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# Method to the Madness

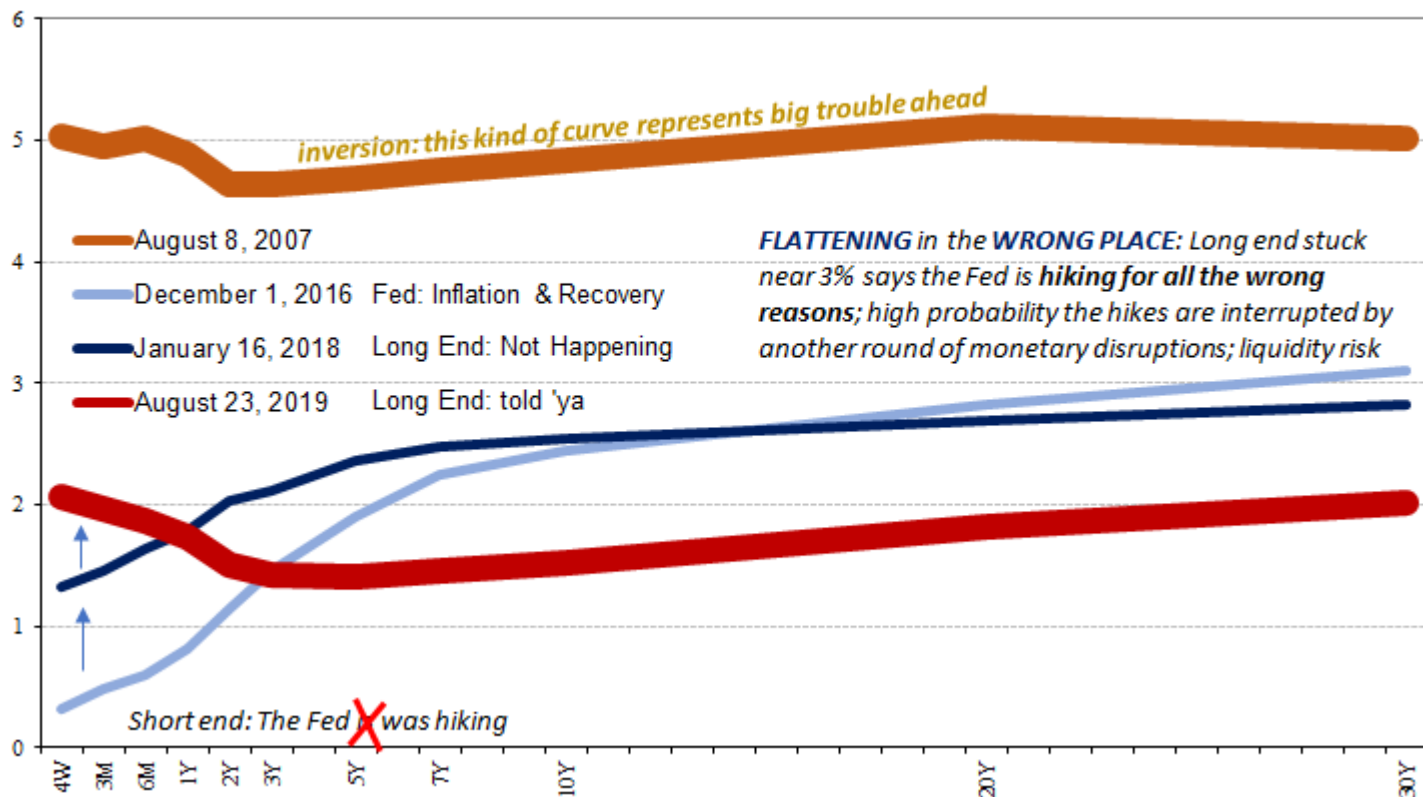
## Deflation Gold & Negative Yields

(**'dollars'** and **economy**)



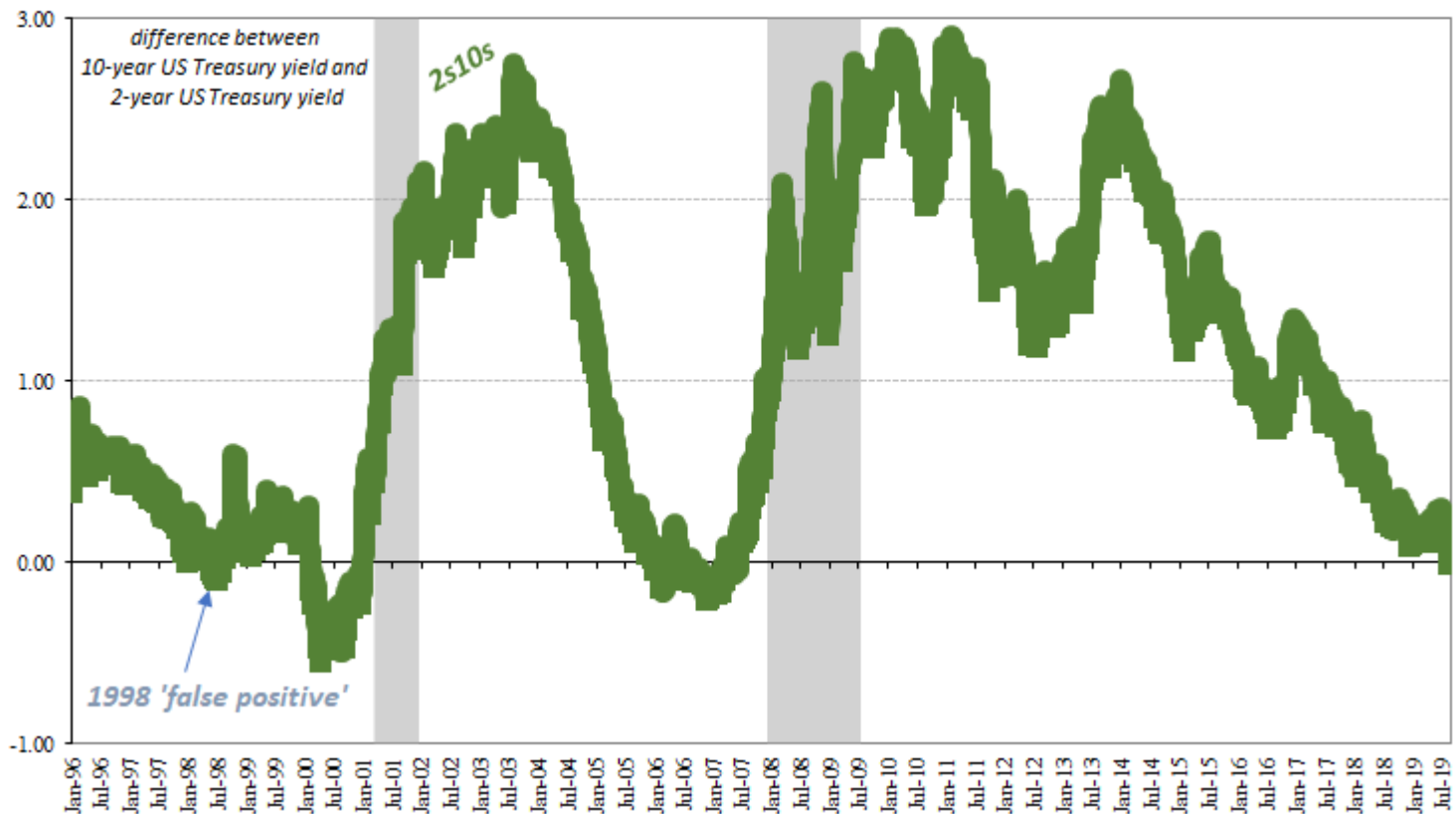


## US Treasury Yield Curve





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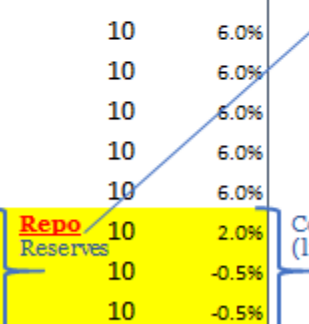


Stylized Example: Usefulness of Repo Reserves  
 FIGURE 1-1

BANK A					
Assets		Return		Liabilities	
Reserves	10	2.0%		Capital	10
Illiquid Asset1	10	6.0%		Repo	90
Illiquid Asset2	10	6.0%			
Illiquid Asset3	10	6.0%			
Illiquid Asset4	10	6.0%			
Illiquid Asset5	10	6.0%			
Illiquid Asset6	10	6.0%			
Illiquid Asset7	10	6.0%			
Illiquid Asset8	10	6.0%			
Illiquid Asset9	10	6.0%			
Gross Interest Return		5.6%		Simple Capital Ratio	10.0%

Stylized Example: Usefulness of Repo Reserves  
 FIGURE 3-3

BANK A					
Assets		Return		Liabilities	
Reserves	10	2.0%	Capital	10	
Illiquid Asset1	10	6.0%	Repo	90	
Illiquid Asset2	10	6.0%			
Illiquid Asset3	10	6.0%			
Illiquid Asset4	10	6.0%			
Illiquid Asset5	10	6.0%			
Illiquid Asset6	10	6.0%			
UST1	10	2.0%			
German Bund1	10	-0.5%			
German Bund2	10	-0.5%			
Gross Interest Return			3.9%	Simple Capital Ratio	10.0%



# Yield Decomposition

“Historically, [the yield curve inversion] has been a pretty good signal of recession and I think that’s when markets pay attention to it but I would really urge that on this occasion it may be a less good signal. And the reason for that is there are a number of factors other than market expectations about the future path of interest rates that are pushing down long-term yields.”



**Former Federal Reserve Chairman Janet Yellen**

*Appearance on FoxBusiness Network*

*August 14, 2019*

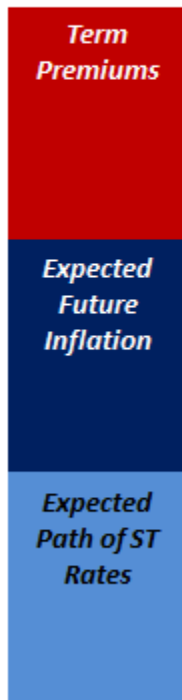


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## FISHERIAN DECONSTRUCTION

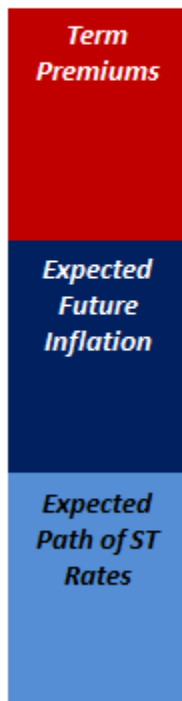
*Long-term Bond Yield*





## FISHERIAN DECONSTRUCTION

### *Long-term Bond Yield*

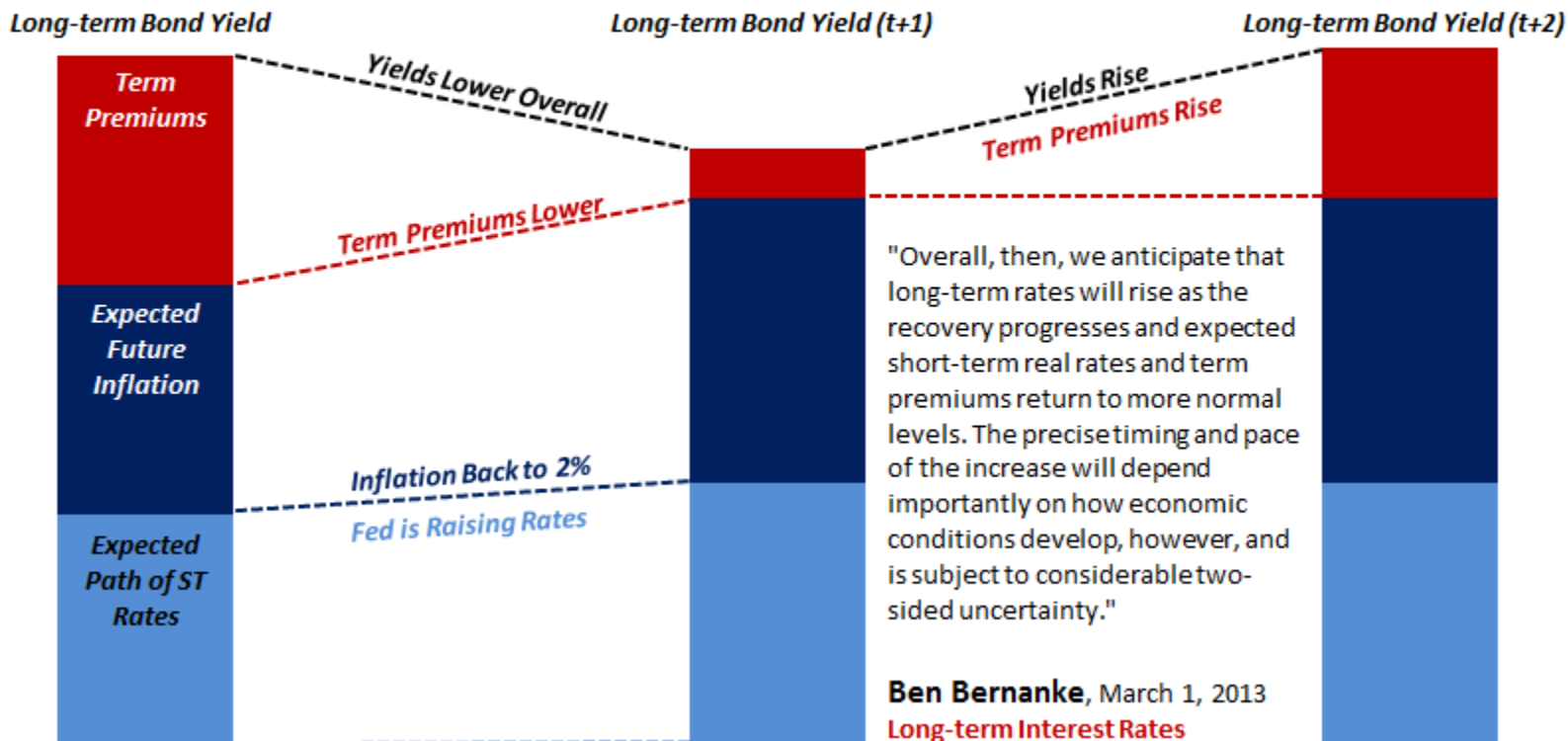


"Briefly, a *term premium* is the extra return that lenders demand to hold a longer-term bond instead of investing in a series of short-term securities (a new one-year security each year, for example). Typically, long-term yields are higher than short-term yields, implying that term premiums are usually positive (investors require extra compensation to hold longer-term bonds instead of short-term securities)."

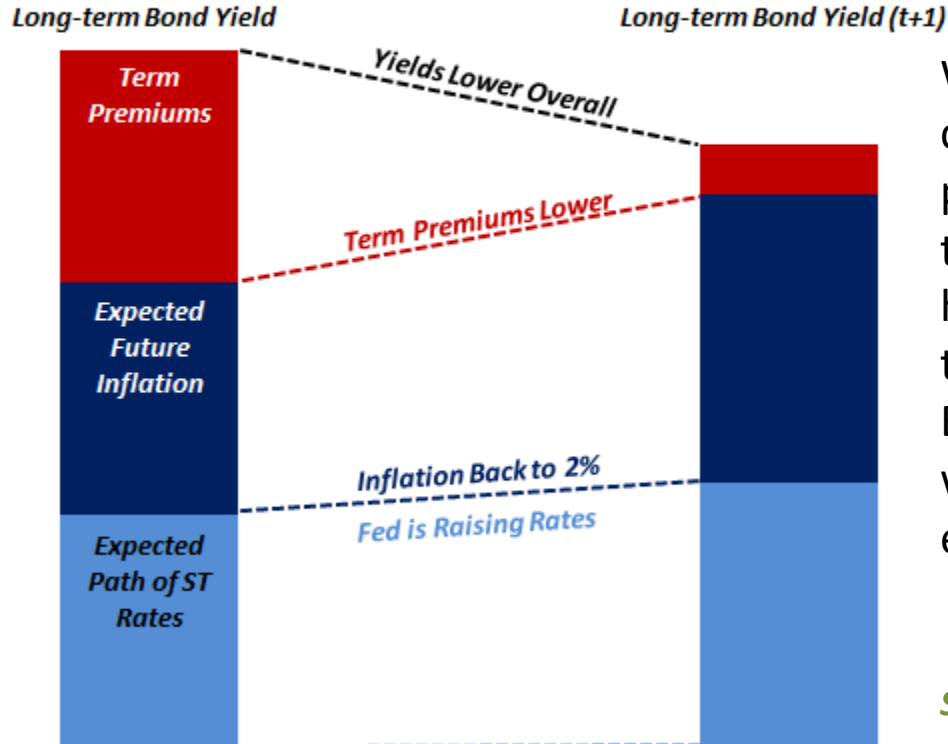
**Ben Bernanke**, April 13, 2015  
**Why Are Interest Rates So Low?**



## FISHERIAN DECONSTRUCTION



## FISHERIAN DECONSTRUCTION

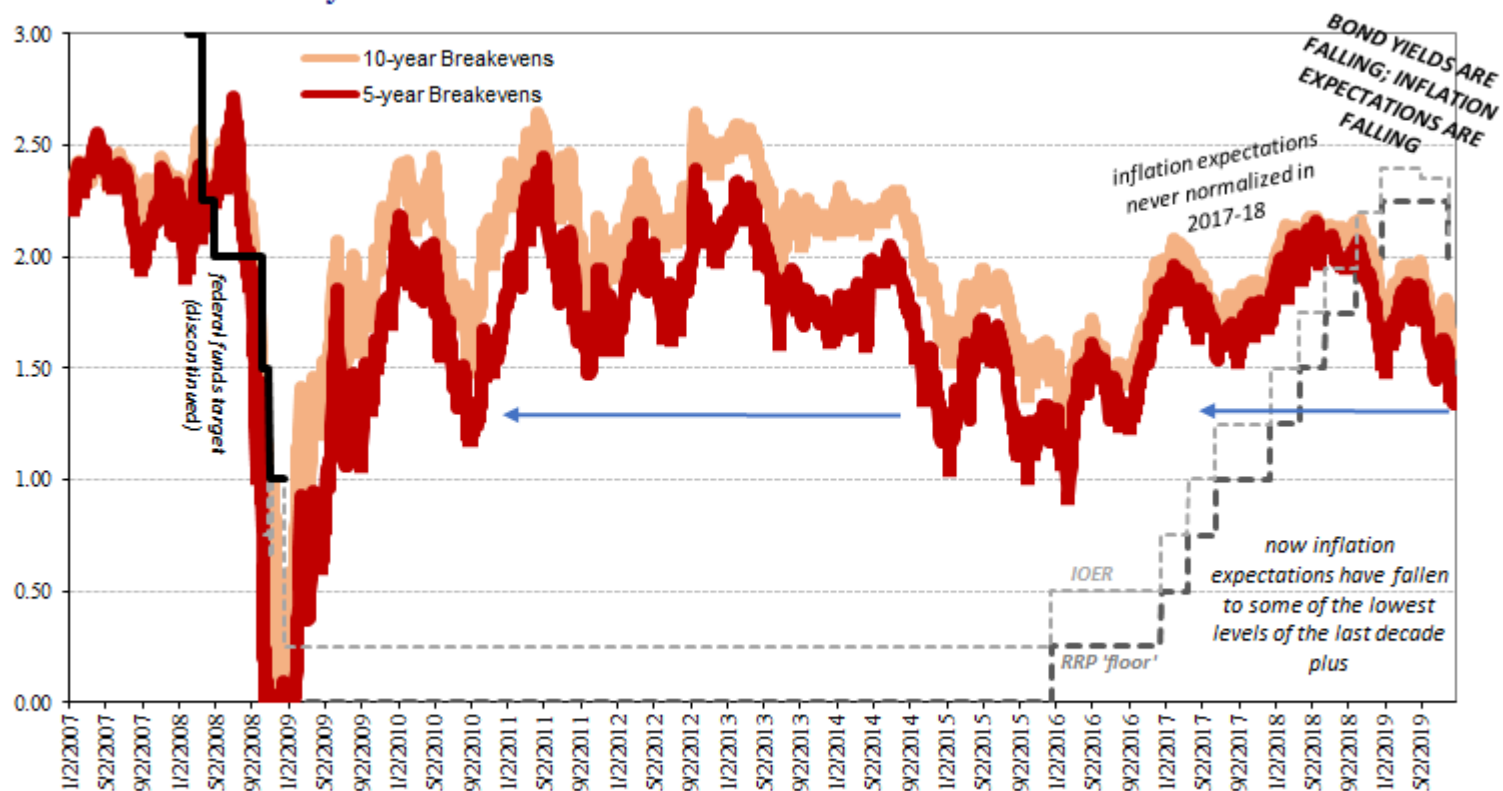


What Janet Yellen is saying about current yields: the market can't possibly think differently than her or the Fed, it still **must** be pricing higher inflation (someday) and how the Fed will go back to rate hikes. But because yields are falling, that would leave only term premiums to explain them.

**SPOILER:** the market thinks (very) differently

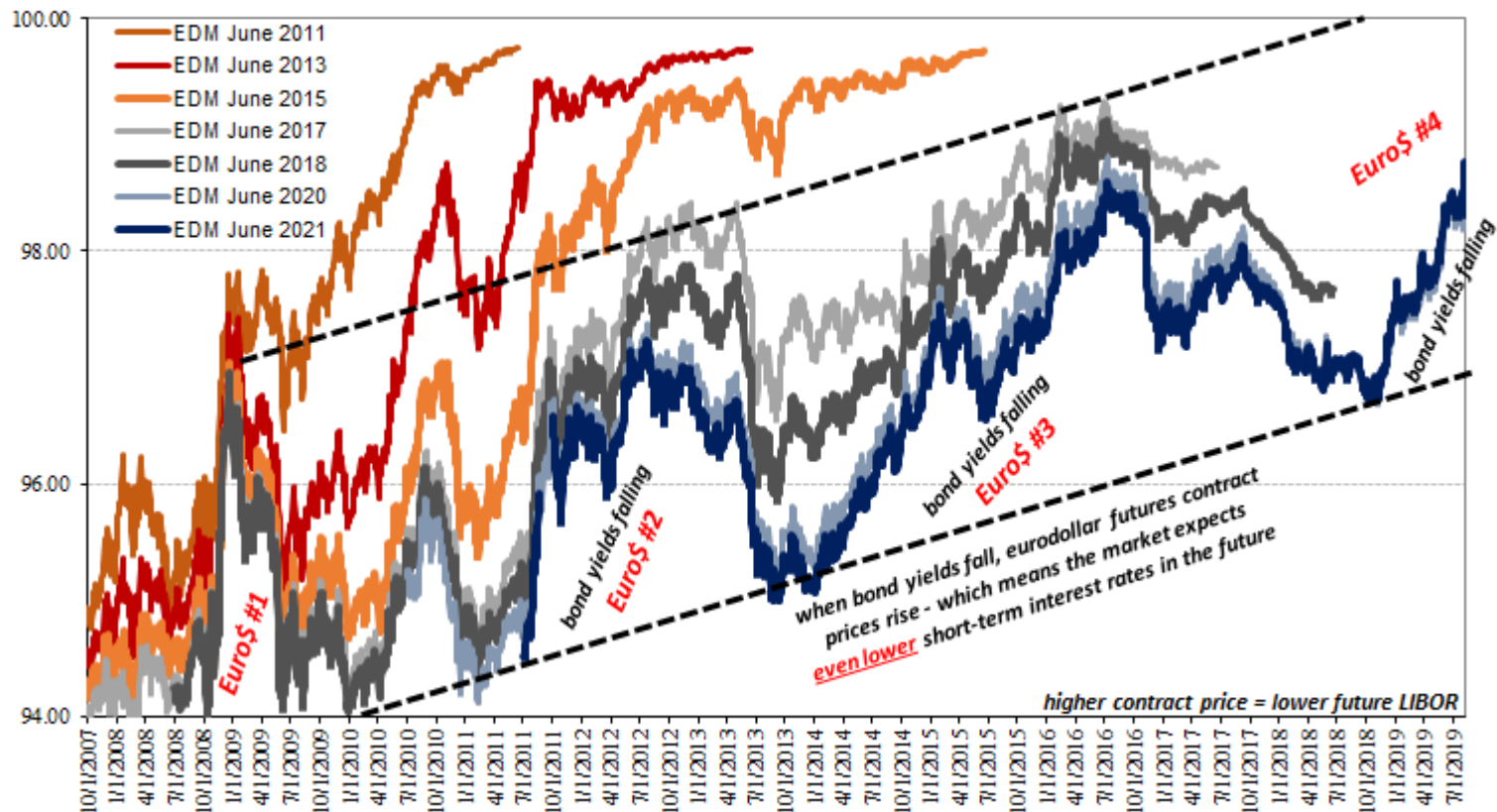


## US Treasury Real Yields



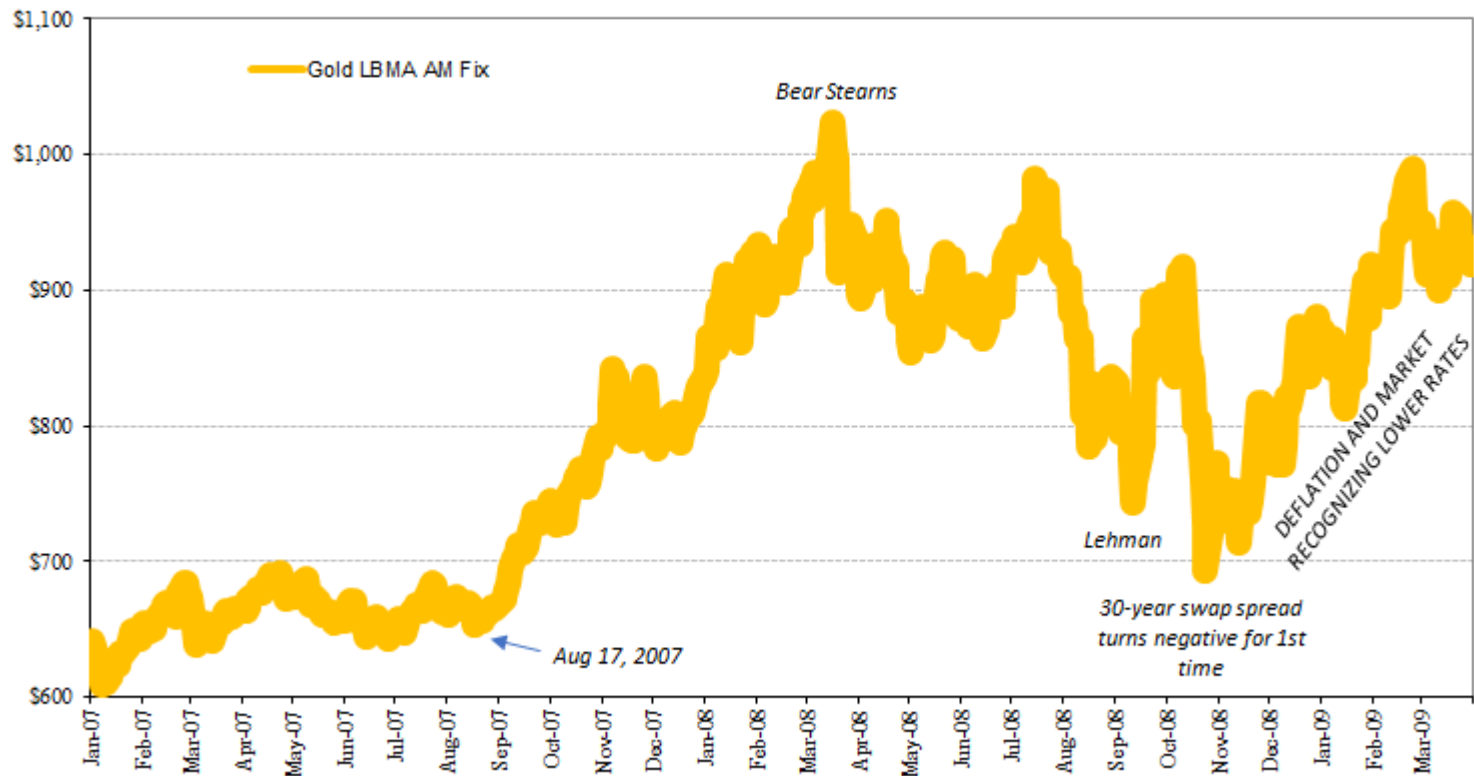


## Eurodollar Futures Curve History



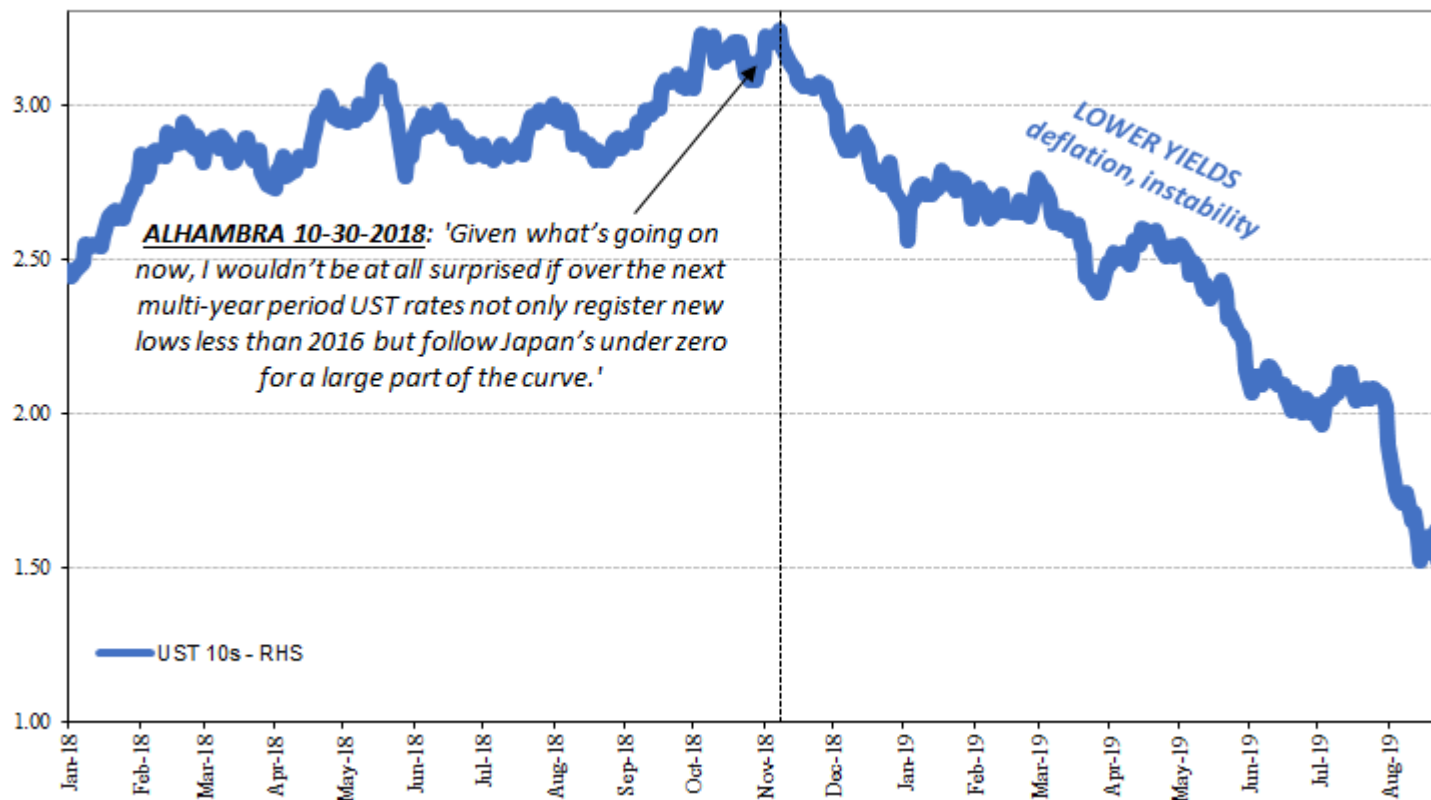


## Gold the Ultimate Hedge



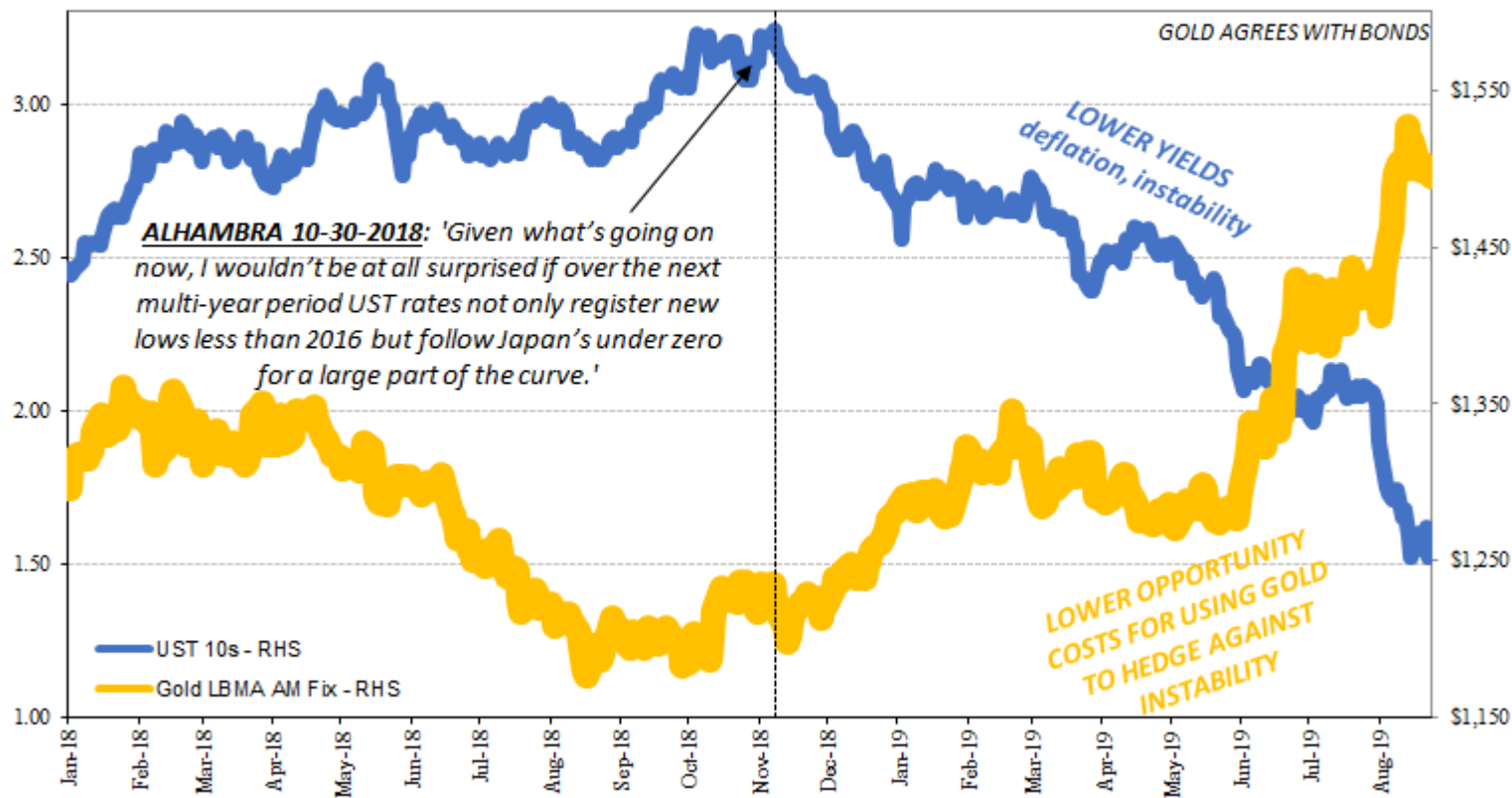


## Gold the Ultimate Hedge





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**CONCLUDED**

