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MARKET FACTS

A Historical Look At The Markets
February 14, 2000

Are Poor Auctions Really Bullish?

U.S. Bond Auction a 'Disaster' --Washington Post, February 11, 2000

The following tables show the T-Bond futures performance following the seven "best" and seven "worst" 30-year auctions since 1983. The worst auctions are defined as a tail of more than 2 bps and a bid-to-cover of less than 2.00. This definition includes last week's auction. The best auctions are defined as a tail of zero or a "bullet bid" and a bid-to-cover ratio of more than 2.50. Also included are the results following all auctions since 1983 for comparison purposes.

Note that the bond market had a much better performance following the worst auctions than the best auctions. If one tries to use auction results as a gauge of market direction, then this strategy would suggest that bad auctions are more desirable than good auctions. Why? We could offer several after-the-fact rationalizations, but we believe this shows that auction results are not significant in determining the future direction of interest rates.

Since 1983: Market Performance Following All Auctions

Auction Date	Tail (Bps)	Bid-to-Cover Ratio	The Change In T-Bond Futures Prices: 1 Week Later	2 Weeks Later	3 Weeks Later	To Next Ann. Date
Average	1.60	2.31	0.13	0.15	0.36	1.67
Pct. Pos	n.a.	n.a.	53%	53%	56%	66%
Pct. Neg	n.a.	n.a.	44%	47%	44%	34%

Since 1983: Market Performance Following Poor Auctions

(Tail is more than 2 and Bid-to-Cover is less than 2.00)

Auction Date	Tail (Bps)	Bid-to-Cover Ratio	The Change In T-Bond Futures Prices: 1 Week Later	2 Weeks Later	3 Weeks Later	To Next Ann. Date
2/3/1983	4	1.77	0.69	1.71	3.31	5.66
11/8/1994	4	1.85	0.38	2.06	2.22	4.00
2/9/1989	4	1.81	-0.88	-1.85	-1.53	0.28
2/8/1990	3	1.84	0.00	-0.56	-1.03	-4.88
5/9/1991	3	1.48	-1.16	-0.84	0.16	-0.47
8/11/1994	3	1.96	0.66	0.31	1.53	0.59
11/15/1998	6	1.57	1.09	1.06	1.50	-0.94
2/10/2000	*13.3*	*1.33*	*????*	*????*	*????*	*????*
Average	5.04	1.70	0.11	0.27	0.88	0.61
Pct. Pos	n.a.	n.a.	57%	57%	71%	57%
Pct. Neg	n.a.	n.a.	29%	43%	29%	43%

Since 1983: Market Performance Following Good Auctions

(Tail is 0 or, "bullet bid" and Bid-to-Cover is more than 2.50)

Auction Date	Tail (Bps)	Bid-to-Cover Ratio	The Change In T-Bond Futures Prices: 1 Week Later	2 Weeks Later	3 Weeks Later	To Next Ann. Date
2/9/1984	0	2.43	-0.56	-1.88	-1.75	-5.38
8/9/1984	0	3.47	-0.38	-0.09	-0.53	5.31
8/13/1987	0	3.34	-0.81	-2.47	-5.34	-2.38
11/5/1987	0	4.19	-0.94	-0.94	-2.09	3.59
8/13/1992	0	2.50	0.66	-0.63	0.41	-1.72
2/11/1993	0	2.63	1.53	3.16	5.53	5.47
2/10/1994	0	2.78	-1.00	-3.09	-4.06	-7.69
Average	0.00	3.05	-0.21	-0.85	-1.12	-0.40
Pct. Pos	n.a.	n.a.	29%	14%	29%	43%
Pct. Neg	n.a.	n.a.	71%	86%	71%	57%

Source: Logical Information Machines, Austin Texas