Gilt Yields Rise Most in 6 Weeks on U.S. Payrolls, U.K. Services
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By Lucy Meakin and Lukanyo Mnyanda
May 3 (Bloomberg) -- U.K. government bonds declined, pushing up 10-year yields by the most in six weeks, as reports showed U.S. employers stepped up hiring in April and British service industries expanded.

Benchmark 10-year gilts snapped a two-day gain as the U.S. Labor Department also said the jobless rate in the world's largest economy unexpectedly declined to a four-year low, damping demand for safer assets. The pound rose against the dollar, extending a third weekly gain, as signs the U.K. economy is improving reduced speculation the Bank of England will add to monetary stimulus that tends to debase a currency.

"The move up in yields is on the back of the non-farm payrolls and I guess in particular the unemployment rate dropping again," said Elisabeth Afseth, a fixed-income analyst at Investec Bank Plc in London. "In the U.K., the data's been a little bit better. It's not the kind of background for testing new lows in yield."

The 10-year gilt yield climbed eight basis points, or 0.08 percentage point, to 1.71 percent at 2:48 p.m. London time, the biggest intraday increase since March 20. The 1.75 percent bond maturing in September 2022 fell 0.72, or 7.20 pounds per 1,000-pound face amount, to 100.38.

U.S. employers added 165,000 workers last month following a revised 138,000 increase in March that was larger than initially reported, the Labor Department said. The jobless rate fell to 7.5 percent from 7.6 percent. A gauge of U.K. services rose to 52.9 in April from 52.4, Markit Economics and the Chartered Institute of Purchasing and Supply said. Readings above 50 indicate expansion.

Annual Gain

Gilts returned 2.4 percent this year through yesterday, according to indexes compiled by Bloomberg and the European Federation of Financial Analysts Societies. German bonds gained 1.4 percent and Treasuries earned 1.2 percent.

The pound gained 0.3 percent to $1.5577, extending this week's advance to 0.6 percent. Sterling dropped 0.1 percent to 84.21 pence per euro.

The Bank of England's Monetary Policy Committee meets next on May 8-9. Governor Mervyn King has wanted to expand the U.K. central bank's 375 billion-pound asset-purchase target for three consecutive months and has been outvoted by a majority on the nine-member policy committee, minutes of their meetings show.

Net Shorts

Futures traders last week reduced bets the pound would weaken against the dollar, figures from the Washington-based Commodity Futures Trading Commission show.
The difference in the number of wagers by hedge funds and other large speculators on a decline in the pound compared with those on a gain, so-called net shorts, was 60,112 on April 23, versus 61,975 a week earlier, the commission said on April 26.
Standard Bank Plc recommended investors buy the pound against the euro, targeting a gain to 82.25 pence, Steven Barrow, head of Group-of-10 research in London, wrote today in a note to clients. Investors should exit the trade if sterling weakens to 86.50 pence, he wrote.
The pound has fallen 2.6 percent this year, the second-worst performer after the yen among the 10 developed-market currencies tracked by Bloomberg Correlation-Weighted Indexes. The euro rose 1.5 percent and the dollar gained 2.1 percent.

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--Editors: Nicholas Reynolds, Keith Jenkins

To contact the reporter on this story:
Lucy Meakin in London at +44-20-7673-2493 or
lmeakin1@bloomberg.net;
Lukanyo Mnyanda in Edinburgh at +44-131-301-5094 or
lmnyanda@bloomberg.net

To contact the editor responsible for this story:
Paul Dobson at +44-20-7673-2041 or
pdobson2@bloomberg.net