Financial Markets This Week

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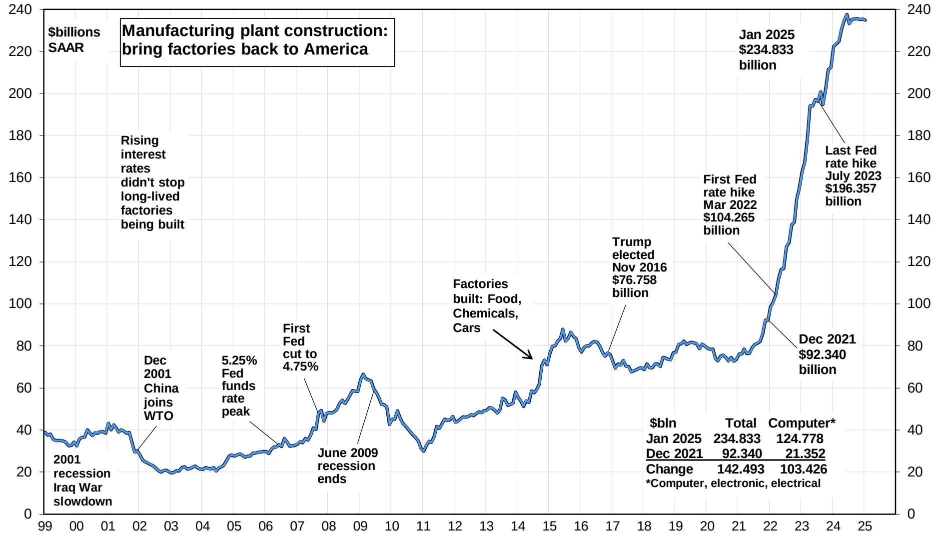
MANUFACTURING USA



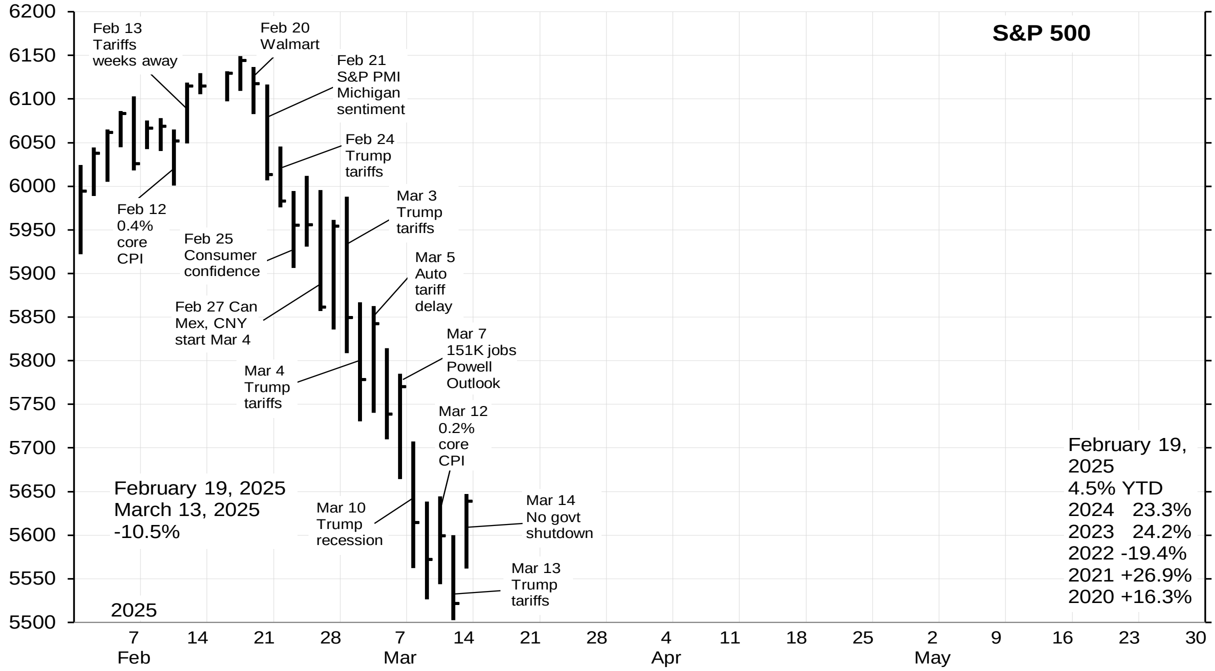
In 2024, US goods imports from China were $439 billion and US goods exports to China were $144 billion. The US is not holding the cards in its trade negotiations with China because US exports are so modest, meaning there are simply not enough products and raw materials here in the USA to sell to them to even out the trade imbalance. Sounds like Japan in the 80s that the President also opined on. That's okay, the imbalance, because the new goal of the Trump 2.0 trade wars is to make all the imported goods here in America anyway and bring the factories home. We don't need China. After 25 years, it seems impossible, like sending a man to Mars.

Manufacturing plant construction jumped to the highest in decades under the last Administration. This series on the total value put in place is for construction undertaken during a given period and if the project takes multiple years the dollars will keep showing up. There is still construction going on from the CHIPS Act signed by Biden in August 2022.

There was a best trade deal ever signed with China in December 2019 and US exports never reached the lofty goals. The table here, mostly at the bottom, shows some of the categories of US exports that China has increased tariffs on this month. Soybeans were the top export from the US in 2024 at $12.8 billion which we think had a tariff increase from China of 10% earlier in March, but this is trading desk research where a lot of information, news, facts can swifty change. Check it out yourself. Here is a table, here is a graph. Get on it.

U.S. Exports of goods to China							
Billions of dollars	2018	2019	2020	2021	2022	2023	2024
Soybeans	3.129	8.008	14.068	14.116	17.917	15.057	12.761
Civilian aircraft, engines, equip, parts	18.221	10.427	4.392	4.724	5.521	6.808	11.522
Pharmaceutical preparations	3.024	4.346	4.784	6.852	9.681	10.363	10.009
Semiconductors	7.278	9.032	11.336	13.499	10.653	6.193	9.931
Industrial machines, other	6.822	6.272	7.756	10.139	8.590	7.577	7.443
Crude oil	5.418	2.960	6.820	6.015	6.674	13.280	6.154
Natural gas liquids	1.190	0.147	1.387	3.579	4.202	4.306	5.916
Plastic materials	3.980	3.370	3.762	3.999	4.796	5.534	5.439
Passenger cars, new and used	6.668	7.247	6.090	6.599	5.498	6.248	4.928
Medicinal Equipment	3.727	4.138	4.104	4.828	4.806	4.790	4.347
Measuring, testing, control instruments	3.126	2.796	2.629	2.857	3.076	3.345	4.021
Chemicals-other	3.202	3.038	3.298	3.773	4.015	3.370	3.513
Copper	1.769	0.440	0.818	2.109	2.644	2.582	3.291
Meat, poultry, etc.	0.698	1.429	3.384	4.211	4.657	3.647	3.246
Other industrial supplies	2.171	2.028	2.066	2.761	2.620	2.338	2.359
Electric apparatus	2.417	2.221	2.558	2.578	2.481	2.357	2.298
sub-total	72.841	67.900	79.250	92.639	97.830	97.796	97.177
Total	120.281	106.481	124.581	151.439	154.125	147.777	143.545
Logs and lumber	2.829	1.567	1.560	1.975	1.606	1.428	1.582
Cotton, raw	0.925	0.707	1.826	1.332	2.876	1.569	1.490
Sorghum, barley, oats	0.522	1.860	1.146	1.782	1.813	1.192	1.260
Fish and shellfish	1.148	0.917	0.777	0.875	1.035	1.027	1.010
Wheat	0.107	0.056	0.571	0.769	0.393	0.391	0.558
Corn	0.060	0.057	1.242	5.060	5.212	1.635	0.331

INTEREST RATES

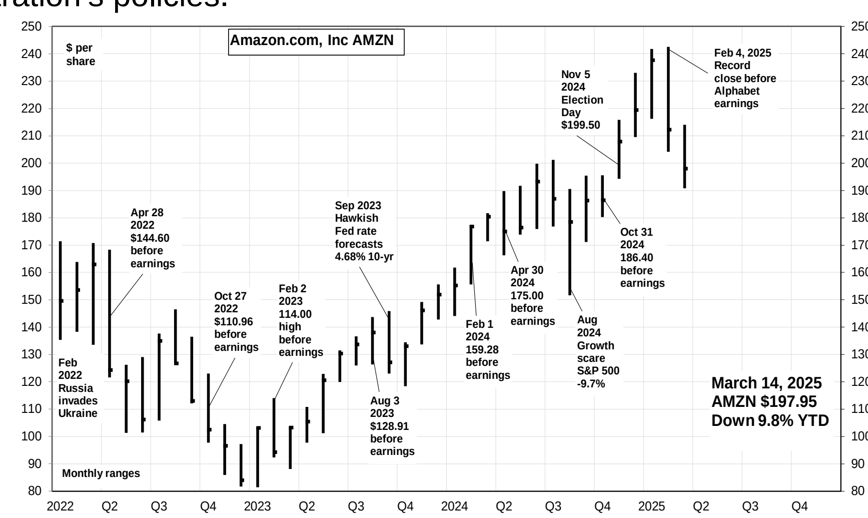


It rained early in the week in the markets mostly on wild trade tariff headlines. There was a respite on Wednesday with core CPI coming in less at 0.2%, but the high on the day was set in futures markets and was only there for a minute. Back to heavy tariff rain on Thursday with Trump saying we've been ripped off for years and he would not bend. The S&P 500 fell as much as 10.5% from the February 19 high on Thursday. Friday's rally had many "reasons." Schumer would not vote for a Federal government shutdown, bargain hunting, China stimulus coming on Monday, good news headlines on Russia Ukraine. Bond yields were not as volatile. The low yield was about 4.15% on Tuesday, which is a long way from the 3.60% yield last September when bonds were preparing for recession and multiple rate cuts. Fed funds futures look for a 25 bps rate cut to 4.25% on June 18.

Amazon.com, Inc. (AMZN) down 9.8% YTD

The stock climbed to a record on Tuesday, February 4 along with a rally in other big tech shares, but fell after the bell on Alphabet earnings. Amazon earnings were Thursday, February 6 after the bell and the stock fell 4.1% the next day. Investors, active traders really, seem to be watching the 200-day moving average broken on March 10. Those earnings? Disappointing at the time, but the future remains in doubt with the new Administration's policies.

Calendar Year Mln $	Net Sales	Operating Income	AWS Sales	AWS Income	Income minus AWS
Q4 2024	187,792	21,203	28,786	10,632	10,571
Q3 2024	158,877	17,411	27,452	10,447	6,964
Q2 2024	147,977	14,672	26,281	9,334	5,338
Q1 2024	143,313	15,307	25,037	9,421	5,886
Q4 2023	169,961	13,209	24,204	7,167	6,042
Q3 2023	143,083	11,188	23,059	6,976	4,212
Q2 2023	134,383	7,681	22,140	5,365	2,316
Q1 2023	127,358	4,774	21,354	5,123	-349
Q4 2022	149,204	2,737	21,378	5,205	-2,468
Q3 2022	127,101	2,525	20,538	5,403	-2,878
Q2 2022	121,234	3,317	19,739	5,715	-2,398
Q1 2022	116,444	3,669	18,441	6,518	-2,849

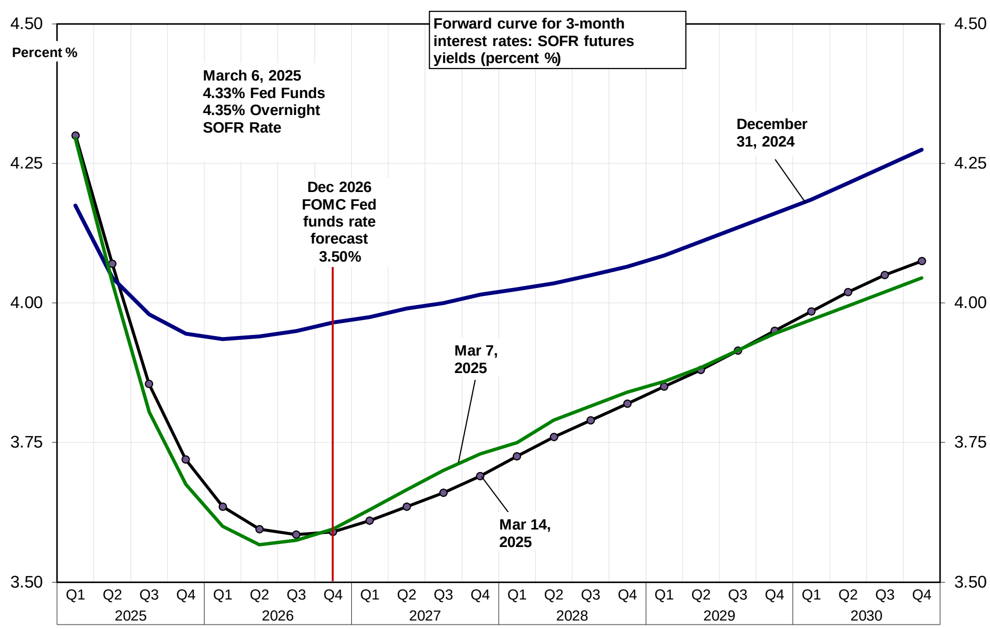


FEDERAL RESERVE POLICY

The Fed meets March 18-19, 2025 to consider its monetary policy. The focus is on the forecasts and whether those two 25 bps rate cuts this year get changed to three cuts maybe. The problem is there is too much news and uncertainty coming out of Washington to make much of a forecast on Fed rates. Ordinarily, a stock market sell-off would make policymakers less confident about the economic outlook. Powell called a halt to the Fed rate hike schedule in early January 2019 after the S&P 500 fell 20% late in 2018 after the Federal government shutdown among other things. Powell eventually moved to 25 bps cuts from the 2.5% level in July, September, and October 2019 for reasons that are not easily explainable: central bank fine-tuning at its worst. There was trade war uncertainty in 2019. Anyway, the S&P 500 20.1% decline in December 2018 was recession-magnitude, and the sell-off this year from the February 19 high is maxed out at 10.5% for now. Stock market losses have made a dent in our personal spending velocity and plans for the future. Stay tuned. Write if it has had an impact on you.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	12-Mar	5-Mar	26-Feb	19-Feb	3/11/20*	3/11/20
Factors adding reserves						to Mar 12
U.S. Treasury securities	4242.202	4241.570	4251.338	4251.251	2523.031	1719.171
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2203.309	2203.309	2303.309	2217.572	1371.846	831.463
Repurchase agreements	0.001	0.084	0.097	0.000	242.375	-242.374
Primary credit (Discount Window)	2.417	3.092	3.342	3.234	0.011	2.406
Bank Term Funding Program	0.000	0.079	0.106	0.188		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.870	1.881	1.892	1.905		
Main Street Lending Program	7.346	7.339	7.331	7.324		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.142	0.133	0.096	0.091	0.058	0.084
Federal Reserve Total Assets	6810.8	6807.4	6816.7	6833.4	4360.0	2450.756
~~3-month Libor %~~ SOFR %	4.31	4.34	4.33	4.35	1.15	3.160
Factors draining reserves						
Currency in circulation	2366.425	2363.066	2356.013	2354.017	1818.957	547.468
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	450.713	522.818	568.550	738.938	372.337	78.376
Treasury credit facilities contribution	3.461	3.461	3.461	3.461		
Reverse repurchases w/others	131.055	139.493	126.058	73.196	1.325	129.730
Federal Reserve Liabilities	3351.095	3426.269	3435.954	3557.268	2580.036	771.059
Reserve Balances (Net Liquidity)	3459.687	3381.174	3380.755	3276.141	1779.990	1679.697
Treasuries within 15 days	14.872	14.074	49.773	62.103	21.427	-6.555
Treasuries 16 to 90 days	260.757	261.313	228.750	217.322	221.961	38.796
Treasuries 91 days to 1 year	425.586	425.742	432.720	431.813	378.403	47.183
Treasuries over 1-yr to 5 years	1461.721	1461.448	1460.319	1460.303	915.101	546.620
Treasuries over 5-yrs to 10 years	527.883	527.811	531.262	531.257	327.906	199.977
Treasuries over 10-years	1551.383	1551.182	1548.514	1548.452	658.232	893.151
Note: QT starts June 1, 2022	Change	3/12/2025	6/1/2022			
U.S. Treasury securities	-1528.577	4242.202	5770.779			
Mortgage-backed securities (MBS)	-504.137	2203.309	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables					Long
	2024	2025	2026	2027	Term
Fed funds	4.4	3.9	3.4	3.1	3.0
PCE inflation	2.4	2.5	2.1	2.0	2.0
Core inflation	2.8	2.5	2.2	2.0	
Unemployed	4.2	4.3	4.3	4.3	4.2
GDP	2.5	2.1	2.0	1.9	1.8
December 2024 median Fed forecasts					



A 25 bps rate cut is discounted in June 2025.

Fed funds futures call Fed policy		
Current target: March 14 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.495	Apr 2025	Mar 19
4.255	Jul 2025	Adds May 7, Jun 18*
Last trade, not settlement price		
* Not strictly true, Jul 2025 has Jul 30 Fed date, so 1 day could be a new interest rate		

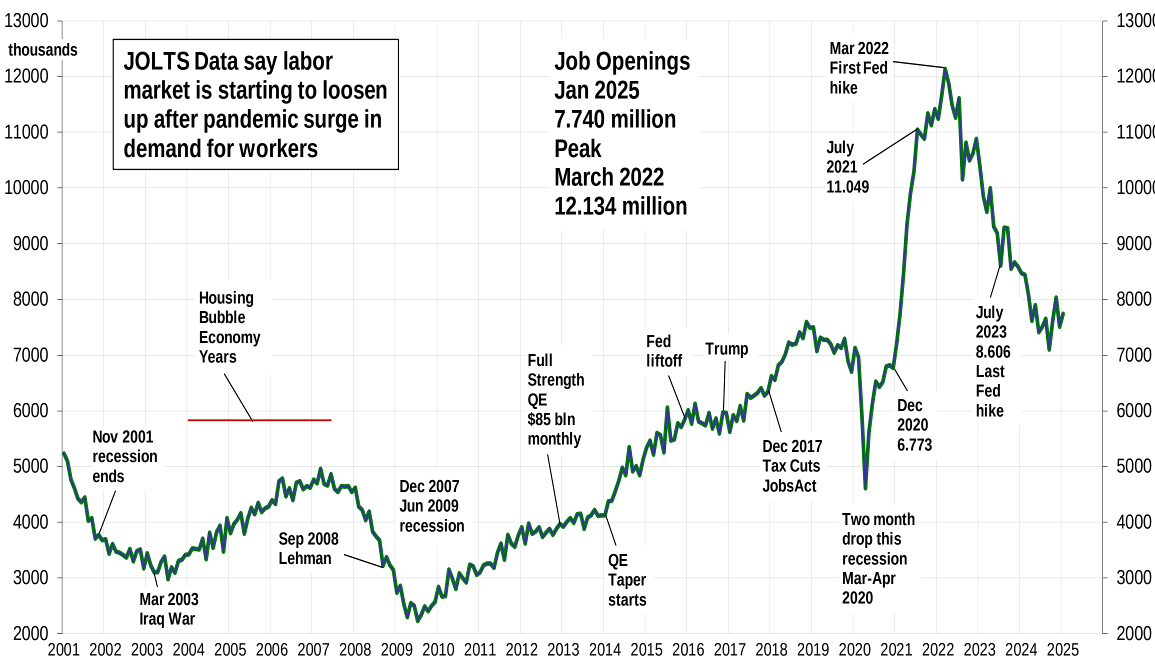
Next up: February PCE inflation report Friday, March 28														
Monthly	2025	2024											2024	2023
% Changes	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec
Core CPI inflation	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3	0.4	0.4	0.4	0.3
Core PCE inflation		0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.3	0.2	0.5	0.2
Core PCE YOY		2.6	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9	3.0	2.9	3.1	3.0
Core CPI YOY	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6	3.8	3.8	3.9	3.9

OTHER ECONOMIC NEWS

Job openings for now (Tuesday)

Breaking economy news. JOLTS data at 10am unfortunately the same time as some new tariff threat headlines. “Trump threatens to permanently shut down the Canada car industry and will shortly be declaring a national emergency on electricity.” Job openings were 7.740 million at the end of January versus 7.508 million at the end of December. There were major revisions in the data back to 2000 and we assume that is why the report was delayed until after the February payroll employment report that was reported on Friday, March 7. The data are stale obviously, but may represent the last look at a healthy labor market in a strong economy.

Net, net, job openings across the country were steady to higher at 7.7 million at the end of January before the massive layoffs of Federal employees started in earnest. Washington workers were safe at the time with 135 thousand job openings for Federal workers little changed from 138 thousand at the end of December and 140 thousand a year ago, but the times they are a-changin’. The new Administration has declared Federal government spending to be a national emergency and government employees are likely to be collateral damage as private sector terms like efficiency and cost-cutting are being tossed about. Time will tell if cutbacks in Washington stay in DC or whether the cost-cutting zeal spreads to the employment markets at private companies across the nation. If too much Federal government spending was said to help cause the inflation outbreak during the pandemic, what does it mean when Washington turns off the money spigot that supports services for ordinary Americans? The stock market thinks it knows. Trade threats are escalating and they could well bring down the US economy and its two North American trading partners. There were still help wanted signs being posted on the jobs boards at the end of January, but if you blink, they will be gone.

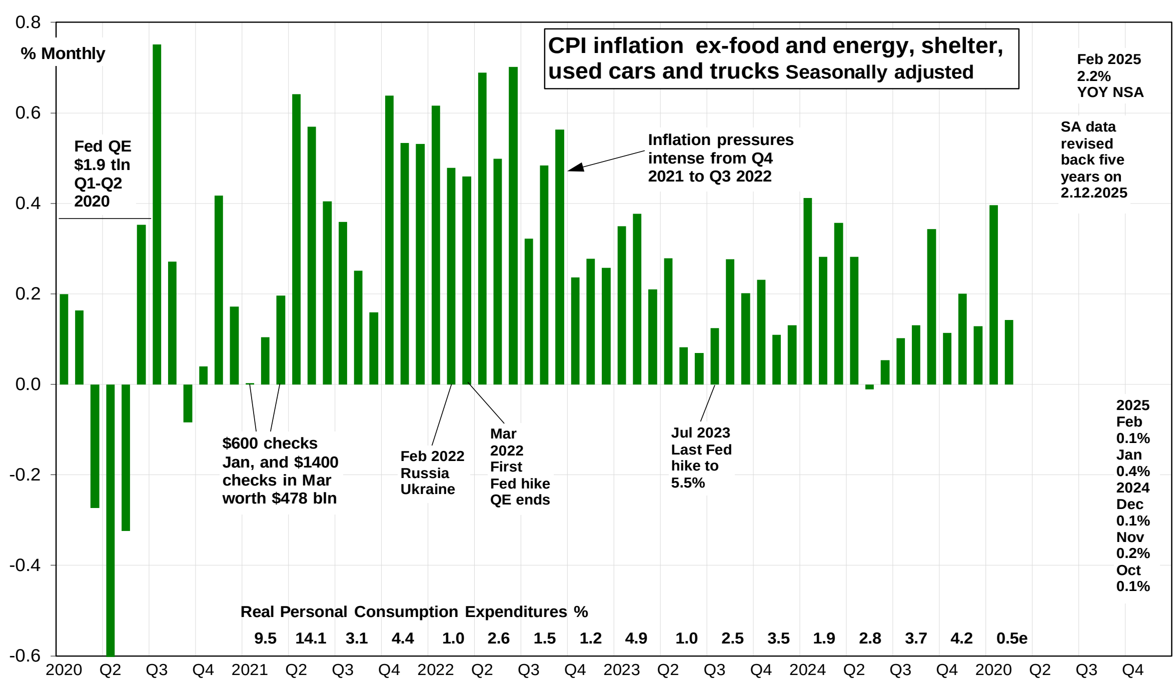


Tariff-free inflation for now (Wednesday)

Breaking economy news. Headline CPI inflation rose just 0.2% in February, the smallest amount since October in part as energy price increases have slowed. Energy (gasoline) does not seem to be rising as much as seasonal in March either. Core CPI inflation rose 0.2% and is 3.1% higher than a year ago. New vehicle prices fell 0.1% in February, but don't count on that with import tariffs ahead.

Dec 24 Weight	CPI inflation	Monthly Percent Changes Dec 2024	Jan 2025	Feb 2025	YOY % Feb 2025
100.0	Total	0.4	0.5	0.2	2.8
13.691	Food	0.3	0.4	0.2	2.6
5.648	Food away from home	0.3	0.2	0.4	3.7
6.216	Energy	2.4	1.1	0.2	-0.2
2.902	Gasoline	4.0	1.8	-1.0	-3.1
80.094	Ex-food & energy	0.2	0.4	0.2	3.1
4.393	New vehicles	0.4	0.0	-0.1	-0.3
2.391	Used cars/trucks	0.8	2.2	0.9	0.8
2.480	Clothing	0.1	-1.4	0.6	0.6
1.527	Medical care goods	0.0	1.2	0.1	2.3
35.483	Shelter	0.3	0.4	0.3	4.2
26.282	Owner equiv. rent	0.3	0.3	0.3	4.4
6.305	Transportation	0.5	1.8	-0.8	6.0
6.747	Medical care services	0.2	0.0	0.3	3.0
	Special: Where inflation might come back down to				
60.705	Services ex-energy	0.3	0.5	0.3	4.1
19.388	Commodities (core)	0.0	0.3	0.2	-0.1

Net, net, it was a tariff-free report on inflation in February which probably just reflects the fact that goods prices currently are seeing calm seas before the coming storm of more costly products coming in from over our borders in the months ahead. Core CPI rose 0.2% in February (0.227) which was better than 0.4% in January so there is no new inflation fire outbreak yet this year. Stay tuned. Prices are going up more slowly today but don't count on that for the future when US companies will be forced by Washington to make it all here at greater cost and to the detriment of all. Inflation is on its way back. Big time. Bet the ranch on it. The stock market liked the CPI report giving inflation a clean bill of health by jumping nearly 1% on the news. We are not sure whether the stock market is truly jumping for joy or whether investors are starved for some good economic news after being bombarded by salvo after salvo of negative, dive, dive, dive, tariff threats news. The jury is out on whether this tariff-free inflation report really provides a clean bill of health for the price pressures that Fed officials have been worried about. Story developing. A tariff-free inflation report is no guarantee that the economy is out of the woods.



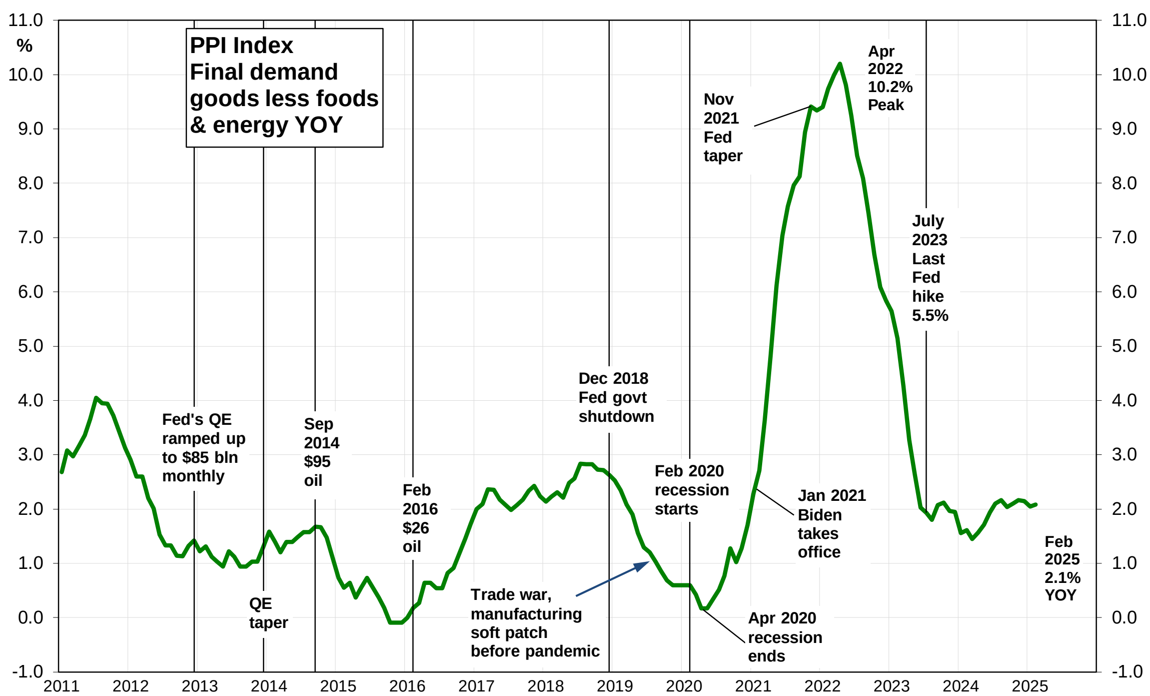
No PPI inflation, no layoffs (Thursday)

Breaking economy news. Headline PPI inflation was unchanged in February. There was a sharp decline in services prices that the BLS said was caused by the margins received by machinery and vehicle wholesaling. Okay. Foods were up 1.7% in February, including a 53.6% jump in chicken eggs. Meanwhile, weekly jobless claims fell 2K to 220K in the March 8 week. Job layoffs are not spreading from the Washington firings in fact Federal workers claims were 1,580 in the Mach 1 week versus 1,634 the week before and 393 the same week a year ago.

Monthly % SA 2025	Total final demand	Final demand goods Total	Foods	Energy	Less foods and energy	Final demand services Total	Trade	Transportation and warehousing	Other
Jan	0.6	0.6	1.0	1.8	0.2	0.6	1.2	0.9	0.3
Feb	0.0	0.3	1.7	-1.2	0.4	-0.2	-1.0	0.0	0.2
		**Final demand goods, less foods and energy is old-fashioned PPI							

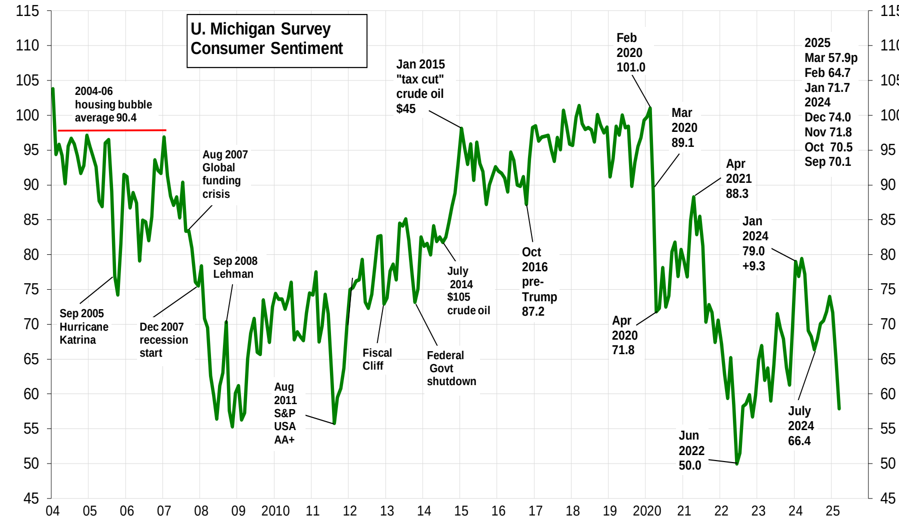
Net, net, there was no inflation at the factory level in February, but that could change when import tariffs go up and lead to an increase in the cost of producer price inputs for other products being manufactured here in this country. Old-fashioned PPI focusing just on commodities was the worst in over a year jumping 0.4%; these are Final demand goods less foods and energy, but the year-on-year rate remains subdued at 2.1% in February. Some of the prices that are used to calculate PCE inflation were fairly modest, although car insurance increased 0.4%, not seasonally adjusted. Doctors got nothing this month; inpatient care jumped 0.8%.

Stay tuned. No factory inflation in February, but that is before the factories start coming back to the USA. No factory inflation and no worrisome job layoffs either, so there is nothing to slow the economy's advance for now. Nevertheless, the radical, buzz-saw cuts in spending and personnel down in Washington could eventually spread to the rest of the private economy in the months to come and it has already created enough uncertainty for company CEOs to potentially halt the economy's forward progress starting in the second quarter.

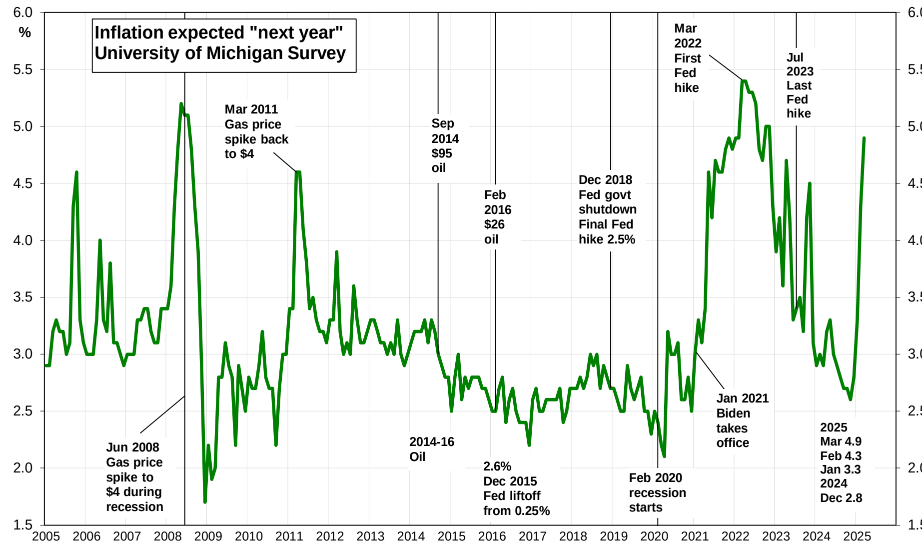


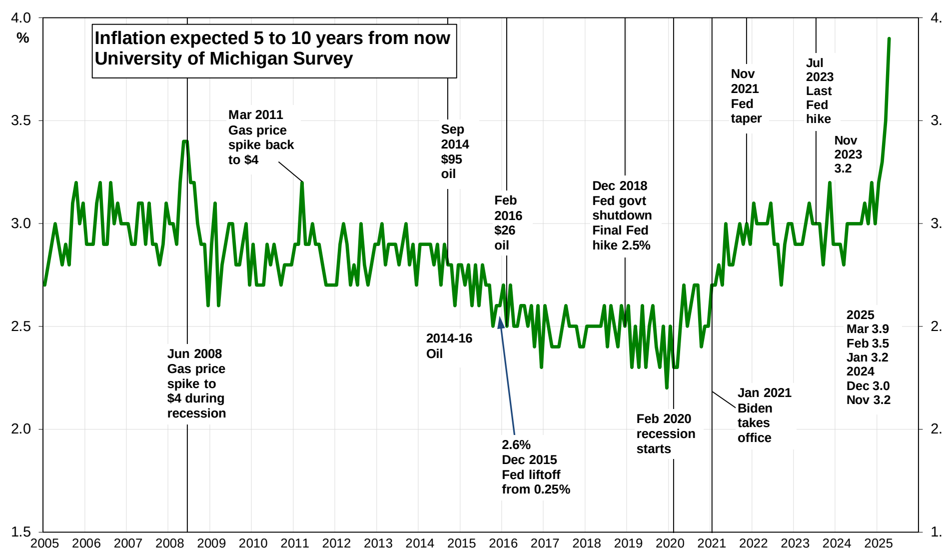
Michigan sentiment hits the skids (Friday)

Breaking economy news. Michigan sentiment falls further in the preliminary March reading. The expectations of year-ahead inflation has not jumped this fast since early in the Biden administration when the Fed called the inflation outbreak temporary.



Net, net, consumer sentiment hit the skids this month and if consumers stay home, the forecasts for negative real GDP growth in the first quarter will become a reality. Washington is relentlessly cost-cutting and fighting America's trading partners for a bigger piece of the pie to an unprecedented degree and these actions stoke consumers' fears instead of building confidence. The consumer is frightened and sees sharply higher prices ahead despite the assurances from Washington that trade tariffs are good for the economy. Stay tuned. The jury is back and the verdict is in. Trump 2.0 policies are harming the economy and the future prosperity of America. If Federal government policies increase costs, it is bad for business and import tariffs increase costs. It's not just American economic lives on the line, it's the whole wide world that may be going down for the count. Suddenly, the forecasts for a global recession look much more real.





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