



## The Day Ahead: Position-Driven Trading Likely Behind Today's Paradoxical Weakness

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On Tuesday, bonds had an initial, positive reaction to the Retail Sales data that clearly ended mere minutes after the release. Yields trended slightly higher in a narrow range into 11am at which point new rally momentum emerged, lasting through the close. It was hard to explain that rally without relying on positional trading considerations.

Specifically, we suspected traders were closing short positions as liquidity waned ahead of Wednesday's holiday closure. When this happens (usually leading into weekends and especially 3.5-day holiday weekends), it's common to see a push back in the opposite direction on the other side of the holiday. This morning's paradoxical weakness fits the bill perfectly, albeit with a bit of extra momentum.

