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Global Strategy and Investment Trends by David Fuller http://www.fullermoney.com

More evidence that the global long-dated government bond bubble has burst.

Bond experts debate whether or not it is a bubble. I posted a research report from Goldman Sachs titled, "Is the US Bond Market a Bubble?", on www.fullermoney.com yesterday. The three authors concluded that it was not a bubble. Today, I'll post an article by Paul McCulley of PIMCO, in which he concludes that US Treasuries are in a bubble but that it is a rational bubble, unlike stocks in 1999. These experts have probably forgotten more about bonds than I'll ever know, and their analysis is certainly interesting, but I'm now weighing up the likely effect of recent events on sentiment.

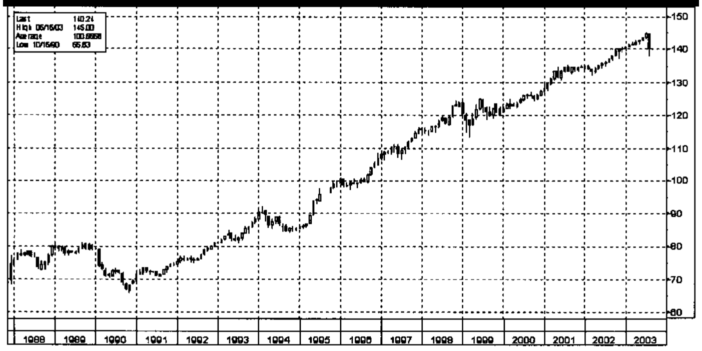
If a 23-year bull market during which 10-year US Treasury yields moved from 15.32% to 3.17% isn't a bubble, what is it? OK, there are even more outrageous examples of bubbles, including some tech stocks floated in 1999-2000, which made a virtue of having no product and no business plan, not to mention profits. The bond market's closest equivalent has to be JGB yields, which dropped to 0.43% in June, a level described publicly as "ridiculous" by one Japanese monetary official. Once people believe they are buying a risk-free return, it is only a matter of time before that becomes a return-free risk. In bidding developed country government bond yields to last month's lows, investors were discounting continued deflationary pressures, minimal economic growth, central bank purchases sufficient to ensure even lower yields and no increase in short-term interest rates for several years. Could they still be right? Not if we believe this week's forecast by Alan Greenspan for accelerated growth in 2003; not if we believe the stock market rally can carry well into 2004, and not if we believe that all this Keynesian reflation from Washington to Tokyo will achieve more than pushing on a string.

Look at the charts. Bond investors have taken fright recently, which is not surprising given the bubble talk. Also, having sold stocks and bought bonds for 3 years, some are inevitably moving back into equities. Evidence of this is provided by the recent downward dynamics, somewhat difficult to see on these condensed charts, so I will post them on my website later today. JGBs, US T-bonds and Euro-bunds are in the process of recording their biggest monthly declines since the bull market commenced many years ago. These are trend-ending signals. The most important remaining question, I believe, is the length and shape of any top formation extension, which could be influenced by central banks. Whatever, I regard government bonds as a sell on rallies, rather than a buy on dips.

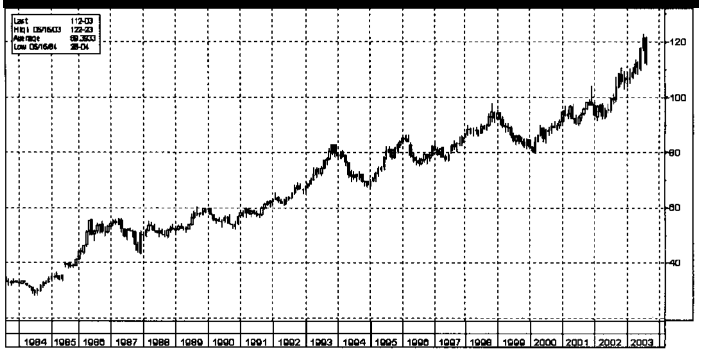
Best regards - David Fuller

Charts by Bloomberg

JGB 10-Year 1st Generic Futures Price: 140.24 (Monthly)



US 10-Year 1st Generic Futures Price: 112-03 (Monthly)



Euro-Bund 10-Year 1st Generic Futures Price: 115.13 (Monthly)

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