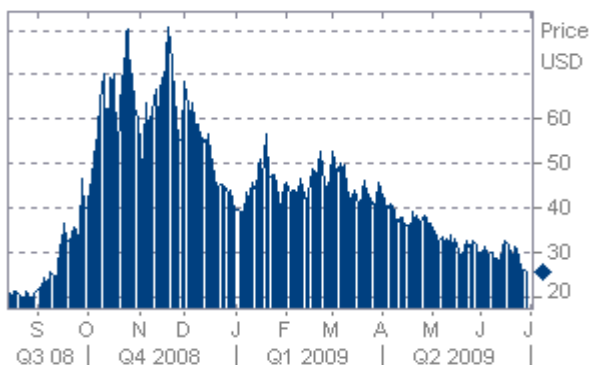


CHART OF THE DAY

VIX Index



The CBOE Volatility Index is down sharply to 25.63, its lowest level since Lehman's bankruptcy in September, in a sign that stocks may be in store for sleepy summer range-bound trading in the near term.

TODAY'S TOP NEWS

- Recovery frail but stimulus exit must be timely— BIS
- Bernard Madoff sentenced to 150 years in prison
- Obama could mull 2nd U.S. stimulus if needed
- IEA cuts sharply medium-term oil demand forecast
- State Street may face SEC charges over mortgages
- Chicago Fed Midwest factory index falls on weak autos
- Euro cash bond issuance on brink of record total
- Japan industrial output rebounds, outlook cloudy
- Euro Libor rates extend decline on liquidity
- Weak UK lending figures point to slow recovery

ECON WATCH

FOR TUESDAY JUNE 30

ET	Indicators	Unit	Reuters	Prior
1:00	JP Housing starts	%	-27.0	-32.4
2:00	GB Nationwide HsePrc mm	%	-0.4	1.2
2:50	FR Producer prices mm	%	0.2	-0.9
4:00	EZ Money-M3 annual grwth	%	4.6	4.9
4:00	EZ Money— Private loans	%	1.9	2.4
4:00	DE Unemployment rate sa	%	8.3	8.2
4:30	GB GDP final qq Q1	%	-2.1	-1.9
5:00	EZ Inflation, flash yy	%	-0.2	0.0
8:30	CA GDP mm	%	-0.1	-0.3
8:30	CA Producer prices mm	%	-0.5	-0.5
9:00	US CaseShiller 20 mm	%	-1.8	-2.2
9:00	US CaseShiller 20yy	%	-18.8	-18.7
9:45	US Chicago PMI	ind	39.0	34.9
10:00	US Consumer confidence	ind	55.0	54.9
19:50	JP Tankan, big manuf	ind	-43	-58

MARKETS TODAY

TODAY'S TOP STORY: Leading central bankers attending a meeting at the Bank of International Settlements said unprecedented attempts to stimulate economic growth may fail to bring a sustained recovery, yet withdrawing them too late could be even more risky.

For more please click here

TREASURIES: U.S. Treasuries rose, with benchmark yields reaching the lowest in a month in continued relief that a heavy dose of new debt last week was met with strong demand.

- 10-yr Treasury traded 12/32 higher in price yielding 3.48 pct, down from 3.53 pct late Friday. Earlier today, 10-yr Treasury yield traded at 3.45 pct, its lowest since May 29.
- 30-yr bond rose 18/32 in prices for a yield of 4.3 pct from 4.33 pct.
- 2-10's part of yield curve flattened by about 4 bps to 238 bps.

FOREX: The dollar fell against the euro and the yen weakened as a rise in oil prices and stocks reduced safe-haven demand for both currencies. Earlier in the day, comments from China, ruling out sudden changes in its foreign exchange reserve policy, bolstered the dollar.

- The euro rose 0.11 pct to \$1.4078, the dollar rose 0.81 pct to 96.02 yen.
- The dollar index fell 0.02 pct, reversing the earlier gains of 0.1 pct.

CORPORATES: U.S. corporate bond spreads were steady to tighter as stocks rose after higher oil prices boosted energy shares and global stock gains helped renew investor optimism.

- The CDX-IG.12 index tightened by about 4 bps to 135 bps.
- Credit Suisse (NY branch) \$1.3 bln issue of 3-yr notes sold on Friday was trading about 11 bps tighter at 179 bps over Treasuries.
- France Telecom launched \$2.5 bln two-part note sale which includes \$1.25 bln each in 5-yr and 10-yr note issues.

STOCKS: U.S. stocks rose as higher oil prices lifted shares of energy companies and investors bought shares to improve their holdings on the day before the second quarter draws to a close.

- The S&P is up 16.1 pct for the quarter ending, despite a gain of just 0.81 pct so far in June.
- Dow rose 1.08 pct to 8,529.38, S&P was up 0.91 pct to 927.23 and Nasdaq gained 0.32 pct to 1,844.06.
- S&P automobile index rose 2.62 pct, S&P energy index gained 1.33 pct.

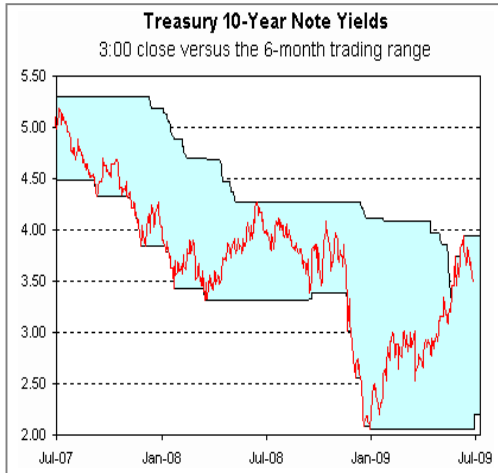
C & E: Oil prices rose more than 3 percent, lifted by word of fresh rebel attacks on oil installations in Nigeria and gains in equity markets. China unexpectedly increased gasoline and diesel prices by nearly 9 percent and 10 percent respectively for the third time since late March to their highest level ever.

- U.S. crude rose 3.38 pct to \$71.5 a barrel.
- Gold fell 0.08 pct to \$937.3 an ounce.
- The Reuters-Jefferies CRB index was up 1.19 pct to 254.31.

- For MARKET SNAPSHOT click here
- For NEXT UP click here
- For DEEP DIVE click here



MARKET SNAPSHOT as of 3:00 pm EST



TREASURIES <5> <500>

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.115	0.085	0.117	0.069
3-Mo Bill	0.175	0.165	0.178	-0.003
6-Mo Bill	0.340	0.330	0.345	0.041
1-Year	0.445	0.438	0.453	0.036
2-Year	100.031	100.063	1.110	0.023
3-Year	100.758	100.789	1.612	0.063
5-Year	100.438	100.477	2.532	0.145
7-Year	100.438	100.484	3.180	0.211
10-Year	96.953	97.016	3.492	0.422
30-Year	99.125	99.188	4.302	0.609

EQUITIES

	INDEX	CHANGE
DJIA	8530.51	92.12
NASDAQ	1847.18	8.96
S&P 500	927.64	8.74

OIL

	PRICE	CHANGE
NYMEX	71.6	2.4
BRENT	71.1	2.2

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jul-09	99.390	0.000
Sep-09	99.340	0.005
Dec-09	99.100	0.005
Mar-10	98.860	0.005

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.85	0.05
CBOT 10 yr	116.44	0.03
CBOT 30 yr	118.50	-0.03

REPURCHASE AGREEMENTS

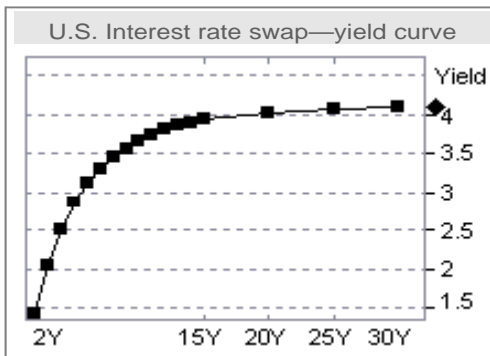
G/C		MORTGAGE REPOS	
O/N	0.200	O/N	0.300
2-Week	0.300	2-Week	0.300
1-Month	0.300	1-Month	0.300
3-Month	0.300	3-Month	0.350
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.250	10:00 AM	0.120
2-Week	0.300	3:00 PM	0.099
1-Month	0.300		
3-Month	0.350		

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	35.75	39.75	1.46	1.48
3-Year	46.75	50.75	2.08	2.09
5-Year	36.50	40.50	2.89	2.89
7-Year	16.25	20.25	3.34	3.33
10-Year	19.75	23.75	3.68	3.67
30-Year	-18.50	-14.50	4.12	4.10

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.200	0.250		
1-Month	0.250	0.650	0.202	0.212
3-Month	0.450	1.050	0.218	0.228
6-Month	0.900	1.400	0.258	0.268
12-Month	1.400	2.050	0.460	0.470



CURRENCIES

	BID	ASK
Euro	1.4087	1.4090
Sterling	1.6572	1.6576
JP Yen	95.96	95.98
Swiss Franc	1.0825	1.0828
Can Dollar	1.1561	1.1566
Mexico	13.1716	13.1772

FED FUNDS NYFRSM - 10AM

Open	0.2200	1m	0.3275
High	0.2500	3m	0.6100
Low	0.1000		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.375	28/04/2011	15 12	1.25
3-Year	1.875	20/04/2012	20 0	1.81
5-Year	3	28/07/2014	39 37.5	2.91
7-Year	5	15/03/2016	33.5 0	3.5
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	57.75 57.25	4.88

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.625	26/04/2011	15 12	1.25
3-Year	1.75	15/06/2012	31 0	1.92
5-Year	2.5	15/05/2014	34.5 0	2.85
7-Year	4.75	19/01/2016	32.75 32.25	3.5
10-Year	3.75	27/03/2019	49 0	4
30-Year	6.25	15/07/2032	53.5 53	4.84

Active MBS 15YR

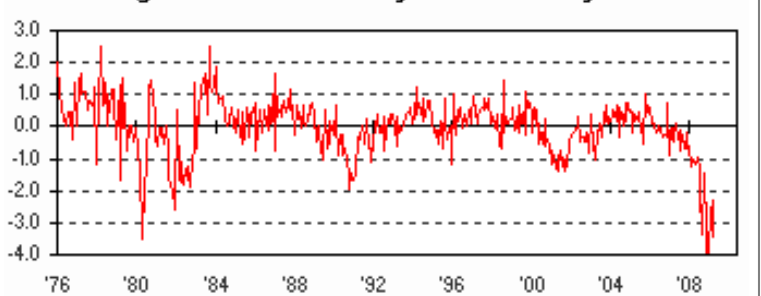
	CPN	BID	ASK	YIELD
FNMA	5.0	103.1800	103.2000	-
FHLMC	5.0	103.1400	103.1600	-
GNMA	5.0	103.2210	103.2410	-

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	103.0920	103.1120	-
FHLMC	5.5	103.0920	103.1120	-
GNMA	5.5	103.1110	103.1310	-

Wrightson ICAPSM Chart of the Day

Chicago Fed National Activity Index: Monthly Levels



TODAY'S TOP NEWS

Recovery frail but stimulus exit must be timely— BIS

Leading central bankers attending a meeting at the Bank of International Settlements said unprecedented attempts to stimulate economic growth may fail to bring a sustained recovery, yet withdrawing them too late could be even more risky.

Regional currencies would gain in importance, they also said after two days of talks. But the U.S. dollar still had no serious rival in playing a lead role in foreign reserves and trade settlement, according to the monetary policy chiefs from the world's major industrial and emerging economies.

The BIS warned that although authorities had tried to arrest sharp declines in economic output, it was still an open question whether the stimulus would lead to a sustained recovery.

Still, waiting too long to withdraw support could fuel inflation and create new imbalances, the BIS, which acts as a forum for the world's central banks, said in its annual report.

Governments have rushed to help banks and promised extra public spending this year worth about 2 percent of economic output of the Group of 20 nations, according to the International Monetary Fund.

Obama could mull 2nd U.S. stimulus if needed—adviser

President Barack Obama could discuss a second stimulus package to boost the economy if needed, but at the moment no more new money looks necessary, a top White House adviser said on Sunday.

"Much of the stimulus is yet to come, and let's see how this works before talking about next steps," senior adviser David Axelrod told NBC Television's Meet the Press program.

"Let's see in the fall where we are, but right now we believe what we have done is adequate to the task. If more is needed, we'll have that discussion."

However, the economy has weakened by more than expected and the White House now warns the jobless rate could breach 10 percent in coming months, up from 9.4 percent in May, in the face of the toughest recession in decades.

U.S. officials and private economists forecast a gradual resumption of growth in the second half of the year. But they warn that unemployment will continue to climb for a while, even after the recession has ended.

State Street may face SEC charges over mortgages

Asset management and servicing giant State Street Corp said it might face civil charges by U.S. securities regulators for exposing investors to losses on subprime mortgages.

The company said that SEC staff had issued a "Wells" notice to its banking unit on Thursday regarding disclosures and management by State Street Global Advisors of "active" fixed-income strategies in 2007 and in prior periods.

A Wells notice indicates that SEC staff may bring civil charges, and gives the recipient a chance to mount a defense.

Chicago Fed Midwest factory index falls on weak autos

The Chicago Federal Reserve Bank said its Midwest manufacturing index fell in May to its lowest in more than 15 years due to a sharp decline in output from the struggling U.S. car industry.

The index fell 3.1 percent to a seasonally adjusted 78.2 from a downwardly revised 80.7 in April, which was originally reported at 81.0. The May index was at the lowest level since September 1993. Compared with a year earlier, Midwest output was down 24.4 percent, far steeper than the 15.2 percent decline on a national level, the report said.

Bernard Madoff sentenced to 150 years in prison

Disgraced financier Bernard Madoff was sentenced to 150 years in prison for perpetrating Wall Street's biggest and most brazen investment fraud, the maximum punishment for what the judge called an extraordinarily evil crime.

Cheers and applause came from the courtroom -- filled with his fleeced investors -- as the judge handed down the penalty.

Madoff, 71, stood passively with his hands clasped at his waist, showing no reaction when he heard the sentence that will send him to prison for the rest of his life.

Investigators do not know how much was stolen, according to court papers. Prosecutors say \$170 billion flowed through the principal Madoff account over decades, and that weeks before the financier's December arrest the firm's statements showed a total of \$65 billion in accounts.

The trustee winding down the Madoff firm has so far collected \$1.2 billion to return to investors. Swindled investors fear they may never recover the millions some of them have lost.

IEA cuts sharply medium-term oil demand forecast

The International Energy Agency cut sharply its medium-term forecast for oil demand because of economic recession, but said the threat of a supply crunch had only receded, not gone away.

The adviser to 28 developed countries said in a report demand will expand by 0.6 percent, or 540,000 bpd on average, between 2008 and 2014.

The IEA said its "working scenario" was based on higher GDP figures from the International Monetary Fund's 2009 World Economic Outlook, which saw growth recovering to nearly 5 percent annually for 2012-14.

Oil demand will rise to 89 million bpd in 2014 from 85.8 million bpd in 2008, the IEA said. This year, consumption is expected to fall to an average of 83.2 million bpd, the fastest decline since the early 1980s.

A lower scenario assumed any rebound in the economy would be slower at around 3 percent annually by 2012, which the IEA said many considered the more likely outcome.

Euro cash bond issuance on brink of record total

Europe's cash bond market was approaching an all-time annual record for total euro investment-grade corporate issuance.

GlaxoSmithKline was offering a 1.6 billion euro (\$2.2 billion) six-year euro bond.

"The next deal to announce and price will be the deal that tips the euro investment-grade corporate issuance volume over the edge and into record territory, as supply currently stands at 204 billion euros," ING credit strategists said.

They expect another 100 billion euros in non-financial investment-grade corporate issuance in the second half.

In the high-yield market, Wind Acquisition Finance announced plans to raise around 2.7 billion euros worth in euro and dollar bonds in the biggest recent test of European investors' appetite for junk bonds.

In a separate report, a monthly survey by the Commission showed economic sentiment in the euro zone rose to 73.3 points in June from 70.2 in May, the third improvement from a trough of 64.6 points in March.

Japan industrial output rebounds, outlook cloudy

Japanese industrial output jumped 5.9 percent in May as car and electronics production pulled out of a deep slump, although



TODAY'S TOP NEWS

an inventory buildup in some sectors suggested the rebound would soon lose momentum.

Manufacturers forecast output growth to slow to 3.1 percent in June and to just 0.9 percent in July amid an absence of a convincing global recovery.

The 5.9 percent rise in overall industrial output matched the gain seen in April, which was the biggest rise since 1953, but lagged the median market forecast for a 7.0 percent rise.

In a separate report, Bank of Japan Deputy Governor Hirohide Yamaguchi said that Japan is not in a deflationary spiral and the central bank expects falls in consumer prices to moderate after the summer.

Euro Libor rates extend decline on liquidity

Bank-to-bank lending rates for euro funds extended their decline and are set to remain low as the market is awash with liquidity following the ECB's massive injection of one-year funds last week.

The three-month Libor was fixed at 1.10625 percent -- the lowest on record. The equivalent dollar and sterling rates also hit fresh lows. This followed a drop in the three-month Euribor rate, traditionally the main gauge of interbank euro lending, to a fresh all-time trough of 1.108 percent.

At the very short end, the Euro overnight index average, a weighted average of all overnight unsecured lending in the interbank market, was last fixed at a record low of 0.388 percent.

Weak UK lending figures point to slow recovery

British mortgage lending rose by its lowest amount on record in May and measures of the growth of money in the economy remained weak, official data showed on Monday, in a sign economic recovery may take some time.

The BoE said mortgage lending rose by just 324 million pounds in May, a third of the increase in April and a tenth of that a year

ago. It was the weakest increase since comparable records began in April 1993.

Mortgage approvals numbered 43,414 in May, just up from 43,191 in April, weaker than analysts' forecasts for a reading of 46,000 and pointing to further house price falls ahead.

Separately, Britain plans to keep financial regulation in the hands of a beefed-up Financial Services Authority rather than transfer powers to the Bank of England, Business Minister Peter Mandelson said.

China economy can achieve 8 pct growth this yr -PBOC

China's economy is showing signs of stabilizing and can achieve its targeted 8 percent growth this year, Chinese Central Bank Governor Zhou Xiaochuan said.

"If there is no major issue internationally, China's (economy) should be better in the third and fourth quarters. Under this situation, (the Chinese economy) could reach its earlier set target," Zhou said.

Chinese Premier Wen Jiabao also said that the economy was improving, but he added that the country still needed to focus its efforts on safeguarding economic growth.

In a separate report, China's torrent of bank credit is pouring too much money into big infrastructure projects and government-backed investments that sometimes have been poorly vetted, a top official newspaper warned.

The report in the People's Daily, said the surge in lending has helped shore up growth but has also sowed potential risks that demand closer attention.

NEXT UP

POLL-Chicago June PMI seen higher

Business activity in the U.S. Midwest probably contracted again in June but at a slower pace. The median forecast of economists polled by Reuters put the ISM-Chicago's index at 39.0, up from 34.9 in May. The 55 estimates ranged from 32.0 to 44.5.

The Chicago measure unexpectedly jumped out of the 30-point range in April and was reported down to 34.9 in May.

Many analysts consider the ISM-Chicago survey to be a factory report, although service-sector companies and non-profits are polled as well. Jobs and income are about 30 percent more concentrated in manufacturing in the Fed's seventh district, which includes Chicago, than in the nation as a whole.

Poll-U.S. consumer confidence expected to be up slightly

U.S. consumer confidence is expected to push up slightly from an unexpected jump in May. The median forecast of economists polled by Reuters showed consumer confidence to be up slightly at 55.0, slightly above 54.9 in May. The 67 forecasts ranged from 49.5 to 60.0.

Consumer confidence has maintained weaker readings since November, beginning to improve in May, when it hit its highest level in eight months and some modest improvement is seen in the June figure.

POLL-Japan corp mood seen up, output likely to jump more

The Bank of Japan's tankan quarterly survey will likely show confidence at big manufacturers rebounding from a record low three months ago, as they restock inventories on the view the worst of recession may have passed.

The index measuring sentiment among big Japanese manufacturers, a key driving force for Japan's export-reliant economy, fell to a record low of minus 58 in March. Their mood is seen improving as many of them are restocking after a heavy run-down of inventories earlier this year, when exports and output were falling sharply amid the global downturn.

Industrial output probably jumped 7 percent in May, which would be the biggest monthly gain since 1953, as exports rebound and factories restock after making rapid progress in unwinding of excess inventories to cope with the plunge in global demand.

Economists say Japanese manufacturers cut inventories more aggressively than their peers in other countries, leading to a sharper decline in output and in the overall economy.

Manufacturers surveyed by the Ministry of Economy, Trade and Industry forecast output will rise 8.8 percent in May and a further 2.7 percent in June.



DEEP DIVE Commentary and Analysis

Fed's baby exit steps show rate hike far off

By Kristina Cooke

The U.S. Federal Reserve's baby steps last week toward scaling back some of its emergency market lifelines underscore just how far off an interest rate hike actually is.

The U.S. central bank on Thursday dropped a liquidity program for money markets and trimmed the size of a handful of other facilities. But it largely kept its liquidity safety-blanket in place, extending the life of most programs on the expectation that financial strains will remain for some time.

These emergency programs were put in place after fear of huge losses in the financial crisis froze key credit markets and are only authorized under a section of the Federal Reserve Act if conditions are "unusual and exigent." By extending them until February of next year, the Fed suggested it expects markets to remain vulnerable until then.

"It is extremely difficult to argue that the presence of such circumstances could be consistent with a decision to hike the federal funds rate," Goldman Sachs economists said in a research note. No economists in a Reuters poll of primary dealers taken after a Fed policy meeting on Wednesday saw the U.S. central bank hiking interest rates before 2010.

Analysts and investors have been questioning how the Fed, which has pumped more than \$1 trillion into strained credit markets since the crisis struck, will reverse course once a recovery gains steam.

Any "exit strategy" would require a delicate balance: removing extra liquidity too soon could squash a recovery, but moving too slowly could spawn inflation. It is a topic that looks set to grow in contention among policymakers as the economy heals.

TOO SOON TO TIGHTEN

If the Fed had decided not to extend the bulk of these emergency facilities past their previously scheduled expiry in October, it likely would have been perceived as a first step toward tightening monetary policy -- something the Fed has stressed it is not yet ready to do. This way, they only trimmed those facilities that were seeing "very weak demand."

The Fed on Thursday extended both its commercial paper funding facilities, which help ensure access of U.S. companies to short-term funding, and its credit facility for institutions that do business directly with the central bank.

It also extended its Term Securities Lending Facility (TSLF), in which the Fed lends securities to primary dealers for a term of up to 28 days, though it cut the program's frequency and ended one of the auction types.

The Fed said it would not extend a program for money markets beyond October and cut the amount of liquidity offered via the Term Auction Facility (TAF).

The actions "do not practically reduce the liquidity available to the market, (but) they do highlight that the need to reduce the size of the Fed's balance sheet is a key concern for the Federal Reserve," said Drew Matus, an economist at Bank of America Merrill Lynch.

The fact the Fed has given seven months notice of when it might pull the plug on these programs -- and added that it would give advance warning if the date changes -- suggests it is unlikely to spring a policy shift on unsuspecting markets.

Matus said the program extensions make rate hikes prior to a planned March 16, 2010, policy meeting "that much more unlikely."

Demand for the emergency liquidity programs has fallen sharply as market conditions have improved, even among those facilities the Fed is keeping in place as insurance. After peaking at more than \$1.5 trillion late last year, use of the facilities has de-

clined to around \$670 billion, a Fed report on Thursday showed.

"They are inching toward the exit but making no abrupt move that could disrupt markets and force the Fed to back-pedal," said Michael Feroli, an economist at JPMorgan.

But even with the drop-off in demand, the Fed's balance sheet has only shrunk slightly. It is still above \$2 trillion -- more than double the pre-crisis size -- and excess bank reserves remain high.

That's because even as liquidity facilities contract, the Fed is making its way through large-scale asset purchases -- the centerpiece of its so-called "credit easing" policy that targets specific markets to lower borrowing costs.

Unlike the Bank of Japan in the 1990s, which focused on the liabilities side of its balance sheet as it pumped more and more reserves into the banking system, the Fed is focusing on the asset side, which means the size of its balance sheet is a less important determinant of the stance of policy.

The longer-term assets it is still accumulating, analysts say, will be more of a headache to get rid of without disrupting fragile markets.

But with 40 percent of its planned \$300 billion of government debt purchases still ahead and the Fed warning of continued market strains, a shift in policy, it seems, is still a long way off.

ANALYSIS-Derivative clearing efforts could face limits

By Karen Brettell

Efforts to move the \$450 trillion privately traded derivative markets to central counterparties may be limited to certain contracts as clearinghouses balk at taking on the risk of hard-to-value transactions and dealers act to protect margins.

Central counterparties are key to efforts by the Obama administration to remove the risk that the failure of a large dealer will spark a chain of defaults, or that fears of losses on the contracts sparks a run on banks as happened with Bear Stearns and Lehman Brothers.

U.S. regulators are proposing that all "standardized" contracts be centrally cleared, but so far, it's unclear how that will be defined.

Clearinghouses, which assume the risks of the contracts and determine margins posted against them, may be unwilling to clear contracts they deem risky.

"If we're going to mutualise risk in a central clearing agency or body, we don't want to tax it where it becomes the Lehman of the future, we don't want it to become the entity that the government is going to have to prop up," said Ian Cuillerier, partner at law firm White & Case in New York.

Craig Donohue, the Chief Executive of CME Group, the world's largest derivatives exchange, said this week that he wants the freedom to decline clearing contracts that don't have independent and liquid prices, even if they may be considered to have "standard" terms.

This may include some single name credit default swaps (CDSs), he said.

CDSs are used to insure against default or to speculate on an issuer's credit quality.

The contracts exploded in volumes in the credit boom from 2003 and 2007 and were used by companies including American International Group to take outsized exposure to risky assets, which led to it needing a series of government bailouts.

Proposals to mandate that all "standardized" derivatives be centrally cleared include the \$400 trillion interest rate and foreign exchange markets, as well as contracts on equity and energy assets, though most attention is focused on CDSs.

IntercontinentalExchange Inc, which operates the only clearing



DEEP DIVE Commentary and Analysis

house yet to clear CDSs, has cleared more than \$1 trillion in notional volumes in index trades, and has said it will extend clearing to single name contracts.

Many of these trade infrequently, however, which raises complications over daily price and margining requirements.

CDSs can be more volatile than other derivatives as their value can rapidly change if a borrower is suddenly deemed near default, and in some cases defaults can occur before sufficient collateral payments can be made.

Dealers may also resist pushing too many trades to clearing-houses to protect their market share.

STANDING IN THE MIDDLE

The absence of central clearing in derivatives has enabled a small group of large banks including JPMorgan, Goldman Sachs to dominate as investors sought highly rated trading parties that, until mid-2007, were viewed as having negligible default risk.

Banks have been accused of benefiting from opaque, non-public prices of derivatives as it makes it harder for clients to see comparable trades and allows them to charge higher trading fees.

"Financial institutions earn extraordinary profits from the lack of transparency in the marketplace and from the privileged role

they play as credit intermediaries in almost all transactions," Ken Griffin, Chief Executive at hedge fund Citadel Investment Group, told lawmakers this week in testimony on derivatives regulation.

Citadel has a joint venture with the CME to clear CDSs, while ICE has a revenue sharing agreement with major dealers.

With central clearing, trading platforms and exchanges have the potential to match trades, and book them into central clearing, taking business away from banks, said Kevin McPartland, senior analyst at TABB Group in New York.

Inter-dealer brokers may also see opportunity. "If they could move their clients from that voice business that they do so much and onto the platform, it's almost like instant liquidity," he said.

Regulators are encouraging more electronic trading, but proposals stop short of any mandates. While some banks may fight transparency to protect margins, others may see opportunity, said McPartland.

"We're getting the smart response from a lot of market participants of trying to embrace the changes and figure out how to take advantage and profit in the new world, rather than trying to fight it," he said.

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar and Lokesh Jain in Bangalore)

For questions or comments about this report, email us at:

inside.debt@thomsonreuters.com

or contact Chandra Ramarathnam on +91 80 4135 5899

For Market Snapshot, ICAP provides OTC capital markets data, Thomson Reuters provides exchange data.

Visit the Thomson Reuters Fixed Income Community Site at:

customers.reuters.com/community/fixedincome/

If you like to receive this in your mailbox, please subscribe at:

<http://interact.thomsonreuters.com/insidedebtdaily/>

For more information about our products:

thomsonreuters.com/products_services

Or send us a sales enquiry at: reuters.com/salesenquiry

North America: +1 800.541.2268



ICAP:

For additional information and to find out more about how ICAP's range of market information, commentary and research solutions can help your business, contact icapinformationservices@icap.com. Americas: +1 212 341 9789

© Thomson Reuters 2009. All rights reserved. Thomson Reuters and the logo are the trademarks or registered trademarks of the Thomson Reuters group of companies around the world

ICAP plc, its subsidiaries ("ICAP") and third parties own portions of the copyright to information, data and content ("Information") and to certain service marks and logos herein. The Information is for informational purposes only; is not intended as investment, financial or accounting advice; and should not be construed as an offer, bid or solicitation in relation to any financial instrument. All information is provided "as is" without any representations or warranties of any kind. ICAP and third parties shall not be responsible or liable for any damages whatsoever arising out of or relating in any way to the Information herein.

