Treasuries Surge After Fed Maintains Forecasts for 2017, 2018

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By Elizabeth Stanton

(Bloomberg) -- Treasuries surged after the Federal Open Market Committee raised interest rates as expected and maintained forecasts for additional increases for the next two years, dashing expectations it might signal a quicker pace of hikes.

Yields were lower by five to 10 basis points at 2:45 p.m.

in New York, with the five-year lower by 10 basis points at about 2.03 percent. Yields had risen to their highest levels in at least a year in the past week as market-implied expectations for a quarter-point increase in the fed funds rate approached certainty. Market focus was on any new language in FOMC statement, changes to member forecasts for the funds rate, or both. Most economists and strategists saw more risk of an increase to the 2018 median than to the 2017 median.

* Median forecast for 2019 rose to 3% from 2.875%, while 2017 and 2018 medians remained at 1.375% and 2.125%; 5Y yields reacted most sharply, falling as much as 11bp, and the 5s30s curve rebounded from 102bp to 109bp within minutes

* Before the FOMC meeting, Treasuries advanced led by 30Y, paring a two-week drop and flattening the curve; 5s30s spread approached lowest level since January 2008

** Curve reached session lows after DoubleLine's Gundlach, speaking on CNBC, said bond market "is set up for a rally in the weeks ahead"

* Rally stalled briefly after the February retail sales report included upward revisions to January's results and the Empire State Manufacturing Index for March declined less than forecast, however February CPI rose only slightly more than forecast, alleviating concern about pressure on the Fed to accelerate the pace of rate increases

* NSA CPI, which determines inflation accruals on TIPS, rose more than forecast, spurring breakeven inflation rates higher after 5 days of oil-led declines

* USTs advanced during European trading amid gains for most euro-zone bond markets as polls showed drop in support for anti- EU party in Wednesday's Dutch elections

--With assistance from Edward Bolingbroke.

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