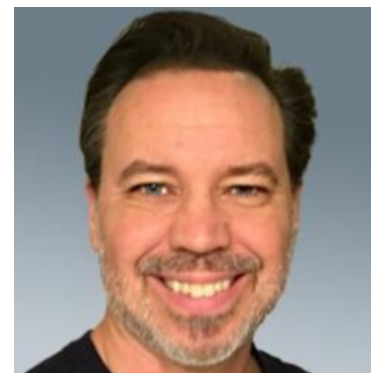


## The Day Ahead: Bonds Shake Off Stronger Services PMI to Hold Overnight Gains

While they may not be the most highly consequential economic reports on any given month, today's S&P Global PMIs were our best shot to see some volatility in the bond market today. In their defense, they managed to deliver, even if only on a small scale. As expected, it was the Services PMI that carried more weight, pushing yields higher due to the strong 56.0 reading (highest since April 2022). The selling has been short-lived so far, and almost non-existent in the short end of the yield curve. In other words, 2yr Treasuries are crushing it today compared to 10s.



That said, the long end of the curve seems to have been operating on slightly different motivations. The discrepancy in the pace of the move suggests longer dated bonds seeing a few big trades from traders adjusting their positions on the appropriate slope of the yield curve.



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Lastly, we can entertain if the AM rally was driven by rate cut odds improving for July after a particularly strong comment from ex NY Fed pres Dudley (who literally said the Fed should cut in July). A closer look at Fed Funds Futures suggests no major change to July's odds.



December contracts, however, do show some reaction. Either that or traders were seeing other reasons to ramp up rate cut odds around the same time. Some indecision is warranted due to the absence of a nice vertical drop right at the time of Dudley comments.



The market will receive more clarity on the shape of the yield curve after today's 5yr Treasury auction at 1pm ET.