

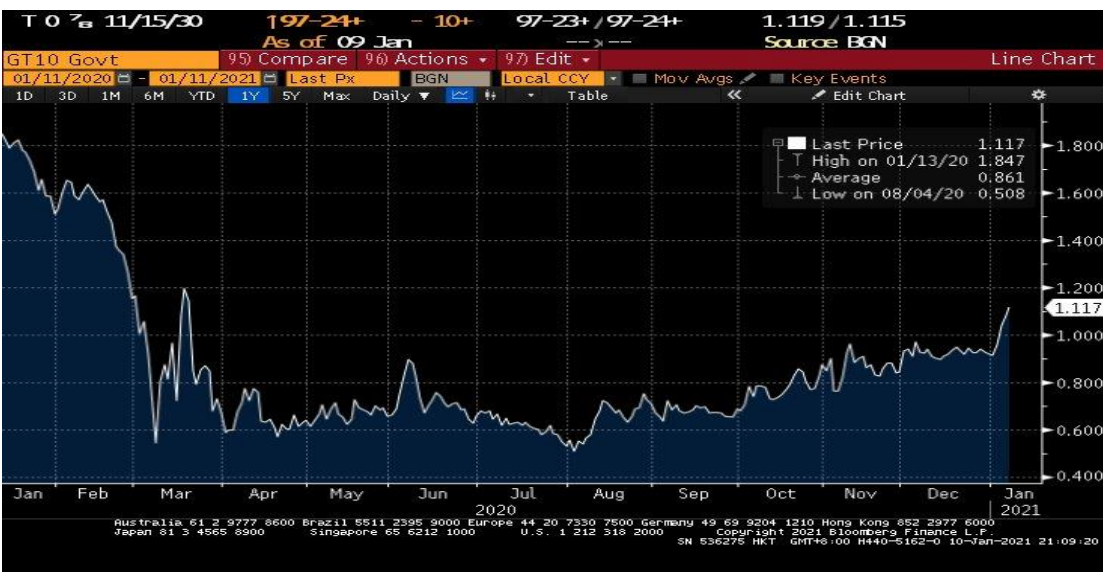


11 January, 2021

## US 10-year Treasury yield hit 1% since March

The US 10-year Treasury bond yield breached 1% for the first time since March. It is highly likely driven by the victory of Democrat in Georgia's runoff Senate elections, reflecting the expectations on additional fiscal stimulus and spending under Biden's administration to boost the economic recovery.

### U.S. 10-year Treasury bond yield: rose above 1% last week, settled at 1.11%

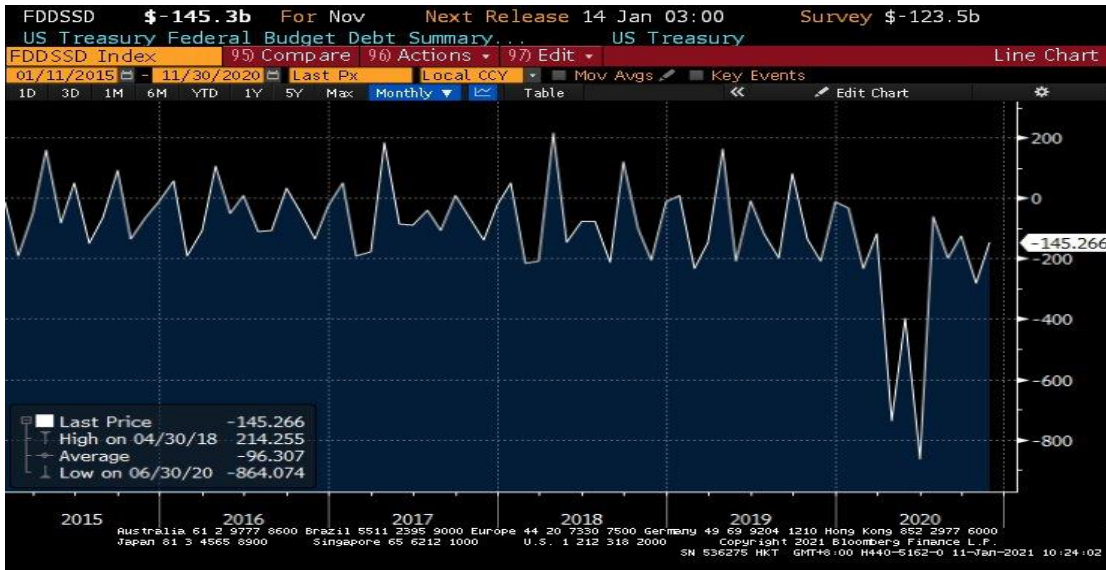


Source: Bloomberg

## Rising debt levels

Market watchers believe that increasing bond yield may be the result of more optimistic sign for economic outlook as funds shifted from the lower-risk bond market to the higher-risk stock market. However, the US deficit has surged as nearly \$3 trillion USD in 2020 in the wake of Covid-19 pandemic. It will significantly affect investors' confidence in the US government's finance and even its solvency. Investor concerns are clearly not without merit. Furthermore, it is expected further pandemic-relief packages under Biden administrations will push US deficit ever higher and raising more concern about the consequences of this dramatic rise in both debt levels and the apparent printing of money by the Fed.

## US government deficit has jumped sharply to \$3 trillion USD last year due to Covid-19 pandemic



Source: Bloomberg

## US government debt: If further fiscal stimulus measures under Biden administrations, the total debt may rise above 30 trillion USD in 2021, which means debts had increased 10 trillion USD in just 4 years



Source: Bloomberg

## Weaken USD

The U.S. Dollar has continued to weaken in the past few months, somehow reflected investors' confidence in USD is declining. The U.S. dollar is the world's reserve currency and in high demand by global investors for its perceived stability. However, market seems like losing its absolute confidence in USD than in the past. According to the latest IMF data, the ratio of the USD in global reserves has declined from 61.2% in second quarter in 2020 to 60.4% in third quarter in 2020. However, it does not mean posing an immediate fatal threat to investor confidence in the world's largest economy and USD still remains a preeminent currency.

## Ratio of USD in global foreign reserves



Source: Bloomberg

## The over positivism of the current 'bullish market'

Throwing back to early-years European debt crisis, the market had been panicked as the market feared that some of the European countries might not be able to finance their debt anymore. Although it is very unlikely to have the similar outlook on the US in the near future, the accumulating deficits are weakening investors' confidence and may lead to increasing yield. If so, there may have a significant shock to the current 'bullish' market.

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