Treasury yields come off session highs after retail sales

Treasury yields pulled back from their intraday highs on Monday after an update on consumer spending came in better than expected for January, even if the data confirmed the key driver of the U.S. economy had, in fact, contracted sharply at the end of 2018.

The 10-year Treasury note yield TMUBMUSD10Y, +0.75% picked up 1.6 basis points to 2.643%, after coming off a session high of 2.659%. The 2-year note yield TMUBMUSD02Y, +0.66% was also up 1.6 basis points to 2.479%. The 30-year bond yield TMUBMUSD30Y, +0.48% added 2.2 basis points to 3.033%, Tradeweb data show. Bond prices move inversely to yields.

Retail sales for January, delayed due to the government shutdown, showed an 0.2% increase, slightly higher than the 0.1% growth expected from economists polled by MarketWatch. The report, however, showed sales had slumped 1.6% in December, its largest drop since late 2009, and a much sharper fall than the earlier report of a 1.2% decline.

That took analysts by surprise, many of whom forecast the tepid December data to be raised, in line with other gauges of retail activity. Some blamed the government shutdown for the weaker-than-expected reading even as those watchful of the economy's deterioration raised concerns that a pillar of the U.S. expansion, which has stood strong even as other areas like manufacturing have lost momentum, could be faltering.

"Real consumption growth is on course to slow further in the first quarter, supporting our forecast that overall GDP growth will slow to below its 2% potential pace," wrote Andrew Hunter, senior U.S. economist for Capital Economics.

"This reinforces our view that the Fed will not raise interest rates at all this year," said Hunter.

The attention on consumer spending will put the spotlight on the coming February's inflation data on Tuesday. Economists polled by MarketWatch expect consumer prices to increase 0.2%.

Besides economic data, investors also handled a sale of $38 billion of 3-year notes, the first of three bond auctions for the week. Market participants said the auction was well received because investors anticipate that interest rates aren't likely to increased in the near term. Short-term notes tend to the most sensitive to the rate outlook.

Fed Chairman Jerome Powell will give videotaped comments to the National Community Reinvestment Coalition's Just Economy Conference in Washington, D.C. at 7 p.m. Eastern time, after appearing in "60 Minutes" on Sunday. Powell reaffirmed his confidence in the U.S. expansion, but he said in that television interview that he felt no need to tweak interest-rate policy at the moment.

Meanwhile, the German 10-year government bond yield TMBMKDE-10Y, +0.00% remains at 0.066%. The proxy for the eurozone bond market, also known as bunds, declined sharply last week after the European Central Bank's announced another round of stimulus for its banking system, and slashed its forecasts for economic growth for 2019 to 1.1% from 1.7%.

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