

Euro Mkt Summary: EGBs Lower on Strong Earnings, US Claims

by Charanjeev Chana

EGBs were trading lower on Thursday afternoon with short dates outperforming. Bunds extended losses in afternoon trade on below expected US initial claims. Ahead of claims data, bunds came under pressure in afternoon trade on stronger than expected Q3 earnings from Goldman Sachs who stated, "Significant losses in non-prime loans and securities were more than offset by gains on short mortgage positions." The Bund curve opened steeper as short dated issues extended their outperformance on euro-dollar currency gains, which rose to a fresh lifetime highs above \$1.4000. Amidst a lack of key European macroeconomic data, Bunds were underpinned by supply from France and Spain, which was well received. The AFT sold E1.5bln of the 4.00% Sept 2009 BTAN, covered 4.83 times and E1.15bln of the 5.00% Apr 2012 OAT, covered 4.591 times. Spain allotted E1.036bln of the 4.90% July 2040 Bono, covered 2.77 times. Additionally, the German debt management agency published its Q4 2007 issuance calendar in which it cut gross capital market issuance by E1 billion to E30 billion.

In the forex markets, the dollar traded sharply lower against the major currencies. The EUR/USD was at 1.405 (+0.009), cable at 2.010 (+0.009) and USD/JPY at 115.00 (-1.10).

Gilts were also trading lower with short dated Gilts underperforming. Stronger than expected UK data weighed on the short end of the Gilt curve on Thursday. UK retail sales volumes once again grew by much more than expected in August - with the annual rate posting its strongest annual gain since March 2007. CBI Industrial Trends data showed that the manufacturing sector remained robust in September after reporting strong gains in the volume of manufacturing output. Gilts also came under pressure as markets interpreted comments by BOE Governor Mervyn King as suggesting that interest rates would not be cut by the bank to ease financial strains in money markets, after he said "the BOE is not responsible for individual institutions" which must take responsibility for their actions. The BOE Governor alongside other members of the MPC gave evidence on the August inflation report before the Treasury Select Committee on Thursday morning.

[SOURCE: The Wall Street Journal]

BOE Governor Wanted to Act Covertly as Last-Resort Lender

By NATASHA BRERETON and PAUL HANNON

September 20, 2007 8:39 a.m.

LONDON -- Bank of England Governor Mervyn King Thursday said he wanted to assume a lower profile in helping mortgage lender Northern Rock PLC, but was prevented from doing so by European legislation.

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06:56 09/20 **FX**: Euro-dollar made fresh lifetime highs above \$1.4000 on Thursday morning as the impact of the US interest rate cut continued to hit the dollar. Addition sales of the greenback came on the back of Daily Telegraph article suggesting the Saudis may be preparing to drop the dollar peg. Euro-dollar made highs at \$1.4066 before easing back, whilst the dollar was also weaker versus the yen, slipping to a Y115.30 low. Stronger than expected UK retail sales data pushed cable up above \$2.0100 before easing back to \$2.0050 and ending the session around \$2.0075, comments from the MPC in front of the Treasury Select Committee having little impact. The surging euro pulled euro-sterling to fresh 18-month highs above stg0.7000.

06:53 09/20 **LIBOR FIXINGS**: 3-mth Dollar Libor fixed at 5.21000% vs 5.23750% Weds -- o/n Dollar fixed at 4.93750% vs 4.94375% Wednesday.