


**Morning FI Analysis: EGBs Follow JGBs Higher at Open 04:19 EDT / Oct 29**

LONDON (MNI) - European Government bonds opened higher on Monday, taking cue from short-covering in JGBs overnight, amid duration extension buying.

The iBoxx Euro sovereign index extends by +0.10 yrs into November and is higher than the historical average for this time of the year (+0.08 yrs), whilst the Lehman Euro Treasury index extends by +0.11 year, which is above average of +0.05 years.

The key focus this week is on the 2-day FOMC meeting, where the rate decision is expected on Wednesday. The market is expecting the Federal Reserve to opt for a cut the Fed funds rate by 25bps on Halloween to 4.50%, amid return of credit crunch jitters and liquidity fears after major investment banks announced large writedowns. The Fed funds futures market has fully priced in a 25bps rate cut and the strip is pricing in around 50% chance a further cut by year-end.

Also eyed this week are key economic data releases, with US advanced Q3 GDP, core PCE, Q3 ECI, Oct ISM manufacturing, ADP private employment and Oct payrolls data.

Supply this week in the eurozone comes from Italy and Germany -- totalling around E12.5bln vs E6.0bln last week. In addition, this supply is countered by strong reinvestment flows to leave net cash flows positive to the tune of E21.79bln. Redemption payments are due from Spain (4.25% Oct 2007 Bono) for E12.0bln and Italy (6.00% Nov 2007 BTP) for E14.75bln. Coupon payments are from Spain E5.75bln and Italy E1.79bln.

Italy kicks off supply and sells the 2.10% Sept 2017 BTPe issue on Monday for E1.0bln. This auction adds to the current amount outstanding of E9.91bn. Whilst this issue has richened in recent months, with yield trading at 2.18%, most strategists expect decent demand for this issue given the continued rise in crude oil prices to fresh record highs -- circa \$93.20 hit this morning and also food prices. That said, Italian bonds have underperformed recently as political jitters return to Italian politics after Justice Minister Mastella -- part of the Centrist Catholic Party, who is being investigated for embezzlement -- and seen impacting on Prime Minister Romano Prodi's majority of one in the Senate. Traders also note Italian public sector workers have also been on strike over pension reforms. In addition, there is a heavy slew of supply this week from Italy, which includes 7-year CCT, 3 & 10-year BTP issues. This issue was last sold on July 27 for E959mln and then covered 1.40 times at yield of 2.41%.

On Tuesday, Italy sells 7-year CCT, 3-year BTP and 10-year BTP issues for E1.5bln, E2.5bln and E2.5bln respectively. On Wednesday, Germany tops-up the Oct 2012 BOBL 151 issue for up to E5.0bln. For full details of forthcoming issues, please see eurozone/UK bond auction calendar & MNI/SMRA Eurozone Net Cash Flow Matrix.

In the UK, the DMO is due to tap the 5.00% Mar 2018 Gilt issue on Thursday for Stg2.5bln. In addition, the DMO will also announce the size

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In the UK, the DMO is due to tap the 5.00% Mar 2018 Gilt issue on Thursday for Stg2.5bln. In addition, the DMO will also announce the size of the Dec 2030 Gilt on Wednesday, which is due to be sold on November 6.

In Japan, the MoF taps the Nov 2009 JGB for Y1.7tn on Tuesday and also Sept 2017 JGB for Y1.9tn on Thursday.

There is no supply from the US.

The German states continue releasing Oct CPI data today with Brandenburg and N.Rhine-Westphalia still to release. The national preliminary CPI follows and is expected to come in at 0.1% m/m, 2.4% y/y with HICP forecast 0.1% m/m, 2.7% y/y.

Scheduled data starts at 0800GMT with the Spain September retail sales index, followed at 0930GMT by UK consumer credit for September expected to come in at stg1.0 billion. Lending Secured On Dwellings, final M4 money supply & lending and mortgage approvals for September are also due. Mortgage approvals are forecast at 102,000.

US data starts at 1330GMT with the MNI Capital Goods Index for the October 26 week, followed at 1430GMT by the MNI Retail Trade Index for the October 27 week.

At the same time, the Dallas Fed manufacturing survey for October is due.

Later on, from 1815GMT, ECB Executive Board member Jose Manuel Gonzalez-Paramo is due to speak in Lima, Peru.

-- London bureau: +4420 7634 1655; e-mail: clive@marketnews.com



[Times for Market News International stories are ET]

06:35 10/29 **UK DMO CHIEF:** UK Gilt issuance likely to fall in FY2008/09

- UK Gilt issuance fall due to lower redemption in FY2008/09
- UK DMO to ensure 5, 10-year area remains liquid
- Downplays need for new long Gilt in 2008/09
- UK DMO chief says annual consultation meeting to be in Dec
- Committed to index-linked issuance in FY2008/09
- No decision taken yet on use of swaptions; await budget
- UK DMO has no plans to issue bonds via syndication

06:23 10/29 **SHORT-STERLING:** As well as large liquidation trade going through the market this morning, traders also cite report in the FT titled "UK pay figures may underplay rise". Last week MNI wrote a report suggesting that UK pay growth may not be as muted as official data show, according to data released by National Statistics today. Although official data show subdued increases in earnings, the NS's experimental weekly average earnings data shows that pay growth could be stronger. Average weekly earnings rose 5.0% year-on-year in August, compared with official average earnings growth of 4.3% in the same period. Excluding bonuses, average weekly earnings were up 4.8% year-on-year, compared with official figures of just 3.8%. The NS experimental Average Weekly Earnings release for August showed private-sector AWE ex-bonuses growth rose from 5.1% year-on-year to 5.2%, the strongest since February 2002 and in contrast to the benign official private-sector average earnings series released for the same period last week.

07:59 10/29 **GILT SUMMARY:** Gilts are lower, with the front-end of the curve underperforming on strong selling by leverage account, amid talk of liquidation of long positions. Traders also cited a report in the FT titled "UK pay figures may underplay rise", behind selling in the front-end of the interest rate market. Last week MNI wrote a report suggesting that UK pay growth may not be as muted as official data show, according to data released by National Statistics today. Although official data show subdued increases in earnings, the NS's experimental weekly average earnings data shows that pay growth could be stronger. The Gilt 2-/10-year yield spread was 0.5 bps flatter at -22.7 bps, whilst the 10-/30-year yield spread was 0.9 bps flatter at -35.3 bps. Dec Gilts are down 19 ticks at 107.67.

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08:17 10/29 **BUND SUMMARY:** Bunds opened higher, taking cue from short-covering in Japanese Government Bonds overnight, amid duration extension buying. The iBoxx Euro sovereign index extends by +0.10 yrs into November and is higher than the historical average for this time of the year (+0.08 yrs), whilst the Lehman Euro Treasury index extends by +0.11 year, which is above average of +0.05 years. Bunds were also underpinned by gains in euro-dollar, which hit fresh life-time highs at \$1.4439. However, prices reversed direction on reported liquidation by leverage accounts. In supply news, Italy sold E1.0bln of the 2.10% Sept 2017 BTPei issue on Monday at average yield of 2.14% and covered 1.869 times. Elsewhere, German state inflation failed to impact prices, despite pan-German inflation is poised to exceed the European Central Bank's price stability threshold of 2.0% for a second month in a row in October. Record-high oil prices and strong price gains for food and commodities imply that inflation could remain elevated for some months to come.

07:59 10/29 **UK: Data** released in the UK Monday,

- \*\* Mortgage Approvals Slump To Lowest Since Jul 2005
- BOE: UK Sep House Approvals 102,000 Vs 108,000 Aug
- BOE: Sept Mortgage Approvals Lowest Since July 2005
- UK Sep Net Mortgage Lending Up Stg9.804 Bln v Stg8.512 Bln Aug
- UK Sep Net Consumer Credit Up Stg1.350bln Vs Stg1.114 bln Aug
- BOE: Sep M4 Up 1.0% m/m; Up 12.8% y/y
- BOE: UK Sept. M4 Lending Up 1.2% m/m; Up 13.2% y/y
- \*\* House Prices See First M/M Fall For 2yrs In Oct: Hometrack
- UK Oct House Prices Down 0.1% m/m; Up 4.4% y/y

02:42 10/29 **JGB SUMMARY:** Japanese government bonds ended Monday's session modestly higher, rallying back from weakness seen early in the session. However, traders said overall volumes remained modest. Prices were lower from the getgo, weighed by the strong opening by domestic stock indices. However, short-covering in the lead futures contract soon helped pull prices off their lows and prices ended the day unchanged to modestly higher. Longer-dated paper also found support from life and pension funds continuing their month-end duration buying.

- Benchmark 10-year yield was 1 bps lower at 1.615%.
- Benchmark 5-year yield was 2 bps lower at 1.095%.
- Benchmark 20-year yield was unchanged at 2.195%.
- Benchmark 30-year yield was unchanged at 2.450%.
- Lead Sept JGB futures contract was up 0.21 at 135.99.