



International Bond Research

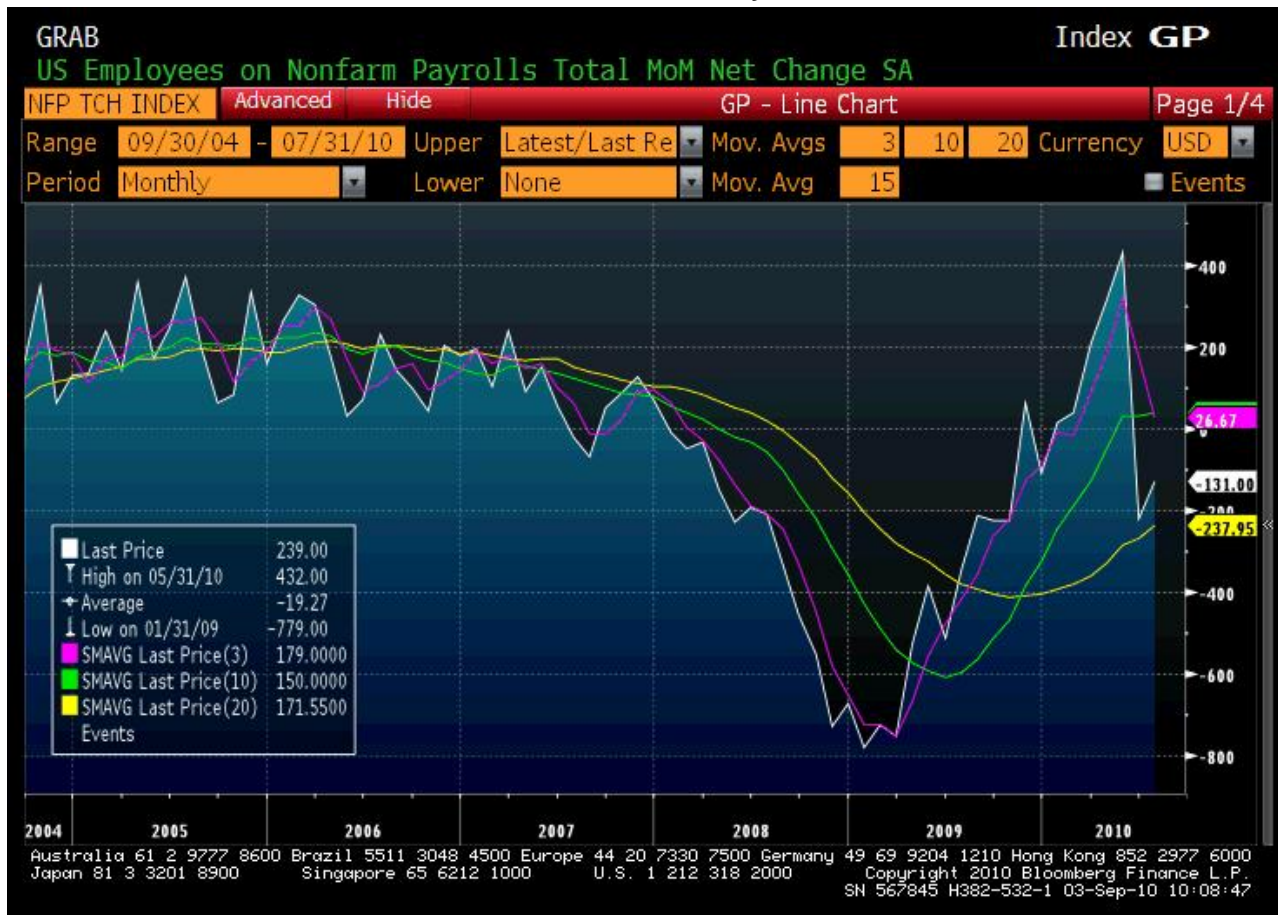
September 03 2010

JPN:
 From a low yield of 0.911% reached last Wednesday, yields have risen sharply to 1.145%. This week saw the largest weekly loss since May 2008 on worries that a government led by Ozawa would boost government bond issuance to fund more aggressive government spending. Ozawa has pledged to double the monthly childcare allowance and extend subsidies for energy-efficient household appliances. Japan's elections will be held Sept 14th. Japan's Government Pension Investment Fund (the largest pension fund in the world) seeking higher yielding assets, plans to sell \$47bn Japanese government bonds, which make up 71% of its portfolio. More upbeat Manufacturing and home sales data from the US has quelled fears of a double-dip recession and curbed demand for the safety of government bonds. This resulted in weak demand for Japan's auction of 20 & 30yr government bonds and a record low bid:cover ratio of only 1.45.

EUR:
 Bunds have also seen a sharp sell-off this week as private payrolls were reported to have risen 40k and data confirmed that manufacturing continues to expand. ECB President Trichet forecast that the Eurozone economy will grow between 1.4% and 1.8% this year, revising a previous forecast for growth of only 0.7% to 1.3%.

US:
 Today, the US will have a shortened trading day because of the Labour Day holiday on Monday. However, one of the most closely watched measures of economic growth will be released today. The non-farm payrolls report is expected to show job losses of between 100k and 120k. Census workers are still being laid off however so market attention will likely focus on the payroll figure excluding census workers to find further confirmation that the stronger manufacturing data released Wednesday and the stronger home sales data released yesterday are evidence of stronger economic growth. If payrolls excluding census are not up significantly, pessimism is likely to regain the upper hand and bond prices would rally and equities would sell-off.

US Non-Farm Payrolls



Source: Bloomberg



INTERNATIONAL BOND COMPARISONS							
			yield (s/a)	change on day (bp)	change MTD (bp)	return MTD	Sterling FX vs Stg
UK	2 yr	UKT 5 03/12	0.70	0.02	0.07	21.80	
	5 yr	UKT 4.75 09/15	1.83	0.03	0.12	18.81	
	10 yr	UKT 4.75 20	2.96	0.03	0.13	0.00	
	30 yr	UKT 4.75 12/38	3.95	0.05	0.16	16.54	
	40 yr	UKT 4.25 12/49	3.96	0.06	0.16	15.13	
US	2 yr	T 1 12/11	0.38	-0.01	0.01	4.26	1.31
	5 yr	T 2.625 12/14	1.22	0.02	0.08	10.84	0.35
	10 yr	T 3.375 11/19	2.55	0.05	0.16	12.96	-0.35
	30 yr	T 4.375 11/39	3.71	0.06	0.19	14.00	
Australia	2 yr	Acgb 5.75 06/11	4.35	0.01	0.08	28.91	1.6905
	5 yr	Acgb 6.25 06/14	4.45	0.02	0.11	29.46	0.27
	10 yr	Acgb 5.25 03/19	4.76	0.01	0.06	25.60	1.90
Canada	2 yr	Can 1.25 12/11	1.09	0.07	0.07	6.70	1.6207
	5 yr	Can 2 12/14	1.88	0.06	0.06	10.03	0.10
	10 yr	Can 3.75 06/19	2.74	0.08	0.08	16.64	0.90
	30 yr	Can 5 06/37	3.50	0.07	0.07	18.32	
Japan	2 yr	Jgb 0.2 01/12	0.11	0.00	0.00	0.49	129.79
	5 yr	Jgb 0.6 09/14	0.24	0.02	0.03	2.19	0.54
	10 yr	Jgb 1.3 12/19	0.98	4.50	0.10	4.52	-0.43
	30 yr	Jgb 2.2 09/39	1.88	0.08	0.18	5.63	
Euro	2 yr	BKO 1.25 12/11	0.51	0.03	0.05	6.56	1.2581
	5 yr	OBL 2.25 04/14	0.92	0.02	0.08	10.59	0.48
	10 yr	DBR 3.25 01/20	2.22	0.06	0.18	13.27	0.80
	30 yr	DBR 4.75 07/40	2.87	0.08	0.22	12.52	
	50yr	FRTR 4 04/55	3.19	0.05	0.18	12.00	
Sweden	2 yr	Sgb 5.5 10/12	1.36	0.02	0.08	25.41	11.1541
	5 yr	Sgb 6.75 05/14	1.71	0.04	0.11	28.28	1.01
	10 yr	Sgb 4.25 03/19	2.32	0.07	0.18	17.64	1.58
	15 yr	Sgb 5 12/20	2.42	0.08	0.19	18.96	
Denmark	2 yr	Dgb 6 11/11	0.62	0.01	0.01	27.29	8.940
	5 yr	Dgb 4 11/15	1.62	0.04	0.12	16.99	0.48
	10 yr	Dgb 4 11/19	2.35	0.06	0.17	15.85	0.80
	30 yr	Dgb 4.5 11/39	2.83	0.09	0.22	12.14	

2yr		sell			
GLOBAL		UK	US	Japan	Euro
UK			41.23	198.02	74
US		-31		156.79	32
Japan		-59	-27.78		-124
Euro		-19	12.84	51.22	
10yr		sell			
DOLLAR		US	Australia	Canada	NZ
US			-221.39	-19.78	-240
Australia		397		201.61	-19
Canada		70	-326.81		-221
NZ		326	-70.62	256.18	

	EUROPE Spread to Germany	
	2 yr	10 yr
Belgium	2	50.97
Denmark	10	12.45
France	5	25.89
Greece	636	935.88
Italy	76	137.06
Netherlands	-1	5.72
Spain	105	165.52
Sweden	85	19.38



The information used here is obtained from sources that we consider to be reliable but its accuracy and completeness cannot be guaranteed. The opinions and conclusions contained are those of King & Shaxson Limited. ("K&S"), and are subject to change without notice. No responsibility is taken for any losses, including any consequential loss, which may be incurred by acting upon such recommendations or information.

Whilst all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts opinions and expectations contained herein are fair and reasonable, neither the author nor K&S has verified the information contained herein and accordingly none of the author, K&S nor any of their respective directors, officers or employees makes any representation or warranty, express or implied as to the accuracy or completeness of the information or opinions contained herein and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Nothing in this paragraph shall exclude liability for any representations or warranties made fraudulently. The material does not attempt to describe all the economic, political, competitive and other factors that underlie any estimates, forecasts, or opinions, or potential changes that could affect the assumptions on which these estimates, forecasts and opinions are based. K&S makes no representation that the information is current. In particular, but without limiting the preceding sentence, statements of fact or opinion regarding securities, investments, financial products, companies, markets, territories or particular circumstances may not be up-to-date or may not represent the current opinion of K&S.

Any opinions, forecasts or estimates herein constitute a judgment as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. This information is subject to change without notice. It may be incomplete or condensed and it may not contain all material information concerning the Company.

This document does not constitute or form part of and should not be construed as any offer for sale or purchase of (or solicitation of or invitation to make any offer to buy or sell) any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

The information contained in this transmission is legally privileged and confidential information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient you are hereby notified that any dissemination, distribution or copy of this facsimile or any parts of it is strictly prohibited. If you have received this facsimile in error, please notify us immediately by telephone +44 (0)20 7426 5950 and speak to Compliance).

King & Shaxson Capital Limited Reg. No. 2863591 and King & Shaxson Limited Reg. No. 869780, members of the London Stock Exchange, and King & Shaxson Asset Management Limited Reg. No. 3870667. The Registered Office for all companies is 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS. All companies are registered in England and are part of the PhillipCapital Group.

King & Shaxson Capital Limited (FSA Reg. No. 169760), King & Shaxson Limited (FSA Reg. No. 179213), and King & Shaxson Asset Management Limited (FSA Reg. No. 193698) are Authorised and Regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

