

Time EST	Indicator		For	Actual*	Estimate**	Consensus***	Previous Period****
06:00 AM	NFIB Small Business Optimism	↓	Sep	107.9	108.0	108.3	108.8

* ↑ 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

Investor' Focus on U.S. Treasury Market, Small Business Optimism Dips In September

The yield on the 10-year U.S. Treasury note climbed above 3.25% today in early trading but rates have dropped back since hitting a seven-year high. Rates began rising last week in response to better-than-expected U.S. economic data, hawkish Fed speak, and anticipation of more Treasury issuance this week. The 10-year yield is up about 80 basis points since the beginning of the year. Global equity markets are mostly reacting negatively to higher long-term interest rates and the possibility of the Fed raising interest rates to a higher terminal rate.

The International Monetary Fund cut their global growth forecasts for 2018 and 2019 by 0.2 percentage points, singling-out the drag from U.S. tariffs and retaliation and the emerging market financial crisis as the catalysts. They cut their forecast for the Euro Area by 0.2 percentage points for 2018 and cut their forecast for the U.S. and China by 0.2 percentage points for 2019.

Meanwhile, the NFIB Small Business Optimism Index declined to 107.9 in September from 108.8 in August. This was below the consensus view of 108.3 but pretty much in-line with our estimate of 108.0. Despite the decline, the reading of 107.9 is the third highest in the survey's 45-year history. The biggest increases among the components were in the percent increasing net compensation (+5 percentage points) and the percent expecting higher sales (+3 percentage points). The percent of small business owners planning to hire and the percent planning to increase capital spending each declined by three percentage points. Finally, 38% of small business firms reported job openings they could not fill, unchanged from last month. The tight labor market continues to hamper the ability of small businesses to expand.

U.S. stocks are mixed this morning as the 10-year rate falls from a seven-year high. The Dow and S&P 500 are down 0.09% and 0.05% respectively, while the NASDAQ is up 0.57%. Losses in the S&P 500 today are led by materials, industrial and financial stocks.

Treasury yields are declining across the curve today. The 10-Year Treasury yield is currently at 3.206 – down 2.6 basis points from Friday's close. The 2-10 Treasury spread is 33.1 basis points – down 1.8 basis points from Friday's close. The futures market probability of another Fed funds rate hike in December is 76.9% this morning, up from 76.1% on Friday.

The U.S. dollar is gaining ground against the major currencies today. The Bloomberg dollar spot index is up 0.10% from Friday's close. The U.S. dollar is advancing the most against the euro, Mexican peso and Indian rupee.