

The First Tee...

Brexit Bungle...the clock is ticking towards the end of the month deadline for Britain to separate from the European Union (it remains to be seen if the exit will occur with or without an agreement):

- Since the Brexit referendum passed in 2016, the EU has granted two deadline extensions:
 - If all 28 EU members agree, another extension could be granted, but new British Prime Minister Boris Johnson has vowed to leave the EU by 10/31/19 regardless if a deal has been struck:
 - The EU is conducting a summit this week in Brussels...there are reports some of the major stumbling blocks to a deal have been overcome (Johnson may be legally bound to seek another extension if there is not an agreement by the end of the month).
 - **Unluck of the Irish...the critical sticking-point in the negotiations is the movement of goods across the border between the Republic of Ireland and Northern Ireland:**
 - **A little Irish history...**Ireland was partitioned in 1921 with Northern Ireland remaining part of the United Kingdom (mostly Protestant); the southern portion became the Irish Free State and gained full independence in 1948 (mostly Catholic).
 - **At the Brexit, Northern Ireland will also exit from the EU, while the Irish Republic will remain:**
 - The EU is requiring there must be some means to be sure no goods enter the union that do not meet its rigorous customs and regulatory standards once the United Kingdom is no longer required to adhere to these guidelines:
 - The EU has told Prime Minister Boris Johnson, Northern Ireland must remain part of its customs union if he wants a separation deal...Johnson has responded this condition and the EU's unwillingness to consider his proposals is leading to a no-deal Brexit.
 - **A no-deal Brexit would place Ireland in a trade dilemma with the EU, if they agree to reinstate the border they take the risk of being expelled out of the European single market:**
 - Without border checks, Northern Ireland could be used as a back-door to move goods into the European Union.
 - Ex-British Prime Minister Theresa May had negotiated a measure referred to as the Irish border backstop:
 - The plan was designed to keep the Irish frontier border invisible regardless of future trade deals between the UK and EU:
 - May had promised the UK would abide by the EU's custom rules until another arrangement could be reached...the EU and Irish Prime Minister Leo Varadkar have remained adamant that any Brexit arrangement must include the backstop.
 - Johnson has indicated the UK will not erect border posts on the Irish frontier, leaving Ireland and the EU the responsibility of building infrastructure to check on the movement of goods across the border (*I guess Boris is not proposing to "build that wall"!*)
 - Johnson has supposedly conceded to placing the customs border in the Irish Sea...Johnson needs the support of the Democratic Unionist Party to get a Brexit agreement through Parliament; the DUP wants the Northern Ireland Assembly to have veto power of the border arrangements.
 - **EU officials remain concerned the current revised Brexit plan leaves open the possibility of Britain undercutting the Union for taxation, state subsidies and environmental standards.**
- **Let's Not Make a Deal...impacts from a no-deal Brexit** (*a messy divorce is never pleasant!*):
 - **Many accords, permits and rules would become invalid...especially involving business between the UK and EU member countries:**
 - Free trade between Britain and the EU would be governed by basic World Trade Organization import/export tariffs:
 - Trades would also be subject to border checks where currently none exist (part of the Irish issue mentioned above):
 - Customs delays are expected to be monumental...the British government already has plans to convert a major highway into a truck holding zone.
 - There are projected shortages in the UK of imported foods, manufactured components and medicine...the UK imports half over half the food it consumes (30% from EU countries)...a British government report projects higher supermarket prices if a no-deal Brexit occurs.
 - Some financial agreements and data-sharing across borders could fall into legal limbo and could be blocked.
 - Many contracts and regulations will become invalid, requiring either renegotiation, cancellation or new legislation:
 - Vehicle safety, medicine and food standards (currently coordinated at the EU level) would need UK versions.
 - EU citizens living in the UK and Britain citizens living on the continent could be stranded without permission to stay.
 - Scotland is expected to demand a second referendum on independence if the UK does not negotiate a Brexit deal.
 - **Financial fallout has already been felt in Britain as many money center banks have moved their European headquarters out of London...shifting them to Paris, Berlin, Stockholm and Amsterdam:**
 - The Bank of England has projected a worst-case scenario of a no-deal Brexit causing UK GDP to contract by 8% within a year and property values plummeting by a third (the BOE has been accused of fear-mongering by some British lawmakers).
- **The EU certainly has the upper hand in the negotiations...but neither the EU or UK will be a winner with no deal.**

At the turn...

The Back Nine...

Retail Raises...despite shrinking brick & mortar retailing revolution, wages are gaining:

- Minimum wage increases and tight labor markets have provided boost to income gains:
 - Average hourly earnings for non-supervisory retail workers surged 5.1% last year...the largest advance since 1981:
 - Average retail worker wages hit \$16.65 an hour in July...the highest level since 2003 when adjusted for inflation:
 - Total retail payrolls peaked in 2017 but have been shrinking due to industry downsizing...there are 13.4 million non-supervisory retail workers.
- Despite recent gains, retail workers earn less than hourly workers in other sectors:
 - Retail workers are making 29% less than the average for all non-supervisory employees (was 30% ten years ago)
 - Inflation adjusted retail wages peaked in 1970...pay for hourly workers in general passed their 1973 inflation adjusted peak in 2018.
 - Hourly pay in the general merchandise retail category (includes Walmart and Target) has surged 26% since 2015 to \$14.85.
 - The federal minimum wage standard stands at \$7.25 per hour (some states have increased to \$11.00 / \$12.00 per hour).

Rally Caps...stocks build renewed momentum in 3rd quarter, new record highs in sight:

- Data format: October 1, 2018 / January 1, 2019 / July 1, 2019 / October 1, 2019:

Equities

Dow: 26458 / 23327 / 26599 / 26916
S&P 500: 2913 / 2506 / 2941 / 2976
NASDAQ: 8046 / 6635 / 8006 / 7999
Russell 2000: 1696 / 1348 / 1566 / 1523

Commodities

CRB: 195 / 169 / 181 / 173
Oil: \$73.25 / \$45.41 / \$58.47 / \$54.07
Gold: \$1192 / \$1282 / \$1409 / \$1472
Copper: \$280 / \$263 / \$271 / \$257
Natural Gas: \$3.00 / \$2.94 / \$2.30 / \$2.33

Borrowing Benchmarks

Libor:
1mo: 2.260% / 2.502% / 2.398% / 1.892%
3mo: 2.398% / 2.807% / 2.319% / 2.088%
SOFR: (U.S Secured Overnight Financing Rate)
1day: 2.25% / 3.00% / 2.42% / 1.88%

Treasuries Issues

3mo: 2.19% / 2.31% / 2.12% / 1.88%
6mo: 2.36% / 2.41% / 2.09% / 1.83%
1yr: 2.59% / 2.52% / 1.92% / 1.75%
2yr: 2.81% / 2.49% / 1.78% / 1.63%
3yr: 2.88% / 2.46% / 1.71% / 1.56%
5yr: 2.94% / 2.50% / 1.76% / 1.55%
7yr: 3.01% / 2.58% / 1.87% / 1.62%
10yr: 3.05% / 2.68% / 2.00% / 1.68%
30yr: 3.19% / 3.01% / 2.52% / 2.12%

Currencies

Euro: 1.160 / 1.146 / 1.137 / 1.089
Yen: 113.70 / 109.69 / 107.85 / 108.08
Peso: 18.71 / 19.65 / 19.22 / 19.73
Canadian \$: 1.290 / 1.363 / 1.309 / 1.324
Yuan: 6.868 / 6.878 / 6.712 / 6.866 / 7.148

Grain Futures

Corn: \$3.56 / \$3.75 / \$4.31 / \$3.88
Soybeans: \$8.45 / \$8.95 / \$9.23 / \$9.06
Wheat: \$5.09 / \$5.03 / \$5.27 / \$4.95

Job / Inflation Indicators

Unemployment: 3.7% / 3.9% / 3.7% / 3.5%
Consumer Price Index: 2.3% / 1.9% / 1.6% / 1.7%
Core PCE Index: 2.0% / 1.9% / 1.5% / 1.8%

Federal Funds Open: 2.15% / 2.40% / 2.37% / 1.85%

Prime Rate: 5.25% / 5.50% / 5.50% / 5.00%

19th Hole...

Get your facts first, then you can distort them as much as you please.

Mark Twain

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