



WEEK ENDING

18 NOV

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Global Market Review

Liquidity

## US Taxable

Concerns are rising that the eurozone contagion is not just affecting the periphery but posing a risk to the core as well. US markets remained more focused on developments in the ongoing European sovereign debt crisis than on the recent string of positive US economic reports. Economic data are showing positive momentum for 4Q11 and an overall strengthening in the recovery. Initial jobless claims fell by 5,000 in the latest week, to 388,000, the lowest level since April. Claims are trending downward as layoffs appear to have eased. October housing starts were better than estimates, declining only 0.3% to a 628,000 annualized rate. Three of the four regions posted increases. Permits for the same period rose by a stronger-than-expected 10.9%, with both single (+5.1%) and multifamily applications (+24.4%) rising. Recent inflation reports look fairly benign. Both headline CPI and the producer price index (PPI) fell during the month of October. At the core level, consumer prices rose 0.1%, bringing the year-over-year (YoY) rate to 2.1% from 2.0%. Finally, retail sales were solid in October. Consumers remained resilient, as headline sales increased a stronger-than-expected 0.5%. Excluding autos and gas, sales rose a healthy 0.7%.

US Federal Reserve (Fed) officials continue to be divided as to what the Fed's next move should be. New York Fed President William C. Dudley remains disappointed at the persistently high level of unemployment and notes that the Fed could still do more to help the economy. St. Louis Fed President James Bullard seems to lean in the other direction. In his opinion, the "recession scare has passed" and additional monetary stimulus might risk higher inflation.

Funding pressures continue for European banks, as evidenced not only in rising LIBOR levels but also in the widening EUR-USD swap levels. USD LIBOR levels moved sharply higher on the week. Three-month LIBOR climbed 3 basis points (bps) to 0.49%, while six-month LIBOR rose 4 bps to 0.70%. Money

fund investor activity was focused primarily on non-eurozone three- and six-month fixed-rate paper.

## US Tax Exempt

Tax-exempt money fund assets were down this week by \$530.1 million, bringing the total assets to \$286.24 billion. The Securities Industry and Financial Markets Association (SIFMA) Index inched 1 basis point (bps) higher to 0.14%. Dealers are seeing steady business from money fund managers buying of variable-rate demand notes (VRDNs) and remain comfortable with their current inventory levels, notwithstanding the carry of VRDNs backed by European banks. The anxiety about the eurozone has exacerbated funding stresses on the European banks, which, in turn, is resulting in dealers widening the yield spreads further on VRDNs backed by these banks in the hope of attracting buyers. On the new-issue front, the state of Massachusetts (MIG1/SP-1+/F1+) sold \$1.2 billion revenue-anticipation notes (RANS), \$600 million due April 2012 and \$600 million due May 2012. Originally priced to yield 0.11%, most of the RANS traded into the street in the 0.13% to 0.17% range. The state of Texas (P-1/A-1+/F1+) issued \$500 million in commercial paper notes due February and March 2012, priced to yield 0.20% and 0.21%, respectively. The Municipal Market Data AAA One-Year Index was once again unchanged at 0.25%. Secondary bid lists did produce some activity on high-grade bonds, with trust-account interest constituting most of the purchases.

## Eurozone

Eurozone		Change (bps)	18 Nov 11	10 Nov 11
LIBOR:	1 Month	-1	1.14	1.15
	3 Month	0	1.42	1.42
	12 Month	0	2.00	2.00
	Slope (1-12 Month)	1	87	85
OIS/LIBOR Spread:	3 Month	0	86	85
Swap Spread:	2 Year	9	114	104
	5 Year	11	100	89
Govt Bonds:	2 Year	5	0.45	0.40
	10 Year	6	1.95	1.89
	Slope (2-10 Year)	1	150	149
Current Market Pricing for Key Policy Rate:		Market consensus rate decrease in Q411		

Source: Bloomberg

Despite the European Central Bank's (ECB) stepping in to buy Italian and Spanish government bonds, spreads on those bonds remained elevated against German bunds. In Italy, former European Commissioner Mario Monti was sworn in to replace Silvio Berlusconi as prime minister. Touching on economic data releases in the eurozone, October inflation was reported unchanged at 3.0% YoY following a sharp rise in September. IP declined sharply by 2.0% MoM in September after increasing by 1.3% MoM in August. The advance estimate for 3Q11 GDP was in line with consensus at 0.2% quarter-over-quarter (QoQ), with Germany and France reporting GDP growth of 0.5% QoQ and 0.4% QoQ, respectively. The ZEW Indicator of Economic Sentiment in the eurozone deteriorated further, falling to -59.1 from -51.2 in October. In Germany, sentiment also fell sharply to -55.2 from -48.3. The ZEW current-situation index also declined to 34.2 in November from 38.4 in October.

## UK

United Kingdom		Change (bps)	18 Nov 11	10 Nov 11
LIBOR:	1 Month	0	0.73	0.72
	3 Month	1	1.02	1.01
	12 Month	1	1.80	1.78
	Slope (1-12 Month)	1	107	106
OIS/LIBOR Spread:	3 Month	2	51	48
Swap Spread:	2 Year	8	106	98
	5 Year	4	73	69
Govt Bonds:	2 Year	-5	0.49	0.54
	10 Year	-3	2.26	2.29
	Slope (2-10 Year)	2	177	175
Current Market Pricing for Key Policy Rate:		Market consensus beyond forecast period		

Source: Bloomberg

Data releases in the UK continued to reveal that the

economy has reached a soft patch. This week, the Bank of England (BoE) released the quarterly inflation report, which on the whole was dovish, with a significant downgrade to the GDP growth forecast. The Monetary Policy Committee (MPC) also indicated that further quantitative easing could be needed to achieve the 2% inflation target in the medium term. In terms of inflation projections, the committee expects CPI to fall around 1.3% in 2013 and rise to 1.5% by the end of 2014. Also, monthly inflation data revealed that CPI eased to 5.0% YoY in October from 5.2% YoY in September due to lower food prices resulting from aggressive discounting by supermarkets and a decline in airfares and petrol prices. Unemployment data revealed further stress, as the International Labour Organization (ILO) unemployment rate rose to 8.3% in the three months through September from 8.1% in the three months through August. Also, the number of unemployed youth crossed the 1 million mark to 1.02 million, the highest level since records began. However, the claimant-count rate was unchanged at 5.0% in October. Also, average weekly earnings eased to 2.3% in September on a three-month annualised basis from 2.7% in August. In addition, the Nationwide Consumer Confidence Index fell to an all-time low of 36 in October from 45 in September amid a deteriorating employment outlook and the eurozone crisis.

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