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# BOND MARKET REVIEW

April 12, 2017

## The Great Wall

The U.S. Dollar had already been trading lower this week, but tumbled as President Trump said our currency was *"too strong."* Another contributing factor to the drop may have been Trump's comments that he didn't deem China to be a currency manipulator. Gold and Crude Oil are already in the midst of substantial (counter–Dollar) rallies. Though yields were already falling given the escalation of global uncertainties, Trump said: *"I do like a low–interest rate policy."* He also signaled for the first time that he may consider Fed Chair Janet Yellen for another term. He said: *"I like her. I respect her."* Yellen has been on the dovish side of many FOMC decisions – and Trump's comments about Yellen and rates should be taken as 'bond friendly'.

While the market–based odds have been stuck on 13.3% for a hike following the May 3rd Fed meeting, they fell from over 63% to 60% over the past week for action at the next FOMC conference on June 14th. The Atlanta Fed's GDP–Now forecast for the 1st quarter of 2017 had been as high as 3.4% when key data was first being evaluated. Though ticking up from .9% to 1.2% last week, the forecast dropped to .6% following the weakness in March payrolls. 3.4% to only .6% for Q1? There will be a lot of time before the June meeting for the FOMC to get a better read on incoming data, but gradual plans or not – Q1 GDP might have squashed any May move anyway. Too high a wall to climb!

The reduction of the Fed's $4.5 trillion balance sheet could cause problems for Treasuries as one of their largest buyers would walk away. The Fed is currently reinvesting the proceeds of assets that are rolling off (or maturing). Unless the Fed actually chooses to sell holdings, the damage to debt markets might not be that severe – as they bought some longer maturities that would take some time to roll off the books. The absence of reinvestment would press rates higher fundamentally, but not so much as an untimely liquidation. FRB St. Louis President James Bullard said he expected the end of reinvestment to be *"relatively minor"* because it wouldn't cause a huge reduction in the size of the balance sheet. Bullard said: *"Let me be clear, we're not talking about actual asset sales. I'm not talking about a sales program. I'm just saying let's let some of the stuff mature and not replace it."*

## Looking Ahead

- Bond yields should make an important low near May 15th/19th.
- The **BMR** equity cycles show a trend–change low near April 17th.
- The bond and stock markets will be closed on Good Friday (04/14). Bonds close early Thursday (2 pm ET).
- The deadline for filing 2016 Federal Income Tax forms has been extended to Tuesday, April 18th.

## Treasuries, Agencies, and MBS

Though the **B**ond **M**arket **R**eview's cycles were already positive for Treasuries, U.S. intervention in Syria, a weak U.S. jobs report for March, and North Korea's threats to use nuclear weapons against America have all contributed to the flight to quality that stems from uncertainty and fear in the markets. Google searches for 'World War 3' reportedly hit a record. Rates on 5 and 30–year and Treasuries are trading near 2017 lows, and the yield on the 10–year note is the lowest since mid–November. Yields on 2–year notes have fallen back to the levels from late February. Last week was rather tame, with yields rising 3.5 bps at 2–years, but falling only marginally out on the curve (with the largest drop only .5 bps for the 10–year note). This week is a different story. Since Friday, yields have dropped 8.5, 15, 14.5, and 12 bps for the 2, 5, 10, and 30–year Treasury sectors.



MBS spreads (FNMA 30–year 3%) were flat last week. On Monday (04/10), the U.S. Treasury sold $24 billion 3–year notes at 1.525%. Demand was the weakest since the July 2009 offering! The yield was the lowest since the February auction and the group of buyers that includes foreign central banks accounted for 51.8% of the supply versus 49.4% last month. Tuesday's $20 billion 10–year auction brought 2.332%. The February 15, 2027 issue was reopened for this supply, and demand was off versus the March sale. Foreign buying fell just a bit – from 65.8% last month to 65.2% of this auction. Today's 30–year auction brought 2.938% for $12 billion bonds. Demand was also lower to last month, and the February 15, 2047 issue was reopened to add today's offering. Foreign buying rose to 64.5% of this offering versus 61.1% in March.

| 04/07/17 Treasury Yield Curve | 2-Year: 1.289% | 5-Year: 1.920% | 10-Year: 2.383% | 30-Year: 3.008% |
|---|---|---|---|---|
| Weekly Yield Change: | +.033% | –.002% | –.005% | –.002% |
| Support: | 1.210/ 1.240/ 1.265/ 1.285 | 1.820/ 1.855/ 1.890/ 1.925 | 2.305/ 2.350/ 2.390/ 2.425 | 2.925/ 2.955/ 2.975/ 3.010% |
| Targets: | 1.200/ 1.180/ 1.160/ 1.135 | 1.750/ 1.715/ 1.685/ 1.655 | 2.240/ 2.200/ 2.165/ 2.213 | 2.885/ 2.870/ 2.830/ 2.790% |

## Economics

The data coming into March payrolls was promising. Challenger Job Cuts were down 2.0% versus last year (less firings). Initial Jobless Claims fell 25K to 234K – back near the lowest lows since the early ‘70s. Continuing Claims fell from 2,052K to 2,028K. The key number was ADP Employment Change showing 263K private jobs created versus 185K expected. How could the folks that do the payrolls and write the checks get it wrong? Yet, Private Payrolls grew by only 89K jobs! The overall March addition of 98K jobs was the lowest since last May, and there was a 38K downward revision for the last 2 months. Manufacturing added 11K jobs. Across the board, the payroll additions were barely more than half expectations. The U.S. Unemployment Rate fell .20% to 4.50%. That’s the lowest level since the first half of 2007, though the Labor Force Participation Rate remained at 63.00%. The Underemployment Rate fell .30% (from 9.20% to 8.90%). Though Average Hourly Earnings rose .20%, the annual pace slowed from 2.80% to 2.70%. Average Weekly Hours would have declined by .1, but February data was revised from 34.4 to 34.3 – leaving the result unchanged for March. This week, the JOLTS Job Openings data showed available positions rose to a 7–month high in February (from 5.625M to 5.743M). The Fed’s job dashboard was revised .2 higher to 1.5 for February (curious given the 2–month downward revision of 38K), though that Labor Market Conditions Index rose only .4 given the March numbers.

Bloomberg Consumer Comfort had fallen 1.6 points to 49.7 following the failure to repeal Obamacare. The index rose .5 to 50.2 last week – nearing the highs of the recovery once again. NFIB Small Business Optimism fell from 105.3 to 104.7. Wholesale Inventories rose .40% in February. Wholesale Trade Sales were .60% higher. March Import Prices fell .20%, reducing the annual pace from a 4.80% rise to 4.20%. Ex Petroleum, prices rose .20%. Consumer Credit expanded by $15.206 billion in February, and was adjusted over $2 billion higher to $10.865 billion for January. The Monthly Budget Statement for March came in with a deficit roughly $7 billion higher than expected at $176.2 billion. That sets fiscal 2017’s deficit at $526.9 billion – close to 15% higher versus 2016.

On Thursday bond trading will close at 2 pm ET. Economic releases for Thursday include jobless claims data, Producer Prices (March PPI), Bloomberg Consumer Comfort, and the University of Michigan sentiment surveys. The markets will be closed on Good Friday (04/14), but there are many scheduled data releases. In fact, we don’t recall so much key data being released on a market holiday. Nevertheless, Friday brings Consumer Prices (March CPI), Weekly & Hourly Earnings, March Retail Sales, and February Business Inventories. Next Monday (04/17) gives us Empire Manufacturing, Treasury International Capital Flows (net foreign security operations), and the April home–builder outlook (NAHB Housing Market Index). Tuesday follows with March Housing Starts & Building Permits, Industrial Production, and Capacity Utilization. Wednesday brings MBA Mortgage Applications (which rose 1.50% last week) and the U.S. Federal Reserve Beige Book (outlook for the 12 Fed districts).

## Equities

Stocks were lower last week, though a few indices fell only modestly. The Dow Industrials fell 7.12 points or .03% to 20,656.10, and are .31% lower this week. The S&P lost 7.18 points or .30% to 2,355.54, and was .45% lower into today. The Nasdaq fell 33.93 points or .57% to 5,877.81, and is .71% lower this week. The Transports lost .13% last week, but have fallen 1.46% so far this week. Bank stocks were one of the weakest sectors, losing 1.24% last week, and another 1.77% into today. We expect a bounce in equities from a low due near April 17th.

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|---|---|---|---|---|---|---|
| Resistance: | Dow: | 20,673/ 20,744/ 20,815/ 20,889 | Nasdaq: | 5,860/ 5,879/ 5,899/ 5,919 | S&P: | 2,354/ 2,366/ 2,378/ 2,390 |
| Support: | | 20,530/ 20,455/ 20,385/ 20,315 | | 5,822/ 5,803/ 5,785/ 5,766 | | 2,342/ 2,330/ 2,318/ 2,306 |

## Other Markets

Commodities gained .66% last week, and are .15% higher this week. Crude Oil is in the midst of a nice rally – gaining over 10% over the past 3 weeks. Crude rose 3.24% last week (after gaining 5.48% the previous week), and is 1.67% higher this week – trading over $53/barrel for the first time since March 7th. Gold rose .56% last week, and is also 1.67% higher this week – reaching its highest price ($1,275/oz.) since early November. The U.S. Dollar gained .90% last week, but is .40% lower this week. The Japanese Yen rose .27%, and then surged 1.85% higher into today. The Euro lost .57%, but was .70% higher into today. Corn lost 1.30%, but has rallied 2.64% this week. Cotton plunged 5.00%, but is 1.73% better this week.

*“You cannot escape the responsibility of tomorrow by evading it today.” Abraham Lincoln*

***Additional Information is Available on Request***

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