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# Instant Thoughts

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## The Valley of Silence

- **Market has a nasty habit to turn its own darlings into pariah. Will the current bull run last?**
- **The zero rate environment might last for longer thanks to vexing congressional conflict in the U.S. The net-issuance will likely be vanished like a whiff in US Treasuries until at least October.**
- **But battles are coming. The handshake deal on raising debt ceiling could ironically spoil the picture in Q4. Much like war, volatility is months of boredom punctuated by moments of sheer terror.**

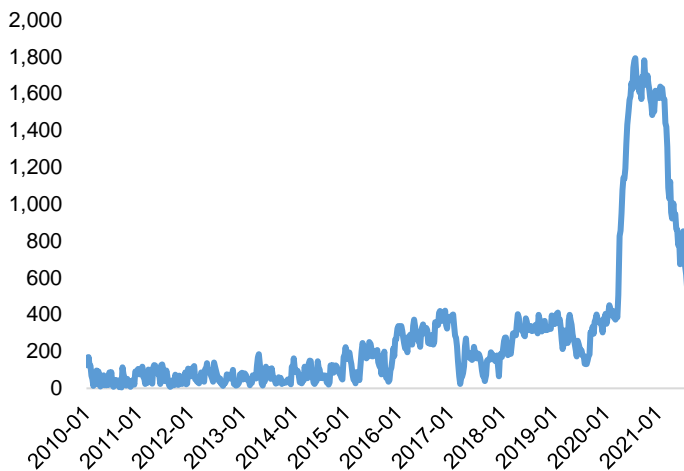
When congratulated on Napoleon's anointment as Emperor of France, his mother famously replied: "pourvu que ça dure (Let's hope it stays that way)." The same is true for markets. U.S. equities live beyond bull's wildest dreams, extending its winning streak without seeing a 5% interruption for months. And yet, Mr. Market has a nasty habit to turn its own darlings into pariah. Will the bull run last?

Perhaps so, for a while. The now-ubiquitous lofty valuations have umbilical cord to zero rate environment, which might last for longer thanks to vexing congressional conflict in the U.S.



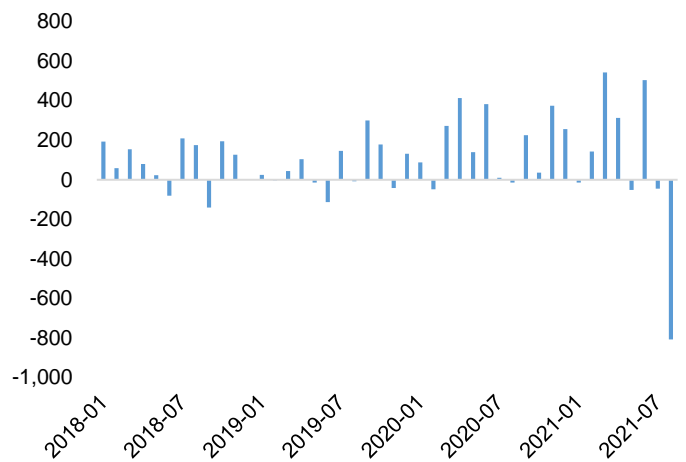
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Exhibit 1: Treasury Cash Balance (USD billion)



Source: CEIC, Shanghai Commercial Bank

Exhibit 2: Treasuries Net Issuance (USD billion)



Source: CEIC, Shanghai Commercial Bank

U.S. debt ceiling suspension came to its arbitrary end in Aug. 1. Uncle Sam cannot issue the net debt to pay its bills, until a bipartisan agreement is reached. We are at the mercy of the Treasury – it leaves the bureaucrat alone to spend the cash it holds idle before re-issuing. Currently the fiscal gatekeeper is sitting on a mountain pile of cash worth US\$537bn (Exhibit 1). Beyond all the subtleties, the basic math is simple. The Congressional Budget Office estimates that it will take three to four months before usual payments are in hostage. Opportunistic Republican will not miss the chance to flex their muscle, breezily or not.

All of which is to say the net-issuance will likely be vanished like a whiff in US Treasuries until at least October (Exhibit 2). Indiscriminate demand will keep likely Treasury yields on a lid. But battles are coming. The handshake deal on raising debt ceiling could, at the stroke of a pen, ironically spoil the picture. Much like war, volatility is months of boredom punctuated by moments of sheer terror. So watch Capitol Hill carefully and stay nimble in Q4.



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