SEE YOU IN SEPTEMBER

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With the calendar turning to September on Friday, we're all sitting back and lamenting the end of another summer. Well, for fixed income investors, any possible summer doldrums could quickly change, as a number of potentially headline-making events are looming directly ahead, specifically on the central bank front. While the markets do not appear to be anticipating any surprises, the next few weeks look to be busy.

The fixed income arena had been bracing itself for some potential policy remarks from both Federal Reserve (Fed) Chair Yellen and European Central Bank (ECB) President Draghi at last week's Kansas City Fed Economic Policy Symposium in Jackson Hole, Wyoming. However, there weren't any, as both central bank officials essentially kept to the script of their pre-announced topics, financial stability and global trade, respectively. That being said, in a Q&A follow-up, Draghi's responses did seem to tilt more toward the dovish side.

For the G5 developed market world, the Bank of Canada (BOC) is set to kick things off with its formal policy meeting slated for September 6. After hiking the overnight lending rate by 25 basis points (bps) in July (the first rate hike since 2010), there are no expectations, as of this writing, of a follow-up move. Indeed, the implied probability for a rate hike next week is at 30.1%. It is interesting to note that an integral reason behind the July increase was the BOC's belief that it needs to focus on future price pressures and not be complacent, even though inflation readings, up to that point, had been on the soft side. Thus, when the July year-over-year inflation gauge jumped up 0.2 percentage points to +1.2%, the policy makers may have felt vindicated. Looking ahead to Q4, the probability of a rate hike for the October policy meeting jumps to 65.8%.

The ECB meets the following day, September 7, while the Bank of England and the Bank of Japan are on the docket for September 14 and 21, respectively. The ECB meeting is likely to garner increased attention, as the market's focus remains on any potential hint as to when its QE tapering could begin. For the record, no rate increases are priced in through at least September of next year.

That leaves the Fed on September 20. Up to this point, market expectations not only don't see the Fed raising rates at its next meeting, but the outlook is for no hikes at all for the rest of 2017. In addition, the implied probability for Fed Funds Futures only sees a 35.0% chance for a move at the end of January 2018 and just under 50% through May. Rather, the focus is on the potential for the FOMC to announce the phasing out of balance-sheet reinvestments at its next meeting, with the actual implementation occurring in October. However, recent comments from New York Fed President Dudley suggest the markets may want to rethink their rate hike odds for 2017, if the economy evolves as the Fed expects.

Conclusion

The U.S. Treasury (UST) market has been trading rather comfortably through the second half of August, with the 10-Year yield coming in under the 2.20% threshold in seven out of the last ten sessions. At these current levels, the UST 10-Year yi eld does not seem to be priced for any surprises, whether they come from central banks, economic reports or fiscal policy. However, as we witnessed earlier this week following the North Korean missile launch over Japan, flight-to-quality issues could remain a part of the 'trading fabric'. And don't forget the shot-clock is ticking on the debt ceiling as well.

Unless otherwise noted, data source is Bloomberg, as of August 28, 2017.

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

G5 : Consists of five of the world's leading industrialized countries/areas: Japan, the United Kingdom, the United States, Canada and the Euro Zone.

Basis point : 1/100th of 1 percent.

Inflation : Characterized by rising price levels.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

10-year government bond yield : Yields on the 10 year government debt security.