Bond Yields Tumble With Stocks as Iraq Strikes Boost Oil

By Nick Gentle and Wes Goodman - Aug 8, 2014

German bond yields slid to a record while U.S. and Japanese government notes rallied as President Barack Obama’s authorization of air strikes in Iraq drove equity measures lower around the world. Oil rose with gold and Turkey’s currency slumped with the ruble.

Futures on the Standard & Poor’s 500 Index dropped 0.5 percent by 8:16 a.m. in London, while the Stoxx Europe 600 Index plunged 1 percent and Asian stocks fell. Bunds rallied and 10-year U.S. Treasury yields fell to as low as 2.35 percent, the least since June 2013. Gold reversed losses as Obama said the Iraq action is necessary to prevent an act of genocide. Gauges of equity-market volatility jumped and the yen rallied, while the lira sank as much as 1 percent. West Texas Intermediate crude oil rose 0.9 percent.

Bond yields are tumbling as the crisis in Iraq, renewed rocket attacks on Israel and the escalating trade war with Russia over its actions in Ukraine spook investors and drag global stocks down a second week. Obama said the U.S. will strike Islamic State militants if they move toward the Kurdish city of Erbil, where the U.S. has diplomatic personnel.

“There’s a flight to quality,” said Tomohisa Fujiki, an interest-rate strategist in Tokyo at BNP Paribas SA, whose New York unit is one of the 22 primary dealers that trade with the U.S. central bank. “Tension is rising globally. Since the start of the month, equity markets are off sharply and bonds are rallying. That should continue.”

S&P 500 futures are signaling stocks will extend their second straight weekly loss after the benchmark index closed yesterday below its 100-day average price for the first time since April. The e-mini contract traded at 1,895.5, below the 1,900 level that’s been seen as a key support.

Vix Futures

The Chicago Board Options Exchange Volatility Index (VIX), or Vix, climbed 1.8 percent overnight while futures on the gauge added 4.8 percent today. A measure of options prices on the Stoxx 600 surged 8.6 percent.
U.S. 10-year yields declined as much as six basis points, or 0.06 percentage point, according to Bloomberg Bond Trader data. The 2.5 percent note maturing in May 2024 rose 1/2, or $5 per $1,000 face amount, to 101 1/4.

The German 10-year bund yield declined to 1.035 percent, a record low. Similar maturity notes from Austria, Finland, France and the Netherlands saw their yields plumb new lows today.

The rate on Japanese government 10-year notes dropped two basis points to 0.50 percent, the lowest since April 8, 2013. The yen strengthened 0.4 percent to 101.67 per dollar, taking its weekly advance to 0.9 percent, the most since April.

“Obama’s action shows the U.S. inevitably needs to be involved in the Middle East,” said Ayako Sera, a Tokyo-based market strategist at Sumitomo Mitsui Trust Bank Ltd. “That’s causing a risk-off mode and may weigh on the global economy because it can disrupt supply and demand of oil.”

**Brent, WTI**

Brent oil futures advanced 1.1 percent and WTI in New York traded at $98.18 a barrel. While the U.S. has no plans to send ground troops to Iraq, Obama authorized strikes against militants in Iraq if they threaten personnel and dispatched planes to drop food and water for trapped civilians.

Conflict in the OPEC producer has so far spared production in the south of the country, home to about three-quarters of Iraq’s crude output.

Turkey’s lira dropped to as low as 2.1877 per dollar. The Turkish military said reports that its warplanes crossed into Iraqi airspace are untrue, according to a one-sentence statement on its website.

Russia’s ruble weakened 0.6 percent to 36.4780 and 0.7 percent to 48.86 versus the euro. The Micex Index of Moscow stocks was little changed a day after President Vladimir Putin ordered retaliatory sanctions on food imports from country’s that have led criticism of his countrny’s role in the fighting in Ukraine.

**Gold Climbs**

Gold bullion for immediate delivery rose as much as 0.8 percent to $1,322.76 an ounce, the highest since July 18. The metal reversed a 0.3 percent loss and is heading for its first weekly gain since July 11.

The Stoxx Europe 600 Index trades at 14.8 times projected profit while the MSCI Asia Pacific Index trades at 13.3 times estimated earnings. The S&P
500 is valued at 16 times.

Japanese stocks tumbled, with the Topix index slumping 2.4 percent and the Nikkei 225 Stock Average retreating 3 percent. The Nikkei Volatility Index jumped 38 percent, the most since May 23 last year, when the Topix plunged 6.9 percent and the Nikkei 225 dropped 7.3 percent.

**Comparative Valuations**

The Hang Seng Volatility Index rose 3.9 percent and a similar measure of options prices for the Kospi 200 index surged 12 percent.

A gauge of Chinese shares in Hong Kong was little changed, paring its decline as China reported a record trade surplus. The Shanghai Composite Index climbed 0.3 percent. The yuan strengthened and is up 0.41 percent this week to 6.1558 per dollar, the biggest gain since the five days ended June 13, China Foreign Exchange Trade System prices show. The currency climbed 0.09 percent today.

China’s exports jumped 14.5 percent in July, more than twice the 7 percent gain that was the median estimate of 48 economists surveyed by Bloomberg. Imports, which had been projected to rise 2.6 percent, slipped 1.6 percent. The surplus was $47.3 billion, a record.

In Malaysia, Khazanah Nasional Bhd., the state-investment fund, will offer 27 sen ($0.08) a share to take Malaysian Airline System Bhd. private. The carrier that had one Boeing passenger jet shot out of the sky over Ukraine last month and had another vanish without trace in March, with a total of more than 530 people killed, closed at 24 sen yesterday.

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