REUTERS

US long-term yields hit fresh nine-month highs after data

By Matt Tracy

Aug 3 (Reuters) - U.S. long-term Treasury yields hit nine-month highs on Thursday after employment and other economic data pointed to easing inflation, maintaining their high levels in the afternoon.

The benchmark U.S. 10-year yields were last up 11.3 basis points (bps) at 4.191%, after initially hitting 4.195%, the highest since November.
The 30-year bond yield was last up at 14.3 bps to 4.308%, while the 20-year Treasury bond's yield was at 4.494%. Both yields touched their highest since November as well.

A deluge of Treasury supply lies in part behind the rise in yields. On Wednesday, the Treasury Department announced a $103 billion offering to refinance roughly $84 billion in Treasury notes and bonds due on Aug. 15.

"When you obviously have a lot of supply, then at that point you're going to be seeing the price of these bonds drop and yields move higher," said **Bernard Baumohl, chief global economist at The Economic Outlook Group** in Princeton, New Jersey.

The Treasury Department plans to auction $42 billion in three-year notes on Aug. 8, $38 billion in 10-year notes on Aug. 9 and $23 billion in 30-year bonds on Aug. 10.

Baumohl noted his expectation that, in particular, the 10-year Treasury's yield has neared or reached its peak, and will hover around the 3.6%-4.0% range for the remainder of the year, based on the assumption that inflation will continue its retreat.

Higher yields on Thursday also reflect increasingly positive market sentiment for a resilient economy with high interest rates.

PRIVATE SECTOR

U.S. data released Thursday showed layoffs dropped to an 11-month low in July, even as the number of Americans filing new claims for unemployment benefits rose slightly last week and the labor market remains tight.

The figures followed Wednesday's ADP National Employment Report, which showed 324,000 private sector jobs added in July and a 6.2% rise year-over-year in annual private sector pay.

Also on Thursday, the Labor Department released data showing U.S. worker productivity rebounded sharply in the second quarter, further boosting the inflation outlook.

The data reassured investors, but was not a definitive indicator of whether the U.S. Federal Reserve would pause or hike rates one more time this year, after its 25-basis point hike in the federal funds target rate in July.

"The market is still pricing in a 30% hike by the November (FOMC) meeting," said Subadra Rajappa, head of U.S. rates strategy at Société Générale in New York.

Shorter-term yields edged lower following the data. The two-year yield, which is more closely linked with monetary policy expectations, was last at 4.895%.

As a result, the yield curve between two-year and 10-year Treasuries, a key measure of recession sentiment, narrowed its inversion further to minus 69.6 bps - the tightest spread in two months. It last stood at minus 70.50 bps, continuing its steepening trend over the last three sessions.

Despite the improved market sentiment, billionaire investor William Ackman said on Wednesday his hedge fund Pershing Square Capital Management had bet against 30-year Treasury bonds. He cited higher defense costs, energy transition and greater worker bargaining power as factors fueling further inflation.

U.S. yields have ascended after Fitch downgraded the U.S. government's credit rating to AA+ from AAA on Tuesday, citing an expected fiscal deterioration over the next three years and a snowballing general debt burden.

After Wednesday's Treasury refunding announcement, Assistant Secretary for Financial Markets Josh Frost said the credit downgrade "doesn't change what Americans, investors and people around the world already know, which is that Treasury securities remain the world's pre-eminent safe and liquid asset and that the American economy is fundamentally strong."

Investors will closely watch the July non-farm payrolls report on Friday and the July consumer price index report next week for inflation trends.

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