

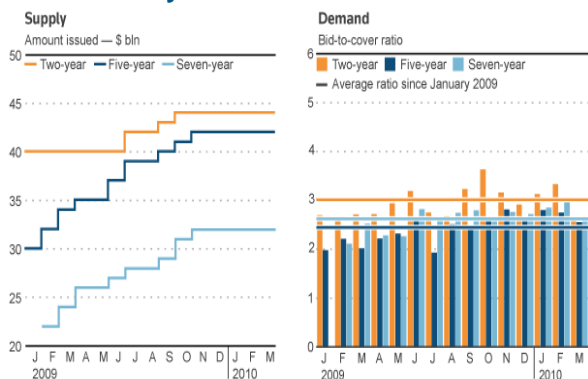
INSIDE DEBT

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Friday, March 26, 2010

CHART OF THE DAY

U.S. Treasury auctions



Demand dropped in March, particularly for 5- and 7-year Treasuries

TODAY'S TOP NEWS

- Euro zone's Greek deal wins muted approval
- Fed's Bullard says housing weakness gives him pause
- U.S. 4th-quarter growth revised slightly lower
- Jobless benefits to expire as Congress fails to act
- AIG's near-collapse yields gold for Wall Street
- **For more stories please click here**

ECON WATCH

FOR MONDAY MARCH 29

ET	Indicators	Unit	Reuters	Prior
04:30 GB	BoE consumer Credit	bln	0.40	0.500
04:30 GB	Mortgage Lending	bln	1.35	1.529
04:30 GB	Mortgage Approvals	k	48.0	48.198
05:00 EZ	Business climate	ind	-0.85	-0.98
05:00 EZ	Economic sentiment	ind	97.2	95.9
05:00 EZ	Industrial sentiment	ind	-11	-13
05:00 EZ	Services sentiment	ind	2	1
05:00 EZ	Consumer sentiment	ind	-17	-17
08:30 US	Personal income	%	0.1	0.1
08:30 US	Personal consumption	%	0.3	0.5
08:30 US	PCE price index	%	-	0.2
08:30 US	Core PCE price index	%	0.1	0.0
08:30 US	Real personal spending	%	-	0.3

FACTBOX

U.S. plan to shrink mortgages, keep jobless in homes

A \$14 billion enhancement to the Obama administration's housing rescue efforts announced will target the vexing problems of "underwater" mortgages and high unemployment plaguing homeowners.

For more please click here

MARKETS TODAY

TODAY'S TOP STORY: Euro zone leaders won muted approval from financial markets for a "band aid" agreement to create a safety net for debt-ridden Greece, but a row over the IMF's role flared up just as it had seemed settled. **For more please click here**

TREASURIES: U.S. Treasuries edged higher, pulling benchmark yields down from nine-month highs, as the market attempted to stabilize after a series of poorly-bid debt auctions pummeled the bond market.

- This week's \$118 billion trio of auctions rekindled fears over the burgeoning U.S. debt, especially after benchmark 10-yr notes began trading at a discount to private sector credit in the interest rate swap market.
- 10-yr notes rose 7/32 to yield 3.85 pct. Based on the rise in 10-yr yields, the bond market is on track for its worst week since late December.
- 30-yr bonds were up 7/32 to yield 4.75 pct.
- 2-yr Treasury notes gained 2/32 to yield 1.06 pct.

FOREX: The euro rallied after euro-zone leaders agreed on a financial safety net for Greece, but uncertainties remained over the country's ability to repay debt.

- Euro gained 1.09 pct to \$1.3422, after trading as low as \$1.3268.
- The dollar fell 0.21 pct to 92.47 yen, after touching its highest level against the yen since early January on Thursday. Meanwhile, the euro rose 0.89 pct to 124.12 yen.
- Sterling gained 0.61 pct to \$1.4901.
- Dollar index fell 0.68 pct to 81.564.

CORPORATES: U.S. corporate bond spreads narrowed, extending a rally since December, as sovereign debt risk worries eased, helping to spur interest in even riskier high-yield bonds.

- Corporate bond spreads for both investment-grade and high-yield bonds traded at the tightest levels in more than two years.
- The CDX.IG-14 index remained unchanged at 87 bps.
- Ambac's 9.375 pct bonds due 2011 plunged more than 10 cents to 40 cents on the dollar.

STOCKS: U.S. stocks were little changed on geopolitical worries after the sinking of a South Korean naval ship and after a final reading on fourth-quarter GDP was revised lower.

- Dow rose 0.09 pct to 10,850.59, S&P was rose 0.07 pct to 1,166.60 and Nasdaq fell 0.10 pct to 2,395.13.
- Oracle Corp fell from a nine-year high a day after reporting quarterly results that beat expectations. The stock slid 1.34 pct to \$25.69. Microsoft dropped 1.17 pct to \$29.66.
- Chevron rose 0.85 pct to \$74.43. Apple Inc rose 1.88 pct to \$230.90.
- S&P financial index rose 0.11 pct, S&P technology index fell 0.12 pct.

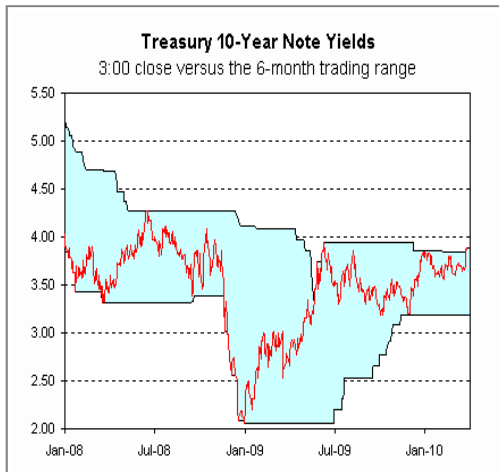
C & E: Oil prices fell after data showed the U.S. economy grew less than expected last quarter, and a plan to bail out Greece from a fiscal crisis failed to quell concern over fragile economic recovery.

- U.S. oil was down 0.47 pct to \$80.15 per barrel.
- Gold rose 1.6 pct to \$1,107.85 per ounce.
- Reuters-Jefferies index shed 0.2 pct to 267.32.

- **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	0.125	0.09	0.127	0.002
3-Mo Bill	0.135	0.125	0.137	0.003
6-Mo Bill	0.235	0.230	0.239	0.002
1-Year	0.390	0.380	0.397	-0.004
2-Year	99.883	99.914	1.060	0.063
3-Year	99.258	99.289	1.633	0.086
5-Year	99.531	99.578	2.601	0.211
7-Year	99.563	99.609	3.321	0.168
10-Year	98.141	98.203	3.853	0.273
30-Year	98.047	98.109	4.748	0.234

EQUITIES

	INDEX	CHANGE
DJIA	10846.73	5.52
NASDAQ	2392.94	-4.47
S&P 500	1165.59	-0.14

OIL

	PRICE	CHANGE
NYMEX	80.0	-0.6
BRENT	79.3	-0.3

EURODOLLAR FUTURES

	CLOSE	CHANGE
Apr-10	99.683	0.005
Jun-10	99.610	0.000
Sep-10	99.420	0.010
Dec-10	99.125	0.025

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.220	O/N	0.250
2-Week	0.240	2-Week	0.250
1-Month	0.250	1-Month	0.260
3-Month	0.280	3-Month	0.290
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.230	10:00 AM	0.170
2-Week	0.240	3:00 PM	0.162
1-Month	0.260		
3-Month	0.300		

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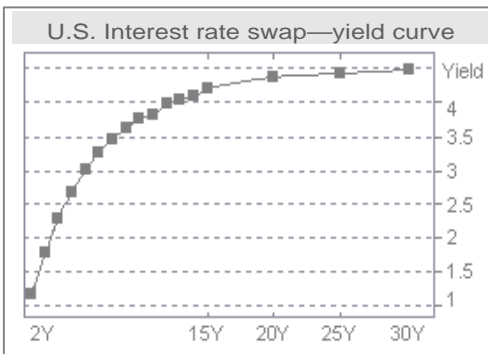
	SPREAD		RATE	
2-Year	12.00	16.00	1.17	1.19
3-Year	14.50	18.50	1.77	1.78
5-Year	8.75	12.75	2.68	2.69
7-Year	-4.75	-0.75	3.27	3.26
10-Year	-8.25	-4.25	3.76	3.75
30-Year	-27.00	-23.00	4.48	4.45

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.71	0.20
CBOT 10 yr	118.45	0.42
CBOT 30 yr	119.19	-0.25

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.200	0.250	-	-
1-Month	0.220	0.280	0.188	0.198
3-Month	0.240	0.400	0.200	0.210
6-Month	0.370	0.450	0.237	0.247
12-Month	0.680	1.000	0.412	0.422



CURRENCIES

	BID	ASK
Euro	1.3397	1.3400
Sterling	1.4887	1.4892
JP Yen	92.53	92.56
Swiss Franc	1.0669	1.0672
Can Dollar	1.0284	1.0290
Mexico	12.5194	12.5250

FED FUNDS NYFRSM - 10AM

Open	0.1800	1m	0.2275
High	0.2000	3m	0.2738
Low	0.1300		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1	12/04/2012	11	9	1.18
3-Year	1.625	15/04/2013	16	15	1.8
5-Year	2.875	09/02/2015	16	15	2.77
7-Year	5.125	18/10/2016	14.25	11.25	3.46
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	40.75	37.75	5.16

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	-3	-8	1.04
3-Year	1.75	07/05/2013	19	18	1.82
5-Year	2.625	20/11/2014	7.5	0	2.69
7-Year	5.25	15/09/2016	14	11	3.46
10-Year	3.75	27/03/2019	19.5	18	4.06
30-Year	6.25	15/07/2032	44.75	41.75	5.2

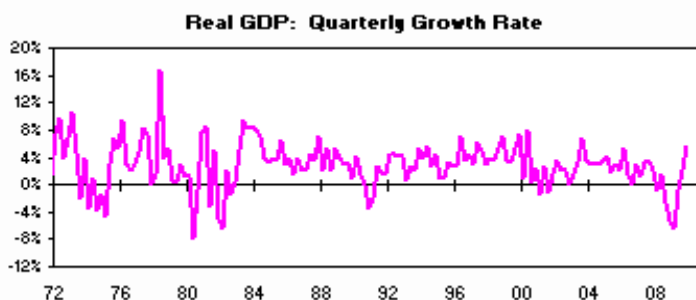
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	101.1500	101.1500	3.635
FHLMC	4.0	101.1260	101.1320	3.596

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	100.1070	100.1130	4.401
FHLMC	4.5	100.0960	100.1020	4.408
GNMA	4.5	101.0400	101.0500	4.225

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Euro zone's Greek deal wins muted approval

Euro zone leaders won muted approval from financial markets for a "band aid" agreement to create a safety net for debt-ridden Greece, but a row over the IMF's role flared up just as it had seemed settled.

Central bankers played down the likelihood that Athens, which is struggling to cut a giant budget deficit, would ever need hard cash from European governments and the IMF to avoid defaulting on its debt. But the day after the leaders hammered out their deal in Brussels, the plan remained short on details and the IMF made no direct comment on its role, which Berlin had demanded due to public hostility in Germany to bailing out Athens.

Portugal's Vitor Constancio, a ECB policymaker and widely expected to be confirmed as its new vice-president, said he remained against the Fund's involvement.

Greece's central bank chief said Athens was unlikely to make use of the aid facility as budget cuts which the government has taken would soon yield results.

A separate report showed, S&P affirmed its A-plus sovereign credit rating on Portugal, citing the government's medium-term plan to cut its budget deficit to less than 3 percent of GDP.

U.S. 4th-quarter growth revised slightly lower

The U.S. economy grew at a slightly less brisk pace in the fourth quarter than previously estimated and the momentum is expected to slow this year as the boost from inventories fades.

While the report was evidence the economy emerged from recession in the second half of 2009, underlying growth was not robust enough to cut high unemployment.

Separately, the Thomson Reuters/University of Michigan's Surveys of Consumers index was unchanged at 73.6 in March on job worries, but a touch above market expectations for 73.

GDP expanded at a 5.6 percent annual rate, the Commerce Department said in its final report for the fourth quarter, instead of 5.9 percent as it had previously estimated.

That was below market expectation for a 5.9 percent rate, but remained the fastest pace since the third quarter of 2003.

Although an alternative measure of growth, GDI increased for the first time since the first quarter of 2008, analysts said it did not alter their views of slow labor market recovery. GDI surged at a 6.2 percent rate after falling 0.4 percent in the third quarter. After-tax corporate profits grew 6.5 percent in the fourth quarter, slowing from a 12.7 percent rise in the prior period, but were 22.8 percent higher compared to the last three months of 2008.

AIG's near-collapse yields gold for Wall Street

The crumbling empire of American International Group Inc is helping to pave Wall Street with gold.

Auctions of the bailed-out insurer's assets have generated more than half a billion dollars in fees since its near-collapse in September 2008, with every major Wall Street bank getting a piece of the action, estimates from Freeman Consulting show.

Many of these banks were also among the recipients of tens of billions of federal bailout dollars that were funneled through the insurer at the height of the crisis, saving them from potential losses and causing a public uproar. The largest sale assignments came to fruition this quarter, when, in a space of just a week, AIG struck deals to sell two major foreign life insurance businesses, one each to Prudential Plc and MetLife Inc, for some \$51 billion. Those two sales have also played a significant role in shaping the first-quarter rankings of deal advisers, helping some investment banks make quantum leaps in the coveted league tables, Thomson Reuters data through March 25 shows.

Fed's Bullard says housing weakness gives him pause

A renewed bout of weakness in housing makes it more difficult for the Federal Reserve to think about selling mortgage assets when it decides to begin to withdraw monetary stimulus, a top Fed official said.

James Bullard told Reuters on the sidelines of a Fed conference that the U.S. economy was nonetheless still on track for a reasonable economic recovery.

But the health of the housing market will play a particularly key role for the Fed as it mulls the best way to unwind its emergency policies.

Separately, U.S. Federal Reserve must steer clear of dabbling in fiscal policy or risk losing its hard-fought independence, a top Fed Governor Kevin Warsh official said.

In a separate statement, he said, central bankers should keep "a very open mind" about potential economic shocks that could emerge in the United States and overseas. Warsh told a Shadow Open Market Committee conference that the United States should not be complacent about inflation risks, adding that market signals and economic data were sending a variety of messages.

Jobless benefits to expire as Congress fails to act

Hundreds of thousands of jobless Americans could face further financial strain in coming weeks after Congress failed to extend the unemployment benefits that help them pay the bills while they look for work. With 14.9 million Americans out of work, Congress adjourned for a two-week break without extending jobless programs that are due to expire in coming days.

Republican Senator Tom Coburn blocked the Senate from voting to extend the program on the grounds its \$9.2 billion cost should not add to the deficit. Democrats say it qualifies as emergency spending and thus does not need to be offset with tax increases or spending cuts elsewhere.

Separately, the Obama administration announced a \$14 billion effort to try to stem a rising tide of home foreclosures by giving lenders incentives to erase some mortgage debt and slash mortgage payments for the unemployed. The new aid programs, funded from the \$50 billion allocated to housing rescue under the Treasury Department's TARP, will also allow borrowers to erase mortgage debt down to a maximum of 115 percent of their home's value by refinancing through the Federal Housing Administration.

Bankers named as suspected conspirators in muni case

Nearly 30 bankers from more than a dozen financial companies have been named by the federal government as suspected co-conspirators in a broad investigation into pricing of certain municipal derivatives, according to court documents.

The list said the 29 bankers included employees of Bank of America, JPMorgan Chase, Lehman Brothers, UBS, Wachovia Bank and Societe General. None of the individuals or institutions on the list has been criminally charged. The papers were filed by lawyers defending a former employee of CDR Financial Products Inc. Executives of CDR were indicted in October on charges of participating in bid-rigging and fraud.

Separately, proposed reforms for the financial system should reduce the extent of risk-taking by the biggest U.S. banks and may bolster their ratings, Fitch Ratings said. The debate is intensifying over legislation for the banking system designed to avert another global financial crisis. Although the final form of changes to the laws is uncertain, indications of the broad effects it may have on banks are becoming clearer, Fitch said.



TODAY'S TOP NEWS

U.S. lawmakers urge trade action vs China, others

A group of Democratic lawmakers urged U.S. President Barack Obama to take immediate action to resolve a long list of trade disputes with China, the European Union and other countries.

"A reciprocal trade strategy must also include targeted action to eliminate the most persistent and egregious barriers," the group from the House of Representatives Ways and Means Committee said.

The U.S. Trade Representative's office is expected to include an increased focus on foreign standards the United States believes are not based on sound science or otherwise unfairly block U.S. farm and manufactured goods exports in violation of global trade rules. Obama has come under increased pressure to take action against China on its currency policy.

Separately, China reaffirmed its determination to keep the yuan steady, rejecting U.S. arguments that a stronger exchange rate is needed to help iron out global trade imbalances. On a busy day for official pronouncements, a deputy central bank governor painted a rosy picture of China's economic prospects and said Beijing would tweak monetary policy accordingly.

Dubai debt insurance costs rise amid funding doubts

Dubai debt insurance costs rose as doubts surfaced about the emirate's ability to fund its share of a \$9.5 billion plan to repay creditors of its struggling Dubai World conglomerate.

Dubai quickly ringfenced key assets such as ports operator DP World in a bid to protect them against claims by creditors.

Asset sales will be on the cards to raise cash, though officials said there was no immediate need for such a move.

But some assets are already being quietly shopped around or put on the auction block.

CDS for Dubai were quoted at 405 basis points by CDS tracker CMA DataVision, up 3 bps from Thursday's close.

This is a jump of 45 bps from earlier on Thursday when CDS fell to their lowest since Nov 24, 2009 -- a day before the emirate stunned financial markets with a debt repayment standstill.

While the 2014 Islamic bond issued by the Dubai department of Finance fell 0.450 points in price with the yield up 11.6 bps.

UK business investment falls at record pace in Q4

Business investment in Britain fell 4.3 percent between October and December 2009, slightly less than previously estimated but still giving a record 23.5 percent annual drop, official data showed.

The Office for National Statistics said the year-on-year decline was the steepest since the series began in 1967 and left fourth-quarter investment at 27.330 billion pounds (\$40.56 billion).

Economists polled by Reuters had expected an outcome little changed from the preliminary estimate of a 5.8 percent quarterly decline and a 24.1 percent year-on-year drop.

Analysts said the upward revision marginally boosted the chance of a revision to next week's fourth-quarter GDP figures, but showed firms remained very reluctant to invest.

A breakdown of the figures showed private sector manufacturing saw the biggest drop, but declines in business investment occurred in most industries.

Euribor rises as Greek deal keeps ECB exit intact

A measure of the bank-to-bank cost of borrowing euros rose, with Euribor edging higher across maturities in response to European initiatives to ease Greece's debt crisis.

The three-month Euribor rose from a record low for the first time in more than a month. The rate has fallen steadily for more than a year as the ECB has pumped copious liquidity into financial markets in an effort to revive crisis-hit credit markets.

The euro Libor rate held to a record low of 0.58063 percent earlier.

Separately, European leaders called for faster regulation of bankers, their pay and the way they do business at a meeting that agreed how the EU will help Greece, sucked into a global crisis many blame on financiers. The economic slump has put the regulation of financial services at the top of the political agenda. The EU is pushing through a raft of rules, from curbing banker pay to demanding that lenders set aside more money for difficult times. Leaders including German Chancellor Angela Merkel and French President Nicolas Sarkozy outlined their ambitions in a draft statement during an EU summit in Brussels.

NEXT UP

TREASURY OUTLOOK-A choppy path towards March pay-rolls

Investors should brace for wild swings in the U.S. Treasuries market next week in advance of the government's March pay-rolls data.

Anxiety over whether fund managers and central banks worldwide are finally tired of funding the United States' massive deficit could renew selling in U.S. government debt, analysts and investors said.

The Congressional Budget Office forecast the federal debt will hit \$20.3 trillion in 2020, double the level projected at the end of 2009.

Fitch's downgrade of Portugal and less bidding from foreign central banks at this week's auctions of two-year, five-year and seven-year notes also fanned the perception of higher risks to own public over private debt, analysts said.

Until this week the Treasury's debt auctions had gone without a hitch, helped by the Federal Reserve's vow to hold interest rates low for an "extended period."

Four days ago, the 10-year swap yield moved into a discount versus Treasuries for the first time ever.

The yield on 10-year swaps has historically traded above that on 10-year Treasuries partly because of the default risks between the two counterparties, typically two top-rated banks, which are exchanging fixed-rate and floating-rate payments.

China to budge on yuan in Q2 but check its rise

China will resume yuan appreciation in the second quarter but will keep its currency on a short leash, allowing a mere 3 percent rise over the next 12 months, according to a Reuters poll.

Economists also forecast that while China's central bank was now in tightening mode, its actions would be gradual and mild, with interest rates rising only twice in the next year and banks' required reserves increasing three times during that period. But, more than ever before, all eyes will be on the yuan.

Nevertheless, the median forecast of 45 economists was for Beijing to give ground soon, if only just. The yuan will be locked at 6.83 to the dollar throughout April before being allowed to rise to 6.80 by the end of June. It will reach 6.60 by the end of March 2011, a total rise of 3.4 percent over the one-year period. By comparison, the offshore forwards market was pricing in a rise in the yuan of less than 2.35 percent over the next year.



DEEP DIVE Commentary and Analysis

FACTBOX:**U.S. plan to shrink mortgages, keep jobless in homes**

A \$14 billion enhancement to the Obama administration's housing rescue efforts announced will target the vexing problems of "underwater" mortgages and high unemployment plaguing homeowners.

After widespread criticism that previous efforts have done little to halt foreclosures, the enhancements are the government's first large-scale effort to reduce mortgage principal, including second liens.

Here are the plan's key details:

REFINANCING FOR UNDERWATER LOANS

Up to \$14 billion from the Troubled Asset Relief Program (TARP) will be made available to support writedown of second liens for loans refinanced through the Federal Housing Administration. TARP funds will be used to provide insurance coverage against a lender's losses on such writedowns up to a specified amount through purchases of letters of credit.

These funds are linked to voluntary financings through the FHA which require lenders to write down the principal of the first mortgage by at least 10 percent. The plan aims to put homeowners into sustainable loans with loan-to-value ratios no higher than that currently allowed by FHA 97.75 percent.

Second lien lenders can get incentives of 10 cents to 21 cents for every dollar of principal they write down in connection with an FHA refinance. Higher payments will be made on writedowns where the combined loan-to-value range is lower.

FORBEARANCE FOR UNEMPLOYED HOMEOWNERS

Mortgage payments are reduced to an affordable level for a minimum of three months, up to six months for some borrowers, while they look for a job.

Payments for unemployed homeowners under the forbearance scheme will be set at 31 percent of monthly income on owner-occupied houses with a loan balance below \$729,750 that was originated before January 1, 2009.

At the end of the unemployment forbearance period, homeowners with a payment still greater than 31 percent of their monthly income will be considered for a permanent loan modification under the Home Affordable Modification Program. The Obama administration claims there will be no cost to taxpayers or the government for this forbearance plan.

REQUIREMENT TO CONSIDER LOAN PRINCIPAL REDUCTIONS

All loan servicers under HAMP must consider more principal writedowns for borrowers who owe more than 115 percent of the current value of their home. Servicers will be required to run a net-present-value test using previous methods of payment reductions, including lowering the interest rate, extending the term and forbearing additional principal. If the loan's value is higher with principal writedowns, they will be encouraged to use that method. The principal writedown will be offered first as forbearance that can be "earned" over time as the owner stays current on payments similar to a plan announced earlier this week by Bank of America Corp.

The Treasury is offering further incentives to servicers who have already granted HAMP modifications to borrowers. They can receive payments of 10 cents to 21 cents per dollar of loan principal extinguished. They would get 10 cents if the loan-to-value is above 140 percent, 15 cents if its between 115 and 140 percent and 21 cents if it is below 115 percent. Extinguished second-lien principal in this previously modified category would get 6 cents on the dollar.

MORE MOVING MONEY

To encourage more short sales and "deed in lieu" transactions those where the lender accepts less than the loan amount to extinguish the loan, the plan will double the amount of assistance paid to borrowers to \$3,000 for moving costs.

The program also increases payoff incentives to subordinate lien holders and investors to a new cap of \$6,000.

Servicers also get an increase of \$500 to encourage them to use short sales and deed-in-lieu transactions as alternatives to foreclosure.

Dubai debt plan meant to show emirate back on feet

By Raissa Kasolowsky

Dubai's plan to avoid drawing on fresh funds from wealthier neighbour Abu Dhabi in its debt restructuring proposal for Dubai World may be more about presentation than the reality of its balance sheet.

Not taking new cash from Abu Dhabi was meant to show investors that Dubai can still stand on its own feet. But analysts say the hard reality is that the emirate could never navigate its current troubles without Abu Dhabi's support.

Abu Dhabi, which holds over 90 percent of the United Arab Emirates' oil wealth, may yet have to help out Dubai again despite the message of Thursday's plan for the conglomerate.

"The message is: Let Dubai handle this," Emirati political scientist Abdul-Khaleq Abdullah said. "But you and I and everyone else knows that without Abu Dhabi's help, support, involvement -- which I think will become clearer -- this thing would not have been possible."

There may be other motives to Abu Dhabi's low public profile in the process of restructuring Dubai World's \$26 billion debt.

Staying in the shadows could also help to prevent the federal capital from being too strongly associated with Dubai's financial problems, and contain potential spillover.

Dubai said on Thursday it would recapitalize Dubai World and repay property unit Nakheel's bonds in full, with \$9.5 billion of aid in a debt offer that would promise creditors all their money back in up to eight years.

The Dubai government said \$5.7 billion in funds from a previous loan made by Abu Dhabi would provide the lion's share of the funding, and that Dubai would add around \$4 billion of its own resources.

Analysts had expected Abu Dhabi to step in with more cash. "One of the strengths of the announcement is that it says that based on current resources, Dubai will be able to meet its current obligations," Abu Dhabi-based analyst Mohammed Yasin said.

"That doesn't mean that the cooperation between the various government entities, federal or local, will change or stop."

Dubai may ultimately need to draw on its neighbour's help again, said Khuram Maqsood, managing director of Emirates Capital in Dubai.

"Dubai has other debts coming due in addition to Dubai World," Maqsood said. "Unless in their plan they have assumed a lot of good things breaking in their favour ... Abu Dhabi will step in because how else are they going to fill the gap?"

FAMILY TIES

Abu Dhabi gave Dubai \$10 billion late last year in a two-part bailout made up of \$5 billion from Abu Dhabi-linked banks in November and another \$5 billion from the government.

The latter helped to avert default on an Islamic bond issued by Nakheel but came at the last minute and was announced on the day the sukuk matured.



DEEP DIVE Commentary and Analysis

It can be difficult to establish the facts surrounding the relationships between the ruling families of the UAE's emirates and how these affect decision-making, but perception also plays a key role in how these matters are dealt with.

"Getting help from Abu Dhabi shows that it's a federal state and that it will not let one part fall down," said Ebtisam al-Kitbi, a politics professor at the UAE University in al-Ain.

"But there is also a negative side ... Maybe Dubai doesn't want (Abu Dhabi's help to be too public), it shows you cannot stand on your own two feet. So maybe it is a mixture of the two," Kitbi said.

Formed in 1971, the UAE is seen as the brainchild of the late Abu Dhabi ruler Sheikh Zayed bin Sultan al-Nahayan. The union is largely credited with bringing stability and security to its seven small states in the Gulf region.

British historian Christopher Davidson said Dubai's indebtedness to Abu Dhabi may dent its political clout in the UAE. The constitution divides power between the two emirates equally,

with decisions on substantive issues requiring the support of both. The smaller emirates have less sway.

Davidson said Abu Dhabi may appreciate being in a stronger position to persuade Dubai to curtail its grand projects and trade ties with Iran, which have drawn increasing scrutiny.

Also any failure of state-linked firms in Dubai could have a spill-over effect on Abu Dhabi's economy and investor confidence, as well as making it more expensive for companies to tap capital markets.

Moody's downgraded seven leading Abu Dhabi government-linked firms earlier this month, including Mubadala and International Petroleum Investment Company (IPIC), citing a lack of explicit state support.

"One concern is that is nobody knows the full extent of the debt of Dubai," Davidson said. "Abu Dhabi can't sign a blank cheque, it doesn't have unlimited resources itself. It can't underwrite Dubai completely."

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