granted

GROSS SAYS THE FED IS KEEPING RATES LOWER FOR LONGER

Pacific Investment Management Co.'s Bill Gross said that US employment growth won't prevent the Federal Reserve from signaling that borrowing rates will remain lower longer than the policy makers have already indicated. The Fed will keep the target rate for overnight loans at current levels for as long as four years, Gross, who is the manager of the world's biggest bond fund, said in a radio interview on ''Bloomberg Surveillance'' with Tim Keene and Ken Prewitt . In the month of November, unemployment in the US unexpectedly dropped to a two-year low, while employers added fewer workers that was projected and earnings eased, indicating the labor market is making limited progress. The Labor Department figures showed on Thursday in Washington that the jobless rate dropped to 8.6 percent, the lowest since March of 2009. The economy still has ''some slogging to do here,'' said Gross from Pimco's headquarters in Newport Beach, California. ''The Fed is focusing on the problems in euro land and the potential lock-up of the financial markets. The QE3 that I expect is really not an increased amount of purchasing in terms of the Fed's balance sheet but an extended period language that allows the market to anticipate a two, three, or four year period of time where Fed funds stay at 25 basis points.'' The Fed has held its target rate for overnight loans in a zero to 0.25 percent range since December of 2008 and pledged in August to hold its key rate steady at least until mid-2013. The central bank also purchased $1.7 trillion of Treasury and mortgage debt between December 2008 and March 2010, and the $600 billion of Treasuries from November through June and began this quarter extending the maturity of its debt holdings. Six central banks, led by the Fed, made it cheaper this week for banks to borrow dollars in emergencies in aglobal effort to ease Europe's sovereign-debt crisis. The yield on Italy's 10-year bond is still close to 7 percent as the raging debt crisis spreads to the region's core countries. US payrolls climbed 120,000, with more than half of the hiring coming from retailers and temporary help agencies, after a revised 100,000 rise in October that was more than initially estimated. The median estimate in a Bloomberg News survey called for a gain of 125,000. According to Bloomberg Bond Trader prices, the benchmark US 10-year note yield rose three basis points, or 0.03 percentage points, to 2.12 percent. The yield on the 30-year bond was change very little at 3.11 percent. Gross said that the yields on longer-maturrity debt are likely to rise the most if the economy continues to show signs of strength. ''The Fed is going to stay low for a long, long time, and that keeps twos and fives and actually tens fairly well anchored,'' said Gross. ''But it's the 30-year that will reflect these reflationary efforts not only from the Fed but from the ECB'' and other European central banks that are working in conjunction with the International Monetary Fund to support the highly-indebted peripheral European nations.