

Weekly Commentary 39 – Nov 2023

Wars and the bankruptcy of the US government

This Commentary is my first attempt at a long essay since my hospitalization three weeks ago. I would like to think that as such, my act is back to normal but I will let you be the judge of that. If you think this is all trash, drop me an email to let me know and I will make further adjustments. Otherwise, as they say in social media, give me a “like”.

My medical problems were serious if not handled quickly or adequately; but since my medical team were excellent, they have told me mid last week that I am good for another 15-20 years. Well and good. Let me say that it was not a stroke (if it were, you would not be reading a blog today), not a heart attack (if it were, I would not be writing at all), but it had to do with my high blood pressure. Since the prognosis is good, I will get back to the good stuff - writing.

With that said, the lapses in notifying all of you about what happened were not as good as I had planned. For one thing, nothing could have been planned. It happened all of a sudden and the contingency measures that I had incorporated into the business were not planned to take care of such an event. Most of you experienced a fall off of the information flow that might have occurred if I had just keeled over. As such after this incident I will strive to improve on SAL's business processes.

I can assure all shareholders that given existing processes, there has not been and never will be a market or credit risk to your investments. I don't do any trading myself, and the machinery continued to work for all of us (I am still by far the largest investor in SAL and I will be getting my due dividends in a couple of days like the rest of you). I added to my stash even last week... And if I did not come out of the operation alive (these things do happen), you could all have redeemed your shares by talking to the managers at Fleur at the Asia Income Fund. Or our Company Secretary at Zetland. Or Felice and Malcolm So I have long set up the procedures for the safeguarding of your principal and redemption of such. Nothing could have gone wrong there.

But I suspect that some of you might have missed the warmth of reassuring words and financial results that emanated from my reports. Basically, everybody is “spoilt”. You have come to expect something regularly and when it does not appear, you project disaster. I understand that, which was why I started these reports in the first place.

Obviously I cannot plan on the basis that there is no risk of disruption to these reports in future. I have already separated the financial reporting from the writing. As such, the financial reports will be kept coming in all circumstances but there is only one expert writer, and if I am down and out, it will not be posted. Maybe in a few weeks, I can persuade my son, Brian, who is himself a trained financial analyst at a top global firm, Wellington, to join SAL and perhaps at that time, there will be a substitute writer. Other than that plan, the other people on the team are IT or admin folks and there is no possibility that reports can be written by them. But you will start to get computer generated daily financial reports soon enough so an exact repeat of the events of the past month should not recur.

The operation that I had lasted the usual few hours, and while I was being excellently taken care of by my medical team, I had no idea what was happening around me. My wife tells me that I was still chasing skirts in my anesthetic-induced semi consciousness and recognized the wrong pretty girl as the wife...and just as I was forgiven, I think the circumstances behind the temporary absence of my emails can also be understood.

After ICU for a couple of days around the 7 Nov, I woke up to CNN reports about the Hamas war.

The Israeli campaign in Gaza has turned out to be a wuxia tragedy. Revenge begets more revenge and it will never end. And worse still, money and stupid people are involved. The American political class is entering an election year, and everyone of these clowns wants to tap Wall St (ie Jewish) money. So you have fxxkers like Lindsay Graham declaring on public tv that Israel has every right to not stop its military campaign just as the Nazis and the Imperialist Japanese in WW2 had to be stopped with relentless military action. But Israel is not Nazi Germany or Japan in 1944 and if Netanyahu keeps it up, he is engaging in a genocide of refugees that were created by the creation of Israel in 1948. There used to be some tolerance of governments fighting against acts of terrorism, but this latest Hamas fight has revealed a world very much more discerning about cause and effect, just as the war in Ukraine has shown. Nobody gets a blank cheque just because you were attacked first.

And people including many Americans, see through the misguided policies of the US foreign policy team. One wrote:

[Biden Could End All This With One Phone Call](#)

[Caitlin Johnstone](#)
22 hours ago

Top ten most popular arguments used to defend Israel's actions in Gaza:

1. You hate Jews!
2. You love terrorists!
3. But October 7!
4. Hamas would cut your head off you stupid leftist!
5. It's kind of good to kill Muslims actually.
6. THEY DECAPITATED BABIES
7. THEY COOKED A BABY
8. Israel is killing babies in self-defense.
9. It's actually very complicated, both sides are bad, objective morality does not exist, all things are exactly the same as all other things, the universe is made of lukewarm gray mush.
10. Hahaha nuke the Arab vermin!

Saying "from the river to the sea" is genocide, but actually committing genocide is not genocide. Genocide is more of a feeling that you feel inside. Like everything else in the universe, it's about you and how your personal feelings feel.

If ethnic cleansing and mass killing don't make your feelings feel uncomfortable, then it's not genocide. If someone saying they want all Palestinians to be free in their homeland makes your feelings feel uncomfortable, it's genocide. That's how the world works.

You want to know how morally bankrupt Democrats are? Democrats are so morally bankrupt that right now they are angrier at people who say they refuse to vote for Biden because of his support for the Gaza massacre than they are at Biden for supporting the Gaza massacre.

Biden could end this with one phone call. With. One. Phone call. Anyone who tells you otherwise is either lying or ignorant. This mass slaughter is happening because Washington wants it to happen.

When Israel completely cut off Gaza's communications last month, Washington called and ordered them to restore it, and connections were immediately restored. It's always been this way; in 1982 Israel's assault on Lebanon was halted with a phone call from President Reagan.

They can end this assault just as easily. Don't let the White House frame itself as a passive witness to this butchery.

Both Zionists and far-right Jew haters want you to believe all this killing is about Jews and Judaism when it's really about land. It's one group wanting all the land that an indigenous population was living on. We've seen this exact same script played out many times with non-Jews as the perpetrators.

It's the exact same script, and it's not even an entirely different cast. Like so many other problems, this one was started by the British.

It's such an insult to everyone's intelligence to talk about the mass displacement in Gaza like it's a temporary arrangement. As though Israel has a history of allowing Palestinians to return to land they've driven them out of.

Atoning for the holocaust by backing a genocide. Atoning for Nazism by supporting ethnic cleansing. Atoning for fascism by silencing the critics of state power. Atoning for the racist murderousness of the past by facilitating the racist murderousness of the present.

Ignore their words and watch their actions. If you mentally mute the narratives and verbiage about how Washington wants peace and a two-state solution, and look solely at concrete actions, it just looks like the US helping Israel murder and oppress Palestinians for generations.

Ignore their words and watch their actions is sound advice for any time you feel like someone's manipulating you, by the way. It applies as much to interpersonal relationships as it does to empires.

My own view on this failure of American foreign policy lies in the corruption of the US political system. And worst of all, it coincides with the worst foreign policy team that we have seen in years. Blinken is so stupid he cannot even engage in simple diplomacy – look at him fxxx up on his last ME trip there – all his people he met showed him the middle finger and told him to f off. And his boss – Biden. We can all tell he wants a second term and that's all that motivates him. Keep Wall Street and the MIC happy.

Another writer on Medium wrote:

Israel Lied About October 7th

The Al Aqsa Flood was a military hit, and Israel responded by hitting their own people

1 day ago

Israel's claims about October 7th are lies. All the beheaded babies, rape, torture, and even targeting of civilians are *lies*. The same lies used to put down slave rebellions and anti-colonial movements all the time. They call the native people savages in order to savage them. Israel has lied to create atrocity propaganda, and the western world gleefully distributed it. Together, they have done all the things they accused Hamas of and worse. Every accusation is really a confession.

The funny thing is that Israelis actually release the truth—in Hebrew media and government statistics. Only *after* the western media has run the genocidal headlines, when it doesn't matter. The genocide has already been incited. The truth is actually out there in the open and will be in the history books, but Israel doesn't care. They're taking the land and killing the people now, which was always the colonial point.

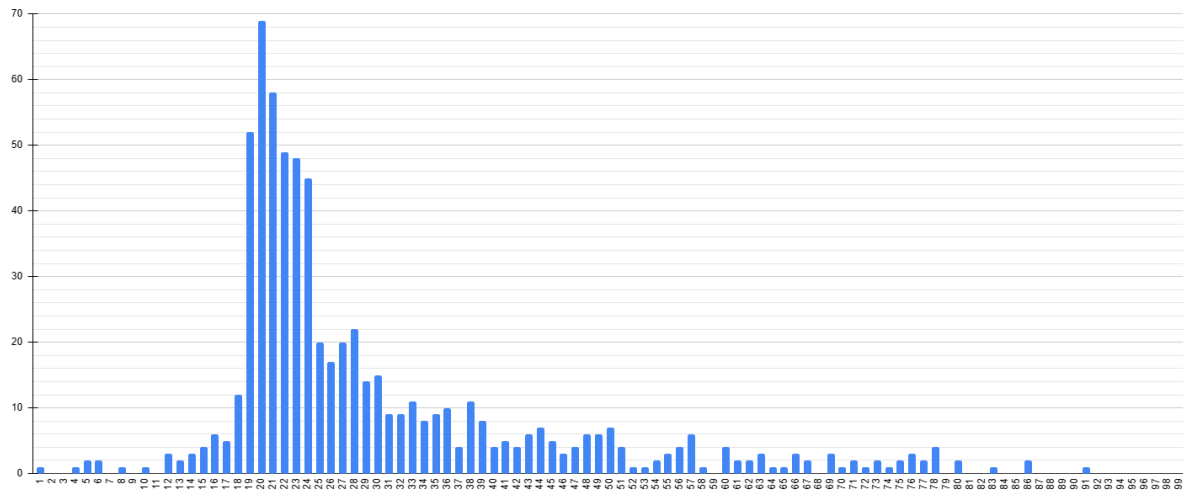
The fact is that the Al Aqsa Flood from Hamas et al was a legitimate hit on an occupying army. Everyone is supposed to scrupulously condemn them, but for what? Breaking out of a concentration camp and hitting the guards? Far from targeting civilians, the Al Aqsa Flood hit military targets. Many of the civilian dead were in fact killed by Israel, in their wild and incompetent reaction. This has all been admitted by Israel, as you'll see below (or just look around).

To cover up their incompetent violence, Israel spread lurid lies like 'beheaded babies!' and 'rape slaves' to western audiences, people who have long been conditioned to hate Muslims as they hated Native Americans and whoever they were genociding before. But if you look in the Israeli press and government reports, *they actually leak the truth*. Many of the people killed in the Al Aqsa Flood were military, and many of the civilians were killed by the IOF themselves. Thus I can rely almost exclusively on Israeli sources here. They really don't care if you know, they care about facts on the ground. The genocide has already been incited and they're already expanding their colonization of Palestine, which was the point all along.

The Al Aqsa Flood

The facts of October 7th are that The Al Aqsa Flood bust out of a concentration camp to attack the guards — the military bases encircling the native population of Palestine. As you can see from the list of just over 1,000 names (not the commonly cited 1,400), many are soldiers. Unless 'Major' and 'Sergeant' are common Israeli names. These are the military occupiers of Palestine and legitimate targets for resistance. That's what the Al Aqsa Flood was — a legitimate hit by oppressed people— while the colonizers try to smear it as a sea of savages. Literally the same lies used to suppress every slave rebellion and anti-colonial movement ever.

Israeli Deaths by Age



“Most Israelis killed on Oct 7 were of military age. By my last count, nearly 50% were uniformed soldiers on base and/or actively engaged in maintaining the siege of Gaza. That does not include those who carried weapons as private security or who served as reservists.” Max Blumenthal

The classic colonialist lie is ‘they’re killing babies’ which was then, as now, used to actually slaughter native children *en masse*. Now it’s done with mass media support. Almost every British tabloid splashed the ‘40 beheaded babies’ lie across their front pages despite it being thinly sourced then and an outright lie in hindsight. What Blumenthal (above) graphs is the death count from Haaretz, an Israeli paper, and there aren’t 40 dead babies at all, let alone beheaded. The vast majority of people killed are military age, because the Al Aqsa Flood was a military hit.

Weaponizing fake dead babies, however, Israel began killing real ones. At a staggering scale, bombing them directly and also cutting off food, water, and electricity to kill them slowly by starvation and disease. At least 5,000 children have been killed as of press time, with more buried or slowly dying under the rubble.

The Gaza Base

Gaza is just an open air prison, a concentration camp for refugees from previous pogroms. That prison is (was) controlled from an office near the Erez Crossing, which the rebels attacked. That prison ‘watchtower’ was what Hamas *et al* over-ran, catching incompetent Israeli soldiers with their literal pants down. The commanders there — unable to actually fight — instead called in an *airstrike on themselves*. As Grayzone reports, citing the Israeli paper Haaretz:

According to Haaretz, the commander of the Gaza Division, Brig. Gen. Avi Rosenfeld, “entrenched himself in the division’s subterranean war room together with a handful of male and female soldiers, trying desperately to rescue and organize the sector under attack. Many of the soldiers, most of them not combat personnel, were killed or wounded outside. The

division was compelled to request an aerial strike against the [Erez Crossing] base itself in order to repulse the terrorists.”

Rather than actually fight, Israel resorted to indiscriminate bombing of their own base. What the Al Aqsa Flood revealed was that the Israeli Army is not the well-trained, lethal force they advertise themselves as. They’re a bunch of cowards hiding behind computer screens and completely dependent on American stand-off weaponry. The IOF cannot actually stand and fight. They’re fundamentally cowards, used to beating up children and bombing apartment buildings. You can see from their effort to ‘save’ their own civilians. They just didn’t. They just bombed them too, in a total panic. Killing civilians is really all the IOF is good at it.

The Rave

For some accursed reason, Israelis were holding a rave near the concentration camp. Not a ‘peace party’ but just people on E, blithely unaware of the misery just kilometers away. Because IOF collapsed, the rebels found themselves here, and they took hostages. *Why did they take hostages?* To exchange for the thousands of Palestinian hostages — including children — taken and regularly raped and abused by the Israelis. In this, the resistance underestimated the Israeli military, because they just didn’t give a fuck. They proceeded to just bomb the hostages, just as they bombed the civilians on October 7th.

As the Israeli outlet Yedioth Aharanoth reports, *“the pilots realized that there was tremendous difficulty in distinguishing within the occupied outposts and settlements who was a terrorist and who was a soldier or civilian... The rate of fire against the thousands of terrorists was tremendous at first, and only at a certain point did the pilots begin to slow down the attacks and carefully select the targets.”* As the Israeli military told their own outlet Mako, *“The Apache pilots testify that they fired a huge amount of munitions, emptied the ‘belly of the helicopter’ in minutes, flew to re-arm and returned to the air, again and again. But it didn’t help and they understand it.”* ‘As the commander of the Apache unit, Lt. Col. E., told Mako in a separate report,’ *“I understand that we have to shoot here and quickly,” “Shooting at people in our territory — this is something I never thought I would do.”* This is all via Max Blumenthal at Grayzone, if you want to read the lurid detail in more detail.

I’ll include another report from the Israeli outlet *ynet* (autotranslated) because it’s telling:

After the pilots realized that there was tremendous difficulty in distinguishing within the occupied outposts and settlements who was a terrorist and who was a soldier or civilian, a decision was made that the first mission of the combat helicopters and the armed Zik drones was to stop the flow of terrorists and the murderous mob that poured into Israeli territory through the gaps in the fence. 28 combat helicopters fired over the course of a day. The fighting all the ammunition in their stomachs, in rearming rounds. These are hundreds of 30 mm cannon shells (the effect of a spray grenade for each shell) as well as the Hellfire missiles. The rate of fire against the thousands of terrorists was tremendous at first, and only at a certain point did the pilots begin to slow down the attacks and carefully select the targets.

*The Hamas army, it turns out, deliberately made it difficult for the helicopter pilots and the operators of the UAVs: in the investigation it became clear that the invading forces were asked in the last briefings to march slowly into or within the settlements and outposts, and under no circumstances to run, in order to make the pilots think they were Israelis. This deception worked for a considerable time, until the Apache pilots realized that they had to **skip all the restrictions**. It wasn't until around 9:00 that some of them started spraying the terrorists with the cannons on their own, without authorization from superiors.*

What this tells is the sheer amount of firepower Israel unleashed, without much brainpower to go with it. They unloaded genocidally named Apache helicopters, then flew back to reload and do it again. We're talking about *millions* of dollars of explosives fired from *billions* of dollars of attack helicopters. It's the American military industrial complex in action, 'shock and awe' on their own (occupied) soil. The Israeli military tries to dump this failure on the grunts, but superiors obviously had to authorize reloading and engaging targets, unless they're completely incompetent. They also try to blame resistance fighters for being competent and not just running around and getting shot like good 'terrorists'. At the end of the day, we know who the real terror is. You can tell who shot up the place. Just look at the damage:



Via

These are all the cars the IOF destroyed and carted back as perverse trophies. This is a still from a video, the line of cars just keeps going and going. Palestinian militants, who bust out of the camp on foot and in pickup trucks, simply do not have this firepower. This is the work of Hellfire missiles and Apache helicopters, as the Israelis are telling you. Israeli just lit up their own civilians, like raving lunatics.

What's tearing up the Internet now is something Grazyone actually reported weeks (was it years?) ago. Israeli helicopters targeting and killing people without any sense of who they were. You've seen them saying they shot up cars, you've seen the burnt cars, now you see them doing it. It's not clear where this footage is from, but the footage is clear enough.

The IOF just lit up anything that moved which, given how late they were to the scene, was primarily their own people. Then they used *their own carnage* as an excuse to go kill even

more civilians in Gaza, in the same cowardly manner. This is all the IOF is actually good at, killing civilians. They're too scared to get on the ground and face the much braver Hamas soldiers in a fair fight. They'd rather just kill anything that moves and use it as an excuse for further genocide. It's a literally vicious cycle. Lying and dying, over and over.

The Killing Goes On

I could go on. About the shelling of Kibbutz Be'eri, where the security chief *'told the Israeli newspaper Haaretz that as desperation began to set in, "the commanders in the field made difficult decisions — including shelling houses on their occupants in order to eliminate the terrorists along with the hostages."* Or what *'an Israeli woman named Yasmin Porat confirmed in an interview with Israel Radio that the military "undoubtedly" killed numerous Israeli noncombatants during gun battles with Hamas militants on October 7. "They eliminated everyone, including the hostages," she stated, referring to Israeli special forces.'* But as you can see, I'm just quoting from Grayzone, so you should read more there, or from Middle East Eye.

The fact is that the proof goes on and on, but it doesn't matter. The lie went around the world before the truth could get its pants on. The fact is that there were no baby beheadings, just Israel doing that and worse to thousands of babies with industrial bombs. There were no rapes, though there are well-documented cases of Israel raping prisoners, and children, in their illegal custody. There was no torture, though Israel detained and tortured Gazan workers, tagging them with numbers and even killing at least two of them. There was also no targeting of civilians by the liberation forces of Palestine, though the occupation is doing that in front of the whole world.

Every accusation is a confession. And it's not hypocrisy, it's hierarchy. This is how colonizers are, and always were. They want you to believe the most lurid lies about the native population, so they can do much worse to them. Why? To kill the people and take the land. Same shit, different day, as my historical thesis goes. When the history is written, the lies of Israel will be shown. But right now, we have to watch the bloody truth in front of us. The open genocide of the Palestinian people, by a state, Israel, which should not and cannot exist at all.

Israel *is* a lie, only be propped up by massive American violence and propaganda. Without American bombs they'd crumple within a week, and their violent, divide-and-conquer, ethnostate would be gone. Jews, of course, could and should live as they did before, *with* Muslims and Christians and all, not apartheid from them. As the American Empire falls, so will Israel, but unfortunately it's going out ugly.

A dying Empire is really the most dangerous, especially when it's nuclear armed and has few brain cells to speak of. The [American] Empire's flag was always death, and now they have nothing but death to offer, and nothing to live for. Just ask the Palestinians being genocided, or the Earth being ecocided. It's the same phenomenon. It's all one pyramid scheme, which is violently toppling in front of us. We live in interesting times, as the curse goes. It's awful to watch the lies these monsters get away with, and to know the historical truth. As Gramsci sorta said, the old world is dying, and the new one struggles to be born. Now is the time of monsters.

Then, there is perennial question of financing the war. Where is the money going to come from? It is less a problem for America to fund the Israeli effort to kill Hamas, but the game in funding Ukraine is over. We have seen western media change the Ukraine narrative from one of great victory over Russia to one of a “stalemate”. A stalemate simply means the collective west has not been defeated but I would like to see how long this story lasts. The Kyiv government has a budget deficit of \$30billion a year – 1/1000th of the deficit of big brother – but it has no ability to print money. That means that it will not have the means to pay its civil servants including the ones running the hospitals, fire fighting services and the army. And the military is running dry of all kinds of weapons. Even if we start off today as the war to be stalemated, it will soon lose.

America is running out of money. This is what Zerohedge says:

Stocks Tumble, Yield Surge After Catastrophic 30Y Auction Stops With Biggest Tail On Record As Foreign Demand Craters

BY TYLER DURDEN

FRIDAY, NOV 10, 2023 - 04:01 AM

Complete disaster.

That's the only way one can describe today's 30Y auction, which many expected could be challenging after a mediocre 3Y and a subpar 10Y auction earlier this year, but nobody expected... this.

The bond priced at a high yield of 4.769%, which was below last month's 4.837%, and just shy of the April 2010 high. But more importantly, it tailed the When Issued by a whopping 5.3bps, which was... well... **terrible**, because as shown in the chart below, this was the biggest tail on record (going back to 2016).

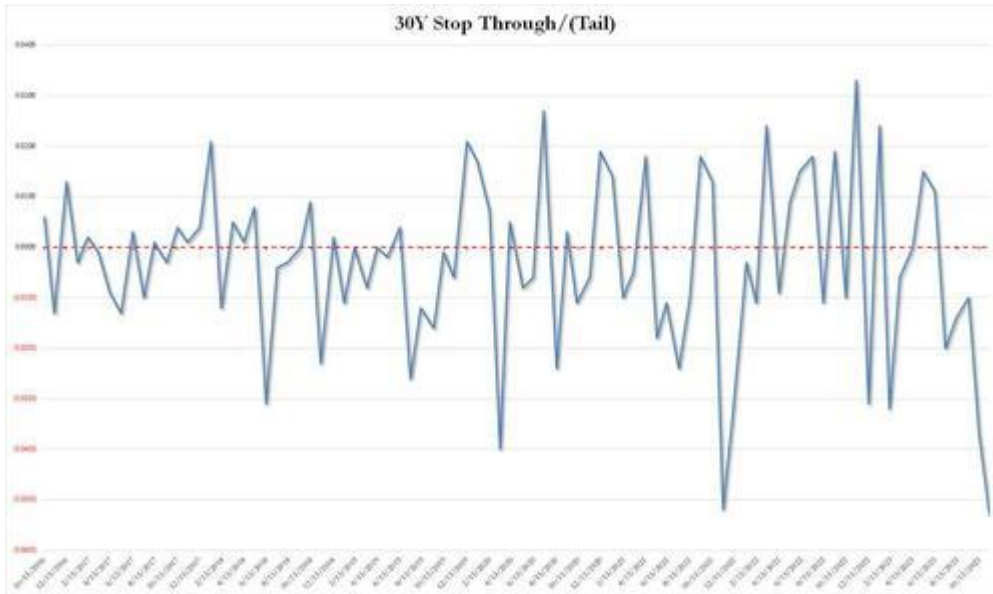
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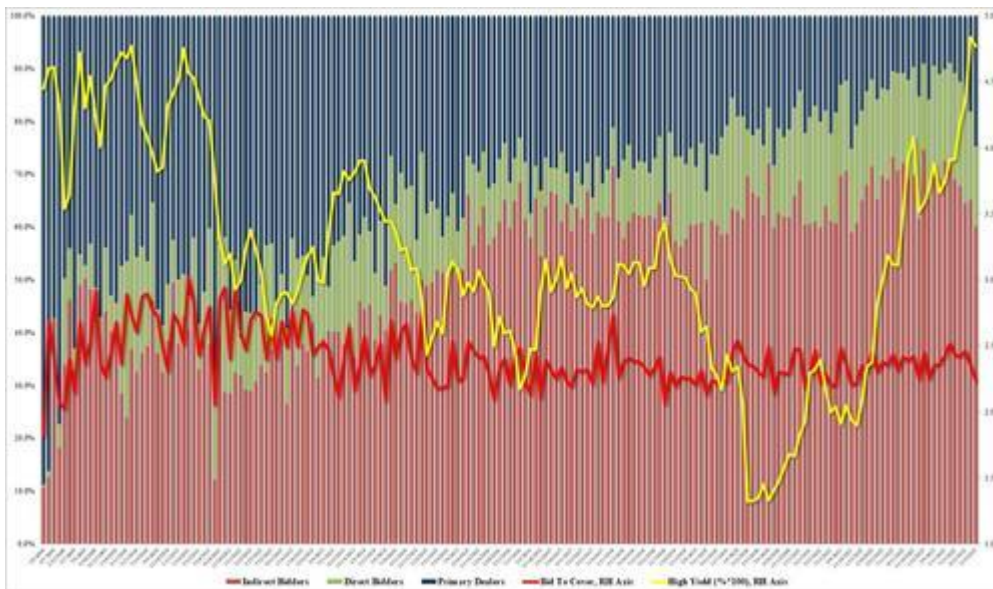




The bid to cover was just as bad: at 2.236 it was the lowest since Dec 2021.

The internals were even worse as foreign bidders (Indirects) tumbled from 65.1% to 60.1%, the lowest since Nov 2021, and with Directs taking down only 15.2%, **banks (Dealers) were forced to step up and take the balance, or a whopping 24.7%, double the recent average of 12.7%, and the highest since Nov 2021.**

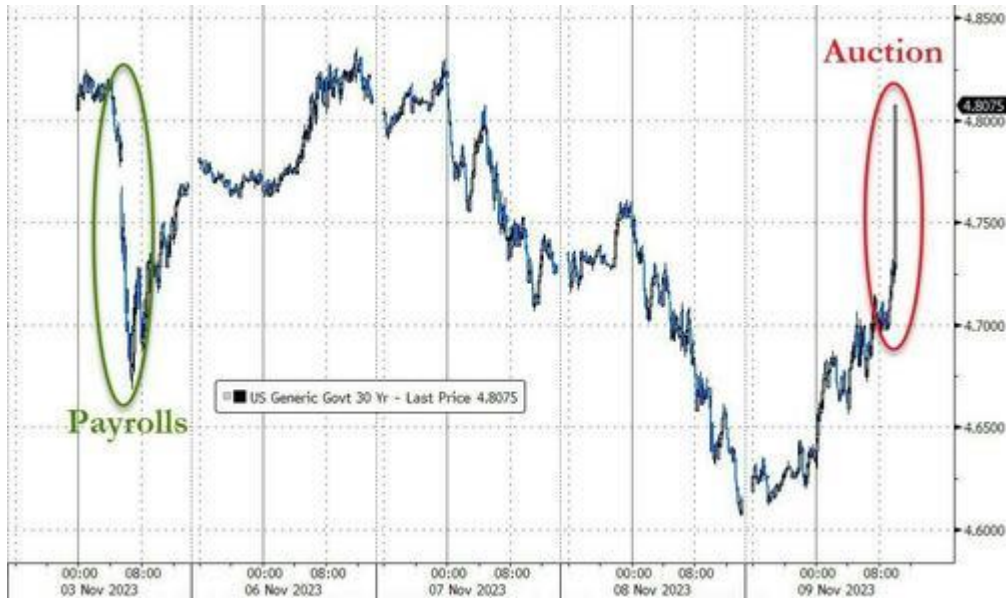
This is a big warning flag because every time we have seen a surge in Dealer takedowns, some sort of Fed intervention - QE or otherwise - has usually followed and we doubt this time will be different.



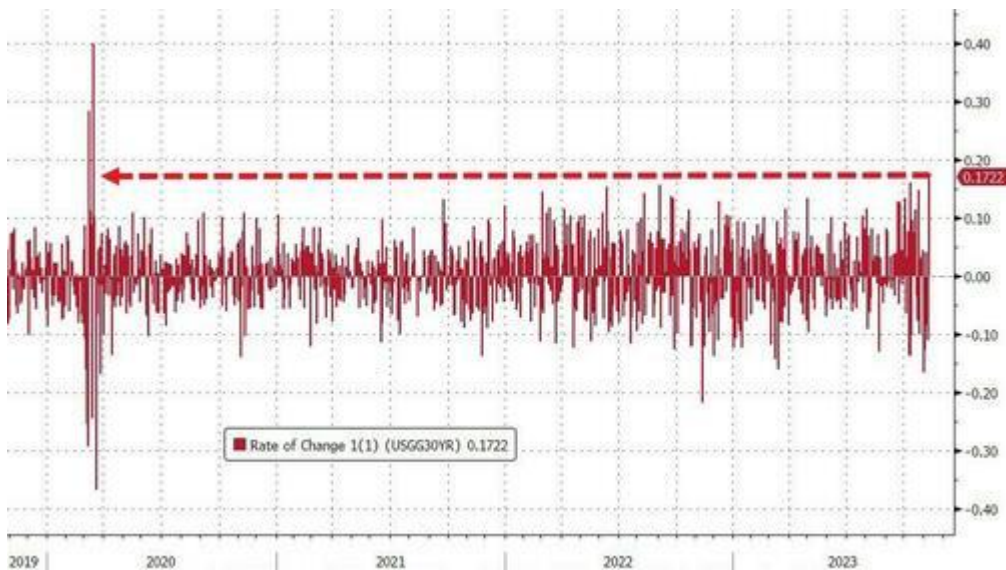
So what happened? Well, maybe the bond market read our note from earlier this week in which we explained "[*How Treasury Averted A Bond Market 'Earthquake' In The Last Second: What Everyone Missed In The TBAC's Remarkable Refunding Presentation.*](#)" It may be difficult to fool the bond market for a second time.

The market reaction to the catastrophic 30Y auction was immediately, sparking a swift and painful response across markets with bonds and stocks hammered lower and the dollar spiking.

Treasury yields - as you would expect - exploded higher, with 30Y Yields back up to pre-payrolls levels...



That is the biggest spike in 30Y yields since March 2020...



But the entire curve is higher in yields...



Treasury Auctions Explained For People With Short Attention Spans

BY TYLER DURDEN

SATURDAY, NOV 11, 2023 - 11:30 PM

Given that the market took a sharp turn lower on Thursday afternoon after the results of a *dogsh*t* (technical finance term #8203) 30 year treasury auction that posted a stunning 5.3 bps tail and a bid to cover that was the lowest since December 2021, I thought it would be a good idea to refresh myself and my readers on...well, exactly *what the f*ck all that stuff means*.

Tail? Bid-to-cover? Beavis and Butthead had better luck understand things in Spanish class back at Highland High:

In plain terms, yesterday's bond auction means the government sale of debt that is necessary to continue running the economic Ponzi scheme we call fiscal and monetary policy didn't go quite as well as old crow Janet Yellen's medicine show would have liked.

Why is understanding the rest of the jargon and nonsense about auctions important? Take a look at the equity market's reaction to the 30Y auction on Thursday, courtesy of Mr. Durden over at [Zero Hedge](#):

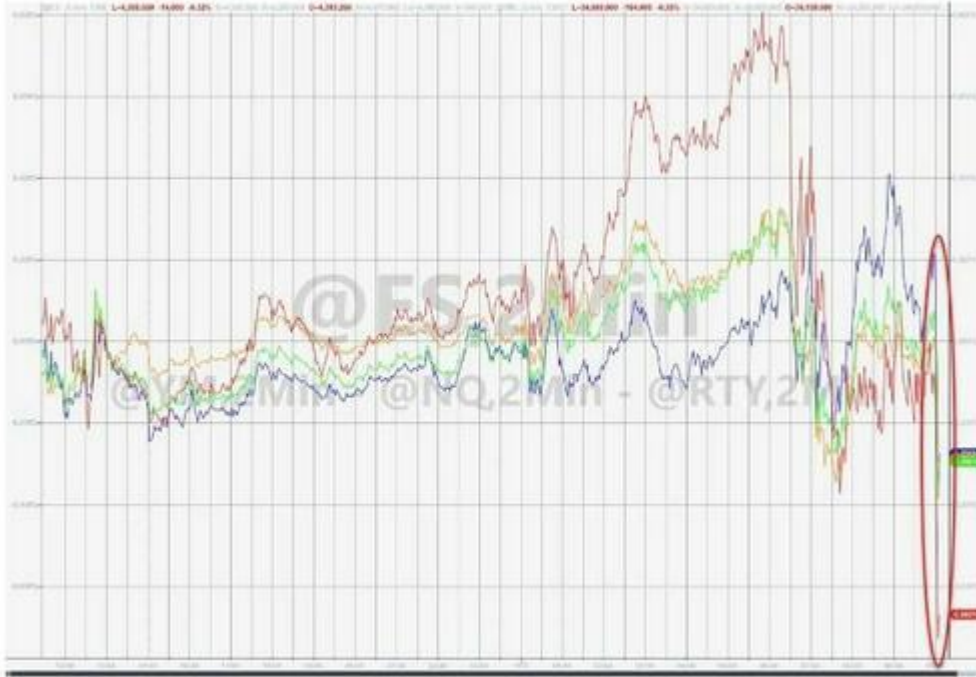


Chart: [Zero Hedge](#)

And so when you're having the perfunctory happy hour discussion about "the day in markets" in your Patagonia vest in some douchebag bar in Tribeca full of everyone I've tried to avoid my entire life, wouldn't you like to make some sense? Or, at least, fake it well like I do?

Zero Hedge's full coverage of the disaster auction Thursday [can be found here](#), though it's probably worth a read *after* James' below "...for Dummies" series on how to understand auction terminology, contained below.

The below explanation of how treasury auctions work was written in 2022 by James Lavish, CFA, who you can [follow on Twitter here](#) or subscribe to his newsletter [here](#). I highly recommend both.

Treasury auctions can give us clues to the health or problems of the entire US financial system. But what are those clues and how can you tell?

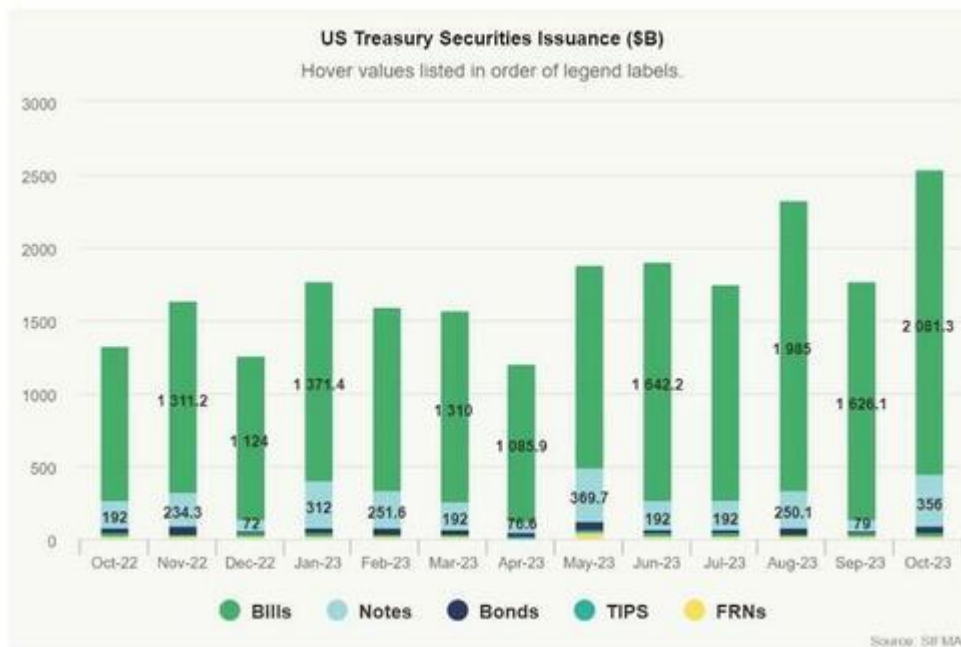
Auction Terminology & Basics

First, this thread is about auctions by the US Treasury, selling bonds to finance US public debt. They have various maturities and names:

- T-Bills are shorter than 1 yr
- Notes are shorter than 10 yrs
- Treasury Bonds are longer than 10 yrs
- and Treasury Inflation Protection Securities (TIPS) and Floating Rate Notes (FRNs) have various maturities

These can all be referred to as 'bonds', but traders never refer to anything above 10-years as a 'note'. Treasury auctions occur regularly, and ~300 public auctions are held each year.

The US Treasury has auctioned about \$11.2T of bonds in 2022 [when James' original thread was written], so far. Big business. One that needs a lot of demand to keep this whole debt charade going.



Let's clarify some definitions and rules to better understand what happens during an auction. First, to participate directly, a bidder must have an established account.

Institutions use TAAPS (Treasury Automated Auction Processing System), individuals use a TreasuryDirect account. Individuals can only place ***non-competitive* bids**, where they agree to accept whatever discount rate (yield) is set by the auction. Institutions can place either non-competitive or ***competitive* bids**, where the bidder specifies an interest rate they are willing to accept.

Institutions can also trade in advance of an auction, and then settle with each other when the auction happens. This is called **the *when-issued* market** and is pretty important to our discussion, so we'll talk more about that in a bit.

Back To The Auction Itself

Once an auction begins, the Treasury first accepts all **non-competitive bids** and then auctions off the remainder of what it's looking to raise. This is where **competitive bidders** are unsure whether they'll be filled at their price. The process is called a ***Dutch auction***.

For example, say the Treasury wants to raise \$100 million in 10-year Notes with a 4% coupon. And say it receives \$10 million of **non-competitive bids**.

The Treasury first accepts all these **non-competitive bids** and reduces the amount left for the Dutch auction to \$90 million. If it then receives the following competitive bids:

- \$25 million at 3.88%
- \$20 million at 3.90%

- \$30 million at 4.0%
- \$30 million at 4.05%
- \$25 million at 4.12%

The bids with the lowest yield will be accepted first and then ascend up until the auction is filled.

Here, the Treasury needs to raise \$100 million.

It first accepts \$10 million of **non-competitive bids**, then all **competitive bids** up to 4.0% (\$75 million), then \$15 million of the 4.05% bids for \$90 million total. So, those who bid 4.05% would receive half of their orders filled.

At auction's end, all bidders receive the same yield at the highest accepted bid.

In this case, \$100 million of Treasuries were auctioned off at 4.05%.

On the face of it, this looks pretty bad, as the Treasury had to offer a higher yield to raise its target amount.

But how bad? And how can we tell?

Metrics Of An Auction: The Good, The Bad, and The Ugly

The answer—per usual with Wall Street—lies in the expectations of pricing. Let's turn to the metrics of an auction next to find out how.

Bid to Cover Ratio

One of the first things traders look at is the Bid to Cover ratio (often referred to as BTC). A simple statistic, this is just the **total amount of bids received divided by the amount of bonds sold** at an auction.

In the case above, the total bids amounted to \$140 million and the auction was for \$100 million of Notes, so the BTC ratio would be 1.4x.

Like many stats, what we're often looking for is changes from prior periods. Is the BTC ratio rising or falling? And how rapidly?

If market liquidity is drying up, this would be a good first indicator. If it drops low enough, it's a major red flag. More on that in a minute.

Looking at the release of stats from [one of last year's] US 10-year Note auctions, we can see at the bottom, in the footnotes, that this auction had a 2.37 BTC ratio

TREASURY AUCTION RESULTS

Term and Type of Security CUSIP Number Series Interest Rate High Yield ¹ Allotted at High Price Accrued Interest per \$1,000 Median Yield ² Low Yield ³ Issue Date Maturity Date Original Issue Date Dated Date	9-Year 11-Month Note 91282CFF3 E-2032 2-3/4% 3.330% 4.32% 95.132618 \$2.31658 3.240% 3.170% September 15, 2022 August 15, 2032 August 15, 2022 August 15, 2022	<div style="text-align: center; color: yellow; font-weight: bold; font-size: 1.2em;">HIGH YIELD</div> <div style="text-align: center; color: yellow; font-size: 2em;">→</div>																																					
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¹All tenders at lower yields were accepted in full.

²50% of the amount of accepted competitive tenders was tendered at or below that yield.

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⁴Bid-to-Cover Ratio: $\$75,794,186,400 / \$32,000,010,400 = 2.37$

⁵Awards to TreasuryDirect = \$7,065,400.

⁶Primary dealers as submitters bidding for their own house accounts.

⁷Non-Primary dealer submitters bidding for their own house accounts.

⁸Customers placing competitive bids through a direct submitter, including Foreign and International Monetary Authorities placing bids through the Federal Reserve Bank of New York.

And looking at recent 10-year Treasury Note auctions, we see this is largely in line with the BTC we have been seeing, so no red flags here.

The High Yield

Another, usually much more important, metric to keep an eye on is the **stop price**, aka the **high yield** (see in press release above)—the actual yield received by bidders in the auction.

Two things we're looking for here. Remember how we said these securities trade in a **when-issued market** before and leading up to an auction?

This creates what is called the **snap price**. It sets the price expectations for an auction and is a critical piece of information for investors.

First, was the auction overbid or underbid? In overbidding, the stop (high yield) is lower than the snap (when issued yield), and this is usually seen as a solid auction. With underbidding, the stop is higher than the snap, indicating a weak auction.

To put it simply, the snap (when-issued) tells us how the bond traded leading up the auction, and the stop (high yield) tells us how strong the auction was itself.

The Auction Tail

Another thing we're looking for with the high yield, and a bond-fan favorite is called the ***auction tail***. The tail is the high yield minus the bond's when-issued yield.

[QTR: In simpler, slightly less accurate terms, you can think of it as the spread between expected yield, pre-auction, and the reality of the high yield actually determined by the auction. Even simpler, but less accurate, you can think of it as a spread between expectations and reality for the auction, of sorts, with a higher spread meaning a bigger gap].

If there is no measurable tail, we say that the auction finished ***on the screws***.

A negative tail means that the auction went better than expected, with higher-than-expected demand. But a positive tail tells us the auction did not go well because the yield realized in the auction exceeded market expectations, meaning weaker-than-expected demand.

Bottom line, the tail measures unanticipated Treasury demand shifts before auction. The larger the tail, the worse the auction.

And if we ever see a tail in the 4, 5, or 6 bps range, this would be considered disastrous in the bond world and mean things are breaking in US Treasuries. *[QTR: Thus the importance of yesterday's 5.3 bps tail...]*

OK, so now we know that a low bid-to-cover could be a red flag, an underbid auction can be cause for some concern, and a big tail is a big no-no. But what exactly does it mean when a Treasury auction fails?

Treasury Auction Total Failure

Going back to the BTC ratio, you may wonder what happens if the Treasury holds an auction and receives fewer bids than face value of the securities they're selling.

This would mean the BTC falls below 1, and the Treasury failed to raise as much money as they expected. In the bond world, this is a failed auction and nothing short of catastrophic for the US Treasury.

So you may ask, with dwindling demand for USTs and active selling from Japan and China, is there a possibility of a failed auction soon? Why yes. Yes there is.

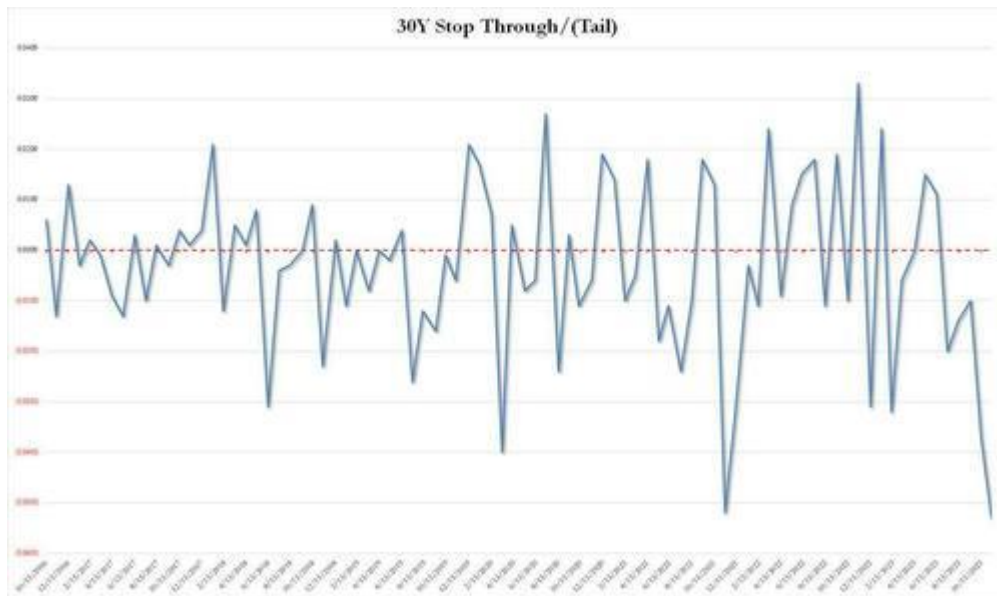
But there are a couple of fixes to prevent this from happening, at least yet.

See, US commercial banks are still flush with capital, as the Fed is receiving over \$2.3T of reverse repo purchases daily *[QTR: This number is closer to \$1T daily now, as of November 2023]*. This is extra cash that banks sell to the Fed overnight to be paid interest.

James has also written an entire Substack post about the repo and reverse repo market that [you can read here for free](#).

One fix is the Fed adjusting commercial bank SLR requirements to let them hold more bonds in lieu of cash or cash-like instruments. Or, the Treasury could issue more short term notes and fewer bonds, allowing all this reverse repo money to be used in the auctions instead. But once that \$2.3T runs out *[QTR: again, now \$1T]*, all bets are off, and QE infinity is on.

With all of that being said, now lets look back on Thursday's auction tail, courtesy of a chart from Zero Hedge:



Given your newfound knowledge, I recommend reading this wrap up of the auction. Then, you can join 18K+ of James Lavish's readers here: jameslavish.com.

As for me? I'm going for a couple cold ones. *And not* in Tribeca. F*ck those guys.

I will put it far more simply. A Big Crash is coming. US stocks and property markets are vulnerable because the government cannot cover its debt servicing, and the Joe Six Pack cannot cover the refinancing of his mortgage. It must come to an end.

By:

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Fintech Entrepreneur, Money Manager and Blogger

Un-Influencer in a World full of Hubris