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Treasuries Advance for Second Day Amid Bets Fed to Delay Taper
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By Susanne Walker and David Goodman

Oct. 23 (Bloomberg) -- Treasuries rose for a second day, with 10-year yields dropping to the lowest level in three months, amid speculation the Federal Reserve will push back plans to trim its bond-purchase program.

U.S. government debt rallied the most in a month yesterday after a report showed U.S. payrolls climbed in September less than analysts projected. The data signal that the economy had little momentum leading up to the partial federal government shutdown that President Barack Obama's chief economic adviser said trimmed 0.25 percentage point from fourth-quarter economic growth and cost the U.S. 120,000 jobs in October. Stocks fell as borrowing costs for Chinese banks jumped.

"If we continue to get poor numbers, 2.4 percent is the level on 10s everyone is thinking about," said Thomas Roth, senior Treasury trader in New York at Mitsubishi UFJ Securities USA Inc. "We've had quite a rally. The market is certainly positioned for that -- no tapering until March."

The benchmark U.S. 10-year yield slipped two basis points, or 0.02 percentage point, to 2.50 percent as of 10:14 a.m. New York time, according to Bloomberg Bond Trader data. It earlier touched 2.48 percent, the lowest level since July 23. The 2.5 percent note due in August 2023 rose 1/8, or $1.25 per $1,000 face amount, to 100.

The yield fell nine basis points yesterday, the most since Sept. 18.

Term Premium

Treasuries are the most expensive in four months, based on the term premium, a model that includes expectations for interest rates, growth and inflation. The gauge was 0.15 percent, the lowest level since June 19. It has declined from this year's high of 0.63 percent set on Sept. 5, signaling the cheapest levels of 2013. A positive reading indicates investors are getting yields that are above what is considered fair value.

Volatility in Treasuries as measured by the Bank of America Merrill Lynch MOVE index yesterday dropped to 63, the lowest level since May 21. The index, which reached a record low of 49 on May 9, climbed to 114 on Sept. 5, the highest level since July.

Treasuries have returned 0.6 percent this month, according to the Bloomberg US Treasury Bond Index, paring its loss this year to 1.84 percent. The gauge added 0.4 percent yesterday, the most since Sept. 18. The Bloomberg Global Developed Sovereign Bond Index gained 1.17 percent this month, limiting its 2013 decline to 2.19 percent.

Lower Yields

"This market can continue to grind its way to lower yields," said Justin Lederer, an interest-rate strategist at Cantor Fitzgerald LP in New York, one of 21 primary dealers that trade with the Fed. Tapering won't happen "at least till March.
The economy is definitely not that strong. It doesn't justify significantly higher yields."

An analysis of daily and weekly economic data through Oct.
12 showed weakness in such areas as retail sales, economic confidence and mortgage applications, some of which was directly related to the shutdown, said Jason Furman, head of the Council of Economic Advisers.

U.S. payrolls grew by 148,000 in September, versus the median forecast of a 180,000 advance by 93 economists in a Bloomberg News survey. The gain followed a revised 193,000 rise in August that was bigger than initially estimated, Labor Department figures showed yesterday in Washington.

The jobs report, delayed by the 16-day shutdown that ended on Oct. 17, was originally slated for Oct. 4.

China Rate

China's benchmark money-market rate rose the most since July as the central bank refrained from adding funds to markets and corporate tax payments drained cash.

The seven-day repurchase rate, a gauge of funding availability in the banking system, surged 47 basis points to
4.05 percent as of 4:21 p.m. in Shanghai, according to a weighted average compiled by the National Interbank Funding Center. That was the biggest advance since July 29. The overnight repo rate jumped 72 basis points, the most since June 20, to 3.80 percent.

Traders are pricing in a 26 percent probability that the Fed will raise its benchmark overnight rate by its January 2015 meeting, down from 43 percent a month ago.

Economists predict the Fed will maintain its $85 billion of monthly bond purchases until March, according to a Bloomberg survey conducted on Oct. 17-18. The central bank today is scheduled to purchase up to $3.5 billion in notes maturing between November 2020 and August 2023.

Before the shutdown, most policy makers said the central bank would probably reduce bond purchases this year. The Fed's next two policy meetings are Oct. 29-30 and Dec. 17-18.

"With job growth being quite soft, and some weakness coming up due to the government shutdown, it's pretty clear tapering is going to be pushed into next year," said Allan von Mehren, chief analyst at Danske Bank A/S in Copenhagen. "That's what the market is pricing in now. For now yields can go a little bit lower, with 10-year yields potentially going toward
2.40 percent."

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