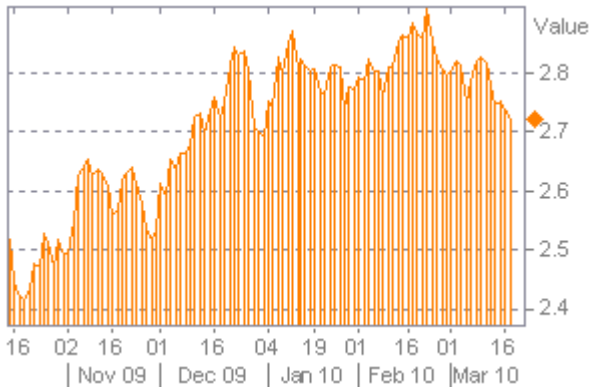


CHART OF THE DAY

2-10's Treasury yield



The spread between 10-year note and two-year note yields narrowed to 272 basis points, a level not seen in 3-1/2 months.

TODAY'S TOP NEWS

- Bernanke defends Fed's small bank supervision role
- U.S. producer prices fall on lower energy costs
- First of several job-creation bills clears Congress
- Regulators to U.S. banks: tighten up on funding
- Lehman gets OK to delay disclosure statement
- Obama wins first convert in healthcare push
- China unyielding on yuan as U.S raises pressure

ECON WATCH

FOR THURSDAY MARCH 18

ET	Indicators	Unit	Reuters	Prior
05:30 GB	PSNCR, mm GBP	bln	11.00	4.681
05:30 GB	PSNB, mm GBP	bln	14.75	9.043
06:00 EZ	Eurostat trade nsa	bln	-4.0	4.4
08:30 US	CPI mm	%	0.1	0.2
08:30 US	CPI yy	%	2.3	2.6
08:30 US	Ex-Food / Energy mm	%	0.1	-0.1
08:30 US	Ex-Food / Energy yy	%	1.4	1.6
08:30 US	Real earnings	%	0.1	0.2
08:30 US	Current account	bln	-119.0	-108.03
08:30 US	Initial Claims	k	455	462
08:30 US	Continuing claims	mln	4.54	4.558
10:00 US	Leading indicators	%	0.1	0.3
10:00 US	Philly Fed index	ind	18.0	17.6

FACTBOX

Major U.S. agencies that regulate financial system

Numerous U.S. government agencies oversee the financial system being targeted for an overhaul by congressional Democrats and President Barack Obama.

For more click here

MARKETS TODAY

TODAY'S TOP STORY: U.S. Fed Chairman Ben Bernanke fought back against a plan to strip the Fed of its oversight of smaller banks, saying the knowledge it gains from that role is vital to monetary policy.

For more please click here

TREASURIES: U.S. government debt prices were little changed, as a rise on Wall Street reduced the safe-haven appeal of bonds and helped to erase their earlier gains tied to a hefty drop in producer prices.

- 30-yr bonds rose 14/32 to yield 4.56 pct, down from 4.59 pct.
- 10-yr Treasury notes were up 5/32 to yield 3.64 pct.
- 5-yr notes fell 2/32 yielding 2.36 pct, while the 2-yr notes fell 1/32 to yield 0.92 pct.
- 2-10's part of the yield curve narrowed by 2 bps to 272 bps.

FOREX: The dollar fell against higher-yielding currencies as Fed's commitment to low interest rates the previous day prompted investors to seek higher returns elsewhere.

- Against the Canadian dollar, dollar fell 0.34 pct to C\$1.0102. Earlier it fell as low as C\$1.0072, its weakest since July 2008.
- Euro fell 0.22 pct to \$1.3739. It had hit a five-week high of \$1.3817 before erasing gains. It fell to near a 17-month low against the Swiss franc at 1.4477.
- Dollar was little changed at 90.27 yen.

CORPORATES: U.S. corporate bond spreads tightened after the Fed repeated its vow to keep interest rates low, supporting a search for yield that has fed voracious demand for corporate debt this year.

- The CDX.IG-13 index remained unchanged at 82 bps.
- ILFC was expected to sell up to \$1.5 bln of debt, part of a refinancing that pushed its credit spreads sharply tighter. The issue will be its first since May 2008. ILFC's 5-yr CDS tightened to 510 bps from 3.5 pct upfront at Tuesday's close.
- SLM Corp, also known as Sallie Mae, launched a \$1.5 bln debt sale with expected yields of 8.25 pct. Sallie Mae's sale will be its first unsecured bond issue since June 2008.

STOCKS: U.S. stocks climbed, pushing the Dow to a recovery high, after a benign February inflation reading buttressed the Fed's renewed vow of low interest rates.

- Dow gained 0.45 pct to 10,733.75, S&P rose 0.58 pct to 1,166.21 and Nasdaq climbed 0.47 pct to 2,389.09.
- The CBOE Volatility Index fell 5.3 pct to its lows last seen in May 2008, it was last down 4.58 pct
- Massey Energy advanced 5.83 pct and led the S&P energy index 1.10 pct higher. Hartford Financial gained 4.84 pct, Discover Financial fell 0.39 pct, while the S&P financial sector rose 1.09 pct.

C & E: U.S. crude prices rose after a government oil inventory report showed falling fuel supplies.

- U.S. crude prices rose 1.2 pct to \$82.68 per barrel.
- Gold fell 0.55 pct to \$1,118.55 per ounce.
- Reuters-Jefferies index gained 1.01 pct to 276.3.

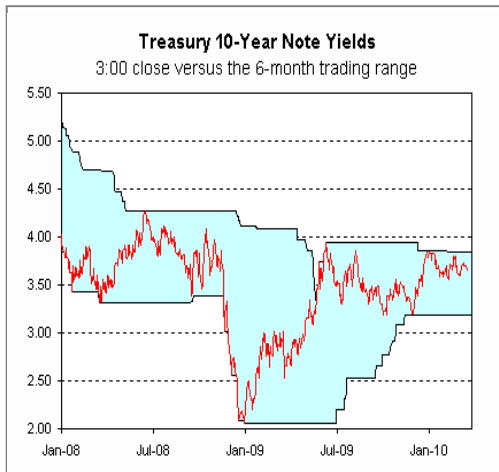
• For MARKET SNAPSHOT click here

• 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	0.145	0.110	0.147	0.001
3-Mo Bill	0.155	0.145	0.157	-0.003
6-Mo Bill	0.230	0.220	0.233	0.002
1-Year	0.375	0.350	0.381	-0.012
2-Year	99.906	99.938	0.924	-0.016
3-Year	99.703	99.742	1.477	-0.039
5-Year	100.023	100.063	2.370	-0.074
7-Year	99.438	99.484	3.090	-0.008
10-Year	99.828	99.891	3.646	0.078
30-Year	100.844	100.922	4.573	0.289

EQUITIES

	INDEX	CHANGE
DJIA	10731.40	45.50
NASDAQ	2388.97	10.96
S&P 500	1165.52	6.06

OIL

	PRICE	CHANGE
NYMEX	82.8	1.1
BRENT	81.8	1.3

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar-10	0.000	0.000
Jun-10	99.635	0.000
Sep-10	99.495	0.015
Dec-10	99.220	0.010

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.240	O/N	0.230
2-Week	0.240	2-Week	0.240
1-Month	0.250	1-Month	0.260
3-Month	0.260	3-Month	0.300
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.230	10:00 AM	0.170
2-Week	0.250	3:00 PM	0.170
1-Month	0.250		
3-Month	0.260		

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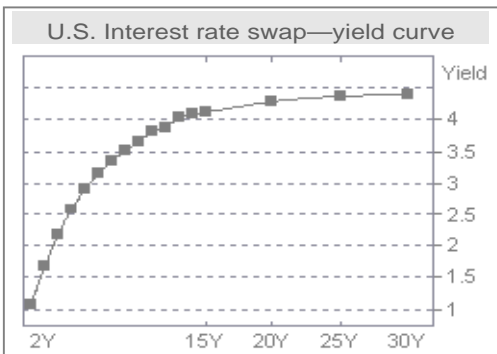
	SPREAD		RATE	
2-Year	15.75	19.75	1.07	1.10
3-Year	20.25	24.25	1.67	1.69
5-Year	21.25	25.25	2.58	2.58
7-Year	7.25	11.25	3.16	3.15
10-Year	1.50	5.50	3.66	3.65
30-Year	-16.50	-12.50	4.41	4.38

FUTURES

	PRICE	CHANGE
CBOT 5 yr	116.59	-0.13
CBOT 10 yr	117.88	0.00
CBOT 30 yr	117.16	-0.41

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.200	0.250	-	-
1-Month	0.200	0.280	0.181	0.191
3-Month	0.240	0.410	0.190	0.200
6-Month	0.370	0.470	0.218	0.228
12-Month	0.680	1.020	0.354	0.364



CURRENCIES

	BID	ASK
Euro	1.3746	1.3748
Sterling	1.5319	1.5324
JP Yen	90.20	90.22
Swiss Franc	1.0533	1.0536
Can Dollar	1.0092	1.0096
Mexico	12.4488	12.4544

FED FUNDS NYFRSM - 10AM

Open	0.1800	1m	0.2225
High	0.2400	3m	0.2637
Low	0.1300		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1	04/04/2012	13.5 0	1.06
3-Year	1.625	15/04/2013	20.5 0	1.69
5-Year	2.875	09/02/2015	25 0	2.63
7-Year	5.125	18/10/2016	20 0	3.29
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	37.5 37	4.95

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	-5 -7	0.87
3-Year	1.75	07/05/2013	24.5 0	1.73
5-Year	2.625	20/11/2014	15 0	2.53
7-Year	5.25	15/09/2016	16 15.5	3.25
10-Year	3.75	27/03/2019	22 21	3.88
30-Year	6.25	15/07/2032	38 37.5	4.95

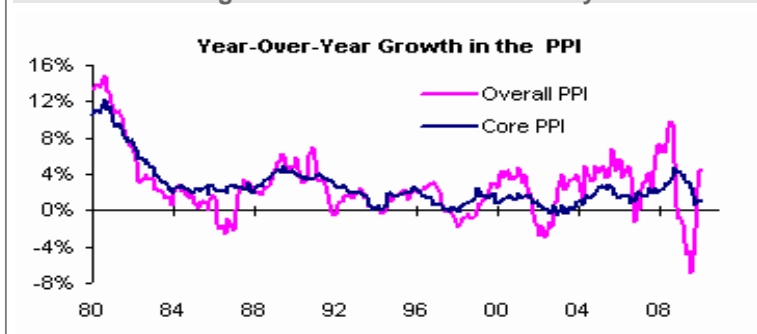
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	5.0	105.2260	105.2320	2.993
FHLMC	5.0	105.2260	105.2320	2.953

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.2200	105.2300	2.975
FHLMC	5.5	106.0000	106.0100	2.850
GNMA	5.5	105.3160	106.0020	3.436

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Bernanke defends Fed's small bank supervision role

U.S. Fed Chairman Ben Bernanke fought back against a plan to strip the Fed of its oversight of smaller banks, saying the knowledge it gains from that role is vital to monetary policy.

Bernanke, in testimony prepared for delivery to the U.S. House of Representatives Financial Services Committee, argued against a piece of a Senate regulatory overhaul bill that would shift supervision of thousands of banks to other regulators.

"The insights provided by our role in supervising a range of banks, including community banks, significantly increase our effectiveness in making monetary policy and fostering financial stability," he said.

The Fed's job is to keep inflation low and ensure maximum sustainable employment. It also regulates bank holding companies and some state-chartered banks. Lawmakers have heaped criticism on the institution for oversight lapses that contributed to the worst financial crisis in generations.

Bernanke argued that small banks provide the Fed with an important window into financial conditions throughout the nation's economy. Former Fed Chairman Paul Volcker will also take up the Fed's case to oversee smaller banks at the same hearing.

First of several job-creation bills clears Congress

A package of tax breaks and highway spending cleared the U.S. Congress, the first of what Democrats hope will be several efforts to bring down the 9.7 percent unemployment rate.

The Senate passed the \$17.6 billion measure by a vote of 68 to 29 and sent it to President Barack Obama, who praised the bill and is expected to sign it into law.

With congressional elections looming in November, Democrats hope to show they are committed to reducing an unemployment rate that has remained stubbornly high even as the economy has begun to recover from the worst recession in decades.

The bill sent to Obama would exempt businesses from paying the 6.2 percent payroll tax on new employees who had previously been out of work. Employers would also get a \$1,000 tax credit if those workers were still on the job a year later. Some economists and liberal lawmakers question that approach, saying it will only go to businesses that planned to expand anyway. The bill also subsidizes state and local construction bonds and allocates \$19.5 billion to shore up a highway-construction program and extend it through the end of the year.

Lehman gets OK to delay disclosure statement

A U.S. bankruptcy judge said Lehman Brothers Holdings Inc could delay until mid-April filing a detailed disclosure statement for its proposed plan to end its bankruptcy.

The disclosure statement would detail Lehman's current state of affairs and provide financial information to creditors.

Judge James Peck approved Lehman's request to delay the filing of the statement at a hearing in U.S. Bankruptcy Court in Manhattan.

Lehman's reorganization plan to repay creditors said it would seek to create a new asset manager business called LAMCO that would specialize in management of Lehman's long-term commercial real estate, private equity, and other illiquid assets.

Harvey Miller, said in court that it is planning to start meetings with creditors to negotiate over its reorganization plan "very quickly." Lehman's creditors are seeking more financial information and data on the full amount of claims filed against Lehman, so the groups can negotiate ahead of the filing of the disclosure statement, Dennis Dunne, an attorney for Lehman's Official Committee of Unsecured Creditors, said at the hearing.

U.S. producer prices fall on lower energy costs

U.S. producer prices in February posted their biggest fall in seven months as energy costs tumbled, validating the Federal Reserve's decision to hold interest rates very low on evidence of tame inflation. The Labor Department said its Producer Price Index fell 0.6 percent after rising 1.4 percent in January.

Even excluding volatile energy and food costs, core producer prices rose just 0.1 percent last month. Compared to February last year, producer prices increased 4.4 percent, but they slowed from a 4.6 percent year-on-year rise in January and were below market expectations for a 4.9 percent increase.

The Labor Department attributed the February fall in wholesale prices to a 2.9 percent drop in energy costs.

Core producer prices edged up 0.1 percent last month, slowing from January's 0.3 percent increase. The core producer price index rose 1.0 percent measured on a year-on-year basis.

Separately, applications for home loans fell last week despite the lowest mortgage rates in more than three months, the MBA said. The industry group's market index dropped 1.9 percent to a three-week low despite improving borrowing costs. Average 30-year mortgage rates slipped 0.10 percentage point to 4.91 percent.

Regulators to U.S. banks: tighten up on funding

The Federal Reserve and other banking regulators jointly reminded financial institutions about the importance of managing their liquidity to avoid a repeat of the financial crisis.

The 50-page policy statement said banks and other deposit-taking firms need to keep accurate projections of cash flows, do stress testing and maintain an adequate cushion of liquid assets to protect their safety and soundness. Fed Governor Daniel Tarullo said the policy statement should be seen as "one step along the way to more sustainable funding practices, a more stable financial system, and a healthier economy."

Separately, top officials warned policymakers to avoid hurting global efforts to toughen up financial regulation as differences emerge over derivatives speculation, hedge funds and bank capital.

In a separate statement, U.S. securities regulators were urged to also focus on the economy, not just on protecting investors. Representative Jose Serrano, whose committee is in charge of appropriating funds, told the SEC it has an obligation to address the economic problems caused by the securities market.

Obama wins first convert in healthcare push

President Barack Obama picked up his first convert in the push for healthcare reform as Democrats in the House of Representatives prepared for a close weekend vote on final passage.

Representative Dennis Kucinich, one of the most liberal members of Congress and an ardent supporter of nationalized healthcare, became the first House Democrat to switch from "no" to "yes" on the overhaul.

He is the first of 37 House Democrats who voted against the overhaul in November to flip to the "yes" column, but Obama and House leaders are frantically searching for more as they try to round up the 216 votes needed for passage.

House Democrats are struggling to finish the legislative language on the final changes they seek to the Senate-passed bill and hope to publish them on Wednesday, along with cost estimates from the Congressional Budget Office.

Under the procedure planned for passing the reform overhaul, the House would vote this weekend on whether to approve the Senate's version of the bill.



TODAY'S TOP NEWS

China unyielding on yuan as U.S. raises pressure

China rejected criticism of its exchange rate policies and said it was being made a "scapegoat" after the U.S. Congress threatened to slap duties on Chinese goods unless it revalues its yuan.

The heat is rising quickly in the long-running dispute over China's exchange rate regime, with a bipartisan bill introduced on Tuesday in the U.S. Senate that aims to press Beijing to let its currency rise in value.

With key committees of the U.S. Congress setting hearings this month on the currency issue, the bill's co-author, Democratic Senator Charles Schumer, said his move to "wake up this administration" enjoyed broad support in Congress.

Meanwhile, leading global economies should boost cooperation to overcome imbalances, improve financial regulation and speed up recovery, the IMF's chief said. The managing director of the IMF, Dominique Strauss-Kahn, added to the pressure on Beijing, saying that the yuan is undervalued.

Dubai World to offer full debt repayment -report

Dubai World will offer banks a single proposal to repay in full the \$26 billion debt it is renegotiating, with interest likely linked to LIBOR, Al Arabiya reported.

Officials from Dubai and neighboring emirate Abu Dhabi have been working with restructuring experts to devise a viable debt restructuring plan acceptable to some 97 creditors to Dubai World, the state-controlled holding company.

Dubai World will propose to repay the debt over seven years, the Dubai-based broadcaster said on its website.

Implementing the proposal would cause banks to book losses this year due to the differences between the proposed rate and the rates in the original contracts, the report said. Any interest losses should be declared in banks' financial statements this year, the broadcaster cited "informed banking sources" as saying. Saudi-owned Al Arabiya also cited the sources as saying a problem had developed in the accounting process that could force Dubai World to review some minor technical, but "not fundamental", aspects of repayment.

BOJ split vote raises doubts about future easing

The Bank of Japan loosened monetary policy in a split vote that suggested the central bank would struggle in the future to meet government demands for easier monetary conditions.

The government has prodded the BOJ for weeks to ease policy, a tactic analysts say is aimed at preventing a rise in the yen from derailing an export-driven recovery and deepening deflation. The BOJ doubled to 20 trillion yen (\$221 billion) the funds available to banks for three-month loans at the policy rate of 0.1 percent. The outcome was in line with expectations.

Governor Masaaki Shirakawa said the decision was aimed at ensuring the economy recovers from the global downturn and pulls out of deflation, but analysts said it was a modest easing of policy that would have only a limited impact.

Resistance to the decision by two of the seven board members -- Tadao Noda and Miyako Suda -- suggested the consensus-seeking central bank might take longer to shift policy in the future, when analysts expect it to come under renewed pressure from the government for further action. As widely expected, the BOJ also left its policy rate unchanged at 0.1 percent.

EU recommends more fiscal cuts for Britain

The European Commission told Britain to do more to cut its large budget deficit in a report that has already embarrassed Prime Minister Gordon Brown weeks ahead of parliamentary elections. A report by the EU's executive arm said the British fiscal program failed to guarantee the country would meet an EU deadline of 2014-15 for cutting the deficit to below the bloc's cap of 3 percent of economic output.

The British government defended its budget plans in response to the leaked draft, saying they took into account a need to support the economy through the downturn.

In a separate report, European Commission report stated Spain's austerity package aimed at bringing its public deficit in line with European guidelines may not fully meet requirements after 2011. It also said, France's plans to reduce its public deficit to 3 percent of GDP by 2013 are based on "rather optimistic" economic assumptions.

NEXT UP

POLL-U.S. dealers see 59 pct chance of 2010 rate hike

Big banks that deal directly with the U.S. Federal Reserve on average see a 59 percent chance the central bank will raise interest rates before the end of the year, according to forecasts in a Reuters poll.

The poll of primary dealers was conducted after the Fed renewed its pledge on Tuesday to keep interest rates near zero for an "extended period" even as it sounded less pessimistic about jobs. The median view of the dealers' polled was for a first rate hike in the fourth quarter, but the wide range of responses reflects the uncertainty that clouds the policy outlook.

Goldman Sachs does not expect a rate hike until after 2011, while at the other end of the spectrum, six dealers expect a rate hike by the end of the third quarter of this year.

Dealers expect that first hike to be 0.5 percentage points, according to the median view. But here too there is a notable range -- with UBS and BNP Paribas expecting the first hike to be simply moving from a zero to 0.25 percent target range to a 0.25 percent target and Citigroup forecasting a more aggressive 1 percent. The average of forecasts from dealers put the likelihood of a rate hike by mid-2010 at 6 percent.

POLL-U.S. stocks seen rising 10 percent in 2010

Optimism about a rebound in the U.S. labor market and profits should drive stocks to their second straight annual advance, but any interest rate rise later in the year could temper gains, a Reuters poll found.

Falling unemployment could boost consumer confidence and spur a revival in spending, a key driver of corporate profits. Consumer discretionary and technology were seen among sectors likely to do well.

The S&P 500 index was seen at 1,225 at the end of 2010, according to the median forecast of almost 60 money managers and strategists at top Wall Street dealers, brokerages and fund managers.

That would represent a 10 percent increase from where the index ended 2009 and a 5.7 percent rise from Tuesday's close at 1,159. It is also slightly more optimistic than the 1,208 median forecast for end-2010 in the December poll.

For the Dow Jones industrial average, the median forecast for end-2010 was 11,175. That would mean an increase of 7 percent for 2010. Analysts said a turnaround in the employment situation would also help spur on the market.



DEEP DIVE Commentary and Analysis

FACTBOX

Major U.S. agencies that regulate financial system

Numerous U.S. government agencies oversee the financial system being targeted for an overhaul by congressional Democrats and President Barack Obama.

While a fundamental shake-up of the regulatory bureaucracy looked possible a year ago as the financial crisis peaked, it now seems unlikely amid intense lobbying to maintain the status quo by regulators, bank lobbyists and Republicans.

Here are the major regulatory agencies involved and some basic information about them and their present duties.

FEDERAL RESERVE

The Fed is an independent agency that controls the nation's monetary policy, while also supervising state-chartered banks that opt into the Fed system. Created in 1913, it has about 2,700 employees involved in supervision and regulation.

The Fed under Chairman Ben Bernanke has radically expanded its role in the economy, injecting hundreds of billions of dollars of liquidity into the financial system.

Under a bill unveiled in the Senate on March 15, the Fed would become the home of a new financial consumer protection watchdog and supervise large bank holding companies with assets exceeding \$50 billion.

It would also gain the power to help monitor risk in the financial system and break up large nonbank financial firms judged to threaten economic stability.

But under the new bill, the Fed would be stripped of its oversight of more than 5,000 small bank holding companies and state-chartered banks with less than \$50 billion in assets.

The Fed is trying to roll back that proposal.

FEDERAL DEPOSIT INSURANCE CORP

The FDIC is an independent agency that protects consumers by insuring deposits in banks and thrifts. It also examines state-chartered banks that do not join the Fed system, and is funded through fees that banks pay for deposit insurance.

Created in 1933 during the Great Depression, the agency has about 5,000 employees. It is chaired by Sheila Bair.

Under the new Senate bill, the FDIC would take over supervision of many small banks taken away from the Fed.

TREASURY DEPARTMENT

Treasury is a cabinet-level department tasked primarily with financing the government and collecting taxes.

It plays a major role in bond markets.

It regulates banks mainly through two units: the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS).

Under legislation approved by the House of Representatives and being debated in the Senate, OTS would close, while the OCC would remain in place.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

OCC charters, regulates and supervises national banks, including some of the nation's largest. Formed in 1863, it has about 3,000 employees and is led by Comptroller John Dugan.

Under the new Senate bill, the OCC would take over supervision of some small banks taken away from the Fed.

OFFICE OF THRIFT SUPERVISION

OTS regulates thrift institutions. Formed after the 1980s-1990s savings and loan crisis, OTS has about 1,000 employees.

Officials and key lawmakers seem determined to eliminate the OTS, which was the primary regulator for failed lenders like Countrywide Financial and Washington Mutual.

SECURITIES AND EXCHANGE COMMISSION

The SEC regulates public corporations, stock exchanges, brokers, mutual funds, municipal bonds and corporate auditors.

Formed in 1934, it has about 3,500 employees and is led by Chairman Mary Schapiro.

The SEC would gain authority to supervise advisers to hedge funds and play a role in regulating the \$450 trillion over the counter derivatives market, under bills being debated.

COMMODITY FUTURES TRADING COMMISSION

The CFTC oversees commodity and financial futures.

With about 490 employees, it was formed in 1974. Gary Gensler is its chairman.

The CFTC would also gain powers to oversee the derivatives market under proposals in Congress.

Coming soon: "oil-less" economic growth

By Christopher Johnson

The world may soon achieve something long dreamed of by governments and policymakers: higher economic growth without using more oil.

Rising efficiency, conservation and substitution are steadily reducing the amount of oil needed to fuel an increase in the goods and services produced around the world.

Oil demand in the rich, industrialised countries of the West already appears to have peaked and the trend in developing economies is toward an ever-smaller increase in the amount of oil consumed for every extra unit of economic growth.

Global oil intensity -- oil demand growth divided by economic growth -- has fallen by about 2 percent a year over the last decade and the decline is now accelerating, spurred by high oil prices, moves to alternative fuels and measures to curb global warming.

This does not yet mean that absolute oil consumption is falling because population growth and rising wealth in poorer parts of the world will push up oil consumption for some time.

But it does mean global oil use will eventually peak and start declining -- and "oil-less growth" may not be far away.

"The rate of decline of oil intensity will accelerate," said Eduardo Lopez, oil demand analyst at the International Energy Agency (IEA) in Paris, which advises industrialised countries.

"There is a structural change -- difficult to measure admittedly, but clear -- that demand for burning fuels is no longer what it used to be."

DECLINING

David Fyfe, head of the IEA's oil industry and markets division, says price controls and subsidies as well as economic stimulus packages in China and elsewhere, will help prop up oil demand short-term, but longer-term the trend is downwards.

"Globally speaking, oil intensity has been declining by around 2 percent annually over the past decade," Fyfe said.

"Our working assumption is that with fuel economy standards, fuel diversification and substitution ... oil intensity lessens by just under 2.5 percent over the next five or six years."

This acceleration is probably partly due to prices: crude oil hit a record high of almost \$150 per barrel in 2008 and are now fairly high historically at around \$80.

Estimates of when global oil consumption will stop rising vary but many analysts see it happening over the next 15 years.

BP Chief Executive Tony Hayward said last month world oil demand would peak sometime after 2020 at between 95 million and 110 million barrels per day (bpd), compared with current oil demand of around 85 million bpd.

The trend toward better fuel economy for cars and other vehicles has been clear for some time and it is no surprise that de-



DEEP DIVE Commentary and Analysis

veloped economies are using less oil for power generation. But data from the IEA shows it is not just the richer parts of the world that are weaning themselves off oil. Although fuel intensity in the developed countries of the Organisation for Economic Co-operation and Development (OECD) has consistently been far lower than in non-OECD countries, the rate of decline has been very similar, IEA figures show.

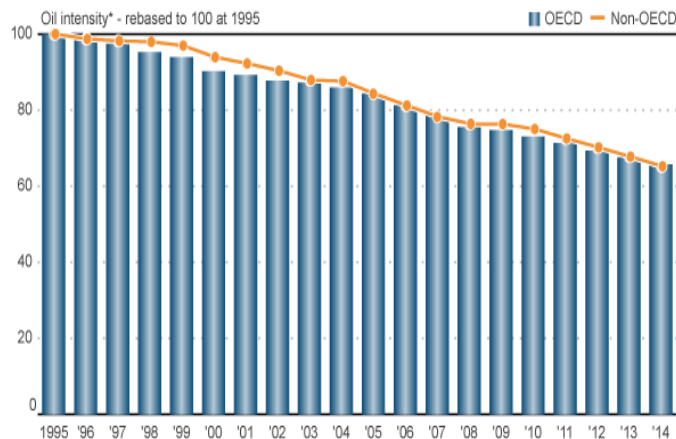
"MARKET AT WORK"

The top energy forecasters, the IEA, the U.S. Energy Information Administration (EIA) and the Organization of the Petroleum Exporting Countries all make different assumptions of oil demand, economic growth and the ratio between them. The IEA says 1 percent of global economic growth now needs about 0.47 percent more oil, the EIA says it needs 0.51 percent, while OPEC suggests it needs only about 0.31 percent more oil. The lower OPEC estimate may reflect a policy bias, analysts say, since the 12-country grouping represents oil producers who take a cautious, conservative approach to demand for their oil. A Deutsche Bank analysis of oil intensity shows over the last 30 years the annual percentage change in oil demand has equalled 0.9 percent of global economic growth minus 2 percentage points.

But all the big forecasters expect the decline in oil intensity to pick up speed over the next decade. The trend in the biggest oil consumer, the United States, is relatively easy to assess. Mary Novak, director of energy services at Global Insight, which offers the EIA estimates for oil demand growth, says jobs and income are the key indicators.

"We have based our model on jobs ... Oil is a transport fuel (in the United States). It is not used for much more," she said. The EIA uses Global Insight's macroeconomic data to come up with the agency's own oil demand forecast. In non-OECD countries, including China, it is more difficult to estimate since detailed oil data is not available. But it is becoming clear that oil intensity is declining everywhere. "This is the market at work," said Mike Wittner, global head of oil research at Societe Generale. "The very high prices we have seen recently are driving consumers away from oil."

Despite different starting points, OECD and non-OECD oil intensity is declining at a similar rate



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