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DOW JONES NEWSWIRESSM

Treasurys Slip As Market Muses Fed Might Only Trim Rates

By John Parry, 01/23/2001

NEW YORK -(Dow Jones)- Confidence among Treasurys market participants ebbed somewhat Tuesday as hopes for a 50 basis-points rate cut this month lessened.

Remarks from Fed officials about the solidity of credit markets, along with a report published on Market News, were taken by market participants as signs that the Fed might trim rates, rather than chop them, at an upcoming policy meeting.

As a result, U.S. government securities prices fell across the curve.

At 3:45 p.m. EST the 10-year Treasury, a de facto benchmark, was at 103 17/32, down 13/32. Its yield rose five basis points to 5.28%.

At the longer end of the Treasurys curve, the 30-year Treasury was at 108 19/32, down 20/32. Its yield rose four basis points to 5.65%.

Among shorter Treasurys maturities, the yield on the two-year note rose eight basis points to 4.82%, while the yield on the five-year note rose eight basis points to 4.93%. Bond yields and prices move inversely to each other.

Remarks Tuesday by Federal Reserve Bank of New York President William McDonough that he didn't see problems in the U.S. financial system, reduced bond market participants willingness to bet on a Fed rate cut of 50 basis points at the end of the month, said Tony Crescenzi, CEO of Bondtalk.com.

McDonough's remarks came against a notable "lack of panic in the tone" of Federal Reserve speakers' recent remarks about the U.S. economy's slowdown and its credit markets, Crescenzi said.

"We believe the financial system in the U.S. is very solid and very capitalized," McDonough said, speaking in Brussels Tuesday. "We don't see any risks in it," he added.

Increased confidence in the state of U.S. credit markets outside the U.S. government securities sector lessened the appeal of U.S. government securities "since the use for Treasurys (as a safe haven) in that environment is less," said **Mark MacQueen**, executive vice president of Sage Advisory Services in Austin, Texas.

Another clue to what Fed policymakers might be thinking, ahead of the bond market's key appointment this week - a Congressional testimony by Fed Chairman Alan Greenspan Thursday - came from a Market News report Tuesday.

The report said there was a chance the FOMC might be inclined to cut short-term interest rates by just 25 basis points at the end of January. Fixed-income strategists said the report was the trigger for Treasurys, which had already priced in a 50 basis-points cut for the most part, to retreat Tuesday afternoon.

The news report "did take some of the wind out of the Treasurys market's sails, especially on a day when there were few economic data reports for the market to trade off," said Kevin Flanagan, fixed-income strategist at Morgan Stanley Dean Witter in New York.

Treasurys had advanced strongly over the last three months and since they were so highly priced were long overdue for a correction, strategists noted.

In yield terms, the sell-off was most marked among shorter-dated securities, partly because the market was "selling off into the two-year Treasury note auction" scheduled for Wednesday, which will bring a new chunk of supply in shorter maturities of Treasurys to market, said Gemma Wright, director of market strategy at Barclays Capital in New York.

In addition, remarks made by Federal Reserve Bank of Atlanta President Jack Guynn in a speech on Tuesday that there was "some immediate effect" in the economy of the Fed's 50-basis point rate cut at the start of January led to "a decline in (market) expectations that Fed will cut (a further) 100 basis points very rapidly," said MacQueen of Sage Advisory Services.

In Chicago, the 30-year bond futures contract for March delivery broke below a 102.20 support level for the first time since early December, closing at 102.19.

"It snowballed and caught some people short," one bond futures trader said of the contract's fall in afternoon trade.

Among upcoming nongovernment bond issuance, Ford Motor Credit Co. will test investor appetite with the announced sale of at least \$5 billion in global debt this week, the company's first jumbo corporate bond offering since last summer's Firestone tire recall. When those deals price, Treasurys could come under pressure as investors sell government bonds to make room for the new supply.

During Tuesday's morning session the Federal Reserve Bank of New York confirmed it was buying outright U.S. Treasury securities maturing July 15, 2002, through April 15, 2029, paying \$481 million, but that small operation hardly affected Treasurys prices.

The Fed exclusively bought Treasurys Inflation Protected Securities, or TIPS.

5 1/8%	2-year	100 18/32	dn	5/32	4.82%
5 3/4%	5-year	103 15/32	dn	12/32	4.93%
5 3/4%	10-year	103 17/32	dn	13/32	5.28%
6 1/4%	30-year	108 19/32	dn	20/32	5.65%

2-30-Yr Yield Spread: 83 BPS Vs 87 BPS