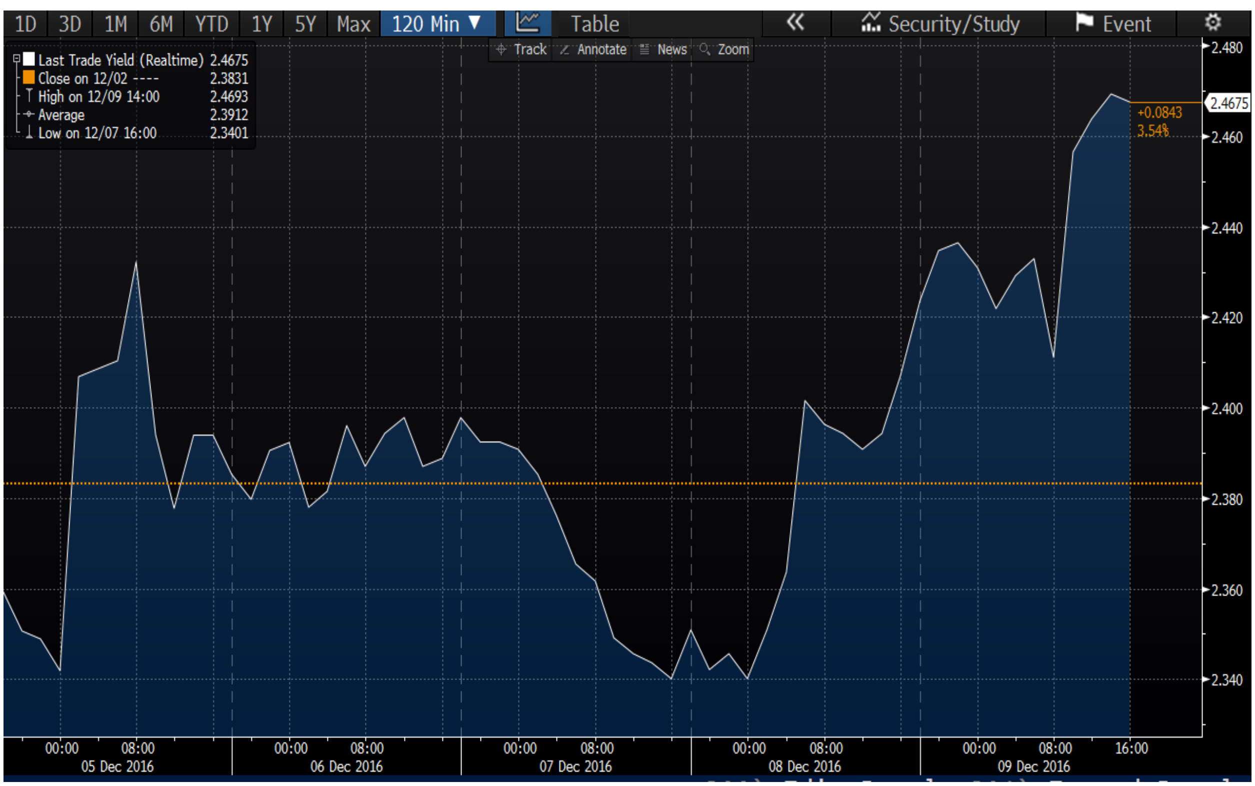
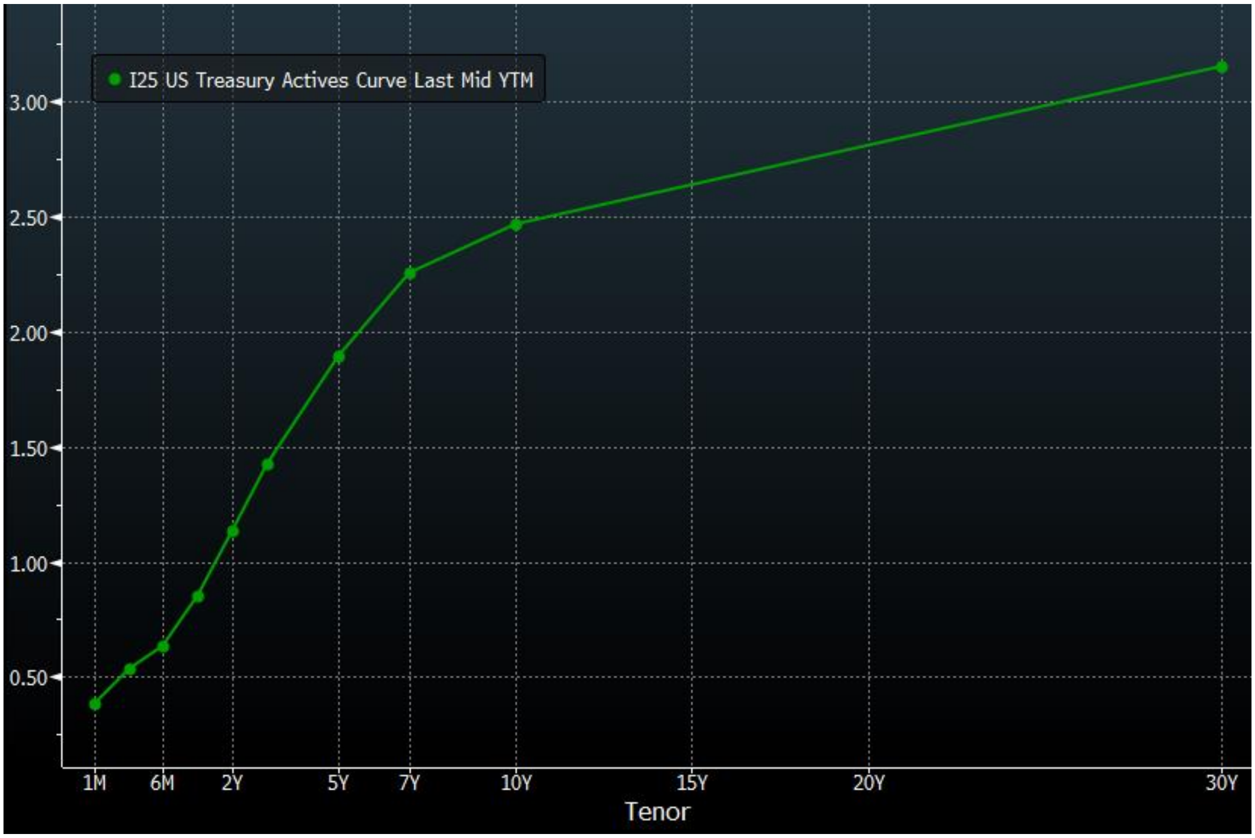
# Bond Report

This past week, investors in the bond markets have mainly been expecting and looking for announcements from both European and American Central banks. Overall, yields on US treasuries increased through the week, as the fear of a systemic crisis in the Eurozone because of the results of Italian did not last long. Moreover, the European Central Bank's decision to taper its bond-buying program lead to a global selloff in fixed-income markets, therefore impacting the US Treasury market. On Monday, after dropping early in the session due to fear of a breakout of the Eurozone due to the Italian referendum results, yields on US Treasuries rose back as investors became more optimistic regarding the consequences of the referendum. On Tuesdays, yields, yields remained relatively flat, as investors were reluctant to make bets on the outcome of Thursday's ECB meeting, and as the outcome of next week's Federal Reserve meeting is already priced (estimate 95% probability the Fed will raise interest rates by 25 basis points). On Wednesday, yields on both European and US government bonds fell ahead of the ECB's announcement about the direction it will give to its bond-buying program. This was due to fear about whether the ECB was going to announce extension of its program, or to give a timetable for tapering. On Thursday, the unexpected announcement that the ECB is going to start tapering its bond purchase in April even had an impact on the US Treasuries market, leading longer term securities (mainly 10-year and 30-year bonds) to see their yields jump by 4.3 basis points and 5.9 basis points respectively. Finally, on Friday, stronger than expected inflation data for China, in addition to the effect of the ECB announcement on Thursday, sent yields even higher than the previous days, as it lead to a global selloff in fixed-income securities. The 10-year Treasury yield even touched its highest level since June of last year. Throughout the week, the 2-year yield increased by 2.4 basis points to 1.132%, while the 10-year yield surged by 7.2 basis points and the 30-year yield rose by 10.6 basis points to 3.155%.






**What's next and key events**

Next week, the main event that will be under investors' scrutiny will be the outcome of the Federal Open Market Committee (FOMC) Meeting. On Tuesday, when the meeting begins, the Fed will decide whether it actually raises the interest rate levels by 25 basis points. The market has now fully priced that the hike in interest rate will occur next week. Therefore, at the time of the announcement on Wednesday at 2:00 PM, any other outcome would lead to a strong reaction from the market. The Fed will also give its quarterly forecast regarding GDP growth, unemployment rate, and inflation rate. On Thursday, significant indicators' data will be released. First, the Consumer Price Index for November will be published. The consensus is a 0.2% increase, down from October's 0.4% increase, but once food and energy are excluded, consensus from November, 0.2% increase, exceeds October's 0.1% increase. At the same time, Jobless Claims for the week will be disclosed, with expected decrease from 258,000 to 255,000 in new unemployment claims. Finally, later in the day, the Housing Market Index for December will give an idea of the healthiness of the housing market.