



[Times for Market News International stories are ET]

07:34 11/02 **BUND SUMMARY:** Bunds opened higher and extended the recovery seen the previous session, amid return of risk-aversion buying & short covering on fear of contagion from the subprime problem. Safe-haven buying this morning comes after a report in the WSJ saying that "Merrill Lynch in a bid to slash its exposure to risky mortgage-backed securities, has engaged in deals with hedge funds that may have been designed to delay the day of reckoning on losses, citing people close to the situation". In addition, prices were also underpinned by weakness in European financial stocks on market talk that Barclays has approached the Bank of England for emergency funding, according to traders. Wires have so far said that both Barclays and the Bank of England have declined to comment. Elsewhere, the French Tresor announced it will sell E3.0-3.5bln of the 4.25% Oct 2017 and 4.00% April 2055 at regular OAT auction on November 11. The Bund yield curve is steeper, with 2-/10-yr spread at +24bp and 10-/30-yr spread at +26bp. US Payrolls eyed next.

07:46 11/02 **GILT SUMMARY:** Gilts are higher and outperformed Bunds as the 10-year Gilt/Bund yield spread narrowed to +75.7 bps vs +77.3 bps Thursday. The Gilt outperformance comes on safe-haven buying on market talk that Barclays has approached the Bank of England for emergency funding. The short-dated Gilts were also underpinned by UK CIPS construction activity index, which came in at 57.4 in October -- hitting an eight month low and down from 60.3 in September, its lowest level for eight months. The Gilt 2-/10-year yield spread was 2.5 bps steeper at -22.7 bps, whilst the 10-/30-year yield spread was 1.1 bps steeper at -38.3 bps. Dec Gilts are up 15 ticks at 107.54.

(Cont.)

08:03 11/02 **LIBOR:** Ongoing compression overnight: for the fourteenth consecutive session of lower LIBOR sets, the 3 month LIBOR set 1.25 bps lower at 4.8650%, in 11.88 bps for week. Meanwhile, 1-month LIBOR set 1.00 bps lower at 4.6775%, in 11.5 bps for week. Net weekly recap:

	3-Month LIBOR	1-Month LIBOR
Oct 22-26	-16.75 bps	-15.75 bps
Oct 15-19	-6.31 bps	-9.50 bps
Oct 8-12	-1.93 bps	-6.19 bps
Oct 1-5	+1.43 bps	-0.19 bps
Sep 24-28	+2.63 bps	-0.75 bps
Sep 17-21	-44.38 bps	-48.25 bps
Sep 10-14	-7.87 bps	-21.00 bps
Sep 3-7	+10.37 bps	+10.38 bps
Aug 27-31	+11.57 bps	+21.75 bps
Aug 20-24	+1.00 bps	-0.75 bps
Aug 13-17	-7.50 bps	-10.88 bps

07:45 11/02 **FX:** Euro-dollar was higher on Friday morning, aided in part by comments from ECB's Mersch, though the move lacked conviction as traders awaited the US employment report at 1230GMT for fresh direction. The pair was trading around \$1.4480 ahead of the US open, not far off this week's record highs at \$1.4508. Dollar-yen retested the overnight high, though offers ahead of Y115.00 kept the rate contained in a relatively quiet session. Sterling retained a firm tone through European morning trade, the pound boosted through Asia on strong Japanese carry trade investments, with cable extending the rise in Europe on dollar weakness. However, cable failed to retest Thursday's late highs of \$2.0875 (26 year highs), meeting resistance above \$2.0860 before settling around \$2.0820 ahead of the New York open. Dollar-Canada was a major mover, slipping to a C\$0.93 handle on firmer than expected Canadian employment data.

02:52 11/02 **JGB SUMMARY:** Japanese government bonds ended Friday's sharply higher, as the slump in global equities and renewed credit market unease buoyed debt markets. With New York stocks leading the way lower Asian bourses slumped from the start of trade. JGB prices were higher from the getgo, helped by the sharp slide in the Nikkei 225. With demand seen across the curve from both onshore and offshore names, yields fell sharply, with the 10-year yield approaching 18-month lows.

- Benchmark 10-year yield was 7.5 bps lower at 1.595%.
- Benchmark 5-year yield was 8 bps lower at 1.090%.
- Benchmark 20-year yield was 7 bps lower at 2.150%.
- Benchmark 30-year yield was 8 bps lower at 2.390%.
- Lead Sept JGB futures contract was up 0.87 at 136.09.