MarketWatch

Eurozone's bond selloff spills over into Treasurys

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Treasury prices fell sharply on Tuesday, driving yields higher, as a selloff in eurozone government bonds that followed stronger-than-expected inflation data spilled over in to U.S. rates markets.

As government bond yields throughout the eurozone rose between 10 to 16 basis points, with the yield on the 10-year benchmark German bond, known as the bund, gaining 16.1 basis points to 0.679%, Treasury yields rose in sympathy.

The yield on the 10-year benchmark Treasury note rose 6.9 basis points to 2.261% on the day, according to data from Tradeweb.

The yield on the two-year note increased 1.6 basis points to 0.665%, and the 30-year bond yield rose 6.7 basis points to 3.020%.

Bond yields rise when prices fall, and vice versa.

The Treasury selloff persisted even as the U.S. Commerce Department announced on Tuesday that orders for goods produced in U.S. factories slipped 0.4% in April, marking the eighth decline in nine months.

Tuesday's data falls within the recent trend of mixed reports that indicate lackluster growth in the second quarter, after a dismal revision of first-quarter gross domestic product on Friday, which showed that the U.S. economy shrank in the first quarter.

Recent U.S. fundamentals “do not support enough enthusiasm for growth potential” that would lead yields to rise substantially, said Tim Courtney, chief investment officer of Exencial Wealth Advisors.

Conversely, in Europe “it is safe to say that the upper movement in yields has been caused by good news on real growth,” Courtney said. This means that the eurozone’s rates market, which is teetering on zero growth expectations for a while, is finally pricing in a slow recovery, he added.

Over the past month, the eurozone’s market has been leading the way and dragging Treasurys along, as U.S. investors still have little clarity on when the data-dependent Federal Reserve will make its first interest-rate hike in almost a decade.

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On Monday, investors shed bonds in favor of riskier assets on news of strong manufacturing and construction spending. Now the market is bracing for the official jobs report, due Friday.

“While we began the week with some fairly upbeat news on the economy, it hasn’t moved the needle much on when the Federal Reserve will begin to raise rates. The latest metrics are encouraging, but the Fed has not yet seen sufficient evidence that its favored inflation measure is moving any closer to the 2% target,” **Bernard Baumohl, chief global economics at The Economic Outlook Group**, said in a note.

Meanwhile, the ongoing Greek bailout saga continued to weigh on global markets, as the cash-strapped country faces four IMF loan-repayment deadlines totaling 1.5 billion euros ($1.63 billion) in the space of two weeks, with the first due on Friday.

News that Greece’s creditors have reached a consensus on the terms of a proposed deal sent the euro soaring against the dollar, while the 10-year Greek benchmark bond yield dropped 7.7 basis points to 11.537%.

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