King Economic Research: Weekly Market Report

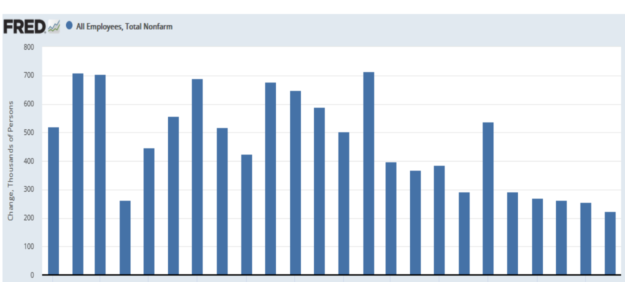
Social Sciences Department: Chair, Tom Zoubek
Economics Division: Frank Roche
No. 42 Monday, January 9, 2022

MACRO

Frank Roche

As always, the first week of a new month gives us a broad look at the U.S. labor market with the release of the December ADP Employment Report, the Weekly Unemployment Claims data for the week ending December 31st, and the December Employment Situation Report from the Bureau of Labor Statistics (BLS).

The labor market continues to appear to be strong, though dichotomies are developing in the Employment Situation Report between the Establishment Survey and the Household Survey, and the growth of full-time jobs versus part-time jobs. For December the BLS reported a net nonfarm payroll increase of 223,000 jobs, with the U3 unemployment rate (a narrow measure of unemployment) falling to 3.5 percent from 3.6 percent in November. The U6 unemployment rate, the broadest measure of unemployment that includes discouraged workers, fell to 6.5 percent from 6.7 percent in November. Average hourly earnings were up .3 percent in December, less than expected, and less than in November.



(Non-farm Payrolls, mthly, FRED)

The slight drop in average hourly earnings data caught the attention of market participants as an indication that the Federal Reserve (Fed) could take their foot on the pedal when it comes to interest rate hikes as upward pressure on wages wanes somewhat. In response stocks rallied, bonds rallied, the U.S. dollar (USD) weakened, and commodities rallied.

Jobs data is collected by the BLS two ways, the Establishment Survey, and the Household survey. Establishments are businesses that provide information about employment, earnings, and hours. The Household survey provides information about employment and unemployment. Job growth from the Establishment Survey is nearly 2 million more jobs greater than that determined by the Household Survey. Seasonal adjustments could be part of this discrepancy, or it could be because more and more Americans are working part-time jobs, and many still are working multiple part-time jobs. Part-time workers are considered full-time workers.

Other jobs data for the week included the ADP Employment Report which showed a net job increase in December of 235,000 jobs which was better than expected and better than November. And, the weekly Initial Unemployment Claims data for the week ending December 31st showed still low levels of layoffs at 204,000, down from the prior week of 225,000. All good news to be sure. Last week's job data should keep the Fed on pace to continue increasing interest rates through Q2 2023.

U.S. Economic Data - week ending January 6th

Friday

Dec Employment Situation Report:
- NonFarm Payrolls 223K v 256K in Nov
- Unemployment Rate U3 3.5% v 3.6% in Nov
- Unemployment Rate U6 6.5% v 6.7% in Nov

Avg Hourly Earnings .3% v .4% in Nov
Average Weekly Hours 34.3 v 34.4 in Nov
Nov Factory Orders -1.8% v .4% in Oct
Dec ISM Non-manufacturing Index 49.6 v 56.5 in Nov

Thursday

Initial Unemployment Claims W/E 12/31 204K v 225K in prior week
Dec ADP Employment Report 235K v 182K in Nov
Nov Trade Balance Goods & Services -$61.5B v -$77.8B in Oct

Wednesday

MBA Mortgage Applications W/E 12/31 -10.3% v .9% in prior week
Dec ISM Manufacturing Index 48.4 v 49

Tuesday

Nov Construction Spending .2 percent v -.2 percent in Oct

Monday

No data

U.S. Economic Data - week of January 9th

Monday

No data

Tuesday

No data

Wed

MBA Mortgage Applications W/E 1/7

Thursday

Initial Unemployment Claims W/E 1/7
Dec Consumer Price Index
Dec Federal Budget Balance

Friday

Jan U. Michigan Consumer Sentiment

EQUITIES

Paarth Tyagi '24

The first week of the new year was positive for markets, with the S&P 500 rising 1.72 percent and the Nasdaq rising 0.51 percent. Positive jobs and inflation data spurred these increases, and investors are seemingly optimistic that inflation will reach the Federal Reserve's (Fed) 2 percent goal by Q4 of this year.

(S&P 500, wkly, CNBC.com)

Past years show that positive returns in the first week of the year tend to set the tone for the rest of the year, with the S&P 500 having a positive year approximately 80 percent of the time after the first week was positive.

It is also worth noting that VIX dropped almost 5 percent the past week. The VIX is the volatility index derived from S&P 500 call and put options contracts measuring the volatility in stock prices, and oftentimes, higher volatility, while traders love it, means higher uncertainty in the markets which investors don't love.

(VIX, wkly, CNBC.com)

During normal market trends the VIX tends to hover at around 13 or 14. As recently as a month ago the VIX was at a near term high of 25. The VIX closed the week ending January 6th at 22.46. This suggests that though investors are still uncertain, they are slowly becoming more confident about a strong economy going into 2023.

Tesla stock made some interesting moves this week, decreasing by 5.67 percent. Investors responded negatively to Tesla's decision to cut car prices in China by a fairly significant amount. In addition to that, investors have been generally negative towards Tesla stock throughout the year because of Elon Musk's Twitter takeover and his conservative views.

Equity Indexes - Week Ending Jan 6th

Index	High	Low	Close
S&P 500	3,905	3,795	3,895
NASDAQ	10,609	10,265	10,569
FTSE 100	7,699	7,515	7,699
Nikkei	26,094	25,662	25,973

(CNBC)

Commodities

Josh Gershon '24

The themes for commodities market participants in the first week of 2023 were a decline in West Texas Intermediate (WTI) oil prices in the face of weakening global demand, Copper demand increase in China as they begin to reopen from the COVID lockdowns, and the U.S. rising to be the lead exporter of liquid natural gas (LNG).

WTI crude oil prices fell throughout the week mainly due to recession fears and global demand fears. WTI started off the week at $80 a barrel, with a low of $72.80, and closed the week at $73.67.

As China starts to get rid of their COVID lockdown policies the demand for metals such as copper have increased and caused prices to rise. China is expected to have a boom in output as they come out of lockdown.

(Copper, wkly, CBNC.com)

In the second half of 2022 the United States has emerged as the largest exporter of liquified natural gas, or LNG. Exports of LNG rose 12 percent in the second half of 2022. This was mainly due to higher demand for natural gas globally as nations move away from coal fired electricity generation. The increase in demand came primarily from the UK and the European Union as they have tried to end their dependency on Russian supplies in response to Russia's brutal efforts to take over eastern and southern Ukraine and the resulting global sanctions on the Russian economy.

(Natural Gas, wkly, CNBC.com)

Nat gas had a high of $4.19, a low of $3.66 closing the week at $3.73.

Soybeans had a high of $1,525, a low of $1,465, and finished the week at $1,492. Gold had a high of $1,864, a low of $1,830, and closed the week at $1,872. The commodities market participants throughout the week of January 2nd were faced with demand issues, recession fears, and speculation over China's growth as it reopens to the world. .

Commodities - Week Ending Jan 6th

Product	High	Low	Close
Oil, WTI	$79.50	$72.76	$73.68
Nat Gas	$4.19	$3.66	$3.73
Gasoline	$2.44	$2.23	$2.25
Gold	$1,864	$1,830	$1,872

(CNBC.com)

FIXED INCOME

Ben Helman '24

U.S. Treasury yields reversed and moved higher on Thursday as investors assessed expectations for the Federal Reserve's (Fed) interest rate policy plans after strong jobs data. The yield on the 10-year Treasury gained nearly 1 basis point to 3.713 percent after trading lower earlier. The 2-year Treasury yield was last trading 6.8 basis points higher at around 4.458 percent after dipping less than a basis point.

Investors digested data, which showed that private payrolls rose by 235,000 for the month of December, well ahead of the 153,000 Dow Jones estimate and the 127,000 initially reported for November. Many expect that the strong labor market could keep the Fed in its hiking mode. The Fed's December meeting minutes, released on Wednesday, indicated that central bank officials are expecting rates to stay elevated and not be cut in 2023. Fed officials would stick to their current restrictive policy approach until they are satisfied that inflationary pressures are easing, the minutes suggested. Many investors have been concerned about the pace of the Fed's rate hikes throughout 2022 leading the U.S. economy into a recession.

Treasury yields ticked lower Friday as investors digested economic data and assessed its implication for the Federal Reserve's hiking cycle. The yield on the benchmark 10-year Treasury was down by about 16 basis points at 3.567 percent. The 2-year Treasury yield fell around 19 basis points to 4.264 percent. The yield on the 30-year Treasury was down nearly 11 basis points at 3.689 percent. Yields and prices move in opposite directions.

Interest Rates (%) - Week Ending Jan 6th

Product	High	Low	Close
U.S. 1mth	4.21	4.02	4.20

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U.S. 6mth	4.87	4.77	4.846
U.S. 1yr	4.79	4.68	4.71
U.S. 10 yr	3.80	3.55	3.56

(CNBC.com)

FOREIGN EXCHANGE

Jack Cohen '24

A mixed start for the foreign exchange (FX) market for the week ending January 6, 2023. The U.S. dollar index (USD) rose as the Federal Reserve (Fed) looks to keep hiking interest rates in 2023. Fed Chair Jerome Powell said on Wednesday that the recent positive signs on inflation were not enough for the Fed to slow the pace of interest rate hikes.

(USD Index, wkly, CNBC.com)

The index climbed above 105 by mid week before U.S. labor market data came out on Friday. The USD sold off sharply at the end of the week, but look for dollar strength to resume in the coming weeks and months.

The Euro (EUR/USD) rose this week also off of the weak jobs data on Friday. It rose more than 1 percent on Friday. Along with the Fed, the European Central Bank (ECB) has plans for significant rate hikes in the future. The ECB's Governing Council hiked interest rates by 50 basis points in December in order to try to fight continuing high rates of inflation. The EUR/USD opened the week at 1.0662, with a low of 1.0487 on Thursday, and closed the week at the high of 1.0644.

(AUD/USD, wklly, CNBC.com)

Another outlier this week was the Australian Dollar (AUD/USD). The weekly AUD/USD chart is a mirror of the EUR/USD chart. The low for the week was on Thursday at .6729 on the back of hawkish comments from Fed Chair Powell, and closed the week at the highs of .6885 on the back of weaker than expected U.S. average hourly earnings in December which indicated less upward wage pressure. As China reopens it is an encouraging sign for a stronger AUD. Those signs include key exports of iron ore, and gold trading.

Currency Rates - Week Ending Jan 6th

Currency	High	Low	close
EUR/USD	1.0669	1.0483	1.0644
USD/JPY	134.65	129.59	132.07
GBP/USD	1.2097	1.1843	1.2093
USD/CAD	1.3684	1.3434	1.3442

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USD/CNY	6.9197	6.8340	6.8365
USD Index	105.3410	103.8700	103.9300

(CNBC)

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