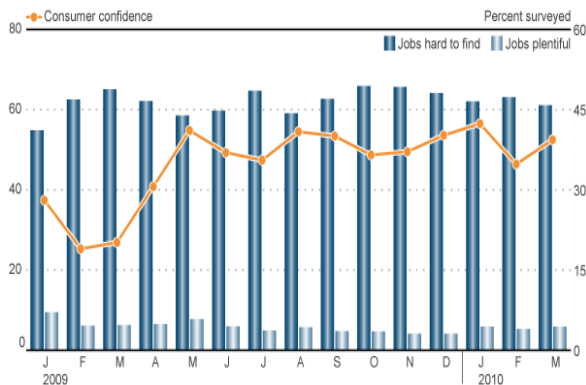


CHART OF THE DAY

U.S. consumer confidence



U.S. consumer confidence rebounded in March to 52.5 from an upwardly revised 46.4 in February, helped by a slight increase in optimism about the labor market.

TODAY'S TOP NEWS

- U.S. consumer confidence rebounds, home prices rise
- Fed-backed TMPG expands scope to agency debt, MBS
- China commerce chief, c.bank advisers at odds on yuan
- Europe's aid deal for Greece positive-Fitch
- UK pulls out of recession faster than thought
- **For more stories please click here**

ECON WATCH

FOR WEDNESDAY MARCH 31

ET	Indicators	Unit	Reuters	Prior
04:00	DE Unemployment chng sa	k	10	7
04:00	IT Producer prices mm	%	0.2	0.6
04:00	IT Producer prices yy	%	0.4	-0.3
05:00	EZ Inflation, flash yy	%	1.1	0.9
05:00	EZ Unemployment rate	%	10.0	9.9
05:00	IT HICP prelim mm	%	1.3	0.0
07:00	US Mortgage market index	ind	-	595.0
07:00	US Mortgage refi index	ind	-	2744.7
08:15	US ADP Natl Employment	k	40	-20
08:30	US ISM New York	ind	-	417.4
08:30	CA GDP mm	%	0.5	0.6
09:45	US Chicago PMI	ind	61.0	62.6
10:00	US Factory orders	%	0.5	1.7
10:00	US Durable goods	%	-	0.5
10:00	US Ex-transportation	%	-	0.9
10:00	US Ex-defence	%	-	1.6
10:00	US Nondefence ex-air	%	-	1.1

MARKETS TODAY

TODAY'S TOP STORY: U.S. consumer confidence rebounded in March, while home prices rose in January for the eighth straight month according to a closely watched housing index, bolstering hopes for a sustainable economic recovery. **For more please click here**

TREASURIES: U.S. government debt prices were little changed, as a sense of calm spread before the end of the first quarter and investors moved to the sidelines ahead of Friday's payroll data.

- 10-yr Treasury notes rose 1/32 to yield 3.86 pct from 3.87 pct.
- 2-yr notes fell 2/32 to yield 1.06 pct, up from 1.04 pct on Monday.
- 30-yr bonds rose 8/32 to yield 4.76 pct.
- 2-10's part of the yield curve flattened by 3 bps to 280 bps.

FOREX: Sterling rose as data showed the UK economy growing a bit more swiftly than expected while the dollar neared a three-month high against the yen after U.S. data showed consumer confidence grew in March.

- The Sterling gained 0.57 pct to \$1.5067, on track for its best day against the greenback in nearly two weeks.
- The euro was changing hands with the sterling at 89.01 pence, down 1.02 pct.
- The euro fell 0.18 pct to 124.46 yen. Earlier, it hit 125.44 yen, its highest level since early February. Dollar jumped 0.28 pct to 92.77 yen.

CORPORATES: U.S. corporate bond spreads held steady, supported by encouraging consumer confidence and housing data, but sentiment was clouded by persistent caution about Greece's debt problems.

- The CDX.IG-14 index widened by about 1 bps to 86 bps.
- Since the height of the global financial crisis in December 2008, when U.S. investment-grade corporate bond yield spreads hit record wides of 656 bps, according to BofA, spreads have narrowed dramatically to a more than two-year low of 163 bps as of Monday.
- Barclays sold \$1 bln, five-year debt sale.

STOCKS: U.S. stocks rose in a slow session as Apple Inc and Verizon Communications Inc climbed, while data showing more stabilization in the economy helped offset profit-taking in the financial sector.

- Dow rose 0.11 pct to 10,907.34, S&P was little changed at 1,173.28 and Nasdaq gained 0.26 pct to 2,410.69.
- Apple's stock rose 1.48 pct to \$235.83. Earlier it hit an all-time high of \$237.48. Share of Verizon was up 2.56 pct to \$31.23.
- Macy's Inc rose 2.22 pct to \$22.12, while the S&P consumer discretionary index rose 0.03 pct.
- BofA shares fell 1.55 pct to \$17.76. Citigroup fell 2.15 pct to \$4.09.
- S&P financial index fell 0.72 pct, KBW bank index shed 0.81 pct.

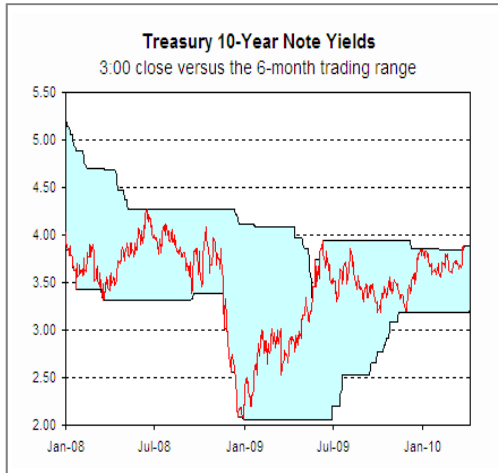
C & E: Oil rose slightly as bright U.S. economic data spurred optimism about recovery in the world's largest energy consumer, overcoming pressure from a stronger dollar.

- U.S. crude gained 0.29 pct to \$82.41 per barrel.
- Gold slid 0.50 pct to \$1,102.7 per ounce.
- Reuters-Jefferies index rose 0.33 pct to 273.72.

- **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	0.135	0.105	0.137	0.009
3-Mo Bill	0.155	0.145	0.157	0.010
6-Mo Bill	0.235	0.230	0.239	-0.003
1-Year	0.388	0.378	0.394	0.004
2-Year	99.867	99.898	1.068	-0.039
3-Year	99.250	99.289	1.636	-0.020
5-Year	99.492	99.539	2.609	-0.012
7-Year	99.531	99.578	3.326	0.039
10-Year	98.000	98.063	3.870	0.008
30-Year	97.891	97.953	4.758	0.227

EQUITIES

	INDEX	CHANGE
DJIA	10911.65	15.79
NASDAQ	2410.75	6.39
S&P 500	1174.13	0.91

OIL

	PRICE	CHANGE
NYMEX	82.4	0.2
BRENT	81.1	-0.2

EURODOLLAR FUTURES

	CLOSE	CHANGE
Apr-10	99.685	0.000
Jun-10	99.620	0.005
Sep-10	99.430	0.005
Dec-10	99.130	0.005

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.210	O/N	0.240
2-Week	0.240	2-Week	0.260
1-Month	0.240	1-Month	0.260
3-Month	0.270	3-Month	0.290
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.240	10:00 AM	0.150
2-Week	0.240	3:00 PM	0.149
1-Month	0.250		
3-Month	0.300		

IR SWAPS <19901>

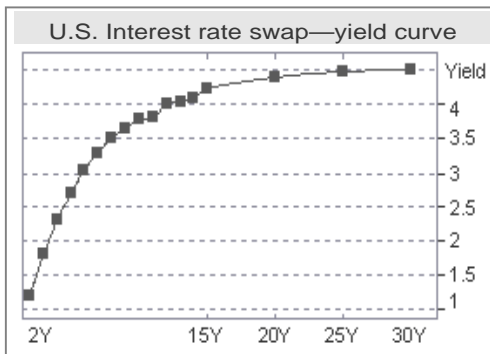
	SPREAD		RATE	
2-Year	13.50	17.50	1.19	1.22
3-Year	17.50	21.50	1.80	1.82
5-Year	11.50	15.50	2.72	2.72
7-Year	-2.00	2.00	3.30	3.30
10-Year	-6.50	-2.50	3.80	3.79
30-Year	-25.50	-21.50	4.50	4.48

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.67	-0.01
CBOT 10 yr	115.75	-0.19
CBOT 30 yr	115.28	-0.22

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.170	0.200	-	-
1-Month	0.220	0.300	0.186	0.196
3-Month	0.240	0.400	0.195	0.205
6-Month	0.350	0.450	0.236	0.246
12-Month	0.700	1.050	0.415	0.425



CURRENCIES

	BID	ASK
Euro	1.3414	1.3416
Sterling	1.5063	1.5068
JP Yen	92.82	92.84
Swiss Franc	1.0663	1.0666
Can Dollar	1.0189	1.0194
Mexico	12.3937	12.3994

FED FUNDS NYFRSM - 10AM

Open	0.1800	1m	0.2300
High	0.2000	3m	0.2856
Low	0.1200		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1	12/04/2012	0 9.5	-
3-Year	1.625	15/04/2013	22 18	1.87
5-Year	2.875	09/02/2015	18 17.5	2.79
7-Year	5.125	18/10/2016	13.75 10.75	3.46
10-Year	-	-	- -	-
30-Year	6.625	15/11/2030	0 32	-

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD	YIELD
2-Year	1.125	15/12/2011	-4 -5.5	1.03
3-Year	1.75	07/05/2013	21.5 21	1.85
5-Year	2.625	20/11/2014	9 7	2.7
7-Year	5.25	15/09/2016	10.25 7.25	3.43
10-Year	3.75	27/03/2019	24 20.5	4.13
30-Year	6.25	15/07/2032	39.5 36.5	5.15

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	101.0960	101.1020	3.621
FHLMC	4.0	101.1000	101.1100	3.614

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	100.0570	100.0630	4.441
FHLMC	4.5	100.0660	100.0720	4.438
GNMA	4.5	101.0360	101.0420	4.255

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

U.S. consumer confidence rebounds, home prices rise

U.S. consumer confidence rebounded in March, while home prices rose in January for the eighth straight month according to a closely watched housing index, bolstering hopes for a sustainable economic recovery.

The Conference Board said its index of consumer attitudes rose to a reading of 52.5 in March from an upwardly revised 46.4 in February. The median of forecasts from analysts polled by Reuters was for a March reading of 50.0.

The expectations index rose to 70.2, from a revised 62.9. The present situation index rose to 26.0, the most since May 2009, up from a revised 21.7 in February.

Separately, the S&P/Case-Shiller home price indexes released showed prices of U.S. single-family homes rose in January. And the annual rate had its best reading in almost three years, although the year-over-year reading still showed a small decline in prices.

The S&P composite index of 20 metropolitan areas unexpectedly rose by 0.3 percent in January, seasonally adjusted, matching the December increase. On an unadjusted basis, prices declined 0.4 percent in January. S&P has said that foreclosures can skew the seasonal adjustments.

China commerce chief, c.bank advisers at odds on yuan

China displayed new divisions over how to respond to mounting U.S. pressure to let its exchange rate rise.

Two new advisers to the central bank called for the yuan to resume its gradual appreciation, but they were slapped down by Commerce Minister Chen Deming, who said a stronger currency would not wipe out China's trade surplus with the United States. The clock is ticking down towards an April 15 ruling by the U.S. Treasury on whether China is deliberately manipulating its currency to keep its exports competitive and gain an unfair advantage in global markets.

Separately, U.S. lawmakers have said they will introduce legislation to impose tariffs on Chinese goods unless Beijing allows the yuan to climb. The Ministry of Commerce is a staunch defender of Chinese export industries and has repeatedly warned that many would be ruined if they had to cope with a stronger exchange rate. The central bank, by contrast, would benefit from having an extra tool in its policy kit if the exchange rate were able to rise and fall to help absorb economic shocks.

UK pulls out of recession faster than thought

Britain's economy emerged from an 18-month recession at the end of last year in better shape than previously thought, although analysts still anticipate a treacherous path to sustainable growth.

But the better than forecast growth may provide some cheer to the Labor government, facing possible defeat in an election expected on May 6 and banking on an economic recovery to help improve its popularity after the worst downturn on record.

The Office for National Statistics said GDP grew 0.4 percent in the last three months of 2009, above forecasts for an unrevised reading of 0.3 percent growth and the first quarter of growth since the start of 2008.

Separate data showed Britain's current account deficit narrowed sharply in the fourth quarter to 1.684 billion pounds (\$2.53 billion) from 5.912 billion pounds, the lowest since the first quarter of 2008, after earnings on investment abroad hit their highest since records began in 1964.

Year-on-year, GDP contracted by 3.1 percent, less than the 3.3 percent previously reported.

Fed-backed TMPG expands scope to agency debt, MBS

An industry group sponsored by the New York Federal Reserve that promotes best practices in the U.S. Treasury market said it is expanding its focus to include agency debt and agency mortgage-backed securities.

The Treasury Market Practices Group said in a statement that the expansion reflects the "extensive overlap" of trading and settlement structures and investors across the Treasury, agency debt and agency MBS markets.

The group said it will focus on trading and settlement in the \$2.7 trillion market for agency debt issued or guaranteed by Fannie Mae, Freddie Mac and Federal Home Loan Banks and in the \$5 trillion market for MBS issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae.

The group said it is likely to consider issues associated with settlement fails in the agency MBS and agency debt market.

Separately, Fed's monetary policy is still appropriate because of high unemployment and minimal inflationary pressures in the United States, a Fed policymaker said. Rates can stay low for an extended period and the Fed has various tools to prepare for higher interest rates once the economic recovery gathered momentum, Chicago Fed President Charles Evans said.

Europe's aid deal for Greece positive-Fitch

The EU's aid deal for Greece involving the IMF is positive for the country but longer-term questions remain over whether Athens can stick to its austerity plans, Fitch Ratings said.

The involvement of the IMF was agreed over the objections of the ECB and in the face of reluctance from other EU states, including France. Rising Greek bond yields pushed the spread over benchmark German Bunds wider with investor concerns over Greece's funding strategy once again in the spotlight.

Greece sold 5 billion euros of seven-year bonds, attracting around 7 billion euros of bids, compared with more than 16 billion euros bid for a 5 billion euro 10-year issue earlier in the month. The Greek/German 10-year bond yield spread reached 336 basis points in early trading, edging out to 339 basis points, the widest since March 23, after the results of the reopening.

The Greek debt agency said the top-up to the 2022 bond, which had initially looked to raise up to 1.0 billion euros, was to address a 'technical dislocation' on the Greek bond curve.

Obama signs final healthcare changes, defends law

President Barack Obama made another push to sell his health-care overhaul to a skeptical public, calling it a victory over special interests that will improve the lives of middle-class Americans and defending the "courage" of legislators who backed it. Obama defended legislators who voted for the bill, the most sweeping shift in U.S. social policy in decades, and took aim at what he said were misleading attacks.

Separately, President Barack Obama wants legislation in place overhauling financial regulations by the September anniversary of the 2008 Wall Street collapse, Robert Gibbs said. Gibbs said Obama does not believe it is unrealistic to expect a bill could be on his desk by the end of May.

Separately, President Barack Obama will sign into law an overhaul of the college student loan program which cuts commercial banks out of the student loan business, drying up a multibillion dollar profit stream. The student loan overhaul fulfills a long-time goal of Democratic lawmakers to end the bankers' role as middlemen and replace them with direct federal loans and aid to students. The White House said the change would save taxpayers \$68 billion over the next decade.

TODAY'S TOP NEWS

Volcker: proprietary trading not central to crisis

Paul Volcker, the White House adviser who crafted a proposed ban on proprietary trading by banks, said the practice was not central to the financial crisis but could distract banks from their fiduciary responsibilities.

Speaking before the Peterson Institute, Volcker said he is hopeful sweeping new rules for financial firms and markets will be adopted this year.

Volcker said only a few banks would be affected by a ban on proprietary trading and that arguments that it would impair liquidity were overblown.

He agreed that adoption of such a policy by others, particularly Britain and the European Union, would greatly boost its effectiveness.

Separately, key Group of 20 leaders and the IMF urged governments to redouble efforts in tightening up financial rules as some countries lag in curbing bank pay.

The IMF chief said individual countries were working on new regulations and creating new supervisory bodies.

The G20's steering countries said in a letter to all group members that governments must recommit and deliver on reforms they agreed to in Pittsburgh.

Canada Feb raw material prices unexpectedly higher

Canadian raw material prices unexpectedly rose in February mainly because of more expensive crude oil, while producer prices remained unchanged as expected, according to Statistics Canada data.

Analysts surveyed by Reuters had forecast a 1.0 percent fall in raw material prices, but they rose 0.4 percent on the month. Excluding mineral fuels, prices would have fallen 1.1 percent. On an annual basis, prices were 27.8 percent higher.

Industrial product prices had no change after three straight monthly rises and were 0.6 percent lower than a year earlier, Statscan said.

On a monthly basis, the relative weakness of the Canadian dollar boosted the prices of those industrial products, notably in the auto sector, which are priced in U.S. dollars.

Dollar Libor at six-month high in Fed watch

Bank-to-bank dollar funding costs rose, again reaching the highest in over six months as investors prepped for the Federal Reserve to eventually move to tighten monetary policy.

The move higher came in contrast to that of euro funding costs, where the three-month euro rate carved out a record low a day ahead of a fresh liquidity injection by the ECB.

The benchmark dollar Libor rose to a six-month peak of 0.29088 percent as the market braced for the Fed to start withdrawing some of the massive liquidity it has injected into the U.S. economy. While few analysts expect the Fed to raise interest rates from current levels near zero any time soon, the U.S. central bank is widely believed to be preparing to lay the groundwork for the eventual removal of liquidity.

The three-month euro Libor fell to 0.58 percent from 0.58063 percent, marking an all-time low. Money market traders expect banks to take up 70 billion euros of six-month loans at the ECB's longer-term refinancing operation on Wednesday.

Japan plans targets to reduce debt level - media

The Japanese government will set incremental goals to reduce its heavy reliance on debt in its upcoming fiscal strategy, the Nikkei business daily said, but analysts doubted it would be enough to allay concerns about its massive borrowing.

Japan's outstanding debts are already almost twice the size of its economy, meaning the government has little leeway to boost spending further without raising taxes, which could push the economy back into recession. The Democratic Party-led government plans to announce the fiscal discipline target in June and had met on Monday to compile outside experts' views.

Data showed that Japan's industrial output slipped for the first time in a year in February due to the Lunar New Year in Asia, although analysts expect solid exports to underpin a fragile economic recovery.

The jobless rate held steady and the availability of jobs improved in the same month, but a fall in household spending showed that the impact of strength in exports and output has been slow in filtering through to the rest of the economy.

NEXT UP

PREVIEW-Euro zone inflation seen at 1.1 pct in March

Euro zone inflation likely remained stubbornly below the European Central Bank's two percent target ceiling in March, only ticking up from February on base effects.

The 1.1 percent median forecast from 42 analysts in a Reuters poll is above the 0.9 percent seen in February. Forecasts ranged from 0.9 to 1.4 percent. Food prices may also have bottomed and be on the rise again. The ECB is seen leaving rates on hold at their record low of 1.0 percent until the final quarter of the year as it struggles to boost an economy recovering from its worst recession since the Second World War.

Poll charts U.S. concerns about healthcare costs

Nearly two-thirds of Americans say the healthcare overhaul signed into law by President Barack Obama costs too much and expands the government's role too far, according to a poll published.

The USA Today/Gallup survey of 1,033 adults suggests an uphill challenge for President Barack Obama and other Democrats as they try to persuade voters that the healthcare reforms are an

important benefit. The findings show that 65 percent of Americans believe the reforms cost too much, while 64 percent say they bring too much government involvement into the private healthcare industry. Fifty-eight percent said the reforms don't do enough to curb rising healthcare costs. Fifty-one percent of the respondents said the plan should have gone farther in regulating the industry. About 52 percent said the plan should have included a public option to provide low-cost insurance.

OPEC compliance falls to 50 pct-Reuters survey

Total OPEC crude oil supply rose in March as an increase in Nigerian output overshadowed a dip in Iraq, a Reuters survey showed, as members with agreed production targets reduced compliance to just 50 percent.

Supply from the 11 members of the OPEC with output targets, all except Iraq, is averaging 26.93 million bpd, up from a revised 26.73 million bpd in January, according to the survey of oil firms, OPEC officials and analysts.

Total OPEC supply rose 40,000 bpd to 29.25 million bpd, the survey found, with Nigerian output jumping by more than 100,000 bpd as domestic refineries resumed production.



DEEP DIVE Commentary and Analysis

Govvies, banks not what they used to be

By James Saft

An unprecedented upending in the rate to swap fixed for floating-rate obligations shows that not only is government debt risk not what it used to be, neither is private risk.

Last week saw the first ever recorded time when the 10-year U.S. swap spread -- the difference between Treasuries and the private market for exchanging fixed for floating payments -- actually turned negative, implying that the market was pricing in more risk in holding U.S. sovereign credit than that banks would fail to meet their obligations.

Most swaps are based on interest rates derived from LIBOR, the London Interbank Offered Rate, which reflects not just current interest rates but also the credit risk of the banks which make up the LIBOR panel. Therefore, the logic goes, if you can arrive at a lower interest rate via LIBOR than in plain old Treasuries of the same duration, the U.S. is now judged more likely to start dodging creditors' calls than are the banks.

Well, sort of, kind of, maybe not.

The inversion is significant, but in a more complicated way than a pat assertion that governments are now riskier than private borrowers, though some few undeniably are. It is indicative of a general blurring of boundaries between public and private risks, a natural consequence of a series of bailouts which socialized the losses of banks while allowing the gains to remain private.

Consider that the LIBOR-OIS spread, a key indicator of banks' view of each other's counter-party risk, is now below the level that it was at at the onset of the crisis. That's right, if you look at this measure it is telling you that banks now consider each other to be better bets than they did before they all found out how truly compromised they were. Or rather, it is telling you that banks quite sensibly are now willing to lend one another money because they understand that should any thing go wrong there is a government, or governments if you like, with broad shoulders and mighty printing presses ready to step in.

Clearly banks do make a differentiation between their weaker and stronger peers -- you can still see this in LIBOR and in bank debt -- but taken in aggregate they, and the rest of us, have stopped paying close attention to private credit risk. This clearly cannot last forever, but you can forgive the banks for playing along. They are not making up the rules, they are only playing the game.

There seems little point in quibbling over a few basis points when the moral hazard trade is so clearly on.

EXTENUATING AND EXAGGERATING FACTORS

Of course this is not entirely about the socialization of interbank risk. It is right to look at the inverted swap spread as being in part about how that great par redemption of risk that the bailout represents will be paid for. There is no doubt that the United States faces a mounting deficit and seemingly everyone hates Treasuries right now.

Last week's \$32 billion auction of 7-year Treasury notes was notably weak, and yields on benchmark 10-year issues rose very sharply, from 3.70 percent to 3.88 percent. It is possible that this is an early warning sign from would-be bond market vigilantes that they are becoming less happy about U.S. risk. Certainly there is little in the data, or in the way inflation-protected Treasuries are trading, that allows you to construct an argument that this blip in rates is about inflation fear.

China, too, may not be a source of reliable demand going forward. Chinese officials say that trade data to be released shortly will show that it actually recorded a trade deficit in March. No trade surplus with the United States means no money that needs to be recycled to the United States via the Treasury mar-

ket, a big negative for Treasuries.

On the other side, it is possible that strong demand from corporations for swaps and weak demand from the mortgage market for the other side of the trade may have temporarily driven swap spreads down. If this is true the end of Federal Reserve purchases of mortgage assets shortly make help to send swap spreads back above zero.

The real issue is not what the swap spread tells you but what it no longer can. Credit risk, in a fundamental way, is no longer reflected by market prices.

Capital is being misallocated yet again, and now that the government is backing the game more or less directly, the bubble when it forms looks to make subprime look, well, a bit as puny as the dotcom bubble looked when subprime burst.

(At the time of publication James Saft did not own any direct investments in securities mentioned in this article. He may be an owner indirectly as an investor in a fund.)

Companies sell junk bonds to fund bankruptcy exit

By Chelsea Emery

High-yield bonds may be "junk" but they can be golden for bankrupt companies seeking cash to fund their exit from bankruptcy and pay down debt.

Reader's Digest Association Inc and chemicals maker Lyondell Chemical Co are two formerly bankrupt companies that have tapped the high-yield market to benefit from ravenous demand from investors for higher interest payments. There will likely be more to come.

"We have at least another year of a very favorable backdrop to issue high-yield bonds," said Margaret Patel, senior portfolio manager with Evergreen Investments, who manages more than \$1 billion in Boston.

When emerging from bankruptcy, companies need cash to pay down old debt, such as debtor-in-possession loans, and to fund ongoing operations. This financing, called exit financing, has traditionally come from banks.

But banks dramatically curtailed such lending in response to the U.S. economic recession and credit crunch. While there are signs of renewed lending, companies may still turn to high-yield bonds for the benefits they provide, including fewer restrictions on the loan terms and more time to repay.

While companies may pay higher interest on new junk bonds, it buys them wiggle room as the work through any lingering operational issues, strategists said.

"If companies can extend maturities and pay down bank debt, it makes a lot of sense," said Patel. "This is a way to ensure their liquidity in case the market (worsens). It's opportunistic cash raising."

READER'S DIGEST READS MARKET

Reader's Digest, publisher of the namesake general-interest magazine and other publications such as Every Day with Rachael Ray and Allrecipes.com, in February used the high-yield market to raise \$525 million in bankruptcy exit financing, cutting interest expenses by \$30 million annually. The interest rate is 9.5 percent.

Lyondell, meanwhile, sold \$2.25 billion of senior secured notes yielding 8 percent to fund its bankruptcy exit.

"As long as liquidity is good, and until the bank loan market becomes fully functional, I think people will continue" to sell junk bonds to finance bankruptcy exits, said Sabur Moini, manager of the Payden High Income Fund in Los Angeles.

In the meantime, new money is pouring into the junk bond market.



DEEP DIVE Commentary and Analysis

Junk bond sales have surged to records every month since December as companies contend with "wall of maturity" over the next few years, prompting a rush to refinance debt ahead of the quickly approaching repayment deadlines. In February, U.S. high-yield bond sales posted their busiest month on record, with \$15.8 billion of new issuance, strategists said.

For bankrupt companies, "high-yield is a real option," said Mark Podgainy, senior director in the New York office of Getzler Henrich & Associates. "How long will the market be favorable for that to take place? For this year, as long as Fed keeps rates low."

INVESTORS LEAP

Investors, too, have incentives to snap up the junk bonds of formerly bankrupt companies.

"Yield," said Podgainy. "Everyone's looking for yield."

Benchmark 10-year Treasury notes are yielding about 3.86 percent. As of Mar. 26, the average junk bond yielded 5.8 percentage points more than Treasuries according to Bank of America and Merrill Lynch data.

Reader's Digest senior floating rate notes, issued at 97 cents on the dollar, have risen to 101.25 cents, according to high-yield research firm KDP Investment Advisors. Lyondell notes now trade at 103.25 cents on the dollar, KDP said.

"It's pretty hard to live off what you'd make in a certificate of deposit or a Treasury bond," said Dwayne Moyers, chief investment officer of SMH Capital Advisors in Fort Worth.

Buying junk debt of companies exiting bankruptcy "is definitely something we'd look at because the bankruptcy process pretty much cleanses the company," said Moyers.

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:

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