Traders Rush Out of Treasuries on Optimism About U.S. Stimulus

2020-12-01 19:21:06.483 GMT

By Vivien Lou Chen and Edward Bolingbroke

(Bloomberg) -- Investors dumped Treasuries amid a glimmer of hope that the U.S. Congress will reach an economic-stimulus compromise, driving yields up across the curve.

Rates on 30-year bonds spiked as high as 1.677% on Tuesday, up more than 10 basis points for the day, while yields surged across the curve as traders shifted to riskier assets like stocks. The yield on 10-year notes reached 0.936%, the highest level in more than two weeks, while the 10-year breakeven rate -- a proxy for expected inflation derived from Treasury prices -- touched 1.83%, a level last seen in May 2019.

After efforts to prop up the virus-ravaged U.S. economy stalled for months, a group of Democratic and Republican lawmakers revealed a $908 billion stimulus proposal Tuesday. Getting it approved is far from assured. If it does pan out, that could prompt more money to move out of the safety of U.S. debt into stocks, accelerating a shift that began in November when the Dow Jones Industrial Average enjoyed its best month since 1987 amid promising Covid-19 vaccine news.

“Treasury yields are playing catch-up with the enthusiasm in the rest of the market, and it appears the impetus for additional fiscal spending is the catalyst for rising rates today,” said Charles Ripley, an Allianz Investment Management strategist who is based near Minneapolis.

The shift in sentiment also drove down the dollar. Against the euro, the U.S. currency hit the weakest level since May 2018.

Hedge funds and other leveraged investors may have been caught flat-footed by Tuesday's move. In the week that ended Nov. 24, they'd slashed short bets against long-term Treasuries by the most since the first quarter, according to U.S. Commodity Futures Trading Commission data released Monday.

--With assistance from Stephen Spratt.

To contact the reporters on this story:
Vivien Lou Chen in San Francisco at vchen1@bloomberg.net;
Edward Bolingbroke in New York at ebolingbrok1@bloomberg.net
To contact the editors responsible for this story:
Benjamin Purvis at bpurvis@bloomberg.net
Nick Baker, Mark Tannenbaum