MarketNews international

Stone & McCarthy RESEARCH ASSOCIATES

[Posted 8:11 am ET, on SMRA.com]

EMU Bonds Mixed;Short Dates Outperform,Risk-Aversion Bid by Market News

LONDON, Oct. 16 (MNI) - European bond prices are mixed on Tuesday, with the short-dated issues outperforming on risk-aversion buying as stocks traded under pressure.
The long-dated issues are weighed on the back of supply issues, with Ireland selling a new 2018 issue, Greece re-opening a 2017 bond and Italy due to price a new 30-year BTP issue.
Subsequently, the curve traded steeper, with the 2-/30-year Bund yield spread widening 6.0 bps to +47.0 bps.
Bunds opened higher, following safe-haven gains in US Treasuries towards the Chicago close after losses by stocks on Wall Street.
Bond prices eased off their best levels following the release of ZEW expectations data for the German economy, which came in at a better than expected -18.1 for October, the same level as in September. However, that reading remained well below the long-term average, currently at 32.1 points, and is the lowest level since December 2006.

In supply news, the Republic of Ireland, (Aaa/AAA/AAA), priced E6.0bln new October 2018 issue at 99.314 re-offer, giving a spread of +15bps vs 4.25% July 2017 Bund. The coupon is 4.50%. Leads are Barclays Capital, Davy, Deutsche Bank and HSBC.
The Republic of Italy's (Aa2/A+/AA) new 30-year BTP issue guidance is now at +1bps vs February 2037 BTP issue, according to source at a lead bank familiar with the deal. The guidance has been refined from flat/+2bps at launch on Monday. The order book is now in excess of E9.0bln, added the source. The issue is expected to be priced later today at a benchmark size. Leads are ABN AMRO, BNP Paribas, Citigroup, MPS Capital Services and JP Morgan.

Elsewhere, Greece sold E1.5bln of the 4.30% July 2017 GGB issue on Tuesday at a weighted average yield of 4.63%, covered 3.78 times.
In the UK, Gilts are higher and outperforming Bunds in the wake of weaker than expected CPI data, where the core rate came in unchanged m/m, +1.5% y/y in September vs MNI median forecast of 1.8% y/y.

Traders said that most recent bets for a November BoE rate cut have been taken off the table, and fast money accounts are now scrambling to buy the short end.
The SONIA OIS curve is now pricing in a 24% chance of a 25bps cut at the November meeting vs -16.0% yesterday.
In addition, the long end is also weighed by supply, where Veolia Environnement is to issue a sterling 30-year benchmark. There is also continued talk of GE due to issue a sterling long-dated issue.

Attention turns to the UK 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 +69.7 bps vs +72.0 bps on Monday.

The Gilt 2-/10-year yield spread was 2.3 bps steeper at -21.1 bps, whilst the 10-/30-year yield spread was 1.9 bps steeper at -43.0 bps.

Dec Gilts are up 22 ticks at 106.36.

In cross-border flows, US Treasuries outperformed Bunds as the 10-year UST/Bund yield spread narrowed to +28.7 bps vs +30.5 bps Monday.

European equity markets are lower. In London, the FTSE-100 was down 0.56%. In Paris the CAC was lower by 0.87% and in Frankfurt, the DAX was down 0.34%. U.S. index futures are also trading lower. The S&P Dec contract was down 7.5 points at 1552.7 and the Nasdaq Dec contract was down 13.5 points at 2167.25.

The yield on the 4.00% Sept 2009 Schatz was down 4.5 bps at 4.19%. The yield on the 4.25% Oct 2012 Series 151 Bobl was down 1.6 bps at 4.31%. The yield on the benchmark 4.25% July 2017 Bund was down 0.1 bps at 4.43%. The yield on the 4.25% July 2039 Bund was up 1.6 bps at 4.67%.

Subsequently, the Bund curve traded steeper from Monday's close, with the 2-/10-year yield spread at +23 bps vs +19 bps, whilst the 10-/30-year yield spread was at +23 bps vs +21 bps.

[Times for Market News International stories are ET]

06:44 10/16 **LIBOR FIXING**: Euro 3-mth Libor fixed at 4.64563% vs 4.65438% Monday--Stg 3-mth Libor fixed at 6.29625% vs 6.29313% Monday.

07:04 10/16 **GILT SUMMARY**: Gilts are higher, and outperforming Bunds in the wake of unexpectedly weaker than expected UK CPI data, where the core rate came in unchanged m/m, +1.5% y/y in September vs MNI median forecast of 1.8%. Traders said that most recent bets for a November BoE rate cut have been taken off the table and fast money accounts are now scrammbling to buy the short-end. The SONIA OIS curve is now pricing in 24% chance of a 25bps cut at the November meeting vs -16.0% yesterday. In addition, the long-end is also weighed by long-end supply, where Veolia Environnement is to issue a sterling 30-year benchmark and continued talk of GE due to issue a sterling long-dated issue. Attention turns to UK 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 +69.7 bps vs +72.0 bps Mondayy. The Gilt 2-/10-year yield spread was 2.3 bps steeper at -21.1 bps, the 10-/30-year yield spread was 1.9 bps steeper.

06:59 10/16 **BUND SUMMARY**: European bond prices are higher on Tuesday, with the short-dated issues outperforming on risk-aversion buying as stocks traded under pressure. However, prices eased off their best levels following release of German ZEW data at -18.1 in Oct -- which came in better than expected and unchanged from Sept. The expectations component came in at -18.1 in October and remained well below its long-term average, which is currently at 32.1 points. The index also remains at its lowest level since December 2006. The long-dated issues were weighed on back of supply issues, with Ireland selling a new 2018 issue, Greece re-opening a 2017 bond and Italy due to price a new 30-year BTP issue. Subsequently, the curve traded steeper from Monday's close, with the 2-/10-year yield spread at +23 bps vs +19 bps, whilst the 10-/30-year yield spread was at +23 bps vs +21 bps. Attention now turns to the slew of key quarterly earnings results today, which includes Intel, Johnson & Johnson, Keycorp, State Street, US Bancorp, Wells Fargo and Yahoo.

05:42 10/16 **SONIA: SONIA** (Sterling Over-Night Index Average) Swap curve is now pricing higher chance of a rate cut from the BoE at the November meeting in the wake of today's unexpectedly soft UK CPI data. Interestingly, the strip is now fully pricing in a 25bps rate cut by June 2008 having been reduced from end 2008 yesterday.

Month	Rate	Probability (25bps cut)	Prob Monday (25bps cut)
November	5.734%	-24.0%	-16.0%
December	5.672%	-30.0%	-20.0%
January	5.618%	-50.0%	-40.0%
February	5.584%	-65.0%	-55.0%
March	5.554%	-80.0%	-60.0%

06:50 10/16 **FX**: Euro-dollar and dollar-yen both ended Tuesday morning lower, the moves driven by a sharp sell-off in carry trades. With the market already sensitive as to possible comments on FX at the upcoming G7 meeting, a profits warning from Ericcson was the catalyst for a sell-off in higher yielding currencies, taking euro-dollar back down to test last Friday's base at $1.4154. Heavy euro-yen sales also took dollar-yen under Y117.00, triggering stops at Y116.80 en-route to session lows around Y116.46. Cable ended Tuesday morning nearly 100 points lower, weaker than expected UK core CPI data exacerbating the sell-off to $2.0320. Aussie and kiwi were the biggest victims of the weakness in carry trades, both sliding nearly 200 points before recovering some ground mid-morning.

Stone and McCarthy (Sydney) **The Japanese government bond market** was higher, but steady over the morning today, as players waited on the result to the auction. Prices then jumped, backed by the rise in US treasuries overnight and with the write-off of bad sub-prime loans by Nomura. The bid for the key Japanese government bond futures contract was fairly steady in offshore trading, after the modest fall in Tokyo dealings yesterday. The contract came under further selling pressure on the very strong US Empire State Manufacturing Index, but recovered as equity markets weakened. The contract ended mid range at 134.41, but that was just one point different to the earlier Tokyo close.