

Morning Call

Monday, 6 September 2010

Latest Market Headlines

IMF's Lipsky says moderate world recovery underway

The world economy is recovering moderately but still faces challenges such as the need for medium-term fiscal consolidation, the IMF's First Managing Director, John Lipsky, said at the weekend. "They are mainly confident that there is a moderate recovery underway globally," he told reporters, referring to delegates at the G20 meeting of deputy finance and central bank chiefs in South Korea. "Obviously there are risks and challenges, but things seem to be moving more or less in line with our forecast," he said, listing well-designed exit strategies and medium-term fiscal consolidation as challenges.

South Korea will host the November 11-12 summit of G20 leaders in Seoul, with key issues including reforming the global financial regulatory framework and drawing up plans to put the world economy on a balanced and sustainable growth path

BIS says debt levels should fall after pre-crisis jump

Debt levels that ran up ahead of the financial crisis have shown only a modest decline since but are likely to fall sharply in the coming years, according to a new study by the Bank for International Settlements (BIS). Household and corporate debt soared in many countries prior to the recent global financial crisis, but the report published by the BIS yesterday showed that in almost all past crises the debt increase was reversed once trouble fades. Its analysis of 20 systemic banking crises that were preceded by a surge in credit showed there was a subsequent sharp fall in indebtedness after 17 of them.

The ratio of private-sector credit to GDP fell by an average of 38 percentage points after these 17 crises, compared to an average 44 percentage point jump before the crisis.

The Fundamentals: The Economist's View

US Treasuries

The US is closed today for the Labour Day holiday so we will have to wait until tomorrow to see if there is any further sell-off of Treasuries in the United States. The prices of Treasuries fell for a third straight day on Friday as the August non-farm payrolls figures alleviated fears the world's biggest economy may succumb to a double-dip recession. Before the jobs number the Treasury market was positioned for a looming chance of the double-dip scenario and/or the Japan scenario that amounted to really no recovery at all. Treasuries sold off on Friday because although the payrolls report was very mediocre, it was a big step up from disastrous. ***Treasury yields could go on rising in the near-term if the economic data continue to signal the US will avoid a double-dip recession.***

Eurozone Bonds

German Bund futures opened lower on Monday, extending the previous session's losses after concerns eased over the state of the US economic recovery. On Saturday, European Central Bank President Jen-Claude Trichet told CNBC television in an interview the probability of a double-dip recession had decreased in the past few weeks. ***Volumes are expected to be thin today on account of the US bank holiday and the only distraction offered will be the Eurozone Sentix investor sentiment survey. A month ago it jumped higher after a negative reading in July. It is forecast to ease slightly to 8.0 in September from August's 8.50. Sentix was largely ignored last time but with all the more economy-bullish sentiment around now, it may be worth a look. That said, we doubt the market will move much on it.***

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UK Gilts

A cooling global economy and an impending austerity squeeze in Britain will make the Bank of England wait well into next year before hiking interest rates, a new Reuters poll of 60 UK economists showed last week. A median of forecasts showed the UK central bank would begin hiking its base rate by the end of the second quarter of 2011, starting with a 25bps rise from its present record low of 0.50%, unchanged from last month's poll. But for the first time this year, no economist thought the Bank would raise rates before the end of 2010, something considered a foregone conclusion in polls this time last year. No-one in the survey thought the Bank would announce any change to interest rates or quantitative easing at this week's policy meeting, although six out of 41 economists thought the bond-buying programme would eventually finish at either £225bn or £250bn rather than the current £200bn. **Unchanged policy at this week's meeting is unlikely to have too much impact on Gilts or sterling.**

Other Bonds

Australian figures released last week showed that retail sales were surprisingly strong in July while Q2 saw the highest GDP growth in three years, suggesting the economy was not nearly as subdued as feared and the next move in official interest rates is still upward. Investors have been fretting that a slowdown in the United States and Japan could spill over into Australia, where a series of rate hikes earlier in the year had hit demand and housing. As a result, the market had priced in a real chance that the Reserve Bank of Australia (RBA) would have to cut its 4.50% cash rate by year-end, even though the central bank itself has remained resolutely upbeat on the economic outlook. The latest sales/GDP data are a real positive and support the RBA's confidence. The economy is clearly doing well and any talk of a rate cut is nonsense right now. **No change in rates is anticipated at tomorrow's policy meeting and a lot will depend on the underlying tone of the RBA's comments accompanying the decision. On balance we still believe the central bank will err on the side of further monetary tightening, which should boost the Aussie dollar and further flatten the bond yield curve in the short-term.**

Key Economic Indicators / Events of the Day

Time (BST)	Country	Release	Period	Bloxham	Median	Last
	EU	EU finance ministers (Task Force) meet to discuss changes to EU budget rules, in Brussels				
	Norway	Norges Bank Governor Svein Gjedrem speaks in Oslo				
9.30	Eurozone	Sentix Index	September	8.7	8.0	8.5
10.00	EU	ECB Executive Board member Juergen Stark participates in an Ambassador Conference on the euro's stability, in Berlin				
23.01	UK	BRC Retail Sales	August	+0.8% (Y)	+0.7%	+0.5% (Y)

Today's Debt Auctions / Buybacks / Announcements

Italian Treasury details amount of BTPs to be auctioned on September 13.

French Treasury sells BTFs.

Norway sells 3bn krone of 4.50%, 2019 government bonds.

Dutch State Treasury Agency sells T-bills.

Poland sells T-bills.

Hungary sells 6-week T-bills.

Lithuania sells 2015 government bonds.

Romania sells T-bills

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