

REALITY BITES

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OK, now what? The much better-than-expected June jobs report has the money and bond markets—and probably the [Federal Reserve \(Fed\)](#) as well—in a dither. Some quick thoughts to bring you back to a post-July 4, reality:

- Total nonfarm payrolls came in at +224,000, much stronger than the consensus forecast of +160,000 and essentially canceling out last month's disappointment
- This gain was not an aberration, either, as solid performances were noted across the board, with manufacturing (+17,000) and construction (+21,000) particularly noteworthy
- Unemployment rate rose a tick to 3.7%, which was basically due to a surge in the civilian labor force, typically a positive economic sign
- Wages are stuck in the mud: +3.1% year-over-year and unchanged from the prior month
- After a move to 1.94% pre-jobs report, the [UST 10-Year yield](#) reversed course sharply and rose at one point to 2.07%; for those keeping score, the UST 2-Year yield backed up 14 [basis points \(bps\)](#) to 1.88%
- What's a central banker to do? As I write this, [Fed Funds Futures](#) still stand a 95.5% chance of a quarter-point rate cut in July, but 50 bps has essentially been taken off the table...
- Also, the January 2020 Fed Funds Futures contract is now showing only two rate cuts this year vs. three pre-jobs report; the change in pricing since June 24 (pre-[FOMC](#)) has been rather noticeable, reinforcing my belief that this tool's track record leaves a lot to be desired
- Many readers know I've been doing this a long time and it has to be one of the tougher reads on what the Fed is going to do...they've seemingly backed themselves into a corner by letting the markets dictate their decision-making process, but Friday's jobs report reinforces the view that the data do not warrant a rate cut, not even an insurance cut!
- Fed Chair Powell is slated to give the semiannual Monetary Policy Report to the House at 10:00 a.m. tomorrow and to the Senate on Thursday, so he can shape market expectations accordingly.

Will he disappoint? Stay tuned...

Unless otherwise stated, data source is Bloomberg, as of July 5, 2019.

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Federal Reserve : The Federal Reserve System is the central banking system of the United States.

10- Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Basis point : 1/100th of 1 percent.

Fed fund futures : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.