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Treasuries Fall for Third Day as Yields Top 2% Before Auction
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By Cordell Eddings

Feb. 13 (Bloomberg) -- Treasuries fell for a third day, with yields on benchmark 10-year notes rising above 2 percent for the first time in a week, before the U.S. sells $24 billion of the securities in the second of three auctions this week.

Pre-auction trading of 10-year notes suggests the debt would be sold at the highest yield since March 2012. Treasuries extended losses after a report showed retail sales in the U.S. rose in January for a third consecutive month. Treasury, which sold $32 billion of three-year notes yesterday, will auction $16 billion of 30-year bonds tomorrow.

"The retail sales number and import prices were positive for the economy and weakened the bond market," Adrian Miller, director of fixed income strategies at GMP Securities LLC in New York, said in a telephone interview. "The auction is the primary catalyst on the day, and higher yields will help bring in demand at the auction, but it's too early to tell if we are going to drift much higher in yield."

The 10-year note yield rose four basis points, or 0.04 percentage point, to 2.02 percent as 9:53 a.m. in New York, according to Bloomberg Bond Trader prices. The 1.625 percent security due in November 2022 fell 10/32, or $3.13 per $1,000 face amount, to 96 18/32. The yield climbed to 2.06 percent on Feb. 4, the highest level since April 12.

The 10-year notes scheduled for sale today yielded 2.05 percent in pre-auction trading, compared with a nine-month high of 1.86 percent at the previous auction of the securities on Jan. 9. Investors submitted orders to buy 2.83 times the amount of available debt last month.

## Term Premium

"We are grinding slightly higher in yields as the 10-year note auction, and the setup for it, will be the main driver of the market," Guy LeBas, chief fixed-income strategist at Janney Montgomery Scott LLC in Philadelphia, said in a telephone interview. "Retail sales were strong, but we will continue to be stuck around these levels, reflecting low inflation and the slow economic growth trends that are firmly in place, until something changes."

The 10-year term premium, a model that includes expectations for interest rates, growth and inflation, was at the cheapest level since April. It touched minus 0.58 percent, the least expensive level since April 5, according to data compiled by Bloomberg. The measure dropped to a record minus 1.02 percent in July.

A negative reading indicates investors are willing to accept yields below what's considered fair value.

## Retail Sales

Retail sales increased 0.1 percent in December, Commerce Department figures showed. The advance matched the median forecast of 80 economists surveyed by Bloomberg.

Prices of goods imported into the U.S. rose 0.6 percent in January, led by more expensive fuel and building materials, Labor Department figures showed. Economists projected a 0.8 percent advance in January, according to the median forecast in a Bloomberg survey.

The Group of Seven's position on currencies could make it difficult for the Bank of Japan to purchase foreign bonds such as Treasuries to fight deflation and weaken the yen, an idea the ruling party has proposed, according to Barclays Plc. The G-7 released a statement yesterday that appeared to signal acceptance for Japanese policies that lead to a weaker currency, so long as Prime Minister Shinzo Abe's government doesn't actively pursue devaluation.

"It is causing a little concern in the marketplace today, but it's not a new issue," said Larry Milstein, managing director in New York of government-debt trading R.W. Pressprich & Co. "It depends how much of a political issue it becomes and how much saber rattling will happen on both sides."

## Finance Ministers

The yen has fallen about 15 percent against the dollar in three months as Abe presses the central bank for more action to beat deflation. While the outlook for the nation's exporters has improved, trading partners from Germany to South Korea have voiced their discomfort with Japanese policies.

Finance ministers and central bankers from the G-20, which includes the G-7 and emerging markets such as Brazil, China and India, meet in Moscow on Feb. 15-16.

The Bank of America Merrill Lynch U.S. Treasury Index showed the notes were little changed this month after handing investors a 1 percent loss in January, the worst start to a year since 2009. The bank's MOVE Index, which measures price swings based on options for U.S. debt, dropped to 59.8 basis points yesterday, the least since Jan. 24.

The Fed plans to buy today as much as $1.75 billion of Treasuries due from February 2036 to November 2042, according to the New York Fed's website. The central bank is purchasing $85 billion a month of government and mortgage debt in the third round of so-called quantitative easing.

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