Treasuries yielded the most versus German bunds in 33 months, reflecting demand for safety in Europe after Cyprus won a bailout that imposes losses on bond holders.

The spread was 59 basis points, the most since June 2010. Investors snapped up German debt yesterday on speculation Cyprus’s rescue will set a precedent for the euro region. Senior Cypriot bank bond holders will take losses and uninsured depositors will be largely wiped out. The U.S. is scheduled to sell $35 billion of two-year debt today in the first of three note auctions this week totaling $99 billion.

“There’s a concern that Cyprus is a template for the rest of Europe,” said Kei Katayama, who buys non-yen debt for Daiwa SB Investments Ltd. in Tokyo, which manages the equivalent of $52.9 billion and is part of Japan’s second-largest brokerage. “The first reaction may be to buy bunds. The U.S. economy is much better than expected. I’m bearish on Treasuries.”

U.S. 10-year yields were little changed at 1.92 percent as of 6:43 a.m. in London, according to Bloomberg Bond Trader data. The rate compares to the record low of 1.38 percent set in July and the average of 3.61 percent for the past decade. The price of the 2 percent note due in February 2023 was 100 22/32.

The premium over Germany’s yield was about double the 10-year average.

Daiwa SB is favoring shorter-maturity Treasuries that will fall least if yields rise, Katayama said. It is holding longer maturities in Germany, he said.

**BOJ Policy**

Japan’s 10-year rate declined as much as 3 basis points, or 0.03 percentage point, to 0.525 percent, extending its slide to the lowest levels since 2003.

Bank of Japan (8301) Governor Haruhiko Kuroda told lawmakers today that he’ll consider extending bond maturities for the bank’s asset purchase fund as part of his plan to fight deflation in the nation.

Singapore sold S$3.1 billion ($2.5 billion) of five-year notes at an average yield of 0.48 percent, Monetary Authority of Singapore said in statement. It was the lowest based on MAS data going back to 1987.
Treasury Outlook

Ten-year rates may rise to 2.5 percent by Dec. 31, he said. An investor who bought today would lose 3.2 percent if the forecast is correct, according to data compiled by Bloomberg.

Orders for U.S. durable goods probably rose in February by the most in five months, according to economist estimates before a report today.

The expected 3.9 percent increase in bookings for goods meant to last at least three years would follow a 4.9 percent decline in January, based on a Bloomberg News survey of economists before the Commerce Department report at 8:30 a.m. in Washington. Separate data will show the residential real-estate market improved, based on responses from economists.

The U.S. jobless rate fell to a four-year low of 7.7 percent in February.

The Federal Reserve is buying $85 billion of Treasury and mortgage debt a month to support the economy by putting downward pressure on borrowing costs.

Bond Purchases

Fed Bank of New York President William C. Dudley said yesterday the central bank should maintain its asset purchases because budget cuts will restrain growth.

Dallas Fed President Richard Fisher said today in a speech in Abu Dhabi that he favors tapering asset purchases as the U.S. economy improves. The pace of expansion will quicken to 3 percent by year end from 2.2 percent in 2012, he said.

Fisher doesn’t vote on monetary policy this year. The president of the Federal Reserve Bank of New York is a permanent voting member of the policy committee.

The two-year notes scheduled for sale today yielded 0.26 percent in pre-auction trading. Because of the securities’ short maturity, their yields tend to track what the Fed does with its target for overnight lending, and the central bank said last week it plans to keep the rate in a range of zero to 0.25 percent.
The prior two-year sale on Feb. 25 drew bids for 3.33 times the amount of debt available, the lowest level at the monthly auctions since July 2011.

The U.S. plans to sell $35 billion of five-year notes tomorrow and $29 billion of seven-year debt on March 28.

Treasuries are set to close worldwide on March 29 for Good Friday, according to the New-York based Securities Industry and Financial Markets Association’s website.

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