INSIDE DEBT

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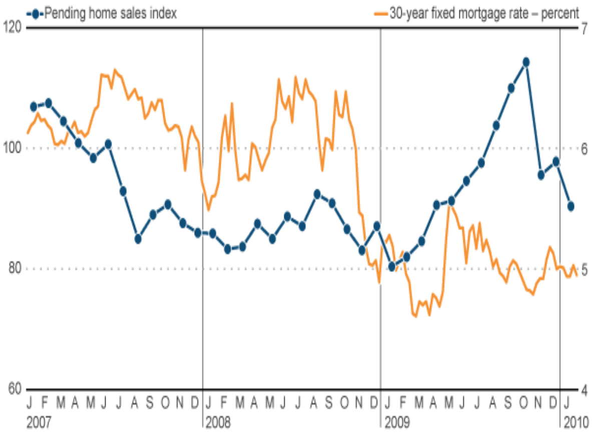
Thursday, March 4, 2010

CHART OF THE DAY

U.S. pending home sales



Despite low mortgage rates, January pending home sales fell to 7.6 percent, lowest since March 2009.

TODAY'S TOP NEWS

- U.S. jobless claims fall, productivity surges
- Greece draws strong bond demand at high price
- Fed's Bullard: Adjust quantitative easing
- ECB inches towards end of crisis lending
- BoE keeps powder dry, adopts "wait and see" stance
- Citi's Pandit blesses reforms amid watchdog doubts
- Global junk bond default rate falls in Feb-Moody's
- Exports drive weak euro zone growth in Q4
- Moody's cuts Abu Dhabi government firms
- BOJ's Noda rebuffs govt, says no policy changes

ECON WATCH

FOR FRIDAY MARCH 5

ET		Indicators	Unit	Reuters	Prior
04:30	GB	PPI Input prices mm	%	0.2	2.0
04:30	GB	PPI Input prices yy	%	7.8	8.4
04:30	GB	PPI output prices mm	%	0.3	0.4
04:30	GB	PPI output prices yy	%	4.1	3.8
04:30	GB	PPI Core Output mm	%	0.2	0.3
04:30	GB	PPI Core Output yy	%	2.8	2.5
06:00	DE	Industrial Orders m/m	%	1.5	-2.3
08:30	US	Non-farm payrolls	k	-50	-20
08:30	US	Manufacturing Payroll	k	-15	11
08:30	US	Unemployment rate	%	9.8	9.7
08:30	US	Average earnings	%	0.2	0.2
08:30	US	Average workwk hrs mm	ind	33.7	33.9
15:00	US	Consumer credit	bln	-4.50	-1.73

MARKETS TODAY

TODAY'S TOP STORY: The number of U.S. workers filing for jobless benefits fell last week, but a surprise decline in January pending home sales contracts to a 10-month low underscored the slow nature of the economic recovery. **For more please click here**

TREASURIES: Prices of shorter-dated U.S. Treasuries eased as a drop in weekly jobless claims reinforced expectations the economy is making a solid recovery and tarnished some of the safe-haven allure of govt. debt.

- Longer-dated Treasuries gained in price, which reeled in the spread between yields on two-year and 10-year notes to the narrowest in four weeks.
- 2-10's part of the yield curve flattened by 6 bps to 275 bps.
- 2-yr notes fell 3/32 to yield 0.86 pct, up from 0.81 pct on Wednesday.
- 5-yr Treasury notes were down 1/32 to yield 2.27 pct.
- 30-yr bond prices were up 14/32 to yield 4.56 pct.
- 10-yr Treasury prices rose 5/32 to yield 3.60, down from 3.62 pct yesterday.

FOREX: The dollar rose broadly and the euro fell after Europe's central bank chief said recovery would be uneven, reducing the chances of a near-term rise in record low euro zone interest rates.

- Euro fell 0.81 pct to $1.3582. Earlier, it rose above $1.37 following the Greek debt auction.
- The euro shed 0.17 pct to 120.96 yen.
- Dollar rose 0.69 pct to 89.07 yen and 0.83 pct to 1.0769 Swiss francs.
- Sterling fell 0.42 pct to $1.5032.
- Dollar index gained 0.7 pct to 80.539.

CORPORATES: U.S. corporate bond yield spreads tightened as fresh data suggesting the economic recovery is on track and further signs of an easing of the Greek fiscal crisis fueled a bid.

- The CDX.IG-13 index remained unchanged at 89 bps.
- Baxter sold a $300 mln three-yr tranche at 50 bps and a $300 mln 10-yr tranche at 70 bps over Treasuries.

STOCKS: U.S. stocks clung to tiny gains, retreating from an earlier advance as lower energy prices and an unexpected fall in home sales offset optimism stirred by retailers' better-than-expected monthly sales.

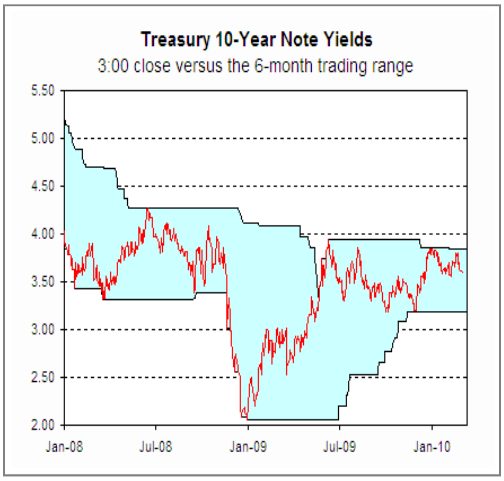
- Dow rose 0.46 pct to 10,444.14, S&P was up 0.37 pct to 1,122.97 and Nasdaq gained 0.51 pct to 2,292.31.
- S&P retail index rose 1.33 pct. Target Corp added 2.44 pct to $52.94.
- The NYSE Arca Natural Gas index slipped 0.94 pct.
- Boeing shares rose 1.71 pct to $65.55 after UBS upgraded the stock to "neutral" from "sell".

C & E: Oil fell nearly 1 percent to $80 a barrel as the dollar strengthened and some weak economic data soured sentiment after crude hit a seven-week high on Wednesday.

- U.S. crude prices was down 0.53 pct to $80.44 per barrel.
- Gold shed 0.69 pct to $1,131.45 an ounce.
- Reuters-Jefferies index fell 1.05 pct at 274.8.

- For MARKET SNAPSHOT click here
- For NEXT UP click here
- For DEEP DIVE click here

MARKET SNAPSHOT as of 3:00 pm EST



REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.250	O/N	0.250
2-Week	0.240	2-Week	0.240
1-Month	0.240	1-Month	0.240
3-Month	0.250	3-Month	0.250
AGENCY REPOS		i-REPO℠ INDEX	
O/N	0.240	10:00 AM	0.180
2-Week	0.240	3:00 PM	0.177
1-Month	0.240		
3-Month	0.250		

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

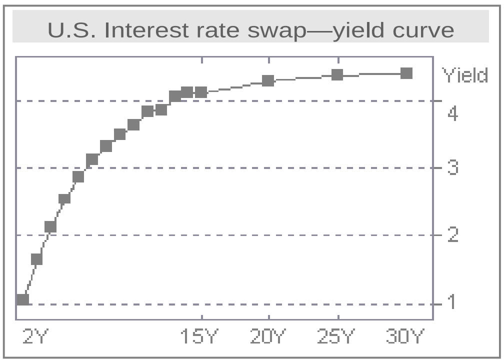
	BID	ASK	BID	ASK
O/N	0.160	0.180	-	-
1-Month	0.200	0.280	0.159	0.169
3-Month	0.220	0.400	0.168	0.178
6-Month	0.250	0.450	0.197	0.207
12-Month	0.600	1.000	0.338	0.348

TREASURIES <5> <500>

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.100	0.07	0.101	0.001
3-Mo Bill	0.140	0.130	0.142	0.007
6-Mo Bill	0.190	0.185	0.193	0.005
1-Year	0.315	0.290	0.320	0.008
2-Year	100.023	100.055	0.864	-0.086
3-Year	100.039	100.070	1.362	-0.098
5-Year	100.461	100.500	2.277	-0.027
7-Year	99.781	99.828	3.035	0.055
10-Year	100.141	100.203	3.608	0.141
30-Year	101.109	101.172	4.557	0.516

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	20.25	24.25	1.06	1.08
3-Year	28.25	32.25	1.64	1.66
5-Year	25.50	29.50	2.53	2.53
7-Year	8.25	12.25	3.11	3.11
10-Year	1.25	5.25	3.62	3.61
30-Year	-19.00	-15.00	4.36	4.34



EQUITIES

	INDEX	CHANGE
DJIA	10425.85	29.09
NASDAQ	2286.11	5.43
S&P 500	1120.93	2.60

OIL

	PRICE	CHANGE
NYMEX	80.3	0.9
BRENT	78.2	1.4

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar-10	99.733	-0.008
Jun-10	99.640	-0.025
Sep-10	99.445	-0.050
Dec-10	99.150	-0.060

FUTURES

	PRICE	CHANGE
CBOT 5 yr	117.13	0.06
CBOT 10 yr	117.88	-0.20
CBOT 30 yr	117.16	-0.41

CURRENCIES

	BID	ASK
Euro	1.3576	1.3578
Sterling	1.5028	1.5032
JP Yen	89.07	89.10
Swiss Franc	1.0775	1.0778
Can Dollar	1.0311	1.0318
Mexico	12.6970	12.7042

FED FUNDS

Open	0.1700
High	0.1900
Low	0.1000

NYFR℠ - 10AM

1m	0.2163
3m	0.2556

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1	04/04/2012	22	21.5	1.08
3-Year	1.75	22/02/2013	22.5	21.5	1.58
5-Year	2.875	09/02/2015	29.5	29	2.58
7-Year	5.125	18/10/2016	21.75	21	3.25
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	36	0	4.94

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	0	-3	-
3-Year	1.625	15/04/2013	31	30.5	1.66
5-Year	2.625	20/11/2014	18.5	17	2.48
7-Year	5.25	15/09/2016	18.75	18.25	3.22
10-Year	3.75	27/03/2019	21	19.5	3.82
30-Year	6.25	15/07/2032	34.5	34	4.9

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	105.2600	105.2800	2.454
FHLMC	5.0	105.2400	105.2600	2.479

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.2000	105.2200	2.906
FHLMC	5.5	106.0200	106.0400	2.673
GNMA	5.5	106.0070	106.0270	3.427

Wrightson ICAP℠ Chart of the Day

TODAY'S TOP NEWS

U.S. jobless claims fall, productivity surges

The number of U.S. workers filing for jobless benefits fell last week, but a surprise decline in January pending home sales contracts to a 10-month low underscored the slow nature of the economic recovery.
Initial claims for state unemployment benefits dropped 29,000 to a seasonally adjusted 469,000, the Labor Department said. That was in line with market expectations.
A separate report from a Realtors group showed pending sales of existing homes dropped 7.6 percent in January to their lowest since March last year. Markets had expected pending home sales, which lead existing home sales by a month or two, to rise 1 percent.
A separate report from the Commerce Department showed orders received by U.S. factories rose 1.7 percent in January after a 1.5 percent increase in December.
Even as the economy buckled from the downturn, nonfarm productivity rose at a brisk 6.9 percent annual rate in the fourth quarter, the Labor Department said in a separate report, rather than the 6.2 percent pace it estimated last month.
The increase in productivity was above market expectations for a 6.3 percent rate. Some analysts believe companies cannot continue to boost output without starting to hire new workers.
Unit labor costs fell more steeply than previously thought in the fourth quarter. Costs fell 5.9 percent instead of 4.4 percent, after declining 7.6 percent in the third quarter.

Fed's Bullard: Adjust quantitative easing

The Federal Reserve should shift quantitative easing policies based on the U.S. economy's evolution, in the same way those changes guide interest rate policy, a top Fed official said.
"The quantitative policy should be conducted in a manner analogous to interest rate policy," St. Louis Federal Reserve Bank President James Bullard told an audience at St. Cloud State University.
Bullard said the policy, along with about $1.7 trillion in long-term securities that the Fed has bought to give the economy additional help, is right for the current stage of the weak recovery.
At some point the Fed will have to begin reversing the easy money policy or run the risk of fueling inflation in the medium term, he added. After the Fed chopped borrowing costs to rock-bottom levels, it started buying mortgage-related debt to provide additional support for the U.S. economy, which was reeling from its most damaging financial crisis in generations.

BoE keeps powder dry, adopts "wait and see" stance

The Bank of England held fire on both interest rates and quantitative easing as it paused to assess the impact of the massive stimulus it has already injected into the economy.
There was little reaction from financial markets which expect no change in monetary policy until much later this year as the central bank waits for a clearer recovery from the worst economic downturn since World War 2.
It is now a year since the BoE slashed interest rates to 0.5 percent and began buying bonds with newly-created money -- quantitative easing in the jargon -- in an unprecedented attempt to kickstart growth.
The BoE has indicated it is prepared to restart its quantitative easing program if the economy deteriorates, putting it at odds with many other central banks who are talking more on exit strategies. Few economists expect such radical action to be called for but most expect the BoE to keep interest rates at 0.5 percent until the fourth quarter of the year at the earliest.

Greece draws strong bond demand at high price

Debt-stricken Greece drew strong demand for a crucial bond issue but paid a steep risk premium that underscored its plea to Germany and other EU partners for support to help lower its borrowing costs.
A day after the government announced draconian new austerity measures, a 5 billion euro 10-year syndicated bond was more than three times oversubscribed at a price of about 6.4 percent -- twice what Berlin pays, banking sources said.
The European Commission, the ECB and EU governments praised the latest round of pay cuts, pensions freeze and tax increases designed to stem a debt crisis that has shaken the euro zone. But Greek labour unions responded angrily.
Dublin's risk premium over benchmark German bonds was 115 basis points, while the Greek spread hovered close to 300 bps.
Separately, the European Parliament will soon organize a public hearing on the unreliable Greek statistics, the EU assembly said in a statement. The statement said that parliament would invite to it the representatives of the European Commission, the Eurogroup, the ECB, Eurostat, the Greek government, investment bank Goldman Sachs and others.
IMF spokeswoman said, the Greek authorities have not scheduled a meeting with the IMF during the visit of Greek Prime Minister George Papandreou to Washington next week.

ECB inches towards end of crisis lending

The ECB took a small step towards unwinding its extraordinary support for the euro zone economy, but left much of its cash buffer for banks in place as it forecast a fragile recovery.
The bank will return to auctioning three-month money to the highest bidder, a sign that it is more comfortable with money market conditions and the latest stage in a gradual withdrawal of the billions pumped into banks in the worst days of the financial crisis in 2008. They carried no message for interest rates as expected by all 87 economists in a Reuters poll.
Trichet said he expected overnight rates to remain low in the short-term and the supply of liquidity would be "abundant" at least until July 1, when banks must repay a massive 442 billion euros ($604.6 billion) in 12-month funds. Trichet signalled the bank had been encouraged to leave the unlimited liquidity in place for longer given continuing concerns over Greece.
ECB President Jean-Claude Trichet said staff saw inflation in a range of 0.9 to 2.1 percent in 2011 from 0.8 to 2.0 percent in December's forecast.

Citi's Pandit blesses reforms amid watchdog doubts

Citigroup Inc Chief Executive Vikram Pandit voiced support for key Obama administration financial reform goals, including a consumer protection authority, but government watchdogs questioned his earnestness.
In testimony to a panel, Pandit advocated a watered-down version of a consumer protection agency proposed by Obama and hinted at support for limits on proprietary trading, which Citigroup itself has already scaled back on. Congressional Oversight Panel member Paul Atkins pounced on those comments, saying Citigroup was simply trying to "curry favor" with its largest shareholder -- the U.S. government. At the same hearing, a U.S. Treasury official declared a moratorium on further government support for Citigroup, saying the focus was on selling the Treasury's stake in the bank.
Separately, Swiss bank UBS AG agreed to buy back $200 million of auction-rate securities and pay a $6.64 million fine to settle charges it misled investors about the debt's safety.

TODAY'S TOP NEWS

Global junk bond default rate falls in Feb-Moody's

The global junk bond default rate fell to 11.6 percent in February from 12.5 percent in January and should decline sharply to 2.9 percent by year end, Moody's Investors Service said.
Just two Moody's-rated borrowers defaulted in February, down from eight in January and 12 in December. The year-to-date total of 10 defaults is down from 45 in the first two months of 2009. If the recovery falters and credit spreads widen, the default rate is expected to end the year at about 6.6, Moody's said.
The U.S. junk bond default rate fell to 12.7 percent in February from 13.6 percent in January and a peak of 14.5 percent in November 2009. Moody's said it expects the U.S. rate to fall to 3.3 percent by year end and 3 percent a year from now.
In Europe, the default rate fell to 9.7 percent in February from 10.9 percent. Moody's expects the European rate to fall to 1.7 percent by December and edge up to 2.0 percent by February 2011. Separately, Moody's Investors Service said it may downgrade portions of 125 residential mortgage bonds based on unusual "cash management arrangements" of GMAC Mortgage LLC, which services loans in the securities.

Exports drive weak euro zone growth in Q4

The euro zone economy barely grew quarter-on-quarter in the last three months of 2009, data showed, as exports offset downward pressure from investment in a trend that is likely to continue in 2010. The European Union statistics office reiterated a Feb. 12 estimate that the economy expanded by 0.1 percent against the third quarter and contracted by 2.1 percent from a year earlier. Meanwhile, unemployment in France jumped 10 percent from 9.5 percent, its highest level in 10 years, data showed, as companies cut jobs in reaction to sluggish economic growth. Separately, Germany unveiled tough new reporting rules for short selling financial stocks as the EU clamps down on market practices that could threaten financial stability. Financial watchdog Bafin will require investors and speculators to notify it when placing big bets that a financial stock will fall and said it would publish those bets in anonymous form if they exceeded a certain threshold.

Moody's cuts Abu Dhabi government firms

Moody's Investor Service downgraded seven leading Abu Dhabi government-linked companies including Mubadala and IPIC due to lack of formal state support.
Moody's said that while some Abu Dhabi firms had full government support, others lacked such explicit guarantees.
Moody's said that the government had offered its assurances that it stood "fully and unconditionally" behind some of the companies, and offered strong support for others.
Mubadala and IPIC were cut to Aa3 from Aa2 while Abu Dhabi National Energy Company was downgraded to A3 from Aa2.
Tourism Development & Investment Company was cut to A1 from Aa2 and Aldar Properties from Baa2 to Ba1 with negative outlook. Emirates Telecommunications Company was downgraded to Aa3 from Aa2 while Dolphin Energy to A1 from Aa3.
Separately, Dubai World's overseas investment arm has lost its second prime New York property after defaulting on payments to Danske Bank raising questions over the future of its remaining U.S. assets.

BOJ's Noda rebuffs govt, says no policy changes

Bank of Japan board member Tadao Noda rebuffed government overtures for looser monetary policy to support the fragile economy, saying he saw no need for further easing now.
He also ruled out increasing the amount of government bond purchases made by the BOJ and reiterated the central bank's view that an inflation target could undermine its attempts to achieve price stability.
Noda urged the government to rein in Japan's bulging debt burden to avoid the risk of pushing up interest rates and so undermine the central bank's loose monetary policy.
Long-term plan on fiscal discipline rules out an increase in sales tax for four years, raising doubts as to whether it can come up with a credible plan to rein in its debt load.
Separately, Japanese companies' spending on plant and equipment fell in the fourth quarter of 2009 from a year earlier at a slower rate than in the previous quarter, suggesting the recovery from the deepest recession in decades is picking up.

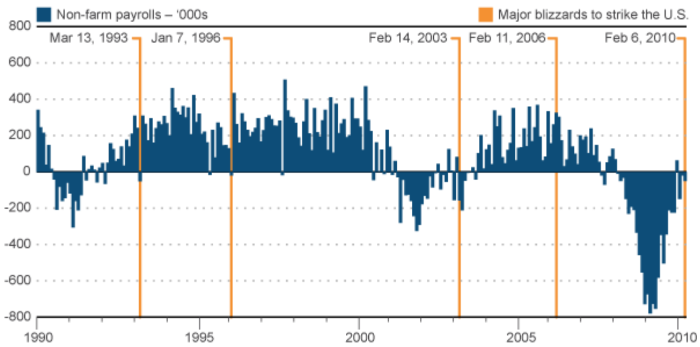
NEXT UP

Weather to distort U.S. Feb non-farm payrolls data

Severe snowstorms that lashed parts of the country will wreak havoc on economic data, including February's employment report. The back-to-back blizzards, which paralyzed much of the nation, coincided with the survey week for the February employment report.
The median forecast for non-farm payrolls is for a drop of 50,000 in February after falling 20,000 in January. Forecasts range from a gain of 100,000 to a loss of 150,000 jobs, reflecting an unusual degree of uncertainty associated with forecasting payrolls in a month affected by severe snowstorms.
The median forecast from the ten most accurate forecasters is for payrolls to fall by 70,000.
The average work week for all employees is seen slipping to 33.7 hours in February from 33.9 hours in the prior month. The unemployment rate is forecast edging up to 9.8 percent from 9.7 percent. Forecasts range from 9.5 percent to 10 percent.
Analysts reckon the winter storms prevented many employees from reporting to work. Salaried workers who stayed at home because of the bad weather would still be counted as employed in the Labor Department's survey of establishments.

The unemployment rate is seen edging up to 9.8 percent after a surprise decline to 9.7 percent in January.
Analysts, and even U.S. Federal Reserve Chairman Ben Bernanke, have cautioned against interpreting the data too much.
A surprise rise in payrolls would undercut the safe-haven appeal of U.S. Treasuries, which could push benchmark 10-year Treasury note yields up to the recent high of 3.83 percent reached in mid-February.

U.S. payrolls and severe winter weather



DEEP DIVE **Commentary and Analysis**

U.S. taxpayers hit as TARP takes a new turn

A small Midwestern bank has negotiated with the U.S. Treasury for taxpayers to essentially buy the bank's shares at an above-market-value price, in an unusual transaction reflecting how the government's bank investments are entering a new phase.
Midwest Banc Holdings Inc agreed to swap $84.8 million of preferred shares it sold to the U.S. government in 2008 for securities that will convert into about $15.5 million of common shares -- roughly an 80 percent loss to taxpayers.
To some analysts, the transaction is an outrageous giveaway to an ailing bank, and its investors.
"There's a lot of funny stuff going on here," said James Ellman, president at hedge fund Seacliff Capital in San Francisco.
Others say it is a sign of the tough choices the Treasury faces dealing with banks that remain weak despite receiving government capital. In some cases, taxpayers must choose whether to lose 80 percent of their money, or all of it.
A Treasury official told Reuters that the deal is designed to help Midwest Banc Holdings raise private capital, which is the main goal of this phase of the Troubled Asset Relief Program.
The biggest banks repaid the money they owed the U.S. Treasury last year and earlier this year, and with a few exceptions, they did so easily.
But more than 600 smaller banks are still left in the program, and owe roughly $130 billion to taxpayers.
In the latest stage of TARP negotiations, many banks will struggle to repay that money. The government will be forced to negotiate separate deals with banks that could result in losses for taxpayers.
The Chicago area, where Midwest Banc Holdings is based, could have a large number of problem lenders.
A recent presentation by rival Chicago bank MB Financial Inc said there are 157 banks in the metro area with more than $100 million of assets, and 70 of them are by one measure experiencing real credit stress.
When banks applied for the Treasury capital, they had to be deemed "healthy" by their regulators to receive taxpayer funds.
So far, the only outright loss the government has taken so far on the TARP Capital Purchase Program is a $2.3 billion loss on its investment in CIT Group, which went through a bankruptcy reorganization last year.
The Treasury has said it expects its bank capital injection program overall to earn a profit, helped by preferred stock dividends and warrant sales. But the overall TARP program is expected to lose about $117 billion, from companies like insurer American International Group Inc.
Chris Robling, a spokesman for Midwest Banc, declined to comment.

SHARING THE GAINS

What irks some analysts is that the government may be giving up some potential gains on Midwest Banc's stock. The Treasury could have traded its $85 million of preferreds for common stock now worth about $85 million.
That move would have given Midwest the same amount of capital, but the bank would have issued more shares to taxpayers at a lower price, giving taxpayer's more profit if the company's shares rise.
"Taxpayers should be allowed to share in the upside," Seacliff's Ellman said.
An analyst in New York said, "The government is giving away money here."
But others argue that issuing fewer shares to the government may be necessary if the bank is looking to sell more common shares to private investors.
The government's mistake was investing in the bank in the first place, and its best option is now to choose the outcome that minimizes losses, said Linus Wilson, a longtime critic of TARP at University of Louisiana at Lafayette.
"We weren't in that good a bargaining position," Wilson said, adding that the current market value of the government's TARP preferred shares is about $8 million.
Midwest is not alone in having renegotiated its TARP obligations. Citigroup Inc exchanged about $25 billion of the United State's TARP preferred shares into common stock, and another $20 billion of TARP securities into trust preferreds.
Superior Bancorp and Popular Inc last year also exchanged trust preferreds for the government's preferreds.
And GMAC Financial Services in December swapped some of the government's TARP preferreds for mandatory convertibles.
Midwest Banc is giving securities known as mandatory convertibles to the U.S. government, in exchange for the preferreds it sold in December 2008 plus $4.5 million in unpaid dividends on that stock.
Those securities will automatically convert into about 47.1 million common shares in seven years. The bank can convert them sooner if it sells at least $125 million of new equity for cash, and meets a few other conditions.

AIG unit sale shows more buyers could hijack IPOs

More buyers could hijack planned flotations at the last minute after Prudential's surprise purchase of AIG's <AIG.N> Asian life insurance unit showed the benefits of such "dual track" disposals.
The assurance of a direct sale compared to the uncertainty of selling a minority stake and braving the equity market can be hard to resist for sellers, particularly for buy-out houses whose overriding focus is maximising returns.
It proved too tempting for American International Group, which this week agreed to sell its Asian unit AIA to British insurer Prudential for $35.5 billion rather than float it in Hong Kong.
Big IPOs scrapped in favour of a sale in recent months include German cable firm Unitymedia, UK retailer Pets at Home and Nordic private healthcare firm Ambea.
Charlie Bott, managing partner at BC Partners, said that private equity generally favoured full disposals to partial stake flotations.
"If you have a price range for an IPO of 7 to 10, for a private equity person to be able to sell 100 percent at 8.5 is generally speaking much more attractive than being able to sell 25 percent at 9, unless you really believe that in the public ownership the business will thrive," he said at this week's Reuters Private Equity and Hedge Fund summit in London.
Taking the company public through an initial public offering (IPO) typically involves selling a quarter or a third of the company and selling the rest over the next two years.
"The risk with an IPO is the market can be shut when you want to do the deal or the valuations might be unsatisfactory," said a debt banker at a European investment bank.
Under a "dual track" process, a seller pursues an initial public offering and a sale at the same time. It can choose the option that offers best value, often at the last minute.
The process worked well for AIG and will return some cash to the U.S. taxpayer more than a year after a $182 billion bailout -- but it shouldn't have come as a surprise.
AIG flagged in December it was pursuing a dual track process for AIA when it slashed its debt in a debt-for-equity agreement with the New York Federal Reserve.
"At an investment bank you wouldn't be giving the right advice if together with an IPO option you didn't present it against the

DEEP DIVE Commentary and Analysis

M&A option," said Bott, formerly a Goldman Sachs investment banker.

COMPETITIVE TENSION

While sellers often do not launch a formal dual track process, that doesn't mean the process isn't in place.

A successful dual track creates competitive tension between the two sides, with potential buyers knowing there is an IPO price they need to match or trump and also reassured that the due diligence and disclosure on a company has been high.

But there are costs associated with the process. Investors and banks can be angered if they study or work on an IPO and it is whipped away, and it can be time-consuming for management.

"Running two processes right to the wire is very rare. You may start off keeping your options open, and benefit from the synergies of the process, but after a time it gets quite difficult to run," said Louise Wolfson, a partner at law firm Allen & Overy's ECM practice.

Dual tracks are not new -- UK holidays-to-insurance firm Saga was a classic process in 2004, ending with a 1.4 billion pound sale just before it was due to list.

Nor are they a one-way trend: private equity owner Providence last month halted the sale of German cable TV operator Kabel Deutschland (KDG) to private equity firms, preferring instead a flotation.

KDG's owners were confident that buyout firms were undervaluing the business and they will earn more over time as markets and investor sentiment recover. That confidence will be tested when the IPO prices this month.

Strategic trade buyers like Prudential hold the trump cards in M&A after being frequently outbid by financial buyers during a leveraged buyout boom that ended in 2007, bankers said.

In Europe there are 50 potential IPO candidates and the majority are private equity owned, the banker estimated.

"Strategic buyers have a clear cost advantage right now, whereas the shoe was on the other foot before the crunch, though perhaps only 10 percent of assets on offer suit them," said a head of European financial sponsors group at an investment bank.

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