Treasury Bonds = Money

September 26th 2019

In April we posted on our website a note explaining the relationship between government debt, deficits and interest rates. We believe the U S government debt is actually part of the nation's money supply (the largest part). As the debt goes up the money supply goes up. Supply and Demand says that if the supply of something goes up its price goes down. The "price" of money is the interest rate to borrow it. More money = lower interest rates. You can find our note here:

http://www.caterwealthmanagement.com/articles/DebtDeficitsIR.pdf

The biggest Fed news this week is the continuing saga of the Repo market. The Repo market is the mechanism used to magically transform Treasury bonds into money. This week it broke. We know it broke because the interest rate in the overnight Repo market hit 10% Tuesday. It's not supposed to be higher than the Fed Funds rate (1.75% - 2.00%). The Fed responded by injecting more than $160 billion into the private sector in the form of term and overnight Repos. The last time they used this tool was 10 years ago, during the Great Financial Crisis.

https://www.bloomberg.com/opinion/articles/2019-09-26/repo-meltdown-shows-budget-deficit-has-limits

The 10 year US Treasury bond is back down under 1.68% today and the 30 year is 2.13%.

Cost of Money

https://www.merriam-webster.com/dictionary/cost%20of%20money