



Bond sell-off continues

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With so much commentary over the past week devoted to the Reserve Bank's concern that Australia's strong economic growth would fuel higher inflation in the year ahead, it was no surprise to see the bond market sell-off continue last week.

Three-year Commonwealth government bond yields finished the week at 4.87 per cent, having risen from 4.7 per cent a week earlier.

The peak in the three-year bond rate was 25 August, when yields reached 4.33 per cent. Since then the 54 point increase in yields has been almost continuous.

Five-year bond yields finished the week at 4.97 per cent, having climbed 55 basis points from a peak of 4.42 on 31 August.

FIIG Securities analyst, Brad Newcombe, wrote in last week's edition of the group's newsletter, *The Wire*, that yields on 10-year commonwealth bonds, which have climbed from 4.77 to 5.05 over the past month, could be moving back to their 11-year average yield of 5.58 per cent.

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