**DECPG Daily**  
**Economics and Financial Market Commentary**  
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**Treasuries move higher before Fed bond purchases.** U.S. government bond prices rose on Tuesday, as markets positioned for Federal Reserve bond buybacks and lingering concerns about European debt problems boosted demand for the safe-haven asset. Yields on 10-year notes fell 3 basis points (bps) to 3.31%, while 30-year bond yields dropped 2 bps to 4.43%. Since the 10-year bond yield hit the 2010 low of 2.33% on Oct.8, the yield has risen more than 100 bps, jumping to 7-month high of 3.56% on Dec.10. The yield fell to 3.25% in yesterday’s intra-day trading amid the beginning of Fed bond buying.

The Federal Reserve plans to conduct two buyback operations today as part of its $600 billion bond purchase program under the second round of quantitative easing. On Tuesday, the Fed is scheduled to buy between $7 billion and $9 billion in intermediate-term Treasuries (maturing on 2016 and 2017) and $1 billion to $2 billion in Treasury Inflation Protected Securities (TIPS) maturing between 2010 and 2040. The government purchased yesterday $14.6 billion of U.S. securities maturing from 2018 to 2020 and from 2014 to 2016. Meanwhile, Moody’s announcement that it might cut its rating on Portugal also contributed to gains from U.S. government debt.

**Consumer sentiments in Germany dips slightly lower in December.** After several months of successive increases in consumer optimism, sentiments among German consumers dipped slightly in December to 5.4 from the 5.5 level recorded in November, according to results from the GfK consumer climate survey. In spite of the dip, the current level of consumer optimism remains high compared to its recent past. The strong level of optimism among German consumers is underpinned by the robust growth of the German economy (estimated at 3.6% in 2010 by the Bundesbank) and declining unemployment. In 2010, unemployment in Germany fell from a high of 8.7% in February to 7% in November – the lowest level in over four years [see Chart at [http://gem](http://gem) or [http://www.worldbank.org/gem](http://www.worldbank.org/gem)]. The relatively high level of consumer optimism bodes well for future levels of consumer spending, thereby adding a second pillar of growth, in addition to exports, to further fuel the German economy.

**Among emerging markets...** In East Asia and the Pacific, China’s economic planning agency announced a 4% increase in retail fuel prices, the third this year, to go into effect before the end of the year.

In Central and Eastern Europe and the CIS, seasonally adjusted industrial output in Lithuania fell 2% (m/m) in November, following a sharp 9.7% increase over the previous monthly period. Despite the deceleration in the last month, industrial production is 17% higher than the level observed last year.
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