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TREASURIES-Bonds gain on bank nationalization fears

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- * Flight to safer assets boosts government debt
- * Bank fears grow, dragging U.S. stocks down
- * Citigroup shares fall below \$2
- * Treasuries fleetingly pare gains on CPI data

By John Parry

NEW YORK, Feb 20 (Reuters) - U.S. Treasury debt prices gained on Friday as deepening anxiety about the fragile state of the banking system pummelled financial stocks, sending investors scrambling into comparatively safe government debt.

U.S. stocks fell on fears among equity investors that the government's bank rescue plan might involve nationalization. Those worries, which had pushed a widely watched index of bank stocks to a 17-year low on Thursday, sent Citigroup's (C.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) shares down more than 20 percent to below \$2, the lowest since the early 1990s.

"In Treasuries and gold I think it's the fear trade right now," said Lawrence Glazer, managing partner of Mayflower Advisors in Boston.

The benchmark 10-year Treasury note rose 21/32 in price for a yield of 2.78 percent, below a recent high above 3.05 percent on Feb. 9. The yield hit a five-decade low of 2.04 percent in mid-December when panicked investors fled to safer assets.

The price of gold -- a place of refuge along with Treasuries when fears grow about the stability of the banking system -- briefly pushed up to \$1,000 an ounce <XAU=>.

"People are buying gold for emotional reasons and on worries about bank nationalization in a reactionary move," Glazer said.

The 2-year Treasury note's price, which moves inversely to its yield, was up 3/32 for a yield of 0.94 percent <US2YT=RR>, versus 0.99 percent late Thursday.

"The main story for Treasuries is a flight to quality and safety," said Scott

Brown, chief economist with Raymond James & Associates in St Petersburg, Florida.

"There are still questions about whether some kind of bank nationalization is coming," Brown added.

Earlier, Treasuries fleetingly pared some price gains after a higher-than-expected reading of U.S. January core inflation, which excludes food and energy costs.

But analysts said the January data could prove to be an anomaly within an overall trend of falling prices as the economy struggles with its worst recession in decades.

"Treasuries pared their gains on the increase in the core (CPI), but I think you have to take the January numbers with a grain of salt because a lot of firms will try to pass along annual price increases early in the year," said Brown.

The 30-year Treasury bond, which is especially sensitive to inflation, gained 1-16/32 in price for a yield of 3.59 percent <US30YT=RR>, versus 3.67 percent late Thursday.

"The January readings of the Consumer Price Index were close to expectations but the interesting thing is the year-over-year reading of the headline CPI which at 0.0 percent is the lowest reading for this measure of prices since August 1955. The recent trend remains deflationary," wrote Lou Brien, market strategist with DRW Trading Group in Chicago in an email note. (Reporting by John Parry

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