China Is Pulling U.S. Bond Yields Higher

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan examines the price of gold denominated in U.S. Dollars and in Euros, and discusses worrying divergences that can resolve themselves.

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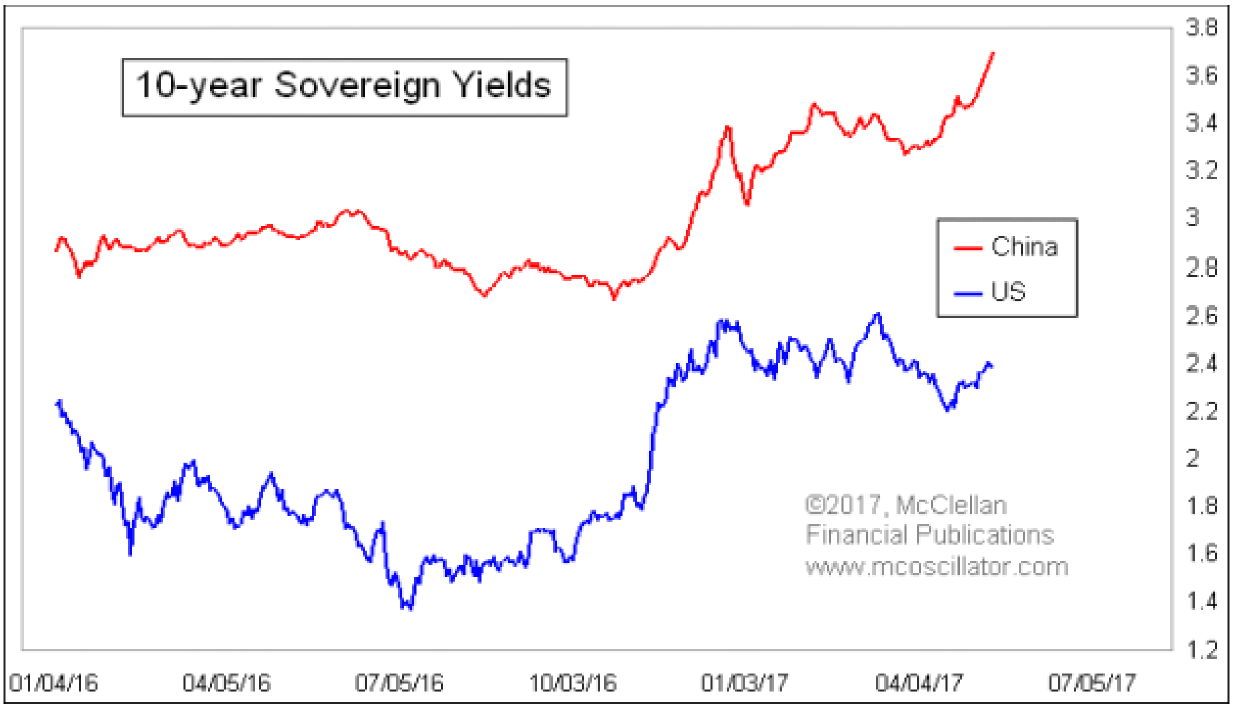
The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

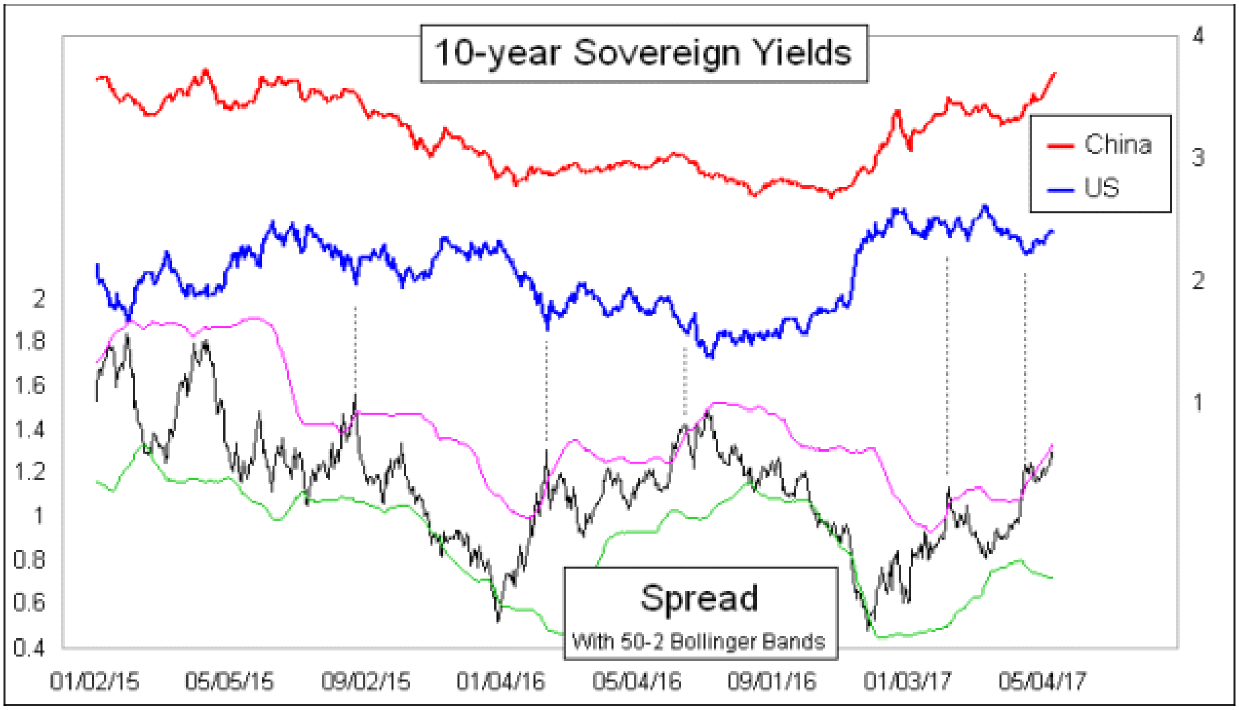
China Is Pulling U.S. Bond Yields Higher

It is not a surprise that U.S. Treasury yields are correlated with those of other countries. So it should not be too much of a surprise that, when China's 10-year sovereign bond yield is zooming upward, the U.S. 10-year T-Note yield should follow.



China's 10-year yield is getting pressure from shorter maturities. Their 5-year sovereign yield just pushed up above their 10-year yield for the first time since records began. The moves are being credited to Beijing's efforts to stop the slide in their currency. Maybe China's central bankers believe former Fed Chairman Ben Bernanke's 2007 statement, that "the yield curve could be inverted for a considerable period without significant implications for the economy as a whole, yes--- possibly for some banks, but not for the economy as a whole." Yeah, that turned out well.

Whatever the cause, it appears to be having an effect on U.S. yields, as this week's chart below indictes. While the chart shows what is currently happening, I like to have an idea about what is going to be happening. It turns out that these same data have some insight about that point. When the two yields get too close together, or too far apart, that offers us information about what comes next.



Right now we are seeing a comparatively high spread between the two. That condition typically means U.S. T-Note yields have further to rise. Conversely, a very low spread, below the lower band, says that U.S. yields should fall in the weeks that follow.

That predictive effect really only works on what the U.S. yields are going to do. It does not necessarily tell us what the Chinese 10-year yields will do. For that, there is perhaps an even more interesting relationship:

It turns out that the Chinese 10-year yield and copper prices are very closely correlated. That is not much of a surprise. The fun part is that, when the two disagree, it is copper that usually ends up being right about where both are headed.

That is important because, right now, copper prices are trending downward while the Chinese 10-year yield is trending upward. If copper is correct, as usual, then the Chinese 10-year yield should not have much further to trend upward. Getting the Chinese yield to put in a top should eventually mean a top also for the U.S. 10-year yield, but not for at least a few more weeks.

Tom McClellan

Editor, The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* follows on the ensuing page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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