Stone & McCarthy
RESEARCH ASSOCIATES

05/07/2007	18:05	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.11	-0.45	106.72	-0.78	103.34	-0.19
	STIR	95.62	-0.01	94.66	-0.04	93.69	-0.02
Cash	3mth	4.19	0.01	5.36	0.00	6.00	0.00
	2yr	4.52	0.04	4.95	0.08	5.77	0.02
	5yr	4.60	0.05	5.03	0.09	5.72	0.02
	10yr	4.65	0.05	5.12	0.08	5.51	0.02
	30yr	4.75	0.04	5.22	0.08	4.87	0.01
	10yr-2yr	0.13	0.01	0.17	0.01	-0.26	0.00
Spreads	2yr	--	--	0.50	0.04	1.34	-0.02
vs euro	10yr	--	--	0.54	0.03	0.94	-0.03
FX	USD	1.360	-0.001	--	--	2.012	-0.004
	EUR	--	--	--	--	0.676	0.001
	YEN	166.94	-0.09	122.75	0.08	247.03	-0.36
Equities		4491.9	-0.7%	1519.6	-0.4%	6635.2	%

Euribor futures were 0.5 ticks to 6 ticks lower with the Sep-07 contract at 95.620/-0.010 (4.380% implied). Sep-07 Bunds were 36 ticks lower at 110.49. In cash, German government benchmark yields were 3bps to 4bps higher with long dates outperforming. The 2s/10s spread was 12bps vs. 11bps and the 10s/30s spread was -11bps vs. -12bps.

Gilts were also lower but outperformed EGBs. The BOE rate hike to 5.75% and the accompanied hawkish statement only weighed marginally, having been already priced in. Nevertheless, the statement did indicate that another rate hike might well be required. Friday sees of UK May industrial production data.

Short sterling futures were 2 to 5 ticks lower with the Sep-07 contract at 93.810/-0.020 (6.190% implied). Jun-07 Gilts were 19 ticks lower at 103.34. In cash, UK government benchmark yields were 1bp to 2bps higher with the long-end outperforming. The 2s/10s spread was unchanged at -26bps and the 10s/30s spread was -64bbps vs. -63bps.

Headlines

EGBs Lower On ECB Comments & US Data

ECB keeps rates at 4.0% and use 'monitor closely' again
BOE hikes to 5.75% as expected
Decent demand for the French auctions

Euro Mkt Summary: EGBs Lower On ECB Comments & US Data
by Niraj Shah
EGBS were lower in afternoon trading following the ECB conference and stronger than expected US data. European government bonds had opened lower, on the back of continued unwinding in safe-haven trades following overnight gains in Asian equity bourses, excluding China. Trading was confined to a narrow range ahead of the ECB interest rate decision, although decent demand for the French auctions provided temporary support. The French Tresor sold E2.1bln of the 3.75% Apr 2017 OAT at ave yield of 4.67% and covered 3.564 times. It also sold E1.54bln of the 4.25% Oct 2023 OAT issue at ave yield of 4.78% and covered 2.841 times. The BOE and ECB rate announcements had a minimal impact initially, with markets having fully priced in a BOE 25bps rate hike to 5.75% and for the ECB to remain unchanged at 4.00%.

The ECB conference saw Trichet use the phrase 'monitor closely' again this month, giving the impression that the ECB was likely to raise rates in October rather then September. However, the overall comments were seen as hawkish and weighed on sentiment. The fall in EGBs was compounded by the release of stronger than expected US ADP employment data and the unexpected rise in ISM non-manufacturing. Friday will see the release of German manufacturing orders, however traders are unlikely to establish new positions ahead of the US non-farm payrolls.