



EMU Bonds Mixed; Curve Flatter In Thin Volume Session

LONDON, Oct. 9 (MNI) - European bond prices are mixed on Tuesday, with long-dated issues outperforming on duration-extension buying, albeit in thin volume session. Focus now turns to the FOMC minutes for the September 18 meeting to see the Fed thinking about why it cut Fed funds rate by 50bps. Later this session, there are plenty of Fed speakers, which includes Poole (voter), Yellen (non-voter) and Pianalto (non-voter).

Bunds opened higher, in corrective mood following losses the previous session, induced in thin volume session, given U.S./Japan holidays.

Sentiment is seen underpinned by a leak of an IMF draft report in The Times newspaper, which gives a gloomy outlook for the U.S. economy, suggesting that it will see little or no recovery next year from its present downturn, as its housing market slumps and the global credit squeeze continues to take a toll on growth.

The IMF report due next week, shows that it will cut its forecast for U.S. growth next year to 1.9% versus the consensus forecasts of 2.0% this year.

Traders reported duration-extension trades by real money accounts, with leverage accounts unwinding curve steepening trades.

...Bunds eased moderately after German industrial output rose much more than expected in August, with the 1.7% monthly rise -- the second in a row -- leaving total production in August and July 1.6% above the 2Q average, which rose by +0.3% on the quarter after 1.8% in 1Q.

In the U.K., Gilts are higher, with long-dated issues outperforming the curve, and in turn flattening the curve, albeit in thin volume session. The short-dates Gilt issues were weighed in early trade by upbeat BRC retail sales monitor overnight, which showed like-for-like sales rising 3.0% on the year and total sales up 4.9% over the same period. The data suggest that the September run on Northern Rock bank did not have a dramatic or immediate impact on consumer spending. Gilts paid little attention to U.K. trade data, where the global goods trade gap narrowed in August to Stg6.853 bln, in line with analysts' forecasts, after hitting a record high in July. Analysts' median forecast was for a Stg6.8 bln outturn.

Attention now turns to the U.K. Chancellor of the Exchequer Alistair Darling's first Pre-Budget Report and the Comprehensive Spending Review at 1445GMT. A sharp decline in borrowing in cash terms so far this fiscal year has left the door ajar to an announcement of a cut in planned gilt issuance following the Pre-Budget Report Tuesday.

The central government net cash requirement (CGNCR) -- a key measure in determining gilt issuance -- was a cumulative Stg6.269 bln less in the fiscal year to August compared to the same period a year ago. While some of this reduction is due to special factors, analysts nevertheless believe it is likely the CGNCR will undershoot the Treasury's forecast in the March Budget Report of Stg37.6 billion for this fiscal year. The Gilt 2-/10-year yield spread was 4.1 bps flatter at -19.0 bps, whilst the 10-/30-year yield spread was 0.5 bp flatter at -41.2 bps. Dec Gilts are up 19 tick at 107.44.

In other cross border flows, Bunds outperformed U.S. Treasuries as the 10-year UST/Bund yield spread widened to +34.5 bps vs +34.0 bps.

European equity bourses are mixed. The FTSE-100 was up 0.78%. In Paris the CAC was lower by 0.03% and in Frankfurt, the DAX was up 0.01%. U.S. index futures are also trading higher. The S&P Dec contract was up 1.9 points at 1564.7 and the Nasdaq Dec contract was up 2.75 points at 2183.0.

The yield on the 4.00% Sept 2009 Schatz was up 0.9 bp at 4.05%. The yield on the 4.25% Oct 2012 Series 151 Bobl was unchanged at 4.18%. The yield on the benchmark 4.25% July 2017 Bund was down 0.7 bp at 4.35%. The yield on the 4.25% July 2039 Bund down 1.5 bps to 4.56%.

Subsequently, the Bund curve traded flatter from Monday's close, with the 2-/10-year yield spread at +29 bps versus +31 bps, whilst the 10-/30-year yield spread was at +22 bps versus +23 bps.



[Times for Market News International stories are ET]

11:08 10/09 **UK: DMO:**

*CGNCR forecasts for 08/09 onwards Stg 38bln, 38, 33, 34, 29

*Financing requirement for 08/09 onwards Stg55 billion, 54, 63, 61 billion

*2007/08 CGNCR forecast STG 37.3bln vs Stg 37.6bln -- 2007/08 Net Financing Requirement Stg 58.3bln vs Stg 59.9bln

*No changes to planned gilt sales-- T-bill sales reduce by stg1.6 billion

06:55 10/09 **LIBOR FIXINGS:** Euro o/n Libor fixed at 4.0200% vs 3.70500% Monday -- highest fixing since Sept 28.

06:56 10/09 **BUND SUMMARY:** Bunds opened higher, in corrective mood following losses the previous session, induced in thin volume session, given US/Japan holidays. Sentiment is seen underpinned by a leak of an IMF draft report in The Times newspaper, which gives a gloomy outlook for the US economy, suggesting that it will see little or no recovery next year from its present downturn, as its housing market slump and the global credit squeeze continue to take a toll on growth. The IMF report due next week, shows that it will cut its forecast for US growth next year to 1.9% vs consensus forecasts of 2.0% this year. Traders reported duration extension trades by real money accounts, with leverage accounts unwinding curve steepening trades. In supply news, Austrian Federal Financing Agency sold E1.0bln of the 3.50% July 2015 RAGB issue at an average yield of 4.324% and covered 2.968 times. Bunds eased moderately after German industrial output rose much more than expected in August, with the 1.7% monthly rise -- the second in a row.

07:05 10/09 **GILT SUMMARY:** Gilts are higher, with long-dated issues outperforming the curve, and in turn flattening the curve, albeit in thin volume session. The short-dates were weighed in early trade by upbeat BRC retail sales monitor overnight, which showed like-for-like sales rising 3.0% on the year and total sales up 4.9% over the same period. The data suggest that the September run on Northern Rock bank did not have a dramatic or immediate impact on consumer spending. Gilts paid little attention to UK trade data, where the global goods trade gap narrowed in Aug, line with analysts' forecasts, after hitting a record high in July. Analysts' median forecast was for a Stg6.8 bln outturn. Attention now turns to the UK Chancellor of the Exchequer Alistair Darling's first Pre-Budget Report and the Comprehensive Spending Review at 1445GMT. The Gilt 2-/10-year yield spread was 4.1 bps flatter at -19.0 bps, whilst the 10-/30-year yield spread was 0.5 bps flatter at -41.2 bps. Dec Gilts are up 19 tick at 107.44.

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07:53 10/09 **LIBOR:** After setting 1.0 bps higher to start the week, 3 month LIBOR sets 0.43 bps lower at 5.2488%, as US mkts return from long weekend--up 0.57 bps for the week. Meanwhile, 1-month LIBOR also set 0.37 bps lower at 5.1163%, in 0.56 bps for the week. Net weekly recap:

	3-Month LIBOR	1-Month LIBOR
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
August 6-10	+21.50 bps	+36.63 bps

08:37 10/09 **ECB TUMPEL-GUGERELL:** Further reported comments at conference in Dublin -- Doesn't comment on ECB policy in speech

-- Financial markets understanding key for monetary policy. (Bbg)

08:35 10/09 **ECB TUMPEL-GUGERELL:** Reported comments at conference in Dublin

-- Says regulations needed in financial markets

-- Hedge funds have brought benefits

-- Hedge funds have potential to reduce risk. (Bbg)

10:30 10/09 **GILTS:** Traders report Liability Driven Investment (LDI) demand in long-dated Gilts, in turn fuelling the flattening move. Traders also note some speculation in the market that the DMO is likely to cut medium-dated (7-15-year) Gilt issuance after the PBR report. The 2-/10-year Gilt yield spread is 5.6bps flatter at -20.5bps.

10:50 10/09 **GILTS:** 2-/10-year Gilt yield curve continues to flatten, amid expectations that the UK Debt Management Office (DMO) is likely to cut medium-dated (7-15-year) Gilt issuance after the PBR report. The 2-/10-year Gilt yield spread is now 6.1bps flatter at -21.0bps.

11:39 10/09 **EGB FLOWS:** Traders confirm talk of unwinding of two large 2-/10-year Bund steepening trades on Tuesday afternoon, which has been described as a "structurally crowded trade". The 2-/10-year Bund yield curve is 4bps flatter at +27bps. Also reported earlier was selling 30-year Italian BTPs into core issues and buying of Austrian 2015 RAGB issue vs neighbours on the curve.