



Treasury Auction Hands Investors \$238 Million as Fed Eases

Jan. 26 (Bloomberg) -- Investors who snapped up the Treasury's \$35 billion auction of five-year notes saw the assets soar as much as \$238 million after the Federal Reserve pledged to keep interest rates low at least through late 2014.

The securities were auctioned yesterday at higher-than-average demand to yield 0.899 percent before touching a record 0.7601 percent in less than two hours. Stock and bond markets rallied after the central bank extended its previous pledge to keep borrowing costs low at least until the middle of 2013. Fed officials reduced their forecasts for economic growth and price increases this year and in 2013.

"They took risk," Scott Sherman, an interest-rate strategist in New York Credit Suisse Group AG, one of Fed's 21 primary dealers required to bid at the sale, said of the investors who profited from the auction. "The statement could have had contained something much more bearish and they would have taken it on the chin. They accepted that risk and it ended up working out for them."

The Treasury's five-year notes auction yield compared with a forecast of 0.919 percent in a Bloomberg News survey of 10 primary dealers. The bid-to-cover ratio, which gauges demand by comparing total bids with the amount of securities offered, was 3.17, the highest since May, versus an average of 2.863 for the previous 10 sales.

Fed Purchases

Indirect bidders, an investor class that includes foreign central banks, purchased 43.4 percent of the notes, compared with an average of 43.7 percent for the past 10 sales. Direct bidders, non-primary-dealer investors that place their bids directly with the Treasury, purchased 15.1 percent of the notes, compared with an average of 11.3 percent at the last 10 auctions.

Fed Chairman Ben S. Bernanke also said the bank is considering additional asset purchases to boost economic growth.

Policy makers are “prepared to provide further monetary accommodation if employment is not making sufficient progress towards our assessment of its maximum level, or if inflation shows signs of moving further below its mandate-consistent rate,” Bernanke said yesterday at a news conference after a Federal Open Market Committee meeting in Washington. Bond buying is “an option that’s certainly on the table.”

The Standard & Poor’s 500 Index climbed 0.9 percent yesterday, the biggest increase in five days and reached the highest level since July 27. The stock index fell 0.4 percent at 1:38 p.m. in New York. The yield on the current five-year note fell five basis points to 0.76 percent after touching a record low earlier.

Seven-Year Auction

“The likelihood of the Fed surprising us in the other direction was really unlikely.” Mark MacQueen, partner and portfolio manager in Austin, Texas, at Sage Advisory Services Ltd., which oversees \$10 billion, said today in a telephone interview. “I don’t see how much clearer the Fed has to be in telling us that they plan to keep monetary policy easy.”

The five-year auction was the second of three note sales totaling \$99 billion this week. The U.S. sold \$35 billion of two-year notes on Jan. 24 and auctioned \$29 billion of seven-year securities at a record low yield today.

The seven-year debt drew a yield of 1.359 percent, compared with a forecast of 1.346 percent in a Bloomberg News survey of eight of the Fed’s 21 primary dealers.

Dealers bought 56.6 percent of the securities, compared with an average of 46.7 percent in the past 10 auctions, according to data compiled by Bloomberg.

“It was light non-dealer bidding, which is what I would emphasize,” Ian Lyngen, a government-bond strategist at CRT Capital Group LLC in Stamford, Connecticut, said in a telephone interview. “Dealers had to step up to take down an auction on a day when the market had been rallying, making the set up a bit more difficult. The Fed and the bullish series of events associated with that brought the seven-year down to its lowest on record.”

--With assistance from Susanne Walker and Cordell Eddings in New York. Editors: Kenneth Pringle, Dave Liedtka

To contact the reporter on this story: John Detrixhe in New York at jdetrixe1@bloomberg.net

To contact the editor responsible for this story: Dave Liedtka at dliedtka@bloomberg.net