




**Financial Times:** A clear divide between the world's leading central banks over how best to respond to the credit squeeze emerged after Mervyn King, Bank of England governor, warned that efforts by his counterparts to shore up the financial system could sow "the seeds of a future financial crisis."

08:09 09/13 **LIBOR:** For the third session this week, the 3 month Libor set lower, at 5.6944%, -0.87 bps, -3.06 bps for the week, while for the fourth consecutive session the 1 month Libor set lower, at 5.7525%, -4.75 bps, -7.13 bps for the week.

Net weekly recap:

	3-Month Libor	1-Month Libor
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

10:28 09/13 **SWITZERLAND:** The SNB raised the 3-mos Libor target range to 2.25%-3.25%, from 2.0%-3.0%, in somewhat of a surprise move. The majority of analysts were leaning towards the SNB remaining on hold given market turmoil. The SNB meets quarterly, reminds Dustin Reid of ABN AMRO. "They may have decided it was more prudent to continue the tightening cycle now than to wait and then continue it inter-meeting," he says. Reid notes that while the Swiss franc got a lift initially on the SNB announcement, with interest rates still low, Swissy will not lose its allure as a funding currency for carry trades. Indeed, euro-Swiss holds at Chf1.6472 - on the high side of a Chf1.6407/Chf1.6481 range. "The SNB would probably like the cross below Chf1.6000 and is uncomfortable with it over Chf1.6500," Reid says. "On margin, that lends itself towards more hikes," he adds. So far in September, euro-Swiss has stalled just under Chf1.6500, after peaking at Chf1.6685/90 in late July.

11:03 09/13 **EGB CLOSING SUMMARY:** EGBs were trading lower with short dates underperforming, in turn flattening the Bund curve. The market was largely unchanged following US initial jobless claims data, however continued to edge lower after US equities opened on a stronger footing. EGBs opened higher, taking cue from overnight gains in UST. Weaker stocks and continued strength in euro-dollar currency, which rose to near record highs, underpinned the front end of the curve. Bunds however pared gains on stop-loss selling, and after the BoE offered an extra Stg4.4bln to markets in its weekly money market operation. The Bank also widened the target for bank reserves held at the BOE, making more funds available at 5.75%. The market came under further pressure after the 3-month Euro Libor fixed lower at 4.73% vs. 4.74% yesterday. Supply factors also weighed on sentiment. Bunds were dragged lower by Gilts following a large tail for the Stg2.5bln 5.25% June 2012 Gilt auction. Italy sold E2.5bln 4.00% Apr 2012 BTP and covered 1.56 times.

### Euro Mkt Summary: EGBs Lower On Supply, Stocks & BOE by Charanjev Chana

In the forex markets, the dollar was weaker against the major currencies. The EUR/USD was at 1.389 (-0.001), cable at 2.028 (-0.001) and USD/JPY at 115.35 (+1.10).

European equities were stronger in afternoon trade. The DAX was trading +0.64%, CAC 40 +1.00% and the FTSE +0.78% on the day.

11:16 09/13 ECB: **ECB's Stark;** We distinguish clearly between financial stability and monopoli. We will fulfill our price stability mandate, Cash injections not a bailout.

11:10 09/13 ECB: **ECB's Stark,** confidence and real economic data show upturn continuing but there are risks for economic growth in EMU. Risks have increased, mainly due to financial market turmoil.

11:13 09/13 **EUROZONE:** Ongoing financial market turbulence is unlikely to disappear soon, but there is reason to hope it will gradually vanish, as the extreme risk aversion being seen is fundamentally not justified, Bundesbank Vice President Franz-Christoph Zeidler said Thursday.