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## REALITY BITES

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OK, now what? The much better-than-expected June jobs report has the money and bond markets—and probably the [Federal Reserve \(Fed\)](#) as well—in a dither. Some quick thoughts to bring you back to a post-July 4, reality:

- Total nonfarm payrolls came in at +224,000, much stronger than the consensus forecast of +160,000 and essentially canceling out last month's disappointment
- This gain was not an aberration, either, as solid performances were noted across the board, with manufacturing (+17,000) and construction (+21,000) particularly noteworthy
- Unemployment rate rose a tick to 3.7%, which was basically due to a surge in the civilian labor force, typically a positive economic sign
- Wages are stuck in the mud: +3.1% year-over-year and unchanged from the prior month
- After a move to 1.94% pre-jobs report, the [UST 10-Year yield](#) reversed course sharply and rose at one point to 2.07%; for those keeping score, the UST 2-Year yield backed up 14 [basis points \(bps\)](#) to 1.88%
- What's a central banker to do? As I write this, [Fed Funds Futures](#) still stand a 95.5% chance of a quarter-point rate cut in July, but 50 bps has essentially been taken off the table...
- Also, the January 2020 Fed Funds Futures contract is now showing only two rate cuts this year vs. three pre-jobs report; the change in pricing since June 24 (pre-[FOMC](#)) has been rather noticeable, reinforcing my belief that this tool's track record leaves a lot to be desired
- Many readers know I've been doing this a long time and it has to be one of the tougher reads on what the Fed is going to do...they've seemingly backed themselves into a corner by letting the markets dictate their decision-making process, but Friday's jobs report reinforces the view that the data do not warrant a rate cut, not even an insurance cut!
- Fed Chair Powell is slated to give the semiannual Monetary Policy Report to the House at 10:00 a.m. tomorrow and to the Senate on Thursday, so he can shape market expectations accordingly.

Will he disappoint? Stay tuned...

*Unless otherwise stated, data source is Bloomberg, as of July 5, 2019.*

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Federal Reserve: The Federal Reserve System is the central banking system of the United States.

10- Year Treasury: a debt obligation of the U.S. government with an original maturity of ten years.

Basis point: 1/100th of 1 percent.

Fed fund futures: A financial instrument that let's market participants determine the future value of the Federal Funds Rate.

Federal Open Market Committee (FOMC): The branch of the Federal Reserve Board that determines the direction of monetary policy.