

BLS Employment Report This Morning

The BLS will release February's employment report at 8:30 ET this morning. Current expectations, as shown below, for the BLS report are for payrolls to increase by 390k and the unemployment rate to decline from 4.0% to 3.9%. In Wednesday's testimony to Congress, Jerome Powell noted that the labor markets are now at maximum employment. As such, a strong BLS employment report will further aggravate the ongoing labor shortage as it will further strengthen employees' ability to demand higher wages. Higher wages result in lower profit margins for corporations. To help offset lower margins, corporations try to raise prices. In all likelihood, higher wages will hurt margins and generate inflation. Therefore, a strong BLS employment report is likely to put additional pressure on the Fed to tighten monetary policy.

Employment Situation

Released On 3/4/2022 8:30:00 AM For Feb, 2022

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M	467,000	390,000	200,000 to 650,000
Unemployment Rate	4.0 %	3.9 %	3.8 % to 4.0 %
Private Payrolls - M/M	444,000	330,000	197,000 to 625,000
Manufacturing Payrolls - M/M	13,000	20,000	19,000 to 35,000
Participation Rate	62.2 %	62.3 %	62.2 % to 62.4 %
Average Hourly Earnings - M/M	0.7 %	0.5 %	0.4 % to 0.6 %
Average Hourly Earnings - Y/Y	5.7 %	0.5 %	0.4 % to 0.6 %
Average Workweek	34.5 hrs	34.6 hrs	34.6 hrs to 34.7 hrs

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: [Change in Non-farm Payrolls](#), February (423,000 expected, 407,000 during prior month)
- 8:30 a.m. ET: [Unemployment Rate](#), February (3.9% expected, 4.0% during prior month)
- 8:30 a.m. ET: [Average Hourly Earnings](#), month-over-month, February (0.5% expected, 0.7% during prior month)
- 8:30 a.m. ET: [Average Hourly Earnings](#), year-over-year, February (5.8% expected, 5.7% prior month)
- 8:30 a.m. ET: [Labor Force Participation Rate](#), February (62.2% expected, 62.2% during prior month)
- 8:30 a.m. ET: [Underemployment Rate](#), February (7.0% prior month)

Earnings

- No notable reports scheduled for release

Goin' Nowhere Fast

While the BLS Employment Report will likely move markets this morning, so far we have gone nowhere fast this week. After a rally on Monday, a selloff Tuesday, a rally on Wednesday, and a decline yesterday, we are pretty much where we started. The good news is that we remain on a buy signal currently, and the initial target of the 200-dma and downtrend-resistance line remains nearby. Furthermore, the rising trend line from the Russian invasion lows remains intact. We remain cautious currently with higher levels of cash.



Time To Sell Energy Stocks?

On Monday, we published an article discussing why it may be time [to take profits in energy stocks](#), something we have already been doing. One of the reasons was the "backwardation" in oil prices.

"Should a futures contract strike price be lower than today's spot price, it means there is the expectation that the current price is too high and the expected spot price will eventually fall in the future. This situation is called backwardation."

We showed that backwardation tends to lead to problems for the oil markets and the economy.



Well, while backwardation two weeks ago was testing previous highs where economic problems developed, since then it has soared to an unprecedented record.



If the BLS employment report disappoints today, the clock to the next recession is likely ticking faster than many expect.

How Does Russia Affect Monetary Policy?

Cleveland Fed President Loretta Mester spoke to the increasingly tricky position the Fed finds itself in. The Fed wants to hike interest rates to help push inflation lower but at the same time are growing increasingly concerned that the Russian invasion of Ukraine is destabilizing the financial markets and is creating economic uncertainty. Like Powell said Wednesday, Mester also prefers to

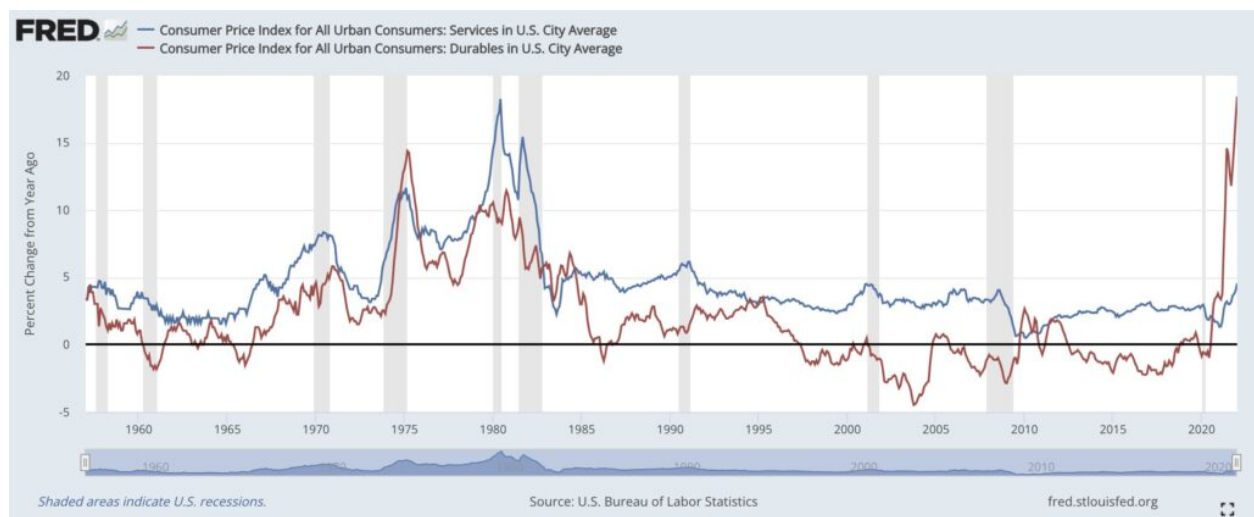
hike by 25 bps at the coming meeting and take a measured, wait and see approach. To wit per [CNBC](#):

?The situation in Ukraine adds uncertainty to the economic outlook,? she told CNBC?s [Steve Liesman](#) during a live [?Squawk on the Street?](#) interview. ?The uncertainty about the outlook doesn?t change the need to get inflation under control in the U.S. In fact, it actually adds upside risk that high inflation might continue, and that makes it more important to take action.

Inflation Today versus the 1970s

The graph below helps us illustrate an important distinction between today's inflation and that of the 1970s. The inflation outbreak of the 1970s saw goods and services prices rise in unison for the most part. The current inflation episode started with a sharp rise in goods inflation and little price pressure from services. Driving the price of goods was due to supply line backups and shortages of many goods. Goods account for about 43% of CPI. Services, accounting for 57% of the index, have just started increasing. Unlike goods inflation which has well surpassed 1970s levels, services inflation is only at levels seen in 2008.

Looking forward, we may likely see goods prices stabilize and fall as supply lines normalize and consumer demand wanes as the global economy continues to normalize. However, services inflation may have a lot more upside. Service prices are heavily swayed by home and rent prices. As we wrote last week, the Case-Shiller home price index is up 18.6% year over year. Per [Apartment List](#): "Year-over-year rent growth currently stands at a staggering 17.6 percent." The two measures of housing inflation within CPI, OER and Rent, are both up less than 4%. Catchup to reality could provide a spark to service inflation. The inflation outlook as we advance depends on how goods and services prices change and the possible divergence as goods fall and services increase.



Gold is Flashing a Cup and Handle Pattern- What Does it Portend?

For the last ten-plus years, the price of gold has been forming a Cup and Handle technical pattern. Per Stockcharts: "The Cup with Handle is a bullish continuation pattern that marks a consolidation period followed by a breakout. It was developed by William O'Neil and introduced in his 1988 book, *How to Make Money in Stocks*."

A break above the cup's rim, at about \$2100, qualifies as a technical break out from the pattern. The target gain, based solely on the pattern, is the distance from the right peak of the rim to the bottom of the cup. In this case, that approximately equals \$1000 (\$2100-\$1100). Such a price increase would put the price of gold at around \$3100.



The second graph below shows that silver is tracing out a much longer-term cup and handle pattern. In its case, a break of \$50 entails a doubling of the price.



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