

Euro Mkt Summary: EGBs Lower On Supply, Stocks & BOE
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EGBs were trading mixed on Friday afternoon with short dated issues underperforming. The market ticked higher following the release of weaker than expected August US retail sales data. Bunds then pared earlier risk aversion gains as equity bourses traded higher on M&A speculation, weighed further by stronger than expected Michigan consumer sentiment data. EGBs opened higher on risk aversion following reports that the Bank of England gave aid to one of the UK's largest mortgage lenders, Northern Rock. This was the first time the BOE acted as an emergency lender since 1998. The market extended gains, led higher by Gilts following after a report from property website Rightmove was leaked, which reported UK house prices declining by 2.6%*mom* in September - the largest fall in 3 years. The short end was further underpinned by final EMU HICP data, which was revised lower to 1.7%*yoy* in August. Bunds posted slight losses after the Peoples Bank of China hiked its 1-year deposit and lending rate by 27 basis points.

On Monday, Japanese markets will be closed with market participants observing the respect for the Aged public holiday. Data for Europe is limited to the release of the July Eurozone trade balance and the Bundesbank monthly report. On the supply front, Austria will launch its new 10-year benchmark issue via syndication

In the forex markets, the dollar was mixed against the major currencies. The EUR/USD was at 1.386 (-0.002), cable at 2.013 (-0.014) and USD/JPY at 115.17 (-0.05).

European equities were stronger in afternoon trade. The DAX was trading -0.26%, CAC 40 -0.36% and the FTSE -0.90% on the day.

Gilts were trading higher and outperforming trade in Europe on risk aversion after the UK Treasury this morning confirmed that it had authorised the Bank of England to provide emergency liquidity to bail out troubled mortgage lender Northern Rock. In a statement issued along with the FSA and the Bank of England, the Treasury said that the funds had been provided at an "interest rate premium" and against "appropriate collateral". Gilts extended gains on a leaked report from property website Rightmove, which reported UK house prices declining by 2.6%*mom* in September - the largest fall in 3 years. Prices made moderate concession ahead of midday trade after the Sterling 3-mth Libor rate fixed lower at 6.8237% vs. 6.88000% - a third consecutive fall and the lowest since September 5th.