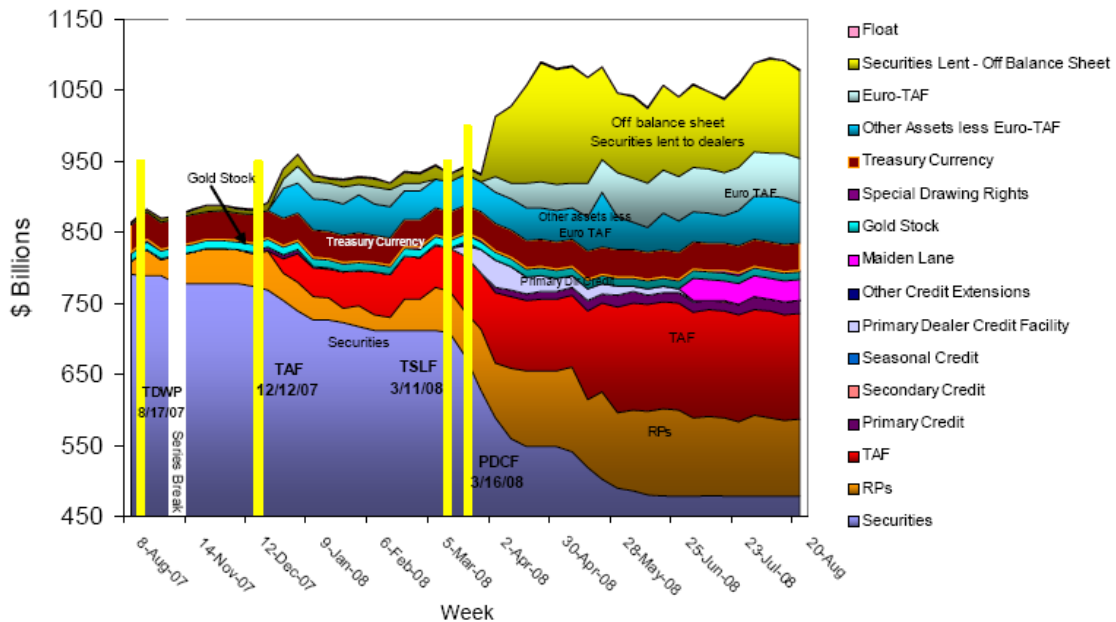


THE COMING LOVE AFFAIR WITH GOVERNMENT BONDS

WEB BUZZ 2008.09.02

Under this colorful but confusing chart, Mish's Global Economic Analysis posted the caption "At the current pace, the Fed runs out of treasuries about a year from now. Things are about to get very interesting."

Why would the Fed run out of treasuries? Because they are swapping their governments to the financial industry for their junk securities. Why? Because the banks need cash, and no one will loan them money on their junk securities. But you know what? The Fed will not run out of treasuries, because they can always buy more in the marketplace. Back in the 1980s, a prominent economist predicted a shortage of U.S. bonds as he expected huge government surpluses to occur. But guess what, the shortage didn't happen—but it might now. Not because of the lack of supply, but because of enormous demand!



Adapted from www.globaleconomicanalysis.blogspot.com