

INSIDE DEBT

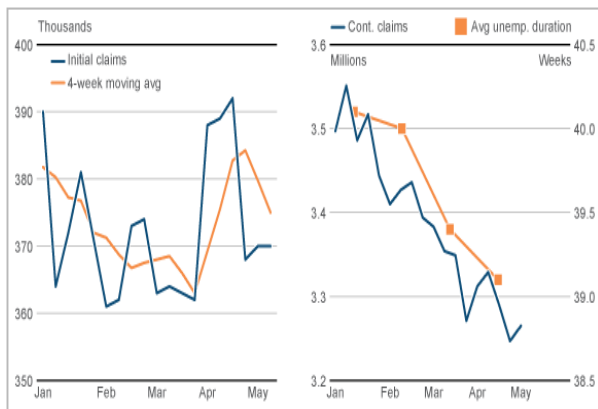
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Thursday, May 17, 2012

CHART OF THE DAY

U.S. jobless claims, year to date

Click on the chart for full-size image



New claims for unemployment held steady last week at 370,000. For the week ended May 5, continuing claims rose to 3.27 million.

TODAY'S TOP NEWS

- U.S. jobless claims steady, mid-Atlantic factories sag
- Spain beset by bank crisis, recession, bond pressure
- U.S. economy still faces "very tough challenges"-Geithner
- ECB move on Greek banks hits euro confidence
- France says won't ratify unchanged euro pact
- German banks ready if Greek crisis worsens-Buba
- Italy's banks eye retail investors for funds
- British PM tells Europe to quell the turmoil
- SEC looking at hedge fund as part of CDO inquiry
- Canadian wholesale sales driven higher by autos

ECON WATCH

FOR FRIDAY MAY 18

ET	Indicators	Unit	Reuters	Prior
02:00	DE Producer prices mm	pct	0.3	0.6
02:00	DE Producer prices yy	pct	2.6	3.3
08:30	CA CPI all items MM	pct	0.3	0.4
08:30	CA CPI all items YY	pct	1.9	1.9
08:30	CA CPI BOC Core YY	pct	1.9	1.9
08:30	CA CPI BOC Core MM	pct	0.2	0.3

- 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: New claims for jobless benefits last week held at levels suggesting sluggish growth in hiring and factory activity in the mid-Atlantic region contracted in May, worrisome signs for a still-fragile economic recovery. **For more please click here**

TREASURIES: Treasury debt prices rose as disappointing data on regional U.S. business activity and worries about Greece's political turmoil and the health of Spanish banks stoked safe-haven bids.

- The 30-yr bonds traded up as much as 2-2/32 in price with a yield of 2.805 pct. It was last up almost 2 points for a yield of 2.80 pct, down from 2.90 pct on Wednesday. The 30-year bond yield flirted with its lowest level in five months.
- The 10-yr note last traded up 18/32 in price with a yield of 1.70 pct, down 6 basis points from late on Wednesday.

FOREX: The yen posted sharp gains against the euro and dollar, bolstered by safety bids on concerns about banks in Spain and Greece, chances of contagion if Greece leaves the euro and disappointing U.S. economic data.

- "The second round of the Greek election may well put the actual exit process in motion, and we would likely see euro/dollar test \$1.20 in that scenario." said Jens Nordvig, global head of currency and fixed income strategy at Nomura Securities in New York.
- The euro dropped to \$1.2665, its lowest level since mid-January, past stop-loss sell orders below \$1.2680 and on course for a test of its 2012 low of \$1.2623. It last traded at \$1.2702, down 0.1 pct.
- The euro dropped to 100.54 yen, the lowest since February 7. It was last at 100.64, down more than 1.47 pct.
- The dollar also fell sharply against the yen, sliding to 79.25 yen, its weakest level since February 17.

CORPORATES: Corporate bonds spreads widened as weak U.S. economic data spooked investors already concerned about the ongoing debt crisis in Europe.

- The CDX.IG-18 index widened by 4 bps to 123 bps.

STOCKS: Stocks hit a four-month low, as rising Spanish bond yields increased investor anxiety over that country's banks and another round of weak data undermined hopes for U.S. economic recovery.

- The Dow fell 157.65 points or 1.25 pct to end at 12,440.90, the S&P was down 19.92 points or 1.50 pct at 1,304.88 and the Nasdaq was down 60.35 points or 2.10 pct at 2,813.69.
- Caterpillar dropped 4.42 pct, Apple lost 2.92 pct and Qualcomm fell 3.29 pct. Dollar Tree fell 6.09 pct, Wal-Mart jumped 4.2 pct, Sears climbed 3.04 pct and GameStop tumbled 11.13 pct.

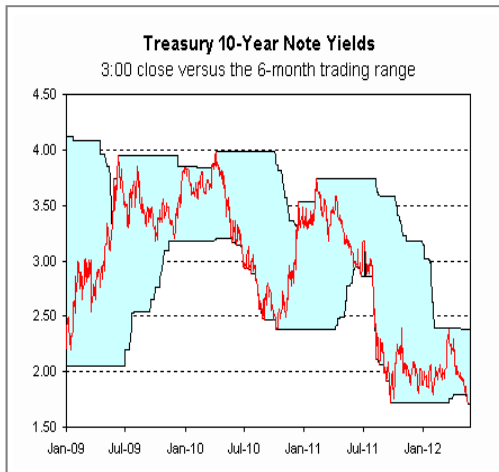
C & E: Crude futures fell a fifth straight session in choppy trading as weak U.S. economic data and continued worries about the euro zone and Greek debt crisis pressured oil prices on both sides of the Atlantic.

- Oil was down 0.34 pct at \$92.47 per barrel.
- Gold rose 2.29 pct to \$1,573.50 an ounce.
- Reuters-Jefferies index edged up 0.07 pct to 289.55.

- 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	0.075	0.07	0.076	-0.006
3-Mo Bill	0.095	0.090	0.096	-0.001
6-Mo Bill	0.150	0.145	0.152	0.003
1-Year	0.190	0.180	0.193	0.000
2-Year	99.875	99.914	0.314	-0.036
3-Year	99.531	99.570	0.408	-0.016
5-Year	100.688	100.734	0.733	0.059
7-Year	100.688	100.734	1.147	0.268
10-Year	100.383	100.445	1.708	0.528
30-Year	104.000	104.063	2.802	2.029

EQUITIES

	INDEX	CHANGE
DJIA	12517.46	-82.53
NASDAQ	2837.02	-37.03
S&P 500	1314.01	-10.86

COMMODITIES

	PRICE	CHANGE
NYMEX	92.5	-0.3
BRENT	107.3	-2.4
SPOT GOLD	1573.8	35.5
PALLADIUM	601.0	14.0
SILVER	28.0	0.8

REPURCHASE AGREEMENTS

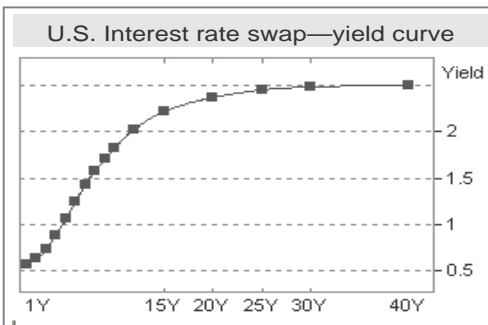
G/C		MORTGAGE REPOS	
O/N	0.280	O/N	0.280
2-Week	0.240	2-Week	0.280
1-Month	0.250	1-Month	0.300
3-Month	0.260	3-Month	0.330
AGENCY REPOS		i-REPO SM INDEX	
O/N	0.270	10:00 AM	0.230
2-Week	0.270	3:00 PM	0.228
1-Month	0.270		
3-Month	0.280		

IR SWAPS <19901>

	SPREAD		RATE	
2-Year	33.50	37.50	0.64	0.67
3-Year	31.75	35.75	0.72	0.75
5-Year	32.50	36.50	1.05	1.08
7-Year	27.50	31.50	1.42	1.44
10-Year	11.00	15.00	1.82	1.83
30-Year	-32.75	-28.75	2.47	2.48

EURODOLLAR FUTURES

	CLOSE	CHANGE
Jun-12	99.51	0.00
Jul-12	99.48	0.01
Aug-12	99.45	0.01
Sep-12	99.41	0.00



FUTURES

	PRICE	CHANGE
CBOT 5 yr	124.10	-0.01
CBOT 10 yr	133.75	0.33
CBOT 30 yr	148.34	1.53

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

	BID	ASK	BID	ASK
O/N	0.170	0.200		
1-Month	0.200	0.300	0.159	0.169
3-Month	0.280	0.430	0.161	0.171
6-Month	0.480	0.630	0.166	0.176
12-Month	0.710	0.960	0.171	0.181

NYFRSM - 10AM

1m	0.2050
3m	0.4313

FED FUNDS

Open	0.1700
High	0.1700
Low	0.1500

CURRENCIES

	BID	ASK
Euro	1.2706	1.2708
Sterling	1.5807	1.5812
JP Yen	79.30	79.32
Swiss Franc	0.9449	0.9454
Can Dollar	1.0175	1.0180
Mexico	13.7980	13.8042

ACTIVE FANNIE MAE AGENCIES

TERM	COUPON	MATURITY	YIELD-SPREAD	YIELD	
2-Year	0.5	8/9/2013	1.75	-1.25	0.322
3-Year	0.5	5/27/2015	19.5	16.5	0.594
5-Year	1.125	4/27/2017	31	28	1.038
7-Year		-			
10-Year					
30-Year	6.625	11/15/2030	24	21	3.039

ACTIVE FREDDIE MAC AGENCIES

TERM	COUPON	MATURITY	YIELD-SPREAD	YIELD	
2-Year	0.375	11/27/2013	5.25	2.25	0.356
3-Year	0.5	4/17/2015	17.25	14.25	0.571
5-Year	1	6/29/2017	33.75	30.75	1.066
7-Year		-			
10-Year	2.375	1/13/2022	45	42	2.156
30-Year	6.25	7/15/2032	25	22	3.051

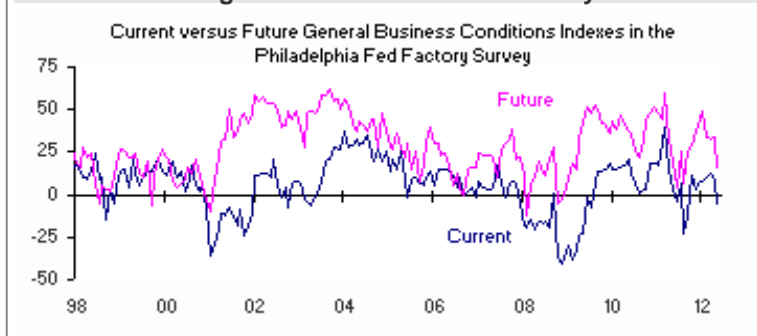
Active MBS 15YR

	CPN	BID	ASK	YIELD
FNMA	3.5	105.1550	105.1610	1.587
FHLMC	3.5	105.1500	105.1600	1.579

Active MBS 30YR

	CPN	BID	ASK	YIELD
FNMA	4.0	106.0650	106.0710	1.925
FHLMC	4.0	105.3050	105.3110	2.002
GNMA	4.0	108.2610	108.2650	1.869

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

U.S. jobless claims steady, mid-Atlantic factories sag

New claims for jobless benefits last week held at levels suggesting sluggish growth in hiring and factory activity in the mid-Atlantic region contracted in May, worrisome signs for a still-fragile economic recovery.

Initial claims for state unemployment benefits held at 370,000, the Labor Department said. That was a little higher than analysts forecasted in a Reuters poll. The Philadelphia Federal Reserve Bank said its business activity index dropped to minus 5.8 from positive 8.5 in April, falling well short of economists' expectations for an acceleration of activity.

Companies added 115,000 new jobs to their payrolls in April, the fewest in six months.

The four-week average of new applications fell marginally between the April and May survey periods, suggesting not much change in labor market conditions.

A separate report from the private Conference Board showed a gauge of future U.S. economic activity fell in April for the first time in seven months.

The number of people on extended unemployment benefits slipped 45,824 to 304,755. A drop in the share of working-age Americans either with a job or looking for one to near a 30-year low pushed the jobless rate down to 8.1 percent last month from 8.2 percent in March.

U.S. economy still faces "very tough challenges"-Geithner

Europe's debt crisis, higher oil prices, looming budget cuts and tax increases pose risks to the U.S. economy but the United States should be able to weather them, Treasury Secretary Timothy Geithner said.

"We face some very tough challenges. But they are manageable challenges for the United States," Geithner told the Greater Baltimore Committee group of regional businesses and non-profit organizations.

Geithner said he believed the simultaneous expiration of U.S. tax breaks for nearly all Americans and the threat of \$1.2 trillion in cuts to federal programs presented an opportunity for politicians to find a way to put the country on a more sustainable fiscal path.

Meanwhile, St. Louis Fed President James Bullard called for the breakup of big banks like JPMorgan Chase & Co, saying that firm's recent large trading loss underscores the difficulty of regulating such banks and the dangers they pose.

France says won't ratify unchanged euro pact

France will not ratify the European pact on fiscal discipline unless it is amended to include ambitious commitments to promote economic growth, the country's new finance minister, Pierre Moscovici, said.

"What we've said is the treaty will not be ratified as it stands," Moscovici told BFM TV. "We're firm on this." Moscovici, part of a new left-leaning government formed after the swearing-in of Francois Hollande as France's first Socialist president in 17 years this week, took over from his conservative predecessor Francois Baroin.

The new French team was committed to serious management of public finances but also wanted a strong pro-growth strategy in Europe, he said.

The new president discussed the issue with German Chancellor Angela Merkel in person within hours of his swearing-in this week, Moscovici said. "It (the pact) must be fleshed out with a part on economic growth, and when I say that, we're talking about an ambitious growth strategy," Moscovici said.

Spain beset by bank crisis, recession, bond pressure

Spain's borrowing costs shot up at a bond auction, after economic data confirmed the country is back in recession and reports of an outflow of deposits from nationalized Bankia hammered its share price.

The Spanish Treasury had to pay around 5 percent to attract buyers of three- and four-year bonds. The longer-dated paper sold with a yield of 5.106 percent, way above the 3.374 percent the last time it was auctioned.

Spanish Prime Minister Mariano Rajoy said on Wednesday his government, struggling to reduce its budget deficit, could soon find it difficult to fund itself affordably on the bond market unless the pressure eases.

His finance minister, Cristobal Montoro, meets heads of finance of all 17 regions later to review their budget plans which are a crucial plank of the drive to lower public debt.

Spain's 10-year yields have spiked back above 6 percent, which investors view as a pivot point that could accelerate a climb to 7 percent, a cost of borrowing widely seen as unsustainable even though Madrid has sold well over half its debt needs for the year.

ECB move on Greek banks hits euro confidence

The European Central Bank has stopped offering liquidity to some Greek banks it does not consider solvent, and international concern about the euro zone rose as Athens called new elections that look set to be won by parties opposing austerity measures.

Fears that Athens is on the brink of crashing out of the euro zone and igniting a renewed financial crisis have rattled global markets and alarmed world leaders, with Greece set to figure high on the agenda at a G8 summit later this week.

Separately, Greece's surging leftist leader predicted his party would sweep next month's election and refused to stop demanding an end to "barbaric" austerity policies he said were bankrupting the nation. SYRIZA leader Alexis Tsipras, the 37-year-old rising star of Greek politics, promised he would listen to neither group. Whereas, the EU said it will honor its commitments to Greece in an effort to make sure it remains within the euro area but said Athens too must meet its obligations to the EU, the head of the head of the European Commission said. Separately, Fitch Ratings Agency on Thursday downgraded Greece's credit rating to CCC from B-minus, citing the heightened risk that the country might have to leave the euro zone.

German banks ready if Greek crisis worsens-Buba

Euro zone banks are in better shape than before the financial crisis began and those in Germany are equipped to cope with Greece taking a turn for the worse, a Bundesbank board member told Reuters in an interview.

Andreas Dombret, in charge of financial stability on the board of Germany's central bank, the Bundesbank, said banks had raised their capital buffers significantly and the resilience of the European banking system had improved since the start of the crisis.

"I am convinced that the resilience of most European banks is by now clearly stronger than before the financial crisis. German banks have already prepared for larger problems in Greece," Dombret told Reuters in an interview. "I will not speculate about a default of Greece or Greek banks. But you can assume that all bank supervisors in all countries are in close, continuous contact," Dombret said, sitting in his office on the 12th floor of the Bundesbank on the outskirts of Frankfurt.

TODAY'S TOP NEWS

Italy's banks eye retail investors for funds

Italy's banking lobby is looking at ways to make it easier for banks to raise cash by issuing bonds to retail investors, a source of funds which is weakening but which helped get them through the euro zone crisis.

Banking body Associazione Bancaria Italiana said domestic lenders need to cover 137 billion Euros in bond redemptions this year.

The lobby group was working with market regulator Consob to simplify the issuing process for bonds with a simple structure, making it speedier and cheaper, ABI Director General Giovanni Sabatini told a financial conference.

Also, lowering the minimum maturity of debt notes issued by banks, currently at 24 months, would help meet investors' preference for ultra-short debt at present, Sabatini said.

"In the first few months of 2012 funding from private clients, though positive, has been very weak," Sabatini said.

British PM tells Europe to quell the turmoil

Prime Minister David Cameron urged Europe's rulers to do more to quell the euro zone debt crisis and raised the prospect of a Greek default to argue he must stick to his unpopular attempt to cut spending and reduce debt at home.

Warning that the survival of the euro was now in question, Cameron showed growing alarm and frustration that the crisis was spinning out of control, threatening Britain's \$2.5 trillion economy and his own electoral prospects in 2015. "Greece is on the brink, the survival of the euro in question," Cameron told business leaders on a grey and damp morning in the northern English city of Manchester.

"Faced with this, I have a clear task: to keep Britain safe. Not to take the easy course - but the right course," he added. Echoing the words of Bank of England Governor Mervyn King, Cameron said the crisis in the European Union - Britain's biggest trading partner - had lasted more than two years but the "storm" was far from over.

SEC looking at hedge fund as part of CDO inquiry

Securities regulators are investigating the hedge fund Magnetar Capital for its role in putting together packages of consumer loans that big banks sold as bonds before the financial crisis, sources confirmed.

The Wall Street Journal first reported Magnetar was "a target" of an Securities and Exchange Commission investigation. Magnetar has been involved in at least one previous investigation involving a large Wall Street bank and securitized loans.

The investigation involving Magnetar focuses on collateralized debt obligations, securities that often included bonds backed by mortgage and other consumer loans. "As we have stated publicly and acknowledged many times, the SEC has been investigating a variety of aspects of the CDO markets for some time, and we continue to cooperate with the SEC in relation to these inquiries," a spokeswoman for Magnetar said.

Canadian wholesale sales driven higher by autos

Canadian wholesale sales increased for the ninth time in 12 months in March, rising 0.4 percent from February on strength in the motor vehicles and parts subsector, Statistics Canada said.

The gain was slightly greater than the 0.3 percent advance forecast by market analysts. In volume terms, sales were unchanged. Sales of motor vehicles and parts rose by 2.4 percent while sales of food, beverages and tobacco grew by 1.3 percent. Sales of machinery, equipment and supplies dropped by 1.4 percent, thanks largely to a 2.7 percent drop in shipments of computer and communications equipment and supplies.

Separately, foreign investors reduced their holdings of Canadian securities for the second time in three months in March, largely by selling off Canadian treasury bills, Statistics Canada said. Outsiders' divestments in Canadian securities hit C\$2.08 billion in March compared to an investment of C\$12.54 billion in February, which was an almost two-year high.

NEXT UP

Dealers saw asset buys most likely Fed tool--survey

U.S. primary dealers saw asset purchases as the most likely policy tool the Federal Reserve would use to give the economy another boost, according to a survey done by the Fed last month.

The survey asked dealers to rate the likelihood that the Fed would take certain actions to ease policy, including increasing the duration of maturities on the bonds it holds and changing the date of a forecast for when interest rates will first rise.

The dealers' median response was a 45-percent probability the Fed would buy more securities within one year. A 20-percent chance was given to increasing durations, known as "Twist," and a 30-percent chance was given to changing the rates guidance, according to the survey.

The second most likely tool the Fed could use, according to the 21 dealers surveyed, was to "provide additional guidance...on the path" of interest rates. Dealers gave that a 30 percent chance.

"Several dealers noted that additional easing remained possible, and a few expected such measures to be announced as early as June 2012," when the Fed next meets to set policy, the New York Fed said. Dealers saw a 19-percent chance that the first rate hike would come in the first half of 2014, a 26-percent chance it would come in the second half of 2014, and a 14-

percent chance it would come in the first half of 2015, on average. Asked where the federal funds rate would be at the end of 2014, the median dealer response was 0.75 percent.

BOJ on hold, to keep powder dry as Europe clouds darken

The Bank of Japan is expected to hold off on boosting asset purchases when it reviews policy next week, preferring instead to save ammunition as Europe's deepening debt crisis could warrant action in coming months to fend off damage to the fragile economy. BOJ officials, keeping a wary eye on developments in Europe, are ready to pull the trigger if fears of a Greek exit from the euro zone push the yen well above its record high and hit share prices enough to threaten Japan's recovery prospects. Otherwise, the central bank hopes to stay put and assess the effect of its monetary easing steps in February and April. The BOJ now regards asset purchases as its key monetary easing tool and is expected to hold its main policy rate at a range of zero to 0.1 percent. The BOJ last month increased government bond purchases by 10 trillion yen (\$124 billion) under its asset-buying programme in a largely symbolic move to show its resolve of achieving its 1 percent inflation target.

But central bank policymakers have signalled that they prefer to pause with the yen off last year's record high and the economic outlook brightening.



EYE ON ASIA

POLL & PREVIEW

Japanese consumers lead economic rebound in Q1

Japan's economy bounced back in the first quarter from a year-end lull, powering ahead of other major industrial nations thanks to rebuilding of the tsunami-battered northeast, solid private spending and some improvement in exports.

The world's third-largest economy grew 1.0 percent in the January-March quarter, just above a median forecast of 0.9 percent. A 0.2 percent contraction in the economy reported for the final three months of 2011 was revised up to flat in the government data released.

The figures underlined expectations that growth would slow down during the rest of the year, partly as the impact of the rebuilding effort fades. They also did little to alter the view that the Bank of Japan will leave policy settings unchanged at a meeting next week, having eased last month.

The first-quarter rise in gross domestic product translated into an annualised rate of growth of 4.1 percent, stronger than 3.5 percent expected by analysts.

That pace exceeds annualised growth of 2.2 percent in the United States in the same quarter, and outperformed European heavyweights Germany, Britain, France and Italy.

The earthquake and tsunami stalled growth for the full financial year to the end of March 2012 after the economy had expanded 3.2 percent a year earlier. A Reuters poll predicted a 2.0 percent rebound in growth in the current financial year.

EVENTS

For May 18

CHINA

- China house price mm for May: Prior -0.7 pct

INDIA

- Consumer price index yy for April: Prior 9.47 pct
- Bank loan growth: Prior 17.60 pct
- FX reserves: Prior \$293.17 bln
- India cbank deputy Gokarn, who heads the monetary policy department, is expected to speak on sustaining growth in a dynamic global financial climate at an event organized by Indian Chamber of Commerce in the eastern city of Kolkata.

THAILAND

- Foreign reserves: Prior 178.4 bln
- Currency swaps: Prior 30.0 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	114.710	2.670	122.011	3.193	S&P/ASX200	4157.41	-8.12	JPY	-6.85	-6.35
Japan	99.813	0.239	100.453	0.850	NIKKEI 225	8876.59	75.42	AUD	-86.29	-85.89
China	101.662	2.760	100.904	3.400	HKSE	19200.93	-58.90	NZD	-46.2	-45.2
Hong Kong	100.350	0.477	100.750	1.111	SHANGHAI	2378.89	32.69	HKD	-28	-23
Singapore	108.750	0.552	106.600	1.468	STRAITS TIMES	2822.61	-8.54	SGD	-2.8	-2.5
					SENSEX	16070.48	40.39	THB	17.25	17.75
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	3.68	3.74	4.065	4.12	JPY	0.1		CNY	0.02	0.024
JPY	0.4075	0.4675	0.855	0.915	CNY	3.75		TWD	-0.055	-0.035
CNY			3.66	3.86	AUD	4		KRW	1168.7	1169.7
HKD	0.93	1.01	1.58	1.66	NZD	2.7		INR	55.465	55.565
TWD			1.25	1.3	HKD	0.3		MYR	3.1235	3.1275
INR			5.75	6.15	SGD	0.25		PHP	43.11	43.21
KRW	3.2875	3.3275	3.415	3.455				IDR	9460	9560
SGD	1.105	1.12	1.925	1.955						

EYE ON LATAM

LATAM TOP STORIES

Brazil March retail sales growth supports recovery

Retail sales growth in Brazil picked up in March to the fastest annual pace in two years, providing support to a sluggish economy as the government cuts credit costs toward record lows.

The retail industry has been stable or growing for the past seven months, revised numbers show, as Brazil's robust domestic market drives an economic recovery, fending off a recession as labor costs and weak global demand hit factories.

Retail sales rose 0.2 percent in March from February, the government statistics agency IBGE said, near the 0.4 percent rise forecast in a Reuters poll of 22 economists.

An upward revision showed February sales were flat from a month before, versus a previously reported 0.5 percent drop. March retail sales volumes jumped 12.5 percent from a year earlier, according to IBGE, the best annual advance since March 2010 and more than the 11.2-percent median estimate in the Reuters poll. The main drivers for the rise were sales at supermarkets and home appliance retailers, although volumes declined in six of 10 segments surveyed. Sales were bolstered by a 5.6 percent rise in real wages, which are adjusted for inflation, in the 12 months through March, IBGE said, thanks in part to an unemployment rate hovering near record lows.

Brazil payroll growth quickens, industry improves

Brazil's payroll job growth accelerated in April from March, the biggest monthly jump so far this year as struggling industries showed signs of recovery that could boost a lackluster economy.

The economy added a net 216,974 payroll jobs in April, the Labor Ministry said, compared with an upwardly-revised 141,000 in March. Brazil added 272,000 payroll jobs in April of 2011.

The services sector again led the gains after it hired a net 82,875 people in April, the ministry said, with most jobs created in housing and transportation companies. After cutting their workforce in March, manufacturers returned to hiring, adding a net 30,318 people in April. Employers hired a total 1.798 million people, but fired 1.581 million in April, the data showed.

Mexican economic growth accelerates at start of 2012

Mexico's economy started 2012 with a bang as a pick-up in the United States lifted economic growth in Latin America's second-largest economy to its fastest pace in 18 months.

First-quarter growth was 4.6 percent compared with a year earlier, the fastest pace since the third quarter of 2010, prompting several analysts to upgrade 2012 growth forecasts.

The economy grew 1.31 percent in the first quarter, broadly in line with Reuters poll expectations and close to double the upwardly-revised 0.72 percent growth of the previous quarter, the national statistics agency said.

The United States bought \$69 billion worth of Mexican exports in the first quarter, up 11 percent from the same period of 2011. The extra demand boosted manufacturing - the major source of Mexico's exports - to 5.5 percent year-on-year growth.

Chile eyes Europe woes closely, plan prepped: finmin

Chile is closing monitoring the ongoing financial turmoil in Europe and can always resort to a previously prepared economic contingency plan if need be, Finance Minister Felipe Larraín said.

Chilean shares and the local currency have been buffeted in

LATAM MARKETS TODAY

TREASURIES:

- Mexican 10-yr notes were up, yielding 6.18 pct and 30-yr bonds fell yielding 7.59 pct.
- Brazilian 10-yr notes surged, yielding 10.06 pct and 2-yr notes gained, yielding 8.61 pct.

FOREX:

- Brazilian real edged up 0.28 pct to 2.0051 per dollar.
- Mexico's peso rose 0.48 pct to 13.8187.
- Chile peso added 0.47 pct to 504.65 per dollar.
- Colombia's peso rose 0.69 pct to 1,805.4 to the dollar and Peru sol was down 0.15 pct at 2.668 to the dollar.

STOCKS:

- Latin American stocks fell for a fifth straight day as rising Spanish borrowing costs and ongoing political turmoil in Greece raised fears of a widening euro zone debt crisis.
- The MSCI Latin American stock index lost 2.34 pct.
- Brazil's benchmark Bovespa lost 2.01 pct.
- Vale fell 3.63 pct and Petrobras fell 4.15 pct.
- Mexican IPC index fell 0.67 pct.
- Cemex lost 0.26 pct. American Movil edged up 0.06 pct and Grupo Mexico edged down 0.85 pct.
- Chile's IPSA index fell 0.88 pct.
- Falabella lost 2.59 pct and SQM fell 0.83 pct.

LATAM TOP STORIES

(continued)

recent sessions as fears Greece could exit the euro zone have fanned fears of contagion in Europe, particularly in Spain, whose banks have a strong presence in the world's top copper producer. The government drew up an emergency plan last year to mitigate the impact of Europe's building crisis, which included plans to issue \$6 billion in debt locally. Officials said earlier this year the government could tap sovereign wealth fund savings if necessary.

Venezuela economy grows briskly as election nears

Venezuela's economy grew 5.6 percent in the first quarter, a brisker year-on-year pace than the previous three-month period in good news for President Hugo Chavez's re-election campaign, official data showed.

Economists had expected healthy growth in the first quarter as the socialist government pumps money into social programs in the hope of winning over a significant number of undecided voters in the South American OPEC member.

The quarterly result was even higher than analysts expected and also topped the fourth-quarter growth rate of 4.9 percent.

Most opinion polls show Chavez ahead of opposition candidate Henrique Capriles, who pledges to install a Brazilian-style, center-left government if he is elected.

But five months from polling day, much could change - not least because mystery surrounds Chavez's cancer and speculation is swirling over whether he might even have to anoint a successor to run in his place if his condition worsens.



DEEP DIVE Commentary and Analysis

FED FOCUS-

Officials urge fuller Fed policy reports

By Mark Felsenthal

The Federal Reserve, which has already taken extraordinary steps in the past couple of years to provide greater transparency, is considering a range of ways to sharpen its communication on the possible future course of monetary policy.

Some officials are advocating fuller and more frequent monetary policy reports that, ideally, would provide financial markets greater clarity about how the Fed would adjust its policy to changing economic circumstances, and give some sense about probability.

The goal would be fewer misunderstandings or surprises about Fed policy, less volatility in markets and more confidence in long-range planning.

The Fed in recent years engineered communication enhancements to both shed its image as a secretive institution deliberating behind closed doors and improve the effectiveness of monetary policy.

Publishing a quarterly report "could potentially provide a more fulsome discussion of the outlook for the U.S. economy and for policy," James Bullard, president of the St. Louis Federal Reserve Bank, said on Wednesday.

Minutes of Fed meetings in March and April show policymakers considering a range of expanded communications options, with no decisions taken.

A source familiar with the Fed's deliberations said officials were mulling the possibility of quarterly monetary policy reports. The Fed currently delivers reports to Congress twice a year on the policy and economic outlook.

At the central bank's meeting last month, Fed Chairman Ben Bernanke asked officials making up a communications subcommittee to play with the idea of refining the quarterly economic projections policymakers provide to clarify links between changes in economic conditions and the views officials hold about the appropriate monetary policy course.

Fed officials also considered describing the likely monetary policy responses to various economic scenarios, and releasing that information publicly, minutes of the April meeting show.

"Often, opinions about the future course of the economy change quickly when it is at a turning point," said Ann Owen, a former Fed economist who teaches at Hamilton College, in Clinton, New York.

"Managing expectations about the future state of the economy can help it achieve its goals of full employment and price stability because expectations about the economy can be self-fulfilling," she said.

A risk would be that the additional information would muddle an already complicated picture that at the end of the day can change in response to a sudden turn of events.

Another is that by laying out its thinking in greater detail, the Fed is tying its hands by raising expectations that it would act in certain ways. Any perceived deviation from its most likely policy path could then raise questions about the Fed's credibility.

The Fed was once an institution that didn't even communicate its policy moves to the public - changes had to be inferred by price moves in Treasury debt markets after policy meetings. The financial crisis of 2007-2009 drew attention to the vast reach of the Fed's powers and raised pressure on the institution to divulge details of its extensive emergency lending.

Bernanke last year launched four-times-a-year news conferences and increased the publication of economic projections to quarterly from twice a year. The Fed this year took a page from many other central banks by announcing an explicit inflation target, a move seen as inoculating against the possibility of an

inflationary psychology by more firmly committing policymakers to price stability.

It has begun recently to publish individual policymakers' rate path forecasts.

As with the inflation target, the Fed seems to be taking its cue on more frequent and more detailed monetary policy reports from other central banks.

Minneapolis Fed President Narayana Kocherlakota last week held up Sweden's monetary policy reports, issued thrice yearly, as a model from which the Fed had much to learn.

"We need to do more to communicate the economic uncertainties that we face as policymakers and how our policymaking will respond to new information about those uncertainties," he said.

A quarterly report - possibly timed to coincide with the chairman's news conferences - could lay down a benchmark of the Fed's view on key issues facing the U.S. economy, Bullard said on Wednesday.

By showing how individual Fed officials differ from the benchmark, such reports could communicate a more nuanced view of shifting sentiment.

"Right now, the Fed has communicated clearly that it does not expect to raise the federal funds rate until sometime in 2014," Hamilton College's Owen said. "If there were some suggestion in a quarterly report that perhaps there is less certainty about that timing because the pace of the recovery has quickened, then this could have the effect of increasing expectations for higher rates sooner."

COLUMN-Only the ECB can make it a bank run

By James Saft

A spreading bank run could hasten Greece's exit from the euro zone but it certainly doesn't have to end that way.

It is far less clear what the impact would be should the wave of withdrawals accelerate in other peripheral states such as Spain or Portugal, which are further from outright revolt over German-led austerity, and which, due to their sheer size, will enjoy a vastly improved negotiating position.

Greeks have been withdrawing hundreds of millions of euros of deposits from their banks in recent days, driven by a rational but dangerously self-reinforcing fear that a Greek exit from the euro will leave them holding far less valuable new drachma.

That fear, though, is predicated on a shaky notion: that the players in the drama will do what they have said they would.

Greek depositors are worried that their politicians will repudiate the terms of the bailout and that the ECB and European authorities will, ultimately, cut them off, either directly or by refusing to accept dubious collateral in exchange for fresh euros.

That would bring down the Greek banking system, or most of it, and force Greek authorities to impose capital controls. Cue Spanish, Italian and Portuguese depositors, who might follow suit and start to withdraw their own deposits, putting massive amounts of collateral into the hands of the ECB and their own central banks.

The betting on this one comes down to whether you think European officials will stick with their principles or act in their own best interests, always a legitimate and uncertain question. The ECB could, at any point it chooses, pull the plug on the Greek banking system by refusing to accept the sort of bad collateral now being offered. A prudent act, utterly within their rights and a highly destructive one.

Greek depositors only have as much power as the ECB chooses to give them. The simple answer is to take more bad collateral and keep negotiating. Even if the troika elects to punish Greece by stopping payments to it there is nothing that would stop the ECB from carrying on providing liquidity to the



DEEP DIVE Commentary and Analysis

Greek banking system. Remember too that the amount of money involved is not huge, especially in proportion to the potential damage caused by a bank-run-caused exit of Greece from the euro.

CONTAGION RISK?

That said, if things get worse in Greece, as they are almost certain to, depositors elsewhere in the euro zone may follow suit and withdraw money from banks in weaker countries. Deposits in Italian and Portuguese banks have dropped, relatively gently, though Italian deposits are still near earlier peaks.

More withdrawals will be no surprise, whatever you think of the game of chicken between Greece and the rest of Europe. The opportunity cost of moving money is low, and even if the money is not deposited elsewhere, very low interest rates impose little penalty on cautious savers stuffing bank notes into mattresses.

The logic is even less strong for a bank run in Spain, for example, forcing a disorganized euro exit. So long as Spain, or Portugal, is making minimal progress on reforms - and they are doing better than that now - there is even less incentive for the ECB to become spooked by a rush of questionable collateral onto its books.

And if Spanish bank funds flee, the math will be the same for the ECB but the scale will be far different and argues further for forbearance rather than retribution. Something on the lines of a

third of Greek deposits, or a bit more than 70 billion euros, have left its system. Extrapolate that to the Spanish system and you are looking at more than 500 billion euros.

That could spook Germany and the ECB, but more likely it brings Europe into a sort of de facto fiscal union, in which the affairs, credits and debits of the players are so intertwined as to utterly resist detangling. The ECB will not end the euro on its own authority, and in the event of a huge bank run it will probably prove impossible for politicians to make the decision to pull the plug quickly. That will leave the south owing the north even more, but the north having less ability to collect or dodge. Some sort of common bond issuance or fiscal union might actually be hastened by a bank run, ironically enough.

If you owe the bank a million, the bank owns you; if it is a half a trillion euros, the situation is somewhat reversed.

None of this is to say that the ECB or euro zone authorities won't become so exasperated with Greece that they pull the plug. It may come to that, and it's fair to say that the odds have narrowed, but we are not quite there yet.

(At the time of publication, Reuters columnist James Saft did not own any direct investments in securities mentioned in this article. He may be an owner indirectly as an investor in a fund.)

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(Compiled by Naveen Mutnal and Pramod Shukla, in Bangalore)

For questions or comments about this report, email us at:

inside.debt@thomsonreuters.com
or contact us on +91 80 4135 5929

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