Treasuries World's Worst-Performing Bonds Before 10-Year Sale

By Wes Goodman, Bloomberg

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Treasury 10-year yields were near the highest level in nine months, making the securities the biggest losers among the world's bond markets, before the U.S. sells $24 billion of them today.

U.S. debt maturing in a decade and longer handed investors a 2.3 percent loss in the past week, the biggest decline of 174 indexes of sovereign bonds around the world, according to data compiled by Bloomberg. Federal Reserve Chairman Ben S. Bernanke is scheduled to speak today amid speculation the central bank will curb its bond purchases or opt not to extend them when its so-called quantitative easing policy ends in June.

The benchmark 10-year note yielded 3.75 percent as of 6:49 a.m. in London, according to BGCantor Market Data. The 2.625 percent security maturing in November 2020 traded at 90 7/8. The yield earlier rose to 3.77 percent, the highest since April 29.

"We're favoring corporate bonds," said Marc Fovinci, the head of fixed income at Ferguson Wellman Capital Management Inc.
in Portland, Oregon, which oversees $2.8 billion. "In an expanding economy, they'll do fine. The market is starting to discount the end of quantitative easing."

Debt issued by Georgia Power Co., an electricity generator in Atlanta, and BellSouth Telecommunications Inc., a telephone company in Dallas, are among Fovinci's recent purchases, he said.

Debt Auctions

Treasuries fell yesterday after a $32 billion auction of three-year notes.

The 10-year securities scheduled for sale today yielded 3.77 percent in pre-auction trading, compared with 3.388 percent at the previous sale of the debt on Jan. 12.

Investors bid for 3.30 times the amount on offer last month, versus the average of 3.13 for the past 10 auctions. Indirect bidders, the group that includes foreign central banks, bought 53.6 percent, while the 10-sale average is 46.4 percent.

The government will conclude this week's auctions with a $16 billion 30-year sale tomorrow.

The Fed is scheduled to buy $6 billion to $8 billion of securities due from February 2015 to July 2016 today, according to its website. Policy makers announced in November the bank would purchase $600 billion of Treasuries by the end of June to pump money into the economy.

Fed Bank of Richmond President Jeffrey Lacker said yesterday the quickening U.S. recovery means policy makers need to adhere to their commitment to review the program.

'Distinct Improvement'

"The distinct improvement in the economic outlook since the program was initiated suggests taking that re-evaluation quite seriously," Lacker said in a speech in Newark, Delaware.

Fed Bank of Dallas President Richard Fisher said he'll probably vote against any proposal further expand the central bank's balance sheet.

"Barring some unexpected shock to the economy or financial system, I think we are pushing the envelope with the current round of Treasury purchases," Fisher, who votes this year on the policy-setting Federal Open Market Committee, said in the text of remarks in Dallas yesterday.

Yields are rising most on notes, where the central bank is making the bulk of its purchases, reflecting concern those securities will suffer the steepest losses when the buying stops.

The difference between the Fed's target rate and five-year yields expanded to 2.15 percentage points, the widest since May.

The spread between 10- and 30-year yields shrank to 1.02 percentage points, the narrowest since July.

The Fed plans to make 23 percent of its purchases in Treasuries due in 5.5 years to 7 years, versus 4 percent for those maturing in 17 years to 30 years, according to its website.

Bernanke Testimony

Bernanke is scheduled to testify today before the House Budget Committee, as investors add to bets that quickening economic growth will lead to inflation.

The unemployment rate declined to a 21-month low in January.

Walt Disney Co., the world's biggest theme-park company, reported yesterday first-quarter profit that beat analysts'
estimates after an increase in attendance at its resorts.

The difference between yields on 10-year notes and Treasury Inflation Protected Securities, a gauge of expectations for consumer prices over the life of the debt, has widened to 2.36 percentage points from the 2010 low of 1.47 percentage points in August. The five-year average is 2.09 percentage points.