

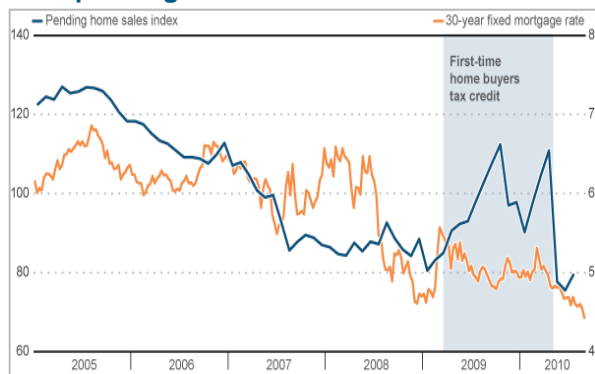
INSIDE DEBT

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Thursday, September 2, 2010

CHART OF THE DAY

U.S. pending home sales



Pending sales of previously owned homes in U.S. rose 5.2 percent in July, first time since the expiration of the first-time home buyers tax credit.

TODAY'S TOP NEWS

- Bernanke takes blame for muddling message on Lehman
- U.S. data dampen fears of new recession
- SEC requires advisers to muni issuers to register
- Regulator lowers Fannie, Freddie low-income goals
- 'Quote stuffing' a focus in flash-crash probe
- Communities key in foreclosure fight-Fed officials
- ECB extends banks' liquidity lifeline into early 2011
- Euro zone GDP jumps on households, investment

ECON WATCH

FOR FRIDAY SEPTEMBER 3

ET	Indicators	Unit	Reuters	Prior
03:58	EZ Services PMI	ind	55.6	55.6
04:28	GB Services PMI	ind	52.9	53.1
05:00	EZ Retail sales mm	%	0.2	0.0
08:30	US Non-farm payrolls	k	-100	-131
08:30	US Manufact payrolls	k	10	36
08:30	US Private payrolls	k	41	71
08:30	US Unemployment	%	9.6	9.5
08:30	US Avg Hrly Earnings	%	0.1	0.2
08:30	US Avg work week	hrs	34.2	34.2
10:00	US ISM Non-mfg index	ind	53.5	54.3
10:00	US ISM N-mfg Bus Act	ind	55.9	57.4

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MARKETS TODAY

TODAY'S TOP STORY: U.S. Federal Reserve Chairman Ben Bernanke said he was partly to blame for leaving the wrong impression that the central bank could have saved Lehman Brothers from failure in 2008.

For more please click here

TREASURIES: U.S. Treasuries fell for a second straight day as recent economic data assuaged fears the world's largest economy may be headed for a double-dip recession.

- 10-yr notes fell 13/32 to yield 2.63 pct from 2.58 pct, while 2-yr notes remained unchanged at 0.50 pct.
- 30-yr bonds were down 1-5/32 yielding 3.71 pct from 3.65 pct.
- 5-yr notes slid 3/32 to yield 1.43 pct.
- 2-10's part of the yield curve steepened by 5 bps to 213 bps and 3-30's part of the curve steepened by 5 bps to 296 bps.

FOREX: The dollar slipped against major currencies as better-than-expected U.S. data on housing and jobless claims boosted risk appetite, though investors remained cautious ahead of a key U.S. jobs report.

- The dollar index fell 0.15 pct to 82.401.
- Dollar fell 0.25 pct at 84.23 yen, close to a 15-year low of 83.58 yen hit last week.
- Euro rose 0.19 pct to \$1.2823 and euro fell 0.06 pct to 108.01 yen.
- Sterling fell 0.31 pct to \$1.5398.
- New Zealand dollar rose 0.44 pct to \$0.7147 while dollar rose 0.23 pct to C\$1.0530.

CORPORATES: U.S. corporate bond spreads were unchanged to slightly tighter after a rise in pending home sales and a drop in jobless claims eased fears of a double-dip recession.

- The CDX.IG-14 index tightened by 3 bps to 106 bps.
- As of Wednesday, average high-grade corporate bond yields had climbed to 3.855 pct from a record low of 3.731 pct on August 24.
- Rentenbank sold \$1.25 bln of global notes. Korea Development Bank sold \$900 mln of senior unsecured notes on Wednesday.

STOCKS: U.S. stocks rose on low volume as data showed improvement in housing and the job market a day ahead of the critical monthly payrolls figures.

- Dow added 0.49 pct to 10,319.72, S&P advanced 0.9 pct to 1,090.00 and Nasdaq rose 1.06 pct to 2,200.01.
- Shares of Burger King Holdings jumped 25.08 pct to \$23.59.
- Home Depot surged 2.58 pct to \$29.41, Gap advanced 1.28 pct to \$17.43 and Abercrombie & Fitch sank 3.88 pct to \$35.16.
- S&P retail index added 2.17 pct. KBW bank index rose 1.19 pct.

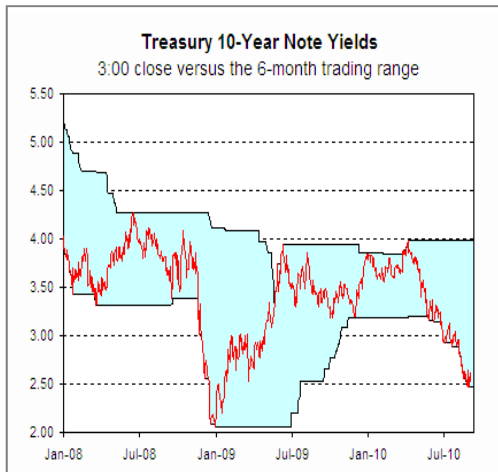
C & E: U.S. crude oil futures rose for a second day as Hurricane Earl threatened U.S. East Coast refineries and an explosion hit an offshore oil and gas platform in the Gulf of Mexico.

- U.S. crude oil rose 1.47 pct to \$75 per barrel.
- Gold gained 0.58 pct to \$1,250.75 an ounce.
- Reuters-Jefferies index added 0.98 pct to 271.15.

- 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	-0.011
3-Mo Bill	0.135	0.125	0.137	-0.001
6-Mo Bill	0.185	0.180	0.188	0.001
1-Year	0.230	0.220	0.234	-0.006
2-Year	99.742	99.773	0.506	0.016
3-Year	100.000	100.039	0.750	-0.012
5-Year	99.148	99.195	1.428	-0.078
7-Year	98.781	98.828	2.063	-0.266
10-Year	99.953	100.016	2.628	-0.422
30-Year	102.719	102.781	3.724	-1.352

EQUITIES

	INDEX	CHANGE
DJIA	10291.19	21.57
NASDAQ	2192.05	15.21
S&P 500	1086.49	6.18

OIL

	PRICE	CHANGE
NYMEX	75.0	1.1
BRENT	77.0	0.7

EURODOLLAR FUTURES

	CLOSE	CHANGE
Sep-10	99.698	0.010
Dec-10	99.590	0.010
Mar-11	99.520	0.005
Jun-11	99.420	0.000

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.290	O/N	0.290
2-Week	0.290	2-Week	0.310
1-Month	0.290	1-Month	0.290
3-Month	0.300	3-Month	0.300
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.290	10:00 AM	0.230
2-Week	0.290	3:00 PM	0.222
1-Month	0.280		
3-Month	0.300		

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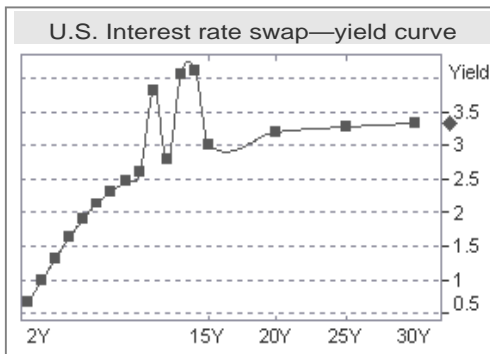
	SPREAD		RATE	
2-Year	17.25	21.25	0.67	0.70
3-Year	23.75	27.75	0.98	1.01
5-Year	20.00	24.00	1.62	1.64
7-Year	8.00	12.00	2.14	2.15
10-Year	-2.25	1.75	2.60	2.61
30-Year	-40.25	-36.25	3.32	3.31

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.70	-0.03
CBOT 10 yr	125.50	-0.23
CBOT 30 yr	133.72	-0.63

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.240	-	-
1-Month	0.250	0.360	0.179	0.189
3-Month	0.330	0.450	0.178	0.188
6-Month	0.500	0.650	0.176	0.186
12-Month	0.800	1.100	0.212	0.222



CURRENCIES

	BID	ASK
Euro	1.2813	1.2816
Sterling	1.5385	1.5388
JP Yen	84.21	84.24
Swiss Franc	1.0138	1.0142
Can Dollar	1.0537	1.0542
Mexico	13.0454	13.0502

FED FUNDS NYFRSM - 10AM

Open	0.2100	1m	0.2521
High	0.2200	3m	0.3162
Low	0.1400		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.625	24/09/2012	18.5	17.5	0.68
3-Year	1	23/09/2013	24	23.5	0.98
5-Year	2.375	28/07/2015	25.5	24.5	1.68
7-Year	3.75	27/03/2019	10	9	2.73
10-Year	-	-	-	-	-
30-Year	-	-	-	-	-

ACTIVE FREDDIE MAC AGENCIES

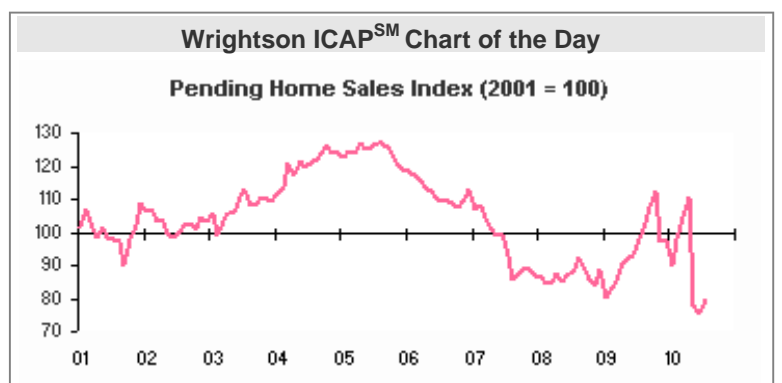
TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	-	-	-	-	-
3-Year	-	-	-	-	-
5-Year	-	-	-	-	-
7-Year	-	-	-	-	-
10-Year	-	-	-	-	-
30-Year	-	-	-	-	-

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2410	104.2450	-
FHLMC	4.0	104.2410	104.2450	-

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.2560	104.2620	-
FHLMC	4.5	104.1910	104.1950	-
GNMA	4.5	105.3050	105.3110	-



TODAY'S TOP NEWS

Bernanke takes blame for muddling message on Lehman

U.S. Federal Reserve Chairman Ben Bernanke said he was partly to blame for leaving the wrong impression that the central bank could have saved Lehman Brothers from failure in 2008.

Bernanke, testifying said he thought it "very likely" the investment bank was insolvent and lacked sufficient collateral to borrow enough from the central bank to avert collapse.

But he said he kept that view to himself in congressional testimony given just days after Lehman's September 2008 bankruptcy because he was worried that such comments might have spooked already panicky financial markets.

"I regret not being more straightforward there because clearly it has supported the mistaken impression that in fact we could have done something we could not have done," he said.

Bernanke said a freshly minted financial reform law would help reduce the risk of future problems, provided regulators follow through on its implementation.

Separately, Lehman Brothers needs at least \$550 million to keep its two bank units going as it prepares to sell them or shut them down in 18 months, court documents show.

SEC requires advisers to muni issuers to register

Financial advisers to states, cities, school districts and other issuers in the U.S. municipal bond market must register with the SEC by Oct. 1, the federal regulator announced.

The SEC said it adopted a temporary rule requiring the registration to meet the Oct. 1 deadline established by financial regulation legislation enacted this summer. A permanent rule will be proposed later this year, it added.

"We have acted expeditiously to create a temporary registration system to gather key data and provide transparency about municipal advisers," said SEC Chairman Mary L. Schapiro in a statement. "As a result, regulators, investors, and state and local governments will have a much better understanding of those who provide services in the municipal market," she added.

The registration requirement applies to financial advisers, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, finders and certain swap advisers providing municipal advisory services, according to the SEC.

'Quote stuffing' a focus in flash-crash probe

U.S. regulators probing the May flash crash are focusing on a trading practice known as "quote stuffing" in which large numbers of rapid-fire orders to buy or sell stocks are placed and canceled almost immediately.

The SEC and the CFTC are also examining something called sub-penny pricing, said a person familiar with the "flash crash" probe. CFTC Commissioner Scott O'Malia told Reuters his agency is reviewing data from Nanex LLC, a trade database developer that issued a study suggesting computer algorithms used quote stuffing to gain an edge during the May 6 crash.

The SEC and the CFTC have yet to explain what caused the crash that drove the Dow Jones industrial average down some 700 points in minutes, before sharply rebounding. The SEC is still requesting "a huge amount of general data" from exchanges and other trading venues, said a second person familiar with the investigation. Up to 5,000 orders per second were placed in individual stocks at times during the flash crash, the Nanex study said. The SEC is also looking at "sub-penny pricing" in the wide-ranging probe, the first source said.

In sub-penny pricing, non-exchange venues including anonymous dark pools are believed to quote and execute orders priced in increments as small as one-tenth of a cent.

U.S. data dampen fears of new recession

Pending sales of previously owned U.S. homes rebounded unexpectedly in July and new claims for jobless benefits fell last week, helping dampen fears the economy could face a double dip recession.

The data, including sturdy sales from U.S. retailers last month, followed a report showing a surprising gain in manufacturing activity and suggested the economy retained some underlying strength.

The National Association of Realtors' Pending Home Sales Index rose 5.2 percent in July from a month earlier.

Initial claims for state unemployment benefits dropped for a second straight week last week, slipping 6,000 to 472,000.

The lackluster recovery was underscored by a second report from the Labor Department that showed U.S. business productivity contracted at an annual rate of 1.8 percent in the second quarter, instead of the previously reported 0.9 percent. It was the largest decline since the third quarter of 2006.

The report showed unit labor costs, rose at a 1.1 percent rate rather than the previously estimated 0.2 percent. It was the biggest increase since the fourth quarter of 2008.

Other data showed new orders received by U.S. factories edged up 0.1 percent last month after falling 0.6 percent in June.

Regulator lowers Fannie, Freddie low-income goals

The regulator for Fannie Mae and Freddie Mac lowered its goals for the two mortgage finance entities to buy loans for some low-income properties.

The Federal Housing Finance Agency said it would now require at least 21 percent of its single-family refinance loan purchases to be for low-income properties, down from 25 percent in an earlier proposal.

Fannie Mae and Freddie Mac would be required to make sure at least 27 percent of the home purchase loans it acquires are for low-income properties and 8 percent are for very low-income properties.

Separately, U.S. mortgage rates fell in the past week to the latest in a series of record lows as yields on government debt dropped, according to a survey released by Freddie Mac, the second-largest U.S. mortgage finance company.

Rock-bottom rates offer a glimmer of hope for a housing market that has failed to find footing in the aftermath of the expiration of popular home buyer tax credits.

Communities key in foreclosure fight-Fed officials

Two top U.S. Federal Reserve officials called for a more community-focused approach to the country's ongoing foreclosure crisis, which is weighing on its economic recovery.

Sandra Pianalto, president of the Federal Reserve Bank of Cleveland, stressed the U.S. central bank feels a "great sense of urgency" in getting the housing market back on its feet.

Neither Pianalto nor Boston Federal Reserve Bank President Eric Rosengren addressed the outlook for monetary policy in their remarks at the conference in Washington. Both officials said one-size-fits-all remedies don't work for fighting foreclosures, which played a central role in the U.S. financial and economic crisis. Rosengren said community problems are often side-lined in a public policy approach focused on bringing down the high numbers of so-called real-estate owned, or vacant, properties. More state and federal revenue sharing focused on providing flexible funds could help local governments target the pressing needs in their communities, be it a lack of teachers or police, Rosengren said.

TODAY'S TOP NEWS

ECB extends banks' liquidity lifeline into early 2011

The ECB extended its liquidity safety net for vulnerable euro zone banks into next year, delaying its exit from crisis measures for now as it urged caution about the economic recovery.

The ECB left rates at a record low of 1 percent for the 16th month in a row and said policy remained accommodative as the region battles with an uneven recovery and concerns about bank vulnerability.

ECB staff raised economic growth forecasts but President Jean-Claude Trichet said risks were to the downside and the recovery would be moderate with uncertainty prevailing.

It will also offer unlimited funds at three-month operations until December although the cost of these will not be fixed in advance, rather indexed to the ECB's policy rate.

Separately, EU diplomats reached a deal to create three pan-EU financial watchdogs by the start of next year, EU Internal Market and Financial Services Commissioner Michel Barnier said.

Euro zone Q2 GDP jumps on households, investment

Higher household spending and investment drove euro zone growth in the second quarter of 2010, while first quarter growth was also stronger than thought, but the expansion should slow in the second half of the year.

European Union statistics agency Eurostat confirmed that GDP in the 16-nation currency area grew 1.0 percent quarter-on-quarter in the April-June period, the fastest pace in four years, after an upwardly revised 0.3 percent in the first quarter.

Year-on-year, the euro zone economy expanded 1.9 percent in the second quarter, rather than the previously estimated 1.7 percent, and grew 0.8 percent in the first quarter rather than the earlier reported 0.6 percent.

Separately, Switzerland's economy powered ahead in the second quarter as companies cranked up investment spending, data showed, likely to prompt both the government and the central bank to revise up growth forecasts.

GDP grew 0.9 percent from the previous quarter in real terms, the SECO said. Economists had expected 0.8 pct growth.

Mercer bullish on emerging markets, mezzanine debt

Emerging markets' sovereign debt and equity as well as mezzanine debt offer the best growth opportunities and higher margins, U.S. investment consulting firm Mercer says.

The asset consultant is particularly concerned by high levels of public debt in developed nations.

The United States', Japan's and Europe's finances have significantly deteriorated since the global financial crisis hit. Public debt to GDP ratios are soaring with Japan expected to top 200 percent next year from around 140 percent in 2003, according to the OECD.

Despite this explosion of debt, Japan's 10-year government bonds only yield around 1.0 percent, while those of the United States and Germany are slightly higher and hover around 2 percent. Another growth area seen by Mercer is mezzanine debt, a type of subordinated debt often used to finance acquisitions. Separately, U.S. fund firm Alliance Bernstein is bullish on Italian and Spanish government bonds and less confident on debt issued by Ireland, Greece and Portugal, it said.

Hungary yields up at bill sale amid fiscal doubts

Hungary cut its 12-month Treasury bill auction by more than a third and was forced to pay higher yields to attract investors against a backdrop of renewed nerves over the country's fiscal policy.

Speculation the central bank might raise interest rates in the months ahead was also putting upward pressure on yields, traders said. The government debt agency AKK sold 35 billion forints worth of bills, cutting a 50 billion forint offer. It rejected bids for higher yields, but the average yield still rose to 5.82 percent from 5.44 at an auction two weeks ago.

Separately, France and Spain sold a combined 12.2 billion euros (\$15.6 billion) of government bonds, securing lower yields as investors showed strong appetite for euro zone debt, particularly longer-dated paper.

The Spanish sale drew a more than a 50 percent uptake among foreign investors, according to a source, helping to ease concerns the country would face financing problems.

NEXT UP

U.S. Aug nonfarm payrolls seen -100,000, private +41,000

U.S. nonfarm payrolls probably fell for a third straight month in August, a combination of the fading boost from census hiring, a reluctance by firms to add staff and relentless layoffs at cash-strapped state and local governments.

Temporary employment for the decennial census fell about 116,391 between the July and August survey periods for the closely monitored employment report.

The loss of momentum in the recovery partly reflects the waning support from a record \$862 billion in government stimulus and a rebuilding of inventories by businesses. The Federal Reserve has said it is ready to take additional steps to boost growth should the outlook deteriorate appreciably.

The economy's poor health is weakening President Obama's popularity among Americans desperate for jobs.

In August the weakness in employment was probably spread across all sectors.

Employment in the goods-producing sector was likely held back by lackluster manufacturing payrolls, which had got a boost from some automakers which did not shut plants for the traditional summer break.

POLL-Euro to resume downtrend against dollar

The euro will resume its gradual decline against the dollar and sterling over the next 12 months after a two-month spike came to an abrupt end last month, a Reuters poll of 63 foreign exchange strategists showed.

Volatility in the euro and yen may rise in coming weeks as growing uncertainty about the global economy worries investors, while sterling will probably have a less turbulent month.

It is the third month in a row that the poll has pointed to higher volatility for the euro and yen, while sterling remained comparatively unruffled.

The poll implied monthly annualized volatility of 12.6 percent for the euro against the dollar in September, up from the 11.9 percent seen in August.

The Japanese yen is set to gradually weaken against the U.S. dollar over the year, although at a markedly slower pace than was forecast last month even as the Bank of Japan attempts to tame its stubborn rise.

The dollar is expected to end September at 85.0 yen, before inching to 86.0 yen in three months, 89.5 in six and 95.0 in 12 months.



DEEP DIVE Commentary and Analysis

Housing double-dip threatens banks

By Jim Saft

Another dip in U.S. housing looks likely, bringing with it difficulties for banks and for their government guarantors.

What is perhaps worse: having chucked money at supporting asset markets in order to support banks the past two years, the policy options for handling another housing downturn and banking crisis would be greatly circumscribed.

If you think the debate about more fiscal stimulus is heated, wait until you see the venom which the prospect of another housing and banking bailout brings.

Despite absolutely massive official support, via the FHA, Fannie Mae, Freddie Mac, a now expired housing credit and other initiatives, air now appears to be leaking out of the housing market faster than it is being pumped in.

The recent run of data in the aftermath of the expiration of the housing credit has been terrible. Existing home sales fell 27 percent in July to an annual rate of 3.83 million, the lowest figure in the 11-year history of the data, leaving inventories above a year's worth of sales even before you account for the shadow inventory of foreclosures and would-be short sales. Nearly 15 percent of all loans are past-due or in foreclosure and 23 percent of properties encumbered by a loan are in negative equity, meaning they have very good reason to default if they haven't already. Another 5 percent of mortgaged homes have 5 percent equity or less.

Combine all this with a clearly weakening U.S. employment scene and you have the potential for further substantial falls in the value of housing, which, last time I checked, is bad news for the loans that are the backbone of the financial system.

Meanwhile household formation, a key determinant of house prices over the medium term, is going in the wrong direction. When jobs are tough to find and house prices aren't rising many people decide it is better to move back home with mom and dad.

To be sure, house prices are very sticky and it is hard to forecast where they will bottom. People hate selling at a loss, even if they can afford to write a check to their bank to be rid of a property, and so bad fundamentals may be slow to translate into steep price drops. As well, very low interest rates will give some the means, if not the motivation, to keep paying on underwater properties.

LOAN LOSSES AND MAGICAL THINKING

So, how well are banks prepared for a double-dip in U.S. housing?

A recent report from the Federal Deposit Insurance Corporation on profitability at insured institutions starts off promisingly enough, leading on the fact that profits were \$21.6 billion in the second quarter, a \$26 billion jump from the \$4.4 billion net loss of the year before and the strongest showing by the industry since 2007.

Things in the release went rapidly downhill from that cheery start and my heart sank when I read that:

"The primary factor contributing to the year-over-year improvement in quarterly earnings was a reduction in provisions for loan losses. While quarterly provisions remained high, at \$40.3 billion, they were \$27.1 billion (40.2 percent) lower than a year earlier."

Banks' ratio of reserves to total loans and leases actually fell in the quarter, an outcome which would be fine if we were not possibly heading into another recession.

I realize that the performance of corporate loan books has been strong but commercial property is still a problem area. The fact is, with changes in accounting rules giving banks more leeway

on how they classify assets, there is very little transparency in what those profits mean and if those provisions for losses are appropriate.

Even after a strong rally on Tuesday the KBW index of bank shares is down more than 10 percent in the past month, indicating that someone is drawing a connection between a deteriorating economy and banking profits.

So, we have a housing market which is well set up for a fall and a banking industry which may or may not be generating the kinds of real profits it needs to put it on a firm capital footing again. Nothing has to happen, and there are reasons why a muddle through may be the most likely outcome. The largest banks still benefit from an assumed government guarantee and may, even if housing relapses, simply take longer to reach health.

Here is the real risk: if banks do require another rescue the political consensus to do it quickly and effectively will not be there. The United States has squandered its opportunity to address the fundamental problems, choosing to extend and pretend and to prop up asset values.

It will be interesting to see what Plan B is.

(James Saft is a Reuters columnist. The opinions expressed are his own. 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.)

Payrolls to revive QE2 talk, steer dollar down

By Jeremy Boulton

Friday's U.S. non-farm payrolls data is shaping up to be weak and may open the way to a lower dollar if the numbers are seen bad enough to prompt the Federal Reserve to pump additional stimulus into the stuttering economy.

The jobs data always has the potential to set the market tone and the August release could see a shift away from the mood of risk aversion that followed July payrolls and has seen the dollar bought as a safe haven.

Back in July, weak U.S. data, including worse-than forecast June payrolls, drove the dollar lower almost daily and many in the market were talking about the need for the Fed to undertake fresh quantitative easing steps, dubbed QE2.

In August, a payrolls number twice as bad as forecast and a negative revision to the previous month's reading prompted the Fed to downgrade its economic outlook and to say it would reinvest maturing mortgage debt in government bonds. Analysts said the move could herald more aggressive policy easing.

With dollar shorts then nearing \$20 billion, shocked investors turned risk averse and sought safety in the greenback.

Before long doom-mongers took a grip on thinking on currencies and other assets. Euro zone bond yield spreads widened sharply as old concerns about debt piles, at government or bank level, were touted as fresh cause for concern.

The Australian election was flagged as a negative for the Aussie while softer commodity prices hit commodity-linked currencies, adding to the illusion of dollar strength.

Since the Aug. 11 Fed decision the greenback recouped around 4 percent at best and now stands around 3 percent higher than the levels seen when July payrolls data was released.

CFTC data shows speculators are still short dollars. However, a look at the breakdown implies a risk averse bid for the supposed safety of the yen and Swiss franc accounts for a large part of this positioning.

In reality, the risk that has been taken with the dollar in mind may be much closer to flat with yen and Swiss franc longs amounting to some \$8.7 billion.



DEEP DIVE Commentary and Analysis

So the market approaches Friday's release date with a more neutral bias to speculative positions and after a month of grim U.S. data where risk aversion has contributed to the dollar's solid tone.

How much of a surprise would it be then to see the dollar undone by a rush of talk about the full blooded implementation of QE2?

The fact that another bout of Fed QE has not been discussed in the last few weeks suggests that if such talk were to come back to the fore now it would have a greater impact.

WEAK SIDE

Recent U.S data has undoubtedly been on the weak side. Wednesday's ADP data showing the private sector shed 10,000 jobs in August, together with negative implications from the further shedding of census workers, imply Friday's payrolls will be worse than current forecasts for a loss of 100,000 jobs.

At the time or release, the ADP data was blithely ignored in favour of a positive take on manufacturing ISM numbers so if it proves to have been a reliable indicator of payrolls, Friday's numbers could have an even greater impact.

The next one day FOMC meeting is on Sept. 21, and there is a chance that the near three-week wait could limit any kneejerk reaction on Friday to a weak payrolls result. Despite the hype, the payrolls release often proves a damp squib.

However, after a period of relative quiet on the Fed we may well start to hear market watchers banging the drum about the need for more quantitative easing.

Speculation that the Fed may start printing cash should bring about a lower dollar in the weeks to Sept. 21.

-- Jeremy Boulton is an FX market analyst for Reuters. The opinions expressed are his own --

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CPM	MAT	PRICE	SIZE	YIELD	CPM	MAT	PRICE	SIZE	YIELD				
0%	MAY12	100*125	100*13	x	0.535	526	2%	MAY17	102*25	102*26	x	2.307	302
0%	JUN12	100*04	100*045	x	0.559	551	2%	JUN17	101*05	101*055	x	2.319	315
UST	ZYR	B100*035	A 100*039	266x226	0.570	566	UST	ZYR	B100*08	A 100*085	54x1	2.336	334
		100*035	100*04	245x421					100*075	100*09	77x104		
Mkt Vol		100*03	100*04	221x387			Mkt Vol		100*07	100*095	67x68		
5987		100*025	100*045	207x258					100*085	100*10	62x62		
		100*025	100*045	171x264					100*06	100*105	32x48		
		VWAP	100*04	VWAY	0.561915				VWAP	100*085	VWAY	2.33223	
					0.675	0.668						2.358	2.368-358
							7YR	WI					
1%	MAY13	101*195	101*205	x	0.786	778	3%	NOV19	103*305	103*31	x	2.886	884
1%	JUN13	100*285	100*29	x	0.813	804	3%	FEB20	105*26	105*27	x	2.922	918
UST	ZYR	B100*145	A 100*145	79x51	0.844	841	UST	10YR	H104*215		13x	2.946	
		100*145	100*15	117x118					104*21	104*22	48x35		
Mkt Vol		100*14	100*15	91x96			Mkt Vol		104*205	104*225	65x61		
3554		100*13	100*15	91x70					104*20	104*23	69x53		
		100*135	100*15	83x60					VWAP	104*235	VWAY	2.93871	
		VWAP	100*145	VWAY	0.842673							3.123-118	
					1.053	1.048							
							10YR	WI					
2%	MAY15	102*205	102*215	x	1.553	548	4%	NOV39	105*195	105*205	x	4.046	044
1%	JUN15	101*11	101*115	x	1.589	586	4%	FEB40	109*305	109*315	x	4.044	043
UST	30YR	B100*19	A 100*19	7x	1.626		UST	30YR	B105*22	A 105*235	4x2	4.044	042
		100*185	100*195	104x63					105*215	105*24	10x5		
Mkt Vol		100*185	100*195	93x104			Mkt Vol		105*21	105*245	12x7		
9406		100*185	100*195	68x89					105*205	105*25	7x5		
		100*18	100*19	57x81					105*20	105*255	4x3		
		VWAP	100*195	VWAY	1.62357				VWAP	105*305	VWAY	4.02874	
					1.73	1.723						4.028-018	
							30YR	WI					
1M	BI	0.14	A 0.135	75x5			6M	BI	0.19	A 0.185	50x50		
1M	WI	0.315	A 0.31	x			6M	WI	0.2	A 0.195	180x215		
3M	BI	0.145	A 0.14	5x60			1YR	BI	A 0.271	x5			
3M	WI	0.155	A 0.15	30x150			1YR	WI	0.235	A 0.283	x		

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