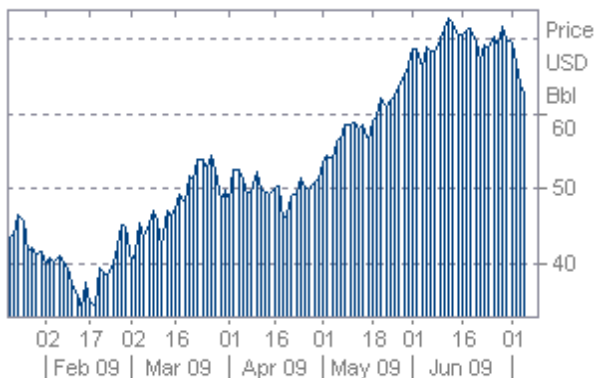


CHART OF THE DAY

U.S. crude oil



U.S. crude oil fell as concerns about the pace of economic recovery and continued tepid demand amid swollen inventories sent crude prices in retreat from an early high. Oil fell to a low of \$62.35, the lowest since prices hit \$62.19 on May 29.

TODAY'S TOP NEWS

- U.S. should plan 2nd fiscal stimulus -govt. adviser
- U.S. consumers fall behind on loans at record pace
- Russia, China to push global currency at G8 summit
- U.S. car parts maker Lear Corp files for bankruptcy
- GM seeks court OK to drop 38 holdout dealerships
- Defaults costlier for U.S. bond, loan investors-Fitch
- ECB drains a record 276 bln in overnight funds
- CFTC seeking tighter controls on commodity trading
- German orders surge points to industry stabilizing
- Obama, in Russia, praises democracy, blasts graft

ECON WATCH

FOR WEDNESDAY JULY 8

ET	Indicators	Unit	Reuters	Prior
1:00	JP Economy watchers poll	ind	-	36.7
5:00	EZ GDP revised qq Q1	%	2.5	-1.8
5:00	EZ GDP revised yy Q1	%	4.8	-1.7
6:00	DE Industrial output mm	%	0.5	-1.9
7:00	US Mortgage market index	ind	-	444.8
7:00	US Mortgage refin index	ind	-	1482.2
8:15	CA House starts, annualized	k	130.0	128.4
15:00	US Consumer credit mm, \$	bln	9.50	-15.68
-	GB BoE MPC Meeting starts			

Thomson Reuters LPC Webinar:

Thomson Reuters LPC offers a series of online forums that examine trends in the syndicated loan market. [For more please click here](#)

MARKETS TODAY

TODAY'S TOP STORY: The United States should be planning for a possible second round of fiscal stimulus to further prop up the economy after the \$787 billion rescue package launched in February, an adviser to President Barack Obama said. [For more please click here](#)

TREASURIES: U.S. Treasuries prices rose, pushing benchmark yields to six-week lows as weak stocks enhanced the allure of safe-haven government debt and investors cheered a reasonably good auction of three-year notes.

- 30-yr bond rose 34/32 in prices for a yield of 4.3 from 4.36 pct.
- 10-yr Treasury prices rose half a point, yielding 3.45 pct at 6-week low.
- 2-yr Treasury yield rose to 0.97 pct from 0.95 pct.
- 2-10's part of yield curve flattened by about 8 bps to 248 bps.
- Treasury will auction \$19 billion worth of 10-year notes on Wednesday.

FOREX: The yen rose as uncertainty about the global economic outlook and forthcoming U.S. corporate earnings increased the safe-haven appeal of the Japanese currency.

- The dollar fell 0.62 pct to 94.75 yen and the euro fell 1.05 pct to 131.84 yen.
- The sterling fell 0.95 pct to \$1.612, after data showed UK manufacturing output fell 0.5 percent in May.
- The euro fell 0.45 pct against the dollar to \$1.3911.

CORPORATES: U.S. corporate bond spreads widened, as investors await the onslaught of second-quarter earnings and talk of a second stimulus package underscored worries about the U.S. economic recovery.

- The CDX-IG.12 index widened by 4 bps to 143 bps.
- Barclays Bank sold \$2.5 billion in five-year notes.
- Bank of Korea sold \$1.5 billion worth of 5.5-year senior notes.

STOCKS: U.S. stocks fell to their lowest levels in more than two months, as talk of a second government stimulus plan stirred fears that the economy is far from well ahead of what is expected to be a sluggish earnings season.

- Dow fell 1.94 pct to 8,163.6, S&P was down 1.97 pct to 881.02 and Nasdaq dropped 2.31 pct to 1,746.17.
- S&P energy index fell 2.46 pct, S&P consumer finance index dropped 4.47 pct and S&P financials index fell 1.92 pct.
- KBW banks index fell 0.77 pct.
- Caterpillar's shares shed 4.45 pct to \$30.29.

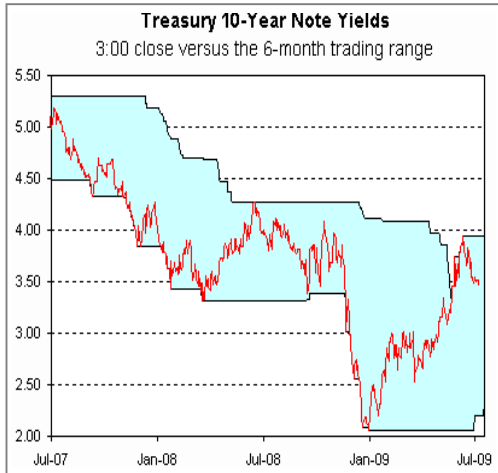
C & E: Oil prices fell as growing uncertainty over an economic recovery spurred investor risk aversion.

- U.S. crude fell 2.53 pct to \$62.43 a barrel.
- Gold fell 0.01 pct to \$923.9 an ounce.
- The Reuters-Jefferies CRB index was down 1.49 pct to 236.55.

- [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	0.155	0.125	0.157	0.001
3-Mo Bill	0.190	0.175	0.193	-0.006
6-Mo Bill	0.280	0.255	0.284	-0.005
1-Year	0.450	0.448	0.458	0.004
2-Year	100.305	100.336	0.970	-0.031
3-Year	101.211	101.242	1.453	0.023
5-Year	101.258	101.305	2.356	0.188
7-Year	101.141	101.188	3.067	0.422
10-Year	97.266	97.328	3.454	0.461
30-Year	99.063	99.141	4.306	0.898

EQUITIES

	INDEX	CHANGE
DJIA	8180.22	-144.65
NASDAQ	1751.79	-35.61
S&P 500	883.01	-15.71

OIL

	PRICE	CHANGE
NYMEX	62.4	-1.6
BRENT	62.8	-1.3

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jul-09	99.463	0.000
Sep-09	99.420	0.000
Dec-09	99.200	0.000
Mar-10	98.995	-0.005

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	36.25	40.25	1.33	1.35
3-Year	47.50	51.50	1.93	1.94
5-Year	39.75	43.75	2.75	2.75
7-Year	17.00	21.00	3.23	3.23
10-Year	17.25	21.25	3.62	3.61
30-Year	-21.25	-17.25	4.09	4.07

REPURCHASE AGREEMENTS

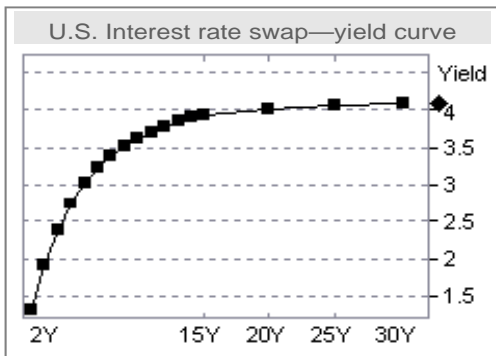
G/C		MORTGAGE REPOS	
O/N	0.300	O/N	0.300
2-Week	0.300	2-Week	0.300
1-Month	0.300	1-Month	0.300
3-Month	0.350	3-Month	0.350

AGENCY REPOS

O/N	0.300	10:00 AM	0.220
2-Week	0.300	3:00 PM	0.208
1-Month	0.300		
3-Month	0.350		

i-REPOSM INDEX

O/N	0.220
2-Week	0.208
1-Month	
3-Month	



FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.82	0.21
CBOT 10 yr	117.33	0.48
CBOT 30 yr	119.55	0.72

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.200	0.250		
1-Month	0.250	0.650	0.200	0.210
3-Month	0.450	1.050	0.194	0.204
6-Month	0.900	1.350	0.239	0.249
12-Month	1.400	2.050	0.408	0.418

CURRENCIES

	BID	ASK
Euro	1.3920	1.3922
Sterling	1.6135	1.6140
JP Yen	94.78	94.80
Swiss Franc	1.0884	1.0888
Can Dollar	1.1655	1.1660
Mexico	13.3758	13.3814

FED FUNDS

	NYFR SM - 10AM
Open	0.2000
High	0.3200
Low	0.1250

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.375	28/04/2011	11	9.5	1.09
3-Year	1.875	20/04/2012	19	18	1.65
5-Year	3	28/07/2014	41	39.5	2.79
7-Year	5	15/03/2016	34	33.5	3.41
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	0	54	-

ACTIVE FREDDIE MAC AGENCIES

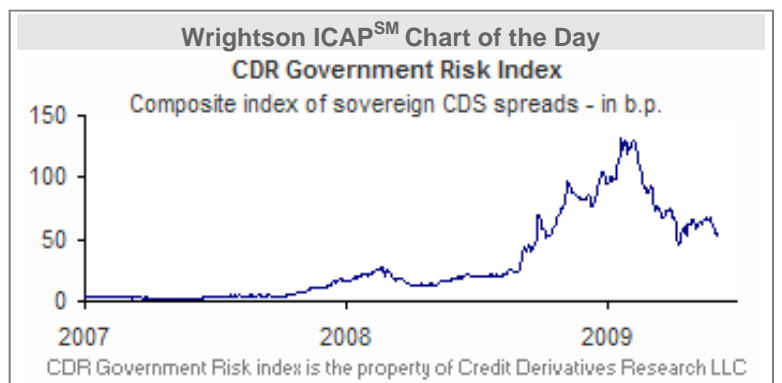
TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.625	26/04/2011	0	9.5	-
3-Year	1.75	15/06/2012	30	25	1.78
5-Year	2.5	15/05/2014	36	34.5	2.74
7-Year	4.75	19/01/2016	32	28	3.43
10-Year	3.75	27/03/2019	43	40.5	3.9
30-Year	6.25	15/07/2032	54.75	54.25	4.85

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	103.2300	103.2500	3.532
FHLMC	5.0	103.2000	103.2200	3.533
GNMA	5.0	103.2510	103.2710	3.826

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	103.1700	103.1900	3.675
FHLMC	5.5	103.1800	103.2000	3.661
GNMA	5.5	103.2010	103.2210	4.359



TODAY'S TOP NEWS

U.S. should plan 2nd fiscal stimulus -govt. adviser

The United States should be planning for a possible second round of fiscal stimulus to further prop up the economy after the \$787 billion rescue package launched in February, an adviser to President Barack Obama said.

Laura D'Andrea Tyson said she felt the first round of stimulus aimed to prop up the economy had been slightly smaller than she would have liked and that a possible second round should be directed at infrastructure investment.

"The stimulus is performing close to expectations but not in timing," Tyson said, referring to the slow pace at which the first round of stimulus had been spent on the economy.

Tyson said an additional factor affecting the stimulus was that the economy was in a far worse shape than the administration had estimated.

Tyson dispelled concerns about the ballooning U.S. fiscal deficit that is estimated to hit nearly 10 percent of GDP, and its possible inflationary consequences.

Separately, OECD Secretary General Angel Gurría told Reuters, Governments risk killing economic recovery if they withdraw stimulus spending too fast, and Germany could be spending more now to secure a surer rebound.

Russia, China to push global currency at G8 summit

China, Russia and Brazil will use this week's G8 summit in Italy to push their view that the world needs to start seeking a new global reserve currency as an alternative to the dollar, officials said.

As leaders of the G8 rich nations and the major developing powers travelled to Italy for a three-day summit starting on Wednesday, it seemed unlikely the currency debate would get a specific mention in summit documents.

Top Kremlin economic aide Arkady Dvorkovich said China and Russia would "state their stance that the global currency system needs smooth evolutionary development".

Brazilian President Luiz Inácio "Lula" da Silva said he was keen to explore "the possibility of new trade relations not dependent on the dollar" and India has also said it is open to the debate.

But G8 members Germany, France and Canada played down talk of the summit including a detailed currency discussion.

A source at President Nicolas Sarkozy's office said the G8 was "generally not the forum ... for discussing currency exchange rates".

GM seeks court OK to drop 38 holdout dealerships

General Motors Corp asked a federal bankruptcy court for permission to drop 38 U.S. dealers who have rejected the automaker's offer of a payout to wind down their operations.

GM has used its U.S. government-sponsored bankruptcy process to slash dealerships and retail franchise obligations it says have cost it about \$2 billion annually to support.

In a filing with U.S. bankruptcy court in Manhattan, GM asked Judge Robert Gerber for approval to drop 38 dealers in 20 states that have not agreed to its closure terms.

The termination of the dealer franchise agreements would be effective this week if GM is allowed to cut free of the holdout dealerships.

About 4,100 GM dealers have signed agreements to continue with the new GM expected to emerge from bankruptcy as soon as this week, the automaker has said.

The remaining dealers have been offered "wind-down" agreements offering them up to 16 months to sell off their remaining vehicle inventory and operate their repair shops.

U.S. consumers fall behind on loans at record pace

Soaring U.S. unemployment and a shrinking economy drove delinquencies on credit card debt and home equity loans to all-time highs in the first quarter as a record number of cash-strapped consumers fell behind on their bills.

Delinquencies on the value of all card debt soared to a record 6.60 percent from 5.52 percent in the fourth quarter as more cardholders relied on plastic to meet day-to-day expenses, the American Bankers Association said.

Late payments on home equity loans rose to 3.52 percent from 3.03 percent, and on home equity lines of credit climbed to 1.89 percent from 1.46 percent.

A broader gauge showing late payments on eight categories of loans rose for a fourth straight quarter to a new record, edging up to 3.23 percent from 3.22 percent. That rate actually underestimates consumer pain because it excludes credit cards.

"The biggest driver is job losses," ABA Chief Economist James Chessen said in an interview. "When people lose their jobs or work fewer hours, it makes it that much harder to meet their obligations. Unfortunately, we're going to see higher job losses in the next year, and I expect elevated delinquencies."

U.S. car parts maker Lear Corp files for bankruptcy

U.S. auto parts maker Lear Corp filed for Chapter 11 bankruptcy protection, a day after setting out plans to restructure its \$3.6 billion debt burden under a proposed deal with creditors.

Lear said the reorganization had won the support of the majority of its creditors and it expected to submit the proposals to the bankruptcy court in coming days.

"We intend to proceed on an expedited basis and expect to submit the plan to the Bankruptcy Court within 60 days," Lear Chief Executive Bob Rossiter said in a statement.

Under the plans set out on Monday, Lear would convert \$3.6 billion in debt into a combination of new debt, convertible stock and equity warrants.

The bankruptcy plan was supported by about 68 percent in principal amount of its secured lenders and more than 50 percent in principal amount of its bondholders.

Lear's subsidiaries outside the United States and Canada are not part of the Chapter 11 filings.

Defaults costlier for U.S. bond, loan investors-Fitch

Investors were hit with a double whammy in this year's bankruptcy wave as defaults quadrupled and the amounts recovered on defaulting bonds fell by more than half, Fitch Ratings said.

Investors got back just 21.8 percent of their investment on defaulting bonds in the first half of the year, down from 45.8 percent in full year 2008, Fitch said in a statement. Recoveries on defaulting loans fell to 57.5 percent from 68 percent in 2008 and 96.3 percent in 2007.

The junk bond default rate soared to 9.5 percent in the first six months of the year from 2.4 percent a year earlier, according to Fitch data. It is expected to end the year between 15 percent and 18 percent, Fitch said.

ECB drains a record 276 bln in overnight funds

The European Central Bank drained a record 275.986 billion euros of overnight cash from euro-zone money markets, paying banks an average interest rate of 0.64 percent on their funds.

In total, 165 banks bid to deposit 279.477 billion at the ECB. The minimum rate bid was 0.32 percent and the maximum rate 1.0 percent.



TODAY'S TOP NEWS

The amount drained at the fine-tuning operation eclipses the previous record of 199.999 billion euros in January 2008. Meanwhile, ECB Governing Council member Axel Weber said there was no need at present for the central bank to bypass the banking channel and buy up corporate bonds.

CFTC seeking tighter controls on commodity trading

The top regulator of U.S. futures markets is considering a clamp down on excessive speculation in energy and commodity trading by restricting holdings of big players, as part of a broader move by the Obama administration to stabilize financial markets.

The CFTC will also seek comment on who should qualify for exemptions from position limits. Some lawmakers say exemptions should go only to people who plan to buy the commodity and not to those who hedge financial risk.

Phil Flynn, analyst at PFGBEST Research in Chicago, said Gensler was bowing to political pressure and the tightening of position limits won't be effective unless traders are restricted on worldwide basis.

German orders surge points to industry stabilizing

German manufacturing orders surged at their fastest pace in nearly two years in May due to stronger demand both at home and abroad, helping to steady the country's battered industrial sector.

Adjusted for seasonal swings, orders rose 4.4 percent on the month -- the biggest increase since June 2007 and the third consecutive monthly gain, the Economy Ministry said.

Domestic orders were up by 3.9 percent, while foreign orders rose by 5.2 percent, the data showed.

Meanwhile, Germany's Finance Ministry said the Bundesbank was not formally being considered as a source of direct funding for struggling firms, after comments by Finance Minister Peer Steinbrueck which suggested talks had taken place.

In a separate report, British manufacturing output fell unexpectedly in May. The Office for National Statistics said factory output fell by 0.5 percent in May, confounding forecasts for a 0.2 percent rise.

Obama, in Russia, praises democracy, blasts graft

President Barack Obama appealed to the Russian people to join the United States in overcoming past differences and building a prosperous democratic future free of corruption and the threat of nuclear war.

Broadening his message of a "reset" in relations between the two former Cold War superpowers on the second day of a visit to Moscow, Obama said citizens, business people and companies all had a part to play in improving ties and boosting trade.

Obama emphasised in his public appearances U.S. ideals such as prosperity, democracy and the rule of law, sending a more nuanced message.

Later, at a summit with business leaders, Obama emphasised that a "reset" in prickly Russia-U.S. relations -- the main aim of his trip -- needed to involve many more people than himself and his Russian counterpart Dmitry Medvedev.

Separately, three major hospital associations have offered to contribute about \$155 billion over 10 years to help pay for a U.S. healthcare overhaul, The Washington Post reported on Monday, citing industry sources.

EU ministers agree on flexible bank capital rules

European Union finance ministers agreed in principle to make capital rules for banks more flexible to reduce their likelihood of worsening boom-and-bust cycles in the economy.

The ministers also raised doubts about a German proposal to relax temporarily the Basel II rules on capital requirements for banks to boost lending and accelerate a recovery from the worst economic crisis since World War Two.

Under the agreed plan on long-term rules, which the EU's executive European Commission will use to draft legislation in October, banks would have to build higher capital buffers in good times so they can be reduced during downturns.

This would help prevent financial institutions lending too much money when economic growth is high and allow them to provide more loans in bad times.

NEXT UP

POLL-U.S. crude stocks to fall on lower imports

U.S. crude oil inventories fell last week for the fifth week in a row as refiners cut imports due to modest demand, a Reuters preliminary poll of analysts showed ahead of weekly industry and government reports.

On average, crude stocks declined 2.2 million barrels in the week to July 3, the survey of seven analysts forecast. If the forecast holds, drawdowns stretching from the week to June 5 could total 15.8 million barrels.

Gasoline supplies were projected up 800,000 barrels on average, with imports seen higher, outweighing the impact of higher refinery deliveries to distributors who stocked up for the July 4th holiday weekend, the poll showed. It would be the fourth straight week for an increase in gasoline inventories, if the forecast holds.

Distillate inventories, which include heating oil and diesel, could have risen 1.7 million barrels on average, following seasonal patterns, the analysts forecast.

POLL-China economy grows faster and stronger in Q2

China's economy probably grew by 7.5 percent in the second quarter from a year earlier, as a burst of government spending and bank lending laid the groundwork for more private sector activity from car buying to home building.

The median forecast of 26 economists polled by Reuters compares with 6.1 percent growth in the first quarter and 9.0 percent in all of 2008.

Zhang Jianhua, the head of the central bank's research department, said that he expected second-quarter year-on-year growth of between 7.0 percent and 7.5 percent, rising to 8 percent in the third quarter and 9 percent in the final three months of the year.

Growth in industrial production is expected to reach 9.3 percent from a year earlier, up from May's 8.9 percent clip. Capital spending in urban areas, expressed as a year-to-date figure, is likely to climb to 33.8 percent from 32.9 percent.



DEEP DIVE Commentary and Analysis

COLUMN-The dollar's Tinkerbell moment

By James Saft

Repeat after me: "I believe in a strong dollar as the primary global reserve currency, I believe in a strong dollar as the primary global reserve currency."

Better hope it works, because the current debate over a far-in-the-future new monetary system may bring on a here-and-now dollar sell off and a whole new leg of the crisis.

Sadly, what worked when the children espoused their faith in Tinkerbell may not for a currency backed by the full faith and credit of a debtor nation which has socialized its banking system's risk and needs to sell trillions in further debt to pay that and other bills.

Russia, India and, most significantly, China have all questioned the U.S. dollar's central role in global trade and currency reserve management in the run-up to this week's meeting of the Group of Eight industrialized nations in Italy. The future, it seems, is not greenback.

Russian President Dmitry Medvedev termed the system based on the dollar "flawed." Suresh Tendulkar, a top Indian economic advisor said he was telling India to reduce the dollar's weighting in setting the value of the rupee, comparing the situation to the classic "prisoner's dilemma."

It's a good comparison, and as such makes his advice, and his choosing to make it public, puzzling. In the prisoner's dilemma, two people are held for a crime and, being held apart, must decide whether to rat the other out. If both remain silent, they each get six months' jail time, if one implicates the other he goes free and the other gets ten years, if both turn on one another they both get five years.

If holders of U.S. dollars can somehow maintain confidence in the currency, the value of their reserves will be protected, but the temptation to get a first mover's advantage and get out while the getting is good may be overwhelming, though it will only work for that individual if everyone else more or less keeps faith. Because, if they don't the selloff could be so disorderly and damaging to the global economy that it will make concerns over the value of reserves look silly.

China, for its part, seems to be furiously paddling in both directions at the same time; saying that the dollar will retain its central status for "years to come" while also doing things like setting up a system to allow companies to settle cross border trades in yuan.

Writing in a newspaper published by the Chinese central bank, Li Ruogu, Chairman of the state-run Export-Import Bank of China said that Special Drawing Rights (SDRs), a unit of account used by the International Monetary Fund, could be molded to serve as a more representative global settlement unit, based on a basket of currencies. This echoes suggestions made by Chinese officials in March and can leave little doubt that the Chinese are preparing for a very different future.

"The financial crisis caused the global economy to suffer heavy losses and it also let us clearly see how unreasonable the current international monetary system is," Li, a former central bank vice governor, said.

WHAT'S THE ALTERNATIVE?

He's right, the old set up under which China kept its currency weak and U.S. borrowing rates lower than they otherwise would be made it too easy for the U.S. to load up on debt and almost surely was the fundamental underlying driver that led to the sub-prime mortgage crisis. It created conditions under which the huge risk management failure within banking was more likely. After all, when money is cheap and people are desperate for a bit extra yield, bad loans will begin to look safe.

Of course there are no credible current alternatives to the dollar at this point; not the euro, which might fracture or grow, or the yen or even the Chinese yuan.

And there is the danger: the very knowledge that the current dispensation is under review, and for extremely sound reasons, means that there is a small but dangerous chance that it unravels, that holders of dollars and buyers of U.S. debt lose faith leading to an uncontrolled fall in the dollar and in dollar-based assets. It is all very similar to the banking crisis. A bank is only sound so long as we believe it to be, and the dollar, given the U.S.'s weak fundamental position is only strong and worth holding so long as holders keep faith.

Really all we are observing is the continuation of the banking crisis on another plane. Last year the world lost faith in the U.S. banking system. The U.S., feeling it had no alternative, stepped up as effective guarantor of its banks and its financial system.

Well and good, and here's hoping it works. It only will succeed however if faith in the U.S. and its dollar remain.

(At the time of publication James Saft did not own any direct investments in securities mentioned in this article. He may be an owner indirectly as an investor in a fund.)

ANALYSIS-Best of rally in U.S. REIT bonds likely past

By Dena Aubin

A dramatic rally in bonds of U.S. real estate investment trusts may not be sustainable as the sector faces a protracted slump in property values, low occupancy rates, and weakened credit markets.

Rebounding from their worst year ever, high-grade REIT bonds have rallied 36 percent this year, including a 22 percent gain in the second quarter alone, according to Bank of America Merrill Lynch data. Bond prices shot up after a number of REITs, companies that own commercial property, retired debt ahead of schedule and regained access to the bond and stock markets to shore up cash.

Despite recent gains, banks are still cautious on the sector and the bond market remains inhospitable for many REITs, limiting sources of capital. REITs also face about \$16 billion in unsecured debt that either matures or may be put back to the issuers in 2011, according to Fitch Ratings. As a result, more companies are likely to face liquidity shortfalls over the coming quarters and possibly rating downgrades, according to Fitch.

"It's the most critical risk in this environment because it's the one that we see that could most dramatically change ratings," Fitch analyst Steven Marks said.

The credit crisis last year was especially hard on REITs, which depend on capital markets to fund investments in apartments, office buildings and other properties. Investment-grade REIT bonds tumbled 28 percent in 2008, according to Bank of America Merrill Lynch data.

TALF MAY BROADEN FUNDING

REIT bonds rebounded this year as investors bet the selling was overdone and as access to the capital markets reopened. In recent months, REITs have shored up their balance sheets by issuing about \$13 billion in equity and reduced debt by buying it back at steep discounts. Even so, Gimme Credit analyst Kathleen Shanley recently assigned "underperform" ratings to three REITs and said the rally may have gotten ahead of itself.

"Certainly it is reasonable for bond investors to be reassured by the success REITs have had in tapping the equity markets over the past few months, since equity financing provides a cushion for bondholders and eases fears of near-term liquidity issues," Shanley said.



DEEP DIVE Commentary and Analysis

"But the fundamentals remain weak for employment, retail sales and commercial real estate sales trends, so some caution is warranted," she said.

Some strategists expect REITs to get a boost this summer by tapping the governments Term Asset-Backed Securities Loan Facility, or TALF program, to fund commercial mortgage-backed deals. Under a revamped TALF, government loans can be used to buy top-rated CMBS, a move that would broaden lending options for REITs. Developers Diversified Realty for example, is planning CMBS deals that would be eligible, while Simon Property Group has said it is evaluating options with bankers.

BONDS STILL CHEAP

JPMorgan Chase analyst Mark Streeter has an overweight on the REIT sector, noting that it remains the cheapest investment-grade industry sector in his firm's corporate bond index. Despite weak commercial property fundamentals, supply remains in check and demand is expected to eventually return, Streeter

said in a recent report.

Tight credit for commercial property remains a concern, however. Fitch analyst Steven Marks estimates that REIT's revolving credit lines may be cut by about a third when they come up for renewal as banks trim exposure to the sector. Bond sales, meanwhile, remain expensive for many REITs as a financing option. REITs also face a long slog before commercial property recovers, according to CreditSights.

"Commercial real estate fundamentals are still deteriorating and they will continue to deteriorate because it's a lagging economic indicator," said CreditSights analyst Craig Guttenplan. In the office sector, for example, demand will not recover until well after hiring has picked up.

"If REITs continue to raise more equity, that would probably be very good for their credit profiles," but issuance has stalled since the beginning of June, Guttenplan said. For REIT bondholders, "I think we're probably close to a holding pattern for now," he said.

Thomson Reuters LPC Webinar:

2nd Quarter Review and 3rd Quarter Preview - Hints of Hope?

Thomson Reuters LPC offers a series of online forums that examine trends in the syndicated loan market.

This month Ioana Barza, Vice President and Senior Market Analyst for Thomson Reuters LPC, will present a review of the 2nd quarter loan capital markets and provide some insight as to what the 3rd quarter may bring.

Date: Thursday, July 9, 2009

Time: 11 am - 12 pm Eastern Standard Time

Each webinar offers:

- An audio presentation
- Complete downloadable and printable presentation with graphs and charts
- Interactive polls and a question and answer session

Cost of the webinar is \$149 per person per session.

Topics include:

- Is the rally in the secondary market sustainable? How high are bids for higher risk credits climbing?
- What is the outlook for the high yield bond market? How attractive are loans relative to bonds, equities?
- What are investors' minimum yield requirements? Where are secondary yields today and how is it impacting the primary market?
- Are multi-year facilities back in the high grade market? To what degree are issuers reducing their reliance on the loan market?

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