LAMOUREUX & CO.

FINANCIAL THOUGHT LEADERSHIP

Where are bonds headed for 2014?

This most difficult exercise had us thinking about what we saw both in money velocities collapsing and sentiment toward this asset class. We recognized in 2013 the fact that we had been in a bond bubble and that the next incoming bond price drop was a sharp reminder of unsustainable money inflows. We are on a very different page. A massive bond panic has seized the crowd.

A review of the forecast of economists for yields in 2014 puts the number at 3.41% for 10 years Treasury.

http://www.bloomberg.com/news/2013-12-10/treasury-yield-forecast-for-end-of-2014-rises-to-record-3-41-.html

We firstly disagree with extrapolation as it is the easiest of the behavioral mistake. After sustaining such a heavy drop in bond prices the simple view is to extend it in time. We think the reasons of the drop have not been well understood as it is more about a reaction to front running bond supply then a shift in demand for safe haven assets.

We also think that the disconnect between a slowing money velocity and rates constitute a potential snap back of great proportion. Bonds should have rallied already based on the view of money contraction. We feel that the removal of leveraged bets with an air pocket in sustained money inflows reasonably accounted for the lack of bids all the way down.

As much as we have avoided completely bonds in 2013 we recently gave them a chance.

Bought on the 19th December the rapidity of this move has even surprised us. We think this bounce sends a clear message of a potential turn around in the trend.

We still look for a pullback in bond prices for the next few weeks after this phenomenal move. However we think it will create the type of pattern that suggest our next stance:

A bond bull stance!

We have created a forecast on the treasury bonds of **30 years** maturity.

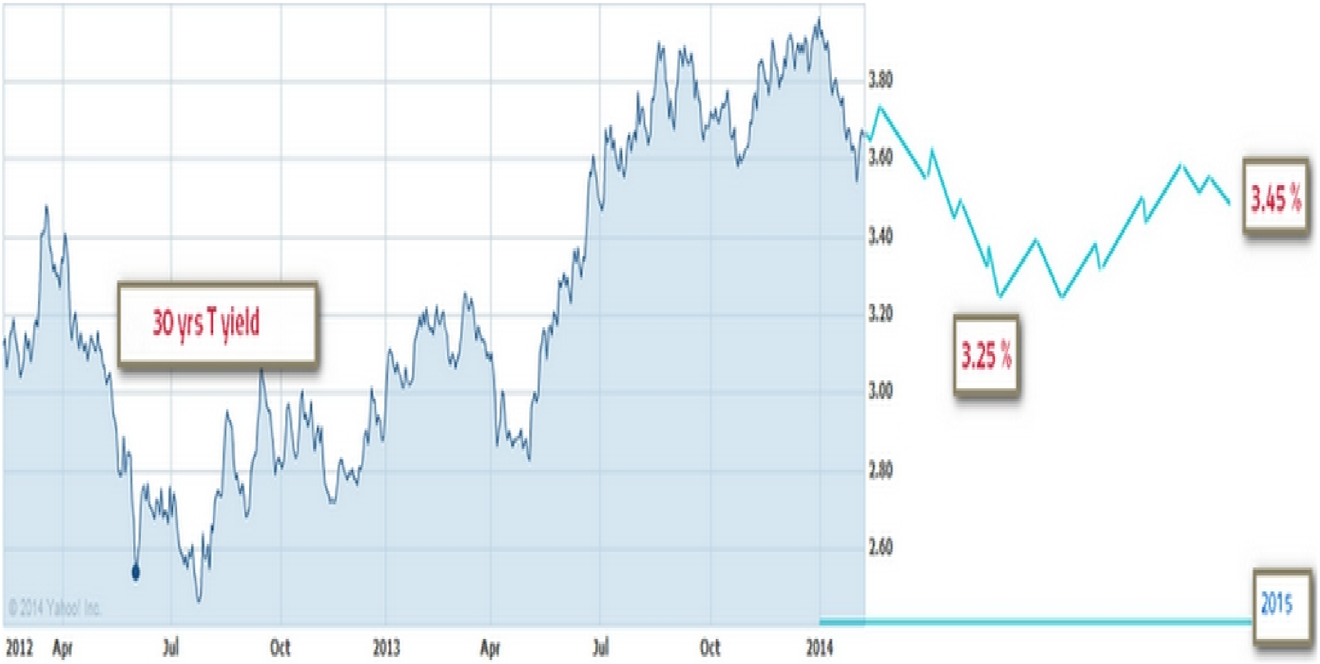
It does agree with our view of a falling euro and a rising US dollar. As US inflows are in large part directed to treasuries for safe haven demand.

To sum up our view.

We expect 30 years to see as low a yield as 3.25% at about mid year.

We believe we are going to close the year with a 30 year yield of 3.45%

the chart follows......


30 yrs T yield
3.25 %
3.45 %
2015
3.80
3.60
3.40
3.20
3.00
2.80
2.60
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2012
Apr
Jul
Oct
2013
Apr
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2014