

## Markets

# Treasury Curve Inverts at Long-End as 20-Year Yield Tops 30-Year

By [Elizabeth Stanton](#) and [Ye Xie](#)

October 28, 2021, 6:19 AM PDT

Updated on October 28, 2021, 12:34 PM PDT

- ▶ Move comes amid a general flattening of global curves
- ▶ Demand for relatively new 20-year bond tenor has been tepid

The Treasury yield curve inverted between 20 and 30 years on Thursday, a sign that investors expect central-bank policy tightening to lead to slower economic growth and inflation.

Government bond yield curves globally have been flattening as central banks move toward ending the era of ultra-loose monetary policy put in place at the onset of the pandemic in early 2020. Euro-zone yield curves flattened further on Thursday after the European Central Bank left intact expectations for rate increases beginning next year.

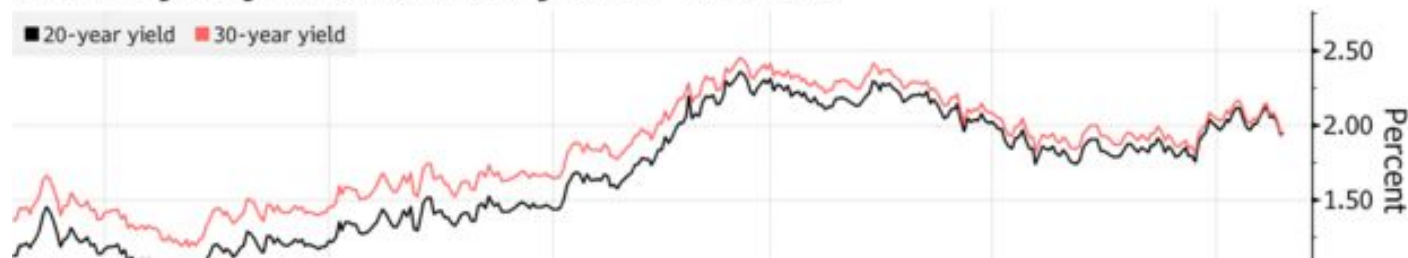
In the Treasury market, the 20- to 30-year segment is the first to invert. While it's a special case because the U.S. government reintroduced a two-decade maturity in 2020 and the issue has struggled to gain traction with investors, other key curve segments -- such as the 2- to 10-year and 5- to 30-year -- also flattened dramatically.

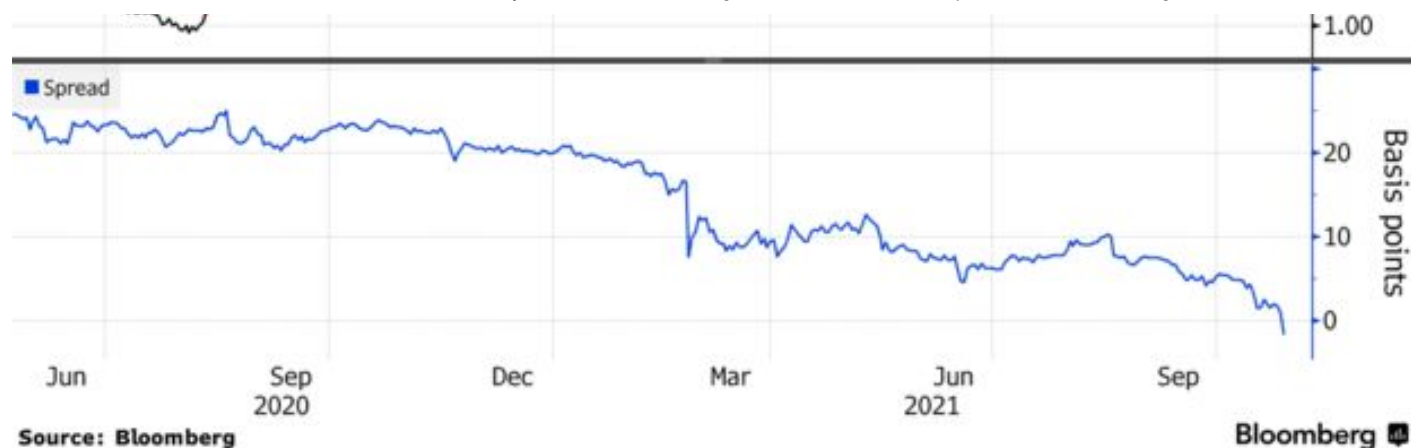
The 20- to 30-year curve inverted as an increase for the 20-year yield lifted it above the 30-year's. The 20-year rate rose as much as four basis points to 1.98%, while the 30-year peaked just shy of that level.

“What a crazy market,” said Priya Misra, global head of rates strategy at TD Securities. “The 20s-30s curve is just reflecting the overall flattening theme in the market -- where central banks are forced to respond to inflation, which slows growth significantly.”

## Curve Bending

### U.S. 20-year yield exceeds 30-year for first time





Yield-curve flattening has gained momentum across global bond markets this week as traders scrambled to price in more aggressive central-bank actions to fend off inflation. The Bank of Canada surprised investors Wednesday by abruptly ending its bond-buying stimulus program and accelerated the potential timing of future interest rate increases; the Canadian yield curve flattened sharply in response.

In the U.K., the 10- to 30-year yield spread narrowed to less than seven basis points Thursday as gilt-market supply dynamics combined with shifting expectations for when the Bank of England will start raising rates. The U.K. government this week cut the amount of bond sales planned for this fiscal year more than expected, causing the biggest rally in long-term bonds since the onset of the pandemic in March 2020.

On Thursday, the Reserve Bank of Australia defied market expectations by choosing not to defend its yield target, spurring a short-term benchmark rate to soar.

Next week, the Federal Reserve takes the center stage. Fed Chair Jerome Powell is expected to announce the tapering of its \$120 billion monthly asset purchases, a first step toward normalizing its monetary policy. The futures market has priced in two rate hikes by the end of next year, even as Powell said tapering doesn't carry a signal about the timing of rate increases.

"The ball is in the central banks' court really," said Misra. "All eyes on the Fed."

## Inflation expectations

Consistent with the curve-flattening trend, U.S. inflation expectations came off the boil Thursday, as yields on Treasury Inflation-Protected Securities jumped from the lowest levels in

months. The 30-year TIPS yield climbed nearly 10 basis points after falling to within two basis points of its August 2020 record low -0.506%.

Its breakeven inflation rate, which reached multiyear highs above 2.40% in the past week, fell to 2.33%. Shorter-term breakeven rates also slumped.

While declining oil prices account for some of the pullback in breakevens, “profit-taking after a very strong run over the past several weeks” was also a likely factor, said Michael Pond, head of inflation market strategy at Barclays Capital Inc.

“We might be seeing de-risking ahead of the Fed,” which has been mindful of inflation expectations and doesn’t want to appear to be behind the curve, Pond said.

## Flagging demand

The inversion of the Treasury curve past the 20-year point may be in part because the 20-year is a relatively new addition to the U.S. government’s product line and is still developing an investor base.

When issuance of the tenor began in May 2020, yields in the sector were about 25 basis points lower than 30-year yields. Demand for the new product began to wane early this year. Half the monthly 20-year bond auctions have drawn yields at least a basis point higher than predicted by so-called when-issued trading.

In May, the Treasury Department’s industry advisory board called the sector an “expensive funding point,” and recommended greater emphasis on cuts to the 20-year as auction sizes begin to shrink.

By contrast, demand for the 30-year has been robust. Four of this year’s auctions have drawn yields at least a basis point higher than expected, and the last two produced record low awards to primary dealers as investor demand surged.

*(Adds inflation-protected bond activity beginning in 11th paragraph)*