increase of 190,000 new jobs. A print in excess of 175,000 would surely seal a 25 bps rate hike for the US o/n Fed funds rate at the upcoming September 26th FOMC meeting. It will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to drop to 3.8%, from 3.9% last month) average hourly earnings (likely to rise by 0.2% MoM & 2.7% YoY, in line with the July print), the participation rate (last at a still depressed 62.9%) and average weekly hours (expected unchanged at 34.5 hours).

Back in September 2017, North Korea was threatening to destroy Japan with nuclear weapons and “*reduce the US mainland to ashes and darkness*” in response to the countries’ effort to ramp up sanctions on the isolated east Asian nation. During that same month, Kim Jong-Un followed on his threats - firing another ballistic missile over Japan, a direct challenge to the United States and China just days after a new sanctions resolution adopted by the United Nations Security Council that was intended to force the country to halt its accelerating nuclear and missile tests. And even though the missile was not aimed at the Pacific island of Guam - which President Trump had warned could prompt a military response - it still left markets in total limbo, with stocks selling and 10-year US bond yields tumbling to a 9-month low of 2.01%! Today, the situation on the Korean Peninsula is less tense, with the same Kim Jong-un insisting that he still has “faith” in stalled peace talks with Donald Trump, as North and South Korea announce a historic new summit that will soon take place between the two nations: Moon Jae-in will become the first South Korean president to visit Pyongyang in more than 10 years when he travels to the North Korean capital for talks with Mr Kim on September 18th. The two-day trip will be the pair’s third meeting since April, and will be a crucial indicator of whether nuclear negotiations with the US will proceed.

However, the news is far from rosy on various other fronts; From Bob Woodward’s new book and that New York Times op-ed by an anonymous “senior official” – both of which suggesting that the White House is dysfunctional and that staffers there have basically seized power from an “incompetent idiot” in the Oval Office (this situation itself constitutes a clear and present crisis, given that unelected and unknown officials, all appointed by a president they see as unfit, could be now running the US without oversight and accountability ?!), to pending US trade wars with China and soon Europe and Japan (according to a report from the Wall Street Journal late yesterday, Trump indicated that he is ready and willing to make Japan “pay”, soon hitting Japanese goods with tariffs), not to forget a very tense situation in the province of Idlib in Syria (In a tweet earlier this week, Trump warned Syrian president Bashar Al-Assad - and his allies Iran and Russia not to “recklessly attack” Idlib or make use of chemical weapons, accusations that were immediately dismissed by the Kremlin who said the area was a “nest of terrorism”) and a persisting emerging market rout that could soon roil other global markets!

Such high uncertainties could have in turn prompted J.P. Morgan Chase's head quant, Marko Kolanovic to envision the next financial crisis as a combination of severe stock market sell-off, unprecedented actions by central bankers to shore up asset prices and possibly social unrest not seen in the US and other places in more than half a century! Kolanovic, a 43-year-old analyst with a Ph.D. in theoretical physics, has risen in prominence for explaining - and occasionally predicting - how the new, algorithm-dominated stock market will behave. In his view, the forces that have transformed markets in the last decade, namely the rise of computerized trading and passive investing, are setting up conditions for potentially violent moves once the current bull market ends. His note is part of a 168-page mega-report, written for the 10th anniversary of the 2008 financial crisis, with perspectives from 48 of the bank’s analysts and economists.

And to think that with all these pending uncertainties, many of us (vanishing traders/economists species!) still await impatiently the release of that Friday Payroll report to make assertive calls on the future health of the US economy!!

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