



WEEK ENDING

30 DEC

2 0 1 1

Global Market Review

Liquidity

US Taxable

United States		Change (bps)	30 Dec 11	31 Dec 10	High	Low
Federal Funds Target:		0	0 - 0.25%	0 - 0.25%	-	-
LIBOR:	3 Month	28	0.58%	0.30%	0.58%	0.25%
					30 Dec 11	15 Jun 11
US T-Bill:	3 Month	-11	0.01%	0.12%	0.16%	-0.01%
					26 Jan 11	31 Oct 11
TED spread:	3 Month	39	57 bps	18 bps	58 bps	15 bps
					29 Dec 11	20 Jan 11
OIS/LIBOR Spread:	3 Month	38	50 bps	12 bps	50 bps	12 bps
					30 Dec 11	16 Jun 11

Source: Bloomberg

Economic data in the US were mixed during the week of December 30, with better consumer confidence offset by lower home prices and a slight increase in initial jobless claims.

Please find below various money market yields (high/ lows) and spreads comparing year-end 2011 with year-end 2010.

US Tax Exempt

Tax-exempt money fund assets were lower by \$511.9 million this week, bringing the total assets to \$289.91 billion. The Securities Industry and Financial Markets Association (SIFMA) Index moved lower by 2 basis points (bps) to 0.10%, as dealers continued to see good demand for variable-rate demand notes (VRDNs) from investors despite the market's activities slowing during this holiday week. VRDNs backed by European financial institutions continued to widen their spreads in yields over SIFMA, as most money fund managers of both taxable and tax-exempt funds have been trimming their European bank exposure since the crisis in Greece began to unfold mid-year. There were no new-note issues to speak of, while the Municipal Market Data AAA One-Year Index stayed unchanged at 0.25% in quiet secondary trading.

Eurozone

European loan growth slowed in November as the sovereign crisis dampened demand for credit and banks tightened lending. The European Central Bank (ECB) reported that loans to the private sector were lower in the year to November at +1.7%, (+ 2.7% YoY in October). M3 money supply, used as a gauge of future inflation, fell

Eurozone		Change (bps)	30 Dec 11	23 Dec 11
LIBOR:	1 Month	-7	0.96	1.04
	3 Month	-4	1.29	1.33
	12 Month	-4	1.91	1.96
	Slope (1-12 Month)	3	95	92
OIS/LIBOR Spread:	3 Month	0	90	90
Swap Spread:	2 Year	1	115	115
	5 Year	2	97	95
Govt Bonds:	2 Year	-6	0.17	0.23
	10 Year	-12	1.84	1.96
	Slope (2-10 Year)	-6	167	173

Current Market Pricing for Key Policy Rate: Market consensus rate decrease in 2Q11

Source: Bloomberg

to 2% over the same period from 2.6%. Overnight bank deposits with the ECB reached a record €452 billion as year-end approached.

Within Europe, inflation in Germany remained subdued. The EU Harmonized Consumer Price Index rose 0.8% in December but fell to 2.4% YoY from 2.8% in November, in line with expectations. Spanish inflation also eased from 2.9% in November to 2.3% for 2011 as retail sales fell 7.2% in November from a year earlier. Italian business confidence fell to its lowest level in two years as the manufacturing sentiment index dropped to 92.5 from 94 in November.

Italy sold a total of €6 billion of debt during the last week of the year and though slightly short of its target, borrowing costs dropped considerably compared with last month's auctions. Examples of this were €9 billion of six-month bills sold at 3.25%, half the 6.50% rate paid in November and €2.5 billion of 2022 bonds sold at 6.98%, compared with 7.56% at the end of last month.

UK

United Kingdom		Change (bps)	30 Dec 11	23 Dec 11
LIBOR:	1 Month	0	0.77	0.77
	3 Month	0	1.08	1.08
	12 Month	0	1.87	1.87
	Slope (1-12 Month)	0	110	110
OIS/LIBOR Spread:	3 Month	1	59	58
Swap Spread:	2 Year	-2	100	102
	5 Year	2	52	50
Govt Bonds:	2 Year	-1	0.33	0.34
	10 Year	-6	1.98	2.04
	Slope (2-10 Year)	-5	165	170

Current Market Pricing for Key Policy Rate: Market consensus beyond forecast period

Source: Bloomberg

UK housing data from two surveys highlighted falling prices. According to the latest Nationwide Building Society report, UK house prices declined in December for the first time in four months. The average house price fell 0.2% since November, but finished the year 1% higher than this time last year. Tight supply conditions are likely to provide support for prices in 2012, however with an uncertain economic outlook, their expectations for next year are of a housing market characterised by low levels of activity with prices unchanged or modestly lower. A similar report by Hometrack mirrored the month-over-month (MoM) 0.2% fall, but recorded a 2.1% fall in prices for 2011.

The Bank of England's (BoE) Housing Equity Withdrawal data showed that homeowners added £8.6 billion to their housing equity during 3Q11, compared to £9.6 billion during the second quarter. In a separate report, the Confederation of British Industry (CBI) published its Vision for Rebalancing the Economy, in which it called for strong economic foundations to be put in place to rebalance the economy away from household and government debt in order to give it a kick start amidst the eurozone crisis.

For more information on Western Asset visit our website at www.westernasset.com.

© Western Asset Management Company 2011. This publication is the property of Western Asset Management Company and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission. Past results are not indicative of future investment results. This publication is for informational purposes only and reflects the current opinions of Western Asset Management. Information contained herein is believed to be accurate, but cannot be guaranteed. Opinions represented are not intended as an offer or solicitation with respect to the purchase or sale of any security and are subject to change without notice. Statements in this material should not be considered investment advice. Employees and/or clients of Western Asset Management may have a position in the securities mentioned. This publication has been prepared without taking into account your objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence. Western Asset Management Company Distribuidora de Títulos e Valores Limitada is authorized and regulated by Comissão de Valores Mobiliários and Banco Central do Brasil. Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services Licence 303160. Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services Licence for fund management and regulated by the Monetary Authority of Singapore. Western Asset Management Company Ltd is a registered financial instruments dealer whose business is investment advisory or agency business, investment management, and Type II Financial Instruments Dealing business with the registration number KLFB (FID) No. 427, and a member of JSIAA (membership number 011-01319). Western Asset Management Company Limited ("WAMCL") is authorised and regulated by the Financial Services Authority ("FSA"). In the UK this communication is a financial promotion solely intended for professional clients as defined in the FSA Handbook and has been approved by WAMCL.