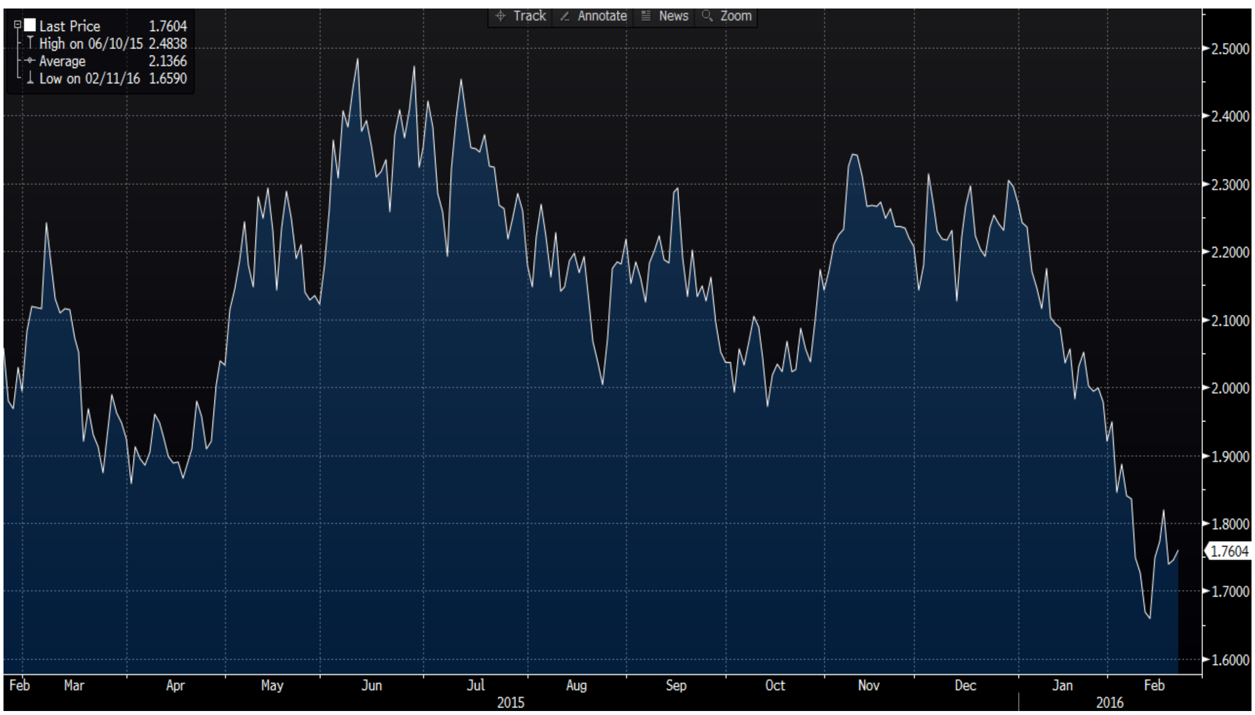
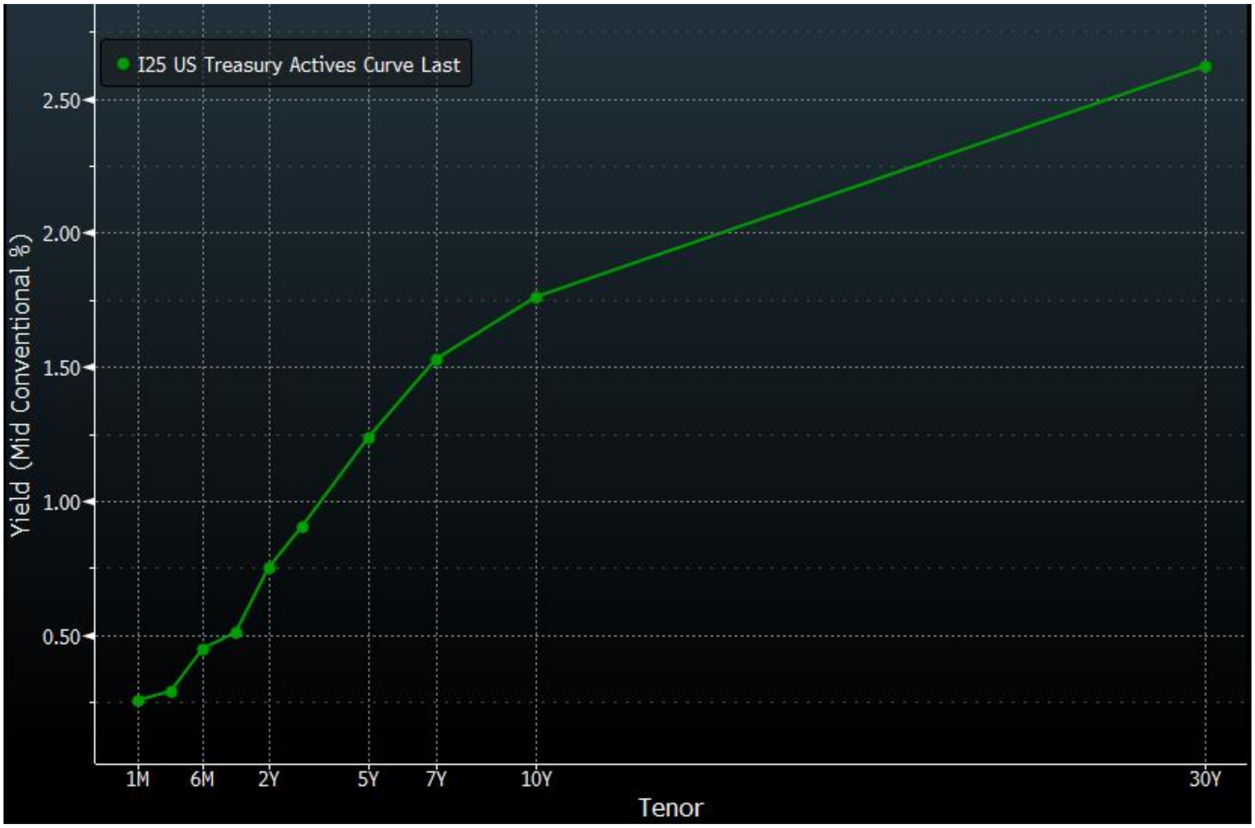
Bond Report

This Week, The US Treasury market continued to be a haven for investors since the strong dollar offers returns that other government-bond cannot provide. On Wednesday, treasury prices declined, which drove the yields higher as both the oil price and the rally in equity encouraged them to sell their bonds, in order to invest in riskier assets. Later that day, yields declined a little bit as FED officials were worried about a weak stock market. This les investors to sell their risky assets in favour of safer assets, such as government bonds, while the market is volatile. On Thursday, the stock market and the oil rally started to slow down, leading investors to buy mostly government bond, pushing yields lower. This is the result in a rise of concerns that the FED will hold off before increasing its interest rates for 2016. Indeed, after the release of the FED's minutes on Wednesday, some FED's president discussed the idea that rate should not be raised immediately because of the weak stock market. The CME Group Fedwatch toll calculated the probability of a rate hike in the current year at 42% on Wednesday morning, and readjusted its probability to 39% after the minutes. This stopped the Treasury selloff which lasted for the last three business days. Yields would not increase too much as the strong dollar and the sentiment of feeling in security with government bonds could not result in a long selloff. Over the weak, the 10-year Treasury note fell 2 bps to 1.76%. The 2-year Treasury note moved to 1.57% to 1.51% this week and finished Friday at a level of 1.53% which is the same level as last Friday. Among longer maturities, the 30-year bond yield lost 3 bps and finished the week at 2.61%.





What's next and key earnings

On Tuesday February 23rd, the Consumer Confidence index will be released. Surprisingly, despite a weak stock market and the current discussion about recession, consumers' confidence remain constant. For the month of February, we are expecting to see a slightly decline with a consensus at 97.2 from 98.1. Later that day, the existing home sales report will be released. The consensus is a 5.32 million annualized rate for the month of January compared to 5.46 million in December.

On Wednesday February 24th, the new home sales report will be released. As existing home sales, we are expected to see a decline in sales for the month of January from 544,000 in December to 520,000. Later on, the EIA Petroleum status report will be released. As any other, product, its price is determined by supply and demand. However, oil is an important part of the economy and can help to determine the trend of inflation, which makes this report important for economists.

On Thursday, February 25th, the durable goods orders will be released. We should see a rare increase of new orders of 2.0% for the month of February. Ex-transportation orders are expected to stay at their last levels.

On Friday, February 26th, the second estimate for 4th-quarter GDP will be released. It is expected to see an increase of 0.4% compare to a 0.7% increase. This is the reflexion of lower inventories and lower readings in terms of both non-residential and residential investment. Consumer spending was the big highlight of the previous estimate, which increased at a 2.2% (annualized rate) into Q1 2016.