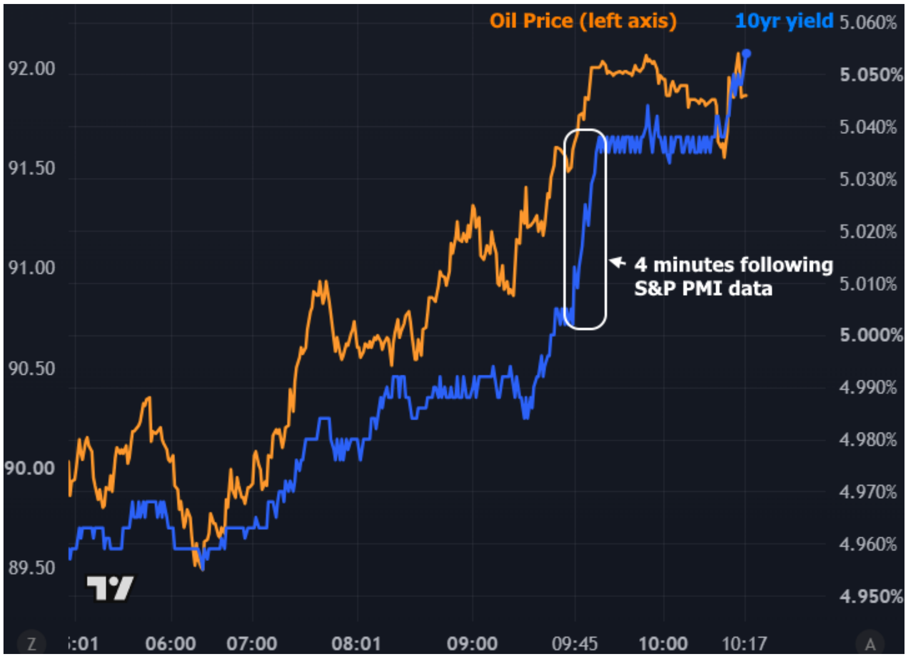
The Day Ahead: Sharply Weaker on Oil and Econ Data

Bonds lost ground overnight with rising oil prices correlating very well with the higher yields. The selling was minimal and yields remained range bound until roughly 945am ET. While there was slight additional pressure from another little pop in oil prices, the main bad actor was a surprisingly strong reading in S&P PMI data. This series typically goes unnoticed unless it wildly beats/misses forecasts. This morning's results were on the wild side with both services and manufacturing hitting the highest levels in years. Bonds reacted immediately with 10yr yields jumping from 5.0% to over 5.04% almost instantly. Fed Funds futures lurched to price in even stronger odds of a second rate hike at the next meeting and 2 hikes by December (over a 50% chance now).



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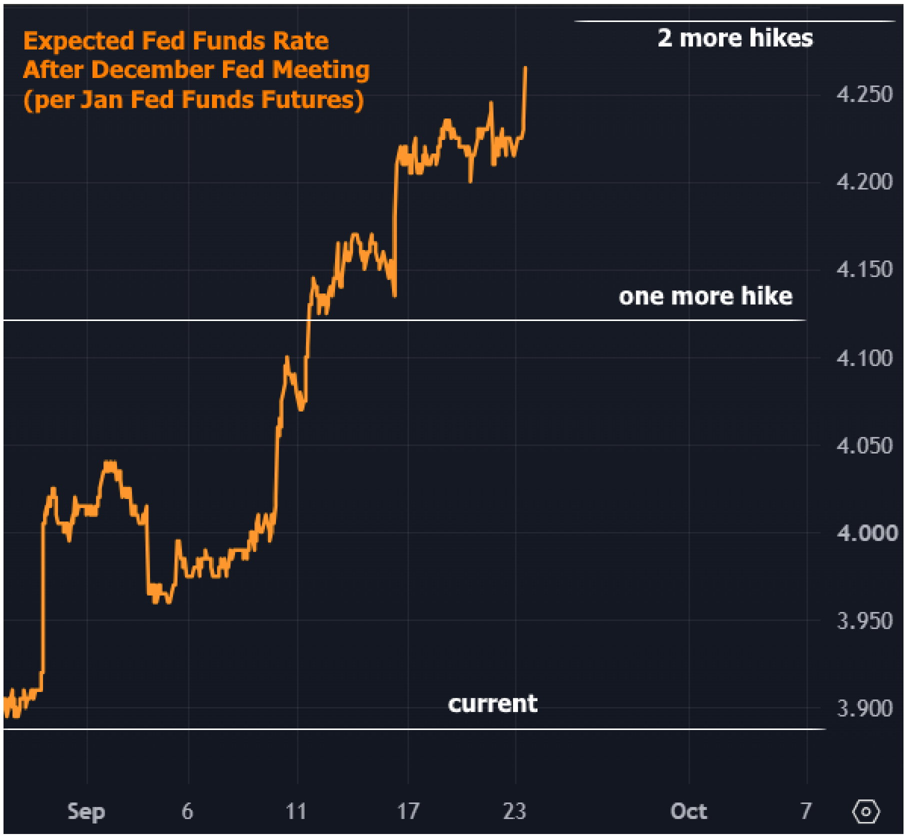
Expected Fed Funds Rate
After December Fed Meeting
(per Jan Fed Funds Futures)
2 more hikes
one more hike
current
4.250
4.200
4.150
4.100
4.050
4.000
3.950
3.900
Sep
6
11
17
23
Oct
7