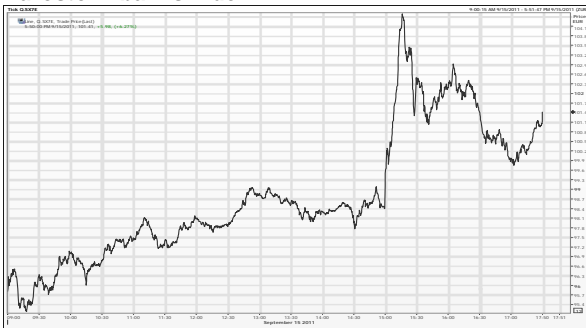


# Market Watch

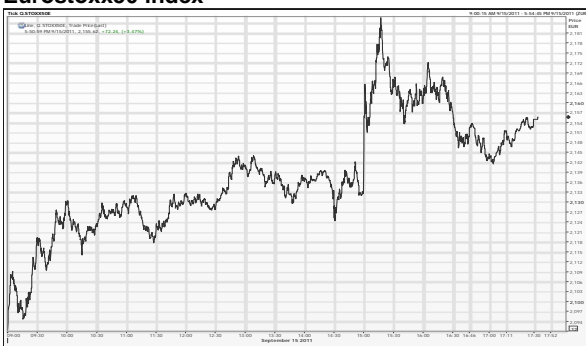
16 September 2011

## Intra-day price action

### Eurostoxx banks index



### Eurostoxx50 index



### S&P500 index



Source: ThomsonReuters, Standard Chartered

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## Coordinated liquidity operations

### SUMMARY

- The various major central banks (ECB, Fed, BoE, BoJ and SNB) announced coordinated action to implement three US dollar liquidity providing operations, with a maturity of approximately three months.
- These operations are in addition to the other liquidity operations already being conducted by the central banks.
- The first of which will be carried out on 12<sup>th</sup> October 2011.
- From the BoJ statement it would appear that the auction amount is 'unlimited' against pooled collateral.
- The collateral requirements would appear to be very wide, with the BOE for example accepting 'US asset-backed securities backed by student and consumer loans' (BoE: Sterling Monetary Framework, Wider OMO Collateral Set)

**Market response:** The markets and financials rallied on the back of this news, with the financials in Europe being up around 6% in yesterday's trading. Asian pacific markets are also up this morning.

**Our comment:** Whilst this action does not resolve the underlying market concern of a sovereign debt crisis, it is significant in a number of ways:

- As a coordinated effort, it signifies the 'will' of the various central banks to support the financial system, in particular the EU banks
- It however raises the issue as to why action was necessary in the first place as there are existing facilities for the banks from which to obtain liquidity. The action taken thus also highlights the 'stresses' within the financial system and the lack of liquidity that many of the European banks may be experiencing.

Whilst no panacea for the European 'debt crisis', the action may likely be perceived by the market as the first step towards a fully fledged European version of the 'troubled asset relief program', or TARP, as carried out by the Fed in 2008. An EU TARP program would go along way to resolving the 'financials crisis', as banks would be able to reduce their exposure to various sovereign risks, transferring them to the central banks.

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