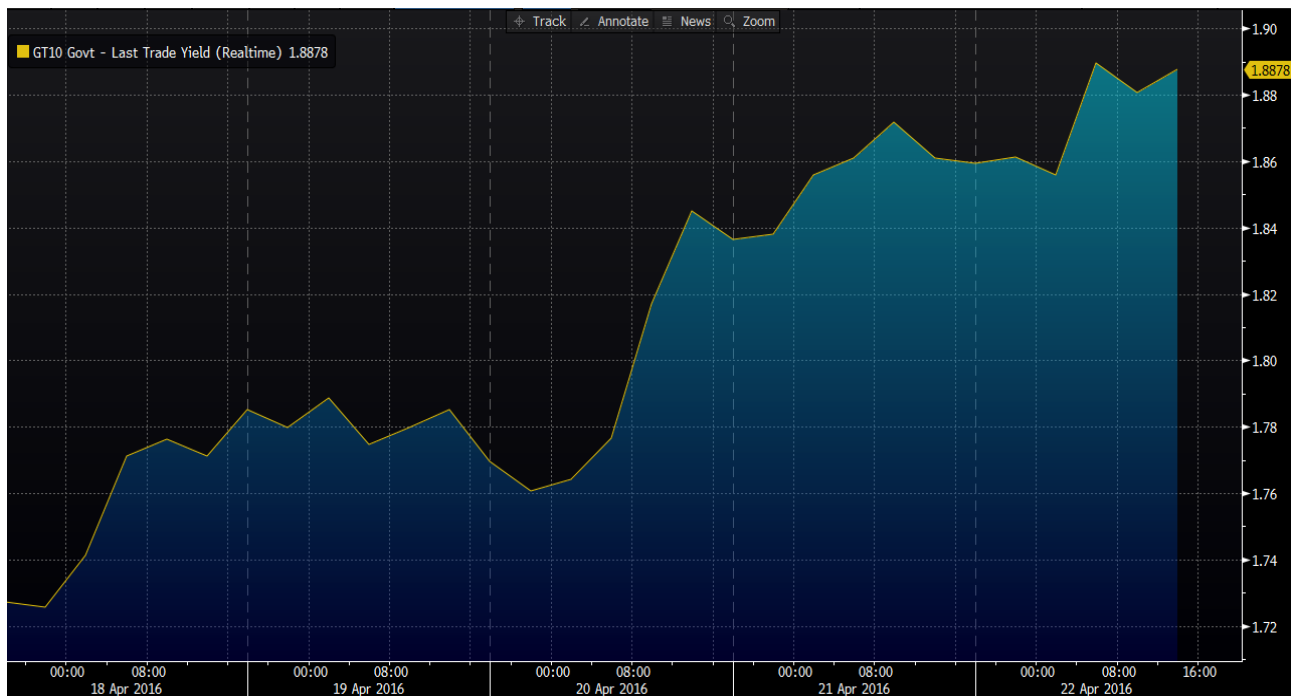
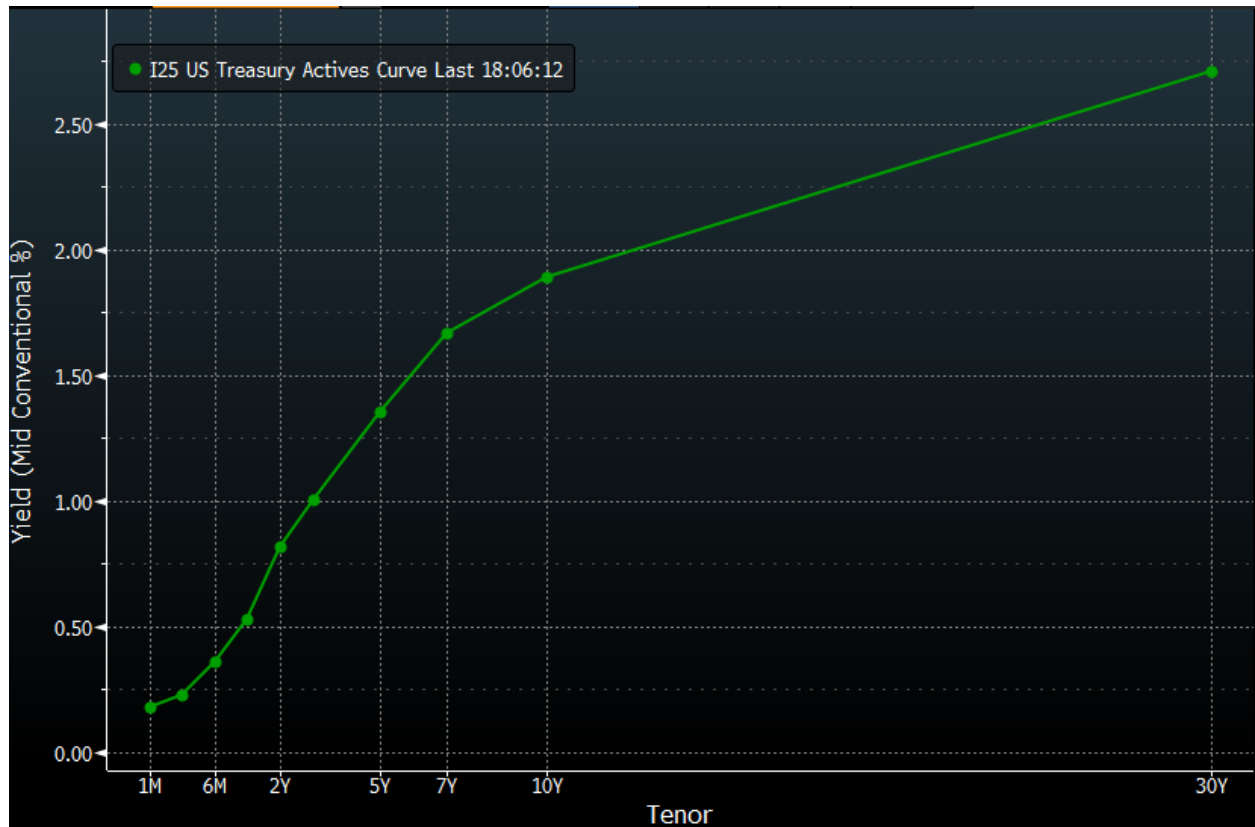


Bond Report

This week, The US Treasury yields continue to climb for their highest levels this month. This reflects a desire for riskier assets, such as equities and oil, by investors. Although, with the S&P at its best in four months and the Dow industrials at its highest in nine months, a negative tone will still be carried through in Treasuries. The Federal Reserve's dovish approach continues to lead investors to plan on interest rates remaining lower for longer. The market implies a June rate increase remains at a 16% probability. The Federal Reserve will meet next week to discuss further monetary policy. On Monday, Treasury yields rose even higher than their largest weekly jump in weeks last Friday. Oil prices recovered some from their losses after oil prices plunged with a failed agreement of top class oil producers Doha and Qatar. This left equities in the U.S. to reverse into the positive direction leaving better than expected corporate earnings results. In response, Treasury yields rose as risky assets recovered. A continuing rally in the equity markets and the selling of safe assets, such as government debt, on Tuesday, pushed yields to remain at April's high. Boston's Federal Reserve president Eric Rosengarten presented his concern that unemployment could fall sharply if interest rates remain low. His comments were perceived hawkish by investors pushing yields higher. However, do to news that housing starts in the U.S. dropped to a 12 month low in March Tuesday's gains on Treasury yields were somewhat capped. On Wednesday, Treasury yields experienced the largest single day jump in seven weeks. This was due to a rally in oil and equity markets. Until the Fed's policy meeting next week the Treasury market will remain at the mercy of risky assets. This is due to Fed officials not making any comments until the meeting next week, which are the genuine market drivers. For the fourth straight session this week Treasury yields increase, on Thursday. Due to a bond selloff that started in Europe, after a climb in government bond yields due to the European Central Bank failing to change key interest rates. Thursday's increase was trimmed by some return in demand to the Treasury market pushing Treasury prices higher. Treasury yields continued the week's upward trend, on Friday. The main driver being a strong desire for riskier assets, such as oil futures and high yield bonds. A continued strong upward trend in the labor market and commodities are leading investors to consider the possibility that inflation will soon rise thus increasing yields further. Overall, Treasury yields are currently at the highest in the month of April. The two- year Treasury rose 8.8bps over the week to reach 0.822%. The 10-year Treasury yield soared 13.4bps over the week to finish at 1.889%. While the 30-year Treasury finished the week up 12.1bps to reach 2.708%.





What's next and key earnings

On Monday, the housing market index was released. It remained unchanged at 58, which continues to point to confidence among home builders. Continued sentiment among home builders has further added to the selling of Treasuries. Meanwhile, it was released, on Tuesday, that housing starts in March plummeted 8.8%. Although, the year-on-year rates are still fundamental strength in housing start-ups. On Wednesday, it came out that existing home sales rose more than anticipated during March but remain weak year-on-year. The median price for an existing home is lower than a year ago were higher prices help encourage more homes into the market. However, realtors still remain optimistic. The EIA petroleum status report was also released, on Wednesday. A rise of 2.1 million barrels last week in crude oil inventories to reach 538.6 million barrels. Product inventories declined as a result of gasoline down 0.1 million barrels and distillates down 3.6 million. Demand for gasoline is up 3.65% higher than last year, while demand for distillates is slightly down. This was an optimistic report in comparison of this winters. On Thursday, jobless claims were released for last week. Labor markets remain confident, although claims fell lower than expected. The 4 week average for jobless claims fell 4,500 to 260,500 from 265,000. Thus, this report is still optimistic as employers hold onto their employees. On Friday, the PMI manufacturing index flash came out giving early inclinations that April's factory conditions are unchanged. Indications of monthly growth are still present with a PMI reading over 50, at 50.8. Although, there is a slowing in growth in outputs, hiring, and new orders. While it was released that the energy sector's outlook remains pessimistic. Backlogs are down signalling operating slack, a negative for hiring. Inventories remain down as manufacture's stocks of purchases are falling sharply. Lastly, it states that it is still too early to realize gains from this year's depreciation in the dollar and gains for oil.