

Stone & McCarthy
RESEARCH ASSOCIATES

17/07/2007	14:52	EURO	chg	USA	chg	UK	chg
Futures	Bond	110.69	-0.02	107.44	-0.28	103.61	-0.04
	STIR	95.43	0.00	94.67	-0.02	93.67	-0.06
Cash	3mth	4.22	0.00	5.36	0.00	6.03	0.02
	2yr	4.50	0.01	4.91	0.04	5.77	0.04
	5yr	4.57	0.01	4.99	0.04	5.68	0.03
	10yr	4.59	0.01	5.07	0.03	5.47	0.02
	30yr	4.69	0.01	5.15	0.02	4.83	0.00
	10yr-2yr	0.09	0.00	0.16	-0.01	-0.30	-0.02
Spreads	2yr	--	--	0.47	0.03	1.36	0.03
	vs euro	10yr	--	--	0.55	0.02	0.96
FX	USD	1.379	0.000	--	--	2.045	0.009
	EUR	--	--	--	--	0.674	-0.003
	YEN	168.57	0.50	122.30	0.30	250.13	1.76
Equities		4530.5	-0.5%	1553.9	-0.2%	6650.5	%

[cont]

Euribor futures were unchanged to 2 ticks lower with the Sep-07 contract at 95.620/0.000 (4.380% implied). Sep-07 Bunds were 2 ticks lower at 110.69. In cash, German government benchmark yields were 1bp lower across the curve. The 2s/10s spread was unchanged at 9bps and the 10s/30s spread was unchanged 10bps.

Gilts were trading lower on Tuesday afternoon, underperforming their European counterparts. 2-year Gilts underperformed significantly following the release of stronger than expected CPI inflation data.

Short sterling futures were 4bps to 6bps lower higher with the Sep-07 contract at 93.800/-0.050 (6.200% implied). Jun-07 Gilts were 4 ticks lower at 103.61. In cash, UK government benchmark yields were flat to 4bps higher. The 2s/10s spread was -30bps vs. -28bps and the 10s/30s spread was -64bps vs. -62bps.

Headlines

EGBs higher with little bias, pare gains on core US PPI data

EGBs open higher on renewed subprime concerns

July German ZEW Survey 10.4 vs. 19.5 expected

ECB's Garganas: Sees "further withdrawal of monetary accommodation"

Euro Mkt Summary: EGBs Lower on US Core PPI, Garganas by Charanjeev Chana

European government bonds were trading lower on Monday afternoon, with little bias. The market weakened on stronger than expected US core producer prices, whilst paying little attention to the more benign headline PPI reading. Bunds fell to session lows and were unchanged on the release of US industrial production data, which came in line with expectations. EGBs opened higher, taking cue from overnight gains in US Treasuries prompted by renewed subprime concerns.

Bunds pared opening gains in early trade on profit taking, reversing losses on risk-aversion/safe-haven buying after European equity bourses opened weaker. The market extended gains and short dates outperformed on the release of the German ZEW survey, which posted its second straight deterioration in expectations after seven prior months of improvement. Short dates then came under pressure from hawkish comments by ECB official Nicholas Garganas, who said he saw "further withdrawal of monetary accommodation" by the ECB.

Little key data is scheduled for release on Wednesday, leaving market focus firmly on US inflation data and Fed Chairman Ben Bernanke's semi-annual testimony before the House Financial Services Committee, due on Wednesday afternoon.

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