THE WALL STREET JOURNAL.
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Maturing Bonds Help Fed Tighten Policy --- As horizon on central bank's debt holdings gets shorter, effect is akin to rate increases

By Ben Eisen and Min Zeng
924 words
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English

The Federal Reserve is quietly tightening U.S. monetary policy -- by means other than interest rates.

Decisions made by the Fed years ago mean that the maturity of its $4 trillion-plus bond portfolio declines every day, a process that Fed Chairwoman Janet Yellen said in January has the same impact on benchmark bond yields as two short-term rate increases over the course of 2017.

In a footnote to her most recent speech, Ms. Yellen said that the maturity of the Fed's portfolio is falling. The average duration of the Fed's portfolio, excluding mortgage-backed securities, fell to just over six years last week from nearly 7.5 years at the end of 2013, according to Deutsche Bank AG, a result of debt getting closer to maturity and the way matured debt has been reinvested.

"That footnote is the most discussed footnote ever in a Janet Yellen speech," said Torsten Slok, chief international economist at Deutsche Bank. "It's quite striking."

The conversations come as the Fed on Wednesday kept its key short-term policy rate unchanged, as expected. The central bank also indicated no changes to management of its bond portfolio.

But the status quo alone means reduced stimulus, because as the portfolio gets closer to maturity, the Fed's ownership of long-term debt decreases, pushing rates higher. The Fed is simultaneously thinking about actively trimming the size of its portfolio, a move that analysts say could put even more upward pressure on long-term rates.

Ms. Yellen's statement and any Fed adjustments carry implications for the health of the economy.

If the market fears the Fed will contract the portfolio too fast, investors could sell long-term debt in anticipation, sending borrowing costs higher.

"The risks of communicating this the wrong way are significant," Mr. Slok said. "I view this as playing with fire."

Debt markets have long been sensitive to balance-sheet shifts by the central bank. After then-Fed Chairman Ben Bernanke first suggested in 2013 that the Fed could reduce its bond purchases, the yield on the **10**-**year Treasury** note surged more than a full percentage point in the following months.

Sharp moves in interest rates would have implications for the slow economic recovery.

Already, rising rates have pushed the average 30-year fixed mortgage rate up by more than 0.6 percentage point since November, threatening to cool demand in the housing market.

"The unwind will not be pretty," said Mark MacQueen, co-founder and portfolio manager at Sage Advisory Services Ltd. Quantitative easing, or buying bonds to stimulate growth, "is like a party. When a party ends you never know if you can clean it all up easy."

While the Fed ended its bond buying in 2014, it has been reinvesting cash from maturing debt via Treasury debt auctions. The Fed's holdings of Treasurys stood at $2.463 trillion for the week that ended Jan. 25, more than five times their level at the end of 2008, according to the latest data from the central bank. The Fed had agency mortgage-backed securities worth $1.744 trillion.

In recent years, the amount of maturing debt had been small, partly due to the Fed's decision in 2011 to sell short-term debt to buy long-term bonds aimed at keeping long-term interest rates low to stimulate the economy. The policy is known as Operation Twist.

But the amount of maturing Treasury debt is expected to rise to $195 billion this year and $422.6 billion in 2018, compared with $3.5 billion in 2015, according to Mark Cabana, head of U.S. short-rates strategy at Bank of America Merrill Lynch.

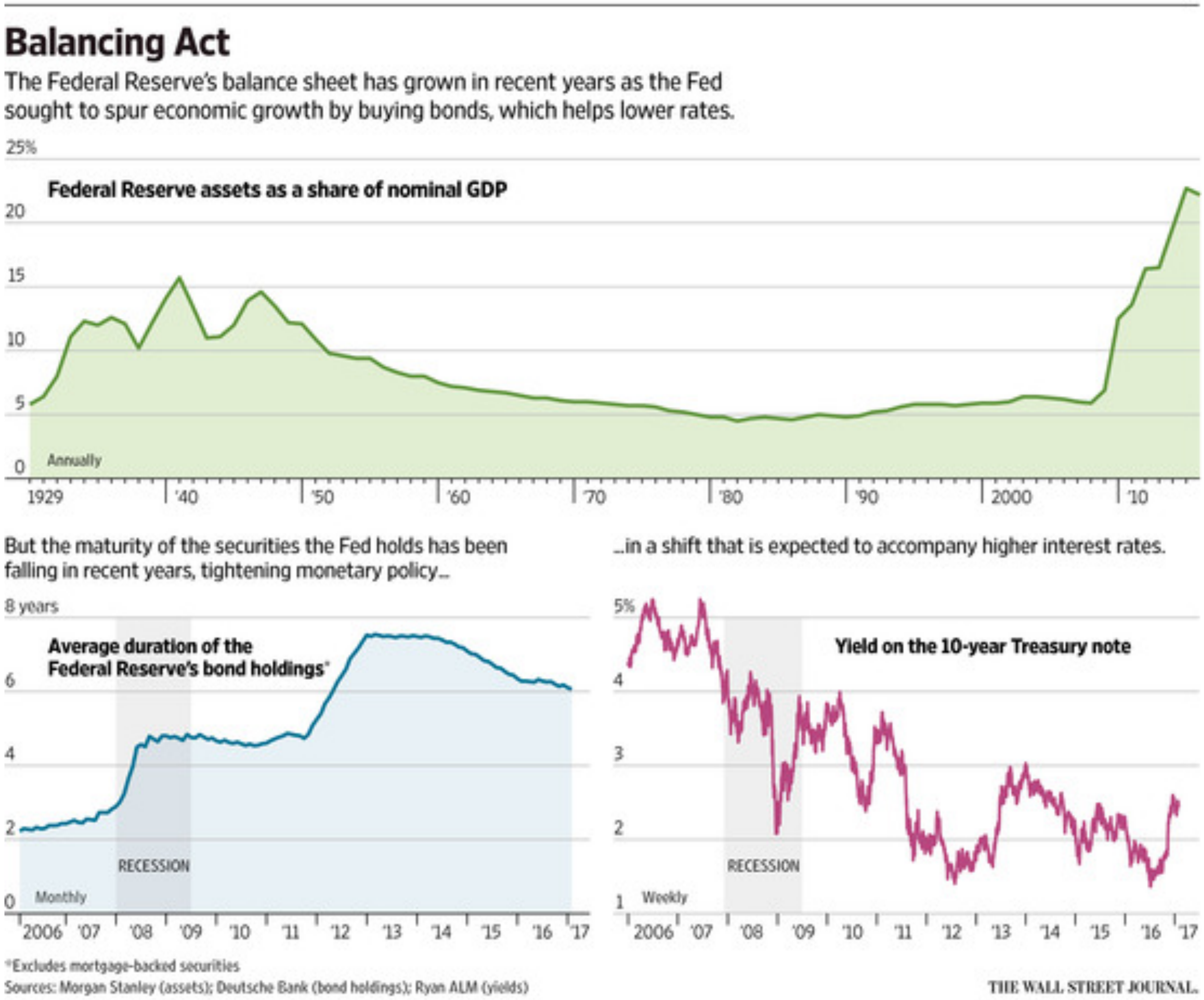
Francesco Garzarelli, interest-rate strategist at Goldman Sachs Group Inc., said that once the Fed announces its intention to downsize the balance sheet, investors may look ahead to the issue of demand from other sources to fill the void from the Fed. The impact from this, he said, could lead to a rise of 0.5 to 0.75 percentage point on the **10**-**year Treasury** yield. The yield late Thursday was 2.470%.

Many analysts say the Fed is likely to concentrate its efforts first on its portfolio of mortgage-backed securities, given its stated intention of returning to an all-Treasury portfolio. That could have a more direct impact on lifting borrowing costs in the housing market, analysts say. Morgan Stanley economists forecast that ending the reinvestment of maturing MBS would be the equivalent financial tightening of two rate increases.

Few expect a rash decision from the Fed, which, if anything, is thought to be biased toward keeping market conditions docile. Analysts say that the process of ending reinvestment isn't expected to commence until next year and is likely to be approached cautiously.

"Would the Fed gamble that it can get away with reducing its balance sheet in 2017 and not cause a crisis? I don't think so," said Jonathan Lewis, chief investment officer at Fiera Capital Inc.

Mr. Bernanke recently suggested that the Fed needn't rush to shrink the balance sheet. In a Brookings Institution article posted in late January, Mr. Bernanke said there is "little evidence that, at current levels, the Fed's balance sheet poses significant problems for market functioning or for the economy."



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The New York Times

Business/Financial Desk; SECTB
Investors Step Back and Markets Stay Mostly Flat

By THE ASSOCIATED PRESS
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3 February 2017
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NYTF
Late Edition - Final
2
English

Stocks on Wall Street ended trading on Thursday mostly unchanged, as cautious investors focused on a large batch of earnings reports from United States companies, including Facebook and Merck.

Ryder System, a truck leasing company, fell 8 percent after reporting earnings that fell far short of what Wall Street analysts were expecting. Ralph Lauren plunged 12 percent after announcing that Stefan Larsson, who took over as chief executive less than two years ago, was leaving.

The **Dow Jonesindustrial average** lost 6.03 points, or less than 0.1 percent, to 19,884.91. The **Standard & Poor's 500-stockindex** rose 1.30 points, or 0.1 percent, to 2,280.85 and the **Nasdaq composite** fell 6.45 points, or 0.1 percent, to 5,636.20.

After a postelection rally that pushed stocks to record highs and the Dow above the 20,000-point mark, investors have stepped back this week. Several actions by President Trump, such as his immigration ban last weekend and his various comments on trade, have given investors some concern about whether he is hurting business confidence and the economy more than he's helping.

''The overall economic and financial backdrop for the market looks quite good, but Trump's comments are spreading some uncertainty,'' said David Kelly, chief global strategist at J.P. Morgan Asset Management.

Some of that uncertainty could come Friday with the government's jobs report for January. For this report, the first that will be at least partially under the tenure of President Trump, economists are expecting that employers created 175,000 jobs in January, and the unemployment rate remained at 4.7 percent, according to FactSet. However some recent data, including the ADP private sector report on Wednesday, has given some traders hope for a jobs figure over 200,000.

Along with being important to investors as an economic indicator, the report will probably be politically fraught. Mr. Trump has called for measuring unemployment in different ways, through nontraditional metrics like the labor participation rate or the unemployment rate that includes measurements of workers in part-time jobs who want full-time work.

Investors had a large batch of earnings and company news to work through on Thursday.

Clothing company Ralph Lauren sank $10.76, or 12 percent, to $77.61 after the company's chief, Stefan Larsson, said he would leave May 1 after less than two years in the position.

Facebook fell $2.39, or 1.8 percent, to $130.84 despite the company reporting results that easily exceeded analysts' expectations.

United States government **bond prices** were mostly unchanged with the yield on the **10-year Treasury** note rising 0.01 to 2.48 percent. The euro slipped to $1.0764 from $1.0774 and the dollar fell to 112.73 yen from 113.18 yen.

Benchmark crude fell 34 cents to close at $53.54 a barrel on the New York Mercantile Exchange.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Thursday. (Source: Reuters)

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U.S. News: U.S. Watch

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ECONOMY

Productivity Rose

At End of Last Year

U.S. worker productivity rose for two straight quarters to close 2016, reversing a long stretch of declines, but the broader trend remains weak.

Nonfarm business productivity, measured as the goods and services produced by American workers per hour, rose at a 1.3% seasonally adjusted annual rate in the fourth quarter, the Labor Department said.

The gain is slightly stronger than the average increase over the past decade, but is a slowdown from the third quarter's 3.5% advance and below the long-run average.

Before the middle of last year, productivity had fallen for three straight quarters, the longest streak of negative readings since the 1970s.

-- Eric Morath

EMPLOYMENT

Jobless Claims

Edge Lower

The number of Americans applying for unemployment benefits fell last week, hovering at a historically low level consistent with a healthy U.S. labor market.

Initial jobless claims, a proxy for layoffs across the U.S., declined by 14,000 to a seasonally adjusted 246,000 in the week ended Jan. 28, the Labor Department said.

The latest jobless figures "reinforce our view of a modest improvement in U.S. labor markets this year," Barclays economist Blerina Uruci said in a note to clients. "Further, these low levels of layoffs are likely to support consumer confidence and spending," she said.

Data on unemployment applications can be **volatile** from week to week. A more stable measure, the four-week moving average of initial claims, rose by 2,250 last week to 248,000.

-- Ben Leubsdorf

MEDICARE

Foreign-Educated

Doctors Aid Survival

Medicare patients in U.S. hospitals were less likely to die when their doctors were educated outside the U.S., according to a study by researchers at Harvard University.

The study, published in the journal BMJ, examined more than 1.2 million hospital admissions of Medicare patients between 2011 and 2014. It compared survival rates for patients of about 44,200 doctors who specialize in internal medicine.

Patients of foreign-educated doctors had modestly better chances of survival within 30 days of hospitalization. They had an 11.2% chance of dying, compared with 11.6% in the group treated by U.S.-educated doctors. This was true even after researchers factored in patients' age, the complexity of patients' illness and the hospital where doctors work, the researchers found.

-- Melanie Evans

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Mexico's Bad Luck Gets Even Worse

By Ruchir Sharma
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English

Mexico is the unlucky country. Time and again its economy has been poised to take off, only to stumble into crisis, sometimes of its own making but often a result of the forces unleashed by its gradual opening to the U.S. The latest shock arrived with Donald Trump and peaked last week when a spat over who will pay for "the wall" compelled Mexico's president, Enrique Pena Nieto, to cancel his first meeting with the new White House. Economists are already rushing to downgrade Mexico's growth prospects for 2017.

Mr. Trump's worldview is built on a gut feeling that bad trade deals allow Mexico to profit at America's expense. Atop his agenda is renegotiating the North American Free Trade Agreement, the 1994 deal that turned the continent into a free-trade zone. But it is difficult to argue that Nafta unfairly enriched Mexico.

The big mystery, actually, is why Mexico has not done better since Nafta launched. Opening to the U.S. did help to modernize the country, putting it on track to emerge as the most important manufacturing power in Latin America. But it hardly made Mexico rich.

Since 1994, Mexico's economy has grown at an annual rate of about 2.5% -- half the average for emerging countries over the same period. The average Mexican's income is only a quarter the average American's, no higher in relative terms than 20 or even 100 years ago.

Mexico's string of unlucky stumbles dates to at least 1994. As Nafta went into effect, a sharp rise in U.S. interest rates prompted investors to pull money out of Mexico, leading to the peso crash that December. Because Mexico's government had begun issuing bonds that it promised to pay in dollars, it needed a bailout when the peso collapsed. Bankruptcies spread, and the economy fell into a massive recession.

As often happens after a crisis, Mexico recovered sharply, and in the late 1990s its economy grew in close sync with America's. But right as its luck started to turn, the next shocks hit. In 2001 the U.S. fell into recession, dragging Mexico along, and China entered the World Trade Organization. Manufacturers began moving to China at an accelerating pace to take advantage of wages that were a fraction of Mexico's.

Over the next decade, many emerging economies were lifted by surging prices for oil and other commodities, as well as a tide of easy credit from Western banks. Mexico was not among the lucky, its growth stymied by the declining production of its state oil company, Pemex, and by a cultural fear of debt contracted during the peso crisis. While other emerging economies grew rapidly by exporting to booming China, Mexico grew moderately by exporting to the U.S. When the 2008 financial crisis began in America, Mexico became one of the first casualties in the emerging world.

Still, Mexico had not given up on closer ties to the U.S. Its elites remained believers in the Washington consensus of open borders, free markets and budget discipline. In 2012 Mexicans elected Mr. Pena Nieto, a growth-oriented reformer who promised to reduce the influence of monopolists, including Pemex.

By 2014 these reforms looked ready to generate the long-sought boom. The government expected huge revenues from an auction of oil drilling rights, including to big American firms. But later that year **oil prices** collapsed and dragged the growth rate down to 2%.

Mr. Pena Nieto persisted, and by the middle of last year, the oil shock had faded. Mexico was growing at a healthy 3%, and unemployment was falling sharply. Then came President Trump. Now businesses are putting investment on hold until they see what the White House will do. But shoving Mexico too hard on trade could backfire.

Economists already expect Mexico's growth this year to dip below 2%, and unemployment could start rising again. This would send more Mexicans northward. The flow of immigrants had slowed significantly in recent years as job opportunities and wages rose in Mexico. More than the wall, the best way to keep immigrants from crossing the border is to give them reasons to stay home.

North American supply chains are so tightly interwoven that 80% of Mexican exports go to the U.S. -- and 40% of the parts those exports contain are made in the U.S. Fourteen states now count Mexico as their main trading partner, including anchors of the angry middle class like Michigan, which catapulted Mr. Trump to victory.

Mexicans also have an intense streak of anti-gringo patriotism. This had waned in recent years as the two countries' economies became intertwined. The feeling I got during a recent visit is that many Mexicans felt they had been moving toward becoming the honorary 51st state before Mr. Trump barged in vowing to expel them.

Delivering on Mr. Trump's threats could revive latent Mexican nationalism and play into the hands of a populist politician like Andres Manuel Lopez Obrador, a firebrand who is gaining momentum as Mexico's 2018 presidential elections approach. Mr. Pena Nieto's approval rating has fallen to 12%, partly because many Mexicans fault him for failing to stand up to Mr. Trump. Still, nationalism can't fill an empty stomach. If Washington pushes Mexico into a deeper slump, no wall could be high enough to prevent Mexican immigrants from trying to escape their unlucky land.

Mr. Sharma, the chief global strategist at Morgan Stanley Investment Management, is the author of "The Rise and Fall of Nations: Forces of Change in the Post-Crisis World" (Norton, 2016).

(See related letters: "Letters to the Editor: Bad Luck Doesn't Explain Mexico's Problems" -- WSJ Feb. 10, 2017)

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Heard on the Street
Investors Split Their Bets on Federal Reserve and Trump

By Justin Lahart
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[Financial Analysis and Commentary]

Investors are making two different bets on the markets and on the Federal Reserve. They can be right on only one of them.

Fed policy makers on Wednesday left their target range on overnight rates unchanged, while making it clear that they are taking a wait-and-see approach on their next interest-rate increase. The statement they released following their two-day meeting noted that, other than improved sentiment readings, the economy doesn't look too different than it did when they raised rates in December. The job market is good, inflation is picking up but still low, consumer spending is OK and business spending is weak.

Investors are more optimistic. The stock and bond markets show they believe that President Donald Trump will craft a tax-cut and spending package that will lift spending and (perhaps with an assist from taxes on imports) push prices higher. Since the election, the **S&P 500** has risen 6.4%, while the Treasury market's implied forecast for inflation over the next five years has gone from 1.57% to 1.94%.

The reason for the difference is investors have baked into their forecasts Mr. Trump's stimulus and bid up markets in anticipation. The Fed has to be more cautious and can't act based on policies that Mr. Trump and congressional Republicans haven't even put together yet. It won't be until Mr. Trump puts his signature to those policies that the Fed will be able to incorporate them into their forecasts and set policy appropriately.

That is where investors are making different bets. The stock and bond markets show their optimism about Mr. Trump's policies. But the markets that predict Fed moves are less optimistic.

Futures point to the central bank putting through just two quarter-point rate increases this year versus the Fed's projection for three increases.

It isn't hard to come up with scenarios where investors are right that the Fed would raise rates less than expected. Say that Mr. Trump's tax-cut and spending plans are smaller than expected, or that trade and immigration restrictions begin to threaten growth. Or maybe that just because the White House has a new occupant doesn't mean that the economy has lost its ability to disappoint.

If any of those scenarios turn out right, then investors' bet on the markets would be wrong, and stocks and bond yields would reverse their postelection gains.

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The New York Times

Business/Financial Desk; SECTB

With Indexes Mostly Flat, Apple Shares Surge

By THE ASSOCIATED PRESS
695 words
2 February 2017
The New York Times
NYTF
Late Edition - Final
2
English

Stocks on Wall Street finished little changed on Wednesday, despite a survey showing strong hiring in January and the Federal Reserve's decision to leave interest rates unchanged.

Shares of Apple soared, though, after it said iPhone sales had improved in its latest quarter.

Stocks initially jumped in morning trading after ADP, a payroll provider, said hiring by private employers grew stronger last month. **Bond prices** also climbed. But the market's gains thinned, partly because, as bond yields rose, investors sold shares of companies that pay big dividends.

By the end of the day, the **Dow Jonesindustrial average** had risen 26.85 points, or 0.1 percent, to 19,890.94. The Standard & Poor's 500 inched up 0.68 of a point, to 2,279.55. The **Nasdaq composite**, which has a high concentration of technology companies, gained 27.86 points, or 0.5 percent, to 5,642.65. The Russell 2000 index of smaller-company stocks dipped 0.60 of a point, to 1,361.23. Most stocks listed on the New York Stock Exchange fell.

The Federal Reserve left its key interest rate unchanged, just as investors expected. The central bank noted that the job market was getting stronger and inflation was gradually rising but said it wanted more time to monitor the economy.

Apple made its biggest one-day jump in six months after reporting first-quarter profit and sales that were better than analysts expected. The company said consumers had snapped up its new iPhone 7 and 7 Plus models, ending the first-ever slump in iPhone sales.

Apple stock rose $7.44, or 6.1 percent, to $128.79. Apple was single-handedly responsible for the Dow gain, and it helped take technology stocks higher.

The chip maker Advanced Micro Devices reported a profit when analysts expected a loss, and its sales were greater than expected. Its stock climbed $1.69, or 16.3 percent, to $12.06.

The ADP jobs survey was better than expected, and the construction, manufacturing, health care and shipping industries all added jobs at a solid pace. The United States government will release its own monthly jobs report Friday.

Stocks that pay large dividends traded lower as bond yields rose. Dominion Resources dropped $4.43, or 5.8 percent, to $71.85. Dominion also released a weak quarterly report.

Oil prices stayed within a small range. United States crude added $1.07, or 2 percent, to close at $53.88 a barrel in New York. Brent crude, the benchmark for international **oil prices**, gained $1.22, or 2.2 percent, to $56.80 a barrel in London. United States oil has stayed from around $52 to $55 a barrel for the last two months.

The lightweight aluminum products maker Arconic surged after its largest shareholder said the company needed new leadership. Since Arconic split from Alcoa on Nov. 1, Arconic stock had been almost flat, and Alcoa has jumped almost 70 percent. But on Wednesday, Arconic gained $2.55, or 11.2 percent, to $25.28.

The dollar rose to 113.09 yen, from 112.76 yen. The euro fell to $1.0744, from $1.0803.

The price of gold slipped $3.10, to $1,208.30 an ounce. Silver lost 9 cents, to $17.45 an ounce. Copper fell 2 cents, to $2.71 a pound.

Stocks in Europe got a boost from the hiring survey and a report that said manufacturing in China grew at its fastest pace in two years in January. Heavy government spending and more lending by banks helped keep the economy steady. Germany's DAX added 1.1 percent while the CAC 40 of France rose 1 percent. The FTSE 100 index in Britain picked up 0.1 percent.

Japan's Nikkei 225 rose 0.6 percent after a skid on Tuesday. The Kospi in South Korea jumped 0.6 percent. Hong Kong's Hang Seng fell 0.2 percent.

CHART: The **S**. **& P**. **500 Index**: Position of the **S**. **& P**. **500 index** at 1-minute intervals on Wednesday. (Source: Bloomberg)

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Banking & Finance: BlackRock Dives Deep Into Energy

By Sarah Krouse and Ryan Dezember
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B10
English

The world's largest asset manager is buying $3.7 billion in funds that invest in pipelines, power plants and wind farms, expanding on a bet that investors will want to back more infrastructure projects around the world.

BlackRock Inc. has agreed to acquire two energy infrastructure funds and the 37-person team that runs them from private-equity firm First Reserve Corp. The funds invest in oil and gas pipelines, energy storage facilities and power plants. Financial terms weren't disclosed for the transaction, which requires approval from public pensions and others invested in the funds.

The deal reinforces a Wall Street focus on public works as large money managers seek out investments in highways, bridges, tunnels, airports and pipelines. Investors in 2016 committed a record $59 billion to private infrastructure funds, bringing to more than $140 billion the amount of ready-to-invest cash in such funds, according to data provider Preqin.

Several multibillion-dollar infrastructure funds are being raised by private-equity firms including Carlyle Group LP and Global Infrastructure Partners, which has told investors its latest fund could be the largest ever of its kind at $15 billion. Such funds lock up investor cash for 10 years or more, allowing managers to collect fees and share in profits.

President Donald Trump advocated further investments in domestic infrastructure throughout his campaign, spurring expectations of increased opportunities for the private sector.

"Our underinvestment in infrastructure as a country -- in our ports, in our transport networks, in our airports -- could be a big opportunity," BlackRock CEO Laurence Fink said in an interview.

BlackRock's $10 billion in infrastructure assets under management is a small component of the $5.1 trillion it manages globally. But the growth of its infrastructure business is a priority within its alternative investment business, which manages more than $117 billion in assets for pensions, sovereign-wealth funds and other big investors.

Executives from BlackRock and First Reserve met through their 2015 purchase of a 45% stake in a natural-gas pipeline project in Mexico. They teamed up with national oil company Petroleos Mexicanos, or Pemex, which has been selling assets as part of a push to privatize the country's energy sector.

The Pemex project brings U.S. natural gas to central Mexico, a channel that has helped support gas prices in the U.S. Some analysts warn that trade policies limiting that flow of energy could increase a domestic gas glut and harm prices.

"We are anticipating **volatility**," said Jim Barry, global head of BlackRock's real assets business, but he noted the Pemex deal was structured to compensate investors even if gas isn't supplied. The firm's "commitment to Mexico and the region more generally is absolute."

The two funds that BlackRock plans to acquire from Greenwich, Conn.-based First Reserve launched in 2011 and 2014. The older $1.2 billion fund returned 0.9% annually after fees, through Dec. 31, according to a person familiar with the matter. That is down from 8.6% two years earlier, according to public pension records, when oil and gas prices were higher.

About half of the newer $2.5 billion fund remains uninvested. Mr. Barry said he hopes to begin raising a third fund within the next 18 months.

After the deal, roughly half of BlackRock's infrastructure business will be focused on energy and renewable power. BlackRock is seeking to raise about $1 billion in its latest renewable energy fund, according to people familiar with the matter.

For First Reserve, the divestiture reduces the firm to its core private-equity business of investing in businesses such as energy explorers and oil-field-services companies.

The firm, which was founded more than 30 years ago, reaped big profits for investors during its early years as it helped pioneer private-equity investing in the oil patch. But in recent years two multibillion-dollar funds that aren't part of the BlackRock deal have struggled with losses and are on pace to lose money for investors, according to public pension documents.

First Reserve plans to reinvest proceeds from the sale in its private-equity business, including buying out ownership stakes in the firm from employees who have left in recent years, according to people familiar with the matter.

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Greek Debt Fears Return as Talks Stall --- Worries about default renewed by deadlock with creditors, IMF; a familiar standoff

By Tasos Vossos and Nektaria Stamouli
641 words
2 February 2017
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B12
English

Investors are dumping Greek bonds, fearing that Athens will be unable to pay debt that comes due this summer.

The selloff comes as the Greek government is again at a standstill in negotiations with its creditors in the eurozone and at the International Monetary Fund. Athens needs to break the deadlock and secure more aid before about 6 billion euros ($6.5 billion) in debt has to be repaid in July.

Complicating matters is a scheduled IMF board meeting next week and a lack of clarity over what position the U.S. -- which has the largest vote at the fund -- will take under the Trump administration.

One piece of the July debt is a bond owed to private creditors. The yield on that bond was under 6% last week -- consistent with a highly risky security. But that yield more than doubled in the last few days of trading, a sign that investors see a serious probability of default. On Wednesday, the bid yield on the bond -- the level at which traders offer to buy -- spiked above 15% on Tradeweb. It ended the day at 9.5%. Rising yields mean **bond prices** are falling.

Greece can hold out without fresh aid until July, but it urgently needs a path forward: Starting in mid-March, elections in Europe will dominate the Continent's agenda and likely dull any political appetite for helping Greece.

The deadlock is familiar. The IMF says that Greece's debt is too high for it to receive more aid in the form of loans. Eurozone creditors, led by Germany, won't commit to major debt relief. Greece itself is resistant to budget cuts. Germany says it won't continue to help Greece without the IMF alongside. The IMF has so far stayed out of Greece's latest bailout.

The atmosphere worsened after a statement on Tuesday by a member of parliament from the ruling Syriza party that a debate over Greece's membership in the euro shouldn't be taboo. Quitting the euro would almost certainly lead to substantial losses for holders of euro-denominated Greek debt.

"I believe there has to be a political and national discussion the likes of which hasn't taken place during the last seven years," said Nikos Xydakis, a former minister in the Syriza government, though he later clarified his comments by restating his support for Greece's eurozone membership.

Still, his comments followed reports in German media earlier this week that suggested the German government is warming to the idea of Greece abandoning the euro, the so-called Grexit. The trigger-happy nature of investors in the Greek bond market intensified the selloff.

"A big part of trading volume in the Greek market comes from active accounts that follow the news flow," said Argyrios Gkonis, an analyst in Axia Ventures' research department in Athens.

Tension around Greece's financial position has been building for some time. Ratings firm Moody's Investors Service said in December that a delay in closing the review of Greece's bailout program "increases the risks that repayments to bondholders due in July 2017 may be missed." The review is pending.

European officials are scheduled to meet next week, and if no headway in negotiations is made then, talks could stall until after the Dutch elections, Deutsche Bank said in a note to investors this week. Voters in the Netherlands are scheduled to go to the polls on March 15.

Greece and its creditors have run up against deadlines many times in the past seven years, and yields have soared and sunk as talks stalled and restarted. Greece defaulted once on private creditors, in 2012.

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Bullish Oil Bets Climb to Record --- Optimism abounds that OPEC production curbs will firm prices, but risks are growing

By Alison Sider and Timothy Puko
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1 February 2017
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B16
English

Bullish bets on oil rose to a record in January, reflecting widespread optimism that crude prices are poised to move higher as OPEC starts cutting production in a bid to ease a global supply glut.

Wagers on rising U.S. oil prices have more than doubled in less than three months. Investors have turned more bullish since the Organization of the Petroleum Exporting Countries in late November reached a deal to cut output.

Long, or bullish, positions last week exceeded short, or bearish, positions by 370,939, marking the largest net bullish position in 10 years of data from the Commodity Futures Trading Commission. That compares with a net bullish position of 159,415 contracts in early November.

To put the size of the bullish position in context: The more than 420,000 bets on rising oil prices in place last week represented nearly all of the crude held in U.S. commercial storage tanks.

That is a sign of faith that the nearly yearlong oil rally has more room to run. But the bullish slant to the market is a concern for traders, who worry that a dimming of the market's view on oil could prompt a rush for the exits and intensify any selloff.

The last time speculative investors were this bullish on oil was in June 2014 -- when Islamic State militants began threatening major cities in Iraq. That was a few weeks before the market began a 20-month-long slide. The historic selloff sent oil from above $100 a barrel to a decade low around $26.

Investors continue to pile into long positions even though the oil rally has been on pause in the past seven weeks. Oil volatility has plummeted to a two-year low. U.S. prices stayed within a roughly $3 range throughout January as traders awaited confirmation that promised cutbacks from members of OPEC would materialize.

Data on OPEC's compliance recently have started to trickle in. The cartel is on track to meet 75% of its promised cuts, according to tanker tracker Petro-Logistics. Other firms have put the rate even higher.

Those levels are well above the producing group's typical compliance with quotas, analysts say, which helps explain why so many investors are bullish.

Oil prices rose 18 cents to $52.81 a barrel Tuesday after data on OPEC production lent further support to the belief that the group was abiding by its pledge to cut output.

Will Riley, a portfolio manager with Guinness Atkinson Asset Management, said he expects crude prices to rise because he thinks OPEC members are likely to keep complying.

"I don't think they are satisfied with the current [oil-price] level," Mr. Riley said.

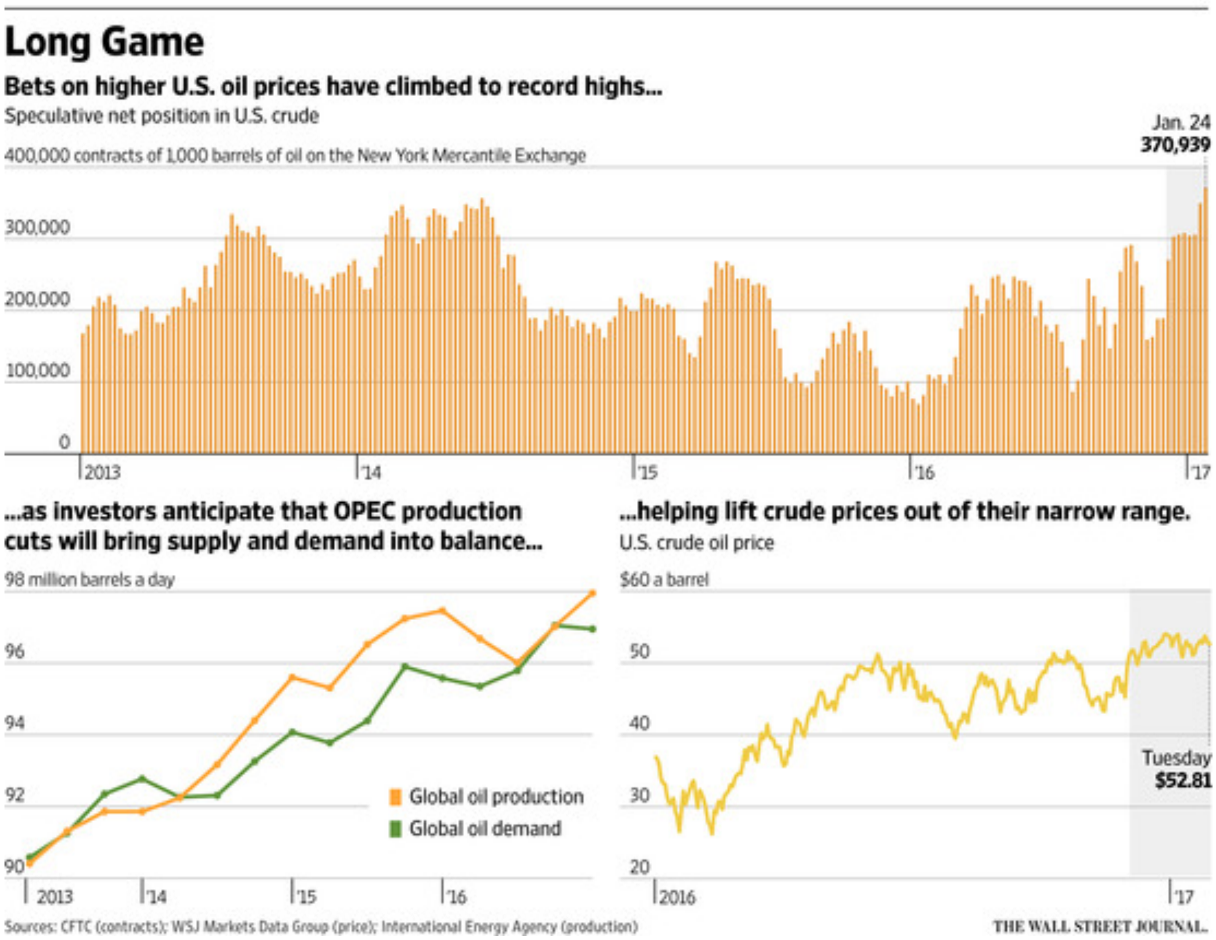
OPEC's agreement runs through June. The prospect of an extension of the curbs in May is another reason investors are reluctant to bet on lower prices, said Nick Koutsoftas, a portfolio manager with Cohen & Steers. Mr. Koutsoftas has placed bullish bets on oil in recent weeks.

If OPEC prolongs output cuts, that could cause stockpiles to decline and send oil toward $65 by year-end, he said.

But some traders say the lopsided market raises the likelihood of a sharp reversal. Cascading sell orders could quickly sink prices, they say.

"It's going to be harder and harder to get the market higher when the market is already so long," said Kathleen Kelley, chief executive of Queen Anne's Gate Capital Management, a commodities consulting firm. "The market is really vulnerable here."

There is an expectation that OPEC will continue to abide by its agreement, said John Pickart, a commodity-fund manager with Franklin Templeton Investments. "But if there's any whiff of it not happening, there's a lot of positions there that can get unwound."



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As Yields Increase, Bonds Regain Allure as a Hedge --- Seeking insurance against turbulence could help set a floor on prices of Treasurys

By Jon Sindreu and Christopher Whittall
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The recent bond selloff has brought back one of the main reasons for investors to hold them: as an insurance policy.

Sovereign-bond yields across the developed world tumbled to all-time lows last year as prices soared, diminishing their appeal to some investors. Now, with government bonds offering higher returns, some money managers are starting to buy Treasurys and other high-grade debt again as a hedge against market turbulence.

This nascent source of demand could help set a floor on prices for U.S. Treasurys -- the haven asset of choice for many investors -- following a rocky period for the $13 trillion market, as well as for German bunds.

The yield on the **10**-**year Treasury** note is up more than a percentage point from last July's low but is little changed over the past month.

Investors have paused in recent weeks to gauge how much President Donald Trump's policies will boost economic growth and inflation, increases in which are broadly good for stocks and bad for bonds. For years now, investors have liked bonds because their prices kept rising, rather than for their hedging properties.

But as yields rise again, those old insurance seekers may start to return.

They include Paul O'Connor, who has started to rebuild positions in government bonds in 2017 after several years of largely avoiding using these securities as "shock absorbers" in the cross-asset portfolios he runs. "We can now expect that government bonds can offer some kind of insurance feature again," said Mr. O'Connor, who heads multiasset investments at Henderson Global Investors, which oversees roughly GBP 100 billion ($125 billion) world-wide. This could limit any losses for sovereign bonds, which have moved sideways over the past month.

If **10**-**year Treasury** yields go above 2.75% in the medium term, from 2.451% on Tuesday, they will lure many more buyers, said Marie Owens Thomsen, chief economist at Indosuez Wealth Management. When yields rose in December, Indosuez was one of the firms that increased its exposure to sovereign debt.

Traditionally, the classic asset-allocation structure was to invest 60% of a portfolio in equities and 40% in bonds. Equities were supposed to deliver meaty returns, while high-grade debt would act as a buffer -- rising in value when fears were high and stock prices fell.

But investors became more wary of relying on bonds as a safety valve in portfolios as yields plumbed new depths, dragged down -- even below zero -- by loose central-bank policy in Europe and Japan.

At the peak in late September, there was $13.34 trillion of negative-yielding debt globally, according to Bank of America Merrill Lynch. Investors didn't have to pay to hold Treasurys, but yields became increasingly slender. The 10-year note hit a record-low yield of 1.366% in July.

Because equities also get a boost from loose monetary policy, stocks and bonds actually started moving almost in lockstep with each other.

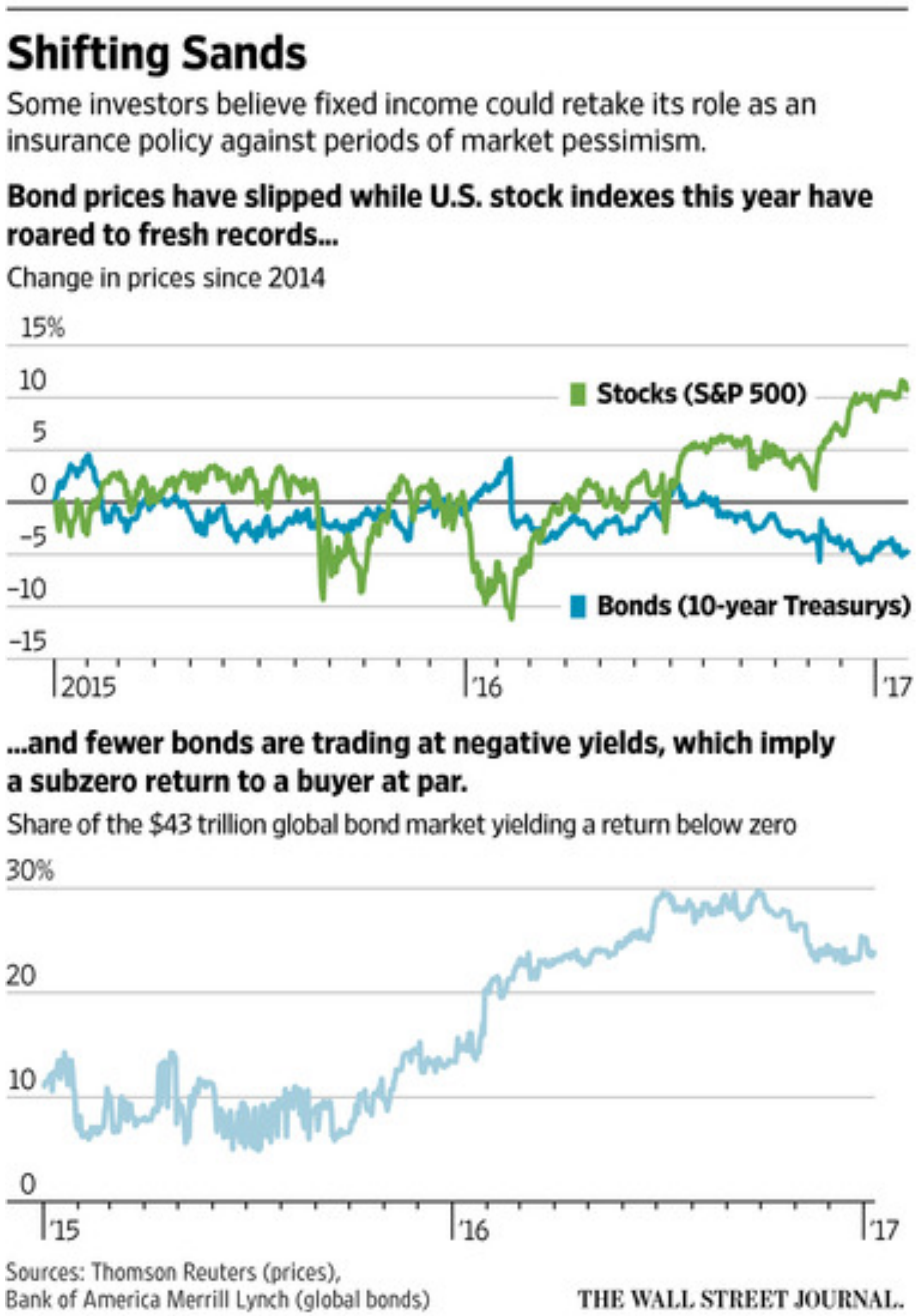
Government debt became not only a poor hedge in recent years, some investors say, but also an asymmetric bet. Yields looked like they had little room to fall further -- leaving investors vulnerable to a reversal in the market.

This is what happened in September: Money managers started doubting that central banks would go much further, driving Treasury and German bund yields to slowly ratchet higher. The election of Mr. Trump on Nov. 8 sparked a further selloff in bonds, joined by a rally in stocks across developed nations.

Now, U.S. bonds and stocks are moving in opposite directions again, according to an analysis of market correlations by The Wall Street Journal. In Europe, a smaller share of bonds is offering negative returns.

With bond yields higher, Nicolo Carpaneda has been increasing holdings of short-term government bonds in Europe, as well as U.S. corporate debt.

"Much of the Trump rally is already priced in; this way we can protect ourselves against any negative events," said Mr. Carpaneda, investment director of the retail fixed-interest team at M&G Investments, a GBP 248 billion money manager.



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The New York Times

Business/Financial Desk; SECTB
Investors Pile Into Less Risky Assets as Markets End the Day Mixed

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5
English

Stocks on Wall Street fought their way to a mixed finish on Tuesday as drug makers rallied, which mostly canceled out losses for industrial companies. Investors shifted their money to less risky investments for the second day in a row.

For the second straight day, stocks started with substantial losses. Industrial companies, which have climbed lately, fell the most as United Parcel Service tumbled after a weak fourth-quarter report. Banks also slipped. But investors bought assets like gold, government bonds and high dividend payers. Drug companies also rallied after President Trump met with industry executives and discussed ideas including faster drug approvals and lower taxes.

The **Dow Jonesindustrial average** sank 107.04 points, or 0.5 percent, to 19,864.09 as companies like Goldman Sachs and Boeing returned some of their recent gains. The **Standard & Poor**'**s 500**-**stockindex** lost 2.03 points, or 0.1 percent, to 2,278.87.

The **Nasdaq composite** gained 1.07 points to 5,614.79. The Russell 2000 index of small-company stocks rose 9.49 points, or 0.7 percent, to 1,361.82.

Athletic apparel maker Under Armour plunged after investors were disappointed with its fourth-quarter report, which included higher expenses. Under Armour also issued a weak full-year forecast and said its chief financial officer is leaving. The stock tumbled $7.45, or 25.7 percent, to $21.49. It dropped 30 percent last year and is now trading at its lowest price in two years.

United Parcel Service sank after the package delivery company forecast an annual profit that was far smaller than analysts expected. U.P.S. gave up $7.90, or 6.8 percent, to $109.13, and FedEx fell $4.14, or 2.1 percent, to $189.11. That helped pull industrial companies lower.

Drug companies' shares rose after President Trump said he wanted less regulation on prescription drugs because that could speed up their approvals. While Mr. Trump again said he wanted to reduce drug prices, investors seemed pleased with proposals that could reduce drug makers' costs.

The **Nasdaq** Biotech index climbed 2.8 percent. Companies that make both generic and name-brand drugs traded higher, as did prescription drug distributors.

Bond prices rose. The yield on the **10**-**year Treasury** note fell to 2.46 percent from 2.49 percent. That hurt financial stocks, as lower bond yields reduce interest rates and the profits banks make from lending.

Investors who wanted income also bought stocks that pay outsize dividends, including real estate investment trusts and utility companies. Shopping mall operators Simon Property Group and GGP both traded higher after their quarterly reports. Simon gained $6.03, or 3.4 percent, to $183.77 and GGP rose 88 cents, or 3.7 percent, to $24.84.

The price of gold and silver made their biggest jumps in two weeks. Gold rose $15.40, or 1.3 percent, to $1,208.60 an ounce. Silver gained 39 cents, or 2.3 percent, to $17.54 an ounce.

Another day of protests against parts of Trump's agenda and challenges for some of his cabinet nominees who haven't been confirmed by Congress made investors a bit more nervous early in the day. The VIX, an index known as Wall Street's "fear gauge," jumped 9 percent around midday, but finished only 1 percent higher. It had climbed Monday.

United States crude oil rose 18 cents to $52.81 a barrel in New York. Brent crude, the benchmark for international **oil prices**, added 47 cents to $55.70 a barrel in London.

The dollar fell to 112.90 yen from 113.70 yen. The euro rose to $1.0793 from $1.0695.

Germany's DAX lost 1.3 percent and the CAC 40 of France fell 0.75 percent. The FTSE 100 index in Britain lost 0.3 percent. Japan's benchmark Nikkei 225 dipped 1.7 percent. The South Korean Kospi lost 0.8 percent. Markets in Hong Kong, China and Taiwan were closed for Lunar New Year holidays.

CHART: The Dow Minute by Minute: Position of the **Dow Jones industrial average** at 1-minute intervals on Tuesday. (Source: Reuters)

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Search Summary

Text	S&P 500 index or Dow Jones index or Bond yield or oil price or stock index or stock market or DJIA or SPX or equity market or Dow Jones Industrial Average or S&P 500 or Standard & Poor's 500-stock index or U.S. treasury rates or U.S. treasury yield or stock price or earnings suprise or earnings surprises or oil prices or Nasdaq Composite or standard & poor's 500 index or 30-year Treasury bond or 10-year Treasury bond or 30-year Treasury or 10-year Treasury or Bond prices or bull market or bear market or bull market or bear market or bullish or bearish or financial markets or financial market or volatile or volatility or Nasdaq
Date	02/01/2017 to 02/28/2017
Source	The New York Times - All sources Or The Wall Street Journal
Author	All Authors
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Industry	All Industries
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