

Euro Mkt Summary: EGBs Lower on Risk Aversion Unwinds, German CPI
by Charanjeev Chana

EGBs traded lower on Wednesday afternoon, with Dec Bunds extending losses to session lows on stronger than expected September CPI data from the German state of North-Rhine Westphalia. Additionally, pre-auction short setting in UST's also weighed on sentiment, ahead of the US\$18B 2Y auction. Bunds opened lower on weakness in long dated US Treasuries overnight, which sold off sharply on the pricing of a long-end municipal deal. The market shrugged off October German GFK consumer confidence data, which fell to a 5-month low. Prices consolidated further in morning trade on stop loss selling and equity gains. The ECB allotted E50bln of 3-month funds at the refinancing operation conducted on Wednesday morning. Demand was strong, with the average rate at which funds were allotted rising to 4.63%- the highest since March 2001, suggesting continued tightness in euro money markets. 5-year supply from Germany was well received. Germany sold E5.44 billion of the new 4.25% Oct 2012 Bobl, covered 1.9 times with price premium of 6 cents. Italy issued linker supply, selling E1.0bln of 1.85% Sept 2012 BTPei, covered 2.007 and E500mln of 2.60% Sept 2023 BTPei, covered 2.190.

In the **forex markets**, the dollar traded stronger against the major currencies. The EUR/USD was at 1.412 (-0.001), cable at 2.016 (-0.001) and USD/JPY at 115.56 (+0.62).

European equities were stronger in afternoon trade. The DAX was trading +0.41%, CAC 40 +0.98% and the FTSE +1.23% on the day. US stocks were also stronger with the S&P 500 +0.38% and the NASDAQ +0.64%.

Gilts were trading mixed, outperforming trade in Europe, whilst short dated Gilts outperformed on the Gilt curve. UK Q2 GDP was upwardly revised on an annualised basis - showing sustained growth in industries in the second quarter. Short-dated Gilts outperformed following the release of the inaugural credit conditions survey from the Bank of England, which said that lenders had reduced the availability of such credit in Q3 and predicted a substantial further decline in Q4. The Bank of England said no UK banks made use of Stg10bln of 3-month funds offered at 6.75% on Wednesday morning - well above Wednesday's 3-month sterling London interbank rate fix of 6.31625%. In a subsequent statement, the bank admitted that the 3-month auction "looked expensive" after the recent market drop in 3-month rates, adding that the auction was designed as a "safety valve" for banking institutions.

07:31 09/26 UK: **BoE** says no bids received at Stg10.0bln 3-month auction tender.





07:21 09/26 **GILT SUMMARY:** Gilts are lower but outperformed Bunds, amid switch trades. The 10-year Gilt/Bund yield spread narrowed to +74.5 bps vs +76.11 bps. The short-dated Gilts outperformed after release of the inaugural credit conditions survey from the Bank of England, which said that lenders said they had reduced the availability of such credit in Q3 and predicted a substantial further decline in Q4. Elsewhere, Gilts paid little attention to GDP data, which came in unrevised at 0.8% q/q in Q2 in line with expectations but was revised up on the year to 3.1%. The UK's Debt Management Office sold Stg900 million of the 1.125% Nov 2037 index-linked Gilt, with a cover of 2.03 times and real yield of 1.160%. This is the first linker auction since July 26, and came at a time when breakevens are no longer at historic wide levels, which was the case at the last tap of this issue on June 26 at a cover ratio of 1.71 times. Attention now turns to the BoE Stg10bln three-month auction at a minimum rate of 6.75%. Dec Gilts are down 25 ticks at 106.60.

07:16 09/26 **BUND SUMMARY:** Bunds opened lower after the long-end of the US Treasury curve got hit hard late in the day towards the Chicago close, reportedly on the back of the pricing of a long-end municipal deal. Also weighing on prices is the recovery in stocks, buoyed by talk of takeover speculation for the troubled UK mortgage lender Northern Rock. This in turn fuelled unwinding of the recent risk-aversion bid. In addition, hawkish comments from Philadelphia Federal Reserve Bank President Charles Plosser also impacted. Bunds were also weighed by heavy slew of supply from Germany (5-year Bobl), Italy (5 & 15-year BTPei) UK (30-year linker) and US (2-year Note). Traders noted a recovery in the dollar ahead of the Saudi Arabian Monetary Authority (SAMA) announcement at 1030GMT/1330 Riyadh. Ahead of this markets were speculating that the SAMA could abandon the dollar peg and revalue the riyal, prompted by last week's decision not to cut interest rates in line with the US. However, local traders suggest that SAMA will keep the dollar peg.

07:11 09/26 **UK: Data** released in the UK Wednesday,
**** Q2 GDP** unrevised up 0.8% q/q; revised to up 3.1% y/y
 - Q2 Household expenditure up 0.8% q/q; up revised 2.7% y/y
**** Q2 Current account deficit** Stg9.054bn vs Stg10.626bn in Q1
 - Q2 Current account deficit below median forecast of Stg11.5bn

07:05 09/26 **UK:** Releases in the UK Wednesday,
**** BOE SURVEY:** Q3 Corporate Credit Falls; Further Decline Expected Q4
 - BOE Survey: Corporate Credit Availability Lower In Q3
 - BOE: Lenders See Significant Drop In Corporate Credit In Q4
 - BOE: Secured Credit Available To Households Unchanged In Q3
 - BOE: Default Rates On Corporate Loans Little Changed In Q3

(cont.)

07:31 09/26 **UK: BoE** says no bids received at Stg10.0bln 3-month auction tender.

08:00 09/26 **BOE:** Says 3-mth auction "looked expensive" after market rate drop
 -- Says auction was "designed as a safety valve".

07:59 09/26 **LIBOR:** After a steady set in the previous overnight, 3 month LIBOR set lower again at 5.1981%, -0.19, -0.44 bps for the week. Meanwhile, 1 month LIBOR set steady for the second consecutive session, at 5.1288%, -0.25 bps for the week. Net weekly recap:

	3-Month LIBOR	1-Month LIBOR
Sep 17-21	-44.38 bps	-48.25 bps
Sep 10-14	-7.87 bps	-21.00 bps
Sep 3-7	+10.37 bps	+10.38 bps
Aug 27-31	+11.57 bps	+21.75 bps
Aug 20-24	+1.00 bps	-0.75 bps
Aug 13-17	-7.50 bps	-10.88 bps
August 6-10	+21.50 bps	+36.63 bps

08:00 09/26 **NORWAY:** Norges bank hikes key interest rates 0.25%
 - Deposit rate moves to 5.00%