DOWJONES
i-Recap℠ Report
ICAP
News Provided By Dow Jones Friday, January 2, 2009

G7 CALENDAR

Monday
12:00p.m. **JPN**
Dec Domestic Auto Sales (on year) (previous -27.3%)
4:30 a.m. **UK**
Dec CIPS Construction PMI
5:00 a.m. **ITA**
Dec Provisional CPI
5:00 a.m. **ITA**
Dec Cities CPI
10:00 a.m. **US**
Nov Construction Spending (previous -1.2%)
4:30p.m. **US**
Dec 31 Fed Discount Window Borrowings, in dollars
Primary Credit Borrowings W/E Daily Avg (previous 86.2B)
4:30p.m. **US**
Dec 31 Foreign Central Bank Holdings, in dollars
Foreign US Debt Holdings (previous 1.6T)
4:30p.m. **US**
Dec 22 Money Supply
6:50p.m. **JPN**
Dec Monetary base
N/A **US**
Dec Auto Sales
N/A **US**
San Francisco Fed Pres Yellen participates in panel discussion on 'U.S. Monetary Policy Objections' at Allied Social Sciences Assn meeting in San Francisco

Tuesday
2:00 a.m. **UK**
Dec Nationwide Monthly Housing Review
2:45 a.m. **FRA**
Dec Consumer confidence survey
3:45 a.m. **ITA**
Dec Svcs PMI
3:50 a.m. **FRA**
Dec Svcs PMI

TODAY'S MARKET WRAPS

TREASURYS: Treasurys were teetering around unchanged Friday, the first trading day of 2009, despite more disheartening economic data. Market conditions were again quiet, as they have been since the Christmas holiday last week, with desks thinly staffed. Market participants expect trading to return to more normal volumes next week. "We have relatively limited expectations for Friday," said strategists at RBS Greenwich Capital in Greenwich, Conn. "Although officially the start of the new trading year, most of the market remains on holiday, not returning to full staffing levels until next week at the earliest." Treasurys kicked off the day stronger though, reversing what were steep losses on Wednesday ahead of the market's early close and respite on Thursday for New Year's. Prices, however, moved to unchanged after the day's only key economic data.

CORPORATES: The benchmark investment-grade credit derivatives index is marginally tighter from morning levels, at 199.5 bps, but a bit worse than the previous trading day. The index closed at 197 bps Wednesday, according to Markit. Data released earlier Fri showed that the US factory sector had its weakest period in nearly 30 years, but price moves are exacerbated by low volume. Activity in high-grade corp bonds extremely thin, according to MarketAxess data. (RV)

FOREX: The dollar rallied to multiweek highs against the yen and Swiss franc Friday afternoon in thin trade. The falling yen also gave way to the euro, which rose to an intraday high versus its Japanese counterpart. Analysts say thin trade is exacerbating movements that result in volatile swings. A rally for U.S. stocks may also be helping not only the buck but riskier currencies as well at the expense of the yen. Friday afternoon in New York, the euro was at $1.3845 from $1.3963 Wednesday afternoon, before the New Year's Day holiday. The dollar was at Y92.38 from Y90.89, according to EBS. The euro was at Y127.95 from Y126.83. The U.K. pound was at $1.4457 from $1.4563, while the dollar was at CHF1.0800 from CHF1.0700 Tuesday.

STOCKS: U.S. stocks on Friday rallied toward weekly gains, with energy shares paving the advance, as investors shook off one of the most bruising years on record to look ahead to President-elect Barack Obama's new administration. "Expectations for another big stimulus package once Barack Obama is sworn into the presidency in about three weeks' time is helping lift stocks. Also, GM is higher as the Treasury has delivered on its $4 billion loan," said analysts at Action Economics. Up for a third consecutive session, the Dow Jones Industrial Average climbed 200.88 points, or 2.3%, to 8,977.27, positioning the blue-chip index for a weekly climb of 5.4%.

ENERGY: Crude oil futures fell around $3.00 Friday - the first trading session of 2009 - cutting more than half of the gains Wednesday, due to profit-taking and lingering concerns over global demand. Crude oil futures surged by around 14% on the last day of 2008, as better-than-expected economic data in the U.S. triggered a flurry of short covering. The gains, however, failed to last Friday. "It's no surprise. It seems like Wednesday's close was all about the settlement price with large funds wanting to show the highest price for their long positions and the shorts happy to buy back and take profits on year-end," said Glen Ward, an analyst with ODL Securities. "The issue of lack of demand is the focus," now that's over, he said.

TOMORROW'S TOP MONEY HEADLINES

GMAC, GM To Amend Financing Agreement

GMAC LLC said that it agreed to amend its financing services agreement with General Motors Corp., allowing GM the option to offer auto financing incentives through a third-party financing source for two years under some circumstances.

Under the original 2006 agreement, whenever GM offers financing incentives such as lower interest rates than market rates, it was obliged to do so through GMAC. GM received an annual fee from GMAC for granting the exclusive right to provide that financing, which was effective through November 2016. GM and GMAC agreed to finalize the amendment by March 29.

GMAC said that after the two-year period, GM can offer any such incentive programs on a graduated basis through third parties on a non-exclusive, side-by-side basis with GMAC.

TOMORROW'S MONEY HEADLINES

ISM Mfg Report Weakest Since 1980

The U.S. factory sector closed out 2008 on a decidedly sour note, marking its weakest period of activity in nearly 30 years.

The Institute for Supply Management reported Friday that its manufacturing sector index came in at 32.4 during December, from 36.2 in November and 38.9 in October. It had been expected to stand at 35.4.

December's reading was the weakest since June 1980. The report suggested that the broader economy continues to remain troubled, in a recession that harkens back to the steep downturn that prevailed during the opening years of the 1980s.

In the report, the ISM said that the production index stood at 25.5, from 31.5.

Auto-Industry Sales Seen At 13.5M

Ford Motor Co. forecastthat industrywide car and truck sales would slip to 2.5 million in the fourth quarter, taking the 2008 total to13.5 million.

The forecast from George Pipas, the senior U.S. sales analyst at the country's number two auto maker, compares with 16.7 million sales last year.

Some industry experts expect sales in 2009 could slide further, with Johnson Controls Inc. recently forecasting overall U.S. auto production would fall as low as 9.3 million in 2009.

Pipas was more optimistic, predicting sales could reach 12.5 million in 2009 following a "modest recovery" in the second half of the year.

Comml Paper Mkt Shrinks By $20.4B

The U.S. commercial paper market shrank for the second consecutive week in the last week of 2008, after a nine week stretch of increases.

For the week ended Dec. 31, the total commercial paper market shrank by $20.4 billion on a seasonally adjusted basis, according to data released by the Federal Reserve on Friday. The previous week, that figure was down $6.9 billion, after an increase of $8.3 billion.

Market participants say the commercial paper market, used by companies to fund everyday needs such as rent and payroll, winds down toward the end of the year.

The size of the market is now $1.681 trillion, down from its peak of $2.2 trillion in July last year.

Fitch Cuts Rtgs On LyondellBasell

Fitch Ratings cut its long- and short-term issuer default ratings on Netherlands-based petrochemicals company LyondellBasell Industries AF to one notch above default after the company's announcement this week that it is considering filing for bankruptcy protection.

Earlier this week, the company also entered into an agreement with its lenders to postpone the payment date for $160 million of fees for the second time in two weeks. It also postponed $120 million of interest due on some notes.

Fitch cut its long-term issuer default rating on the company seven notches to C from B- and slashed its short-term rating eight levels to C from B.

The ratings agency said it believes the company will continue to face challenging market conditions in the near term, with increasing pressure on its operating performance and cash flow. It said the company's ratings were put on watch for possible further cuts.

Seagate Pops 10% On Analyst Upgrade

Shares of Seagate Technology Inc. rose 10% Friday after an analyst raised his investment rating on the company, saying the company's stock underperformance has largely played out and that hard-disk-drive prices should stabilize in 2009.

American Technology Research analyst Dinesh Moorjani upgraded the world's largest hard-drive maker to neutral from sell. In a note to clients, Moorjani wrote key players, such as Western Digital Corp., in the hard-disk-drive industry are adjusting near-term production levels to manage inventory and are taking steps to rationalize capacity through capital expenditure cuts.

"We believe these actions should lead to stabilization in the pricing environment in early 2009," said Moorjani, adding Wall Street expectations have declined significantly with regards to the near-term and full-year 2009 outlook for the PC market. As result, many investors have priced in the negative news to Seagate's stock.

E*Trade Fined $1M By Finra

The Financial Industry Regulatory Authority imposed a $1 million fine against E*Trade Financial Corp. for failing to establish and implement anti-money laundering policies and procedures that can detect suspicious securities transactions.

Finra said the online broker and lender neither admitted nor denied the charges but consented to the entry of the findings. The company's securities and clearing units were also named in the fine statement.

E*Trade didn't have adequate anti-money laundering programs in place between January 2003 and May 2007, the agency alleged, as the firm relied on its analysts and employees to manually monitor suspicious trading activity. FINRA said the detection policy was inadequate without sufficient automated tools.

TOMORROW'S MONEY HEADLINES

Fitch Affirms Bank Of America Ratings

Fitch Ratings affirmed its ratings on Bank of America Corp. and Wells Fargo & Co. in the wake of the banks' closure of their respective acquisitions of Merrill Lynch & Co. and Wachovia Corp., saying the two banks greatly enhanced their operations.

Bank of America's shares were recently down two cents at $14.05 and Wells Fargo's were down 24 cents at $29.24.

The ratings agency said Bank of America enhanced its global presence in capital markets, investment banking, large corporate lending, real-estate lending, credit cards and investment and wealth management services. It said the long-term benefits of the merger offset shorter-term challenges.

"The addition of (Merrill's) investment banking, merger and acquisitions and capital market activities will bring (Bank of America) into the front ranks of global investment banks, if merger integration is executed successfully," Fitch said.

Tsy Dept Reviewing City Natl Bailout

The Treasury Department is reviewing its injection of $400 million into California-based City National Bank, the Los Angeles Times reported.

The internal review by the department's inspector general, Eric Thorson, isn't based on suspected wrongdoing but is focused on the overall direction of a Treasury program to pump capital into banks, the newspaper reported. The inspector general's office said it wants to know "specifically how financial institutions are determined to be eligible for participation" and was "looking at the application and selection of one institution based in Southern California." The bank was identified as the target of that review by unidentified congressional officials, the Times reported. A spokeswoman for City National said the bank isn't aware of a Treasury Department review.

Trump Entertainment Gets Forbearance

Trump Entertainment Resorts Inc. said that it has obtained a forbearance pact from the holders of an aggregate of about 70% of the outstanding principal amount of its 8.5% senior secured notes due 2015.

The company previously disclosed that Trump Entertainment Resorts Holdings LP and Trump Entertainment Resorts Funding Inc. did not make an interest payment due Dec. 1 on the notes.

At the time, the company said it was forgoing the $53.1 million payment as part of a strategy to maintain sufficient liquidity and was granted a 30-day grace period.

In the forbearance agreement, the holders have agreed to forbear from exercising their rights and remedies under the indenture governing the notes relating to the missed interest payment, and from directing the trustee under the indenture from exercising any such rights and remedies on the holders' behalf, until Jan. 21, unless certain undisclosed events occur, according to the filing.

Home Loan Bank Advances Rose To $103B

Federal Home Loan Bank of New York said that home loan bank advances increased over 27% during the year to approximately $103 billion, according to a filing with the U.S. Securities and Exchange Commission.

The bank also said that based on the expected unrealized net losses on derivatives and hedging activities and the anticipated impact of the spread associated with the bank's short-term assets, the bank may report a net loss for the fourth quarter of 2008.

However, the bank currently anticipates it will have sufficient net income and retained earnings to declare a dividend related to the fourth quarter, to be paid at the end of this month, at a rate that approximates the actual average Fed Funds Target Rate for the fourth quarter, which is expected to be 1.09%.

TALKING POINTS

Dollar Faces US Payrolls

The dollar will start this week on stronger footing than the euro as investors re-enter the market for a fresh year, but it is likely to weaken as U.S. data unfold.

Attention will shift from disappointing data releases out of the euro zone to weak U.S. fundamentals, hampering any significant dollar gains. However, the dollar's status as a reserve currency will provide support as traders cautiously return to work after the holiday season.

"As the new year begins, we expect the dollar to be supported by investor preference for a liquid and safe-haven currency amid a still risky environment," said analysts at UBS.

The euro is seen trading between $1.3620 and $1.4500 - a wide range, but after a volatile week in holiday-thinned trade, it will take time for the market to steer a clear direction for the currency pair, say foreign exchange analysts.

Meanwhile, analysts expect the dollar to trade inside a tighter range versus the yen, as it did throughout the latter part of December. The greenback is seen moving between Y88.80 and 92.0.

"The dollar versus yen had been a risk play," said Daragh Maher, deputy head of global foreign exchange strategy at Calyon in London. "But right now, there is not any real drama in terms of risk aversion. It has not had any clear direction, so it's drifting."

Euro-zone releases this week include the Purchasing Managers Index for the service sector on Tuesday, inflation data on Wednesday and the unemployment rate and gross domestic product on Thursday. The retail sales report will be published Friday.

"Overall, the economic outlook for euro zone looks bearish," said UBS. "Against this backdrop, further easing by (the European Central Bank) is expected up ahead and we believe recent euro gains will prove hard to sustain."

But the U.S. nonfarms payroll report for December will be released Friday, Jan 9. Although the market already anticipates poor results, a disappointing figure is unlikely to bode well for the buck.

"It will be a week where dollar won't do too badly because the focus in the early part will be on the euro zone," said Maher. However, he added, the looming U.S. payrolls report will damp any dollar optimism.

In addition, on Wednesday, the Federal Open Market Committee will release the minutes from its most recent meeting, when it cut rates effectively to zero. Currency traders will try look for any details on how quantitative easing will be implemented.

TALKING POINTS

Tsy Funds Are 2008's Investment To Beat

A scan of fourth-quarter and full-year results for bond mutual-funds offers few surprises: Lower-risk Treasury-backed debt whipped most fixed-income categories, while company-issued bonds and more daring overseas debt suffered a similarly grim fate as stocks.

Of course, black-and-white numbers barely offer a glimpse of the historic 2008 events behind the figures - the hard reality of a global recession that forced government intervention and record low Treasury yields, including essentially sub-zero short-term rates.

"This is the year when the cyclical became the secular," said Max Bublitz, chief strategist at San Francisco-based SCM Advisors. "Or you could say this year exposed late-cycle shenanigans (steep leverage, heavy-handed reliance on derivatives and extensive debt) that took 25 years to build. When the secular tide goes out, all sorts of slime gets exposed."

In its wake is a changed and unsettled investing climate for 2009 that's sure to challenge even the most seasoned professionals - steady-as-she-goes bond fund managers included.

The disastrous 2008 was rooted in 2007, the beginning of the subprime mortgage meltdown, said Lawrence Jones, associate director of fund analysis at investment research firm Morningstar Inc. By early 2008, soon to be knee-deep in financial firm write-downs, Wall Street thought the bottom had to be the mid-March rescue of Bear Stearns by the government and buyer JPMorgan Chase.

Instead, deteriorating economic data and earnings warnings — inciting even gloomier expectations — piled up and frozen global financial markets didn't thaw as policymakers had hoped. Once Lehman Bros. filed for bankruptcy in September, investors lost faith in a quick recovery and flocked to the sanctuary of government-backed bonds.

Treasurys, after all, came with the pledge that the Federal Reserve would snatch up government debt as needed (including the mortgage securities of Fannie Mae and Freddie Mac) in order to drive down borrowing costs for consumers.

This demand drove up bond prices and pushed yields lower. The 10-year note's yield hit 2.07%, the lowest since data were first tracked in the early 1960s. Two-year note yields hit 0.604%, the lowest level since sales began in 1975. The Merrill Lynch Treasury index is up about 15% year-to-date, the most since 1995.

VC Firms To Face More Pain In '09

The hangover felt by venture capital firms after 2008 should linger into the new year, as their major sources of investment returns - mergers, acquisitions and initial public offerings of portfolio companies - have suffered greatly.

According to data from research firm VentureSource, only 325 M&A deals involving U.S. venture-backed companies took place in 2008, down 29% from a year earlier and the lowest annual amount in this decade - a period that includes the doldrums following the dot-com crash. And with the public markets sealed off, there were only seven IPOs - including none in the past nearly five months - by far the poorest showing ever recorded.

The amount of liquidity generated from these transactions also reached woeful levels, though not historical lows. M&A deal value totaled $23.5 billion in 2008, the lowest tally since 2003, plummeting 54% from the robust $50.9 billion recorded in 2007. A measly $550.6 million was raised in IPOs, compared with $6.36 billion from 76 offerings in 2007.

Overall M&A deal volume and value fell for a record fourth consecutive quarter, crippling an industry that hasn't seen such a drop-off since the technology bust. Just 65 M&A deals occurred in the quarter, the lowest on record, reaping a total of $3.85 billion, down 77% from a year earlier.

"Buyers have taken a step back and want to rethink where they are — how much cash they have, how they feel about the value of their equity," said Rick Heitzmann, managing director at FirstMark Capital.

This is especially irksome for venture capital firms since much of the demise stemmed from problems they consider out of their hands. After a credit crisis caused the financial sector and economy to spin out of control, public-market investors have avoided new offerings while corporate acquirers have grown overly cautious of making deals.

It also comes at a time when many firms need to relieve congested portfolios of aging companies in order to return money to their investors. The median time it takes for a venture-backed company to generate liquidity has reached more than 6.5 years, a number that has grown each year since 2001, when it took about two years.

Making matters worse, the industry is rolling ever closer to 10 years without any real returns, so whether it can continue to exist in its current form is increasingly unclear. The 10-year benchmark is important because that is the timeframe that many limited partners look at when deciding in which asset classes to invest. As of June 30, VC returns over this time period still looked great, at 33.9%, according to Cambridge Associates LLC. But that's going to change quickly as the mammoth gains of 1999 and early 2000 roll out.

Interbank Money-Mkt Rates Ease

Tensions in the euro-zone's money markets continued to ease on the first trading day in 2009, helped by a heavy dose of liquidity provision from the European Central Bank.

At 1050 GMT, overnight euro money market rates traded around 2.05%, which is below the ECB's 2.5% key policy rate.

Euribor rates, or the Euro Interbank Offered Rate at which banks lend funds to each other, continued to edge lower Friday, and traders predict a further easing in interbank lending rates over the coming days.

"Euribor rates at the very short end of money market curves are expected to see sharp declines on ample liquidity left by central banks for the year-end, and as the technical effects of turn-of-the-year calculations drop out of the equation," said Lena Komileva, an economist at Tullett Prebon. "That should also feed through to longer maturities."

The benchmark three-month Euribor rate fell to 2.859% at Friday's fixing from 2.892% Wednesday and one-month Euribor fell to 2.570% from 2.603% previously.

The spread between one-month Euribor and the respective Eonia overnight rate - a proxy of credit risk premiums in the cash money market - fell to 59 basis points Friday, from 61 basis points on Wednesday and 127 basis points one month ago, data from Tullett Prebon Information shows. The respective one-week spread fell by three basis points to 19.4 basis points.

Banks continued to park excess funds overnight with the ECB.