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Subject: Money market update

The Bank of England has now joined the Fed and ECB in announcing measures aimed at alleviating tensions in the money markets about funding, particularly over the year end.

The BOE will hold a 5 week refinancing operation on 6th December, the dates will exactly match the next reserves period, at that tender they will offer £10 bio at the bank rate

(currently 5.75). They have concluded the announcement by stating they are ready to take further measures to keep overnight rates in line with the Bank Rate. A now familiar statement from the ECB & Fed as well.

If we look at O/N rates the central banks are successful in that objective, today we are seeing O/N GBP @ 5.82/78, USD @ 4.68/63 and EUR @ 3.97/93, which are all relatively close to respective policy rates. A totally different picture in term maturities though, demand for funding and a hoarding of liquidity is still combining to drive Libors higher, another factor we are seeing recently is a more realistic approach in setting Libors by contributing banks, that has been particularly noticeable in USD & EUR this week where the little business that does occur has usually been above where official Libors have set.

With year end coming into today's 1 month USD & EUR fixings we are looking for EUR to fix @ 4.79 (although the real cash offer is 4.81) and USD @ 5.25 although there is no real offer in the market, one large London broker suggests 5.60 and it would be bid 5.70 through the FX arbitrage out of EUR.