



[7:27 am ET] LONDON, Oct. 11 (MNI) - European bond prices are lower on Thursday, but off their worst levels on the back of short-covering and duration extension buying, say traders. Bunds opened little changed, after U.S. Treasuries traded steady overnight.

However, prices fell sharply, with U.K. Gilts once again leading the charge on reported leverage account selling.

In addition, European stocks gains also added to the downward pressure in December Bund futures, which hit 11-day lows at 112.08.

Prices were also weighed ahead of supply from Italy, where E4.0bln of the new 4.25% Oct 2012 BTP issue were sold at an average yield of 4.32% and covered a disappointing 1.38 times.

Traders said that the weak cover was attributed to the fact that the 5-year sector is rich in asset-swap terms. Traders added that the price premium at 1 cent was also weaker than expected.

Bunds then staged a recovery, led duration extension buying in long-dated issues, and short-covering by leverage accounts.

In other supply news, Republic of Ireland's forthcoming long-dated syndicated euro benchmark issue is expected to be a 10- or a 15-year issue, Oliver Whelan, the head of Funding & Debt Management at the National Treasury Management Agency (NTMA) told MNI.

Whelan said the NTMA are testing the market and depending on market feedback, will likely launch the new long-dated syndicated issue early next week, with pricing expected to be mid-week. The size of the issue is likely to be for a minimum of E3.0bln.

Elsewhere, the ECB monthly bulletin was a repeat of the latest ECB press conference statement on October 4, and had little impact on Bunds.

In the U.K., Gilts are lower and extended losses on leverage account selling.

However, the short-dated Gilts outperformed, amid corrective moves following recent sharp losses in the wake of hawkish comments from Bank of England Governor Mervyn King on Tuesday.

The short-dated Gilts were also underpinned by the latest RICS survey, which showed the U.K. house prices balance declining 14.6% in the 3 Months to September - the fastest pace for two years.

The Gilt 2-/10-year yield spread was 2.2 bps steeper at -24.9 bps, whilst the 10-/30-year yield spread was 0.2 bp flatter at -44.6 bps.

Dec Gilts are down 12 ticks at 106.91.

In other cross border flows, Bunds underperformed U.S. Treasuries as the 10-year UST/Bund yield spread narrowed to +34 bps versus +35 bps Wednesday.

European equity bourses are higher. The FTSE-100 was up 0.74%. In Paris the CAC was higher by 0.60% and in Frankfurt, the DAX was up 0.60%. U.S. index futures are trading higher. The S&P Dec contract was up 7.7 points at 1581.0 and the Nasdaq Dec contract was up 7.7 points at 1581.0.

The yield on the 4.00% Sept 2009 Schatz was up 1.7 bps at 4.09%. The yield on the 4.25% Oct 2012 Series 151 Bobl was up 2.3 bps at 4.23%. The yield on the benchmark 4.25% July 2017 Bund was up 1.5 bps at 4.37%. The yield on the 4.25% July 2039 Bund up 0.8 bp to 4.58%.

Subsequently, the Bund curve traded flatter from Wednesday's close, with the 2-/10-year yield spread at +28 bps versus +29 bps, whilst the 10-/30-year yield spread was unchanged at +21 bps.



[Times for Market News International stories are ET]

07:44 10/11 **UK TREASURY: BOE** to make further aid available to N Rock

- Additional BOE N Rock aid at penalty rate of interest

10:34 10/11 **BOE:** BoE weekly data: Other assets +Stg2.27bln; may be due to Northern Rock aid.

05:51 10/11 **ECB TRICHET:** Sees robust growth in Eurozone, near potential

- ECB baseline scenario confirmed, but more uncertainty
- ECB must gather more data to make definitive judgement
- Repeats FX should reflect economic fundamentals
- Repeats excessive FX volatility undesirable
- Global growth remains very robust
- Mkts should see Japan economy is on solid growth path
- Markets must avoid one-way bets in FX
- Notes that US has said strong dollar is in its interest

06:41 10/11 **GILT SUMMARY:** Gilts are lower and extended losses in early trade on leverage account selling. However, the short-dated Gilts outperformed, amid corrective move following recent sharp losses in the wake of hawkish comments from Bank of England Governor Mervyn King on Tuesday. The short-dated Gilts also underpinned by latest RICS survey overnight showed UK house prices balance decline 14.6% in the 3 Months to September - the fastest pace for two years. The Gilt 2-/10-year yield spread was 2.2 bps steeper at -24.9 bps, whilst the 10-/30-year yield spread was 0.2 bps flatter at -44.6 bps. Dec Gilts are down 12 ticks at 106.91.

06:38 10/11 **BUND SUMMARY:** Bunds opened little changed, after US Treasuries traded steady overnight. However, prices fell sharply, with UK Gilts once again leading the charge on reported leverage account selling. In addition, European stocks gains also added to the downward pressure in December Bund futures, which hit 11-day lows at 112.08. Prices were also weighed ahead of supply from Italy, where E4.0bln of the new 4.25% Oct 2012 BTP issue was sold at an average yield of 4.32% and covered a disappointing 1.38 times. Traders said that the weak cover was attributed to fact that the 5-year sector is rich in asset-swap terms. Traders added that the price premium at 1 cent was also weaker than expected. Bunds then staged a recovery, led duration extension buying in long-dated issues, and short-covering by leverage accounts. In other supply news, Republic of Ireland's forthcoming long-dated syndicated euro benchmark issue is expected to be a 10 or a 15-year issue, said Oliver Whelan, the head of Funding & Debt Management at NTMA told MNI.

07:43 10/11 **LIBOR:** For the third consecutive session 3 month LIBOR sets lower, in 0.50 bps at 5.2425%, in 0.06 bps for the week. Meanwhile, 1-month LIBOR sets 1.87 bps lower at 5.0913%, in 3.06 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

08:13 10/11 **JGB RECAP:** Prices ended lower but off their intraday lows after a trading in a 28 tick range. Early trading had prices trading higher amid weaker US stocks and lower Aug Machine orders. Then Moody's raised Japan's rating by one level to A1, which boosted the Nikkei and hit JGB's. Prices subsequently spiked off their lows in afternoon trade - not so much on BOJ leaving rates unch, but the fact that the vote was 8-1. This strength was met by pre-hedging ahead of tomorrow's 5Y supply. Dealer desks expect a short cover bid in tomorrow's auction in addition to new money and relative value interest.

08:49 10/11 **JAPAN:** Overnight, the BOJ kept monetary policy unchanged at 0.5% - in line with expectations. Also, late Wed's US rating agency Moody's Investor Services upgraded Japan's sovereign rating to A1 from As - with stable rating outlook supported by "the likely leveling off this year of Japan's government debt trajectory." CitiFX analysts note that this was the first rating change since May 2002 when Moody's downgraded Japan from Aa3 to A2. The upgrade was not a surprise, since Moody's suggested this might happen in July, they note. "The upgrade is a positive news in principle, but may not suddenly encourage an increase in JGB holdings by the foreign investors, as the foreign currency debt rating remained unchanged at Aaa, and more importantly, Japanese interest rate levels remain very low," CitiFX says.