Bloomberg BRIEF

Economics

NEWS, ANALYSIS & COMMENTARY

MONDAY
01.30.12
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MOST READ ON BLOOMBERG

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- Sarkozy Says France to Impose Transaction Tax
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- China Preserves Ammunition With RRR on Hold
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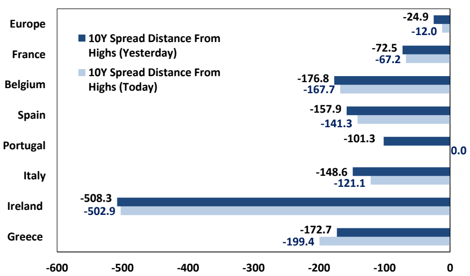
DATA REPORTS *(NEW YORK TIME)*

TIME	EVENT	SURVEY	PRIOR
8:30	US Personal Income	0.40%	0.10%
8:30	US Personal Spending	0.10%	0.10%
8:30	US PCE Deflator (YoY)	-	2.50%
8:30	US PCE Core (MoM)	0.10%	0.10%
8:30	US PCE Core (YoY)	1.70%	1.70%
10:30	US Dallas Fed Manf. Activity	-	-3

ECONOMIC-EVENTS CALENDAR

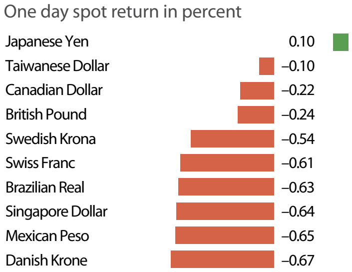
TIME		
9:30	EC	ECB Calls for Bids in 7-Day Refinancing
9:30	EC	ECB Announces Bond Purchases
11:00	US	Fed to Purchase $4.25-5bln Notes
22:45	JN	Japan to Sell 2-Year Notes
TBA	CO	Overnight Lending Rate
TBA	US	Treasury Releases Borrowing Estimates

10Y SPREADS: DISTANCE FROM HIGHS



TOP CURRENCY PERFORMERS

One day spot return in percent



EU Summit, Personal Spending, Spain, Auctions

FIRST WORD DAYBOOK: Heather Burke and Brad Skillman

■ **WHAT TO WATCH: European Union leaders will meet in Brussels at 9 a.m.** for a summit on deficit reduction, the region's bailout funds and a second rescue package for Greece; final press conferences, 1 p.m. **U.S. personal spending probably rose 0.1 percent** for a third consecutive month, according to estimates ahead of a report, 8:30 a.m. **Portuguese credit-default swaps rose** to a record 39.5 percent upfront, signaling a 71 percent chance of default in five years, said CMA. **Spain's economy shrank** 0.3 percent in the fourth quarter. **The country's worsening situation is "credit negative"** and will complicate efforts to reduce the budget, said Moody's.

■ **ECONOMICS: France** plans to sell up to 8.3 billion euros ($10.9 billion) of debt maturing in less than a year, 9 a.m. **Dallas Fed manufacturing activity**, est. 0.5, 10:30 a.m. **South Korean industrial production**, 6 p.m. **Japanese manufacturing PMI**, 6:15 p.m. **Italy sold 7.5 billion euros ($9.8 billion) of debt**, near its maximum; borrowing costs on 2022 bonds fell to 6.08 percent from 6.98 percent on Dec. 29.

■ **GOVERNMENT: Republican presidential candidates enter the last full day of campaigning** before tomorrow's Florida primary. **France will unilaterally impose a tax on financial transactions** starting in August, said President Nicolas Sarkozy.

■ **MARKETS: Asian and European stocks** declined. **The euro** weakened. **Crude oil** fell. **U.S. Treasuries** rose, pushing five-year yields to a record low.

BIG PICTURE: GUEST COMMENTARY BY JEFFREY GREENBERG AND AICHI AMEMIYA, NOMURA

Recent Decline in Unemployment May Reverse Come Spring

The unemployment rate fell to 8.5 percent in December, declining for a fourth straight month and recording its lowest level since February 2009. While unemployment remains "stubbornly high," as Cleveland Fed President Sandra Pianalto phrased it, the recent improvement in labor market statistics has not gone unnoticed. In January's preliminary release of the Thomson Reuters/University of Michigan Survey of Consumers, more consumers reported hearing of employment gains than at any other time since the survey began in 1946. We do not discount the improvement in the labor market, but we find reasons to be wary of recent movements in the unemployment rate.

Could recent history repeat itself? Between November 2010 and March 2011, the unemployment rate (as reported) fell a full percentage point to 8.8 percent, only to reverse to 9.2 percent by June 2011. We believe current unemployment data is likely to succumb to the same pattern.

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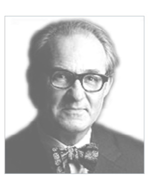


KEENE'S CORNER

Gerard Lyons on the 'fragile West', 'resilient East' and China's soft landing.

Back Page

BIG PICTURE JEFFREY GREENBERG AND AICHI AMEMIYA
continued from page 1

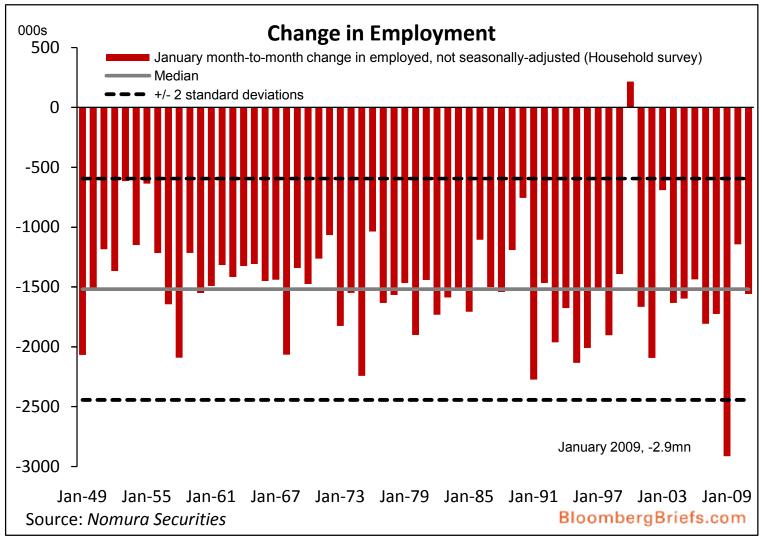
Why? A sharp decline in labor market indicators, caused by the financial crisis in late 2008-early 2009, has led to imperfect seasonal adjustments. To detect the distortion, we reconstructed the seasonally-adjusted unemployment rate from unadjusted data for the main constituents the Bureau of Labor Statistics (BLS) uses in its unemployment rate calculation, but excluded the critical months of the financial crisis for the purposes of seasonal adjustment.

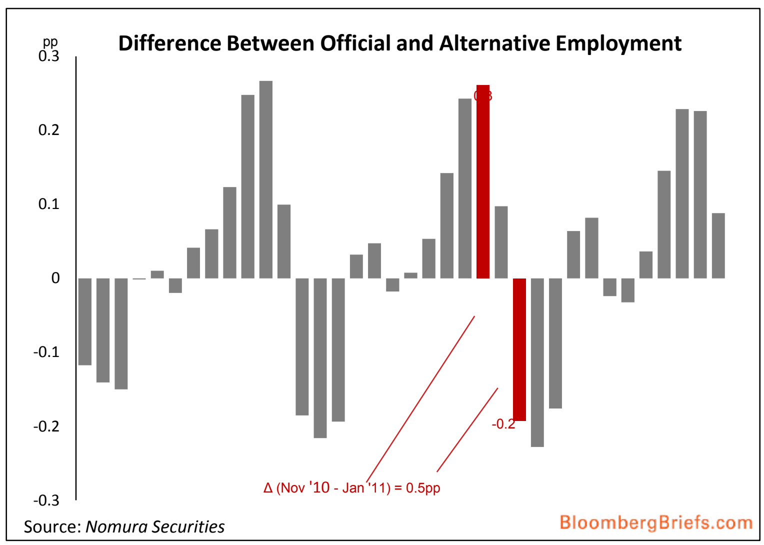
We consider the difference between the official data series and our alternative to represent the "seasonal bias" in the unemployment rate. While the two series have the same trend, the impact on month-to-month changes in unemployment can be material. For instance, the difference between the upward bias (where the reported unemployment rate is higher than underlying) in November 2010 and the downward bias in January 2011 accounted for 0.5 percent of the 0.7 percentage point unemployment rate decline over that period.

Likewise, we've found that nearly the entire decline in the December 2011 unemployment rate to 8.5 percent from 8.7 percent can be explained by seasonal bias. Furthermore, we forecast the unemployment rate will decline further to 8.3 percent in January, again helped by a downward seasonal bias. Come April, the seasonal bias should reverse and the unemployment rate may as well.

Special factors driving the unemployment rate decline give little reason for celebration. Because the unemployment rate falls when unemployed persons stop looking for work (and are no longer in the labor force), we calculate the unemployment rate including these labor force "exiters." After first adjusting for demographic trends in labor force participation, we find this broader measure of the unemployment rate to be 10.3 percent in December, as opposed to the reported 8.5 percent. It has been greater than 10 percent since September 2009.

FOMC participants still see considerable slack in the labor market even as the official unemployment rate has recently trended downward. Chicago Fed President Charles Evans commented that the decline "may be transitory" and that an 8.5 percent unemployment rate is "possible at the end of 2012." Chairman Bernanke expressed his ongoing concern about employment conditions in his first press conference of 2012 by saying, "If the situation continues with inflation below target and unemployment declining at a rate which is very, very slow, then our framework, the logic of our framework says we should be looking for ways to do more."

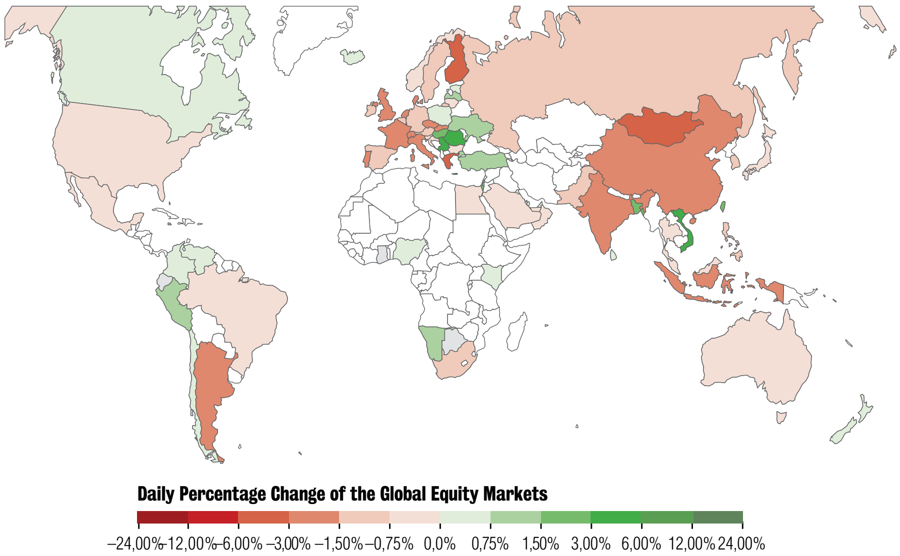




The recent decline in the unemployment rate does not change the fear that cyclical unemployment could become structural. To be sure, the share of long-term unemployed (more than 27 weeks) has risen from 17.4 percent of total unemployed at the start of the recession to 42.5 percent four years later. While no FOMC participants estimated that the longer run (natural) unemployment rate exceeded 6 percent just three years ago, now nearly a third of participants do. The FOMC's latest economic projections reveal participants forecast the unemployment rate to be 6.7-to-7.6 percent in the fourth quarter of 2014. We believe the concern that unemployment could become more entrenched if unaddressed will motivate more action, and expect the FOMC to continue its Sisyphean task of reaching full employment by announcing further expansion of the balance sheet in the second quarter of this year.

OVERNIGHT BY BLOOMBERG NEWS

Global Equity Performance



EUROPE

■ **Euro-area confidence** in the economic outlook improved to an index reading of 93.4 in January from a revised 92.8 in December. The median estimate was 93.8.

■ **Spain's economy** shrank 0.3 percent in the fourth quarter from the previous three months. GDP grew 0.3 percent from the prior year, compared with 0.8 percent annual growth the previous quarter.

■ **Polish consumer confidence** fell to an index reading of minus 57.1 in January from minus 56.8 in December.

■ **Italian business confidence** fell to an index reading of 92.1 in January, the lowest since November 2009, from 92.5 in December. Economists predicted 92.3.

■ **Lithuania's economy** expanded 4.3 percent in the fourth quarter from the prior year, after growing 6.7 percent the previous three months. The median estimate was an increase of 6 percent.

ASIA

■ **Taiwan's unemployment rate** declined to 4.22 percent in December from 4.32 percent in November. The median estimate was 4.33 percent.

■ **The Philippine economy** expanded 3.7 percent in the fourth quarter from a year earlier. That compares with a revised 3.6 percent increase in GDP the previous three months. Economists forecast a 3.8 percent gain.

■ **South Korea's current-account surplus** narrowed to $3.96 billion in December, a three-month low, from a revised $4.56 billion in November.

■ **Thailand's economy** contracted 5 percent in the fourth quarter of 2011, the finance ministry said. It grew 1.1 percent for the full year.

POLITICAL WATCH BY BLOOMBERG NEWS

Gingrich Invokes Goldman

Newt Gingrich, accusing Republican presidential primary opponent **Mitt Romney** of being a "fundamentally dishonest" tool of Wall Street, pledged to stop banking firms such as Goldman Sachs Group from "rigging the game." Pressing his campaign into the last full day before Florida's primary tomorrow, Gingrich spoke of running a White House that would "challenge the system head-on" and disrupt the "Wall Street elite." "To the degree they survive by rigging the game," he said, "they have a lot more to fear. To the degree that they're willing to be in a very investment-oriented, high-tempo, entrepreneurial world, they have more to gain."

States Lag on Insurance

States with the most residents who would benefit from expansion of medical coverage have been the slowest to set up the insurance exchanges required under the health-care overhaul, a study found. Fifteen states have made little progress on creating the markets in the almost two years since the law was signed, according to the study by the Robert Wood Johnson Foundation and the Urban Institute. Those same states could reduce the number of uninsured residents by an average of 53 percent, compared with 42 percent for states that have already taken legislative steps to create exchanges and a national average of 48 percent, the study found.

New Zealand's Bollard to Quit

New Zealand central bank Governor **Alan Bollard** will quit in September, ending a decade-long tenure in which he raised interest rates to a record high before cutting them last year to their lowest ever. Bollard won't seek another five years when his current term ends Sept. 25, the Reserve Bank of New Zealand said. The central bank said it will search in New Zealand and abroad for a successor. The move leaves New Zealand searching for a new central bank chief during a period of slowing global growth and a sluggish domestic economy that's motivating young people to leave in search of higher-paying jobs in Australia and elsewhere.

MARKET CALLS

BY BLOOMBERG NEWS

Standard Chartered Plc's **Jaspal Bindra**, chief executive officer for Asia, said the Fed's pledge to keep interest rates low through at least late 2014 creates a risk of hyperinflation in Hong Kong. "If you have near-zero interest rates when their inflation is at over 6 or 7 percent given the China effect, and their growth is, also thanks to China, at 6 or 7 percent, you're looking for hyperinflation," he said.

Richard Koo, chief economist at Nomura Research Institute, said Japan should limit intervention to weaken the yen because a strong currency keeps the cost of fuel imports low as the nation's nuclear capacity dwindles. "Right now, I'm not pushing loudly for intervention," said Koo.

Viktor Shvets, a Hong Kong-based strategist at Samsung Securities Co., said U.S. economic growth "will be stuck between 1.5 percent and 2.5 percent for years to come," with occasional quarters of zero or near-zero growth.

Ronald Stoeferle, a commodity analyst at Erste Group Bank AG, said gold prices may rise 33 percent further to a record $2,300 an ounce early next year, according to technical analysis. "We are seeing a momentum in gold," Stoeferle said.

Morgan Stanley economist **Pasquale Diana** said Hungary's benchmark interest rate may have peaked at 7 percent after the central bank unexpectedly left the two-week deposit rate unchanged last week. A "modest rally" or a "stabilization of risk metrics" may be sufficient to begin rate cuts, Diana said.

Goldman Sachs economist **Ahmet Akarli** said a reduction of Turkey's current account deficit may have reversed, leaving it the most vulnerable economy in the region. Financial conditions in the country are too loose, he said.

FACE OFF

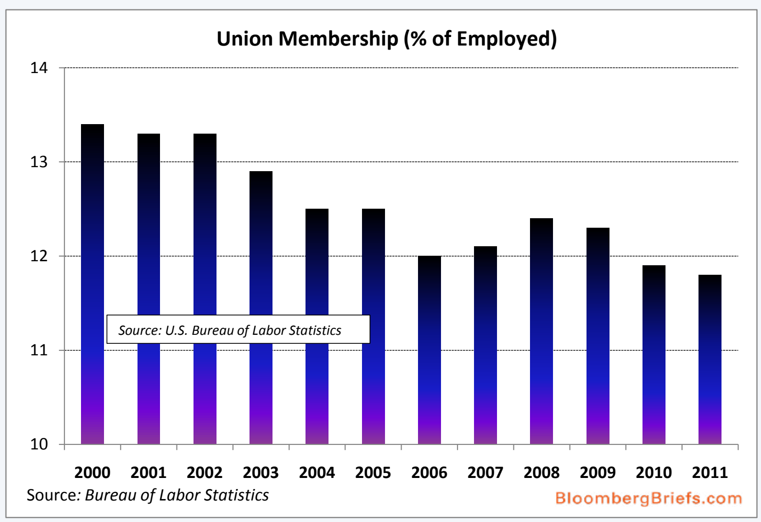
Hiroki Shimazu of SMBC Nikko Securities forecasts a 0.4% increase in personal spending, up from 0.1 percent previously.

Ellen Zentner/David Resler of Nomura Securities predict no change in personal spending. The median Bloomberg survey forecast is 0.1 percent.

Far From its Peak, Union Membership Increased Only Slightly in 2011

According to the Bureau of Labor Statistics, the number of union members increased negligably in 2011 to 14.764 million, from 14.715 million in 2010. As a percentage of total employment in the U.S., union membership in 2011 slipped to 11.8 percent from11.9 percent the prior year. The BLS doesn't have a complete set of union membership data; comparable union enrollment figures date only back to 1983 when there were 17.7 million union workers and the membership rate was 20.1 percent.

We do know that in 1950 roughly one out of every three workers was employed in the manufacturing sector, with the same percentage carrying a union card. Today, with nearly 83 percent of private industry workers employed in the services sector, the percentage and number of union workers have both declined. Manufacturers comprise only 10.3 percent of all private workers, while 5.0 percent are employed in the construction sector. Employment in the manufacturing sector today (11.79 million) is at the same level as it was in 1941.



Membership in the United Auto Workers union peaked in 1979 at 1.5 million workers while, according to its website, the UAW today has only 390,000 members. There were roughly 600,000 retirees on pension and medical care plans being supported by that level of membership.

In addition to the Housing and Auto sectors, government workers have also been furloughed at an elevated pace. Current union membership is dominated by government workers. As a percent of total union workers, 1.004 million (28.1 percent) were federal, 1.973 million (31.5 percent) state, and 4.947 million (31.7 percent) local.

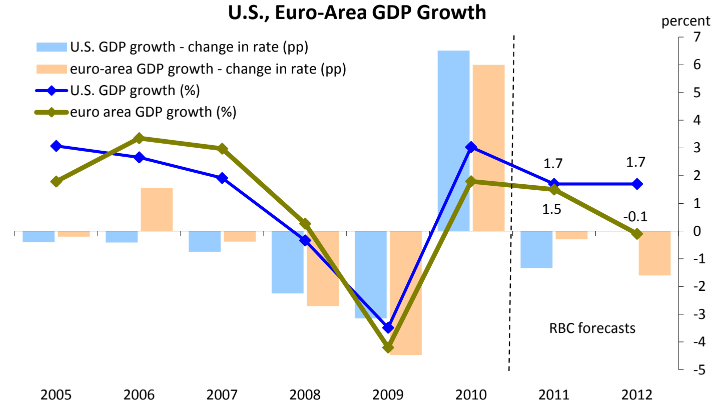
— Richard Yamarone, Bloomberg economist

ASIA WATCH

BRIAN JACKSON, RBC CAPITAL MARKETS, GUEST COLUMNIST

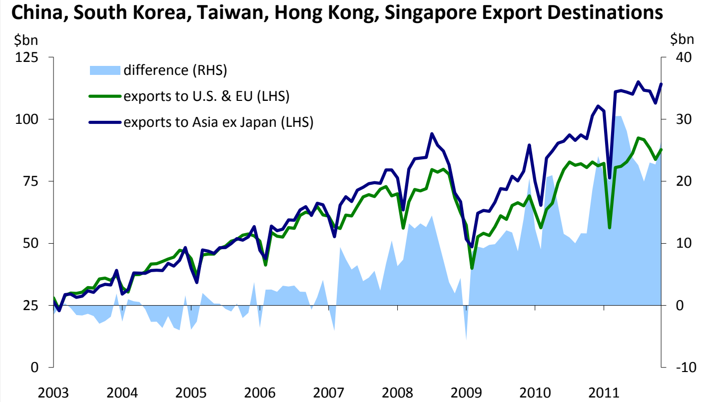
Rise in Intra-Regional Exports to Help Support Asia as U.S., EU Demand Slows

U.S., Euro-Area GDP Growth



Sources: *RBC, Bloomberg* BloombergBriefs.com

China, South Korea, Taiwan, Hong Kong, Singapore Export Destinations



Source: *CEIC, RBC* BloombergBriefs.com

Growth prospects for China and other emerging-market Asian countries in 2012 will depend on how their exports perform. Exports fell very sharply in late 2008 and early 2009, and the recent deterioration in the global outlook raises concerns about another slump in external demand.

Asian export performance remains heavily dependent on growth in the U.S. and the euro-area. In addition to direct trade with these economies, much of Asia's intra-regional trade consists of intermediate goods for which the final demand is from the U.S. and the euro-area.

Looking ahead, further deterioration in the region's export performance seems likely in coming months, mainly reflecting the weaker euro area outlook. Recent exchange rate moves provide an additional reason to suspect that euro-area demand will remain weak. Over the last six months, emerging-market Asian currencies have appreciated significantly against the euro, most recording gains of 4 percent to 10 percent over this period, with the Chinese yuan up around 12 percent. Emerging-market Asian exporters, however, have gained competitiveness with U.S. customers over this period, with most regional currencies around 3 percent to 7 percent weaker against the dollar.

Given that U.S. and euro-area growth is unlikely to weaken in 2012 as sharply as they did a few years ago, Asian exports should perform better than they did a few years ago.

Exports remain near record levels in China and other parts of Asia, suggesting that even modest growth rates in external demand will provide significant support to domestic activity across the region.

In addition, major Asian economies are now exporting significantly more to their own region than they are, in aggregate terms, to the U.S. and the European Union, with this amount averaging around $24 billion per month in 2011. This strongly suggests that much of the recent increase in intra-regional trade in Asia reflects stronger final demand from within the region rather than from the U.S. and the EU.

In other words, Asia is still vulnerable to weaker growth in the U.S. and Europe, but this vulnerability is less pronounced than previously. In the case of China, Asian economies excluding Japan is by far the most important market for Chinese exporters. Indeed, China exports more to the rest of Asia excluding Japan than it does to the U.S. and the EU combined. Chinese exports to Asia excluding Japan have soared since early 2009 and remain near record levels in recent months.

This pattern is even more pronounced for South Korea, Taiwan, Hong Kong and Singapore. The exports they send to each other, China and the rest of Asia excluding Japan far exceed those sent to other markets, indicative of growing final demand in the region as per capita incomes rise.

The fact that the performance of Asian exports increasingly depends on final demand from within Asia itself highlights the importance of policy moves to support domestic demand. Fiscal policy is already supportive in much of Asia. Officials have in recent months halted and, in some cases, started to reverse tighter monetary policy settings put in place over 2010 and 2011, a trend that should support liquidity and activity in coming months. This, combined with optimism that external demand from the U.S. may stabilize or show signs of recovery, suggests that exports and headline GDP growth in Asia will likely continue to moderate early in 2012 before picking up again later in the year.

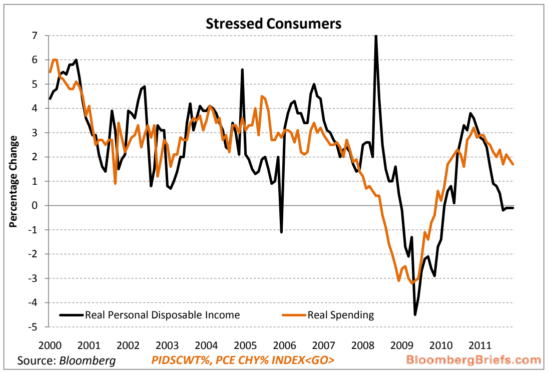
(Brian Jackson is the senior emerging markets strategist at RBC Capital Markets in Hong Kong. He previously worked as an economist at the Bank of England and an analyst at the Federal Reserve Bank of New York.)

ECONOMICS PREVIEW

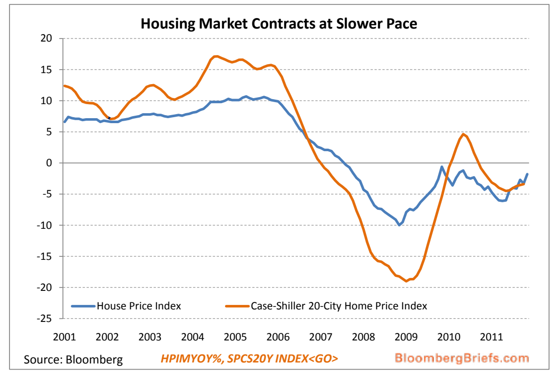
JOSEPH BRUSUELAS, BLOOMBERG ECONOMIST

Labor Market, Manufacturing Data Provide First Look at 2012 Economy

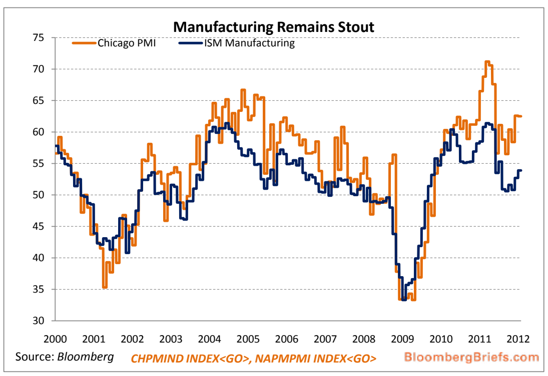
Investors will intensely focus on an array of labor market and manufacturing data for the first month of 2012 following the weaker-than-anticipated 2.8 percent pace of growth to close out 2011. Given that inventory building by firms accounted for roughly 62 percent of growth in the fourth quarter, there is considerable risk to the consensus 2 percent forecast of growth in the current quarter. There is a strong possibility after three months of improving economic numbers that the data flow will look quite pessimistic through mid-2012.



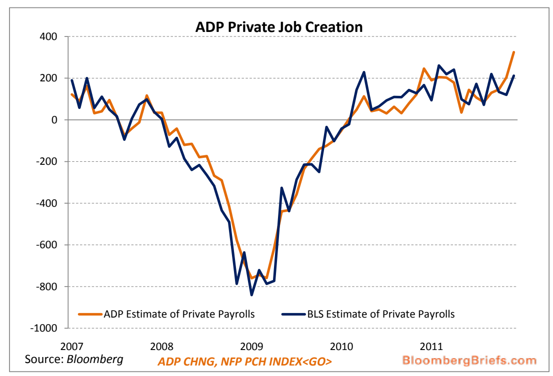
December retail sales data fell flat after a strong start to the holiday shopping season. The December employment report indicated an increase in aggregate hours worked and average hourly earnings that should bolster nominal incomes.



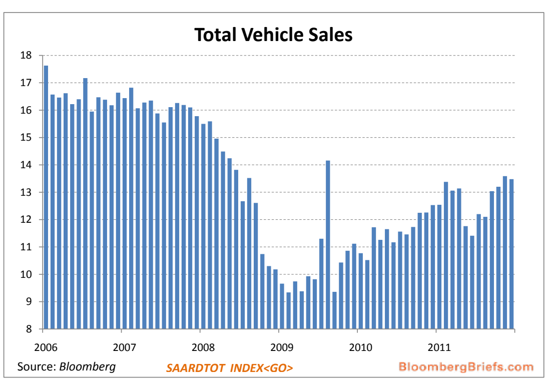
The Case-Shiller home price index is likely to show the decline in home prices accelerated in November. The CoreLogic data, a solid forward-looking indicator for the Case-Shiller index, fell 1.6 percent on the month.



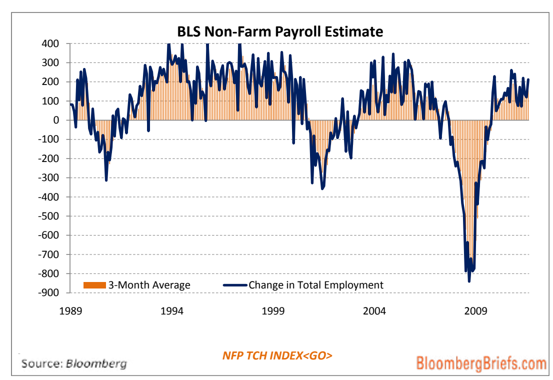
Regional manufacturing surveys and the 10.5 percentage point spread between new orders and inventories suggests conditions are ripe for a sustained increase in industrial production.



Given widespread skepticism about the quality of job gains in December, it would not be surprising to see a significant downward revision of last month's ADP estimate and job gains are barely enough to keep pace with demographic changes.



On an inflation-adjusted basis personal disposable income declined 0.1 percent and average hourly earnings 0.9 percent over the past year. Consumers appeared to pull back on spending in December and may continue to slow in January.



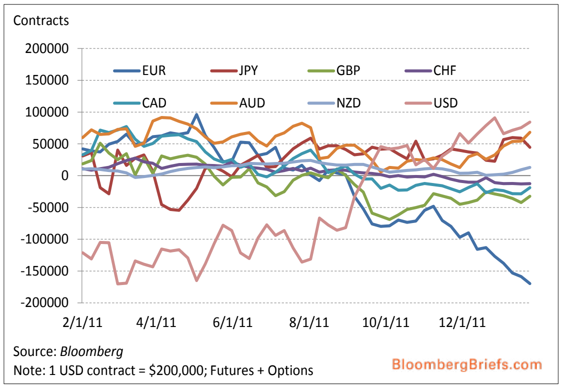
The Bloomberg consensus forecast expects a gain of 150,000 in total employment to kick off 2012. Temporary retail and transportation jobs are expected to subtract from it. The unemployment rate is forecast to hold steady at 8.5 percent.

COMMITMENTS OF TRADERS

DAVID POWELL, BLOOMBERG ECONOMIST

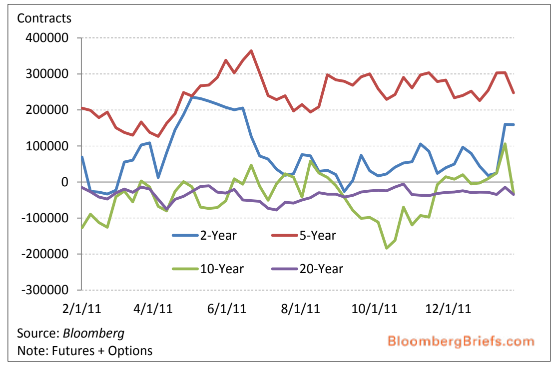
In the week that followed the S&P downgrade of several euro-area nations, speculators continued to sell the euro and buy the U.S. dollar, according to data from the Commodity Futures Trading Commission, though they dumped Treasury securities as the S&P rallied. They continued to slowly increase their exposure to gold and oil.

Currencies



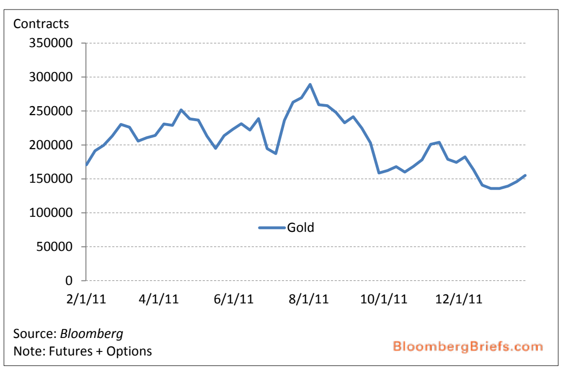
Speculators boosted their net short position in the euro to a fresh high of 169,740 contracts after selling 11,145 contracts on a net basis during the week ended Jan. 24. The position remains overstretched. It is 2.2 standard deviations below the one-year average and the ratio of net longs to open interest stands at 0.47. By contrast, they bought 8,919 contracts on the U.S. dollar, increasing the net long position to 84,270 contracts.

U.S. Treasury Securities



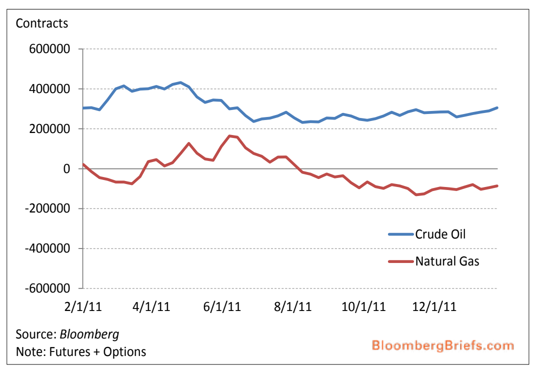
As U.S. stocks rallied, non-commercial accounts sold U.S. Treasury securities across the maturity spectrum, creating a total reduction of 214,893 contracts. They unloaded two- (1,023 contracts), five- (55,989 contracts), 10- (137,880 contracts) and 20- (20,001 contracts) year instruments.

Gold



Speculators have increased their holdings of gold for the last three consecutive weeks. That may be a response to the intensification of the European sovereign debt crisis. During the latest reporting period, they purchased 9,019 contracts on a net basis, bringing the net long position to 155,027 contracts.

Energy Products



Non-commercial accounts have increased their net holdings of oil for the last five weeks, most recently by 15,199 contracts to 305,249 contracts. The position may continue to rise as political tensions in the Middle East escalate. It is in line with the one-year average.

WEEK AHEAD CALENDAR

DICK SCHUMACHER, GREG MILES AND JIM MCDONALD

HIGHLIGHTS

European Union leaders hold a summit to complete a deficit-reduction treaty. U.S. employers probably added workers to payrolls for a 16th consecutive month.

Florida Republicans hold their presidential primary. Exxon Mobil, Amazon.com and Merck release results.

China's January manufacturing data will indicate whether the world's second-largest economy is headed for a so-called soft landing.

MONDAY, Jan. 30

■ **European Union leaders' summit.** Heads of government from the 27-member EU aim to wrap up a deficit-reduction treaty to fight the region's sovereign-debt crisis. They also will discuss ways to boost the capacity of the region's bailout funds as well as the second rescue package for Greece. 9:00 a.m. EST. Final press conferences are scheduled for about 1:00 p.m. EST.

■ **Kweku Adoboli,** the former **UBS AG** trader accused of causing a $2.3 billion loss to the **Swiss bank** through unauthorized activity, enters a plea on the charges against him in London's Southwark Crown Court. 5:00 a.m. EST.

■ **Japanese lawmakers** continue to question **Prime Minister Yoshihiko Noda** in parliament on policies he outlined in a Jan. 24 speech, including a plan to double the sales tax by 2015.

■ **Punjab state elections.** Indians begin to vote in state elections that will be a test of **Prime Minister Manmohan Singh's** government after a year of scandals.

TUESDAY, Jan. 31

■ **Florida Republican presidential primary.** Voting ends at 7:00 p.m. EST.

■ **U.S. presidential candidates release financial reports** showing donors, funding levels, how much candidates are contributing to their campaign.

■ **MF Global Inc.'s** customers face deadline for filing claims at the bankrupt commodity brokerage. Customers may not get back all of $1.2 billion still missing, according to trustee James Giddens. About 72 percent of assets, $3.8 billion, have been distributed.

■ **Earnings. Exxon Mobil Corp.'s** fourth-quarter profit will probably rise at the slowest pace in two years, according to a Bloomberg Survey, 8:00 a.m. EST. **Amazon.com Inc.'s** profit probably plunged in the fourth quarter, according to a Bloomberg survey, after the company added 17 fulfillment centers and sold the Kindle Fire tablet at prices near-production costs to gain share. About 5:00 p.m. EST.

■ **U.S. Senate Banking Committee** oversight hearing on "Holding the Consumer Financial Protection Bureau Accountable." Washington. 10:00 a.m. EST.

■ **Bloomberg Government (BGOV)** publishes an exclusive survey showing how much it may cost U.S. companies to strengthen computer network defenses against cyber attacks. 8:00 a.m. EST.

■ **BLOOMBERG LINK CONFERENCE:** "The John C. Bogle Legacy Forum." Speakers include **Kenneth R. Feinberg, Paul Volcker, Gary Gensler.**

WEDNESDAY, Feb. 1

■ **House Science, Space and Technology Committee** hearing on effect of **natural gas fracking** on underground drinking water. Washington 10:00 a.m. EST.

■ **BLOOMBERG LINK CHINA CONFERENCE:** Speakers include **Robert D. Hormats, David Rubenstein, Franciso G. Blanch, James Bacchus.**

THURSDAY, Feb. 2

■ **U.S. House Transportation and Infrastructure Committee** may vote to approve a five-year, **$260 billion transport bill** to fund highway, bridge and mass-transit projects, setting the stage for support in the Senate and House. It would be the first long-term infrastructure funding since 2009.

■ **Earnings. MasterCard Inc.** may report that adjusted fourth-quarter profit jumped 24 percent, according to a Bloomberg survey. 8:00 a.m. EST.

FRIDAY, Feb. 3

■ **Employers in the U.S.** probably added workers to payrolls for a 16th consecutive month in January as economic growth accelerated. The unemployment rate is expected to be 8.5 percent, according to Bloomberg surveys of economists.

■ **Euro-area final services/composite PMI** for January. Both measures likely rose above the 50 mark that divides contraction and expansion, according to the flash estimate on Jan. 24. 4:00 a.m. EST.

■ **Munich Security Conference. U.S. Secretary of Defense Leon Panetta** and senior defense and security officials gather for an annual forum on the most pressing defense risks. Through Feb. 5.

SATURDAY, Feb. 4

■ **Republican caucuses in Nevada and Maine** may provide the first indications of support for **Mitt Romney** and **Newt Gingrich** after the Florida primary.

■ **Anti-Putin protests in Moscow.** Organizers have been granted permission by city officials for a demonstration of as many as 50,000 people. Presidential voting is on March 4.

■ **Six Nations Rugby tournament begins.** The annual competition includes England, Ireland, Italy, Scotland, Wales and France, the defending champion.

■ **U.S. Pro Football Hall of Fame** selections named. 5:30 P.M. EST.

SUNDAY, Feb. 5

■ **Super Bowl** in Indianapolis. The game starts at 6:30 p.m. EST.

NEWS OF NOTE

Bernanke Beats Obama for Mortgage-Bond Investors

Mortgage-bond investors have been betting that Federal Reserve Chairman **Ben S. Bernanke** will do more to aid housing than President **Barack Obama**.

Government-backed mortgage bonds are poised to return the most this month since October relative to Treasuries, with the Fed helping push yields on lower-coupon notes that guide loan rates to record lows. Even after Obama said he wants to help more homeowners refinance, higher-coupon debt that would be damaged in such a scenario outperformed U.S. notes and a rally in unguaranteed securities that would stand to benefit fizzled.

Bernanke's Fed, the biggest buyer of mortgage bonds since October as it reinvests proceeds from past purchases, further bolstered the $5.4 trillion government-backed market last week by extending its commitment to hold short-term rates near zero and reiterating it may acquire more of the debt. Investors are wagering on additional purchases, as gross domestic product trails economists' forecasts. "A lot of it is an expectation of more QE, which only becomes more validated when you look at the details of GDP that we've just seen," said **Jason Callan**, the head of structured products as Columbia Management Investment Advisers LLC in Minneapolis.

– Jody Shenn

Little Relief for Portugal

The Greek debt swap negotiations that may produce relief for Athens are fueling concerns in Lisbon where an agreement would make it more likely Portuguese investors would be next to accept a loss.

European leaders have said a Greek accord where investors take a 50 percent writedown in the face value of their bonds is unique and won't be applied to other nations struggling to tame rising debts.

Holders of Portuguese securities are skeptical, with the yield on the nation's 10-year bonds rising 42 basis points to a euro-era record of 15.22 percent on Jan. 27. Portuguese bonds have been the worst performers of the nine EU countries downgraded by Standard & Poor's on Jan. 13. The increase in borrowing costs is dimming prospects in Portugal's ability to sell longer-term bonds in the public markets by the end of next year, as investors may be forced to endure writedowns before rescue funds from the EU run out in June 2014.

– Anabela Reis

Canada's Subprime Warning

Canadian lenders are loosening standards, offering mortgages similar to U.S. subprime loans that pose an "emerging risk" to financial institutions, according to the country's banking regulator.

Banks and other lenders are becoming "increasingly liberal" with mortgages and home-equity credit lines that don't require individuals to prove their income, according to 152 pages of documents obtained by Bloomberg News under freedom of information law from the Office of the Superintendent of Financial Institutions. The mortgages, typically granted to the self-employed and recent immigrants, "have some similarities to non-prime loans in the U.S. retail lending market," the documents show. Canada's housing market has surged since the 2009 recession as near-record low mortgage rates fueled prices and home purchases, unlike the U.S., where sales and values have fallen since 2007. Bank of Canada Governor **Mark Carney** has said record consumer debts are the greatest domestic threat to the country's financial institutions, even as the central bank has held the benchmark rate at 1 percent since September 2010.

– Andrew Mayeda

AROUND THE WEB New research and commentary on the Web

Since 2005, European oil consumption has fallen by 1.5 million barrels a day and U.S. oil consumption has fallen by 2 million barrels a day. **Gregor Macdonald writes at the Gregor.us blog** that the failure of global oil production to grow over seven years, in the face of a phase transition in oil prices, is not suggestive of peak oil. "Rather, it's proof of oil's imminent supply resurrection."
http://goo.gl/ZxIcJ

Andrew Lo of MIT takes a look at some recent research from the neurosciences on fear and reward learning, mirror neurons, theory of mind, and the link between emotion and rational behavior. "By exploring the neuroscientific basis of cognition and behavior," he writes, "we may be able to identify more fundamental drivers of financial crises, and improve our models and methods for dealing with them."
http://goo.gl/bGccT

According to Wired Science, a new study on the neurobiology of moral decision-making finds dearly held values truly are sacred, and not merely cost-benefit analyses masquerading as noble intent. "If it's a sacred value to you, then you can't even conceive of it in a cost-benefit framework," the study's author, Greg Berns, says.
http://goo.gl/mC2FZ

MARKET INDICATORS

MSCI EQUITY INDICES

TICKER	COUNTRY	LAST PRICE	1D %Chg	YTD %Chg	YoY %Chg	30D Chart	FORWARD PE 12M
		North America					
MXCA Index	Canada	1566.1	0.0%	4.3%	-8.4%		11.6
MXUS Index	U.S.	1258.2	-0.1%	4.9%	3.2%		11.2
		Latin America					
MXAR Index	Argentina	2484.0	-1.9%	21.2%	-29.0%		5.6
MXBR Index	Brazil	3253.0	-0.7%	15.1%	-9.2%		8.5
MXCL Index	Chile	2436.3	0.4%	7.4%	-7.4%		13.6
MXCO Index	Colombia	1091.6	-1.2%	5.6%	-1.0%		15.0
MXMX Index	Mexico	6015.6	-0.4%	7.4%	-4.2%		15.6
MXPE Index	Peru	1534.2	0.7%	10.9%	-4.0%		10.4
		Europe					
MXAT Index	Austria	104.5	-0.9%	12.4%	-28.3%		7.4
MXBE Index	Belgium	48.6	-0.9%	4.2%	-5.6%		11.0
MXCZ Index	Czech Rep.	317.1	0.0%	0.8%	-8.2%		10.1
MXDK Index	Denmark	3575.3	-1.0%	2.5%	-12.9%		14.2
MXFI Index	Finland	73.1	-2.4%	7.5%	-28.8%		11.5
MXFR Index	France	92.3	-1.3%	5.2%	-16.2%		9.0
MXDE Index	Germany	94.0	-0.4%	10.1%	-11.0%		8.9
MXGR Index	Greece	15.0	-5.0%	13.7%	-62.8%		7.7
MXHU Index	Hungary	1075.3	0.9%	15.9%	-18.0%		7.4
MXIE Index	Ireland	25.3	-1.5%	-1.0%	12.2%		20.0
MXIT Index	Italy	48.1	-1.3%	5.8%	-25.2%		7.8
MXNL Index	Netherlands	72.5	-0.9%	2.4%	-11.4%		9.4
MXNO Index	Norway	2200.7	-0.3%	1.9%	-6.2%		9.3
MXPL Index	Poland	1594.9	-0.1%	7.0%	-15.0%		8.8
MXPT Index	Portugal	50.0	-1.1%	-3.0%	-27.3%		10.4
MXRU Index	Russia	833.3	-1.0%	13.1%	-14.6%		n.a
MXES Index	Spain	94.5	-0.6%	1.0%	-21.0%		8.8
MXSE Index	Sweden	7929.3	-0.4%	5.7%	-11.0%		11.4
MXCH Index	Switzerland	785.1	-1.0%	1.9%	-8.2%		11.6
MXGB Index	UK	1695.7	-1.1%	2.8%	-2.7%		10.0
		Middle East & Africa					
MXEG Index	Egypt	961.2	0.0%	23.4%	-17.6%		6.8
MXIL Index	Israel	218.4	-0.3%	10.0%	-22.5%		7.5
MXJO Index	Jordan	210.9	0.4%	-8.3%	-25.0%		n.a
MXMA Index	Morocco	368.0	0.1%	2.2%	-18.1%		12.5
MXZA Index	South Africa	871.7	-0.1%	4.0%	9.3%		10.1
		Asia/Pacific					
MXAU Index	Australia	869.5	0.4%	5.7%	-10.8%		10.3
MXCN Index	China	59.2	0.2%	11.7%	-11.1%		8.3
MXHK Index	Hong Kong	10053.0	0.1%	10.2%	-13.0%		13.2
MXID Index	Indonesia	4968.9	0.1%	4.4%	17.3%		12.8
MXIN Index	India	672.2	0.9%	12.5%	-7.4%		11.5
MXJP Index	Japan	466.9	-0.5%	4.5%	-18.8%		11.6
MXKR Index	Korea	562.1	0.5%	8.2%	-7.0%		8.6
MXLK Index	Sri Lanka	509.5	2.4%	-1.8%	-28.3%		n.a
MXMY Index	Malaysia	560.1	-0.1%	0.1%	-0.3%		14.4
MXNZ Index	N. Zealand	85.9	0.1%	1.3%	-0.8%		13.2
MXPH Index	Philippines	768.7	1.7%	7.4%	11.3%		13.9
MXPK Index	Pakistan	315.3	1.4%	11.2%	-6.9%		5.3
MXSG Index	Singapore	1559.0	0.9%	10.6%	-12.7%		n.a
MXTH Index	Thailand	427.9	1.2%	5.2%	9.2%		10.3
MXTR Index	Turkey	819546.9	0.9%	11.8%	-7.5%		8.1

10Y GOVERNMENT BOND YIELDS

TICKER	COUNTRY	LAST YIELD	1D CHG BPS	YTD BPS	YoY BPS	30D CHART	5Y CDS
		North America					
GCAN10YR Index	Canada	1.99%	-2.9	4.5	-129.2		
USGG10YR Index	US	1.85%	-3.7	-2.2	-146.7		44.5
		Latin America					
	Argentina						762.8
GEBR5Y Index	*Brazil (5Y)	11.03%	-6.8				144.4
	Chile						115.3
COGR9Y Index	*Colombia (9y)	7.26%	2.0	-36.0	-101.0		137.8
GMXN10YR Index	Mexico	5.98%	1.1	-53.1	-125.4		141.4
		Europe					
GAGB10YR Index	Austria	2.93%	-0.9	2.8	-69.2		172.5
GBGB10YR Index	Belgium	3.73%	3.7	-36.3	-56.3		244.9
CZGB10YR Index	Czech Rep.	3.24%	0.0	-35.4	-81.6		145.3
GDGB10YR Index	Denmark	1.81%	-4.7	12.3	-137.5		123.5
GFIN10YR Index	Finland	2.24%	-4.1	-7.4	-110.9		66.4
GFRN10 Index	France	3.04%	0.1	-11.3	-49.2		171.1
GDBR10 Index	Germany	1.80%	-5.5	-2.6	-134.5		89.0
GGGB10YR Index	Greece	33.66%	-31.4	-130.5	2219.8		
GHGB10YR Index	Hungary	8.77%	2.0	-98.0	155.0		588.9
GIGB9YR Index	*Ireland (9Y)	7.37%	2.8	-106.5	-160.1		621.7
GBTPGR10 Index	Italy	6.12%	22.0	-99.0	133.8		424.4
GNTH10YR Index	Netherlands	2.16%	-1.8	-2.8	-115.4		104.5
GNOR10YR Index	Norway	2.38%	-1.3	-1.8	-147.4		34.6
POGB10YR Index	Poland	5.64%	1.7	-25.5	-73.3		246.3
GSPT10YR Index	Portugal	16.18%	95.9	281.8	910.7		1459.1
RUGE9Y Index	*Russia (9y)	4.31%	-1.8	-30.0	-123.3		224.7
GSPG10YR Index	Spain	5.08%	11.2	-1.1	-38.1		372.0
GSGB10YR Index	Sweden	1.72%	-5.4	9.3	-165.8		62.4
GSWISS10 Index	Switzerland	0.76%	-0.9	9.4	-110.3		
GUKG10 Index	UK	2.00%	-6.7	2.4	-164.9		79.9
		Middle East & Africa					
GISR10YR Index	Israel	4.55%	-2.0	1.0	-26.0		195.0
GSAB9YR Index	*South Africa (9Y)	7.73%	2.5	-21.9	-87.4		190.0
		Asia/Pacific					
GACGB10 Index	Australia	3.74%	-7.0	7.5	-175.5		75.5
GCNY10YR Index	China	3.40%	0.0	-4.0	-62.0		140.3
HKGG10Y Index	Hong Kong	1.33%	-3.3	-18.6	-150.9		
GIDN10YR Index	Indonesia	5.46%	-4.7	-57.0	-340.1		180.5
GIND10YR Index	India	8.29%	-6.1	-28.2	16.6		
GJGB10 Index	Japan	0.96%	-0.7	-2.5	-26.1		134.2
GVSK10YR Index	Korea	3.77%	-3.0	-2.0	-94.0		156.9
MGIY10Y Index	Malaysia	3.57%	-0.3	-12.9	-52.2		134.6
GNZGB10 Index	N. Zealand	3.90%	-1.8	8.3	-159.9		84.3
PDSF10YR Index	Philippines	5.39%	2.4	-2.2	-149.3		174.8
PKIB10YR Index	Pakistan	12.58%	29.0	-43.0	-164.0		
MASB10Y Index	Singapore	1.55%	-1.0	-8.0	-107.0		
GVTL10YR Index	Thailand	3.17%	-1.6	-11.3	-62.4		176.8
TGBY10T0 Index	Turkey	9.42%	-4.0	-29.0	26.0		280.4

OTHER INDICATORS

TICKER	SPREAD/RATE/INDEX	LAST PRICE	1D Chg bps/%	YTD bps/%	YoY bps/%	30D CHART	1Y Z-SCORE
		Fixed Income					
$$SWAP10 Curncy	10Y US Swap Spread	12.3	0.5	-4.5	2.3		-0.4
$$SWAP2 Curncy	2Y US Swap Spread	31.8	-0.7	-16.6	9.1		0.2
USGGBE01 Index	1Y Breakeven Rate	2.3	3.9	1.1	0.7		1.0
.2Y10Y Index	2Y10Y Spread	164.7	-3.3	1.0	-113.5		-1.3
.10YV3MSP Index	3M10Y	180.4	-3.7	-6.2	-137.8		-1.3
.TED3M Index	3M Ted Spread	49.6	-0.4	-7.5	33.2		1.3
.LIBORIOS Index	3M Libor/OIS	46.5	0.4	-3.3	31.5		1.7
JPEIPLSP Index	EMBI+ Spread	363.2	1.6	-13.3	116.8		0.9
.AAA10Y Index	IG Corp Spread	202.6	3.7	13.2	27.7		0.9
.AAABAA Index	IG HY Corp Spread	136.0	0.0	-3.0	37.0		-4.5
MUNSMT10 Index	Muni Spread	99.4	1.2	4.7	0.0		0.2
		Equity					
VIX Index	CBOE VIX Index	18.5	-0.2%	-20.8%	-7.5%		-0.7
SKEW Index	CBOE Skew Index	121.5	-1.2%	4.6%	-6.9%		-0.1

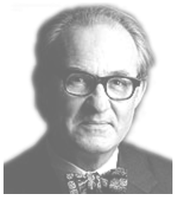
COMMODITIES

TICKER	COMMODITY	LAST PRICE	1D %Chg	YTD %Chg	YoY %Chg	30D CHART	VOLATILITY
		Agricultural					
C 1 Comdty	Corn	637.8	-0.6%	-1.4%	-1.0%		28.8
KC1 Comdty	Coffee	215.7	-0.8%	-4.9%	-12.0%		28.2
SB1 Comdty	Sugar	24.3	0.5%	4.4%	-28.3%		29.8
W 1 Comdty	Wheat	642.8	-0.7%	-1.5%	-22.2%		30.8
		Metals					
LA1 Comdty	Aluminum	2240.5	-0.5%	12.2%	-7.2%		22.4
HG1 Comdty	Copper	381.5	-1.9%	11.0%	-12.8%		23.8
GC1 Comdty	Gold	1719.6	-0.7%	9.8%	28.3%		17.0
SI1 Comdty	Silver	33.1	-2.0%	18.8%	18.6%		37.1
		Energy					
CO1 Comdty	Crude (Brent)	111.3	-0.2%	3.6%	11.9%		19.9
CL1 Comdty	Crude (WTI)	99.1	-0.5%	0.3%	10.9%		24.0
XB1 Comdty	Gasoline	288.6	-1.4%	7.4%	17.5%		20.6
NG1 Comdty	Natural Gas	2.8	1.0%	-6.9%	-35.6%		55.2
		Indices					
CRY Index	CRB index	317.6	0.0%	4.0%	-5.3%		14.5
BDIY Index	Baltic Dry Index	726.0	-3.6%	-58.2%	-38.8%		36.9
GI1 COMB Index	GS Cmdty Index	667.3	0.5%	3.1%	5.9%		16.3
CMCITR Index	UBS-Bloomberg Cmdty	1327.7	-0.6%	4.7%	-4.3%		13.0
DBLCDBAT Index	DBIQ Diversified Ag Index	236.6	-0.5%	1.4%	-13.5%		12.7

Source: *Bloomberg. Updated at 6:30 a.m. ET*

CURRENCIES

TICKER	CURRENCY	LAST PRICE	1D %CHG	YTD %CHG	YoY %CHG	30D CHART	1Y Z-SCORE
		Americas					
ARS Curncy	Argentine Peso	4.34	0.0%	-0.8%	-7.9%		1.9
BRL Curncy	Brazilian Real	1.75	0.7%	6.8%	-4.7%		0.6
CAD Curncy	Canadian Dollar	1.00	0.2%	1.7%	-0.3%		0.5
CLP Curncy	Chilean Peso	486.40	0.4%	6.8%	-0.6%		0.1
COP Curncy	Colombian Peso	1807.03	-0.2%	7.3%	2.9%		-0.6
MXN Curncy	Mexican Peso	13.00	0.7%	7.2%	-6.8%		0.5
		Europe					
GBP Curncy	British Pound	1.57	-0.3%	0.9%	-2.0%		-1.0
CZK Curncy	Czech Koruna	19.22	1.1%	2.7%	-8.1%		1.3
DKK Curncy	Danish Krone	5.66	0.7%	1.2%	-3.9%		1.4
EUR Curncy	Euro	1.31	-0.7%	1.3%	-4.1%		-1.5
HUF Curncy	Hungarian Forint	225.06	1.3%	8.0%	-11.4%		1.1
NOK Curncy	Norwegian Krone	5.85	0.8%	2.1%	-1.3%		1.2
PLN Curncy	Polish Zloty	3.24	1.2%	6.5%	-11.3%		0.9
RON Curncy	Romanian Leu	3.30	0.6%	1.0%	-5.9%		1.4
RUB Curncy	Russian Ruble	30.41	1.0%	5.7%	-2.0%		0.6
SEK Curncy	Swedish Krona	6.78	0.5%	1.6%	-4.9%		1.1
CHF Curncy	Swiss Franc	0.92	0.6%	2.2%	2.8%		0.6
TRY Curncy	Turkish Lira	1.79	0.8%	5.6%	-10.4%		0.7
UAH Curncy	Ukranian Hryvnia	8.03	0.4%	0.1%	-0.9%		1.7
		Middle East & Africa					
ILS Curncy	Israeli Shekel	3.76	0.4%	1.3%	-1.4%		1.2
ZAR Curncy	S. African Rand	7.84	1.0%	3.3%	-8.3%		0.0
		Asia/Pacific					
AUD Curncy	Australian Dollar	1.06	-0.9%	3.4%	5.9%		0.6
CNY Curncy	Chinese Renminbi	6.33	0.4%	-0.6%	4.1%		-1.2
HKD Curncy	HK Dollar	7.76	0.0%	0.1%	0.5%		-2.2
INR Curncy	Indian Rupee	49.80	1.0%	6.6%	-7.8%		0.9
IDR Curncy	Indonesian Rupiah	8990.00	0.2%	0.9%	0.7%		1.0
JPY Curncy	Japanese Yen	76.65	-0.1%	0.3%	7.0%		-1.1
SGD Curncy	Singapore Dollar	1.26	0.6%	3.0%	1.6%		0.1
NZD Curncy	N. Zealand Dollar	0.82	-0.7%	5.4%	6.0%		0.7
KRW Curncy	S. Korean Won	1127.25	0.4%	2.2%	-0.5%		0.5
THB Curncy	Thai Baht	31.20	0.4%	1.1%	-0.9%		1.2
TWD Curncy	Taiwan Dollar	29.74	-0.2%	1.8%	-2.4%		0.4
		Euro Crosses					
EURGBP Curncy	Euro-Pound	0.8	-0.4%	-0.4%	2.2%		-1.6
EURNOK Curncy	Euro-NOK	7.7	0.1%	0.8%	3.0%		-1.4
EURCHF Curncy	Euro-Swiss Franc	1.2	-0.1%	0.9%	7.2%		-0.4



KEENE'S CORNER

Gerard Lyons, chief economist and group head of global research, Standard Chartered Bank, talks to Tom Keene and Ken Prewitt about two Europes, the 'fragile East' and China's soft landing.

Q: You have called it a 'fragile West' and a 'resilient East'. What is the distinction between East and West right now?

A: The East itself is cooling down but it's still in pretty good shape. The Western economies are still trying to get over the overhang of debt. In America, the big distinction is between the big firms, who are in good shape, and the small firms who don't seem to be able to get access to liquidity. Against all that, one of the themes in Davos this year, apart from the possible collapse of Europe, is the need to focus on income disparity. Income disparities have always been a big theme, but in the West it's more of an issue now than before.

Q: In your study of economics, what's wrong with a more conservative economic view that says, "Let the successful be successful and pull up those who are struggling," versus another angle, which would say, "Redistribute what the successful have done to those down the food chain"?

A: The redistribution can actually sort of backfire, make the cake actually smaller - the cake being the economic cake. Before Davos I spent two weeks in Asia and it's interesting to note that both in China and in Taiwan, income disparity is becoming the big issue there. But it's not yet risen to the surface, because the economic cake in those economies is getting much bigger. The challenge in the West is to make sure that we don't actually have policies to correct this that make the actual outcome worse than the original situation.

Q: You made a big splash by saying that the euro is flawed and cannot survive. Could you explain your reasoning?

A: Well, the reasoning is based on the fact that good economics is good politics, but good politics is not always good economics. And the euro has been driven by politics and they've overridden the economics. In the good times these problems were kept beneath the surface. Now, those underlying economic flaws have come to the surface. Basically, in its current form, the euro can't survive because of the severe austerity having to be felt in economies such as Greece and Spain.

Q: What do you see happening over the next 12 months?

A: The likelihood is that Greece will leave. Italy, Spain and others will put up with the pain. The center will start to provide more help. But maybe the big positive, which buys us time, is the fact that the European Central Bank has added a lot of liquidity. There are two shock absorbers in Europe, at the moment – one bad, one good. The bad shock absorber is youth unemployment. The good shock absorber is the European Central Bank.

Q: You do so much good work in emerging markets, what are your thoughts on China's GDP, and would you please define what a hard landing would be if we saw that?

A: A hard landing would be something like 4 percent growth. I think we're going to see Chinese economy slowing significantly in the next four months, maybe down to around 6 percent growth. That's a pretty soft landing. In China, the fundamentals are pretty good. China will not be able to prevent cooling, but they'll be able to ease policy if the economy does cool.

Q: How about the U.S.?

A: The U.S. is going to have a steady, but not spectacular recovery. Six months ago the market was pessimistic. The U.S. did quite well. The market's gone from that extreme to the other thinking the U.S. might do really well. The big issue for me is whether corporate America has the confidence to go out and invest. If it does, the U.S. will really gather momentum.

Q: Invest abroad or invest in the U.S.?

A: After the last recession, albeit a pretty mild recession by comparison with this one, the U.S. corporate sector started to invest a lot more across the emerging world, across Asia. This time around, big corporate America seems to be sitting on its balance sheets, not sure what to do. Normally at this stage of a recovery, you would expect big firms to want to put their cash to work. If they do that, then jobs will start to be more plentiful and confidence will start to pick up.

(This interview was condensed and edited.)

Today's guests:
Michael Cloherty, RBC Capital; John Ryding, RDQ Economics; Peter Hayes, Blackrock; Carl Weinberg, HFE; Doris Kearns Goodwin, historian/author; Mark Gilman, Benchmark Co.

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