BOB HOYE

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T-Bill Rate: Plunging As Crisis Hits New York

After peaking at 2.49% in March, the 3-Month Bill rate has plunged to 1.79%, a new low for the move. In May we reviewed the breakdown and pointed out that market rates of interest go up with the boom. And in turning down indicate that boom is ending.

However the Street, without evidence, ardently believes that the perfectly-timed "Fed-Cut" will keep a boom going. Investors who "know" that no one can "time" the market fully rely upon the Fed to "time" the market. The following headline was emphasized in September 2007:

> ***"Lowering interest rates will certainly help the stock market. There is no question about it."***
>
> –CIO, Harris Private Bank, Bloomberg, September 4, 2007.

We again cited this clanger in our May 24th *Pivot*, and through the summer we reviewed that liquidity problems being discovered in outlying exchanges such as Argentina, Turkey, India and then China would inevitably hit New York.

And the next irony is that at previous transitions from boom to contraction, T-Bill rates turn down and the senior central bank follows some 5 to 6 months later with a drop in the administered rate.

Despite all the empirical evidence Wall Street got on the "Fed-Cut" bandwagon:

> ***"Buy Your Favorite Name. So with the rate cut …yes you buy equities."***
>
> – *CNBC*, July 29.

The Bill Rate peaked in May 1929 and declined through that fateful summer. Indicating that that boom was effectively over.

Quite likely the rise in rates is partly due to the demand by speculators for short-term funds as they leverage up. The next step could be that some traders become cautious; reducing margin and building cash. Which could prompt the decline in market rates. And the final phase could be careful investors around the world going to the most liquid instruments.

Which remain US T-Bills and gold.

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We grabbed the following headline, because it reminded of a "classic" in 1929:

> ***"Central Bankers Can No Longer Inspire Traders To Buy Every Dip"***
>
> – Zero Hedge, August 9, 2019.

> ***"Traders who would formerly have taken the precaution of reducing their commitments just in case a reaction should set in, now feel confident that they***

can ride out any storm which may develop. But more particularly, the repeated demonstrations which the market has given of its ability to 'come back' with renewed strength after a reaction has engendered a spirit of indifference to all the old time warnings. As to whether this attitude may not sometime itself become a danger-signal Wall Street is not agreed."

– *The New York Times,* September 1, 1929.

Short Rates in 2007

In the 2007 boom the 3-Month Bill peaked at 5.19% in February and was down to 3.20% in August. In three steps, the Fed rate was increased from 4.75% in March to 5.75% in late September. The first "Fed-Cut!" was announced on September 18, seven months after the peak in market rates of interest. By December the Bill Rate was down to 2.87% and the administered rate was at 4.25%. The T-Bill went to zero and the Fed followed, but at 0.25% the Fed was at the lowest possible.