



[Times for Market News International stories are ET]

06:57 12/18 LIBOR FIXINGS: Euro 2-week Libor fixed at 4.401250% vs 4.94188% Monday

-- Euro 1-mth Libor fixed at 4.58813% vs 4.92375% Monday

-- Euro 3-mth Libor fixed at 4.84875% vs 4.94688% Monday

-- Stg 2-week Libor fixed at 6.51250% vs 6.74000% Monday

-- Stg 3-mth Libor fixed at 6.38625% vs 6.43125% Monday

-- Dollar 3-mth Libor fixed at 4.92625% vs 4.94125% Monday.

07:18 12/18 **GILT SUMMARY:** Gilts are also lower, but outperforming Bunds following release of weaker than expected UK core CPI data, which excludes energy, food, alcoholic beverages and tobacco, fell to 1.4% -- coming in at the lowest rate since October 2006. UK headline CPI came in at +0.3% m/m, +2.1% y/y in November, unchanged from the previous month, and in-line with MNI median forecast. Traders reported Liability Driven Investment Flows into the long-dated issues. In addition, ALM receiving interest was also seen ahead of year-end and also speculation in the market that the DMO may cut long-dated issuance given the inevitability of a cut in Gilt sales in FY2008/09. Instead, The DMO is seen responding to market opinion about liquidity concerns in the short-dated part of the curve. The Gilt 10-/30-year yield spread is now 0.5bps flatter at -27.3bps -- having flattened around 8bps since the DMO annual consultation meeting on Dec 11. The Gilt 2-/10-year yield spread was 0.6bps steeper at +3.4bps. Mar Gilts down 5 ticks at 108.29.

08:03 12/18 **BUNDS:** Mar Bunds continue to hit fresh session low at 112.91 as markets digest the ECB's staggering E349bn injection into the money market today of 16-day funding to cover the year-end period at 4.21%. Today's operation added a net E131.1073 billion of liquidity to the eurozone money market, given that E218.5 billion in 7-day refs expires on Wednesday, when the new agreements settle. In addition, the short-dated issues are also licking wounds following hawkish comments from ECB Governing Council member Yves Mersch. In exclusive comments to MNI, Mersch said that anchoring inflation expectations is so important to the European Central Bank that if they became unraveled by second-round effects on wages the bank would act, even if the uncertainty hanging over the economy had not completely disappeared. Mar Bunds are down 22 ticks at 112.91.

07:11 12/18 **UK: Reported comments from UK officials Tuesday,**

** BOE KING: Cenbank action shows cenbanks working together

- Joint cenbank action recognition of credit market worsening
- Rise in interbank spreads not due to cash shortage
- Large banks now awash with liquidity
- Banks now concerned about capital position of banks
- In recent weeks banks worried about US downturn
- Banks worried own tight lending hitting US economy
- Danger of self-reinforcing downturn in credit
- Banks need to be patient until losses revealed
- Cenbanks will seek to minimise risks to world economy
- Markets may need until Feb-Mar to stabilise
- Spreads across US, EMU, UK practically the same

07:22 12/18 **GERMANY: Ifo Nerb;** The euro is unquestionably overvalued at its current level against the dollar and a further rise could prompt the European Central Bank to cut rates as a response, the research director of Germany's esteemed IFO institute, Gernot Nerb, told Market News International on Tuesday. Speaking to MNI on the sidelines of a conference in Brussels, Nerb however remarked that he believed the euro-dollar rate had probably peaked and was unlikely to breach the 1.50 boundary. If such a level were breached, however, he said that there would be a pronounced dampening effect on the euro area economy.

01:50 12/18 **JGB SUMMARY:** JGBs ended higher, playing catch-up with the rally in USTs, while a decline in Japanese stocks and a solid 20-year auction also helped the move. The Nikkei-225 index of Japanese stocks ended off it's lows, as bargain-hunters lifted the index from an early loss of 1.6%. However, despite trading briefly in positive territory, the index still closed lower by 0.27%. Meanwhile, the price competitive auction of Y800 billion 2.1% coupon 20-year #99 JGBs produced a solid bid/cover ratio of 4.23. The auction today brings the amount raised from twenty-year bond sales to Y10.356 trillion, which exceeds the Y9.6 trillion the MoF budgeted to raise.

- Benchmark 10-year yield was 2 bps lower at 1.540%.
- Benchmark 5-year yield was 2.5 bps lower at 1.040%
- Benchmark 20-year yield was 1 bp lower at 2.145%.
- Benchmark 30-year yield was unchanged at 2.390%.
- The Nikkei 225 ended 41.93 points, or 0.27% lower at 15,207.86.