

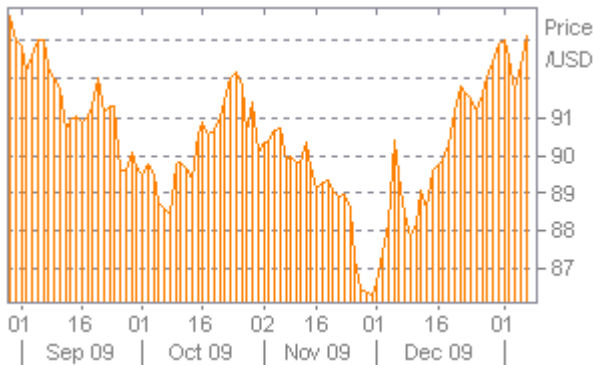
INSIDE DEBT

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Thursday, January 7, 2010

CHART OF THE DAY

Dollar vs yen



The dollar hit an intraday high of 93.4 yen, its strongest since early September, after Japan's new finance minister said he wanted the yen to weaken more.

TODAY'S TOP NEWS

- U.S. jobless claims on downtrend, retail sales up
- Fed's Bullard: U.S. jobless rate to start falling
- BoE leaves UK policy steady, focus shifts to Feb
- U.S. regulators warn banks on interest rate risk
- China c.bank surprises with yield hike, stocks tumble
- [For more stories please click here](#)

ECON WATCH

FOR FRIDAY JANUARY 8

ET	Indicators	Unit	Reuters	Prior
02:00	DE Trade balance, EUR, sa	bln	12.4	12.9
04:30	GB PPI Input prcs mm nsa	%	-0.3	0.1
04:30	GB PPI output prcs mm nsa	%	0.2	0.2
05:00	EZ GDP revised qq Q3	%	0.4	-0.2
05:00	EZ Unemployment rate	%	9.9	9.8
06:00	DE Industrial output mm	%	1	-1.8
07:00	CA Unemployment rate	%	8.5	8.5
08:30	US Non-farm payrolls	k	-8	-11
08:30	US Manufacturing Payroll	k	-35	-41
08:30	US Unemployment rate mm	%	10.1	10
08:30	US Average earnings mm	%	0.2	0.1
08:30	US Average workwk hrs mm	hrs	33.2	33.2
10:00	US Wholesale inventrs mm	%	-0.2	0.3
10:00	US Wholesale sales mm	%	0.9	1.2
15:00	US Consumer credit mm, \$	bln	-5	-3.51

AMERICAS LOANS FORUM:

The Americas Loans Forum is a chat room hosted by Thomson Reuters LPC, the global leader in syndicated loan market news, data and analysis.

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MARKETS TODAY

TODAY'S TOP STORY: The number of U.S. workers filing new jobless claims edged up by a slim 1,000 last week and a gauge of underlying labor market trends hit a nearly 16-month low, evidence the job market continues to heal. [For more please click here](#)

TREASURIES: U.S. Treasuries firmed a day ahead of a closely watched jobs report that is expected to show an improving labor market, but not strong enough to prompt the Federal Reserve to signal higher rates ahead.

- 30-yr bond rose 2/32 in price for a yield of 4.69 pct from 4.7 pct.
- 10-yr Treasury prices rose 1/32, yielding 3.82 pct from 3.83 pct.
- 2-10's part of yield curve flattened by about 3 bps to 280 bps.
- The bond market showed little reaction to a Treasury Department announcement that it will offer a total of \$84 billion in coupon debt auctions next week, which was in line with expectations.

FOREX: The U.S. dollar rose a day before a key government jobs report expected to show two years of job losses in the U.S. economy ended last month.

- Dollar rose 0.96 pct to 93.2 yen after earlier climbing to 93.40, its strongest since early September.
- The dollar index was up 0.57 pct to 77.93.
- Euro fell 0.6 pct to \$1.432. Earlier, it fell to \$1.4308, its worst day since Dec. 17. Against the yen, euro rose 0.4 pct to 133.49 yen.

CORPORATES: U.S. corporate bond spreads tightened after a better-than-expected read on weekly jobless claims and majority of retailers posted better-than-expected December sales.

- The CDX.IG.13 index widened by about 2 bps to 79 bps.
- Markit said it will launch a tradeable CDS index for emerging European, Middle Eastern and African sovereigns.
- Macquarie Group launched its \$1 bln 10-yr note sale in the rule 144a private placement market.

STOCKS: The Dow and the S&P rose after Bank of America and General Electric rallied on positive broker comments, while the Nasdaq slipped as investors were cautious a day before the release of key monthly non-farm payrolls data.

- Dow rose 0.31 pct to 10,606.86, S&P was up 0.4 pct to 1,141.67 and Nasdaq dropped 0.05 pct to 2,300.05.
- S&P financials index rose 2.04 pct, S&P energy index fell 0.23 pct and S&P technology index slid 0.38 pct.
- KBW banks index jumped 4.07 pct.
- BofA gained 3.29 pct to \$16.93 and General Electric jumped 5.18 pct to \$16.25.

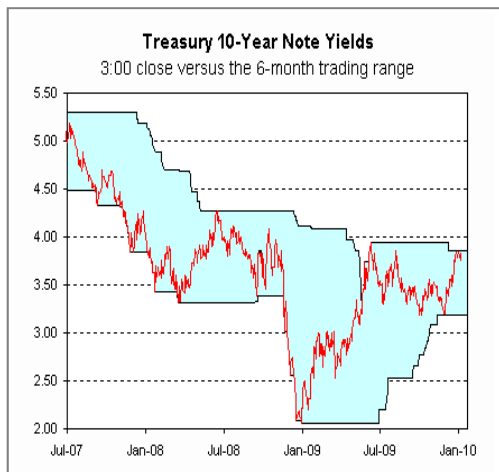
C & E: Oil fell from 15-month highs to below \$83 a barrel on the stronger dollar and as signs of tighter monetary policy in China sparked concerns about demand in the world's second largest energy consumer.

- U.S. crude prices shed 0.66 pct to \$82.63 per barrel.
- Gold was down 0.65 pct to \$1,130.5 an ounce.
- Reuters-Jefferies index fell 1.1 pct to 290.53.

- [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	0.030	0.005	0.03	-0.011
3-Mo Bill	0.050	0.040	0.051	0.002
6-Mo Bill	0.165	0.145	0.167	0.006
1-Year	0.363	0.355	0.368	0.002
2-Year	99.938	99.969	1.033	-0.055
3-Year	98.688	98.719	1.585	-0.066
5-Year	100.039	100.078	2.617	-0.082
7-Year	99.453	99.500	3.338	-0.023
10-Year	96.281	96.344	3.831	-0.023
30-Year	94.859	94.922	4.697	-0.086

EQUITIES

	INDEX	CHANGE
DJIA	10593.78	20.10
NASDAQ	2295.73	-5.36
S&P 500	1140.21	3.07

OIL

	PRICE	CHANGE
NYMEX	82.6	-0.5
BRENT	81.6	-0.4

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jan-10	99.750	0.005
Mar-10	99.695	0.000
Jun-10	99.465	-0.005
Sep-10	99.095	-0.010

FUTURES

	PRICE	CHANGE
CBOT 5 yr	114.77	-0.14
CBOT 10 yr	115.92	-0.05
CBOT 30 yr	115.44	0.13

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.110	O/N	0.120
2-Week	0.160	2-Week	0.180
1-Month	0.170	1-Month	0.180
3-Month	0.200	3-Month	0.220
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.120	10:00 AM	0.050
2-Week	0.170	3:00 PM	0.054
1-Month	0.170		
3-Month	0.230		

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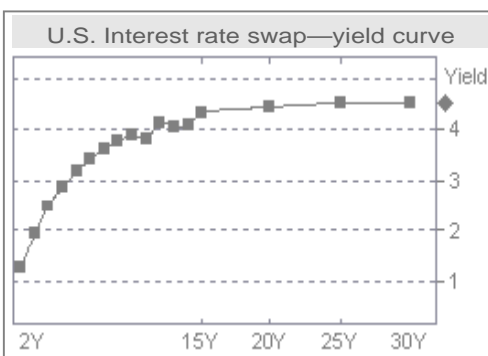
	SPREAD		RATE	
2-Year	25.75	29.75	1.28	1.30
3-Year	36.25	40.25	1.93	1.94
5-Year	28.00	32.00	2.89	2.89
7-Year	12.00	16.00	3.45	3.45
10-Year	9.50	13.50	3.92	3.90
30-Year	-15.50	-11.50	4.54	4.52

CURRENCIES

	BID	ASK
Euro	1.4312	1.4314
Sterling	1.5933	1.5938
JP Yen	93.23	93.26
Swiss Franc	1.0338	1.0342
Can Dollar	1.0351	1.0356
Mexico	12.7671	12.7752

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.110	0.140	-	-
1-Month	0.220	0.300	0.128	0.138
3-Month	0.240	0.450	0.143	0.153
6-Month	0.300	0.650	0.187	0.197
12-Month	0.850	1.300	0.411	0.421



FED FUNDS NYFRSM - 10AM

Open	0.1200	1m	0.2210
High	0.1200	3m	0.2550
Low	0.0700		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.875	12/01/2012	0	12.5	-
3-Year	1.75	10/08/2012	0	-3	-
5-Year	2.875	09/02/2015	29.5	28.5	2.91
7-Year	5.125	18/10/2016	0	14	-
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	33	32.5	5.03

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	0	7.5	-
3-Year	1.375	09/01/2013	0	25.5	-
5-Year	2.625	20/11/2014	0	19.5	-
7-Year	5.25	15/09/2016	13.75	13.25	3.48
10-Year	3.75	27/03/2019	0	14	-
30-Year	6.25	15/07/2032	0	30.5	-

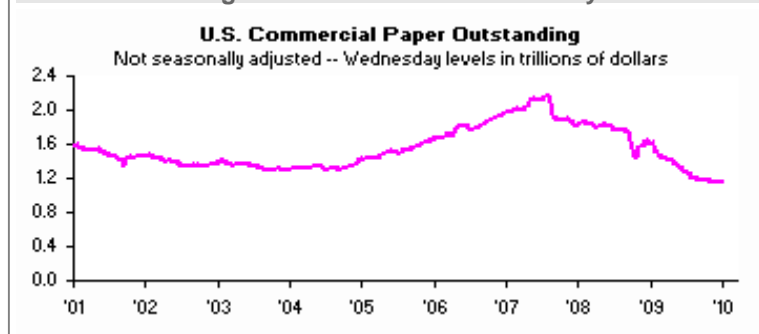
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	104.2830	104.3030	2.851
FHLMC	5.0	104.2830	104.3030	2.851

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.0150	105.0350	3.179
FHLMC	5.5	105.0550	105.0750	3.082
GNMA	5.5	105.0250	105.0450	3.756

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

U.S. jobless claims on downtrend, retail sales up

The number of U.S. workers filing new jobless claims edged up by a slim 1,000 last week and a gauge of underlying labor market trends hit a nearly 16-month low, evidence the job market continues to heal.

The Labor Department said initial claims for state unemployment benefits rose to 434,000 after declining for two consecutive weeks. Wall Street analysts had expected claims to hit 447,000.

However the four-week moving average dropped to the lowest level since mid-September 2008. The average fell for the 18th straight week to 450,250 -- around the level economists associate with labor market stability.

According to the Reuters survey, the jobless rate likely rose to 10.1 percent last month from 10 percent in November.

The number of workers still collecting benefits after an initial week of aid fell for a third straight week to 4.80 million in the week ended Dec. 26.

Investors were also eyeing reports on December sales from U.S. retailers. Early reports from Sears Holdings Corp, Costco Wholesale Corp, Macy's Inc and others showed sales increasing, suggesting consumer spending was helping give the economy a lift.

BoE leaves UK policy steady, focus shifts to Feb

The Bank of England kept the scale of its asset purchase program unchanged at 200 billion pounds (\$319 billion) and said it would decide whether or not to extend it next month.

Britain's central bank also left interest rates at a record-low 0.5 percent, a decision which had been unanimously expected by economists polled by Reuters and caused no reaction from sterling or British government bonds.

Most economists predict the BoE to call time on the scheme, which uses newly created money to buy financial assets, mostly gilts, and was launched last March in an unprecedented attempt to boost an economy ravaged by a global credit crunch.

Next month, the MPC will have new quarterly growth and inflation forecasts, as well as official data which is expected to confirm the British economy ended a year-and-a-half of recession in the last three months of 2009.

This likely return to growth means most economists doubt the BoE will further expand the asset-buying policy though past policy surprises mean few will completely rule it out.

China c.bank surprises with yield hike, stocks tumble

China's central bank surprised markets by raising the interest rate on its three-month bills for the first time since August, intensifying its grip on liquidity a day after it promised to keep credit growth in check.

While analysts said the move was just a withdrawal of surplus cash in the system, markets feared the worst, taking it as a sign the central bank could be getting ready to use more forceful measures to cool growth and fight inflation, such as raising benchmark lending rates. The move was accompanied by the biggest weekly net drain from money markets in 11 weeks.

The prospect of a tougher policy stance from Beijing sent Chinese shares tumbling and hit a range of commodities, as investors feared that putting the brakes on growth could weaken the appetite of the world's third-largest economy for steel, copper and other resources needed to fuel it.

The PBOC sold three-month bills at a yield of 1.3684 percent, up 4.04 basis points from 1.3280 percent last week, the level it has kept over the past four months.

Fed's Bullard: U.S. jobless rate to start falling

The labor market in the United States is improving and the economy is close to the point when the unemployment rate will start to fall, a top U.S. Federal Reserve official said.

James Bullard also said that U.S. housing prices were stabilizing and that housing starts were likely to steady and cease to be a drag on growth.

The U.S. jobless rate stood at 10 percent in November, just off a 26-1/2-year high, and a report on Friday is expected to show that employers continued to shed jobs last month.

Bullard played down price pressures facing the United States in the near term, saying that the Fed's moves to pump liquidity into the economy were not an inflationary concern.

He did, however, say the Fed's asset purchase program could fuel a risk of inflation over the medium term.

Any risk of inflation existed on a 2-5 year horizon, not over the next year, he said.

Separately, Thomas Hoenig said that inflation is not a near-term risk for the United States but a longer-term one.

Hoenig also said that commercial real estate pressures are still crimping bank lending but that through the course of 2010 he would expect banks to lend more as the economy improves.

Asked about regulatory reform proposals that would strip the Federal Reserve of its consumer protection role, Hoenig said he was not supportive of the idea. "That would be a mistake," he said.

U.S. regulators warn banks on interest rate risk

U.S. regulators warned banks of the need to manage their interest rate risks, especially in the current environment of historically low short-term rates.

A group of bank regulators issued an advisory saying it was a challenging environment in which funding longer-term assets with shorter-term liabilities could generate earnings, but it could also pose risks to an institution's capital and earnings.

The Fed issued an advisory along with the Federal Deposit Insurance Corp, the Office of the Comptroller of the Currency and the Office of Thrift Supervision.

As interest rates start to climb from historic lows, banks relying heavily on short-term funds could see their funding costs accelerate.

The advisory said banks should have effective tools to manage their interest rate risk, including monitoring systems, stress testing and internal controls.

The regulators said the risk is especially high for depository institutions, but said bank holding companies should also be reminded of the need to manage their interest rate risk exposure.

Japan wants weaker yen, France complains of disorder

Japan called for a weaker yen, prompting a sharp slide against the U.S. dollar, and France said it would make currency imbalances a major topic of its G20 and G8 presidencies next year.

China, meanwhile, shrugged off pressure from its major trading partners for a change in the level of the yuan, repeating its line that stability was in everybody's best interest.

Ironing out the imbalances -- principally huge current account surpluses in countries such as China and deficits in the United States and elsewhere -- was seen by many economists as requiring a weaker dollar and a stronger yuan.

Newly appointed Japanese Finance Minister Naoto Kan said the yen should be weaker and he would work with the BOJ to achieve an appropriate level, prompting a sharp slide in the



TODAY'S TOP NEWS

currency against the dollar. Such calls have raised fears among policymakers and economists of competitive devaluations that they say could jeopardise economic recovery.

In his first press conference as finance minister, Naoto Kan also signalled he would maintain pressure on the central bank to do more to lift the frail economy, which the government fears could slip back into recession as deflation hurts demand.

He also lived up to some expectations that he would not be as fiscally restrained as his predecessor by saying he would be open to spending more in the future if the economy weakens.

Euro zone Dec morale jumps, points to good Q4 GDP

Euro zone sentiment rose more than expected in December, suggesting stronger economic growth in the fourth quarter than the third, but a drop in retail sales fuelled doubt over the sustainability of any recovery.

A monthly survey by the European Commission showed economic sentiment in the euro zone rose to 91.3 points from 88.8 in November, well above the 90.0 expected by economists in a Reuters poll.

The rise was mainly driven by a three-point improvement in sentiment in industry to -16 points. There were one-point improvements in the services sector to -3, among consumers to -16 and in the retail sector to -10 points.

But bad news came from retail sales, which defied market expectations of a small rise and fell sharply in November after small gains in the previous month, underlining the fragility of household demand as unemployment grows.

The Eurostat said retail sales in the eurozone fell 1.2 percent from October and dropped 4.0 percent year-on-year.

Economists polled by Reuters had on average expected a 0.1 percent monthly rise and a 1.9 percent annual fall.

The drop in retail sales stemmed mainly from Germany where they declined 1.1 percent on the month.

U.S. commercial paper market size drops - Fed

The U.S. commercial paper market had its biggest weekly percentage contraction in a decade, suggesting companies were nervous about the prospects for a sustained economic recovery, analysts said.

Businesses use short-term borrowing to finance restocking of shelves and pay wages, so the paring back of such debt issuance hints at worries that economic growth may falter again, after the longest U.S. recession in decades ended in 2009.

For the week ended Jan. 6, the size of the U.S. commercial paper market fell by \$94.2 billion to \$1.076 trillion outstanding, from \$1.170 trillion outstanding the previous week, Federal Reserve data showed.

On a non-seasonally adjusted basis, the commercial paper market grew by more than \$7 billion in the latest week, Stone said.

Unsecured financial issuance fell by \$36.6 billion after rising by \$9.2 billion the previous week.

U.S. asset-backed commercial paper fell by \$66.3 billion to \$419.5 billion outstanding in the latest week from \$485.8 billion outstanding the previous week.

France sells 8.65 bln euros of bonds in popular sale

France sold 8.65 billion euros of longer maturity bonds which was well-received and led the euro debt future contract to turn positive.

France sold four lines of bonds, with a target of 7.5 to 9.0 billion euros. Longer-dated maturities in the currency bloc were depressed ahead of the sales. Signs of mostly keen demand led the Bund future to rise as high as 121.42 from 121.19 before the sale. The futures contract was last at 121.31, up eight ticks.

The 10-year stood out with its much lower bid-to-cover ratio, as total bids received by the French Tresor were only 1.7 times the amount sold while the other issues enjoyed cover of 2.4-3.3 times.

NEXT UP

U.S. economy stopped losing jobs in Dec

The U.S. economy stopped shedding jobs in December, ending two years of uninterrupted cuts, according to the most recent Reuters poll.

The median of forecasts in a Reuters poll of 84 economists called for the government's non-farm payrolls to remain unchanged from the previous month. The median in a Reuters poll conducted last week was for U.S. employers to have cut 8,000 jobs in December.

Estimates ranged from 80,000 jobs lost last month to a gain of 100,000 jobs.

Overall, 7.2 million jobs have been lost since December 2007 when the recession began, although the pace of layoffs has slowed sharply from early last year.

However, based on the 20 most accurate forecasters in Reuters polls since April, December payrolls are seen shrinking by 25,000 last month.

The unemployment rate is forecast to have risen to 10.1 percent in December from 10.0 percent in November, according to the poll, which was the same as last week's forecast.

Economists have been rethinking their forecasts for the number of jobs lost last month in light of recent stronger-than-expected economic data, including numbers this week from the Institute for Supply Management showing the U.S. manufacturing sector grew for the fifth consecutive month in December.

Euro unlikely to revisit \$1.50 this year

The euro is expected to hover near current levels against the dollar this year but probably won't head back to \$1.50, according to a Reuters poll of FX strategists, a stark change after the dollar's year-end rally.

The latest monthly poll shows a lock-step move down in euro/dollar forecasts in line with where the market went since the last monthly poll. But the median 12-month forecast remained locked at \$1.45.

Only 20 of 63 strategists are now predicting the euro at \$1.50 or higher in three months, down sharply from 39 of 61 who said so in the December poll when it was already there.

Just 22 of 63 predicted the euro above a 17-month peak of \$1.5145 hit late last year at some point in the forecast horizon, compared with 43 in December. The highest forecast for euro/dollar was \$1.60 compared with \$1.65 predicted in last month's poll.

The yen is set for a quieter start to this year than it had to 2009, holding near present levels before slipping as traders brace for eventual higher interest rates elsewhere.

The median forecast predicted the dollar would be at 92 yen in one month, 93 in three months and then appreciate to 99 in 12 months.

Only 12 of sixty-two forecasters still see the yen at or above 100 in the next six months.



DEEP DIVE Commentary and Analysis

Obama to push stimulus-lite as employment lags

By Alister Bull

President Barack Obama's top domestic test this year is to cut unemployment, but his push for more spending on jobs reflects political need more than economic necessity and any new stimulus is likely to be small.

Obama's first week back in the White House after his year-end holiday, already overshadowed by the fallout from a botched Christmas Day plane attack, will be punctuated on Friday with a jobs report that may underscore the size of the task ahead.

December payrolls are forecast to show that unemployment rose to 10.1 percent from 10 percent the month before, and that the economy shed no jobs versus a 11,000 drop in November.

Halting employment destruction after two years of uninterrupted losses would signal the recovery is widening after the country's worst recession in 70 years.

But that might be scant comfort to millions of Americans without work, and congressional Democrats seeking re-election in November know that they must boost job growth or pay the political price.

Obama, who signed a \$787 billion emergency economic stimulus package in February, hosted a White House summit last month to encourage hiring.

In addition, the House of Representatives passed another \$155 billion jobs package on Dec. 16, although the Senate has yet to take up its version of the legislation.

"Congress is running (for office) sooner than (Obama) and so they need to say that they've taken action," said Chad Stone, chief economist at the Center on Budget and Policy Priorities, a progressive Washington think-tank.

The next U.S. presidential election is in 2012, but the entire House and one third of the Senate will be elected in November.

"We're in a big hole. The economy could benefit from some additional demand from some well-designed stimulus," said Stone, who favored extending unemployment benefits plus aid to states, which would help them avoid laying off workers like teachers, firefighters and police officers.

MORE HARM THAN GOOD

Other analysts argue any new stimulus that goes much beyond additional unemployment aid is not warranted and would do more harm than good by adding to a record \$1.4 trillion U.S. budget deficit for Fiscal 2009 and potentially scaring off investors.

"Given the size of the deficit, you really cannot go much further than that," said former Federal Reserve Governor Lyle Gramley. "You could begin to have adverse effects on interest rates and it is not at all clear that it is really necessary," he said, adding that anything that got signed into law would be pure "window dressing" to provide Obama political cover.

Investors who fear the government will issue more debt to finance a second round of stimulus spending might demand a higher return from this additional supply, pushing up bond yields and raising the cost of borrowing across the economy.

The White House has consistently said it is premature to talk about a second stimulus while money from the first package is still being spent.

But with job growth predicted to lag any economic recovery, lawmakers now want to do more.

Among other things, the House jobs proposal would direct \$28 billion to improve U.S. highways and \$41 billion to extend unemployment insurance payments for another six months.

However, the Senate has not fleshed out its version of the jobs bill, and already has its work cut out to complete Obama's signature healthcare reforms after both chambers of Congress

approved legislation that must now be woven together before he signs it into law.

"I am dubious that they will come up with enough support or money to really do a big second stimulus package," said Dan Amundson, research director at the Center for Media and Public Affairs at George Mason University in Fairfax, Virginia.

"It is going to be more on Congress to do something than on Obama because of the congressional election," he said.

Congressional sources say a jobs package is being readied for when the Senate resumes business in two weeks' time.

But analysts doubt it will seek as much money as the House, and some think the object is to give politicians something to talk about to voters rather than to actually spend more money. They believe Obama is abetting this election-year tactic.

"I don't think this is something that is actually going to be enacted into law," said Alex Brill, a former adviser to Republican President George W. Bush and research fellow at the American Enterprise Institute.

"My suspicion is that he (Obama) is being pulled by the congressional leadership to look at and talk about some of these ideas, ... I think Nancy Pelosi is telling (Obama chief of staff) Rahm Emanuel: 'Work with us. Give us something we can take home and talk about,'" he said, referring to the Democratic Speaker of the House.

Recovering U.S. dollar sullies foreign bonds' sparkle

By John Parry

The dollar's recent rebound is paring the steep gains U.S. investors made last year on foreign bond portfolios and may make them turn more towards U.S. fixed-income securities in coming months, analysts said.

For fixed-income fund managers who invest outside their domestic market, the performance of the currency in which those bonds are denominated can be key to how the investments fare. Recent debt troubles in Dubai and Greece have underscored risk outside the United States, helping the dollar gain more than 5 percent against a basket of currencies since late November.

Strengthening U.S. economic data, meanwhile, has reinforced expectations the Federal Reserve may start raising interest rates before the European Central Bank, a prospect which could bolster the dollar for months to come.

"The market is starting to get ready for a potential change in short-term rates," said William Larkin, portfolio manager with Cabot Money Management in Boston. "That does have a pretty big impact on the dollar and a pretty big impact on foreign bonds."

Larkin recently sold a position he held in the Templeton Global Income Fund which had gained about 30 percent through the end of November, because a big slice of its gains came from the dollar's decline against other currencies -- a move that has now reversed.

"A lot of the relative benefits of overseas investing has been currency-related and if you get a bounce in the dollar you remove some of that tailwind," said Lawrence Glazer, managing partner of Mayflower Advisors in Boston.

BOOST FOR U.S. BONDS?

If the dollar trend continues, investors may favor U.S. corporate bonds and Treasuries over foreign bonds this year, according to fund managers.

"People might be a bit less enthusiastic in investing overseas relative to the United States," said Glazer, who himself is becoming more cautious about investing in foreign bonds.

"In the short run, U.S. equities and fixed income might benefit on a relative basis," Glazer said.



DEEP DIVE Commentary and Analysis

Judging by some recent flows data, investors have already started to make the switch.

Net inflows to U.S. bond funds tracked by Emerging Portfolio Fund Research totaled \$3.03 billion the week ending Dec. 9, the fourth biggest inflow for 2009. But inflows to global bond funds dipped below \$1 billion per week in early December, according to Brad Durham, a managing director of EPFR Global in Boston. "It looks like investors probably are reacting to expectations of a strengthening or recovering dollar," Durham said.

Even if the dollar doesn't gain much from here, some bond analysts recommend hedging foreign bond portfolios against currency gyrations.

The dollar will probably trade in a broad range against other currencies in early 2010, said Kevin Flanagan, fixed income

strategist for global wealth management with Morgan Stanley in Purchase, New York.

"I wouldn't be looking to invest in non-dollar in a pure currency play because that won't necessarily offer the same opportunity it did in 2009," he said.

To be sure, U.S. investors in foreign bond funds could still tap currency gains this year if they invest in the debt of emerging markets whose currencies are rallying against the dollar, said Michael Collins, principal at Prudential Fixed Income Management in Newark, New Jersey.

Yet Collins also warned of the risk to these foreign bond investments if the U.S. economy grows a lot faster than expected, which should be bullish for the dollar over the near term.

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