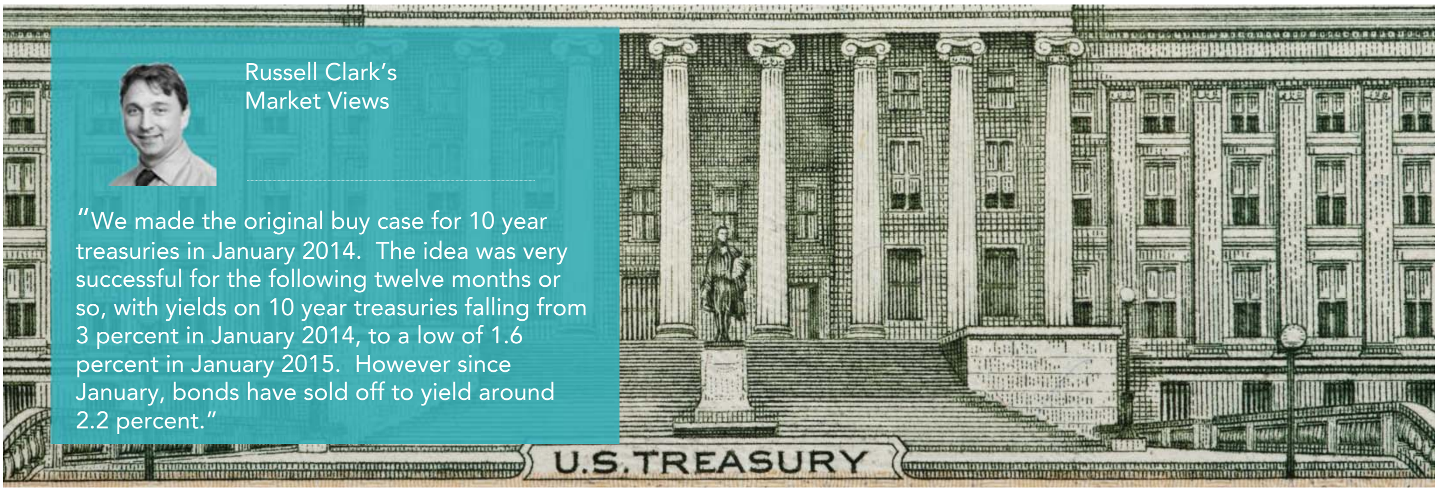
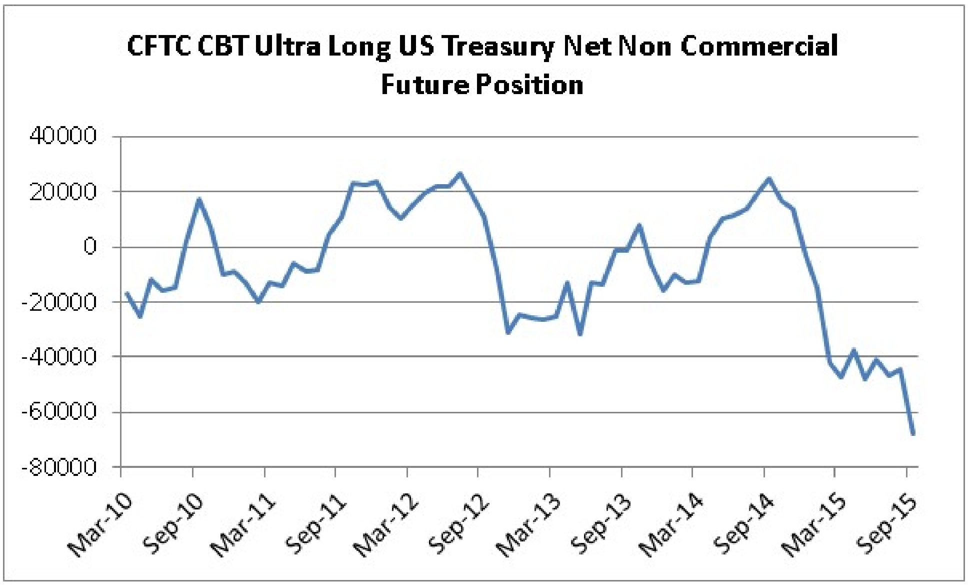
30YR US TREASURIES: A BUY CASE

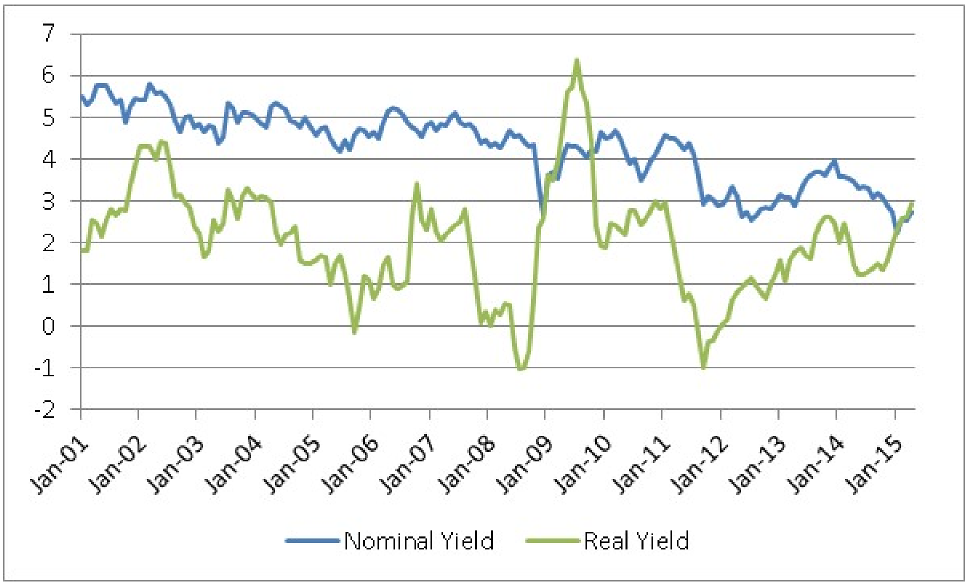


We made the original buy case for 10 year US treasuries in January 2014 http://www.horsemancapital.com/marketviews/russell-clark/2014/01/us-treasuries-the-buy-case. The idea was very successful for the following twelve months or so, with yields on 10 year treasuries falling from 3 percent in January 2014, to a low of 1.6 percent in January 2015. However since January, bonds have sold off to yield around 2.2 percent.

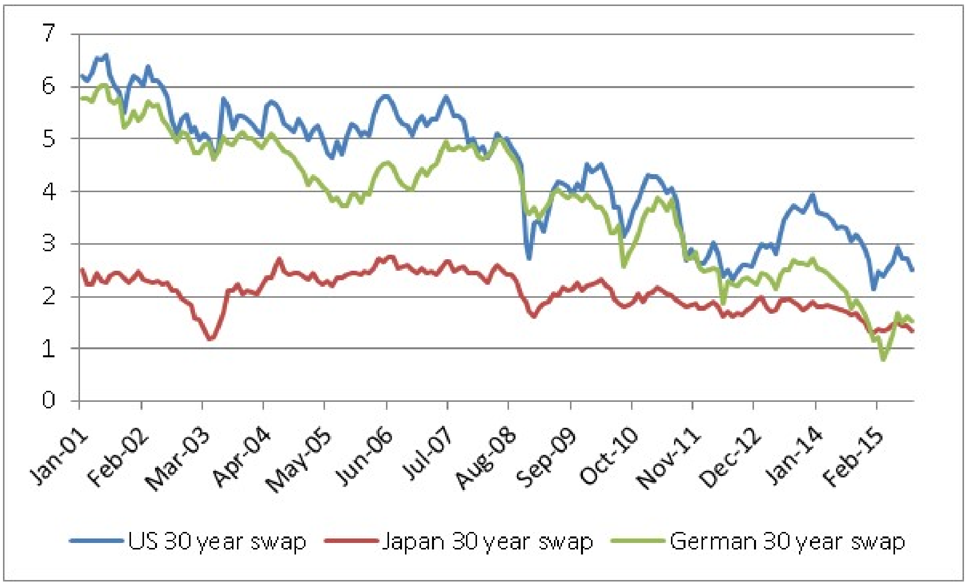
We repeat many of the arguments from the previous note, but for 30 year US treasuries. The market has become bearishly positioned on long dated treasuries.



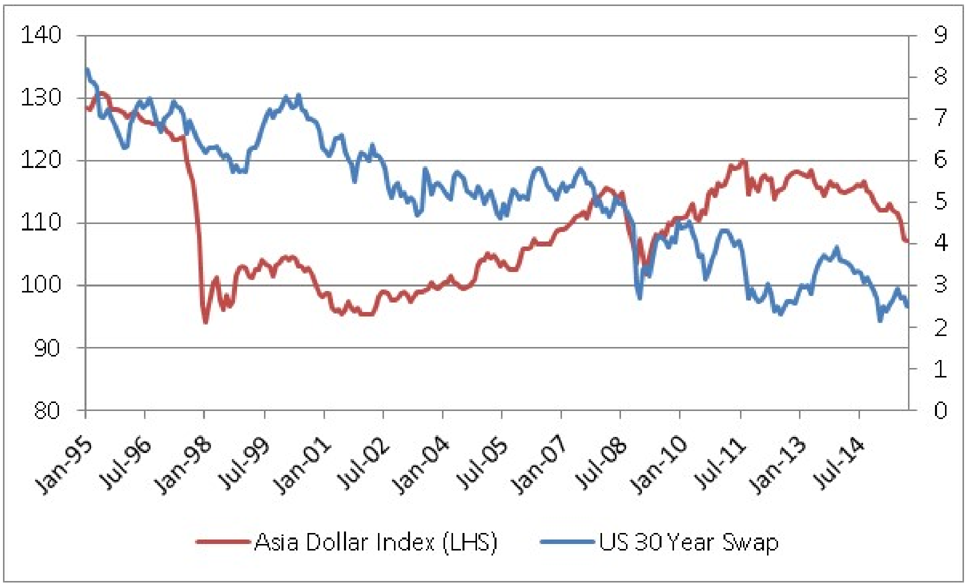
Furthermore, the selloff in 30 year US treasuries has happened at a time of very low inflation. Real yields for treasuries are now very high.



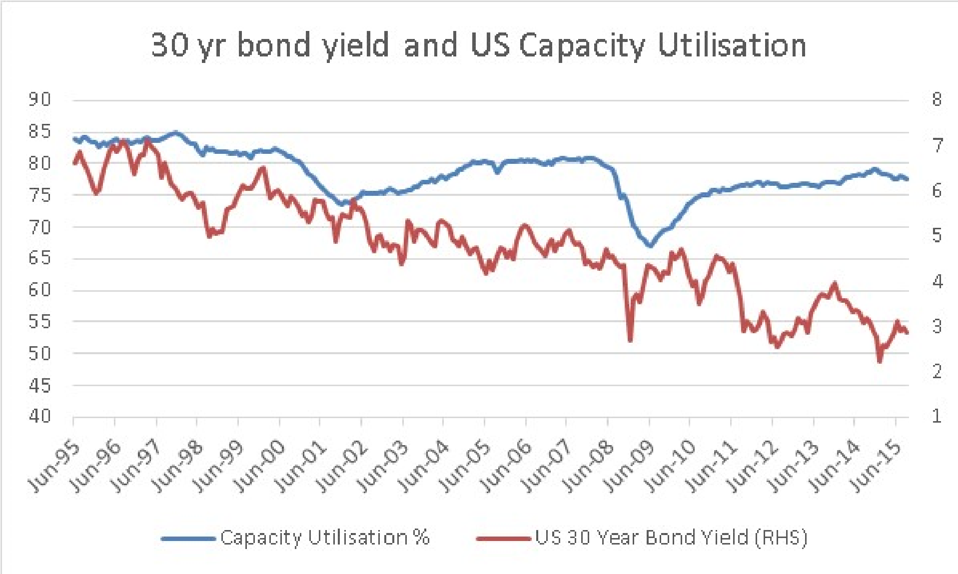
US 30 year treasuries now also yield close to double the yield on offer from Japanese government bonds (JGBs) and German bunds.



Asian currency movements have tended to weaken in periods of lower yields. Recent movements in Asian currency would tend to be supportive of bond prices (ie lower yields).



I note that bond yields tend to fall as US capacity utilisation (as reported by the Federal Reserve) tends to fall. The obvious reason for this is that excess capacity tends to put downward pressure on prices, and shows that demand is coming in weaker than expected. Both of these things are bullish for bonds.



It would seem to me that the risk reward in long 30 year US treasuries looks good.

INFORMATION

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