



[Times for Market News International stories are ET]

07:43 11/01 **BUND SUMMARY:** Bunds opened sharply lower, taking direction from the sharp fall in US Treasuries in the wake of the FOMC statement, which said the Fed is worried about inflation and in turn poured cold water over a rate cut in December. Bunds then attempted to squeeze higher, amid bargain-hunting in short-dated issues. Bunds are seen underpinned by weaker stocks and also strong redemption payment from Italy today for E14.74bln, along with coupon payments from Spain for E1.79bln and Italy E5.75bln this week. The yield on the 4.00% Sept 2009 Schatz was up 5.8 bps at 4.11% - having hit 4.15% earlier, which is the highest level since October 17. The yield on the 4.25% Oct 2012 Series 151 Bobl was up 7.6 bps at 4.21%. The yield on the benchmark 4.25% July 2017 Bund was up 7.9 bps at 4.32%. The yield on the 4.25% July 2039 Bund was up 7.4 bps at 4.57%. Subsequently, the Bund curve traded mixed from Wednesday's close, with the 2-/10-year yield spread 2 bps steeper at +21 bps, whilst the 10-/30-year yield spread was 1 bps flatter at +24 bps.

07:47 11/01 **GILT SUMMARY:** Gilts are lower and steady against Bunds as the 10-year yield spread traded unchanged at +75.0bps. Gilts shrugged off UK manufacturing PMI data, which came in at 52.9, down from 54.7 in Sept and well below analysts' expectations for a 54.2 outturn. Output price inflation fell to 57.0 in Oct from the record 57.8 high in September. Input prices also softened, dropping to 60.4 from September's 62.0, their lowest level since December last year. Gilts also paid little attention to UK CBI distributive trades survey, which noted that UK retail sales volumes eased slightly in Oct, continuing the downward trend seen in recent months. In supply news, the UK Debt Management Office (DMO) sold Stg2.50bln of the 5.00% March 2018 Gilt, with a cover of 1.85 times and at tail of 0.4 bps. The Gilt 2-/10-year yield spread was 1.2 bps flatter at -25.9 bps, whilst the 10-/30-year yield spread was 2.1 bps flatter at -41.0 bps. Dec Gilts are down 52 ticks at 106.78.

(Cont.)

07:48 11/01 **FX:** Euro-dollar was lower on Thursday morning, extending the correction from Wednesday's record highs at \$1.4508 seen in the wake of the FOMC announcement. Profit taking was said to be behind the move, taking the pair back towards \$1.4400 as traders looked to lock in gains ahead of this afternoon's US ISM data and Friday's employment report. Dollar-yen made further gains within the Ichimoku Cloud, taking out Thursday's high en-route to late highs above Y115.80 going into early US trade. Sterling retained a firm tone throughout morning trade, with Wednesday night's surprisingly hawkish comments from the Bank of England's Chief Economist Charles Bean helping cable to offset post-FOMC short covering on the dollar. Euro-sterling extended recent losses to stg0.6940, while sterling-yen was holding firmer levels above Y240.00. Cable ended the morning above \$2.0800, though as yet unable to take out Wednesday's \$2.0825 peak.

07:13 11/01 **SONIA:** SONIA (Sterling Over-Night Index Average) Swap curve is now pricing in reduced chance of a 25bps rate cut from the BoE at the November meeting in the wake of Nationwide house price index and recent hawkish comments from MPC members Barker and Bean. In addition, the curve is now fully pricing in a 100% chance of a 25bps rate cut later rather than sooner, i.e. June 2008 vs February 2008 earlier this week.

Month Rate Probability (25bp cut) Prob Monday (25bp cut)

Month	Rate	Probability (25bp cut)	Prob Monday (25bp cut)
November	5.715%	-14.0%	-25.0%
December	5.680%	-25.0%	-50.0%
January	5.648%	-40.0%	-80.0%
February	5.568%	-75.0%	-100.0%
March	5.538%	-85.0%	-140.0%
April	5.568%	-90.0%	-150.0%

02:59 11/01 **JGB SUMMARY:** Japanese government bonds ended Thursday's session sharply lower, weighed by an overnight slump in U.S. Treasuries and unease over the timing of the next Bank of Japan rate hike. Treasuries were hit overnight after the Federal Reserve cut the benchmark Fed Funds rate by 25 bps. However, the accompanying statement led markets to believe that further cuts are not on the horizon. JGBs were also pressured after overnight comments from Bank of Japan Governor Toshihiko Fukui warned market players not to be complacent over the timing of the BOJ's next rate hike.

- Benchmark 10-year yield was 6.5 bps higher at 1.675%.
- Benchmark 5-year yield was 7.5 bps higher at 1.170%.
- Benchmark 20-year yield was 4 bps higher at 2.225%.
- Benchmark 30-year yield was 3 bps higher at 2.475%.
- Lead Sept JGB futures contract was down 0.77 at 135.22.