

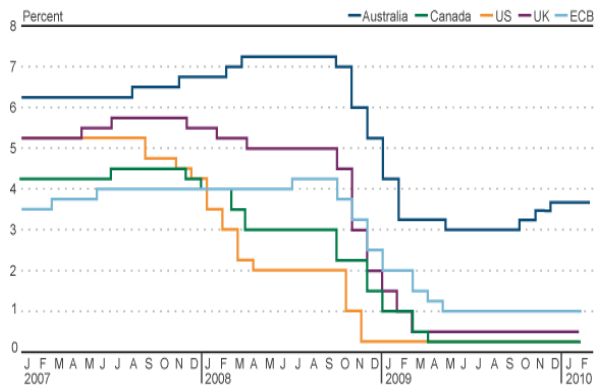
INSIDE DEBT

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Tuesday, February 2, 2010

CHART OF THE DAY

Australia central bank holds rates



Reserve Bank of Australia stunned markets by leaving rates unchanged at 3.75 percent, citing the impact of higher mortgage rates at home while noting tighter policy in China and concerns over sovereign debt abroad.

TODAY'S TOP NEWS

- Volcker to urge curbs on big banks' risky trading
- U.S. pending home sales edge up, vacancies rise
- Shadowed by deficits, Obama pitches economic plan
- U.S. House to vote on debt limit Thursday - Hoyer
- Greece says its problems are euro zone issue
- Australia c.bank skips a hike, in huge surprise
- G7 to discuss forex as part of broader talks-France

ECON WATCH

FOR WEDNESDAY FEBRUARY 3

ET	Indicators	Unit	Reuters	Prior
03:43	IT Markit/ADACI Svc. PMI	ind	52.9	53.9
03:48	FR Markit/CDAF Svc. PMI	ind	57.0	58.7
03:53	DE Markit Svc. PMI	ind	51.2	52.7
03:58	EZ Markit Svc. PMI	ind	52.3	53.6
03:58	EZ Markit-composite PMI	ind	53.6	54.2
04:28	GB CIPS/Markit Svc. PMI	ind	56.5	56.8
05:00	EZ Retail sales mm	%	0.4	-1.2
05:00	EZ Retail sales yy	%	-2.5	-4.0
07:00	US Mortgage market index	ind	-	513.9
07:00	US Mortgage refi. index	ind	-	2260.4
07:30	US Challenger layoffs	ind	-	45.094
08:15	US ADP Nat. Employment	k	-30	-84
10:00	US ISM N-Mfg PMI	ind	51.0	49.8
10:00	US ISM N-Mfg Bus Act	ind	53.8	53.2
18:50	JP Foreign Bond Investment	bln	-	663.8
18:50	JP Foreign invest JP stock	bln	-	230.1
-	GB Bank of England - 2 day Monetary policy meet			

MARKETS TODAY

TODAY'S TOP STORY: White House economic adviser Paul Volcker, whose star is rising in the Obama administration, will urge Congress to rein in risky investing by big banks, according to testimony obtained by Reuters. **For more please click here**

TREASURIES: U.S. Treasury prices were little changed before a re-funding announcement later this week and testimony from former Federal Reserve Chairman Paul Volcker on tighter bank rules.

- 30-yr bond prices rose 7/32 to yield 4.55 pct.
- 10-yr Treasury prices were up 5/32 yielding 3.64 pct.
- 5-yr notes rose 2/32 to yield 2.36 pct.
- 2-yr Treasury prices were unchanged to yield 0.86 pct.

FOREX: The U.S. dollar weakened as strong corporate earnings and improving economic data convinced investors to wade temporarily into riskier assets and currencies where returns are higher. Wall Street shares advanced while commodities gained, helping boost commodity-linked currencies such as the Canadian dollar, Norwegian crown and Brazilian real.

- The euro rose 0.26 pct to \$1.3964, recovering from a seven-month low hit on Monday.
- The dollar index slipped 0.31 pct to 79.0. The dollar was 0.24 pct lower against the yen at 90.37 yen.
- The Aussie dollar fell to a low of US\$0.8780 before paring losses to trade at US\$0.8866, down 0.52 pct.

CORPORATES: U.S. corporate bond spreads tightened tracking equities gains on better-than-expected earnings reports and positive economic data.

- The CDX.IG-13 index tightened to about 93 bps from 95 bps.
- S&P's changed its outlook on Dow Chemical to stable, from negative, removing near-term risks that the company could be downgraded into junk territory.
- Williams Partners launched \$3.5 bln of debt in a three-part sale.

STOCKS: U.S. stocks gained, helped by encouraging earnings, and as a rise in pending home sales helped calm fears of weakness in the housing market.

- Dow rose 1.09 pct to 10,296.85, S&P gained 1.29 pct to 1,103.28 and Nasdaq was up 0.89 pct to 2,190.06.
- Dow Jones U.S. home construction index rose 6.48 pct.
- UPS shares rose 0.39 pct to \$58.62. D.R. Horton stock rose 10.92 pct.
- Amazon.com's shares fell 0.63 pct to \$118.12.
- Cummins' stock gained 8.84 pct to \$51.09 and Emerson's shares added 10.15 pct to \$46.79. The S&P industrial sector index rose 1.90 pct.

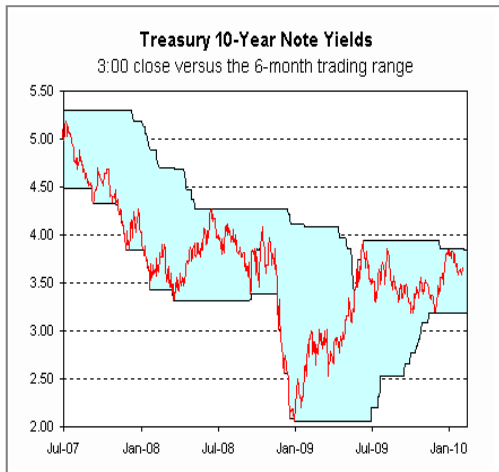
C & E: Oil prices rose, gaining for the second session on optimism about economic recovery and weakness in the dollar.

- U.S. crude prices rose 3.9 pct to \$77.33 per barrel.
- Gold was up 0.77 pct to \$1,113.8 an ounce.
- Reuters-Jefferies index rose 1.94 pct to 273.19.

- 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	-0.011
3-Mo Bill	0.100	0.085	0.101	0.001
6-Mo Bill	0.165	0.160	0.167	0.002
1-Year	0.290	0.285	0.295	-0.007
2-Year	100.031	100.063	0.860	0.008
3-Year	99.961	99.992	1.389	0.016
5-Year	99.461	99.508	2.365	0.063
7-Year	100.125	100.172	3.105	0.125
10-Year	97.828	97.875	3.641	0.117
30-Year	97.094	97.156	4.554	0.172

EQUITIES

	INDEX	CHANGE
DJIA	10280.15	94.62
NASDAQ	2186.63	15.43
S&P 500	1100.87	11.68

OIL

	PRICE	CHANGE
NYMEX	77.2	2.8
BRENT	77.6	0.5

EURODOLLAR FUTURES

	CLOSE	CHANGE
Feb-10	99.738	0.003
Mar-10	99.715	0.005
Jun-10	99.595	0.000
Sep-10	99.335	0.005

REPURCHASE AGREEMENTS

G/C	MORTGAGE REPOS	
O/N	0.210	O/N 0.200
2-Week	0.200	2-Week 0.200
1-Month	0.210	1-Month 0.210
3-Month	0.220	3-Month 0.250
AGENCY REPOS		i-REPO SM INDEX
O/N	0.210	10:00 AM 0.150
2-Week	0.210	3:00 PM 0.139
1-Month	0.210	
3-Month	0.220	

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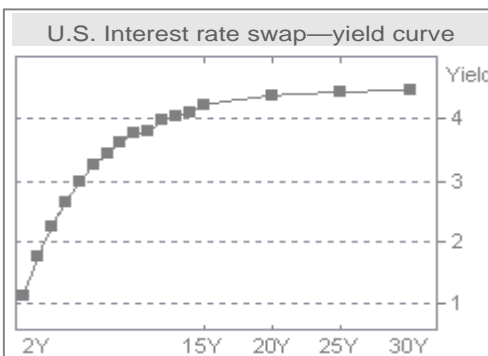
	SPREAD		RATE	
2-Year	26.75	30.75	1.12	1.14
3-Year	34.50	38.50	1.73	1.74
5-Year	30.00	34.00	2.66	2.66
7-Year	14.00	18.00	3.24	3.24
10-Year	10.25	14.25	3.74	3.72
30-Year	-12.25	-8.25	4.43	4.41

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.57	-0.16
CBOT 10 yr	117.08	-0.20
CBOT 30 yr	117.22	-0.16

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.130	0.160	-	-
1-Month	0.180	0.280	0.129	0.139
3-Month	0.240	0.400	0.146	0.156
6-Month	0.250	0.450	0.172	0.182
12-Month	0.650	1.000	0.332	0.342



CURRENCIES

	BID	ASK
Euro	1.3961	1.3964
Sterling	1.5971	1.5976
JP Yen	90.36	90.38
Swiss Franc	1.0549	1.0552
Can Dollar	1.0584	1.0590
Mexico	12.8679	12.8736

FED FUNDS NYFRSM - 10AM

Open	0.1400	1m	0.2188
High	0.1800	3m	0.2494
Low	0.1000		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.875	12/01/2012	13.5	12.5	0.99
3-Year	1.375	09/01/2013	24	22.5	1.62
5-Year	2.875	09/02/2015	33	32.5	2.7
7-Year	5.125	18/10/2016	24.5	23	3.35
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	40	38	4.97

ACTIVE FREDDIE MAC AGENCIES

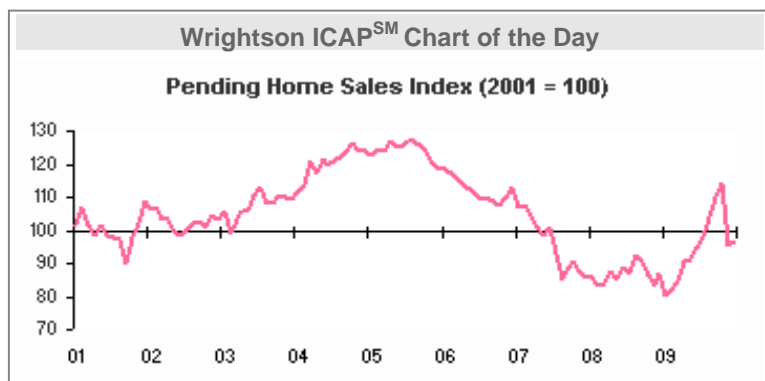
TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	10	9	0.96
3-Year	1.75	22/02/2013	30.5	29.5	1.69
5-Year	2.625	20/11/2014	21	20	2.58
7-Year	5.25	15/09/2016	18.5	17.75	3.29
10-Year	3.75	27/03/2019	27	26.5	3.92
30-Year	6.25	15/07/2032	39.5	39	4.95

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	105.2010	105.2210	2.539
FHLMC	5.0	105.2010	105.2210	2.539

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.3010	106.0010	2.800
FHLMC	5.5	106.0210	106.0410	2.689
GNMA	5.5	105.2820	105.3020	3.495



TODAY'S TOP NEWS

Volcker to urge curbs on big banks' risky trading

White House economic adviser Paul Volcker, whose star is rising in the Obama administration, will urge Congress to rein in risky investing by big banks, according to testimony obtained by Reuters.

President Barack Obama stunned financial markets in late January by calling for new limits on banks' ability to do "proprietary trading," or buying and selling of investments for their own accounts unrelated to customers.

Since then analysts have speculated widely about exactly what sort of activities would be off-limits if Congress adds the proposal, formulated by Volcker, to a sweeping package of financial regulatory changes still being debated.

Some see the boundary between proprietary trading and market-making that helps customers as blurred, but Volcker will tell the Senate Banking Committee that there is little reason for uncertainty about what he is proposing.

In a separate report, the Obama administration is prepared to impose fees on financial firms for as long as necessary to ensure that every cent spent on bailing out banks is repaid, U.S. Treasury Secretary Timothy Geithner said.

A proposed Financial Crisis Responsibility fee that is projected to raise \$90 billion over 10 years could be extended if the cost of the bailout exceeds that amount, Geithner said in testimony before the Senate Finance Committee.

Shadowed by deficits, Obama pitches economic plan

President Barack Obama warned that high budget deficits could hurt U.S. economic recovery now as he sought to reassure Americans that his latest budget would help create jobs and tackle surging debt levels.

A day after unveiling a \$3.8 trillion spending plan for the 2011 fiscal year beginning on Oct 1, Obama took his policy agenda on the road, highlighting his program to create jobs and calling for stalled healthcare reform legislation to be passed this year.

In remarks tinged with criticism of opposition Republicans, Obama, a Democrat, said both political parties should join forces to bring down the deficit.

Obama proposed using \$30 billion in funds from the TARP bank bailout scheme for use as a small business lending fund to spur job growth in a critical sector of the U.S. economy.

Obama is seeking \$100 billion in the current 2010 fiscal year for a package of business tax credits and other steps to create jobs and boost struggling middle-class families.

Greece says its problems are euro zone issue

Greece warned its fiscal troubles were part of a wider euro zone problem, with Spain and Portugal next in line, and said a joint euro bond could be one way out of the crisis.

Greece's ballooning deficit and debt have reverberated across the euro group, hitting the euro currency and bond prices and prompting speculation of a bailout plan, which European Union officials have denied.

Prime Minister George Papandreou said Greece was the victim of an unprecedented speculative attack, which has pushed how much it costs it to borrow to euro-era record highs.

The EU will unveil its recommendations to Greece on its austerity plan on Wednesday.

Papaconstantinou said he was confident it would give Greece the green light.

The spread between Greek and German 10-year bonds widened to 344 basis points, having tightened to 327 basis points earlier from last week's record of 405.

U.S. pending home sales edge up, vacancies rise

Pending sales of existing U.S. homes edged up as expected in December, while home vacancies rose in the fourth quarter, pointing to a slow and painful recovery for the troubled housing market.

Pending Home Sales Index rose 1.0 percent to 96.6 after falling sharply in November when a boost from the initial tax credit for first-time buyers ebbed.

The gain in the index, which leads sales of previously owned homes by one to two months, was in line with market expectations. Compared to December 2008, the index was up 10.9 percent.

The small monthly rise in the pending home sales index suggests existing home sales were flat to weaker in January, analysts said. Existing home sales dropped to their slowest sales pace in four months in December.

Separately, the percentage of homes standing empty rose to 2.7 percent in the final three months of 2009 from 2.6 percent in the third quarter, the Commerce Department said. The rate has risen for the last two quarters.

U.S. House to vote on debt limit Thursday - Hoyer

The U.S. House of Representatives on Thursday will vote on legislation that would raise the debt limit from its current \$12.4 trillion level, House Majority Leader Steny Hoyer said.

The legislation, which passed the Senate last week, would raise the government's borrowing authority to \$14.3 trillion and require Congress to find ways to pay for most new spending programs.

The Treasury Department is expected within weeks to exceed the current limit for borrowing set in December.

Failure to raise the limit would roil financial markets, but lawmakers are never eager to sign off on a measure that allows the government to dig itself deeper into debt.

The national debt more than doubled over the past decade as Republican President George W. Bush cut taxes while pursuing wars in Iraq and Afghanistan and setting up an expensive prescription-drug benefit.

Australia c.bank skips a hike, in huge surprise

Australia's central bank shocked markets by skipping an interest rate rise, citing the impact of higher mortgage rates at home while noting tighter policy in China and concerns over sovereign debt abroad.

The RBA's decision to keep its key cash rate at 3.75 percent confounded expectations of a rise to 4.0 percent and hammered the local currency as investors slashed estimates for how high rates might go this year.

Yet, RBA Governor Glenn Stevens also emphasized that, should the domestic economy continue to improve as expected, then

further hikes would likely be needed over time.

Investors now doubted if the RBA would move in March either, with futures pricing in around 35 percent chance of a rise.

Expectations for the next 12 months were pared back to show around 80 basis points of tightening, compared to 105 basis points before Tuesday's announcement.

"It implies that the RBA feels it has done enough for the time being," said Stephen Roberts, a senior economist at Nomura.

"You'd think there would be a pause for a few months before lifting to 4 percent by mid-year. It's going to be a slow process getting the cash rate higher."



TODAY'S TOP NEWS

G7 to discuss forex as part of broader talks-France

Group of Seven finance ministers will touch on foreign exchange issues as part of a broader economic discussion and may bring up the Chinese currency among other matters including financial reforms.

Speaking to reporters before G7 nations gather in the Arctic Canadian town of Iqaluit this weekend, a French official said currency issues would not be discussed explicitly, but within the context of talks on sustainable and balanced growth.

In a briefing in Tokyo, Japanese Finance Minister Naoto Kan said ministers could bring up the Chinese yuan, which many countries have said is undervalued, giving China an unfair export advantage and hindering more balanced economic growth.

Tokyo believes that a more flexible yuan is desirable but has been more reserved than its G7 peers in its criticism of China's currency system on the view that pressuring Beijing won't work.

Canada has said the G7 may discuss the need for a more flexible yuan, among other topics, at the meeting that it will host on Friday and Saturday.

Euro zone Dec PPI up m/m, price pressures seen weak

Euro zone producer prices edged up in December against the previous month and registered a smaller-than-expected decline against a year earlier, data showed, but inflationary pressures remained weak. Prices at factory gates rose 0.1 percent month-on-month and fell 2.9 percent year-on-year, the EU's statistics office said. Economists polled by Reuters had expected no change in the PPI month-on-month and a fall of 3.0 percent from a year earlier. In November, prices rose by a revised 0.2 percent month-on-month and dipped 4.4 percent year-on-year.

Prices of intermediate, capital as well as durable and non-durable consumer goods rose in December by 0.1 percent on the month. Only energy prices fell, by 0.2 percent.

Separately, German retail sales edged up in December after falling more than twice as far in November. Real retail sales rose 0.8 percent month-on-month but fell 2.5 percent on an annual basis, preliminary data from the Federal Statistics Office showed.

Moody's sees junk risk in \$1.4 trln refinance wave

U.S. junk-rated borrowers, holding the bulk of \$1.355 trillion in corporate debt maturing in the next five years, may face refinancing challenges if the U.S. economy stumbles, Moody's Investors Service said in a report.

Most of the debt stems from unprecedented leveraged buyout activity leading up to 2007, before the global credit crisis took hold, the rating company said, noting mega deals from TXU, HCA, First Data, Univision and Freescale.

While debt coming due in the next two years won't pose a great risk, the biggest chunk of speculative-rated debt, some \$700 billion worth, comes due between 2012 and 2014.

About \$550 billion of investment-grade corporate bonds are maturing over the next five years, compared to \$805 billion for speculative issuers, including \$555 billion in bank loans and revolving lines and \$250 billion of bonds. High-yield default rates peaked at 13.8 percent in November 2009 and are expected to fall to 3.6 percent by December 2010, the report said.

UK's 2012 gilt sale draws highest demand in 8 years

Britain's first auction since the Bank of England exhausted its 200 billion pound quantitative easing program drew the highest bid-to-cover ratio in 8 years, more than three times the 3.75 billion pounds of bonds on offer.

The Debt Management Office said the 3.12 cover at the sale of the 5.25 percent 2012 paper on Tuesday was the highest for an auction of conventional gilts since March 2002.

Strategists had thought the sale would fare well as the bond was cheap compared with neighboring securities on the curve, but the result surpassed expectations.

Uncertainty about how a future government will tackle Britain's heavy debt burden, and concerns that the end of the BoE's asset purchase scheme -- expected to be announced this week -- will leave an unfillable gap in demand for gilts, have weighed on prices in recent weeks.

Today's auction suggested that is not a widely-held view, although analysts warn that yields may need to go higher in the coming months to attract investors.

NEXT UP

OPEC unlikely to alter output in March-sec gen

OPEC oil ministers are unlikely to change output policy at their March meeting if the oil price remains around its current level of \$75 a barrel, the group's secretary general.

The comments follow similar remarks from OPEC member Qatar last week and suggest the producer group expects to remain cautious, balancing signs of economic recovery with ample oil supply and higher than average inventories.

OPEC, whose 12 members pump more than a third of the world's oil, meets to review policy in Vienna on March 17.

Oil prices, while at "reluctantly acceptable" levels, are being held up not by fundamentals of supply and demand, but by outside factors such as the weak dollar and speculation, Badri said.

He expects oil inventories to probably rise in the first and second quarters. Stocks are currently equal to 59 days of demand in the industrialized world, an above-average level.

Badri said he would like to see OPEC's adherence with its output targets return to 80 percent, the level reached in early 2009. In January, members completed just 55 percent of their reductions, according to a Reuters survey.

German retail sales, ind. orders and output to rise

German manufacturing industry is seen slowly picking up as global demand strengthens and drives exports.

Ifo economist Klaus Abberger said this week the outlook for German exports had significantly improved and was supported by the current euro exchange rate.

Manufacturing PMI is seen rising to 53.4 in January from 52.7 in December, with readings above 50 denoting expansion.

Nonetheless unemployment, which rose in January by 6,000 on the month according to data released this week, is expected to drag on the final manufacturing PMI.

After a sharp upwards revision in industry orders for November due to orders booked in the automobile industry, economists expect a more moderate rise of 0.2 percent for December.

"(The revision) reinforced the impression of a positive trend that has even reached the engineering sector and is therefore across-the-board," said economist Uwe Duerkop at Landesbank Berlin.

Industrial output is expected to have risen 0.5 percent in December versus 0.7 percent in November.



DEEP DIVE Commentary and Analysis

ANALYSIS-Emerging corporates eye capital market window

By Carolyn Cohn

Emerging market corporate issuers may return to international bond markets in 2010 after two years on the sidelines, with the success of sovereign bond sales paving the way for at least \$100 billion in new company issues.

Investors deserted one of the riskiest asset classes -- lower-grade corporate borrowers from lower-grade emerging markets -- as the global credit crisis took hold two years ago. Only a handful of Eurobond issues from the riskier end of the corporate credit scale managed to find a home over that period.

Despite market wobbles this year over sovereign risk, U.S. banking laws and Chinese monetary policy, risk appetite has recovered enough to narrow the differential between emerging bond spreads and U.S. Treasuries, allowing a bigger variety of borrowers to issue, analysts and fund managers say.

Emerging sovereign debt spreads are trading at 300 basis points over U.S. Treasuries, around a third of levels seen in the wake of Lehman Brothers' collapse in 2008. Investment-grade emerging economies like Russia and Brazil have spreads closer to 200 basis points.

Ultra low rates in major economies have sent investors worldwide once more on a hunt for yield, which emerging market corporate borrowers can easily provide while scooping up funds for investment at what for them are very cheap rates.

Emerging currencies have also stabilized after 2008's often large downward corrections, reducing the risk for companies borrowing in "hard" currencies like the dollar, euro and yen.

"The first deals that reopen the markets are the big sovereigns, then the quasi-sovereigns like Gazprom, then as the market rebounds there will be some of the better corporates with higher ratings and less leverage," said Paul Crean, partner at hedge fund Finisterre Capital.

"Once the supply of sovereign issuance from the beginning of 2010 has cleared, we will start to see corporate debt."

QUASI-SOVEREIGNS

Around \$14 billion has been issued in sovereign emerging debt, from Poland to Vietnam, in the first few weeks of the year. In several cases, borrowers were able to issue more debt than investors initially anticipated, due to strong demand.

Russian oil producer TNK-BP launched a \$1 billion Eurobond last week that is expected to be several times oversubscribed, while Mexican state oil company Pemex and Industrial Bank of Korea are among other borrowers already this year.

David Spigel, global head of emerging markets at ING, says total emerging market international debt issuance this year could top \$200 billion. JPMorgan forecasts a similar amount and both say corporate issuers will increase their share of the pie.

Investors do express concern about the sovereign default risk with "quasi-sovereign" borrowers -- evident in crises in Dubai and Ukraine -- and say any slip back towards global recession could damage enthusiasm for lower-rated corporates.

"I do not believe in quasi-sovereign support," Polina Kurdyavko, emerging market fund manager at BlueBay Asset Management told a bond forum last week.

"Every such credit should be looked at on a stand-alone basis unless it is guaranteed by the government."

But so far, investor flows data shows undiminished enthusiasm for emerging market debt and JPMorgan says less than 50 percent of the roughly \$128 billion in new corporate issues it expects this year will be quasi-sovereign.

Croatian firm Agrokor, for example, managed to float a 400 million euro bond at the end of November, in markets unnerved by troubled corporate Dubai World's announcement of a six-month

standstill on its debt payments.

BENCHMARK DEALS

Several sovereigns, including Russia and Nigeria, have said they will make rare or even debut issues in the Eurobond markets this year. These may set a benchmark for corporate borrowers to follow.

"There are a lot of Russian corporates waiting in the wings for the Russian Eurobond," said one investor.

Russia is expected to issue \$3-5 billion in Eurobonds in the next few months, its first foray into the Eurobond market in nearly 12 years, and energy firm Gazprom will be the first to follow, investors say.

Russia and former Soviet Union borrowers were increasingly active in the Eurobond markets before the global crisis, but debt refinancing problems, particularly with the currency risk involved in international deals, closed off the market to them.

Commerzbank also sees corporate issuance growing compared with previous years, but is a little more cautious, expecting \$160-\$180 billion of new debt this year, compared with \$220 billion in 2009.

"We expect emerging market sovereigns to continue to crowd out emerging market corporates as a result of a slow removal of fiscal and monetary stimuli," the bank said in a client note.

"We expect only a limited recovery of new issuance from CIS as the domestic corporate debt market has emerged as a venue of choice for Russian borrowers."

ANALYSIS-Race for title of top commodity 2010 wide open

By Pratima Desai and Veronica Brown

A clear consensus about which commodity will top the performance charts this year is proving hard to call because of doubts about global economic prospects.

But fund managers have a list of commodities, such as platinum, they favor if demand accelerates as many expect.

Those tipped for out performance are most strategically placed to benefit from an upturn in the industrial cycle, as manufacturing and construction resume some semblance of normality after crisis and stagnation.

Copper for instance, used in power and construction, is a popular play on infrastructure.

But the outlook is cloudy because of doubts about the strength and durability of recovery in the world outside China, which powered ahead last year, growing by 10.7 percent year-on-year in the last quarter of 2009.

"A major determinant for future commodity market strength is the shape of growth in developed markets," said Saleem Siddiqi, a partner at Tapestry Asset Management. "That is the big question ... the picture is cloudy."

China is one of the world's largest consumers of natural resources such as copper, oil, coal and grains.

Its demand has ballooned in league with long-term industrialization, while a fast growing middle class is also starting to demand a protein-rich diet -- more meat.

Attempts to price in robust demand growth in China and other emerging markets last year was a major factor behind the rally, which was also predicated on relief that the world, albeit for now, had avoided a depression to match that seen in the 1930s.

China accounts for a significant proportion of global commodity consumption -- more than 30 percent of copper and about 10 percent of crude oil. But top economies like the United States, Japan and Germany are also crucial in the equation.

"(It's) dependent on what your macro view is, whether you believe the U.S. and other OECD countries are recovering," said John Wong, a portfolio manager at New City Investment Man-



DEEP DIVE Commentary and Analysis

agers.

"I favor a double dip but ... I need more data points. In a bullish scenario, you would pick something like copper, platinum, oil because of tight demand/supply dynamics."

PLATINUM - A BEACON?

Platinum, used to make autocatalysts to clean emissions primarily for diesel engines, is a commodity in the spotlight because of strong industrial and investment demand.

"With 70 percent of output coming from South Africa and problems with power -- if there's any disruption then you will see a price hike," said Patrick Armstrong, managing partner of London-based Armstrong Investment Managers.

Adding to the metal's industrial fundamentals, the appetite for investment has been demonstrated clearly via the recent launch of the first U.S. platinum and palladium exchange-traded funds earlier this year, owned by London-based ETF Securities.

Holdings in the platinum fund surged more than 30,000 ounces on Friday to about 244,940 ounces.

Platinum prices are at around \$1,545 an ounce, a gain of about 60 percent since the start of 2009.

Oil at around \$75 a barrel, up more than 60 percent since January 2009, is potentially lucrative. But at the moment it is unlikely to make much money for investors because of high inventories

and the negative roll yield.

The roll yield is the difference between the money received for selling a maturing oil futures contract and the money paid for another contract with a longer maturity.

Copper comes into play as governments around the world ramp up spending to bring transport, health, education and water systems into the 21st century.

But other base metals such as stainless steel ingredient nickel, battery material lead and tin could yield more.

"They have the least expansion in terms of supply and ... I think that's where people have destocked the most," said Lars Steffensen, a fund manager at Ebulio Capital Management.

Some expect agriculture to be an important source of return overall. However, relative value plays in grains could be better bets for investors looking for returns at a deeper level.

"Examples would be acreage shifts between corn versus soybeans or wheat versus cotton," said Omar Kodmani, senior executive officer at Permal Investment Management Services.

Grains also feed into livestock and higher meat consumption because of growing affluence, even if growth is fragile.

"Even if we only get a mild recovery that would lead to higher meat consumption," said Alex Allen, CIO at Eddington Asset Management. "Cotton ... just some growth should lead to higher cotton prices."

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(Compiled by Anil Kumar and Rahul Karunakar 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

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