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07:02 12/20 LIBOR FIXINGS: Euro 1-week Libor fixed 4.01375% vs 4.01000% Wednesday

-- Euro 2-week Libor fixed at 4.52750% vs 4.55750% Wednesday

-- Euro 1-mth Libor fixed at 4.53500X% vs 4.56375% Wednesday

-- Euro 3-mth Libor fixed at 4.79125% vs 4.80125% Wednesday

-- Stg 2-week Libor fixed at 6.30625% vs 6.40750% Wednesday

-- Stg 3-mth Libor fixed at 6.14375% vs 6.20563% Wednesday

-- Dollar 3-mth Libor fixed at 4.88375% vs 4.91000% Wednesday.

06:48 12/20 **GILT SUMMARY:** Gilts are higher and outperforming Bunds as the 10-year Gilt/Bund yield spread narrowed earlier to +38bps -- level not seen since August 2003. The move comes in the wake of the dovish BoE MPC minutes on Wednesday, which showed the decision to cut rates by 25bps at the December meeting was unanimous. There was even discussion of a case for "substantial" policy easing. However, the MPC decided that a large cut would increase upside inflation risks. Most analysts had expected a split vote, with two or three dissenters backing unchanged rates. The UK Sonia swap curve is now implying 40% chance of a 25bps rate cut at the January meeting, with February expectations now rising to +95%. Gilts paid little attention to UK Q3 GDP data, which was unrevised at 0.7% q/q, in-line with the median but there was an unexpected upward revision to 3.3% y/y. The Gilt 2-/10-year yield spread was 0.8 bps steeper at +5.1 bps, whilst the 10-/30-year yield spread was 0.8 bps steeper at -22.3 bps. March Gilts are up 29 ticks at 109.16.

06:42 12/20 **BUND SUMMARY:** Bunds opened higher, taking their cue from the short-covering squeeze higher in US Treasuries towards the Chicago close. The move was attributed to safe-haven buying after Standard & Poor's Ratings cut bond insurer ACA Financial Guaranty rating to junk status. S&P also put AMBAC, MBIA on negative outlook review. In addition, buying was also noted after CIBC said it may take a further writedown of about \$2 billion on U.S. subprime investments in the wake of the S&P decision. However, Bunds eased off session highs on profit-taking, with the short-dated issues underperforming in thin volume conditions. Bond markets also eased lower after the People's Bank of China said that it will raise benchmark one-year deposit rate by 27

basis points to 4.14% and the equivalent lending rate to 7.47%, effective Friday. This was the sixth time China has raised rates this year in an attempt to tackle economic overheating and rising domestic inflation. Attention now turns to the 2nd "Term Facility Auction" (TAF).

06:53 12/20 **JAPAN:** Announcements in Japan Thursday,

** **BOJ:** The Bank of Japan on Thursday said its nine-member policy board voted unanimously to maintain the target for the overnight call rate at 0.5% in the face of lingering uncertainties triggered by the US subprime mortgage crisis. The BOJ issued a brief statement on its "no change" decision at the end of a regular two-day policy-setting meeting. Atsushi Mizuno, who is considered the most hawkish member of the board, did not vote against leaving short-term interest rates unchanged after calling for an immediate rate hike single-handedly at the previous meetings since July. BOJ Governor Toshihiko Fukui will hold a news conference at 3:30 pm Japan time (0630 GMT) after the bank releases its monthly report on the economy and markets.

FROM SMRA.COM

Stone and McCarthy (Sydney) Both the Japanese bond and equity markets pared gains today, after a strong start this morning. But while the Nikkei headed into negative territory over the afternoon, activity in the JGB market slowed, as players awaited on the press conference Governor Fukui will shortly give. The Japanese government bond market continued its solid advance in offshore trading yesterday, underpinned by a larger than expected fall in the German IFO business confidence index, and after Morgan Stanley reported a larger than expected sub prime related loss. However after climbing to a high of 137.14 on LIFFE, the key futures contract retreated, ending at the low of 136.91. The trigger for the market's reversal was the results to the US Fed's first ever Term Auction Facility (TAF). As this was the first time that TAF results were released, there was a fair amount of confusion regarding the appropriate interpretation. But since the auction attracted 93 banks, suggesting that banks were willing get cheap funds, which they will possibly be willing to lend in the interbank market, the safe-haven allure of the bond market faded. The contract's overnight close was five points under the earlier Tokyo close[...]

--by Karen Hawkett