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08:12 12/10 **US DOLLAR LIBOR:** Moving lower for the third consecutive session, 3 month LIBOR sets .81 bps lower at 5.1325%, while the 1-month LIBOR set .56 bps lower at 5.23188%.

Net weekly recap: **3-Month LIBOR** **1-Month LIBOR**

Dec 3-7	+0.93 bps	+0.12 bps
Nov 26-30	+9.13 bps	+1.13 bps
Nov 19-23	+9.12 bps	+5.31 bps
Nov 12-16	+6.94 bps	+8.06 bps
Nov 5-9	+1.43 bps	-1.81 bps
Oct 29-Nov 2	-11.88 bps	-11.50 bps
Oct 22-26	-16.75 bps	-15.75 bps
Oct 15-19	-6.31 bps	-9.50 bps
Oct 8-12	-1.93 bps	-6.19 bps
Oct 1-5	+1.43 bps	-0.19 bps
Sep 24-28	+2.63 bps	-0.75 bps
Sep 17-21	-44.38 bps	-48.25 bps

08:34 12/10 **ECB WELLINK:** It's not in the interest of sovereign wealth funds to threaten the western economies in which they invest, but limited knowledge about how these funds operate means they need "much more transparency," European Central Bank Governing Council member Nout Wellink said in a videotaped message. In the pre-released message, to be aired at a conference Tuesday, Wellink said that while the phenomenon of SWFs is not itself all that new, "what is especially new is the size of these funds," which he estimated at "23 hundred billion" without specifying a currency.

06:13 12/10 **BUND SUMMARY:** Bunds opened higher following overnight gains in US Treasuries after UBS unveiled fresh subprime writedowns of \$10 billion and ahead of the FOMC rate decision on Tuesday. The move also comes after sharp falls on Friday in the wake of the solid U.S. Payrolls data on Friday, which in turn fuelled speculation that the Fed may not be as aggressive in cutting interest rates as previously thought. However, Bunds pared gains following hawkish comments from ECB Executive Board member Juergen Stark, who said that the European Central Bank's Governing Council is concerned eurozone inflation could remain elevated despite recent ECB staff forecasts that show it declining in the medium term. Prices once again recovered off their worst levels, with short-squeeze seen in 4.00% Sept 2009 Schatz issue, on reported strong buying interest from Asian real money accounts. The yield on the 4.00% Sept 2009 Schatz was down 4.3 bps at 3.87%. Traders also reported unwinding of 2-/10-year flattening trades, albeit in thin vol session.

06:56 12/10 **GILT SUMMARY:** Gilts are lower but outperformed Bunds as the 10-year Gilt/Bund yield spread narrows to +45bps. Traders reported bargain-hunting in the short-dated issues, which sold off aggressively last week in response to the hawkish accompanying statement from the Bank of England, following decision to cut its Bank rate by 25bps to 5.50%. The focus this week is on the Debt Management Office (DMO) annual consultation meeting with GEMMs and end-investors on Tuesday. This meeting was bought forward from February and this move has fuelled speculation that the DMO is looking to prepare the market for a reduction in long-dated issuance given the potential cut in gilt sales and the DMO's desire to provide liquidity in the 5- and 10-year sector and in the index-linked programme in FY2008/09. The Gilt 2-/10-year yield spread was 2.9 bps steeper at +4.7 bps, whilst the 10-/30-year yield spread was 0.6 bps flatter at -17.5 bps. Mar Gilts are down 7 ticks at 109.28.

02:06 12/10 **JGB SUMMARY:** Japanese government bonds ended Monday's session narrowly mixed, bouncing back from early weakness. Prices were marked lower from the off, as the stronger-than-expected machine orders data weighed. However, the lower prices soon tempted dip-buying from City banks and life funds, helping prices rally from their lows. Out to the 10-year sector, prices rallied enough to see them end in positive territory, with ultra-long paper ending modestly lower. Overall volumes were light, though, with many players sidelined ahead of Tuesday's Federal Reserve FOMC rate decision.

- Benchmark 10-year yield was 0.5 bps lower at 1.570%.
- Benchmark 5-year yield was 1.5 bps lower at 1.085%.
- Benchmark 20-year yield was 0.5 bps higher at 2.145%.
- Benchmark 30-year yield was 0.5 bps higher at 2.385%.
- Lead Dec JGB futures contract was 0.12 lower at 136.60.

06:57 12/10 **EUROZONE:** Reported comments from eurozone officials Monday...(1),

- \*\* ECB STARK: Danger of higher inflation later, despite staff forecasts
  - On HICP Staff forecasts, ' Council reached another conclusion'
  - Eurozone inflation risks point upwards
  - To monitor developments very closely, act timely if needed
- \*\* ECB LIIKANEN: Recent market turmoil has increased the downside risks to economic growth in the eurozone while at the same time recent data show sharp short-term inflation pressure as well as price risks over the medium term. FX volatility is a risk to economic growth
  - Watching for 2nd round effects is the key thing now.
  - 2009 staff HICP forecast of under 2.00% is optimistic.
- \*\* ECB BINI-SMAGHI: Reported comments in speech in Florence, Italy.
  - Euro area credit situation may worsen.
  - Credit markets must be monitored
  - Urges banks to clarify credit situation