Bond markets around the world tumbled Thursday as the European Central Bank raised interest rates and the Bank of Japan prepared to increase borrowing costs. ECB policy makers pushed their benchmark rate target to 2.5 percent on Thursday from 2.25 percent, and the bank's president, Jean-Claude Trichet, indicated that rates would continue to rise this year. German bund prices dropped after the rate increase, pushing 10-year yields to the highest level since April. Yields on Japanese 10-year bonds rose to an 18-month high amid the sell-off, and yields on U.S. Treasury notes also climbed. "The market appeared to be caught off guard by the hawkish tone of Trichet's comments," said Sudesh Mariappa at Pacific Investment Management in California. The yield on Germany's benchmark 10-year bond yield rose 6 basis points to 3.566 percent. In the United States, yields on 10-year notes jumped the most since January.

Traders increased bets that the ECB would raise its benchmark rate at least twice more this year, trading in futures markets showed, after Trichet said "we stand ready to do whatever is necessary" on rates. Marc Gibson, a fixed-income strategist at Danske Bank in Copenhagen, said he did not see the market recovering quickly. "The market has taken a bit of a beating recently and that's going to continue," he said. "Trichet was more hawkish on inflation than people were expecting." In Japan, the yield on the benchmark 1.6 percent bond due in December 2015 increased 4 basis points to 1.625 percent. At one point, the yield rose as high as 1.65 percent.

Japanese bond prices are expected to keep falling on concern that the Bank of Japan will shift policy at a two-day meeting that starts Wednesday, and raise rates from zero by year-end. Economists said they expected a Japanese government report on Friday to show that core consumer prices in January had the biggest rise since March 1998.

"Investors are reluctant to buy bonds before the price report and the BOJ meeting," said Yasunori Kuroda at Sompo Japan Insurance in Tokyo. "I see a more than 50 percent chance for a policy shift next week." The Bank of Japan governor, Toshihiko Fukui, said last week that stable gains in core consumer prices were "close at hand" and that the bank would "immediately shift policy" once it judged that the right conditions had been met. U.S. Treasury securities were swept up in the global slump. The price of 10-year notes fell sharply on speculation that international investors would demand higher yields on U.S. assets.

The yield on the benchmark 10-year Treasury note was 1.07 percentage points above the yield on the 10-year bund. Over the past 10 years, yields on 10-year Treasury notes have exceeded yields on bunds by an average of 47 basis points. U.S. investors are sensitive to monetary policy changes elsewhere in the world because non-Americans own about half of all Treasuries and have helped keep bond yields from rising as fast as the Federal Reserve's U.S. benchmark rate.

"The theme for 2006 will be rates rising worldwide, putting pressure on U.S Treasuries," said Tony Crescenzi, the chief bond market strategist at Miller Tabak in New York. "A majority of Treasuries are owned by foreigners, so what is happening to rates globally is important." The yield on the benchmark 10-year Treasury note rose 5 basis points to 4.632 percent, its highest level since November. Foreign purchases shaved about 1.5 percentage points off 10-year note yields as the Fed raised rates in the past, according to a report prepared for the central bank last year by Francis Warnock and Veronica Warnock at the University of Virginia.
The price of the 30-year Treasury bond, which the government auctioned last month for the first time since 2001, also fell on Thursday to below the level investors paid at the sale. Investors are demanding higher yields on concern that strength in the economy will cause inflation to accelerate. The yield on the 30-year bond increased 6 basis points to 4.614 percent, after rising 5 basis points on Wednesday. The price of the issue, a 4 1/2 percent bond due in February 2036, fell 7/8 point to 98 5/32. The government sold the security on Feb. 9 at a price of about 99 29/32 to yield 4.53 percent.

Also weighing on Treasury bonds was a Labor Department report that showed there were 294,000 first-time claims for U.S. unemployment benefits last week, up from 278,000 the week before, and more than forecast.

"It is more than likely that 10-year yields will rise to 4.75 percent by the end of March," Crescenzi said. "The market senses a very strong economy."