

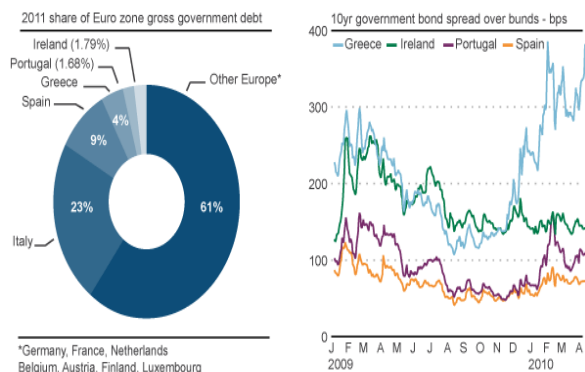
INSIDE DEBT

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Wednesday, April 7, 2010

CHART OF THE DAY

Euro zone government debt & bond spreads



The Greek/German 10-year government bond yield spread hit a fresh euro lifetime high of 413 bps as Greek yields topped 7.2 percent and safe-haven flows into Bunds kept German yields low.

TODAY'S TOP NEWS

- Greek banks seek more aid as spreads widen again
- Bernanke says U.S. economy not "out of woods"
- Big demand at U.S. 10-yr auction boosts bullishness
- U.S. SEC plan boosts asset-backed securities rules
- Greenspan grilled as U.S. bank reform rumbles ahead
- China hints at readiness to let yuan rise
- Global junk bond defaults fall 82 pct in Q1-Moody's

ECON WATCH

FOR THURSDAY APRIL 8

ET	Indicators	Unit	Reuters	Prior
02:45	FR Trade bal EUR	bln	-3.7	-3.681
04:00	GB Halifax homes mm	%	0.5	-1.5
04:30	GB Industrial output mm	%	0.5	-0.4
04:30	GB Industrial output yy	%	-0.5	-1.5
04:30	GB Mfg output mm	%	0.7	-0.9
04:30	GB Mfg output yy	%	0.9	0.2
05:00	EZ Retail sales mm	%	-0.1	-0.3
05:00	EZ Retail sales yy	%	-0.7	-1.3
06:00	DE Industrial output mm	%	0.6	0.6
07:00	GB BoE rate decision	%	0.50	0.50
07:45	EZ ECB rate decision	%	1.00	1.00
08:30	US Initial Claims	k	435	439
08:30	US Jobless contin claims	mln	4.65	4.662

Thomson Reuters LPC Spring Loan Market Seminar
Thursday, April 22, 2010
Times Square, New York
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MARKETS TODAY

TODAY'S TOP STORY: Greece's borrowing costs hit a new high after the government said the country's banks had asked for billions of euros in support and euro zone states argued over the conditions of potential bail-out loans. [For more please click here](#)

TREASURIES: U.S. Treasury prices rose as record-setting demand at a \$21 billion auction of 10-year notes allayed concerns over weakening demand for government securities.

- The Treasury's \$21 bln 10-yr note sale fetched the highest bid-to-cover ratio ever for this maturity.
- 30-yr bond prices gained more than a point to yield 4.75 pct, down from 4.83 pct on Tuesday.
- 2-10's part of the yield curve flattened by about 1 bps to 280 bps.

FOREX: The euro dropped against the dollar to its lowest in more than a week as concern over Greece's debt crisis pushed the yield spread between Greek and German government bonds to the widest since the euro's launch in 1999.

- Euro fell 0.31 pct to \$1.3353, after falling as low as \$1.3327 and fell 0.18 pct to 87.58 pence.
- The euro was down 0.77 pct at 124.62 yen.
- Dollar rose 0.36 pct to Canadian dollar 1.0050, broke parity versus the greenback for a second day. Earlier, Canadian dollar rose as high as C\$0.9977 versus the greenback, its highest intraday level since July 15.

CORPORATES: U.S. corporate bond yield spreads were little changed as a seven-week rally took a breather, while credit derivatives widened in tandem with falling stocks.

- The CDX.IG-14 index widened by about 3 to 87 bps.
- Spreads have tightened by 23 bps over the past month, but investors are not yet balking at the thinner yields, reasoning that the market still offers attractive value compared with safer alternatives.
- The cost to insure Greece's debt against default rose to a level higher than for Iceland's debt for the first time since 2005. CDS on Greece's bonds jumped to 415 bps from 390 bps on Tuesday.

STOCKS: U.S. stocks tumbled on investors' worries over Greece's debt load, making it impossible for the market to hold gains after strong demand at a Treasury note auction.

- Dow shed 0.66 pct to 10,897.44, S&P was down 0.59 pct to 1,182.46 and Nasdaq fell 0.23 pct to 2,431.16.
- Exxon Mobil fell 0.82 pct to \$67.34, while S&P energy fell 0.99 pct.
- Shares of KeyCorp rose 0.59 pct to \$8.52. Monsanto fell 2.09 pct to \$68.09.
- S&P financial index shed 0.53 pct, KBW bank index was down 0.37 pct.

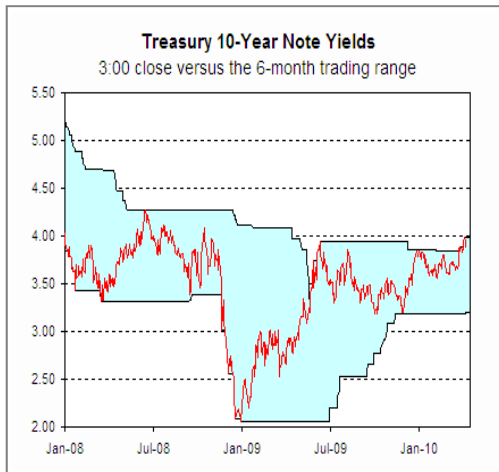
C & E: Oil prices fell after six straight sessions of gains, pressured by a stronger dollar and U.S. government data showing a bigger-than-expected increase in crude inventories.

- U.S. crude oil fell 1.32 pct to \$85.69 per barrel.
- Gold was up 1.37 pct at \$1,148.75 an ounce.
- Reuters-Jefferies index slid 0.33 pct to 277.59.

- 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	0.170	0.14	0.172	-0.004
3-Mo Bill	0.170	0.160	0.172	-0.001
6-Mo Bill	0.240	0.235	0.244	-0.014
1-Year	0.450	0.430	0.458	-0.031
2-Year	99.867	99.898	1.069	0.148
3-Year	100.180	100.211	1.689	0.230
5-Year	99.453	99.500	2.618	0.391
7-Year	99.547	99.594	3.323	0.539
10-Year	98.031	98.078	3.867	0.727
30-Year	98.063	98.125	4.747	1.344

EQUITIES

	INDEX	CHANGE
DJIA	10871.52	-98.47
NASDAQ	2427.86	-8.95
S&P 500	1181.21	-8.23

OIL

	PRICE	CHANGE
NYMEX	85.8	-1.0
BRENT	81.0	-0.2

EURODOLLAR FUTURES

	CLOSE	CHANGE
Apr-10	99.690	0.005
Jun-10	99.640	0.015
Sep-10	99.485	0.050
Dec-10	99.195	0.080

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.260	O/N	0.260
2-Week	0.260	2-Week	0.270
1-Month	0.260	1-Month	0.270
3-Month	0.270	3-Month	0.300
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.250	10:00 AM	0.190
2-Week	0.270	3:00 PM	0.188
1-Month	0.270		
3-Month	0.290		

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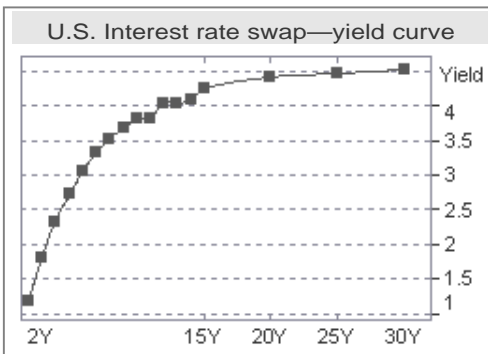
	SPREAD		RATE	
2-Year	11.50	15.50	1.17	1.20
3-Year	12.75	16.75	1.81	1.82
5-Year	13.50	17.50	2.75	2.75
7-Year	1.00	5.00	3.33	3.32
10-Year	-3.75	0.25	3.82	3.81
30-Year	-22.50	-18.50	4.52	4.50

FUTURES

	PRICE	CHANGE
CBOT 5 yr	115.67	0.51
CBOT 10 yr	115.73	-0.20
CBOT 30 yr	115.28	-0.22

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.250	-	-
1-Month	0.220	0.300	0.201	0.211
3-Month	0.240	0.400	0.208	0.218
6-Month	0.350	0.450	0.235	0.245
12-Month	0.700	1.050	0.399	0.409



CURRENCIES

	BID	ASK
Euro	1.3369	1.3372
Sterling	1.5262	1.5266
JP Yen	93.17	93.20
Swiss Franc	1.0721	1.0724
Can Dollar	1.0043	1.0046
Mexico	12.2750	12.2806

FED FUNDS NYFRSM - 10AM

Open	0.2100	1m	0.2356
High	0.2100	3m	0.2906
Low	0.2100		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1	12/04/2012	10	9.5	1.21
3-Year	1.625	15/04/2013	13.5	13	1.87
5-Year	2.875	09/02/2015	17.5	16.5	2.81
7-Year	5.125	18/10/2016	18	0	3.59
10-Year	-	-	-	-	-
30-Year	6.625	15/11/2030	39	30	5.24

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	15/12/2011	-9	-13	1
3-Year	1.75	07/05/2013	18	17.5	1.92
5-Year	2.625	20/11/2014	5	4.5	2.71
7-Year	5.25	15/09/2016	17.25	14.25	3.5
10-Year	3.75	27/03/2019	20.5	0	4.07
30-Year	6.25	15/07/2032	39	30	5.24

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	101.0150	101.0210	3.730
FHLMC	4.0	101.0150	101.0210	3.700

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	99.3170	100.0030	4.484
FHLMC	4.5	99.2950	99.3010	4.498
GNMA	4.5	100.2760	100.2820	4.298

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Greek banks seek more aid as spreads widen again

Greece's borrowing costs hit a new high after the government said the country's banks had asked for billions of euros in support and euro zone states argued over the conditions of potential bailout loans.

Investors shed bank shares and drove up the premium demanded for buying Greek rather than German bonds, fuelling a vicious cycle of economic downturn and market scepticism over Athens' ability to end a debt crisis shaking the euro zone.

Prime Minister George Papandreou hailed a euro zone/IMF safety net deal agreed last month to help the country of 11 million avoid bankruptcy and said it rendered the crisis manageable. But the banks' request for extra help highlighted the problems facing the entire Greek economy, expected to shrink at least 2 percent this year partly as a result of austerity measures imposed to tackle the deficit.

The 10-year Greek/German government bond yield spread widened to 413 bps -- its largest gap in the lifetime of the euro currency bloc, from around 392 bps at the European close on Tuesday. IMF experts began a two-week mission to Greece to give advice on implementing public spending cuts and revenue increases designed to cut the budget deficit by around a third to 8.7 percent of GDP.

Big demand at U.S. 10-yr auction boosts bullishness

U.S. Treasury debt market participants cheered a strongly bid reopening of 10-year notes as fears subsided about whether demand for U.S. government debt could be sustained.

The \$21 billion auction of benchmark 10-year notes saw strong participation, with the ratio of bids to securities available coming in at 3.72. The highest yield bidders at the auction could get for 10-year notes was 3.90 percent, while older 10-year notes were trading simultaneously in the marketplace at yields closer to 3.93 percent.

Analysts had worried that demand for new Treasury issues had begun to wane following poorly attended auctions of two-, five- and seven-year notes at the end of March.

But this week's issuance, which will eventually total \$82 billion, has seen a strong takedown, with the high yield at three-year note and 10-year TIPS auctions also coming in below when-issued yields, a sign that investors are willing to settle for a slightly smaller return in exchange for the assurance of getting a specified bulk of securities at an auction.

Greenspan grilled as U.S. bank reform rumbles ahead

Alan Greenspan defended his now deeply flawed legacy before a U.S. panel investigating the origins of the 2007-2009 financial crisis. As Senate aides worked behind the scenes to hammer out a bill tightening bank regulation, the Financial Crisis Inquiry Commission hammered on Greenspan at the first of three days of hearings that could sharpen the financial reform debate.

"Did we make mistakes? Of course we made mistakes," he said. "Managers of financial institutions, along with regulators, including but not limited to the Federal Reserve, failed to comprehend the underlying size, length and potential impact" of market risks that contributed to the crisis. The panel will question former top executives of bailed-out banking group Citigroup on Thursday, and troubled housing finance giant Fannie Mae on Friday, with top federal regulators also set to testify. The hearings were not expected to unearth stunning revelations about the causes of the worst banking and capital markets debacle since the Great Depression, but they could add momentum to the Democrat's push for a major regulatory overhaul.

Fed's Bernanke says U.S. economy not "out of woods"

Federal Reserve Chairman Ben Bernanke said the U.S. economy still faces significant headwinds, including a housing sector that has yet to recover convincingly and an ailing employment market.

In a speech that suggested the central bank chief was in no rush to begin raising interest rates, Bernanke outlined a number of challenges to the country's growth outlook.

In particular, Bernanke flagged continuing weakness in housing as a danger to the recovery, which he nonetheless said would be sustainable enough to bring down the unemployment rate slowly over time. In addition, inflation expectations appear to be stable, Bernanke said, both as measured by market indicators and surveys.

Ben Bernanke said that U.S. deficits were too large and must be brought under control. However, he added that the deficit would not put upward pressure on inflation because the Fed would take any steps needed to control price increases.

Meanwhile, while asset price bubbles are difficult to identify, they occur "fairly frequently" and uncertainty should not dissuade policymakers from taking action to address them, NY Fed President William Dudley said.

U.S. SEC plan boosts asset-backed securities rules

U.S. securities regulators proposed that issuers of mortgage-backed securities and similar instruments disclose more about the underlying loans and keep 5 percent of the credit risk in some circumstances, an effort to avoid a repeat of the financial crisis. The SEC rule responds to the debacle involving securities packed with subprime mortgages that plunged in value with the downturn in the U.S. housing market.

Under the proposed SEC rule, sponsors of asset-backed securities would only be required to retain a portion of the credit risk if they want to issue the security quickly through a so-called shelf offering. The SEC proposal would allow investors to analyze the pools of securitized assets and give them at least five days to decide whether they want to buy the asset-backed securities.

Separately, the Federal Reserve Bank of New York is planning to include a feature in one of its liquidity-draining schemes that would allow money-market funds to participate without running afoul of new liquidity rules, a fund manager told Reuters.

China hints at readiness to let yuan rise

U.S. Treasury Secretary Timothy Geithner will hold talks in Beijing tomorrow against a background of fresh signals from Chinese policymakers that they might be paving the way to let the yuan resume its rise. The National Development and Reform Commission said China would monitor exchange rate risks facing exporters, while an economist from the agency said Beijing should edge towards a more flexible yuan.

China's central bank set the yuan's mid-point at 6.8259 per dollar, the strongest for the yuan in 10 months.

Separately, a top U.S. trade official said he will press Chinese officials next week in Beijing to roll back an "indigenous innovation" policy that threatens U.S. intellectual property rights.

Deputy U.S. Trade Representative Demetrios Marantis stopped short of threatening to bring a WTO case against China, but said the issue would be high on the U.S. agenda at the bilateral Strategic and Economic Dialogue meeting in late May in Beijing. Meanwhile, China may raise interest rates in the second quarter and economic growth could reach 9.5 percent this year, the China Securities Journal reported, citing central bank advisor Li Daokui.



TODAY'S TOP NEWS

Global junk bond defaults fall 82 pct in Q1-Moody's

Global junk bond defaults plunged by 82 percent in the first quarter as a recovering economy and improved access to credit bolstered companies' coffers, data from Moody's Investors Service showed.

Only 16 issuers defaulted in the first quarter, down sharply from 90 in the first quarter of 2009, Moody's said in a report. Twelve of the defaulters were from the United States, three from Canada and one from Indonesia, it said.

The global junk bond default rate fell to 9.9 percent in March from 11.6 percent in February and should decline to 2.8 percent by year-end, Moody's said. Moody's said it expects the U.S. junk bond default rate to fall to 3.1 percent by the end of the year from 10.9 percent in March. Separately, late payments on U.S. subprime mortgages fell in March for the first time in four years while defaults on prime home loans kept escalating to top 10 percent for jumbo loans, Fitch Ratings said.

Subprime RMBS delinquencies fell to 46.3 percent in March from 46.9 percent in February, but stayed well above 39.8 percent from a year ago, Fitch said.

Euro zone Q4 growth stalls, PMIs point to rebound

Euro zone growth stalled in the last quarter of 2009 as investment turned out weaker than expected, revised data showed, but a benchmark survey suggested this year's fragile recovery is gaining traction.

The GDP posted zero growth quarter-on-quarter in October-December, rather than the previously reported 0.1 percent expansion, the European Union's statistics office said.

The euro zone economy contracted 2.2 percent year-on-year, more than the previously estimated 2.1 percent, Eurostat said.

Markit said its final Eurozone Services PMI of around 2,000 companies, ranging from banks to hotels, jumped to 54.1 in March from 51.8 in February, revised up from a flash estimate of 53.7 released two weeks ago.

The OECD forecast that annualized, quarter-on-quarter euro zone growth would be 0.9 percent in the first three months of 2010 and 1.9 percent in the second quarter.

U.S. home purchase loan demand steady as refis sink

U.S. mortgage rates spiked last week, slashing refinancing demand, while requests for home purchase loans held steady amid a final rush for federal tax credits, MBA data showed.

Time is running out for home buyers seeking tax credits of up to \$8,000, with purchase contracts needing to be signed by the end of this month and loans closed by the end of June.

With just a month to cash in on the tax incentive, which is designed to infuse life into a fragile housing market, demand for mortgages to buy homes eked out a 0.2 percent seasonally adjusted rise in the week ended April 2, the trade group said.

But applications for refinancing slumped 16.9 percent, pushing the trade group's mortgage market index of total applications down 11 percent.

The average 30-year mortgage rate shot up by more than a quarter percentage point to 5.31 percent, a nearly eight-month high and well above the 4.61 percent record low a year ago. Refinancing represented 58.7 percent of all applications last week, down from 63.2 percent the prior week. It was the lowest share since last August.

Canadian data shows economic recovery taking hold

The Canadian economic recovery remains on track as purchasing activity jumped more than expected in March and building intentions were near a 2007 peak despite cooling slightly in February, according to reports.

Statistics Canada said the overall value of building permits slid 0.5 percent in February versus market expectations of a 2 percent gain, due to a sharp decline in construction plans for apartment buildings.

But analysts were not perturbed by the 7.5 percent decline in the value of residential permits, saying that supply in the housing market remains strong despite an expected surge in demand in the spring ahead of widely forecast interest rate increases later in the year. Building permits were up 56.7 percent from a year earlier and hovered near the 2007 peak.

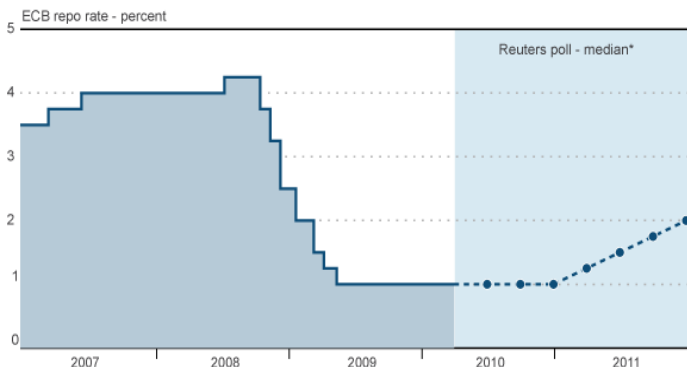
Building permits for single-family dwellings rose 3 percent to a record high. But multifamily units tumbled 28 percent.

NEXT UP

ECB lending rules revamp looms, rates seen on hold

The ECB will flesh out a revamp of its lending rules to help ease the financial squeeze on Greece, while keeping euro zone interest rates at a record low 1.0 percent.

All 82 economists polled by Reuters see the ECB keeping rates on hold for the 11th month running. With Greece's debt crisis rattling market confidence in the euro, the focus will remain squarely on what President Jean-Claude Trichet has to say on the subject after the bank's monthly meeting.



He has already primed markets for Greece-friendly changes to the ECB's collateral rules that will extend easier lending terms into 2011 and introduce a new sliding scale of risk premia it applies to the assets banks can swap for ECB loans.

UK monetary policy on hold till fiscal path clearer

The BoE looks set to keep its powder dry next week as it pauses to assess the impact of the stimulus it has already delivered and waits to gauge the fiscal landscape that emerges after next month's election.

The meeting of the BoE's nine-member MPC will be the last before Britain's national election if, as is widely expected, the poll takes place on May 6. All 64 economists polled by Reuters reckon the central bank will leave interest rates at a record low 0.5 percent and most do not expect rates to rise until the fourth quarter of this year at the earliest.

Recent comments from BoE policymakers suggest the central bank could remain in wait-and-see mode for some time. With so much uncertainty surrounding the strength of the recovery and the impact of a looming government spending squeeze, a growing number of economists believe monetary policy will not be tightened until 2011.



DEEP DIVE Commentary and Analysis

Dollar to benefit from shift in FX/risk dynamic

By Natsuko Waki

The post-crisis relationship between the dollar and risk assets such as stocks and commodities is weakening, a move that may pave the way for the currency to benefit from a favourable U.S. economic outlook.

A break-up in the inverse correlation between the dollar and risk assets, a key feature in the risk rally since March 2009, reflects greater investor confidence in the U.S. economy and expectations the Federal Reserve will lead global interest rate hikes while Europe and Japan struggle with economic woes.

This greater focus on U.S. economic outperformance and the prospect of higher rates will encourage investors to buy dollars even as risky assets rally.

Over the past year good U.S. economic news has tended to ignite "risk-on" buying of stocks and commodities and dollar selling as investors bet improving risk appetite would push capital from U.S. markets to higher-yielding assets abroad.

But that dynamic appears to be changing. A case in point was the dollar's reaction to Friday's robust and risk-friendly U.S. jobs report -- the currency rose broadly as markets priced in a quarter-point Federal Reserve rate hike in September.

"Our hypothesis is that the risk-on/risk-off matrix that seemed to dominate market development during much of the crisis is breaking down," said Marc Chandler, strategist at Brown Brothers Harriman.

"We suspect it is being replaced by a greater emphasis on country specific macro-economic developments."

According to Reuters data, the 90-day correlation between the S&P 500 index and the dollar index has fallen to zero over the past month -- showing there is no relationship -- from around -0.9 in December, reflecting the new dynamic in which the dollar can rise independent of moves in risk assets.

The correlation "coefficient" number varies between -1 and 1, with 1 showing perfect correlation -- two assets always moving in the same direction -- and zero showing no relationship.

The 90-day correlation between the Volatility Index -- a key gauge of risk aversion -- and the dollar has fallen to -0.14 from a high 0.89.

The shift in the dynamic is also happening as the euro zone suffers from a debt crisis and Japan's stagnant economy is pressuring the Bank of Japan to maintain its super-loose monetary policy -- negative factors for the euro and yen.

"We've seen the U.S. economy continue to recover and it looks probably the most healthy economy in the developed world and that's helping to support the dollar. We have problems everywhere else," said Phyllis Reed, head of economic, currency and fixed income research at Kleinwort Benson.

The post-crisis relationship, which saw stocks and commodities rise at the expense of the dollar, coincided with a broad risk asset rally between March to December 2009. And the new phase, which is gathering pace, may last for some months.

"These correlations last about 6-12 months, averaging about 9 months. I can imagine this kind of phase lasting for most of the year," said Terence Mall, head of multi-asset strategy at Investec Asset Management.

DOLLAR/COMMODITIES TIES

Commodities and the dollar have shown a long-standing negative relationship -- where a weakening U.S. currency leads to higher commodity prices by creating demand for dollar-priced resources.

These ties strengthened late last year as capital exited U.S. money markets in search of higher yielding assets. The safe-haven U.S. money market saw nearly \$300 billion of outflows in

the first quarter alone, according to fund tracker EPFR.

But that flow might peter out soon if the U.S. economy becomes a source of growth and related risks that bring reward.

The latest mutual fund data analysed by UBS shows U.S. funds further reduced the share of foreign assets in their portfolios to 25.2 percent, marking the fourth month of decline since the October peak of 26 percent.

The breakdown of the correlation may also mean, however, that it may be some time before the dollar decisively breaks higher.

"The dollar may be in a bit of a holding pattern near-term, not declining materially on increased risk sentiment as better economic data will support a Fed rate hike," the Swiss bank said in a note to clients.

"And not strengthening materially either until more certainty in the timing of the initial Fed rate hike emerges."

Euro's reserve standing may be hit by Greek crisis

By Mike Dolan

The euro's growing status as a world reserve currency may be vulnerable to the flaws that Greece has exposed in the euro zone's fiscal framework.

For central banks around the globe seeking a home for hard cash reserves -- now a record in excess of \$8 trillion -- the euro had gradually gained favour as one alternative to the dollar over the 11 years since its launch.

As the debate about the possible demise of dollar dominance raged through the latter part of last year -- largely on fears of soaring U.S. debts and money printing -- the euro seemed to many a natural beneficiary.

But this neat narrative of the U.S. ancien regime gradually handing more and more of its dominance to Europe's new currency has taken a significant twist this year as sovereign debt concerns raised questions about the long-term cohesion of the euro bloc.

The Greek government's struggle to fund its ballooning deficits reached a crescendo in March when Germany led its euro zone partners in insisting that any financial support would only be considered alongside lending from the International Monetary Fund.

This convoluted euro zone pledge and Greek promises of austerity have failed to dispel concerns about its debt servicing.

The Balkan country continues to fork out twice as much interest as Germany in raising 10-year bonds and 50 percent more than it had to stump up six months ago.

Currency speculators are still selling the euro short in record amounts, according to the U.S. Commodities Futures Trading Commission.

Fund tracker EPFR said investors have been net sellers of Europe equity funds for eight straight weeks, with outflows from Western Europe funds totalling \$4.5 billion since January 1.

Invoking an external institution like the IMF, against the express wishes of the European Central Bank, may have provided Germany with a fig leaf of domestic political cover in agreeing to bail out one of its profligate neighbours.

But it has simultaneously undermined the solidarity of the 16-nation zone -- a solidarity critical to launching the euro despite widespread scepticism that monetary union could be achieved in advance of some form of fiscal federalism.

Although web polling and bookies can be noisy and unreliable, it is interesting to see one ThomsonReuters webpoll showing more than half seeing a greater risk of euro breakup after the IMF deal. And online betting firm InTrade's futures show a 10 percent chance of a country exiting the euro in 2010.

DEEP DIVE Commentary and Analysis**LIQUIDITY, LIQUIDITY, LIQUIDITY**

But why should reserve managers in Asia and elsewhere care? Central banks build up hard cash buffers primarily for emergency use -- traditionally to cover imports or service foreign debts in a disaster and more recently as both a tool for fixing exchange rates and a net result of those pegs.

Either way, key qualities of a reserve currency are its liquidity -- the ability to buy and sell at short notice both the currency and, crucially, the underlying sovereign debt its banked in -- and its performance as a long-term store of value.

Looking at quarterly IMF data, the euro's share of reserves has risen to 27.4 percent at the end of 2009 from 18 percent for its pre-euro constituents in 1999. This compares with a 62 percent share for the dollar at last count.

What is more, nearly all respondents in a poll of 43 reserve managers taken late last year said the euro's standing as a reserve currency had been enhanced since the credit crisis. Some 65 percent said the dollar's had declined.

So much for last year.

Even though it is dangerous to read too much into quarterly re-

serve shifts, due to exchange rate effects, the release of the IMF's first quarter data on June 30 will be very closely watched. One of the biggest hurdles the euro has faced as a reserve currency has been the quality and liquidity of its government bond market compared to the U.S. Treasury alternative.

To be sure, the amount of euro zone bonds of maturities of more than a year is 50 percent bigger than in United States and the benchmark German bund market may be an adequate and liquid safe haven for stashing reserves.

But bunds only account for 19.5 percent of total euro zone government debt outstanding. Italy, Portugal, Ireland, Spain and Greece together account for almost 45 percent.

Even if reserve managers do not think euro breakup is likely, the possibility of capital loss, evaporating liquidity and even IMF-recommended debt restructurings could well make them wary of holding anything but bunds.

And any such shift, by blowing the borrowing premia higher on non-German debt and sucking liquidity from the euro zone's peripheral debt markets, could be traumatic.

Thomson Reuters LPC Spring Loan Market Seminar

Thursday, April 22, 2010

Times Square, New York

If you have considered investing in the loan asset class, or even if you are just interested in learning more about it, Thomson Reuters LPC – the most trusted information source for loan market professionals – has the perfect event for you.

On April 22nd, Thomson Reuters LPC will host a special half-day seminar in New York City entitled "Investment Opportunities in the Loan Market". Key players in the syndicated loan space will conduct detailed panels discussing opportunities for investors seeking to make a move in syndicated loans.

[Click here](#) to view our detailed agenda and to access registration information.

Seating for this event is limited.

The cost for attending this seminar is U.S. \$395 and includes an introduction, panel discussions, a refreshment break and a post-seminar cocktail reception.

This unique event will be held in the Thomson Reuters building in Times Square, New York City.

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

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