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U.S. MARKETS

Bond Rally Breaks New Ground as Bets on Interest-Rate Cuts Mount

10-year yields approach 0.8%; Stock indexes in Asia follow U.S. shares lower

By Chong Koh Ping

Updated March 6, 2020 3:00 am ET

Investors flocked to the safety of government bonds, pushing Treasury yields to new depths, as conviction increases that coronavirus disruptions will force more bold action from central banks.

The latest surge in demand for U.S. government debt was echoed in global bond markets, and contrasted with a fresh selloff in stock markets in Asia, which followed U.S. equities lower, in the last day of a turbulent week's trading.

By early afternoon Friday in Asian trading hours, the yield on the benchmark 10-year U.S. Treasury note had touched 0.809%. That was a record intraday low, extending a long rally. Bond yields fall as prices rise.

Yields dropped below 1% on 10-year Treasurys for the first time earlier this week—a milestone for a market that helps set borrowing costs for the U.S. government as well as millions of consumers and businesses.

The Federal Reserve enacted an emergency 0.5 percentage-point cut in its benchmark rate on Tuesday, to between 1% and 1.25%. Futures-markets pricing now implies investors are convinced a cut of at least the same size is due at or before the Fed's scheduled March 18 meeting, according to the CME FedWatch tool.

"Investors are expecting rate cuts now and they are expecting [the cuts] to persist in the next two to three years," said Homin Lee, Asia macro strategist at Lombard Odier. He said markets were pricing two to three further interest-rate reductions this year, and that these moves would only be partially reversed in the next three years.

“We believe that might be too pessimistic, especially if economic policy makers do their job properly in providing growth support,” Mr. Lee said. “If the main conversation we have about the disease in three years’ time is clinical treatment or vaccines, the economy will have rebounded sharply from this shock.”

Stock markets in Asia fell early Friday after a steep selloff in the U.S.

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Futures markets suggest the Fed’s key rate is likely to be in a range of just 0.25% to 0.5% by the end of April. That would be just 0.25 percentage points higher than the near-zero level which held from the depths of the global financial crisis until December 2015.

“We’re in unprecedented times,” said Peter Monson, a portfolio manager at Nikko Asset Management. He said monetary policy could only do so much to shore up market confidence and provide economic support. “The rate cuts will definitely help but it needs to be supported by more action—more fiscal stimulus and more evidence that they have the virus situation under control,” in the U.S., he said.

Elsewhere in debt markets, the 30-year Treasury yield hit a record low of 1.417%, and the two-year yield, which is particularly sensitive to near-term changes in monetary policy, was at 0.480%.

The Australian 10-year yield tumbled to an all-time low of 0.677%, while the Chinese equivalent fell to 2.6375%, according to data provider Wind. That put the Chinese yield on course for the lowest close since at least 2007, the start of Wind’s data set.

Stock-market benchmarks in Japan, South Korea and Australia traded lower, with the Nikkei 225 down 2.7%, the Kospi losing 2.2% and the S&P/ASX 200 shedding 2.8%. Hong Kong's Hang Seng retreated 2.3%, and the Shanghai Composite pulled back 1.2%.

India's S&P BSE Sensex fell 2.6% as authorities stepped in to take control of a struggling commercial bank, the first time in more than a decade that the government has stepped in to backstop a private lender.

Equity markets in the Asia-Pacific region this week have largely followed the wild swings of major U.S. stock indexes. The S&P 500 has risen or fallen at least 2% for four consecutive sessions, the longest such stretch since August 2011, according to Dow Jones Market Data.

On Thursday, all three major U.S. stock indexes fell more than 3%. S&P 500 futures fell 1.3% on Friday in Asia.

The global economic ramifications of the coronavirus are starting to show up in different sectors. China's massive lockdown of major cities, which started in late January, has upended global shipping. And the epidemic claimed its first victim in the airline industry Thursday when a U.K. carrier entered bankruptcy administration.

Write to Chong Koh Ping at chong.kohping@wsj.com

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