Treasuries Rally as Global Hunt for Yield Boosts Auction Outlook

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By Susanne Walker

(Bloomberg) -- Treasuries rallied for a fourth day as surging global demand in the wake of the European Central Bank's bond-buying program bolstered the outlook for the U.S.'s sale of 30-year bonds.

U.S. debt extended gains after sales at the nation's retailers unexpectedly decreased in February for a third consecutive month. With inflation below the Federal Reserve's target, that underscored the allure of the $13 billion in bonds being auctioned Thursday. Even after rallying the most this week since December, U.S. bonds still yield about 2 percentage points more than similar-maturity German bunds.

The retail-sales drop "does help the auction," said Thomas di Galoma, head of fixed-income rates and credit at ED&F Man Capital Markets in New York. "There's this general lack of inflation. Consumers aren't spending money. That adds to investors appetite for longer-dated securities."

Thirty-year yields declined two basis points, or 0.02 percentage point, to 2.67 percent as of 12:02 p.m. New York time, according to Bloomberg Bond Trader data. The yield is down

18 basis points since March 6, the biggest weekly drop since Dec. 12. The 2.5 percent bond due in February 2045 rose 11/32, or $3.44 per $1,000 face amount, to 96 17/32.

Germany's 30-year yield dropped to a record-low 0.606 percent. The yield difference between 10-year Treasuries and bunds was 184 basis points after reaching 190 on March 11, the widest gap since 1989.

'Benign Inflation'

The yield gap has widened since the ECB began purchasing euro-region sovereign debt on Monday as part of a plan to stoke growth and avoid deflation.

"People are looking for higher yields, and long-dated U.S.

Treasuries are looking attractive relative to their European counterparts," said Jussi Hiljanen, head of fixed-income strategy at SEB AB in Stockholm. "We are constructive on Treasuries. The benign inflation will weaken expectations on the Fed's rate increases."

The Treasury bonds scheduled to be sold Thursday yielded

2.670 percent in pre-auction trading, compared with 2.56 percent at a previous sale on Feb. 12 and an auction record-low yield of

2.430 percent in January.

U.S. 30-year bonds have returned 1.8 percent this year, according to Bank of America Merrill Lynch indexes. They returned 29 percent last year.

Retail Sales

When the U.S. auctioned 10-year notes on Wednesday, indirect bidders, the investor class that includes foreign central banks, bought 58.6 percent of the debt. The average is

47.7 percent for the previous 10 offerings. The Treasury sold three-year notes March 10, with the indirect bid reaching the highest level in almost five years.

“We’ll see good demand -- the story remains overseas investors,” said Guy LeBas, chief fixed-income strategist at Janney Montgomery Scott LLC in Philadelphia, which manages $61 billion in assets. The retail-sales report “was an across-the- board miss.”

Treasuries slid Thursday as Commerce Department figures showed a 0.6 percent drop in U.S. retail sales last month, following a 0.8 percent decrease in January. The median forecast of 86 economists surveyed by Bloomberg called for a 0.3 percent gain. Sales declined in nine of thirteen major categories, led by auto dealers and building supply merchants.

The yield difference between 10-year notes and similar- maturity Treasury Inflation Protected Securities, a gauge of trader expectations for consumer prices over the life of the debt, dropped one basis point 1.73 percentage points. The average for the past decade is 2.16.

Futures trading shows a 52 percent chance for an increase to 0.5 percent by September, according to Bloomberg data. That’s down from 56 percent odds a day ago.

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