BANK OF THE WEST
BNP PARIBAS

Daily Update

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August 2, 2018

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
07:30 AM	Challenger Job Cuts YoY	Jul		-4.2%	NA	NA	19.6%
08:30 AM	Initial Jobless Claims	28-Jul	↓	218k	220k	220k	217k
08:30 AM	Continuing Claims	21-Jul	↓	1724k	NA	NA	1747k R↑
10:00 AM	Factory Orders	Jun	-	0.7%	0.6%	0.7%	0.4%
10:00 AM	Factory Orders Ex Trans	Jun		0.4%	NA	NA	0.8% R↑

* ↑ indicates stronger 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

China Trade War Escalation Appears More Likely – Initial Jobless Claims Remain Low

Global stock markets are selling-off in response to fears of an escalating trade war between the U.S. and China. The Trump Administration is considering raising the proposed tariffs on $200 billion in Chinese exports from 10% to 25% to encourage China to adopt policies that will lead to fairer markets. The Chinese Ministry of Commerce said “China is fully prepared and will retaliate to defend the nation’s dignity and interests of the people.”

On the domestic front, the labor market continues to shine. Initial jobless claims were 218,000 for the week ending July 28, up just 1,000 from the previous week and below the consensus estimate of 220,000. The four week moving average fell 3,500 to 214,500, the lowest reading since mid-May. Last week’s claims have no bearing on the employment report being released tomorrow as it falls outside the survey period. Nonetheless, we are expecting nonfarm payrolls to rise by 195,000 in July – slightly above the consensus view – and the unemployment rate to decline to 3.9% from 4.0%. Investors will be looking for more signs of wage inflation from the average hourly earnings measure. Unfortunately, we expect average hourly earnings growth to remain around the current 2.7% y-o-y growth rate, and well in the range it has been in since July of 2016.

Separately, the Commerce Department reported that factory orders increased 0.7% in June, up from 0.4% in May and in line with expectations. Orders were boosted by strong demand for transportation equipment, electrical equipment, appliances and components as well as computers and electronic products. Factory orders excluding the volatile transportation category rose 0.4%, down from an upwardly revised 0.8% last month. Orders for non-defense capital goods excluding aircraft – viewed as a better measure of business spending plans – rose 0.2% compared to 0.6% last month. Finally, shipments of core capital goods, which are used to calculate business spending in GDP, increased 0.7% in June.

U.S. stocks are mixed this morning despite escalating trade tensions. The Dow is down 0.12% while the S&P 500 and the NASDAQ are up 0.28% and 0.90% respectively. Advances in the S&P 500 today are being led by information technology, consumer staples, and health care stocks.

Treasury yields are down across the curve this morning. The 10-Year Treasury yield – after breaking through 3% briefly yesterday – is 2.984, down 2.2 basis points from Wednesday. The 2-10 Treasury spread is 32.7, down 0.4 basis points from yesterday. The futures market probability of another Fed funds rate hike in September is 90.0% following yesterday’s FOMC statement, up from 87.7% yesterday.

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The U.S. dollar is stronger against the major currencies today. The Bloomberg dollar spot index is up 0.28% from yesterday's close. The U.S. dollar is gaining the most against the euro, British pound, and Korean won today.