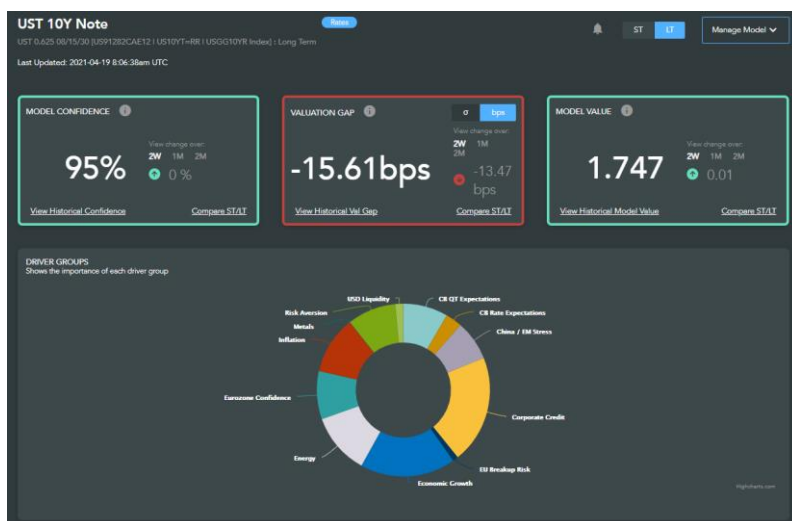




What's happening with US bond yields?

- Short covering. Japanese buying at the start of their new fiscal year. Safe haven demand. The usual guessing game to explain the sharp move lower in US Treasury yields is well underway.
- There is a surfeit of back-fitted narratives trying to align a story with price action. Instead Qi offers a [10y UST](#) model that has a 95% degree of confidence & which currently shows yields as 0.5 sigma (16bp) low versus fair value. **This latest move doesn't look consistent with macro fundamentals.**



- Flows can dominate in the short term but **the key macro drivers have strong explanatory power**. Tight credit spreads & higher inflation expectations equate to higher yields & between them account for 30% of model confidence. **Crude oil is, by some margin, the biggest single driver**. Bond yields' sensitivity to oil has risen sharply since early Feb.
- Less obvious is the negative relationship with global economic growth; a pattern which emerged over March & runs counter to conventional thinking. It could reflect bond yields as a measure of US fiscal policy. Bad economic news results in a bigger fiscal response, & hence higher bond yields. Viewed in that light, **the recent strong run of US data has reduced the likelihood of further fiscal stimulus**, & thereby reduced the upward pressure on US yields.
- Fitting a narrative to explain price action is inherently a subjective process. The quantitative pattern may not be immediately intuitive but is transparent, updated in real time & often the 'explanation' arrives after the fact.

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