

**EMU Long-Dated Issues Outperform On Extension Buying by Market News 26 October 2007**

LONDON Oct. 26 (MNI) - European bond prices are mixed on Friday, with the long-dated issues outperforming amid duration-extension buying, in turn flattening the Bund yield curve. Bunds opened lower on continued profit-taking amid asset-allocation trades back into stocks. However, prices recovered off their worst levels, inspired by strong buying in long-dated issues amid duration-extension demand, given that 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 reported a real-money buyer of 30-year Principle Only (POs) in decent size. Long-dated issues were underpinned by the further rise in crude oil, as WTI Nymex crude hit record highs above \$92.22 per barrel amid geo-political jitters, supply worries ahead of the winter season and the continued weakness in the dollar. The move comes after Bush administration tightened financial sanctions on Iran and issued new warnings about Tehran's nuclear program. Tensions between Turks and Kurds in northern Iraq are also supporting the safe-haven bid. Traders also reported strong buying of European breakevens this morning, which has been a theme over the last few days, amid continued rise in oil and food prices. Traders say that most of the structural short positions in breakevens have been unwound.

Safe-haven buying was also reported on back of large selling in Argentinian bonds on reports that the current president had manipulated inflation data to increase chances for his wife to succeed him. Italian BTP issue continued to underperform as political jitters return to Italian politics after Justice Minister Mastella of the Centrist Catholic Party is being investigated for embezzlement. This is seen impacting on Prime Minister Romano Prodi's majority of one in the Senate. There is also a slew of supply next week from Italy -- 7-year CCT, 3 & 10-year BTP issues -- which weighed on Italian debt. Traders also note Italian public sector workers are going on strike today over pension reforms. The 10-year BTP/Bund yield spread is around 1.5bps wider at +33.6bps. In supply news, Italy sold E2.0bln of 2-year zero's June 2009 CTZ issue on Friday at average yield of 4.092% and covered 1.96 times.

Bunds paid little attention to eurozone M3 data, where the annual growth rate of the broad M3 aggregate decelerated to a seasonally adjusted 11.3% in September from an unrevised 11.6% in August. The latest result was in line with the median forecast in an MNI survey of 16 analysts.

In the UK, Gilts are trading little changed amid a dearth of domestic data releases.

The short-dated issues continued to outperform in the wake of the Bank of England's latest Financial Stability Report this week, which warned that the financial system remains vulnerable to 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.

Traders noted lack of duration-buying given the iBoxx sterling index extends by only a small +0.03 years. The Gilt 2-/10-year yield spread was 0.9 bp steeper at -21.8 bps, whilst the 10-/30-year yield spread was 1.3 bps flatter at -34.3 bps. Dec Gilts are up 1 tick at 107.92.

In cross-border flows, US Treasuries are little changed against Bunds, as the 10-year UST/Bund yield spread trades at +27 bps. This yield spread narrowed to +21.2 bps last week, the narrowest level since October 2004.

European equity markets are little changed. In London the FTSE-100 was up 0.02%. In Paris the CAC was lower by 0.11.% and in Frankfurt the DAX was flat. U.S. index futures are higher, but trading around fair value, indicating a flat open. The S&P Dec contract was lower by 1.8 points at 1523.3 and the Nasdaq Dec contract was up 4.5 points at 2197.75.

The yield on the 4.00% Sept 2009 Schatz was up 0.6 bp at 3.93%. The yield on the 4.25% Oct 2012 Series 151 Bobl was up 0.2 bp at 4.03%. The yield on the benchmark 4.25% July 2017 Bund was up 0.2 bp at 4.16%. The yield on the 4.25% July 2039 Bund unchanged at 4.44%.

Subsequently, the Bund curve traded flatter from Thursday'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 +27 bps.



[Times for Market News International stories are ET]

07:08 10/26 **EUROZONE:** Reported comments from eurozone officials Friday

\*\* **EUROGROUP JUNCKER:** The strong euro dampens inflation and is thus preferable to a weak currency, the chairman of the Eurogroup of EMU finance ministers, Jean-Claude Juncker, said in a newspaper interview published Friday (Boersen-Zeitung). One should not narrow one's view to the relationship between euro and dollar only, he was quoted as saying.

**ECB DRAGHI:** Reported comments from ECB Mario Draghi in Turin

-- Italy should raise retirement age  
-- Italy needs to increase productivity. (Bbg)

07:25 10/26 **GILT SUMMARY:** Gilts are trading little changed, amid dearth of domestic data releases. The short-dated issues continued to outperform in the wake of the Bank of England's latest Financial Stability Report this week. 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. Traders noted lack of duration buying given the iBoxx sterling index extends by only a small +0.03 years. The long-dated issues were also weighed on market talk of long-dated Network Rail deal. The Gilt 2-/10-year yield spread was 0.9 bps steeper at -21.8 bps, whilst the 10-/30-year yield spread was 1.3 bps flatter at -34.3 bps. Dec Gilts are up 1 ticks at 107.92.

07:06 10/26 **BUND SUMMARY:** Bunds opened lower on continued profit-taking amid asset-allocation trades back into stocks. However, prices recovered off their worst levels, inspired by strong buying in long-dated issues, amid duration extension demand given early estimates for month-end extensions in European Government Bonds are large and above average at +0.10 yrs into Nov. Traders reported a real money buyer of 30-year Principle Only (POs) in decent size. Elsewhere, the long-dated issues and European breakevens were underpinned by the further rise in crude oil, where WTI Nymex crude hits fresh record highs at \$92.22. Safe-haven buying was also reported on back of large selling in Argentinian bonds on reports that the current President has manipulated inflation data to increase chances for his wife to succeed him. Italian BTP issues underperformed as political jitters return to Italian politics and ahead of heavy slew of supply next week from Italy -- 7-year CCT, 3 & 10-year BTP issues. Italy sold E2.0bln of CTZ at ave yield of 4.092%, covered 1.96x.

(Cont.)

02:22 10/26 **JGB SUMMARY:** Japanese government bond prices were knocked lower on Friday as money flowed into equities and Japanese stocks gained 1.36%. Mixed data from Japan had little additional impact on prices in early trade, with JGBs slipping from the open. The market built larger losses for JGBs through the session as the Nikkei-225 extended gains into the close. Higher oil prices also weighed on bond markets, traders said.

-- Benchmark 10-year yield was 2.5 bps higher at 1.615%.  
-- Benchmark 5-year yield was 3 bps higher at 1.110%  
-- Benchmark 20-year yield was 3 bps higher at 2.195%.  
-- Benchmark 30-year yield was 3 bps higher at 2.460%.  
-- The Nikkei 225 ended 221.46 points, or 1.36% higher, at 16,505.63.

02:12 10/26 **FX: (European Open)** European trade opens with euro-dollar still buoyed on a \$1.43 handle having traded just shy of the record \$1.4349 high in NY on the back of the weaker US durable good data. Asian trade was contained within \$1.4317/39, with rate pressuring the highs going into early European dealing. Dollar-yen trades just off the Y114.41 high after being lifted from the Y113.92 low in Asia on demand from a Japanese securities house, whilst euro-yen was also higher, currently around Y163.90 after topping out just ahead of Thursday's Y164.02 high. Cable remains buoyed on a \$2.05 handle, though as yet unable to take out Thursday's peak at \$2.0555, while Aussie has surged to multi-decade highs above \$0.9100 with traders reporting demand for topside in the options market helping to lift the pair.

07:58 10/26 **LIBOR:** Significant, ongoing compression overnight: for the ninth consecutive session of lower LIBOR sets, the 3 month LIBOR set 2.68 bps lower at 4.9838%, -16.75 bps for the week. Meanwhile, 1-month LIBOR set 2.63 bps lower at 4.7925%, -15.75 bps for week. Net weekly recap:

	3-Month LIBOR	1-Month LIBOR
Oct 15-19	-6.31 bps	-9.50 bps
Oct 8-12	-1.93 bps	-6.19 bps
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