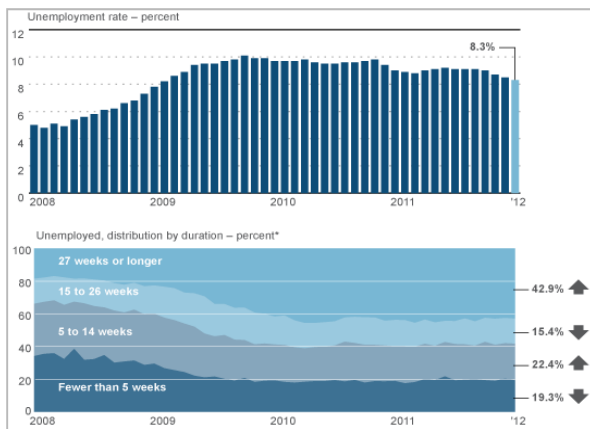


## CHART OF THE DAY

### U.S. unemployment

Click on the chart for full-size image



The jobless rate dipped to 8.3 percent in January, the lowest since February 2009. The percentage of unemployed who have been out of work 27 weeks or longer rose to 42.9 percent.

## TODAY'S TOP NEWS

- U.S. jobless rate at 3-yr low as payrolls surge
- Greece struggles on reform, lenders eye rising bill
- Global economic growth at 11-month high in Jan - PMI
- Euro zone sales tumble at Christmas, no sign of growth
- IMF warchest in parallel with EU firewall-official
- Italy seeking to end IMF monitoring exception - source
- ECB Costa: euro under systemic risk, but can't fail
- UK recession risk eases as service sector grows

## ECON WATCH

FOR MONDAY FEBRUARY 6

ET	Indicators	Unit	Reuters	Prior
04:30	EZ Sentix Ind	ind	-15.1	-21.1
06:00	DE Industrial Orders	mm	% 0.9	-4.8
10:00	US Employment Index	ind	--	104.3
10:00	CA Ivey PMI NSA	ind	-	53.6
10:00	CA Ivey PMI SA	ind	-	63.5

- For EYE ON ASIA click here
- For MARKET SNAPSHOT on Asia click here
- For EYE ON LATAM click here

## U.S. MARKETS TODAY

**TODAY'S TOP STORY:** The U.S. created jobs at the fastest pace in nine months in January and the unemployment rate unexpectedly dropped to a near three-year low, giving a boost to President Barack Obama.

**For more please click here**

**TREASURIES:** Treasury prices plunged after government data showed the U.S. economy created jobs at the fastest pace in nine months in January and a services survey pointed to improving economic momentum.

- "The biggest factor today is still the jobs data, but the ISM was a little bit of a confirmation of the jobs data," said Lou Brien, market strategist at DRW Trading in Chicago.
- 10-yr notes slumped almost a point to yield 1.93 pct from 1.82 pct.
- 30-yr bonds fell more than two points, yielding 3.13 pct from 3.01 pct.
- 5-yr notes lost 10/32 to yield 0.78 pct and 2-yr notes slipped 1/32, yielding 0.24 pct.

**FOREX:** The dollar gained against the yen, after a report showed a larger-than-expected gain in U.S. jobs, which could reduce the likelihood of further stimulus by the Federal Reserve anytime soon.

- The euro last at \$1.3141, edged down 0.02 pct, after touching a session low of \$1.3065.
- The dollar was last at 76.55 yen, up 0.42 pct, after touching a session and near one-week high of 76.74 yen.
- Against the Swiss franc, the euro was up 0.26 pct at 1.21 francs, close to the 1.2000 level the Swiss National Bank has said it would defend at all costs.
- The Australian dollar climbed to a six-month high of \$1.077 in the New York session, and was last up 0.59 pct at \$1.0772.

**CORPORATES:** Corporate bond spreads tightened as the U.S. economy created jobs at the fastest pace in nine months in January and the unemployment rate dropped to nearly a three-year low.

- The CDX.IG-17 index tightened by 4 bps to 95 bps.

**STOCKS:** A surge in hiring in the world's largest economy last month drove U.S. stocks higher, with the Nasdaq hitting an 11-year high as optimism grew that the labor market is on a steady path to recovery.

- Dow was up 153.49 points or 1.21 pct at 12,858.90, S&P added 19.12 points or 1.44 pct at 1,344.66 and Nasdaq rose 45.66 points or 1.60 pct at 2,905.34.
- For the week, Dow was up 1.6 pct, S&P rose 2.2 pct and Nasdaq was up 3.2 pct. S&P Industrial rose 1.71 pct
- Gilead Sciences was up 10.9 pct and Tyson Foods rose 4.1 pct .

**C & E:** Crude oil futures rose, snapping a five-day losing streak, as a surprise surge in U.S. jobs in January added to recent signs of improving economic growth and raised hopes for better oil demand going forward.

- Oil added 1.4 pct to \$97.71 per barrel. Gold lost 1.94 pct to \$1,725.29 an ounce. Reuters- Jeffries index jumped 1.07 pct to 314.22.

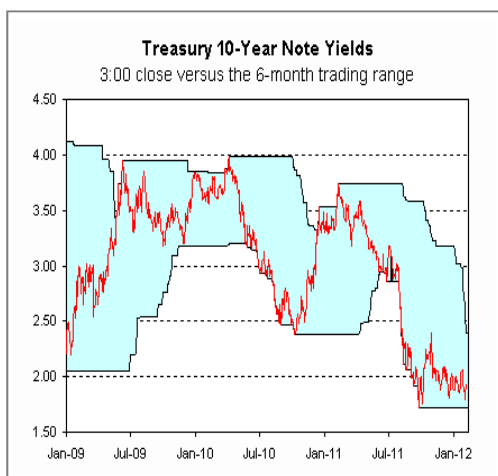
For a video preview of next week's economic events, [click here](#)

**REUTERS INSIDER**

- 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	0.065	0.035	0.066	-0.012
3-Mo Bill	0.080	0.070	0.081	-0.001
6-Mo Bill	0.095	0.090	0.096	0.001
1-Year	0.130	0.110	0.132	0.001
2-Year	100.008	100.039	0.247	-0.031
3-Year	99.758	99.789	0.333	-0.082
5-Year	100.438	100.484	0.786	-0.352
7-Year	99.328	99.375	1.351	-0.672
10-Year	100.516	100.578	1.942	-1.031
30-Year	99.625	99.688	3.144	-2.719

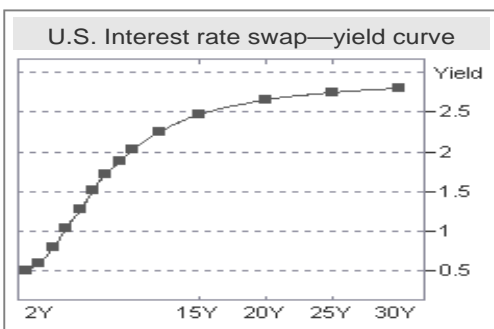
EQUITIES		
	INDEX	CHANGE
DJIA	12859.77	154.36
NASDAQ	2906.53	46.85
S&P 500	1344.30	18.76

COMMODITIES		
	PRICE	CHANGE
NYMEX	97.5	1.2
BRENT	114.4	2.3
SPOT GOLD	1724.5	-34.9
PALLADIUM	700.8	-4.4
SILVER	33.5	-0.8

IR SWAPS <19901>				
	SPREAD		RATE	
2-Year	25.50	29.50	0.49	0.53
3-Year	27.00	31.00	0.60	0.63
5-Year	25.00	29.00	1.03	1.06
7-Year	17.75	21.75	1.53	1.54
10-Year	9.25	13.25	2.03	2.04
30-Year	-32.50	-28.50	2.82	2.82

EURODOLLAR FUTURES		
	CLOSE	CHANGE
Feb-12	99.51	-0.01
Mar-12	99.57	-0.01
Jun-12	99.57	-0.01
Sep-12	99.54	-0.02

REPURCHASE AGREEMENTS			
G/C		MORTGAGE REPOS	
O/N	0.200	O/N	0.220
2-Week	0.200	2-Week	0.230
1-Month	0.210	1-Month	0.250
3-Month	0.190	3-Month	0.270
AGENCY REPOS		i-REPO <sup>SM</sup> INDEX	
O/N	0.220	10:00 AM	0.170
2-Week	0.250	3:00 PM	0.174
1-Month	0.250		
3-Month	0.210		



FUTURES		
	PRICE	CHANGE
CBOT 5 yr	123.71	-0.34
CBOT 10 yr	131.33	-0.84
CBOT 30 yr	144.91	-0.25

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)				
	BID	ASK	BID	ASK
O/N	0.090	0.120		
1-Month	0.250	0.350	0.103	0.113
3-Month	0.350	0.500	0.106	0.116
6-Month	0.550	0.700	0.111	0.121
12-Month	0.820	1.030	0.120	0.130

NYFR <sup>SM</sup> - 10AM		FED FUNDS	
1m	0.2442	Open	0.1100
3m	0.5164	High	0.1100
		Low	0.1000

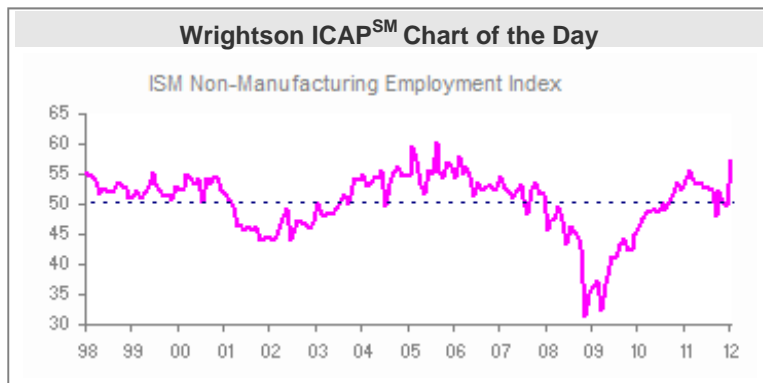
CURRENCIES		
	BID	ASK
Euro	1.3143	1.3146
Sterling	1.5813	1.5818
JP Yen	76.56	76.58
Swiss Franc	0.9181	0.9184
Can Dollar	0.9935	0.9940
Mexico	12.6699	12.6810

ACTIVE FANNIE MAE AGENCIES					
TERM	COUPON	MATURITY	YIELD-SPREAD	YIELD	
2-Year	0.5	8/9/2013	3	0	0.269
3-Year	0.375	3/16/2015	16.75	13.75	0.496
5-Year	1.25	1/30/2017	24.75	21.75	1.029
7-Year	-				
10-Year					
30-Year	6.625	11/15/2030	21.5	18.5	3.358

ACTIVE FREDDIE MAC AGENCIES					
TERM	COUPON	MATURITY	YIELD-SPREAD	YIELD	
2-Year	0.375	11/27/2013	7	4	0.309
3-Year	0.625	12/29/2014	13.75	10.75	0.466
5-Year	1	3/8/2017	29	26	1.071
7-Year	-				
10-Year	2.375	1/13/2022	46	43	2.398
30-Year	6.25	7/15/2032	24	21	3.383

Active MBS 15YR				
	CPN	BID	ASK	YIELD
FNMA	3.5	105.0070	105.0130	2.414
FHLMC	3.5	105.0100	105.0100	2.264

Active MBS 30YR				
	CPN	BID	ASK	YIELD
FNMA	4.0	105.1500	105.1600	2.004
FHLMC	4.0	105.0270	105.0330	2.166
GNMA	4.0	107.2070	107.2130	2.048



## TODAY'S TOP NEWS

**U.S. jobless rate at 3-yr low as payrolls surge**

The U.S. created jobs at the fastest pace in nine months in January and the unemployment rate unexpectedly dropped to a near three-year low, giving a boost to President Barack Obama. Nonfarm payrolls jumped 243,000, the Labor Department said, as factory jobs grew by the most in a year. The jobless rate fell to 8.3 percent - the lowest since February 2009 - from 8.5 percent in December. The gain in employment was the largest since April and it far outstripped the 150,000 predicted in a Reuters poll of economists. The payroll gains were widespread - from retail to temporary help, and from construction to manufacturing - an indication the recovery was becoming more durable. A survey of households showed the unemployment rate declined even as new job seekers flooded into the labor force. Economists had expected the jobless rate, which has now fallen 0.8 percentage point since August, to hold steady. While employment growth has quickened there are no jobs for three out of every four unemployed people and 19.3 million Americans are either out of work or underemployed. The level of employment is still 5.57 million from its pre-recession level. Employment in the private sector surged 257,000 - the largest gain since April. Government payrolls fell 14,000, the least since September.

**Global economic growth at 11-month high in Jan -PMI**

Global private sector economic growth hit an 11-month high in January as new business strengthened, pushing companies to take on more workers, a report showed.

The Global Total Output Index, produced by JPMorgan with research and supply management organizations, bounced to 54.6 in January from 52.7, comfortably above the 50 mark that divides growth from contraction. The Global Services Index rose to 55.4 in January from 53.0. The all-industry new orders index jumped to 54.0 from 51.5, its highest reading since last March, and firms took on workers at their fastest rate in 10 months, the survey showed.

Earlier data from the U.S. showed the pace of growth in its services sector unexpectedly accelerated in January to its highest level in nearly a year and job creation in January was the fastest in nine months. The euro zone's vast services economy snapped four months of decline by expanding last month, albeit very weakly, while across the channel Britain's service sector expanded at its fastest pace in 10 months. China's fledgling services sector weakened in January but India's grew at its fastest pace in six months.

**IMF warchest in parallel with EU firewall-official**

The International Monetary Fund should proceed with talks on increasing the size of its warchest at the same time as Europe discusses how to build a firewall to contain its debt crisis, a senior official from the fund said.

Emerging countries understand the need to boost the IMF's resources as Europe's debt crisis threatens the global economy, IMF Deputy Managing Director Naoyuki Shinohara said, signaling expectations that developing nations will contribute more money. The IMF could face a difficult negotiating task, because some emerging economies could chafe at the idea of bailing out wealthier European countries without reassurances that the euro zone can draw a line under its two-year old debt crisis.

"Talks to boost the regional firewall and the global firewall in terms of the IMF's financial base need to proceed in parallel," IMF Deputy Managing Director Naoyuki Shinohara told Reuters in an interview.

**Greece struggles on reform, lenders eye rising bill**

Greece's government struggled to agree tough labor reforms that would appease both wary political leaders and irate lenders faced with a rising bill to save the country from bankruptcy. Athens is under pressure to wrap up talks on a bond swap and a 130 billion euro bailout to avert a chaotic default, but hopes of an imminent deal faded after euro zone finance ministers put off a meeting expected on Monday to finalize the rescue.

Athens has repeatedly said the talks are in their final stage but has failed to secure either deal after weeks of wrangling, largely over concern that the rescue plan will not do enough to bring Greece's debt burden under control. Euro zone governments may now have to cough up an extra 15 billion euros in addition to the 130 billion euros agreed in October because of funds needed to recapitalize tottering Greek banks, European Union sources said.

Finance Minister Evangelos Venizelos met officials from the so-called troika of foreign lenders in a bid to agree details on wage cuts and bank recapitalization before they are presented to political leaders for approval on Saturday. "We are having difficult negotiations and have difficult decisions to take," said Greek government spokesman Pantelis Kapsis.

**Euro zone sales tumble at Christmas, no sign of growth**

Retail sales in the euro zone tumbled unexpectedly in December, the biggest drop in the Christmas period in three years, data showed, with rising joblessness and stubborn inflation undercutting signs of a stabilization in Europe's economy.

Sales across the 17-nation single currency area fell 0.4 percent in December from November, well down from the 0.3 percent rise forecast by economists in a Reuters poll. They were down by 1.6 percent on an annual basis, the European Union's statistics office Eurostat said.

That annual drop was the biggest since December 2008 when retail sales also fell 1.6 percent in the month at what turned out to be the start of the world's biggest post-1930s recession. European households cannot yet be relied on to help the euro zone pull out of its latest slump.

Joblessness reached a euro-era high of 10.4 percent in December, while inflation remains near recent peaks of 3 percent. Even in Germany, the bloc's biggest economy, sales fell 1.4 percent compared with November and shoppers stayed away from the malls in France and Spain, where sales slid 0.3 percent and 0.8 percent respectively. Consumer confidence is also weak, despite rising slightly in January from a 26-month low in December.

**Italy seeking to end IMF monitoring exception -source**

Italy is discussing with the International Monetary Fund ways to soften the terms of an enhanced surveillance agreed last November by former Prime Minister Silvio Berlusconi, a source close to the matter said.

The euro zone third-largest economy had been forced to request a monitoring mission from the IMF to placate worried investors and reassure European governments as its borrowing costs rose to dangerously high levels.

"Italy and the IMF are discussing on a bilateral level about the possibility to modify the initial mandate of the enhanced surveillance ... and that the fiscal monitoring be done under the Fund's normal monitoring process," the source said.

Separately, there is no need for Portugal to renegotiate its debts or seek further aid in addition to its 78-billion-euro bailout, Prime Minister Pedro Passos Coelho said in an interview published.

## TODAY'S TOP NEWS

**ECB Costa: euro under systemic risk, but can't fail**

Failure of the euro is not an option but the euro zone needs to implement new measures decisively to reassure financial markets, ECB Governing Council member Carlos Costa said.

An IMF official also urged euro zone policymakers, who this week agreed to impose stricter budget rules on member countries and to bring forward the introduction of a new bailout fund, to find the political will to reduce systemic risk affecting the euro zone.

Costa, speaking at a conference in Lisbon, said that European leaders' response to the risk had been initially slow and hesitant, but "in recent months, important steps have been taken in terms of a more balanced monetary union governance model and effective firewalls."

Jose Vinals, financial counsellor and director of the IMF's monetary and capital markets department, said progress had been made at reducing systemic risk, but added that political backing was urgently needed.

**UK recession risk eases as service sector grows**

Britain's dominant services sector grew at the fastest pace in 10 months in January and firms became much more optimistic, a survey showed, crowning a raft of upbeat economic news this week that raised hopes Britain may avoid recession.

The surprise rebound provides some relief to the government - under pressure again to ease its austerity drive - as well as food for thought for the Bank of England as it considers whether to pump more money into the fragile economy.

The central bank is still widely expected to announce another round of quantitative easing asset purchases next week, though the policymakers may now lean towards a smaller boost.

The Markit/CIPS Purchasing Managers' Index for services rose to 56.0 from 54.0 in December, confounding forecasts for a dip and climbing higher above the 50 mark which separates growth from contraction. The improvement in services follows PMI releases showing that manufacturing unexpectedly returned to growth last month, while construction firms became more upbeat despite a slower expansion in activity.

A leading British think-tank forecast that the economy had entered a mild recession and would shrink this year, urging the government to boost near-term spending to prevent long-term damage from high unemployment.

**China services data may bolster case for policy easing**

China's fledgling services sector weakened in January as property tightening measures weighed on demand, the official purchasing managers' survey showed, reinforcing the case for policy easing to bolster economic growth.

A separate private survey showed that the services sector expanded at a steady but sluggish pace in January, with overall optimism lagging historical levels and employment growth dipping to a three-year low.

Sluggish property investment caused by Beijing's tightening measures was a significant drag on services activity, according to a statement jointly issued by the National Bureau of Statistics and China Federation of Logistics and Purchasing.

The official Purchasing Managers Index for non-manufacturing sectors dipped to 52.9 in January from 56.0 in December.

The official survey also showed the property sector posted the deepest drop, with the two sub-indices measuring the industry's business activity and new orders sinking to 38.1 and 35.7 respectively, marking a fifth consecutive month of contraction.

The sub-index of new orders slowed to 48.5 in January from 50.5 the previous month.

**Canada job market flops in role reversal with U.S.**

Canada's jobs market got bogged down in a sluggish economy in January, while U.S. employment took flight from a prolonged slump, and that put more pressure on the Bank of Canada and the government to keep the stimulus taps open.

The economy created a negligible 2,300 net new jobs in the month, Statistics Canada said, a far cry from the 23,100 that market players had predicted.

The jobless rate ticked higher to 7.6 percent from 7.5 percent, the highest level since April 2011. Layoffs in construction and professional services offset modest hiring in education and personal and household services, as well as manufacturing.

In the year to December, Canada added 129,000 jobs, a gain of 0.7 percent and the total number of hours worked increased by 1.4 percent. One mildly positive sign, hiring in January was up in both the public and private sector. Full-time employment fell by 3,600 while part-time employment rose by 5,900.

The hourly wage of permanent employees rose 2.2 percent in January compared with a year earlier, down from 2.4 percent in December.

## NEXT UP

**POLL-China to slow pace of yuan rise amid global malaise**

China will slow the pace of yuan appreciation over the next 12 months to help insulate exports from global economic uncertainties that have sparked fund outflows from the world's second-largest economy, according to a Reuters poll.

The median forecast by 37 strategists and economists showed the yuan is likely to strengthen to 6.13 against the dollar in a year's time. That would be a 2.8 percent rise, slower than the 4.7 percent increase recorded in 2011.

The poll showed the Chinese currency will likely rise to 6.28 against the dollar in three months, and to 6.23 in six months, from the spot rate of 6.305.

China's central bank sets a daily yuan midpoint and then allows it trade half a percent on either side.

It slowed the appreciation late in the third quarter of 2011, when worries intensified that the euro zone debt crisis might spiral out of control. Europe is China's largest trading partner, and slowing export demand from the region has crimped China's economic growth.

In 2011, a stronger yuan made more economic sense for China because it helped to tamp down imported inflation. But the consumer price index has eased to 4.1 percent in December from a three-year high of 6.5 percent hit in July.

A Reuters poll predicted first-quarter growth of 8.2 percent and suggested that this would be the low point for the year. However, full-year growth would still slow to 8.4 percent, the weakest in a decade, according to the outlook.

## EYE ON ASIA

## POLL &amp; PREVIEW

## Japan Q4 GDP seen -0.3 pct q/q on weak overseas demand

Japan's economy probably shrank in October-December from the previous quarter as exports slid due to weak overseas demand, a strong yen, and disruptions to supply chains from the floods in Thailand, a Reuters poll showed.

The contraction would come after the economy rebounded in the third quarter on a steady mending of supply chains following the devastating earthquake and tsunami last March.

Economists also noted that a delay in post-quake reconstruction demand had weighed on the economy.

The economy is expected to have contracted 0.3 percent in October-December from the previous quarter, the Reuters poll of economists showed, following a 1.4 percent expansion logged in July-September.

That would translate into an annualized contraction of 1.4 percent.

External demand probably shaved 0.6 percentage point off GDP in October-December, compared with a 0.6 percentage point contribution to growth in July-September.

Private consumption is expected to have risen 0.2 percent in the final quarter of last year after increasing 0.7 percent in July-September.

Capital spending is likely to have risen 0.9 percent, the first increase in five quarters, as companies started implementing their expenditure plans after having held back due to the disaster.

## EVENTS

For Feb 6

## AUSTRALIA

- TD-MI inflation gauge for January: Prior 0.5 pct
- Retail sales final for December: Expected 0.2 pct Prior 0.0 pct
- Retail sales for Q4: Expected 0.6 pct Prior 0.6 pct

## CHINA

- People's Bank of China is expected announce volume for Tuesday's auction of 1-year bills.

## INDONESIA

- Money supply M2 y/y for December: Prior 16.0 pct

## TAIWAN

- Consumer price index mm for January: Prior -0.07 pct
- Consumer price index yy: Expected 2.25 pct Prior 2.03 pct
- Wholesale price index: Prior 4.32 pct
- Foreign exchange reserve: Prior 386 bln

## MARKET SNAPSHOT as of 3:00 pm EST

GOVERNMENT BOND BENCHMARKS					EQUITIES			FORWARDS 3 months <FORWARDS>		
	5-Year		10-Year			Close	Change		Bid	Ask
	Bid	Yield	Bid	Yield						
Australia	111.514	3.480	115.129	3.965	S&P/ASX200	4251.17	-16.68	JPY	-6.85	-6.35
Japan	99.880	0.325	100.450	0.950	NIKKEI 225	8831.93	-44.89	AUD	-103.28	-102.88
China	101.930	3.100	100.919	3.450	HKSE	20756.98	17.53	NZD	-50.8	-49.8
Hong Kong	101.200	0.571	99.100	1.293	SHANGHAI	2330.40	17.85	HKD	-8	-3
Singapore	102.550	0.503	106.800	1.466	STRAITS TIMES	2917.95	16.91	SGD	-4.7	-4.3
					SENSEX	17604.96	173.11	THB	18	18.75
INTEREST RATE SWAPS <SWAPS>					DEPOSITS 3 months <DEPOS>			NDF's 3 months <NDFS>		
	5-Year		10-Year			Bid			Bid	Ask
	Bid	Ask	Bid	Ask						
AUD	4.145	4.205	4.54	4.595	JPY	0.18		CNY	-0.02	-0.014
JPY	0.425	0.485	0.93	0.99	CNY	5.25		TWD	-0.115	-0.095
CNY	3.81	3.91	3.81	4.01	AUD	4.6		KRW	1125.1	1126.1
HKD	0.88	0.96	1.64	1.72	NZD	2.9		INR	49.89	49.99
TWD	1.02	1.05	1.26	1.32	HKD	0.38		MYR	3.035	3.039
INR	5.75	6	5.65	6.05	SGD	0.25		PHP	42.82	42.92
KRW	3.385	3.425	3.54	3.58				IDR	8960	9060
SGD	0.985	1.015	1.8	1.85						

## EYE ON LATAM

## LATAM TOP STORIES

**Mexico central bankers split on inflation outlook**

Mexican central bankers are split over the outlook for inflation as they brace for slower economic growth this year, the minutes of their last meeting showed.

"With respect to the balance of risks on inflation, some board members signaled this remained neutral, others said it had worsened, while one said it had improved," the minutes of their Jan. 20 meeting said.

Policymakers were unanimous in leaving interest rates on hold at 4.5 percent, but the minutes showed growing disagreement over inflation, which hit a 12-month high within a whisker of the central bank's 4 percent ceiling early last month.

In a hint of wider dissent about the path for rates, the minutes said the "majority" of members saw the current level as adequate, compared to "all" after the previous meeting in December. At least one member urged policymakers to keep open the option of a rate cut.

Most board members said risks to growth continued to deteriorate, although they noted that market fears about a "catastrophic event" in Europe had ebbed, helping to support the peso.

**Brazil c.bank acts to stop currency rally**

Brazil's central bank intervened in the foreign exchange market for the first time in 2012, buying dollar forwards in a bid to curb a currency rally and keep local manufacturers competitive in a harsh global environment.

Brazil's currency, the real, gave up gains immediately after the auction was announced and traded 0.3 percent weaker at 1.7271 reals to the dollar.

It underperformed other Latin American currencies such as Brazil's real has gained 8 percent this year as a net 6.5 billion dollars poured into the country in first four weeks of 2012.

Analysts were expecting government attempts to curb the currency gains, according to a Reuters poll. The currency is expected to remain nearly its current levels by the next 12 months, showed the median forecast of 32 strategists surveyed by Reuters.

**POLL-Latam FX gains likely if Fed prints more money**

Mexico's currency is best-placed in Latin America to benefit from a possible fresh round of money printing in developed economies, but any gains should be limited after January's sharp performance, a Reuters poll showed on Thursday.

Other Latin American currencies like the Peruvian sol and the Brazilian real are more likely to remain at their current rates this year despite strong inflows, reflecting a higher risk of official intervention and rate cuts in Brazil.

Wide ranges for one-year horizon forecasts, however, show how much uncertainty there is in Latin American markets.

The Mexican peso is expected to trade around 13 per dollar by end-July, strengthening to 12.7 per dollar by January 2013 as the neighboring U.S. is expected to regain steam, according to the median forecast in the Reuters poll.

The Brazilian real, on the other hand, is likely to fall back to 1.75 per dollar this month as investors fear another bout of strong official action to protect local manufacturers, which have strug-

## LATAM MARKETS TODAY

**TREASURIES:**

- Mexican 10-yr notes were down, yielding 6.11 pct and 30-yr bonds fell yielding 7.44 pct.
- Brazilian 10-yr notes surged, yielding 11.18 pct and 2-yr notes fell, yielding 10.07 pct.

**FOREX:**

- Brazilian real edged down 0.1 pct to 1.7175 per dollar.
- Mexico's peso lost 0.94 pct to 12.6801.
- Chile peso slumped 0.7 pct to 477.75 per dollar.
- Colombia's peso was off 0.51 pct to 1,784.34 to the dollar and Peru sol was unchanged at 2.688 to the dollar.

**STOCKS:**

- MSCI Latin American stock index rose 1.27 pct to 4,219.64.
- Brazil's benchmark Bovespa stock index reached a new eight-month high, gaining 1.15 pct to 65332.70. The index was last at 65217.37, up 0.97 pct.
- OGX rose 1.59 pct and Petrobras gained 0.33 pct.
- Vale added 0.34 pct.
- Mexico's IPC index extended its three-day rally and it rose 1.01 pct to 38,092.81.
- America Movil drove gains in the index, adding 2.42 pct and Cemex rose 3.81 pct.
- Retailer Wal-Mart Mexico rose 0.2 pct.
- Chile's IPSA index rose 1.01 pct to 4382.05. Copec led the index higher, rising 2.34 pct, while Enersis fell 0.86 pct.

## LATAM TOP STORIES

*(continued)*

gled to sell abroad as the currency strengthened.

Besides Brazil, investors are wary of other governments' efforts to curb currency gains, such as in Peru, which has been buying dollars in the spot market to prevent the sol from renewing its 15-year record high.

The median forecast for the Peruvian currency in the Reuters poll show that the sol is likely to remain around 2.70 units.

**POLL-Chile January CPI seen rising 0.2 pct**

Chile's January consumer price index likely rose 0.2 percent on transportation and tobacco prices, according to the median estimate of 15 analysts and economists in a Reuters poll, as the market was divided over the central bank's next interest rate decision.

The average forecast was for a 0.2 percent increase, but the market is also looking to December economic activity data due out next week for an indication of whether the central bank will hold its key rate steady or cut it for a second month.

Lower-than-expected inflation could give the bank extra space to cut its key interest rate at its Feb. 14 policy meeting.

While weak industrial production growth of 0.5 percent in December could mean another rate cut to stimulate the local economy, robust domestic demand and a strong labor market could balance the equation for rates to remain steady at 5.0 percent in February to avoid fueling inflation.



## DEEP DIVE Commentary and Analysis

**ANALYSIS-Obstacles high for more mortgage prosecutions**

By David Henry and Lauren Tara LaCapra

Despite the determination of President Obama to take Wall Street to court for the financial crisis, prosecutors face an uphill struggle to win more convictions like the two they scored on Wednesday against former Credit Suisse Group AG mortgage traders.

David Higgs, 42, and Salmaan Siddiqui, 36, pled guilty in U.S. District Court in New York to a criminal charge of conspiracy to falsify books and records and commit wire fraud in a way that bolstered their bonuses.

The convictions marked the first successful criminal prosecutions against individuals at investment banks involved in the meltdown, and took four years to win, even without a trial.

In building the case, prosecutors enjoyed advantages that are rarely available -- and likely make this kind of success hard to replicate.

Prosecutors drew on a trove of emails and taped telephone recordings from the traders that helped establish criminal intent. They also had price history on their side. The Credit Suisse traders placed unusually high values, or "marks," on their portfolio of bonds months after Citigroup and Merrill Lynch each reported multi-billion-dollar losses on their portfolios of similar mortgage securities.

Credit Suisse in February of 2008 took a \$2.85 billion write-down to adjust the value of these securities, known as collateralized debt obligations, on its books.

Prosecutors "got two people to plead guilty, so that suggests this is the lower-hanging fruit" of potential cases, said Robert Anello, a partner at Morvillo Abramowitz, a prominent white-collar defense firm in New York.

John Hueston, a lead prosecutor in the Enron trials who is now a white-collar defense lawyer, said that alleged improprieties in other financial-crisis cases will be much more difficult to dissect and prove.

"This kind of case is going to be the exception," said Hueston, a partner at Irell & Manella in Los Angeles, who represented Angelo Mozilo, former CEO of subprime lender Countrywide Financial Corp, in a criminal investigation that was dropped.

In pleading guilty, Higgs, who is cooperating with investigators, admitted in court that he had "manipulated and inflated" values he reported for a battered portfolio of mortgage bonds. He said he acted at the instruction of his former boss to hide losses and meet profit targets. Meeting the targets was essential to the team's bonuses.

Prosecutors have been less successful with Higgs' former boss, Kareem Serageldin, 38, an American living in London. Serageldin was indicted on the same conspiracy charge, plus other charges. His lawyer, James McGuire, said Wednesday that Serageldin believes he did nothing wrong. He said his client had given several interviews to investigators.

The Securities and Exchange Commission accused those men, along with a fourth Credit Suisse trader, Faisal Siddiqui, of violating civil laws. Asked why the fourth man had not also been charged criminally, U.S. Attorney Preet Bharara said that prosecutors must prove their cases beyond a reasonable doubt, which is a tougher standard than the SEC faces. Faisal Siddiqui, who is not related to Salmaan and was not charged with any criminal wrongdoing, could not be reached for comment.

"These cases are not easy to make," Bharara said. "Often such a criminal case can be made only with the help of cooperating witnesses on the inside of the financial institution, or incriminating recordings of misconduct."

In the only other high-profile criminal case to go to court, involving two former Bear Stearns hedge fund managers, a Brooklyn,

N.Y., jury acquitted the men of charges of lying to their investors about the financial stability of funds that invested mainly in subprime securities. In another situation, prosecutors dropped a criminal investigation of the man who ran a division of American International Group Inc that suffered losses on mortgage instruments that led to a government bailout.

The pressure to bring more cases is intense. Obama, in his recent State of the Union Address, said he would direct prosecutors to expand investigations into the dealings that led to the housing crisis.

"The government is trying hard to bring cases," said Jacob Frenkel, a former prosecutor, with Shulman Rogers in Potomac, Maryland.

Yet while these convictions may appear to follow rapidly on the president's speech, the case began before Obama took office.

And mispricing began even earlier. Keeping inflated marks on subprime securities was common once house prices started to slip in 2005, said Janet Tavakoli, a structured finance expert, said in an interview.

Prosecutors in the Credit Suisse case alleged that Higgs lamented in one phone conversation that values on securities in his portfolio in late 2006 had been too high.

The situation across Wall Street got worse at the start of 2007 when the market collapsed, Tavakoli said. "People just did not want to mark down their books."

But proving in criminal court that people at other firms inflated prices for mortgage securities would likely be more difficult than winning the two Credit Suisse convictions. Mortgage securities can be complicated and idiosyncratic, leaving room for people to disagree on how much they are worth.

"It is very hard to value them and very hard to show the criminal state of mind that is needed to bring a criminal case," said defense lawyer Anello.

Higgs, starting as early as August 2007, went to exceptional lengths to hide his losses at Credit Suisse, prosecutors said in a document filed with his guilty plea.

He built spreadsheets to justify his high marks on the roughly \$3.5 billion portfolio as prices fell on widely followed market indexes for subprime securities, they alleged.

Dissatisfied with valuations provided by large banks, one of Higgs staff called a friend at a small investment bank to get endorsements for the inflated values, which were essential for traders' bonuses, prosecutors said.

By the time Credit Suisse uncovered and disclosed the inflated marks in February 2008, Higgs portfolio had lost \$540 million.

Compared with valuations elsewhere on Wall Street, said Robert Khuzami, enforcement director at the SEC, the marks on the Credit Suisse portfolio "were outliers and artificially high."

**ANALYSIS-China set to play it safe on helping Europe**

By Lucy Hornby

Chinese Premier Wen Jiabao raised hopes in Europe when he pledged to consider deepening Chinese participation in European bailout funds, but there is little indication that China is prepared to go out on a limb with a direct contribution.

China will likely choose instead to play it safe by going through the International Monetary Fund, in part reflecting disagreement among government interests over how to respond to the crisis, analysts said.

Wen told a joint press conference with visiting German Chancellor Angela Merkel that China was "considering increasing its participation in the solution of the European debt crisis through the channels of the EFSF and ESM", referring to the euro zone's temporary bailout fund and its permanent replacement,

## DEEP DIVE Commentary and Analysis

but later added it would research doing so via the IMF. His remarks briefly strengthened the euro. German diplomats portrayed it as the most explicit commitment to date by China, raising the prospect Beijing might even contribute directly to the funds, although Merkel was more cautious in her public remarks.

"There is no domestic consensus on how to address the European problem," said Zhao Xijin, deputy director of the Finance and Securities Institute at Renmin University.

"Going through the IMF is playing it safe. From the foreign policy point of view, from other points of view, no further discussion is needed. China is already a member of the IMF and it is prepared to take on the responsibilities of membership."

The IMF wants an additional 500 billion euros (\$650 billion) in funding to help countries deal with the fallout from the euro zone debt crisis. Some of its biggest funders have balked at putting up more money, saying Europe should do more to help itself.

One critical step would be getting final approval for the 500 billion euro European Stability Mechanism, a permanent rescue fund due to become operational in July that will replace the temporary the European Financial Stability Facility, which was used to bail out Ireland and Portugal and will help in the second package for Greece.

For Europe, China's direct support of its funds would be a welcome vote of confidence from outside the bloc as well as increasing the amount it could draw on directly. IMF funds could be applied to any future crisis, not necessarily in Europe.

Going through the IMF is in line with China's foreign policy priority of increasing its involvement, and voice, in multilateral organizations, said Zhang Haibin, director of International Organization Studies at Peking University.

"China has a lot of foreign exchange reserves but little experience in using them. Finance is a very technical field and China doesn't have a lot of expertise," he said.

"Going through the IMF China can gain experience, drawing on

their long experience dealing with these sort of issues."

## DIFFERING VIEWS

Chinese popular opinion is also strongly against bailing out Europe, whose \$32,100 per capita GDP is about four times that of China.

"There's some truth in this popular view," said Zhao, the finance professor.

"But from the government's point of view, globalization and economic integration means that countries are increasingly tied together. Help is needed or China could also be dragged down." The Ministry of Foreign Affairs and Ministry of Commerce are deeply worried that fallout from Europe could hurt China -- the European Union is China's biggest export market -- and advocate doing something, he said.

Meanwhile, the agencies in charge of directly managing China's reserves are acutely aware that they will be criticized if China loses money.

They were jeered after China's first direct investments promptly lost value during the initial stages of the global financial crisis. With ratings agencies threatening further downgrades in Europe, they are hesitant to take that risk again.

For the foreign ministry, acting through the IMF sidesteps any diplomatic difficulties later about whether and how to act in future international bailouts.

In particular, Chinese diplomats want to avoid potential future comparisons, internal or external, over China's behaviour towards its new economic partners in the West versus its traditional allies in the developing world.

And more IMF involvement will also increase China's say in that organization, part of a long-term effort to make its weight in multilateral organizations proportionate to the size of its economy and population.

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