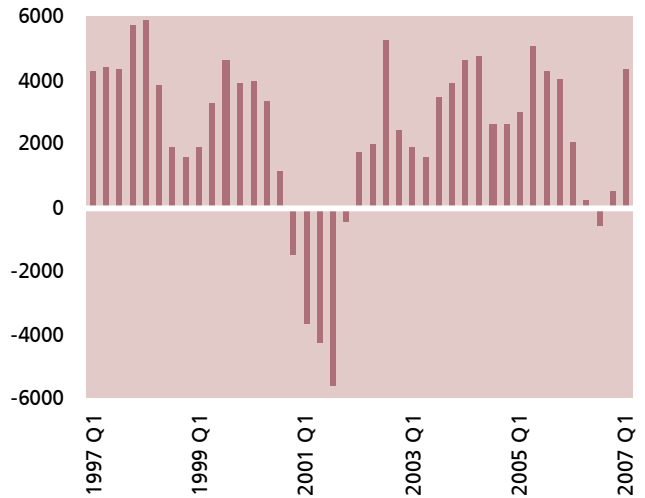
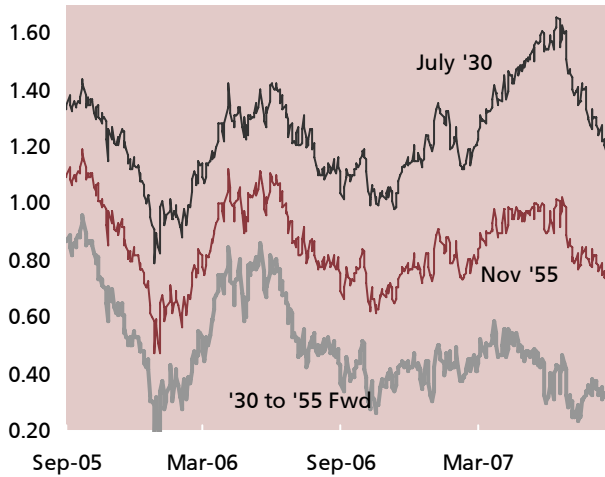


**Real yield; '30, '55 & f'ward between '30 & '55 LAPF demand for I-L (4q ma, GBP mn)**



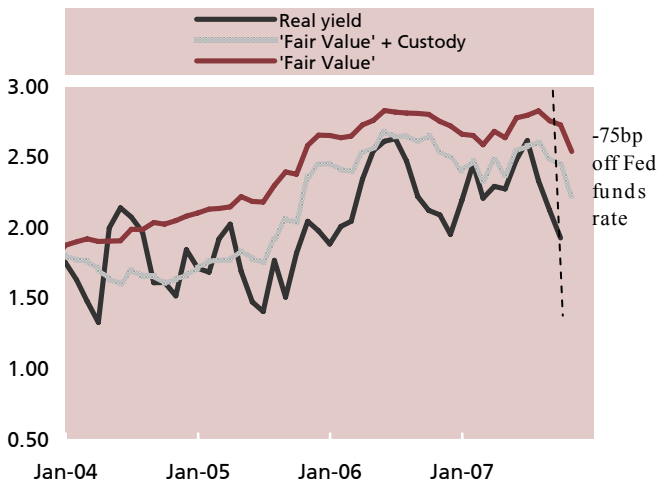
**US Treasury market valuations still look rich (even if we assume FRB ease) whilst market-timing predictors have turned marginally negative.**

**UST broader curve valuation, direction issues**

*FRB Chairman Bernanke in Berlin; "We are again reminded of the need to maintain appropriate humility in forecasting returns and asset prices".*

A couple of pieces of analysis suggest that it may be difficult for the US Treasury market to extend its recent gains in the near-term. The slump in ex ante Treasury real yields to 2% (4.4% less 2.4% projected CPI inflation) leaves them some way below our "fair value" estimate, which has the FRB policy stance as one of its inputs. If we engage in hypothesis testing and assume that the FRB trims 75bps off its Fed funds target in the next few months (pretty much discounted by current interest rate contracts) - then real yields *still* look too low. It is a while since US debt markets were at our "fair value" estimate and empirically it is difficult to model the role of Asian central bank purchases in driving Treasury yields. Indeed, our analysis suggests that the Eurasian savings glut may have played an important role in pre-empting demand for government debt globally (purchases by central banks have effectively forced other investors out of US Treasuries).

**UST ex ante RY & "fair value" on 20-yr data**



**Contributors to predicted three-month returns**

