

Stone & McCarthy  
RESEARCH ASSOCIATES**Euro Mkt Summary: EGBs Lower on Risk Aversion Unwinding**  
**by Charanjeev Chana**

EGBs were trading lower on Tuesday afternoon on risk aversion unwinding after financial stocks recovered on better than expected Q3 earnings from Lehman Brothers. Meanwhile, Dec Bunds were little changed following the released of mixed August US PPI data. EGBs opened higher on gains in USTs and JGBs overnight following sharp losses in Asian stocks. The market soon reversed opening losses after European equity bourses traded higher, led by financial stocks. The move came in wake of a statement issued by Alliance & Leicester, in which the bank insisted it had not sought financial assistance from the Bank of England and said it was not facing the same problems currently faced by Northern Rock. Bunds were muted in response to September German ZEW data, which came in slightly below forecasts. On the supply front, the Greek PDMA tapped the benchmark 4.10% Aug 2017 GGB for E1.5bln, covered 3.44 times. Austria priced its new E5.0bln 10-year benchmark issue at +14bps versus Bunds.

Sentiment in the morning session on Wednesday will likely be dictated by overnight price action following the Federal Reserve interest rate decision. Data is limited for the Eurozone on Wednesday to German producer prices on the market open. On the supply front, Spain will publish details of its Q4 issuance plans.

In the forex markets, the dollar was mixed against the major currencies. The EUR/USD was at 1.387 (+0.001), cable at 1.996 (+0.001) and USD/JPY at 115.68 (+0.85).

European equities were stronger in afternoon trade. The DAX was trading +0.47%, CAC 40 +1.53% and the FTSE +0.382% on the day. US stocks were also higher with the S&P 500 +0.40% and the NASDAQ +0.23%.

Gilts were trading sharply lower, and underperforming Bunds. Short dates underperformed the Gilt curve after the Bank of England conducted an extra-liquidity injection in which it allocated stg4.408bln in a 2-day exceptional, fine-tuning operation, to quell the sharp climb in overnight interest rates. The BOE said it had received Stg25.481 billion in bids for the tender and that it had allocated 17.3%. The market temporarily spiked higher on weaker than expected August UK CPI data. The annual headline rate fell to its lowest level since March 2006.

Attention in the UK turns to the release of BOE minutes of the September MPC meeting.

**Northern Rock Shares Rise, But Withdrawals Continue** [from WSJ.com: News Europe]

Shares in Northern Rock rose, but worried depositors were again lining up to withdraw their money despite the U.K. government's promise to guarantee all savings.