

# Weekly Update

14 April 2009



## Market Intelligence Straight to your Business

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Indicative Swap Rates

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LOOK AT THINGS DIFFERENTLY

 **BANK OF SCOTLAND**  
TREASURY

## Indicative Swap Rates

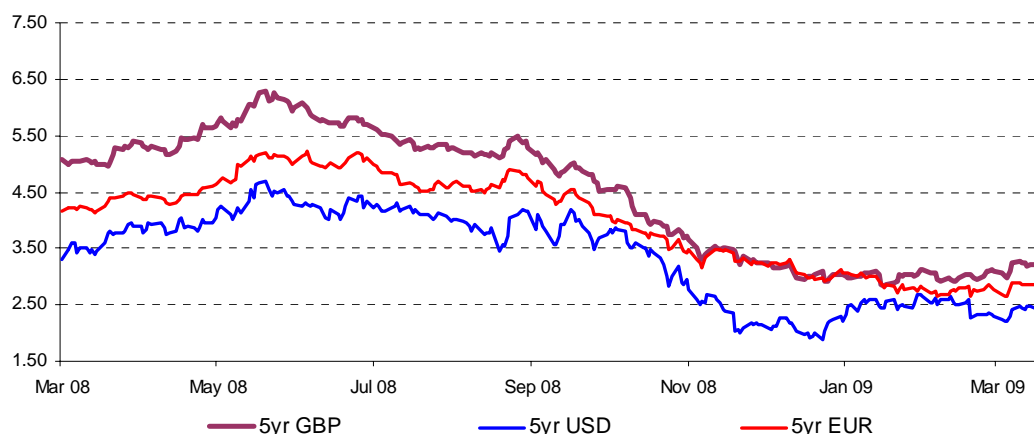
	£		€		\$	
	<u>Today</u>	<u>1 week ago</u>	<u>Today</u>	<u>1 week ago</u>	<u>Today</u>	<u>1 week ago</u>
OFFICIAL RATE	0.50%	0.50%	1.25%	1.25%	0.25%	0.25%
3 MONTH LIBOR	1.54%	1.61%	1.42%	1.48%	1.12%	1.16%
6 MONTH LIBOR	1.78%	1.84%	1.62%	1.66%	1.66%	1.71%
12 MONTH LIBOR	1.99%	2.04%	1.78%	1.81%	1.93%	1.96%
2 YEAR	2.15%	2.20%	1.91%	1.97%	1.45%	1.51%
3 YEAR	2.59%	2.65%	2.27%	2.33%	1.81%	1.87%
5 YEAR	3.14%	3.24%	2.80%	2.85%	2.38%	2.45%
7 YEAR	3.46%	3.53%	3.19%	3.22%	2.75%	2.81%
10 YEAR	3.70%	3.79%	3.56%	3.59%	3.05%	3.12%
20 YEAR	4.00%	4.06%	4.04%	4.06%	3.40%	3.47%
30 YEAR	3.85%	3.86%	3.86%	3.86%	3.43%	3.48%

Rate quotes taken from the inter-bank mid-market.

Swap rate quote conventions - UK: Semi, Actual/365 vs. 6M Libor

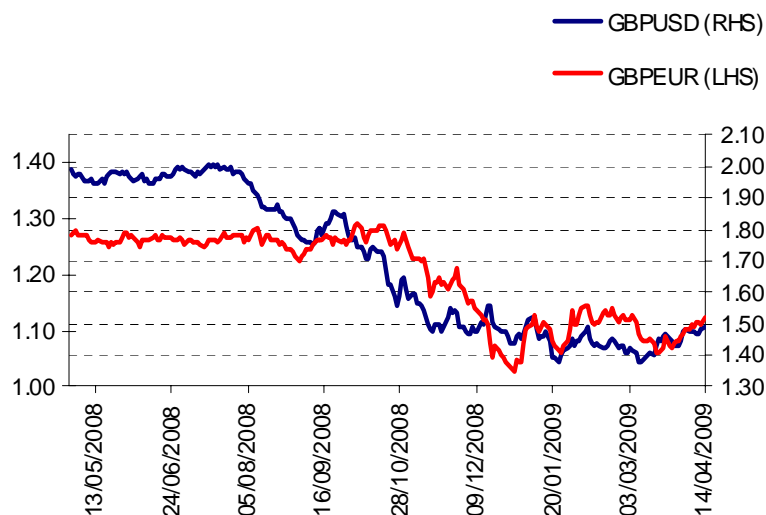
Euro: Annually, 30/360 vs. 6M Libor

US: Annually, Actual/360 vs. 3M Libor



## Market Levels

	<u>Today</u>	<u>1 week ago</u>
GBP/USD	1.4919	1.4731
GBP/EUR	1.1232	1.1101
EUR/USD	1.3281	1.3272
GBP/JPY	148.93	147.94
FTSE 100	4004.1	4029.7
Euro Stoxx 50	2280.7	2198.8
*S&P 500	858.7	842.5
**Nikkei 225	8842.7	8832.9
Gold (\$/oz)	896.3	881.2
Brent Crude (\$/barrel)	53.1	54.0
Gilt Future	123.0	121.0
T-Bond	129.8	131.0
Bund	122.2	122.3



\* Friday's closing rate

\*\* Monday's closing rate

## Commentary

**Economics & Interest Rates:** Equity markets paused for breath last week, although better-than-expected Q1 results from Wells Fargo helped support sentiment. Compared with recent weeks, the US S&P500 rose by a more modest 1.7%, while European stock markets underperformed (FTSE Eurofirst300: +0.8% and FTSE-100: -1.1%). Yesterday the S&P500 closed up 0.25%, as Goldman Sachs announced Q1 earnings of \$1.81bn along with plans to raise \$5bn in common stock. The latter came as part of a move to erase its \$10bn loan under the TARP (Troubled Asset Relief Programme). In broad terms, US Treasuries underperformed other western government bond markets last week.

There have, however, been some more encouraging signs in the recent economic data. The UK is a case in point, with improvements (albeit patchy) in the number of mortgage approvals and PMI surveys (both manufacturing and services). It is also worth noting that aggressive de-stocking – a major drag on Q4 UK GDP that is set to be repeated in Q1 – is unlikely to continue in Q2 and beyond, even if underlying demand remains fragile. If this pattern is realised, it should show that while the UK remains in recession, the pace of contraction in activity is slowing in a meaningful way.

Nonetheless, credit provision in the economy is still weak and even where credit is more readily available, eligibility criteria on households and firms have become more onerous. So while tentative signs of risk appetite in financial markets has been observed, it is far from clear that the UK (and indeed, global) economy is out of the woods. Accordingly, it is premature - at this stage at least - to flag a durable yield curve steepening.

This week's data calendar is dominated by US releases, notably March CPI and PPI. On our forecasts, the former is expected to dip into negative territory on a year-on-year basis for the first time since 1955. Retail sales figures for March – where we look for a flat monthly outturn – are published later today. Other important US releases include industrial production, the forward-looking Empire

and Philadelphia surveys, housing starts and preliminary University of Michigan consumer confidence.

The picture is relatively quieter in Europe, with little economic data of note scheduled for release this week. Financial markets await the ECB's announcement in early May of further "non-standard" monetary tools, which seem likely to include purchases of high-quality corporate bonds. For us, this could mark the first step towards outright quantitative easing (incorporating purchases of euro area government bonds) later this year. ECB President Jean-Claude Trichet speaks in Tokyo on Friday. In the UK, economic data is confined to the latest RICS house price balance and BRC Sales Monitor.

**Currencies:** Poor liquidity characterised the bank holiday yesterday with UK and eurozone markets closed. The initial morning moves sustaining their momentum throughout the day resulting in a sharp dollar sell-off. The rationale behind these moves were not particularly obvious other than the improved risk appetite in equity markets.

The positive shift in equities and cautious improvement in risk appetite has led to higher risk currencies (AUD, NZD, CAD, GBP) outperforming defensive currencies (JPY & USD) over the past week. The euro, however, has struggled to match the gains made by the other higher volatility currencies. Consequently, EURGBP has broken below 0.9000 from its highs of 0.9487. GBPUSD is heading back towards the key 1.50 level after failing to break through last week. With stops likely to be built up above this level, a pass through it should see GBPUSD breaking higher towards the 1.5373 (high of the year) at which point we envision it meeting significant selling pressure.

Key risk this week arises from the Q1 earnings season in the US. Poor results could easily see a shift back in to risk aversion sentiment and hence a dollar rally.

## Key Economic Releases This Week

Date	Time	Cntry	Release/Event	Period	Forecast	Consensus	Previous
14-Apr	13.30	US	Advance Retail Sales	Mar	0.5	0.3	-0.1
14-Apr	13.30	US	Retail Sales ex-autos	Mar	0.2	0.1	0.7
15-Apr	00.01	UK	RICS House Price Balance	Mar	n/a	-77	-78
15-Apr	13.30	US	CPI	Mar	0.0 (-0.2)	0.2 (0.0)	0.4 (0.2)
15-Apr	13.30	US	Industrial Production	Mar	-1.1	-1.0	-1.5
16-Apr	13.30	US	Housing Starts	Mar	560k	550k	583k
16-Apr	15.00	US	Philadelphia Fed Survey	Apr	-31.0	-32.0	-35.0
17-Apr	04.00	EUR	ECB's Trichet speaks	-	-	-	-
17-Apr	17.00	US	Fed's Bernanke speaks	-	-	-	-

Annual rates shown in brackets. Consensus figures taken from Bloomberg poll

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