

Weekly Update

6 April 2009



Market Intelligence Straight to your Business

Indicative Swap Rates

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LOOK AT THINGS DIFFERENTLY

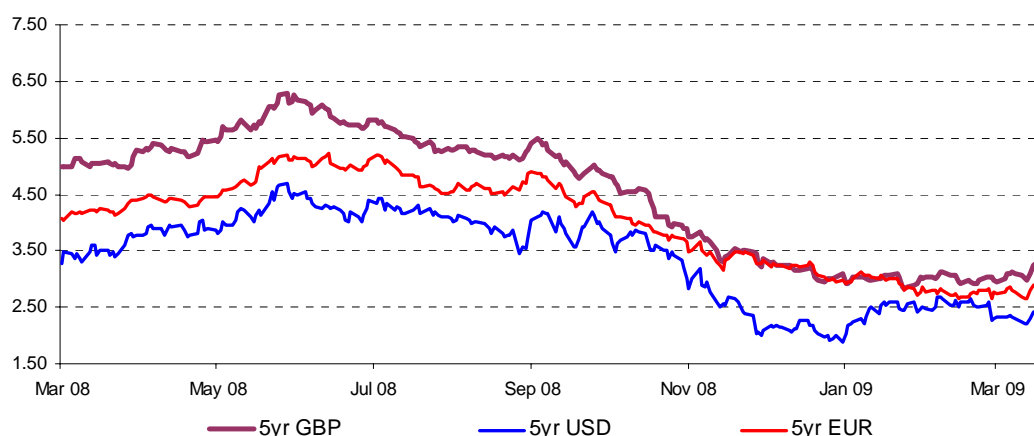
 **BANK OF SCOTLAND**
TREASURY

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%	1.50%	0.25%	0.25%
3 MONTH LIBOR	1.59%	1.67%	1.47%	1.52%	1.16%	1.21%
6 MONTH LIBOR	1.82%	1.89%	1.65%	1.69%	1.72%	1.75%
12 MONTH LIBOR	2.03%	2.08%	1.81%	1.83%	1.99%	1.98%
2 YEAR	2.32%	2.12%	2.06%	1.82%	1.56%	1.40%
3 YEAR	2.77%	2.52%	2.44%	2.15%	1.90%	1.71%
5 YEAR	3.34%	3.06%	2.95%	2.68%	2.45%	2.24%
7 YEAR	3.62%	3.38%	3.29%	3.04%	2.81%	2.59%
10 YEAR	3.86%	3.66%	3.64%	3.38%	3.11%	2.89%
20 YEAR	4.13%	3.97%	4.13%	3.85%	3.42%	3.24%
30 YEAR	3.92%	3.83%	3.93%	3.64%	3.44%	3.27%

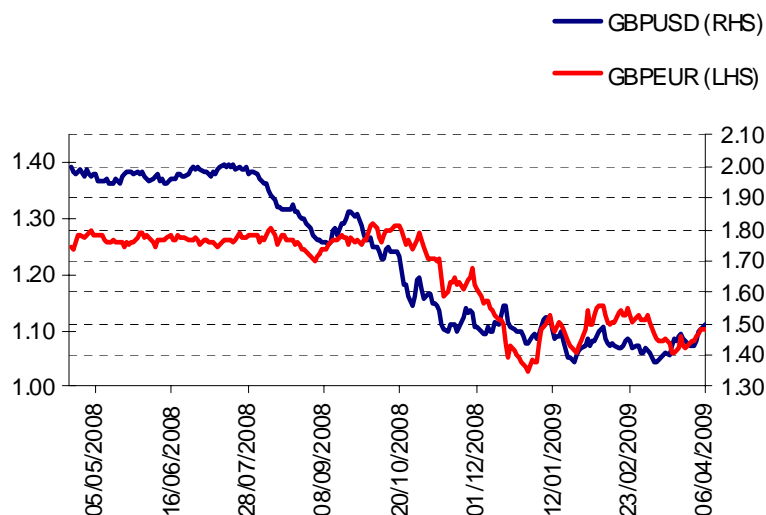
Rate quotes taken from the inter-bank mid-market.

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	1.4936	1.4267
GBP/EUR	1.1039	1.0809
EUR/USD	1.3531	1.3199
GBP/JPY	151.08	138.77
FTSE 100	4063.1	3762.9
Euro Stoxx 50	2223.9	2010.6
*S&P 500	842.5	815.9
**Nikkei 225	8857.9	8236.1
Gold (\$/oz)	879.2	915.8
Brent Crude (\$/barrel)	54.5	47.3
Gilt Future	120.7	122.9
T-Bond	129.8	131.0
Bund	121.8	124.2



* Friday's closing rate

** Monday's closing rate

Commentary

Economics & Interest Rates: Equity markets overcame a poor start to the week to rally strongly into the new quarter. The Dow Jones Industrial Average closed above 8000 for the first time since mid-February while the FTSE100 is now above 4000 once again. While the outcome of the G20 meeting was largely as expected, markets responded positively to the pledge by G20 participants for a co-ordinated response to the global recession and in particular, a commitment to increase the amount of funds held in the IMF's lending facility.

Government bond and swap markets sold off in response to the rally in equities with yield curves steepening as risk appetite returned while the ECB further disappointed bond markets by delivering only a 25bp cut in the refinancing rate to 1.25% (consensus 1.00%). Swap yields were also driven higher by some better-than-expected economic data in the UK and eurozone. A broad improvement in the PMI surveys, in particular the service sector, has added to optimism that the pace of the global downturn may at least be starting to ease. We do not, however, think that the recent curve steepening move is likely to be sustained and we look for the flattening trend to resume in the coming months. While there may be some tentative signs of improvement in forward looking indicators, labour markets are continuing to deteriorate. In the US, non-farm payrolls posted a fifth consecutive monthly decline of well over 500k while unemployment is rising sharply in the eurozone and the UK. With job losses continuing to accrue at this pace, a sustained and meaningful recovery is likely to be some way off.

The MPC meet again this week and we expect no change in Bank Rate. With a quantitative easing programme now well underway, there is unlikely to be any further announcements this week although the minutes, released on 22nd April, may

provide an update on how effective the current operations have been. Manufacturing data is expected to continue showing a deeply contracting sector although given the improvement in the PMI surveys, the pace of decline may begin to ease over the next few months. Similar outturns are expected in the eurozone with both German factory orders and the latest industrial production report likely to reflect the global slump in trade with further falls. In the US, the trade balance for February and the minutes of the 18th March FOMC meeting will take focus.

Currencies: Market sentiment remains in a pro-risk stance with equities (Dow Jones) finally marking a daily close above 8,000 and the S&P500 recording a close above its 100-day moving average. The pro-risk sentiment has been driven by a broad rise in PMIs, triggering a coincidental rally in commodities. The CRB index (our favoured measure of commodities) has also moved above its 100-day moving average. This has allowed commodity currencies to test the top of their recent trading ranges. EM currencies have been the outperformers in the current environment.

From a technical perspective, the USD sell-off appears to be becoming stretched. Short-term RSI measures are now signalling an over-sold state. This reduces the likelihood of a significant range breakout. GBP/USD is the most overbought and faces strong resistance around \$1.50. A failure would leave the currency pair correcting back towards its 100-day moving average, currently around \$1.4565.

The economic data calendar is relatively light this week, further supporting range bound trading. US data is dominated by the trade balance report. Given the collapse in global trade and commodity prices, an upside (USD positive) risk exists for the trade report. Likewise the UK trade deficit should also record an improvement.

Key Economic Releases This Week

Date	Time	Cntry	Release/Event	Period	Forecast	Consensus	Previous
7-Apr	09.30	UK	Industrial Production	Feb	-1.5 (-12.8)	-1.3 (-12.6)	-2.6 (-11.4)
7-Apr	09.30	UK	Manufacturing Production	Feb	-1.9 (-14.7)	-1.5 (-14.2)	-2.9 (-12.8)
8-Apr	11.00	GER	Factory Orders	Feb	-3.5 (-37.5)	-2.6 (-36.8)	-8.0 (-37.9)
8-Apr	19.00	US	Minutes of March FOMC Meeting	-	-	-	-
9-Apr	09.30	UK	PPI Input	Mar	0.6 (-0.9)	0.8 (-0.7)	0.6 (0.5)
9-Apr	09.30	UK	Visible Trade Balance	Feb	-£7.6bn	-£7.6bn	-£7.7bn
9-Apr	11.00	GER	Industrial Production	Feb	-3.5 (-22.1)	-3.0 (-21.6)	-7.5 (-19.3)
9-Apr	12.00	UK	BoE Interest Rate Decision	Apr	0.50	0.50	0.50
9-Apr	13.30	US	Trade Balance	Feb	-\$37.0bn	-\$36.5bn	-\$36.0bn

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

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