Job Report Comes in Higher than Expectations

- The jobs report on Friday was higher than expected at 209k versus 180k. The unemployment rate, at 4.3%, was as expected at a tenth lower than last month. Average hourly earnings for the year was slightly better than expected at 2.5%. The generally improved jobs report caused yields to retrace some of the tightening earlier in the week, and the market implied probability of a December rate hike increased slightly to about 42%.
- On Thursday, July PPI is expected to be 0.1% MoM, consistent with last month. On Friday, the market expects CPI to come in at 0.2% MoM, higher than last month's 0.0%. Major economic data points are increasingly important as we approach the potential September start of balance sheet normalization by the Fed.

Utilities Look to Abandon Nuclear Project in South Carolina

- SCANA Corporation and the South Carolina Public Service Authority (also known as Santee Cooper) announced last week that they planned to halt construction on two nuclear reactor units at the VC Summer Nuclear Station in Jenkinsville, SC. As co-owners of the plant, the utilities will ask state regulator, Public Service Commission of South Carolina, to approve a plan to abandon the project, including permission to recoup incurred costs estimated to be over $10 billion.
- Prior to 2017, delays in licensing, disputes with contractors, and construction difficulties had led to multi-year extensions in completion dates and billions of dollars in additional costs for the Summer Nuclear units. However, the tipping point came earlier this year when lead contractor, Westinghouse Electric, filed for bankruptcy protection, seriously questioning the ability of the utilities to economically finish the nuclear project. After careful consideration, both SCANA and Santee Cooper determined that the cost to complete the units far outweighed the foregone investment made to-date.
- Originally expected to cost $11.3 billion and to be completed by 2016, Santee Cooper said last week that new projections show it would cost the utility an additional $7 billion to finish the project on top of $4.4 billion already invested with commercial operation not occurring until 2024. Santee has a 45% share of the project, implying a total cost of $25.3 billion, more than double original estimates.
- Assuming the plan to abandon is approved, Santee Cooper joins the likes of Washington Public Power Supply System (now known as Energy Northwest) and the Long Island Lighting Company (purchased by Long Island Power Authority) as public power utilities saddled with debt associated with failed nuclear projects. The general ability to set their own electric rates typically provides these public utilities with a mechanism to recover costs, but explaining to customers that they now have to pay for generating assets that will never produce electricity is a tough sell.

Muni Market Overview

- The Muni curve was slightly lower over the week with the 7Yr closing at 1.48%.
- Supply for the week is expected to total about $7.4 billion. The largest deal, coming competitive, is the $1.5 billion of subordinate bonds brought by NY City Transitional Finance Authority (Aa1/AAA/AAA). Cleveland Health Obligated Group (Aa2/AA/NR) also will be bringing $1 billion in issuance to market, followed by $647 million in Miami-Dade County, FL Aviation Revenue bonds.
- Issuance for July was $23.8 billion, less than the same period last year by 18.9%. For the year, issuance is down by 13.1%. Citi estimates net negative issuance for the month of August at $15.3 billion, which will continue to support the muni market.

Corporate Market Overview

- Last week's Investment Grade Corporate bond issuance was on the lighter side, but the $29 billion came in on top of market consensus. There were a smattering of 28 names that included a 4 part, $3 billion deal from General Motors (GM Baa3/BBB/BBB-) , a 2 part, $1.5 billion deal from Ford (Baa2/BBB), and a $3 billion 16Yr from Verizon (VZ Baa1/BBB+/A-).
- Also in the news was Teva Pharmaceutical's (TEVA Baa3/BBB/BBB) downgrade by S&P and Fitch. S&P has downgraded the name one notch per year since 2015 when it was first downgraded from A3 to Baa1. The reason for the downgrade stems from the continued pressure on its generic drug pricing and high financial leverage. Bond spreads in the name widened significantly on the news.

FIXED INCOME INDEX RETURNS AS OF 08/04/2017

	MTD	YTD
Barclays 3Yr	0.07	2.33
Barclays 5Yr	0.09	4.03
Barclays 7Yr	0.08	4.91
Barclays MM Short 1-5Yr	0..07	2.59
Barclays MM 1-10Yr	0.10	4.19
ML US Gov/Corp 1-10 Yr	0.06	1.86

Source: Interactive Data

APPLETON PARTNERS, INC. ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM