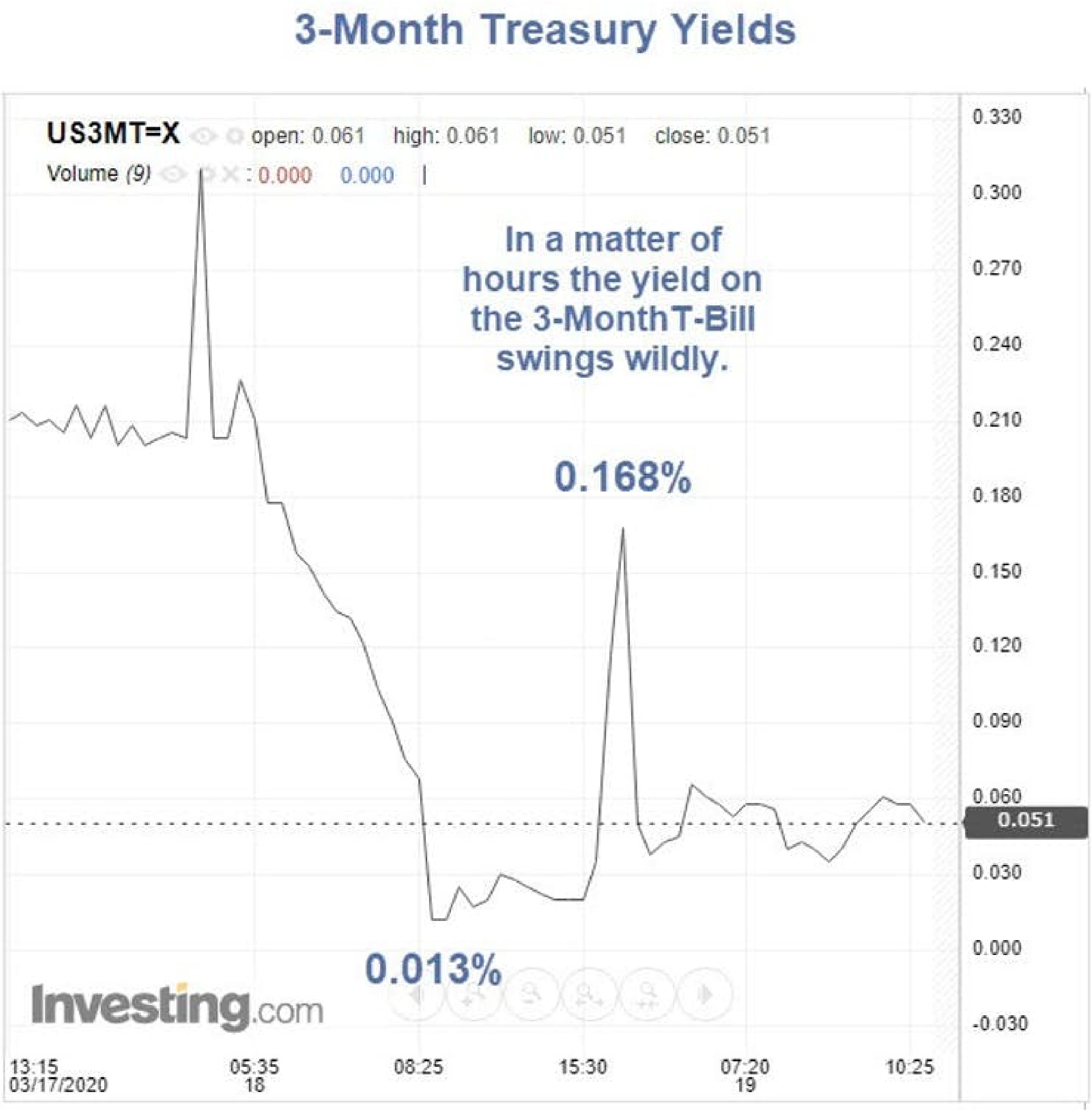

Bond market volatility remains a sight to behold, even at the low end of the curve.

Bond Market Dislocations Remain

The yield on a 3-month T-Bill fell to 1.3 basis points then surged to 16.8 basis points in a matter of hours. The yield then quickly crashed to 3 basis points and now sits at 5.1 basis points.

The Fed is struggling even with the low end of the Treasury curve.

$IRX 3-Month Yield

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Stockcharts shows the 3-month yield ($IRX) dipping below zero but Investing.Com does not show the yield went below zero.

Regardless, these swings are not normal.

Cash Crunch

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Bloomberg reports [All the Signs a Cash Crunch Is Gripping Markets and the Economy]

> In a crisis, it is said, all correlations go to one. Threats get so overwhelming that everything reacts in unison. And the common thread running through all facets of financial markets and the real economy right now is simple: a global cash crunch of epic proportions.
>
> Investors piled $137 billion into cash-like assets in the five days ending March 11, according to a Bank of America report citing EPFR Global data. Its monthly fund manager survey showed the fourth-largest monthly jump in allocations to cash ever, from 4% to 5.1%.
>
> ?Cash has become the king as the short-term government funds have had massive deposits, with ~$13 billion inflows last week (a 10-standard deviation move),? adds Maneesh Dehspande, head of equity derivatives strategy at Barclays.

4th Largest Jump in History

It's quite telling that a jump of a mere 1.1 percentage point to 5.1% cash is the 4th largest cash jump in history.

Margin and Short Covering

> ?In aggregate, the market saw a large outflow, with $9 billion of long liquidation and $6 billion of short covering,? said Michael Haigh, global head of commodity research at Societe Generale. ?*This general and non-directional closure of money manager positions could be explained by a need for cash to pay margin calls on other derivatives contracts.*?

The comment is somewhat inaccurate. Sideline cash did not change "in aggregate" although cash balances t various fund managers did.

This is what happens when leveraged longs get a trillion dollar derivatives margin call or whatever the heck it was.

Need a Better Hedge

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> With the S&P 500 down more than 12% in the five sessions ending March 17, the Japanese yen is weaker against the greenback, the 10-year Treasury future is down, and gold is too.
>
> That?s another sign dollars are top of mind, and investors are selling not only what they want to, but also what they have to.

Dash to Cash

> It?s one thing to see exchange-traded products stuffed full of relatively illiquid corporate bonds trade below the purported sum of the value of their holdings. It?s quite another to see such a massive discount develop in a more plain-vanilla product like the Vanguard Total Bond Market ETF (BND) as investors ditched the product to raise cash despite not quite getting their money?s worth.
>
> The fund closed Tuesday at a discount of nearly 2% to its net asset value, which blew out to above 6% last week amid accelerating, record outflows. That exceeded its prior record discount from 2008.

It is impossible for everyone to go to cash at the same time.

Someone must hold every stock, every bond and every dollar.

Fed Opens More Dollar Swap Lines

Moments ago Reuters reported Fed Opens Dollar Swap Lines for Nine Additional Foreign Central Banks.

> The Fed said the swaps, in which the Fed accepts other currencies in exchange for dollars, will for at least the next six months allow the central banks of Australia, Brazil, South Korea, Mexico, Singapore, Sweden, Denmark, Norway and New Zealand to tap up to a combined total of $450 billion, money to ensure the world?s dollar-dependent financial system continues to function.
>
> The new swap lines ?like those already established between the Federal Reserve and other central banks, are designed to help lessen strains in global U.S. dollar funding markets, thereby mitigating the effects of these strains on the supply of credit to households and businesses, both domestically and abroad,? the Fed said in a statement.
>
> The central banks of South Korea, Singapore, Mexico and Sweden all said in separate statements they intended to use them.

Fed Does Another Emergency Repo and Relaunches Commercial Paper Facility

Yesterday I commented Fed Does Another Emergency Repo and Relaunches Commercial Paper Facility

Very Deflationary Outcome Has Begun: Blame the Fed

The Fed is struggling mightily to alleviate the mess it is largely responsible for.

I previously commented a Very Deflationary Outcome Has Begun: Blame the Fed

The Fed blew three economic bubbles in succession. A deflationary bust has started. They blew bubbles trying to prevent "deflation" defined as falling consumer prices.

BIS Deflation Study

The BIS did a historical study and found routine price deflation was not any problem at all.

?Deflation may actually boost output. Lower prices increase real incomes and wealth. And they may also make export goods more competitive,? stated the BIS study.

For a discussion of the study, please see Historical Perspective on CPI Deflations: How Damaging are They?

Deflation is not really about prices. It's about the value of debt on the books of banks that cannot be paid back by zombie corporations and individuals.

Blowing bubbles in absurd attempts to arrest "price deflation" is crazy. The bigger the bubbles the bigger the resultant "asset bubble deflation". Falling consumer prices do not have severe negative repercussions. Asset bubble deflations are another matter.

Assessing the Blame

Central banks are not responsible for the coronavirus. But they are responsible for blowing economic bubbles prone to crash.

The equities bubbles before the coronavirus hit were the largest on record.

Dollar Irony

The irony in this madness is the US will be printing the most currency and have the biggest budget deficits as a result. Yet central banks can't seem to get enough dollars. In that aspect, the dollar ought to be sinking.

But given the US 10-year Treasury yield at 1.126% is among the highest in the world, why not exchange everything one can for dollars earning positive yield.

This is all such circular madness, it's hard to say when or how it ends.

Unemployment Set To Explode

A SurveyUSA poll reveals 9% of the US is out of a job due to the coronavirus.

Please consider the Results of SurveyUSA Coronavirus News Poll.

Key Findings

1. *9% of Working Americans (14 Million) So Far Have Been Laid Off As Result of Coronavirus; 1 in 4 Workers Have Had Their Hours Reduced;*
2. *2% Have Been Fired; 20% Have Postponed a Business Trip; Shock Waves Just Now Beginning to Ripple Through Once-Roaring US Economy:*
3. *Early markers on the road from recession to depression as the Coronavirus threatens to stop the world from spinning on its axis show that 1 in 4 working Americans have had their hours reduced as a result of COVID-19, according to SurveyUSA's latest time-series tracking poll conducted 03/18/20 and 03/19/20.*
4. *Approximately 160 million Americans were employed in the robust Trump economy 2 months ago. If 26% have had their hours reduced, that translates to 41 million Americans who this week will take home less money than last, twice as many as SurveyUSA found in an identical poll 1 week ago. Time-series tracking graphs available here.*
5. *9% of working Americans, or 14 million of your friends and neighbors, will take home no paycheck this week, because they were laid off, up from 1% in an identical SurveyUSA poll 1 week ago. Time-series tracking graphs available here.*
6. *Unlike those laid-off workers who have some hope of being recalled once the worst of the virus has past, 2% of Americans say they have lost their jobs altogether as a result of the virus, up from 1% last week.*
7. *Of working Americans, 26% are working from home either some days or every day, up from 17% last week. A majority, 56%, no longer go to their place of employment, which means they are not spending money on gasoline or transit tokens.*

About: SurveyUSA interviewed 1,000 USA adults nationwide 03/18/20 through 03/19/20. Of the adults, approximately 60% were, before the virus, employed full-time or part-time outside of the home and were asked the layoff and reduced-hours questions. Approximately half of the interviews for this survey were completed before the Big 3 Detroit automakers announced they were shutting down their Michigan assembly lines. *For most Americans, events continue to unfold faster than a human mind is able to process the consequences*.

Grim Survey of Reduced Hours

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Current Unemployment Stats

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Data from latest BLS Jobs Report.

If we assume the SurveyUSA numbers are accurate and will not get worse, we can arrive at some U3 and U6 unemployment estimates.

Baseline Unemployment Estimate (U3)

- *Unemployed: 5.787 million + 14 million = 19.787 million unemployed*

- *Civilian Labor Force: 164.546 million (unchanged)*
- ***Unemployment Rate: 19.787 / 164.546 = 12.0%***

That puts my off the top of the head 15.0% estimate a few days in the ballpark.

Underemployment Estimate (U6)

- *Employed: 158.759 million.*
- *26% have hours reduced = 41.277 million*
- *Part Time for Economic Reasons: 4.318 million + 41.277 million = 45.595 million underemployed*
- *45.595 million underemployed + 19.787 million unemployed = 65.382 million*
- *Civilian Labor Force: 164.546 million (unchanged)*
- ***U6 Unemployment Rate: 65.382 / 164.546 = 39.7%***

Whoa Nellie

Wow, that's not a recession. A depression is the only word.

Note that economists coined a new word "recession" after the 1929 crash and stopped using the word depression assuming it would never happen again.

Prior to 1929 every economic slowdown was called a depression. So if you give credit to the Fed for halting depressions, they haven't. Ity's just a matter of semantics.

Depression is a very fitting word if those numbers are even close to what's going to happen.

Meanwhile, It's no wonder the [Fed Still Struggles to Get a Grip on the Bond Market] and there is a struggled "Dash to Cash".

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