



DAILY MARKET VIEW

Fixed Income Strategies Group

Friday, July 30, 2010

The only economic release on Thursday was the Initial Jobless Claims report which declined by 11,000 to 457,000. Market forecasts were predicting a 4,000 drop. The Continuing Claims component exceeded the expected level of 4.50 million with a headline of 4.565 million. Prices of U. S. Treasury securities, led by the longer dated issues, moved lower throughout the morning session as equities edged higher and dealers prepared for the midday seven year note auction.

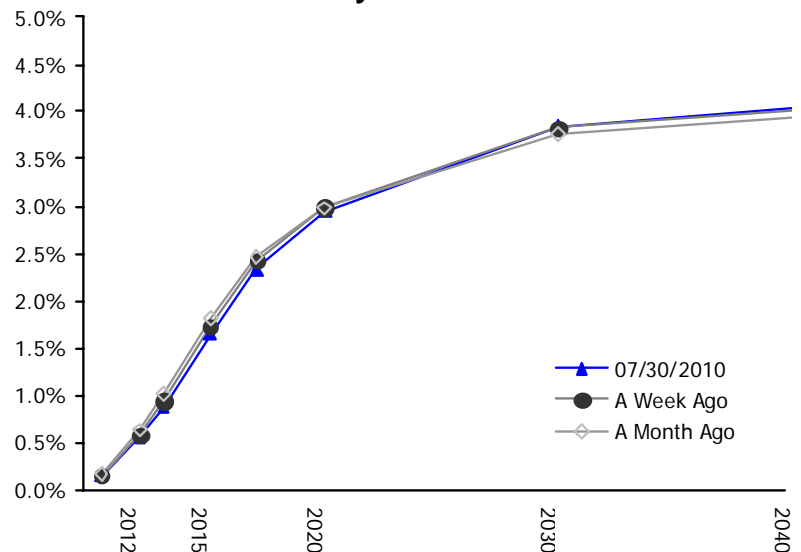
The Treasury auctioned \$29 billion of a seven year note at a high yield of 2.394% as compared to the pre-auction talk of 2.375% and the WI trading of 2.37% at the bidding deadline. The bid to cover ratio was weaker than the previous auction posting a 2.78 versus 3.01. Indirect Bidders faltered as well with a 42.3% showing versus last month's 51.0%. The coupon was set at 2.375% with a dollar price of 99.878150. The issue will be dated on July 31st with a settlement date of August 2nd.

At the close, Treasury prices rallied as the Dow Jones was confronted with some selling pressures again as investors appeared to lock in profits before the weekend. The 2yr T-note was up 1/32 to yield 0.585%, the 5yr T-note rose 11/32 to yield 1.67%, the 10yr T-note improved 2/32 to yield 2.98%, and the 30yr T-bond fell 4/32 to yield 4.07% after declining over one point earlier when it reached a 4.135% yield in mid-morning trading activity.

A full slate of economic events this morning closes out the month of July beginning at 7:30 am CDT. The second quarter GDP (QoQ) is forecasted to be 2.6% versus the 2.7% reported previously. **Personal Consumption** is expected to drop to 2.4% from 3.0% while the **GDP Price Index** is pegged to remain at 1.1% for the same time period. The **Employment Cost Index** is forecasted to be 0.1%, lower from the prior release of 0.5%. At 8:45 am CDT, the **Chicago Purchasing Manager's Index**, according to the Bloomberg survey, shows a reading of 56.0, a decline of over three points from June's 59.1 headline. At 8:55 am CDT, the **University of Michigan Confidence Index** is forecasted to improve slightly from 66.5 to 67.0 followed by the **NAPM-Milwaukee** report which is expected to decline by two points to 57.0.

The Treasury market is moving to the upside in early Friday morning trading as equity markets around the globe are slipping. Asian and European exchanges

Treasury Yield Curve



Source: Bloomberg L.P. Chart by The Fixed Income Strategies Group RBC Wealth Management

DMV Matrix	7/30	Previous	Change
10-yr Treasury	2.947%	2.979%	-0.033%
S&P 500	1,093	1,097	-0.38%
Oil	77.83	78.36	-0.68%
Gold	1172.40	1,171.20	0.10%
U.S. Dollar / Yen	86.45	86.79	-0.39%
Euro / U.S. Dollar	1.302	1.308	-0.48%

TODAY'S ECONOMIC RELEASES

Time CDT	Release	Period	Survey*
7:30 AM	GDP QoQ (Annualized)	2Q A	2.6%
7:30 AM	Personal Consumption	2Q A	2.4%
7:30 AM	GDP Price Index	2Q A	1.1%
7:30 AM	Core PCE QoQ	2Q A	1.0%
7:30 AM	Employment Cost Index	2Q	0.5%
8:45 AM	Chicago Purchasing Manager	JUL	56.0
8:55 AM	Univ. of Michigan Confidence	JUL F	67.0
9:00 AM	NAPM – Milwaukee	JUL	57.0

are down 0.5%-1.0% while the S&P 500 Futures index has fallen nearly five points. Speculation that the U.S. economy could show signs of slowing in this morning's data has prompted some buying of Treasury securities. Comments from James Bullard, President of the Federal Reserve Bank of Saint Louis, that the Fed could resume its Treasury purchase program if the economy slows and a deflationary environment develops have been the main underpinnings for this morning's rally.

Yields have been mixed this past week with the belly of the curve declining five to ten basis points and the tails relatively unchanged in response to stronger equity markets as earnings were beating analysts' estimates throughout the week. The supply of new Treasury issuance was taken in stride with only the seven year note turning in a sub-par performance. The 2yr T-note is up 1/32 to yield 0.56%, the 5yr T-note is higher by 3/32 to yield 1.64%, the 10yr T-note has improved by 10/32 to yield 2.95%, and the 30yr T-bond has advanced 22/32 to yield 4.04%.

UPCOMING IN TODAY'S FINEWS

Strategies Group: Economic Commentary

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