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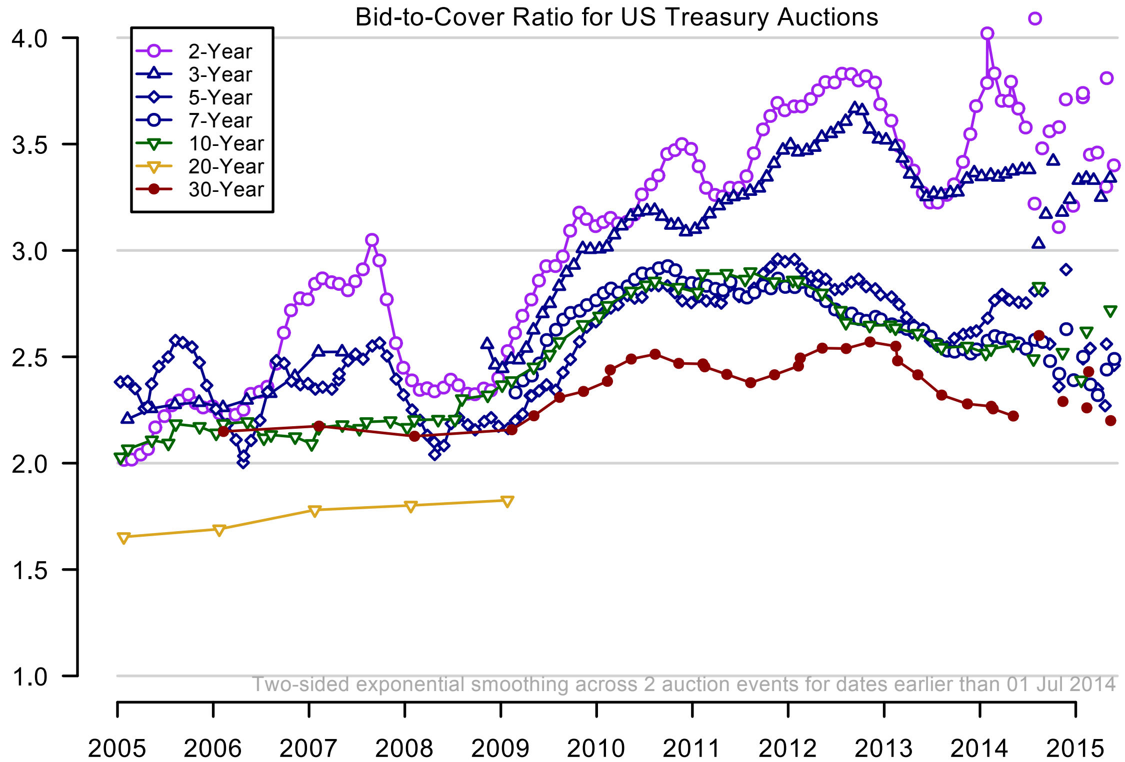

Bid to Cover Ratios

This morning's *Wall Street Journal* reported[1] that "the head of the U.K.'s Debt Management Office raised the prospect that [government bond market] swings could one day cause investors to balk at buying its bonds at auction." This is evidenced by the declining ratio of bids to debt for sale in the primary auction, which has decreased from an average of 1.9 over the last year to 1.19 in last week's auction of 10-year gilts.

In the US, bid-to-cover ratios are substantially more healthy, as shown above.[2] They are consistently above 2, in fact above 3 at the short end, and have been generally increasing through the last 15 years. Therefore, whatever may be the effects of recent swings in interest rates and bond prices, they are not visible in demand at primary auctions.[3]

[1] Christopher Whittall and Katy Burne, "Bond-market volatility triggers alarms," *Wall Street Journal,* June 9, 2015.

[2] Data from the U.S. Treasury's Web pages at `http://www.treasurydirect.gov`.

[3] In this graph, to show historical trends we have applied an exponential smoothing for dates before mid-2014. We have not applied this smoothing to the most recent year of data, to highlight the last few auction events.