Bonds: Boes Haldane strikes extraordinarily dovish note at TUC

November 12, 2015

These were the movements in the most widely followed 10-year sovereign bond yields:
US: 2.31% (-2bp)

UK: 2.01% (-4bp)

Germany: 0.61% (-0bp)

France: 0.92% (-1bp)

Italy: 1.61% (-2bp)

Spain: 1.84% (+1bp)

Greece: 7.3% (-3bp)

Japan: 0.30% (-2bp)

Portugal: 2.78% (+4bp)

Bond yields retreated across the board, benefiting from the generally ‘risk-off’ environment across most other asset classes, with longer-term Gilts outperforming.

That followed Chinese credit and lending data for October which left economists divided as to the short-term outlook for that economy.

The yield on the benchmark 10-year Gilt retreated the most, following a dovish speech by the Bank of England’s Andrew Haldane.

Speaking at the Trades Union Congress, in London, Haldane drew a comparison between Britain’s economy and an airplane on the runway preparing for take-off.

“Whatever the reason, the economic aircraft appears to be losing speed on the runway,” the BoE’s chief economist said.

“Against that backdrop, my view is that the case for raising interest rates is still some way from being made,” Haldane added.

Earlier in the day, the president of the S.Louis Fed, James Bullard, said keeping interest rates near zero was no longer needed.

“[Wage growth] appears to be fizzling.”

“That is an awkward, indeed risky, time to be contemplating take-off. Meanwhile, inflationary trends do not at present give me sufficient confidence that inflation will be back at target, even two years hence.”

In remarks to the press after a speech at the Cato institute, Bullard reportedly said rates would not rise as quickly as they did in 1994 or between 2004 and 2006, but the central bank would need to respond if the economy showed “marked” improvement.

Both Bullard and his opposite number at the Richmond Fed, Jeffrey Lacker, pointed out that their “dots” where higher than the Fed’s median forecast in the well-known dot-plot graph summarizing rate-setters projections for rates.

Portuguese and Spanish bonds retreated on apparent risk aversion linked to the political situation in both countries.

The risk premium between five-year German government bonds and their US peers rose to 181 basis points, the most in 16 years.

On 10 November, Janus Capital’s so-called ‘bond King’, Bill Gross, described the move as excessive, according to Bloomberg.