MarketNews international

10:56 08/21 **EGB CLOSING SUMMARY**: The Bund curve traded steeper and short ated issues outperformed on Tuesday afternoon amidst speculation the Federal Reserve would announce an inter-meeting interest rate cut to head off an economically damaging credit crunch. Markets however pared back expectations of an immediate cut following an article by MNI's Steve Beckner, who suggested, "there is no sense of alarm at the Fed." Wall street equity futures came off highs ahead of the NY open in response to the article. EGBs opened higher on speculation the Federal Reserve will cut the Fed Funds rate following a reduction in its primary credit rate by 50bps last week. Also underpinning the front end of the curve was flight to safety bids into US T-bills overnight, amidst fears of ABCP losses. The market posted moderate gains on German ZEW economic sentiment data, which declined to an 8-month low. Bunds then pared some gains after the PBOC hiked the Yuan benchmark one-year deposit rate by 27bps and the one-year benchmark lending rate by 18bps.

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European equities were weaker in afternoon trade. The DAX was trading -0.09%, CAC 40 -0.22% and the FTSE -0.49% on the day. US stocks were also weaker with the S&P 500 -0.32% and the Nasdaq -0.21%.

Sep-07 Bunds were 47 ticks higher at 113.93. In cash, German government benchmark yields were 3bps to 11bps lower with 2s outperforming. The 2s/10s spread was 38bps vs. 33bps and the 10s/30s spread was 25bps vs. 22bps.

Gilts traded higher with short dates Gilts outperforming on risk aversion, after the Bank of England reported that financial participants made use of the bank's standing lending facility - a facility that offers emergency liquidity to the UK banking system at a penalty interest rate. The facility was used on Monday for the first time since the start of the liquidity crisis.

Jun-07 Gilts were 64 ticks higher at 107.41. In cash, UK government benchmark yields were 5bps to 10bps lower with the short end of the curve outperforming. The 2s/10s spread was -26bps vs. -28bps and the 10s/30s spread was -53bps vs. -56bps.