Bund Yields Rise Most in 4 Weeks as Europe Manufacturing Expands
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By Lucy Meakin and David Goodman

July 24 (Bloomberg) -- German government bonds fell, pushing up 10-year yields by the most in four weeks, as a report showing manufacturing in the euro area unexpectedly expanded in July damped demand for the region's safest assets.

The benchmark bund dropped for a second day as the survey of purchasing managers added to optimism the region is emerging from a record-long recession. Austrian, Dutch and French bonds also declined. Greek 10-year securities fell for a third day after the German Finance Ministry said yesterday an aid tranche payment to the nation had been delayed.

"There is classic risk-on, with bunds under pressure and peripherals rallying," said Michael Leister, a rates strategist at Commerzbank AG in London, referring to the securities of Europe's most-indebted nations. Euro-region "PMIs printed the first above-50 reading since July 2011."

Germany's 10-year yield rose nine basis points, or 0.09 percentage point, to 1.65 percent at 4:24 p.m. London time, the biggest one-day increase since June 20. The 1.5 percent bund maturing in May 2023 fell 0.845, or 8.45 euros per 1,000-euro ($1,323) face amount, to 98.695.

Austria's 10-year yield climbed eight basis points to 2.06 percent, similar-maturity Dutch yields increased seven basis points to 2.04 percent and French rates also rose six basis points, to 2.27 percent.

London-based Markit Economics said its euro-area manufacturing index increased to 50.1 this month from 48.8 in June. The reading was above the level of 50 that separates growth from contraction for the first time in two years.

Factory Output

Even as European factory output expanded, declining global trade may weigh on the region's recovery and the chances of a higher interest-rate environment, Annalisa Piazza, a fixed- income analyst at Newedge Group in London, wrote to clients.

A report from HSBC Holdings Plc and Markit Economics today showed China's manufacturing shrank more this month than economists predicted.

The European Central Bank, which has kept it benchmark interest rate at a record-low 0.5 percent since May to spur growth, next meets on Aug. 1

"We rule out that today's PMIs will lead to any change in the ECB policy stance at next week's governing council meeting," Piazza wrote. "We expect the ECB to keep policy at the current accommodative level and reiterate its forward guidance of keeping rates at current or lower levels for an extended period."

Greek Aid

Greek bonds fell after German Deputy Finance Minister Steffen Kampeter wrote in a letter yesterday that euro-area finance ministers have made payment of the latest Greek aid tranche dependent upon the nation's adherence to "further concrete measures."

The Greek 10-year yield climbed three basis points to 10.25 percent, having ranged between 8.10 percent and 13.04 percent this year.

Volatility on Austrian bonds was the highest in euro-area markets today followed by those of the Germany and Portugal, according to measures of 10-year debt, the yield spread between two- and 10-year securities, and credit-default swaps.

German bunds handed investors a loss of 0.8 percent this year through yesterday, according to Bloomberg World Bond Indexes. Dutch bonds also dropped 0.8 percent, while French securities fell 0.4 percent.

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