

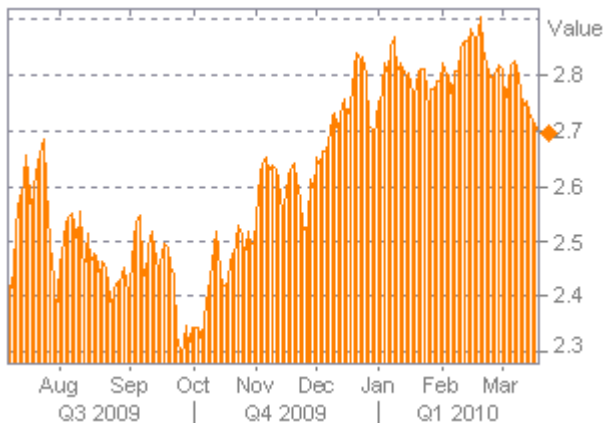
INSIDE DEBT

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Friday, March 19, 2010

CHART OF THE DAY

2-10's Treasury yield curve



The spread between 10-year and two-year yields shrank to 269 basis points, the tightest level so far this year.

TODAY'S TOP NEWS

- Greece has to raise 16 bln euros by end May
- U.S. House Democrats see momentum on health bill
- China tries to cool yuan dispute with U.S.
- ECB's Trichet says CDS should be better regulated
- European Union mulls emergency bank wind-up fund
- British PM urges G20 to drive growth agenda
- BoE's Sentance sees some risk of double-dip
- Canada inflation surges unexpectedly in February
- Japan bank min wants more spending, pressure may build
- Argentina nears debt swap launch after SEC filing

ECON WATCH

FOR MONDAY MARCH 22

| ET | Indicators | Unit | Reuters | Prior |
|-------|------------------------|------|---------|-------|
| 05:00 | IT Flash Trade non-EU | bln | - | -3.2 |
| 08:30 | US Chicago Fed Index | ind | - | 0.02 |
| 11:00 | EZ Consumer Confidence | ind | - | -17.4 |
| - | JP Market Holiday | | | |

MARKETS TODAY

TODAY'S TOP STORY: Greece must raise some 16 billion euros in debt by the end of May, the head of Greece's PDMA debt agency said in an interview published.

For more please [click here](#)

TREASURIES: U.S. Treasuries fell, as bargain-hunting emerged in the wake of losses tied to next week's supply.

- 30-yr bonds rose 4/32 to yield 4.58 pct from 4.59 pct.
- 10-yr notes fell 5/32 yielding 3.69 pct while the 2-yr notes fell 2/32 to yield 0.99 pct.
- The 2-10's part of the yield curve shrank to 270 bps, after it fell to 269 bps, the tightest level so far this year.
- 5-yr Treasury notes were down 6/32 to yield 2.45 pct from 2.42 pct.

FOREX: The euro fell and was headed for its worst week since January as traders fretted whether Greece will secure euro-zone aid to tackle its debt crisis, while worries about the UK economy hit sterling.

- Euro fell 0.5 pct to \$1.3535. Earlier, it fell as low as \$1.3502, its lowest level in more than two weeks. It was down 1.7 pct this week, its worst showing since late January.
- Euro fell 0.35 pct to Swiss francs 1.4348. Earlier, the euro slipped as far as 1.4320 francs, a 17-month low.
- Canadian dollar was up 0.22 pct against the dollar at C\$1.0163. Earlier, U.S. dollar fell to a 20-month low at C\$1.0062.
- Sterling fell 1.48 pct to \$1.5016.

CORPORATES: U.S. corporate bond spreads held steady as investors started to shrug off long-running concerns about Greece's debt problems, analysts said.

- The CDX.IG-13 index widened by about 3 bps to 87 bps.
- Overall, the tone in higher-rated U.S. corporate bonds remains robust, with yield spreads over government bonds at their narrowest in more than two years at 169 bps as of Thursday.

STOCKS: The Dow industrials snapped an eight-session winning streak, as renewed worries about Greece sparked a climb in the dollar and weighed on U.S. stocks.

- Dow fell 0.35 pct to 10,741.98, S&P was down 0.51 pct to 1,159.88 and Nasdaq shed 0.71 pct to 2,374.41.
- Exxon Mobil fell 0.52 pct to \$67.04, S&P energy Index fell 0.94 pct.
- Morgan Stanley Healthcare Payor index rose 2.19 pct. Aetna Inc gained 3.67 pct to \$34.46.
- Boeing Co fell 0.21 pct to \$70.72. Palm shares shed 28.5 pct to \$4.04.
- S&P financial index fell 0.75 pct, S&P technology index shed 0.8 pct.

C & E: Oil prices fell by 1.9 pct, taking their biggest one-day dip in three weeks, as the U.S. dollar firmed against foreign currencies, slashing investment flows into oil and other commodities.

- U.S. oil prices shed 1.93 pct to \$80.61 per barrel.
- Gold fell 1.75 pct at \$1,105.7 an ounce.
- Reuters-Jefferies index down 1.11 pct to 272.63.

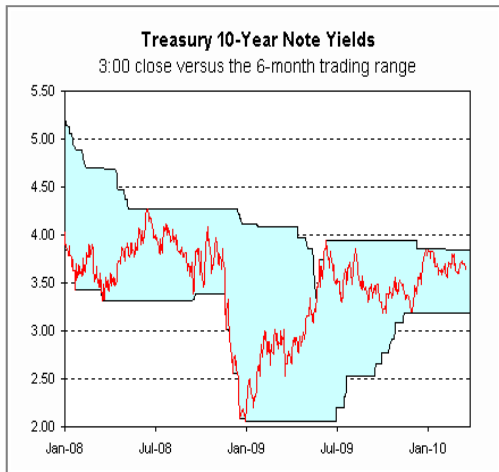
• For MARKET SNAPSHOT [click here](#)

• For NEXT UP [click here](#)

• For DEEP DIVE [click here](#)



MARKET SNAPSHOT as of 3:00 pm EST



TREASURIES <5> <500>

| | BID | ASK | YIELD | CHANGE |
|-----------|---------|---------|-------|--------|
| 1-Mo Bill | 0.145 | 0.11 | 0.147 | -0.004 |
| 3-Mo Bill | 0.150 | 0.140 | 0.152 | 0.003 |
| 6-Mo Bill | 0.240 | 0.235 | 0.244 | 0.006 |
| 1-Year | 0.415 | 0.395 | 0.422 | 0.029 |
| 2-Year | 99.750 | 99.781 | 1.006 | -0.078 |
| 3-Year | 99.461 | 99.492 | 1.561 | -0.125 |
| 5-Year | 99.641 | 99.688 | 2.453 | -0.148 |
| 7-Year | 99.094 | 99.141 | 3.146 | -0.078 |
| 10-Year | 99.469 | 99.531 | 3.689 | -0.063 |
| 30-Year | 100.734 | 100.797 | 4.579 | 0.234 |

EQUITIES

| | INDEX | CHANGE |
|---------|----------|--------|
| DJIA | 10726.34 | -52.83 |
| NASDAQ | 2371.04 | -20.24 |
| S&P 500 | 1158.73 | -7.10 |

OIL

| | PRICE | CHANGE |
|-------|-------|--------|
| NYMEX | 80.6 | -1.6 |
| BRENT | 81.5 | -0.5 |

EURODOLLAR FUTURES

| | CLOSE | CHANGE |
|--------|--------|--------|
| Apr-10 | 99.655 | -0.003 |
| Jun-10 | 99.585 | -0.020 |
| Sep-10 | 99.390 | -0.050 |
| Dec-10 | 99.105 | -0.060 |

REPURCHASE AGREEMENTS

| G/C | | MORTGAGE REPOS | |
|--------------|-------|----------------------------|-------|
| O/N | 0.240 | O/N | 0.260 |
| 2-Week | 0.260 | 2-Week | 0.240 |
| 1-Month | 0.270 | 1-Month | 0.280 |
| 3-Month | 0.270 | 3-Month | 0.280 |
| AGENCY REPOS | | i-REPO SM INDEX | |
| O/N | 0.260 | 10:00 AM | 0.170 |
| 2-Week | 0.250 | 3:00 PM | 0.183 |
| 1-Month | 0.250 | | |
| 3-Month | 0.260 | | |

IR SWAPS <19901>

| | SPREAD | | RATE | |
|---------|--------|--------|------|------|
| 2-Year | 17.75 | 21.75 | 1.17 | 1.19 |
| 3-Year | 21.50 | 25.50 | 1.77 | 1.78 |
| 5-Year | 21.00 | 25.00 | 2.66 | 2.66 |
| 7-Year | 8.00 | 12.00 | 3.22 | 3.22 |
| 10-Year | 2.25 | 6.25 | 3.71 | 3.70 |
| 30-Year | -15.50 | -11.50 | 4.42 | 4.40 |

FUTURES

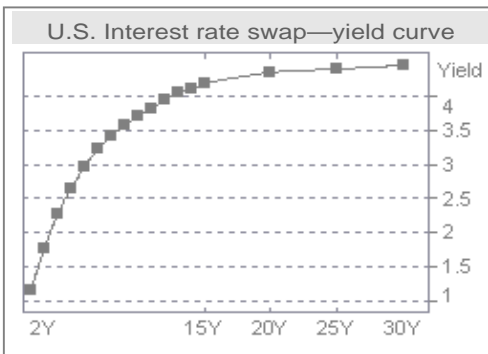
| | PRICE | CHANGE |
|------------|--------|--------|
| CBOT 5 yr | 116.28 | -0.11 |
| CBOT 10 yr | 118.45 | -0.31 |
| CBOT 30 yr | 119.19 | -0.25 |

CURRENCIES

| | BID | ASK |
|-------------|---------|---------|
| Euro | 1.3538 | 1.3540 |
| Sterling | 1.5012 | 1.5018 |
| JP Yen | 90.47 | 90.50 |
| Swiss Franc | 1.0595 | 1.0598 |
| Can Dollar | 1.0156 | 1.0160 |
| Mexico | 12.5666 | 12.5722 |

EURODOLLAR DEPOSITS & OIS STRIPS (ASKED)

| | BID | ASK | BID | ASK |
|----------|-------|-------|-------|-------|
| O/N | 0.200 | 0.250 | - | - |
| 1-Month | 0.220 | 0.280 | 0.200 | 0.210 |
| 3-Month | 0.240 | 0.400 | 0.209 | 0.219 |
| 6-Month | 0.350 | 0.450 | 0.246 | 0.256 |
| 12-Month | 0.650 | 1.000 | 0.412 | 0.422 |



FED FUNDS NYFRSM - 10AM

| | | | |
|------|--------|----|--------|
| Open | 0.1900 | 1m | 0.2300 |
| High | 0.2000 | 3m | 0.2763 |
| Low | 0.1900 | | |

ACTIVE FANNIE MAE AGENCIES

| TERM | COUPN | MATURITY | YIELD-SPREAD | | YIELD |
|---------|-------|------------|--------------|------|-------|
| 2-Year | 1 | 04/04/2012 | 14.5 | 13.5 | 1.12 |
| 3-Year | 1.625 | 15/04/2013 | 20.5 | 18.5 | 1.73 |
| 5-Year | 2.875 | 09/02/2015 | 26 | 25 | 2.7 |
| 7-Year | 5.125 | 18/10/2016 | 20 | 0 | 3.33 |
| 10-Year | - | - | - | - | - |
| 30-Year | 6.625 | 15/11/2030 | 0 | 36 | - |

ACTIVE FREDDIE MAC AGENCIES

| TERM | COUPN | MATURITY | YIELD-SPREAD | | YIELD |
|---------|-------|------------|--------------|------|-------|
| 2-Year | 1.125 | 15/12/2011 | 0 | -4 | - |
| 3-Year | 1.75 | 07/05/2013 | 24.5 | 23.5 | 1.77 |
| 5-Year | 2.625 | 20/11/2014 | 15.5 | 14.5 | 2.61 |
| 7-Year | 5.25 | 15/09/2016 | 18 | 14 | 3.31 |
| 10-Year | 3.75 | 27/03/2019 | 24 | 23 | 3.92 |
| 30-Year | 6.25 | 15/07/2032 | 36.5 | 35.5 | 4.93 |

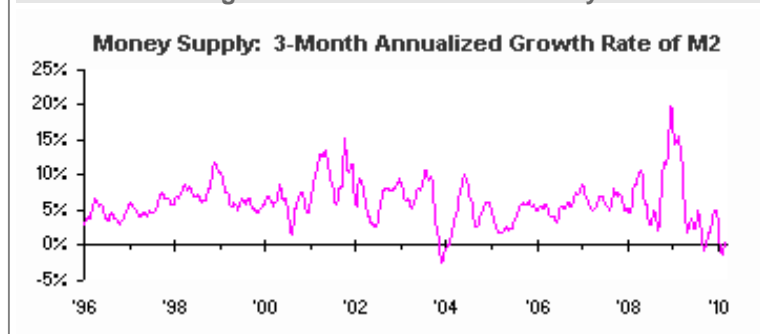
Active MBS 15YR

| | CPN | BID | ASK | YIELD |
|-------|-----|----------|----------|-------|
| FNMA | 5.0 | 105.2100 | 105.2200 | 2.980 |
| FHLMC | 5.0 | 105.2150 | 105.2210 | 2.851 |

Active MBS 30YR

| | CPN | BID | ASK | YIELD |
|-------|-----|----------|----------|-------|
| FNMA | 5.5 | 105.2200 | 105.2400 | 2.975 |
| FHLMC | 5.5 | 105.2770 | 105.2830 | 2.901 |
| GNMA | 5.5 | 106.0100 | 106.0100 | 3.192 |

Wrightson ICAPSM Chart of the Day



TODAY'S TOP NEWS

Greece has to raise 16 bln euros by end May-agency

Greece must raise some 16 billion euros in debt by the end of May, the head of Greece's PDMA debt agency said in an interview published.

Petros Christodoulou told the Frankfurter Allgemeine Zeitung daily that 23 billion euros of Greek debt fell due in the period April 19 to May 23, but that the Greek government had a positive cash balance of around 7 billion euros at present. He added that a roadshow for investors outside the euro zone -- such as the United States, the Gulf states and Asia -- would depend on the timing of a dollar bond Greece aimed to sell.

Separately, the EU's monetary affairs chief urged the bloc's leaders to agree a standby aid package for Greece next week but France and Germany struck different notes and the euro slid. German Chancellor Angela Merkel has taken the hardest line against any EU rescue arrangement.

Germany softened its resistance to Greece's mounting debt woes being dealt with outside the European family, though it made clear it was at best lukewarm towards the notion of IMF aid. While the Netherlands and Italy have said the IMF should not be ruled out, leaders of France, the Eurogroup of finance ministers and the ECB have said it would be a blow to economic and monetary union if a member were to go elsewhere for a bailout. Meanwhile, Greek Prime Minister George Papandreou warned his country was one step from being unable to borrow and appealed to labor unionists to support his efforts to escape a debt crisis shaking the euro zone.

China tries to cool yuan dispute with U.S.

China said it was sending an envoy to Washington to try to ease trade frictions as its currency regime comes under fire, warning that threats from U.S. legislators could stifle room for progress.

The announcement appeared aimed at cooling an increasingly rancorous dispute which has U.S. senators threatening to slap duties on Chinese products if Beijing does not allow the yuan to rise. But China gave no indication it was ready to abandon its commitment to a stable yuan exchange rate, and market expectations of appreciation remained muted.

Many in Congress are demanding tough action if China resists appreciation, the U.S. Treasury will next month issue a key currency report and contention over policy towards China could be magnified by mid-term Congressional elections in November.

A semi-annual U.S. Treasury report due on April 15 could label China a "currency manipulator", threatening a deepening rift between the world's biggest and third-biggest economies.

European Union mulls emergency bank wind-up fund

The European Union is considering making banks pay for an emergency wind-up fund in case one of them goes bust, in an effort to prevent another spiral like the one that followed the Lehman Brothers collapse.

Coping with banks on the verge of failure is central to the political agenda in Brussels and the bloc's financial markets chief Michel Barnier unveiled his ambitious plan, one that could face opposition from Britain. Speaking at the same event, the head of the IMF, a lender of last resort for governments, proposed a similar scheme to help flagging institutions.

European governments are now looking for a way of preventing a repeat. But who should pay to salvage a failing cross-border bank has provoked argument. The Commission will present a draft law in spring 2011 to harmonise tools national supervisors use to handle failing banks in a region where about 35 cross-border firms make up 70 percent of all deposits.

U.S. House Democrats see momentum on health bill

Democratic leaders in the U.S. House of Representatives pushed undecided members for support and voiced growing confidence they will win a close vote on final passage of a sweeping healthcare overhaul.

The House will vote on Sunday afternoon on President Barack Obama's top domestic priority, which has picked up momentum in recent days with backing from former opponents and a good report card from congressional budget analysts.

Top House Democrats pushed hard to nail down the last of the 216 votes needed to approve the overhaul, which would constitute the biggest changes in the \$2.5 trillion U.S. healthcare system in the past four decades.

The non-partisan Congressional Budget Office estimated the bill would reduce the deficit by \$138 billion over 10 years and expand insurance coverage to 32 million uninsured Americans.

"That was just great news for us," Clyburn said, adding he began to seek hard commitments from lawmakers on Thursday night and was trying to "get everybody to a comfortable place." "There are five or six people who have concerns over here, six or 12 who have concerns over there -- there is no one thing," Clyburn said.

ECB's Trichet says CDS should be better regulated

CDS markets need to be better regulated, and introducing a central clearing system for them is a top priority, ECB President Jean-Claude Trichet said.

Trichet said CDS should not be misused by speculators, but he did not call for a ban on using CDS to bet that a borrower's creditworthiness will deteriorate.

Some politicians have blamed the practice -- which involves buying of CDS by speculators who do not own the bond being insured -- for amplifying Greece's debt woes.

A CDS offers insurance against a default on corporate or government debt and contracts are mostly privately negotiated, or 'over-the-counter'.

Separately, ECB member Mario Draghi wants greater economic cooperation in the euro zone and stronger budget rules, but rejects the idea of a EMF. Draghi said the EU's Stability and Growth Pact needed to be strengthened to prevent future fiscal crises like the one playing out in Greece.

British PM urges G20 to drive growth agenda

British Prime Minister Gordon Brown said the G20 must mature into an organisation that can promote global economic growth and warned there could be another financial crisis if its reforms stalled.

The G20 group of emerging and developed nations emerged as the main forum to coordinate a response to the financial crisis in late 2008.

Brown chaired the G20 last year and hosted a summit 12 months ago at which a \$1.1 trillion package was agreed to help pull the global economy out of its deepest slump in generations.

He contrasted his plans to maintain fiscal stimulus until recovery was assured with those of the opposition Conservatives who want a quicker start on cutting a record budget deficit.

Asked by foreign journalists about the Greek debt crisis, Brown said the underlying problem for Europe was weak growth and high unemployment.

Brown refused to single out Germany when asked if Europe's largest economy should be doing more to boost domestic demand, saying it was in everyone's interest for Europe to grow more rapidly.



TODAY'S TOP NEWS

BoE's Sentance sees some risk of double-dip

Bank of England policymaker Andrew Sentance said he saw encouraging signs of a pick up in the UK and the world economy, but warned that there was still a risk that a financial shock could derail the recovery.

In an interview with CNBC broadcast, which largely reiterated a speech he gave on Thursday, Sentance said he expected inflation in Britain to fall back to the central bank's 2 percent target, or below, helped by muted wage growth.

Few economists expect the central bank to begin raising interest rates before late this year, though much depends on how aggressively the new government to be elected in May or June this year decides to tackle a record budget deficit.

Sentance noted that a "substantial fiscal tightening" would be needed as the recovery gathered pace. In his speech on Thursday, he had said that monetary policy would be able to offset some of the pain of government spending cuts.

He expects inflation, which hit a 14-month high of 3.5 percent in January, to eventually fall back to target, although there were some puzzles why it had not responded more to the recession.

Canada inflation surges unexpectedly in February

Canada's annual inflation rate surged unexpectedly in February on higher food and shelter costs, but the Bank of Canada is expected to ignore the price pressures as it ponders whether to cut interest rates to fresh historic lows.

Statistics Canada said annual inflation jumped to 1.4 percent from 1.1 percent in January despite declines in gasoline and vehicles prices compared with a year earlier.

The CPI jumped 0.7 percent from January, more than double the 0.3 percent rise analysts had forecast.

Core inflation held steady at 1.9 percent year-on-year. Core CPI spiked 0.5 percent on the month versus a forecast of a 0.2 percent increase, Statscan said.

The central bank said this month it now expects core inflation to stay lower than it had predicted in January, when it saw the rate reaching a low of 1.1 percent in the fourth quarter before rising again.

Japan bank min wants more spending, pressure may build

Japan's outspoken banking minister Shizuka Kamei called again for fresh stimulus to boost the economy, but analysts said big spending was unlikely given an already massive public debt.

Underscoring government caution, Finance Minister Naoto Kan told a parliamentary panel shortly after Kamei's remarks that maintaining fiscal discipline was important to keep the confidence of international financial markets.

The government has just upgraded its economic assessment for the first time in eight months and is keen to contain any further rise in bond issues as the national debt is already roughly twice the size of the country's GDP.

But markets have tended to shrug off Kamei's comments as few investors think his ideas will be taken up as is by a government worried about being seen as lacking fiscal discipline.

A Reuters survey of retail investors released showed concerns about politics were weighing on sentiment toward Japanese stocks, although share price gains and a weaker yen have made them a bit less gloomy.

Argentina nears debt swap launch after SEC filing

Argentina moved a step closer to a planned swap of defaulted debt and a potential sale of up to \$15 billion in new bonds after it made an amended filing with U.S. authorities for a debt offering.

The swap is aimed at cleaning up fallout from the country's massive 2001/02 default and paving a return to international bond markets to raise money to meet mounting debt obligations. Finance Undersecretary Adrian Cosentino told Reuters Thursday's filing meant the government had completed the U.S. SEC inquiry process and was awaiting final approval to launch the swap. The spread on benchmark Argentine bonds narrowed 46 basis points to 659 basis points over comparable U.S. Treasuries on the news, reflecting a market perception that the risks of investing in Argentina have lessened.

Locally-traded Argentine bonds rose on average 1.8 percent as the filing raised investor expectations the country will go ahead with the exchange.

NEXT UP

Debt supply not expected to upset ranges

U.S. Treasury debt trade next week is likely to be dictated by investor appetite for another massive dollop of government debt issuance, although yields are unlikely to break out of recent ranges, analysts said.

The Treasury Department will sell \$44 billion in two-year notes, \$42 billion in five-year debt, and \$32 billion in seven-year notes next week as the government continues to finance its huge deficit. Each week of new issuance has brought some trepidation over whether investors will again be willing to fill up their plates with more government debt, although with time the anxiety seems to have dimmed a bit.

Traders often try to carve away at Treasuries prices in the lead up to such auctions. At the time of the auctions, if demand is seen as substantive, then Treasuries prices can rally in the aftermath of the sale.

Either way, prices and yield levels are not expected to break out of recent ranges. The benchmark 10-year Treasury note this year has traded with its yield fluctuating between about 3.55 percent and about 3.90 percent. On Friday, the yield was 3.67 percent.

Most Americans see healthcare benefiting the needy

Most Americans believe the healthcare reform plan in Congress would help the poor and the uninsured, but say it would be less likely to benefit other groups including themselves, according to a poll released today.

The March 17 Gallup survey of 1,009 U.S. adults also found large minorities of Americans who worry the legislation could make things worse for middle-income families and the United States as a whole. Fifty-nine percent said the plan would help uninsured Americans, while 56 percent would expect a benefit for the poor. But only 28 percent said they believe the Obama plan would help their own families, while 37 percent said it could make things worse for themselves. Twenty-nine percent said it would make no difference.

Forty-four percent said the plan could make things worse for the United States and middle-income families. At the same time, 39 percent saw a benefit for the country while one-third predicted legislation would help the middle class.

Only substantial minorities of Democrats believe healthcare reform would help middle-income families (37 percent) and themselves (33 percent).



DEEP DIVE Commentary and Analysis

Wall Street's latest rally has many flaws

By Ellis Mnyandu

With U.S. stocks pressing up against 17-month highs, the inevitable question arises: "Does this rally have legs?"

From one perspective, things couldn't look rosier for the bulls. The S&P 500 touched another 17-month high on Wednesday, breaking through levels analysts identified as significant resistance. More stocks in the S&P are hitting fresh 52-week highs than at any time during the course of the rally.

But the steady rise in the last six weeks has been accompanied by middling volume and underperformance in key areas, such as semiconductor companies. Market technicians and strategists believe the current run is overbought, suggesting at least a near-term pullback.

"What we are seeing represents a very defensive stance among investors," said Mike O'Rourke, chief market strategist at BTIG, an institutional brokerage firm in New York. "You are seeing investor disinterest in equities and that's why volume is languishing here."

This week's consolidated volume has been telling. With major averages hitting recovery highs, Monday marked the third slowest volume day of 2010 when about 7.24 billion shares traded on the combined New York, American and Nasdaq stock markets, below last year's estimated daily average of 9.65 billion.

The tepid volume suggests a lack of broader conviction, and is a sign momentum is mostly behind the latest run-up rather than any broad-based accumulation of stocks.

Momentum investing relies on chasing short-term price action on hard-charging stocks and shunning those that appear to be out of favor.

John Kosar, market technician and president of Asbury Research in Chicago, said there was a growing risk the run-up that resumed in February was a "countertrend" rally within a larger decline that began in January.

"Volume measures investor urgency and this recent lack of urgency to buy is characteristic of either peaking markets or countertrend rallies," he said.

OVERBOUGHT?

Investors were abuzz this week as the benchmark S&P 500 took out resistance at the 1,150 level. Investors see that as clearing a path to a run to 1,200. But other important technical metrics are not garnering the attention of the overall average.

According to Reuters chart data, the S&P 500's 14-day relative strength index (RSI), which measures the magnitude of the gains to determine overbought or oversold conditions, is hitting levels not seen since September 1995 -- approaching 91, a threshold that technically signifies an overbought market.

An RSI ranges from zero to 100. When it approaches 70 that traditionally signals an overbought condition in an asset or an index, and the risk of a pullback increases.

Additionally, Bespoke Investment Group, an investment research firm in Harrison, N.Y., pointed out that 89 percent of S&P 500 stocks are trading above their 50-day moving averages, a level that usually augers for a pullback in the short-term.

SEMI-TOUGH

The semiconductor index has failed to confirm coincident 19-month closing highs in the Nasdaq Composite index, a bearish development considering technology's tendency to lead the market's advances and declines.

The S&P 500 is up 10.3 percent since its recent closing low of Feb. 8, while the small-cap benchmark Russell 2000 has rallied more than 16 percent over the same period. Year-to-date the S&P 500 is up about 5 percent, whereas the Russell 2000 is up

9 percent.

To be sure, the run-up in small-cap stocks shows how risk appetite has risen due to optimism about the U.S. recovery. Small-cap companies are viewed as more nimble and among the first to benefit from an apparent recovery.

But the divergence between strength in the Russell 2000 and the semiconductor index should be taken as a cautionary tale. Divergences occur when key indexes move in the opposite direction of the market's primary trend and tend to catch investors off guard.

Analysts say another ominous development is the sharp decline in overall volatility, suggesting complacency is setting in. The CBOE Volatility index, Wall Street's favorite gauge of investor sentiment, is trading at 22-month lows below the 17 level.

According to Kosar, declines to 18 or lower in the VIX have either coincided with or led every important near-term peak in the S&P 500 since October 2007. He said the market's gains may be limited without a near-term decline to work off extremes in investor complacency. VIX futures suggest a rise in volatility later this year.

"Although the February rally in U.S. equity prices may continue from here on a week-to-week basis, a sustainable advance is unlikely from here without at least one to several months of a corrective decline first," said Kosar.

Canadian dollar's strength may boost foreign M&As

By Andrea Hopkins

When the Canadian dollar climbs steeply against its U.S. counterpart, consumers often head south for a shopping spree.

But parity between the two currencies may prompt a more significant buying binge -- acquisition of U.S. assets by Canadian companies looking to grow.

"A stronger Canadian dollar relative to the U.S. dollar will make cross-border acquisitions more attractive, as will a greater availability of debt and equity financing," said Tina Kremmidas, chief economist with the Canadian Chamber of Commerce.

Canada's currency has risen about 7 percent since early February, peaking on Friday at 99.38 U.S. cents, its highest since July, 2008. Many analysts expect it to return to parity with the U.S. dollar, and stay strong through 2010 or longer.

That means a Canadian dollar goes further in the United States, whether for a consumer buying cheap electronics or a company eyeing a U.S. rival or its bargain-basement assets.

"People want to take advantage of an economy which has still not rebounded in the U.S. and are positioning themselves for when the U.S. is back on track," said Alain Auclair, the chief investment banker for UBS's Canadian arm.

"Obviously, the strength of the dollar gives them an advantage in their ability to acquire companies down there."

Canada has other advantages too.

Canada's economic recovery has outpaced the U.S. one and corporate balance sheets are stronger. Debt and equity markets have been willing to finance deals, and may be even more enthusiastic about a U.S. purchase that could be financed in both U.S. and Canadian dollars.

"Canadian companies are better positioned than many of their international peers to purchase foreign assets. They weathered the financial crisis better than most, and emerged from the recession with stronger balance sheets -- relatively high levels of cash and low levels of debt," Kremmidas said.

NOT SO FAST

Auclair said several sectors could be buyers, including industrials, financial services and mining companies. But there are still risks in the United States.



DEEP DIVE Commentary and Analysis

"On the bank front, obviously Canadian banks are somewhat reluctant to take additional risks in the U.S., so they would have to be calculated risks if they were to expand further in the U.S.," Auclair said.

"But there is no doubt, with the U.S. being a significant market, if you buy a strategic asset which has a great fit with your business and you can achieve synergies, you're going to be winning at the end of the day. But you might have to be ready to take some volatility along the way."

One big risk is the U.S. economy itself, said Ed Giacomelli, managing director of investment bank Crosbie & Co, not to mention the fact that if the U.S. currency keeps falling, earnings a company reports after an acquisition will be worth even less once converted to Canadian dollars.

"We find when people are buying businesses, they're not focused on foreign exchange with a trader's mentality," Giacomelli said. "It comes down to: 'How buoyant is the economy that I'm buying into?'"

He said Crosbie & Co, which tracks mergers and acquisition

activity in a quarterly survey, has not found much correlation between the value of the currency and the willingness of Canadian companies to do U.S. deals.

Auclair says Canadian companies will see some opportunities as the Canadian dollar climbs above its U.S. counterpart, but he sees barriers too. Agreeing a price is fraught in an economy where no one is sure if the biggest risks are still ahead.

"I think the buyers and sellers have not met on some of the potential M&A transactions which could get done, because the Canadians are looking at potential risks, and the owners are not quite ready to accept those kind of pricings and risk," Auclair said.

The soaring Canadian dollar does help Canadian companies in another way, allowing them to import at lower costs.

"Lots of the machinery and materials required might come from the U.S. and Europe, especially when you are talking sophisticated machinery. So our pricing power there is helping quite a bit as well," said Auclair. "For Canadian companies able to reinvest in their business, now is a great time."

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