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BOND MARKET REVIEW

July 22, 2015

Inside Out

Equities rallied around the globe as Greece secured agreements with creditors and remained a part of the European Union. The real story is far more American. After all, we practically invented the use of convenience checks to remain solvent. Only 0% to June 2016 – then 16.99% (or worse). Before that, we cash–advanced credit cards to pay others or used the balance transfer option. That way we could stay current while we once again maxed out the original card – hoping to secure another card in the meantime to further the strategy. Meanwhile, the card providers must disclose that paying only the minimum payment might require 20 years or so to retire the debt.

Most Greek banks had been closed since June 29th, but reopened this week as Prime Minister Alexis Tsipras won support from lawmakers to gain emergency funding from the European Central Bank (ECB). The banks will still have a 60 Euro (around $65) daily limit for withdrawals. The EU approved a 7.2 billion Euro ($7.8 billion) third–bailout bridge loan to Greece that was funded on Monday. If Greece had missed its debt payment on Monday, they would most likely have been forced out of the EU. Nevertheless, Greece approved and paid 6.8 billion Euros ($7.4 billion) to the ECB, the International Monetary Fund (IMF), and its own central bank. Global crisis averted – for now. That certainly sounds a lot like a huge–credit–line card with a transfer balance option – now exercised!

With Fed Chair Janet Yellen and other FOMC members still indicating they'd like to begin raising rates by September, short rates began another steady ascent in capitulation to that event. Longer rates, however, are focused on economic data and global situations that continue to be non–assuring when weighed in total. The Fed's on a 'September or bust' path that's become a referendum on their policies, rather than a more objective view of data from the first and second quarter. Though second–quarter GDP is expected to show growth, factors such as another drop in labor force participation and slow wage growth show there are still a number of economic hurdles to overcome. Next Thursday's (07/30) 2Q GDP report is expected to show growth at an annual pace near 2.50% – following the first quarter's .20% contraction. Even if we get such a confirmed bounce–back, the economy would be showing only 1.15% annual growth for the first two quarters. It's hard seeing the Fed having a lot to cheer about – especially at this July meeting.

In last week's **B**ond **M**arket **R**eview, we saw *"September as the earliest potential for liftoff"* and that remains the case. Though Yellen has said that every meeting is *"live"*, there won't be enough data for the Fed to comfortably make a decision by next week. As we said: *"The Fed may not know by then whether or not some of the suspect and sluggish data for the 2nd quarter is merely transitory."* Last week, Yellen told the Senate Banking Committee there were risks that could come from a delay in raising rates and also from doing so too soon. She said: *"There are risks on both sides. My own preference would be to proceed in a prudent and gradual manner."* Yellen also allowed that a negative shock with rates pinned at zero wouldn't leave the Fed with much scope to respond. Economists and Fed members are calling the odds of a September hike 50%–50% at this point. That's the same 'coin toss' call most Fed watchers expected for September back in June. A September hike might also allow the Fed to get 2 increases done in 2015, while skipping the October meeting to accomplish their so–called 'gradual pace' – prudent or not.

Looking Ahead

- Bond cycles are mixed, but have a yield high due between July 27th and July 31st.
- Stocks should fall into July 28th–29th, with a larger cyclic low due in early September.
- The FOMC will announce their latest policy stance next Wednesday (07/29) at 2 pm EDT.

Treasuries, Agencies, and MBS

Last week, short rates increased as the FOMC seems focused on a September hike. 2 and 5–year yields rose 3 and 1.5 bps. Global issues and plunging commodity prices (especially Crude Oil and Gold), led to long yields decreasing. 10 and 30–year yields fell by 5 and 10.5 bps. That trend continued into today. 2–year yields were 4 bps higher since Friday while 5–year yields were flat. 10 and 30–year yields improved (fell) another 2.5 and 4.5 bps.

MBS spreads (for FNMA 30–year 3.0%) pulled in 4 bps last week. Next week, the U.S. Treasury will auction $26 billion 2–year notes on Tuesday (07/28), $35 billion 5–year notes on Wednesday (07/29), and $29 billion 7–year notes on Thursday (07/30).

07/17/15 Treasury Yield Curve	2-Year: 0.667%	5-Year: 1.670%	10-Year: 2.348%	30-Year: 3.083%
Weekly Yield Change:	+.028	+.013	–.050	–.107%
Support:	0.71/ 0.73/ 0.75/ 0.78%	1.66/ 1.69/ 1.73/ 1.76%	2.34/ 2.38/ 2.42/ 2.46%	3.06/ 3.10/ 3.14/ 3.17%
Targets:	0.67/ 0.63/ 0.59/ 0.54%	1.62/ 1.57/ 1.54/ 1.50%	2.26/ 2.22/ 2.19/ 2.16%	2.97/ 2.93/ 2.88/ 2.84%

Economics

Initial Jobless Claims fell from 296K to 281K for their first drop in a month. Claims have been under 300K for 19 weeks – the best such string since 2000 – and no doubt a positive for the Fed's labor dashboard. Continuing Claims dropped from 2,327K to 2,215K. Consumer Prices rose .30% in June, increasing the annual pace from flat to a modest .10% rise. Ex food & energy, CPI rose .20% – raising the annual pace from 1.70% to 1.80%. While the housing sector has been strengthening, commodity prices have been plunging – possibly leading to a much different picture for July. Average Weekly Earnings declined from an annual pace of 2.20% in May, to only 1.80% for June. University of Michigan Sentiment dropped from 96.1 to 93.3. Their 'current conditions' read dropped 2.9 points to 106, and Expectations were 2.6 lower to 85.2. Bloomberg Economic Expectations fell 2 points to 45.5 and the Philadelphia Fed Business Outlook dropped from 15.2 to 5.7.

The NAHB Housing Market Index showed builder optimism high at an unchanged reading of 60 – the best levels since November 2005. June Housing Starts rose 9.82% to 1,174K for a 24.23% annual increase. Building Permits were 7.44% higher to 1,343K, up a stout 38.03% versus last June. Apartment units had strong demand. The FHFA House Price Index increased .40% in May. Existing Home Sales jumped 3.2% in June to a 5.49M pace. That was the best level since February 2007, and houses were turning in an average 34 days. May saw large inflows into Treasury investments with net foreign purchases rising by $115 billion. A hefty $93 billion was invested into longer maturities. China is back on top with $1.27 trillion in holdings while Japan is second with $1.22 trillion Treasuries.

Thursday is set for jobless claims data, the Leading Index (June LEI), Kansas City and Chicago Fed Activity reports, and Bloomberg Consumer Comfort (which last week slipped .3 to 43.2). Friday reveals June data for the sales of New Homes. Next Monday (07/27) gives us June Durable Goods Orders and Dallas Fed Manufacturing Activity. Tuesday is set for S&P/CaseShiller home price data, Richmond Fed Manufacturing, and the Consumer Confidence Index. Wednesday provides the FOMC update on interest rate policy, June Pending Home Sales, and MBA Mortgage Applications (which last week edged .10% higher).

Equities

Stocks just had their best week since March. A few weeks ago, Greek voters had just said 'no' to austerity measures that might encourage the EU and the IMF to give their country more time to meet obligations, keep banks from closing, secure their place in the EU (for now), and possibly even gain further bailout provisions. That vote and other factors sent many global and domestic stock indices negative for the year, and Chinese markets crashed. However, the **BMR** equity cycles were positive into July 22nd, and a global rally ensued – coupled with a temporary stay of execution for Greece's place in the EU.

An impressive rally allowed global stocks to rise, while the Nasdaq and S&P100 hit new highs on Monday (07/20). The S&P (500) was within .09% (1.89 points) of a new high. The Nasdaq had its second highest close on Tuesday, but the markets weakened through today as the downward cycle began. Our next low is due near July 29th, which interestingly enough is 'Fed day.' Though no surprise action is expected at this meeting, and all eyes are on September, the markets are always eager to gauge the 'tone' of each FOMC statement and the subsequent commentary from its members. The broad market (NYSE) and Dow Industrials did not approach their highs, and the Transports were still more than 10% off last November's highs even with this week's rally.

For the week, the Dow rallied 326.04 points or 1.84% to 18,086.45. It's down 1.30% this week. The S&P gained 50.02 points or 2.41% to 2,126.64, but is .59% lower since Friday. The Nasdaq surged 212.45 points or 4.25% to 5,210.14, and is .74% lower this week. The Dow Transports gained 1.12%, and are .05% higher this week. Bank stocks rallied 3.17%, and are 1.53% better this week.

Resistance:	Dow:	17,863/ 17,930/ 17,999/ 18,065	Nasdaq:	5,196/ 5,233/ 5,269/ 5,305	S&P: 2,117/ 2,125/ 2,137/ 2,148
Support:		17,664/ 17,595/ 17,546/ 17,470		5,125/ 5,089/ 5,053/ 5,008	2,091/ 2,080/ 2,068/ 2,056

Other Markets

In the **BMR** (07/06), we said to expect an *"important low for Crude Oil near July 28th."* While some of our work points to the 30th, this could be a tradable low for Crude. The current drop into this cycle is reinforcing the targets for a generally higher move into September 15th. Last week, Crude fell 3.51% for its 3rd weekly decline. It's 3.34% lower this week. Commodities fell 1.70%, and were 2.45% lower into today. The Commodity Index reached a 13–year low and is nearly 56% off its July 2008 peak.

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Gold also lost 2.25% and was 3.57% weaker into today – dropping to the lowest levels in 5 years! With wage pressures and other inflation measures still relatively low, this fresh drop in prices could be alarming to those that are still concerned over renewed deflation.

While the weaknesses last week can be somewhat explained by a 1.89% surge in the U.S. Dollar to 3–month highs, the Greenback is off .27% since Friday. The Euro tumbled 2.97% last week, but is .91% better this week. The Japanese Yen lost 1.07%, but is .10% higher this week. Corn fell 1.64%, and is 4.16% lower this week. Cotton rose .55%, but is off .35% since Friday.

"If I have ever made any valuable discoveries, it has been owing more to patient attention, than to any other talent." Isaac Newton

"Inspiration does exist, but it must find you working." Pablo Picasso

Additional Information is Available on Request
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