Wentz Weekly

December 10, 2019

Strong Job Gains, Trade Drama, and more…

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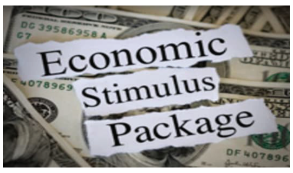
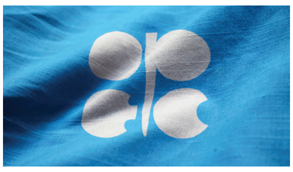
- Latest trade data for October released by the Census Bureau shows the trade deficit shrunk by $4 billion or 8% compared to September, with the total deficit at $47.2 billion for the month. The large decline was driven by lower imports from China which fell 4.9%, with total imports falling 1.7%. Exports fell just 0.2% in the month. The smaller deficit should have a small positive contribution fourth quarter GDP.
- According to the BLS the economy added 266,000 jobs in November, well above the 180,000 consensus estimate. The number does include the return to work of roughly 45,000 GM employees that were previously striking (also taken into consideration in estimates). Health care, restaurants, and professional services saw most job gains, while energy and retailers added the least. In addition, the last two months have been revised up with an additional 41,000 jobs between the two months. The 3-month average is 205,000 new jobs, above the trend of the mid 100,000s most the year. The media reported unemployment rate dropped to 3.5%, matching the lowest in 50 years, while the U-6 rate (includes those working part time because cannot find full time work, and those marginally attached – left labor force because they got discouraged from not being able to find a job) is 6.9% down from 7.0%. Wages increased just 0.2% in the month vs a 0.3% increase expected, but even better is compared to a year ago the average was is up 3.1%.



- Several economic stimulus packages were announced last week. The Hong Kong government announced an additional (equal to $511 million) in economic stimulus, bringing the total to $3.2 billion. It is the fourth stimulus package in as many months. Japan Prime Minister Sinzo Abe announced plans for an economic stimulus package comprised of $121 billion in fiscal spending to aid disaster relief, protect against downside economic risks and prepare economically for after the 2020 Tokyo Olympics.
- The week stated with Trump, speaking after a meeting with European leaders, saying it might be better to wait until after the election for a trade agreement with China. He also said he has no deadline for an agreement. Then, half way through the week, reports stated phase one of a trade deal has stalled due to the Hong Kong legislation passed the week prior. Global Times also reported China will not move forward unless existing tariffs are rolled back, and suspending future tariffs is not enough. But toward the end of the week Bloomberg reported both sides are still in "close contact". The week ended with China's Ministry of Finance saying some U.S. soybeans, pork and other commodities will be excluded from tariffs. Separately, Congress is set to pass a Bill that would allow the US to impose sanctions on China for abuse against Uighur Muslims. China said they would retaliate by publishing a list of "unreliable entities" that would lead to sanctions against US companies.



- OPEC ended its semi-annual meeting in Vienna Friday by announcing a larger production cut in attempt to support crude oil prices. Following the meeting OPEC announced they would collectively reduce production by an additional 500,000 barrels per day, bringing the total production cuts to 1.7 million bbl/day. However, non-OPEC countries, especially the US, are continuing to ramp up production and are expected to increase output by 2.3 million bbl/day in 2020, according to consulting firm Rystad Energy.

Company News

- Cleveland Cliffs announced they will acquire AK Steel in an all stock deal worth $1.1 billion, about a 16% premium. Upon completion, Cliffs shareholders will own 68% and AK Steel shareholders will own 32% of the combined company.
- DocuSign beat on earnings and revenue estimates in its latest quarter with revenues increasing 40% from a year ago. Management provided fourth quarter forecasts that were above analysts' estimates.

The Week Ahead

- There will be a few notable companies reporting quarterly earnings throughout the week including Chewy, Toll Brothers, AutoZone, lululemon athletica, Oracle, Broadcom and Costco. Economic data out this week includes inflation data by the Bureau of Labor Statistics and retail sales on Friday. The Federal Open Market Committee's two day policy meeting will end Wednesday with an announcement on interest rates immediately after, where they are expected to hold rates steady. On Thursday, Britain will vote in a general election, where polls indicate conservatives will once again win a majority.