BANKING ON KNOWLEDGE

Global markets concerned by surging Treasury yields

By Dr R Seetharaman

The US 10-year yield is near 1.6% at the beginning of this week. Last week the 10-year US Treasury yield jumped above 1.6% after the February jobs report topped expectations, sending the benchmark yield to its highest level this year.

The Labour Department reported that the US added 379,000 jobs in February 2021, much stronger than expectations of a 210,000 gain. The unemployment rate fell slightly to 6.2%. The jobs surge comes after the labour market's recovery had turned sluggish in recent months. The benchmark yield has been climbing quickly in recent months after ending 2020 under the 1% level.

Bond yields have been rising on account of increasingly bullish sentiments on the economy with the rollout of Covid-19 vaccines. The prospect for strong economic growth and budding concerns about inflation have pushed down the prices for bonds.

Last week, the Federal Reserve chairman Jerome Powell said he expected inflation to rise as the economy recovers but thinks it will be temporary. We expect that as the economy reopens and hopefully picks up, we will see inflation move up through base effects," Powell said. "That could create some upward pressure on prices."

The dollar index is above 92 levels and has surged on account of better than expected US job data.

The WTI is at $66/barrel and Brent at $69.2/barrel and have surged by more than 35% and 33% YTD respectively. Brent crude traded near $70 a barrel after Saudi Arabia said the world's largest crude terminal was attacked on Sunday by a drone from the sea. The missiles were intercepted and oil output appeared to be unaffected.

Oil prices jumped last week after Opec and its oil-producing allies said the group would keep production largely steady through April 2021. Saudi Arabia also said that it would extend its one

million barrels per day voluntary production cut into April 2021. The group approved the continuation of current production levels for April 2021, except that Russia and Kazakhstan will be allowed to increase production by 130,000 and 20,000 barrels per day, respectively.

Crude futures have soared to pre-virus levels in recent weeks, driven higher by substantial Opec+ production cuts and the mass rollout of Covid-19 vaccines in many high-income countries. Natural gas is at $2.71/MMBTU and has surged by more than 6.7% this year. Cold weather had driven the natural gas prices recently.

Gold is at $1692.7/ounce and has fallen by more than 10% YTD. Silver is at $25.2/ounce and had fallen by more than 4% YTD. Gold climbed last week as the US moved closer to a massive stimulus package.

President Joe Biden is on the cusp of his first legislative win with the House ready to give final passage to his $1.9tn Covid-19 relief plan, the second-biggest economic stimulus in US history. After the Senate passed the legislation on a party-line 50-49 vote on Saturday, House Majority Leader Steny Hoyer said it will be taken up in his chamber on Tuesday.

Precious metals slumped this year amid optimism over an economic recovery and rising bond yields, which reduced the appeal of the non-interest-bearing metal and led to outflows from exchange-traded funds. China's February 2021 exports grew at a record pace from a year earlier when Covid-19 battered the world's second-biggest economy, customs data showed on Sunday, while imports rose less sharply. Exports in dollar terms skyrocketed 154.9% in February compared with a year earlier, while imports gained 17.3%, the most since October 2018.

Global markets have become preoccupied by the risks associated with rising Treasury yields and fears that government stimulus programmes could overheat economic growth. Higher yields also raise questions about whether equity valuations have become excessive.

The sensitivity to rising Treasury yields, the weekend approval of a $1.9tn US stimulus package and data showing a surge in China's exports sent stocks and equity futures lower yesterday.

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