

**Euro Mkt Summary: EGBs Mixed, Pare Gains on Stocks, ECBs Liebscher**  
by Charanjeev Chana

**EGBs** traded mixed Wednesday afternoon, with short dates outperforming, in turn steepening the Bund curve. Short dates posted moderate gains on the release of weaker than expected August headline US CPI data and August housing starts data. Bunds later pared gains on hawkish comments from ECB Governor Klaus Liebscher who said the ECB must do "what is necessary" to preserve price stability in the euro area, and not be overly influence by recent actions by the Federal Reserve. Liebscher added that the financial market turbulence could last for a few months and that it was too early to say what impact the turmoil might have on the European economy. The Bund curve opened steeper on Wednesday morning after the US Federal Reserve slashed the federal funds rate by 50bps to 4.75% and downgraded inflation risks considerably in its accompanying statement. Bunds fell to session lows in morning trade on stop-loss selling and asset allocation trades out of bonds into equities.

In the **forex markets**, the dollar was mixed against the major currencies. The EUR/USD was at 1.396 (-0.001), cable at 1.996 (-0.015) and USD/JPY at 116.25 (-0.13).

**European equities** were sharply higher in afternoon trade. The DAX was trading +2.18%, CAC 40 +2.99% and the FTSE +2.93% on the day. US stocks were also higher with the S&P 500 +0.87% and the NASDAQ +0.76%.

**Gilts** were also trading mixed with short dated Gilts outperforming. Gilts pared losses following the release BOE minutes for the September MPC meeting, where the committee voted unanimously to keep interest rates on hold whilst noting "that upside inflation risks probably receded." Dec short sterling futures rallied after the BOE announced today plans to conduct four 3-month auctions at weekly intervals to help alleviate strains in longer maturity money markets, the first of which would take place next week and have size of Stg10bln. The bank added that a wider range of collateral would be accepted.

**08:45 09/19 ECB:** The European Central Bank must do "what is necessary" to preserve price stability in the euro area and cannot be overly influenced by the actions of the U.S. Federal Reserve, ECB Governing Council member Klaus Liebscher told Market News International. In other comments during a lengthy interview in his office at the Austrian National Bank, which he heads, Liebscher conceded that financial market turbulence could last for a few months and that it is too early to say what impact the turmoil might have on Europe's economy. He insisted that the European banking system is "solid," though "surprises" at individual banks cannot be excluded. Read the full exclusive interview on Mainwire.

**10:32 09/19 US BONDS/LIBOR:** Miller Tabak's Tony Crescenzi said that "short-term liquidity markets, where problems in the credit markets have festered, have improved in the U.S. and abroad in the aftermath of the Fed's decision to lower the fed funds rate by 50 basis points. Dollar-based LIBOR, which measures the interest rate that banks charge each other for dollars invested abroad, has fallen 35 basis points for both 1-month and 3-month terms." He added that "the decreases" in US dollar LIBOR "are important" for U.S. dollar denominated debt "given the large amount of debts" tied to US dollar LIBOR. He adds that in the U.K. "where there have been enormous strains in the banking system of late, sterling-based overnight LIBOR has fallen 26 basis points to 5.88%, a normal level given the Bank of England's 5.75% benchmark rate and 58 basis points lower than Monday's level."