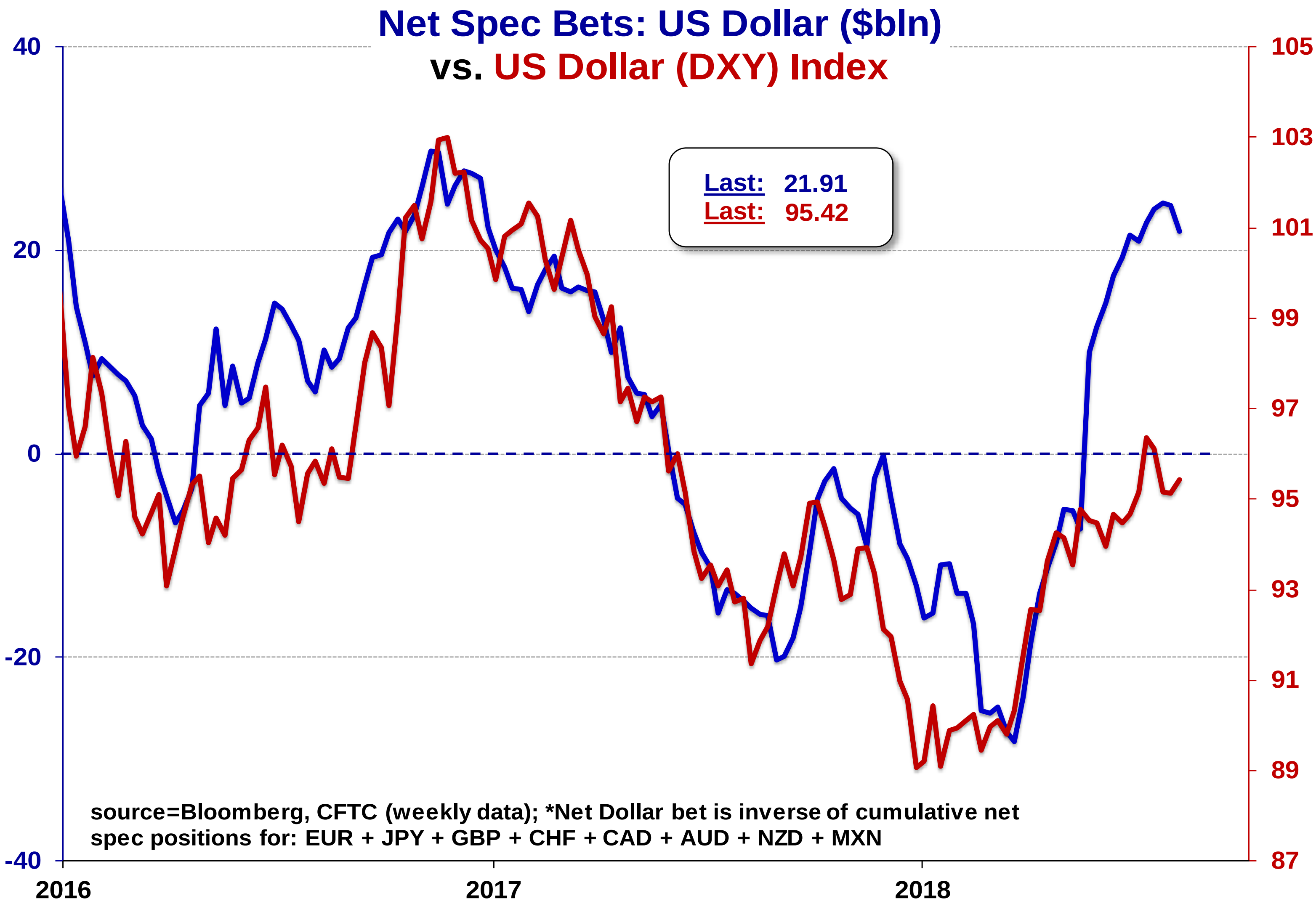
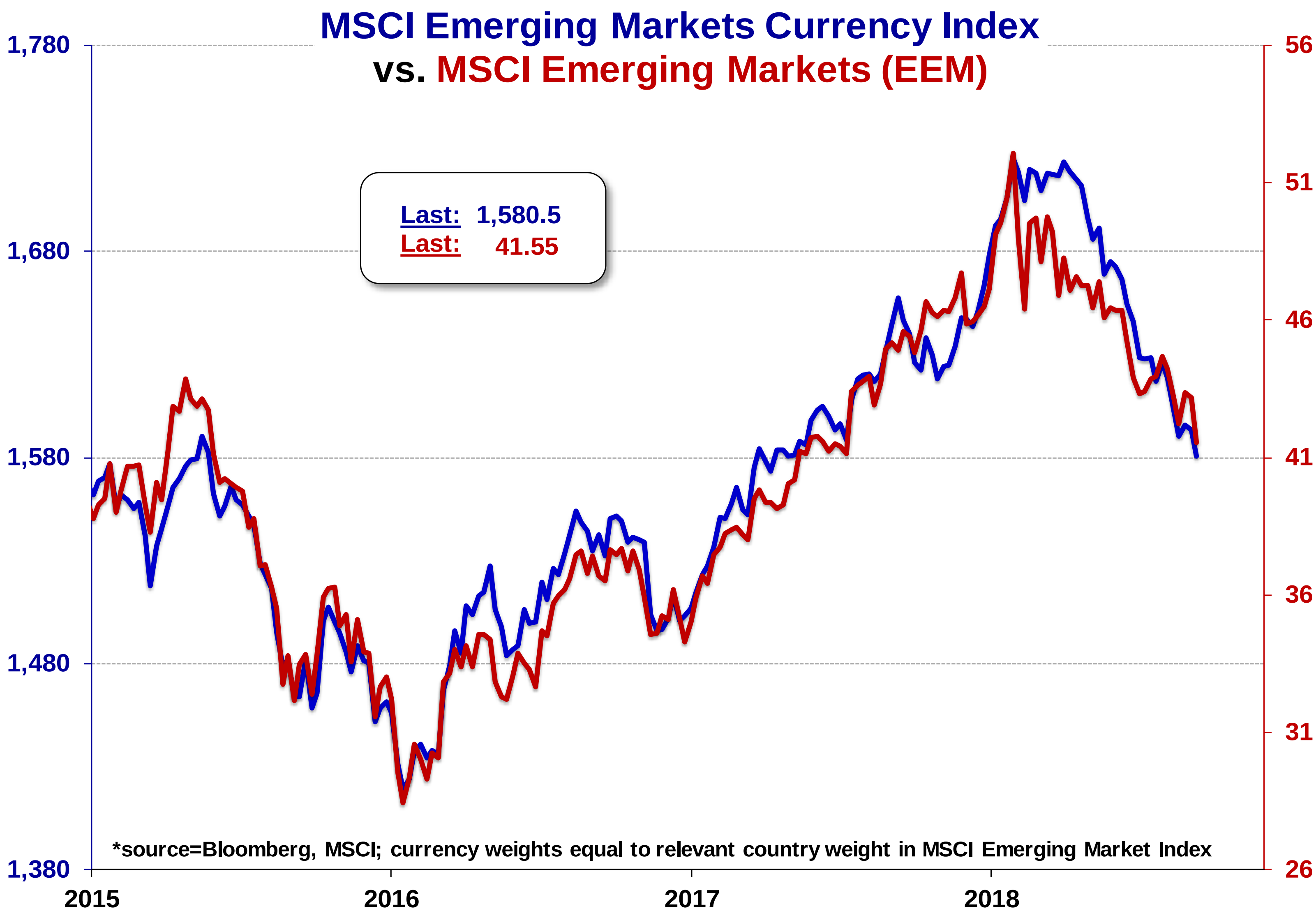
Net Spec US Dollar Bet drops for 2nd week to $21.91bln as Dollar Index ends week modestly higher

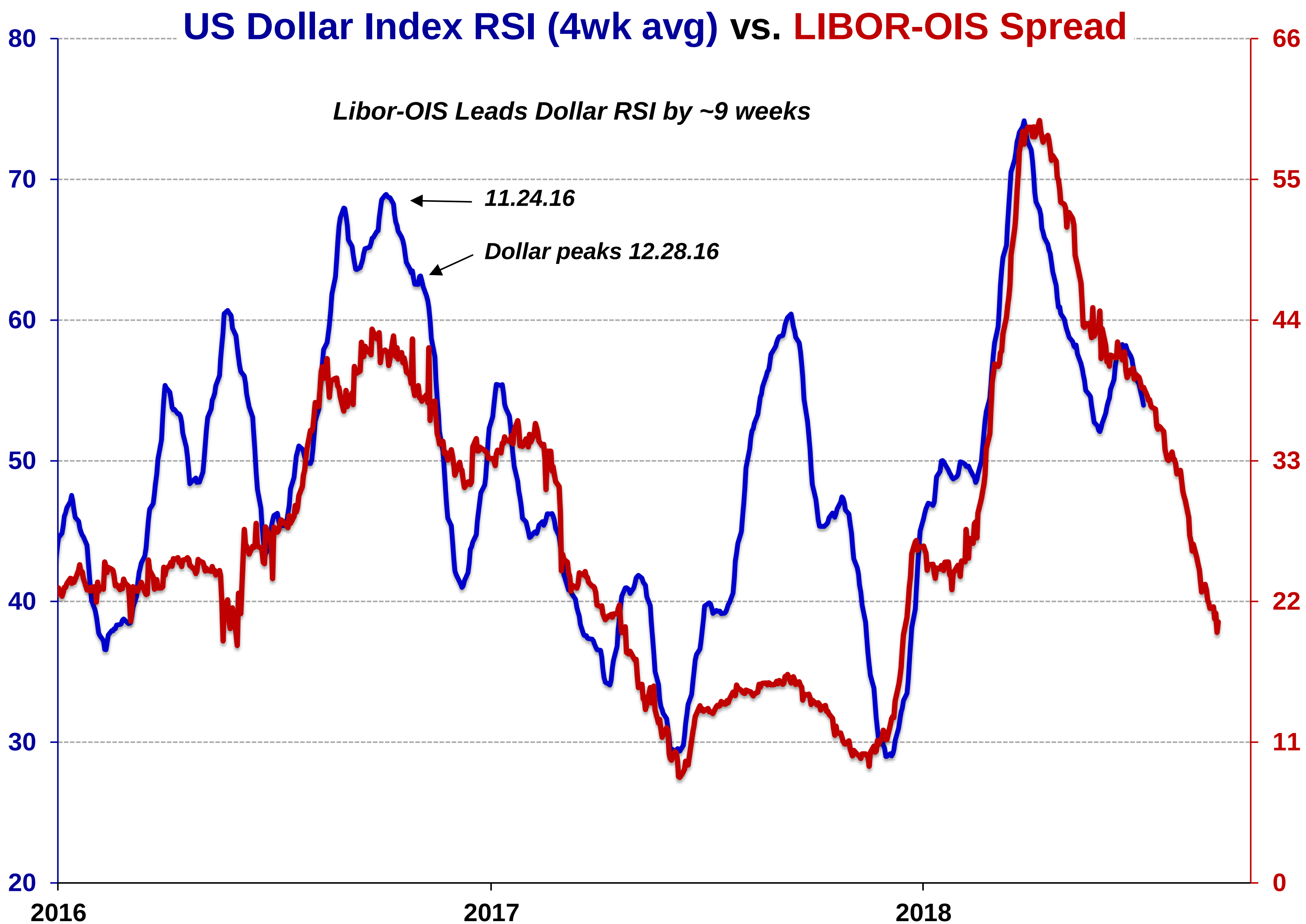


Emerging Market turmoil continues as EEM enters official Bear Market: down -20.2% from Jan. high of 52.08.

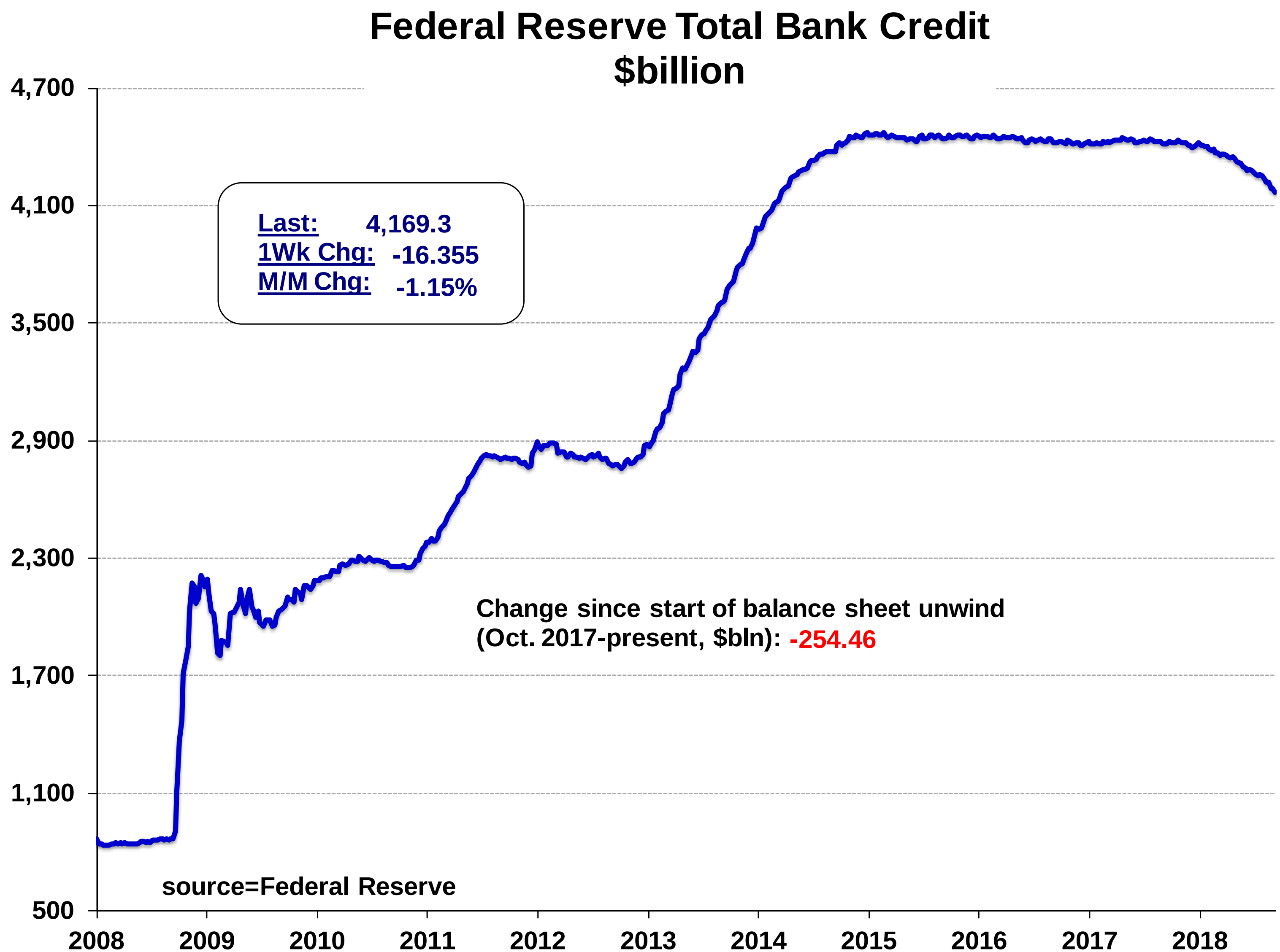


Gap between US and world markets grows wider

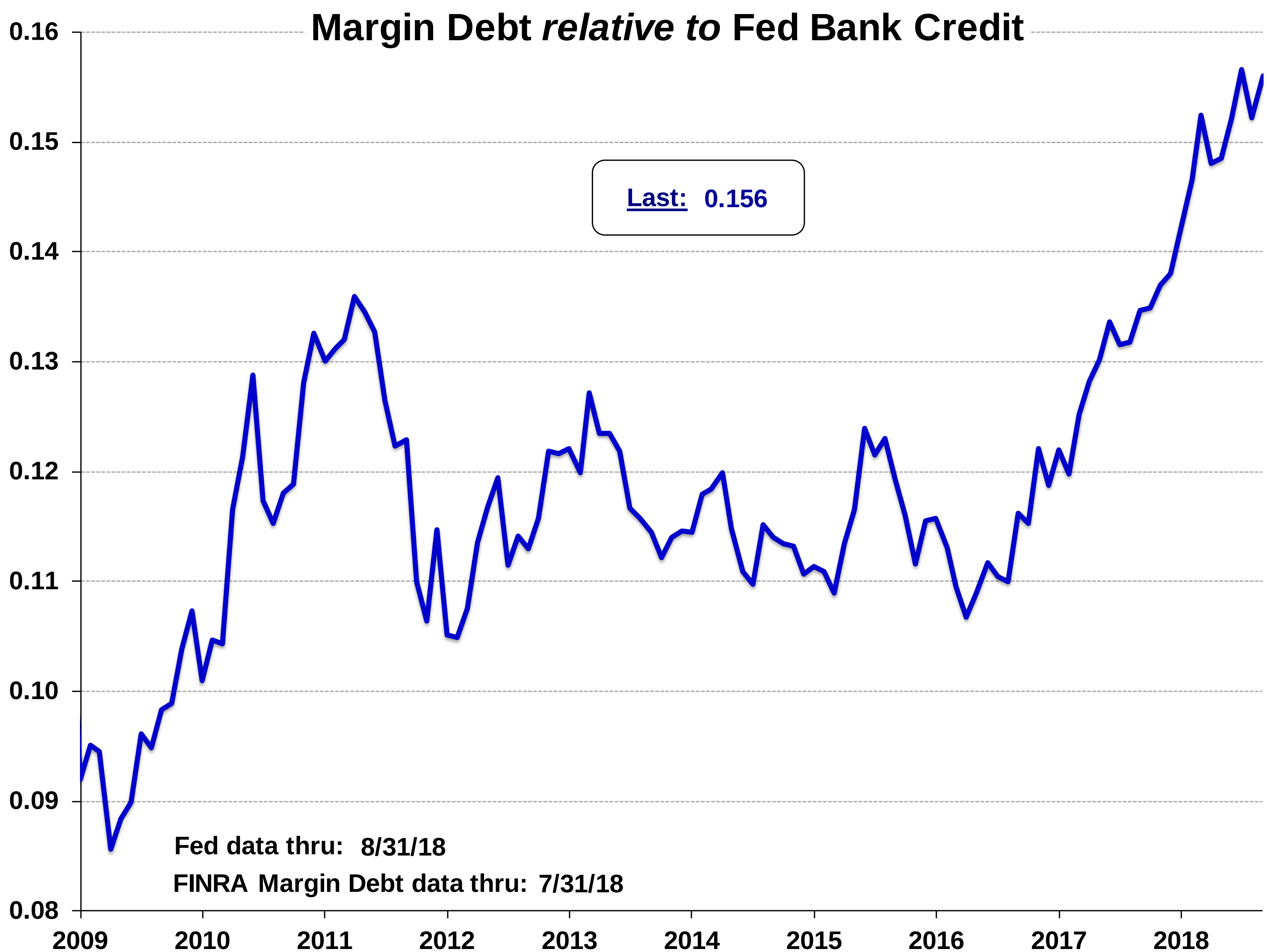
Dollar relative strength looks set to resume decline along with Libor-OIS Spread.



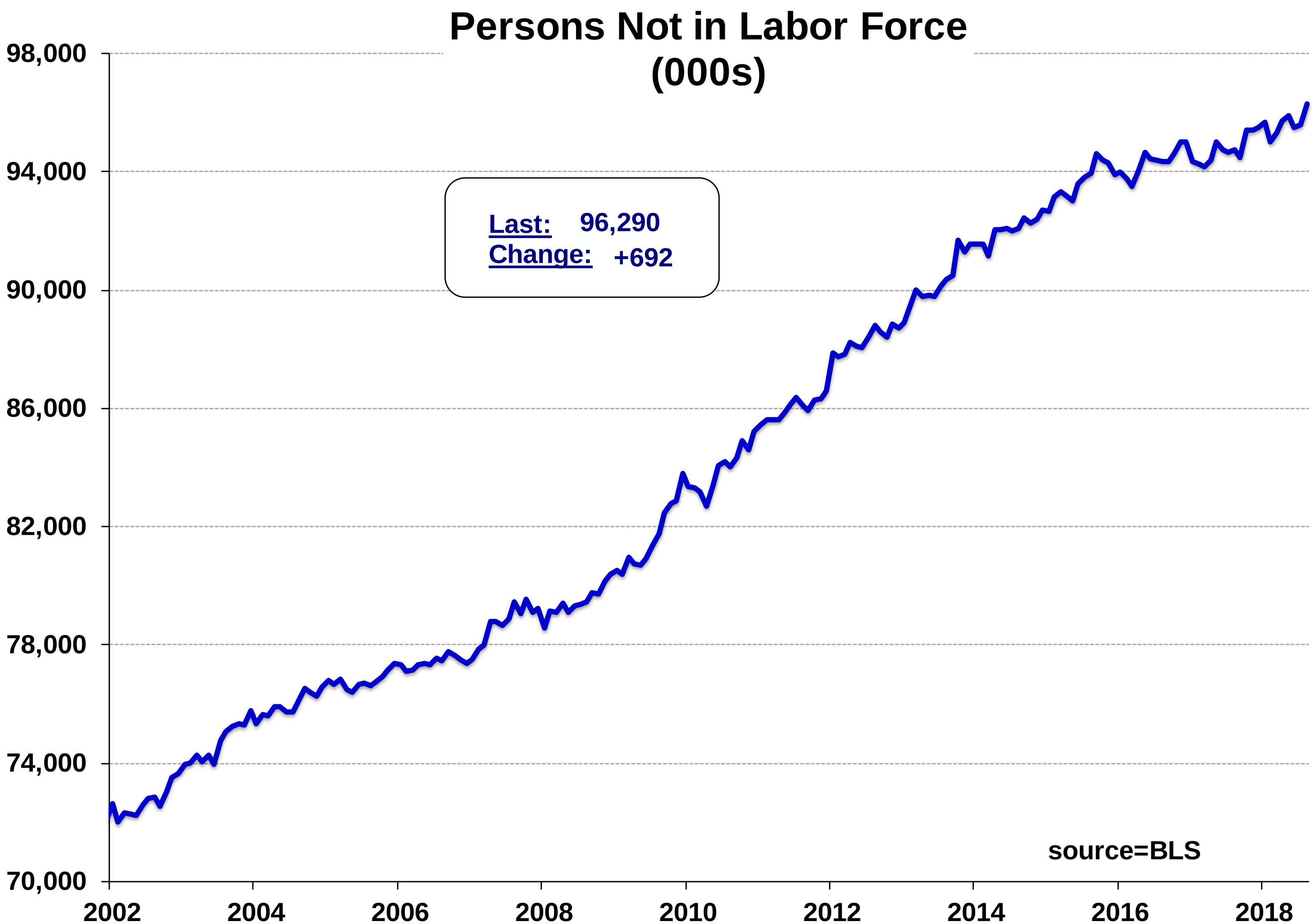
Fed has reduced balance sheet by $254bln since unwind began
(led by -$150bln in Treasury Securities, -$78bln in MBS)…



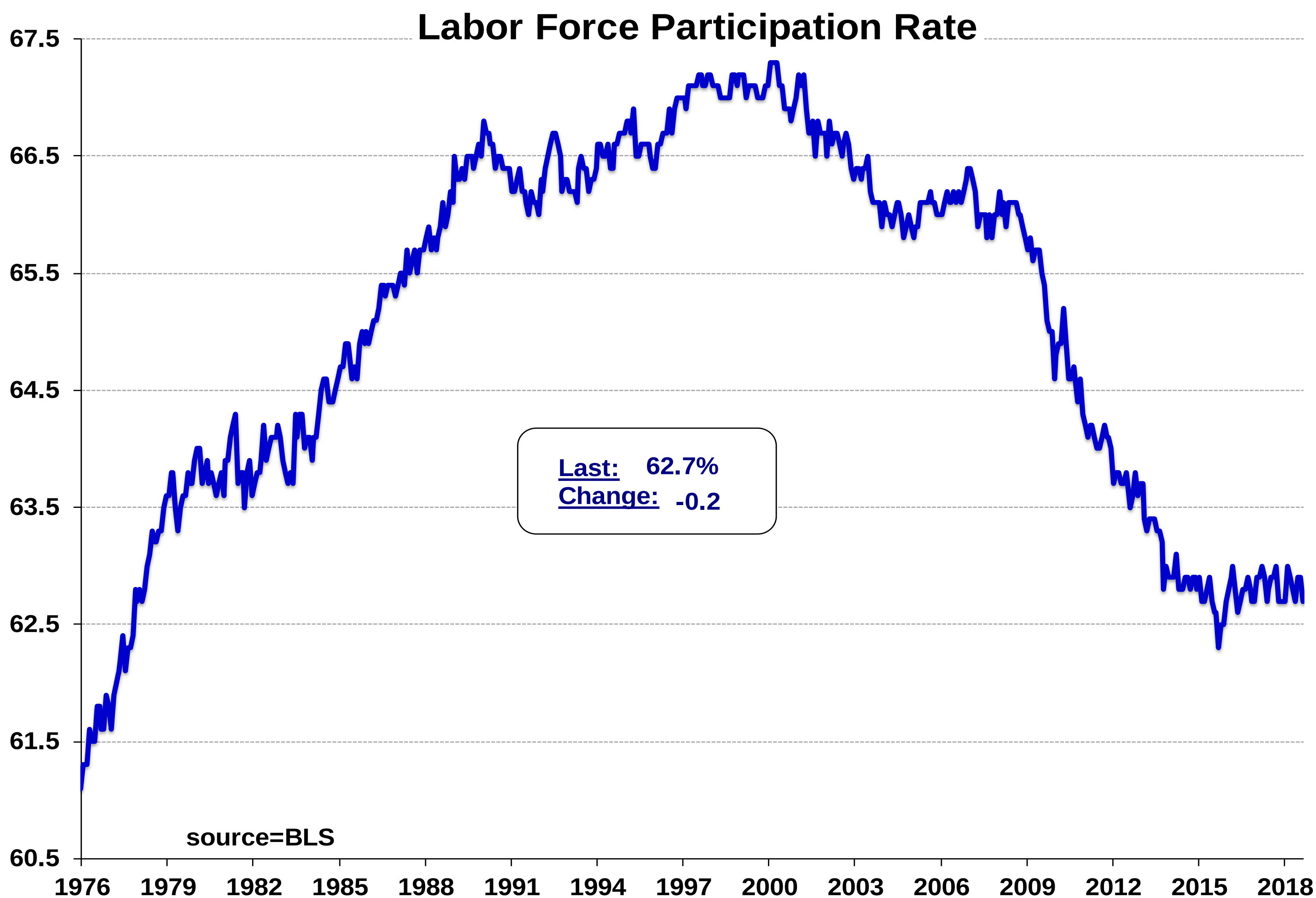
…as investors continue to hold near record level of margin debt



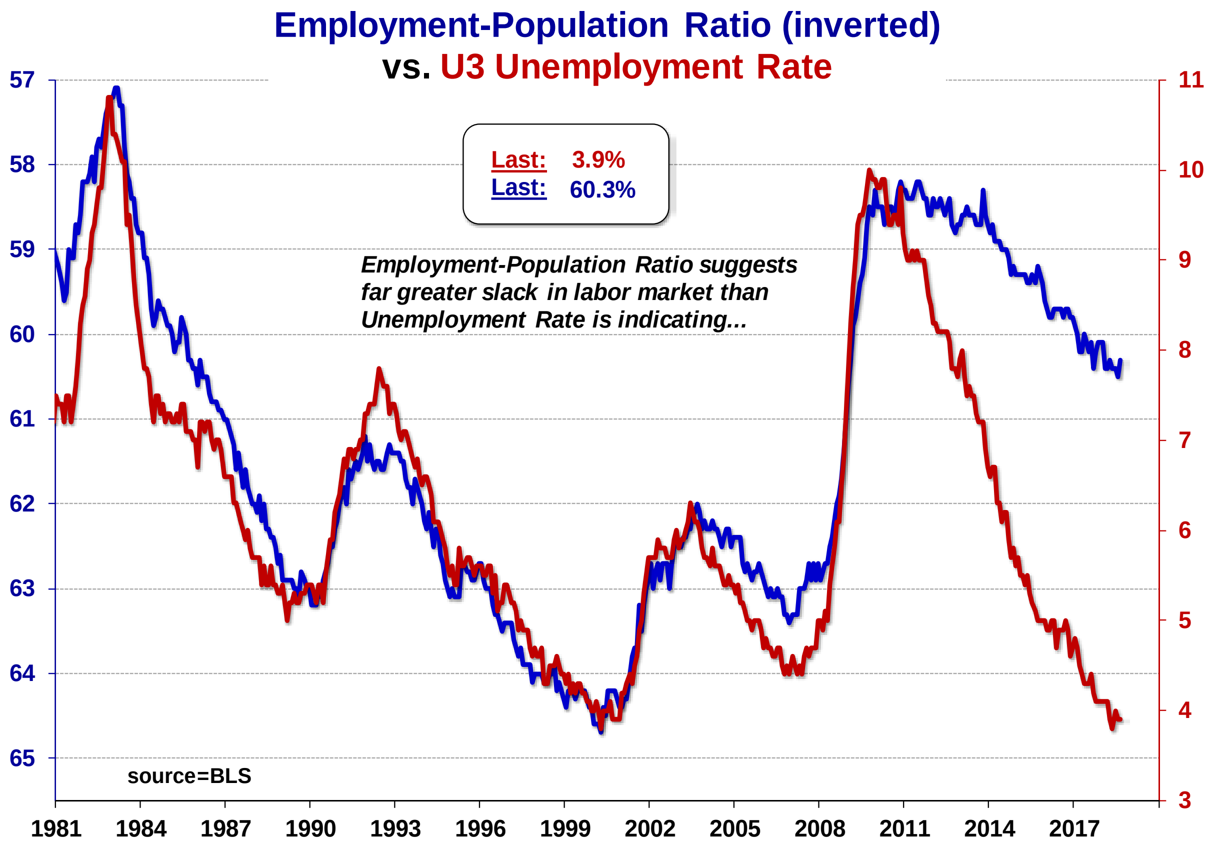
August Payrolls beat expectations: 201k vs. 190k expected (two month net revision: -50k); U3 unemployment rate unchanged at 3.9%; Persons Not In Labor Force rise to record high 96.3mln.



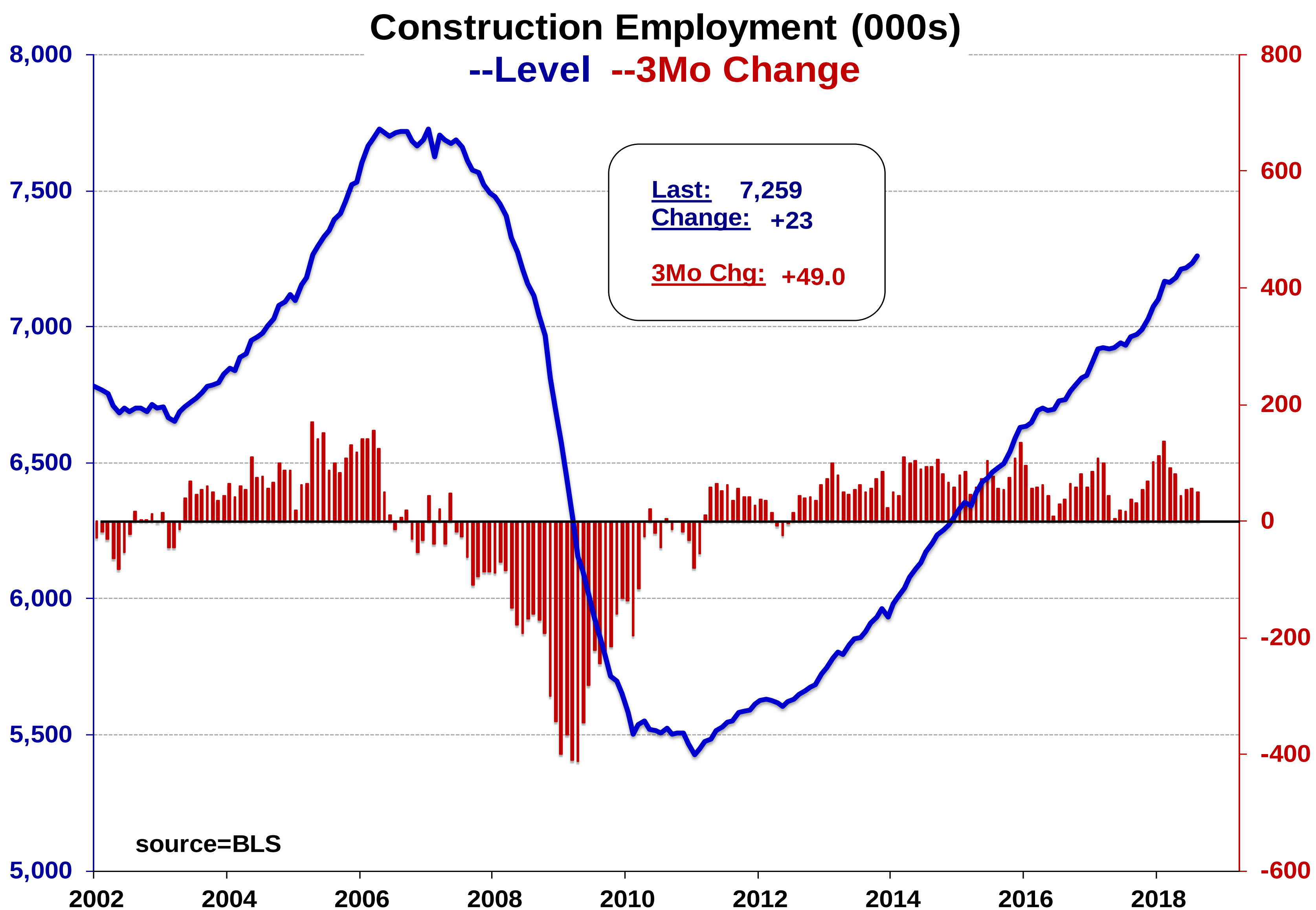
Labor Participation slips -0.2pts to 62.7%



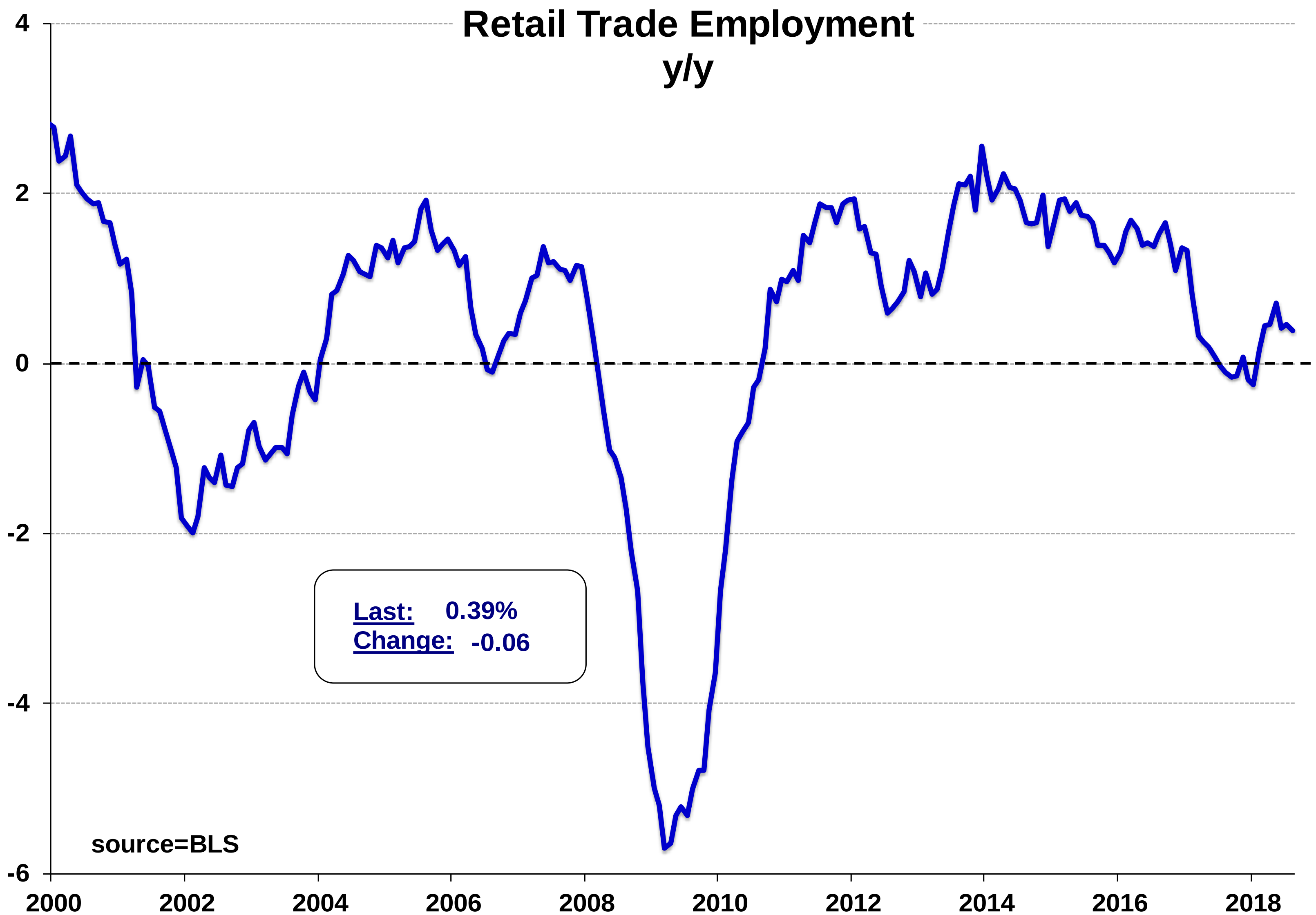
If we subtract Retirees and Disability beneficiaries, Full Time Students, and those Unemployed or Marginally Attached to labor force FROM the total Not In Labor Force number, we still find millions of persons (15mln +) who have dropped out of labor force altogether. Even if we reduce that number by another 5mln (adjusting for those who may have retired yet perhaps not able to receive benefits *thus not counted in SSA data*), we find the U3 unemployment rate very unrealistic…thus, we point to Employment-Population Ratio as a bettor measure of labor market conditions. From an article in 2014: 'The Federal Open Market Committee in its July 30 policy statement added new language emphasizing weakness beyond the main unemployment rate, saying "a range of labor market indicators suggests that there remains significant underutilization of labor resources.". The Employment-Population ratio suggests this underutilization, while improving, continues. And there's also this from Federal Reserve Bank of San Francisco labor market 'Education' piece in 2013 discussing the post-recession divergence between U3 rate and Employment-Population Ratio: *Part of what is going on is that unemployed people, frustrated by unsuccessful job searches, likely have given up actively searching for work. This would cause a decline in both the labor force participation rate and the unemployment rate, while having no impact on the employment-to-population ratio. <u>As a result, the official unemployment rate might not adequately capture the current labor market situation.</u>*



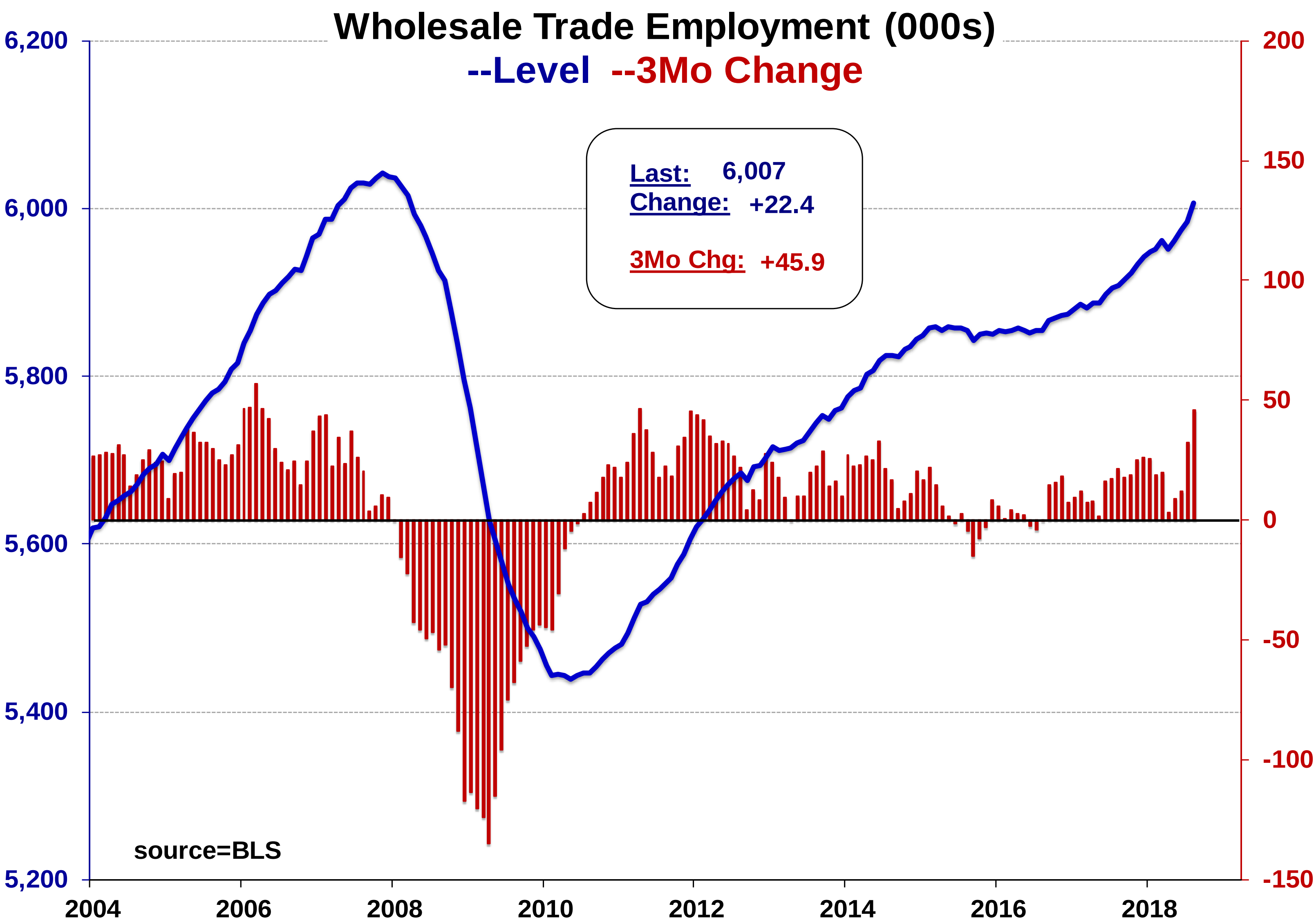
Construction Employment continues to improve…



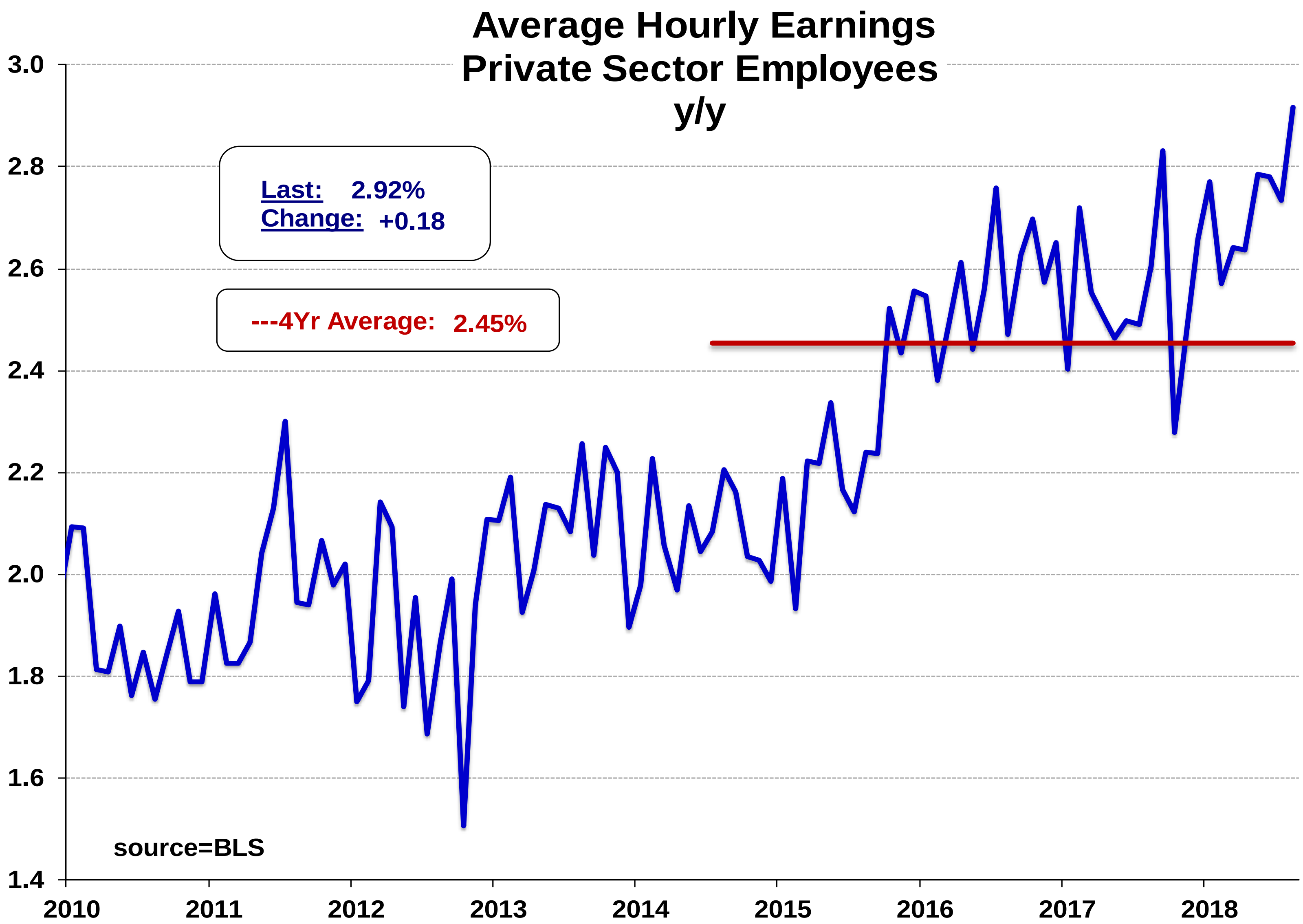
…yet Retail Employment growth looks in a clear downtrend



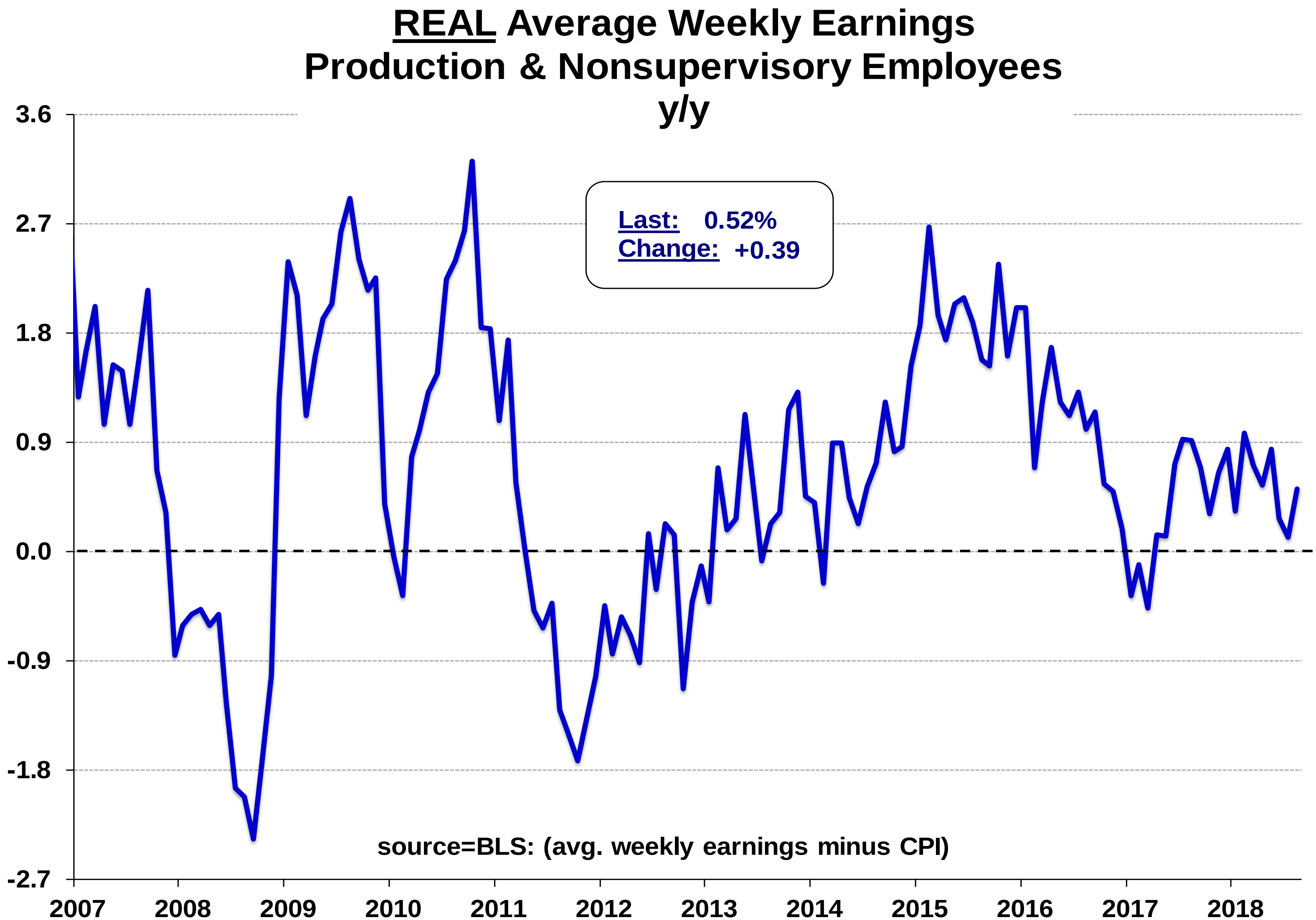
Wholesale Trade Employment surging, nearing pre-recession high; +45.9k jobs in last 3 months…biggest 3mo rise since April 2011



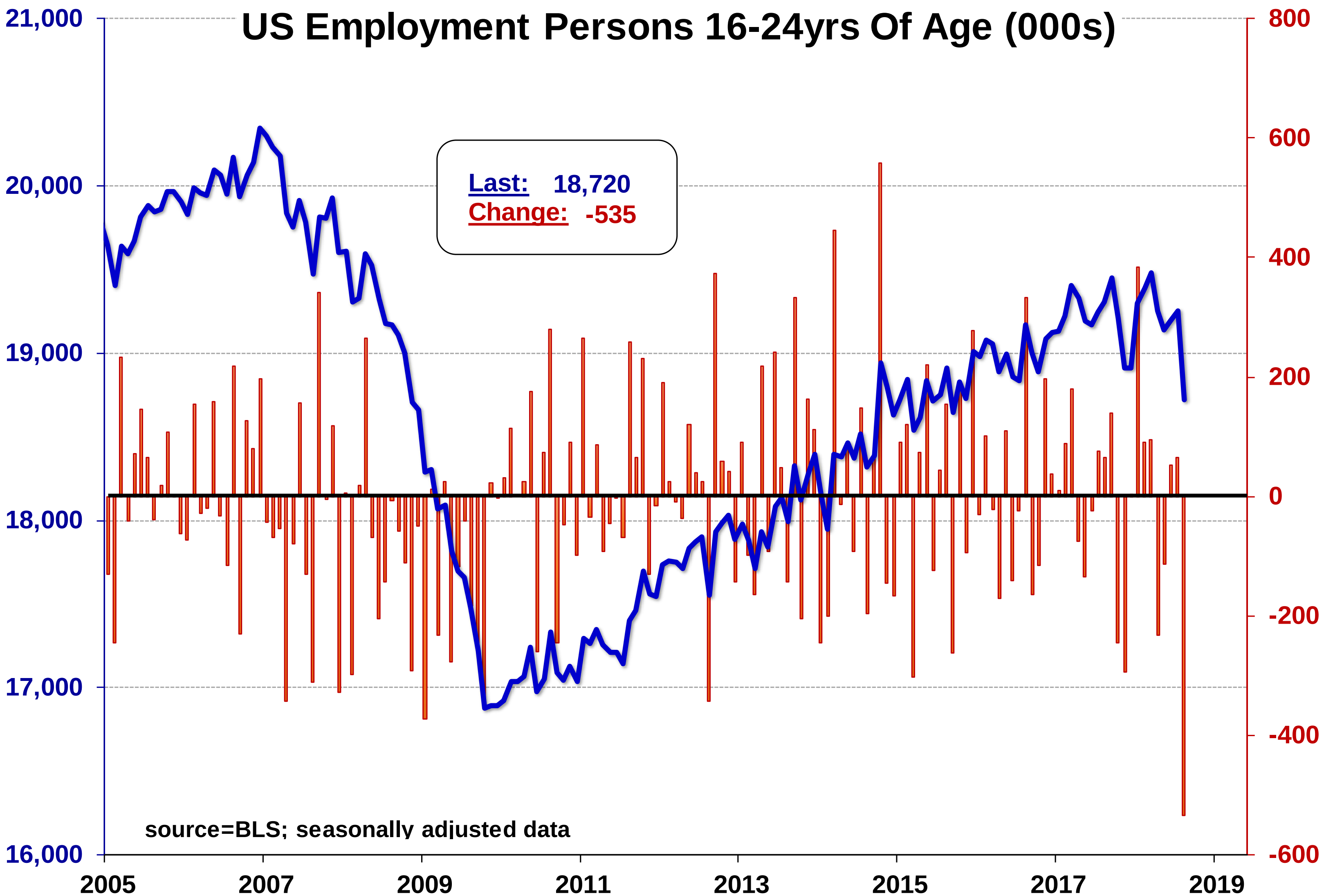
The big news from Employment report: Average Hourly Earnings y/y rise to 2.92%...highest since June 2009



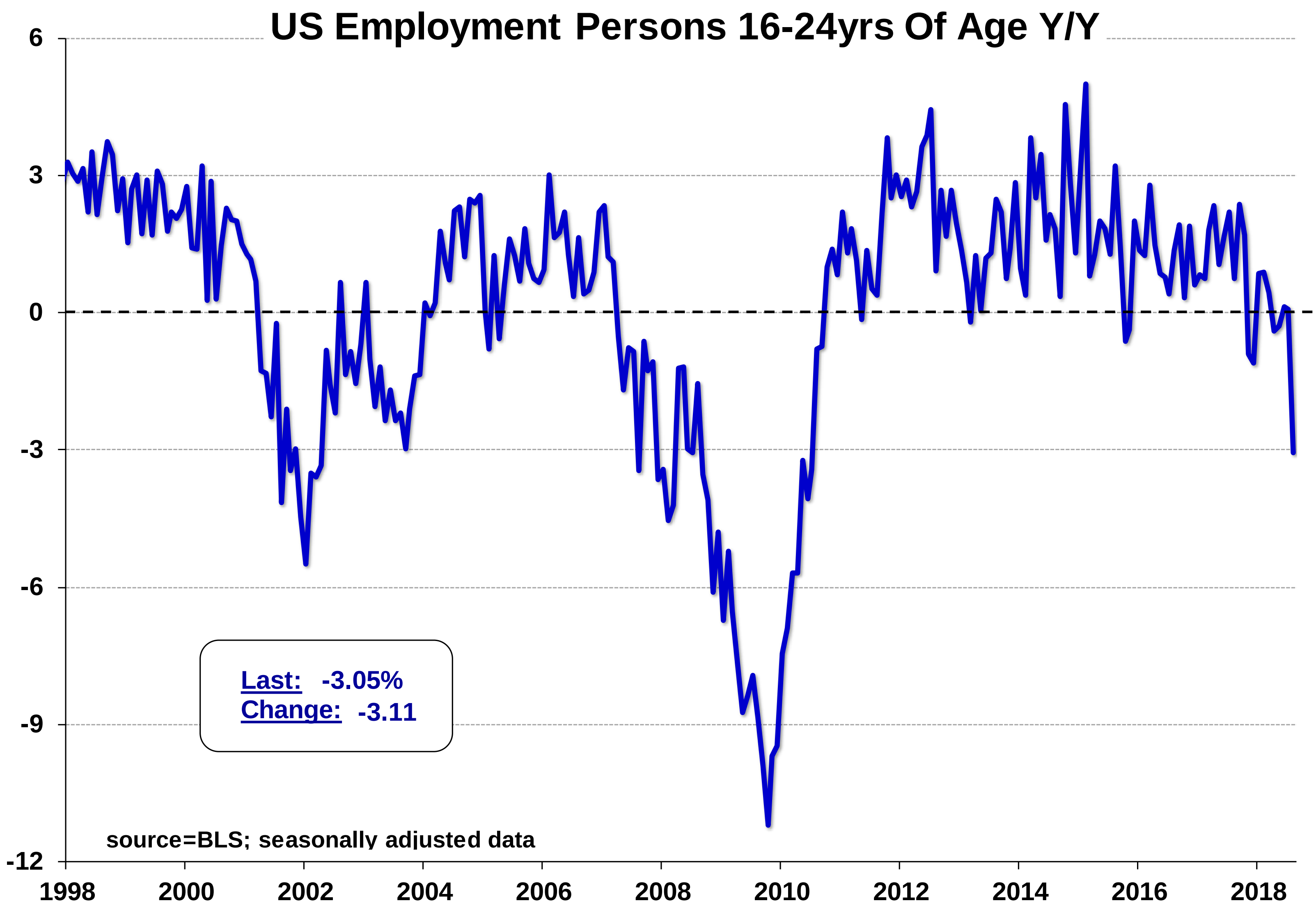
…however, REAL earnings (using July CPI data; we'll get August update this Thursday), remain stagnant; a +0.2pt uptick in CPI will hold Real Earnings at +0.1% y/y (same as July reading). We have not seen a 1% y/y growth (or better) in real wages since July 2016.



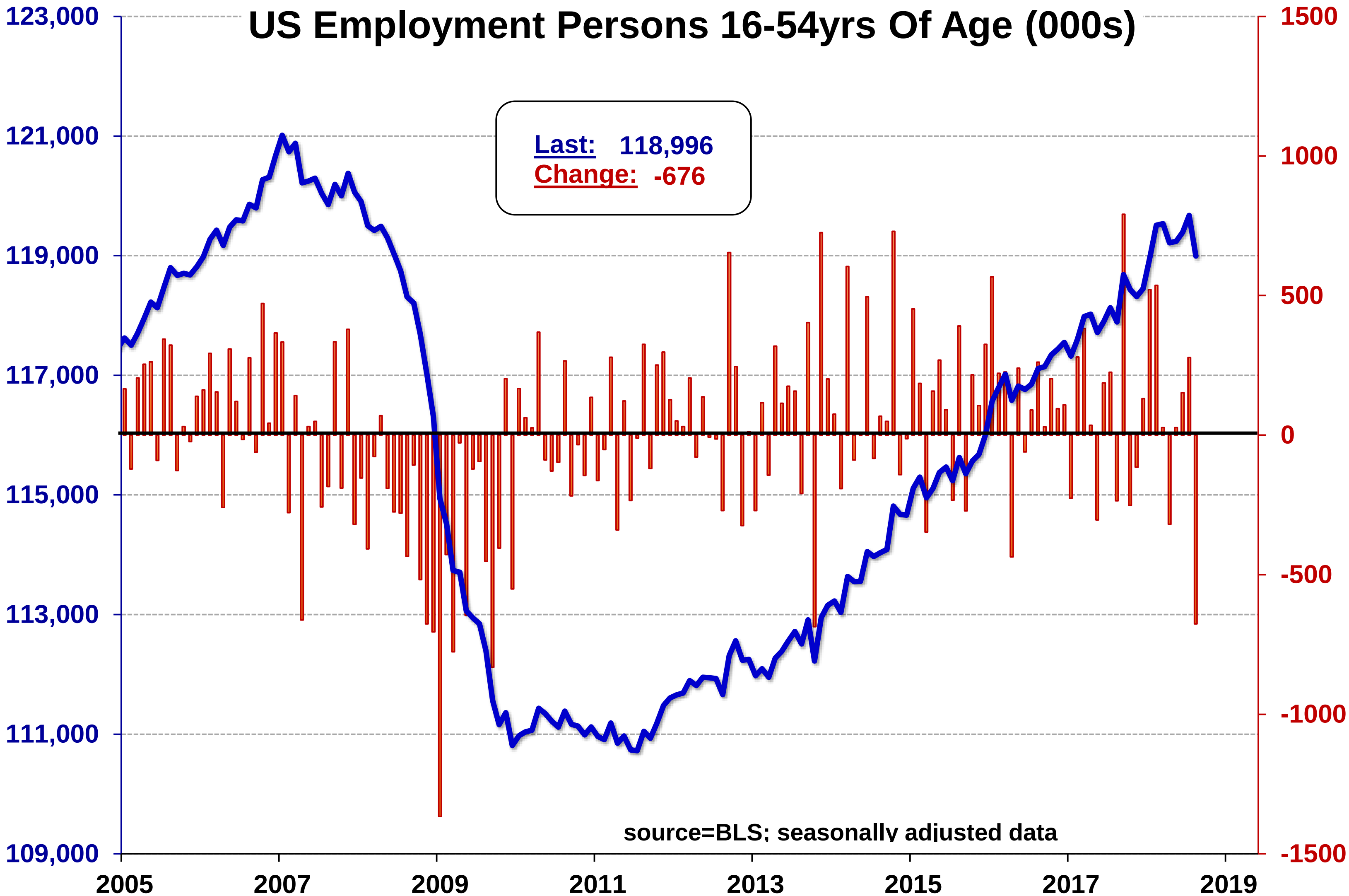
In our Employment report update, we noted 16-19yr age group saw a big drop of -248k to lowest level since June 2016 (BLS Establishment data). When we widen this age range to 16-24yr-olds (shown here), we find **second biggest 1-month drop on record at -535k (data back to 1948)**. Prior record was -546k in August of 2001.



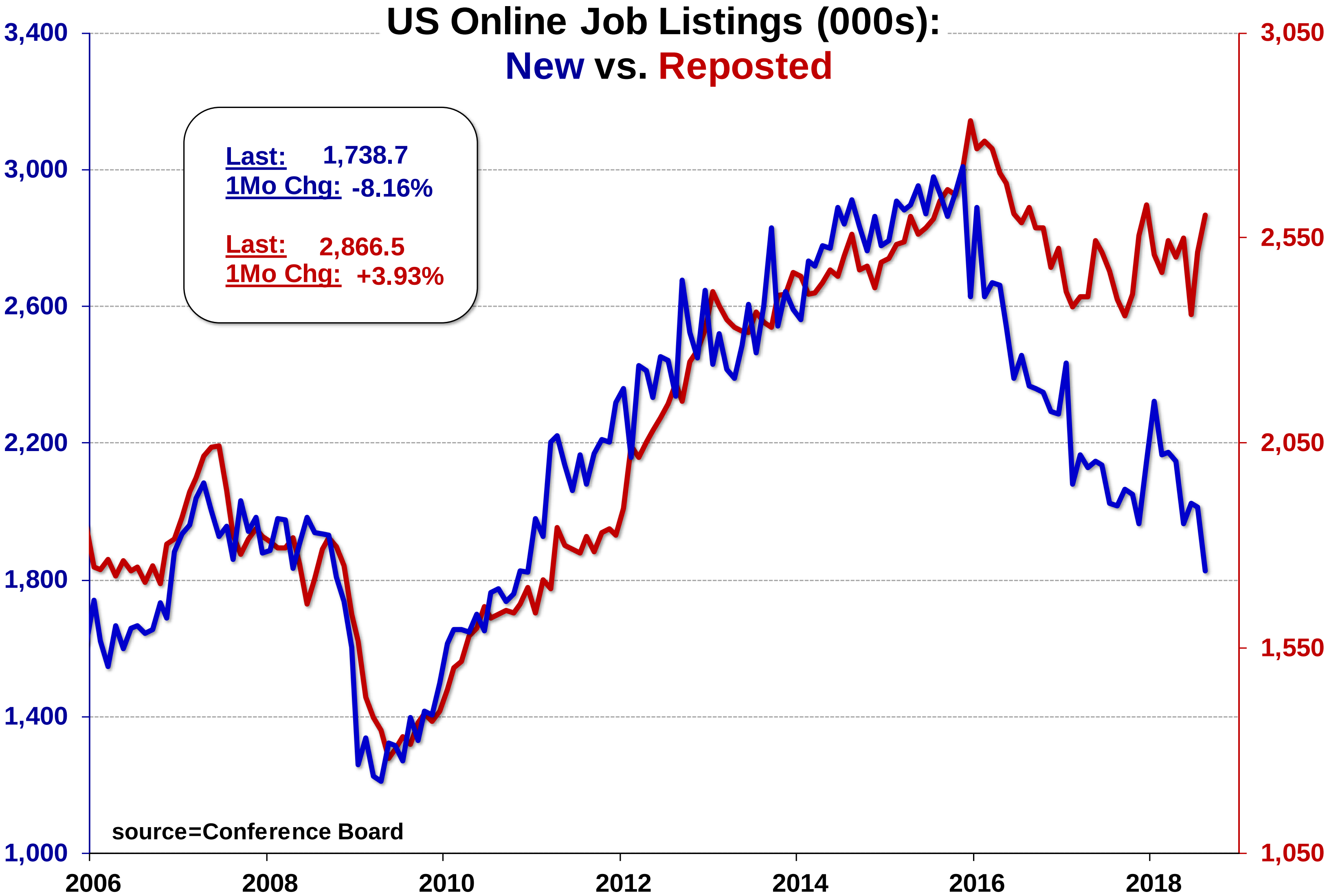
And…Just…Like…That: 16-24yrs of age employment y/y tumbles to recession reading, perhaps foreshadowing overall employment growth set to slow in months ahead. This is clearly a major shift not a one-off seasonal (kids going back to school in August) event. There's something going on here, and it doesn't look good.



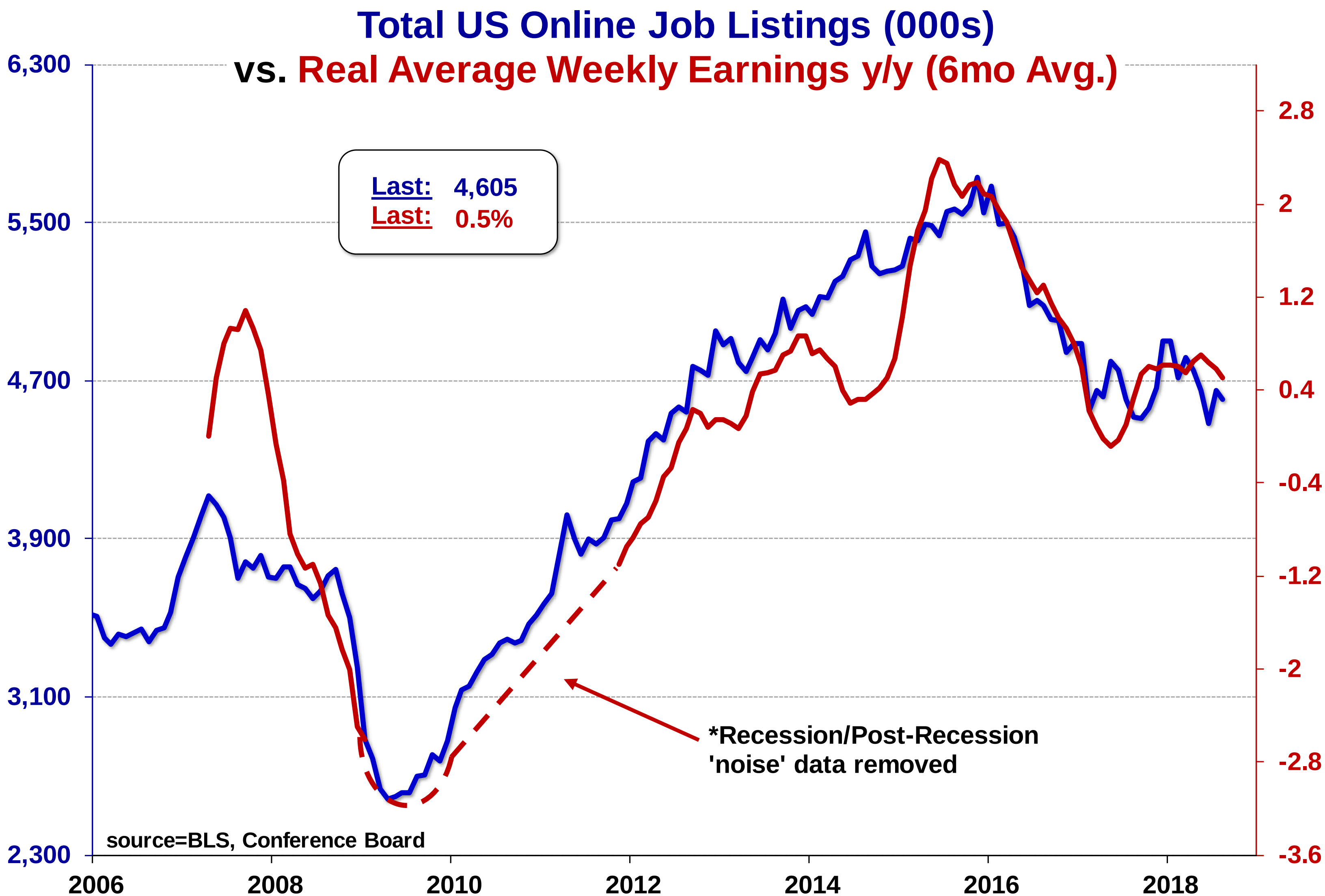
If we widen the age range even further to 54yrs of age, we find second biggest drop since the recession: -676k



New online job postings drop -8.2% m/m in August to lowest since Dec. 2010, perhaps suggesting peak employment growth; ie- employers pulling back on hiring plans, and once Reposted jobs are either filled or pulled, employment growth likely to show clear signs of fading.

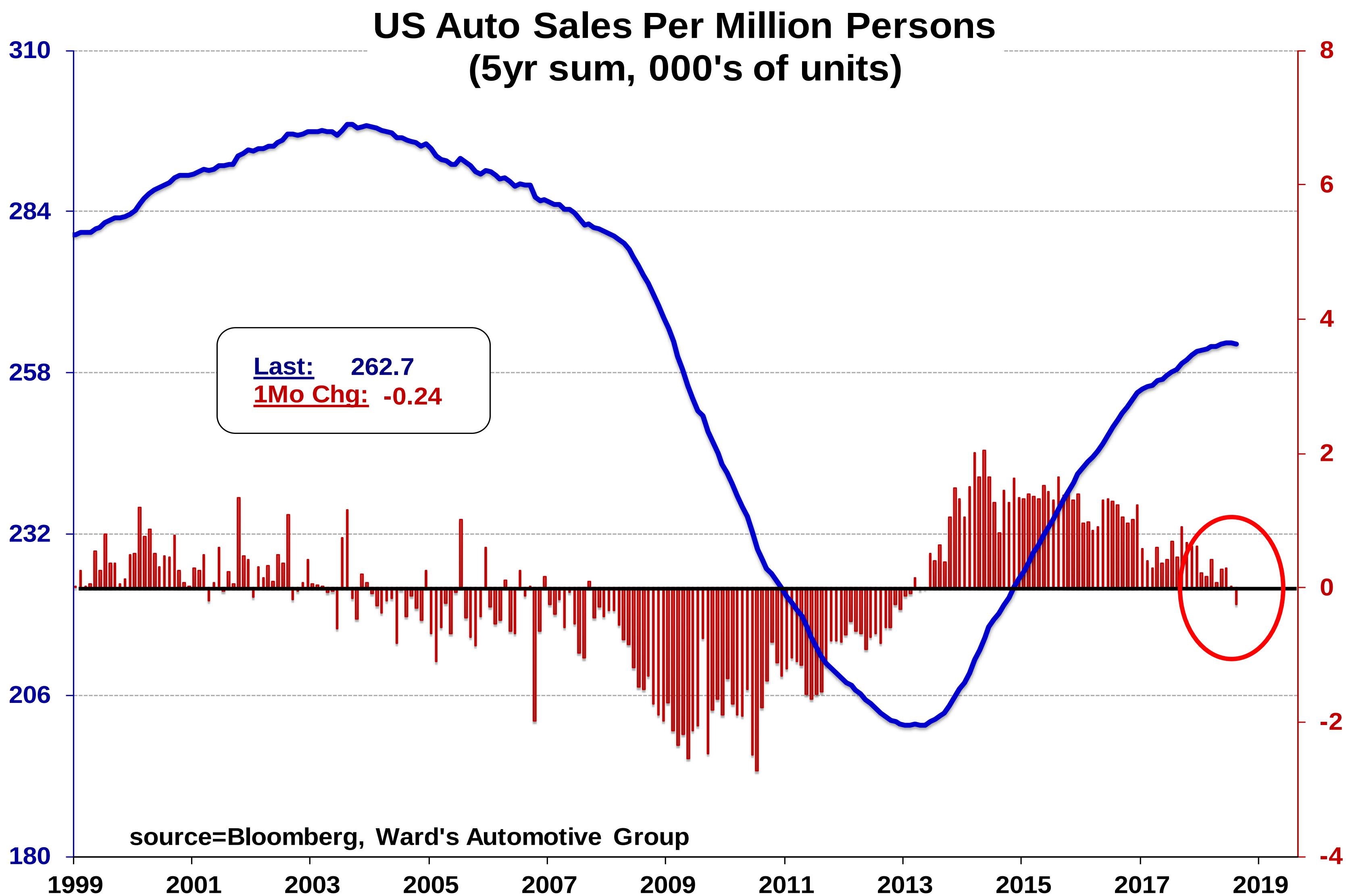


And as a reminder: Online Job Listings moving in lockstep with Real Earnings; both trending lower.

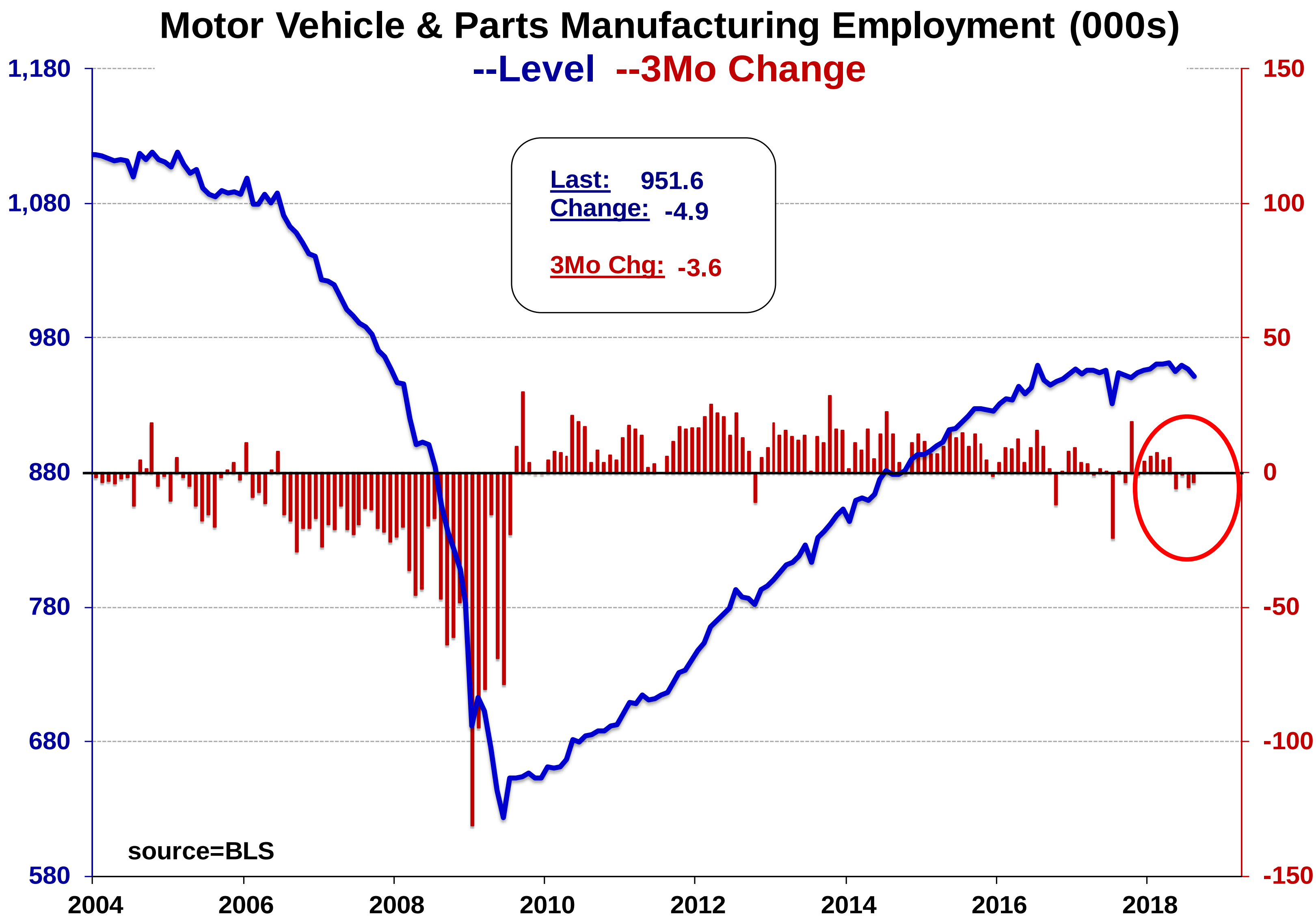


Has 'Peak Autos' arrived?

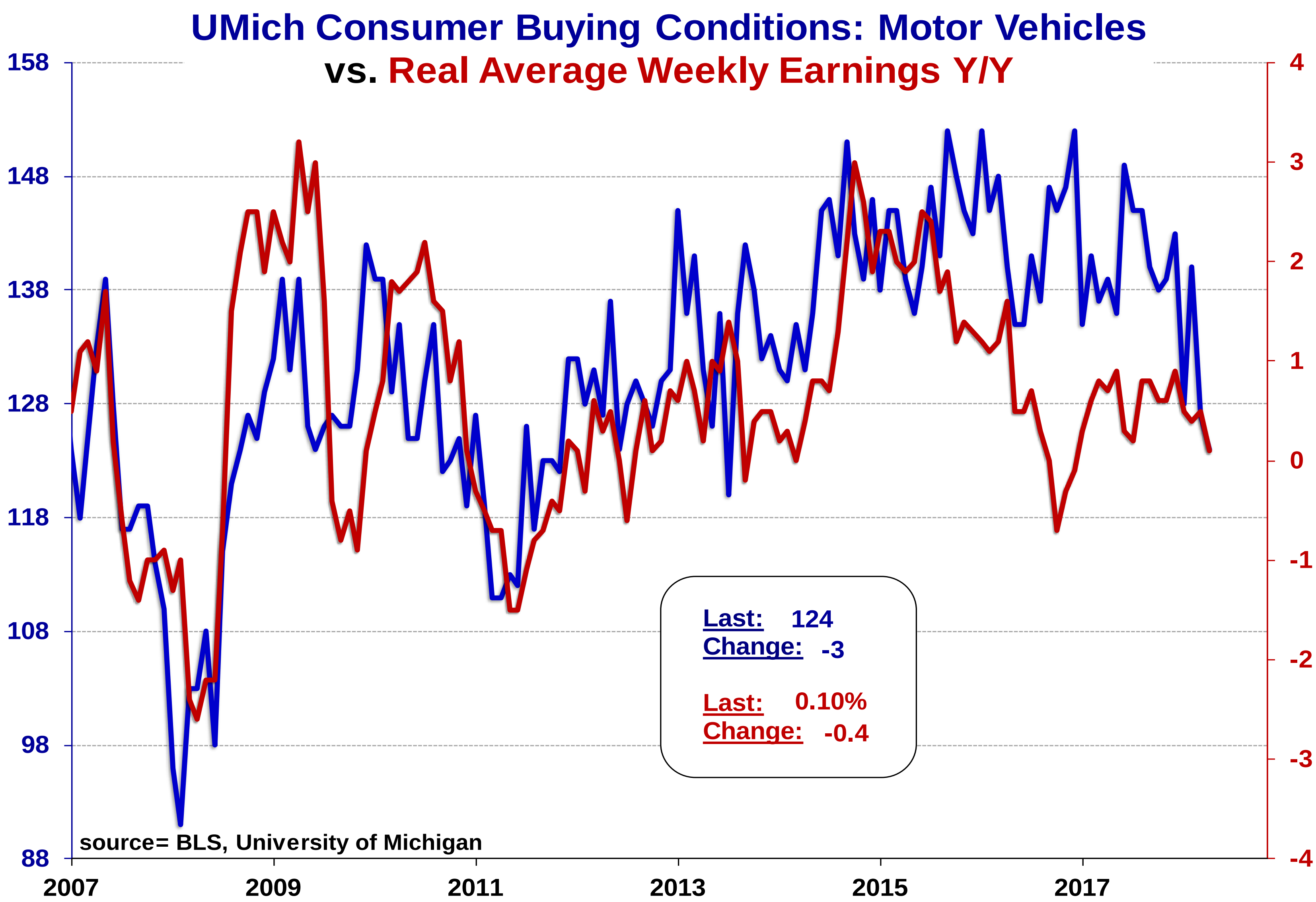
Sure looks that way: 5-year Sum Auto Sales sees first monthly decline since 2013, looks set to roll over



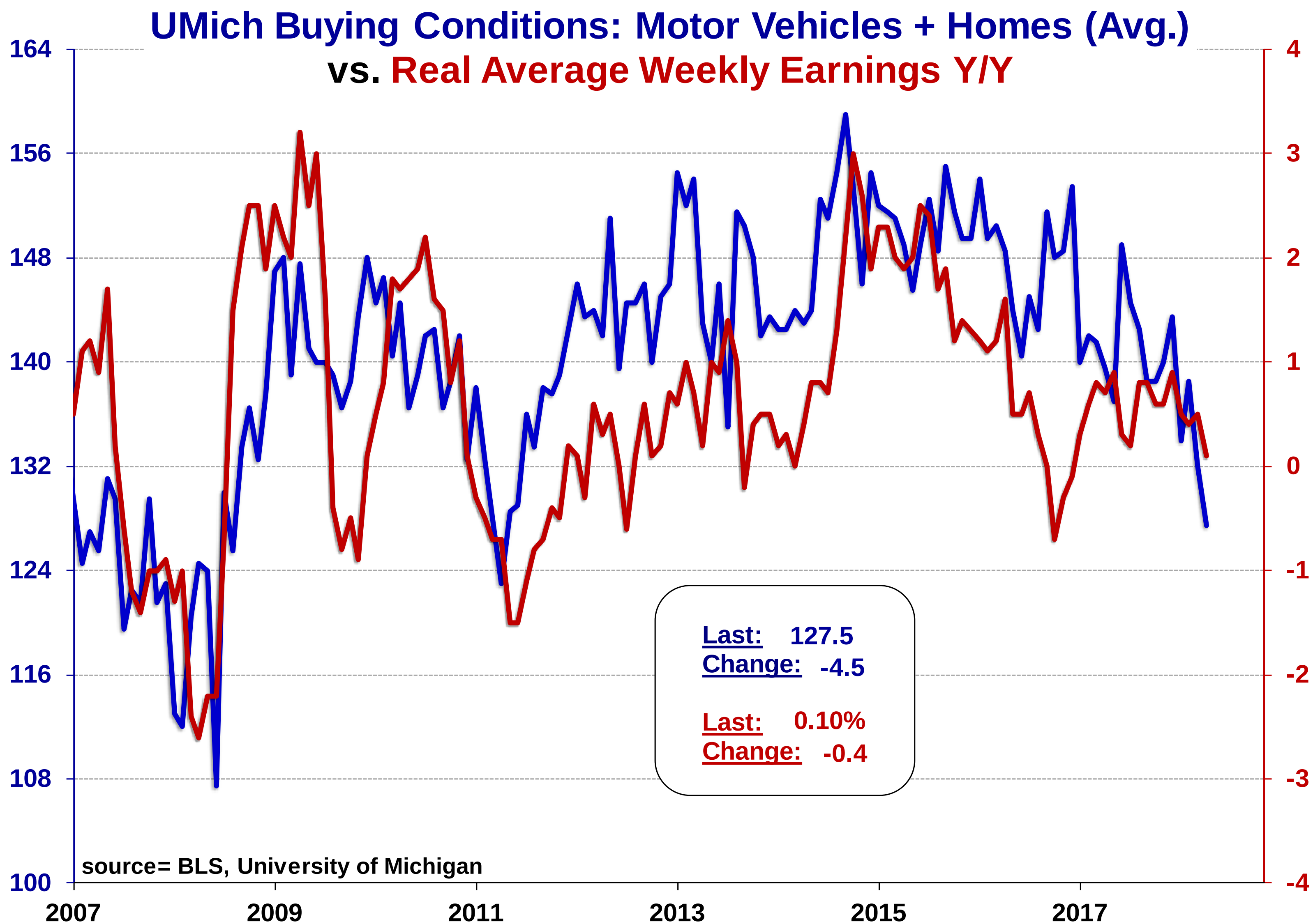
Similarly, Motor Vehicle & Parts Manufacturing Employment growth looks to have peaked/rolling over; on 3-month change basis, first back-to-back negative readings since the recession



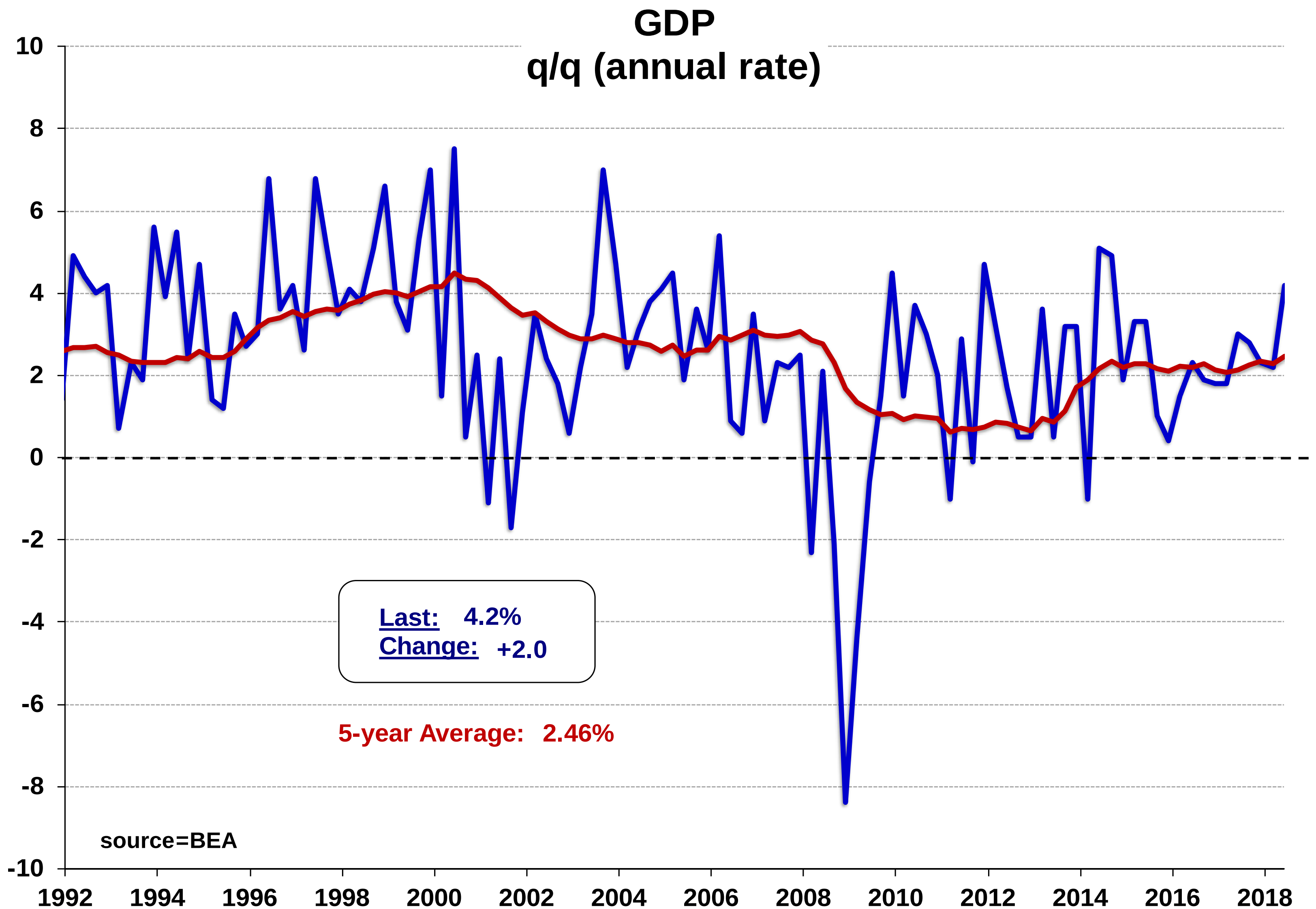
Consumer Auto Buying Conditions/Sentiment drops to lowest since Nov. 2013, with a strong correlation to Real Earnings.



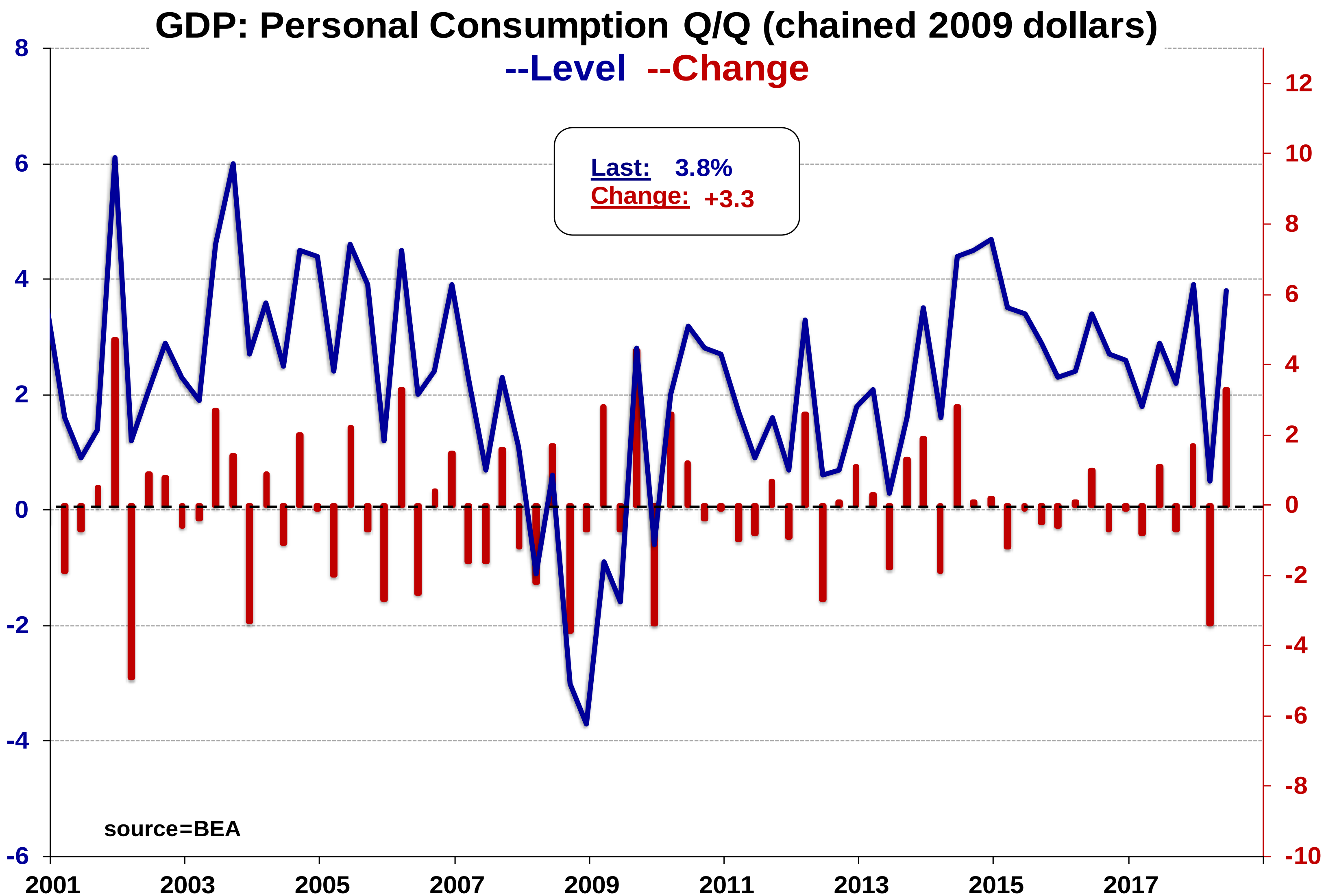
Here's a look at Buying Conditions/Sentiment for Autos + Homes (average); strong correlation to Real Earnings remains



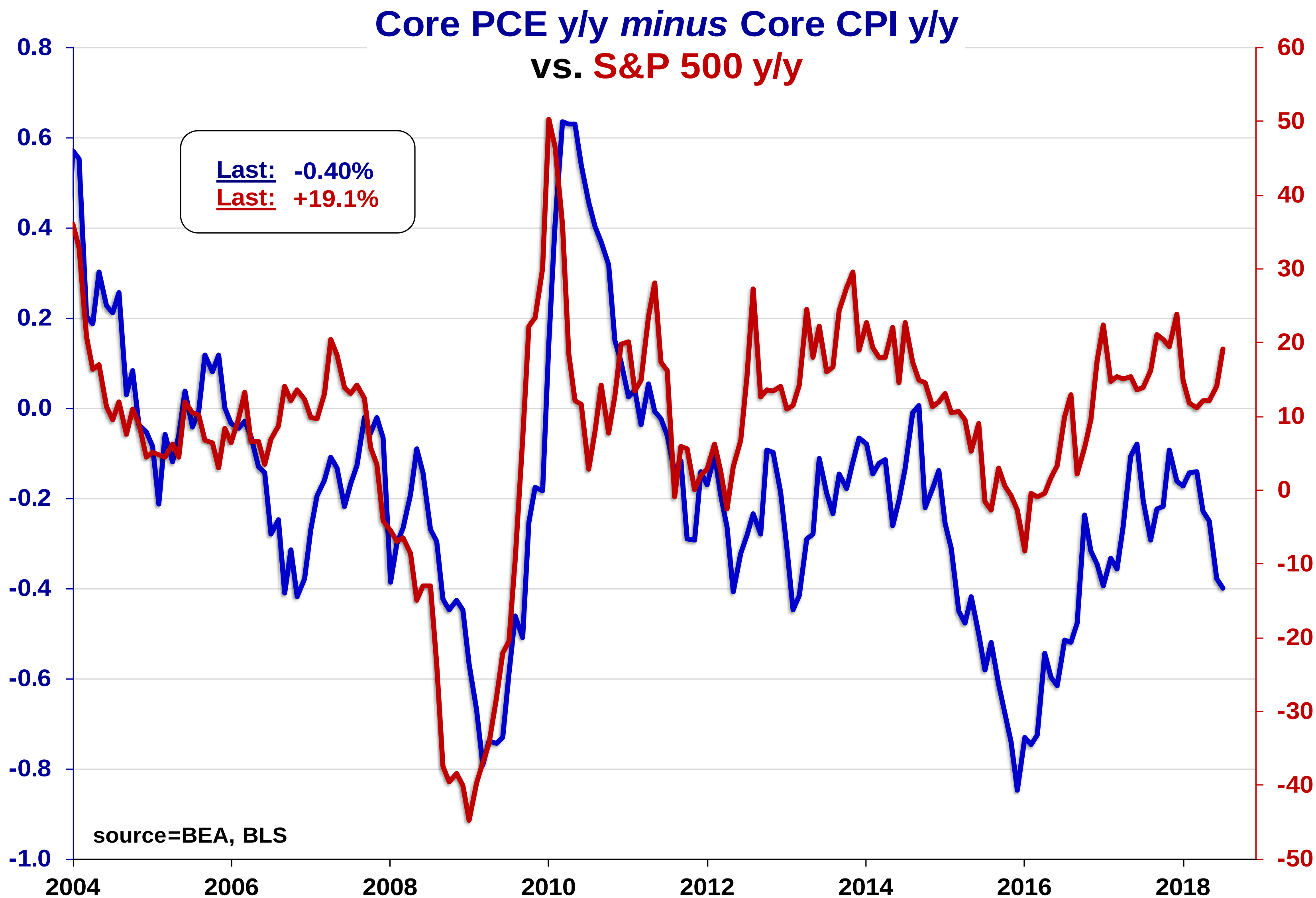
Good news: GDP revised higher from 4.1% to 4.2%



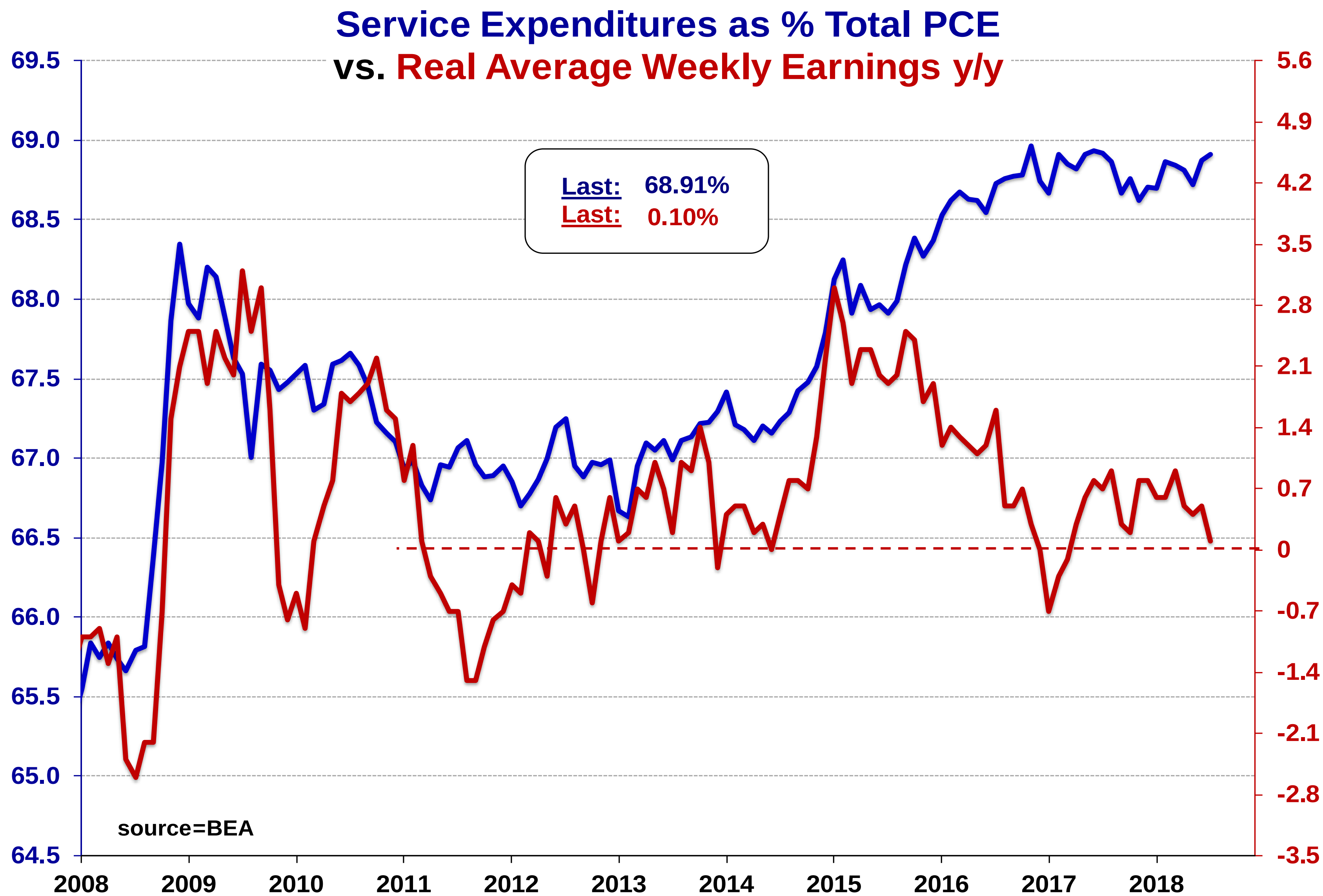
Personal Consumption revised lower from initial 4% Q2 reading to 3.8%



Core PCE minus Core CPI points to consumption not keeping pace with inflation, this as S&P looks the other way…sitting just below record highs.



Service Expenditures (largely mandatory outlays) just shy of record high as % PCE as Real Earnings stagnate



Probability of US Recession rises to 29.2%...highest since Nov. 2008