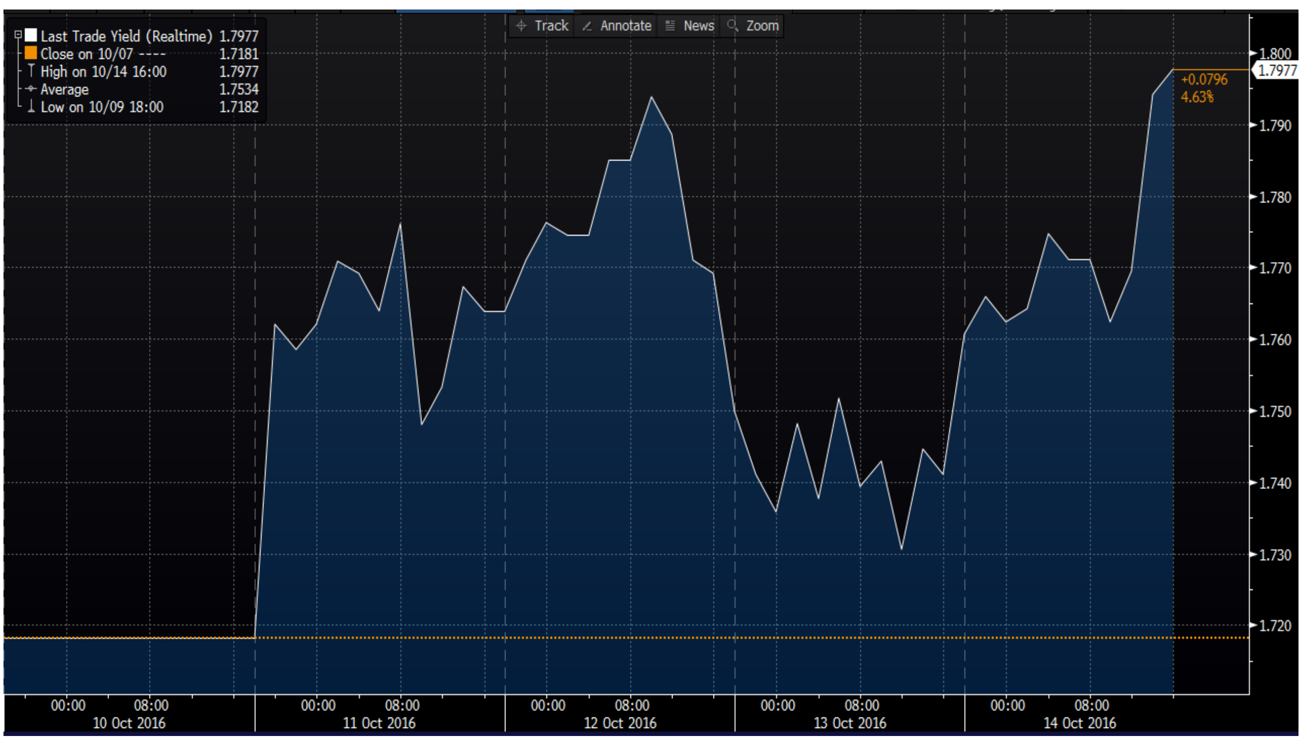
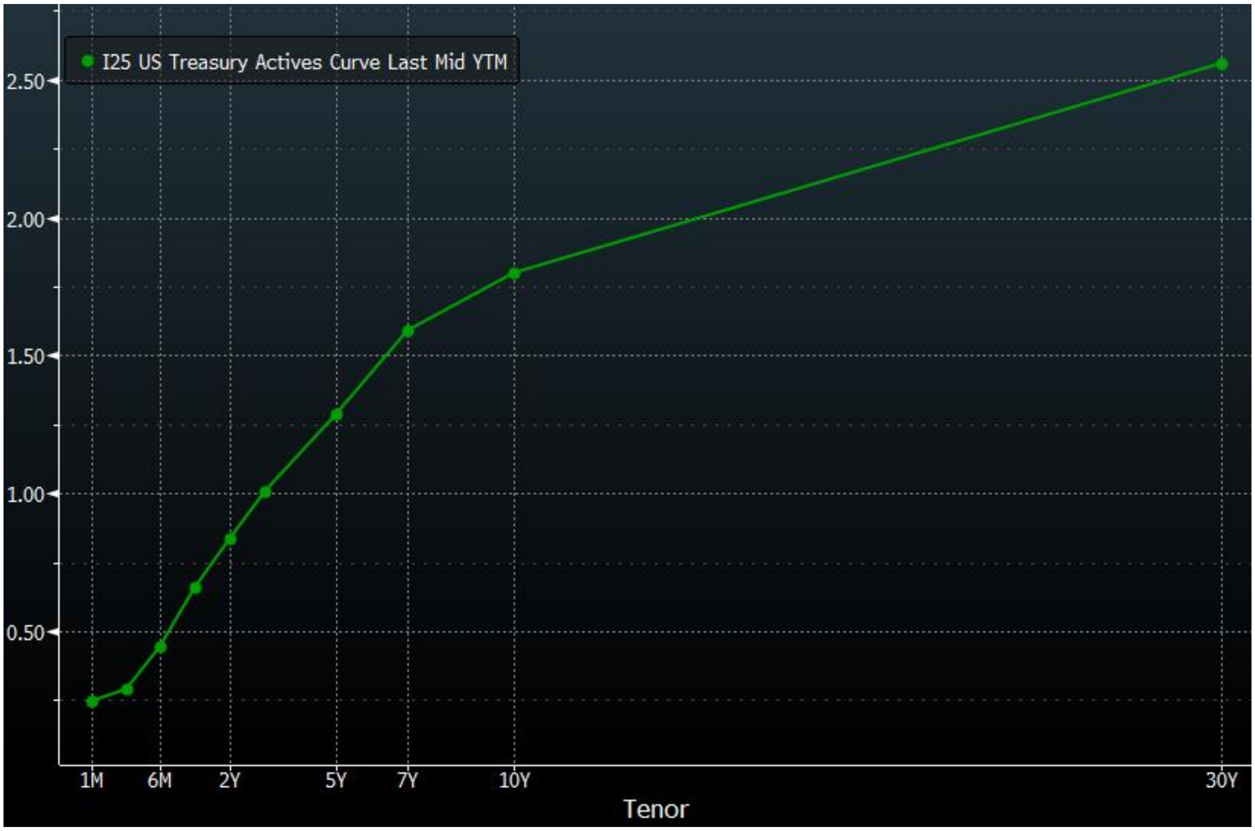
Bond Report

This week, the US Treasury yields climbed to their highest levels in four months. This is a result of positive economic data strengthening the Federal Reserve's case for raising interest rates in December. Currently the Fed predicts a 65% to 70% chance of a rate increase in December. Yields could be pushed even higher as worries that central bank's' quantitative easing programs had reached the limits of their effectiveness, which has helped to stall buying. On Tuesday, investors were pressed by wide selling across all asset classes, including equities and commodities, as a result yields were pushed to four month highs. This synchronized selloff of global assets could have been the result of risk-parity funds deleveraging, according to some analysts. On Wednesday, yields continued the upward trend as the Fed released minutes from its September meeting. Investors were proven right anticipating a hawkish tone in the minutes when three officials voted to raise interest rates in defiance of Fed Chairwoman Janet Yellen. New York Fed President William Dudley commented that the economic growth anticipated path should allow the Fed. On Thursday, it was reported that trade data from China was weaker than expected. In response, investors hurried out of risky assets such as global equities and into the safety assets, such as government bonds and the yen. This pushed Treasury yields lower on Thursday. Also there was a $15 billion auction for 30-year bonds later in the day that was well received with fair bidding. On Friday, Treasury yields improved from the previous day and were climbed to their highest levels in four months. This was as a result of Fed Chairwoman Janet Yellen comments suggesting that there may be benefits in letting inflation climb higher than the current target of 2.0% in order to stimulate the economy. Although this caused inflation expectations to move higher it did not have a great impact on interest rate expectations. Overall, the two-year Treasury ended flat at 0.838%, over the course of the week, and was most sensitive to changes in interest rate expectations. The 10-year Treasury rose 5.3bps to 1.792%, a high since June 2 of this year. While the 30-year Treasury is up 8.5bps to 2.553%, the highest level since June 23rd.





What's next and key earnings

On Tuesday, the labor market conditions index was released coming in at minus 2.2 in September. The soft trend in the labor market was supported with job openings falling a sharp 7.3% in August, the lowest openings number is the lowest since December of last year. Hiring also slowed 0.9%; however, is still the fourth highest report this year. The lack of openings and hiring are consistent with the slowing job growth scene throughout August and September. On Thursday, jobless claims report was released and unemployment claims remain near historic lows. This indicates a lack of layoffs and quick turnaround for those who lose their jobs. Although, this report initial claims came in near the low end of expectations in Week of October 8th. Export and import price report was released showing optimistic data. Import prices rose 0.1% and export prices went up 0.3% in September. A rise in petroleum prices helped pull import prices up rose 1.2% last month, but are down 2.4% on the year. Natural gas in storage rose to 3,759 bcf in the week of October 7th. Overall, the over the course of the year natural gas stored is shrinking to smaller weekly builds than last year. Gas stocks stand 5.4% above the 5-year average. On Friday, retail sales report showed solid September data, and up 0.6%. This report will give a lift to GDP, providing a quarter-end rise to consumer spending. Consumer sentiment index fell so far in the month of October to 87.9, this is the weakest report since September of last year. Lastly, one-year inflation expectations are unchanged at a very low 2.4%.