Treasuries Gain as Oil Drops Below $80 While Stocks Slide

By Nick Gentle and Stephen Kirkland - Oct 16, 2014

Treasuries and the dollar climbed, oil fell below $80 a barrel and U.S. futures plunged more than 1 percent in one hour as concern deepened that global growth is slowing. European stocks slid an eighth day in the longest rout since 2003 and bonds from Greece to Spain tumbled.

The 10-year Treasury yield dropped 11 basis points to 2.03 percent at 7:42 a.m. in New York. The Stoxx Europe 600 Index fell 2 percent and Standard & Poor’s 500 Index futures declined 1.1 percent. West Texas Intermediate crude slid to as low as $79.78. The yield on 10-year Greek bonds jumped 109 basis points and Spain’s yield increased 16 basis points. The dollar gained 0.6 percent to $1.2758 per euro.

About $672 billion was wiped from global shares yesterday and average bond yields around the world fell to records after reports showed a bigger-than-projected drop in U.S. retail sales. Data today will probably show American jobless claims stayed below 300,000 last week and industrial output rose in September. Goldman Sachs Group Inc. and Google Inc. are among companies reporting earnings today.

“There is a combination of concerns over the outlook for global growth and concerns on the outlook for inflation in the wake of a slew of negative data,” Jeremy Batstone-Carr, head of research at Charles Stanley & Co. in London, said in a phone interview. “There is the likelihood that third-quarter corporate earnings expectations which have already been lowered may very well be lowered again.”

Nestle Disappoints

More than 15 shares declined for every one that gained in the Stoxx 600, with trading volumes 159 percent above the 30-day average, according to data compiled by Bloomberg. The gauge slumped 9.7 percent in eight days.

Nestle SA lost 3.1 percent after the world’s biggest food company reported nine-month sales that missed analysts’ estimates. Shire Plc, which plunged the most in 12 years yesterday, tumbled 9.1 percent today, after AbbVie Inc.’s board formally asked shareholders to vote against a takeover of the U.K. drugmaker.

Man Group Plc rose 5.3 percent after the world’s largest publicly traded hedge-fund manager said
assets under management jumped 25 percent in the third quarter.

A report at 8:30 a.m. in Washington may show initial jobless claims rose to 290,000 in the week ended Oct. 11 from 287,000 in the previous week, according to a Bloomberg survey of economists. U.S. industrial production probably advanced 0.4 percent in September after slipping 0.1 percent the previous month, according to another Bloomberg survey.

**Netflix Misses**

Netflix Inc. slumped 26 percent in early New York trading after reporting third-quarter subscriber growth that missed the company’s forecast. EBay Inc., which will spin off the PayPal payments business, fell 2.5 percent after giving a sales projection for the fourth quarter that missed estimates.

Goldman Sachs was little changed after reporting third-quarter earnings that surpassed analysts’ estimates as it set aside a smaller portion of revenue to pay employees than in the first half of the year. The firm raised its quarterly dividend by 5 cents.

The selloff in stocks triggered a surge in volatility. A Bank of America Corp. index that tracks swings in equities, Treasuries, currencies and commodities rose to the highest level in 13 months yesterday and the Chicago Board Options Exchange Volatility Index jumped 15 percent to a more than two-year high. Europe’s VStoxx Index advanced 13 percent, headed for its biggest two-day jump since May 2010, to 32.61 today.

The MSCI Emerging Markets Index slid 1.1 percent to a six-month low as benchmark gauges in India, Thailand, the United Arab Emirates and the Czech Republic dropped at least 1.3 percent.

Shares in Dubai headed for the biggest weekly decline since December 2008. The Dubai Financial Market General Index lost 5 percent, sliding 14 percent this week. Abu Dhabi’s benchmark gauge lost 2.3 percent, leaving it 6.1 percent lower in the period.

**Ruble Weakens**

The ruble erased its first advance in nine days as more than $9 billion in interventions failed to stem the Russian currency’s rout amid a slump in oil prices. The ruble weakened 1.3 percent to 46.0302 against the dollar-euro basket, headed for a record low on a closing basis. It strengthened 0.6 percent yesterday after the government announced a plan to start auctioning foreign currency to address a domestic dollar and euro shortage. The Micex Index of stocks slipped 0.6 percent after falling 1.2 percent yesterday.

Ukraine’s 2017 Eurobond fell for a second day, sending the yield 30 basis points higher to 16.19 percent. President Petro Poroshenko is scheduled to meet his Russian counterpart Vladimir Putin tomorrow at a summit of European Union leaders. German Chancellor Angela Merkel told parliament today that Russia must make a “decisive” contribution to de-escalating the crisis in
China Protests

The Hang Seng China Enterprises Index of mainland companies listed in Hong Kong fell 1 percent to the lowest close since June 25. The Shanghai Composite Index dropped 0.7 percent. In Hong Kong, video footage showing police allegedly beating a protester triggered an outcry from hundreds of people at pro-democracy demonstrations.

WTI fell 2.1 percent to $80.05 after declining as much as 2.5 percent. Brent slumped 1.2 percent to $82.75 a barrel, the lowest since Nov. 23, 2010. The Bloomberg Commodity Index dropped as much as 0.6 percent to the lowest since July 2009. Lead declined 2.2 percent to the lowest since May 2013.

U.S. 10-year Treasuries rose for an eighth day, the longest winning streak in two years. Yields slid to 1.86 percent yesterday, the lowest since May 2013, Bloomberg Bond Trader prices show. The rush for the safest fixed-income assets sent average bond yields around the world to a record low yesterday, according to the Bank of America Merrill Lynch Global Broad Market Index.

Japan’s 10-year yield dropped as low as 0.47 percent today, the least since April 2013. Its German equivalent was little changed at 0.75 percent after falling to a record 0.719 percent yesterday.

In Europe, higher-yielding government bonds came under renewed pressure amid a selloff in Greek assets. Greece’s 10-year yield jumped to 8.94 percent. Italy’s 10-year yield climbed 24 basis points to 2.66 percent and Ireland’s increased 22 basis points to 1.92 percent.

Spanish Auction

Spanish bonds extended declines after the government sold less debt than its maximum target at auction.

The cost of insuring European corporate bonds rose for a second day, with the Markit iTraxx Crossover Index of credit-default swaps on 75 companies with mostly high-yield ratings climbing 21 basis points to 421, Bloomberg data show.

The average yield premium investors demand to hold high-yield bonds in euros rather than government debt rose to an 11-month high of 4.39 percentage points, according to Bank of America Merrill Lynch index data.

The dollar rose against the euro after weakening 1.4 percent yesterday, the steepest decline since July 2013. The U.S. currency slipped 0.3 percent to 105.59 yen.

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