




10:20 09/11 ECB TRICHET: Pricing models for fin. products not always robust  
 10:19 09/11 ECB TRICHET: Degree of complexity of fin products overwhelming  
 10:18 09/11 ECB TRICHET: Must be very prudent in drawing conclusions on FM crisis  
 - But number of lessons to be drawn  
 10:16 09/11 ECB TRICHET: Mkt correction phases often hectic, volatile  
 10:15 09/11 ECB TRICHET: Nothing new to say on int rates after last week  
 10:14 09/11 ECB TRICHET: Current situation is a market correction.  
 10:14 09/11 ECB TRICHET: Need more info before drawing monopol conclusions  
 - Experiencing significant reappraisal of risk  
 10:13 09/11 ECB TRICHET: ECB has shown its capacity to act promptly, effectively  
 -- Price stability remains subject to upside risks  
 -- Monetary policy still on the accommodative side  
 -- Financial market volatility has led to rise in uncertainty.  
 10:03 09/11 ECB TRICHET: Begins EU Parliamentary testimony.  
 09:59 09/11 EU ALMUNIA: Haven't yet reached point of talking US recession  
 09:57 09/11 EU ALMUNIA: Important to respect independence of the ECB  
 - ECB has played useful role in dealing with market crisis

**FROM HOWARD:****ECB's Liebscher (a tad hawkish, but generally towing the ECB line)**

- european growth is very good
- inflation risks lie to the upside
- ecb will monitor developments closely
- ecb has no precommitment on interest rates
- price risks haven't abated
- ecb will assess data to decide on rates
- euro 13 growth trend hasn't changed
- still sees positive economic growth trend
- banks should say what their subprime exposure is

**Euro Mkt Summary: EGBs Lower on Stocks, Hawkish ECB****by Charanjeev Chana**

**EGBs** were trading lower on Tuesday afternoon with short dated underperforming, in turn flattening the Bund curve. Bunds remained lower following the release of US trade balance data and posted little reaction on comments by ECB President Trichet who offered little fresh thoughts on ECB monetary policy. EGBs opened lower on profit taking as US Treasuries pared gains overnight, weighed further by JGBs, which declined on the surprise rebound in Japanese machinery orders in July. Hawkish comments by ECB official Juergen Stark weighed on the front end of the curve in morning trade, after he said the September 6th decision to leave interest rates unchanged was "no abandonment of a further interest rate move." Bunds then squeezed higher after the successful digestion of supply from the Netherlands. The Dutch DSTA sold at the upper end of its E2.5-3.5bln target range, issuing E3.52bln of the 4.50% July 2017 DSL. Bunds however remained lower ahead of midday trade weighed by strength in European equity bourses.

In the forex markets, the dollar was mixed against the major currencies. The EUR/USD was at 1.385 (+0.003), cable at 2.032 (+0.002) and USD/JPY at 113.84 (+0.20).

**European equities** were stronger in afternoon trade. The DAX was trading +1.08%, CAC 40 +1.62% and the FTSE +2.14% on the day.

**Gilts** traded mixed on Tuesday afternoon with long dated Gilts underperforming on disappointing auction results for the 4.50% 2042 Gilt. The 4.50% Dec 2042 Gilt was met with lacklustre demand, covered 1.32 times - the lowest cover ratio for a conventional Gilt since July 2005. The tail of this issue was further indicative of poor demand, rising to 3.1bps versus 1bps previously - the longest tail for a conventional Gilt auction since December 1995. Short dated Gilts were underpinned by UK trade balance data, which reported a greater than expected widening of the UK total trade deficit on July.