

Stone & McCarthy
RESEARCH ASSOCIATES

09/07/2007	14:40	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.05	0.13	106.53	0.44	103.17	0.06
	STIR	95.62	0.00	94.65	0.00	93.72	0.03
Cash	3mth	4.20	0.00	5.36	0.00	6.02	0.00
	2yr	4.52	-0.01	4.98	-0.01	5.78	-0.01
	5yr	4.62	-0.01	5.07	-0.02	5.73	-0.01
	10yr	4.66	-0.02	5.15	-0.03	5.54	-0.01
	30yr	4.75	-0.02	5.23	-0.04	4.88	-0.01
	10yr-2yr	0.14	0.00	0.17	-0.02	-0.25	0.01
Spreads	2yr	--	--	0.52	0.01	1.35	0.00
vs euro	10yr	--	--	0.56	-0.02	0.95	0.01
FX	USD	1.363	-0.001	--	--	2.015	0.004
	EUR	--	--	--	--	0.676	-0.002
	YEN	168.06	-0.05	123.35	0.00	248.52	0.45
Equities		4533.5	0.2%	1532.9	0.1%	6710.8	%

[cont]

Euribor futures were unchanged to 2.5 ticks higher with the Sep-07 contract at 95.620/0.000 (4.380% implied). Sep-07 Bunds were 13 ticks higher at 110.05. In cash, German government benchmark yields were 1bp to 2bps lower with the long end outperforming. The 2s/10s spread was unchanged at 14bps and the 10s/30s spread was unchanged at -9bps.

Gilts were trading higher on Monday afternoon, with little bias. PPI data came in slightly weaker than expected and was met with little market reaction. The short end underperformed on hawkish comments from BOE's Blanchflower who said he shared concerns with other MPC members on price pressure, adding money growth was still a risk.

Short sterling futures were 2 ticks to 5 ticks higher with the Sep-07 contract at 93.840/+0.020 (6.160% implied). Jun-07 Gilts were 6 ticks higher at 103.17. In cash, UK government benchmark yields were 1bps lower across the curve. The 2s/10s spread was -25bps vs. -26bps and the 10s/30s spread was unchanged at -66bps.

Headlines

EGBs Mixed, long end outperforms in thin volume trade
ECB' Weber: ECB policy must reckon with greater wage pressures in 2008 as German companies may try to pass on greater costs

EGBs open lower, extending post payrolls weakness and weighed by JGBs
May German Industrial Production: 1.9%mom/4.6%yoy

Euro Mkt Summary: EGBs Higher; Long End Outperforms, Curve Flattens by Charanjeev Chanah

EGBs were trading higher on Monday afternoon in thin volume trade, with the long end outperforming - in turn flattening the Bund curve. In reported comments, ECB official Axel Weber said ECB policy must reckon with greater wage pressures in 2008 as German companies may try to pass on greater costs. EGBs had opened lower after stronger than expected Japanese machine orders weighed on JGB trade overnight.

The market also extended Friday's weakness following the release of stronger than expected June non-farm payrolls. Bunds bounced off lows on bargain hunting. The market posted little reaction to German industrial production data, which rebounded sharply in May - inline with consensus forecasts. In supply news, the Portuguese IGCP head told MNI that Portugal would issue less debt in 2007 than originally planned, saying the final figure would not be "dramatically below" E12 billion (versus E15 billion announced at the beginning of the year).