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Italian, Spanish Bonds Slide After Auctions; German Bunds Gain
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By Paul Dobson

Nov. 15 (Bloomberg) -- Italian and Spanish bonds led declines among the securities of Europe's most indebted nations as surging borrowing costs at auctions and concern the regional crisis is worsening sapped demand for the nations' assets.

Italy's 10-year yield climbed above 7 percent as premier- in-waiting Mario Monti faced political resistance on forming a cabinet for his so-called technocrat government. Spain sold less than its maximum target of debt at a bill sale today as financing costs increased. Greece and Belgium also auctioned bills. The extra yield investors demand to hold 10-year bonds from France, Belgium and Austria instead of similar-maturity German bunds all increased to euro-era records.

"It's a confidence crisis," said Elwin de Groot, senior market economist at Rabobank Nederland in Utrecht, Netherlands. "Investors have no confidence that the euro zone can solve its problems so they will look for the most safe place they can store their money, which is Germany, and everything else is suffering."

Italy's 10-year yield increased 34 basis points, or 0.34 percentage point, to 7.04 percent at 11:07 a.m. London time after rising to a euro-era record 7.48 percent on Nov. 9. The 4.75 percent bond due September 2021 slumped 2.13, or 21.30 euros per 1,000-euro face amount, to 84.725.

Ten-year Spanish yields climbed 21 basis points to 6.32 percent. The extra yield, or spread, over similar-maturity German bunds surged to a euro-era record 457 basis points from as low as 289 basis points on Oct. 11.

Spain Sale

Spain sold 3.16 billion euros of 12- and 18-month bills, less than its maximum target of 3.5 billion euros, the central bank said. The average yield on the 12-month securities climbed to 5.022 percent from 3.608 percent at the previous sale of the debt on Oct. 18. The 18-month bill yield climbed to 5.159 percent from 3.801 percent.

Spain is also planning to auction 4 billion euros of bonds due in 2022 in two days.

Greece sold 1.3 billion euros of 91-day bills at 4.63 percent, up from 4.61 percent at the previous offering. Belgium auctioned 2.73 billion euros bills, less than the 3.2 billion euros it planned to raise. The nation paid the highest yield in three years on one-year securities.

Monti struggled to form a Cabinet yesterday amid concern he will be unable to tame the sovereign-debt crisis. President Giorgio Napolitano offered him the post on Nov. 13, a day after Silvio Berlusconi resigned. He holds a final day of talks today.

'There's Fear'

“At this stage there’s fear,” said Achilleas Georgolopoulos, a fixed-income strategist at Lloyds Bank Corporate Markets in London. “You have the same disbelief about Italian politics and that’s apparent in Italian spreads widening today. Spain is following.”

The French-German yield spread expanded to as much as 185 basis points, a euro-era record. The Belgian-German spread reached 305 basis points, also the most since the euro was introduced in 1999. The extra yield investors demand to hold 10- year Austrian bonds rose to an all-time high 183 basis points.

Kokusai Asset Management Co.’s Global Sovereign Open, Japan’s biggest mutual fund, sold its entire holdings of Italian government bonds by Nov. 10, a weekly report from the fund shows. The securities had comprised 3.7 percent of the 2 trillion-yen portfolio a week ago, the report said.

German 10-year bonds gained, pushing the yield down three basis points to 1.75 percent after the Federal Statistics Office said economic growth accelerated last quarter. A separate report from the ZEW Center for European Economic Research showed German investor confidence fell to a three-year low in November.

Bunds have returned 9.1 percent this year, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies. Italian bonds have lost 8.4 percent, and Spanish securities have gained 0.2 percent.

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