



Finland:

Finland has elected a new president whose 6yr term will begin March 1st. Sauli Niinistö will take over from incumbent Halonen, Finland's first female president, who was ineligible to run for re-election having already served two terms. Mr Niinistö's conservative National Coalition party's victory breaks a 30yr hold on the presidency by the Social Democrats. Niinistö was finance minister when Finland joined the euro and insists that the country should stay in the euro despite the current debt crisis. He has also served as deputy chairman of the EIB and is therefore seen as someone that will stand up for Finland's interests within the currency union.

Finland's euro-era average spread to Germany is +16bp, with a peak in Jan 2009 of +89bp and a low of -9bp in Nov 2005, currently the spread is +45bp. As long as uncertainty remains high in the eurozone, the yield spread will remain elevated but it is not difficult to see the spread narrowing to between +15bp to +20bp as tensions ease. Finland is seen as a safe-haven and is one of the 4 remaining triple-A rated countries in the eurozone.

Australia:

In response to the weakest job market in 20yrs, it is widely expected that the RBA will cut rates for a third time tomorrow. The cash target rate was lowered by 25bp to 4.25% at the December meeting. The futures implied rate is 3.43% on the September contract so further rate cuts are expected. The AUD has appreciated by 13% since October. Australian manufacturers are feeling the squeeze and are reducing their workforce in an effort to cut costs. The unemployment rate has risen from 4.9% in Q1 last year to 5.2%. In the December statement Governor Stevens noted that CPI inflation remained above the target, due to the effects of flooding last summer, but is now starting to decline and with slowing economic activity in Europe and softer labour market conditions the likelihood of an acceleration in labour costs has lessened. The RBA expects that inflation is likely to be consistent with the 2-3% target in 2012 and 2013.

After Friday's stronger than expected US nonfarm payrolls data the 10yr ACGB moved lower by 1.35 points with the yield increasing 16bp to 3.86% providing a buying opportunity. The 3.65% level may prove to be tough resistance but while the RBA is clearly in a rate cutting mode the yield should eventually push lower.

10yr ACGB



Source: Bloomberg



| INTERNATIONAL BOND COMPARISONS | | | | | | | |
|--------------------------------|---------------|-------------------|-------------|--------------------------|-----------------------|---------------------------|----------|
| | | | yield (s/a) | yield change on day % | yield change MTD % | return MTD (local CCY) | Duration |
| UK | 2 yr | UKT 2.25 3/14 | 0.41 | 0.04 | 0.06 | -0.11 | 2.02 |
| | 5 yr | UKT 1.75 01/17 | 1.12 | 0.06 | 0.14 | -0.64 | 4.74 |
| | 10 yr | UKT 3.75 9/20 | 1.98 | 0.08 | 0.20 | -1.65 | 7.33 |
| | 30 yr | UKT 4.25 12/40 | 3.23 | 0.09 | 0.21 | -3.66 | 17.58 |
| US | 2 yr | T 0.125 12/13 | 0.23 | 0.01 | 0.02 | -0.03 | 1.89 |
| | 3yr | T 0.25 12/14 | 0.31 | 0.02 | 0.02 | -0.07 | 2.84 |
| | 5 yr | T 0.875 12/16 | 0.75 | 0.06 | 0.06 | -0.29 | 4.80 |
| | 10 yr | T 2 11/21 | 1.92 | 0.10 | 0.13 | -1.07 | 8.89 |
| 30 yr | T 3.125 11/41 | 3.12 | 0.12 | 0.18 | -3.40 | 19.46 | |
| Australia | 2 yr | ACGB 6.25 06/14 | 3.22 | 0.00 | 0.04 | -0.04 | 2.21 |
| | 5 yr | ACGB 6 02/17 | 3.34 | -0.01 | 0.03 | -0.07 | 4.45 |
| | 10 yr | ACGB 5.75 05/21 | 3.71 | -0.00 | -0.00 | 0.09 | 7.38 |
| Canada | 2 yr | CAN 1 02/14 | 0.99 | 0.01 | 0.04 | -0.06 | 1.97 |
| | 5 yr | CAN 2.75 09/16 | 1.29 | 0.03 | 0.05 | -0.17 | 4.28 |
| | 10 yr | CAN 3.25 6/21 | 1.94 | 0.04 | 0.05 | -0.41 | 8.13 |
| | 30 yr | Can 4 06/41 | 2.55 | 0.04 | 0.05 | -0.87 | 15.06 |
| Japan | 2 yr | JGB 0.1 01/14 | 0.12 | -0.00 | -0.00 | 0.01 | 1.93 |
| | 5 yr | JGB 0.4 12/16 | 0.31 | -0.00 | -0.01 | 0.07 | 4.54 |
| | 10 yr | JGB 1.1 12/21 | 0.88 | -0.00 | -0.02 | 0.19 | 8.66 |
| | 30 yr | JGB 2 09/41 | 1.89 | 0.00 | -0.02 | 0.39 | 19.03 |
| Germany | 2 yr | BKO 0.25 12/13 | 0.20 | -0.00 | 0.05 | -0.08 | 1.84 |
| | 5 yr | OBL 1.25 10/16 | 0.80 | 0.06 | 0.12 | -0.54 | 4.56 |
| | 10 yr | DBR 2 01/22 | 1.93 | 0.08 | 0.15 | -1.26 | 9.05 |
| | 30 yr | DBR 3.25 07/42 | 2.55 | 0.06 | 0.10 | -1.98 | 20.24 |
| France | 2yr | BTNS 2 09/13 | 0.55 | -0.05 | -0.20 | 0.33 | 1.61 |
| | 5yr | BTNS 2.5 07/16 | 1.61 | -0.03 | -0.17 | 0.75 | 4.23 |
| | 10yr | FRTR 3.25 10/21 | 2.89 | -0.00 | -0.15 | 1.32 | 8.43 |
| | 30yr | FRTR 4.5 04/41 | 3.65 | 0.00 | -0.12 | 2.07 | 17.19 |
| Netherlands | 2 yr | NETHER 4.25 07/13 | 0.26 | -0.01 | 0.01 | 0.00 | 1.39 |
| | 5 yr | NETHER 4 07/16 | 1.09 | 0.04 | 0.07 | -0.26 | 4.09 |
| | 10 yr | NETHER 3.25 07/2 | 2.25 | 0.08 | 0.11 | -0.84 | 8.19 |
| | 30 yr | NETHER 3.75 01/42 | 2.64 | 0.06 | 0.09 | -1.72 | 19.66 |
| Austria | 2 yr | RAGB 4.125 01/14 | 0.59 | -0.04 | -0.14 | 0.28 | 1.89 |
| | 5 yr | RAGB 3.2 02/17 | 1.85 | -0.03 | -0.18 | 0.85 | 4.60 |
| | 10 yr | RAGB 3.5 9/21 | 2.81 | -0.00 | -0.08 | 0.69 | 8.25 |
| | 25 yr | RAGB 4.15 37 | 3.43 | -0.00 | -0.10 | 1.65 | 16.09 |
| Switzerland | 2 yr | SWISS 4.25 01/14 | 0.01 | 0.01 | 0.02 | -0.04 | 1.87 |
| | 5 yr | SWISS 2 10/16 | 0.21 | 0.04 | 0.01 | -0.04 | 4.49 |
| | 10 yr | SWISS 2 04/21 | 0.63 | 0.04 | 0.03 | -0.25 | 8.44 |
| | 24 yr | SWISS 2.5 3/36 | 1.06 | 0.07 | 0.07 | -1.35 | 18.87 |
| Sweden | 2 yr | SGB 6.75 05/14 | 1.04 | 0.04 | 0.16 | -0.32 | 2.07 |
| | 5 yr | SGB 3 07/16 | 1.28 | 0.06 | 0.19 | -0.76 | 4.15 |
| | 10 yr | SGB 3.5 06/22 | 1.88 | 0.08 | 0.19 | -1.62 | 8.77 |
| | 30 yr | SGB 3.5 03/39 | 1.88 | 0.08 | 0.19 | -1.62 | 18.48 |
| Denmark | 2 yr | DGB 5 11/13 | 0.19 | -0.00 | 0.04 | -0.05 | 1.72 |
| | 5 yr | DGB 2.5 11/16 | 0.81 | 0.04 | 0.11 | -0.46 | 4.54 |
| | 10 yr | DGB 3 11/21 | 1.85 | 0.07 | 0.13 | -1.05 | 8.62 |
| | 30 yr | DGB 4.5 11/39 | 2.44 | 0.08 | 0.12 | -2.01 | 18.17 |
| Spain | 2 yr | SPGB 2.5 10/13 | 2.21 | 0.03 | -0.07 | 0.15 | 1.70 |
| | 5 yr | SPGB 4.25 10/16 | 3.61 | 0.08 | 0.03 | -0.07 | 4.34 |
| | 10 yr | SPGB 5.5 04/21 | 4.73 | 0.06 | 0.03 | -0.13 | 7.24 |
| | 30 yr | SPGB 4.7 07/41 | 5.71 | 0.04 | 0.03 | -0.32 | 15.06 |
| Italy | 2 yr | BTPS 2.25 11/13 | 2.98 | 0.04 | -0.49 | 0.87 | 1.69 |
| | 5 yr | BTPS 4.75 09/16 | 4.35 | 0.14 | -0.37 | 1.56 | 4.11 |
| | 10 yr | BTPS 5 03/22 | 5.68 | 0.10 | -0.25 | 1.99 | 7.80 |
| | 30 yr | BTPS 5 09/40 | 6.20 | -0.01 | -0.31 | 4.32 | 14.08 |
| New Zealand | 3 yr | NZGB 6 4/15 | 2.79 | 0.05 | 0.00 | 0.04 | 2.91 |
| | 5 yr | NZGB 6 12/17 | 3.33 | 0.04 | -0.03 | 0.23 | 5.04 |
| | 10 yr | NZGB 6 05/21 | 3.81 | 0.03 | -0.05 | 0.44 | 7.34 |

| | | sell | | | |
|---------------|---------------|------|-----------|--------|------|
| 10yr | | UK | US | Japan | Euro |
| buy | GLOBAL | | | | |
| | UK | | 5 | 110 | 5 |
| | US | -18 | | 104 | -1 |
| | Japan | -29 | -11 | | -12 |
| | Euro | -21 | -3 | 20 | |
| 10yr | | sell | | | |
| DOLLAR | | US | Australia | Canada | NZ |
| | US | | -179 | -2 | -188 |
| | Australia | 179 | | -177 | -9 |
| | Canada | 2 | -177 | | -187 |
| | NZ | 256 | -43 | 180 | |

| EUROPE | Spread to Germany | |
|--------------------|-------------------|-------|
| | 2 yr | 10 yr |
| Belgium | 42 | 158 |
| Denmark | -1 | -9 |
| France | 35 | 96 |
| Switzerland | -19 | -130 |
| Greece | 20193 | 3347 |
| Italy | 277 | 375 |
| Netherlands | 6 | 32 |
| Spain | 201 | 280 |
| Sweden | 84 | -5 |

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