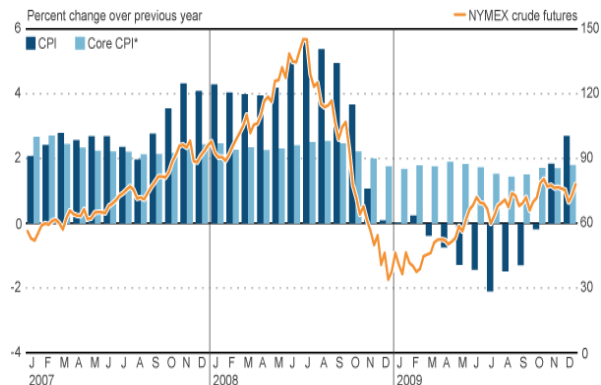


CHART OF THE DAY

U.S. inflation



U.S. consumer prices rose more slowly than expected in December on modest gains in food and energy costs, pointing to subdued inflation pressures that should permit the Fed to keep interest rates low for a while.

TODAY'S TOP NEWS

- U.S. inflation tame, chill lifts industrial output
- Global bond sales surge in race to beat higher rates
- 'Crisis tax' threatens recovery for Europe banks
- Fed's Lacker sees "reasonable" U.S. growth in 2010
- Geithner says was not involved on AIG disclosures
- Senate aims to vote on new Bernanke term this month
- U.S. active mortgage modifications rose in Dec.
- U.S. fed fund futures rise as rates seen on hold

ECON WATCH

FOR TUESDAY JANUARY 19

ET	Indicators	Unit	Reuters	Prior
00:00	JP Consumer confid. index	ind	-	39.5
04:30	GB CPI mm	%	0.3	0.3
04:30	GB CPI yy	%	2.6	1.9
04:30	GB RPI mm	%	0.3	0.3
04:30	GB RPI yy	%	2.1	0.3
04:30	GB RPI-X mm	%	0.3	0.3
04:30	GB RPIX yy	%	3.4	2.7
05:00	DE ZEW economic sent.	ind	49.5	50.4
05:00	DE ZEW current conditions	ind	-56.3	-60.6
08:30	CA Lead indicators mm	%	1.0	1.3
09:00	US Net cap inflows	bln	-	20.7
09:00	US Foreign buying, T-bonds	bln	-	38.9
09:00	CA BoC rate decision	%	0.25	0.25
13:00	US NAHB housing mark indx	ind	17	16

MARKETS TODAY

TODAY'S TOP STORY: U.S. consumer prices rose modestly last month, while a cold snap lifted industrial output, suggesting the economy was growing but not generating enough inflation to trouble the Fed.
For more please click here

TREASURIES: A tame U.S. inflation report, short-covering after a well-bid 30-year auction on Thursday, and concerns about sovereign risk in Europe drove Treasuries' prices higher ahead of a three-day U.S. holiday weekend.

- 30-yr bond prices rose 24/32 yielding 4.59 pct from 4.63 pct.
- 10-yr Treasury prices jumped 16/32, yielding falling to 3.68 pct from 3.74 pct on Thursday.
- 2-yr notes rose 3/32 to yield 0.87 pct from 0.92 pct.
- 2-10's part of the yield curve flattened by 1 bps to 281 bps.

FOREX: The U.S. dollar rose across the board, helped by U.S. reports indicating a rise in manufacturing and stable consumer price inflation, while the euro remained pressured by concerns about the Greek economy.

- Dollar index was up 0.62 pct to 77.207.
- The euro was down 0.8 pct to \$1.4384 after touching a session low of \$1.4357. Sterling fell 0.45 pct at \$1.6259.
- Dollar shed 0.43 pct at 90.8 yen. Earlier, it fell to 90.61 yen, its lowest since Dec. 21.

CORPORATES: U.S. corporate bond prices fell, tracking declines in stocks after JPMorgan Chase reported deep fourth-quarter loan losses.

- The CDX.IG-13 index widened by 4 bps to 84 bps.
- Spreads on JPMorgan's 6.3 pct bonds due 2019 rose 5 bps to 116 bps over Treasuries.
- Global high-yield debt sales hit a record \$11.7 bln this week, as companies rushed to issue debt while borrowing costs remain low.

STOCKS: U.S. stocks slid from 15-month highs after JPMorgan Chase & Co reported deep fourth-quarter loan losses that raised concerns about earnings for the banking industry.

- Dow fell 0.94 pct to 10,609.65, S&P shed 1.08 pct to 1,136.03 and Nasdaq was down 1.24 pct to 2,287.99.
- JPMorgan shed 2.26 pct to \$43.68, BofA lost 3.33 pct to \$16.26 and Wells Fargo & Co was off 3.14 pct to \$28.08.
- The S&P financial index was the biggest percentage loser among S&P sectors, down 2.04 pct. S&P technology index shed 1.27 pct.
- KBW bank index was down 2.16 pct.

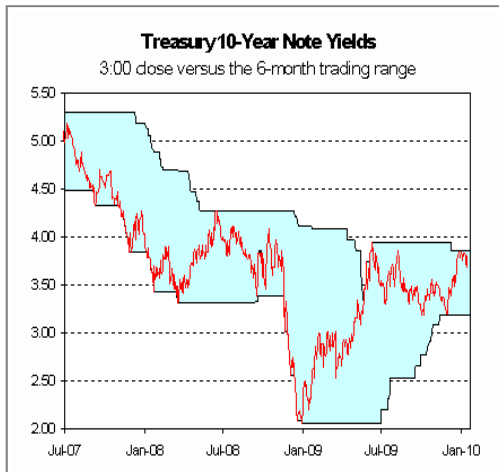
C & E: Oil prices slipped to below \$78 per barrel as expectations for reduced heating demand in the U.S., a stronger dollar and high oil inventories pressured prices.

- U.S. crude prices fell 1.8 pct to \$77.96 per barrel, shedding about \$5 from a 15-month intraday high of \$83.95 on Monday.
- Gold shed 1.02 pct to \$1,130.45 an ounce.
- Reuters-Jefferies index was down 1.06 pct to 281.41.

- 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	0.045	0.015	0.046	-0.349
3-Mo Bill	0.065	0.050	0.066	0.008
6-Mo Bill	0.150	0.130	0.152	0.004
1-Year	0.320	0.310	0.325	-0.012
2-Year	100.227	100.258	0.883	0.094
3-Year	99.789	99.828	1.448	0.168
5-Year	100.906	100.953	2.430	0.313
7-Year	100.516	100.563	3.167	0.398
10-Year	97.453	97.516	3.686	0.438
30-Year	96.672	96.734	4.580	0.734

EQUITIES

	INDEX	CHANGE
DJIA	10584.26	-126.59
NASDAQ	2284.98	-31.76
S&P 500	1133.39	-15.07

OIL

	PRICE	CHANGE
NYMEX	78.0	-1.3
BRENT	72.3	0.4

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jan-10	99.750	0.003
Mar-10	99.715	0.005
Jun-10	99.580	0.020
Sep-10	99.295	0.035

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.190	O/N	0.190
2-Week	0.180	2-Week	0.190
1-Month	0.180	1-Month	0.190
3-Month	0.210	3-Month	0.210
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.190	10:00 AM	0.120
2-Week	0.190	3:00 PM	0.119
1-Month	0.190		
3-Month	0.210		

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	24.50	28.50	1.12	1.15
3-Year	30.75	34.75	1.75	1.76
5-Year	27.00	31.00	2.70	2.70
7-Year	11.25	15.25	3.28	3.27
10-Year	8.25	12.25	3.76	3.75
30-Year	-13.25	-9.25	4.45	4.42

FUTURES

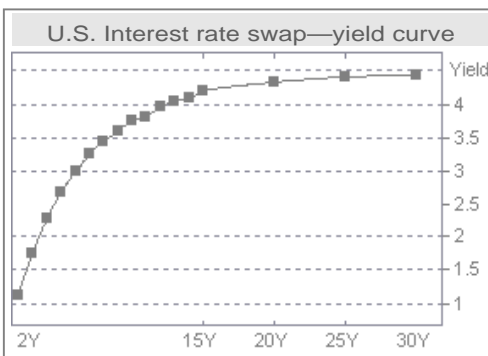
	PRICE	CHANGE
CBOT 5 yr	116.99	0.31
CBOT 10 yr	118.53	-0.39
CBOT 30 yr	118.88	-0.22

CURRENCIES

	BID	ASK
Euro	1.4361	1.4364
Sterling	1.6266	1.6270
JP Yen	90.89	90.92
Swiss Franc	1.0270	1.0274
Can Dollar	1.0294	1.0298
Mexico	12.6915	12.6976

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.120	0.140	-	-
1-Month	0.220	0.300	0.120	0.130
3-Month	0.240	0.450	0.134	0.144
6-Month	0.300	0.650	0.176	0.186
12-Month	0.800	1.200	0.354	0.364



FED FUNDS NYFRSM - 10AM

Open	0.1100	1m	0.2230
High	0.1500	3m	0.2550
Low	0.0800		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	0.875	12/01/2012	13.5 13	1.02
3-Year	1.375	09/01/2013	22.5 0	1.67
5-Year	2.875	09/02/2015	31 30	2.76
7-Year	5.125	18/10/2016	0 11	-
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	34.5 34	4.93

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	11 0	0.99
3-Year	1.75	22/02/2013	29.5 28	1.74
5-Year	2.625	20/11/2014	21 20	2.64
7-Year	5.25	15/09/2016	11.5 10.75	3.28
10-Year	3.75	27/03/2019	17.5 16.5	3.85
30-Year	6.25	15/07/2032	35.5 35	4.94

Active MBS 15YR

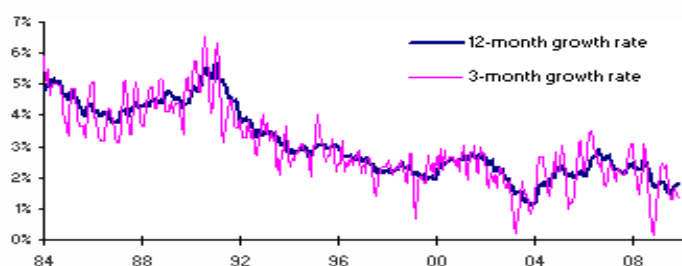
	CPN	BID	ASK	YIELD
FNMA	5.0	105.1000	105.1200	2.665
FHLMC	5.0	105.0900	105.1100	2.678

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.1600	105.1800	2.981
FHLMC	5.5	105.2000	105.2200	2.874
GNMA	5.5	105.2300	105.2500	3.557

Wrightson ICAPSM Chart of the Day

Annualized Growth in the Core CPI



TODAY'S TOP NEWS

U.S. inflation tame, chill lifts industrial output

U.S. consumer prices rose modestly last month, while a cold snap lifted industrial output, suggesting the economy was growing but not generating enough inflation to trouble the Fed.

While data showed the recovery from the worst downturn since the 1930s was gaining traction, stubbornly high unemployment kept consumers cautious about the economy's prospects this month.

The Reuters/University of Michigan Surveys of Consumers' preliminary index of sentiment for January inched up to 72.8, up from 72.5 in December. The reading was the highest in four months, but it fell short of market expectations.

The Labor Department said its CPI rose 0.1 percent last month from November as food and energy costs gained only modestly and housing-related expenses held steady.

The index rose 0.4 percent in November. December's increase was slower than market expectations for a 0.2 percent advance. In a separate report, the Fed said industrial production rose 0.6 percent in December as electric and gas utilities stepped up output in an unusually cold month.

'Crisis tax' threatens recovery for Europe banks

A 'crisis tax' proposed by the Obama administration would cut substantially into bank earnings across Europe and could sidetrack the sector's recovery, analysts and industry officials said.

While there is little clarity over the practical effect of the levy, many questioned its fairness given that the European banks it would affect did not get bailouts in the United States and lack many of the guarantees their U.S. competitors received.

Europe's three biggest economies were quick to distance themselves from the proposal. German Chancellor Angela Merkel said she favored a financial transaction tax, Britain said the problems in the United States were uniquely its own, and France said a tax on bonuses was the most efficient response for it.

No sooner does Washington propose a new tax than an army of experts tries to figure out ways to avoid it. Bankers, lawyers and consultants are already considering ways to avoid paying the fee. There may be some ways to avoid the charge, which would target the biggest financial institutions and would be based on the size of their liabilities. It would exclude deposit liabilities already guaranteed by the Federal Deposit Insurance Corp.

Geithner says was not involved on AIG disclosures

U.S. Treasury Secretary Timothy Geithner said on Thursday the bailout of insurer AIG was not meant to help out bank counterparties and that he had no role in the decision not to disclose payments made to banks.

In his first public comments since e-mails surfaced last week showing the NY Fed -- when Geithner was at the helm -- advised AIG not to disclose payments it made to banks after receiving a taxpayer bailout, he said the insurer was legally obligated to make the payments.

The e-mails, which showed lawyers for the NY Fed advising AIG not to disclose payments that gave 100 cents on the dollar to banks holding AIG credit default swaps, have touched off a firestorm of controversy.

Towns said the hearing would examine the collapse and federal rescue of AIG, in particular the compensation of AIG credit default swap counterparties.

In an interview with National Public Radio, Geithner said the aid for AIG was not intended to help out big banks that held its credit default swaps.

Global bond sales surge in race to beat higher rates

U.S. and European banks and companies are on track to sell a record amount of bonds in January as corporate treasurers scramble to borrow cheaply before expected rate hikes later this year.

Companies on both sides of the Atlantic have so far sold \$174 billion of bonds this month amid expectations the Federal Reserve and ECB will raise interest rates once there are clear signs of sustained economic recovery.

Unprecedented multitrillion-dollar cash injections by central banks to keep the financial system afloat during the crisis are already being withdrawn, with unpredictable effects on future borrowing costs for corporations and governments.

Banks and companies are fretting that cheap borrowing costs may become suddenly more expensive, especially if investors' appetite for corporate debt wanes.

U.S. companies ranging from PepsiCo Inc to Prudential have issued more than \$70 billion in bonds so far in January, after posting a near-record first week. European issuers sold 74 billion euros (\$104.5 billion) of bonds -- a rush of sales on track to surpass a record \$337 billion total in January 2007, by U.S. and European borrowers.

Fed's Lacker sees "reasonable" U.S. growth in 2010

The U.S. economy will expand at a decent clip this year as a recovery in housing and consumer spending offset troubles in commercial real estate, Richmond Fed President Jeffrey Lacker said.

Output expanded 2.2 percent in the third quarter following the deepest recession since the Great Depression.

Despite the return to growth, the labor market remains severely depressed, with unemployment hovering stubbornly near 10 percent.

Still, Lacker argued the rebound would be sustained.

Some analysts believe that, with lending markets still operating sluggishly, the increase in bank credit cannot be inflationary. But Lacker argued that timing would be key in orchestrating an appropriate exit, which he says should come when growth is "strong enough and well enough established."

In a separate report, the United States is in "half-speed economic recovery" that should see the private sector begin pick up the pace of hiring later this year, the American Bankers Association said.

Senate aims to vote on new Bernanke term this month

The U.S. Senate hopes to hold a vote on Federal Reserve Chairman Ben Bernanke's nomination for a second term before his current term ends on Jan. 31, a spokesman for Senate Majority Leader Harry Reid said.

The timing of a vote on Bernanke's nomination is significant because its unclear if he could continue on an acting basis as head of the U.S. central bank in the absence of a vote of approval by the full Senate.

Bernanke has been approved by the Senate Banking Committee, by a less than overwhelming margin of 16-7 as a number of senators voiced skepticism about his role in handling the current financial crisis, but he still faces a full Senate vote.

It is widely thought that Bernanke will get at least the minimum 60 Senate votes necessary to overcome any procedural hurdles to his confirmation.

Experts say the question whether he could act on a temporary basis as Fed chief after Jan. 31 without a Senate vote is an open one.



TODAY'S TOP NEWS

U.S. active mortgage modifications rose in Dec.

Mortgage modifications under the federal government's main housing rescue plan rose in December, and a slightly greater percentage of borrowers with delinquent home loans were helped, the U.S. Treasury said.

Active mortgage modifications in the HAMP rose to 853,696 at the end of December from 728,408 a month earlier, Treasury said in its latest monthly report on the program.

The number of both active trial and permanent modifications reached 25 percent of eligible mortgage delinquencies of 60 days or more among 23 mortgage servicers, up from about 24 percent at the end of November.

Permanent mortgage modifications -- for borrowers who have met all documentation requirements of trial payment reductions -- more than doubled to 66,465 by year-end from 31,382 at the end of November, the report showed.

Only about 8 percent of the active modifications have achieved permanent status, but the Treasury said servicers have offered permanent modifications to another 46,056 borrowers under trial modifications.

U.S. fed fund futures rise as rates seen on hold

U.S. federal fund futures rose for the second day in a row as investors continued to push back expectations for the timing of a Federal Reserve interest rate hike on the back of a benign inflation report.

Futures were showing an implied fed funds rate of about 0.39 percent in September, down from an implied rate of about 0.43 percent on Thursday. The September futures contract was very near the all-time highs reached in late November.

accommodative euro zone interest rates for some time to come. ECB President Jean-Claude Trichet indicated at a news conference after the rate decision that copious liquidity would remain for some time. But Friday was the first time investors could react via the London Interbank Offered Rate fixings. At the London fixings, the equivalent dollar rate was unchanged at 0.25125 percent for the sixth consecutive day, while three-month sterling funds cost 0.61000 percent for the fourth successive day.

China FX reserves, bank loans jump in 2009

China's foreign exchange reserves grew 23 percent in 2009 and bank lending for the year blew past government targets, keeping pressure on policymakers to take more action to cool the economy.

Chinese banks doled out 9.6 trillion yuan in new loans last year, data showed, far exceeding the government's minimum target of 5 trillion yuan and amounting to nearly 30 percent of 2008 gross domestic product.

China's stash of foreign currency reserves rose \$126.5 billion in the fourth quarter to \$2.4 trillion, the central bank said, in line with market expectations.

December's gain of \$10.3 billion was the smallest since February, when reserves actually shrank, though economists said valuation effects could have been the cause.

A broad measure of China's money supply slowed to annual growth of 27.7 percent in December compared with 29.7 percent in November, but analysts still expected policymakers to try to curb growth in the stock of money in the first half of 2010.

NY Fed manufacturing growth up in January

Manufacturing growth in New York state accelerated more rapidly than expected in January on surging new orders and shipments, while employment also improved, the New York Federal Reserve said.

The NY Fed's "Empire State" general business conditions index jumped to 15.92 in January from a revised 4.50 in December. Last month's reading was originally reported as 2.55. Economists expected a rise to 11.28, according to a Reuters poll, with forecasts ranging from 2.60 to 18.00.

Separately, New York-based independent forecasting group said its Weekly Leading Index climbed to an 82-week high of 132.1 for the week ended Jan. 8, from an upwardly revised 131.6 the previous week, which was originally reported as 131.5.

The index's annualized growth rate edged down to a 17-week low of 23.5 percent from 23.8 percent the previous week, which was also revised higher from 23.6 percent.

NEXT UP

IEA sees world oil use in 2010 highest since 2007

Global oil demand this year will reach the highest level since 2007, with rising consumption led by faster growth in emerging economies in Asia, the International Energy Agency said.

The Paris-based adviser to 28 industrialised economies trimmed by 20,000 barrels per day (bpd) its expectations for the rise in global oil demand this year. It now sees demand increasing by 1.4 million barrels per day in 2010.

Outright demand will be 86.3 million bpd, still lower than the 86.5 million bpd used in 2007, but 10,000 bpd higher than previously forecast. Consumption has fallen for the last two years.

Growth of 1 million bpd would take global oil demand in 2011 above the record level seen in 2007 before the economic crisis slashed consumption.

Fyfe said the cold winter hitting many members of the Organisation for Economic Cooperation and Development was likely to have a limited impact on oil demand.

The IEA said crude supply from the OPEC edged higher in December, rising by 75,000 bpd to 29.1 million bpd -- the same total the IEA estimates OPEC needs to produce to balance the market in 2010.

Bank of Canada seen holding rates, tweaking outlook

All of the 11 primary dealers surveyed forecast the BOC would stand pat on rates on Tuesday and most expect it to maintain its conditional commitment to keep the key overnight rate at its current 0.25 percent until the end of the second quarter. All see a rate hike at some point this year.

They put the median odds of the central bank intervening in currency markets over the next 12 months at 5 percent.

Economists expect upward tweaks to the growth and core inflation forecasts for the final quarter of 2009 and early 2010, but probably nothing substantial enough to knock the bank off its conditional commitment to hold rates steady through mid-year.

More dovish economists suspect the sluggish pace of recovery may lead the bank to estimate that inflation will reach its 2 percent target later than the third quarter of 2011, which was its forecast in October.

Overall, the bank will likely emphasize signs the global economy is improving but also that in the key economy affecting Canada's fate -- the United States -- serious risks remain. That uncertainty, combined with still considerable slack in the Canadian economy, means the recovery is not fully entrenched.



DEEP DIVE Commentary and Analysis

COLUMN-No majority on the CFTC to impose limits?

By John Kemp

Commodity Futures Trading Commission Chairman Gary Gensler will have to work hard to convince his fellow commissioners about the merits and effectiveness of position limits if yesterday's proposals are to stand any chance of being adopted.

At present, there may not be a majority on the Commission ready to vote in favor.

Yesterday's 4-1 vote was in fact simply a decision to publish a "Notice of Proposed Rulemaking" in the Federal Register and open them for a 90-period of public consultation before deciding whether to go ahead and implement them. The commissioners would need to vote again before adopting a regulation making them law.

The distinction is not academic. There is no guarantee all four commissioners who voted in favor of publication will vote in favor of adopting the rule once the comment period is over. At least two expressed strong reservations about the proposed rules and suggested they were voting in favor only to allow the public an opportunity to comment.

Gensler must convince at least one of those commissioners to overcome their reservations if the proposed limits are to become law.

COUNTING THE VOTES

The Commodity Futures Trading Commission is an independent regulatory agency of the federal government. The 1974 Commodity Futures Trading Commission Act vests rule-making authority in five commissioners, nominated by the president and confirmed by the Senate for overlapping five-year terms, of whom no more than three can come from the same political party.

The Commission currently consists of three Democrats (Gensler, Michael Dunn and Bart Chilton) and two Republicans (Jill Sommers and Scott O'Malia). In yesterday's vote, the three Democrats (Gensler, Dunn, Chilton) joined with one Republican (O'Malia) to vote in favor of releasing the proposed rule for consultation, while one Republican (Sommers) voted against.

Gensler and Chilton have both spoken in favor of using position limits to ensure market prices reflect a diversity of views and prevent excessive concentration; their votes in favor of speculative limits came as no surprise. Both commissioners have been open to the idea that investment money and large positions may have contributed to the sharp spike in oil and other commodity prices between 2004 and July 2008.

On the other side, Sommers' vote against limits was equally predictable. Before being sworn in as a commissioner in 2007, Sommers worked as policy director and head of government affairs for the International Swaps and Derivatives Association (ISDA) and prior to that on government affairs and lobbying for the Chicago Mercantile Exchange (CME). Both ISDA and the CME have long resisted more intrusive regulation of commodities and other financial markets.

"During her tenure with the CME, she had the opportunity to work closely with congressional staff drafting the Commodity Futures Modernization Act of 2000", according to the CFTC website. The modernization legislation, now much criticized, significantly deregulated commodity markets and banned the CFTC from trying to regulate over-the-counter (OTC) energy derivatives (the so-called "Enron loophole").

The crucial votes therefore come from Democrat Dunn and Republican O'Malia. Both released statements to accompany their votes. Neither sounded convinced the proposals as currently drafted would work.

DUNN: CIRCUMVENTION CONCERN

Dunn expressed a fear that unilateral efforts to impose position limits on the exchanges the CFTC regulates, without corresponding authority to impose limits on OTC transactions, and without similar limits being imposed by other regulators, would simply encourage trading to migrate to unregulated OTC and physical markets, or to exchanges in London and elsewhere. The result would be less transparency and less effective oversight.

Legislation before Congress would grant the CFTC authority to regulate OTC markets but has not been approved yet. If it passes, it would address one of Dunn's concerns.

But Britain's Financial Services Authority (FSA) appears determined to resist position limits in London's commodity markets. The FSA is reprising its previous role of leading the regulatory race to the bottom, maintaining an industry-friendly "light touch" system that makes it harder for U.S. regulators to enact more stringent requirements.

Without an international compact among regulators, it is hard to see how Dunn's concern about business migrating to less-regulated foreign boards of trade (FBOTs) can be addressed. At the moment there is little prospect of a coordinated approach.

Dunn made clear his vote to release the proposals for public consultation in no way bound him to vote in favor of adopting them: "My vote to release this proposed rule should in no way be construed as an agreement with the opinion expressed in the proposal or to the approach advocated in setting these limits. Despite my serious reservations, I have agreed to the release of this proposal so that the public-at-large has ample opportunity to voice their opinions and concerns on this topic".

In case anyone misunderstood, he repeated the point: "I would like to reiterate that my vote...should in no way be construed as an agreement of any kind to final rules setting federal speculative position limits on energy contracts".

O'MALIA: "A MISSED OPPORTUNITY"

Echoing Dunn, O'Malia questioned the effectiveness of imposing limits before the CFTC is given authority to regulate OTC markets: "As we work to increase transparency in these markets, the proposed position limits may undermine our efforts by allowing participants to turn to the less regulated and less transparent over-the-counter markets".

O'Malia also raised a host of other concerns, some appearing to argue the Commission's proposals did not go far enough, others implying they might be too restrictive:

* Noting the proposed rules would affect only about ten trading entities, O'Malia argued they "will not change the investing behaviour of passive index investors, so long as they remain under the limits or utilize over-the-counter markets over which the Commission has limited authority". O'Malia asked for more information on what impact index investors were having on the market and what if any action should be taken.

* The Commission's research had failed to link the rise in oil prices to excessive speculation, and position limits in the agricultural sector had failed to prevent a similar run up, so O'Malia questioned whether limits would be either necessary or effective.

* Swap dealers would lose their current "bona fide hedging exemption" under the proposals but instead gain a "limited risk management exemption". The limit would be capped at twice the normal volume. O'Malia suggested the Commission should consider an alternative, which would give an unlimited exemption but condition it on swap dealers' executing business for counterparties would themselves have benefited from a hedging exemption if they had done the deals directly.

In other words, the Commission would "look through" the swap



DEEP DIVE Commentary and Analysis

dealers' positions to regulate the positions of their customers. Swap dealers would have to provide the Commission with more data about their clients' business, which would help prevent customers circumventing the rules.

PLAYING CHICKEN WITH CONGRESS

In the coming months, Gensler will have to obtain support from either Dunn or O'Malia if he is to get the crucial third vote to impose yesterday's proposed position limits. At the moment, it is not clear if either commissioner will swallow their doubts.

On the other hand, senior legislators have indicated they expect the Commission to toughen regulation of the commodity markets. With an election approaching, and an angry electorate, lawmakers are in no mood to accommodate Wall Street firms. Commissioners Dunn and O'Malia, and the Commission itself, would be taking a huge political risk if after nine months of hearings they failed to impose any sort of limits at all.

-- John Kemp is a Reuters columnist. The views expressed are his own --

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar and Pronita Naidu 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:

<http://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:

http://thomsonreuters.com/products_services

Or send us a sales enquiry at: <http://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.

