Spanish 2-Year Notes Advance a Fourth Day on Bailout Speculation

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Aug. 17 (Bloomberg) -- Spain's two-year notes advanced for a fourth day on speculation the nation will request a sovereign bailout that would trigger European Central Bank purchases of its government debt.

Spanish 10-year bonds outperformed all their euro-region peers, pushing yields to a six-week low. German 10-year bonds extended the biggest weekly decline this month after Chancellor Angela Merkel signaled support for the ECB's plan to insist on conditions in exchange for helping reduce indebted countries' borrowing costs. Spain's two-year yield may drop to 2 percent with ECB purchases, said Steven Major, HSBC Holdings Plc's head of fixed-income research.

ECB buying "would reinforce the rally in Spanish bonds," said Nick Stamenkovic, a fixed-income strategist at broker RIA Capital Markets in Edinburgh. "Given the fragile position of the Spanish economy, it looks almost inevitable Spain will require a bailout." Shorter-term securities are the "most attractive" maturities, he said.

Spain's two-year note yield slid 24 basis points, or 0.24 percentage point, to 3.75 percent at 10:57 a.m. London time, after reaching 3.72 percent, the lowest level since Aug. 7. The yield has fallen 45 basis points this week. The 4.75 percent security due in July 2014 rose 0.435, or 4.35 euros per 1,000-euro ($1,237) face amount, to 101.834.

'Time is Pressing'

Spain's 10-year yield dropped eight basis points to 6.44 percent, the least since July 5. The 10-year German bund yield rose two basis points to 1.54 percent, leaving it 16 basis points higher in the week.

The Stoxx Europe 600 Index rose 0.3 percent, heading for its 11th weekly rally. The euro advanced 0.1 percent to $1.2370.

"Obviously time is pressing" on stamping out the debt crisis, though "on many of these issues we feel we're on the right track," Merkel told reporters in Ottawa at a joint press conference with Canadian Prime Minister Stephen Harper yesterday. Euro-area policy makers "feel committed to do everything we can to maintain the common currency."

Spanish debt was the most volatile in euro-area markets today, followed by France, according to measures of 10-year bonds, the spread between two- and 10-year securities, and credit default swaps.

German debt returned 2.8 percent this year through yesterday, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies. Spanish securities lost 3.3 percent and Italy's debt made 10 percent.