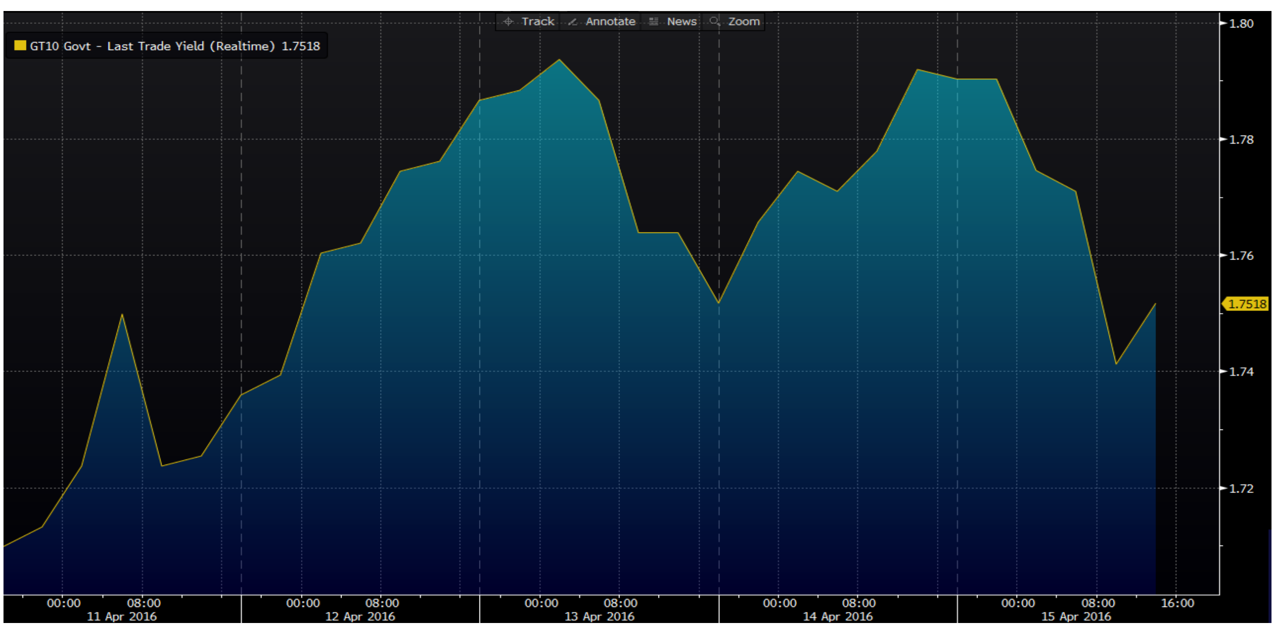
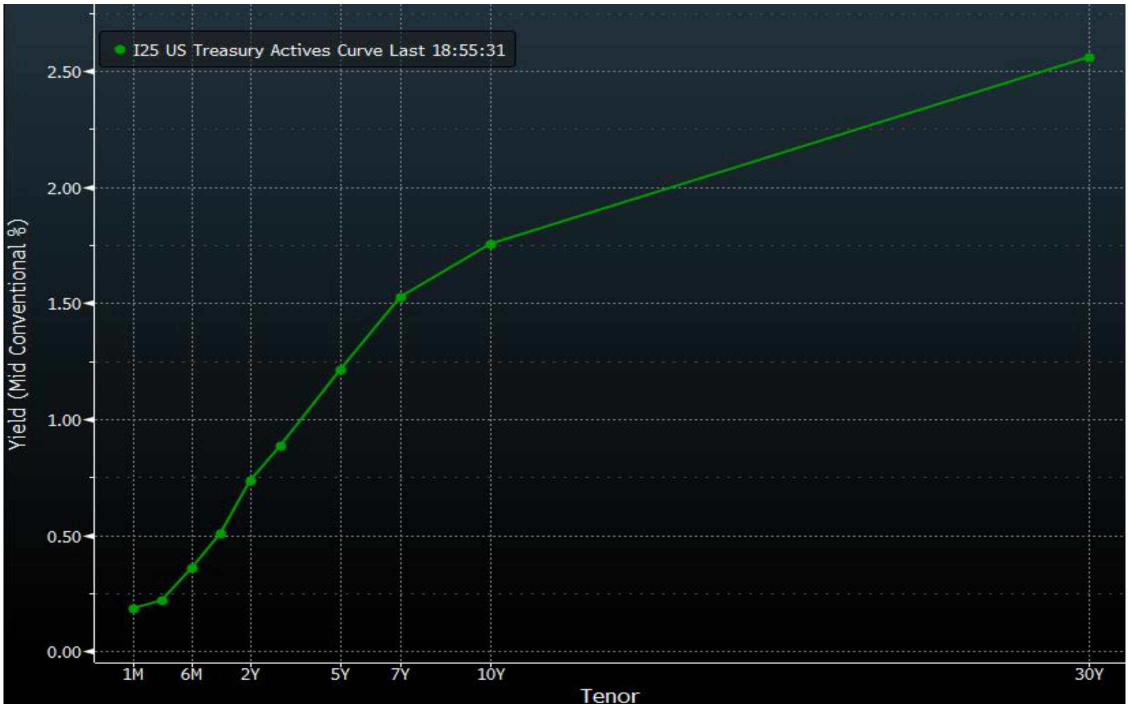
Bond Report

This week, The US Treasury yields climbed to their highest level this month, retreating from last week's 8-week low. However, yields cannot rise much since the Federal Reserve reduced their estimate for a rate increase in 2016 from four to two rate increases. Currently the Fed predicts only a 53% chance of a rate increase by the end of the year. The Treasury yields have also been reflecting the market's worries regarding the sluggish global market. On Monday, investors lost interest in risk assets awaiting a Tuesday auction. In response Treasury yields remained relatively unchanged. Oil prices finished at a high, since late March, of just above $40 a barrel. This attributed to the early rise in yields on Monday. On Tuesday, Treasury yields rebounded as prices plummeted. This suggested investors' enthusiasm towards riskier assets is increasing as oil prices rally. Crude-oil prices reached a high for 2016 on Tuesday. Thus boosting investor's optimism to invest into risky assets such as equities. As treasury yields rebounded they are still maintaining near one-year lows. As the dollar remains weak and oil prices rise US import prices are driven higher. Although, these factors alone are not enough to cause significant inflation pressures. An auction of about $56 billion took place during this week, beginning on Tuesday, in Treasurys helped to also drive yields higher. As global stocks rise, on Wednesday, Treasury yields continue to be pushed higher. Thus increasing the confidence of investors out of investments perceived as safe. This continued climb in Treasury yields was despite a drop in Crude-oil prices. A report was released on Wednesday that China's exports rose 11.5% year-over-year. Thus inferring the global market may not be as sluggish as feared. Whereas, doubts earlier in the year of China's economy slowdown catalysed demand for Treasurys, encouraging yields to reach one-year lows. China's Gross Domestic product also increased 6.7% over Q1. This further supports investors to believe that China's economy has stabilized. Treasury yields reached their highest level in months, on Thursday. As a result of a steep drop in unemployment claims signifying improved strength in the labour market. Investors continued to go towards riskier assets as equity markets rallied. Investments perceived as safe, such as Treasurys, were sold as a result by investors. On Thursday, the two-year treasury reached a high, as of April 1st, of 0.766%. Oil prices being a major factor in determining inflation projections fell on Thursday, but rose over the past few weeks. A $12 billion auction in 30-year treasury's experienced record demand from so-called buy-side institutions. On Friday, Treasury yields retreated slightly even though they had their biggest rise in a month this week. As a result of less optimistic economic data and declining Crude-oil prices. This further encouraged investors to buy investments perceived as safe, such as Treasurys. Thus depressing yields and driving prices higher. Friday's Treasury yield levels were thought to fairly reflect realistic growth and inflation expectations. Overall, the two-year Treasury rebounded 3.6bps to 0.734%, on Tuesday, and climbed 3.0bps over the week to finish at 1.753%. The 10-year Treasury yield also rose 3.2bps over the week and finished at 1.753%. While the 30-year Treasury, on Tuesday, rose 4.5bps to 2.608% and finished the week up 0.4bps to reach 2.561%.





What's next and key earnings

On Monday, import and export prices were released for March. Imports fell 0.2% signally how deflationary cross-border pressures have been. Whereas, exports had the best reading since May of last year remaining unchanged. On Tuesday, the Treasury budget for March was driven up by increased Medicare costs. The Treasury budget deficit in March was $108.0 billion indicating of budgetary trends and thrust of fiscal policy. U.S. retail sales despite expectations for a March rebound fell 0.3%, ending Q1 weaker than expected. U.S. whole sale prices also declined 0.1%, in March, even though the rise in Crude-oil prices. This reflects the low level of inflation in the economy. Inventory to sale ratio rose from 2.12 to 2.14 as inventories of both manufactures and wholesalers feel, in March. This may lead to risk in the U.S. inventory outlook. Crude-oil inventories soared to record breaking 536.5 million barrels. The consumer price index had a disappointing reading for March. Although, March's climb in gasoline prices are expected to push future consumer price index up. On Thursday, those Americans that applied for unemployment benefits declined significantly to the lowest levels in years. A fall in jobless claims to 253,000 last week a near record low. These low levels of unemployment signal a strong demand for labour. Last summer's weak growth overseas, the strong dollar, and collapse of oil prices has weakened the manufacturing sector as it was released that industrial production fell in March. On Friday, consumer sentiment dropped to a lower than expected April index level of 89.7 compared to March's 91.0 level. This could be due to doubts regarding future job and income predictions. The volatile political condition and low wage growth also have been less than optimistic for consumer confidence.