

BOND REPORT

Treasurys gain on gloomy U.S. data


Readings on home prices, consumer confidence remain negative

By [Deborah Levine](#), MarketWatch

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NEW YORK (MarketWatch) -- Treasury prices advanced Tuesday, pushing yields down to the lowest in more than a week, after a pair of economic reports showing no respite for the retreat in U.S. home prices as well as a bigger-than-anticipated drop in consumer confidence.

Bond traders also awaited Wednesday's decision on U.S. interest rates from the Federal Open Market Committee.

Ten-year note yields (UST10Y:  4.14, -0.03, -0.6%) fell 7 basis points to 4.09%, the lowest since June 12. A basis point is one one-hundredth of a percentage point.

Standard & Poor's Case-Shiller index tracking changes in house prices in 20 metropolitan areas fell 15.3% in the year through April, wiping out four years of price appreciation and worse than the 14.4% decline seen for the 12 months running through March. [See full story.](#)

Separately, the Conference Board's consumer confidence index showed a decline to 50.4 in June, the lowest since 1992, down from 58.1 in the previous month. Economists surveyed by MarketWatch had expected the index to decline, but just to 56. [See related news.](#)



"The data confirm growth is very anemic at best, if not recession-like," said Mark MacQueen, co-founder of Sage Advisory Services, which oversees \$6.5 billion in assets. "As long as the economy is weak, the Federal Reserve is going to be hesitant to raise rates" -- a positive for Treasurys.

Fed officials have highlighted concerns about price increases and inflation expectations in recent speeches on the economy, which markets have interpreted as signaling intent to increase borrowing costs in the near future.

Analysts widely expect the FOMC to keep the target for overnight loans between banks at 2% when their two-day meeting winds up Wednesday.

'Setting up for a relief bid'

Meanwhile, futures traders pared back on their bets that the Fed will raise rates in coming months. The FOMC has meetings scheduled for Aug. 5, Sept. 16, Oct. 28-29 and Dec. 16, according to the Fed's Web site.

The August futures contract shows a 43% chance of a quarter-point hike that month. Futures also indicate a 61% chance that the target rate will rise to 2.75% by November.

"Our general bias [is] for the FOMC to produce a statement which is less hawkish

a research note. "We see the market setting up for a relief bid."

Treasurys rose earlier due to rumors of an attack on Iran, which have since been denied, analysts said.

Government debt stayed higher after the Treasury Department sold \$30 billion in two-year notes to yield 2.922%.



The auction drew \$2.64 for every dollar sold, the highest so-called bid-to-cover ratio since October's sale.

The amount matches the last two monthly sales as the most for the maturity since at least 1997. Selling more debt at once tends to push up the yield to attract enough bidders.

Yields on the most recently issued two-year note (UST2YR: 2.91, -0.04, -1.3%) fell 12 basis points to 2.82%, the lowest since June 11. Prices move inversely to yield.

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