

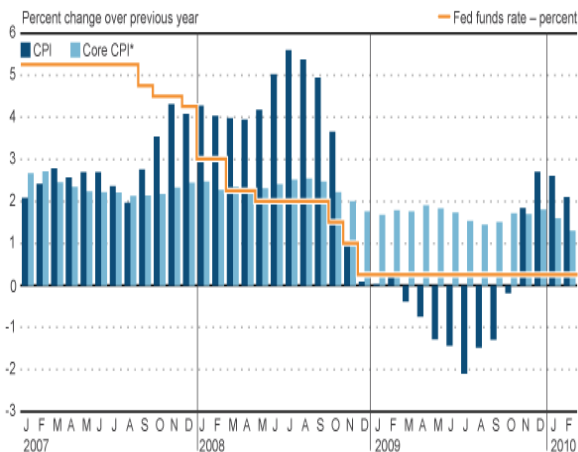
INSIDE DEBT

PRODUCED BY REUTERS IN PARTNERSHIP WITH ICAP

Thursday, March 18, 2010

CHART OF THE DAY

U.S. inflation



U.S. consumer prices were unexpectedly unchanged in February, after rising 0.2 pct in January, as a drop in energy costs was offset by higher food and medical care costs.

TODAY'S TOP NEWS

- Greece ups stakes in quest for EU help, euro falls
- U.S. data points to modest recovery, muted inflation
- U.S. healthcare bill to cut deficit, CBO says
- Fed officials warn against loss of bank oversight
- Obama signs \$17.6 billion jobs bill
- Basel agrees global "too big to fail" banks plan
- U.S. tells China yuan issue is of "real concern"
- Euro zone Jan trade gap narrows, exports up 5 pct
- Canada sees gloom for world economy without reform
- Lending to UK firms falls at record pace in Jan-BoE

ECON WATCH FOR FRIDAY MARCH 19

ET	Indicators	Unit	Reuters	Prior
03:00	DE Producer prices mm	%	0.1	0.8
03:00	DE Producer prices yy	%	-2.8	-3.4
07:00	CA CPI inflation mm	%	0.4	0.3
07:00	CA CPI inflation yy	%	1.5	1.9
07:00	CA CPI BoC Core mm	%	0.3	0.1
07:00	CA CPI BoC Core yy	%	1.7	2.0
08:30	CA Retail sales mm	%	0.6	0.4
08:30	CA Retail sales ex-autos mm	%	0.6	0.4

MARKETS TODAY

TODAY'S TOP STORY: Greece raised the stakes in its quest for EU help to tackle its debt crisis, saying it cannot achieve promised deficit cuts if its borrowing costs remain so high and may have to call in the IMF.

For more please click here

TREASURIES: U.S. Treasuries fell as investors cleared room for next week's supply, overshadowing tame inflation data that reinforced the view the Federal Reserve can leave short-term interest rates near zero percent.

- The Treasury Department said it will sell \$44 bln in 2-yr notes, \$42 bln in 5-yr debt, and \$32 bln in 7-yr notes next week.
- 10-yr notes were down 8/32 in price to yield 3.67 pct from 3.64 pct, while the 2-yr notes fell 2/32 to yield 0.96 pct.
- 30-yr bonds fell 8/32 to yield 4.58 pct, up from 4.57 pct.
- The 10-yr notes and 2-yr notes yield spread narrowed to 271 bps.

FOREX: The euro fell against the dollar on persistent worries over Greece's debt problems after a report said the country was not optimistic about aid from euro zone members.

- The euro fell 0.9 pct to \$1.361, pulling back from a five-week high hit on Wednesday, earlier it fell to a session low of \$1.3587.
- Against the Swiss currency, the euro fell as low as 1.4356, the weakest level since October 2008, when it hit an all-time low just below 1.43 francs. It was last down 0.57 pct at \$1.4396. The dollar trimmed gains versus the Swiss franc and was last up 0.47 pct at 1.0577 franc.
- The dollar index rose 0.8 pct to 80.272.

CORPORATES: U.S. corporate bond yield spreads widened as worries about Greece's debt troubles resurfaced, rippling across global bond markets.

- The CDX.IG-13 index widened by about 1.5 bps to 84 bps.
- Shell International Finance launched a three-part sale of \$4.25 bln of debt. JPMorgan sold \$2.75 bln two-part debt sale.

STOCKS: The Dow rose on Boeing's strength, while the S&P 500 slipped after a round of economic data and corporate results.

- Earlier in the session, the Dow climbed as high as 10,773.88 -- its highest in 17 months.
- Dow gained 0.42 pct to 10,778.94, S&P slipped 0.04 pct to 1,165.8 and Nasdaq rose 0.09 pct to 2,391.28.
- Boeing rose 2.15 pct to \$70.87. Earlier in the session, Boeing hit a 52-week intraday high at \$70.62.
- Nike's stock climbed 5.38 pct, GameStop shares jumped 6.55 pct.
- The Dow Jones Transportation Average rose 1.0 pct. The Morgan Stanley Healthcare Payor Index rose 3.04 pct.

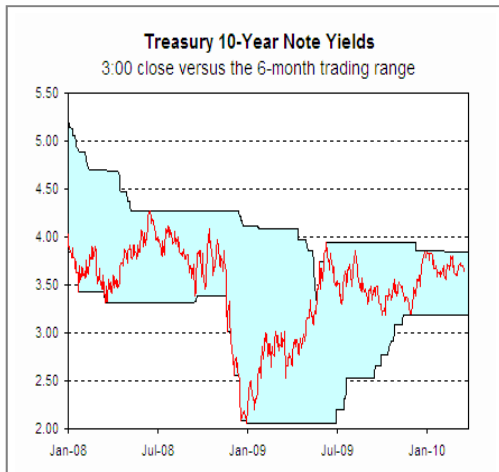
C & E: Oil dipped toward \$82 a barrel after a two-day rally, as the dollar strengthened against the euro and OPEC did not take strong steps to tighten supplies above its official output cap.

- U.S. crude prices fell 1.07 pct to \$82.04 per barrel.
- Gold rose 0.16 pct to \$1,125.85 an ounce.
- Reuters-Jefferies index shed 0.22 pct to 275.68.

- 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	0.150	0.115	0.152	0.005
3-Mo Bill	0.150	0.140	0.152	0.003
6-Mo Bill	0.235	0.230	0.239	0.004
1-Year	0.390	0.365	0.397	0.016
2-Year	99.820	99.852	0.969	-0.078
3-Year	99.578	99.609	1.520	-0.125
5-Year	99.813	99.852	2.416	-0.223
7-Year	99.188	99.234	3.131	-0.242
10-Year	99.563	99.625	3.678	-0.281
30-Year	100.531	100.594	4.592	-0.359

EQUITIES

	INDEX	CHANGE
DJIA	10763.52	29.85
NASDAQ	2388.85	-0.24
S&P 500	1164.22	-1.99

OIL

	PRICE	CHANGE
NYMEX	82.2	-0.8
BRENT	81.6	-0.4

EURODOLLAR FUTURES

	CLOSE	CHANGE
Apr-10	99.655	-0.003
Jun-10	99.600	-0.035
Sep-10	99.435	-0.055
Dec-10	99.160	-0.055

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.270	O/N	0.270
2-Week	0.230	2-Week	0.260
1-Month	0.250	1-Month	0.270
3-Month	0.260	3-Month	0.280
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.270	10:00 AM	0.200
2-Week	0.250	3:00 PM	0.193
1-Month	0.250		
3-Month	0.260		

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	16.00	20.00	1.12	1.14
3-Year	19.75	23.75	1.71	1.73
5-Year	20.75	24.75	2.62	2.62
7-Year	7.00	11.00	3.20	3.19
10-Year	1.75	5.75	3.69	3.68
30-Year	-16.00	-12.00	4.43	4.41

FUTURES

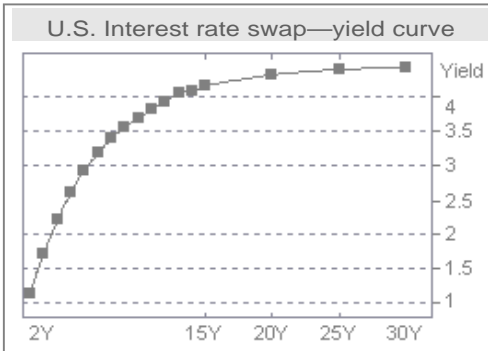
	PRICE	CHANGE
CBOT 5 yr	116.38	-0.23
CBOT 10 yr	117.88	-0.08
CBOT 30 yr	117.16	-0.41

CURRENCIES

	BID	ASK
Euro	1.3616	1.3618
Sterling	1.5245	1.5250
JP Yen	90.29	90.32
Swiss Franc	1.0575	1.0578
Can Dollar	1.0126	1.0130
Mexico	12.4942	12.4998

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.200	0.250	-	-
1-Month	0.200	0.280	0.195	0.205
3-Month	0.240	0.410	0.204	0.214
6-Month	0.370	0.470	0.240	0.250
12-Month	0.680	1.020	0.388	0.398



FED FUNDS NYFRSM - 10AM

Open	0.2000	1m	0.2225
High	0.2200	3m	0.2644
Low	0.1800		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1	04/04/2012	12.5 12	1.07
3-Year	1.625	15/04/2013	19.5 0	1.68
5-Year	2.875	09/02/2015	24.5 23.5	2.66
7-Year	5.125	18/10/2016	19 18.5	3.32
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	35 34.5	4.94

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	-3 -6	0.91
3-Year	1.75	07/05/2013	23.5 22	1.75
5-Year	2.625	20/11/2014	15 0	2.51
7-Year	5.25	15/09/2016	14.75 14	3.28
10-Year	3.75	27/03/2019	23 22	3.9
30-Year	6.25	15/07/2032	36 35	4.95

Active MBS 15YR

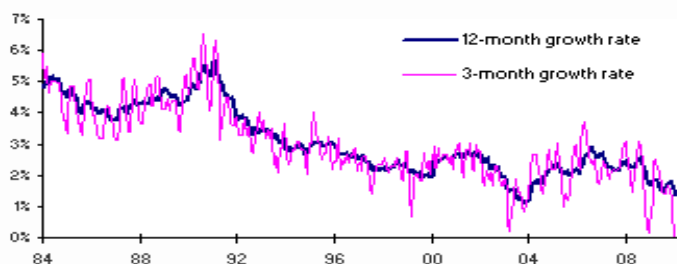
	CPN	BID	ASK	YIELD
FNMA	5.0	105.2360	105.2420	2.983
FHLMC	5.0	105.2360	105.2420	2.943

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	5.5	105.2100	105.2100	2.988
FHLMC	5.5	105.3000	106.0000	2.869
GNMA	5.5	106.0060	106.0120	3.426

Wrightson ICAPSM Chart of the Day

Annualized Growth in the Core CPI



TODAY'S TOP NEWS

Greece ups stakes in quest for EU help, euro falls

Greece raised the stakes in its quest for EU help to tackle its debt crisis, saying it cannot achieve promised deficit cuts if its borrowing costs remain so high and may have to call in the IMF. But Athens dismissed a report that it was planning to turn to the global lender as soon as early April if a euro zone rescue plan was not agreed, describing IMF aid as a last resort and saying that all options were still open.

Market concerns that it may prove impossible to construct a euro zone financial safety net for the currency area's most heavily indebted member due to German reluctance sent the euro lower and hit Greek bank shares and bonds. In the latest sign of tension in the euro zone, Spain urged German Chancellor Angela Merkel to avoid talk of possibly expelling fellow members from the single currency, saying such comments could be misconstrued. Greek Prime Minister Papandreou said Greece wanted a decision at an EU summit next week on a mechanism to provide financial support if needed, but stressed that Athens had not asked for money and would not default or leave the euro zone. He said a visible EU support mechanism could force market rates down and make it unnecessary for Greece to go to the IMF. Separately, hedge fund speculators have cost debt-laden Greece at least an extra 2.5 percentage points to borrow money, said one European politician who is pushing for a clampdown on bets that a country can't pay back its debts.

U.S. healthcare bill to cut deficit, CBO says

Democrats in the House of Representatives predicted weekend passage of a sweeping healthcare overhaul that budget analysts said would cut the U.S. deficit over 10 years and dramatically expand health coverage.

President Barack Obama, who was scheduled to leave on a visit to Indonesia and Australia on Sunday, postponed the trip to help round up support on what is expected to be a close vote on his top domestic legislative priority.

House Democratic leaders unveiled the last changes to the overhaul, which the CBO estimated would expand insurance coverage at a cost of \$940 billion over 10 years and cut the deficit by \$138 billion in the same period through new fees and cost-cutting measures.

The overhaul would extend coverage to 32 million uninsured Americans, the nonpartisan CBO estimated, and ban insurance practices like refusing coverage to those with pre-existing medical conditions. The favorable CBO preliminary estimate could help Democrats round up the 216 votes they need to pass the overhaul in a vote on Sunday, but Republicans said it showed the revised bill was more of the same.

Obama signs \$17.6 billion jobs bill

President Barack Obama signed into law a \$17.6 billion jobs bill and sounded an optimistic note about the U.S. economy, saying it may soon begin adding jobs instead of losing them.

The legislation 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. Obama said that while the jobs bill "is absolutely necessary, it is by no means enough. There is a lot more we need to do to spur hiring in the private sector and bring about a full economic recovery."

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.

U.S. data points to modest recovery, muted inflation

The U.S. economy is on a moderate growth path and inflation pressures are contained, data showed, backing up the Federal Reserve's vow to keep benchmark interest rates ultra-low for some time.

Initial claims for state unemployment benefits fell 5,000 to 457,000 last week, the U.S. Labor Department said, suggesting the jobs market was improving, but only gradually.

In another report, the department said the CPI was unchanged in February after rising 0.2 percent the prior month. Excluding volatile energy and food prices, inched up 0.1 percent after falling the same amount in January.

Manufacturing continues to expand and the Philadelphia Fed said its business activity index rose to 18.9 in March from 17.6 in February, but new orders fell. The Philadelphia Fed's employment index in March rose to its highest since August 2007.

Labor market weakness, low industrial capacity utilization and high vacancy rates for residential and office space are keeping inflation pressures in check. The Conference Board's index of leading economic indicators edged up 0.1 percent in February after a 0.3 percent increase in January.

Fed officials warn against loss of bank oversight

Four top Federal Reserve officials urged Congress not to strip the U.S. central bank of the authority to supervise small banks, saying they would lose an important finger on the pulse of the economy that helps them guide monetary policy.

A financial regulatory overhaul bill unveiled in the U.S. Senate this week would diminish the bank powers of the 12 regional Fed districts and leave some with no banks to oversee.

Three of the officials addressing a bankers' group were presidents of regional Federal Reserve banks. Duke said the U.S. central bank's broad supervisory authority gives it a better understanding of the economy's condition and it would be a mistake to narrow that focus to only larger banks. Duke said broad-based knowledge of banks' condition was "specially helpful" to Fed policy makers during the financial crisis when they had to respond quickly to changing conditions.

Separately, former Federal Reserve Chairman Alan Greenspan, whose legacy has been tarnished by the global financial crisis, laid out a scholarly defense of why Fed policy did not fuel the housing bubble. Greenspan did offer somewhat of a mea culpa, though, noting that the regulatory system failed by not demanding financial firms hold much larger capital buffers.

Basel agrees global "too big to fail" banks plan

Global bank regulators agreed an international framework to stop "too big to fail" banks from relying on a taxpayer bailout when in trouble, but countries such as the United States still want more radical measures.

The Basel Committee of central bankers and supervisors from the G20 group of leading countries published its final recommendations that seek to mesh national approaches into a more coordinated global approach to too big to fail. The 10 recommendations call for national authorities to have powers to intervene sufficiently early and to ensure the continuity of a bank's "critical functions". Banks should also develop credible contingency plans. The G20 has agreed that the world's biggest banks should draw up such "living wills" and contingency plans by the end of this year and Spain's Santander said recently it was the first to comply. Britain is also piloting living wills with a handful of top banks and has said it could force through structural remedies if the wills are not compelling enough.

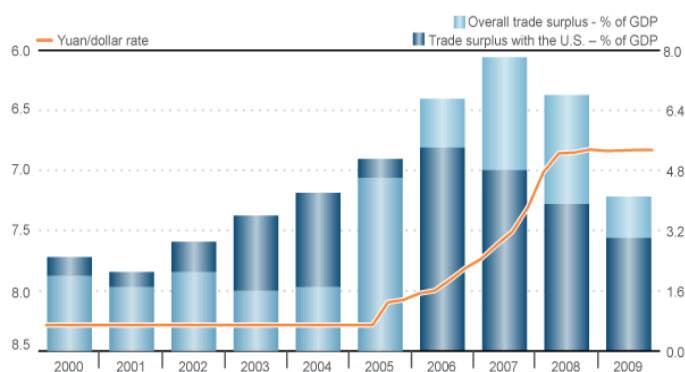
TODAY'S TOP NEWS

U.S. tells China yuan issue is of "real concern"

The United States kept up pressure on China to let the yuan climb as Beijing disclosed it was sounding out exporters on whether they could cope with a stronger exchange rate.

Washington wants Beijing to abandon a currency peg against the dollar that U.S. lawmakers say gives Chinese exports an unfair advantage in world trade and so steals American jobs.

China faced important negotiations over the yuan in coming weeks, U.S. Ambassador Jon Huntsman said, adding Washington was not alone in wanting Beijing to unshackle its currency from the 20-month-old currency peg. The comments, as well as a demand from 130 U.S. lawmakers on Wednesday for sanctions unless China abandons the peg, did little to alter investors' expectations that the yuan will start rising gradually by the end of June. A semi-annual U.S. Treasury report due in mid-April could label China a "currency manipulator", adding to pressure on Beijing and threatening a deepening rift between the world's biggest and third-biggest economies. A Japanese deputy finance minister told reporters China should understand global calls for a more flexible yuan but it would be "wrong" for Washington to resort to sanctions.

China's trade surplus and the yuan**Euro zone Jan trade gap narrows, exports up 5 pct**

The euro zone's non-adjusted trade deficit narrowed year-on-year in January as exports increased five times faster than imports, signaling rising external demand but still muted domestic consumption. The deficit totalled 8.9 billion euros (\$12.2 billion) in January, down from 12.1 billion a year earlier as exports rose 5 percent year-on-year and imports only 1 percent, the European Union statistics office said. Economists polled by Reuters had expected a deficit of 4.0 billion euros. December's surplus

was revised to 4.1 billion euros from the 4.4 billion euros estimated previously. For all of 2009, the euro zone's surpluses with its two biggest trading partners narrowed to 49.5 billion and 34.7 billion euros respectively. The single currency area's trade deficit with China narrowed to 90.1 billion from 119.7 billion in 2008, with Russia to 31.9 billion from 43.7 billion and with Japan to 14.4 billion from 23.8 billion.

Canada sees gloom for world economy without reform

Canada took a gloomy look at what could go wrong with the global economy, warning of prolonged recession or a deflationary spiral unless countries push ahead with economic and financial reforms.

In a discussion paper prepared for a two-day meeting of officials from the Group of 20 industrialized and emerging nations, Canada said the G20 had to press ahead with reforms agreed to at a summit in Pittsburgh last September.

If the world returns to business as usual, it could trigger higher interest rates and another economic crisis, the document said. But if rich countries rein in budget deficits and emerging markets don't take up the spending slack, there would be deflation and recession.

Separately, Foreign portfolio investment in Canada rose more than expected in January to C\$11.83 billion (\$11.71 billion) from C\$11.14 billion in December, due mainly to strong interest in federal government bonds, Statistics Canada said. Analysts surveyed by Reuters had forecast a net foreign investment of C\$8 billion in Canadian securities.

Lending to UK firms falls at record pace in Jan-BoE

Lending to British businesses fell at a record annual rate in January, while broad money supply grew last month at the slowest pace in a decade and mortgage approvals slid further, BoE data showed. The figures highlight risks to Britain's recovery at a time when both the banking sector and the government are trying to repair their balance sheets. The flow of net lending fell 6.5 billion pounds in January, nearly twice as fast as in December, the BoE said in its Trends in Lending report. That pushed the annual rate of decline to 9.3 percent, the biggest fall since monthly records began in 1999. Separate figures showed Britain's broad money supply expanded by 0.2 percent in February, slowing the annual rate to 3.6 percent, its weakest since February 2000. Mortgage approvals for house purchase made by Britain's six biggest lenders fell for a third consecutive month in February to 48,000, down from 49,000 in January and the lowest since May 2009.

NEXT UP

PREVIEW-Canada February inflation seen at 1.5 percent

For headline CPI, the median forecast is +0.4 percent m/m as against +0.3 percent in January, and +1.5 percent y/y versus +1.9 percent in January. The forecasts of 18 analysts range from a low of +1.2 percent to a high of +2.1 percent.

The central bank has projected core inflation will average 1.6 percent in the first quarter, so any suggestion of a higher reading would significantly raise expectations of an early rate hike.

For core inflation, the median forecast is +0.3 percent m/m vs Jan +0.1 percent, and +1.7 percent y/y versus Jan +2.0 percent. Forecasts range from +1.5 percent to +2.1 percent.

The bank has pledged to keep its overnight target rate on hold at 0.25 percent until the end of June, but reserved the right to break that pledge if inflation strays off track.

If February inflation is higher than forecast, the Canadian dollar could strengthen back to the 20-month high reached last Friday and edge closer to parity with the greenback. Bond prices would fall as investors expect higher interest rates and an end to low-cost borrowing.

Weaker inflation numbers would quell expectations of a rate hike in April or June, likely pushing the Canadian dollar lower.

DEEP DIVE Commentary and Analysis

U.S. banks unlikely to party like it's 2009

By Steve Eder

Trading profits at Goldman Sachs Group Inc, Morgan Stanley and other banks may be recovering, but are still unlikely to match the blockbuster levels reached most of last year.

Wildly fluctuating prices across fixed income markets triggered high trading volume in 2009, generating big profits for banks and allowing Goldman to post record earnings just a year after the 2008 financial meltdown.

Although corporate and municipal bond trading remain important profit drivers, prices are fluctuating less, and the gap between where dealers can buy and sell securities have tightened in 2010, hampering profit at trading desks at major banks.

"Last year was a once-in-a-century kind of opportunity," said Fred Yosca, head of fixed income trading at BNY Mellon Capital Markets LLC in New York. "To the extent that you capitalized on it, people expect you to do the same thing next year. Well, the opportunity isn't there."

Most corporate bond prices have risen relative to Treasuries, too, which should also hamper profitability in 2010, Yosca said.

Banks benefited in 2009 from cheap access to money from the U.S. Federal Reserve, but analysts are concerned that that access, which bolstered fixed income trading revenues, might soon be coming to an end.

"That will do a pretty good job on fixed income," said Brad Hintz, an analyst with Sanford C Bernstein.

Rochdale research analyst Richard Bove noticed that 2010 started with "a massive surge" across all markets, after trading had come to a "virtual halt" for six weeks in the fourth quarter as customers took profits and went away for the holidays.

Bove said he heard from one company that the early 2010 surge was so big that it accounted for 20 percent of all of the trading the firm had done in 2009.

But events later in January and February, including the woes facing Greece's economy and increased uncertainty about U.S. financial regulations, slowed trading.

"The hope is in March things will turn around dramatically," Bove said.

Bove earlier this month cut his annual Goldman Sachs estimates, citing "disappointing" trading activity.

Analysts have also been lowering their forecasts for Morgan Stanley's earnings in recent weeks because of trading worries. StarMine's SmartEstimate, based on its assessment of the most accurate analysts, now has Morgan Stanley earnings falling 5.1 percent below Wall Street estimates for 2010.

DRAMATIC TURNAROUND

The turnaround in 2009 was so dramatic that Goldman reported pretax trading revenue of \$17.3 billion, a year after the firm posted pretax trading losses of \$2.74 billion.

Goldman in 2009 had 131 days when it had more than \$100 million in net trading revenues. Its trading desks lost money on only 19 days the entire year.

But in the fourth quarter of 2009, Goldman's trading revenues fell 36 percent from the third quarter as falling debt trading volumes weighed on results.

Rivals such as Morgan Stanley and JPMorgan Chase & Co also saw trading fall as 2009 came to a close.

For Goldman, nearly half of its revenue in its robust third quarter came from its fixed income, currency and commodities trading business.

Walter Todd, portfolio manager of Greenwood Capital, which manages \$785 million and owns Morgan Stanley shares and Goldman debt, is not quite ready to give up on Goldman's traders, given their track record of turning eye-popping profits.

"Never say never to those guys," Todd said. "They tend to make gold out of iron."

EU faces high-stakes ultimatum on aid for Greece

By Timothy Heritage

Greece has made what amounts to an ultimatum to the European Union to come up with a clear offer of standby loans next week or face the embarrassment of Athens asking the International Monetary Fund for help.

Greece has long held out the prospect of seeking IMF help to put pressure on the EU, but Prime Minister George Papandreou raised the stakes on Thursday by calling for a firm pledge of financial support at an EU summit in Brussels on March 25-26.

His appeal is designed to force EU leaders, and particularly German Chancellor Angela Merkel, to rally behind Greece after EU finance ministers offered only a vague plan for a standby safety net this week. But success is far from certain for Athens.

"The position of the German government will be decisive. Right now it looks like they will really not reach agreement at European level on help for Greece," said Cinzia Alcidi of the Centre for European Policy Studies think tank.

"This would be harmful in terms of the credibility of the euro and it would be politically embarrassing. This is the first big test for the euro and it will look bad if the Europeans can't find a way out of trouble on their own."

Greece's threat of turning to the IMF is a potent one. Other countries in the euro zone are horrified by the prospect because it could be seen as a sign of weakness.

None of 16 countries using the euro has needed a bailout since the single currency was created a decade ago, and EU leaders are still hoping Greece will get by on its own after announcing austerity measures to cut its deficit.

"Many people said when they created the euro that they would face problems. There's a fear that these people will be able to say they have been proved right if the IMF is called in," said Zsolt Darvas of the Bruegel think tank in Brussels.

MOUNTING PRESSURE

Papandreou's comments on Thursday, delivered during a visit to Brussels, increased pressure on his EU colleagues to take a decision they have appeared keen to avoid.

EU finance ministers have declined to say when a final aid move for Greece might be made and a German government spokesman said on Tuesday that Berlin did not expect any decision to be taken at the EU summit.

European diplomats say EU President Herman Van Rompuy is reluctant even to discuss the issue at the meeting.

But pressure for action has also mounted because the vagueness of the standby plan has done little to convince financial markets that Greece can count on euro zone help, and the punitive premium Athens has to pay to borrow on the market over benchmark Germany has remained unsustainably high.

Prospects for agreement on an aid package, however, are clouded by political concerns, above all in Berlin.

Germany, Europe's biggest economy, would be the linchpin of any European support for Greece but is reluctant to bail it out or to rush into anything before Athens shows it is willing to take the painful steps needed to fix its finances.

"There is no need for decisions," Finance Minister Wolfgang Schaeuble told German parliament this week. "But in a way of last-resort thinking, we must be ready to act."

Opinion polls show a majority of Germans oppose stumping up the money for a bailout and Merkel took a tough line in parliament on Wednesday, backing calls for steps allowing countries to be expelled from the euro zone if necessary.

DEEP DIVE Commentary and Analysis

Any decision to back aid would be politically difficult for her, especially as any euro zone bailout could face a legal challenge in Germany.

RUNNING OUT OF OPTIONS

Some EU states also resist any approach to the IMF because it could be seen as a way for Washington to make its influence felt in Europe, and are worried the international lender would not offer a lasting solution to Greece's problems anyway.

But the EU's options are limited if its leaders do not agree on a package of aid that would be ready for Greece to tap if necessary. Proposals to create a European monetary fund have divided opinion and come too late to help Greece.

Some economic analysts say the IMF is now the only option because a credible outsider is needed to monitor compliance with any aid programme after Greece acknowledged lying to the EU over its economic statistics.

"The only credible voice left with the capacity to act is the IMF," economists Simon Johnson and Peter Boone wrote in a blog.

European diplomats say there are now some cracks in the wall of euro zone opposition to calling in the IMF, with Italy, Finland and the Netherlands increasingly open to the idea. Government sources say Germany is also now less hostile.

"In the end it will be a question of political will," said Alcidi. "But if there is no political will, it is probable that Greece will really go to the IMF."

INSIDE DEBT is produced by Reuters in partnership with ICAP.

(Compiled by Anil Kumar, Pronita Naidu and Mowna Ravikumar in Bangalore)

For questions or comments about this report, email us at: inside.debt@thomsonreuters.com or contact Chandra Ramarathnam on +91 80 4135 5899

For Market Snapshot, ICAP provides OTC capital markets data, Thomson Reuters provides exchange data.

Visit the Thomson Reuters Fixed Income Community Site at: <http://customers.reuters.com/community/fixedincome/>

If you like to receive this in your mailbox, please subscribe at: <http://interact.thomsonreuters.com/insidedebtdaily/>

For more information about our products: http://thomsonreuters.com/products_services

Or send us a sales enquiry at: <http://reuters.com/salesenquiry>
North America: +1 800.541.2268



ICAP:

For additional information and to find out more about how ICAP's range of market information, commentary and research solutions can help your business, contact icapinformationservices@icap.com.
Americas: +1 212 341 9789

© 2010 Thomson Reuters. All rights reserved. This content is the intellectual property of Thomson Reuters and its affiliates. Any copying, distribution or redistribution of this content is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters shall not be liable for any errors or delays in content, or for any actions taken in reliance thereon. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

ICAP plc, its subsidiaries ("ICAP") and third parties own portions of the copyright to information, data and content ("Information") and to certain service marks and logos herein. The Information is for informational purposes only; is not intended as investment, financial or accounting advice; and should not be construed as an offer, bid or solicitation in relation to any financial instrument. All information is provided "as is" without any representations or warranties of any kind. ICAP and third parties shall not be responsible or liable for any damages whatsoever arising out of or relating in any way to the Information herein.

