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RESEARCH ASSOCIATES**Euro Mkt Summary: EGBs Mixed, Pare Gains as Equities Recover**
by Charanjeev Chana

EGBs were trading mixed with long dates outperforming, in turn flattening the Bund curve. The market pared earlier risk aversion gains as equity bourses traded higher in afternoon trade. Bunds posted little reaction to September NY Fed Empire state index data, which came in mixed. EGBs opened moderately lower on Monday morning, taking cue from a reversal US Treasury gains on Friday after market participants pared expectations of an aggressive Federal Reserve rate cut. Short dates extended losses on comments by ECB official Lucas Papademos, who said he saw "upside risk to price stability at the moment" adding "the ECB's baseline scenario for Eurozone GDP growth remains intact." Bunds reversed opening losses in morning trade on risk aversion buying as European equity bourses came under pressure, led by weakness in financial stocks. The move lower came as Northern Rock extended losses on reports that the recent run of withdrawals were likely to exacerbate the lenders funding problems.

Attention on Tuesday will turn to the release of the September German ZEW survey...

In the **forex** markets, the dollar was mixed against the major currencies. The EUR/USD was at 1.387 (-0.001), cable at 2.001 (-0.006) and USD/JPY at 115.10 (-0.21).

European equities were stronger in afternoon trade. The DAX was trading -1.16%, CAC 40 -1.71% and the FTSE -1.31% on the day.

Gilts were trading mixed on Monday afternoon, with long dates underperforming. Gilts outperformed Bunds din morning trade on news that the Bank of England provided access to emergency lending to UK lender Northern Rock. Gilt prices eased after the 3-month sterling Libor fixed lower at 6.75125% versus 6.82375% on Friday.

Northern Rock Woes Hit European Shares

from WSJ.com: News Europe -- European shares weakened, with banks under pressure as U.K. mortgage-lender Northern Rock's woes continue to weigh on the sector, bringing fears of a credit crunch back to the fore.