>: Last Christmastime was Pivotal for Treasury Bonds in Candlestick Terms

Friday, June 19, 2009 | William Kurtz

The weekly charts of U.S. Treasury Bond prices told quite a story in Candlestick language. Specifically, the weeks of December 19 and December 26, 2008 and January 2, 2009 formed a very large â€œEvening Starâ€• pattern, which was extremely bearish. The prediction has come true: from a top of 139^04 on December 19 prices fell to a low of 111^25 on June 11, 2009, recovered a bit to a high of 117^02 on June 17, and at the moment are at 114^15.5.

What has happened since last Christmastime that would account for this quite precipitous decline? The short answer is a decline in confidence in the perceived value of Treasury Bonds, which in turn has been caused by the massive bailouts of the banks, of General Motors, and of Chrysler which have been engineered by the Federal Government and paid for, in part, by money which has been created out of thin air.

Since the market price of Treasury Bonds varies inversely as to interest rates, the decline in market price of Bonds necessarily means that interest rates being paid for those Bonds has increased. Putting it another way, purchasers have been driving down the price at which they will agree to buy, in order to obtain the benefit of a higher return on their investment.

This increase in market interest rates was so alarming to the Federal Reserve that, a few weeks ago, it announced the purchase of three-quarters of a billion dollars (or so) of Bonds, in an attempt to stabilize the market price and, therefore, the market interest rate. So far, the effort has not had anything like the salutary effect that the Fed desired.

All of this has an impact on the question of recovery of the economy from this recessionary period. Quite apart from the separate question of availability of credit â€“ at all â€“ higher interest rates have the effect of putting the brakes on any attempt at recovery.

We did see a bullish Candlestick price bar on June 11 â€“ a tall white candle which engulfed the previous black Spinning Top. Indeed, prices did rally for four days thereafter, but ended with a bearish Shooting Star on June 17, whereupon prices have been lower in the two trading days thereafter.

It is highly to be desired that market interest rates on Treasury Bonds be restrained and, hopefully, lowered in the ensuing weeks and months in order that the faint sprouts of a recovery which we now see can be nurtured and the national economy be restored to health.

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