

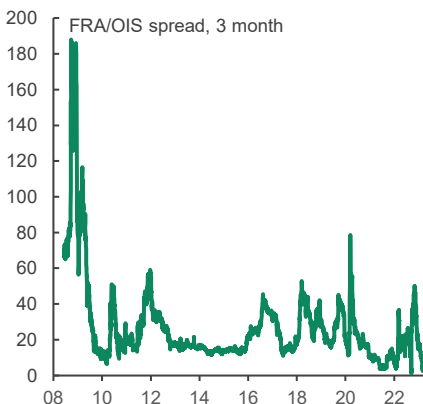
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**Chart 1**

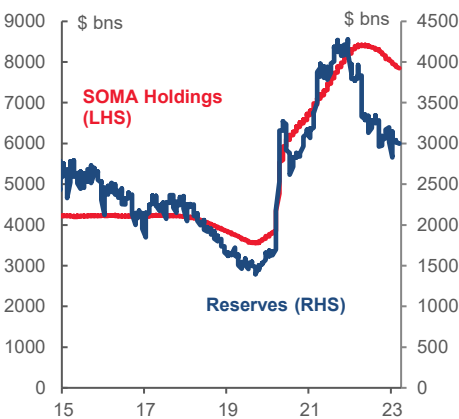
**Interbank Lending Risk Proxy**



Sources: Scotiabank Economics, Bloomberg.

**Chart 2**

**Tumbling Reserves**



Sources: Scotiabank Economics, Bloomberg.

# Are Markets Overreacting to US Jobs Reports, US Bank Pressures?

- The US economy continues to crank out jobs at a rapid pace
- Markets were not impressed...
- ...as they are mainly focused upon SVB's failure...
- ...by relying more upon emotives than substance...
- ...and may be overreacting to wages and labour force expansion
- Fed watchers monitoring systemic risk as they move onto CPI

**Nonfarm payrolls, m/m 000s // UR (%), SA, December:**

Actual: 311 / 3.6  
 Scotia: 240 / 3.4  
 Consensus: 225 / 3.4  
 Prior: 504 / 3.4 (revised from 517 / 3.4)

The US economy continues to crank out jobs at a fairly rapid pace. You wouldn't be able to tell that from looking at markets today. The USD is softer but may now be regaining strength. US Treasuries are rallying with yields down by double digits across the whole curve (18–20bps across 2s through 10s in fact) which is spilling across into other global bond markets through carry. Equity indices are slightly lower in the US.

Markets reacted the way they did for three reasons.

- Trading in Silicon Valley Bank shares was halted shortly after US payrolls were released and we've since learned that the bank has failed. The share price was tumbling this morning as reports surfaced that the FDIC and Federal Reserve were examining the bank's finances. Bonds, stocks and pricing for future Fed policy rate hikes are reacting more than measures of credit risk.
- US wage growth ebbed (see below).
- The US labour force continues to expand which indicates more workers can still be pulled into the job market and keep wage pressures somewhat at bay (see below).

**US SYSTEMIC RISK REMAINS LOW**

Unhelpful emotives are being flung around like cheap candy this morning. I think that's getting ahead of things through headlines and reports written for the minute without necessarily thinking things through as we continue to monitor developments.

The spread between the three-month forward rate agreement and the comparable maturity overnight index swap rate has moved up a few basis points today but remains very low (chart 1). To this point there is low probability of material systemic risk in a contained situation although it plays to market sensitivities toward sudden developments.

Further, reserves in the US banking system remain high at about US\$3 trillion (chart 2). This probably still keeps them in the realm of ample reserves where Chair Powell wishes to keep them. I don't think that the SOMA portfolio's rollback has been large enough to date to spark material systemic risk to funding markets.

Still, there will be price discovery around the optimal level of reserves in the system and the funding frailties that are being exposed. If those frailties become larger, then the Fed has tools including greater repo market infrastructure and QT flexibility.

**WAGE GROWTH EBBED**

US wage growth ebbed to 0.2% m/m SA in February. That's the slowest pace since February of last year and it was a tick beneath consensus expectations. The 3-month moving average of annualized wage gains is trending lower (chart 3).

One month shouldn't cause such whippy reactions but it may have been a part of the market reaction this morning after a string of wage gains in the 0.3–0.5% range.

**THE US LABOUR FORCE INCREASED**

The US labour force increased by 419k in February. This is derived from the household survey that showed employment growth of just 177k. The net effect was to raise the participation rate (chart 4) and put mild upward pressure on the unemployment rate that climbed two-tenths to 3.6% (chart 5).

A big caution is that the 90% confidence interval around changes in US unemployment is +/- 300k. There is even more noise within this household survey than in nonfarm payrolls. Markets never fuss over this and simply take the 419k gain in the labour force at face value when it could be a lot less or a lot more. The 90% confidence interval around estimates of the unemployment rate is +/- 0.2% and so a 0.2% rise in the unemployment rate falls within the bands of noise. Again, markets don't consider this.

Nevertheless, this marks yet another in a long line of monthly job gains that consensus has wildly underestimated (chart 6).

Chart 7 shows which sectors drove the gain in nonfarm payrolls.

Also note that hours worked are tracking a nearly 3% rise in Q1 (chart 8). This is a positive sign for Q1 GDP growth since GDP is hours worked times labour productivity.

Next up for Fed watchers are further market developments and US CPI on Tuesday.

Chart 3

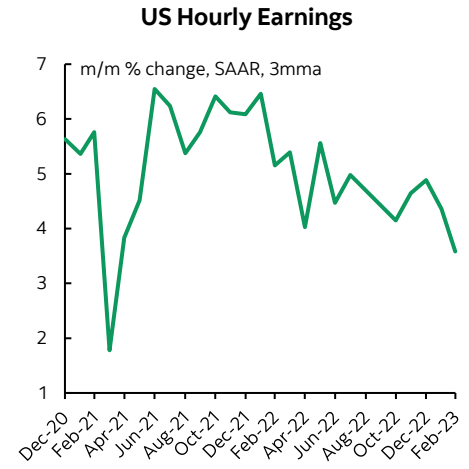


Chart 5

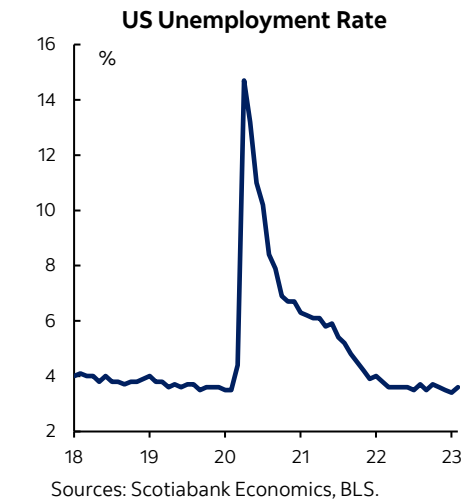


Chart 4



Chart 8

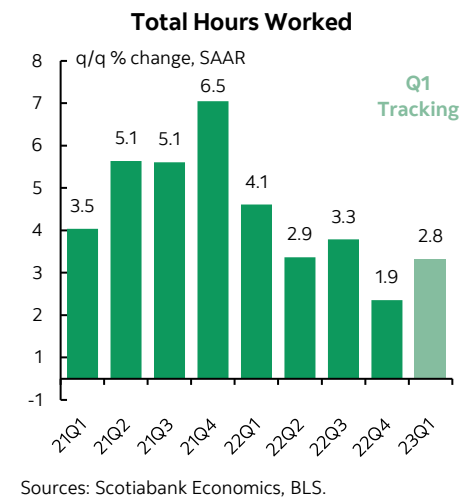


Chart 6

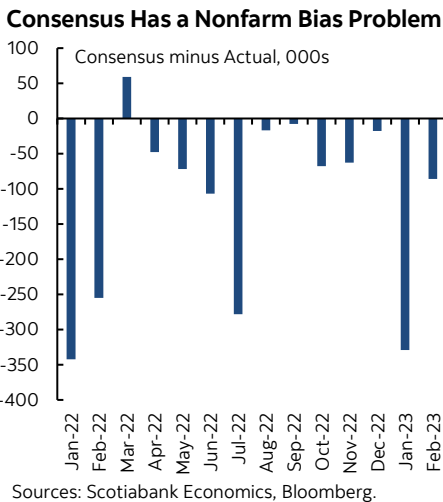
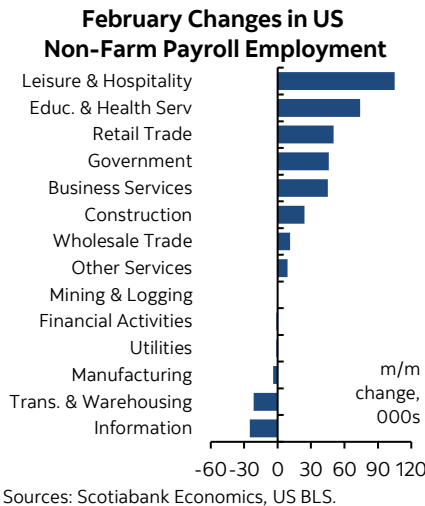


Chart 7



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