

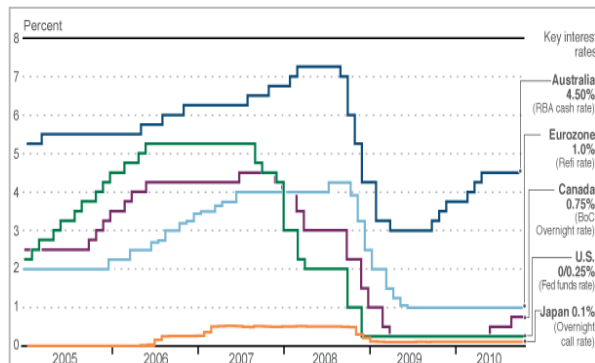
INSIDE DEBT

PRODUCED BY REUTERS IN PARTNERSHIP WITH ICAP

Tuesday, September 7, 2010

CHART OF THE DAY

World interest rates



Australia's central bank left its key cash rate unchanged at 4.5 percent for a fourth month, sounding more upbeat on domestic demand and investment and less concerned about the global outlook.

TODAY'S TOP NEWS

- EU sets up new watchdogs as bank tax row simmers
- Obama kicks off campaign with infrastructure plan
- U.S. SEC probes "quote stuffing" practices-Schapiro
- Two U.S. Fed banks wanted August discount rate hike
- Ministers agree to EU vetting of future budget plans
- Final Basel reform goes to oversight body
- BOJ vows timely action but few clues on next move

ECON WATCH

FOR WEDNESDAY SEPTEMBER 8

ET	Indicators	Unit	Reuters	Prior
02:00	DE Trade bal sa, EUR	bln	12.9	12.3
02:45	FR Trade bal, EUR	bln	-4.00	-3.796
04:30	GB Industrial output mm	%	0.3	-0.5
04:30	GB Manu output mm	%	0.3	0.3
06:00	DE Industrial output mm	%	1.0	-0.6
07:45	US ICSC/GS report ww	%	-	0.1
08:30	CA Building permits	%	-3.5	6.5
09:00	CA BOC overnight rate	%	1.00	0.75
10:00	CA Ivey PMI	%	56.0	54.0
15:00	US Consumer credit	bln	-3.80	-1.34
-	US Fed beige book			
-	GB BoE starts 2-day Monetary Policy Meet			

Thomson Reuters LPC Loan Conference

Wednesday, September 22, 2010

Marriott Marquis, New York City

For more please [click here](#)

MARKETS TODAY

TODAY'S TOP STORY: European Union finance ministers agreed to a sweeping overhaul of how the bloc's financial industry is policed, but remained locked in dispute over the taxation of banking and trading.

For more please [click here](#)

TREASURIES: U.S. Treasuries rebounded after three straight losing sessions as weaker stocks, worries about Europe's financial sector and a strong three-year auction lifted debt prices.

- A well-received auction of \$33 bln worth of 3-yr Treasuries, the first of this week's three bond offerings totaling \$67 bln, added to the bond-positive sentiment. The sale attracted bids worth 3.21 times the amount on offer, right on their six-month average. The record-low yield at the auction also came in below expectations.
- 10-yr notes were up 31/32, yielding 2.60 pct from 2.71 pct.
- 30-yr bonds rose 2-10/32 yielding 3.67 pct from 3.79 pct.
- 5-yr notes rose 13/32 to yield 1.40 pct, 2-yr notes rose 2/32 yielding 0.49 pct. 3-yr notes yield was last at 0.74 pct.

FOREX: The U.S. dollar extended gains against a basket of currencies to rise 1 percent as renewed worries about the European banking sector boosted safe-haven demand for the greenback.

- The dollar index rose 0.93 pct to 82.82.
- Euro slipped 1.41 pct to \$1.2692. It earlier hit a session low of \$1.2683, well off a three-week high of \$1.2920 hit on Monday.
- The euro fell 1.6 pct to 1.2817 francs. The pair hit a record low of 1.2812 francs. The dollar was at 1.0095 francs, down 0.23 pct.
- Against the yen, the dollar hit a 15-year low of 83.52 yen and last traded at 83.76 yen, down 0.48 pct. The euro fell 1.87 pct against the yen to 106.31 yen. The Australian dollar was down 0.59 pct at \$0.9114.

CORPORATES: U.S. corporate bond spreads edged wider amid fresh concerns about European banks, while underwriters launched a raft of new issuance that could total as much as \$100 billion this month.

- The CDX.IG-14 index tightened 3 bps to 107 bps.
- Aon launched a \$1.5 bln debt sale in three parts and International CCE launched a \$1 bln 2-part debt sale.

STOCKS: U.S. stocks fell in a light volume session as investors seized on renewed concerns about European banks as a reason to sell shares after strong gains last week.

- Dow fell 1.02 pct to 10,341.29, S&P shed 1.15 pct to 1,091.82 and Nasdaq fell 1.11 pct to 2,208.89.
- Barclays' U.S.-traded shares dropped 5.62 pct to \$19.13, while Deutsche Bank ADRs were down 3.23 pct at \$62.52, and UBS ADRs dipped 2.83 pct to \$17.54. BofA fell 2.15 pct, JP Morgan fell 2.27 pct.

C & E: U.S. crude oil pared losses and Brent crude turned positive after a deadly explosion ripped through a Mexican oil refinery, raising concerns that Mexico, a top U.S. crude supplier, would have to import more fuel.

- U.S. crude oil fell 1.19 pct to \$73.71 per barrel.
- Gold rose 0.44 pct to \$1,255.1 an ounce.
- Reuters-Jefferies index gained 0.38 pct to 273.81.

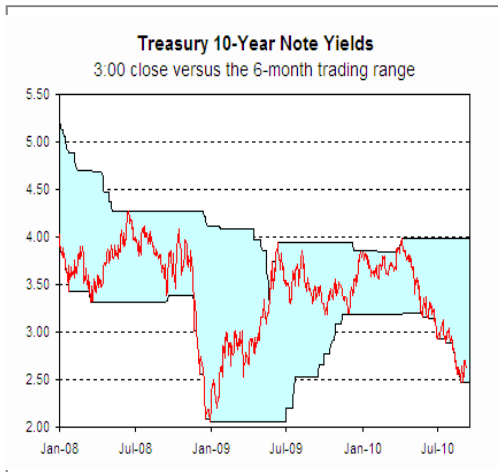
• For MARKET SNAPSHOT [click here](#)

• 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	0.145	0.11	0.147	-0.004
3-Mo Bill	0.135	0.115	0.137	-0.005
6-Mo Bill	0.180	0.170	0.183	0.001
1-Year	0.228	0.218	0.231	-0.002
2-Year	99.766	99.797	0.495	0.063
3-Year	100.016	100.047	0.745	0.145
5-Year	99.227	99.273	1.412	0.355
7-Year	98.938	98.984	2.039	0.680
10-Year	100.109	100.156	2.612	0.781
30-Year	103.656	103.734	3.673	2.047

EQUITIES

	INDEX	CHANGE
DJIA	10340.99	-106.86
NASDAQ	2209.73	-24.02
S&P 500	1092.16	-12.35

OIL

	PRICE	CHANGE
NYMEX	73.8	-0.8
BRENT	77.4	0.5

EURODOLLAR FUTURES

	CLOSE	CHANGE
Sep-10	99.698	-0.005
Dec-10	99.550	-0.055
Mar-11	99.500	-0.035
Jun-11	99.420	0.000

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.280	O/N	0.280
2-Week	0.280	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	0.280	10:00 AM	0.220
2-Week	0.280	3:00 PM	0.219
1-Month	0.290		
3-Month	0.300		

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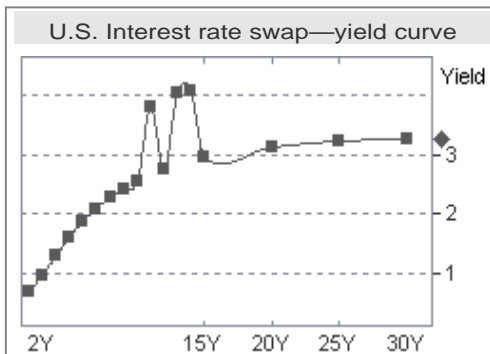
	SPREAD		RATE	
2-Year	16.50	20.50	0.65	0.68
3-Year	20.75	24.75	0.95	0.97
5-Year	16.50	20.50	1.57	1.59
7-Year	3.75	7.75	2.07	2.08
10-Year	-6.25	-2.25	2.55	2.55
30-Year	-41.00	-37.00	3.26	3.25

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.84	0.40
CBOT 10 yr	125.83	0.83
CBOT 30 yr	133.72	0.81

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.240	-	-
1-Month	0.250	0.360	0.181	0.191
3-Month	0.330	0.450	0.183	0.193
6-Month	0.500	0.650	0.179	0.189
12-Month	0.800	1.100	0.209	0.219



CURRENCIES

	BID	ASK
Euro	1.2696	1.2698
Sterling	1.5341	1.5346
JP Yen	83.78	83.80
Swiss Franc	1.0099	1.0102
Can Dollar	1.0470	1.0476
Mexico	13.0531	13.0590

FED FUNDS NYFRSM - 10AM

Open	0.2200	1m	0.2507
High	0.2500	3m	0.3088
Low	0.1500		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.625	24/09/2012	16.5	15.5	0.65
3-Year	1	23/09/2013	23	22	0.97
5-Year	2.375	28/07/2015	23	22	1.64
7-Year	3.75	27/03/2019	8	6.5	2.69
10-Year	-	-	-	-	4.18
30-Year	6.25	15/07/2032	26	22	3.93

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	27/07/2012	13	12	0.62
3-Year	0.875	28/10/2013	25	24	0.99
5-Year	2.875	09/02/2015	8	5	1.49
7-Year	5.125	18/10/2016	3	0	2.07
10-Year	6.625	15/11/2030	25	22	3.92
30-Year	-	-	-	-	4.03

Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2850	104.2910	2.391
FHLMC	4.0	104.2720	104.2760	2.420

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.2770	104.2830	2.644
FHLMC	4.5	104.2420	104.2460	2.561
GNMA	4.5	106.0120	106.0160	2.838

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

EU sets up new watchdogs as bank tax row simmers

European Union finance ministers agreed to a sweeping overhaul of how the bloc's financial industry is policed, but remained locked in dispute over the taxation of banking and trading.

They announced a rare breakthrough with a deal to set up pan-European watchdogs at the start of next year to oversee banking, insurers and markets despite concerns in London that the new agencies would undermine its national regulators.

The EU's executive in Brussels would like countries to use some money from bank levies to go to emergency funds that could be used to shore up flagging banks. Britain made clear it would not accept any such order from the European Commission.

But the region's economic leaders failed to resolve a row about how to impose levies on banks. Although most European politicians want to tax banks more, they remain at loggerheads over what should be done with the money.

Osborne said it was difficult to see how such a transaction tax could be made to operate in a world in which "financial activity can move very quickly ... outside the European Union."

Separately, the WSJ said its analysis showed bank stress tests published more than a month ago had understated some European lenders' holdings of potentially risky government debt. The report helped Bunds recover some steep losses seen late last week.

U.S. SEC probes "quote stuffing" practices-Schapiro

U.S. regulators are probing certain practices around "quote stuffing," where large numbers of rapid-fire stock orders are placed and canceled almost immediately, SEC Chairman Mary Schapiro said.

Regulators were also looking at quote stuffing in connection with the mysterious May 6 "flash crash," when the Dow Jones industrial average dropped dramatically before quickly recovering.

Schapiro appeared to broaden the already wide array of issues the SEC is looking at in the wake of the flash crash, including the fact that some firms regularly send more than 90 buy or sell orders for every trade they ultimately make.

The SEC has introduced a pilot "circuit breaker" program that pauses trading in a single stock if that stock is in a free fall. Schapiro said the circuit breaker program can be improved.

Schapiro said the SEC's next steps are likely to include a careful review of a limit-up and limit-down procedure that would directly prevent trades outside specified parameters.

Ministers agree to EU vetting of future budget plans

EU finance ministers agreed to submit budget plans for early review by the European Commission and other EU governments as part of moves to strengthen fiscal discipline in the bloc.

The process, called the European Semester, is to start from 2011. Governments in the 27-nation EU will send the main budget outlines to the executive Commission by the end of April. They also discussed bank levies and taxing financial transactions during their meeting but said there was still no agreement.

EU ministers agreed that the European Commission will check if their budget plans are in line with economic guidelines, national long-term deficit-cutting plans and reforms that often have to accompany fiscal cuts.

The EU is hoping such rigid oversight and peer review will prevent overspending and head off future debt problems, the cause of so much market turmoil and euro weakness this year.

Meanwhile, economic recovery is accelerating in the EU and growth this year will be higher than initially forecast, European Commission President Jose Manuel Barroso said.

Obama kicks off campaign with infrastructure plan

President Barack Obama, scrambling to spur job creation, proposed a six-year plan on Monday to rebuild U.S. infrastructure with an initial \$50 billion investment and prepared new business tax cuts.

"We are going to rebuild 150,000 miles (240,000 km) of our roads -- that's enough to circle the world six times. ... We're going to lay and maintain 4,000 miles (6,400 km) of our railways -- enough to stretch coast-to-coast," Obama told a labor rally in Milwaukee where several thousand supporters cheered his every line. The infrastructure plan was immediately criticized by Republicans. With fellow Democrats facing punishment from recession-weary voters in November, Obama is under pressure to do more to create jobs and bring down the stubbornly high 9.6 percent unemployment rate, even as economists agree he has few good options left.

Separately, U.S. tax cuts should be extended for all Americans to help spur the economy, but even the middle-class cuts should end in two years, former U.S. budget director Peter Orszag said. He said the United States faces a "jobs deficit" near term and fiscal shortfalls that are unsustainable longer term.

Two U.S. Fed banks wanted August discount rate hike

Two regional Fed banks, Kansas City and Dallas, pushed again for a modest increase in the rate charged to banks for emergency loans, according to minutes from an August policy meeting released.

The Fed kept the discount rate unchanged at 0.75 percent at its Aug. 10 meeting. The Dallas and Kansas City Fed boards requested an increase to 1 percent, while the other 10 regional Fed banks sought no change.

The minutes of the Fed's August discount rate meeting said the regional Fed directors noted a slower-than-expected pace of recovery in output and employment. "The housing sector continued to be depressed, and labor markets remained weak. Overall directors anticipated only modest near term expansion," the Fed said. "With inflation subdued and inflation expectations stable, most directors recommended that the current accommodative stance of monetary policy be maintained."

Final Basel reform goes to oversight body

Central bank and regulatory officials agreed tougher new global bank capital rules but will keep investors on tenterhooks until Sunday when formal endorsement is expected.

The Basel Committee ended its meeting with recommendations on how much extra capital banks will have to hold in future to avoid governments having to bail out the sector in the next crisis, a source familiar with the process said.

Germany's Die Zeit newspaper reported on Monday evening that a draft of the finalized package showed banks will have to hold Tier 1 capital of 9 percent, including a 3 percent so-called "conservation buffer".

At least 5 percent of Tier 1 would have to be in the form of pure equity or retained earnings for maximum market shock absorbency. The current Tier 1 ratio minimum is 4 percent, with a core pure equity minimum of 2 percent.

Germany gave up trying to win blanket regulatory recognition for a form of non-voting bank capital known as "silent participations," widely used in the country's state-owned banking sector.

Separately, Germany's 10 biggest banks may need 105 billion euros (\$141 billion) of additional capital under a revamp of banking rules designed to prevent future financial crises, the country's banking association said.



TODAY'S TOP NEWS

BOJ vows timely action but few clues on next move

The Bank of Japan stood pat on monetary policy but vowed timely action when needed, setting the stage for possible easing next month when it has clarity on political leadership and the strong yen's damage to the slowing economy.

But Governor Masaaki Shirakawa offered few clues on what exactly the BOJ may do next and said monetary authorities could not control foreign exchange rates, triggering yen buying on speculation no aggressive easing was on the horizon.

Still, government pressure on the BOJ for more aggressive steps will likely grow in coming months with the economy expected to slow and as a leadership battle in the ruling party raises the chances of looser fiscal policy, analysts say.

Separately, BOJ Governor Masaaki Shirakawa said the central bank is always considering various policy options and will act in a timely and appropriate way when necessary.

ECB offsets bond buys by draining 61 bln euros

Banks accepted lowly returns on their cash from the ECB, highlighting the appeal of the ECB's safe-haven status in the ongoing environment of money market tension.

The ECB comfortably attracted the 61 billion euros it needed from banks to offset the controversial euro-zone government bond purchases it has made since May.

The ECB paid a weighted average interest rate of 0.33 percent on the one-week deposits. It is also well below the 0.5 percent available on open markets, highlighting banks' preference to park cash at the ECB rather than lend it more profitably to peers. It spent only 173 million euros last week, up slightly from 142 million the week before, but still a fraction of the 16.5 billion it spent in the first week of the program.

The ECB also drained 175 billion euros from money markets in overnight funds at the end of the reserve maintenance period, a point in the cycle when banks have to ensure their funding reserves are in order.

Meanwhile, it is still too early to say that euro zone economic recovery is sustainable, although signs are encouraging, ECB Governing Council member Ewald Nowotny said.

German industry orders fall unexpectedly

German manufacturing orders unexpectedly fell in July at their steepest rate in more than a year, weighed down by weaker demand from abroad and a below-average volume of big orders.

The Economy Ministry said the trend in demand for industrial goods continued to point upwards. Orders fell 2.2 percent on the month in July, the deepest fall since February 2009, according to the Economy Ministry. That confounded expectations in a Reuters poll of 42 economists for a 0.5 percent rise, with projections ranging from -1.7 percent to +3.8 percent. Orders from abroad fell 3.7 percent, steeper than the 0.3 percent fall in domestic orders. Orders from the euro zone fell 6.1 percent.

Separately, a decline in activity in Germany's construction sector eased significantly in August, boosted by the first increase in new orders in 2 1/2 years, a survey showed.

The Markit construction index rose to 48.5 from 44.8. A reading of 50 separates growth from contraction.

All change at the top for UK banks Barclays, HSBC

Change swept through the top of Britain's banks with Barclays appointing its investment banking supremo Bob Diamond as chief executive and HSBC announcing its chairman is to go into government.

HSBC, said Stephen Green would step down to become trade and investment minister in Britain's coalition government. HSBC said it had started a search for a replacement and expects to approve one by the end of the year. The bank prides itself on its succession strategy, but today's statement was forced by reports that Green was set to leave. Barclays, said Diamond will become chief executive when John Varley steps down at the end of March. Barclays' Varley has also been tipped in media reports for a government job. But he said he had nothing new lined up and planned to spend more time on his charitable work. A UK Independent Commission on Banking is considering whether Barclays, HSBC and the other big UK banks should be split up, to separate their riskier investment banking businesses from retail lending.

NEXT UP

**U.S. TREASURY OUTLOOK
'Tail' likely in \$21 bln 10-yr sale**

Wednesday's \$21 billion sale of 10-year U.S. Treasury notes is a reopening, and at current levels would be the second-lowest yield in history for a 10-year auction.

But primary dealers think it could see decent demand and only a small tail.

Dealers say concerns over the stability of some peripheral European countries' debt and banks, along with a relative value trade with the 30-year bond, could drive demand for the notes.

The 10-year sale is the second of three auctions this week. The Treasury Department's sale of \$33 billion in three-year notes saw strong demand. The high yield fetched in the auction was lower than that at which the three-year note was trading in the open market, which means bidders were willing to pay more and get less yield for a chance to participate in the auction.

Spinello said some of Wednesday's bidders could be investors looking to cover short positions.

But a busy corporate bond deal pipeline could push Treasury yields lower in the open market and make it harder for traders to set up for the 10-year auction.

Bank of Canada seen raising rates Sept. 8 to 1 pct

Twenty-five of 41 forecasters polled by Reuters expected the BoC to raise its overnight target rate to 1 percent from 0.75 percent. The poll showed a 55 percent median probability of a rate hike.

That poll included Canada's 12 primary securities dealers and 10 of them forecast a rate hike. Most of the poll participants saw no more movement in rates for the rest of 2010. More than half thought rates would sit at 1 percent at yearend, with a forecast range of 0.75 percent to 1.50 percent.

Investors will watch for the bank's reaction to weaker-than-expected second-quarter growth of 2 percent, a full percentage point below the bank's projection. Employment growth has been positive, along with consumer spending and there is no fear of inflationary pressures, nor of deflation. The bank has said that operating at the lowest possible overnight rate of 0.25 percent has posed logistical challenges because of required changes to the operating band and the framework for transmitting monetary policy to the financial system. As a result, it was eager to lift the rate from the emergency low of 0.25 percent in June and may feel more comfortable lifting it to 1 percent before pausing.



DEEP DIVE Commentary and Analysis

FACTBOX

Obama pitches fixes to jump-start economy

President Barack Obama will announce a series of proposals on Wednesday in Cleveland that he hopes will jump-start the flagging economic recovery and drive the jobless rate down.

The U.S. Congress has balked at even modest new spending initiatives in recent months and officials say the proposals are likely to be narrowly targeted. The following is a summary of some tax and spending policies that have been floated by the administration.

SPEEDING EXPENSE WRITE-OFFS

Obama will propose to let businesses write off all their new investments in plant and equipment through 2011.

The plan would be available to about 1.5 million businesses and cut tax revenues by some \$200 billion over two years, the administration says.

It would be retroactive to Sept. 8, the day the president announces it. The hope is that businesses would make investments without waiting for congressional approval of the proposal. A version of the proposal is in a small-business bill pending before Congress.

RESEARCH AND DEVELOPMENT TAX CREDIT

Obama will ask Congress to increase and permanently extend the research and development credit at a cost of \$100 billion over 10 years. He proposed a permanent credit when he released his 2011 budget last winter.

The House of Representatives has passed a \$31 billion package that renews for one year corporate tax incentives, including a research and development tax credit and tax credits for biofuel use, that have expired.

The so-called tax extenders bill also includes tax breaks for capital improvements to retail business and for finance companies earning money abroad.

The Obama-backed measure, which is paid for by trimming international tax perks enjoyed by some of the same companies, has stalled in the Senate.

TRANSPORTATION SPENDING

Obama proposed a plan on Monday to revamp the United States' aging roads, railways and runways with a \$50 billion investment that would be an up-front part of the traditional multi-year transportation bill. The plan includes rebuilding, constructing and maintaining roads and rail lines; rehabilitating or reconstructing runways; and modernizing the air traffic control system.

INFRASTRUCTURE BANK

Obama has proposed a grant and lending institution that would be an independent entity within the Transportation Department and would first focus on highway, bridge and waterway projects. The administration's five-year projection is to capitalize the bank at \$25 billion and Obama has sought up to \$7 billion in initial funding from Congress.

The bank is part of an infrastructure plan proposed by Obama on Monday.

PAYROLL TAX HOLIDAY

A version of this break already exists in the Hiring Incentives to Restore Employment Act signed into law in March that gives tax credits to business to hire workers who have been unemployed for eight weeks or longer.

The Obama administration says businesses that qualified for the credits have hired about 5.6 million workers, but the administration has been unable to link hiring directly to the incentive.

A new version could give a break on payroll taxes -- payments

to Social Security accounts -- shared by workers and employers, without the need to hire new workers and extend the time period to use the credits.

Lawmakers would have to work out the accounting so the Social Security trust fund doesn't take a financial hit.

BUILD AMERICA BONDS

Taxable so-called Build America Bonds (BABs), created in the stimulus program last year, were designed to finance infrastructure projects. Moves to extend the program beyond December have largely stalled in Congress.

The bonds pay issuers a federal rebate of about 35 percent of interest costs, and led to \$122 billion in bond sales by state and local governments since their debut in April of last year.

Obama has proposed making the program permanent and setting the subsidy level at 28 percent, a level the Treasury Department considers revenue neutral. A recent government report said more than two-thirds of the \$34 billion in payments to BABs is offset by higher revenues.

SMALL BUSINESS HELP

Obama continues to call for passage of a \$20-30 billion bill to invest in banks with assets of less than \$10 billion to spur investment in small business. Republicans have blocked the plan, calling it a waste of taxpayer funds.

INDIVIDUAL TAXES

Obama has stood firm on his pledge to extend the so-called Bush tax cuts for what Obama calls the middle class -- individuals making less than \$200,000 and couples earning \$250,000 and under.

These tax cuts for all individuals expire at year-end unless Congress takes action to extend them.

Obama and fellow Democrats say the wealthy are unlikely to spend the extra funds while Republicans say such individuals fuel consumption spending, investment and hiring.

Some Democrats, however, are pushing for an extension of all of the Bush tax cuts at least for another year while the economy is still on the mend.

Safety plays pay off but gold may add shine

By Jeremy Boulton

With the global economy growing modestly at best, safety first in the yen and Swiss franc may be the most profitable option for FX players, though gold may put a shine on the P&L of the slightly more adventurous.

Friday's better-than-forecast U.S. payrolls data boosted appetite for risky assets, including high-yielding currencies.

However, investors chasing the ebb and flow of risk appetite have faced a torrid period with many swings in sentiment.

Those seeking safety have reaped greater rewards and that strategy looks set to hold firm as September pans out. The yen looks likely to draw even greater favour as financial half-year end brings with it the usual investor repatriation, and requires exporters to hedge.

As evidence of this, the week to Aug. 28 witnessed a marked decline in investors demand for foreign bonds that had previously been running at a breathtaking pace.

On the other hand, the Swiss franc's appeal has been enhanced by solid economic fundamentals.

After the upside surprise in second-quarter growth and with forward looking indicators buoyant, there is cause to favour the Swiss economy to mirror that of euro zone powerhouse and Swiss trading partner Germany.

Those favouring safety may find reassurance in the fact both



DEEP DIVE Commentary and Analysis

Switzerland and Japan run current accounts surpluses. As for the currency trend, investors running short dollar/Swiss or dollar/yen have been relatively unscathed by pullbacks with a one yen rebound the extreme in dollar/yen since the start of August.

Dollar/Swiss has shown a similarly strong downtrend since mid-August so only those with the shallowest of pockets would have been squeezed out in either pair.

INTERVENTION THREAT

Both Switzerland and Japan are export reliant and the question of central bank action to calm unwanted rises in currencies is often on the lips of market players.

However, the cost of prior Swiss National Bank intervention looks more than sufficient to bar a second foray. With FX losses running at around 14 billion francs to date, it seems the SNB is more concerned with how to shuffle its FX reserves to alleviate an over-reliance on the euro.

As for the yen, there seems little doubt the Bank of Japan would intervene if the currency rose at an overly rapid pace. But this is simply not happening.

Dollar/yen at 84.00 yen represents a seven-yen appreciation since the start of the year, but just one yen from the level seen in mid-December 2009. This in no way can be construed as

rapid.

Both the SNB and BOJ have the option of more quantitative easing, but there is a clear reluctance to follow this route in Japan, and the Swiss authorities have been signalling an intent to unwind such policies.

Instead it looks likely that both SNB and Japan's Ministry of Finance will continue to dangle the intervention threat, a threat that probably carries more weight than concrete action.

Economies are growing only marginally and until a more solid rebound is established, safety looks the most sensible and the most profitable option.

For the more adventurous, the gold bull trend is even stronger than the currency trends.

The extreme of any pullback has been around \$10 an ounce since the most recent rally from around \$1,170 in late July to the record peak around \$1,260.

The yellow metal offers safety both from fears of double dips and from the threat of rapidly rising inflation in the case of a more pronounced recovery. Gold would not help if deflation took hold but that would be the same for many alternative investments.

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

16th Annual Thomson Reuters LPC Loan Conference

Wednesday September 22, 2010
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