US Treasury Bond Interest Rates: Nowhere to Go But Up

By The Mogambo Guru

03/14/11 Tampa, Florida – Charts from contraryinvestor.com show that, as of right now, there is going to be almost $1.8 trillion in US Treasury debt maturing this year, and all of it will need to be "rolled over" by issuing new debt.

Perhaps it is also instructive that they also note that "Just shy of 50% of UST debt 'rolls' within three years."

What this means, in practical terms, of course, is that We're Freaking Doomed (WFD). "Why?" you ask. "Because," I helpfully explain, "rising rates of inflation mean higher rates of interest that borrowers, especially deadbeat bankrupted governments, must pay when they try to rollover such massive amounts of debt!"

And what were interest rates three years ago when half of all Treasury debt, now rolling over, was first issued? I don't know exactly, but the graph of "US Treasury Bond Interest Rate History" at observationsandnotes.blogspot.com shows that interest rates were higher in 2008, and lower now in the range economists call "squat," meaning that rates have nowhere to go but up.

Well, perhaps you would be interested to know that the interest rate on these bonds is lower than at any time since the '50s, and is just inches away from the all-time, record-low of 2% set in 1940.

Or perhaps you would be staggered, clutching your heart and screaming, "Nooooooo!" when you learn that the average interest rate over the years was somewhere just under 6% ever since the low of 2% set in 1940, which means that interest rates would have to double – double! – from here just to get back to the average interest rate paid on bonds since 1971!

And why was 1971 the big inflection point where interest rates went nuts? Because that was when volatility in interest rates really started Going Freaking Nuts (GFN) because, not by coincidence, Nixon severed the last threads of connection between the dollar and gold.

And there is a personal reason, too for picking that date. Before 1971, I was a fresh-faced kid, his whole bright future ahead of him, but who decided to make one idiotic, disastrous decision after another until I ended up here, decades later, a bitter little man wearing a bullet-proof vest and a tinfoil hat, hiding in the closet under the stairs and typing out hate-mail to the Federal Reserve ("Dear Federal Reserve morons, I hate you! Signed, Hateful in Florida") and the Congress ("Dear Congress morons, I hate you! Signed, Hateful in Florida").

And even before that, back to 1900, interest rates were low, and swings in interest rates were much more muted, too, because the dollar was mostly on the gold standard, which are two of the beauties of the gold standard, as we are seeing by just standing up and going over and looking out at a world on the verge of panic and ruination thanks to the Federal Reserve creating So Freaking Much Money (SFMM) for So Freaking Long (SFL).

And when the people of the world do panic, they will run to gold and silver, and their prices will soar, making this investing stuff so easy that you just gotta say, with every bit of earnestness you can muster, "Whee!"