BOND MARKET REVIEW

April 20, 2016

'Modestly–Moderate' Ado About Nothing

Growth being less than 'much', expectations for a hike at next week's FOMC meeting are so low, an increase would lead to a 'man bites dog' type of headline. Other than stocks rising to 4–month highs, the best story we saw last week was about a Memphis FedEx employee that fell asleep around 4 a.m. – only to awake as the plane neared the airport in Lubbock. Kansas City's WDAF–TV quipped: *"No word yet on if the man splurged to have himself shipped FedEx Same Day back to Memphis, or if he waited the 5 business days for FedEx ground."*

With core Consumer Prices rising the least since last August, some housing–sector components stalling in March, and some other data less than promising, little is there to challenge Fed Chair Janet Yellen's recent position that the Fed can be cautious and gradual with rate increases. FRB Atlanta President Dennis Lockhart is in that camp as well. (Recall from last week that the Atlanta GDP forecast was only .10% for the 1st quarter – versus 1.1% from the New York Fed.) Last week, Lockhart said: *"Based on what I have seen, I am not going to be advocating a move in April – I have changed my view."* He said consumer spending and other data *"seem to be softening"*, giving him a pause. Stocks, however, continued to rise on the Fed's recently more–dovish stance, the Dollar dropping around 6% off its highs, the continued stimulus of other global central banks, Crude Oil improving 69% above its early February trough to its highest levels since November, and some abeyance to the recent plunge of global economic weakness.

Former Fed Chair Alan Greenspan made the case that monetary policy *"has done everything it can unless you want to put additional QEs on."* He said: *"There's no real evidence that we're getting an impact on lending and on the economy picking up."* Greenspan said a significant number of global economies were growing less than 1%. He made the case that gross domestic savings had been severely undercut by *"social benefit increases in virtually every single major country."* He said it was fundamentally *"a political problem."* The International Monetary Fund's Christine Lagarde has been defending the use of negative interest rates, making the case that they create a net positive impact. Greenspan argued that negative rates *"hurt in the sense that financial intermediaries require positive interest rates, but I wouldn't blame it on the negative interest rates, I'd blame it on the policies that got us to where we are."* If monetary policy has hit a 'wall', it's clear to the **B**ond **M**arket **R**eview that the FOMC was in on building it, but in this case got plenty of global central–bank financial assistance to do so!

Looking Ahead

- The bond cycles indicate higher yields into April 26th.
- Equities have a trend–change date for a high due near April 28th, after which the cycles roll over into June.
- The FOMC will announce April's interest–rate policy stance on Wednesday the 27th at 2 p.m. EDT.

Treasuries, Agencies, and MBS

After bottoming with our April 7th trend–change, yields traded in a range from the 12th through the 18th. Our bond cycles showed yields *"rising into the 26th – just a day before the next FOMC policy statement is due on April 27th."* The resolve was to the upside today as yields broke strongly higher. 10–year yields rose the most since March 1st, reaching their highest levels since March – while breaking to new April highs. Last week, yields rose 4, 6, 3.5, and .5 bps for the 2, 5, 10, and 30–year Treasury sectors. Since Friday, mostly on today's advance, yields for those sectors were higher by 6, 10, 9.5, and 9.5 bps! Little has changed to alter our projection (or those of many others) for the Fed to keep rates unchanged at their meeting next week – which concludes on Wednesday, April 27th. The odds for an April hike remained at zero, based on market expectations. However, the first month with a better than 50–50% chance moved up from December to November (at 50.1%). As a counterpoint, this week FRB Boston's Eric Rosengren, one of the more–dovish FOMC members, said market expectations for future hikes were too shallow, and could result in *"an overheating that necessitates the Fed eventually raising rates more quickly than is desirable, which could endanger the ongoing recovery and continued growth."*

MBS spreads (for FNMA 30–year 2.5%) narrowed by 2 bps. Last Thursday's $12 billion 30–year bond auction was rated an above–average '4 of 5', and came at 2.596% with improved demand versus last month. The Treasury reopened the February, 2046 issue – and the yield was the lowest since that original February offering (2 months ago). Foreign buying rose from 60.9% last month to 65.1%. Next week, the Treasury will auction $26 billion 2–year notes on Monday (04/25), $34 billion 5–year notes on Tuesday (04/26), and $28 billion 7–year notes on Thursday (04/28) – skipping Wednesday, when the FOMC statement is due.

You are cordially invited to the 14th Annual CSC Bank Conference to be held Thursday, April 28th, 2015 at the Four Seasons Resort & Hotel, Irving, Texas. Please contact Susan Tomcko at (214) 545-6824 or stomcko@cstreetcap.com for details.

04/15/16 Treasury Yield Curve	2-Year: 0.736%	5-Year: 1.212%	10-Year: 1.753%	30-Year: 2.560%
Weekly Yield Change:	+.039	+.060	+.035	+.007%
Support:	0.83/ 0.86/ 0.89/ 0.91%	1.38/ 1.41/ 1.44/ 1.47%	1.89/ 1.92/ 1.96/ 1.99%	2.71/ 2.73/ 2.75/ 2.77%
Targets:	0.79/ 0.77/ 0.74/ 0.72%	1.32/ 1.29/ 1.25/ 1.23%	1.85/ 1.82/ 1.77/ 1.74%	2.66/ 2.63/ 2.61/ 2.57%

Economics

There's been little in recent economic data to lead the Fed to tighten rates next week. However, there were some promising numbers. Initial Jobless Claims fell from 266K to 253K last week. That matched the March lows – which marked the least since 1973! Continuing Claims fell from 2,189K to 2,171K for the previous week. Real Average Weekly Earnings rose from February's annual pace of .70% to 1.10%. Yet that outpaced inflation! March Consumer Prices were tame with a .10% rise. That took the annual pace down .10% to .90%. Ex food & energy, CPI also rose only .10%. The annual core pace also fell by .10% (to 2.20%).

University of Michigan Sentiment dropped from 91.0 to 89.7. Their survey on Current Conditions fell .2 to 105.4, while Expectations fell from 81.5 to 79.6. Empire Manufacturing improved from .62 to 9.56. However, Industrial Production fell .60% – matching February's drop, and Capacity Utilization slid from 75.30% (which was revised lower from 76.70%) to only 74.80%. While there was an outflow of $11.1 billion of foreign funds from U.S. equities in February, $33.5 billion flowed into U.S. Treasuries. Existing and new funds flowed into longer maturities, which saw a net increase of $72.0 billion.

Home builder confidence was unchanged with the NAHB Housing Market Index repeating its 58 reading from March – as data indicated the housing sector could be stalling. While sales of preowned homes improved following February's 7.31% drop, new starts dropped. Existing Home Sales rose 5.13% to a 5.33M pace in March. That was 2.30% higher versus last year. Housing Starts dropped 8.79% to 1,089K – to the fewest in 5 months, but were 15.36% better versus March 2015. Building Permits dropped 7.73% to 1,086K, but were 4.62% higher versus last year.

Thursday is set for jobless claims data, the Chicago Fed National Activity Index, the Philadelphia Fed Business Outlook, the FHFA House Price Index, March's Leading Index, Bloomberg Economic Expectations, and Bloomberg Consumer Comfort (which last week rose 1 point to 43.6). Next Monday (04/25), brings New Home Sales for March, and Dallas Fed Manufacturing Activity. Tuesday gives us March orders for Durable & Capital Goods, S&P/Case–Shiller home price data, board Consumer Confidence, and the Richmond Fed Manufacturing Index. MBA Mortgage Applications (which last week rose 1.30%) follow on Wednesday. Also due are March Pending Home Sales, the Advance Goods Trade Balance, and the April interest–rate policy decision from the FOMC.

Equities

U.S. and many global equity markets rose to 4–month highs as the rally since early February has continued without any substantial correction. Stocks blew through last week's cyclic and price resistance, and continued higher into today. Stock cycles weaken following a trend–change near April 28th, with an expected drop into June. The Dow broke through 18,000 for the first time in 9 months – and was only 1% away from its all–time high. It rose 320.50 points or 1.82% last week to 17,897.46, and is 1.11% better this week. The S&P gained 33.13 points or 1.62% to 2,080.73, and is 1.04% higher this week. The Nasdaq rose 87.53 points or 1.80% to 4,938.22, but is only .20% higher since Friday. The Dow Transports were a strong 3.13% higher last week, and have added 1.64% this week. Bank stocks surged 6.99%, and have risen 4.36% so far this week. Since their April 7th low, bank stocks have risen 13.06%!

Resistance:	Dow:	18,171/ 18,306/ 18,440/ 18,577	Nasdaq:	4,985/ 5,020/ 5,056/ 5,092	S&P:	2,109/ 2,121/ 2,132/ 2,144
Support:		17,901/ 17,765/ 17,633/ 17,503		4,917/ 4,880/ 4,844/ 4,809		2,086/ 2,075/ 2,064/ 2,035

Other Markets

Crude Oil seemed to peak on the April 12th trend change, but rose to new recovery highs today. While Crude rose 1.61% last week, it's 5.62% higher since. Our Crude Oil cycles continue to show a downtrend from April 29th into May 16th. Commodities rose 1.52%, and are 4.49% higher this week. While Gold lost .76% last week, it's 1.63% higher this week. The U.S. Dollar broke two weeks of losses with a .46% gain last week, but is .23% lower this week. The Euro lost 1.01%, but is .12% higher this week. The Japanese Yen lost .64% last week, and is off .99% this week. Corn rose 4.49%, and is 4.29% higher this week. Cotton fell .07%, but has surged 6.28% higher so far this week.

"Luck is what you have left over after you give 100%." Langston Coleman

Additional Information is Available on Request

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