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EMU Bonds Come Off Lows; Long-End Buying Flattens Curve, by Market News, 15 October 2007

LONDON Oct. 15 (MNI) - European bond prices are lower on Monday, but off their worst levels on back of buying in long-dated issues which flattened the **Bund yield curve**.

Attention turns to comments from Federal Reserve Chairman Ben Bernanke, who speaks at dinner hosted by the Economic Club of New York at 2300GMT.

Bunds opened lower on Monday after weakness in Japanese government bonds overnight following declines in U.S. Treasuries on Friday. Short-dated issues underperformed, in turn flattening the Bund curve.

Traders reported **unwinding of safe-haven trades** amid reports that Citigroup, Bank of America and JP Morgan are expected today to announce plans for a fund to buy mortgage-backed securities. The U.S. banks are expected to put up credit guarantees worth around \$75 bln for the Single-Master Liquidity Enhancement Conduit fund, which will evolve and may only be as large as demand requires.

Traders also reported buying of long-dated issues by real money accounts and pension funds, with higher commodity prices impacting.

WTI Nymex crude oil hit fresh record highs above \$85.00, with gains attributed to rising tensions between Turkey and Iraq, ongoing concerns about winter supplies and the dollar's weakness.

In supply news, the Republic of **Italy** (Aa2/A+/AA) has opened books for its new 30-year BTP with maturity in August 2039, according to a source familiar with the deal. The guidance is at flat/+2bps compared to the February 2037 BTP, the source added. Leads are ABN AMRO, BNP Paribas, Citigroup, MPS Capital Services and JP Morgan.

The Republic of **Ireland's** new October 2018 issue guidance has been revised to +15/16bps vs the 4.25% July 2017 Bund, according to a source familiar with the deal. Initial guidance was at +16bps over the 10-year Bund. The order book is now around E10 billion and expected to close in the "early" afternoon. The issue is now expected to be sold for E5.0bln.

Last week, Oliver Whelan, the head of Funding & Debt Management at the National Treasury Management Agency (NTMA) told MNI that the size of the issue is likely to be for a minimum of E3 billion. "If the market is 'hot' we can go for more," he added.

The syndicated deal had been anticipated by traders, given that E6.399 billion worth of bond redemptions are coming up this fall, with a 4.25% Treasury bond maturing on Oct. 18.

Ireland has never sold a bond via syndication and this will mark the first bond sale since October 2005, when the 4.5% Apr 2020 was last tapped.

In other supply news, the Belgium Financing Agency announced results of its buyback. This included E335mln of the 5.75% Mar 2008 OLO 16 issue at weighted average price of 100.706, E134mln of the 7.50% July 2008 OLO 28 issue at weighted average price of 102.520, and E40mln of the 3.00% Sept 2008 OLO 42 issue at weighted average price of 98.960.

In the UK, **Gilts** are lower, with the 10-year benchmark outperforming at the expense of short-dated issues, as traders continue to pare back expectations of a **Bank of England** rate cut.

The **SONIA** (Sterling Over-Night Index Average) Swap curve is now implying reduced chances of a rate cut from the BoE in coming months, after last week's hawkish BoE Governor King speech. In addition, the strip isn't fully pricing in a 25bps rate cut until end 2008, having previously priced this in by January 2008.

Focus in the UK market turns to plethora of UK economic data releases this week, which include CPI on Tuesday, the employment report and Bank of England minutes for the October meeting on Wednesday, retail sales on Thursday and advance Q3 GDP data on Friday. The 10-year Gilt/Bund yield spread narrowed to +71.3 bps vs +72.0 bps Friday.

The Gilt 2-/10-year yield spread was 2.5 bps flatter at -23.6 bps, whilst the 10-/30-year yield spread was 0.3 bps steeper at -45.6 bps. Dec Gilts are down 7 ticks at 106.17.

In cross-border flows, US Treasuries outperformed German Bunds, as the 10-year UST/Bund yield spread narrowed 1 bp from Friday's levels, with the spread trading at 30.5 bps.

European equity markets are mixed. In London the **FTSE-100** was up 0.16%. In Paris the **CAC** was higher by 0.38% and in Frankfurt the DAX was down 0.09%. U.S. index futures are trading higher. The S&P Dec contract was up 0.6 points at 1575.2 and the Nasdaq Dec contract was up 1.75 points at 2201.00.

The yield on the 4.00% Sept 2009 **Schatz** was up 4.0 bps at 4.24%. The yield on the 4.25% Oct 2012 Series 151 **Bobl** was up 2.3 bps at 4.33%. The yield on the benchmark 4.25% July 2017 **Bund** was up 1.4 bps at 4.44%. The yield on the 4.25% July 2039 Bund up 1.2 bps to 4.64%.

Subsequently, the **Bund curve** traded flatter from Friday's close, with the 2-/10-year yield spread at +20 bps vs +23 bps, whilst the 10-/30-year yield spread was unchanged at +21 bps.



[Times for Market News International stories are ET]

06:45 10/15 **LIBOR FIXINGS:** Stg 3-mth Libor fixing is highest since Sept 28.

06:44 10/15 **LIBOR FIXINGS:** Euro 3-mth Libor fixed at 4.65438% vs 4.68375% Friday--
Stg 3-mth Libor fixed vs 6.29313 vs 6.28000% Friday.

07:42 10/15 GILT SUMMARY: Gilts are lower, with the 10-year benchmark Gilt outperforming at the expense of short-dated issues as traders continue to pare back expectations of a Bank of England rate cut. The SONIA (Sterling Over-Night Index Average) Swap curve is now implying reduced chances of a rate cut from the BoE in coming months, after last week's hawkish BoE Governor King speech. In addition, the strip isn't fully pricing in a 25bps rate cut until end 2008, having previously priced this in by January 2008. Focus in the UK market turns to plethora of UK economic data releases this week, which includes CPI on Tuesday, employment report and Bank of England minutes for the October meeting on Wednesday, retail sales on Thursday and advance Q3 GDP data on Friday. The 10-year Gilt/Bund yield spread narrowed to +71.3 bps vs +72.0 bps Friday. The Gilt 2-/10-year yield spread was 2.5 bps flatter at -23.6 bps, whilst the 10-/30-year yield spread was 0.3 bps steeper at -45.6 bps. Dec Gilts are down 7 ticks at 106.17.

07:26 10/15 BUND SUMMARY: Bunds opened lower on Monday after weakness in JGBs overnight following declines in US Treasuries on Friday, with the short-dated issues underperforming, in turn flattening the Bund curve. Traders reported unwinding of safe-haven trades, amid reports that Citigroup, Bank of America and JP Morgan are expected today to announce plans for a fund to buy mortgage-backed securities -- worth around \$75bln. Traders also reported buying of long dated issues by real money accounts and pension funds, with higher commodity prices impacting. WTI Nymex crude oil hit fresh record highs at \$85.19. In supply news, the Republic of Italy, (Aa2/A+/AA), new Aug 2039 issue was launched with guidance at flat/+2bps compared to the February 2037 BTP. In addition, the Republic of Ireland's new Oct 2018 issue guidance was revised to +15/16bps vs 10-year Bund. The order book was last around E10.0bln, and the issue is now expected to be sold for E5.0bln. Elsewhere, Belgium conducted buyback of OLO 28, OLO 16 and OLO 42 issue.

06:57 10/15 FX: After slipping to \$1.4154 in Friday's NY session on firm US data, euro-dollar recovered in Asia, with European trade extending the move through \$1.4200 as Asian sovereign and east-European demand lifted rateto highs above \$1.4240, the highest level since October 1. Option-related offers ahead of \$1.4250 were capping at the end of the morning, with the lifetime high lurking above at \$1.4283. Dollar-yen made marginal gains above Y117.80 though the move was muted by comparison, whilst euro-yen did see a move to take out last week's highs above Y167.60. Sterling saw a mixed session, pulled higher versus the greenback as euro-dollar broke \$1.4200, though trading soft versus the euro as the cross gained 20-points on Swiss-name demand. Overall sterling flows were light however, traders now awaiting a key week of UK data, with CPI, retail sales and GDP figures all scheduled for release.

02:42 10/15 JGB SUMMARY: Japanese government bond prices ended lower on Monday, following declines in US Treasuries on Friday, while a rise in Japanese stock prices from early trade also weighed. Losses in US Treasury prices following US data on Friday got JGBs off to a weak start, while the firmer Japanese stock market also added to the tone. Japanese shares generally gained following a firm session on Wall Steer Friday, though they dipped into negative territory briefly in the early afternoon session. A speech by Bank of Japan governor Toshihiko Fukui at the opening of the central bank's branch managers' meeting did not have any significant impact on the market.

- Benchmark 10-year yield was 2 bps higher at 1.720%.
- Benchmark 5-year yield was 2.5 bps higher at 1.265.
- Benchmark 20-year yield was 3 bps higher at 2.260%.
- Benchmark 30-year yield was 4 bps higher at 2.520%.
- The Nikkei 225 ended 26.98 points, or 0.16% higher, at 17,358.15.