

**EMU Bonds Lower On Profit-Taking, German Ifo Survey ,by Market News, 25 October 2007**

LONDON, Oct. 25 (MNI) - European bond prices are lower on Thursday on profit-taking and in the wake of better than expected German Ifo business sentiment survey results. However, strong redemption payment from France and duration extension buying underpinned sentiment, albeit in thin volume session.

Bunds opened lower, on profit-taking following sharp gains the previous session, after Merrill Lynch suffered a ratings downgrade in the wake of reporting a \$2.24-billion Q3 loss, or \$2.82/share, with a \$7.9bln writedown in collateralized debt obligations (CDOs). Prices extended their fall following the release of stronger than expected German Ifo business sentiment survey results, where the headline Ifo reading fell to 103.9 from an unrevised 104.2 in September.

The index for current conditions fell to 109.6 compared to 109.9 in September -- the second drop in a row but above expectations. The six-month outlook eased to 98.6 from 98.7 -- the fifth straight decline but also above the median forecast in an MNI poll of economists. However, Bunds were supported by a large E14.64bln redemption payment of the 5.50% Oct 2007 OAT, which was due today. In addition, coupon payments from France for around E11.65bln, Austria for E0.95bln and Greece for E1.0bln are also due this week and seen underpinning prices.

Traders reported long-end duration demand, as early estimates for month-end extensions in European Government Bonds are large. The iBoxx Euro sovereign index extends by +0.10 yrs into November, which is higher than the historical average for this time of the year (+0.08 yrs). Traders also reported a large E1.0bln buyer of 2037 Bund and a switch out of 30-year Gilts. The 30-year Gilt/Bund yield spread is wider at +10bps.

In the U.K., Gilts are lower in line with Bunds, with the short-dated issues outperforming following the release of the Bank of England's latest Financial Stability Report released overnight. The report warned that the financial system remains vulnerable to further problems arising from the market turmoil, and to new shocks, from such things as the falling dollar and fragile equity markets. However, the report also said that the U.K. economic outlook remains "robust" despite the stress inflicted on the financial system by recent market turmoil. In addition, the mortgage approvals for house purchase fell to 52,685 in September from 61,051 in August, marking the weakest September in seven years, which also underpinned short-dates.

However, the long-dated issues reversed underperformance, amid late duration extension trades and Liability Driven Investment (LDI) flows.

The Gilt 2-/10-year yield spread was 0.2 bp flatter at -23.5 bps, whilst the 10-/30-year yield spread was 0.8 bp flatter at -36.5 bps.

Dec Gilts are down 23 ticks at 107.78.

In cross-border flows, U.S. Treasuries are little changed against Bunds as the 10-year UST/Bund yield spread trades at +23.9. This yield spread narrowed to +21.2 bps last week, which was the narrowest level seen since October 2004.

European equity markets are higher. In London, the FTSE-100 was up 1.02%. In Paris the CAC was higher by 1.02.% and in Frankfurt, the DAX was up 0.93%. U.S. index futures are trading little changed. The S&P Dec contract was also higher 0.1 point at 1522.0 and the Nasdaq Dec contract was up 4.5 points at 2207.5.

The yield on the 4.00% Sept 2009 Schatz was up 2.8 bps at 3.94%. The yield on the 4.25% Oct 2012 Series 151 Bobl was up 1.3 bps at 4.04%. The yield on the benchmark 4.25% July 2017 Bund was up 1.7 bps at 4.17%. The yield on the 4.25% July 2039 Bund up 1.7 bps to 4.44%.

Subsequently, the Bund curve traded flatter from Wednesday's close, with the 2-/10-year yield spread at +23 bps vs +24 bps, whilst the 10-/30-year yield spread was unchanged at +26 bps.

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07:29 10/25 **BUND SUMMARY:** Bunds opened lower, on profit-taking following sharp gains the previous session, as European stocks recovered recent losses. Prices extended fall following release of stronger than expected German Ifo business sentiment survey, where the headline Ifo reading fell to 103.9 from an unrevised 104.2 in September. The index for current conditions fell to 109.6 compared to 109.9 in September -- the second drop in a row but above expectations. The six-month outlook eased to 98.6 from 98.7 -- the fifth straight decline. However, Bunds were supported by a large E14.64bln redemption payment of the 5.50% Oct 2007 OAT, which is due today. In addition, coupon payments from France for around E11.65bln, Austria E0.95bln and Greece E1.0bln are also due this week, and seen underpinning prices. Traders reported long-end duration demand, as early estimates for month-end extensions in European Government Bonds are large. The iBoxx Euro sovereign index extends by +0.10 yrs into November, which is higher than average.

07:36 10/25 **GILT SUMMARY:** Gilts are lower in line with Bunds, with the short-dated issues outperforming following the release of the Bank of England's latest Financial Stability Report released overnight. The report warned that the financial system remains vulnerable to further problems arising from the market turmoil, and to new shocks, from such things as the falling dollar and fragile equity markets. However, the report also said that the UK economic outlook remains "robust" despite the stress inflicted on the financial system by recent market turmoil. In addition, the mortgage approvals for house purchase fell to 52,685 in Sept from 61,051 in Aug -- weakest September in seven years, also underpinned short-dates. However, the long-dated issues reversed underperformance, amid late duration extension trades and Liability Driven Investment (LDI) flows. The Gilt 2-/10-year yield spread was 0.2 bps flatter at -23.5 bps, whilst the 10-/30-year yield spread was 0.8 bps flatter at -36.5 bps.

06:58 10/25 **JAPAN:** Data released in Japan Thursday,

- ** Sep corporate service prices +1.4% y/y vs +1.1% in August
- ** Retail investor sentiment index -22, worst since survey began

06:51 10/25 **JAPAN:** Reported comments from Japanese officials Thursday,

- ** SHINOHARA: Vice-Finance minister Shinohara in Singapore
 - Japan's economy is on sustainable recovery path
 - Expects Japan consumer inflation to turn positive in the near term
 - Yen carry trade has virtually disappeared
 - BOJ needs to consider impact from slower US growth in deciding rate policy
 - No intention to change FX reserve portfolio despite exchange rate movements.

(Cont.)

07:05 10/25 **UK:** Releases in the UK Thursday,

- ** BOE: Economic Outlook Remains Robust Despite Credit Turmoil
 - BOE Sees Signs Of Recovery In Some Markets
 - but Says Undesirable To Return To Underpricing Risks
 - Report Underlines Degree To Which BOE Unfazed By Credit Crunch
 - The UK outlook remains "robust" despite the stress inflicted on the financial system by recent market turmoil, the BOE says in its Financial Stability Report. The bank warns that the financial system is vulnerable to further problems arising from the market turmoil, and to new shocks, such as the falling dollar and fragile equity markets. The BOE appears confident the UK banking system is solid. The BOE also says it would "undesirable" to return to the earlier underpricing or risks and warns that tighter credit conditions could hit firms and households. Overall, the report underlines the extent to which the BOE is unfazed by the crisis.

06:46 10/25 **EUROZONE:** Data released in the eurozone Thursday,

- ** GERMANY: Saxony Oct CPI +0.3% m/m, +2.7% y/y; Sep +2.6% y/y
- ** GERMANY: Oct Ifo business sentiment 103.9 (MNI med 103.7, Sep 104.2)
 - Oct Ifo current assessment 109.6 (MNI median 109.5, Sep 109.9)
 - Oct Ifo business expectations 98.6 (MNI median 98.2, Sep 98.7)
- ** FRANCE: Oct mfg sentiment slips 1 pt to 108;
 - In line with MNI survey median
- ** ITALY: September hourly wages rose 0.2% m/m and +1.8% y/y (down from +2.0% in August) returning to July's 4-year low, but still continuing the trend which has seen wages rise faster than the main domestic inflation rate each month since January 2004.
- ** SPAIN: Sep producer prices +0.3% m/m, +3.4% y/y; Aug +2.3% y/y