

ON LOAN ACTIVITY

Government Bonds

- U.S. □
- European ↑

Corporate Bonds

- U.S. ↓
- European ↑

Global Equities

- U.S. □
- European □
- Asian ↑

On Loan Activity Key

↑ Up ↓ Down □ No change

U.S. Corporate Bonds

Overall balances were up 11.5 percent for June while specials balances were up 3.0 percent.

May's 0.3 percent rise in core CPI helped push rates higher during the month, a trend for the third month in a row, bringing year on year core inflation to 2.4 percent. Fed Funds Futures in average are pricing an 87 percent probability of a further hike in August (Aug FF contract 94.58).

From our global desks issues in demand included: Hawaiian Telecom (420029AF7) which traded up to 500 bps special, and Century Communications (156503AG9) which traded as much as 425 bps special as a directional trade.

A sector that remained in demand included: Autos. Ford (345397UA9) 5.625 percent due 10/01/2008 traded in term ahead of the exchange announcement, but they never caught a bid afterwards. Ford (345370CA6) 7.45 percent due 7/16/2031 were well offered. Dealers were still trying to make them look tight but nobody took them in term longer than one month.

Welcome

Welcome to our second edition of Market Monitor. We hope you will find the information informative and useful for your business.

We welcome and appreciate your candid feedback on this newsletter and particularly if there are topics you would like us to cover in future editions, then please contact one of the Citigroup representatives listed overleaf.

U.S. Cash, Treasury and Agency Update

The outstanding balance for the Treasury and Agency desk averaged approximately U.S.\$52.5 billion for June, which remained unchanged from May. The spread for treasury general collateral dropped to eight basis points (bps) in June from 12 bps in May. The reason for this reduction in spread was the issuance of Cash Management Bills (CMB's) by the Federal Reserve in early June. The bills, which matured on 15 June, split the month in half from a revenue/spread perspective. The average overnight treasury spread to funds was only two bps for the first half of

the month but markedly increased to 13 bps after the CMB's matured.

The Federal Reserve increased the funds rate to 5.25 percent on 29 June. Another event that happened was the soft financing for treasuries over quarter-end. The demand for treasury collateral by the dealer community over quarter-ends is extremely strong. We have seen spreads widen greatly during this time period. This quarter-end was no exception. The overnight treasury financing spread to funds was 68 bps. Moreover, there were several special issues in excess of 100 bps.

U.S. Equities

From our U.S. equity desk we saw overall balances up by 6.6 percent for June with specials in demand up 1.2 percent.

Rate concerns and higher commodity prices were dragging on stocks earlier in June as the S&P 500 and Dow went negative YTD.

Early in the month, La-Z-Boy (LZB) missed by U.S. \$0.08 and issued downside guidance for first quarter with Earnings Per Share (EPS) of U.S. \$0.01-0.05 vs. U.S. \$0.13 consensus. Shares were down as much as 13 percent since the earnings announcement, a downgrade by Raymond James and a target price cut to U.S. \$8 from U.S. \$9 by UBS. The price has stabilized with shares trading down just over two percent since the announcement.

With short interest over 25 percent of float, there is heavy demand in repo with shares trading as low as neg nine.

Movie Gallery (MOVI) surged to a high of U.S.\$7.50 earlier in June. This was partly due to a fund manager's increased stake and short covering. Activity has heated up since they reported strong earnings. Repo has been relatively unchanged, bid at neg five percent with 100 percent utilization.

Sectors we saw that were in demand included: Autos, Airlines, Exchange Traded Funds, and REITs. Some drivers of this demand included: asset valuations, downgrades, interest rate uncertainty, commodity prices and supply issues.

Asia and Pacific Rim Equities

Overall balances were up eight percent for June while specials balances were up two percent.

Asian markets continued to be effected over concerns about the impact of the rate cycle in the U.S., Europe and Japan on global inflation, demand and GDP. Though the later half of the year saw some improvement with markets lifting off their lows.

- Australia continued to be dominated by stocks trading at general collateral levels due to the high liquidity in most issues
- Australia Stock Exchange Ltd, the third biggest exchange in Asia Pacific, announced it would merge with Sydney Futures Exchange
- OneSteel, Australia's second largest steelmaker will buy Smorgan Steel Group for A\$ 1.6 bn Interest lies with Onesteel with stock trading as high as a two percent fee

- The Hong Kong market was characterised by the end of a ban on new Initial Public Offering (IPO) for mainland companies and a merger in the airline industry. Despite initial negative territory the market ended up in June
- Our trading desk saw interest generated for Angang New Steel (6425395) which traded at 4.84 percent fee
- Aluminum Corp (BOB8Z29), China Construction (939 HK) and Bank of China (398 HK) - A new IPO and added to the Index
- Additional stocks where we saw interest included: Kwah Int'l Angang New Steel Co., China Everbright, Ishare/Xinhua and Lining Co, Ltd., all trading between 3.5 percent to five percent fee
- Japan's consumer prices rose at the fastest pace in eight years, further strengthening evidence that deflation in the world's second largest economy is over, and providing support for the Bank

of Japan's case for raising interest rates from zero. Japan's unemployment rate fell to a seven year low of four percent, as the economy recovers

- ATOM Corp and Colowide Co. Ltd announced a merger to rebuild restaurant network
- Atom corp will be the surviving company after the merger. Atom traded at six percent Fee

From Citigroup's trading desks, top earners in the securities lending Japanese market for June were:

- In the Japan market, Private Zurich Turn, Sparx Asset Mgt Co., Cybrid Co Ltd traded, Altech Co and Invoice Inc.
- In Singapore there was interest in Nobel Group, Norelco UMS Hldgs, Thai Beverage and Chartered Semi Conductor
- In Thailand there was interest in CH Karnchang, Sino Thai Eng&Cons, Major Cineplex Gro, Bk of Ayudhya and Banpu Public Co.

European Cash Update

Eurozone

The European Central Bank raised interest rates by 25 bps to 2.75 percent on 6 June. This was fully discounted by the market and more interest was in the timing of further rises over the rest of the year. Business expectations and strong job creation numbers from most European countries pushed year-end interest rate predictions to around 3.25 percent.

UK

Interest rates remained unchanged at 4.50% in June. The minutes of the Monetary Policy Committee meeting published at the end of the month showed all but one member voting for no change with the other members voting for a rise.

European Equities

Overall balances were down 35 percent in June as a result of the seasonal activity for European equities winding down.

The downturn was partially offset with 20 percent of the European specials converted to general collateral levels and demand for European equities trading special to cover recalls in the market.

Notable issues in the European market

There continues to be strong demand for iSHARES/ETFs with levels reaching four percent.

- Arcelor's board accepted a second increased offer of €40.40/share, valuing the company at €26.9bn, up from its previous €23.5bn offer. The new terms are 13 Mittal shares and €150.60 cash for 12 Arcelor shares, a 49 percent increase on the original offer. This merger has been going back & forth over the last month with fees peaking at 15 percent for Mittal & 3.5 percent for Arcelor
- Bco Pop Italiana (BPI IM): Rights Issue trading at one percent fee
- BPI (BPI IM): Approval from Consob for its €0.7194 bn share sale announced

in May. 21 per 100 rights trading period will be from 3 July to 21 July. Trading at one percent fee

- Iliad (ILD FP): France's second-largest Internet service provider will sell as much as 330mIn Euros of convertible bonds. Trading at 2.5 percent fee
- Veolia (VIE FP): Abandoned plans to merge with Vinci following Vinci's rejection of what it called a hostile proposal. Trading at 0.25 percent fee
- Bca Lombarda-Piemontese (BL IM): The Italian regional bank plans to sell floating rate note bonds. We have seen some interest with stock trading at 1.5 percent fee, however most brokers are still waiting for hedge fund demand
- Premiere (PRE GR): Stock price continues to fall hitting a year low with levels now moving above the 2.5 percent
- Strong interest in Infogrames Ent trading at eight percent fee and Socgecable trading at four percent fee as a result of convertible bond activity
- Strong interest in Alitalia trading at six percent fee and Antena 3 trading at four percent fee due to directional activity.

US Cash and Money Markets

A soft employment report released in June was responsible for a short-lived rally across the yield curve. The two year note yield decreased by about 12 bps, but shortly thereafter began to give it back, as the economic data releases following the employment report continued to demonstrate some moderate strength in the economy. The inflation data released in the middle of June was strong and provided fodder for the market bears. The same benchmark two-year note gained 10 bps in yield immediately following the Consumer Price Index (CPI) report and had cheapened another 15 basis points to yield over 5.25 percent before month end. From mid-month onward, the market fully priced in a 25 bps increase in the overnight Federal Funds target rate for the 29 June Federal Open Market Committee (FOMC) meeting, and started to build in the possibility of a 50 bps increase at that meeting.

During the last week of June, the Federal Funds futures market indicated a 12 percent probability for a 50 bps move. All types of Institutional investors began to hoard liquidity in view of this possible move, which reduced the pressure on overnight rates as seen in the past. At the same time, much of the excess liquidity was put into overnight US Treasury (UST) repurchase agreements, thus stimulating demand for collateral and widening the spread to other money market investments.

The FOMC then announced its increase by only 25 bps and indicated further increases would be data dependent. After the FOMC's statement was released the probability for the August 25 basis point hike decreased from about 85 percent to approximately 65 percent.

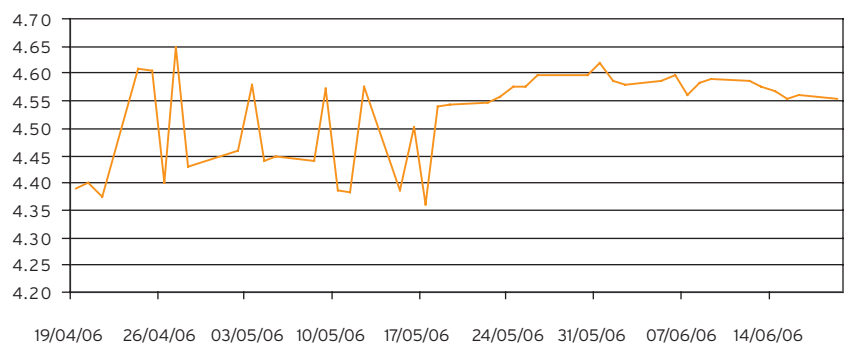
European Government Bond Update

The majority of European Government Bonds continued to trade at General Collateral (GC) levels apart from the German deliverable bonds which attracted some value as they neared the June delivery date. The DBR 3.25 07/15 (the CTD bond) traded up to around 50 bps on delivery but quickly moved back to GC just after.

The new Bank of England system to fund sterling shortages (introduced mid-May) has

pushed short date rates up to just above the benchmark rate and most importantly has removed most of the volatility (see graph below). This has had a beneficial impact on the GBP re-investment book but has caused severe pressure on Gilt lending spreads. There was constant demand for a number of issues at GC rates (UKT 8 15, UKT 5 08, UKT 4.75 15) but because of large supply spreads did not widen.

GBP O/N Rates



*Source: Bloomberg 21 June 2006

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