Treasuries Fall Before Five-Year Sale Today, GDP Data Tomorrow
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By Emma Charlton and David Goodman

Aug. 28 (Bloomberg) -- Treasuries fell, with five-year notes halting a three-day advance, before the U.S. sells $35 billion of the securities today in the second of three auctions of coupon-bearing debt this week.

Benchmark 10-year yields climbed from the lowest level in almost two weeks before a government report tomorrow forecast to show the economy grew more last quarter than earlier estimated, backing the case for the Federal Reserve to slow stimulus. Treasuries have gained this week as speculation that the U.S. and its allies will take military action against Syria boosted demand for the safest assets.

“Treasuries have rallied on safe-haven flows but appear to taking a pause for breath ahead of supply,” said Nick Stamenkovic, a strategist at RIA Capital Markets Ltd. in Edinburgh. Tapering “fears are also at the forefront of investors’ minds. Hence further gains in Treasuries may be limited near-term.”

The U.S. five-year yield rose two basis points, or 0.02 percentage point, to 1.55 percent at 7:21 a.m. in New York after dropping 16 basis points during the previous three days, according to Bloomberg Bond Trader prices. The 1.375 percent note maturing in July 2018 fell 3/32, or 94 cents per $1,000 face value, to 99 7/32.

The 10-year yield climbed three basis points to 2.73 percent after falling to 2.70 percent, the lowest since Aug. 15.

Growth Quickens

Gross domestic product grew at a 2.2 percent annualized rate in the second quarter, compared with an initial estimate of 1.7 percent released July 31, according a Bloomberg survey before tomorrow’s Commerce Department report. Initial jobless claims fell by 5,000 to 331,000 last week, a separate survey showed before the Labor Department data also tomorrow.

U.S. employers added 170,000 workers this month, and the unemployment rate held at 7.4 percent, according to economists surveyed before the Labor Department report on Sept. 6.

“The focus is already shifting to the payrolls number,” said Tony Morriss, head of interest-rate research at Australia & New Zealand Banking Group Ltd. in Sydney. This is “important in shaping expectations not only of the taper in September, which almost looks to be a done deal, but on projecting when the Fed might have sufficient confidence in the recovery to eventually lift short-term interest rates."

'Syrian Strike'

Treasuries rose yesterday amid speculation the U.S., France and Britain are moving closer to military action against Syria after the nation's government allegedly used chemical weapons. A United Nations team is on the ground to gather evidence to establish use of chemical warfare, Secretary-General Ban Ki Moon said today. Syrian President Bashar al-Assad's government has denied the use of chemical weapons.

"A Syrian strike should be expected," Societe Generale SA strategists including Vincent Chaigneau in Paris, wrote in a note to clients today. "We've put our more bearish views on Treasuries and bund duration in abeyance for now as we weather this week's storms."

The five-year notes being sold today yielded 1.58 percent in pre-auction trading, compared with 1.41 percent at the previous sale on July 24. The bid-to-cover ratio, which gauges demand by comparing total bids with the amount of securities offered, was 2.46 last month, compared with an average of 2.8 for the previous 10 sales.

The Treasury will auction $29 billion of seven-year debt tomorrow after selling $34 billion of two-year notes yesterday.

Primary Dealers

The two-year auction drew a yield of 0.386 percent, compared with a forecast of 0.39 percent in a Bloomberg News survey of seven of the Federal Reserve's 21 primary dealers. The bid-to-cover ratio rose to 3.21, the highest since April.

Treasuries have lost 0.6 percent in the past month through yesterday, according to the Bloomberg World Bond Indexes. German bunds dropped 0.8 percent and U.K. gilts fell 0.5 percent.

The U.S. central bank will purchase as much as $3.5 billion of notes maturing from November 2020 to August 2023 today, according to the New York Fed's website. Debate about when policy makers will taper $85 billion in monthly bond buying has roiled financial markets around the world in the past three months and sparked a selloff in fixed-income assets.

The Fed will probably reduce its purchases of Treasuries rather than mortgage bonds, Mohamed El-Erian, chief executive officer of Pacific Investment Management Co., which oversees world's biggest bond fund, said in a Bloomberg Television interview yesterday.

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