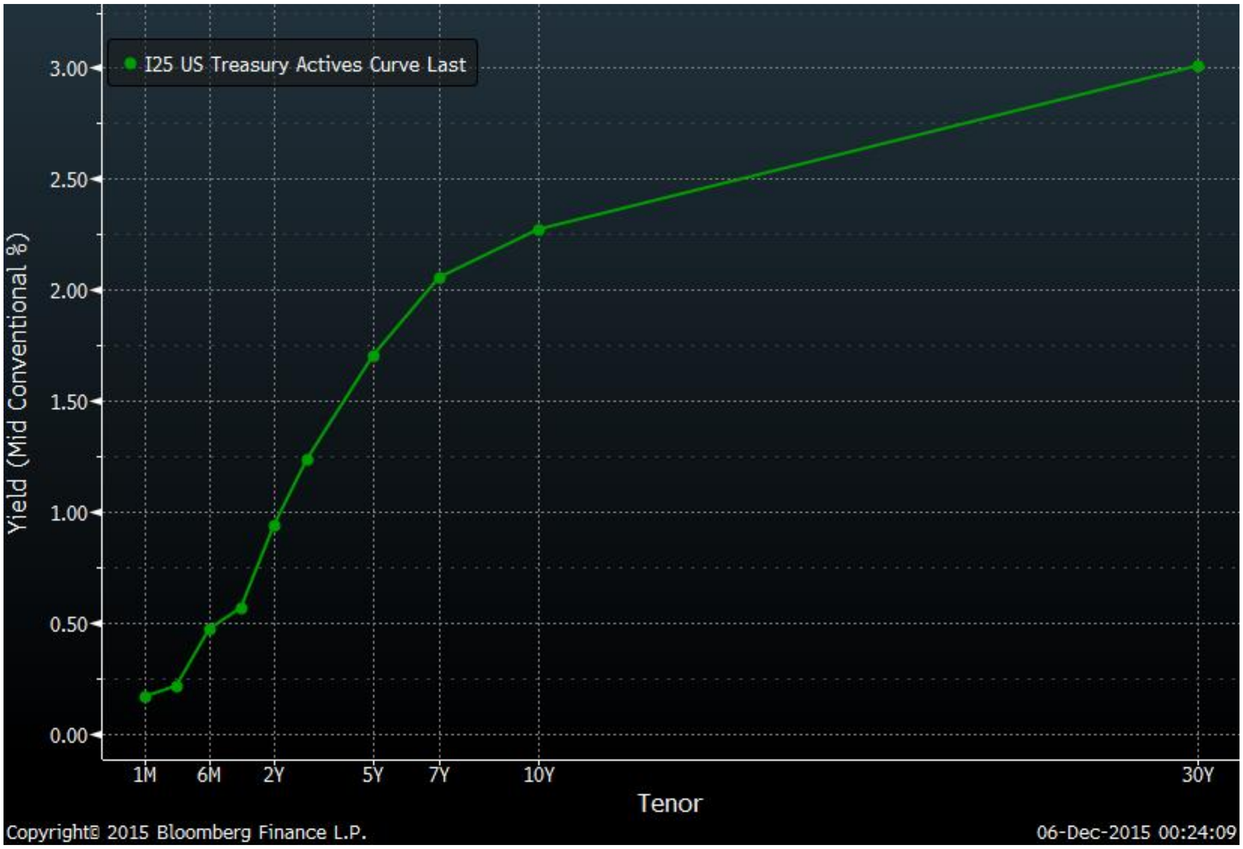
Bond Report

This Week, The US Treasury yields have recorded their largest weekly increase in a month after the release of strong economic datas which might favour a rate hike by the end of the year. If there is no bad surprises concerning the expecting economic datas releases, we can be pretty confident to say that there will be a rate hike in December. Indeed, many investors are expecting this rate hike and on Monday, the CME Group's FEDWatch Tool, which tries to estimate future FED-funds prices was calculating the probability of a rate hike at 78%. On Wednesday, treasury yields kept increasing as Janet Yellen, the FED Chairwoman, said that an increase in rates at the December FED meeting is likely to happen, as she expected the U.S. economy to keep growing, pushing inflation toward the 2% annual target. Her comments came after the release of a strong employment report for the private sector. Indeed, 271,000 new jobs have been created in November, beating expectations, which was taken as another indicator of a rate-hike by investors. On Thursday, treasury-yields hit their highest level after Janet Yellen indicated to the Congress that the economic data needed for a rate-hike have been met. The two-year yield, which is the most sensitive to rate-hike increased to 0.95%, its highest level in 5 year and a half. On Friday The U.S yields rose again after the release of the most anticipated job report of the year. There was a gain of 211,000 jobs in the U.S. economy, beating analysts' expectations. The unemployment rate remain at 5%. After the release of this good employment situation, there is almost no doubt that we are going to a rate-hike by the end of the year. Overall, the two-year treasury yield rose by 2.4 bps over the week and finish at 0.95%. The 10-year treasury yield was closing at 2.33% on Thursday but lost 5.3 bps on Friday to finish the week at 2.27%. Among longer maturities, the 30-year treasury yield finished the week at 3.01%, a drop of 6.2 bps compare to Thursday's level of 3.07%.



What's next and key earnings

On Thursday December 10th, The Import and Export Prices will be released. Both import and export prices have been in contraction lately and it is expected to continue this way. We should see a decrease of 0.8% and 0.3% for import prices and export prices respectively. Contraction on the import prices is the reflection of the strong dollar since buyers could buy more with a dollar while contraction in exports is the reflection of deflationary trends in prices.

On Friday December 11^{th}, the PPI-FD report will be released. There was a drop in service prices because of a deflationary pressure on October. Energy prices, food prices, finished good and export prices went down. For this report, no changes are expected in the producer price and a 0.1% increase is expected for the final demand.
Later this day, the Retail Sales report will be released. Vehicle sales are expected to be strong in November keeping the level at a 12-year high. Ex-auto and gas core sales are expected to grow by 0.3% for the month of November despite an unexpected warm weather that might have impact winter sales. Finally, total retail sales are expected to increase at 0.3% rate as well. Then, the Business Inventories report will be released. This report is expected to show an increase in inventories of 0.1% for October, from 0.3% in September. Finally, the Consumer Sentiment report will be released. On the second half of November, it reached a reading of 91.3 against a consensus of 93.1. However, it is expected to rise to 92.0 for the first half of December.