Treasuries Gain as Weak Manufacturing Data Curb Rate-Hike Bets

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By Daniel Kruger

(Bloomberg) -- Treasuries rose for a third day, pushing 10- year yields to a two-month low, as a weaker-than-forecast manufacturing report led to speculation that slowing economic growth may force the Federal Reserve to delay a planned interest-rate increase.

U.S. government securities retreated earlier before a jobs report scheduled for Aug. 7. Employers probably added 225,000 workers in July, after hiring 223,000 in June, according to the median forecast of economists in a Bloomberg survey.

“Data will be very, very much in focus and highly parsed as we near September,” said Christopher Sullivan, who oversees

$2.3 billion as chief investment officer at United Nations Federal Credit Union in New York. Manufacturing data for the U.S. “was a tad weaker than expected. It tilted bonds firmer.”

The U.S. 10-year note yield fell one basis point, or 0.01 percentage point, to 2.17 percent at about 10:35 a.m. New York time, according to Bloomberg Bond Trader data. The 2.125 percent security due in May 2025 climbed 2/32, or 63 cents per $1,000 face amount, to 99 19/32. The yield reached the lowest level since June 1.

Fed Chair Janet Yellen said in July she expected the central bank to raise its benchmark rate this year, while emphasizing the pace of increases will probably be gradual.

Policy makers expect inflation to accelerate gradually toward their 2 percent target, the central bank said in a statement at its July 28-29 meeting.

Manufacturing Rises

Data from the Institute Supply Management showed a gauge of U.S. manufacturing output decreased to 52.7 last month from 53.5 in June. The median in a Bloomberg survey of economists forecast 53.5. A reading above 50 indicates expansion.

A separate report showed the Fed’s preferred inflation gauge rose 0.3 percent in June from the same month last year, after a 0.2 percent increase in May. The index has been below the central bank’s 2 percent target for three years.

Officials have kept their benchmark interest rate, the target for overnight loans between banks, in a range of zero to

0.25 percent since December 2008.

There's about a 38 percent chance the Fed will raise rates at its September meeting, based on the assumption that the effective fed funds rate will average 0.375 percent after liftoff. The likelihood of a rate increase at or before the December meeting is about 68 percent.

"The jobs number will be the most important of the week,"

said Ian Lyngen, a government-bond strategist at CRT Capital Group LLC in Stamford, Connecticut. "The input from Friday will be useful in skewing rate-hike expectations, but there's a lot of data between now and the September meetings, so there will be different iterations of this."

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