The Day Ahead: It's Time to Play "Name That Line"

Bonds were initially moderately weaker this morning morning in a move that followed oil prices and hawkish Fed comments. Chris Waller said more hikes were needed due to a strong economy, persistently high inflation, and the risk that inflation expectations would become unanchored after 5.5 years above target. This hit the short end of the curve at 4:30am ET and brought Fed Funds Futures for the middle of next year back to yesterday's levels. Oil prices were rising at the same time and were already pushing bonds higher (or the correlation is coincidental, and bonds just "felt like" correcting a bit).

In the last few minutes, 10yr yields made it all the way back to unchanged for reasons unknown, although someone will try to tell you it had to do with Europe and the ongoing bond market volatility there. They're wrong in this case even though Europe has been a factor on several recent occasions.

Now it's time to play "name that line." The following chart has 3 lines. One is the 10yr yield. One is oil. One is the implied yield for Fed Funds Rate in June 2027. See if you can guess which is which. Well, nevermind. It doesn't really matter, right?

Seriously though, the "Waller" caption gives it away. The orange line has to be Fed Funds Futures because it's not nearly as active as the other two (if you didn't already know, there are far fewer trades in Fed Funds Futures than in bonds or oil). The blue line therefore has to be 10yr yields. Well, it doesn't HAVE TO be, but it's much more likely to be because it moves with Fed Funds Futures whereas the red line does not (i.e. Fed rate outlook is more likely to correlate with the rest of the bond market than with oil prices).

Patrick Smith
Executive / Management / Banker, Integrated Funding
P: (919) 847-2766
4098 Barrett Dr
Raleigh NC 27609
67369

© MBS Live, LLC. All rights reserved. This newsletter is a service of MBS Live.