

Economics 325
Intermediate Macroeconomic Analysis
Supplement 5
Professor Sanjay Chugh
Fall 2011

The following *Wall Street Journal* article, published online September 2, 2011, paints yet another view of a lower and falling long-term U.S. government Treasury rates, despite the lowering by S&P 500 of the U.S. debt position. All else equal, this particular reason (the labor market apparently not growing well) is not a good reason, but nonetheless.

SEPTEMBER 2, 2011

Yields on Haven Bonds Near Historic Lows

By MIN ZENG

NEW YORK—A weak U.S. jobs report and continued worries over the euro zone's sovereign debt problems sparked a rush into safe-haven government bonds from the U.S., Germany and the U.K.

The benchmark U.S. 10-year Treasury yield dropped to near 2% and within 0.06 percentage points of a historic low set last month. In Germany, the 10-year yield tumbled to a fresh record low of 1.964%, based on data from CQG, while the yield on the 10-year U.K. gilt yield fell near an all-time trough. Bond yields move inversely to their prices.

A key driver of Friday's move was the U.S. jobs report, which showed no increase in nonfarm payrolls in August. Increased worries that the U.S. is headed toward a recession in return raised speculation that the Federal Reserve may take more measures aimed at stimulating the economy when it meets to set interest-rate policy later this month.

"Everything is on the table" at the Fed's next meeting, said Bob Auwaerter, head of fixed income at Vanguard. The jobs number "was a real game-changer and it shows that there's absolutely no traction in the marketplace in terms of growth," he said.

One option gathering increasing buzz in financial markets is that the Fed could sell short-dated securities and buy long-dated Treasuries, using proceeds from maturing Treasury and mortgage-backed bonds holdings. The thinking is that this could reduce long-term borrowing costs for U.S. consumers and businesses.

Such hopes have sparked strong buying in long-dated Treasury bonds in recent weeks. On Friday, these maturities again outperformed short-dated notes, and the 30-year bond was the best performer.

That shrunk the yield premium of the 10-year Treasury note over the two-year note to the smallest in more than two years. Known as a flattening yield curve, it was a sign of heightened fears about a recession in the U.S. and more actions from the Fed.

"There was no silver lining in the jobs report," said Russ Certo, head of rates trading at Gleacher & Co., a boutique investment bank and bond dealer. "We are getting closer to the mark" where the Fed may provide further stimulus and long-dated Treasuries are likely to continue to outperform short-dated notes.

In midday trading, the benchmark 10-year Treasury note rose 30/32 to yield 2.038%. The 30-year bond was 2 31/32 higher to yield 3.361%. In contrast, the two-year note was 1/32 lower to yield 0.204%.

The 10-year yield touched 2.020% earlier in the day. That was near 1.974% hit on Aug. 18, the lowest level in at least 50 years.

The rally added to one of the biggest bull runs in the Treasury market; both the 10-year and 30-year yields plunged more than 0.50 percentage point in August. The 10-year yield has dropped from 3.77% in February.

Fears about the economy have been fueled in recent weeks on a slew of disappointing data from major economies, including the U.S., Germany, China and Canada.

The euro zone's sovereign-debt problems also showed no signs of easing. In recent sessions, concerns have risen that Italy may fail to meet its deficit-reduction target by 2013 and that the new bailout for Greece may unravel. Funding stress for euro zone's banking system has risen in recent weeks and shares of many big banks in the region, French banks in particular, have sold off due to worries about their exposures to public debt in Greece.

Friday, yields on government bonds in Greece, Spain and Italy climbed as many investors sold these securities and sought haven in German bunds and U.S. Treasury bonds.

"The news is just getting worse, worse and worse," said Charles Comiskey, head of Treasury trading at Bank of Nova Scotia.

Write to Min Zeng at min.zeng@dowjones.com

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