Citigroup® Global Transaction Services

Global Securities Finance *Market Monitor*

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>> Money Markets Recap

Short-term, medium-term and long-term interest rates continued their steady climb throughout the month. One month LIBOR increased from 3.88% to 4.10%. While there was no FOMC meeting during the month, the rate at month end clearly included a 25 basis point rate hike at the November 1 meeting. The yield on the 2 year UST note reached the 4.40% level, up from around 4.20%, and the 10 year UST note was approaching the 4.60% level. The big news of the month was the announcement that Ben Bernanke was nominated to replace Alan Greenspan as Chairman of the Board of Governors of the Federal Reserve. The announcement was well received by the market and the consensus appeared to be that Mr. Bernanke would bring both continuity in policy as well as continued competence to the Fed. In his previous stint as FRB Governor, he was best known as being a strong proponent of inflation targeting as well as promoting increased transparency and an increased level of communication between the Fed and the market. It is expected that he will cast his first vote at the 2 day FOMC meeting that ends on February 1, 2006, and that at that time he will continue recommend the removal of policy accommodation by increasing the federal funds rate to 4.50%.

>> Euroland Update

Following the ECB's shift to a "strong vigilance" mode regarding upside inflation risks, markets are discounting a significant probability of a first rate hike this year. Although such development is possible, the view remains that the ECB will wait until next year for confirmation that the unfolding economic rebound is solidifying, because underlying price pressures are unlikely to jump abruptly near term. For markets, as important as the timing of the first move are the size and pace of the eventual tightening cycle. Market expectations are the next upward rate cycle to be more gradual than in the past and official rates to peak at historically low levels. Many expect official rates to be no higher than 2.50% at end-2006.

>> United Kingdom Market Update

The latest British Chambers of Commerce survey suggests that the economy will stay weak near term, with softer orders overall, weaker business confidence and declining capacity use. In particular, contrary to BoE Mervyn King's view that "the long-awaited rebalancing of the economy away from consumer spending to business investment and net exports is underway", the BCC survey shows weaker export orders for both manufacturing and service sector firms, weaker investment intentions for service sector firms and stable (but weak) investment intentions or manufacturing firms . The recent uptrend in inflation is unlikely to persist. Contrary to MPC member Paul Tucker's comments, it appears that monetary policy is actually slightly restrictive rather than loose (given the evidence that housing has slowed, private spending has slowed, and private savings rates have risen). The MPC remains likely to cut rates again, but it is a close call as to whether the next cut will come in November or in Q1.

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