

Euro Mkt Summary: EGBs Lower, Stocks, Supply Factors Weigh
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EGBs were trading lower on Tuesday afternoon, with long dated EGBs underperforming ahead of long dated Eurozone supply this week, in turn steepening the Bund curve. Bunds pared earlier gains in afternoon trade, weighed by moderate gains in US stocks. Trade was muted ahead of comments by Fed Chairman Ben Benanke, due to give a keynote speech later on Tuesday evening. EGBs opened lower on Tuesday morning on risk aversion unwinding, taking cue from USTs overnight after Wall Street equities pared losses. Bunds were unchanged following the release of October Eurozone service PMI data, which came in near in line with expectations. However, the market reversed direction after European stocks pared opening gains. Prices also squeezed higher following the release of German factory orders, which slumped in September - well below expectations. Long dated issues continued to underperform ahead of long dated supply from France, which sells the 4.00% April 2055 OAT issue on Thursday, alongside the 4.25% Oct 2017 OAT amidst a negative investor cash flow environment this week.

The data calendar for the Eurozone in light on Wednesday, and attention will turn to German industrial production data. Also eyed will be the release of new economic forecasts for 2007 and 2008 by the German government's council of independent economic advisers.

In the forex markets, the dollar traded mixed against the major currencies. The EUR/USD was at 1.456 (+0.009), cable at 2.088 (+0.007) and USD/JPY at 114.49 (+0.03).

European equities were stronger in afternoon trade. The DAX was trading +0.44%, CAC 40 +0.96% and the FTSE +0.54% on the day. US stocks were also stronger with the S&P 500 +0.53% and the NASDAQ +0.39%.

Gilts were trading mixed on Tuesday afternoon, with long dated Gilts underperforming on the Gilt curve. Short dated Gilts outperformed following the release of UK BRC retail sales, which showed UK like-for-like retail sales rose at their weakest rate since November 2006. Gilts were also underpinned by a decent take up of the 4.75% Dec 2030 Gilt, at the DMO Gilt auction on Tuesday morning. This issue was covered 2.09 times with the small tail of 0.9bps further underscoring decent demand.

Ahead of the Gilt open on Wednesday, Nationwide consumer confidence data is due for release. Thereafter, attention will turn to BRC shop price data.