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OVERNIGHT REPORT

Daily Report

BOND SUMMARY

07:49 29Oct11 RTRS-TREASURIES-Bond prices up as higher yields attract buyers

- * Higher yields, price cuts draw buyers
- * Euphoria on euro zone debt crisis plan tempered
- * September spending jump said to bode well for Q4 GDP

By Ellen Freilich

NEW YORK, Oct 28 (Reuters) - U.S. Treasuries prices rose on Friday as lower prices and the highest yields in more than 2-1/2 months attracted buyers.

The euphoria that caused riskier assets to rally in the previous session on Europe's new strategy to contain its debt crisis cooled, giving safe-haven U.S. debt a bit of support.

U.S. Treasuries reached their best levels after an auction of Italian government debt suggested the euro zone rescue deal had not restored investor appetite for Italian debt.

But mainly, analysts said, the recent sell-off in the Treasury market propelled by improved U.S. economic data and stock market gains, had finally brought Treasury prices down low enough, and yields high enough, to attract some buyers.

"Treasuries had sold off pretty aggressively since the end of September and selling had a real exclamation point yesterday on the news of the European plans so, relative to the overall economic and policy backdrop, we hit a value point that brought buyers back into the market," said Robert Tipp, chief investment strategist for Prudential Fixed Income with \$240 billion in assets under management.

Benchmark 10-year Treasury notes <US10YT=RR> rose 25/32 on Friday, their yields easing to 2.31 percent from 2.40 percent late on Thursday.

Thirty-year Treasury bonds, which fell more than four points on Thursday, climbed 1-18/32 points on Friday, their yields falling to 3.38 percent from 3.46 percent late on Thursday.

Thursday's rise in yields, which lured buyers on Friday, was the sharpest jump in 2-1/2 months.

But the lack of profit-taking in the stock market on a day following a huge rally lent credence to the idea that Europe could implement its rescue plan. Two major stock indexes <.SPX><.DJL> ended higher and one <.IXIC> slightly lower.

That, with recent evidence of U.S. economic growth, limited the bond market's bounce from its nearly month-long sell-off.

"U.S. economic numbers, while not great, have gotten better and yesterday's Q3 GDP report just validated that growth has accelerated," said Cary Leahey, managing director and senior

economist at Decision Economics in New York.

On Friday, the government reported a 0.6 percent jump in U.S. consumer spending during September, boding well for fourth quarter economic activity.

"What recession?" said Chris Rupkey, chief financial economist at Bank of Tokyo/Mitsubishi UFJ in New York. "This (spending jump) puts GDP growth in a good position to follow-up on the third quarter's 2.5 percent growth.

"The risk is Q4 could be a blow-out quarter for GDP growth on the upside, especially if car sales move up closer to 13.5 million," he said.

Monetary policy could also offer more support to the economy, helping riskier assets like stocks at the expense of safe-haven U.S. government debt.

The Fed's preferred inflation measure, the core personal consumption expenditure (PCE) deflator, stood at just 1.6 percent year-on-year in September, according to a government report released on Friday.

"The Fed will take the view that inflation is under control and may take fresh measures to aid the economy," Rupkey said.

Such measures could include an announcement at next week's policy meeting that the Fed will buy mortgage-backed securities outright to aid the housing market and help bring down 30-year mortgage yields, he said.

Others thought such a move was not imminent.

"We believe the (Fed's Federal Open Market) Committee will weigh its options for further policy accommodation, but there will be no major changes at this time," said Joseph LaVorgna, chief U.S. economist at Deutsche Bank Securities in New York.

Data also showed consumer spending grew in September. Though a simultaneous decline in personal savings cast doubt on whether the spending was sustainable, Rupkey argued that spending in one quarter becomes income in the next.

EQUITY SUMMARY

07:31 29Oct11 RTRS-US STOCKS-Wall St, finishing flat, posts 4 weeks of gains

- * Investors pause after Thursday's 3 percent surge
- * Merck, Chevron earnings top Wall St estimates
- * U.S. consumer sentiment picks up in late Oct-survey
- * Indexes: Dow up 0.2 pct, S&P flat, Nasdaq down 0.1 pct
- * For up-to-the-minute market news see [STXNEWS/US]

(Updates to close, changes byline)

By Chuck Mikolajczak

NEW YORK, Oct 28 (Reuters) - U.S. stocks closed out a fourth week of gains in quiet fashion on Friday, edging higher as the market took a breather after rallying 3 percent on Europe's deal to stem its debt crisis.

Though investors still have questions about implementing

the deal, they appeared satisfied by Europe's progress as stocks ended their longest weekly winning streak of the year.

The S&P 500 rose 3.7 percent for the week. The benchmark index had a seven-week rally that ended in January, but only two of the weeks were in 2011.

October also was on track to be the best month for stocks since 1974, supported by strong earnings. Merck & Co Inc <MRK.N> and Chevron Corp <CVX.N> both topped expectations with financial results on Friday.

"For it to not sell off is as much a positive sign as anything," said Andrew Slimmon, managing director at Global Investment Solutions of Morgan Stanley Smith Barney in Chicago.

"We have had a very good earnings season and the benefit of what happened in Europe is that it allows investors to focus on the good earnings season and move the European problem from the primary worry to off the headlines."

The Dow Jones industrial average <.DJI> gained 22.56 points, or 0.18 percent, to 12,231.11. The Standard & Poor's 500 Index <.SPX><.INX> added 0.49 point, or 0.04 percent, to 1,285.08. The Nasdaq Composite Index <.IXIC> shed 1.48 points, or 0.05 percent, to 2,737.15.

Concerns that the euro zone debt crisis would spread and stifle domestic bank profits had been a huge overhang for equities, with the S&P down almost 20 percent -- defined as a bear market -- early this month.

As optimism grew about Europe's debt plan, bulls began to gain momentum and the S&P 500 is now up more than 13 percent this month, on pace for its biggest monthly gain since October 1974.

According to Thomson Reuters data, of the 315 companies in the S&P 500 that have reported quarterly results, 71 percent have posted earnings above analyst expectations.

The head of Europe's bailout fund played down hopes of a quick deal with China for that country to throw its support behind efforts to resolve the crisis but said he expects Beijing to continue to buy bonds issued by the rescue fund. For details, see [ID:nLDE61G0P1]

Hewlett-Packard Co <HPQ.N> gained 3.5 percent to \$27.94 a day after it said it was ditching a plan to spin off its personal computers unit, a plan that was expected to have cost billions of dollars in expenses and lost business.

[ID:nN1E76D0IG]

A pair of Dow components posted stronger-than-expected earnings. Merck rose 2.3 percent to \$35.11 after its profit and sales beat analyst estimates, and Chevron's profit more than doubled. The stock advanced 0.6 percent to \$109.64.

[ID:nN1E76D0IG] [ID:nN2090757]

MF Global Holdings Ltd <MF.N> slumped 16.1 percent to \$1.20. Some customers are moving money away from the futures brokerage, rivals, hedge fund officials and analysts said,

though the extent of the outflows is unclear. [ID:nN1E76D0IG]

Economic data on Friday showed U.S. consumer sentiment improved in October for the second month in a row as consumers felt more upbeat about the economy's prospects.

[ID:nN1E79Q1JW]

Volume was about 7.71 billion shares traded on the New York Stock Exchange, NYSE Amex and Nasdaq, below the daily average of 8.03 billion.

Declining stocks outnumbered advancing ones on the NYSE by 1,505 to 1,475, while on the Nasdaq, decliners beat advancers 1,406 to 1,114.