

**Euro Mkt Summary: EGBs Higher After Trichet Warns of Downside Risks**  
**by Charanjeev Chana**

**EGBs** were trading higher with little bias. In afternoon trade, Bunds came under pressure on initial comments by ECB President Trichet, who said in the opening remarks of his ECB press statement that the ECB would "monitor very closely" all developments and "act in a firm and timely manner" so price risks did not emerge. However prices soon reversed losses after Trichet warned of downside risks to growth. EGBs opened slightly lower on Thursday morning, extending weakness following the release of the US non-manufacturing ISM index in the previous session, which reported a strong rise in the employment index. Trading volumes were thin in morning trade ahead of key interest rate announcements from the ECB and BOE. Meanwhile, supply from France was well received. The AFT sold E1.842bln of 4.25% Oct 2017 OAT, covered 3.976 times and E1.16bln of 6.00% Oct 2025 OAT, covered 3.815 times. The auctions delivered decent price premiums of 7 cents for the 2017 OAT and 14 cents for the 2025 OAT.

Friday lacks any key macroeconomic data from the Eurozone, and attention will turn to the release of September US nonfarm payrolls data.

In the **forex markets**, the dollar traded mixed against the major currencies. The EUR/USD was at 1.408 (-0.001), cable at 2.038 (+0.006) and USD/JPY at 116.48 (-0.27).

**European equities** were mixed in afternoon trade. The DAX was trading -0.13%, CAC 40 +0.07% and the FTSE +0.66% on the day. US stocks were moderately stronger with the S&P 500 +0.13% and the NASDAQ +0.02%.

**Gilts** were trading mixed with short dated Gilts underperforming following the BOE decision to keep interest rates unchanged at 5.75%. Ahead of the Bank of England announcement, Gilts ticked higher on comments by ex-BOE MPC member Goodhart, who said he had a "sneaking suspicion" that the BOE would cut interest rates today. The market then pared gains following the BOE decision to keep interest rates unchanged at 5.75%. Gilts outperformed versus Bunds, amidst continued market speculation that UK banks are shunning funds offered by the Bank of England, and instead taking advantage of the much lower interest rates offered by the ECB. The borrowed euros have reportedly been switched into sterling, which in turn have been re-invested into Gilts.

**ECB****4 October 2007 - Monetary policy decisions**

At today's meeting, which was held in Vienna, the Governing Council of the ECB decided that the minimum bid rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.00%, 5.00% and 3.00% respectively.

**BOE****[As of 10/04/2007 7:00 am CT]**

The Bank of England's Monetary Policy Committee today voted to maintain the official Bank Rate paid on commercial bank reserves at 5.75%.

The minutes of the meeting will be published at 9.30am on Wednesday 17 October.



[Times for Market News International stories are ET]

09:50 10/04 **EUROZONE:** Benjamin Reitzes of BMO Capital Markets says ECB President Trichet took a less hawkish tone on interest rates, which would suggest the ECB is on hold indefinitely. Trichet no longer described policy as "accommodative" which likely points to an end of the hiking cycle. However, he also spoke about solid eurozone economic fundamentals but warned also that risks to growth are to the downside. "However, President Trichet made it crystal clear that interest rate cuts are not on the agenda," Reitzes says.

09:16 10/04 **EURIBOR:** ECB President Jean-Claude Trichet has been dovish so far, agree traders. Trichet has dropped reference to policy being accommodative and that the ECB will monitor developments very closely. In addition, Trichet added that "on balance, risks to growth on the downside". However, Trichet also said that the ECB stands ready to counter risks to price stability and talked about potential capacity constraints. Overall, this is seen as dovish, but at the same time most strategists say that the ECB is now "sitting on its hands" and also "on perma hold", until money market conditions normalise, otherwise, bias is towards a rate hike to counter upside price risks. Dec euribor is on session highs at 95.415, up 3.5 ticks.

(cont.)

09:38 10/04 **ECB TRICHET:** Ends news conference  
09:01 10/04 ECB TRICHET: I never say in advance what should be result of G7  
08:56 10/04 ECB TRICHET: Sidesteps question on whether euro FX has overshot  
08:54 10/04 ECB TRICHET: Market should take account of better fundamentals in Japan  
08:53 10/04 ECB TRICHET: FX very important issue, need verbal discipline - Considers excessive volatility very counter productive  
08:52 10/04 ECB TRICHET: Exchange rates one of factors taken into account