

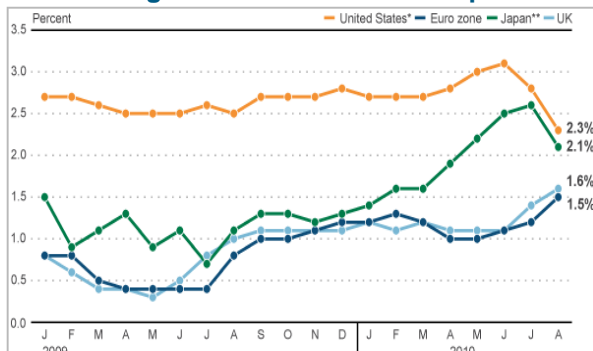
INSIDE DEBT

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Wednesday, September 8, 2010

CHART OF THE DAY

2010 GDP growth outlook - Reuters poll



Major European economies posted their fastest growth rates in years in the second quarter as the United States slowed, the poll showed they will enter a cycle of meagre quarter-on-quarter growth as fiscal austerity measures take force.

TODAY'S TOP NEWS

- Obama: U.S. can't afford to extend tax cuts for rich
- Fed to auction term deposits in Oct, Nov
- Fed report shows widespread signs U.S. growth easing
- Japan's intervention hints fail to halt yen
- Bank of Canada hikes rates, sees slower recovery
- U.S. 10-yr Treasury note sale meets robust demand
- U.S. job openings rise in July, prior month revised down

ECON WATCH

FOR THURSDAY SEPTEMBER 9

ET	Indicators	Unit	Reuters	Prior
04:30 GB	Trade Balance	bln	-7.45	-7.401
04:30 GB	Trade Balance, non-EU	bln	-4.20	-4.262
07:00 GB	BoE rate decision	%	0.50	0.50
08:15 CA	Housing Starts	k	185.0	189.2
08:30 US	Initial Claims	k	470	472
08:30 US	Continuing Claims	mln	4.45	4.456
08:30 US	International trade	bln	-47.3	-49.9
08:30 CA	New housing PI	%	0.1	0.1
08:30 CA	Trade balance	bln	-0.81	-1.13
08:30 CA	Exports	bln	33.40	33.50
08:30 CA	Imports	bln	34.70	34.63

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MARKETS TODAY

TODAY'S TOP STORY: President Barack Obama, fighting to keep Democrats in charge of Congress, said the United States could not afford to extend Bush-era tax cuts for the rich and accused Republicans of being fiscally irresponsible. **For more please [click here](#)**

TREASURIES: U.S. Treasuries fell as rising stocks and easing concerns over Europe's debt problems cut demand for safe-haven assets.

- The U.S. sold \$21 bln worth of 10-yr notes in a well-attended reopening of previously issued securities. 10-yr notes yield was last at 2.65 pct.
- 30-yr bonds declined 1-3/32 to yield 3.72 pct from 3.66 pct on Tuesday.
- 2-yr notes fell 2/32 yielding 0.52 pct from 0.49 pct.
- 5-yr notes were down 7/32 to yield 1.45 pct from 1.40 pct.

FOREX: The euro rose against the dollar, buoyed by successful bond auctions in Portugal and Poland that made the single currency's fall the prior session look overdone.

- Euro rose 0.24 pct to \$1.2714, trading between a peak of \$1.2763 and a low of \$1.2660 earlier. The single euro zone currency tumbled 1.5 pct versus the dollar on Tuesday.
- The dollar was down 0.94 pct at C\$1.0374.
- Against the yen, dollar gained 0.14 pct to 83.92 yen. Earlier, the dollar fell as low as 83.35 yen, its lowest since 1995.
- Euro added 0.39 pct to 106.69 yen.
- The euro fell to a record low versus the Swiss franc of 1.2765 francs and dollar hit a nine-month low of 1.0060 francs.

CORPORATES: U.S. corporate bond spreads were unchanged to slightly tighter as a strong reception for a spate of new issues gave the market a healthy tone, traders said.

- The CDX.IG-14 index tightened 2 bps to 105 bps.
- 5-yr CDS on Transocean widened by about 11 bps to 368 bps after S&P downgraded the company's debt rating to BBB from BBB-plus.
- U.S. Bancorp sold \$1 bln of 3-yr notes, priced to yield 1.419 pct, or 65 bps over comparable Treasuries.

[Click here to watch related Reuters Insider video](#)

STOCKS: U.S. stocks rose, as investors latched onto positive news out of Europe in another in a string of low-volume sessions suggesting little confidence in market direction.

- S&P rose 0.65 pct to 1,098.91, Dow was up 0.45 pct at 10,387.54 and Nasdaq jumped 0.9 pct at 2,228.87.
- U.S.-traded shares of BP rose 3.17 pct at \$38.37.
- Transocean gained 1.30 pct, while Halliburton added 1.24 pct. Staples rose 1.98 pct and Costco Wholesale rose 0.97 pct .

C & E: U.S. crude oil futures rebounded, after losing in two previous sessions, as a weaker dollar and stronger equities encouraged investors to turn to riskier assets.

- U.S. crude oil rose 0.63 pct to \$74.56 per barrel.
- Gold rose 0.18 pct to \$1,255.35 an ounce.
- Reuters-Jefferies index gained 0.17 pct to 274.27.

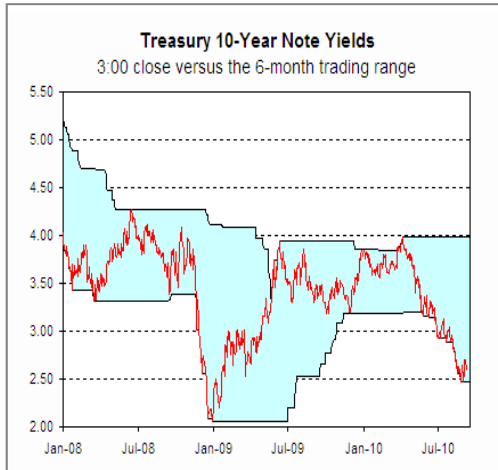
• For MARKET SNAPSHOT [click here](#)

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MARKET SNAPSHOT as of 3:00 pm EST



TREASURIES <5> <500>

	BID	ASK	YIELD	CHANGE
1-Mo Bill	0.135	0.105	0.137	-0.006
3-Mo Bill	0.135	0.125	0.137	0.005
6-Mo Bill	0.180	0.170	0.183	-0.002
1-Year	0.235	0.210	0.239	0.000
2-Year	99.703	99.734	0.527	-0.063
3-Year	99.813	99.844	0.814	-0.117
5-Year	98.984	99.031	1.463	-0.266
7-Year	98.578	98.625	2.095	-0.398
10-Year	99.688	99.750	2.661	-0.516
30-Year	102.625	102.688	3.729	-1.172

EQUITIES

	INDEX	CHANGE
DJIA	10402.60	64.33
NASDAQ	2231.21	22.48
S&P 500	1101.01	9.33

OIL

	PRICE	CHANGE
NYMEX	74.7	0.6
BRENT	78.1	0.3

EURODOLLAR FUTURES

	CLOSE	CHANGE
Sep-10	99.695	-0.003
Dec-10	99.530	-0.020
Mar-11	99.460	-0.040
Jun-11	99.375	-0.045

REPURCHASE AGREEMENTS

G/C		MORTGAGE REPOS	
O/N	0.260	O/N	0.270
2-Week	0.280	2-Week	0.300
1-Month	0.280	1-Month	0.300
3-Month	0.300	3-Month	0.310
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.270	10:00 AM	0.210
2-Week	0.280	3:00 PM	0.219
1-Month	0.290		
3-Month	0.300		

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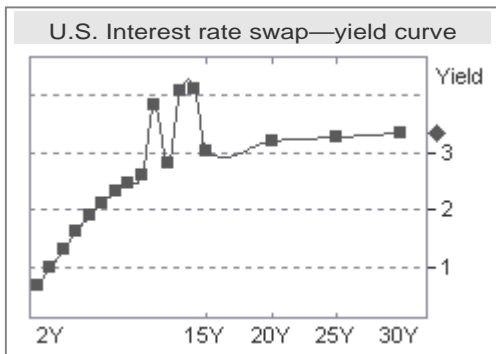
	SPREAD		RATE	
2-Year	17.25	21.25	0.69	0.72
3-Year	18.00	22.00	0.99	1.01
5-Year	16.75	20.75	1.62	1.64
7-Year	4.75	8.75	2.14	2.15
10-Year	-5.25	-1.25	2.60	2.61
30-Year	-39.75	-35.75	3.33	3.32

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.60	-0.23
CBOT 10 yr	125.39	-0.41
CBOT 30 yr	133.66	-0.69

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.210	0.240	-	-
1-Month	0.250	0.360	0.178	0.188
3-Month	0.330	0.450	0.178	0.188
6-Month	0.500	0.650	0.178	0.188
12-Month	0.800	1.100	0.213	0.223



CURRENCIES

	BID	ASK
Euro	1.2726	1.2728
Sterling	1.5484	1.5488
JP Yen	83.97	84.00
Swiss Franc	1.0114	1.0118
Can Dollar	1.0361	1.0366
Mexico	13.0079	13.0180

FED FUNDS NYFRSM - 10AM

Open	0.2100	1m	0.2520
High	0.2500	3m	0.3150
Low	0.1500		

ACTIVE FANNIE MAE AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	0.625	24/09/2012	17.5	16.5	0.69
3-Year	1	23/09/2013	19.5	18.5	1
5-Year	2.375	28/07/2015	24	23.5	1.7
7-Year	3.75	27/03/2019	8.5	-	2.74
10-Year	-	-	-	-	4.23
30-Year	6.25	15/07/2032	31.5	28.5	4.04

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPN	MATURITY	YIELD-SPREAD		YIELD
2-Year	1.125	27/07/2012	13.5	12.5	0.65
3-Year	0.875	28/10/2013	22.5	21.5	1.03
5-Year	2.875	09/02/2015	9.5	9	1.55
7-Year	5.125	18/10/2016	3.25	0.25	2.12
10-Year	6.625	15/11/2030	26	22.5	3.99
30-Year	-	-	-	-	4.09

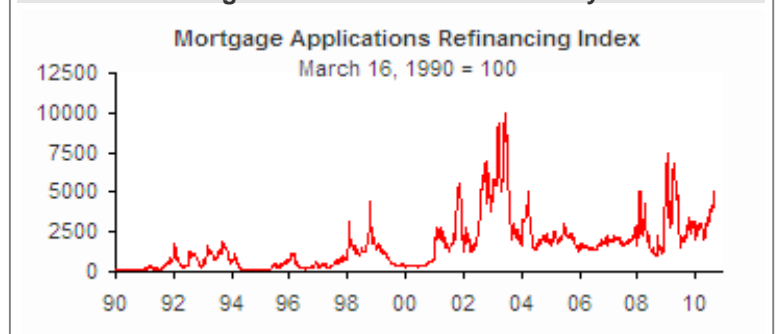
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	4.0	104.2030	104.2070	2.469
FHLMC	4.0	104.2000	104.2100	2.484

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.5	104.2170	104.2230	2.709
FHLMC	4.5	104.1750	104.1810	2.638
GNMA	4.5	105.2700	105.2700	2.888

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Obama: U.S. can't afford to extend tax cuts for rich

On a campaign trip to Ohio, Obama admitted his economic policies had not worked as quickly as hoped, but he said his party and proposals were still better placed to boost the U.S. economy.

Obama's comments came amid a growing row with Republicans over tax cuts for wealthy Americans enacted under former President George W. Bush and set to expire at the end of this year.

John Boehner, the Republican leader in the House of Representatives, called for a two-year freeze on all current U.S. tax rates and proposed the government cut spending for next year to 2008 levels. Obama rejected that call but said his administration was ready to extend tax cuts for families making less than \$250,000 a year. Boehner said extending the cuts would give certainty to small businesses.

Separately, the huge U.S. budget deficit poses a national security threat and projects a "message of weakness" internationally, Secretary of State Hillary Clinton said as she urged Democrats and Republicans to tackle the problem.

Clinton said the Obama administration's policy of greater engagement with the world has brought dividends such as a united front against Iran's nuclear ambitions. But she again stressed the corrosive effect of the mounting U.S. debt, which she said threatened the United States' ability to chart its own course in the world and sends "a message of weakness internationally."

Fed report shows widespread signs U.S. growth easing

The U.S. economy has shown "widespread signs" of slowing over recent weeks, the Federal Reserve said in a report suggesting the recovery was faltering, the economy may skirt a second recession.

The Fed said in its Beige Book compilation that modest growth was the most common characterization of economic activity in Fed districts, primarily those in the western and middle portions of the country such as San Francisco, Dallas and Kansas City. However, other areas, including New York, Philadelphia and Chicago, reported economic growth was mixed or had slowed. Upward price pressures remain quite limited for most categories of goods and services and wage pressures were also subdued, the Fed said.

Separately, the Federal Reserve said total outstanding credit contracted by \$3.63 billion in July, a touch less than the \$3.80 billion forecast by economists polled by Reuters. It was the sixth straight month of decline and followed a revised drop of \$1.02 billion in June. Credit-card credit dropped \$4.39 billion in July after a \$5.21 billion fall in June. Non-revolving credit rose \$758 million after increasing \$4.19 billion in June.

Bank of Canada hikes rates, sees slower recovery

The Bank of Canada raised its benchmark interest rate for a third consecutive time and sounded surprisingly hawkish despite predicting a more gradual than expected economic recovery.

The central bank nudged its overnight rate target up 25 basis points to 1 percent and did not signal a pause for its next decision in October. It said rates remained "exceptionally stimulative" but kept all options open due to doubts about the U.S. and global recoveries. The Bank of Canada has raced ahead of its Group of Seven peers in raising borrowing costs after the global financial crisis. It lifted its policy rate on June 1 from an all-time low of 0.25 percent and raised rates again on July 20.

The U.S. Federal Reserve, by contrast, has raised the prospect of further easing and counterparts in Europe and Japan are likewise far from ready to tighten monetary policy.

Fed to auction term deposits in Oct, Nov

The U.S. Federal Reserve said it will offer small amounts of term deposits in coming months to maintain the readiness of a facility it set up to drain funds from the financial system.

The Fed, said it was taking the action as a matter of prudent planning and the step has no implications for the near term conduct of monetary policy.

Term Deposit Facility auctions will be held about every other month, the Fed said. Auctions will be held Oct. 4 and Nov. 29, each one for \$5 billion of 28-day deposits.

The Fed said the increase to \$5 billion from the \$2 billion offered in each of two auctions in July and June was to encourage broad participation in the auctions, which are open to depository institutions.

The auction schedule for 2011 will be announced at a later date, the Fed said.

As part of the Fed's response to the financial crisis of 2007-2009 and the recession that ensued, it more than doubled its balance sheet to more than \$2 trillion.

Japan's intervention hints fail to halt yen

Japan's finance minister acknowledged currency intervention is an option for the first time since the yen's 14 percent rise since May, and a candidate to become prime minister sanctioned solo intervention as the yen jumped to a 15-year high versus the dollar.

Finance Minister Yoshihiko Noda sharpened his rhetoric on foreign exchange as a rise in the yen underlined concerns that the currency's strength could hurt exports, heighten deflationary pressures and therefore derail a fragile economic recovery.

The yen later gave back some of its gains.

The BOJ has indicated it is willing to ease monetary policy to help the economy, but is likely to bide its time until the ruling party settles a routine leadership contest with a vote on Sept. 14.

Japanese officials have been trying to talk down the yen but so far their comments have had little effect as it keeps rising due to concerns about a slowdown in the global economy and the health of the European banking system.

Meanwhile Ozawa told reporters Japan should intervene and sell the yen even if solo action was likely to be ineffective. Kan has vowed to take firm measures against currencies when needed in a plan to boost jobs and the economy.

Japan's core private-sector machinery orders, a highly volatile data series seen as a leading indicator of capital spending, rose 8.8 percent in July, a Cabinet Office report showed.

U.S. 10-year Treasury note sale meets robust demand

An auction of \$21 billion of reopened 10-year U.S. Treasury notes met with robust demand, with above-average interest from indirect bidders including foreign central banks.

The high yield in the sale of 2.67 percent was about 1.5 basis points below where the comparable securities were trading on the open market, indicating buyers had bid up the value of the notes going into the sale.

Indirect bidders took home about 55 percent of the securities, the most in a 10-year note auction in a year.

The bid-to-cover ratio, a gauge of demand, was 3.21, which was above the average of 3.11 in the eight 10-year note reopening in the last year.

The sale of \$33 billion of three-year notes on Tuesday also met solid demand. The Treasury will round out this week's supply on Thursday with the sale of \$13 billion of 30-year bonds.



TODAY'S TOP NEWS

U.S. job openings rise in July, prior month revised down

U.S. job openings increased in July, government data showed, but optimism was tempered by downward revisions to the prior month's numbers.

Job openings climbed 178,000 to a seasonally adjusted 3.04 million, the Labor Department said.

In July, the job openings rate rose to 2.3 percent from 2.1 percent in June. Although layoffs fell 21,000 to 2.12 million the month, the layoff and discharge rate remained at a seven-month high of 1.6 percent. Private payrolls increased by a better-than-expected 67,000 in August and July's figures were revised to show 36,000 more jobs added than previously reported, the government said last week.

Meanwhile, a mismatch between workers' skills and location and the jobs available may account for more than a quarter of U.S. unemployment, and monetary policy is ill-equipped to tackle this problem, Minneapolis Fed President Narayana Kocherlakota said.

Bank support exit to continue in 2011-ECB's Quaden

The ECB is likely to continue dismantling its banking system support in 2011 and there is no prospect of the euro zone dipping back into recession, policymakers at the bank said.

Governing Council member Guy Quaden said that troubles facing the bank sector were not so "dramatic" as two years ago and said the ECB would probably restart its stalled exit strategy next year.

Two factors explained the ECB's decision to extend unlimited credit: nervousness common around the year-end in money markets and the fact that a number of long-term operations expired then.

Market worries over what impact the proposed Basel III capital regulations would have on bank profits and dividends also weighed on the sector, whose stumble into crisis dragged the global economy into its worst recession since the 1930s.

Dollar Libor edges up for first time in 8 weeks

Dollar-denominated interbank lending costs gained slightly for the first time in eight weeks, though the move was expected to mark only a brief pause in a recent decline.

Three-month dollar Libor rates were fixed at 0.29250 percent. The dollar Libor rates have been steadily falling from near 0.52594 percent in mid-July.

However, benchmark 3-month Euribor edged lower to fix at 0.88 percent, equivalent euro Libor inched up by an eighth of a basis point to 0.82609 percent. Both rates have been on a slight downward path since the ECB confirmed market expectations by extending the provision of unlimited fixed-rate loans into 2011. The spread between euro Libor and Overnight Index Swaps was unchanged on the day at 33 basis points.

Despite some traders reporting an improvement in lending conditions, central bank data showed Portuguese banks' borrowing from the ECB edged up to a record high, showing that some institutions remain shut out of bank-to-bank lending.

German data signal rebound intact but slowing

A surprise fall in exports and near-zero growth in industry output in July suggested that the German industrial juggernaut may slow somewhat after building up record momentum earlier this year.

Data from the FSO showed exports fell by 1.5 percent from June, while imports shrank by 2.2 percent. Industrial output also missed forecasts, inching up by 0.1 percent in July compared to projections for a 1.0 percent increase. Manufacturing orders fell 2.2 percent in July.

Separately, a rise in tax receipts helped sharply narrow France's state deficit in the seven months to July, putting the government on track to beat its target of a public deficit equivalent to 8 percent of GDP this year. Figures announced by the budget ministry showed the central government deficit dropped to 93.1 billion euros in July from 108.8 billion euros a year earlier.

NEXT UP

U.S. Treasury investors most neutral since July

Investors are the most neutral on U.S. Treasuries since July, given the wild swings in the bond market due to the uncertain outlook on the economy, a poll released showed.

The share of investors who said they are "neutral," or owning Treasuries equal to their portfolio benchmarks, jumped to 60 percent on Tuesday from 53 percent last week, J.P. Morgan Securities said. In the latest week, the share of "short" investors slipped to 16 percent from 18 percent last week, J.P. Morgan said. The share of investors who said they are long bonds fell to 24 percent from 29 percent a week ago. None of the active clients are short Treasuries while those who said they are long Treasuries declined to 1 percent from 3 percent last week.

BoE seen holding rates amid subdued growth outlook

The BoE is expected to hold interest rates at a record low this month and probably well into next year to keep the recovery on track, and if growth falters it may eventually have to inject more stimulus.

All 60 economists in a Reuters poll reckon the central bank will keep borrowing costs at 0.5 percent for the 18th month running when the MPC concludes its two-day meeting on Thursday and most see no move up until early 2011.

Some analysts reckon the central bank may even at some point have to expand its 200 billion pound quantitative easing scheme due to concerns about the strength of recovery.

U.S., euro zone economies to slow, recession remote

Major developed economies are poised for a marked slowdown in coming quarters, led by the United States, although another recession still looks unlikely, a Reuters poll of 250 economists showed.

For the third month in a row, analysts downgraded their growth outlook for the U.S. economy. While major European economies posted their fastest growth rates in years in the second quarter as the U.S. slowed, the poll showed they too will enter a cycle of meagre quarter-on-quarter growth as fiscal austerity measures take force. However, a return to recession still looks a remote prospect, with economists seeing about a one-in-five chance of that happening in the U.S., Britain or the euro zone over the next 12 months, and a 30 percent chance in Japan.

Respondents in the latest Reuters poll cut their forecasts for annual average U.S. economic growth to 2.7 percent from 2.9 for 2010, and to 2.4 percent from 2.7 percent for 2011.

Economists in the latest Reuters poll gave Bernanke a median score of 7 out of 10 for his handling of the current crisis.

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DEEP DIVE Commentary and Analysis

FACTBOX

The Fed's exit strategy toolkit

The U.S. Federal Reserve said it would conduct further term deposit facility auctions to prepare for an eventual exit from its ultra-easy monetary policy.

The Fed's announcement, which it said had no implications for current monetary policy, comes when markets are focused on whether the Fed -- the U.S. central bank -- will have to ease more to support a weakening recovery. Below are some of the tools the Fed has at its disposal for eventually tightening monetary policy.

PAYING INTEREST ON EXCESS RESERVES

The interest rate the Fed pays on excess reserves will be the one to watch once the Fed begins to raise borrowing costs.

By raising the rate it pays on bank reserves, the Fed creates a magnet for banks to keep those reserves with the Fed rather than lend them out.

"By increasing the interest rate on reserves, the Federal Reserve will be able to put significant upward pressure on all short-term interest rates, as banks will not supply short-term funds to the money markets at rates significantly below what they can earn by holding reserves at the Federal Reserve Banks," Fed Chairman Ben Bernanke told lawmakers on March 25. A number of central banks around the world have effectively used similar tools.

LARGE-SCALE REVERSE REPURCHASE AGREEMENTS

The Fed could arrange large-scale reverse repurchase agreements (reverse repos), with financial market participants.

This would temporarily drain reserves from the banking system and reduce excess liquidity at other institutions.

This would be one way the Fed could tighten the linkage between interest on reserves and other short-term market interest rates, Bernanke said on July 21. Reverse repos involve the sale by the Fed of securities from its portfolio with an agreement to buy them back at a slightly higher price at a later date.

TERM DEPOSIT FACILITY

The Fed began testing its new term deposit facility for banks in June, using auctions to offer term deposits for banks that are akin to the certificates of deposit banks offer retail customers.

On Sept. 8, the Fed said it expects to conduct term deposit facility auctions about every other month to ensure the tool is operationally ready when it is eventually needed.

Like the reverse repos, the auctions reduce the supply of funds banks have available to lend to each other. While the Fed already pays interest on reserves held overnight, a term deposit facility would lock up funds for longer.

ADJUST ITS REINVESTMENT POLICY

The Fed could shift its approach to repayments of principal on the Treasury securities it holds to gradually normalize its balance sheet.

The Fed could reinvest the proceeds from maturing longer-term Treasury securities to shorter-term issues. This would reduce the average maturity of the Treasury holdings toward pre-crisis levels, while leaving the overall value of the holdings unchanged, Bernanke said in his July 21 testimony.

The Fed is currently reinvesting proceeds from maturing mortgage bonds into Treasuries to hold its balance sheet steady.

ASSET SALES

The Fed could sell a portion of its securities holdings into the open market. Bernanke said on July 21 that members of the Fed's policy-setting committee agree that sales of agency-

related securities should eventually be used to normalize the Fed's holdings.

Bernanke said sales would be communicated well in advance and be conducted gradually.

DISCOUNT RATE INCREASE

The Fed in February raised the discount rate -- the rate it charges banks for emergency loans -- to 0.75 percent from 0.5 percent, saying the move reflected healing financial markets and was not a step to tighten lending conditions.

Ahead of the Fed's last policy-setting meeting on Aug. 10, two regional Federal Reserve banks, Kansas City and Dallas, pushed again for a modest increase in the discount rate. The Fed board, which acts on discount rate requests, declined to back the proposal.

COLUMN-Sovereign/financial sector risk link reaffirmed

By Divyang Shah

The European bank stress tests were in part promoted by a desire to comfort financial markets that the impact of the sovereign debt crisis on the financial system was limited.

However, a Wall Street Journal report on Tuesday suggesting the tests understated some institutions' sovereign debt holdings has reignited worries over the link between sovereign and financial sector risk and could push the Libor/OIS spread, a key measure of money market stress, wider in coming weeks.

Many analysts said when they were conducted in July that the tests were not stringent enough and the WSJ story only helps to strengthen that view.

There was not enough sovereign stress in the first place as the assumption of no sovereign default in the tests meant haircuts were applied to the trading book and not to assets held in the bank's hold to maturity book.

Resurfacing concern over the stressfulness of the tests is significant given that euro zone sovereign yields spreads are rewidening, with some having broken their May highs (Ireland) while others edge closer to the highs (Portugal and Greece).

The theme of a linkage between sovereign risk and financial sector risk remains in play.

For Ireland this link has been visible as the market focuses on the ever increasing fiscal costs of maintaining a good bank/bad bank model for Anglo Irish Bank (AIB).

Ireland is a source of concern when it comes to contagion risks for peripheral spreads.

With financial markets not fully convinced that fiscal trajectories are on a sustainable path and the feedback loops between financial risk and sovereign risk still in play, two important inferences can be drawn:

First, the ECB may be forced to keep the liquidity taps on for longer and may not be able to fully exit from providing three-month tenders.

This may mean three-month operations are conducted next year on a variable rate basis and even fixed allocation but tighter collateral rules starting from 2011 mean only the most desperate will look to tap the ECB.

Second, purchasing manager surveys have shown that while a double-dip is not a scenario for the euro zone as a whole it may be a real risk for some countries, such as Spain.

The impact of an economic slowdown on the financial system means the issue of financial sector risks will remain and, for some countries, could be very important for the way in which sovereign risk is also perceived.

Consequently, while cash Euribor/OIS spreads -- a measure of the health of the banking system -- have moved up there may be more room for the forward Euribor/OIS spreads to widen

DEEP DIVE Commentary and Analysis

further.

A lower provision of liquidity from the ECB coupled with continued concerns over the state of the financial system should help

to keep the spread biased to the upside.

-- Divyang Shah is commentator for IFR Markets, a Thomson Reuters service. The opinions expressed are his own --

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CPN	MAT	PRICE	SIZE	YIELD	CPN	MAT	PRICE	SIZE	YIELD		
0%	MAY12	100*12	100*13	x	0.535-526	2%	MAY17	102*25	x	2.307-302	
0%	JUN12	100*04	100*04	x	0.559-551	2%	JUN17	101*05	x	2.318-315	
UST 2YR	B100*03	A	100*03	266x226	0.570-568	UST 2YR	B100*08	A	100*08	54x1	2.336-334
	100*03	-	100*04	245x421			100*07	-	100*09	77x104	
Mkt Vol	100*03	-	100*04	221x387		Mkt Vol	100*07	-	100*09	67x68	
5987	100*02	-	100*04	207x258		2122	100*08	-	100*10	62x62	
	100*02	-	100*04	171x264			100*06	-	100*10	32x48	
2YR WI	VWAP	100*04	VWAY	0.561915		7YR WI	VWAP	100*08	VWAY	2.33223	
		0.675		0.668	x			2.368		2.358	
1% MAY13	101*19	101*20	x	0.786-778	3% NOV19	103*30	103*31	x	2.886-884		
1% JUN13	100*28	100*29	x	0.813-804	3% FEB20	105*26	105*27	x	2.922-918		
UST 3YR	B100*14	A	100*14	79x51	0.844-841	UST 10YR	H104*21	-	13x	2.946	
	100*14	-	100*15	117x118			104*21	-	104*22	49x35	
Mkt Vol	100*14	-	100*15	91x96		Mkt Vol	104*20	-	104*22	65x61	
3554	100*13	-	100*15	91x70		7357	104*19	-	104*23	66x53	
	100*13	-	100*15	83x60			VWAP	104*23	VWAY	2.93871	
3YR WI	VWAP	100*14	VWAY	0.842673		10YR WI				3.123-118	
		1.053		1.048	x					3.118	
2% MAY15	102*20	102*21	x	1.553-548	4% NOV39	105*19	105*20	x	4.046-044		
1% JUN15	101*11	101*11	x	1.589-586	4% FEB40	109*30	109*31	x	4.044-043		
	100*19	-	7x	1.626	UST 30YR	B105*22	A	105*23	4x2	4.044-042	
Mkt Vol	100*18	-	100*19	104x63			105*21	-	105*24	10x5	
9406	100*18	-	100*19	93x104		Mkt Vol	105*20	-	105*25	7x5	
	100*18	-	100*19	66x89		1200	105*20	-	105*25	4x3	
	VWAP	100*19	VWAY	1.62357			VWAP	105*30	VWAY	4.02874	
5YR WI		1.73		1.723	x	30YR WI				4.028-018	
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.0.293	x			

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