



EMU Bonds Higher; Asset-Allocation Trade, 30-Yr Gilt Switch
by Market News
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LONDON, Oct. 22 (MNI) - European bond prices are higher on Monday amid risk-aversion buying and asset-allocation trades out of stocks following heightened credit jitters and geo-political tension. Volumes were strong and well above average.

The move comes as the Dow fell 367 pts (-2.64%) on Friday, the third-biggest point loss of the year, taking it to its lowest point since Sept. 17, the day before the Federal Reserve cut interest rates.

The sell-off came on the 20th anniversary of Black Monday in 1987, and now sets up a nervous trading session today after the Nikkei-225 closed down 376pts (-2.24%).

In addition, safe-haven flows are seen in the wake of the heightened tension on the Iraq/Turkey border after the latest attack by Kurdish rebels.

Bunds are also seen underpinned by strong redemption payment from Austria (E8.75bln) and France (E14.64bln), along with coupon payments from Belgium (E4.65bln) and Portugal (E0.28bln).

Traders reported strong stop-loss buying in Dec Bunds on break above 113.80. Around 100k contracts were traded, according to traders.

In the U.K., Gilts are higher but underperformed Bunds amid dearth the of domestic data.

Strong switching out of 30-year Gilts into 30-year Bunds was reported, which in turn is fuelling the long-end Gilt underperformance and steepening the Gilt curve.

The Gilt 2-/10-year yield spread was 1.2 bps steeper at -21.1 bps, whilst the 10-/30-year yield spread was 3.3 bps steeper at -33.2 bps.

Dec Gilts are up 38 ticks at 107.99.

In cross-border flows, Bunds outperformed U.S. Treasuries, as the 10-year UST/Bund yield spread traded at +25.0 bps vs +21.7 bps Friday.

European equity markets are trading sharply lower. In London, the FTSE-100 was down 1.49%. In Paris the CAC was lower by 1.86% and in Frankfurt, the DAX was down 1.28%. U.S. index futures are also trading lower. The S&P Dec contract was down 11.9 at 1493.9 and the Nasdaq Dec contract was down 19.0 points at 2130.75.

The yield on the 4.00% Sept 2009 Schatz was down 6.2 bps at 3.93%. The yield on the 4.25% Oct 2012 Series 151 Bobl was down 6.9 bps at 4.02%. The yield on the benchmark 4.25% July 2017 Bund was down 6.6 bps at 4.16%. The yield on the 4.25% July 2039 Bund down 5.0 bps to 4.44%.

Subsequently, the Bund curve traded steeper from Friday's close, with the 2-/10-year yield spread unchanged at +23 bps, whilst the 10-/30-year yield spread was at +27 bps vs +25 bps.



[Times for Market News International stories are ET]

08:55 10/22 **BUNDS/TSYS**: Traders reported switching out from US Treasuries into German Bunds as the 10-year UST/Bund yield spread continues to widen to +27.2 bps vs +21.7 bps Friday.

08:47 10/22 **SHORT-STERLING**: Trader reports paper buys 40k MAR 94.75/95.00 call spread at 3.

09:24 10/22 **FED FUNDS**: Friday's followthrough had futures prices reflecting a 98% chance of a 25bps ease next Wednesday but prices have pulled back to approx 85%. Options mkt reflecting a 70% chance of a qtr point ease, experts say.

07:13 10/22 **BUND SUMMARY**: European bond prices are higher on Monday, amid risk-aversion buying and asset-allocation trades out of stocks, on heightened credit jitters, and geo-political tension. The move comes as the Dow fell 367 pts (-2.64%) on Friday -- the third-biggest point loss of the year, taking it to its lowest point since Sept. 17, the day before the Fed cut rates. The sell-off came on the 20th anniversary of Black Monday in 1987, and now sets up a nervous trading session today after Nikkei-225 closed down 376pts (-2.24%). In addition, safe-haven flows also seen in the wake of the heightened tension on the Iraq/Turkey border after latest attack by Kurdish rebels. Bunds are also seen underpinned by strong redemption payment from Austria (E8.75bln) and France (E14.64bln), along with coupon payments from Belgium (E4.65bln) and Portugal (E0.28bln). Traders reported strong stop-loss buying in Dec Bunds on break above 113.80 -- around 100k contracts traded. Strong switching out of 30-year Gilts into 30-year Bunds was also reported.

07:22 10/22 **GILT SUMMARY**: Gilts are higher, but underperformed Bunds, amid dearth of domestic data. Strong switching out of 30-year Gilts into 30-year Bunds was reported, which in turn is fuelling the long-end Gilt underperformance and in turn steepening the Gilt curve. The Gilt 2-/10-year yield spread was 1.2 bps steeper at -21.1 bps, whilst the 10-/30-year yield spread was 3.3 bps steeper at -33.2 bps. Dec Gilts are up 38 ticks at 107.99.

(Cont.)

09:39 10/22 ECB: **The European Central Bank** called Monday for bids on new 7-day main refinancing operation at variable interest rates and a minimum bid rate of 4.00%. Bids for the latest refinancing operation are due at 0730 GMT on Tuesday, with the allotment results to be announced that day at about 0915 GMT. The new refs will settle on Wednesday -- when E171 billion in 7-day paper allotted at a marginal rate of 4.11% is repatriated -- and expire on Wednesday, October 31. According to the ECB, the benchmark allotment for Tuesday's operation, based on the central bank's liquidity forecast as of today amounts to E167.0 billion, it said.

06:38 10/22 **G7**: Post-meeting comments,

** Trichet: Important U.S. noted strong dollar in its interest

- Notes communique language on China has changed

- Need to see what lessens to draw from mkt crisis

** Juncker: To monitor FX rates closely given recent moves

- Trichet/Almunia to visit China Nov 28-29

** Lagarde: Hope mkts hear US/Fed/Tsy msg on outlook

- Lagarde: Watching How U.S. superfund to work out

** Fukui: Japan econ growth continued moderate despite subprime

** Nukaga: G7 talks 'frank' about fin mkt turmoil

** Paulson: Very Clear that strong dlr in US interests

- Making progress working through mkt turmoil

** Steinbrueck: Current euro/dlr level 'not anything dramatic'

- Euro/Dlr 'nothing new or sensational'

02:22 10/22 **JGB SUMMARY**: Japanese government bond prices were sharply higher in Tokyo trade on Monday, amid continued flight-to-quality demand out of equities. Spec players were at the center of trade, chasing prices higher, while many longer-term investors held to the sidelines, traders said. The G7 meeting of finance ministers and central bankers failed to provide comfort at the weekend, and the Tokyo stock market was sharply lower from the open, helping bond markets score gains, which continued through the session.

-- Benchmark 10-year yield was 2.5 bps lower at 1.585%.

-- Benchmark 5-year yield was 1.5 bps lower at 1.110%

-- Benchmark 20-year yield was 2 bps lower at 2.155%.

-- Benchmark 30-year yield was 2 bps lower at 2.405%.

-- The Nikkei 225 ended 375.90 points, or 2.24% lower, at 17,438.47.