

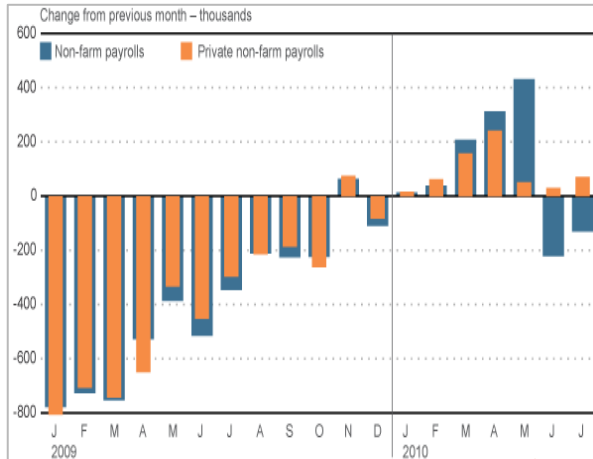
INSIDE DEBT

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Friday, August 6, 2010

CHART OF THE DAY

U.S. payrolls



July payrolls drop by 131,000 as Census jobs continue to wind down, but private payrolls increased by 71,000 from a downwardly revised June increase of 31,000.

TODAY'S TOP NEWS

- Weak private hiring shows U.S. recovery on the ropes
- U.S. Rate Futures-Fed ease seen possible in 2010
- Bernanke: Many ways to replace Fannie, Freddie
- Indicator suggests OECD growth peak U.S. turns negative
- U.S. FHA set to increase borrowing costs next month
- AIG starts talks on govt exit, tops Street view
- U.S. consumer credit shrinks for fifth month
- Eurozone buoyant but recovery two-speed
- Canada hit with first monthly jobs loss of 2010
- UK June output surprises with fall, hurts sterling

ECON WATCH

FOR MONDAY AUGUST 9

ET	Indicators	Unit	Reuters	Prior
2:00	DE Exports mm sa	%	1.0	9.2
2:00	DE Imports mm sa	%	-2.0	14.8
2:00	DE Trade bal sa, EUR,	bln	12.5	10.6
4:30	EZ Sentix Index	ind	1.6	-1.3
-	GB RICS house price	bal	5	9
-	JP BoJ Starts 2-day Monetary Policy Meeting			

MARKETS TODAY

TODAY'S TOP STORY: U.S. private employers added fewer workers to their payrolls in July than expected and hiring in June was much weaker than had been thought, a big blow to an already feeble economic recovery. **For more please click here**

TREASURIES: U.S. Treasuries prices rallied, sending two-year yields to record lows again as dismal jobs data rekindled speculation the Federal Reserve could consider new stimulus measures as early as next week.

- 30-year bonds jumped a point yielding 4 pct.
- 10-year notes climbed 22/32 to yield 2.82 pct from 2.90, while 2-year notes rose 2/32 yielding 0.51 pct. The 2-yr yield hit a record low of 0.50 pct earlier in the session.
- The spread between 10-yr notes and 30-yr bonds widened to 117 bps.

FOREX: The U.S. dollar approached a 15-year low against the yen and fell against the euro after news that the U.S. economy shed twice as many jobs in July as expected added to worries about the recovery.

- Dollar fell 0.48 pct to 85.42 yen, after falling as low as 85.03 yen.
- The euro rose 0.8 pct to \$1.329, a 3-month high after falling to a 4 year low early June, after Friday's stronger-than-expected euro zone data.
- Canadian dollar fell more than a pct against dollar to a 2-month low at C\$1.0306, after the unexpected job loss in July. Dollar rose 0.96 pct to C\$1.0267 while it fell 0.83 pct to 1.0374 Swiss francs.

CORPORATES: U.S. corporate bonds spreads widened after disappointing non-farm payrolls data added worries on the slow pace of economic recovery and the market digested the biggest week of new supply this year.

- The CDX.IG-14 index widened to 104 bps from 102 bps.
- Foresight Energy sold \$400 mln of notes while Volkswagen International Finance sold \$1.75 bln of notes in two parts.
- Average corporate bond yields this week were hovering just below 4 pct, their lowest since March 2004 and down from nearly 5 pct at the start of the year. However, high-grade bond funds had \$14.7 bln of inflows, the strongest month of the year.

STOCKS: U.S. stocks ended lower after government data showed a much larger-than-expected drop in July payrolls, providing investors with a stark reminder the economic recovery remains slow.

- Dow closed at 10,653.64, 0.2 pct down with IT Services and banking sector fell nearly 7 points, S&P fell 0.37 pct to 1,121.60 and Nasdaq was down 0.2 pct at 2,288.44.
- Kraft foods shares soar 2.36 pct following its better-than-expected earnings and bullish outlook while Office Depot stocks fell 6.97 pct.

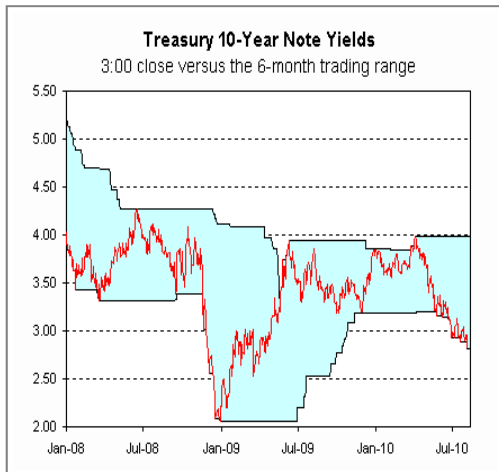
C & E: U.S. crude oil futures prices fell a third straight session as a disappointing U.S. July jobs report showed more losses than expected and weighed down equities markets and oil.

- U.S. crude oil fell 1.41 pct to \$80.85 per barrel.
- Gold gained 1.02 pct to \$1,205.3 an ounce.
- Reuters-Jefferies index lost 1.07 pct to 274.71.

- 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	0.12	0.152	0.002
3-Mo Bill	0.145	0.135	0.147	0.001
6-Mo Bill	0.185	0.180	0.188	0.001
1-Year	0.240	0.230	0.244	-0.004
2-Year	100.219	100.250	0.514	0.047
3-Year	100.688	100.719	0.763	0.109
5-Year	101.141	101.188	1.511	0.297
7-Year	101.125	101.172	2.200	0.516
10-Year	105.734	105.797	2.824	0.711
30-Year	106.531	106.594	3.997	0.992

EQUITIES

	INDEX	CHANGE
DJIA	10608.23	-66.75
NASDAQ	2279.79	-13.28
S&P 500	1117.43	-8.37

OIL

	PRICE	CHANGE
NYMEX	80.8	-1.2
BRENT	76.4	1.1

EURODOLLAR FUTURES

	CLOSE	CHANGE
Aug-10	99.605	0.003
Sep-10	99.600	0.000
Dec-10	99.555	0.000
Mar-11	99.495	0.000

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.290	O/N	0.310
2-Week	0.290	2-Week	0.300
1-Month	0.290	1-Month	0.300
3-Month	0.300	3-Month	0.310
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.310	10:00 AM	0.240
2-Week	0.300	3:00 PM	0.230
1-Month	0.300		
3-Month	0.300		

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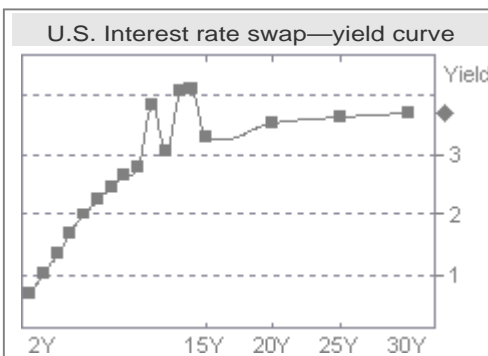
	SPREAD		RATE	
2-Year	18.25	22.25	0.69	0.72
3-Year	25.50	29.50	1.02	1.04
5-Year	19.25	23.25	1.70	1.72
7-Year	7.50	11.50	2.27	2.28
10-Year	-0.75	3.25	2.83	2.83
30-Year	-31.50	-27.50	3.68	3.67

FUTURES

	PRICE	CHANGE
CBOT 5 yr	119.12	0.30
CBOT 10 yr	123.23	0.03
CBOT 30 yr	128.00	-0.13

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.240	-	-
1-Month	0.280	0.380	0.172	0.182
3-Month	0.350	0.550	0.170	0.180
6-Month	0.520	0.650	0.169	0.179
12-Month	0.880	1.200	0.200	0.210



CURRENCIES

	BID	ASK
Euro	1.3274	1.3276
Sterling	1.5956	1.5960
JP Yen	85.40	85.42
Swiss Franc	1.0377	1.0380
Can Dollar	1.0287	1.0294
Mexico	12.7145	12.7200

FED FUNDS NYFRSM - 10AM

Open	0.2200	1m	0.2930
High	0.2300	3m	0.4262
Low	0.1300		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	30/07/2012	16	14	0.67
3-Year	1.625	15/04/2013	9	-	0.85
5-Year	2.375	28/07/2015	23.5	23	1.74
7-Year	5.125	18/10/2016	-4.25	-7.25	2.15
10-Year	-	-	-	-	4.5
30-Year	6.625	15/11/2030	28.5	25.5	4.28

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	27/07/2012	16	14	0.67
3-Year	1	23/09/2013	23.5	21.25	0.99
5-Year	2.875	09/02/2015	4	-	1.55
7-Year	5.25	15/09/2016	-4.5	-7.5	2.15
10-Year	3.75	27/03/2019	7	0	2.89
30-Year	6.25	15/07/2032	33.5	30.5	4.33

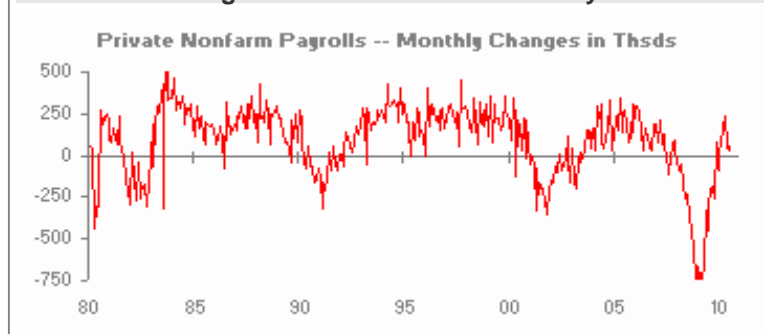
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2700	104.2800	2.498
FHLMC	4.0	104.2600	104.2700	2.462

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.2310	104.2350	2.648
FHLMC	4.5	104.2260	104.2320	2.591
GNMA	4.5	105.1920	105.1960	2.951

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Weak private hiring shows U.S. recovery on the ropes

U.S. private employers added fewer workers to their payrolls in July than expected and hiring in June was much weaker than had been thought, a big blow to an already feeble economic recovery.

Overall non-farm payrolls fell 131,000 last month, the Labor Department said, the second straight monthly decline as temporary government jobs to conduct the decennial census dropped by 143,000. Private employment, a better gauge of labor market health, rose a modest 71,000 after gaining just 31,000 in June. The government revised payrolls for May and June to show 97,000 fewer jobs than previously reported.

The jobless rate was steady at 9.5 percent since people not looking for work are not counted as being in the labor force.

The average workweek edged up to 34.2 hours after slipping to 34.1 hours in June. The dominant service sector added 38,000 jobs, but temporary help jobs.

Temporary employment gains had averaged 45,000 per month from October 2009 to May.

State and local governments purged 48,000 workers last month, helping to push government payrolls down by 202,000.

The factory sector added 36,000 jobs. However, construction employment fell 11,000.

Bernanke: Many ways to replace Fannie, Freddie

It should be possible to create a U.S. housing finance system without the need for potentially risky entities like government-sponsored mortgage finance agencies Fannie Mae and Freddie Mac, Fed Chairman Ben Bernanke said.

Bernanke, in a letter to Representative Marcy Kaptur that was released, said the housing finance system should ensure successful funding of mortgages and support a secondary mortgage market even during times of financial stress without creating firms that pose systemic risk.

The firms remain under government control, and the Obama administration is only just beginning to grapple with how to overhaul the housing finance system.

The two companies have already received more than \$146 billion in assistance from the government's unlimited credit line, and Fannie Mae asked for an additional \$1.5 billion in taxpayer aid. The Fed chairman said he backs a proposal by Treasury Secretary Timothy Geithner that would encourage risk-based pricing of any government guarantees.

U.S. FHA set to increase borrowing costs next month

The FHA plans early next month to raise the cost of loans backed by the agency in an effort to strengthen its cashed-strapped balance sheet.

The move follows Senate approval this week of a bill to allow the FHA to nearly triple the annual fees it charges borrowers, although the FHA plans more modest increases at first.

Under the law, the FHA would have the authority to raise annual mortgage insurance premiums to a maximum 1.5 percent. That is up from the current 0.55 percent maximum, first to 0.85 percent or 0.9 percent. The new fees are expected to raise about \$3.6 billion annually for the FHA. While raising the annual premium, the FHA has said it also plans to lower a separate upfront premium from the current 2.25 percent to about 1 percent to offset the cost of the annual premium. New borrowers would pay an average of just under \$40 per month more under the new fee structure. The minimum down payments are still 3.5 percent for most borrowers. Lawmakers struck down a Republican proposal to raise them to 5 percent.

U.S. Rate Futures-Fed ease seen possible in 2010

U.S. short-term interest-rate futures traders are pricing the possibility the Federal Reserve will drive short-term rates lower this year, after a government report showed payrolls fell more than expected in July.

Fed fund futures with a November expiry rose 1.5 basis point, to 99.835, suggesting traders expect overnight lending between banks in November to average 0.165 percent in the month.

Meanwhile, Dollar funding costs hit early May lows as U.S. employment data was assessed for its potential to push the Fed toward further monetary accommodation.

The three-month dollar Libor was fixed at 0.41125 percent down from 0.41813 percent, its lowest level since May 7.

The December Eurodollar contract hit 99.565 after the U.S. data, compared with 99.545 earlier. Euro three-month funding costs crept to a near one-year peak as scarcer liquidity was anticipated by the market.

The recent rise in euro lending rates decelerated, but not enough to stop the three-month Libor from rising to its highest rate since Aug. 18, 2009 at the London fixing, while the three-month Euribor rate edged up to 0.905 percent, its highest since July 2009.

Indicator suggests OECD growth peak U.S. turns negative

The OECD said its leading indicator for June pointed to a possible peak in growth in developed economies, with the index for the United States turning negative for the first time since February 2009.

The 32-member OECD said that indicators for China, India, France and Italy also pointed to below trend growth in coming months.

The index for the OECD area as a whole slipped 0.1 points to 103.4 points in June, but was still up 8.5 points on the year. For the Group of Seven industrialized nations, the indicator also fell to 103.6 in June, down 0.1 points from the previous month.

The OECD's composite leading indicator for the United States slipped to 103.0 in June from 103.1 the previous month, its first decline in 16 months.

While the pace of expansion remained robust in Germany, where the CLI rose 0.6 points to 106.8 in June, the indices for Japan and Russia pointed to future slowdowns, the OECD said. The indicator for the United Kingdom, which fell 0.4 points to 103.5, pointed to a peak in the pace of expansion, it said.

AIG starts talks on govt exit, tops Street view

AIG's quarterly results topped Wall Street's expectations, and the chief executive said the insurer is actively looking to repay its enormous taxpayer bailout.

AIG will begin negotiating an exit of the Treasury's equity stake once it has clarified how the Fed's credit facility will be paid down, Benmosche said. AIG is already on its way to divesting some assets to pay down the government debt.

AIG revived plans for an IPO of the unit after a failed sale to Britain's Prudential, which paid AIG a termination fee of \$228 million. AIG expects to close on the sale of another foreign life insurance unit to MetLife in the fourth quarter.

AIG reported second-quarter earnings of \$1.3 billion, or \$1.99 per share, excluding special items, up from \$1.1 billion, or \$1.71 per share, a year earlier.

On a net basis, AIG reported a net loss of \$2.7 billion compared with a year-earlier net profit of \$1.8 billion. The net loss was primarily due to a \$3.3 billion noncash goodwill impairment charge from the pending sale of American Life Insurance Co.



TODAY'S TOP NEWS

U.S. consumer credit shrinks for fifth month

Total U.S. consumer credit outstanding shrank for a fifth straight month in June in the latest sign of Americans' reluctance to spend when unemployment is high and the economic outlook uncertain.

The Federal Reserve said on Friday that total outstanding credit, which covers everything from car loans to credit cards, shrank by \$1.34 billion in June, less than the \$5 billion forecast by economists surveyed by Reuters.

That followed a revised decline of \$5.28 billion in May credit totals, not as severe as the \$9.15 billion decline the Fed originally reported, but still clearly indicating consumers were reining in their spending. Credit-card credit, dropped by \$4.48 billion in June after a \$7.15 billion fall in May -- the 21st consecutive month in which credit-card debt decreased.

Eurozone buoyant but recovery two-speed

A leap in German industry output over the second quarter and a moderate rise in Italian economic growth added to evidence the euro zone is in a robust recovery phase but with divergences within the bloc.

The Bank of Spain highlighted a divide between strength in Europe's largest economies and a less impressive rebound in the currency zone's laggards, estimating the Spanish economy grew by an anaemic 0.2 percent in the second quarter.

Economists fear Spain's economy could contract again at the back end of the year as government debt-cutting measures kick in. Italian GDP grew by 0.4 percent from the first quarter but the euro zone as a whole is expected to have expanded by 0.6 percent or more in the second quarter.

German industry output dropped by 0.6 percent on the month in June but was up 5.4 percent over the second quarter as a whole, the biggest quarterly gain since German reunification in 1990. France's trade deficit fell more than expected in June as exports hit their highest level in nearly two years helped by higher trade with China.

Canada hit with first monthly jobs loss of 2010

Canada's economy unexpectedly lost jobs in July in the first such decline this year, suggesting its once robust recovery is cooling and the pace of future interest rate hikes may slow. The 9,300 job losses brought Canada more in line with the United States. Statistics Canada said that a loss of 139,000 in full-time employment positions was not quite offset by a 129,700 jump in part-time jobs.

The unemployment rate rose to 8.0 percent from 7.9 percent. Ivey Purchasing Managers Index fell to an unexpectedly low 54.0 in July from 58.9 in June. The numbers suggested the Bank of Canada may now be less inclined to raise interest rates in coming months, though analysts were quick to point out the report can be volatile and that the central bank prefers to look at the longer-term trend.

Canada's services sector, which generated strong jobs growth in June, shed more than 51,000 jobs last month.

UK June output surprises with fall, hurts sterling

British industrial output fell unexpectedly in June, although officials stressed the drop was due chiefly to an early start to seasonal oil field maintenance and would not change initial estimates for GDP.

The ONS said industrial output fell 0.5 percent in June, partially reversing May's 0.7 percent rise and confounding forecasts for a 0.2 percent increase. The main reason for the fall was a 6.0 percent drop in oil and gas output, its biggest monthly fall since last August. The decline in oil and gas extraction was due to maintenance work being carried out in June, rather than in August when work on oil fields is normally done.

The office said data would not lead to any revision of the Q2 GDP figures, which showed growth of 1.1 percent for the economy as a whole. Manufacturing output also rose less than expected in June, by 0.3 percent, the same as in May. And the slowdown in July's Purchasing Managers surveys this week suggested a further easing.

NEXT UP

BoE to cut 2011 growth outlook, bump up CPI forecasts

The BoE will cut its growth outlook for the British economy next year and bump up its inflation predictions in Wednesday's Inflation Report, a Reuters poll of economists showed.

An austere emergency budget, clear signs of a slowdown in the United States and weak domestic demand in the neighboring euro zone were cited as the biggest factors that will cause the BoE to rein in predictions for an accelerating recovery.

The bank will likely hike its expectations for inflation this year after price rises moderated only slightly over the last quarter, all but one of the respondents said. May's Inflation Report said inflation would slow to below 2 percent in two years even if interest rates stay at record lows.

BOJ eyes yen; may opt for minor easing if moves sharp

The BoJ hopes to avoid having to dig into its depleted policy arsenal next week, but may ease monetary policy if the yen soars towards an all-time high against the dollar and threatens a fragile economic recovery.

The central bank is expected to stand pat on policy with solid exports to Asia underpinning Japan's export-driven growth.

But the BOJ is ready to act if expectations of further monetary easing by the Fed drive down the dollar/yen rate fast enough to

damage Japanese business sentiment.

Still, it would probably settle for a minor tweak of policy rather than a radical change such as a return to full-blown quantitative easing. The central bank still forecasts a moderate economic recovery in Japan and sees little need to act as long as the yen's rise is gradual. A return to old-style quantitative easing is being ruled out because the BOJ believes the last time it tried it early this decade it did little to boost the economy or defeat deflation. The BOJ might consider increasing its government bond purchases, although doing so would be hard as its debt holdings are nearing a self-imposed cap.

German GDP growth seen accelerating in Q2

Exports seen rising, imports falling; CPI seen confirmed at +1.1 pct y/y; GDP see +1.3 pct q/q

German GDP growth is expected to have accelerated in the second quarter after a harsh winter cooled activity at the start of the year. The consensus forecast in a Reuters poll of 34 economists was for growth to accelerate to 1.3 percent in the second quarter from 0.2 percent in the January-March period. The consensus forecast in another Reuters poll of 13 economists was for exports in June to show growth of 1.0 percent, with imports falling by 2.0 percent. The survey projected the trade surplus would swell to 12.5 billion euros from 10.6 billion in May.



DEEP DIVE Commentary and Analysis

ANALYSIS-U.S. staffing execs skeptical about job losses

By Nick Zieminski

A surprising drop in July temporary payrolls, part of a weaker-than-expected U.S. government jobs report, defies the trends staffing companies are seeing in their own businesses, say staffing execs, who predict slow, modest jobs growth will resume in coming months.

Temporary payrolls slipped last month after nine months of sequential growth, a surprise because that measure typically ticks higher from June to July. Temporary payrolls are a key measure of the health of the wider U.S. jobs market, as they are the normally the first to come back in a recovery and the first to suffer in a downturn.

That decline added a dissonant note to a now-ending earnings season in which employment services companies generally reported strong results and spoke with confidence about the balance of the year.

Overall, the U.S. economy lost 131,000 jobs outside the farm sector last month, the Labor Department said, double the decline that had been expected. The unemployment rate, based on a separate survey, held steady at 9.5 percent, as discouraged workers remained on the sidelines, not yet actively seeking jobs.

Order flow for temporary workers was consistent week-to-week at staffing firm SFN Group Inc and the number of people out on assignment continues to grow, said SFN Chief Executive Roy Krause, who noted that the first few weeks of July were stronger than the end of June.

"I don't think we're going to see big spurts of growth, but we don't see it falling back and we don't have any indications from our clients that way," Krause said. "Our biz is extremely trendable. If the trends flattened, I'd start getting more worried than I am now."

SHARES FALL

Investors are worried, however.

Shares of nearly all U.S. staffing and jobs services firms were lower on Friday. Manpower Inc shares were down 2.7 percent. Robert Half International Inc fell 4 percent. SFN Group lost 1.8 percent, and Monster Worldwide Inc lost 3.9 percent, all on the New York Stock Exchange.

In trade on the Nasdaq, Hudson Highland Group Inc. fell 9.5 percent and Kelly Services Inc was down 4.4 percent, while in Zurich, shares of Adecco SA, the world's biggest staffing firm, fell 3.7 percent.

July's report was the second straight month of job losses, but those numbers should start showing gains again in coming months, said Tig Gilliam, chief executive of Adecco North America.

"Our temp business continues to suggest that temp staffing is leading and that will take us to a faster pace of private sector permanent employment," Gilliam said.

"The BLS number doesn't show the same pace or level of recovery," he added, referring to the Bureau of Labor Statistics. "The temp number doesn't ring true."

The number of temporary workers going out each week is still growing, and at a faster pace, Gilliam said, but added that he could not disclose specific numbers ahead of next week's Adecco earnings report.

"GOOD RECRUITING ACTIVITY"

One reason why it is hard to draw solid conclusions about the direction of the economy is that the hiring and now the firing of U.S. Census workers distorts results.

Also, many key sectors of the economy, like financial services,

typically ramp up recruitment in the autumn, after Labor Day, so the September and October BLS reports will be far better indicators of where hiring is headed, executives say.

One executive with an informed perspective on the financial sector is Scot Melland, the CEO of Dice Holdings Inc, which runs specialized career sites focused on technology and financial services.

"In our sectors, we continue to see good recruiting activity and a slow, steady increase in recruiting activity in financial services and in tech," Melland said. "I'd expect job growth in those areas to continue for the rest of the year."

The number of job postings on Dice's eFinancialcareers.com is up 31 percent from a year ago, while technology job postings on Dice.com are up 36 percent.

"What we'll see in the next six months in the total labor market is slow private-sector jobs growth, below what people would expect in a normal recovery, but still positive," Melland added.

ANALYSIS-Commercial real estate loan logjam clears

By Al Yoon

The logjam of troubled U.S. commercial real estate loans is beginning to break, suggesting the market is freeing itself of an overhang that has chilled investor activity and threatened the economy.

Commercial property loans backing securities have been modified to easier terms, or liquidated, at a quickening pace in the past few months, moving the load that has deluged the companies that deal with troubled loans since 2008, according to Barclays Capital and Trepp.

The shift comes as some relief for investors who, as recently as June, were complaining that the slow resolution of distressed properties was limiting opportunities to invest in the deals, or buy the buildings. The faster pace of modifications also suggests "rescue capital" is being deployed more often as investors see increased opportunities.

"Servicers are trying to clean up their books," said Julia Tcherkassova, a commercial mortgage-backed securities (CMBS) strategist at Barclays in New York. "It's healthy, because we see the realization of losses one way or another going through the system," assuming there are partial write-downs, she said.

The amount of modifications of CMBS loans to avoid foreclosure this year already exceeds the \$10 billion done in 2009, with servicers having completed about a fifth of what has been set on them, Barclays found. Liquidations, or sales of distressed properties, have also climbed since April.

What's more, the flow of loans to special servicers -- which deal with loans headed for default -- has slowed. Well under \$1 billion was transferred to these servicers in June and July, compared with nearly \$3 billion per month in the first five months of 2010, according to Trepp, a CMBS data provider.

"The overall direction is promising and gives hope that perhaps the darkest days for the CMBS market are over," Trepp said in a report this week.

BETTING ON A BOTTOM

The work by special servicers may help avoid a deeper downturn for hotels, offices, stores and apartment buildings, whose fates are closely linked with economic growth. As loans are modified and shored-up with fresh equity, they can prevent a downward price spiral caused by forced liquidation.

As modifications typically involve increased financial stakes, they may be an implicit bet that the economic recovery won't peter out, as is feared by many economists.

"If they are willing to invest some equity, that's positive," Tcherkassova said. "They are willing to acknowledge that the NOI



DEEP DIVE Commentary and Analysis

(net operating income) for those properties has potential to increase going forward."

Activity may be heating up as investors are getting some sense that the assets have seen the worst effects from the recession that cut rental income, raised vacancy rates and cut the availability of credit.

In recent months, apartment vacancy rates have declined, as they have in some major office markets, like Manhattan. Prices on the few properties that are changing hands appear to have stabilized.

Given these signs, private funds are ready to pull the trigger in deploying the capital they have raised to shore up troubled loans, analysts said. The flow of capital is slow because they are extremely cautious with the terms, however.

RESCUE CAPITAL

To help a bank negotiate a pay-off on an existing mortgage, private equity and hedge fund manager Marathon Asset Management recently made a \$24 million loan on the 386-room Doubletree Hotel at New York City's John F. Kennedy International Airport, negotiating for itself an unusual position senior to the first lien.

The borrower had to get the funds in less than a month, Marathon said in a statement.

Given the amount of money chasing these opportunities, investors may not always get such favorable terms. There is "push back" on the concept of rescue capital gaining an outright senior position, said Klaus Kretschmann, head of the distressed real estate practice at Alvarez & Marsal, a restructuring firm which often advises lenders.

"There's a lot of capital on the sidelines, and the question will be how aggressive will these people be with the rescue capital," Kretschmann said. "Will they really be willing to subordinate to the first mortgage?"

There is no standard modification, however. Many simply involve an extension of maturity, for a fee.

Still a big challenge is a daunting \$1.2 trillion in loans that will come due in coming years. Many of these loans are under water, with commercial real estate values off about 40 percent nationally since 2007, according to a Moody's/REAL property index.

Of the refinancings, a private equity manager recently estimated as much as \$400 billion in equity capital will be needed, raising doubts that capital on the sidelines or a re-emerging CMBS new issue market will save borrowers.

"Borrowers are going to face a financing crisis," said Kretschmann.

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