

Euro Mkt Summary: EGBs Higher on Risk Aversion, Eurodollar Highs
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EGBs were trading lower with the 5-year sector outperforming. Bunds dipped lower in afternoon trade, taking cue from USTs after US nonfarm productivity came in stronger than expectations. The market continued to pare gains on pre-auction short setting ahead of the US \$13bn 10-year Note auction. EGBs opened higher on Wednesday morning, underpinned by risk aversion buying on renewed credit concerns following unconfirmed rumours of further large writedowns at a major US investment bank. The short dates were also supported by the eurodollar appreciation, which hit fresh all-time highs above \$1.47 after Chinese official Cheng Siwei suggested China should boost its holdings of strong currencies such as the Euro. Bunds posted little reaction to German industrial production data, which unexpectedly rose in September. The long end meanwhile remained relatively heavy ahead of long dated supply from France, which sells the 4.00% April 2055 OAT issue on Thursday. Ahead of the afternoon session, Bunds pushed higher in the afternoon session on switch trades out of US Treasuries.

Focus in Europe turns to the ECB interest rate announcement and subsequent interest rate statement delivered by ECB President Trichet on Thursday morning. We expect the ECB President to deliver a hard line on policy in wake of rising inflation concerns, which pressure the front end of the Bund curve. On the supply front, the AFT will issue between E3-3.5bn of the 4.25% Oct 2017 OAT and 4.00% April 2055 OAT.

In the forex markets, the dollar traded weaker against the major currencies. The EUR/USD was at 1.468 (+0.013), cable at 2.106 (+0.018) and USD/JPY at 113.32 (-1.39).

European equities were weaker in afternoon trade. The DAX was trading -0.36%, CAC 40 -0.33% and the FTSE -0.97% on the day. US stocks were also weaker with the S&P 500 -0.77% and the NASDAQ -0.64%.

Gilts were also trading higher on Wednesday afternoon, with short dated Gilts outperforming on talk that domestic accounts were being forced to hedge against a surprise interest rate cut by the Bank of England on Thursday. On the data front, UK shop prices posted their strongest annual rise for 2007 in October, according to data released by the British Retail Consortium - with stronger food prices the key driver.

Attention in the UK on Thursday will turn to the Bank of England interest rate announcement, where the BOE is expected to keep interest unchanged at 5.75%. Ahead of the BOE interest rate announcement, the market will eye Halifax house price data on the Gilt open.