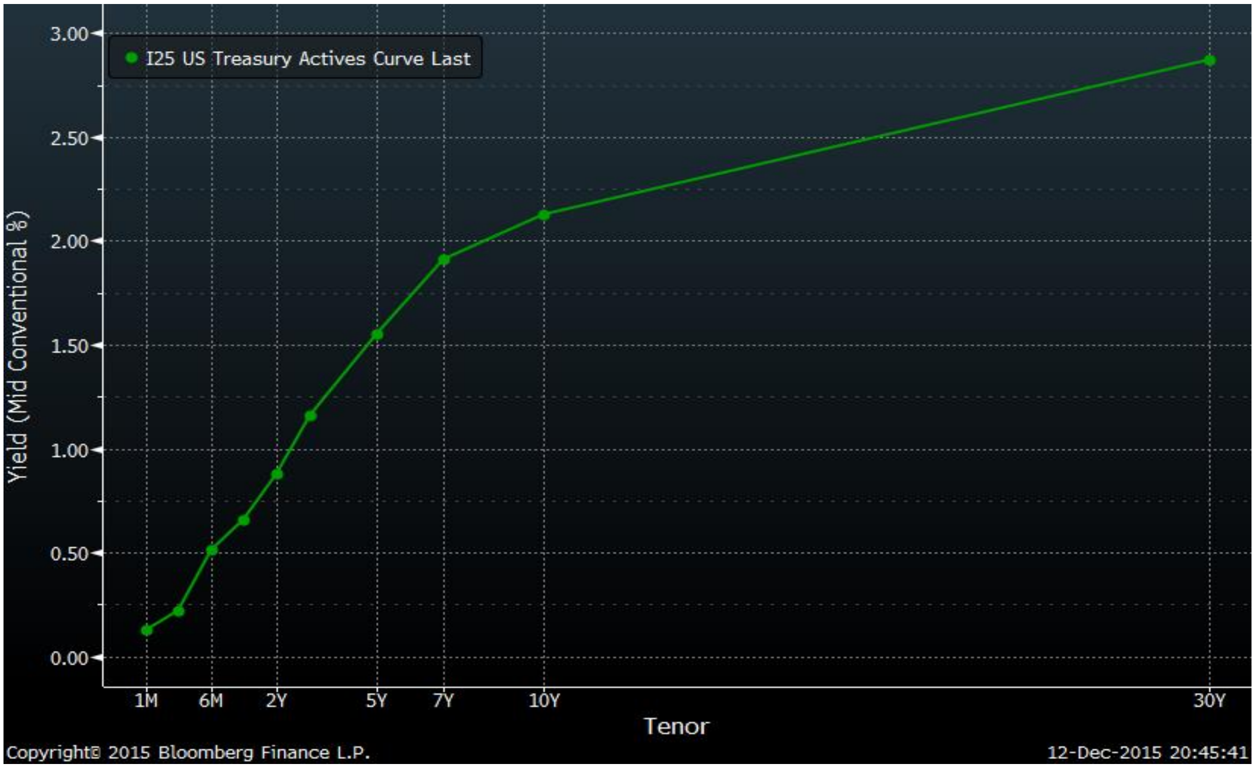
Bond Report

This Week, The US Treasury yields kept following last week's trends until Friday where they reached their lowest level since October because of the continuing plunging of crude-oil. There was an increase of defaults and downgrades, lastly seen in 2009, which threaten U.S. stocks leading investors toward safer assets such as government bonds. On Tuesday, treasury prices slightly increased since investors were escaping the energy sector, one again because of the collapse of oil prices, even if the hike of interest rate remain very likely. On Thursday, U.S. Treasury yields climbed to their highest level this week as investors perceive the rate hike as elevated. Economic data revealed on Thursday did not met analysts' expectations but were still considered as strong enough to see a rate hike. Analysts said that the labor market is in solid shape and that it is expected to continue this way. This day, crude-oil prices drop to $37 per barrel, its lowest level since the Great Recession. This should have pushed yields lower, however a stock market rally stopped a three day decline which led investors to sell their government bond to invest in riskier assets. On Friday, as I said, the continuing plunging of crude-oil led investors to sell their risky assets in favour or Treasury notes. The CME Group's FedWatch Tool calculated the probability of a rate hike at 79% this Friday. Overall, the 10-year Treasury yield lost 13.5 bps this week and 10 bps just on Friday to finish the week at 2.13% from 2.28% the week before. The 2-year Treasury note lost 5.2 bps and finish the week at 0.90% from 0.95% the week before. Among longer maturities, the 30-year Treasury note lost 12.9 bps over the week, 9.5 bps just on Friday to finish the week at 2.88% compare to 3.01% one week ago.



What's next and key earnings

On Tuesday December 15th, the Consumer Price Index will be released. On October, we observed an increase year-on-year rate of 1.9%. In this report, we should see things unchanged at the headline level and a small increase of 0.2% at the core level. Later this day, the Housing Market Index will be released. The housing market index has been solid for the report of November and we should see an increase of 1 point for December to a consensus of 63 from 62 in November.

On Wednesday December 16th the big event is going to be the FOMC meeting. We are expected to see the first rate hike of the recovery. It is expected to see a lift in FED funds rates to 0.375%. The FED is also going to share its forecast about the economy (GDP, PCE price index and the labor market). The FED chair Press Conference will follow the meeting and will discuss about the latest quarterly economic projections.

On Thursday, December 17th, the Jobless Claims report will be released. It is true that we saw an increase in the December 5 week, to 282,000 which was its highest level since July, however, levels are remaining very low. The analysts are expected a consensus of 270,000 for this report which is a decrease of 12,000.