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## Treasurys Stage Massive Rally

*Banking Upheaval  
Drives Investors  
To Safety Zone*

By MIN ZENG

Treasurys staged a massive rally Monday, with global investors seeking safety in the world's most liquid asset class as two major U.S. investment banks faded into history.

Short-dated Treasurys led the rally, with the bond equivalent yield on three-month Treasury bills dropping more than half a percentage point to 0.864%, though that is still above the five-decade low set in March.

Two-year yields fell below the fed-funds target rate of 2% and, at 1.788%, reached the lowest levels since April.

The benchmark 10-year note's price surged more than two points, or \$20 for every \$1,000 invested, to yield 3.482%. Bond prices rise when yields fall.

Investors dumped global stocks and other risky assets and returned to the comfort of government debt in the U.S., the euro zone and the U.K. amid widespread credit fears.

Rate future traders raised their bets of a rate cut Tuesday by the Federal Reserve.

"Treasurys got a fear bid and they are going to stay expensive," said Mark MacQueen, portfolio manager at Sage Advisory Services Ltd.

Short-term funding markets were under stress as banks tightened lending to each other.

At one point, fed funds traded a whopping 4.50 percentage points above the Fed's 2.0% target, prompting the central bank to inject \$50 billion in additional liquidity.

With markets swamped with funds, the rate fell to 1.25% by session end.

The three-month Libor/OIS spread, a gauge of stress in the money markets, widened to 1.056 points from 0.845 point Friday, its widest since December, when the gap hit a record high above 1.10 points amid year-end funding strains. The gap measures the difference between the three-month dollar Libor rate and the overnight index swap rate, a reflection of market expectations for fed funds.

In the key securities repurchase markets, where market participants borrow against collateral, demand for Treasurys jumped as investors braced themselves for an unwind of Lehman's borrowings.

The outstanding amount Lehman owed under tri-party repurchase agreements, in which a custodian bank or clearing organization acts as an intermediary between the firm and

its funding counterparties, stood at \$188 billion as of May 31, 2008, according to a Lehman document.

"It could exacerbate some of the liquidity problems depending on how the things get unwound," said Carl Lantz, an interest-rate strategist at Credit Suisse Securities USA LLC.

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