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Spanish Bonds Fall on Concern Bailout Request Won't Stem Crisis
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By Lucy Meakin and Emma Charlton

June 11 (Bloomberg) -- Spanish bonds fell, reversing an advance, amid speculation that the nation's request for as much as 100 billion euros ($126 billion) of aid for its banks won't be enough to stop Europe's debt crisis from spreading.

Ten-year Spanish yields climbed for a second day on concern that investors holding the securities may rank behind official creditors in the queue for payment following the bailout.
Italian 10-year bond yields rose to the highest in a week as investors bet the nation is now at the frontline of Europe's debt crisis, raising pressure on Prime Minister Mario Monti's unelected government to avoid succumbing to a market rout.
German bunds pared an earlier decline.

"This bailout doesn't solve the euro-region debt crisis,"
said Christian Reicherter, a Frankfurt-based analyst at DZ Bank AG. "There is skepticism about whether the money is enough for the banks and whether the nation might also need help, and this will keep Spanish bonds under pressure."

Spain's 10-year bond yields advanced 13 basis points, or
0.13 percentage point, to 6.35 percent at 12:12 p.m. London time, after declining as much as 20 basis points. The 5.85 percent securities maturing in January 2022 fell 0.905, or 9.05 euros per 1,000 euro face amount, to 96.46.

Two-year note yields increased two basis points to 4.30 percent and 30-year rates rose 16 basis points to 6.63 percent.

Yields on Italian 10-year securities climbed 17 basis points to 5.94 percent, the most since June 4.

'Economic Problems'

Spain became the fourth euro member to seek a bailout since the debt crisis began almost three years ago after Spanish borrowing costs approached euro-era highs and the euro fell to an almost two-year low on June 1. The amount sought by the Iberian nation is about 2.7 times the funds deemed necessary for its banks by the International Monetary Fund in a report released on June 8.

Prime Minister Mariano Rajoy, who took office in December and denied the need for a banking bailout as recently as May 28, is trying to complete the cleanup of Spanish lenders after past efforts fell short. He's also faced with an economy in recession and an unemployment rate higher than 24 percent.

The bailout accord "takes the pressure off the Spanish government in the short term but Spain still has deep economic problems," said Lyn Graham-Taylor, a fixed-income strategist at Rabobank International in London.

Spain's Rescue

The statement on the aid, issued June 9, didn't make clear whether financing will come from the European Stability Mechanism, the region's permanent support fund, which will probably start operating in July, or the temporary European Financial Stability Facility.

If the cash were to come from the ESM, its treaty provides it with preferred creditor status, junior only to the IMF. The EFSF isn't explicitly a preferred creditor, prompting Finland's Finance Minister Jutta Urpilainen to demand collateral if the facility were used to advance the money.

German Finance Minister Wolfgang Schaeuble said in an interview with Deutschlandfunk radio that the government sees Spain's bailout coming from the ESM under the supervision of the so-called troika of outside creditors.

"There is a stigma attached to taking help because investors fear that they might be subordinated," said Rainer Guntermann, a fixed-income analyst at Commerzbank AG in Frankfurt. "We see a case for a short-term positive for Spanish bonds, although some of that is probably already in the price."

Ten-year German bund yields were two basis points higher at 1.35 percent, after climbing as much as 11 basis points.

Previous bailouts haven't succeeded in taming yields. The rate on Portugal's 10-year bond was 8.54 percent on April 6, 2011, the day it requested a bailout. By May 6, 2011 it had climbed to 9.56 percent and it breached 10 percent on June 8, 2011. Ireland's 10-year debt yielded 8.12 percent on Nov. 19, 2010, before the nation requested financial aid from the European Union and IMF. By the end of that year it had reached 9.06 percent.

German debt has returned 3.8 percent this year, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies, as investors sought a haven amid the deepening debt crisis.

Spanish securities have lost 3.1 percent, and Italian bonds rose 8.4 percent, the indexes show.

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