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BOND MARKET REVIEW

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Good Data, Bad Cycles

Though we expected stocks to be weaker into the first week of June, it was supposedly 'good' news that today sent the Dow to its lowest levels since March. Data that was seen as possibly providing the Fed with the chance to hike rates more than once in 2016 was seen as unwelcome to equities – as they traded to the lower end of their 5–week range. The **B**ond **M**arket **R**eview's equity cycles remain in 'sell rallies' mode until a trend change near June 8th.

Some data presented a conundrum – giving traders no clear direction, but rather leading to some large 'whipsaw' moves over the past week. On May 10th, stocks had their best rally since March 11th. The Dow's 222–point rally was its best since March 1st. Following that day, the Dow has seen 3 down moves near 200 points and 1 rally of 175. All in, that left stocks on their lows. On Friday (the 13th), April Retail Sales were reported to gain 1.3% – the largest increase since March 2015! 11 of 13 retail sectors showed gains, with auto demand rising the most in a year while food and online retailers did their best in nearly 2 years. Compare that to last Wednesday, when some earnings reports were so bad that the retail sector suffered its worst selloff in 5 years! The retail–sector ETF (XRT) fell 4.44%. Despite that good April news on Friday, the sector fell another 1.37% – and was off 1.59% today to end 12.82% lower since the end of March. At one point on Wednesday, Disney fell over 4%, Macy's more than 14%, and Fossil over 30%!

Besides the paradoxical retail sales versus retailers, there was also some confusion in consumer confidence versus sentiment! While that may depend on a little timing, favorite sports teams that lost the day of the surveys, or even why Bernie is still winning despite having lost, it's interesting nonetheless. Dropping from 43.4 to 42, and then to 41.7 over the past two weeks, Bloomberg Consumer Comfort fell to 5–month lows – with respondents in the 55 to 64–year–old bracket (my favorite for the moment) observing conditions at 11–month lows. However, in data removed by only days, University of Michigan confidence rose to its highest level in a year! Sentiment rose from 89 to 95.9, their expectations measure rose from 77.6 to 85.7, and current conditions rose from 106.7 to 108.6.

Just coming off weaker–than–expected April payrolls, with the fewest jobs added since September, Initial Jobless Claims surged to one–year highs. However, March job openings hit the second highest levels on record – rising 149K to 5.76M. Since the last **BMR**, the market–based odds for a June hike fell from 10% to only 4%. However, after improved retail sales and today's jump in consumer prices, those chances tripled to a still–unlikely 12%. Nevertheless, as we've observed in recent issues, the first month with better than 50–50% odds for the next hike remains December. A number of Fed members contend there could still be 2 or even 3 hikes in 2016, but the market's not buying it.

Looking Ahead

- 10–year bond cycles show yields rising into May 25th, while shorter–note yields peak nearer May 31st.
- Equities should be weaker into June 8th. We would continue to sell rallies.

Treasuries, Agencies, and MBS

Yields have risen from our expected lows due early in May and into the 9th – where the shorter–note 2–year bottomed right on its trend change. While 10–year note yields dipped again into the 13th, the entire curve has moved higher since. Into May 6th, yields fell 5, 6.5, 5.5, and 5 bps for the 2, 5, 10, and 30–year sectors. Last week, 2–year yields rose 1 bps, while the 5, 10, and 30–year yields dropped another 2.5, 8, and 8 bps. Into today, yields were higher by 8.5, 9.5, 7, and 5 bps, and we expect more upside. As we said: *"Though the 5–year bond yield cycle bottoms on May 9th, our cycle work then shows all maturities moving to higher yields into the last week of May."*

Missed the chance to refi? We don't think so. Late August could be the best opportunity! Into May 6th, MBS spreads (for FNMA 30–year 2.5%) pulled in by 1 bps. Last week they widened by 5 bps. Last Tuesday's 3–year note auction brought .875% for $24 billion in supply. The auction was rated an above–average '4 of 5' with demand the strongest since January. Foreign buying rose from 56% in April to 61.5% of this offering. The 10–year note auction was rated an outstanding '5 of 5', as last Wednesday's $23 billion offering brought 1.71% – the lowest yield since December 2012. Demand was a little weaker versus April's auction, but foreign accounts bought 73.5% of this issue compared to 60% in April. U.S. debt is still a great bargain versus alternatives, as much of the 'quality' 2–year debt is well below 0% or just marginally above. Germany's 10–year yield is only .146%, while Japan's is trading below –.10%. Last Thursday's 30–year bond sale brought 2.615% for $14 billion in supply. The auction was rated average, and demand was off versus April. Foreign buying fell from 65.1% in April to 59.7%. Next week, the Treasury will auction 2–year notes on Tuesday (05/24), 5–year notes on Wednesday (05/25), and 7–year notes on Thursday (05/26).

05/13/16 Treasury Yield Curve	2-Year: 0.748%	5-Year: 1.206%	10-Year: 1.701%	30-Year: 2.549%
Weekly Yield Change:	+.012	–.024	–.079	–.079%

05/06/16 Treasury Yield Curve	2-Year: 0.736%	5-Year: 1.230%	10-Year: 1.780%	30-Year: 2.628%
Weekly Yield Change:	–.048	–.065	–.054	–.050%
Support:	0.86/ 0.88/ 0.90/ 0.93%	1.35/ 1.38/ 1.40/ 1.44%	1.83/ 1.86/ 1.90/ 1.94%	2.67/ 2.71/ 2.74/ 2.79%
Targets:	0.82/ 0.78/ 0.76/ 0.73%	1.29/ 1.26/ 1.24/ 1.21%	1.77/ 1.73/ 1.71/ 1.69%	2.59/ 2.55/ 2.52/ 2.47%

Economics

Initial Jobless Claims rose from 257K to 274K for the last week of April, and then spiked to 294K last week – hitting the highest levels in a year. Continuing Claims fell 5K to 2,124K, and then rose to 2,161K. Challenger Job Cuts showed a tame 5.80% in firings versus April 2015. April payrolls disappointed with only 160K jobs added – the fewest in 7 months. The 2–month revision saw a 19K reduction. Manufacturing added 4K and Private Payrolls grew by 171K. The U.S. Unemployment Rate remained at 5.00%, partly due to the Labor Force Participation Rate falling back to 62.80% from 63%. The Fed's jobs dashboard continued to degrade a little, as the Labor Market Conditions Index fell by .9. The Underemployment Rate fell .1% to 9.70%. Average Hourly Earnings rose .30%, and bumped .2% higher to an annual 2.50% rate. Average Weekly Hours increased by .1 to 34.5. Industrial Production had fallen .90% in March, but rose .70% in April. Capacity Utilization rose from 74.90% to 75.40%. Empire Manufacturing fell from 9.56 to –9.02. NFIB Small Business Optimism rose a point to 93.6. March Business Inventories rose .40%. Wholesale Inventories rose .10%, and Trade Sales were .70% higher.

Consumer Prices rose .40% in April, partially due to a rebound in fuel costs. That quickened the annual pace from .90% to 1.10%. Ex food & energy, CPI rose by .20%. slowing the core annual gain from 2.20% to 2.10%. Real Average Weekly Earnings rose .20% to an annual 1.30% pace. Producer Prices rose .20%, and were .10% higher ex food & energy. The annual pace rose from –.10% to unchanged. Core PPI fell from an annual pace of 1.00% down to .90%. Import Prices rose .30% in April, though reducing the annual pace by .40% to only a 5.70% decline. Retail Sales jumped 1.30% in April. They were .80% higher ex autos. Consumer Credit surged by $29.674 billion in March (more than doubling February). Americans used those credit cards. The April Monthly Budget Statement showed a $106.5 billion surplus. The fiscal 2016 deficit is so far roughly 25% higher versus 2015. Overall, foreign investors removed $98.3 billion from Treasury holdings in March. However, they moved $78.1 billion into longer maturities. 2016 Q1 Mortgage Delinquencies remained at 4.77%, though MBA Mortgage Foreclosures fell from 1.77% to 1.74%. April Housing Starts rose 6.64% to 1,172K, and Building Permits rose 3.62% to 1,116K. Home builder confidence was unchanged at 58 (NAHB Housing Market Index).

Wednesday is set for MBA Mortgage Applications (which rose .40% last week), and the minutes from the April FOMC meeting. Thursday gives us jobless claims data, April's Leading Index, Bloomberg Confidence readings, and the Chicago and Philadelphia business outlooks. Friday brings Existing Home Sales for April. Next Tuesday (05/24) is set for the Richmond Fed outlook and New Home Sales for April.

Equities

Stocks fell for a 3rd week, and the cycles point lower into June 8th. The Dow lost .19% into the 6th, and fell 205.31 points or 1.16% to 17,535.32 last week. It's .03% lower this week. The S&P lost .40%, and then fell 10.53 points or .51% last week to 2,046.61. It's .03% higher this week. The Nasdaq dropped .82%, and then fell 18.48 points or .39% last week to 4,717.68. It's .04% lower since Friday. The Dow Transports fell 1.69% and then 2.99% last week. They're 1.34% higher this week. Bank stocks fell 3.16% and then 1.36%. They are .73% better this week.

	Dow:	Nasdaq:	S&P:
Resistance:	17,583/ 17,652/ 17,752/ 17,917	4,756/ 4,790/ 4,822/ 4,887	2,060/ 2,071/ 2,083/ 2,095
Support:	17,453/ 17,387/ 17,323/ 17,191	4,689/ 4,654/ 4,620/ 4,586	2,040/ 2,034/ 2,026/ 2,015

Other Markets

Crude Oil appears to be springing up with its positive cycle from May 16th into June 21st/23rd. Crude lost 2.74% into the 6th, gained 3.47% last week, and is 4.54% higher this week. Commodities lost 2.55%, gained 1.47% last week, and are 1.81% higher this week. Gold gained .27%, then lost 1.65%, and is .33% better this week. We show Gold making a low near June 3rd. The U.S. Dollar gained .89% and then .76%. It's .07% lower this week. The Japanese Yen lost .58%, fell another 1.41%, and is .47% lower this week. The Euro lost .41%, and then fell .83% lst week, but is .04% higher this week. Corn lost 3.65%, gained 1.60%, and is now 3.93% higher. Cotton fell 3.34% and then 1.64%, but is up 2.61%.

"To avoid situations in which you might make mistakes may be the biggest mistake of all." Peter McWilliams

Additional Information is Available on Request

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