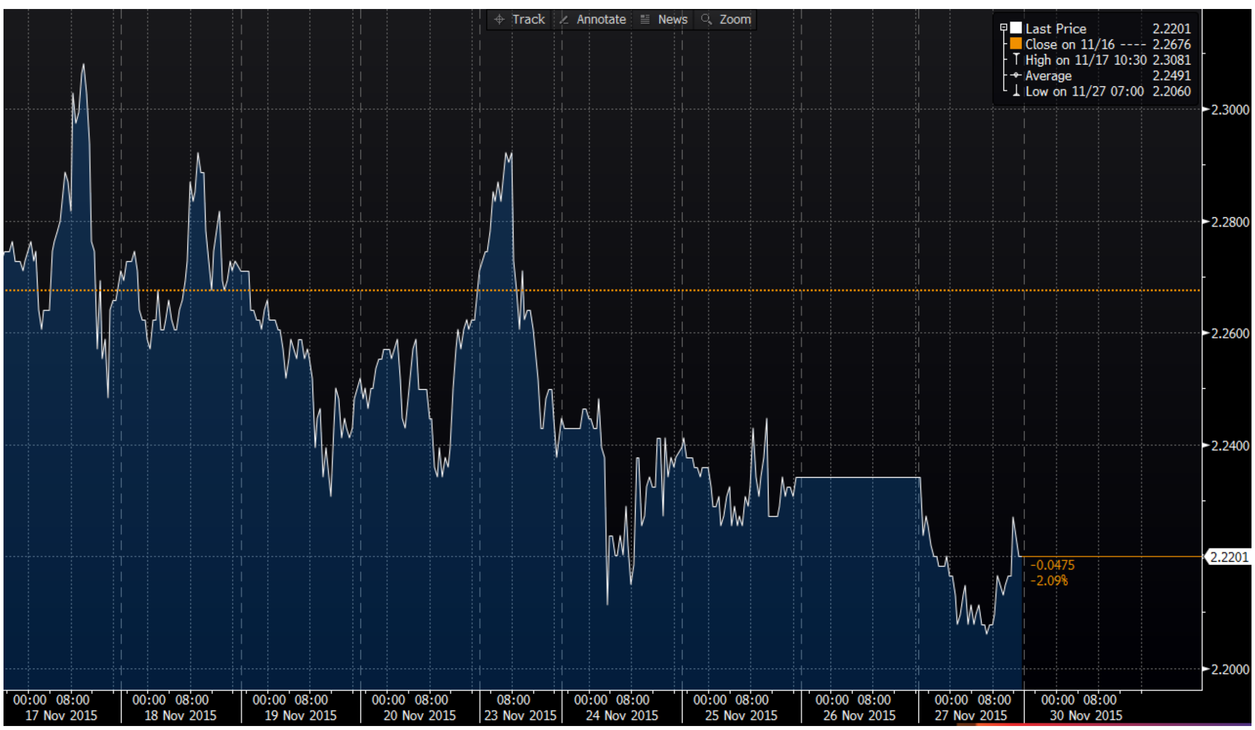
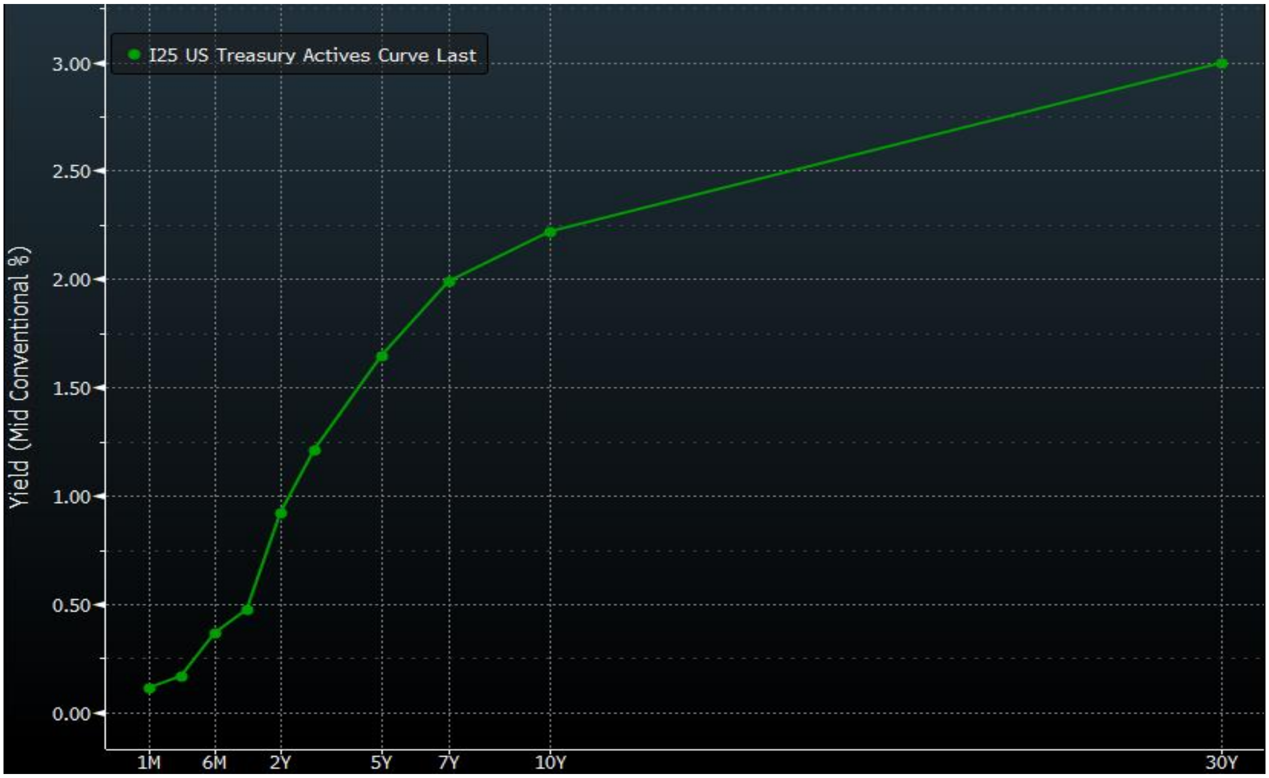
Bond Report

This week, Treasury yields have stayed at high level such as short-term yields which hits its five year and a half peak since investors continued to sell debt securities because of the potential upcoming rate hike by the FED at its December meeting. The 2-year yield rose at 0.93% this Monday, a level which was last reach in May 2010. Short-terms yields are more sensitive to rate hike which is why it rose significantly at the beginning of the week. Last week, the selloff started after the release of the FED's minutes where it was said that a rate hike was an eventuality in December. During the weekend, some officials from the FED, such as the president of the FED in San Francisco made some comments about the improving economic situation in the US and the goal of the FED from which we are getting closer. These comments, made investors to keep selling their bond as it became more and more evident that we will see a rate hike by December. However, yields declined on Friday to their month's lowest level as the Chinese equity market decline overnight. Indeed, the Shanghai Stock Exchange Composite Index fell by 5.5% on one day, which is its biggest day to day decline since August 25th. This happened because of the announcement from the Chinese Stock-Market Regulator that it suspected Citic Securities, Guosen Securities of violation of securities rules. This happening, plus the weak Chinese Industrial report that showed the fifth straight month decline, drove the global demand for U.S. Treasury notes higher as it is considered as a safer investment. U.S. treasury yields declined in all maturities, the 10-year treasury yield fell from 2.26% on Monday to 2.22% at the end of the week, the 30-year Treasury note fell 2bps from 3.02% to 3.00% over the same period and the two-year Treasury yield declined from 0.93% to 0.92% over the same time period as well.





What's next and key earnings

On Monday November 30th, The Pending Home Sales Index will be released. The last two reports have been disappointing and predicted weakness in the housing market. However, this report is expected to rise to a consensus of 1.0%, which would give a small boost to the housing market. On the same day, the Dallas FED Mfg Survey will be released. Low oil prices have severely affect the energy sector; the October's general activity index was at a negative 12.7 and it is expected to slightly increase to a negative 11.0 for the month of November.

On Tuesday December 1st, the vehicle sales report will be released. Vehicles sales level are at a 12-year high which reflects the consumer health and the boost in the retail industry. The consensus is calling for an 18.1 million annualized rate for the month of November which is slightly below the 18.2 million from the past two months. On the same day, the Manufacturing PMI Index will be released. It is expected to slowing from 54.1 for the month of October to 52.6 for the month of November, which would be its lowest level in two years. This could be the consequences of low exports because of the strong dollar. Later that day, the Construction Spending report will be released. It is expected to post a 0.6% rise for the October report.

On Wednesday, December 2nd, the beige book will be released. This report gather economic condition and will be used in the FOMC meeting. This report will be important because investors might change their investment strategy if the outcome is different from expectations, which would greatly impact the markets.

On Friday, December 4th, the Employment situation report will be released. Nonfarm payrolls are expected to rise by 190,000 for the month of November. This is below the stellar increase of 271,000 for the month of October but more than enough to drive expectation of a rate hike at the FED December meeting. The unemployment rate is expected to remain around a low 5%. On the same hour the International Trade report will be released. The U.S. budget deficit is expected to decrease from $40.8B to $40.6B for the month of November whereas the report from October did not show economic strength because of the decrease of both imports and exports.