

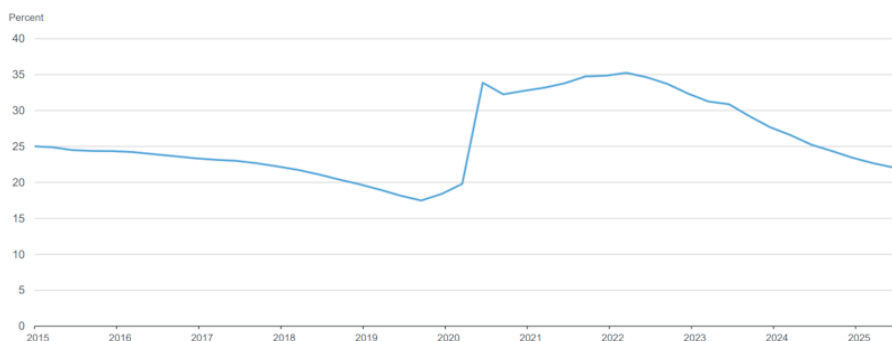
MBS & TREASURY MARKETS

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The Day Ahead: Crude Notions About Underlying Bid

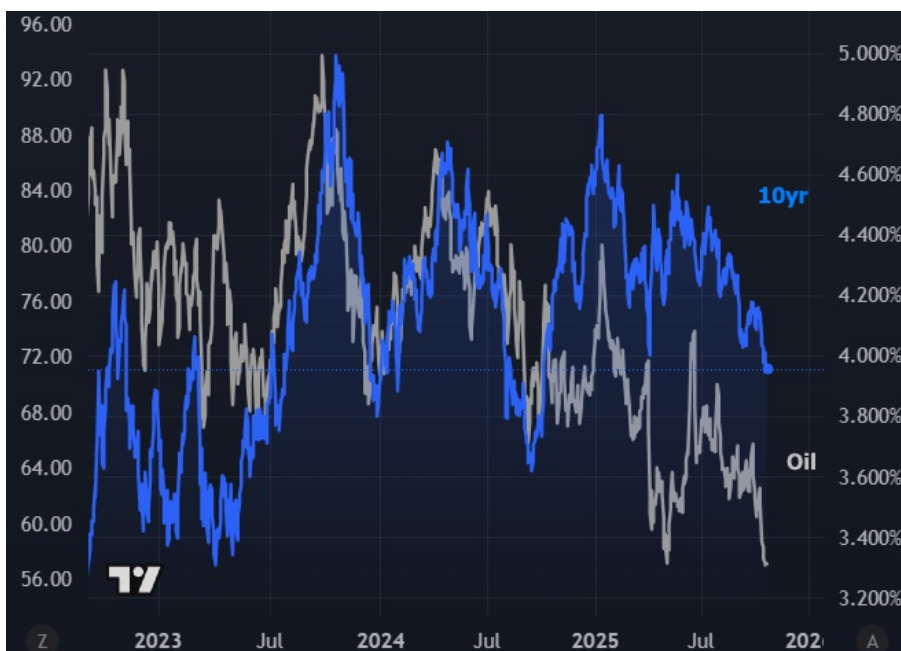
On the one hand, there's not much going on for the bond market these days. The jobs report is a flat-out requirement in terms of informing major changes in momentum. On the other hand, there are a few concerns in the background that have been helping the general uncertainty resolve in favor of buyers. One of last week's contenders was regional bank losses. An ongoing consideration is the level of reserves on the Fed balance sheet (not a huge consideration, and mostly baked-in, but probably modestly positive for bonds when the Fed stops letting reserves go lower).

Federal Reserve Balance Sheet as a Share of GDP



Note: Calculated as quarterly averages of weekly Federal Reserve assets/liabilities divided by quarterly seasonally adjusted annualized nominal GDP.
Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis

Then there's oil. Oil should never be mistaken as a primary indicator for bonds. It is infinitely better described as logically correlating due to global economic momentum. But there's no denying oil's role in inflation, and that's yet another small nudge in favor of better bond buying--or at least it can be.



Andrew Sesta

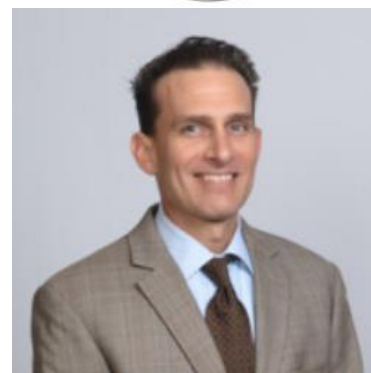
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