

G7 CALENDAR**Friday, GMT**

:30 a.m.	US
Fed Gov Olson speaks on the economy and the implications of fiscal policy in Seattle	
4:30 a.m.	JPN
Aug Revised Indus Production (previous +1.2% MM)	
5:30 a.m.	JPN
Sep Tokyo Dept Store Sales (previous -6.1%YY)	
8:00 a.m.	ITA
Sep ISTAT's Final CPI (expected 0.0%MM)	
8:00 a.m.	ITA
Aug ISTAT's Trade Balance (previous +2.4B)	
8:00 a.m.	ITA
Aug ISTAT's EU Trade Balance (previous +1.9B)	
12:30p.m.	CAN
Aug Mfg Shipments (expected +1.0%)	
12:30p.m.	CAN
Aug New Vehicle Sales (expected -7.0%)	
12:30p.m.	US
Sept Retail & Food Sales (expected +0.4%)	
12:30p.m.	US
Sept Retail & Food Sales, ex-autos (expected +0.8%)	
12:30p.m.	US
Sept CPI (expected +0.9%)	
12:30p.m.	US
Sept CPI, ex-food and energy (expected +0.2%)	
1:15p.m.	US
Sept Indus Production (expected -0.4%)	
1:15p.m.	US
Sept Capacity Utilization (previous 79.8%)	
1:45p.m.	US
Oct Univ of Michigan Consumer Sentiment Index (Prelim) (expected 80.0)	

TODAY'S MARKET WRAPS

TREASURYS: U.S. Treasury prices were under pressure midafternoon, with investor concern over inflation risks for the economy intensifying. At a recent yield of 4.48%, the benchmark 10-year note was at its highest level since the end of March. Earlier in the session the note briefly topped 4.50%. Fostering the renewed rise in yields and decline in prices is the realization that concern over inflation pressures will keep the Fed squarely on its interest rate tightening path for an extended period of time.

FOREX: The dollar was higher versus the other major currencies but was off the 25-month high it hit against the yen earlier in the session after the U.S. trade gap came in slightly below expectations. The dollar topped Y115 for the first time since Sept 2003 but in late afternoon trading, was at Y114.72 vs Y114.38 Wednesday, according to EBS. In a volatile session, the euro also fell to a 1-week low around \$1.1915 after the August trade gap number, but quickly bounced back and was at \$1.1993 late afternoon, down from \$1.2026 Wednesday.

CORPORATES: The tone in the investment grade corporate bond market remains weak with yield spreads over Treasuries wider by around 3 to 5 bps. Inflation, fuel costs, auto sector worries continue to weigh on sentiment. In the primary market, supranationals are taking center stage. IADB priced \$500M in 2-year global at 16 bps over Treasuries while EIB priced \$1B 10-yr globals at 27 bps over Treasuries. High-yield is weaker as well. Prices in the auto sector are 1/2 to a point lower.

STOCKS: Investors continued their skittish stance, this time as another piece of data showed inflationary pressures. Stocks did little all session after data showed that import prices increased at the fastest pace in 15 years, which reignited inflation fears.

ENERGY: Oil prices widened their loss to more than \$1 and plunged under \$63 a barrel on reports of a sharp recovery in U.S. refinery operations and continued weakness in demand. U.S. refinery utilization jumped by a larger-than-expected 5.1 percentage points last week to 74.9% of operable capacity, recovering nearly one-third of a drop caused by Hurricane Rita, the federal Energy Information Administration reported.

TOMORROW'S TOP MONEY HEADLINES**US Trade Gap Widens On Higher Oil Bill**

The U.S. trade deficit grew in August as a record-high bill for petroleum imports offset growing exports of industrial supplies, autos and auto parts.

The U.S. deficit in international trade of goods and services grew by 1.8% to \$59.03 billion from July's slightly revised \$57.96 billion, the Commerce Department said. The July gap was originally seen at \$57.94 billion.

August exports rose 1.7% to a record-high \$108.18 billion, while imports increased 1.8% to a record-high \$167.21 billion, yielding a trade gap that was somewhat smaller than Wall Street expected. The median forecast of 21 economists surveyed by Dow Jones Newswires and CNBC was for an August deficit of \$60.00 billion.

Fitch Ups JC Penney To Investment Grade

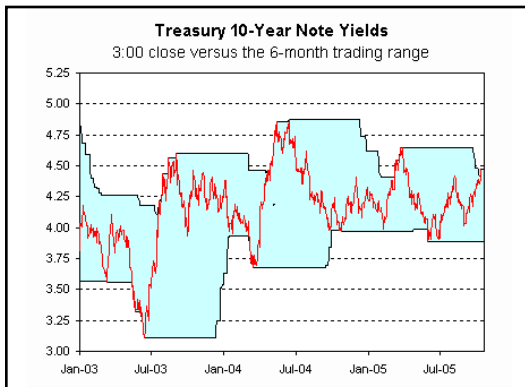
J.C. Penney Co. Inc.'s (JCP) credit ratings got a makeover after Fitch Ratings raised them to investment-grade status.

Fitch now rates the Plano, Texas, retailer a BBB- - its lowest investment-grade ranking - from BB+. The ratings outlook is stable.

"The upgrade reflects Penney's solid operating momentum and meaningful debt reduction, which together have yielded significant improvement in the company's credit profile," said Fitch in a release accompanying the ratings action.

The move affects \$4.6 billion of debt, split between \$3.4 billion of senior unsecured notes and debentures and a \$1.2 billion unsecured bank facility, Fitch noted in the release.

all prices as of 3:00 PM EST unless otherwise stated



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	3.430	3.415	3.487	-0.004
3-Mo Bill	3.670	3.660	3.755	0.043
6-Mo Bill	3.955	3.935	4.091	-0.016
2-Year	99.172	99.180	4.247	-0.002
3-Year	99.190	99.196	4.277	-0.011
5-Year	99.20+	99.216	4.331	-0.020
10-Year	98.06+	98.080	4.477	-0.066
30-Year	109.270	109.290	4.705	-0.210

EQUITIES

	INDEX	CHANGE
DJIA	10215.63	-1.28
NASDAQ	2046.22	8.75

OIL

	PRICE	CHANGE
NYMEX	63.08	-1.04

CURRENCIES

	PRICE
Euro	1.2013
Sterling	1.7548
JPN Yen	114.53
Swiss Franc	1.2895
Can Dollar	1.1840
Mexico	10.950

FUTURES

	PRICE	CHANGE
CBOT 5 yr	106.12	-0.3
CBOT 10 yr	109.1	-0.7
CBOT 30 yr	112.23	-0.16

IR SWAPS

	SPREAD	RATE
2-Year	44.750 - 40.750	4.684 - 4.644
3-Year	46.750 - 42.750	4.740 - 4.700
5-Year	49.750 - 45.750	4.824 - 4.784
10-Year	50.000 - 46.000	4.974 - 4.934
30-Year	50.250 - 46.250	5.206 - 5.166

EURODOLLAR FUTURES

	CLOSE	CHANGE
Dec05	95.5800	-0.0100
Mar06	95.4200	0.0150
Jun06	95.34	0.0100
Sep06	95.3200	0.0050

REPURCHASE AGREEMENTS

GENERAL	i-REPO SM INDEX	
COLLATERAL		
O/N	3.720	10:00 AM 3.711
1-Week	3.700	3:00 PM 3.720
2-Week	3.750	
3-Week	3.730	
1-Month	3.800	
2-Month	3.870	
3-Month	3.950	
		O/N SPECIALS
		2-Year 2.721
		3-Year 3.499
		5-Year 3.073
		10-Year 2.350

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	3.7500	
1-Month	3.9000	3.9150
3-Month	4.1000	4.0760
6-Month	4.2900	4.2860
12-month	4.5100	4.4830

FED FUNDS

Open	3.7500
High	3.7500
Low	3.7500

HEFFR

10:00 AM	3.76
3:00 PM	3.76

ACTIVE AGENCY ISSUES

FANNIE MAE

TERM	COUPON	MATURITY	YIELD SPREAD	YIELD
2-Year	4.250	09/15/07	22.50 - 22.00	4.465
3-Year	3.875	07/15/08	26.50 - 26.50	4.538
5-Year	4.250	08/15/10	33.50 - 33.00	4.661
10-Year	4.375	10/15/15	34.50 - 33.75	4.819
30-Year	6.625	11/15/30	38.25 - 37.75	5.086

FREDDIE MAC

TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	4.000	08/17/07	21.50 - 21.00	4.455
3-Year	3.875	06/15/08	26.25 - 25.50	4.535
5-Year	4.125	10/18/10	33.00 - 32.50	4.656
10-Year	4.375	07/17/15	35.25 - 34.75	4.827
30-Year	6.250	07/15/32	35.25 - 34.75	5.055

ACTIVE CORPORATES

ISSUER	MATURITY	COUPON	MID- PRICE	MID- YIELD
F 7.45 07/16/31	07/16/31	7.450	71.9688	10.656
F 7 7/8 06/15/10	06/15/10	7.875	93.4688	9.643
GM 8 3/8 07/15/33	07/15/33	8.375	71.4688	11.913

ACTIVE MBS 15YR

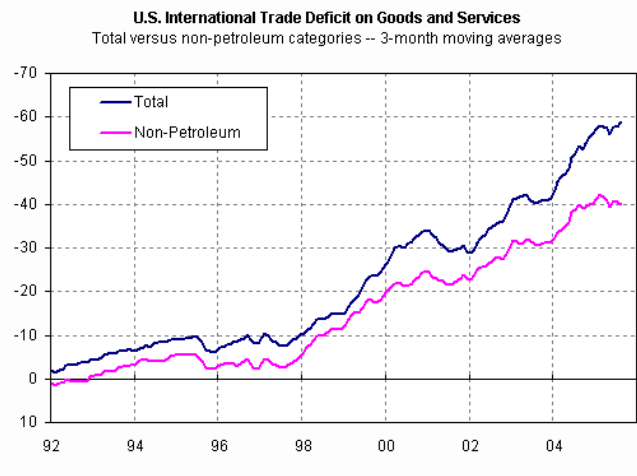
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	99.306 - 100.006	4.984
FNMA	5.0	99.050 - 99.076	5.167
FHLMC	5.0	99.070 - 99.090	5.152

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	100.080 - 100.106	5.438
FNMA	5.5	99.082 - 99.082	5.640
FHLMC	5.5	99.100 - 99.120	5.628

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Wrightson-ICAPSM Chart of the Day
<http://www.wrightson.com>



TOMORROW'S MONEY HEADLINES

Refco Closes Unit; Downgraded By S&P

Refco Inc. (RFX) shut down one of its units - citing a shortage of available cash to continue operations - and hired several high-powered advisers to help it deal with the burgeoning scandal surrounding its embattled chief executive, Phillip R. Bennett.

The company imposed a 15-day moratorium on all activities at Refco Capital Markets Ltd., a non-regulated arm handling a variety of over-the-counter transactions, including prime brokerage, foreign exchange, fixed-income trading, and stock lending.

Refco bonds fell sharply on that news and after Standard & Poor's cut its long-term counterparty credit rating two notches to single-B-minus, and its subordinated debt rating two notches to triple-C. Refco's 9% bonds due 2012 recently traded down 42 points, at 33 1/2, or 33.5 cents on the dollar, according to MarketAxess. The bonds opened at 77 1/2 and traded as low as 30.

US Import Prices Boosted By Oil Costs

Import prices made their fastest surge in nearly 15 years during September, as costs climbed for petroleum purchases and other goods bought from abroad.

Overall import prices rose 2.3% last month, after rising 1.2% in August, the Labor Department said. The department originally estimated August prices up 1.3%. September's increase was the largest since a 2.9% advance in October 1990.

Hurricanes Katrina and Rita had virtually no impact on data collection efforts, Labor said.

During the 12-month period since September 2004, prices increased 9.9%. Between September 2003 and September 2004, prices climbed 8.2%.

US Jobless Claims Down Despite Storms

New unemployment claims slipped last week even though workers idled by a pair of hurricanes kept filing for jobless benefits.

Initial claims for jobless benefits fell by 2,000 to 389,000, after seasonal adjustments, in the week that ended Oct. 8, the Labor Department said.

The four-week average of new claims last week declined to 395,750 from 404,500.

The number of new jobless claims filed nationwide was bigger than Wall Street had expected. The median estimate of 13 economists surveyed by Dow Jones Newswires and CNBC was for claims to fall by 40,000 to 350,000 for the week ending Oct. 8.

Canada Trade Data Point To Strength

Canada's trade surplus fell short of expectations in August, but the trade picture remained vibrant as soaring energy prices underpinned export strength.

The trade data will fortify expectations the Bank of Canada will raise interest rates next Tuesday, analysts said.

Canada's central bank is widely expected to raise its key overnight target rate by 25 basis points for the second time at its policy announcement date Tuesday, bringing the rate to 3.0%.

Soaring natural gas prices helped drive exports while record energy imports failed to offset a decline in other sectors, pushing the overall trade surplus to C\$5.57 billion in August.

It was the largest surplus since August 2004, but fell short of the C\$5.95 billion mean forecast of economists surveyed by Thomson IFR Bonddata.

July's surplus was revised down to C\$4.89 billion from a preliminary C\$5.82 billion.

ECB's Issing Says Policy Accommodating

European Central Bank monetary policy is "very accommodating," while the risks to price stability have heightened, the ECB Chief Economist Otmar Issing said.

With the euro-zone economy robust but not satisfactory, inflation could exceed 2% in 2006. However so far there aren't any signs of stronger wage increases and the region's economies seem to have withstood higher crude oil prices, Issing said.

Issing said recent labor union calls for higher German wages were difficult to comprehend. The moderate development of wages in Germany was in the wider interest of the economy in light of the current labor market situation.

Issing also said that recent economic indicators have shown improvements.

European Growth Still Lags US

European growth continues to lag well behind both the U.S. and Japan, and little improvement is expected in the near term, European Commission data showed.

Growth in the 12-nation bloc remained anemic at just 0.3% on the quarter in the three months to June, and 1.1% on the year-earlier period. The quarterly growth rate is less than half the 0.8% growth recorded in both the U.S. and Japan in the second quarter.

The 25 countries of the European Union fared little better, as the Commission confirmed its previous estimates of growth of just 0.4% on the quarter and 1.3% on the year.

Expectations for improvement remain conservative, as the Commission stuck to its previous euro-zone growth forecasts in the range of 0.2%-0.6% for the third quarter, and 0.4%-0.8% in the fourth.

The unrevised data were in line with expectations.

Japan Current Account Surplus Falls

Japan's current account surplus fell for the first time in two months in August, declining 15.6% from a year earlier, the Ministry of Finance said.

High crude oil prices continued to inflate the nation's import bill, leading to a sharp decline in the trade surplus. But that was somewhat offset by a surge in income from abroad to record high levels, the ministry's data showed.

The surplus in the current account, the broadest measure of Japan's trade with the rest of the world, stood at Y1.216 trillion in August before seasonal adjustment, the data showed.

The decline followed a 0.8% rise in July but was a slightly slower rate of decline than the average 18.5% drop forecast by economists surveyed by Dow Jones Newswires and Nikkei News.

TOMORROW'S MONEY HEADLINES

European New-Car Registrations Up 2%

New-car registrations in Europe rose nearly 2% in September, signaling "a progressive recovery" of the world's second-largest auto market, the European Automobile Manufacturers said.

Growing fastest in September: German manufacturers like BMW AG (BMW.XE), Daimler Chrysler AG's (DCX) Mercedes-Benz brand and Volkswagen AG (VOW.XE), and mass-market Asian companies such as Toyota Motor Corp. (TM), Nissan Motor Co. (NSANY) and Hyundai Motor Co. (005380.SE). Losing market share in September were companies in the middle of the market, including Ford Motor Co. (F), Fiat SpA (FIA) and Renault SA (13190.FR).

A notable exception to this trend was General Motors Corp. (GM), which benefited from key model launches at three of its most important brands. Registrations of new GM cars in Europe rose 3.6% last month, according to the group.

Brewer Seeks To Pass On Pension To PBGC

The maker of Iron City beer, 140-year old Pittsburgh Brewing Co., faces an increasingly common problem - pension obligations that threaten to put it out of business.

The company is seeking to terminate its underfunded pension plan and have its obligations assumed by the Pension Benefit Guaranty Corp., a government agency which has taken over more than 3,000 underfunded plans in the last 30 years.

What makes Pittsburgh Brewing's request unusual is that it's hoping to get this relief without filing for bankruptcy protection.

The vast majority of companies that terminate their defined benefit pensions - plans that promise employees a predetermined benefit throughout their retirement - do so as part of a bankruptcy filing.

DuPont To Repatriate \$9.4B

DuPont Co. (DD) said that it will return about \$9.4 billion by the end of 2005 in profits earned abroad and that two Mississippi plants damaged by Hurricane Katrina would restart in November and December.

The Wilmington, Del., company, also known as E.I. du Pont de Nemours & Co., will book a charge of 32 cents a share for the repatriation under the American Jobs Creation Act. Another \$150 million in costs, or 10 cents a share, will be recorded for cleanup to its Gulf chemical plants.

DuPont will restart its Pascagoula, Miss., aniline facility by the end of November, with its DeLisle, Miss., titanium dioxide plant scheduled to begin operations by the end of December.

Militants Hit Russian Caucasus City

At least 49 people were killed when Islamic militants launched a major attack on police and government buildings in a provincial capital in Russia's volatile Caucasus region.

As darkness fell, Deputy Interior Minister Alexander Chekalin said militants holed up in two rooms at a police station were holding hostages and battling security forces, and that three attackers were putting up resistance at a souvenir shop. An armored personnel carrier was shelling the police station.

Police and security forces were combing the rest of the blockaded city searching for militants who might be hiding or wounded, he said.

Saddam To Face Charges Next Week

Ousted Iraqi leader Saddam Hussein will face charges of premeditated murder, torture and forced expulsion and disappearances when he goes on trial next week for a 1982 massacre of Shiites, a court official said.

A second case against Saddam and other defendants for another of the atrocities allegedly carried out by his regime could be presented to the Iraqi Special Tribunal within days, investigating judge Raid Juhi told reporters in Baghdad.

TALKING POINTS

August Trade Widening All Gas And Oil

The trade deficit widened in August, but the gap was smaller than expected, with virtually all of it accounted for by energy imports and most of that simply reflecting higher prices.

Sifting through all the detail, perhaps the most important message of the August trade report is that foreign trade was a solid contributor to economic growth in the third quarter.

To be sure, the nominal trade deficit widened to just over \$59.0 billion from just under \$58.0 billion in July, leaving the August shortfall the third largest on record, only exceeded by June's \$59.5 billion deficit and February's \$60.4 billion record. Still, the August deficit was less than the \$60.0 billion median estimate of 23 economists surveyed by Dow Jones Newswires and CNBC.

Part of the explanation for the near-record deficit is the dominance of imports of oil and natural gas, which were boosted by large price increases.

Total merchandise imports increased by \$2.822 billion and

96% of that increase was accounted for by oil and gas imports. Crude oil imports rose by \$1.394 billion, or by 9.5%, but the price of a barrel of crude rose by 10.7% to \$52.65 from \$49.03 per barrel in July. Petroleum product imports rose by \$386 million, or 13.1%. Natural gas imports rose an astonishing \$738 million, or 35.3%, while liquified petroleum gas imports rose by \$194 million, or 22.3%.

Moreover, with the Labor Department reporting Thursday that import prices rose by 2.3% in September, pushed up by a 7.5% increase in oil prices (it was revised to a smaller 6.0% increase in August), a further widening in the deficit for September is already on the cards.

When the effects of rising prices are removed, the constant dollar merchandise trade deficit narrowed to \$53.9 billion from \$54.6 in July and \$56.8 billion in June.

The two-month narrowing in the constant dollar deficit is encouraging because that is the portion of the trade report that goes into the compilation of gross domestic product.

TALKING POINTS**Corporate Bondholders Fret But Returns Steady**

Investment-grade corporate bondholders have much to gripe about.

On top of concerns over an uptick in shareholder-friendly actions by corporate debt issuers, investors now have to contend with the fallout from the current turmoil in the automotive sector.

Adding to their woes is the worry of a spike in inflation exacerbated by soaring energy prices - and the impact that could have on the Federal Reserve's interest rate policy.

Yet bond yields, or returns, continue to stay low, increasing only marginally in the face of these typically market-shaking events that could be expected to cause some widening in risk premiums over Treasuries. But not only are returns stubbornly low, they are expected to stay this way at least through the remainder of the year - mostly due to demand coming from various quarters of the debt market.

"Spreads will remain rangebound for the rest of the year," said Tim Compan, corporate bond portfolio manager at Allegiant Asset Management in Cleveland, with around \$6 billion in fixed income assets. Spread refers to the difference in returns between a given bond and comparable U.S. Treasuries - the premium offered to investors in exchange for taking on riskier corporate debt.

"I don't think we are going to see a widespread sell-off," Compan added.

That said, high-grade corporate bond investors are closely following the current turmoil in the automotive sector to gauge the possible impact on the investment-grade arena.

"Credit investors cannot be happy campers when they read headlines reporting on actual and possible bankruptcies and Chapter 11 filings by major companies that held investment-grade ratings not so long ago," said Edward B. Marrinan, director of credit strategy at JPMorgan Securities in New York, referring to auto part supplier Delphi Corp.'s (DPH) bankruptcy filing and concerns in the market over the finances of its former parent and struggling automaker General Motors Corp. (GM).

The bankruptcy filing could have repercussions for GM, which is likely to face demands from Delphi - its largest auto parts supplier - for price relief on components that GM buys. Also, the auto maker will likely have to assume a portion of Delphi's pension and retiree medical obligations - possibly running into billions of dollars - which GM guaranteed when it spun off Delphi in 1999.

"The question being asked by many credit investors is whether the problems in the automotive sector will spill over into rest of the corporate credit markets," said Marrinan. "So far, the impacts on high grade credit valuations of Delphi's filing and more noise around GM have been modest."

Bondholders are also weighed down by worry that monetary policy setters may start to act more aggressively to contain inflation if there is any evidence that core inflation is starting to see upward pressure from energy prices.

Hedge Funds Jittery About US Economy

Mounting concerns that higher energy prices will curb U.S. consumer spending at the same time inflation is picking up are leading some hedge fund managers to adjust their portfolios, seeking refuge in energy, commodities, technology and emerging markets assets.

Consumption has been a key driver of U.S. growth thanks largely to low interest rates. But as consumers put on the brakes while stretching their buck to heat their homes this winter, and the Federal Reserve continues to tighten monetary policy, that growth is expected to soften.

"When we get nervous about the U.S. economy, we basically reallocate money between our managers and take money out of long-only (strategies), which tend to do better during reasonably robust growth," said Niels Jensen, chief executive partner of Absolute Return Partners, a London-based investment management firm that runs a fund of hedge funds.

In his view, the U.S. economy is heading for a "substantial slowdown" that will drag the rest of the world economy down. Despite that prospect, Wall Street brokerage firms are "still pretty optimistic" about 2006 corporate earnings, which for Jensen flags a portfolio adjustment towards a long/short strategy.

"The only place we are long-only is commodities and energy stocks," he said. "On Sept. 1, we reduced our long-only (exposure) from 14% to 9% as a result of the good returns from the European equities market, so we took some money off the table, and basically we put it in a number of nontraditional assets - we added to our equities long/short, we allocated more to commodities, and managed futures," said Jensen.

To execute Absolute Return's strategy, Jensen put money with managers that are investing in agricultural commodities such as grains, oilseeds, coffee and sugar. He cited Eclectica Asset Management in London as a hedge fund actively investing in commodities, and in the energy sector RAB Energy Fund, which has a "quasi private equity" approach as it provides capital for very young companies in the natural gas and oil production sectors.

Worries about the economy are also leading some hedge fund managers to draw a parallel with the 1970s and select asset classes that were winners then.

"We have been concerned with the prospect for stagflation (inflation and low growth) for some time, and in a period when you have negative real interest rates it really favors gold," said Stephen Cucchiaro, president and chief investment officer of Windward Investment Management, a Boston-based hedge fund and investment advisory firm with \$480 million under management.