Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled: **"Important Bond Indicators"**

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
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Important Bond Indicators

By **Gary Tanashian** (bio at the end of the article)

July 5, 2017

Quite frankly, NFTRH has nailed the bond market consistently over the last year. As smug as that sounds, I can write it because I am not shy about admitting my mistakes as well. Only a charlatan is right all the time.

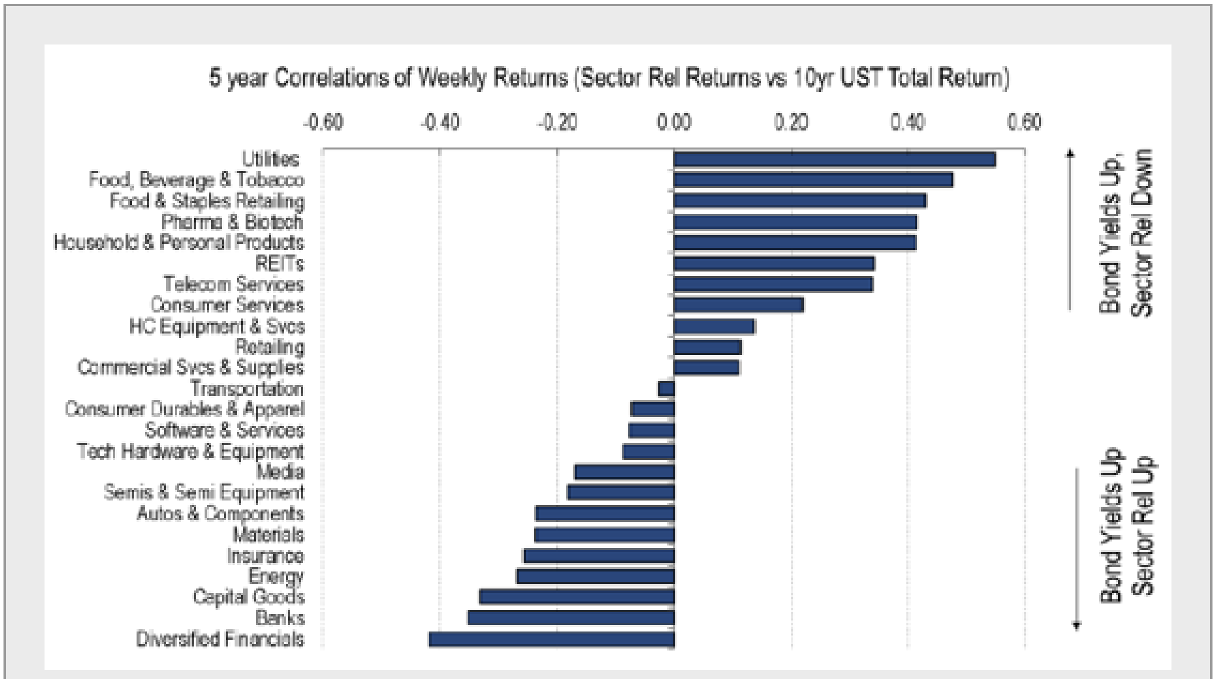
To review, recent history saw the bullish side of the Treasury bond boat overloaded a year ago amid ZIRP>NIRP and Brexit hysteria. We called bullshit on that risk-off behavior and went bullish the stock market in the depths of the Brexit fallout. Then came the expected rise in interest rates that turned into a mini mania on the Trump election. We became bullish on bonds (bearish on yields) as Bloomberg and Louis Yamada unwittingly called the bottom. Most recently, sentiment and Commitments of Traders data argued that we become bearish again in preparation for a rise in long-term yields. From June 26...

Bonds and Related Indicators

The above was an excerpt from that week's NFTRH Premium report. This week, we excerpt the Bonds segment again because I feel that the dynamics in bonds/yields should be in any successful market player's tool box these days.

In practical terms, yield dynamics have helped us be on the right side of trades in both Bio-Pharma and Financials, which favor very different interest rate backdrops per this data from Citi ...

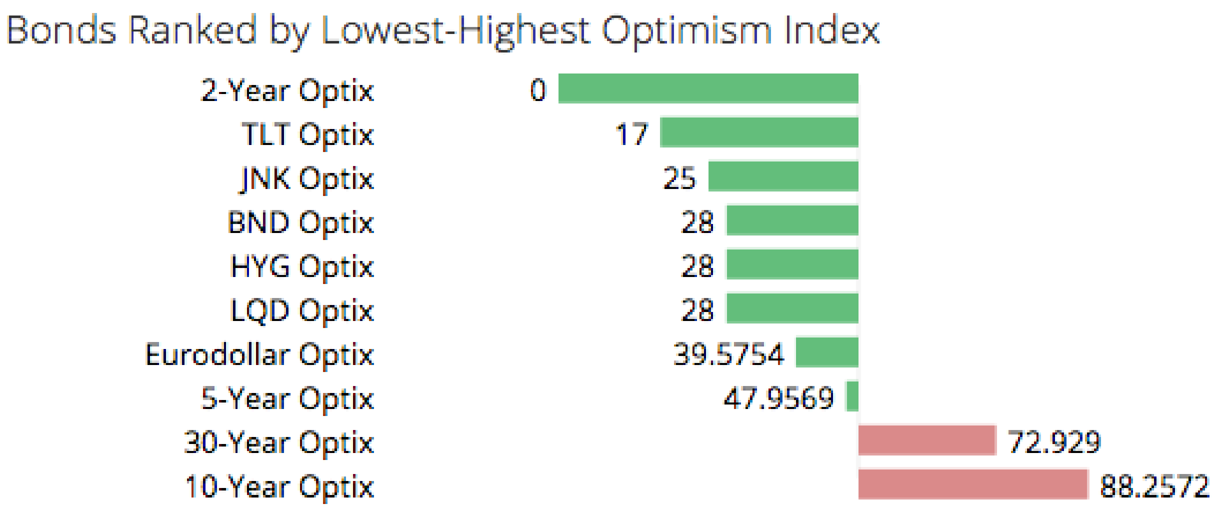
BW: In the chart on the next page, the top part represents bond yields rising and, therefore, these sectors falling. Conversely, the bottom part of the chart represents bond yields falling and, therefore, these sectors rising.



Source: Citi

With respect to the yield curve, which is at the center of most macro market considerations, we ended the preceding precious metals segment with some bond sentiment data which, taken at face value on a contrarian basis, argues for a rise in the 10yr-2yr yield curve. As of now, it remains among the hold-outs to a bullish gold case, but as noted in NFTRH 455 earlier today...

"We have noted this previously, but this graphic (from Sentimentrader.com) sums up nicely that the public is over-bearish on 2yr bonds (expecting short-term interest rates to rise) and now, over-bullish on 10yr and 30yr bonds, as anticipated. The implication on a contrarian basis is bullish the 2yr and bearish the 10yr. In other words, the implication would be for a rising yield curve, which is a bullish fundamental component for gold."



This led into the bond segment…

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Bonds & Related Indicators

Look at how the 10-2 yield curve finished the week (see below). That, as it stands now, is a break of the down-trend, as represented by the 50-day moving average (**blue** line).

Of course, one magical application of financial fairy dust could reverse this in an instant. But, as of now, consider us on alert for a change in trend per this chart and per the sentiment dynamics above.

Interesting stuff folks, if you are a nerd like me.

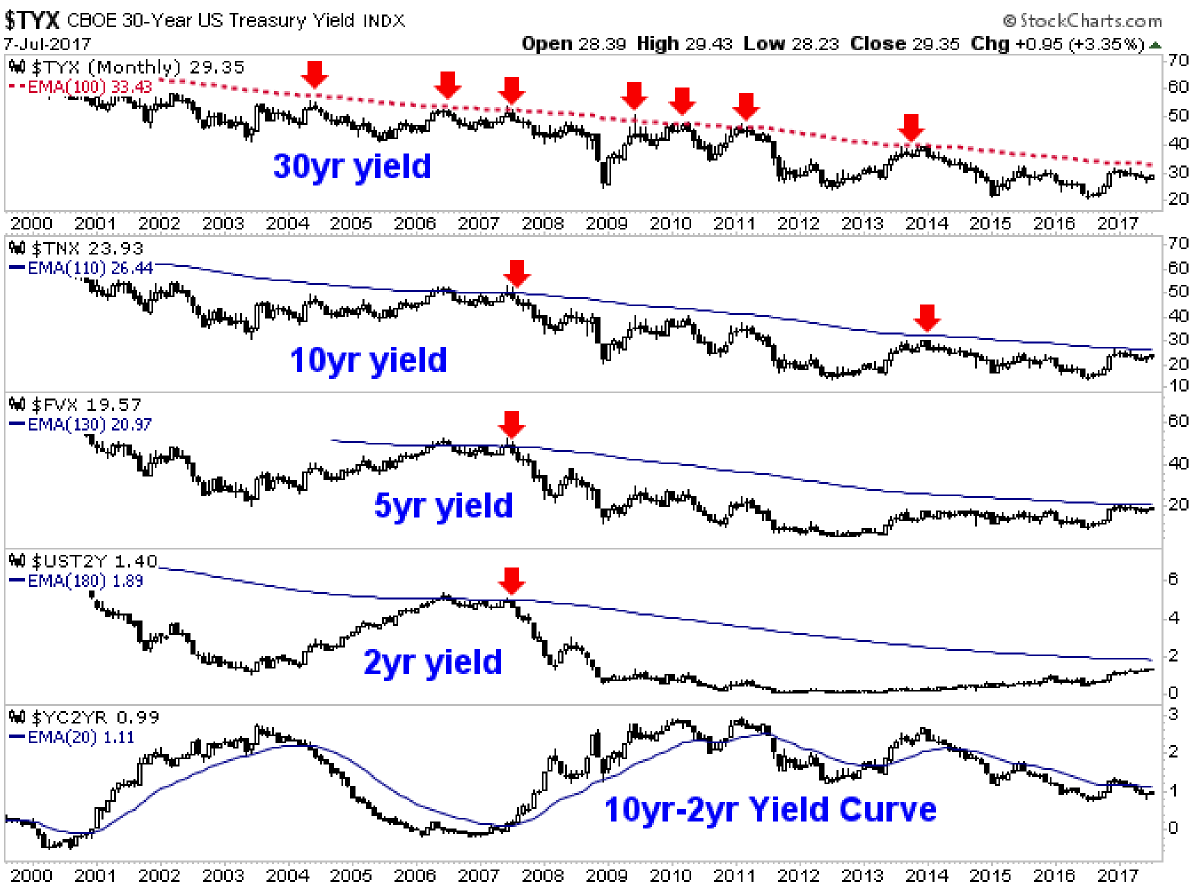
<continued>

With nominal 10s & 2s rising (weekly chart below), the implication of a rising curve would be inflationary, which does not mean stocks need to go bearish. If the curve does start rising however, it would probably mean that certain areas would outperform; some like the Financials would be expected, and others, like precious metals and commodities, maybe not so expected.

<continued>

We have not reviewed the big picture of yields in a while, so taking a look below, we see the 30yr's monthly EMA 100, the 10yr's EMA 110, and the 5yr's EMA 130 providing the limitations to a whopping change in the macro.

The thing is that these yields appear to be perched in a bullish looking manner below these limiters. I don't know how often, if ever, I have used the word *"profound"* in financial writing, but the implication of a new bull market in yields (bear market in bonds) would be just that; as in cue the von Mises ***"Crack Up Boom"*** references, where everything goes up in an inflationary inferno.



Okay, calm down, chart boy. This is the even keeled newsletter, remember?

But my job is to make sure we look around those corners before others do.

Could it be that the persistently strong state of stock markets is foretelling something like this? They have, after all, been among the major beneficiaries of central bank inflation operations since 2009.

<continued>

Now, this line of thinking goes only as far as yields do. If the 10s and 2s turn down and the curve rises we will have notice that a good old fashioned bear phase is on the way.

If the curve turns back down … then as you were. The indication would be for economic and financial stability with either an inflationary or disinflationary flavor for as long as the curve remains flat-lining or down-trending.

But it is interesting to note that virtually no one seems to be expecting inflation now.

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See NOTES below.

NOTES

Biiwii: But it is what it is

NFTRH: Notes From The Rabbit Hole

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See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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