Bond Report

This week, The U.S. Treasury yields have reported their largest two-week decline in a month and fell for their second consecutive week. Weak global economic data signals that the growth is steady but sluggish, concerning investors leading them to invest in assets perceived as safe.

Monday:

On Monday, Treasury yields rose higher in response to strong stock market trading. While pessimistic construction and manufacturing sector reports were release below expectations the treasury yields did not respond negatively. However, investors are still weary of taking on risk in the long-term, in response to benchmark bond yields hovering below 2%.

Tuesday:

Treasury yields fell to their lowest level in two weeks, on Tuesday, experiencing the largest single day drop in a week. This was due to worries of economic slowdown abroad pushing investors to once again favor assets perceived as safe, such as U.S. Treasurys. Poor Chinese manufacturing reports and a first time interest rate cut in Australia overnight trickled into U.S. equity markets during trading hours, continuing the Treasury rally. Oil prices also plummeted with repeated concerns of a global supply gut adding to the drop in Treasury yields. Due to the renewed weak overseas data the Federal Reserve will most likely hold off further on raising interest rates. Analysts estimate a 13% probability for a rate hike in June, down from 23%. The probability of a July rate hike is 30%.

Wednesday:

On Wednesday, the weakness in equities and oil lead to a weaker dollar and Treasury rally, pushing yields still further down. The reaction was modest compared to Tuesday strong rally.

Thursday:

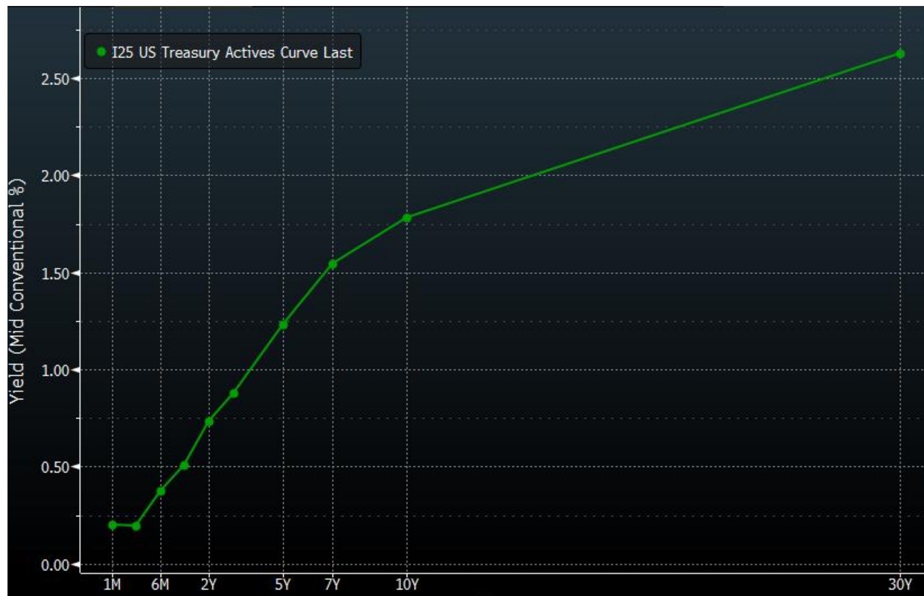
On Thursday, Treasury yields fell for third straight day with uncertainty of the key employment report due Friday. If job creation slows too far interest rates can drop further. On the other hand, if job creation is strong the Fed is still doubtful to raise interest rates in June.

Friday:

On Friday, the trend continued with low Treasury yields in response to a disappointing jobs report. Treasury yields rose slightly on Friday though with investors weighing the effects of a positive wage growth number. Due to new corporate bonds expected to hit the bond market, for $40-50 billion, this could also be leading Treasurys to rally so investors can make room to purchase them. With a poor jobs report a June rate hike is now almost certainty not feasible.

Summary:

Overall, the two-year Treasury fell by 3.6bps, ending the week and finishing at 0.738%. The 10-year treasury yield also declined 4.8bps over the week and finished at 1.779%. Among longer maturities, the 30year treasury yield finished the week at a decline of 4.2bps and finished at 2.621%. Treasury yields continue to decline, as Treasury prices climb during 2016's first quarter.



What's next and key earnings

On Monday, the PMI manufacturing index started off quarter 2 pretty much at 50.8 from April's 51.5-index level. New orders are on the rise, a positive. Also, exports are not showing any gains from the lower dollar as of now but are contracting at the fastest pace in more than a year. Home sales still remains one of the strongest reports. On Tuesday, a component of the monthly retail sales report, motor vehicle sales, rose sharply 4% in April a positive for the economy. On Wednesday, the ADP employment report was released showing a slow in the labor market, which is a negative for consumer spending and economic growth. International trade was also reported showing that our nation's trade gap has narrowed. This is undesirable for the economic outlook. Imports of consumer goods also dropped sharply, with out the help of our nation's gap with China, another negative for the economic outlook. Supportive of this poor economic weakness our nation's output is slowing despite an increase in hours worked a signal of structural weakness. On an optimistic note, crude oil inventories continue to rise to record highs at 543.3 million barrels as of April 29th. On Friday, employment reports released showed weak data a disappointment for Treasury yields.