MOVING THE MARKET

CREDIT MARKETS

Investors Sit on Hands

By Cynthia Lin

Many big-bank strategists see another round of U.S. monetary easing in the cards, but money managers are hesitant to act because of Europe's unresolved debt crisis and mixed signals about the U.S. economy's health.

Although the latest statement from the Federal Reserve's policy-making arm didn't spell out the likelihood of future easing measures, strategists from Credit Suisse, RBC, RBS and others say the central bank is likely to initiate a third round of asset purchases.

"It's a done deal," said Richard Gilhooly, director of interest-rate strategy at TD Securities. "I think they've already decided they're going to do it—it's a matter of December or January." He believes the program will buy up around $250 billion to $500 billion in mortgage-backed securities.

But investors aren't altering their portfolios in anticipation. They are bogged down by issues on both sides of the Atlantic.

If market participants were reacting to a likelihood of more easing through the buying of mortgage-backed securities, the spread between mortgage-bond yields and Treasury yields would likely be narrower than it is, because of the incentive to buy more mortgage bonds than Treasurys.

Mr. Gilhooly said that if the easing prospects get more attention, the gap between medium- and long-term Treasury yields should also expand by an additional 0.2 to 0.25 percentage point. The spread between five- and 30-year yields has ticked up 0.12 percentage point this month, mostly because of mild optimism about Europe's debt crisis.

The stream of conflicting noise from the euro zone will likely continue and determine the fate of the Treasurys market in this holiday-shortened week. The U.S. bond market will be closed Friday for Veterans Day.

Expectations about the Fed's next move, though, may start building in the next couple of weeks, with a parade of Fed speakers possibly shedding light on future policy.

Also, the minutes of the recent Federal Open Market Committee meeting will be released Nov. 23.

If investors buy into the idea that more Fed action will support the economy, they will likely sell Treasurys in favor of riskier assets.

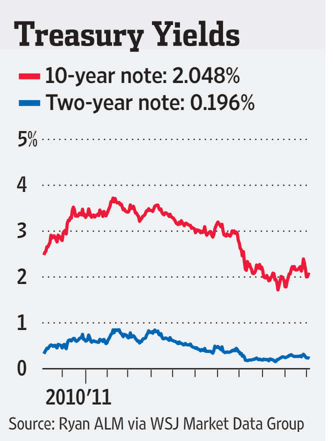
That is what happened when the previous round of quantitative easing was announced last November, resulting in five months of selling. Moreover, expansion of the Fed's balance sheet stokes inflation fears. Rising consumer prices are a bond-holder's biggest nemesis and often prompt investors to sell long-dated debt.

But market participants are pessimistic about whether a third round of stimulus would work. They are still gauging the effects of the so-called Operation Twist program, started two months ago, in which the Fed is lengthening the maturities of its asset portfolio.

"We've seen this movie before," said Jonathan Lewis, chief investment officer at Samson Capital Advisors with $7 billion in assets under management. He wonders whether the economy has "built up resistance to this medicine," and he wants more color about the size and timing of anything the Fed might do before changing his portfolio.

Michael Mata, ING Global Bond Fund portfolio manager, has similar sentiments. He was disappointed that Fed Chairman Ben Bernanke wasn't more assertive about whether the bank would introduce more stimulus in his post-FOMC briefing. Mr. Bernanke's top lieutenants had been dropping hints about the potential for more quantitative easing, but the chief simply said that a mortgage-purchase program was "a viable option."

Other managers aren't fretting about what the Fed will do next; they are fixated on every headline out of the euro zone.



Source: Ryan ALM via WSJ Market Data Group

FOREX VIEW

A Weak Currency In Hungary Leads To Policy Dilemma

By Erin McCarthy

Hungary's currency, which is down 12% against the euro since September, is creating a dilemma for policy makers and keeping foreign investors away.

The forint is making Hungary's foreign-currency debts more expensive and is putting its sovereign rating at risk of a downgrade. If the central bank cuts interest rates to help the economy grow its way out of the problems, the Hungarian forint would fall more.

"If you're Hungary, you can't really grow your way out the problem," said Neil Shearing, chief emerging-market economist at Capital Economics, which projects that Hungary's economy will contract 0.5% next year.

Even as investor interest in emerging-market currencies has returned amid the ebb and flow of anxiety over the euro-zone debt crisis, Hungary has missed out on these flows.

John Peta, who manages emerging-market assets at Acadian Asset Management, has added positions in the Turkish lira and the Russian ruble but remains underweight in Hungary holdings. Even if a more complete calm returns to world markets, "Hungary will still be viewed as a riskier market," Mr. Peta said.

Elsewhere on Friday, political turmoil in Greece kept the euro under pressure. In late New York trading, the euro was at $1.3792 from $1.3822 late Thursday. The dollar was at ¥78.23 from ¥78.06, while the euro was at ¥107.86 from ¥107.92.

Hungary's risks include a high exposure to foreign-currency mortgages among its citizens, government policies perceived to be anti-bank, proximity to the euro zone that leaves it at risk of debt-crisis contagion, and the threat of a sovereign ratings downgrade.

Foreign-currency debt makes up about 60% of total private-sector lending in Hungary, meaning that every tick lower in the forint adds to the overall debt burden in the country and making a rebound in domestic consumption difficult.

Many local households that took on mortgages denominated in Swiss francs before 2008 have been struggling with repayments after capital flight from the euro zone boosted the Swiss currency, which functions as a haven in times of stress.

Hungary's government tried to reduce those debt levels by setting up a mortgage repayment program, introduced Sept. 29, through which holders of Swiss franc-based mortgages can repay their loans at a discounted fixed rate, but the plan appears to have backfired. With banks bearing the losses from this policy, both Fitch Ratings and Moody's Investors Service warned that the program could put the banking sector under pressure.

This in turn raised concerns that a sovereign ratings downgrade could be next.

The government took steps Thursday to reassure investors, announcing a plan for monthly talks with banks on their efforts to reduce their proportion of foreign-currency loans.

That announcement lifted the forint some, but on Friday the currency fell 0.8% against the dollar as euro-zone worries returned.

The threat of a downgrade remains, which could trigger big outflows from local bond markets. Hungary has a high level of foreign ownership of its local bonds.

THE TICKER | Market events coming this week


Bloomberg News

CRUNCHING NUMBERS: Latest report on bearish bets, due Wednesday.

Monday

Consumer credit
Aug., previous -$9.5 bil.
Sept., expect. +$4.0 bil.

Earnings expected*
Estimate/Year Ago ($)
CareFusion **0.32**/0.17
DISH Netwk. **0.73**/0.55
priceline.com **9.30**/4.41
Progressive **0.38**/0.40
Sysco **0.52**/0.51

Tuesday

Earnings expected*
Estimate/Year Ago ($)
Activision **0.02**/0.04
Fossil **1.03**/1.00
Liberty Inter. **0.14**/0.14
Rockwell Aut. **1.21**/0.92
Weight Watchers Int'l. **0.93**/0.59

Wednesday

Short-selling reports
Ratio, or days of trading volume of current position, at Oct. 14
NYSE 3.1 Nasdaq 3.6

Mort. bankers indexes
Purch., previous +1.8%
Refinan., prev. -0.2%

EIA status report
Previous change in stocks in millions of barrels
Crude oil up 1.8
Gasoline up 1.4
Distillates down 3.6

Wholesale inventories
Aug., previous up 0.4%
Sept., expected up 0.5%

Earnings expected*
Estimate/Year Ago ($)
Advance Auto Parts **1.18**/1.03
Cisco Systms. **0.39**/0.34
General Growth Prop. **(0.02)**/(0.58)
Gen. Motors **0.96**/1.20
Green Mountain Coffee **0.47**/0.20
Macy's **0.16**/0.02

Thursday

Initial jobless claims
Previous 397,000
Expected 398,000

EIA report: natural gas
Previous change in stocks in billions of cubic feet
up 78

Import price index
Sept., previous up 0.3%
Oct., expected up 0.1%

Int'l. trade deficit
In billions
Aug., previous $45.6
Sept., expected $46

Treasury budget deficit
Oct. '10 $140.4 bil.
Oct. '11. exp. $105 bil.

Earnings expected*
Estimate/Year Ago ($)
Kohl's **0.79**/0.63
Molycorp **0.67**/(0.14)
Nordstrom **0.59**/0.53
Nvidia **0.26**/0.15
Walt Disney **0.54**/0.43

Friday

Veterans Day
U.S. bond market closed but stocks will trade

Univ. of Michigan consumer index
Oct. final 60.9
Nov., prelim., exp. 62.0

Earnings expected*
Estimate/Year Ago ($)
D.R. Horton **0.15**/(0.03)

* FactSet Estimates earnings-per-share estimates don't include extraordinary items (Losses in parentheses)

Note: Forecasts are from Dow Jones weekly survey of economists

Currencies

U.S.-dollar foreign-exchange rates in late New York trading on Friday

Country/currency	Fri in US$	Fri per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso*	.2357	4.2423	6.9
Brazil real	.5766	1.7345	4.4
Canada dollar	.9819	1.0184	2.4
Chile peso	.002006	498.63	6.5
Colombia peso	.0005251	1904.50	–0.8
Ecuador US dollar	1	1	unch
Mexico peso*	.0741	13.4929	9.4
Peru new sol	.3695	2.706	–3.6
Uruguay peso†	.05069	19.73	1.5
Venezuela b. fuerte	.229885	4.3500	unch
Asia-Pacific			
Australian dollar	1.0372	.9641	–1.3
1-mos forward	1.0335	.9676	–1.4
3-mos forward	1.0262	.9744	–1.4
6-mos forward	1.0171	.9832	–1.7
China yuan	.1575	6.3498	–3.8
Hong Kong dollar	.1287	7.7677	–0.1
India rupee	.02039	49.045	9.5
Indonesia rupiah	.0001115	8971	0.9
Japan yen	.012782	78.23	–3.6
1-mos forward	.012790	78.19	–3.7
3-mos forward	.012807	78.08	–3.8
6-mos forward	.012831	77.94	–3.8
Malaysia ringgit	.3222	3.1035	2.7
New Zealand dollar	.7938	1.2597	–1.8
Pakistan rupee	.01162	86.080	0.5
Philippines peso	.0232	43.131	–1.4
Singapore dollar	.7898	1.2661	–1.3
South Korea won	.0009032	1107.15	0.8
Taiwan dollar	.03313	30.182	3.9
Thailand baht	.03268	30.598	3.9
Vietnam dong	.00004766	20982	7.9

Country/currency	Fri in US$	Fri per US$	US$ vs, YTD chg (%)
Europe			
Czech Rep. koruna	.05522	18.108	–3.0
Denmark krone	.1853	5.3970	–3.0
Euro area euro	1.3792	.7251	–2.9
Hungary forint	.004507	221.87	7.4
Norway krone	.1783	5.6092	–3.7
Poland zloty	.3157	3.1680	7.4
Russia ruble‡	.03255	30.721	0.6
Sweden krona	.1521	6.5749	–1.9
Switzerland franc	1.1301	.8849	–5.4
1-mos forward	1.1306	.8845	–5.7
3-mos forward	1.1320	.8834	–5.7
6-mos forward	1.1348	.8812	–5.8
Turkey lira**	.5705	1.7529	12.9
UK pound	1.6034	.6237	–2.7
1-mos forward	1.6029	.6239	–2.7
3-mos forward	1.6019	.6243	–2.7
6-mos forward	1.6003	.6249	–2.7
Middle East/Africa			
Bahrain dinar	2.6519	.3771	unch
Egypt pound*	.1681	5.9482	4.5
Israel shekel	.2722	3.6736	3.9
Jordan dinar	1.4095	.7095	0.1
Kuwait dinar	3.6304	.2755	–2.2
Lebanon pound	.0006649	1504.00	0.3
Saudi Arabia riyal	.2666	3.7506	unch
South Africa rand	.1265	7.9036	19.4
UAE dirham	.2723	3.6731	unch

*Floating rate †Financial sGovernment rate ‡Russian Central Bank rate **Commercial rate

Source: ICAP plc.

Europe Bond Trade Beckons the Bold

Continued from the prior page

ABREAST OF THE MARKET

the market turmoil to see the quality of the company, he said.

Swedish cable company **Com Hem** is seeking to sell €287 million in bonds that will help fund **Carlyle Group**'s leveraged buyout of the company. If Com Hem is successful, it will be the first European company rated triple-C—one of the lowest credit ratings—to raise money in the bond market since May. Representatives of Faurecia and Com Hem declined to comment.

Until recently, buyers had been absent from the European market. New bond sales had dwindled to €1.8 billion in all of the third quarter, according to Standard & Poor's LCD, from an average of €9.5 billion a month in the first half of the year. The buyers' strike coincided with a collapse in corporate-bond prices, reflected in the iTraxx Europe Crossover—a hybrid index of investment-grade and high-yield credit-default swaps—which fell from 100 in August to 86.5 by early October. Since then, it is up to 93.

Not all investors are convinced bond prices have hit bottom. Some are still waiting, anticipating better bargains in 2012 as the debt crisis continues to unfold. Further selling could be triggered by increased corporate defaults caused by economic recession or additional political shocks, such as an erosion of the European currency union, says Richard Hurowitz, co-founder of Octavian Advisors LP, a $1 billion hedge fund that specializes in international investments.

But Jame Donath, a portfolio manager at Karsch Global Credit, says he is buying now, even though he suspects there will be more bargains to come. Karsch, which is an active investor in European bond and loan markets, began buying some junk-rated debt in September and October after many European banks and investors had sold out to cut risk and raise cash.

"A lot of babies got thrown out with the bathwater," Mr. Donath says. For example, the fund was able to buy debt of a U.K financial-services firm at 88% of face value, and the debt has since risen to about 96%, he says, declining to name the firm.

Investors and banks didn't only dump the debt of European firms this summer. They also sold euro-denominated bonds of international firms, creating an unusual gap between those securities and bonds sold by the same companies in dollars.

By mid-October, investors could buy euro-denominated bonds of Levi Strauss at an 11% discount to the equivalent dollar bonds, says Sherif Hamid, a strategist at Barclays PLC. Mr. Hamid has been recommending that investors take advantage of the differentials, in part because the foreign-exchange hedging costs are minimal.

They could also buy euro bonds of New Zealand-based **Reynolds Group Holdings** in October at a 15% discount to the packaging maker's dollar-denominated debt. A spokesman for Reynolds declined to comment.

But, because of the volatility in the European junk-bond market, not everyone who wanted to put the trade on succeeded. By the time some investors were ready to buy Reynolds's euro bonds in late October, prices had already snapped back to within 3% of the company's dollar bonds amid the global market rally.

With just over $150 billion of bonds outstanding, the European junk-bond market is far smaller than the $1 trillion U.S. market and trading is sporadic at the best of times. Since August, the banks that typically deal in European junk have sold off their inventories to reduce risk, meaning that bonds are even harder to find and even small trades worth a few million euros can move prices dramatically.

WORLD STOCK MARKETS

Asian Trading Monday

By Virginia Harrison

Asia markets fell in early trading Monday, with export firms among the notable decliners, as Greece moved to name a new leader after Prime Minister George Papandreou agreed to step down.

Japan's Nikkei Stock Average lost 0.5%, Australia's S&P/ASX 200 index fell 0.6% and South Korea's Kospi dropped 0.3%.

Greece's main political parties agreed on Sunday night to form a new national unity government that will see Mr. Papandreou cede power to a new leader, expected to be named on Monday. The first task of the coalition government will be to win parliamentary approval of the debt-bailout package put together by European leaders in October.

Strategists at Barclays Capital said that what matters more for the markets in the near term is the relatively disappointing outcome of the summit of the Group of 20 major economies and lack of progress on backstop facilities, such as leveraging of European Financial Stability Facility.

Nissan Motor was down 1.8%, **Fujifilm Holdings** fell 1.4%, and **Casio Computer** declined 1.7%.

Greece Stings Commerz

By Laura Stevens And Ulrike Dauer

FRANKFURT—**Commerzbank** AG swung to a third-quarter loss, fueled by a large write-down on its Greek sovereign-debt holdings, and warned that financial turmoil across the euro zone would force it to miss its 2012 profit target.

Germany's second-largest bank by market capitalization also warned it will stop offering new loans outside Germany and Poland, the first sign of a potential credit crunch as European banks scramble to meet new European Union capital requirements.

Commerzbank, which is viewed as a proxy for the health of the broader German banking industry, posted a net loss of €687 million ($949.6 million) in the quarter ended Sept. 30, compared with a net profit of €113 million in the year-earlier quarter.

The loss largely was attributable to Commerzbank's write-down of €798 million on its Greek debt holdings.

In the second quarter, the bank took a €760 million write-down on Greek debt. The German lender now holds Greek sovereign debt valued at €1.4 billion. Its sovereign exposure to Spain is €2.8 billion; Italy, €7.9 billion; and Portugal, €900 million.

Commerzbank's shares fell 6.3%, to €1.64, in Frankfurt.