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Welcome

With the latest addition of Turkey, our extensive list of lending markets currently stands at 35. This allows us to offer global securities lending capabilities that few organisations can match. Our Aaa credit rating provides maximum credit comfort to our clients.

From Citi's international trading centres in the United States, the United Kingdom, Hong Kong and Australia, we offer our clients a global 24-hour lending solution, regardless of their location or the location of their assets. Citi's global network and embedded local market presence enables us to establish a closer working relationship with our clients.

This monthly newsletter is designed to keep you up to date with the global securities lending markets. We are always striving to improve our information services so your comments and feedback will be much appreciated.

Thank you for your continuing support.

U.S. equities

Our US desk in New York saw that for April overall average balances were up 16.36 per cent for the month, with average specials in demand up 15.44 per cent.

News

Six months after breaking the 12,000 barrier, the Dow increased further and broke through 13,000 in April, with the help of better-than-expected durable-goods data and some strong earnings results. Surging global growth, massive liquidity creating private-equity takeouts and mergers and a weak dollar are some of the factors leading to this bull-run.¹

Corporate profits continue to look good. Of the Standard and Poor's (S&P) 500 companies that have reported so far, 66 per cent have beaten forecasts, which is above the long-term average of 60 per cent.²

Active stocks

- EV3 (EUVV)
- Accredited Home (LEND)
- Sadia (SDA)
- Corus Bankshares (CORS)
- True Religion (TRLG)

Sectors in demand included: autos, sub-prime lenders and exchange-traded funds. Some drivers of this demand included: asset valuations, downgrades, commodity prices and supply issues.

¹ & ² Bloomberg L.P., 25 April 2007, Wall Street Journal (WSJ), 25 April 2007.

U.S. cash and money markets³

The employment report, early in April, was viewed as fairly strong, particularly the drop in the unemployment rate to 4.40 per cent from 4.50 per cent. Given the Federal Open Market Committee's (FOMC's) concern with regard to "resource utilisation", it is unlikely that they would consider reducing short-term interest rates while the unemployment rate remains at these levels.

At the same time, there does not seem to be much talk of Non-Accelerating Inflation Rate of Unemployment (NAIRU) as the cause of a tightening of rates. The inflation data that was released in the mid-month

period was quite benign and was the catalyst for a significant rally across the yield curve. For example, the yield on the benchmark two-year US Treasury note was 4.73 per cent shortly after the employment release, but dropped below 4.60 per cent after the Consumer Purchasing Index (CPI) report.

There continues to be little or no expectation that the FOMC will adjust policy at the upcoming meeting in May, and at month-end the probabilities for a 25-basis-point (bps) reduction in the benchmark overnight Federal Funds rate, as indicated

by the futures market, was 23.00 per cent for an early-August move, 38.00 per cent by mid September and 66.00 per cent by late October. Money-market economists in the major broker-dealer firms are still split on their opinion as to whether the next move will be up or down. The uncertainty continues to keep us on a cautious footing, and we continue to refrain from making purchases deep into the inversion. Most, if not all, of our investment purchases longer than 90 days will be of a floating-rate nature in order to protect the investor against a change in market sentiment.

³ Bloomberg L.P., 4 May 2007

U.S. corporate bonds

In April, overall average balances were down 4.90 per cent for the month, while average special balances were down 12.32 per cent.

News

Indika group held its inaugural dollar-denominated bond sale. It raised USD250 million from its first dollar-denominated bond sale, attracting almost USD4 billion of demand. Indika priced the five-year bonds to yield 8.497 percent, 391.4 bps more than US Treasuries with similar maturities.⁴

Indonesia's USD351 billion economy, the largest in South-East Asia, is growing at its fastest pace in over two years, helped by rising consumer demand and exports. Inflation, which reached a high of 18.40 per cent back in November 2005, has recently slowed to 6.50 per cent. The central bank has cut its benchmark rate ten times since May 2006.⁵

Issues in demand

- Diamond Offshore (CUSIP 25271CAE2)
- Bon-Ton Stores (CUSIP 09776NAB8)
- Wise (CUSIP 977255AC2)
- JLG Industries (CUSIP 466210AB7)
- WCI (CUSIP 92923CAG9)

⁴ Bloomberg L.P., 30 April 2007.

⁵ Bloomberg L.P., 24 April 2007.

U.S. issuance and credit

In early April, Moody's (www.moody.com/jda) announced the results of a Joint Default Analysis (JDA), which premises on the notion that government liquidity would be provided to a large multi-national bank if default scenarios were in their future.

The analysis yielded upgrades to a myriad of high A and low AA banks up to three rating notches. After a poor market reception, the company backtracked and lowered the ratings, on average one notch above its original rating. The second and third waves of upgrades were more in line with the previously adjusted ratings. In all,

37 of our programmes experienced at least a one-notch long-term rating upgrade.

Due to the Leveraged Buyout (LBO) of Sallie Mae (www.salliemae.com), a favourite holding in the securities lending industry, each of the three major rating agencies has placed a potential downgrade from A to BB based on the completed deal's metrics. A consortium led by JP Morgan and the Bank of America has planned a USD16.5 billion buyout of SLM Corporation (Sallie Mae's parent company). Short-term spreads have widened, commensurate with BB ratings. We are pleased to report that our clients do not have any exposure to this market event.

US Treasury and agency

The US government desk saw balances increase by almost three billion throughout April due to very favourable market conditions in repo. The month was split with regards to overnight treasury general collateral (GC). The first half of April was one of extremely expensive financing with overnight treasuries averaging 5.26 per cent, which is one basis point over the funds target of 5.25 per cent. However, there was a total of 72 billion in cash-management bills that matured across 16, 17 and 18 April. These maturities helped cause a shortage of treasury collateral for the remainder on the month. Subsequently, overnight treasury financing averaged 5.16

per cent for the second half of the month with no signs that this extraordinarily wide spread would dissipate in May.

The current Treasury issues traded well throughout April. The ten-year note averaged over 110 bps and the five-year and the long bond both averaged 35 bps. The tens and long bonds should continue to trade with a premium up to, and probably through to, the 15 May quarterly Treasury refunding.

The term Treasury GC markets are indicating just a 6.00 per cent chance of a 25 bps ease by July and a 50.00 per cent chance of a 25 bps ease by November.

Asia-Pacific equities⁶

In April, our Asia-Pacific desk in Hong Kong saw that markets continued to make gains, with the Hong Kong Hang Seng Index erasing most of the losses after the February correction. The Australian AS51 broke through 6,200 points on continued resource driven expansion and merger activity. Private Equity buyouts continued, however Macquarie Bank's AUD11.1 billion buyout bid for Qantas failed to reach the required 50 per cent take up. Japan, in contrast, continued to have conflicting data on the recovery and the Nikkei Index moved modestly higher over the month. Monthly Labour statistics indicated that total employment has been increasing; meanwhile per-capita wage has been decreasing on a year-on-year basis.

Australia

Balances in Australia were up 7.82 per cent over record date at the end of April.

Active Stocks

- Geodynamics (SEDL 6546218)
- Copperco Limited (SEDL 6151441)
- Platinum Aust. NPV (SEDL 6292652)
- Riversdale Mining (SEDL 6932657)
- Soul Pattinson (WH) (SEDL 6821807)

Hong Kong

Balances in Hong Kong were down 13.82 per cent for the month of April

Active Stocks

- Dynasty Fine Wines (SEDL B05M185)
- Shanghai Real Estate (SEDL 6201830)
- Geely Automobile (SEDL 6531827)

- FE Consortium International (SEDL 6331555)
- Heng Tai Consumables (SEDL 6423441)

Japan

Balances were up 46.61 per cent over during April as brokers flipped out of offshore stock back into domestic.

Active Stocks

- Privee Investment (SEDL 6673547)
- Tobishima Corporation (SEDL 6893000)
- Tokyo Construction NPV (SEDL 6689351)
- Altech Company (SEDL 6042028)
- Mitsubishi Pencil (SEDL 6596763)

Asia-Pacific equities⁶ (continued)

Singapore

Singapore fell 27.34 per cent over the month of April.

Active Stocks

- Wilmar International Ltd (SEDL B17KC69)
- Hyflux (SEDL 6320058)
- Mediaring Limited (SEDL 6194026)
- Noble Group (SEDL B01CLC3)

South Korea

Balances in Korea were up moderately 23.72 per cent during the month of April.

Active Stocks

- Korean Air Terminal (SEDL 6496476)
- Hyundai Autonet (SEDL 6539036)
- Hankuk Paper Manufacturing (SEDL 6408578)
- Kukdo Chemical (SEDL 6499129)
- Hyundai Elevator (SEDL 6411189)

Taiwan

Balances were up 53.09 per cent during the month of April.

Active Stocks

- Asia Optical Company International (SEDL 6295866)
- Phoenix Precision (SEDL 6353957)
- Shin Kong Financial Holdings (SEDL 6452586)
- Synnex Tech International (SEDL 6868439)
- Merry Electronics (SEDL 6129749)

⁶ Bloomberg L.P., April 2007

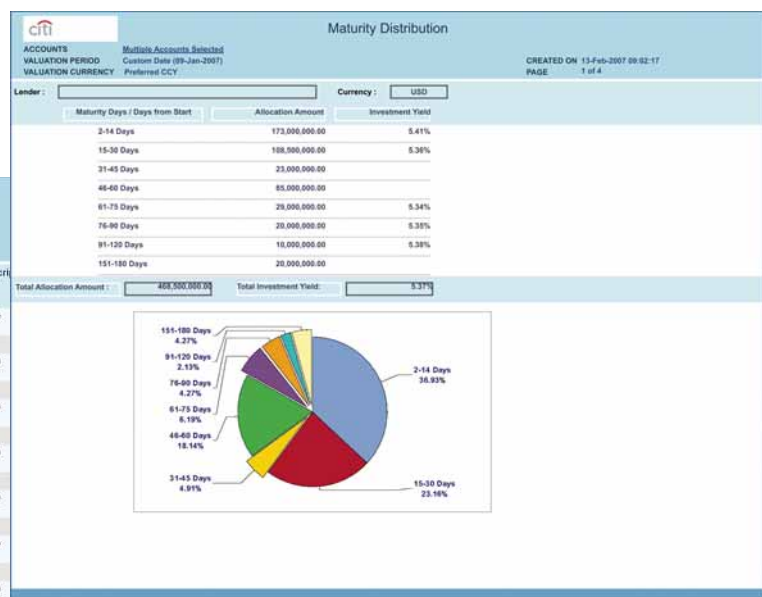
Client solutions update

Citi is proud to deliver to clients in the Securities Finance industry its next-generation reporting platform. In addition to improving current reporting capabilities, the new platform will provide powerful analytics to help clients make strategic decisions in their Securities Finance endeavours. By providing more frequent,

timely and detailed reports, clients can better manage their risk and costs. Citi's product and technology experts have been hard at work in implementing the new reporting platform, currently being rolled out to clients. The programme is scheduled for completion by the end of September 2007.

The new platform will be available via CitiDirect[®] for Securities. Please contact your Relationship Manager for more information on how to access the new platform.

Group Lender	Currency	Borrower	Collateral Type	Market Value Currency Code	Collateral Quantity	Description
	USD	DEMO BORROWER FULL NAME49 (BOR 49)	CSH/USD			CASH USD
		TOTAL (BOR 49)				
		DEMO BORROWER FULL NAMES3 (BOR 53)	CSH/USD			CASH USD
		TOTAL (BOR 53)				
		FULL NAME - BORROWER 39 (BOR 39)	CSH/USD			CASH USD
		TOTAL (BOR 39)				
		FULL NAME - BORROWER 41 (BOR 41)	CSH/USD			CASH USD
		TOTAL (BOR 41)				
		FULL NAME - BORROWER 51 (BOR 51)	CSH/USD			CASH USD
		TOTAL (BOR 51)				
		FULL NAME - BORROWER 55 (BOR 55)	CSH/USD			CASH USD
		TOTAL (BOR 55)				
		FULL NAME - BORROWER 68 (BOR 68)	CSH/USD			CASH USD
		TOTAL (BOR 68)				
		FULL NAME - BORROWER 69 (BOR 69)	CSH/USD			CASH USD
		TOTAL (BOR 69)				
		FULL NAME - BORROWER 80 (BOR 80)	CSH/USD			CASH USD
		TOTAL (BOR 80)				
					129,600.00	
					955,036.00	100.000000
					955,036.00	
					252,300.00	100.000000
					252,300.00	
					12,645,749.75	



Advantages of the new reporting platform

- Ability to schedule and automate the delivery of reports in various formats.
- Provision of customised tools that enable cutting and splicing of data.
- Provision of intra-day reporting capabilities.

European equities

Our European desk in London saw that in April overall balances were flat.

London to outpace New York as base for hedgefunds⁷

London is gaining on New York as the hedge-fund capital of the world, according to a report by International Financial Services. In 2006, London controlled 21.00 per cent of the hedge-fund market, up from 10.00 per cent in 2002. New York's share of the hedge-fund market has dwindled from 45.00 per cent in 2002 to 36.00 per cent in 2006.

The report stated that London-based managers now control around USD360 billion of the estimated USD1.5-trillion global hedge-fund assets under management. Of approximately 1,400 European-managed hedge funds in 2006, around two-thirds were located in the UK's capital.

"The European hedge-fund industry is increasing at a greater pace than New York's. The US hedge-fund industry has matured and Europe and Asia are catching up," said Marko Maslakovic, senior economist at International Financial Services. "London, as Europe's hedge-fund capital, is benefiting the most. London's advantages for hedge funds include administration, prime brokerage and custody-auditing, all centralised in one place."

Hedge funds raise USD60 billion in first quarter⁸

Hedge funds globally attracted USD60 billion in new investment in the first quarter of this year, almost half of the new investment in hedge funds in the whole of 2006, according to a study by Hedge Fund Research (HFR).

These record inflows were almost four times greater than in the fourth quarter of 2006, as the collapse of Amaranth Advisors briefly dented interest in hedge funds. The previous record was set in the third quarter of last

year, when funds pulled in USD44.5 billion of new money. HFR estimates industry assets now stand at around USD1.57 trillion.

"After a relatively quiet end to what was still a record-breaking year in 2006, investors have begun pouring money into hedge funds at a pace we have never seen before," Ken Heinz, president of HFR, commented. "The trend in asset flow suggests that both individual and institutional investors are actively allocating to hedge funds."

The HFR study found that equity hedge funds raised USD20.3 billion during the first quarter, the largest quarterly inflow ever recorded for a single strategy. Relative-value arbitrage hedge funds, the second most popular, raised USD10.3 billion. Funds of funds saw net new flows of USD8 billion in the quarter, marking the fifth straight quarter of positive inflows.

Active stocks

Relative value and merger-and-acquisition news

- A3TV (A3TV SM)
- Endesa (ELE SM)
- Banco Popolare Di Verona (BPVN IM)
- Iberdrola (IBE SM)

Directional and convertible bond news

- Tiscali (TIS IM)
- Conergy (CGY GR)
- Premier (PRE GR)
- Option (OPTI BB)

Sectors and markets in demand Included: Spanish utilities, exchange-traded funds, Real-Estate Investment Trusts, South Africa and emerging markets.

⁷ International Securities Finance (www.isfmagazine.com), April 2007.

⁸ International Securities Finance (www.isfmagazine.com), April 2007.

European government bonds

European government GC remained sought after as the European equity dividend season peaks. Broker-dealers are using their fixed-income borrows to finance German, Scandinavian and Italian equity baskets, which paid dividends through the month. In addition, we saw large equity baskets trading in the run-up to dividend payment in France throughout May and June. Demand for Spanish, Italian and Greek government debt continued, with Portuguese debt also becoming more attractive. These markets are predominantly traded domestically and traders have been able to capitalise on relative illiquidity.

The gilt market yielded several specials through April, with volatility in UKT 5 03/07/08 (GB0031734154), UKT 4 03/07/09 (GB0032785924), UKT 5 03/07/12 (GB0030468747) and UKT 4 09/07/16 (GB00BOV3WX43), which traded in a range of between 40 and 15 bps. We were able to maximise revenue by locking up positions in term for clients with an appetite for this trade.

At their April meeting, the Monetary Policy Committee (MPC) held rates again, conflicting with market sentiment. Inflationary concerns have led some market commentators to call for a 50 bps hike in May (CPI inflation recorded at 3.10 per cent against a target of 2.00 per cent). However, following a statement from The Bank of England governor Mervyn King, which suggested expectations of a sharp fall in CPI inflation, 25 bps is considered more likely. In fact, a recent Reuters poll of 61 analysts returned a 100 per cent consensus of rates moving to 5.50 per cent in May, with a bias to towards a further hike to follow.

European money markets

12 April saw the European Central Bank (ECB) maintain a benchmark refinancing rate of 3.75 per cent, as anticipated by the market. In line with previous signals, ECB President Jean-Claude Trichet later told a press briefing that the inflation outlook "remains subject to upside risk", confirming for many analysts that the 25 bps increase anticipated for the 6 June meeting was

even more likely to fulfil expectations. The Euro subsequently rose to a two-year high against the US dollar reflecting the predicted rate hike.

Spreads from investment in European Commercial Paper (ECP) continue to surpass shorter-term tri-party repo returns. This marked difference becomes more noticeable in the current European dividend

season, when the availability of tri-party collateral is significantly reduced, as prime brokers look to finance large equity borrows. Overnight rates dipped to a low of 3.77 per cent to reflect this supply shortage, and the usual month-end spike was also somewhat subdued as a result, with rates peaking at 3.83 per cent.

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