

US Fed Forecast Change: BoA now expect the Fed to cut rates twice this autumn by 25bp, on September 18 and October 31. >>>

Earlier this week, BoA revised their calls for the next ECB, Riksbank and SNB hikes from September to December 2007, with a major chance that these European central banks may be on hold well into next year instead. At the same time,

BoA removed their call for a final BoE hike to 6%, projecting 5.75% until mid-2008 instead. As before, they look for the BoE to ease policy modestly in 2H 2008. BoA also shifted the next expected BoJ move from October to December 2007.

From Howard: ECB SOURCES SAY...

- OUTCOME OF SEPTEMBER 6 ECB MEETING STILL UP IN AIR
- IF NO SEP HIKE, TIGHTENING BIAS MAY REMAIN INTACT
- ECB WILL NOT LOSE SIGHT OF PRICE STABILITY MANDATE
- NOT TAKING MARKET WOES LIGHTLY, BUT ECONOMIC IMPACT UNCLEAR
- IF CONDITIONS REQUIRE, WONT HESITATE TO DELAY HIKE

Euro Mkt Summary: EGBs Mixed, Pare Losses On Bernanke Speech by Charanjeev Chana ---Stone & McCarthy (London)---

EGBs traded mixed on Friday afternoon, with the short end underperforming. Bunds rallied higher in a delayed response to comments from Fed Reserve Governor Ben Bernanke, after he failed to promise definitive support for the US housing market by easing the funds rate on Sep 18. Earlier, Bunds declined post US consumption data and extended losses following a hawkish MNI report citing ECB sources. The report suggested that the ECB would not lose sight of its price stability goals despite recent market turbulence, and therefore retain its tightening bias even if it did not raise interest rates at its next meeting on September 6th. EGBs opened lower on risk aversion unwinding, weighed by the overnight rally in equities on reports in the Washington Post that the Bush Administration proposed to put forward policies to bail out defaulting home loan borrowers. Weaker than expected German retail sales and weaker Eurozone economic confidence data had a limited impact on prices as buoyant European stocks continued to weigh on sentiment. In supply news, the AFT announced it will sell E3.8-4.3bln of the new 4.25% Oct. 2017 OAT on September 6th...

...**European equities** were stronger in afternoon trade. The DAX was trading +1.63%, CAC 40 +0.73% and the FTSE +1.45% on the day. US stocks were also higher with the S&P 500 +0.68% and the Nasdaq +0.71%.

Gilts were also trading lower with little bias. Gilts traded lower on after the GfK research institute reported that UK consumer confidence rebounded in August, due largely to an increase in the number of consumers believing, on balance, that it was a good time to make major purchases. Meanwhile, the Bank of England reported no lending via its Standard Lending Facility on Thursday. In supply news, the UK's DMO publishes its auction calendar for October-December 2007...