Treasury 30-Year Yields Reach One-Week High Before Bond Auction

By Wes Goodman, Bloomberg

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Treasury 30-year yields reached the highest level in more than a week before a $16 billion auction of the securities and a government report that economists said will show claims for jobless insurance fell last week.

Treasuries will deliver "slightly negative" returns this year, Bank of America Merrill Lynch said in a report. Stocks and corporate bonds will outperform government securities and cash, according to the company, which is one of the 18 primary dealers that underwrite the U.S. debt.

"I can't be very bullish on Treasuries," said Osamu Koizumi, the chief investment officer in Tokyo at Yasuda Asset Management Co., which oversees the equivalent of $5 billion.

"The labor market is recovering."

The 30-year bond yielded 4.49 percent as of 8:10 a.m. in London, the highest since May 4, according to data compiled by Bloomberg. The 4.625 percent security due February 2040 fell 6/32, or $1.88 per $1,000 face amount, to 102 7/32.

Ten-year rates were at 3.59 percent. The figure will rise to 3.80 percent by the end of June, Koizumi said. Yasuda Asset is a unit of Meiji Yasuda Life Insurance Co., Japan's third- largest life insurer, according to its website.

Initial claims for unemployment insurance fell to 440,000 last week from 444,000, according to a Bloomberg News survey of economists before the Labor Department report. It would be the lowest level since February.

Thirty-Year Auction

The 30-year bonds scheduled for sale today yielded 4.49 percent in pre-auction trading, dropping from 4.77 percent at the last sale of the securities on April 8.

Investors bid for 2.73 times the amount of debt on offer last month, versus the 10-sale average of 2.56.

Indirect bidders, the investor class that includes foreign central banks, purchased 36.8 percent of the securities, compared with an average of 39.3 percent for the past 10 sales.

Direct bidders, non-primary dealers that place their bids directly with the Treasury, bought 25 percent of the securities, double the 10-sale average.

Benchmark 10-year yields have climbed 14 basis points this week after the European Union announced an almost $1 trillion loan package to keep Greece's deficit crisis from spreading.

The euro climbed 0.5 percent to $1.2679, snapping a two-day decline.

A rising London interbank offered rate shows Europe's debt crisis is still limiting demand for higher-yielding assets, said Satoshi Okumoto, a general manager at Fukoku Mutual Life Insurance Co. in Tokyo, which has the equivalent of $61.2 billion in assets.

'Credit Crunch'

"It's a sign of a credit crunch," he said. "Because of the flight to quality, there might be more room for Treasuries to rise." Okumoto said he'd consider selling if 10-year yields fall to 3 percent.

Three-month Libor rose to 43 basis points yesterday, the most since August. The figure was as high as 4.82 percentage points in 2008 during the global credit crisis.

The extra yield on Libor above the overnight indexed swap rate, the Libor-OIS spread, widened to 21 basis points yesterday, also the highest level since August.

Treasuries returned 2.7 percent this year, versus 4.2 percent for U.S. corporate debt, Bank of America Merrill Lynch indexes show. German bonds beat them both, gaining 4.4 percent as investors sought the relative safety of bunds amid Europe's widening credit crisis.

The MSCI World index of stocks returned 0.8 percent after accounting for reinvested dividends.

Upside 'Constrained'

"Risk assets still have upside, but the upside is more constrained," Bank of America said in a report May 11 by the company's U.S. investment committee and analysts Michael Hartnett and Joseph Zidle in New York. "We recommend investors start rotating toward high-quality investments across asset classes such as large-cap equities and investment grade corporate bonds."

Marc Fovinci, who helps oversee $2.5 billion as head of fixed income for Ferguson Wellman Capital Management Inc. in Portland, Oregon, said he's following a similar strategy.

Fovinci said he recently bought the bonds of General Electric Capital Corp., the finance unit of General Electric Co., the world's largest maker of jet engines. Ferguson Wellman also purchased debt issued by Walt Disney Co., the biggest media company globally.

The Treasury auctioned $24 billion of 10-year notes yesterday at a yield of 3.548 percent, compared with a forecast of 3.582 percent in a Bloomberg survey of 12 of the Fed's 18 primary dealers.

Direct bidders bought 25 percent of the securities, the most since at least 2003.

Indirect bidders purchased 41.9 percent, compared with an average of 41.5 percent for the past 10 sales.

This week's sales also included a $38 billion three-year auction on May 11.