



October 2019: Chasing Yield Around the Globe

US yields fell early in the month on disappointing purchasing surveys. Even before non-manufacturing ISM, bond prices firmed after Japan's government pension fund reclassified currency-hedged, foreign bonds as domestic debt. The change allowed it to expand holdings of higher yielding foreign debt.

After months of escalation, US-China trade tensions thawed. President Trump explained the trade agreement would be broken into three parts because it is too difficult to negotiate it all at once. The US delayed tariffs scheduled to rise on October 15 as work began on Phase one.

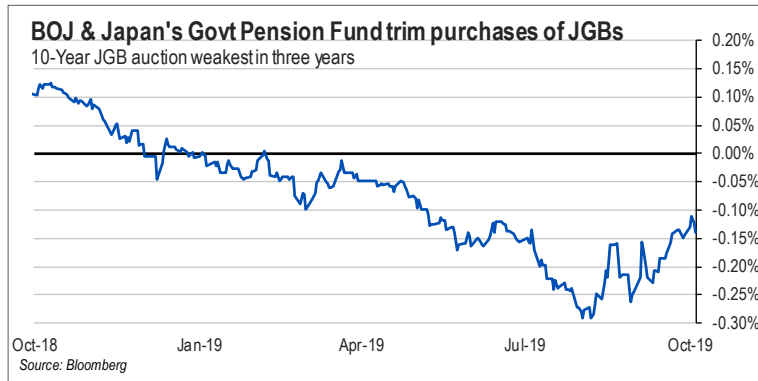
US Q3 GDP rose 1.9% on an annualized basis, led by consumption and three-tenths above consensus. The S&P 500 hit record highs in anticipation of October's Fed rate cut and hopes for a trade deal. Treasury yields fell after the FOMC delivered its third rate cut before Chair Powell indicated a pause in what he described as policy set appropriately to achieve 2.0% GDP growth and 2% inflation.

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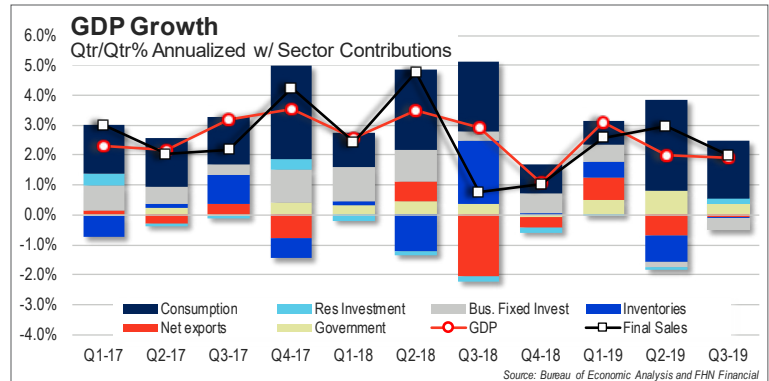
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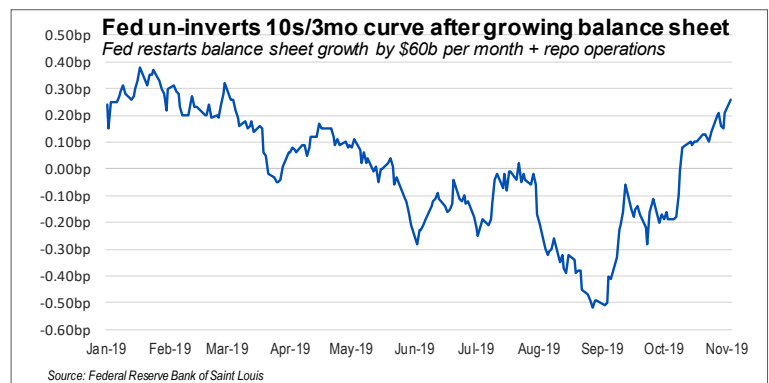
October started with Japan suffering its worst 10-year government auction in three years. The BOJ cut purchases at the auction in an attempt to raise yields on 10-year JGBs from -0.22% to its targeted yield of "around 0.0%." Japan's Government Pension Fund compounded auction weakness after announcing it will increase holdings of hedged foreign bonds to achieve higher yields. The BOJ's balance sheet is now larger than Japan's nominal GDP.



Q3 GDP rose 1.9% qtr/qtr on an annualized basis. Personal consumption rose 2.9% over Q2. Residential fixed investment rose 5.1% for the first positive reading since Q4 2017. Weak business fixed investment clipped 0.4% from growth, while net exports subtracted 0.1% from growth. Autos accounted for 0.4% of the GDP increase, suggesting GM may have revved up production before the UAW walked out. If so, then autos could subtract 0.4% or more in Q4.

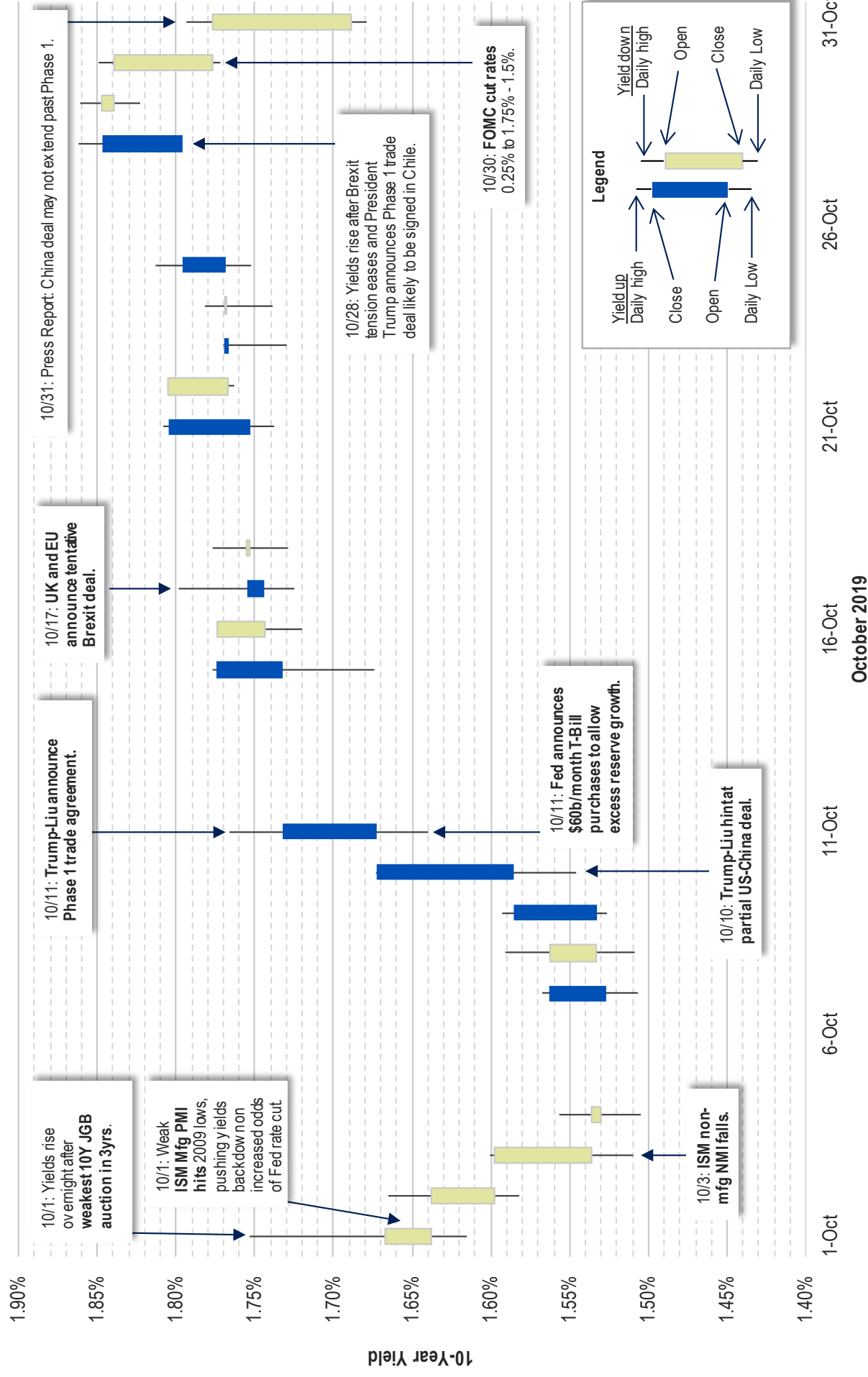


China's Caixin manufacturing PMI rose from September's 51.4 to 51.7, a 30-month high, but the official PMI fell to 49.3, a new 8-month low. Caixin is dominated by the biggest export-focused companies, while the broader government survey includes those companies plus smaller, domestically focused manufacturers. The divergence of the two indices could reflect the big companies, frustrated by US-China trade decline, cannibalizing business from their smaller competitors.

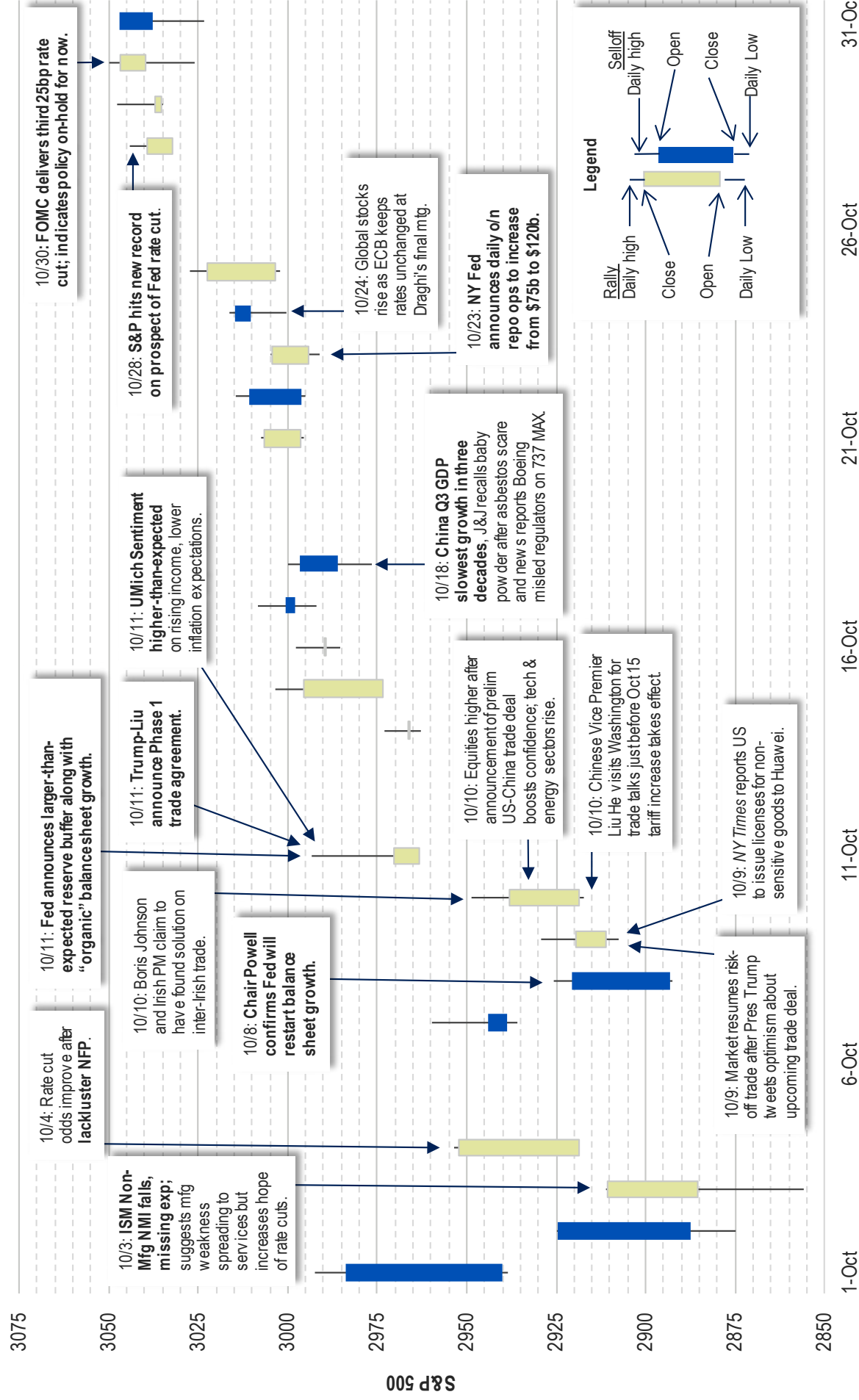


The US Treasury curve mostly un-inverted after the Fed cut rates in October. Before the October meeting, the Fed tackled the repo squeeze by announcing an open-ended commitment to purchase \$60B T-bills per month, which will allow excess reserves to grow. In addition, it will conduct twice-weekly term-repo operations of at least \$35b and daily overnight repo operations of at least \$120b that last until at least January 2020.

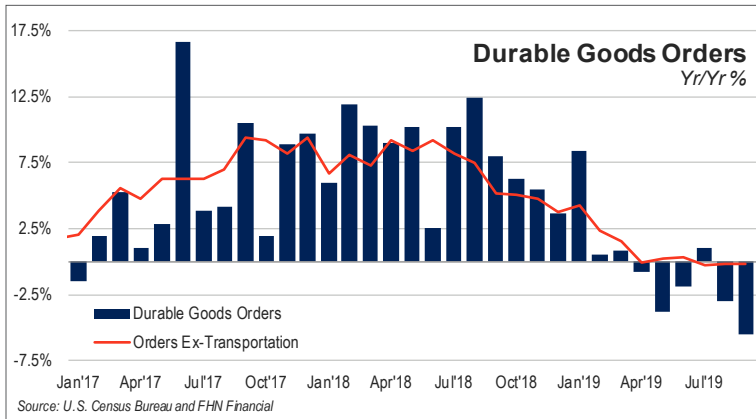
Market-Moving Events: 10-Year Treasury



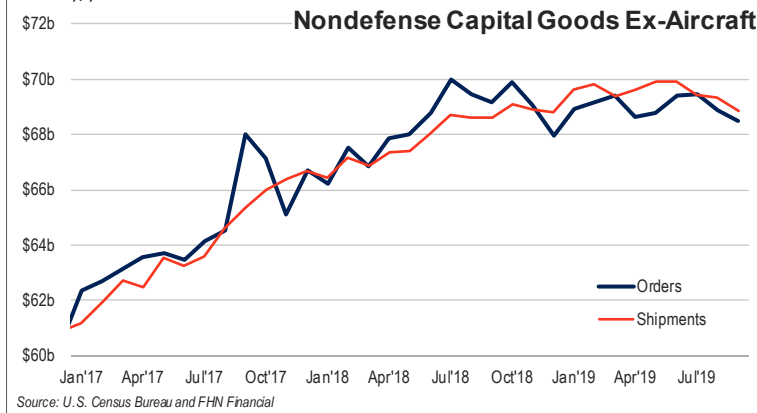
Market-Moving Events: S&P 500



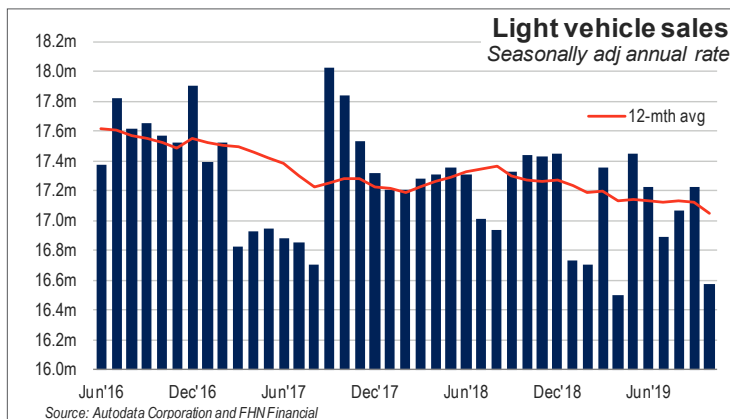
Data Watch: Key Economic Indicators



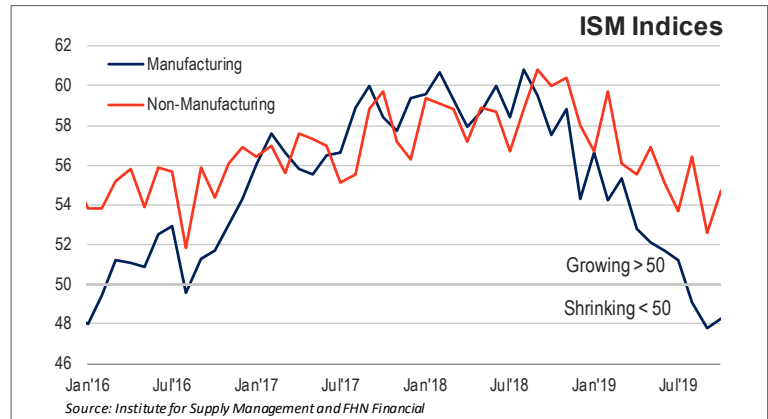
September's orders fell after three straight months of marginal increases, which failed to lift orders on a y/y basis. Orders fell -1.2% over the month taking the y/y pace to -5.5%, its slowest rate since July 2016 reflecting ongoing problems at Boeing. Excluding transportation, orders fell 0.4% m/m and remains down two-tenths y/y.



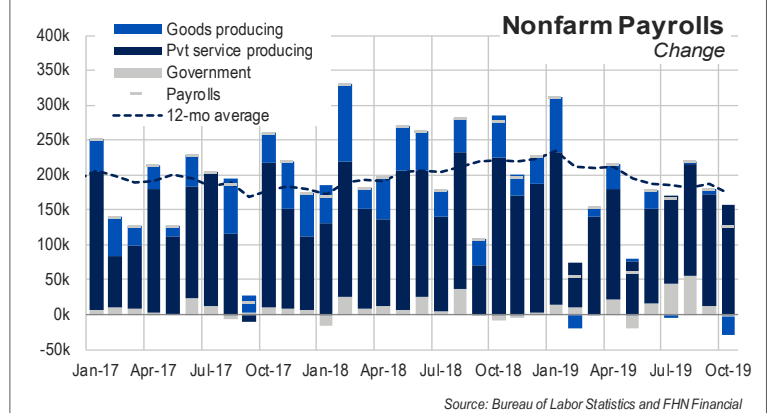
September's core capex orders fell 0.5% m/m and 1.0% y/y, while shipments fell 0.7% m/m and posted a marginal 0.3% rise y/y. Orders, used in production of goods/services, and shipments, which feed into the BEA's equipment measure, have been on a downtrend since September 2017.



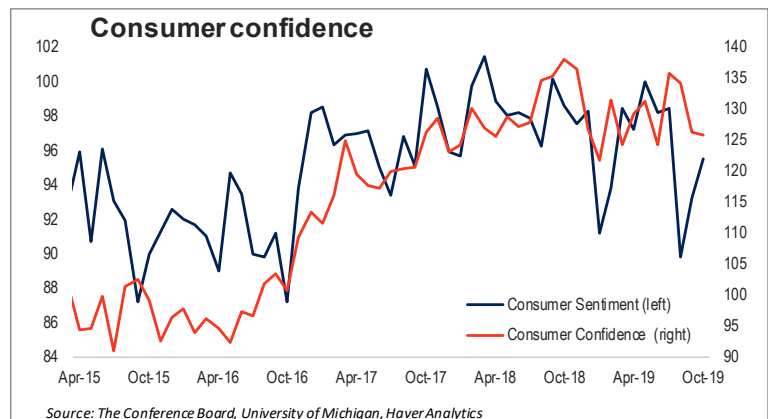
October's light vehicle sales fell 3.8% m/m to 16.58m, below the 16.8m consensus. The GM strike's impact on its fleet sales is estimated to result in double-digit declines. Sales of Detroit's three major manufacturers, which have stopped reporting monthly data, are estimates.



October's ISM non-manufacturing rebounded to 54.7 from September's weak 52.6. Four of five indicators rose to expansion, including employment (+3.3 to 53.7). Manufacturing nudged up 0.5 to 48.3, still in contraction, reflecting lower demand and consumption. New orders rose to 54.6, not bad, but short of August's 60.3.



October's nonfarm payrolls grew 128k, with large gains in bars and restaurants, social assistance, and financial activities. August and September were revised up 95k, bringing the 3-month average to 176k. Goods-producing employment fell, for the first time since May, but would have accelerated if not for the GM strike.



Consumer sentiment edged higher from September's 93.2 to 95.5. Current and expected conditions rose as consumers focused on income and job growth, while ignoring political and impeachment news. The confidence survey edged down, from 126.3 to 125.9, on falling job expectations.

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