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## The world is now wondering whether Australia will start a trend

◆ The Reserve Bank of Australia today announced plans to buy more than US\$3 billion of longer-dated securities.

◆ The announcement caused the yield on the Australian 10-year bond to drop almost 25 basis points.

◆ The sharp move reverberated across the world, with long-term yields falling across several other key bond markets.

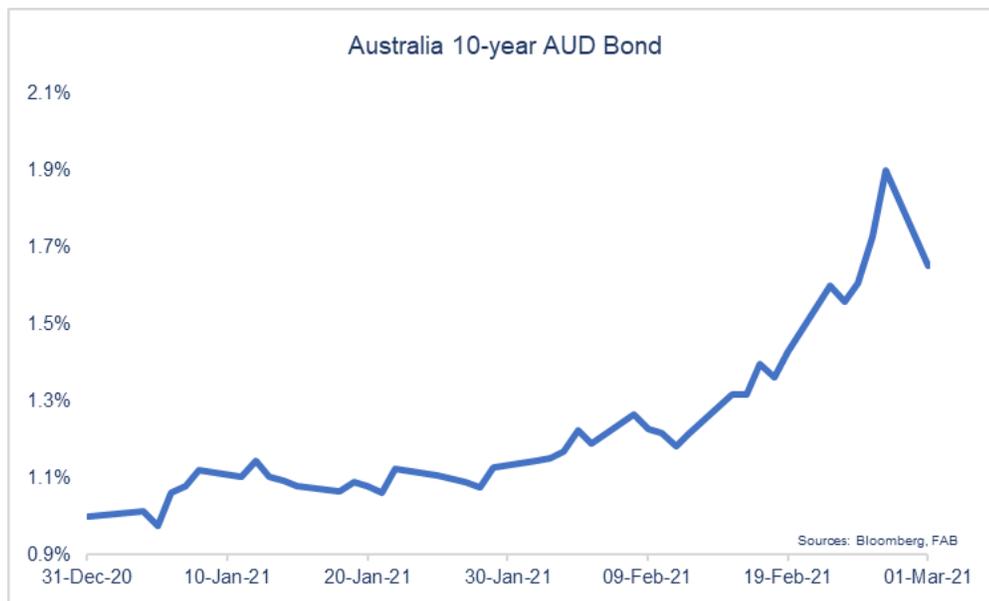
◆ The question, now, is whether the Federal Reserve will also indicate it is worried about higher long-term yields.

◆ The FAB AAC is overweight in equities, IG and EM bonds, and gold, and is underweight in alternatives.

It took a while, but the Australians delivered. The Reserve Bank of Australia began to indicate last year that it could become more forceful about its intervention in the bond market amid a 7.13% rally in the Australian dollar and as the yield on the 10-year Australian government bond rose 95 basis points between 4 November and 31 December.

Initially, the bank tried to talk down the currency and the bond yields. Then, it announced more monetary easing. Today, the central bank took the gloves off and announced it was buying more than US\$3 billion in long-dated securities.

This happened on a day when there was already some short-covering, it seemed, and it accelerated the yield drop, pushing the return on the 10-year government bond down by almost 25 basis points to 1.67%. It was a good reminder for traders 'down under' not to fight the RBA.



The move reverberated across the world and the yield on key 10-year notes dropped several basis points from New Zealand to Germany. It initially impacted even the 10-year US Treasury, which saw its yield drop below 1.4% during the Japanese trading hours. That, however, had started to reverse after the London desks opened and the benchmark was at 1.43% around 4:30pm in Abu Dhabi.

In the Treasury market, there are also a large a number of short positions and investors will be listening closely for hints that the Federal Reserve could follow the RBA's lead. Several Fed officials, including Chairman Jerome Powell, are scheduled to speak this week, ahead of a 10-day quiet period before the FOMC meeting, on 17 March.

If they continue to show comfort with higher long-dated Treasury yields, the sell-off could continue. If instead officials signal concern about higher long-term yields, they could prompt a short-squeeze.

### Today, the yield on the 10-year Australian government bond fell nearly 25 basis points

Before that, however, bond bears will face another test. The European Central Bank publishes its weekly bond buying figures today and traders will be looking for signs that the institution has taken action on recent warnings that its officials were concerned about rising long-term yields.

The ECB still gets another shot at wowing the world on 11 March, when it holds its next policy meeting. The Fed, however, is the whale that can really tip the balance in the bond market.

Even if the Fed hesitates about taking action for now, the RBA has offered a good reminder to traders of what can happen when a central bank decides to throw its weight around. The bond bears have been warned.

# Investment Strategy Update

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