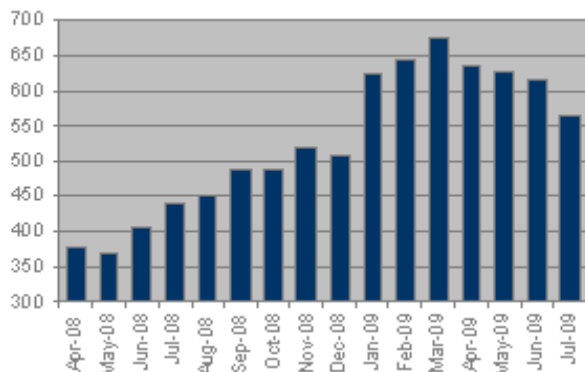


## CHART OF THE DAY

### U.S. Initial claims



New claims for jobless benefits fell 52,000 to 565,000, lowest since January, but the decline was amplified by seasonal adjustments mainly connected with fewer-than-expected layoffs in the automotive sector.

## TODAY'S TOP NEWS

- Kohn warns against political interference in Fed
- Citi shakes up top management, replaces CFO
- BoE shocks mkts, keeps bond purchase total steady
- U.S. jobless claims drop, data skewed by auto jobs
- Govt.-insured U.S. mortgages highest since 1990
- U.S. banks must mind commercial real estate book
- U.S. picks 9 fund managers for toxic securities plan
- Overnight deposits at ECB rise, no bond buys yet

## ECON WATCH

FOR FRIDAY JULY 10

ET	Indicators	Unit	Reuters	Prior
2:45	FR Industrial output mm	%	0.0	-1.4
4:30	GB PPI Input prcs mm NSA	%	0.8	0.4
4:30	GB PPI output prcs mm NSA	%	0.3	0.4
4:30	GB PPI core output mm NSA	%	0.2	0.2
7:00	CA Unemployment rate	%	8.7	8.4
8:30	CA Imports C\$	bln	30.4	31.0
8:30	CA Exports C\$	bln	30.2	30.8
8:30	CA Trade balance C\$	bln	-0.5	-0.2
8:30	US Import prices mm	%	2.0	1.3
8:30	US Export prices mm	%	0.4	0.6
8:30	US International trade mm \$	bln	-30.2	-29.2
9:55	US U.Mich sentiment prel	ind	70.5	70.8
9:55	US U.Mich expectations prel	ind	69.9	69.2

### Thomson Reuters LPC Webinar:

On July 9th, Ioana Barza, VP, Sr. Market Analyst presented a review of the global syndicated loan market. For Highlights of webinar please click here

## MARKETS TODAY

**TODAY'S TOP STORY:** Federal Reserve Vice Chairman Donald Kohn launched a robust defense of the U.S. central bank's independence and warned that efforts to put monetary policy under political sway would hurt the economy. **For more please click here**

**TREASURIES:** U.S. Treasury prices fell, pulling benchmark yields off seven-week lows, as firmer stocks sapped demand for safe-haven bonds and a wave of profit-taking compounded the losses.

- 30-yr bond fell 1-12/32 in prices, pushing the yields up to 4.3 pct from 4.18 late Wednesday.
- 10-yr Treasury traded 22/32 lower for a yield of 3.39 pct from 3.31 pct.
- 2-yr Treasury yield rose to 0.93 pct from 0.92 pct on Wednesday.
- 2-10's part of yield curve steepened by about 7 bps to 246 bps.
- U.S. Treasury sold \$11 bln of reopened 30-year bonds at a high yield of 4.303 percent, with 67.88 percent of bids at high.

**FOREX:** The dollar fell against most currencies and the yen surrendered recent gains as investors pared back on safety trades after data showed a sharp decline in the number of Americans filing for initial jobless benefits, easing concern about the U.S. economy.

- The dollar rose 0.23 pct to 92.91 yen.
- The sterling rose 1.81 pct against the dollar to \$1.6347.
- The euro rose 1.15 pct to \$1.403.
- The dollar index was down 1.12 pct to 79.865.

**CORPORATES:** U.S. corporate bond spreads were little changed, hewing to a trading range as investors awaited more second-quarter earnings results for clues on whether a recent rally has more room to run.

- The CDX-IG.12 index tightened by 2 bps to 142 bps.
- KOGAS sold \$500 mln in 5-yr notes.

**STOCKS:** U.S. stocks rose as investors snapped up beaten-down technology and commodity shares, while a positive broker comment on Goldman Sachs boosted the financial sector.

- Dow rose 0.06 pct to 8,183.17, S&P was up 0.35 pct to 882.66 and Nasdaq gained 0.31 pct to 1,752.55.
- S&P automobile index jumped 4.43 pct, S&P retail index rose 0.4 pct and S&P financials index was up 1.35 pct.
- KBW banks index gained 1.91 pct.
- AIG shares plummeted 28.17 pct to \$9.41 after a Citigroup analyst said the value of the troubled insurer's equity may fall to zero.

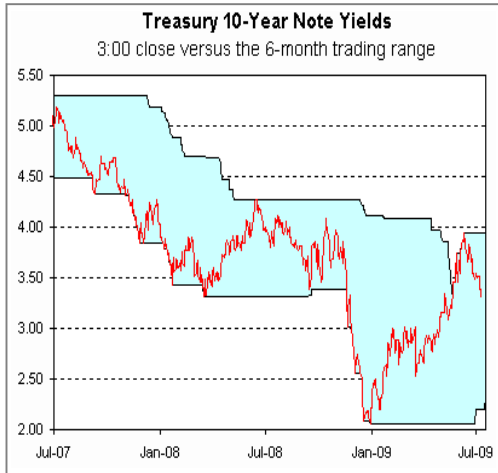
**C & E:** Oil prices rose after a six-day slide as a drop in U.S. jobless claims fueled optimism about the economy.

- U.S. crude rose 0.48 pct to \$60.43 a barrel.
- Gold rose 0.39 pct to \$911.95 an ounce.
- The Reuters-Jefferies CRB index was up 1.44 pct to 234.53.

- 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	0.165	0.130	0.167	0.001
3-Mo Bill	0.180	0.170	0.183	0.001
6-Mo Bill	0.255	0.250	0.259	-0.004
1-Year	0.450	0.440	0.458	0.008
2-Year	100.359	100.391	0.941	-0.031
3-Year	100.078	100.109	1.474	-0.102
5-Year	101.406	101.453	2.324	-0.410
7-Year	101.484	101.531	3.012	-0.578
10-Year	97.578	97.625	3.416	-0.852
30-Year	98.953	99.016	4.312	-1.945

EQUITIES

	INDEX	CHANGE
DJIA	8190.88	12.47
NASDAQ	1758.28	11.11
S&P 500	883.88	4.32

OIL

	PRICE	CHANGE
NYMEX	60.3	0.2
BRENT	61.0	0.6

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jul-09	99.503	0.013
Sep-09	99.450	0.000
Dec-09	99.255	-0.005
Mar-10	99.070	0.000

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.98	-0.54
CBOT 10 yr	117.88	-0.75
CBOT 30 yr	119.41	-1.84

REPURCHASE AGREEMENTS

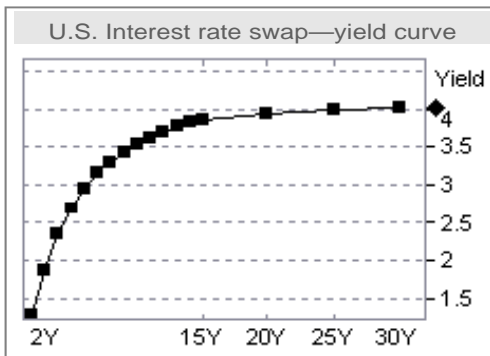
G/C		MORTGAGE REPOS	
O/N	0.250	O/N	0.250
2-Week	0.250	2-Week	0.300
1-Month	0.300	1-Month	0.300
3-Month	0.300	3-Month	0.350
AGENCY REPOS		i-REPO <sup>SM</sup> INDEX	
O/N	0.250	10:00 AM	0.190
2-Week	0.300	3:00 PM	0.162
1-Month	0.300		
3-Month	0.350		

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	34.50	38.50	1.28	1.30
3-Year	40.75	44.75	1.88	1.89
5-Year	39.00	43.00	2.71	2.71
7-Year	18.00	22.00	3.19	3.18
10-Year	15.75	19.75	3.57	3.56
30-Year	-26.25	-22.25	4.05	4.03

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.180	0.220		
1-Month	0.250	0.650	0.196	0.206
3-Month	0.420	1.050	0.192	0.202
6-Month	0.880	1.250	0.235	0.245
12-Month	1.350	2.000	0.405	0.415



CURRENCIES

	BID	ASK
Euro	1.4034	1.4036
Sterling	1.6355	1.6360
JP Yen	93.03	93.06
Swiss Franc	1.0777	1.0780
Can Dollar	1.1610	1.1614
Mexico	13.5543	13.5604

FED FUNDS NYFR<sup>SM</sup> - 10AM

Open	0.1800	1m	0.3091
High	0.1900	3m	0.5473
Low	0.1000		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.375	28/04/2011	8 0	1.02
3-Year	1.875	20/04/2012	12 10	1.59
5-Year	3	28/07/2014	42 41	2.74
7-Year	5	15/03/2016	0 32	-
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	57.5 57	4.85

ACTIVE FREDDIE MAC AGENCIES

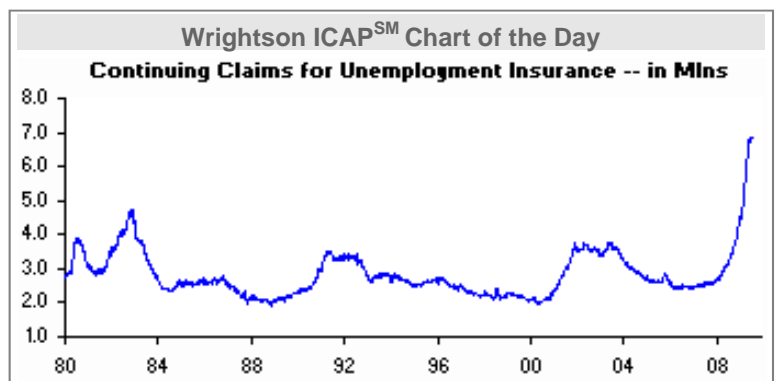
TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.625	26/04/2011	10 0	1.04
3-Year	1.75	15/06/2012	23 21.5	1.7
5-Year	2.5	15/05/2014	37 36.5	2.69
7-Year	4.75	19/01/2016	33 32.25	3.34
10-Year	3.75	27/03/2019	42.5 42	3.82
30-Year	6.25	15/07/2032	55.75 55.25	4.87

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	103.3060	104.0060	3.445
FHLMC	5.0	103.2550	103.2750	3.469
GNMA	5.0	104.0200	104.0400	3.747

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	103.2410	103.2610	3.572
FHLMC	5.5	103.2610	103.2810	3.543
GNMA	5.5	103.2700	103.2900	4.247



## TODAY'S TOP NEWS

**Kohn warns against political interference in Fed**

Federal Reserve Vice Chairman Donald Kohn launched a robust defense of the U.S. central bank's independence and warned that efforts to put monetary policy under political sway would hurt the economy.

Curbing the Fed's independence could both result in higher long-term interest rates and hurt the United States' credit rating, Kohn said.

The proposal to expand the Fed's powers has increased calls for accountability at the central bank, and a bill put forward by Republican Congressman Ron Paul to expose it to a full audit by a government watchdog has won support from a majority in the House of Representatives.

Kohn said such a move could be highly detrimental.

"The bond rating agencies view operational independence of a country's central bank as an important factor in determining sovereign credit ratings, suggesting that a threat to the Federal Reserve's independence could lower the Treasury's debt rating and thus raise its cost of borrowing," he said.

Kohn said allowing that the Government Accountability Office to audit Fed monetary policy would be a bad mistake.

**BoE shocks mkts, keeps bond purchase total steady**

The Bank of England cut the pace at which it pumps money into Britain's economy after unexpectedly deciding not to expand its 125 billion pound asset buying scheme, raising fears it may stop purchases completely.

Financial markets had expected the central bank to increase the program of quantitative easing by 25 billion pounds, as otherwise the last of the 125 billion pounds looked set to be spent on bonds and corporate debt in the next fortnight.

But instead the BoE reduced weekly gilt purchases to 4.5 billion pounds from 6.5 billion, with the last money to be spent on July 29 before it decides whether to fund future purchases at its Aug. 6 policy meeting.

Gilt futures fell more than a full point and the pound rose around half a cent against the dollar as investors bet the BoE is now done with QE, though economists said there was still a chance the BoE might continue QE once it studied quarterly forecasts in next month's Inflation Report.

A Reuters poll showed that 35 out of 56 economists still expected the BoE to increase QE to 150 billion pounds next month.

**Government-insured U.S. mortgages highest since 1990**

U.S. mortgage loans insured by the U.S. government leaped in June to the highest share of total loan applications in nearly two decades, the MBA said.

The share of government-insured loans jumped to 35.9 percent in June -- the highest since November 1990 -- from 25.7 percent in May 2009 and 27 percent in June 2008.

The lowest share since the industry group began tracking applications weekly in January 1990 was 5.8 percent in August 2005. For the week ended July 8, the size of the U.S. commercial paper market held steady at \$1.136 trillion, the same as the previous week.

In a separate report, the average 30-year rate dropped 0.12 percentage point to 5.20 percent in the week ended July 9, Freddie Mac said.

**Citigroup shakes up top management, replaces CFO**

Citigroup Inc announced its biggest management shake-up since the financial crisis began, replacing its chief financial officer and installing a new banking chief as it prepares to give the government a 34 percent equity stake.

The revolving door that Citigroup's upper management has become spun again amid intense pressure on Chief Executive Vikram Pandit to improve performance, add consumer banking experience in the senior ranks, and shed toxic or unwanted assets at the third-largest U.S. bank by assets.

Edward "Ned" Kelly, who became CFO in March and is a former CEO of Maryland's Mercantile Bankshares Corp, was promoted to vice chairman focused on strategy and merger activity.

The new CFO is John Gerspach, the bank's controller and chief accounting officer. Gerspach is the fifth CFO in five years.

In a separate report, Rochdale Securities analyst Richard Bove started coverage on SunTrust Banks Inc with a "neutral" rating, saying it is unlikely that the bank will return to profitability until the middle of 2010.

**U.S. jobless claims drop, data skewed by auto jobs**

The number of U.S. workers filing new claims for jobless benefits fell to the lowest level since January, but the seasonally adjusted data was distorted by an unusual pattern of layoffs in the automotive industry.

The Labor Department said that initial claims for state unemployment insurance fell 52,000, the largest drop since December, to a much lower-than-expected seasonally adjusted 565,000 in the week ended July 4, from 617,000 the prior week.

It was the lowest reading since January. Analysts polled by Reuters had forecast claims to drop to 605,000 from a previously reported 614,000.

However, in a sign of ongoing employment weakness, continued claims of people still on jobless aid after an initial week of benefits rose by 159,000 to a record 6.88 million in the week ending June 27, the latest for which data is available.

A separate report from the Commerce Department showed that U.S. wholesale inventories shrank for the ninth month in a row in May to \$402.24 billion, the lowest level since August 2007.

However, weak June retail sales reports from a number of big stores signaled that shoppers remain cautious. The state of the jobs market will be a crucial factor in determining what happens to consumer demand.

**U.S. banks must mind commercial real estate book-Fed**

Many U.S. banks need to check their commercial real estate holdings more carefully and ensure that a continued decline in the property market does not threaten the lender, a Federal Reserve bank examiner said.

"Many institutions would benefit from additional and better stress testing, improved management information systems and stronger appraisal practices," Jon Greenlee, associate chief of the Fed's banking supervision division, told congressional lawmakers.

New loans for projects such as shopping malls or office buildings evaporated during the credit crisis and economic downturn and regulators are concerned that many banks have dangerously large holdings of commercial real estate loans.

With an estimated \$400 billion in commercial real estate debt set to mature this year and another \$300 billion due in 2010, the sector is facing an acute crisis, said New York Rep. Carolyn Maloney.



## TODAY'S TOP NEWS

**U.S. picks 9 fund managers for toxic securities plan**

The U.S. Treasury Department on Wednesday named nine fund managers to run so-called public-private partnerships that could buy up as much as \$40 billion of toxic securities from banks.

The Treasury said it will invest up to \$30 billion in the program, which will end up being much smaller than the Obama administration initially envisaged because the banking system has begun to recover from a severe financial crisis and is able to raise capital on its own.

In a joint statement with the Federal Reserve and the FDIC, the Treasury said the nine selected fund managers have up to 12 weeks to raise at least \$500 million of capital each from private investors. The Treasury will then match their equity capital and also provide debt financing up to 100 percent of the total equity in the partnerships.

Fund managers can raise more than the \$500 million minimum in private money but they might not be able to get a full match from the Treasury for larger amounts.

**Overnight deposits at ECB rise, no bond buys yet**

Banks' overnight deposits at the ECB rose, data showed, while the ECB is yet to settle any deals as part of its new 60 billion euro asset purchase program.

Banks deposited 133.433 billion overnight at the ECB on July 8 - the first day of the new reserve maintenance period -- up on the 70.690 billion euros deposited overnight on July 7 but well short of the record 315.956 billion euros parked on July 5.

It shows banks continue to hoard much of a near-half trillion injection of euros from the ECB last month designed to kick-start lending.

The ECB and euro zone central banks have not added liquidity via covered bond purchases as of Wednesday, the bank added.

In a separate report, a string of positive developments has cast a new light on the struggling German economy, as a senior government figure said the recession may have ended earlier than the Economy Ministry had forecast.

**CDS clearing may need more legal protections-study**

Some U.S. and international bankruptcy laws may need to be modified to ensure stronger protection of client funds in central clearinghouses vying for business in the \$26.5 trillion credit default swap market, according to a study by market participants.

The study was presented last week to regulators including the New York Fed and tested the ability to reclaim or transfer client collateral that is posted against CDSs at six central clearinghouses in the United States and Europe, in the event of a dealer failure.

The study was made as part of an ongoing industry commitment to reduce risks in the privately traded market. CDS are used to insure against a borrower defaulting on their debt or to speculate on their credit quality.

The study found that each clearinghouse would benefit from further legal or regulatory clarity to protect client funds, said a person involved in the study, who declined to be identified because the results have not been made public.

**Canada housing starts up for 2nd straight month**

Canadian housing starts rose in June for a second consecutive month, adding further proof that the sector was on the mend after building activity fell to a nine-year low earlier this year.

New home construction rose 8 percent last month to a seasonally adjusted rate of 140,700 units, beating average expectations of 130,000 starts, and encompassing both single and multiple segments, Canada Mortgage and Housing Corp said on Thursday.

It was the first back-to-back gain since August-September figures last year, and about 20 percent higher than the low hit in April. The May figure was upwardly revised to 130,300 units from 128,400 previously, well ahead of April's 117,600 starts.

The seasonally adjusted annual rate of urban starts increased 9.5 percent to 120,100 units in June, while rural starts were estimated at 20,600 units.

## NEXT UP

**Major gov't bond yields to skip up as issue glut presses**

Major government bond yields will edge higher in coming months, despite purchases by policymakers aimed at keeping them down, thanks to a flood of issuance and flickers of economic recovery, a Reuters poll found.

Bond markets will be tested to the hilt this year as the U.S. alone pumps out 2 trillion dollars worth of issuance. The result, combined with an eventual if subdued recovery from recession, will be to send yields steadily up.

A quarterly Reuters poll of over 50 bond strategists in the U.S. and Europe showed yields on 10-year notes at or over the 4.0 percent mark in a year in the U.S. and UK, just shy of that level in the euro zone, and edging up to 1.5 percent in Japan.

The outlook for money markets, awash with liquidity even if that is yet to translate into increased lending, was for steady markets around current levels with no exit from loose monetary policies until late next year.

The poll showed a steady climb for U.S. 10-year Treasury yields, reaching 3.6 percent in three months, 3.75 percent in six, and back to levels not seen since October around 4.00 percent in a year's time.

A central bank exit strategy from record low interest rates looks unlikely until well into 2010, separate Reuters polls show.

**POLL-BoE to increase QE spend in August, rates on hold**

The Bank of England will increase its government bond purchase program to a total of 150 billion pounds when it meets in August and won't move interest rates up from their historic low for at least another year, a Reuters poll found.

The poll of economists, taken after the central bank surprised markets by saying it was holding fire for now on its quantitative easing program at 125 billion pounds, found 35 of 56 saying the bank would increase it next month.

Asked how likely this was, economists gave a median 65 percent probability the bank would announce an increase of 25 billion next month, using up the full 150 billion pounds permitted by finance minister Alastair Darling earlier this year.

That is likely to be all they end up spending, according to the median forecast, although predictions ranged as high as 200 billion pounds.

Some noted that the 125 billion already planned -- and nearly all already bought -- was a staggering amount for a central bank that has slashed interest rates to a record low of 0.5 percent and has run out of options to stimulate growth.

Thirty-seven of 50 economists said the bank's plan would ultimately prove to be effective, with 5 saying it would be very effective.



## DEEP DIVE Commentary and Analysis

**COLUMN-Loan demand is weak, and for good reason**

By James Saft

Beating up banks for not lending is good fun and probably fair but may miss a larger truth: borrowers have very good reasons not to want to borrow.

Germany has called for bank capital rules to be relaxed to ensure funding for its economy flows freely. Finance minister Peer Steinbrueck has raised the possibility the Bundesbank might provide loans directly to companies, saying waspishly that banks now prefer using the plentiful funds provided by the European Central Bank "to invest in foreign exchange, government bonds and shares rather than passing it on as credit."

ECB President Jean-Claude Trichet too has called upon banks to square up to their responsibilities and support the "real economy."

But even putting aside the fact that it is very useful for euro zone governments that their banks want to hold more of their debt, there is a real question as to how much actual end demand there is for credit. Companies, households and banks all want to pay down debt rather than increase it and also sensibly prefer to hold cash rather than assets, partly because the outlook for those assets is poor and partly because after a decade of excess everyone now looks a bit overextended.

This is exactly what happened in Japan during its lost decade when a balance sheet recession, one characterized by the paying down of debt and liquidation of assets, was self reinforcing and very difficult to stem.

"The comments of Steinbrueck and Trichet that banks have a duty to lend are not quite in accordance with reality," said Meyrick Chapman, a fixed income strategist at UBS in London.

"Borrowing is not in fashion, nor is lending."

Indeed surveys in the euro zone show demand for lending to be quite weak and thus the fact that loans to private sector borrowers in the zone is growing at its lowest ever level, just 2.2 percent at the end of May, cannot be solely blamed on banks, no matter how satisfying that may be.

There is no doubt that banks are part of this story -- they want to rebuild capital and are availing themselves of the nifty carry trade made available by the ECB in the form of cheap funding which can be plowed into low-risk assets like government debt.

Doubtless too there are firms in the euro zone, as in the United States, who will go to the wall for lack of funding or which might be forced to curtail justified investment.

**A GLOBAL PHENOMENON**

While it's been a particularly hot issue in Europe, which has a higher reliance on bank lending rather than money raised in capital markets, there are very clear signs of poor demand in the United States and Japan.

Figures released this week in Japan show growth in credit extended by banks has slowed for the fifth month running, though this in part may reflect better capital market conditions. But in a nation where overall bank lending was negative for nearly a decade, it is not encouraging to see it heading south again.

U.S. Federal Reserve data shows bank-wide credit -- to real estate, commercial and personal borrowers -- has shrunk by a very large \$90 billion in the four weeks to June 24. Some of this doubtless reflects a desire to cut back on lending by the banks themselves, but, as Dave Rosenberg, chief economist at Toronto wealth manager Gluskin Sheff points out, the ratio of cash held by households as compared to assets has been rising sharply, mirroring the same move among businesses and banks.

In short, everyone is doing the same thing at the same time: husbanding cash.

"The ultimate question is where all this cash is going to be deployed, and we believe it will ultimately be diverted towards debt repayment," Rosenberg wrote in a note to clients.

So, rescuing the banks, while it may be a precondition for rescuing the economy, is far from the same thing. The problem wasn't simply that the credit stopped flowing in 2007 and 2008, though that was a grave threat requiring immediate action, but that the mix of debt to equity has gotten out of line in the eyes of all of the households, corporations and banks which now have a much more healthy respect for the unpredictability of the global economy.

So, beat the banks all you like, or just make them obsolete and have the government make loans directly, but if people want to pay back debt rather than take it out, a recovery will be weak, and probably weak over a protracted period of time. De-leveraging may be slow but it will be sure.

The global experience won't be a rerun of Japan's balance sheet recession and lost decade, but the two very well may rhyme.

(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-Long-awaited correction confronts Wall Street**

By Ellis Mnyandu

Wall Street's spring surge looks to be wilting in the heat, judging by the emergence of bearish chart patterns, anemic trading volumes and rising volatility.

For two months U.S. equities have defied expectations for a correction, but charts show that major averages are finally on the cusp of their first significant pullback since the start of the March rally due to worries about economic growth.

"This is a start of a correction," said John Kosar, market technician and president of Asbury Research in Chicago.

"The market has decided that for now the October 2007 cyclical downtrend is still in play. It doesn't mean we have to go back under the lows, although that is possible."

Analysts do not expect the benchmark S&P 500 to breach its 12-year closing low of 676.53 reached in March, but chart patterns suggest that in the next several weeks the broader market could pull back to at least April levels.

The S&P 500 has shed more than 7 percent from its recent recovery peak of early June, as it jumped nearly 40 percent from the low hit on March 9.

More alarming, according to some chartists, is the index's failure to break through its recent narrow range, leading to the emergence of a "head and shoulders" pattern -- a bearish technical signal.

The "head and shoulders" pattern is formed by an initial price peak followed by a higher second peak, and finally a third peak that falls in line with the first one.

The theory suggests that a break below the so-called "neckline" of the pattern is a bearish signal and the downside price target should be equal to the distance between the head peak and the neckline.

By that measure, the S&P 500 could fall to 827, or about 6 percent from current levels, according to an analysis by market research firm Bespoke Investment Group. On Wednesday the S&P 500 hit an intraday low of 869.32, and is now up about 30 percent from the March 9 low.

Volatility has risen, judging by the Chicago Board Options Exchange Volatility index, or the VIX, Wall Street's favorite gauge of investor anxiety. The VIX hit 33.05

Wednesday, its highest level since late May as options players took out insurance against larger swings in the market.



## DEEP DIVE Commentary and Analysis

After the market charged hard through March and April, May and June were dominated by sideways trading that kept the market in a narrow range as investors searched for fresh evidence to support optimism about an economic recovery. Volume and market breadth also started to fray, and as those supportive elements started to give way, the market's strength waned.

"Since mid- to late-June or so, the market has acted pretty poorly, breadth-wise," said Bruce Zaro, chief technical strategist at Delta Global Advisors in Boston, referring to a market gauge that analyzes the number of stocks advancing relative to those falling.

Last Thursday, a day before the U.S. Independence Day holiday, saw the New York Stock Exchange's lightest volume of 2009.

"The market went a little too far, too fast," said Ralph Acampora, a 45-year Wall Street veteran and director of technical studies at New York Institute of Finance in New York.

"Right now what we're going to be doing is correcting the excesses created between March and June. The correction is overdue and welcomed."

Acampora said his S&P 500 downside target was 800-775, which would still be about 13-16 percent above the index's 12-year closing low on March 9.

If the correction garners speed, he said it might actually lure investors who may have missed the initial run-up as an "entry" point, as there remains swathes of uninvested cash.

To do that, however, the market will have to weather the second-quarter earnings reporting season, which presents the biggest test yet as investors set out to determine if second-half corporate outlooks will justify another advance. So far, they are reluctant to bet on such a possibility.

Data on long-term mutual fund flows from the Investment Company Institute shows that there has been a push by other investors to lighten up. For the two week period ended July 1, domestic equity funds had an estimated \$1.067 billion in outflows.

## Thomson Reuters LPC Webinar:

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

On July 9th, Ioana Barza, VP, Sr. Market Analyst presented a review of the global syndicated loan market.

**Highlights include:**

- While there remain fundamental regulatory and capital issues to confront, "the story is not centered around the question of survival anymore and that is good news," bankers said. Positive sentiment was reflected across the credit markets. The Thomson Reuters Counterparty Default Index (CDI), which reflects default risk of major counterparties, tightened dramatically through early June. "Borrowers have much greater access and confidence that they can get what they need," sources said.
- Of the \$56.7 billion of high yield bonds issued in 1H09, an astounding \$32 billion has been used to pay down bank loans. This has allowed issuers to not only push out maturities, but also to trade the more onerous covenants that govern bank loans for the less restrictive covenants governing bonds. As

loans were paid down, this ultimately brought cash back into the loan market. With little in the way of new issue, investors invested in the secondary loan market, where loans were oversold. This helped fuel a 20 point rally in loan prices. However, the rally has tapered off in recent weeks and the average bid on the largest, liquid loans hovers in the 86 context.

- Global loan issuance in 2Q09 of \$409.8 billion was down 5.4% compared to 1Q09 and down 42% from 2Q08. Lending in all of the regions experienced a contraction with the exception of the Americas, which increased 44% from 1Q09 to \$177.3 billion, propped up by leveraged lending which was up 150% over 1Q09 levels. However, new issue in the U.S. remained low and the figure was largely driven by the extended portion of Amends & Extends, 100% amendment activity, and incremental dollars garnered via 51% amendments.

For a replay of Thursday's webinar register at [http://www.loanpricing.com/LPC\\_webinars.html](http://www.loanpricing.com/LPC_webinars.html)

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