Bond prices nudge higher on US fiscal muddle | Forex, Pakistan

Written by Shumaila Ahmed
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<p>NEW YORK: US Treasuries prices rose on a safety bid on Thursday as the absence of progress in the budget talks in Washington raised the stakes that a package of tax hikes and spending cuts will take effect next year and tip the economy back into recession. As a year-end deadline looms on the "fiscal cliff," Republicans in the U.S House of Representatives pushed ahead on Thursday with a budget proposal that President Barack Obama has vowed to veto.

{loadposition content_adsense300}The Republican plan would raise taxes only on people making more than $1 million a year. It appeared likely to pass the House on Thursday night, though Senate Majority Leader Harry Reid said he will not bring it up for a vote in the Democratic-controlled chamber.

In a light, choppy session, price gains were capped as investors sold bonds to make room for this week's $113 billion in longer-dated government bond supply.

"The market is taking a breather with all the supply. Now the focus is back on the fiscal cliff," said Mike Lorizio, head of Treasuries trading at Manulife Asset Management in Boston. Investor appetite for the new supply in low-risk US government debt was underscored by a strong $14 billion auction of five-year Treasury inflation protected securities (TIPS) , which fetched a record negative yield of 1.496 percent.

A couple of huge blocks of five-year Treasury futures were sold just before the TIPS auction, which some analysts attributed to positioning to make room for the TIPS supply.

With the Federal Reserve's continued bond purchases to help the US economy and its hint of tolerating higher inflation as it attempts to lower unemployment, some fund managers said buying TIPS even at negative yields is profitable and a hedge against higher inflation in the coming years.

"It's one of the easier buy in the market right now," said Tom Graff, portfolio manager at Brown Advisory in Baltimore.

In the cash market, benchmark 10-year Treasury notes rose 2/32 in price, their yields easing to 1.798 percent, down 0.9 basis point from late on Wednesday.

Two days ago, the 10-year yield rose to an eight-week high of 1.847 percent on rising optimism that the White House and Congress were moving closer to a deal on the federal budget. Economic data on Thursday showing a jump in sales of existing homes and a notable improvement in manufacturing in the mid-Atlantic region was overshadowed by the preoccupation with the fiscal cliff.

Most bond managers and strategists said the current 10-year yield might have hit a top and could move lower, especially if the package of tax hikes and spending cuts goes into effect next year with no amelioration.

"This market is going through a tug of war," said Robert Tipp, chief investment strategist with Prudential Fixed Income in Newark, New Jersey. "We're seeing better underlying data in the US and yet the market is holding narrow gains on the day."

In addition, the Federal Reserve will remain a major buyer of Treasuries into 2013 as it aims to hold down mortgage rates and other long-term borrowing costs in a bid to stimulate the economy.

As part of that effort, the Fed on Thursday bought $1.73 billion of Treasuries maturing February 2023 through February 2031, followed by a $7.42 billion sale of its short-dated debt holding.

These moves are linked to the Fed's "Operation Twist" that will wind down next week.</p> <p>�</p> <p>Courtesy: Business Recorder</p>