

Interest Rate Market Focus

Treasury yields declined this past week as economic data from the manufacturing sector and a strong jobs report increased market's confidence in the economy. Meanwhile Dow Jones climbed to a 7th record close on Thursday. Oil fell below \$49 per barrel after there was no new talk of Saudi Arabia decreasing their oil production. For the week, the 2yr swap rate increased by 1bps and the 5yr swap rate remained steady, closing at 1.61% and 1.90%. The 10yr and 30yr swap rates decreased by 2-3bps, closing at 2.23% and 2.53%, respectively for the week.

U.S. consumer spending barely rose in June as personal income failed to increase for the first time in seven months amid a decline in dividend payments, pointing to a moderate pace of consumption growth in the third quarter. Personal income was flat in June and consumer spending only increased by 0.1% in June. Meanwhile the manufacturing sector expanded in July but at a slower pace than the previous month. The Institute for Supply Management (ISM) said its index of national factory activity fell to 56.3 from 57.8 the month before. The reading was just below expectations of 56.5. Orders for factory goods posted the biggest gain in nearly three years last month, pulled up by a surge in demand for civilian aircraft. Durable good orders climbed 6.5% in June, reversing two straight monthly drops. The June increase was the biggest since July 2014. Spending on durable goods accounts for a small part of American economic output. But changes in durable goods orders often signal where the economy is headed; so forecasters and investors watch the report closely.

On the employment front economic data came in strong as the economy added 209,000 jobs in July while the unemployment rate fell to 4%, the lowest since March 2001. The market was expecting a growth of 183,000; the unemployment rate met expectations. A more encompassing rate that includes discouraged workers and the underemployed was unchanged at 8.6%. The ADP employment report hit a new high of 153.5 million thanks to a surge of 345,000. The employment-to-population ratio also moved up to 60.2 percent, tied for the highest level since February 2009.

For the week, 5yr, 10yr, and 30yr Treasury yields decreased by 2-5bps, closing at 1.82%, 2.26%, and 2.84% respectively. The 2yr Treasury yield remained steady at 1.35%. For the week, the 2yr, 5yr, 10yr, and 30yr swap spreads widened by 1-2bps, closing at 25bps, 8bps, -3bps, and -32bps respectively.

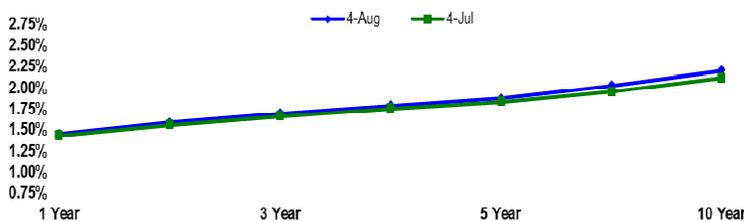
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1 Yr Historical US Dollar Swap Graph



Source: Bloomberg

Monthlv USD Swap Curve



Source: Reuters

FX Rate

Dollar looked poised to tumble down off another cliff last week, until a late bounce on Friday pushing the DXY up from 92.785-93.50. A strong labor report (NFP 209k vs 180k exp) helped squeeze crowded USD-shorts, and perhaps the market sensitivity to DC scandal related stories has dulled about after weeks of pricing in – the greenback was due for some relief. Now the question remains if the buck can clawback more upside over the next few weeks into the Aug24-26 JH Symposium everyone has circled on the calendar. In the meantime, wage growth holding 2.5% Yoy same as previous when consensus sought 2.4% should help Yellen's resilient tone into the big event, and last Tuesday's uptick in Core PCE to 1.5% remind us the bleeding has stemmed at least for now. This might wind up a one-off positive blip for longer term indicators, but for now it arms the Fed to reaffirm their less dovish message and save for maybe Aug11 CPI prints there is not much left that could sour the data momentum.

AUDUSD shied lower from early highs .8050 last week to .79 now – RBA cautionary comments on Aussie strength posing a threat to recent gains in activity helped the pair lower along with the dollar firmness.

NZDUSD is heading the same direction lower from .75 highs last week to .7350 now – RBNZ survey of 2y inflation expectations ticked down from 2.17% to 2.09%.

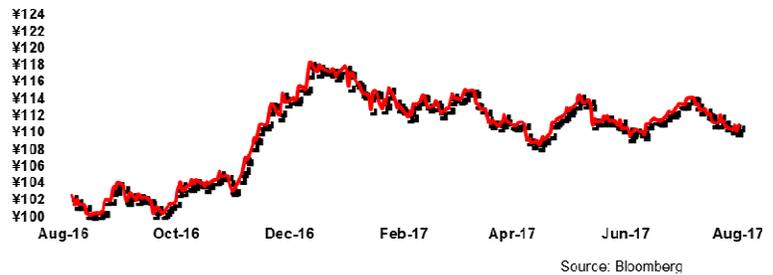
USDCAD floated up mildly throughout the week 1.25 to 1.27 now – in addition to US jobs data the Canadian payrolls looked a touch soft maybe 10.9k down a little worse than expected from 45.3k prior but mostly from losses in part time.

For what it's worth China Caixin PMI beat (51.1 vs 50.4e and 50.4p) to help erase any minor anxiety that may have arose from the Official PMI miss over the prior weekend.

GBPUSD ticked down off 1.32 lofty perches to 1.30 – first off the UK Manuf PMI looked solid last tues (55.1 vs 54.5e and 54.2p) but then the BOE vote 6-2 for unchanged policy looked like a huge swing dovish from some spurious expectations for a potential 4-4 result (last time was 5-3 but Haldane hinted at potential shift to "yes" for hikes before ultimately balking, and of course Forbes rotated out).

EURUSD and USDJPY look like the main pairs where dollar gained little ground – from 1.1875-1.1780 and 110-110.90s now respectively. The market still clearly has high hopes for a Draghi splash at JH vs a Yellen under-delivering to result in a narrowing of MonPol expectations. And for Japan the 10yr peg garners some relative attraction for the yen while the US yield (along with much of the rest of the world) looked to decline a bit. Abe's approval rating slippage of late gives rise in probability to added stimulus splash as a comeback according to some analysts, but then NKorea threats over the weekend help to keep some semblance of a risk off spectre.

1Yr Historical JPY/USD Spot FX Graph



Source: Bloomberg

Major Economic Releases

Date	Time	Event	Survey
8/8	10:00	JOLTS Job Openings	Jun 8/9/1915
8/9	08:30	Nonfarm Productivity	2Q P 1/0/1900
8/9	10:00	Wholesale Inventories MoM	Jun F 1/0/1900
8/10	1/0/1900	Initial Jobless Claims	5-Aug 240k
8/10	08:30	Continuing Claims	29-Jul 1960k
8/10	1/0/1900	PPI Final Demand MoM	Jul 1/0/1900
8/11	1/0/1900	CPI MoM	Jul 1/0/1900
8/11	08:30	CPI Ex Food and Energy MoM	Jul 1/0/1900
8/11	8:30	CPI Ex Food and Energy YoY	Jul 1.70%

Source: Bloomberg

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