

Stone & McCarthy
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ASIA/EUROPE BOND AND STOCK MARKETS RECAP for Oct 12, 2007 08:18 EDT / Oct 12

For: Friday, Oct. 12, 2007

US TSYS: OVERNIGHT FLOWS: US Tsys open higher vs 3pm ET Thu despite some overnight profit-taking. In TOKYO, Tsys inched lower after US session's late gains amid US stocks weakness. Real money did better buying in 2Ys, while leveraged accounts sought to sell intermediates. Asian accounts took some profits in TIPS. China's trade balance rose 56% to US\$23.9 bln. Most Asian stock mkts declined; Japan's Nikkei-225 index -0.73%. There was 2Y swaps paying in Asian time zone, in overnight action too. There was selling in 2Y notes by Asian banks, as well as by Japanese accounts. But weaker Tsys soon brought in modest Japanese buying across curve, from 5Ys out to 30Ys.

US TSYS: In LONDON, Tsys had muted flows with interdealer position-squaring, aided by mainly weaker stock mkts across Europe. Fast money accounts continued to unwind cross-border trades. There was financial institution profit-taking in 10Ys, Street selling in 5s, which drew two-way flows but also buying from foreign central banks and US accounts too. Swap-tied selling surfaced in 2Ys, as did Continental selling too. There was 10Y swaps paying. There was profit-taking on LIBOR normalization trades, via options, and also large buyers of upside seen in Euribor, betting on the same. Elsewhere there was real money profit-taking in TIPS, as well as Street paying in 10Ys swaps.

EGB SUMMARY: Bund futures are holding just inside positive territory, having gained in earlier trade following the rally in USTs late Thursday and also on weaker European equity markets. The futures traded up to 112.35, 5-day moving avg then resumed recent weak tone and slipped back. Many traders squaring off ahead of US data this afternoon. There was no sovereign issuance Fri. Lower-than-expected France CPI and narrowing of France C/A deficit, Eurozone ind output expands more than expected.

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[Times for Market News International stories are ET]

07:10 10/12 **BUND/UST**: 'Hot money' names have continued to unwind their cross border trades, although the Bund/T-note spread is little changed. The spread is flat on Thursday's levels, standing at 34 bps.

07:22 10/12 **GILT SUMMARY**: After gapping higher at the open following the overnight rally in USYs and early weakness in the UK FTSE 100, the Dec Gilt traded quickly to 107.00, up 28 on Thursday's close. However, market soon regained their soft tone, slipping into negative territory. The move is testing an area of Fibonacci support and while much of the morning flow is said to be linked to book-squaring ahead of the US data, break here would bring 106.29 lows from late Sep into focus.

06:47 10/12 **EUROZONE**: Reported comments from eurozone officials Friday,

** ECB STARK: Market turmoil has increased economic outlook uncertainty

- ECB needs to gather more information before drawing further conclusions

- Confidence indicators point to sustained growth through during H2 07

- Global economic activity remains resilient so far despite turmoil

- Expects inflation to remain significantly above 2.0% in early 2008 before moderating.

** GERMANY: Dep.FinMin; Sees signs of easing on credit markets

- but situation in money markets still tense

- G7 to discuss FX rates. Eurogroup has common FX stance in G7 talks

- 2007 Germany GDP at least 2.3%. Most institutes see 2008 CDP +2.0%

** EU ALMUNIA: Downward risks to positive scenario have increased

- Sees internal EMU demand sustaining growth in 2008

- Volatility of the euro greater than we expected

07:40 10/12 **LIBOR**: Gapping lower, for the fourth consecutive session 3 month LIBOR sets lower, in 1.87 bps at 5.2238%, in 1.93 bps for the week. Meanwhile, 1-month LIBOR sets a whopping 3.13 bps lower at 5.0600%, in 6.19 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

08:54 10/12 Z07 **BUND**: Breaks H&S Neckline

RES 4: 113.09 High 5 October, 200-DMA

RES 3: 112.74 High 9 Oct, 21-day moving average

RES 2: 112.59 Falling resistance line from 10 Sept

RES 1: 112.35/38 5-day moving average, Minor former July support line

PREVIOUS CLOSE: 111.85

RES 1: 111.61/65 50% projection, Low Z07 8 Aug, base of Bollinger band

SUP 2: 111.45/52 61.8% retrace levels, Low 8 Aug, support line 20 Sep

SUP 3: 111.27 61.8% projection of 114.98/112.03 decline, from 113.09

SUP 4: 110.62 50% of H&S target and Dec contract high from July

COMMENTARY: Following stochastic and momentum studies turning lower, the market has

broken the neckline of a head-&-shoulder pattern (drawn from Aug 8) at 112.17/19. This

targets deep losses with 50% of the move coming at the July 2 highs of 110.62. Main interim

support is 111.45/52, 61.8% retracement as well as a declining trendline and continuation

low.06:58 10/12 JGB SUMMARY: Japanese government bonds ended Friday's session higher

across the board, boosted by weaker stocks and solid investor demand at

the Ministry of Finance's 5-year JGB auction. The benchmark 10-year yield was 4 bps lower at

1.705%.