

Weekly Bulletin –8th March 2010

The ECB and MPC left official rates unchanged last week but that did not stop rates firming in all major currencies as better than expected economic data and an increased perceived attitude to risk, notably in the form of a rally in the equity markets, took hold. This was supported at the end of the week by considerably better-than-expected US non-farm payroll figures. For the UK this meant that the dalliance with a sub 3.00% five year swap rate was pretty short-lived.

The major influence on UK rates last week should have been, and probably was, the CIPS reports on manufacturing, construction and services. Star of the show was the service sector PMI jumping to 58.4 in February from 54.5 the previous month and a median forecast of 55. Manufacturing was unchanged at 56.6, still the highest level in 15 years. The rise in the February PMI figures just about ensures that the fears that GDP growth would go backwards in the first quarter of the year can be discarded. Following the figures, most forecasters were starting to look at a growth figure of between 0.3 and 0.5 for the first quarter. Given that the initial flash estimate seems always to be corrected upwards, it may need the correction to meet this new forecast level.

The one area that did cause disappointment was the housing figures where the Halifax reported a 1.5% month-on-month drop in house prices and mortgage approvals fell to 48,200 in January, down from the 58,200 the previous month. However, it would seem likely that the dire weather experienced at the beginning of the year must have had some impact and it would be unwise to conclude that we are now in for a new trend of a declining housing market.

Anybody who thought that the financial crisis in Greece might stay the ECB's plans to remove the emergency aid that it provided to the market in the wake of the banking crisis would have been disappointed by the ECB's announcement following its meeting. Currently some €765 billion is outstanding in ECB loans to the banking sector and President Trichet has clearly decided that this support should be reined in and largely removed by the end of the year. Given the very low levels

of short term euribor rates in comparison with the official 1% rate, this is hardly controversial.

Not much of the ECB's exit strategy was actually new, but it did provide clarification on a number of points. As the ECB will continue to provide unlimited liquidity on weekly and monthly offers until at least October, very short term rates are unlikely to see much change in the near future. However, the amount of three month issues is being scaled back and the ECB will now decide the total amount it supplies. As the supply of longer term assistance matures over the summer and autumn, it seems inevitable that short term rates will end the year trading much more closely in line with the 1% official refi rate. This, in itself, is not expected to change until well into 2011.

Greece had a better time last week. The announcement of an austerity plan to save €4.8 billion was taken very well by the market and helped the issuance of a €5 billion 10 year bond which was more than 3 times oversubscribed. However, while, at 6.6%, the yield was as much as 1% lower than the levels at which it had been trading in comparison with German bunds, it hardly represents a bargain and is still some 2% higher than the equivalent Portuguese issuance. The Greeks will also keep having to produce as it is expected that they will have to issue a further €20 billion over the coming few months.

This week sees little in the way of domestic economic news with only the latest trade figures (on Tuesday) and the industrial and manufacturing production figures (on Wednesday) to consider. Neither is likely to prove influential, even if it is a sight of some wonder to watch manufacturing industry continue to record monthly surpluses. More influence is likely to be felt from across the Atlantic where a busy week concludes with a welter of releases including the latest confidence survey. A quieter week is in prospect.

JCD Rathbone

Market Expectations

Date	Location	Title	Forecast	Previous Actual
09.03.10				
	UK	January trade balance (goods)	-£7,000m	-£7.278m
		January trade balance (Non EU)	-£3,350m	-£3,553.m
		January trade balance (total)	-£3,000m	-£3,262m
10.03.10				
	UK	January industrial production m/m	+0.3%	+0.5%
		January industrial production y/y	-0.8%	-3.6%
		January manufacturing production m/m	+0.2%	+0.9%
		January manufacturing production y/y	+1.4%	-1.9%
11.03.10				
	US	January trade balance	-\$41.0bn	-\$40.2bn
12.03.10				
	EA	January industrial production m/m	+0.7%	-1.7%
		January industrial production y/y	-1.6%	-5.0%
	US	February advance retail sales	-0.2%	+0.5%
		March University of Michigan confidence	+73.9	+73.6
		January business inventories	+0.1%	-0.2%

STERLING INTEREST RATES

	31.12.09	01.03.10	08.03.10
1mth LIBOR	0.51	0.54	0.54
2mth LIBOR	0.54	0.57	0.57
3mth LIBOR	0.61	0.64	0.65
6mth LIBOR	0.84	0.87	0.87
12mth LIBOR	1.25	1.30	1.31

Interest Rates Swaps Quarterly ACT/365

2 years	2.03	1.57	1.70
3 years	2.69	2.12	2.27
5 years	3.44	2.93	3.03
7 years	3.82	3.45	3.51
10 years	4.14	3.91	3.94
15 years	4.44	4.28	4.28
20 years	4.45	4.35	4.33
30 years	4.31	4.25	4.23

EURO INTEREST RATES

	31.12.09	01.03.10	08.03.10
1mth EURO	0.46	0.42	0.41
2mth EURO	0.56	0.52	0.51
3mth EURO	0.70	0.66	0.65
6mth EURO	0.99	0.96	0.96
12mth EURO	1.25	1.22	1.22

Interest Rates Swaps Quarterly ACT/360

2 years	1.84	1.47	1.54
3 years	2.23	1.84	1.90
5 years	2.77	2.46	2.49
7 years	3.15	2.92	2.94
10 years	3.52	3.35	3.37
15 years	3.88	3.73	3.77
20 years	3.97	3.84	3.90
30 years	3.86	3.73	3.80

DOLLAR INTEREST RATES

	31.12.09	01.03.10	08.03.10
1mth	0.23	0.23	0.23
2mth	0.24	0.24	0.24
3mth	0.25	0.25	0.25
6mth	0.43	0.39	0.40
12mth	0.99	0.84	0.87

Interest Rates Swaps Quarterly ACT/360

2 years	1.38	1.07	1.13
3 years	2.02	1.67	1.71
5 years	2.91	2.59	2.63
7 years	3.44	3.19	3.23
10 years	3.88	3.70	3.75
15 years	4.26	4.16	4.22
20 years	4.37	4.31	4.39
30 years	4.42	4.42	4.50

PROPERTY DERIVATIVES

INDEX	TERM (years)	BID	OFFER
		FIXED RATES	
TOTAL RETURN	Dec 10	10.00%	10.50%
	Dec 11	8.15%	8.65%
	Dec 12	7.55%	8.05%
	Dec 13	7.25%	7.75%

STERLING RPI

STERLING RPI	31.12.09	01.03.10	08.03.10
UK ZERO COUPON SWAPS			
5 year	3.13	3.08	3.09
10 years	3.44	3.38	3.43
15 years	3.65	3.62	3.65
20 years	3.76	3.70	3.76
25 years	3.84	3.73	3.80
30 years	3.85	3.75	3.81
Base Index	216.0	217.9	217.9

EURO HICPXT

EURO HICPXT	31.12.09	01.03.10	08.03.10
EURO ZERO COUPON SWAPS			
5 year	2.15	1.96	1.78
10 years	2.44	2.27	2.16
15 years	2.53	2.37	2.48
20 years	2.55	2.42	2.30
25 years	2.55	2.49	2.71
30 years	2.58	2.53	2.76
Base Index	107.91	108.61	108.61

FOREIGN EXCHANGE RATES

	31.12.09	01.03.10	08.03.10
£/US\$	1.6132	1.5141	1.5163
£/€	1.1200	1.1101	1.1079
€/£	0.8929	0.90085	0.90263
€/US\$	1.4401	1.3639	1.3687
US\$/YEN	92.30	89.29	90.36

All rates taken are based on offered side opening levels on the date of this bulletin.

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