

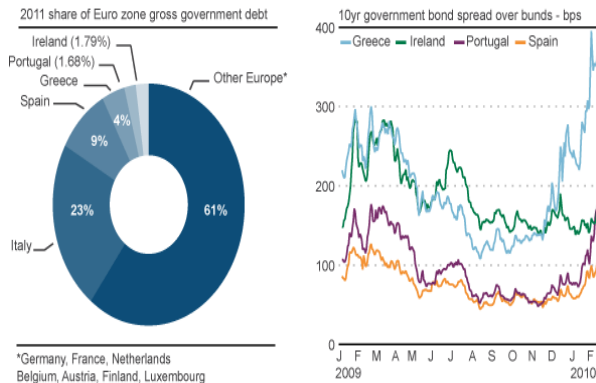
INSIDE DEBT

PRODUCED BY REUTERS IN PARTNERSHIP WITH ICAP

Thursday, February 11, 2010

CHART OF THE DAY

Euro zone government debt & bond spreads



Peripheral bond yield spreads tightened against Bunds after the EU President said that a deal to help Greece had been agreed, but analysts said hopes of immediate detailed plans were optimistic.

TODAY'S TOP NEWS

- EU pledges to support Greece, but offers no details
- U.S. jobless claims drop; W. House sees job growth
- U.S. Senate lawmakers unveil long-awaited jobs bill
- Talks resume in U.S. Senate on financial reform
- U.S. \$16 bln 30-yr auction draws soft demand
- ECB mulling return to tender for long-term loans
- Morgan Stanley sued by shareholders over pay
- IEA revises up global oil demand growth for 2010
- UK home repossessions fall in Q4, outlook improves

ECON WATCH FOR FRIDAY FEBRUARY 12

ET	Indicators	Unit	Reuters	Prior
02:00	DE GDP flash qq	%	0.2	0.7
02:00	DE GDP flash yy	%	-2.2	-4.7
02:45	FR GDP prelim qq	%	0.5	0.3
04:00	IT GDP prelim qq Q4	%	0.1	0.6
04:00	IT GDP prelim yy Q4	%	-2.5	-4.6
05:00	EZ GDP flash est. qq	%	0.3	0.4
05:00	EZ GDP flash est. yy	%	-1.9	-4.0
05:00	EZ Industrial prod mm	%	0.2	1.0
05:00	EZ Industrial prod yy	%	-1.5	-7.1
08:30	US Retail sales	%	0.3	-0.3
08:30	US Retail sales ex-autos	%	0.5	-0.2
09:55	US U.Mich sentiment	ind	75.0	74.4
09:55	US U.Mich conditions	ind	81.4	81.1
09:55	US U.Mich expectations	ind	70.9	70.1
10:00	US Business Inventories	%	0.2	0.4
	JP Market Holiday - National Foundation Day			

MARKETS TODAY

TODAY'S TOP STORY: European leaders sought to prop up Greece with words of support at a summit but failed to offer concrete proposals to help the country tackle its debt crisis, prompting a negative market reaction. [For more please click here](#)

TREASURIES: U.S. Treasury debt prices fell as investors turned to riskier assets after a Greek bailout was announced and the U.S. government closed out a week of poor bond sales.

- The government sold \$16 billion of 30-year bonds at a yield of 4.720 pct, the highest since Aug. 9, 2007, and above expectations.
- 30-yr bond prices fell 21/32 to yield 4.68 pct.
- 10-yr notes yielded 3.73 pct from a high yield of 3.69 pct in the auction on Wednesday.
- 5-yr Treasury prices were down 1/32 to yield 2.37 pct.
- 2-yr note prices rose 1/32 to yield 0.87 pct.

FOREX: The euro fell against the dollar as investors were disappointed with the lack of details regarding a European Union deal to support heavily-indebted Greece.

- Euro shed 0.34 pct at \$1.3684, bouncing off a session low at \$1.3596.
- The euro fell 0.58 pct to 122.76 yen and lost 1.01 pct to 87.16 pence.
- Dollar was down 0.21 pct at 89.72 yen.
- The Australian dollar rose 1.75 pct to \$0.8906.
- Dollar index was little changed at 80.016.

CORPORATES: Financial sector bonds weakened on concerns over banks' exposure to sovereign debt risk and potential loan losses. Overall corporate bond spreads were little changed.

- The CDX.IG-13 index tightened by about 3 bps to 98 bps.
- BofA's 7.625 pct notes yield spread widened about 35 bps to 238 bps.
- S&P said it expects credit spreads to resume a narrowing trend, especially for nonfinancial companies.
- CDS insuring the Times' debt tightened to 238.5 bps from 248 bps.
- Life Technologies Corp sold \$1.5 bln of notes in a three-part sale.

STOCKS: U.S. stocks rose as appetite for riskier assets returned after a pledge by European leaders to support debt-ridden Greece eased fears of a possible sovereign default.

- Dow rose 1.06 pct to 10,144.57, S&P gained 0.97 pct to 1,078.52 and Nasdaq was up 1.38 pct to 2,177.41.
- Shares of 3M Co shot up 2.16 pct to \$80.32.
- Caterpillar Inc rose 5.64 pct to \$56.15.
- Activision Blizzard Inc jumped 9.61 pct to \$11.07.
- S&P technology index gained 1.14 pct, S&P energy index rose 1.59 pct.

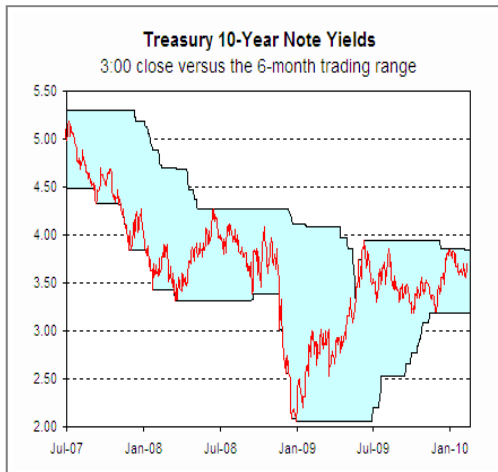
C & E: Oil prices rose slightly, inching above \$75 a barrel, despite a stronger dollar, in seesaw trade inspired by gains on Wall Street due to positive job numbers and news of a rescue plan for Greece.

- U.S. crude prices rose 0.79 pct to \$75.11.
- Gold jumped 2.06 pct to \$1,093.65 an ounce.
- Reuters-Jefferies index was up 1.31 pct at 269.71.

- 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	0.060	0.025	0.061	-0.007
3-Mo Bill	0.100	0.090	0.101	-0.002
6-Mo Bill	0.175	0.165	0.178	-0.003
1-Year	0.355	0.345	0.361	-0.003
2-Year	99.984	100.016	0.884	0.000
3-Year	99.805	99.836	1.442	0.000
5-Year	99.406	99.445	2.378	-0.043
7-Year	99.891	99.938	3.142	-0.102
10-Year	99.109	99.172	3.733	-0.246
30-Year	95.141	95.219	4.679	-0.609

EQUITIES

	INDEX	CHANGE
DJIA	10144.87	106.49
NASDAQ	2176.00	28.12
S&P 500	1078.16	10.03

OIL

	PRICE	CHANGE
NYMEX	75.2	0.7
BRENT	73.1	0.5

EURODOLLAR FUTURES

	CLOSE	CHANGE
Feb-10	99.748	0.003
Mar-10	99.715	0.005
Jun-10	99.570	0.005
Sep-10	99.310	0.005

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.170	O/N	0.170
2-Week	0.200	2-Week	0.200
1-Month	0.210	1-Month	0.210
3-Month	0.220	3-Month	0.240
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.210	10:00 AM	0.110
2-Week	0.190	3:00 PM	0.113
1-Month	0.210		
3-Month	0.230		

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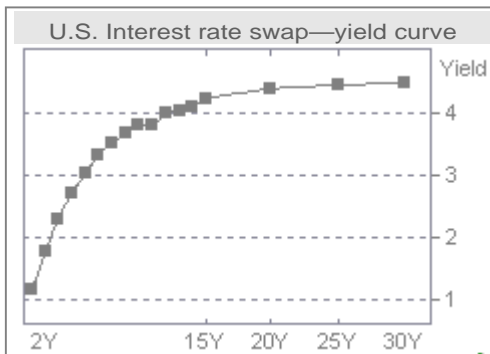
	SPREAD		RATE	
2-Year	27.00	31.00	1.15	1.17
3-Year	32.75	36.75	1.76	1.78
5-Year	32.00	36.00	2.69	2.70
7-Year	15.25	19.25	3.29	3.29
10-Year	8.00	12.00	3.81	3.80
30-Year	-16.00	-12.00	4.52	4.49

FUTURES

	PRICE	CHANGE
CBOT 5 yr	116.41	-0.02
CBOT 10 yr	117.83	-0.08
CBOT 30 yr	117.38	-0.19

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.130	0.160	-	-
1-Month	0.180	0.280	0.128	0.138
3-Month	0.220	0.400	0.145	0.155
6-Month	0.250	0.450	0.178	0.188
12-Month	0.650	1.000	0.344	0.354



CURRENCIES

	BID	ASK
Euro	1.3684	1.3686
Sterling	1.5693	1.5698
JP Yen	89.71	89.74
Swiss Franc	1.0708	1.0710
Can Dollar	1.0497	1.0502
Mexico	12.9826	12.9882

FED FUNDS NYFRSM - 10AM

Open	0.1300	1m	0.2175
High	0.1300	3m	0.2469
Low	0.1300		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	0.875	12/01/2012	11.5 11	1.01
3-Year	1.375	09/01/2013	17.5 0	1.63
5-Year	2.875	09/02/2015	33.5 33	2.72
7-Year	5.125	18/10/2016	20 19.25	3.34
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	34.75 34.25	5.03

ACTIVE FREDDIE MAC AGENCIES

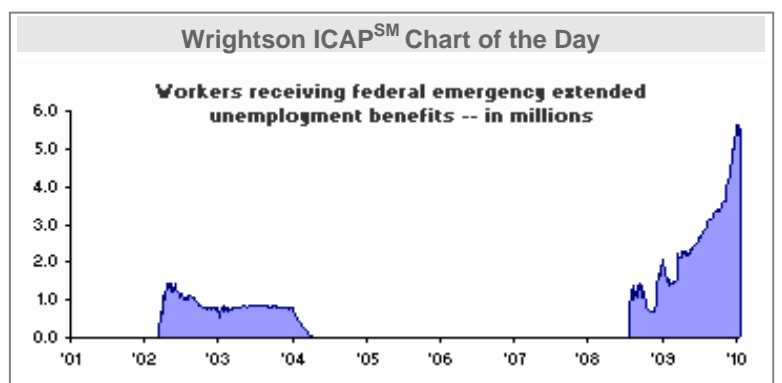
TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	8 0	0.98
3-Year	1.75	22/02/2013	22.5 0	1.68
5-Year	2.625	20/11/2014	20 19.5	2.6
7-Year	5.25	15/09/2016	16.5 15.75	3.31
10-Year	3.75	27/03/2019	25 24	3.98
30-Year	6.25	15/07/2032	40.75 40	5.09

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	105.1360	105.1560	2.619
FHLMC	5.0	105.1160	105.1360	2.643

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.1230	105.1430	3.006
FHLMC	5.5	105.1820	105.2020	2.881
GNMA	5.5	105.2450	105.2650	3.531



TODAY'S TOP NEWS

EU pledges to support Greece, but offers no details

European leaders sought to prop up Greece with words of support at a summit but failed to offer concrete proposals to help the country tackle its debt crisis, prompting a negative market reaction.

EU President Herman Van Rompuy told a news conference after the summit that Europe was sending Greece a "clear message of solidarity", a line echoed by Germany and France.

A deal to provide financial aid to Greece move to stave off a broader crisis would be unprecedented, riding roughshod through rules forbidding a bailout.

But the rhetorical promises of support were not enough to satisfy financial markets, which are looking for specifics on how Athens may be helped out of its debt and deficit spiral. Van Rompuy and German Chancellor Angela Merkel said it was not possible to offer specifics on how Greece might be helped as Greece had not specifically asked for assistance from the EU.

Separately, German financial institutions may have the third-largest exposure to Greece but are set to ride out the storm as long as the country's fiscal crisis does not spread outside its borders, analysts said.

U.S. Senate lawmakers unveil long-awaited jobs bill

Lawmakers in the U.S. Senate unveiled a long-awaited \$87 billion bipartisan jobs bill that relies on business tax breaks and construction projects to bring down the unemployment rate.

Senate Democrats had hoped to pass the bill this week but have been delayed by a record-setting snowstorm that has paralyzed Washington for days. With no votes scheduled for Thursday and a weeklong recess looming, action on the bill is not likely until Feb. 22.

Though there has been little bipartisanship in an often-gridlocked Congress this session, the bill has drawn support from at least two Republican senators, as both parties agree action is needed to bring down the 9.7 percent unemployment rate.

In a joint statement, Grassley and Democratic Senator Max Baucus said the bill was only a draft that could change significantly.

Meanwhile, many liberals question the effectiveness of one of the elements supported by Republicans: a tax credit for businesses that hire people who have been unemployed for at least 60 days.

That approach would cost between \$56,000 and \$125,000 in lost tax revenue for every full-time job created, according to the nonpartisan Congressional Budget Office.

U.S. \$16 bln 30-yr auction draws soft demand

The U.S. government sold \$16 billion worth of 30-year bonds in an auction that attracted soft demand but didn't live up to investors' worst fears.

The 30-year offering, the last of this week's \$81 billion in bond sales, attracted bids worth 2.36 times the amount on offer, which was the weakest since November and below the average of 2.44 times in the 11 auctions over the last year.

Yields at auction were the highest in over two years and also above expectations based on trade in the when-issued market at the deadline.

Demand from foreign central banks and large institutional investors was low, based on the indirect bidder category, which accounted for about 29 percent of the sale.

That was below the average of about 43 percent in the auctions since June.

U.S. jobless claims drop; White House sees job growth

The number of U.S. workers filing new claims for unemployment benefits fell more than expected last week, welcome news for the White House as it predicted more than 1 million jobs will be created this year.

There were some positive signs from the Labor Department, which reported initial applications for state unemployment benefits dropped by 43,000 to a seasonally adjusted 440,000 last week, down from a revised 483,000 in the prior week.

Analysts had expected claims to slip to just 465,000.

The weekly report on unemployment benefits showed the number of people applying after an initial week of aid fell to 4.54 million in the week ended Jan. 30, the lowest in 13 months. A four-week moving average of initial claims fell by 1,000 to 468,500 last week.

Separately, U.S. mortgage rates dipped below 5 percent again according to a closely watched mortgage survey.

Interest rates on U.S. 30-year fixed-rate mortgages averaged 4.97 percent for the week ended Feb. 11, down from the previous week's 5.01 percent, according to a survey released by Freddie Mac.

Talks resume in U.S. Senate on financial reform

In an unusual move that cuts a senior Republican out of the loop, bipartisan U.S. Senate negotiations have resumed on financial regulation reform, said the chairman of the Senate Banking Committee.

Committee chairman Christopher Dodd said in a statement that he has begun talks on legislation with Bob Corker, a first-term Republican member of the panel, which is handling a sweeping regulatory overhaul package.

Corker told CNBC that he is willing to work with Democrats on financial reform, saying it is "a piece of legislation that needs to be passed." He said the Dodd-Shelby impasse would lead "toward a legislative train wreck."

The CFPB would be a new agency that centralizes consumer protection laws and staffs now scattered across several existing agencies, including the Federal Reserve.

Banks and financial services firms oppose the agency as a direct threat to their profits and an administrative burden. Republicans say it would be an unneeded government intrusion on the private sector.

ECB mulling return to tender for long-term loans-Weber

Returning longer-term lending operations to a competitive tender process will probably be the next step in the ECB's exit discussions, Governing Council member Axel Weber said.

In an interview with Reuters, Weber said banks would probably need unlimited funds at the ECB's regular weekly lending operations for some time, but other steps would be gradually phased out.

It has scrapped its 12-month liquidity operations and said a six-month tender scheduled for March will be the last, and only guaranteed fixed rates and unlimited funds at the remaining weekly, monthly and three-monthly operations until early April.

ECB President Jean-Claude Trichet has said the ECB will decide on second-quarter liquidity steps at its March 4 policy meeting, when staff will also present updated economic forecasts for the 16-nation region.

The German Bundesbank president, one of the favorites to replace Trichet as ECB chief next year, said the ECB had no plans to actively withdraw excess liquidity as yet, but the maturity of outstanding funds would gradually reduce.



TODAY'S TOP NEWS

Morgan Stanley sued by shareholders over pay

Two institutional shareholders have sued Morgan Stanley, accusing the Wall Street bank of overpaying its employees after having been bailed out by taxpayers.

The complaint accuses Morgan Stanley and its directors of wasting company assets and breaching its duties to shareholders by setting aside 62 percent of net revenue in compensate employees, a year in which the firm reported an annual loss.

The percentage is higher than the 36 percent rival Goldman Sachs Group Inc set aside for pay in 2009.

Among the defendants are Morgan Stanley Chairman John Mack and Chief Executive James Gorman, who replaced Mack as CEO at the start of the year.

The suit demands that defendants repay the company for breaches of fiduciary duties and that the firm take action to reform its pay practices.

The lawsuit, filed by the law firm Grant & Eisenhofer, also claims that incentive payments made by the company in 2006 and 2007 should be repaid because they were based on financial results that were later proven to have been worthless.

IEA revises up global oil demand growth for 2010

Global oil demand will grow by more than previously expected in 2010, the IEA said, with all the growth coming from emerging markets.

The Paris-based adviser to 28 industrialized economies revised upwards its demand growth estimate for 2010 by 120,000 bpd to 1.6 million bpd.

The strong rebound in demand follows two years of falling consumption as the world struggled with the deepest financial crisis since the 1930s. The IEA estimated oil demand would now average 86.50 million bpd this year, just 10,000 bpd below the all-time peak seen in 2007.

The IEA said its view on demand growth was linked to the IMF's stronger outlook for the global economy, which is now seen growing 3.8 percent in 2010 from an earlier estimate of 3.1 percent.

Emerging market growth is expected to average 6.1 percent.

UK home repossessions fall in Q4, outlook improves

Fewer Britons had their homes repossessed in the final three months of 2009 and there was a sharp drop in the number of court orders for properties to be seized, data showed.

The CML said 10,200 homes were repossessed by lenders in the three months to December, 13 percent fewer than the previous quarter and 2 percent lower than a year earlier.

There were 16,928 orders for home repossession according to seasonally adjusted data in the October to December period, 15 percent lower than the three months to September.

Separate figures from the Ministry of Justice showed courts in England and Wales issued 42 percent fewer mortgage possession orders in the final quarter of 2009 compared with a year earlier.

Given signs of stabilization in the labor market and expectations that interest rates will stay low for some time, the CML said its forecast of 53,000 repossessions in 2010 now looked too pessimistic. But it warned that the outlook remained uncertain.

The number of company winding-up petitions fell to 2,670 in the fourth quarter.

China CPI inflation slows but lending brisk

Chinese consumer inflation unexpectedly slowed last month, but a leap in lending and a rise in factory-gate inflation will keep policymakers alert to the risk of credit-fueled overheating in the world's third-largest economy.

The dip in inflation, though likely to be temporary because of seasonal factors, gave a boost to markets on the hope that Chinese tightening need not be as aggressive as some had feared. This view was all but confirmed by the central bank later in the day, when it said in a report that it would "normalize" monetary conditions after last year's ultra-loose pro-growth policies.

The CPI rose 1.5 percent in the year to January, slowing from a 1.9 percent increase in the year to December and undershooting forecasts of a 2.0 percent rise.

Factory-gate prices rose 4.3 percent in the year to January, accelerating from a 1.7 percent rise in the 12 months to December. Economists had expected a 4.2 percent increase.

NEXT UP

U.S. Jan retail sales seen +0.3 pct, ex-autos +0.5 pct

Weak auto sales probably held back U.S. retail sales in January. Unit auto sales fell 4 percent from December to an annualized 10.8 million units as Toyota slumped on a massive vehicle recall.

The median forecast for retail sales is for a rise of 0.3 percent after a 0.3 percent fall in December. Forecasts range from a drop of 1 percent to an increase of 0.8 percent.

The median forecast for sales excluding autos is for an increase of 0.5 percent in January after a 0.2 percent fall the prior month. Forecasts range from a fall of 0.5 percent to a gain of 1.1 percent.

Excluding autos, sales at U.S. retailers likely rose a bit more solid, lifted by strong gasoline receipts.

Core retail sales probably resumed their upward trend after stumbling in December.

The average workweek rose to its highest level in a year last month.

Retail sales are being anxiously watched for signs whether households are healthy enough to take over the baton from the government and drive the economic recovery.

Euro zone Q4 GDP growth seen slower at 0.3 pct

Growth in the euro zone economy is likely to have slowed in the fourth quarter of last year as the benefits from stimulus measures to fight recession began to taper off, according to a Reuters poll.

The poll of 41 economists surveyed over the past week gave a median estimate of 0.3 percent growth quarter-on-quarter in the last three months of 2009, slower than the 0.4 percent expansion registered in the third quarter.

Forecasts for the data, due on Feb. 12, ranged from 0.1 to 0.6 percent growth.

Data due earlier on Feb. 12 is expected to show the German economy, the largest in the euro zone, grew by 0.2 percent in the fourth quarter compared to its far more robust 0.7 percent expansion in the preceding three-month period.

The Spanish economy, which according to the latest Purchasing Managers' Index is still mired in a deep recession, is expected to have contracted by 0.1 percent in the quarter, with numbers due.

Forecasts for this year are more upbeat, with analysts expecting growth of 1.2 percent.



DEEP DIVE Commentary and Analysis

ANALYSIS-Greek crisis shows risk of implied guarantees

By Peter Apps

By forcing the EU to explicitly detail support for Greece, markets are showing they will no longer tolerate fuzzy "implied guarantees" to underwrite the creditworthiness of troubled borrowers.

Since the formation of the euro, Greece, Spain and other fringe euro economies have been borrowing at lower interest rates on the market assumption that they were effectively backed up by richer core euro zone states such as Germany.

But for months, EU and Greek policymakers have been refusing to publicly discuss what support might actually be there, fearing that to do so would take the pressure off Greece itself to push through painful reforms and cuts.

Repeatedly pushed both on and off the record by journalists, they simply clammed up, saying such matters should never be discussed.

Meanwhile, Greece came under greater and greater market pressure, pushing its borrowing costs to unsustainable levels, in part because investors struggled to price in accurately the prospect of a bailout.

But investors continued to treat Greece more leniently than non-euro troubled countries, believing the colossal potential fallout from Greek default or currency breakup would ultimately force the EU's hand.

The cost of insuring Greek debt in the default swaps market was less than half that for Ukraine, where it still costs investors around \$1 million a year to protect \$10 million of five-year debt.

On Thursday, after days of hints, EU President Herman Van Rompuy said euro zone officials had reached a deal to help Greece -- although an EU diplomat said the methodology was still being worked out.

The spread between Greek debt and benchmark German bunds narrowed to the tightest in two weeks on the news.

The greater the support, the riskier bunds will be priced against U.S., Japanese or other non-euro zone debt as markets reprice the risk from Greece to Germany.

LEHMAN, DUBAI MEMORIES

Similar market alarm over Ireland in 2009 was eased when the then-German finance minister Peer Steinbrueck brought calm by saying that all the euro zone countries would help "if it came to a serious situation" -- seen as an effective guarantee.

With the current Greek crisis, Steinbrueck was out of office and other policymakers offered much more mixed signals. In any case, this time markets wanted more.

The crisis has been gradually testing to destruction a whole host of assumptions, with the greatest market shocks coming when expected support failed to materialize..

Not all implied guarantees have failed. U.S. mortgage giants Fannie Mae and Freddie Mac traded for years with the tacit backing of the U.S. government -- and when needed in 2008, a bailout was there.

Then the U.S. government tried to restore moral hazard by letting Lehman Brothers fail, upending market expectations.

Middle East investors were similarly dismayed when they discovered late last year that their two key assumptions -- that Dubai would back state companies such as Dubai World, and that oil-rich Abu Dhabi would back Dubai -- were at best oversimplistic.

"QUASI SOVEREIGNS"

What support Abu Dhabi will offer remains unclear, leaving Dubai effectively frozen out of international borrowing.

Investors in emerging markets have increasingly grown sceptical of the "implied sovereign guarantees" for a host of "quasi-

sovereign" companies whose links to the state are complex or murky and where government support has not been explicitly guaranteed.

Ukraine's state gas firm Naftogaz was seen as enjoying just such an implied guarantee, but in September the firm failed to repay a \$500 million Eurobond. The deal was restructured -- but this time investors demanded a cast-iron sovereign guarantee written into the contract.

When British bank Northern Rock was collapsing in 2007, the government tried to reassure savers their money was safe but customers were quick to note there was an upper limit on government deposit protection.

They raced to withdraw savings, the bank run ending only when Chancellor Alistair Darling guaranteed 100 percent of retail deposits.

The lesson for the EU and Greece seems clear. To price Greek risk accurately, markets want much clearer guidance on support and conditions attached.

Then, everything will depend on Greece's political ability to push through reforms even in the face of social unrest and strikes.

Pricing that purely political risk should still offer a challenge, not to mention market rewards for those who call it right.

ANALYSIS-U.S. lenders more willing to own bankrupt firms

By Tom Hals

U.S. lenders are becoming increasingly willing to take over bankrupt borrowers --- a significant shift from last year, when companies like Chrysler and Eddie Bauer were pushed to a quick sale.

The change reflects a more stable economy, rising asset prices and fewer bankruptcies involving companies that have simply run out of money.

"A year ago there was no turning around of anything. It was get whatever cash you can get out," said Jerry Mozian, of the turnaround management firm Tatum. He said banks now see little value in forcing a sale.

Recently, the publisher of Reader's Digest, pool maker Latham International and Natural Products Group, which owns the Nature's Gate line of organic soaps, have filed for bankruptcy with plans to transfer most of the equity to secured lenders.

Bankruptcies a year ago "were situations that needed extremely fast resolution and someone willing to write a check," said James Sprayregen of Kirkland & Ellis, which represented Reader's Digest Association Inc.

"The prearranged plans we're seeing now, in general, are more operationally healthy companies with overleveraged balance sheets where there may not be a liquidity problem," he said.

The recession that began two years ago has already sent the weakest companies through bankruptcy.

In addition, many secured lenders, which in any large bankruptcy includes banks that originated a loan as well as hedge funds and other investors who buy portions of it, are no longer facing concerns about their own levels of cash.

That gives them the luxury to hold an ownership stake in a company until better times.

Lenders typically seek to take over companies where the assets are worth less than the secured debt, leaving other creditors with little chance of a recovery.

The holders of secured debt are most likely to have an interest in companies that are perceived to be at the bottom of the cycle in their industry, the worst time for a quick sale.

For senior creditors, the conditions that make owning a bankrupt company attractive also raise a potential problem: junior creditors who argue that a stronger economy and financial markets justifies giving them a larger payout.



DEEP DIVE Commentary and Analysis

Lenders have tried to fend off those challenges by offering some payout to junior creditors and by giving them ways to cash in on a potential rebound through stock options and warrants.

"If it turns out there's more value, they share in the upside," said Sprayregen.

Even in industries where there is little prospect of a turnaround any time soon, holders of secured debt may be more willing to own the business.

In the media industry, for example, a number of bankrupt companies have proposed transferring a significant portion of their stock to secured lenders in exchange for reducing debt, including the publishers of the Orange County Register, Minneapolis Star Tribune and Denver Post.

Dan Bender of AEG Partners, a turnaround management firm in

Chicago, said the media industry suffers from depressed values and secured debt holders have little expectation of a recovery on their loans.

"They worry their position is getting worse. So they step in and run it," he said.

That, in turn, is having an impact on restructuring work.

Until recently, lenders brought in turnaround professionals to fix balance sheets of borrowers, with little attention given to a business model.

"No one ever washes a rental car," said Sheon Karol of CRG Partners, a turnaround management firm in New York. "When lenders own the companies, they want specialists to come in and improve the way businesses are run."

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar and Pronita Naidu in Bangalore)

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