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18/07/2007	15:54	EURO	chg	USA	chg	UK	chg
Futures	Bond	111.12	0.58	107.94	0.66	104.08	0.62
	STIR	95.44	0.02	94.70	0.02	93.69	0.04
Cash	3mth	4.22	0.01	5.36	0.00	6.05	0.02
	2yr	4.50	-0.01	4.89	0.01	5.76	-0.02
	5yr	4.57	-0.01	4.96	0.01	5.65	-0.03
	10yr	4.58	-0.02	5.06	0.01	5.44	-0.03
	30yr	4.68	-0.02	5.14	0.00	4.80	-0.03
	10yr-2yr	0.08	-0.01	0.17	0.00	-0.32	-0.02
Spreads	2yr	--	--	0.45	0.02	1.35	-0.01
vs euro	10yr	--	--	0.55	0.02	0.94	-0.02
FX	USD	1.381	0.000	--	--	2.054	0.002
	EUR	--	--	--	--	0.673	-0.001
	YEN	168.20	-0.27	121.78	-0.17	250.08	-0.14
Equities		4511.2	-0.6%	1541.0	-0.2%	6620.7	%

Headlines

EGBs higher, short dates underperform - flatter Bund curve
Fed's Bernanke: Upside inflation risks the FOMC's "predominant policy concern

EGBs open higher on subprime concerns/ Bear Stearns
Short dates outperform on equity losses
ECB's Trichet: Attempts to influence ECB violates EU Treaty

Euro Mkt Summary: EGBs Higher, Subprime Woes, Bernanke Testimony
by Charanjeev Chana

EGBs were trading higher on Wednesday afternoon with the short end underperforming, in turn flattening the Bund curve. Bunds dipped slightly on initial reported comments from Fed Chairman Ben Bernanke, who cited upside inflation risks as the FOMC's "predominant policy concern." Traders however covered shorts after Bernanke expressed concern over the risk that the housing correction might prove larger than expected.

Bunds posted moderate losses on the US CPI release, focussing on the headline month-on month rate, which came in slightly above expectations. EGBs opened sharply higher as renewed concerns over the sub-prime market sparked safe-haven buying overnight. The move was triggered in Asian trading following a warning from Bear Stearns of losses, which left two its sub-prime exposed funds "virtually worthless." Asian equities suffered as a result and 10-year swap spreads widened, prompting a sharp concession in US Treasury yields. Short dates outperformed, underpinned by weaker European stocks as the market drifted lower ahead of key US inflation data and Fed Chairman Bernanke's semi-annual testimony before the House Financial Services Committee.

German producer prices are due for the release on Thursday's open, and may give an early lift to the short end of the curve if our expectations of a weaker than expected outcome materialise.

[cont]
Euribor futures were unchanged to 6.5 ticks higher with the Sep-07 contract at 95.620/0.000 (4.380% implied). Sep-07 Bunds were 58 ticks higher at 111.12. In cash, German government benchmark yields were 1bp to 2bps lower. The 2s/10s spread was 8bps vs. 9bps and the 10s/30s spread was unchanged 10bps.

Gilts were trading higher on Wednesday afternoon, with long dated Gilts outperforming. The Bank of England minutes were more dovish than expected, showing that votes were split 6-3 in favour of keeping rates on hold. This coupled with weaker than expected average earnings data enabled Gilts to outperform their European counterparts throughout Wednesday's trading session.

Short sterling futures were 1bp to 5bps higher with the Sep-07 contract at 93.800/+0.010 (6.200% implied). Jun-07 Gilts were 62 ticks higher at 104.08. In cash, UK government benchmark yields were 2bps to 3bps lower with 2s underperforming. The 2s/10s spread was -32bps vs. -30bps and the 10s/30s spread was unchanged at -64bps.

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