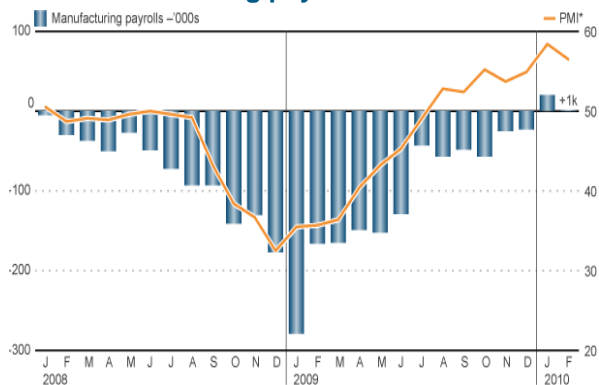


## CHART OF THE DAY

### U.S. manufacturing payrolls



Manufacturing adds a thousand jobs in February as the sector continues to expand.

## TODAY'S TOP NEWS

- U.S. payrolls data buoy job creation hopes
- U.S.' Frank backs off Fannie, Freddie comments
- Freddie Mac U.S. prepayments jump in Feb, March eyed
- FDIC's \$1.81 bln securitization draws strong demand
- U.S. companies amass record cash vs debt - report
- European leaders see no need to bail out Greece
- Sovereign yields may close gap with corporates
- Analysts push back rate hike bets after ECB meeting
- UK factory gate inflation up, prices seen easing
- China tightens belt but keeps eye on social rifts

## ECON WATCH FOR MONDAY MARCH 8

ET	Indicators	Unit	Reuters	Prior
04:30	EZ Sentix Index	ind	-9.0	-8.2
06:00	DE Industrial output mm	%	1.0	-2.6
08:15	CA House starts, annualized	k	-	186.3
10:00	US Employment Trends	ind	-	93.2
23:30	JP Bankruptcies m/m	%	-	-6.4

## MARKETS TODAY

**TODAY'S TOP STORY:** U.S. employers cut fewer jobs than expected during snow-battered February and the unemployment rate held steady at 9.7 percent, bolstering views the economy was on the brink of creating jobs. **For more please click here**

**TREASURIES:** U.S. 30-year Treasury bond prices traded over a point lower as Treasuries extended losses after data showing a smaller-than-expected contraction in U.S. nonfarm payrolls last month.

- The Treasury will sell \$74 bln of three-year notes, reopened 10-year notes and reopened 30-year bonds next week.
- 30-yr bond prices fell more than a point, the highest in over a week, to yield 4.64 pct, up from 4.56 pct on Thursday.
- 10-yr notes fell more than half a point yielding 3.68 pct from 3.61 pct.
- 2-yr notes fell 3/32 lower in price to yield 0.90 pct, up from 0.86 pct late Thursday, while 5-yr Treasury notes were 10/32 lower to yield 2.34 pct from 2.28 pt.
- 2-10's part of the yield curve steepened by about 4 bps to 278 bps.

**FOREX:** The dollar soared against the yen after a report showed U.S. employers cut fewer jobs than expected last month, boosting hopes a U.S. economic recovery was on track.

- The dollar rose as high as 90.58 yen, the strongest level in more than a week. It was last at 90.32 yen, up 1.34 pct.
- The euro rose 1.62 pct to 123.0 yen and the New Zealand dollar added 2.96 pct to 62.92 yen, its best one-day performance since May.
- The euro rose as high as \$1.3629, reversing earlier losses as risk appetite increased. It last traded at \$1.3619, up 0.29 pct.

**CORPORATES:** U.S. corporate bond yield spreads tightened, in step with rising stocks and falling U.S. Treasury debt prices after data showed U.S. employers cut fewer jobs than expected last month.

- The CDX.IG-13 index tightened by about 3 bps to 85 bps.
- Morgan Stanley's 5.5 pct bonds tightened 13 bps to 205 bps.

**STOCKS:** U.S. stocks jumped and the Nasdaq soared to its highest close in 18 months as U.S. employers cut fewer jobs than expected and consumers' appetite for credit showed signs of stabilizing.

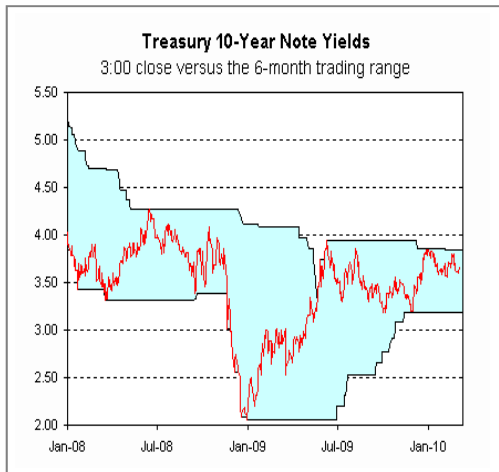
- 3M Co gained 1.75 pct to \$82.44, and ranked among the Dow's top gainers after the jobs data showed the manufacturing sector added 1,000 jobs in February.
- Dow gained 1.17 pct to 10,566.2, S&P added 1.4 pct to 1,138.7 and Nasdaq rose 1.48 pct to 2,326.35.
- Apple surged nearly 4 pct to an all-time high at \$219.70 in intraday trading. S&P energy index shot up 1.81 pct. KBW bank index rose 2.48 pct.
- Solarfun Power fell 9.10 pct, Transatlantic shares fell 3.35 pct.

**C & E:** Oil rose more than 1 percent to hit a seven-week high after a report showed the U.S. lost fewer jobs than expected in February and on signals China will maintain its economic stimulus measures.

- U.S. crude prices jumped 1.90 pct to \$81.73 per barrel.
- Gold was up 0.03 pct to \$1,131.8 an ounce.
- Reuters-Jefferies index was up 0.78 pct at 276.93.

- 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	0.110	0.075	0.112	0.006
3-Mo Bill	0.150	0.140	0.152	0.013
6-Mo Bill	0.195	0.185	0.198	0.004
1-Year	0.330	0.320	0.335	0.028
2-Year	99.938	99.961	0.908	-0.094
3-Year	99.883	99.914	1.416	-0.156
5-Year	100.109	100.156	2.352	-0.340
7-Year	99.313	99.359	3.110	-0.461
10-Year	99.453	99.516	3.691	-0.672
30-Year	99.641	99.703	4.647	-1.422

EQUITIES

	INDEX	CHANGE
DJIA	10561.89	117.83
NASDAQ	2325.94	33.63
S&P 500	1138.49	15.53

OIL

	PRICE	CHANGE
NYMEX	81.6	1.5
BRENT	80.0	1.5

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar-10	99.735	0.000
Jun-10	99.625	-0.015
Sep-10	99.420	-0.025
Dec-10	99.115	-0.035

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.260	O/N	0.250
2-Week	0.250	2-Week	0.260
1-Month	0.250	1-Month	0.260
3-Month	0.260	3-Month	0.270
AGENCY REPOS		i-REPO <sup>SM</sup> INDEX	
O/N	0.250	10:00 AM	0.190
2-Week	0.250	3:00 PM	0.186
1-Month	0.250		
3-Month	0.270		

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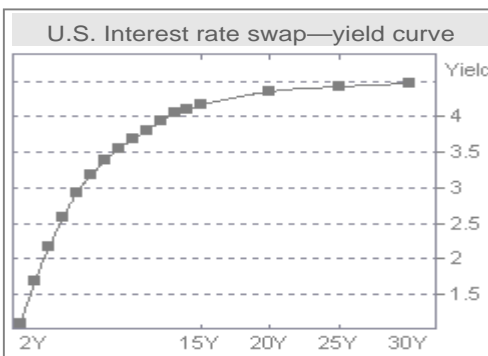
	SPREAD		RATE	
2-Year	20.00	24.00	1.10	1.12
3-Year	28.00	32.00	1.69	1.71
5-Year	25.25	29.25	2.60	2.60
7-Year	8.75	12.75	3.19	3.19
10-Year	2.00	6.00	3.71	3.69
30-Year	-17.75	-13.75	4.47	4.44

FUTURES

	PRICE	CHANGE
CBOT 5 yr	116.73	-0.30
CBOT 10 yr	118.45	-0.52
CBOT 30 yr	118.16	-1.16

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.170	0.200	-	-
1-Month	0.200	0.280	0.168	0.178
3-Month	0.220	0.400	0.180	0.190
6-Month	0.250	0.450	0.209	0.219
12-Month	0.600	1.000	0.363	0.373



CURRENCIES

	BID	ASK
Euro	1.3625	1.3628
Sterling	1.5154	1.5160
JP Yen	90.36	90.38
Swiss Franc	1.0739	1.0742
Can Dollar	1.0289	1.0294
Mexico	12.6332	12.6388

FED FUNDS NYFR<sup>SM</sup> - 10AM

Open	0.2000	1m	0.2125
High	0.2000	3m	0.2556
Low	0.1200		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1	04/04/2012	20.5 20	1.12
3-Year	1.75	22/02/2013	22 20	1.63
5-Year	2.875	09/02/2015	29.5 28.5	2.63
7-Year	5.125	18/10/2016	19.75 19.25	3.31
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	37.75 37	5.02

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	-0.75 -1.25	0.91
3-Year	1.625	15/04/2013	30 29	1.7
5-Year	2.625	20/11/2014	20 0	2.56
7-Year	5.25	15/09/2016	18 17.25	3.29
10-Year	3.75	27/03/2019	21 20.5	3.9
30-Year	6.25	15/07/2032	36 35.5	5.01

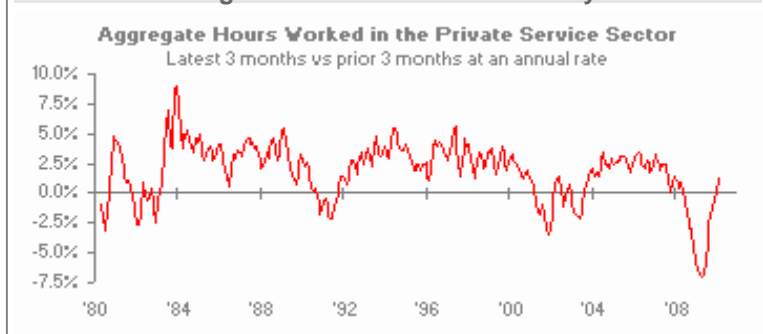
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	105.2070	105.2270	2.518
FHLMC	5.0	105.2070	105.2270	2.518

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.1670	105.1870	2.947
FHLMC	5.5	105.2970	105.3170	2.728
GNMA	5.5	105.3150	106.0150	3.440

Wrightson ICAP<sup>SM</sup> Chart of the Day



## TODAY'S TOP NEWS

**U.S. payrolls data buoy job creation hopes**

U.S. employers cut fewer jobs than expected during snow-battered February and the unemployment rate held steady at 9.7 percent, bolstering views the economy was on the brink of creating jobs.

President Barack Obama, whose approval ratings have dropped partly because of high unemployment, said the figures showed measures his administration took to boost the economy were working but that unemployment was still too high.

Nonfarm payrolls fell 36,000, the Labor Department said, adding it was unclear how the severe snowstorms that hit much of the country last month had affected employment. Financial markets had expected payrolls to drop 50,000 in February and the unemployment rate to edge up to 9.8 percent.

Bad weather kept about 1.03 million workers home at some point last month compared to only 259,000 in January. This was the highest since January 1996, when the country was also slammed by blizzards. While the winter storms might have affected its employment count, it was difficult to quantify the impact, the Labor Department said.

**Freddie Mac U.S. prepayments jump in Feb, March eyed**

Prepayments on U.S. mortgage-backed securities guaranteed by Freddie Mac surged in February, triggered by delinquent loan buyouts, while a decline in Fannie Mae prepayments was overshadowed by a focus on the March report.

The report for March will be watched as the first wave of Fannie Mae buyouts hits the coupons, the company said.

Freddie Mac said on Feb. 10 it would repurchase all 120-plus days delinquent loans from agency MBS pools in one fell swoop, which triggered a massive spike in prepayment speeds.

In aggregate, 30-year Freddie Mac MBS prepayment speeds came in at a 42.3 conditional prepayment rate (CPR), a surge of 28.0 CPR, according to JPMorgan.

Fannie Mae 30-year prepayment speeds declined 5 percent month-over-month and the aggregate speed was 14.7 CPR versus 15.4 CPR in January.

On the Fannie Mae side, the buyouts are expected to commence in March.

**U.S. companies amass record cash vs debt - report**

U.S. corporate borrowers amassed the most cash relative to debt on record through the fourth quarter and will likely preserve cash levels this year, supporting corporate bonds, Morgan Stanley said.

Cash amounted to just under 30 percent of debt in the fourth quarter, versus about 25 percent in the previous quarter, according to a Morgan Stanley report.

Despite investor concerns about sovereign risk and central bank tightening, "fundamental corporate improvement is a tailwind that will ultimately provide a bid to U.S. credit markets," the bank said.

In the fourth quarter, only 39 percent of investment-grade companies increased leverage, the lowest percentage since the end of 2006 and down from over 53 percent in the previous quarter, according to Morgan Stanley data.

Leverage should continue to edge down over coming quarters, thanks to expected earnings growth and restrained debt growth, the bank said.

With the economic recovery expected to be bumpy and below par, aggressive spending will remain in check, limiting the need to raise funds and ramp up leverage.

**U.S.' Frank backs off Fannie, Freddie comments**

U.S. House of Representatives' Financial Services Chairman Barney Frank backed off comments that Fannie Mae and Freddie Mac bondholders could lose some of their investment, after the Treasury said it was committed to supporting the two entities.

But the powerful committee chairman reiterated his position that the entire U.S. housing finance system needs to be scrapped and any new system should not have an explicit, or even implicit, government guarantee.

Frank caused a stir in the mortgage-backed securities market by suggesting that Fannie Mae and Freddie Mac bondholders do not have the same guarantees as Treasury bondholders.

Hours after he made those comments, the Treasury Department released a statement saying that it remained committed to its Christmas Eve pledge to stand behind the two entities.

Frank then issued a statement of his own supporting the administration's decision to provide stability to the housing market and broader financial system. At the same time, the Massachusetts Democrat also said it would be a mistake to give Fannie and Freddie bondholders the same legal status as holders of U.S. government debt by putting their obligations on the federal books. Republicans on Frank's committee want the Obama administration to put the trillions of dollars in debt obligations on to the federal budget.

**FDIC's \$1.81 bln securitization draws strong demand**

The Federal Deposit Insurance Corp's first foray into the market with a sale of \$1.81 billion of securities tied to failed bank mortgage assets met with strong investor reception and is expected to spur more of the securitizations.

The asset sales, which are guaranteed by the FDIC and are tied to the mortgage meltdown, were highly anticipated by investors and dealers as the FDIC continues to accumulate loans from failed banks at an alarming rate.

Strong interest for the securitization, which is backed by option ARM mortgages, allowed spread levels on the two-part sale to narrow repeatedly before pricing, market sources said.

The deal's \$1.33 billion of 3.21-year floating-rate notes priced at a spread of 55 basis points over one-month Libor after it was initially expected to price in the area of 65 basis points, market sources said. The FDIC's \$480 million 4.61-year fixed-rate issue also garnered demand. Spread guidance narrowed in from initial levels of 90 to 95 basis points over swaps before pricing at a spread of 85 basis points, market sources said.

**European leaders see no need to bail out Greece**

European leaders expressed confidence that new austerity measures planned by Greece would be enough to pull the country out of its debt crisis and make any bailout unnecessary.

Greek Prime Minister George Papandreou received political support but no promise of financial aid at talks in Luxembourg with the chairman of the group of countries that use the euro, before a meeting in Berlin with Chancellor Angela Merkel.

The Greek parliament passed a bill including many of the government's latest austerity measures as Papandreou began his diplomatic tour, but his government faced new protests and police used teargas against stone-throwing youths in Athens.

But a spokesman for the chancellor said her meeting with Papandreou later would be about offering political support and not financial aid. A separate report showed, foreign investors bought 77 percent of Greece's 10-year, 5.0 billion euro syndicated bond issue, bookrunners said.

## TODAY'S TOP NEWS

**Sovereign yields may close gap with corporates-PIMCO**

Bonds of highly-rated companies may trade at yields closer to sovereign debt in a "unicredit" type of bond market as governments absorb more credit risk with bailouts and guarantees, bond giant PIMCO said in a new report.

The problems of Greece and some other highly indebted European countries have lately become the central focus for global financial markets, leading investors to fret that many sovereigns may face the threat of rising yields.

"When sovereign issues become more credit-like, as evidenced in Greece, Spain, Portugal and a host of others, they move closer in yield to the corporate and agency debt that supposedly rank lower in the hierarchy," Bill Gross, manager of the world's biggest bond fund, said in a monthly investment outlook on PIMCO's web site.

Germany and Canada were among the countries at the top of PIMCO's list, Gross said, while Greece and the U.K. were among the countries near the bottom.

Gross manages PIMCO's Total Return Fund, with some \$210 billion of assets under management.

**Analysts push back rate hike bets after ECB meeting**

Major investment houses have started to push back expectations for a first rise in ECB interest rates after the ECB extended unlimited lending to banks for longer than expected.

Before Thursday's meeting, 60 percent of economists polled by Reuters had expected the first rise in official rates by the end of this year. Research notes today showed some of those now see the bank waiting until 2011 after the bank said it would keep one-week lending on an unlimited basis until at least October; previously the bank had only worked in three-month periods.

In more than a dozen research notes seen by Reuters today, there were no signs of analysts bringing forward rate hike expectations. Several analysts, who had not changed their rate forecast, said they were reevaluating the situation and that the risks of the first hike happening later had increased.

**UK factory gate inflation up, prices seen easing**

British factory gate inflation picked up to a 14-month high in February, but growth in firms' costs slowed for the first time since July, data showed, suggesting price pressures may ease in months to come.

The Office for National Statistics said annual producer output price inflation accelerated to 4.1 percent last month from 3.8 percent in January, the highest rate since December 2008 and in line with analysts' forecasts.

Annual input price inflation eased more than expected to 6.9 percent from a downwardly revised 7.7 percent in January.

Consumer price inflation accelerated to a 14-month high of 3.5 percent in January, but policymakers reckon the large degree of slack in the economy after Britain's deepest recession on record will cause it to fall back sharply later this year.

**China tightens belt but keeps eye on social rifts**

China will seek to heal social rifts and spur home-driven growth with more public welfare and rural spending even as the government tightens its belt after a burst of feverish spending, Premier Wen Jiabao said.

Wen told the country's parliament that China's economy faced a clouded international outlook in 2010 and would stick to a steady policy course this year, shifting tack if needed to counter the lingering impact of the global credit crunch.

China would maintain an appropriately easy monetary stance and an active fiscal policy, he added, showing no sign of a break from current settings.

Financial markets showed little reaction to the widely anticipated message. Despite the lack of change in any of the key wording, analysts noted that Wen's increased emphasis on controlling inflation showed the government was trying to mop up excess cash in the economy after last year's extraordinary credit boom. He also signalled continued caution towards the yuan, reiterating standard language that Beijing would seek to keep the currency steady as it has done since the financial crisis struck in mid-2008, to the chagrin of its trade partners.

## NEXT UP

**Supply, retail sales to take spotlight**

U.S. Treasury investors will turn their focus on \$74 billion in note supply and data on retail spending next week in the wake of a less gloomy report on the labor market.

Data portending a return to job growth soon could curb appetite for longer-dated Treasuries, while February figures on retail sales could either reinforce or undermine the optimism stoked by the payroll report, analysts said on Friday.

Winter storms had raised worries that they have slowed business activity and hirings. The recent batch of disappointing housing data added to concerns the economy has lost momentum following a robust fourth quarter.

Still, analysts said companies are reluctant to add jobs, and this would allow the Federal Reserve to stick to its near zero interest rate policy into late 2010.

The blizzards that slammed the eastern U.S. last month did not affect the February jobs figures. They could skew the retail sales data, as heavy snowfall kept consumers home.

Analysts forecast overall retail sales slipped 0.2 percent in February and sales without cars edged up 0.1 percent.

The U.S. consumer sector accounts for about 70 percent of economic activity.

**Greeks oppose cuts but expect govt to deliver-poll**

The Greek government faces stiff opposition to some austerity measures announced this week, an opinion poll showed, but most expect them to be implemented and there was no sign the government's ratings have suffered yet.

Pressured by financial markets and the European Union, Greece announced on Wednesday 4.8 billion euros (\$6.52 billion) in wage cuts, a pension freeze and tax increases to reduce its huge fiscal deficit.

The poll carried out by Public Issue for Skai TV showed around three-quarters of 530 people surveyed disapproved of higher taxes on fuel, VAT hikes, a freeze on public pensions and cuts in bonuses for civil servants. On a more positive note for the government 50 percent said they backed bigger salary cuts for public service workers, 65 percent supported higher duty on alcohol and cigarettes and 82 percent approved of a levy on luxury goods. The survey also showed that 78 percent believed there was a high probability that all of the government's measures would be implemented. Those polled in the latest survey did not expect the government to get a smooth ride, however, with 62 percent predicting that social unrest in Greece was highly likely in the next 12 months.



## DEEP DIVE Commentary and Analysis

## New rules seen boosting large U.S. tax preparers

By Supantha Mukherjee and Abhinav Sharma

Top U.S. tax preparers, facing a weak season as many taxpayers have lost their jobs, may get a shot in the arm from proposed rules to regulate tax preparation.

The companies are also trying to expand their online presence, but their efforts face stiff competition from well-entrenched players like Intuit's TurboTax.

The Internal Revenue Service aims to introduce mandatory registration, competency tests and continual training of staff to regulate a fragmented industry, but the new rules could burden smaller companies with higher costs.

Independent certified public accountant Gail Rosen, who runs her own tax preparation firm, said higher costs to comply with the rules will force smaller players to either sell their practices or merge with bigger firms.

The proposed regulations come as a silver lining for large preparers such as H&R Block Inc, Jackson Hewitt Tax Service Inc and privately held Liberty Tax Service, who were trying to find out ways to curb the revenue slide triggered by the drop in tax filings in 2010 tax season.

Though the new rules would take three to four years to be completely implemented, larger preparers might see some material benefit this year as the IRS starts monitoring tax preparers more closely to make its presence felt, Wedbush Morgan Securities analyst Gil Luria said.

Macquarie Research analyst Bill Carcache said H&R Block may not have to pay a material price to meet regulatory requirements, as it already has well-trained staff that might be sufficient to meet the new norms.

H&R Block and Liberty Tax are also expected to gain from the woes of the No. 2 U.S. tax preparer Jackson Hewitt, which is facing funding issues related to its financial products business.

"If Jackson Hewitt does not solve its refund anticipation loans funding issues, it is going to have a negative impact on the company and on the stock," analyst Kartik Mehta of NorthCoast Research said. "I think it is going to have a positive impact for H&R Block, clearly."

## GOING ONLINE

So far, companies such as H&R Block and Jackson Hewitt have relied more on their high-margin storefront operations to drive growth.

However, growing emphasis on online tax preparation due to its cost-effective nature is changing the landscape for these companies.

Their biggest challenge is to grab market share from Intuit, the dominant player with nearly 79 percent share of the online market.

"Intuit's product has been continuously improved and fine-tuned over many years to be as accommodating and convenient, and easy for customers as possible," analyst Luria said. "So, the ease of use for Intuit's product is usually the big differentiator."

Although H&R Block has the "H&R Block At Home" software and Liberty Tax has e-Smart online tax preparation tool, these products are yet to gain popularity over TurboTax.

Also, their move to beef up digital offerings could crimp margins because of the intense competition in that space.

H&R Block might try to grow its digital business, but analyst Bill Carcache said the company would lose about \$200 per return prepared in retail locations and gain significantly lower fees through online and software products.

"At the end of the day there's a potential cannibalizing effect there," he said.

## CDS ban won't neuter bond market gravity on Greece

By Huw Jones

European governments are exploring ways to curb trade in credit default swaps but may have to settle for requiring greater disclosure rather than banning certain forms of speculation.

France, Germany and Luxembourg say "speculators" -- typically code for hedge funds -- used CDS contracts to bet on Greece defaulting and send the euro lower.

Faced with such political pressure, the European Commission has called national supervisors, credit rating agencies, hedge funds and investors to meetings in Brussels on Friday to help it decide if European Union action is needed in the CDS market.

The U.S. Justice Department is also investigating if hedge funds might have acted together in betting against the euro.

Credit default swaps are privately-negotiated "insurance" contracts between two parties. Unlike normal insurance, the buyer can go "naked", not owning what is being insured, a situation regulators say is perverse.

Traders are waiting to see if regulators will go beyond jawboning and require buyers of sovereign CDS to own some underlying debt or deploy other means to quell volatility.

"In principle it would be feasible to design a scheme that would prevent financial institutions from being involved in the naked sale of CDS," said Karen Anderson of Herbert Smith lawfirm.

Politicians like French Economy Minister Christine Lagarde and Eurogroup President Jean-Claude Juncker of Luxembourg have argued that the CDS tail is wagging the sovereign debt dog.

Financial lawyers, industry officials and analysts say CDS contracts are a health check on the underlying asset and governments just can't stomach the truth of falling prices.

"The question is how much difference (curbs on CDS) would really have made to the market in Greek debt. Abusive practice could be dealt with under market abuse rules, assuming you can prove it," Anderson said.

## MANIPULATING MARKETS

There are \$9 billion of Greek sovereign CDS outstanding relative to \$406 billion of government bonds -- too little to put pressure on the debt price according to Citi bank analysts.

"Targeting rules specifically at CDS could be made legally effective but would be very unlikely to have any material effect," said Simon Gleeson, a partner at Clifford Chance.

"It also raises the larger issue of the extent to which it is appropriate or sensible to seek to use regulation to manipulate markets," Gleeson added.

Banning naked sales of CDS would be more complicated than the introduction of curbs and disclosure rules on shorted shares and costlier for the holder.

If a CDS buyer decided to sell the underlying bond he was forced to buy, he would then have to close out the contract which could be at a big loss.

"These are long-dated derivatives that can be traded from multiple jurisdictions which would require a globally coordinated response," Citi said.

As Europe's biggest trading centre, a ban on naked CDS selling would hit London most and Britain's market watchdog has not surprisingly been more measured in its comments.

Financial Services Authority Chairman, Adair Turner, said this week that naked CDS sales are one of several factors hitting Greek bonds and should not be overstated.

Many long investors were not willing to buy and there was also a confidence question about Greece, Turner said in comments seized on by the industry.

"A CDS contract does not exist without a long position as well, so why are people only focusing on the short position?" said



## DEEP DIVE Commentary and Analysis

Richard Metcalfe, global head of policy at the International Swaps and Derivatives Association.

"CDS prices provide information about credit appetite, even when bond markets are effectively shut, as was the case during certain periods in 2007-08," Metcalfe said.

## MORE TRANSPARENCY

Policymakers are already requiring central clearing of as many CDS contracts as possible.

The U.S. Depository Trust and Clearing Corp publishes data on aggregate global CDS positions and regulators could insist that naked positions above a certain threshold are reported to regulators and the market.

An outright ban would make it impossible to use sovereign CDS to diversify portfolios and have unintended supervisory conse-

quences, said Ed Parker of Mayer Brown law firm.

"A credit default swap where the buyer is obligated to hold the underlying asset starts to look like an insurance contract. Only insurers are regulated to write insurance contracts, so if this goes through, expect some other regulatory headaches," Parker added.

A ban risked creating product regulation because of political perceptions rather than genuine need, Herbert Smith's Anderson said.

The many investors using sovereign CDS to hedge legitimately would probably react to any ban by selling bonds, Citi warned.

"We are not convinced that the market has the negative effect on bonds that people tend to think, nor are we convinced a ban would work," Citi said.

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar and Pronita Naidu in Bangalore)

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