Supplement

https://www.cnbc.com/2019/08/28/us-bonds-key-yield-curve-inverts-further-as-30-year-hits-record-low.html

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What is the US yield curve and why has it spooked investors?

Measure could be best indicator investors have of a coming recession

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74

What if there was a way to know when the next recession was close? What if there was a market measure that could clearly communicate economic trouble ahead, without fail?

Well, there isn't. But some analysts and investors say there is something that gets close — the US yield curve.

What does it tell us?

The different yields demanded by bond investors say a lot about what they think about how the US economy is doing today and where it is heading.

If there is a big difference between short- and long-term Treasury yields — that is, if there is a steep upward curve — then it suggests that investors expect inflation and interest rates to rise markedly in the future. The curve can be particularly steep as the US economy is pulling out of a recession.

But as that difference declines — as the curve flattens, as it is doing now — it indicates that investors expect slower inflation and more tepid economic growth in the future.

What should investors focus on?

The most powerful indicator is the difference between two-year and 10-year Treasury yields. At its post-2008 financial crisis peak, that difference — or spread — was above 290 basis points, as the economy pulled out of recession.

This week it inverted for the first time since 2007.

A different part of the Treasury curve that compares three-month yields against 10-year yields had already inverted, but the shift in this area is the latest indication of growing unease in the fixed income market.

Key measure of the US yield curve flattens

Difference in two-year and 10-year Treasury yields (bps)

Source: Tradeweb

Since 1980, the average time lag between the yield curve inverting and the economy falling into recession is 21 months, according to analysts at Deutsche Bank, and it can take almost three years.

Latest yield curve inversion sends ominous warning

Spread between two-year and 10-year Treasury bonds (percentage points)

Source: US Treasury

What does Thai yield curve imply?