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RESEARCH ASSOCIATES

Euro Mkt Summary: EGBs Lower on US Payrolls Data
by Charanjeev Chana

EGBs were trading sharply lower on Friday afternoon with the short end underperforming, in turn steepening the Bund curve. Bunds posted sharp losses in afternoon trade following the release of September US nonfarm payrolls data, which came in above expectations. Also fuelling the decline was upward revisions to August payrolls data. EGBs opened higher on Friday morning, extending previous session gains after ECB President Trichet cited growing uncertainty and increased downside risks in his ECB press statement. Trichet removed the "accommodative" phrase in the opening paragraphs of his statement when referring to current monetary conditions, to suggest that the ECB will leave interest rates on hold for the foreseeable future. Dec07 Bunds eased lower into negative territory in morning trade on the back of profit taking ahead of September US payrolls data.

Monday will see a number of appearances by ECB officials. ECB President Trichet, ECBs Liikanen and ECB official Hurley are all due to speak on Monday morning. On the data front, August German manufacturing orders are expected late Monday morning.

In the forex markets, the dollar traded mixed against the major currencies. The EUR/USD was at 1.415 (-0.001), cable at 2.040 (+0.001) and USD/JPY at 116.14 (+0.41).

European equities were mixed in afternoon trade. The DAX was trading +0.55%, CAC 40 +0.47% and the FTSE +0.61% on the day. US stocks were also stronger with the S&P 500 +0.33% and the NASDAQ +0.63%.

MarketNews international

[Times for Market News International stories are ET]

10:14 10/05 **US TSYS/CENTRAL BANKS**: Talk is that the 10Y central bank buyer was a European central bank (not THE ECB) that bought US$1B in 10Ys; there also could have been another 10Y foreign central bank buyer too in 10s, with also milder 2Y foreign central bank buying. "I'm sure they had target levels," said one trader eyeing the 4.60% 10Y yield, referring to the European central bank action.

10:08 10/05 **US TSYS/CENTRAL BANKS**: Follows to 9:53 a.m. ET: In addition to big buying by at least one foreign central bank in 10Ys, which could have been what stalled out the worst of this morning's post-jobs-data selloff, there also was milder foreign central bank buying in US 2Ys too. Meanwhile others also noted that there appeared to be brisk 2Y/10Y steepeners being done at +50 bps earlier today within first 20 minutes of the post-jobs-data period. Others noted that much of today's volume was doing below current levels, so surprisingly, the market could see a short squeeze despite morning steep selloff. "As we grind higher, the shorts are below the market," said one trader. "Most of the volume was done below these prices."

(cont.)

08:41 10/05 **DOLLAR-YEN:** Dollar-yen has broken psychological resistance at Y117 as well as revisited the Aug 23 highs near Y117.14. Analysts note also that earlier in Aug, dollar-yen bottomed out on two occasions in the Y117.15/20 area. The break above this formidable resistance in the Y117.10/20 zone, bodes well for further gains. (High Y117.29) although the pair has since edged lower (Y117.10 currently)

09:53 10/05 **RISK APPETITE:** The market seemed to have gotten the "sweet spot" payroll number it wanted. The solid jobs report bodes well for the global economy and this has players flocking back into risk appetite trades thus boosting yen carry and emerging market currencies. Euro-yen is hovering near Y165 - not all that far from this week's highs near Y165.29. Aussie-yen hit a high near Y104.90 earlier, revisiting levels seen in late July. In the emerging market currencies, the Mexican peso posted a high of Mxn10.7387 vs the dollar earlier, which put the pair back at dollar-peso levels last seen also in late July before the credit crunch meltdown. Traders remain cautious into the weekend nevertheless and note paring back of positions. "This market is really confusing people," one trader says.