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US Corp Bonds - Spreads wider after jobs report

Reuters, 05.07.04, 4:08 PM ET

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NEW YORK, May 7 (Reuters) - U.S. corporate bond spreads extended two weeks of widening on Friday after a stronger than expected jobs report stoked worries of Federal Reserve rate hikes and higher borrowing costs.

"You have people concerned that the Fed will choke off growth," said Thomas Urano, who helps manage over \$3 billion of bonds at Sage Advisory Services in Austin, Texas.

Over the last two weeks, corporate bonds spreads have retreated from their tightest levels since 1998.

Most of Friday's spread widening took place immediately after the 8:30 a.m. EDT (1230 GMT) jobs report, but spreads took back much of their widening as the day wore on, suggesting that higher yields and wider spreads are drawing investors into the market, a trader said.

Ford Motor Credit Co. 7 percent notes of 2013 widened 0.05 percentage points to 2.35 percentage points. Ford Credit is a unit of Ford Motor Co. (nyse: [F](#) - [news](#) - [people](#)).

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One portfolio manager eyeing corporate bonds now is Patrick Fry, who helps manage \$2 billion of fixed income assets at Associated Investment Management in Green Bay, Wisconsin.

"We're still fairly optimistic about the economy, so we don't expect spreads to blow out now. It's not a buying opportunity for us yet, but it could be soon," Fry said.

A report early on Friday said the economy added 288,000 jobs in April, well above expectations of 173,000.

The report sent 10-year Treasury <US10YT=RR> yields above 4.75 percent for the first time since July 2002. Eurodollar futures now price in a 90 percent chance of a 25 basis point rise in the fed funds rate by the end of June.

Higher fed funds rates, combined with widening swap spreads, will translate to higher short-term borrowing rates for financial companies, potentially cutting into profits.

That has punished the usually sleepy financial sector in recent weeks. Spreads on Morgan Stanley 4.75 percent notes of 2014 widened 0.01 percentage points to 1.25 percentage points on Friday, and have widened 0.22 percentage points since April 27, according to MarketAxess.

To see upcoming and recent corporate bond sales, click on [nNEUBD4].

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