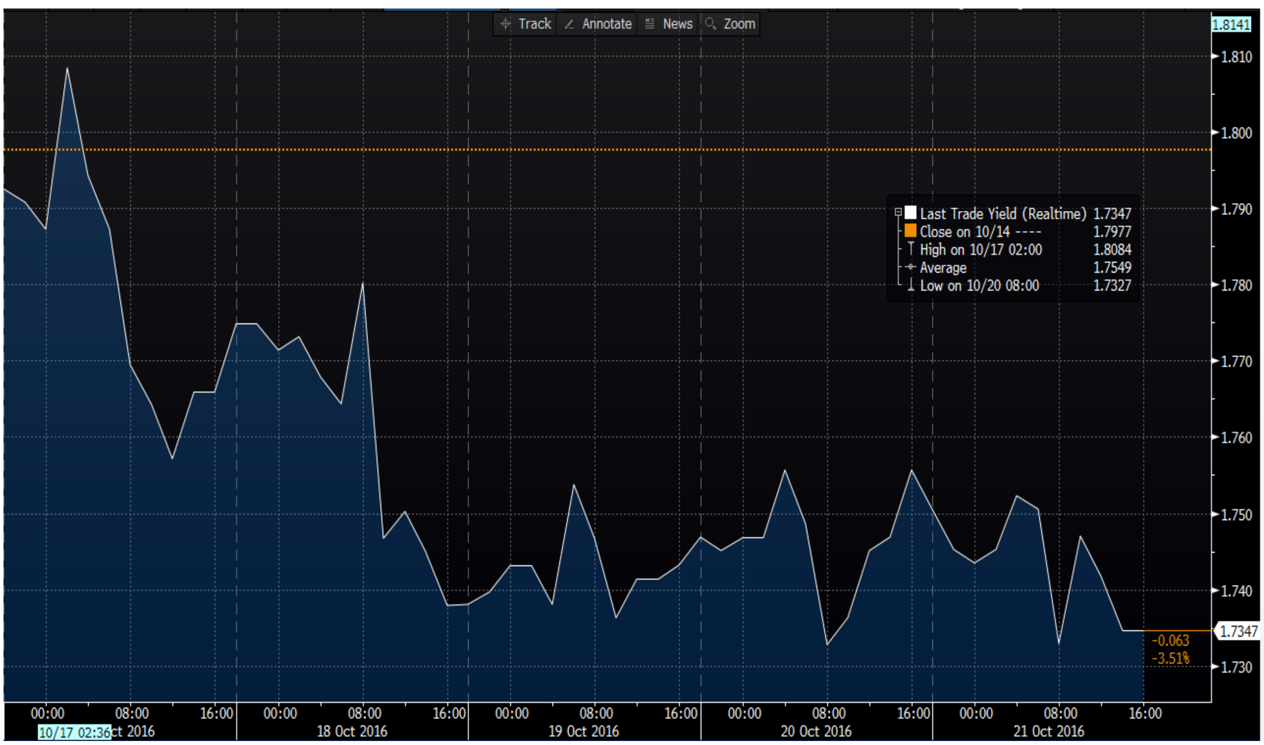
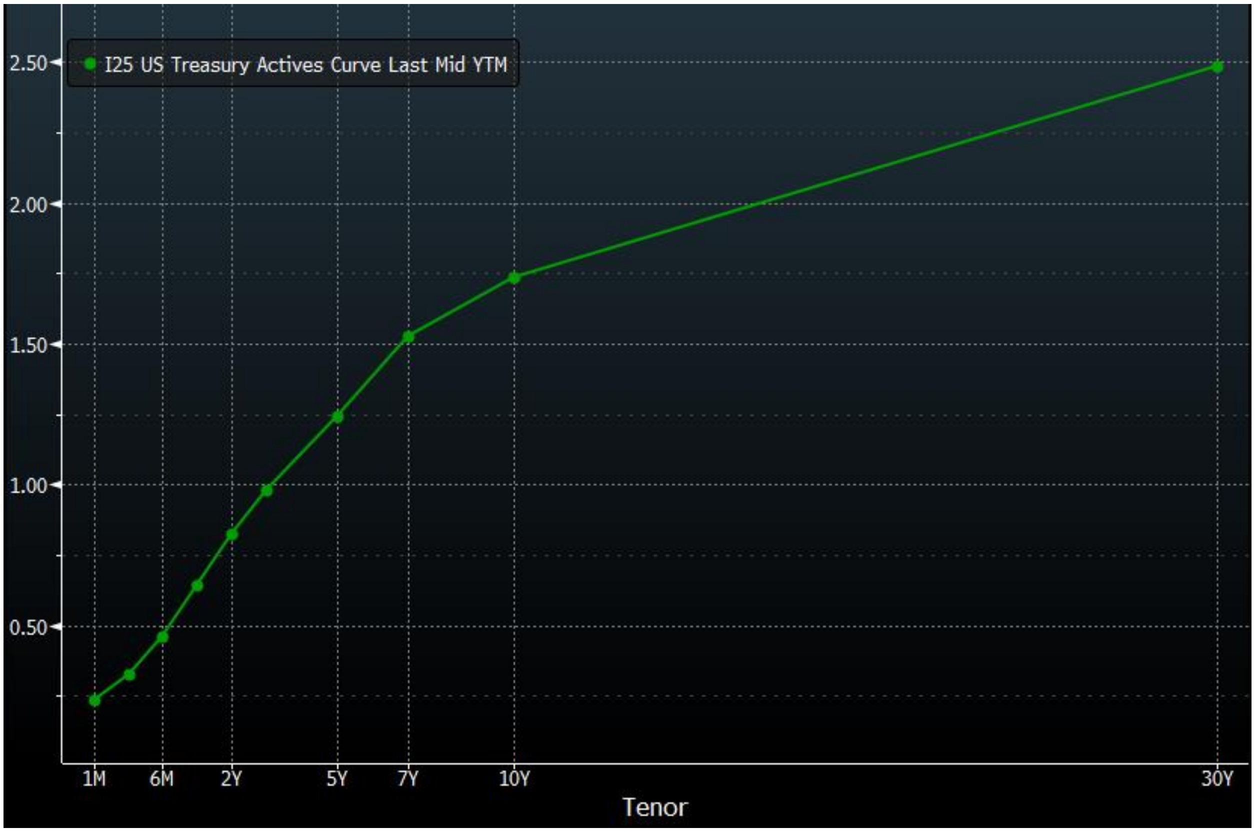
Bond Report

This week, the US Treasury yields fell from past week's four month high. This is a result from disappointing reports on inflation and housing market. Lower-than-expected inflation rate for September, as well as deceleration of new home constructions helped weigh on yields this week. Additionally, lack of guidance from the ECB on the future of its bond-buying program drove investors back into government debt. On Monday, investors slowly returned to the Treasury bond market after the large selloff from the past weeks, making Treasury prices rise and pushing yields lower. On Tuesday, even though the Consumer Price Index showed an increase of 0.3% for September, in line with expectations, the core inflation was only 0.1% for the month. Therefore, yields fell as investors adjusted to lower expectations. On Wednesday, investors sold U.S government bonds to hedge their credit risk in prevision of the $17.5 billion offering of Saudi Arabian debt. Therefore, Treasury prices fell and yields climbed in the first half of the day. Later in the day, data showing that new home construction rate slowed down to its lowest pace in a year and a half contributed to move yields sharply lower. On Thursday, data suggesting a cooling U.S. Housing Market pushed short-term treasury yields higher. Statement from Mario Draghi suggesting that the ECB bond-buying program could be extended made yields on long-term Treasuries fall in sympathy with European markets. Overall, the two-year Treasury fell by 1.1 basis point to 0.827% over the course of the week. The 10-year Treasury saw its yield fall by 5.2 basis points from its four-month high to end Friday's session at 1.740%. Regarding the long-term 30-year Treasury bond, its yield fell by as much as six basis points through the week to 2.493%.





What's next and key earnings

On Tuesday, the Consumer Price Index data for September was released. Consumer prices rose at a 0.3 percent rate over the month, in line with economists' expectations. It was mainly driven by energy surging by as much as 2.9 percent. However, the core inflation data, which excludes energy and food (flat this month), was only 0.1%. It suggested that even if inflation is growing steadily, it is not as spectacular as expected. Still on Tuesday, the Housing Market Index was released and was 63, down 2 from September Index of 65, but in line with consensus expectations. The main concern is the lack of new homes coming on the market and a lack of first-time buyers. The new home market is a major highlight of the economy right now, where expansion is being limited by construction constraints but is still pointing to spill over into the still muted resale market. For the coming week, several announcements are of interest. First, the Consumer Confidence Index is to be released on Tuesday. It will give an overview of consumers' mindset and perception of the economy for the months to come. Then, on Wednesday, data about New Home Sales is to be released. Last but not least, data about third-quarter's GDP will be released on Friday morning. It is expected to have grown by as much as 2.5% over the quarter, and Consumer Spending is also expected to be solid.