BANK OF THE WEST
BNP PARIBAS

Daily Update

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April 4, 2018

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:15 AM	ADP Employment Change	Mar	↑	241k	220k	210k	246k ↑R
09:45 AM	Markit US Services PMI	Mar F	↓	54.0	54.1	54.2	54.1
09:45 AM	Markit US Composite PMI	Mar F		54.2	NA	NA	54.3
10:00 AM	ISM Non-Manufacturing Composite	Mar	↓	58.8	58.5	59.0	59.5
10:00 AM	Factory Orders	Feb	↓	1.2%	1.8%	1.7%	-1.3% ↑R
10:00 AM	Factory Orders Ex Trans	Feb		0.1%	NA	NA	0.4%

* ↑ indicates better than Consensus estimated, ↓ indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

**Estimate from Bank of the West Economics

***Consensus from Bloomberg

****↑means prior reading revised up, ↓ means prior reading revised down

ADP Employment Beats Consensus Estimate, ISM Non-manufacturing and Factory Orders below Expectations

Trade war fears resurfaced in markets this morning as China responded to new U.S. tariffs with $50 billion worth of new tariffs of its own on U.S. soybeans, cars, chemicals, and other goods. At this point the economic and inflation impact of the tariffs announced so far should be limited, subtracting maybe a tenth of a percentage point off of U.S. and global GDP growth and add about a tenth of a percentage point onto consumer inflation. However, the market volatility indicates the growing fear that the tit-tat tariff battle between the U.S. and China might not stop here, but blow up into a broader trade conflict that could hobble both U.S. and global growth prospects longer-term.

Also, there were more misses on U.S. economic indicators this morning. The ISM Non-manufacturing index dropped to 58.8 in March from 59.5 in February, below economists' forecasts. However, the March reading remained above its six month average of 58.6, showing the U.S. services sector remains on a healthy growth path. An Index number above 50 indicates expansion in the U.S. services sector.

The largest declines in March were seen in new orders and inventory sentiment components. However, strong gains were seen in imports and supplier deliveries components. The employment component recovered back to 56.6 from 55.0 in February.

Similarly, U.S. factory orders increased less than consensus's expectation at 1.2% in February from an upwardly revised -1.3% in January. Volatile transportation and defense orders increased 7.0% and 13.9% respectively last month, speeding up overall factory orders. Excluding transportation, factory orders increased a modest 0.1%.

On the employment front, however, the data did not disappoint. ADP reported another strong month of private sector job gains for March. The 241K gain in private employment for March beat consensus expectations for 210k jobs. Service businesses added 176K jobs, while goods employers added a healthy 65K jobs last month. This foreshadows another strong payroll increase when the BLS releases the official jobs report for March on Friday. We are forecasting an above consensus 245K nonfarm payroll gain for March with the unemployment rate dropping to 4.0%.

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Treasury yields are rebounding off this morning's lows. The 10-Year Treasury yield is currently up 1.5 basis points at 2.790%. The 2-10 Treasury spread increasing to 50.7 up 0.8 basis points from yesterday. The futures market probability of another Fed funds rate hike in June was at 78.3% this morning up from 73.7% yesterday.

U.S. stock indexes are currently rebounding from this morning's trade war fears. The Dow and S&P 500 are up 0.33% and 0.36%, respectively, while the NASDAQ is up 0.68%. Gains in S&P 500 today are led by consumer staples, consumer discretionary and real estate sectors.

The U.S. dollar is weaker against the major currencies today. The Bloomberg dollar spot index is down 0.06% from yesterday. The U.S. dollar is decreasing the most against the euro, Mexican peso, and Australian dollar today.