



FASANARA CAPITAL

"Learn how to see. Realize that everything connects to everything else."

— Leonardo da Vinci

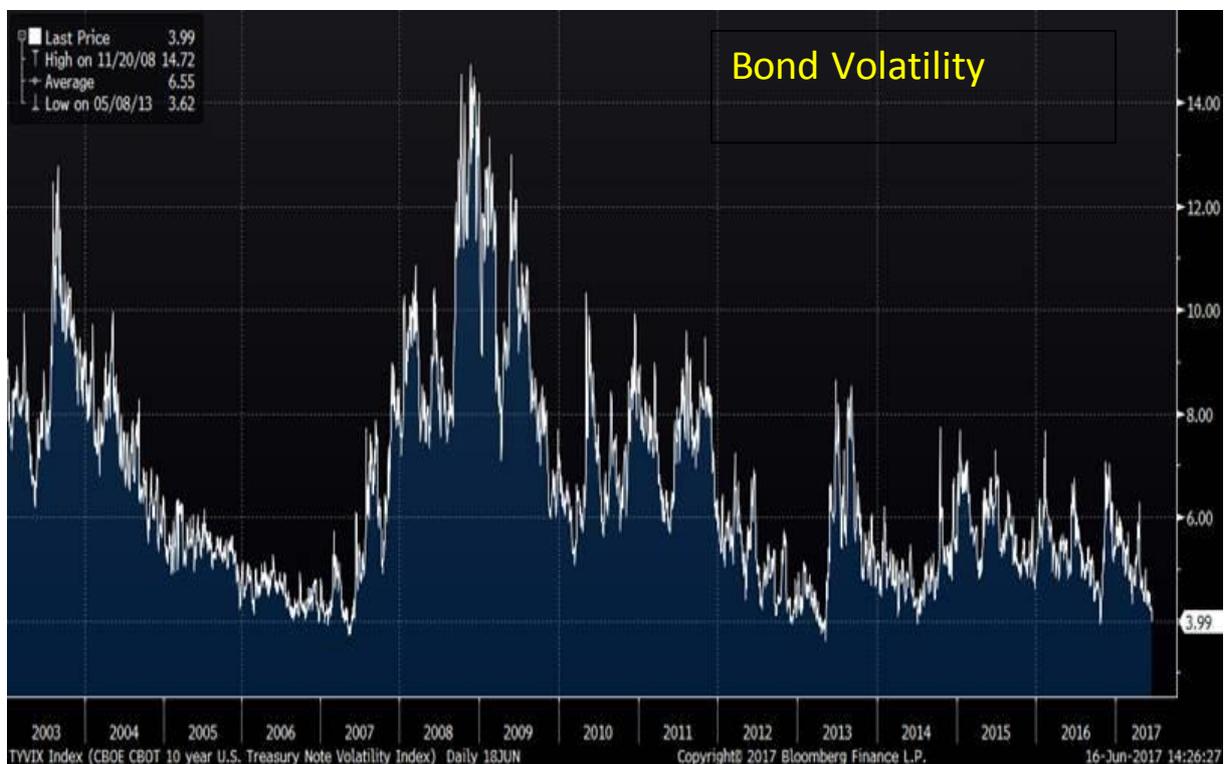
June 16th 2017

FASANARA CAPITAL | COOKIE

New Lows on Bond Volatility: Calm Before The Storm?

It is not only Equity volatility being crushed these days.

Treasury Volatility too reached all-time lows area this week, dipping below 4.



In the last 5 years, whenever Treasury Volatility closed below rock-bottom 4 level, large movements in term rates followed swiftly (by approx 100bps each time – see Chart), quickly pushing volatility back up again in the process.



Such dynamic takes place all the while as long-term government bond yields in the US reached a congestion area – depicted in the Chart below. From here, rates may move faster: either accelerating their descend (to pre-Trump levels) or rebounding sharply.



The reasons why volatility across equity, bond, FX is at or below all-time lows is being debated by market participants. A blue-sky macro environment is hardly a convincing explanation. The fourth horsemen of (i) an unprecedented magnitude of Central Banks' activism, (ii) a rising mania for passive investment vehicles (ETF and index funds, risk parity funds & vol levers, trend-chasing algos), (iii) the ensuing capitulation of active investors who default to chase passive ones and (iv) the power of make-believe economic narratives are more likely drivers. We attempt at explaining their sequence and interdependence [here](#).

Whatever the reason, looking at rates, history may be a guide in suggesting a pattern of pick-up in volatility and sharp moves in long rates. Today's moment may then be the calm before the storm.

We will analyze bond volatility and its catalysts in more details in future write-ups.

Authorised and Regulated by the Financial Conduct Authority ("FCA")

This document has been issued by Fasanara Capital Limited, which is authorised and regulated by the Financial Conduct Authority. The information in this document does not constitute, or form part of, any offer to sell or issue, or any offer to purchase or subscribe for shares, nor shall this document or any part of it or the fact of its distribution form the basis of or be relied on in connection with any contract. Interests in any investment funds managed by New Co will be offered and sold only pursuant to the prospectus [offering memorandum] relating to such funds. An investment in any Fasanara Capital Limited investment fund carries a high degree of risk and is not suitable for retail investors.] Fasanara Capital Limited has not taken any steps to ensure that the securities referred to in this document are suitable for any particular investor and no assurance can be given that the stated investment objectives will be achieved. Fasanara Capital Limited may, to the extent permitted by law, act upon or use the information or opinions presented herein, or the research or analysis on which it is based, before the material is published. Fasanara Capital Limited [and its] personnel may have, or have had, investments in these securities. The law may restrict distribution of this document.
