



Summer Sunrise Market Commentary

- Bonds rally higher, as equities fall on renewed credit concerns
- Dollar rebound stalls against the euro, although commodities lose further ground
- Sterling weakens further on rising economic concerns following higher than expected UK inflation data
- Georgia and Russia agree on peace plan
- Japanese economy contracts in Q2 highlighting the global economic slowdown
- Today's Bank of England's inflation report and US retail sales eagerly awaited
- Norges central bank set to leave rates unchanged at 5.75%

Markets

S&P	↘
Eurostoxx50	→
Nikkei	↘
Oil	→
CRB	→
Gold	→
2 yr US	↘
10 yr US	↘
2 yr EMU	↘
10 yr EMU	→
EUR/USD	↗
USD/JPY	↘
EUR/GBP	↗

Yesterday, the **rally of the dollar stalled against the euro, but continued against sterling**, as Cable fell below the psychological important 1.90 level. The higher than expected inflation data, which showed UK inflation rising to 4.4% Y/Y in July, failed to support sterling, but instead added to the economic woes in the UK. On the Gilt market, bonds rapidly recouped their early losses and closed the session significantly higher. As such, UK yields fell between 8.8 bps in 2-year yields and 4.9 bps in 30-year yields. Yesterday's remarkable market reaction illustrates the shift in market sentiment over the past couple of weeks in which **growth fears have overtaken inflation fears as the dominant trading theme. Whether this will persist will now heavily depend on the central bankers.** In this context, today's inflation report from the Bank of England will be very important.

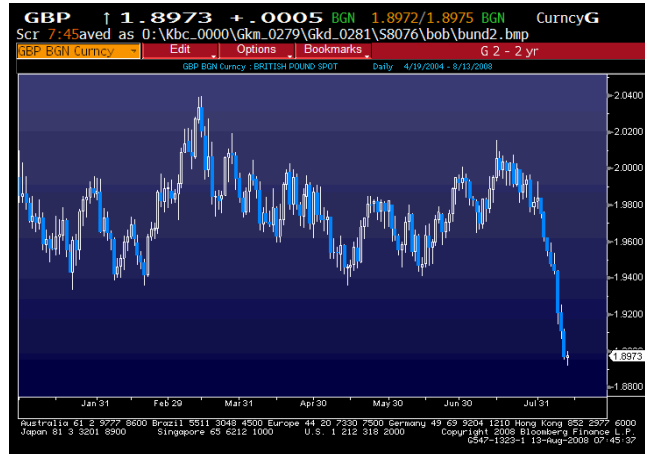
In the euro zone, **ECB's Weber** already warned yesterday that fighting inflation remains the ECB's 'highest priority' and added that the inflation outlook remains poor in spite of the recent drop in oil and energy prices. His comments were however ignored by the market, as the **European bond market continued its rally higher supported by the weakness in the equity markets.** Renewed credit concerns related to new write-downs at JPMorgan Chase and weak Q2 earnings at UBS sent equities lower on the day. Also in Asia, equities are under downward pressure this morning. The contraction of the Japanese economy in the second quarter provides the latest piece of evidence that the slowdown in the US is spreading towards the global economy.

Today, the calendar heats up in the US with the publication of the July retail sales. These are expected to show their first monthly decline in five months, as the impact of the tax rebates starts to wane.

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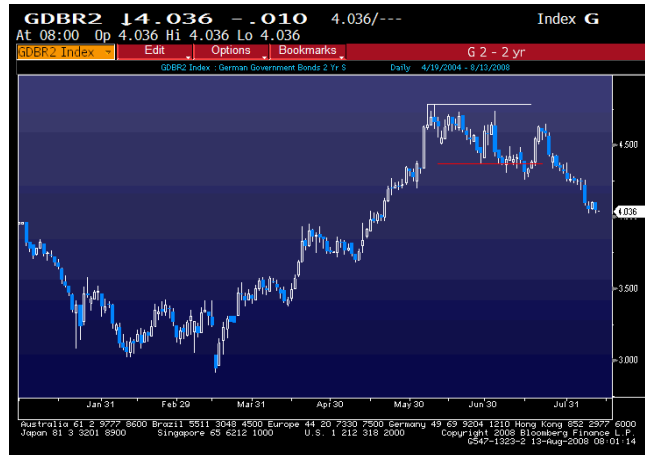
Dollar rebound stalls against the euro, ...



... but continues against sterling, as high inflation data add to economic woes in the UK.



Decline in equity markets (S&P)...



... sends German 2-year yields lower despite hawkish comments of ECB's Weber.



Oil ...



... and gold extend decline.

Calendar

Wednesday, 13 August		Consensus	Previous
US			
13:00	MBA Mortgage Applications (Aug 8) W/W		2.8%
13:00	Bloomberg Global Confidence (Aug)		10.30
14:30	Import Price Index (Jul) M/M Y/Y	1.0% / 20.5%	2.6% / 20.5%
14:30	Advance Retail Sales (Jul)	-0.1%	0.1%
14:30	Retail Sales Less Autos (Jul)	0.5%	0.8%
16:00	Business Inventories (Jun)	0.5%	0.3%
Japan			
01:50	Gross Domestic Product (Q2 P) Q/Q	A -0.6%	R 0.8%
01:50	GDP Annualized (Q2 P) Q/Q	A -2.4%	R 3.2%
01:50	Nominal GDP (Q2 P) Q/Q	A -0.7%	R 0.2%
01:50	GDP Deflator (Q2 P) Y/Y	A -1.6%	-1.5%
01:50	Adjusted Current Account Total (Jun)	A 1290.7B	2032.7B
01:50	Trade Balance – BOP Basis (Jun)	A 252.1B	529.4B
UK			
10:30	Claimant Count Rate (Jul)	2.6%	2.6%
10:30	Jobless Claims Change (Jul)	17.0K	15.5K
10:30	Avg Earnings inc bonus (Jun) 3M Y/Y	3.6%	3.8%
10:30	Avg Earnings ex bonus (Jun) 3M Y/Y	3.7%	3.8%
10:30	ILO Unemployment Rate (Jun) 3Mths	5.3%	5.2%
10:30	Manufacturing Unit Wage Cost (Jun) 3Mths Y/Y		1.8%
EMU			
11:00	Industrial Production (Jun) M/M Y/Y	0.1% / 0.2%	-1.9% / -0.6%
Norway			
10:00	Retail Sales (Jun)	0.2% / 1.0%	1.2% / 6.1%
14:00	Norwegian Deposit Rates (Aug 14)	5.75%	5.75%
Events			
11:30	Bank of England Quarterly Inflation Report		
16:30	US oil inventories		
	Italy	BTP Auction 4.25% Apr 13 (2.5B)	
	Germany	Bund Auction 4.25% Jul18 (6.0B)	
	Portugal	OT Auction 4.45% Jun18 (0.75B)	

10-year	td	-1d	2-year	td	-1d	STOCKS		-1d	
US	3,92	-0,07	US	2,46	-0,06	DOW	11642,39	-139,39	
DE	4,25	-0,01	DE	4,05	-0,04	NASDAQ	2430,61	2430,61	
BE	4,58	-0,02	BE	4,18	-0,03	NIKKEI	13023,05	-280,55	
UK	4,63	-0,10	UK	4,62	-0,12	DAX	6609,63	47,98	
JP	1,45	-0,02	JP	0,85	-0,01	DJ euro-50	3436,85	-8,81	
IRS	EUR	USD (3M)	GBP	Eonia	4,32	0,02			
3y	4,690	3,726	5,470	Euribor-1	4,49	0,00	Libor-1	5,379	0,00
5y	4,628	4,128	5,354	Euribor-3	4,97	0,00	Libor-3	5,778	0,00
10y	4,736	4,629	5,107	Euribor-6	5,16	0,00	Libor-6	5,977	0,00
Currencies		-1d	Currencies		-1d	Commodities	CRB	GOLD	BRENT
EUR/USD	1,492	0,0039	EUR/JPY	162,34	-1,50		384	817,45	111,31
USD/JPY	108,83	-1,32	EUR/GBP	0,7866	0,0049	-1d	-1,13	7,15	-0,23
GBP/USD	1,8967	-0,0065	EUR/CHF	1,6198	0,0014				
AUD/USD	0,8654	-0,0118	EUR/SEK	9,3858	-0,01				
USD/CAD	1,0651	-0,0048	EUR/NOK	7,9956	-0,01				



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