

Weekly Update

27 April 2009



Market Intelligence Straight to your Business

Indicative Swap Rates

Market Levels

Commentary

Economic Calendar

LOOK AT THINGS DIFFERENTLY

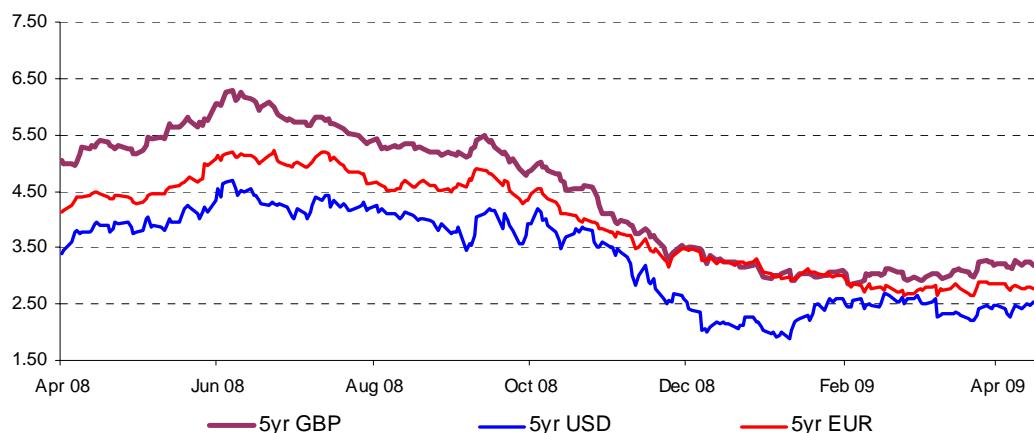
 **BANK OF SCOTLAND**
TREASURY

Indicative Swap Rates

| | £ | | € | | \$ | |
|----------------|-------|------------|-------|------------|-------|------------|
| | Today | 1 week ago | Today | 1 week ago | Today | 1 week ago |
| OFFICIAL RATE | 0.50% | 0.50% | 1.25% | 1.25% | 0.25% | 0.25% |
| 3 MONTH LIBOR | 1.48% | 1.51% | 1.39% | 1.41% | 1.05% | 1.10% |
| 6 MONTH LIBOR | 1.69% | 1.74% | 1.59% | 1.61% | 1.59% | 1.65% |
| 12 MONTH LIBOR | 1.93% | 1.97% | 1.75% | 1.77% | 1.90% | 1.95% |
| 2 YEAR | 2.16% | 2.22% | 1.87% | 1.93% | 1.53% | 1.53% |
| 3 YEAR | 2.62% | 2.64% | 2.22% | 2.26% | 1.93% | 1.89% |
| 5 YEAR | 3.15% | 3.19% | 2.74% | 2.76% | 2.48% | 2.42% |
| 7 YEAR | 3.44% | 3.48% | 3.10% | 3.11% | 2.81% | 2.75% |
| 10 YEAR | 3.71% | 3.72% | 3.44% | 3.44% | 3.09% | 3.02% |
| 20 YEAR | 3.98% | 4.06% | 3.91% | 3.94% | 3.44% | 3.36% |
| 30 YEAR | 3.82% | 3.92% | 3.76% | 3.82% | 3.46% | 3.38% |

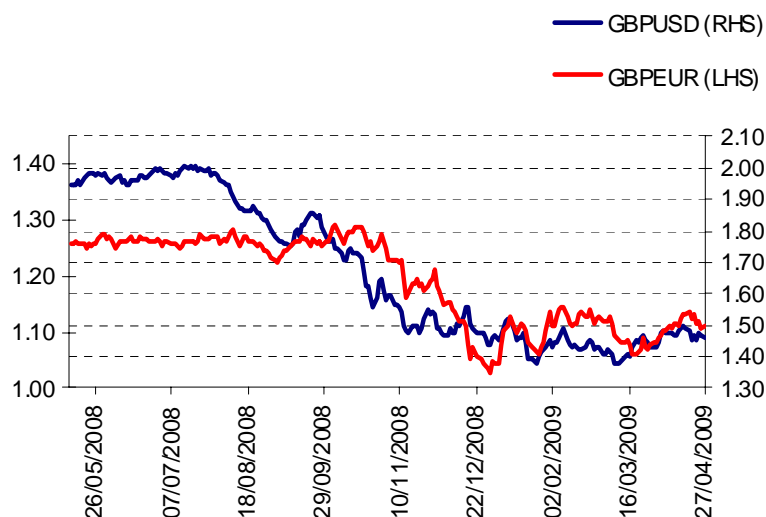
Rate quotes taken from the inter-bank mid-market.

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

| | Today | 1 week ago |
|-------------------------|--------|------------|
| GBP/USD | 1.4577 | 1.4540 |
| GBP/EUR | 1.1091 | 1.1252 |
| EUR/USD | 1.3143 | 1.2921 |
| GBP/JPY | 140.74 | 142.32 |
| FTSE 100 | 4123.9 | 3990.9 |
| Euro Stoxx 50 | 2282.5 | 2249.4 |
| *S&P 500 | 866.2 | 869.6 |
| **Nikkei 225 | 8726.3 | 8924.8 |
| Gold (\$/oz) | 913.0 | 884.5 |
| Brent Crude (\$/barrel) | 47.8 | 48.9 |
| Gilt Future | 121.1 | 123.2 |
| T-Bond | 129.8 | 131.0 |
| Bund | 122.9 | 122.9 |



* Friday's closing rate

** Monday's closing rate

Commentary

Economics & Interest Rates: Equity markets ended last week mixed with the FTSE100 rallying 1.5%, outperforming the major US and eurozone indices (S&P500: -0.4%; DJIA: -0.7%; FTSEurofirst 300: -0.5%). Having sold-off sharply at the start of the week, equity markets were buoyed by upside surprises to bank earnings and further gradual improvement in economic data, albeit from low levels. This morning, concerns over the outbreak of swine flu in the Americas, has resulted in a marked flight-to-quality out of equity markets and into government bonds.

The gilt curve underperformed both the US and eurozone curves last week following the Budget. The medium-term sector of the yield curve was particularly hard hit as the Chancellor announced the level of public borrowing projected over the coming years. Net borrowing is expected at £175bn this year and £173bn in the next fiscal year. The Chancellors forecasts, however, were based on somewhat optimistic GDP projections of -3.5% in 2009, +1.25% in 2010 and +3.5% in 2011. The huge amount of planned supply (£220bn of gilt sales in 2009/10) weighed on the market, and is likely to do so for some time, along with concerns that the borrowing figures may well be even higher should GDP come in weaker than the Chancellor's forecast. Indeed, the first estimate of Q1 GDP released on Friday appeared to confirm those fears, reporting a contraction of 1.9%, the largest quarterly fall since 1979 and the first time (post-WWII) that GDP has contracted by more than 1% for two consecutive quarters.

This week, the economic calendar in the UK features mortgage approvals data, CBI distributives trade survey and the PMI manufacturing index. Overall, we look for a modest improvement in the forward looking data, in line with other survey evidence which suggest that the pace of decline in the economy may be easing. In the US, as well as the FOMC interest rate decision on Wednesday, the market will focus on the Q1 GDP figures as well as the ISM manufacturing data towards the end of the week. We expect the rate of decline in output to have eased in Q1 but we still expect a contraction of between 4.5-5.0% in annualised terms. The ISM

manufacturing index has now posted three consecutive improvements but remains well in contraction territory and we expect it to remain so over the coming months. In the eurozone, the EC confidence surveys will provide a clearer indication of any meaningful turn in sentiment following the broad based improvement in the PMI surveys last week. While there may well be some improvement in the surveys, this is only from the context of their current positions which are all at, or close to, record lows.

Currencies: Currencies remain range bound so far this year, showing little impetus of any breakout. This morning, the USD DXY Index is firmly at the centre of its 2009 range (80.9-89.6). Two opposing forces have kept the USD range bound. A gradual improvement in data (albeit from very low levels) alongside a small improvement in corporate earnings has been negative for the USD, especially against growth sensitive currencies. Opposing this is the USD positive force of risk aversion. Bank stress test results and concerns over swine fever add to the general economic woes.

With limited economic data this week the outlook for currencies is likely to be continued range bound trading. A further slowing in eurozone inflation is likely to reignite the debate around the potential floor in the ECB's refinancing rate. Additionally, weekend press reports have highlighted that German banks could be holding as much as \$1trn of risky assets, suggesting that write-downs in European banks are set to increase significantly further. With eurozone economic data still weak, any indication that rates may go below 1% will provide a major downside risk for the euro.

Sterling has also been in a consolidation formation this year, with the trade-weighted index holding in the 73.9 - 79.8 range. GBP/USD has been in the \$1.3657 - \$1.5068 band in 2009 and is currently toggling around its 100-day moving average. The key UK data focus this week is around the CBI industrial trends survey and manufacturing PMI report. A pick up in the UK PMI report alongside a move higher in the US ISM report (we believe the risks lie this way) would provide a risk positive environment, which would be supportive of GBP/USD.

Key Economic Releases This Week

| Date | Time | Cntry | Release/Event | Period | Forecast | Consensus | Previous |
|--------|-------|-------|-----------------------------|--------|----------|-----------|----------|
| 28-Apr | 14.00 | US | S&PCaseShiller House Prices | Feb | (-18.9) | (-18.8) | (-18.97) |
| 28-Apr | 15.00 | US | Consumer Confidence | Apr | 29.0 | 28.8 | 26.0 |
| 29-Apr | 09.00 | EUR | M3 Money Supply – 3m Av. | Mar | (6.0) | (5.9) | (6.5) |
| 29-Apr | 13.30 | US | GDP annualised | aQ1 | (-5.1) | (-4.9) | (-6.3) |
| 29-Apr | 19.15 | US | FOMC Interest Rate Decision | 29-Apr | 0.25 | 0.13 | 0.25 |
| 30-Apr | 10.00 | EUR | CPI estimate | pApr | (0.6) | (0.7) | (0.6) |
| 1-May | 09.30 | UK | Mortgage Approvals | Mar | 39k | 40k | 38k |
| 1-May | 09.30 | UK | PMI Manufacturing | Apr | 39.5 | 40.2 | 39.1 |
| 1-May | 15.00 | US | ISM Manufacturing | Apr | 37.5 | 37.8 | 36.3 |

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

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