

Stone & McCarthy
RESEARCH ASSOCIATES

11/07/2007	15:22	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.92	0.26	107.59	-0.06	104.04	0.20
	STIR	95.44	0.00	94.71	0.01	93.75	0.00
Cash	3mth	4.20	0.00	5.36	0.00	6.01	-0.01
	2yr	4.45	-0.02	4.85	0.01	5.70	-0.02
	5yr	4.51	-0.03	4.93	0.02	5.61	-0.03
	10yr	4.55	-0.03	5.04	0.02	5.41	-0.03
	30yr	4.66	-0.02	5.15	0.03	4.77	-0.03
	10yr-2yr	0.11	-0.01	0.20	0.01	-0.29	-0.01
Spreads	2yr	--	--	0.45	0.03	1.33	0.00
	vs euro	10yr	--	--	0.55	0.05	0.93
FX	USD	1.377	0.002	--	--	2.034	0.007
	EUR	--	--	--	--	0.677	-0.001
	YEN	167.96	0.53	121.98	0.17	248.18	1.14
Equities		4425.4	-1.2%	1513.8	0.2%	6599.6	%

[cont]

Euribor futures were unchanged to 2.5 ticks higher with the Sep-07 contract at 95.630/0.000 (4.370% implied). Sep-07 Bunds were 26 ticks higher at 110.92. In cash, German government benchmark yields were 2bps to 3bps lower with the belly of the curve outperforming. The 2s/10s spread was 11bps vs. 10bps and the 10s/30s spread was 11bps vs. 10bps.

Gilts were trading higher on Wednesday afternoon, in line with their European counterparts. Hawkish comments from Bank of England MPC member Sentence weighed on the short-end of the Gilt curve. Sentence said '[although] we have increased interest rates there is still quite a lot of momentum in the economy', suggesting another rate hike is on the horizon.

Short sterling futures were 1 tick to 5 ticks lower with the Sep-07 contract at 93.840/-0.010 (6.160% implied). Jun-07 Gilts were 20 ticks higher at 104.04. In cash, UK government benchmark yields were 2bps to 3bps lower. The 2s/10s spread was -29bps vs. -28bps and the 10s/30s spread was unchanged at -64bps.

Headlines

EGBs higher on risk aversion/ asset allocation out of equities

EGBs open sharply higher after S&P places credit ratings on 612 classes of residential mortgage backed securities backed by US subprime collateral, on CreditWatch

ECBs Stark: ECB interest rates still accommodative and inflationary risks tilted to the upside

ECBs Hurley: Supply side price risks emerging, ECB to 'monitor closely' all developments

Schatz Auction: 4.50% June 2009 covered 2.0x vs. 1.9x

Portuguese OT Auction: 4.10% Apr 2037 PGB, covered 2.7x

Euro Mkt Summary: Euro Mkt Summary: EGBs Higher on Risk Aversion, Asset Allocation by Charanjeev Chana

EGBs were trading higher on with the belly of the curve outperforming. In comments made on Wednesday afternoon, ECB President Trichet reiterated that the ECB would 'monitor closely' all developments. Bunds opened sharply higher on Wednesday morning, taking cue from US Treasuries, which gained overnight amidst risk aversion buying and asset allocation out of equities.

The move came after the ratings agency S&P placed its credit ratings on 612 classes of residential mortgage backed securities backed by US subprime collateral, on CreditWatch. Prices however came off morning highs on profit-taking and hawkish rhetoric from ECB officials. ECB official Juergen Stark indicated his support for further tightening, saying interest rates were still accommodative and inflationary risks were tilted to the upside. ECB official John Hurley suggested risks of supply side price risks were emerging and the ECB would 'monitor closely' all developments. Issuance from Germany and Portugal was well received.