

G7 CALENDAR

Tuesday	
2:00 a.m.	UK
Dec Nationwide 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	
3:55 a.m.	GER
Dec Svcs PMI	
4:00 a.m.	EU
Dec Euro-zone Svcs PMI	
4:30 a.m.	UK
Dec CIPS Svcs PMI	
5:00 a.m.	EU
Dec Flash Estimate euro area inflation	
7:45 a.m.	US
Jan 3 ICSC/Goldman Sachs Chain Store Sales Index (previous 1.5%)	
8:15 a.m.	CAN
Dec Monetary Reserves - US\$ Monetary Reserves (previous 163M)	
8:30 a.m.	CAN
Nov Indus and Raw Material Prices Industrial Prices (previous 0%)	
8:55 a.m.	US
Jan 3 Johnson Redbook Index US Retail Sales Index (previous -0.5%)	
10:00 a.m.	US
Nov Pending Home Sales Index For Pending Home Sales (expected 0.4)	
10:00 a.m.	US
Dec ISM Non-Mfg Composite Index (previous 37)	
10:00 a.m.	US
Nov Factory Orders Total Orders (expected -2.2%)	
5:00p.m.	US
Jan 3 ABC/Washington Post Consumer Confidence Index (previous -49)	

TODAY'S MARKET WRAPS

TREASURYS: Treasury prices remained mixed in trading midday Monday, with strength in short-dated issues contending with the pounding the market's back-end was getting. The split performance was reflective of the fact the market was being buffeted by a number of different influences. Shorter dated issues were benefiting from negative trading in the stock market, while longer dated Treasurys were under the gun from upcoming Treasury debt auctions and the rich levels those securities have achieved over recent weeks. The market started out the day exclusively in the red in what traders said was selling related to Treasury auctions this week.

CORPORATES: A couple of deals have popped up in the high-grade primary: Portland-based electric utility PacifiCorp (A3/A-) is selling 10- and 30-yr first mortgage bonds, and Weatherford International (Baa1/BBB+) is planning a \$500M 10-year global bond. General Electric Capital Corp.'s FDIC-backed offering doubled in tranche size, with the addition of 18-month and 3.5-year floating-rate tranches to its already announced 2- and 3.5-year fixed-rate tranches. Orders have exceeded \$10B, and the benchmark-sized issue was expected to price later Monday. Junk bonds had a mixed morning Monday, with cash bonds posting gains in moderate trade while the CDX index slipped an eighth of a point to 79 7/8. Longer-dated auto bonds gained, while Lear and TRW bonds jumped 7 and 4 points, respectively, on speculation in the marketplace that TARP funds could be made available to auto suppliers, according to KDP Investment Advisers.

FOREX: The dollar advanced on the euro and yen Monday as risk appetite continued to improve early on in 2009. Details of President-elect Obama's proposals to stimulate the economy cheered investors, while the euro suffered from poor euro-zone data and renewed talk of ECB rate cuts. The common currency took a few steps back from its year-end rush at parity with the U.K. pound, with sterling also gaining on the dollar. Late afternoon, the euro was at \$1.3612 from \$1.3857 Friday afternoon. The dollar was at Y93.28 from Y92.30, according to EBS. The euro was at Y126.85 from Y127.78 and the euro stood at GBP0.9242 from GBP0.9567.

STOCKS: U.S. stocks turned mostly higher on Monday after automakers said December sales, though poor, were not as awful as expected. After closing at an eight-week high Friday, the Dow Jones Industrial Average was lower but scaled back its descent, most recently down 17.04 points to 9,017.65. Half of the Dow's 30 components remained mired in the red, with Verizon Communications Inc. fronting the declines, its shares lately off 7.4% in the wake of its downgrade by Bernstein Research. Shares of J.P. Morgan Chase & Co. also slumped, down 4% after Deutsche Bank cut its estimates on the bank.

ENERGY: Against a backdrop of stepped up Mideast violence in Gaza, Nymex crude oil futures prices held slim gains early Monday. With traders returning from end-year holidays, crude prices were pushed to their highest levels since mid-December amid worries that the fighting between Israel and Hamas could spill over to a direct impact on the oil market. Iran has called for Islamic oil exporters to halt sales of crude to supporters of Israel, but the move isn't expected to gain traction with Mideast oil producers already acting to sharply cut output in an effort to boost prices. Early gains pushed Nymex February crude to a high of \$48.68 a barrel, putting it above the 40-day moving average for the first time in three months, said Addison Armstrong, an analyst at Tradition Energy in Stamford, Conn. Crude hasn't settled above the 40-day average since mid-July 2008, when prices were near their record highs of close to \$150 a barrel.

TOMORROW'S TOP MONEY HEADLINES**US Auto Sales Fall One-Third, Capping Woeful 2008**

The U.S. auto industry closed out its worst year in more than 15 years - with an even weaker 2009 expected ahead of it - as General Motors Corp. reported a 31% drop and smaller rivals reported similar declines for the fourth-straight month in December.

The grim numbers underscore how matters went from bad to worse in 2008 for auto makers as jittery consumers stayed out of showrooms.

As sales plunged, the Detroit Three had to ask Congress for government help to avert financial disaster. Washington agreed to a \$17.4 billion loan package for GM and Chrysler LLC under the Treasury Department's Troubled Asset Relief Program.

But the entire industry, including Japan's Toyota Motor Corp. and Honda Motor Co., is now reeling from the spiraling effects of the U.S. housing crisis, tight credit and worries about a lengthy recession.

TOMORROW'S MONEY HEADLINES

Const Spending Falls Less Than Expected

A soft housing market forced U.S. construction spending lower for the second month in a row during November, but the drop was smaller than expected.

Total spending decreased by 0.6% at a seasonally adjusted annual rate of \$1.078 trillion, the Commerce Department said.

Wall Street had expected November construction spending would go down by 1.2%. The drop was the second in a row. Spending fell 0.4% in October. Spending in November dropped because of residential construction. Outlays in that category plunged by 4.1% to \$336.3 billion.

"Because there is still an excess of unsold new homes on the market, home building will fall further in the months ahead," Insight Economics analyst Steven Wood said.

NY Fed Buying Fixed-Rate MBS Securities

The Federal Reserve Bank of New York said that it has begun buying fixed rate mortgage backed securities, as it previously announced it would do.

The debt securities are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, and are being bought via private investment managers.

In a press release announcing the operation, the New York Fed said the program "is intended to support the mortgage and housing markets and foster improved conditions in financial markets more generally."

The New York Fed will announce the details of the transactions on its Web site on Thursday. That information will be updated weekly.

Madoff Victims May Number Over 8,000

Irving Picard, the court-appointed trustee for Bernard L. Madoff Investment Securities LLC, said in a statement that last week he mailed claim forms to more than 8,000 potential victims of the alleged Ponzi scheme run by Bernard Madoff that may have cost investors more than \$50 billion in losses.

The mailing list of more than 8,000 institutions or individuals who had open accounts at Madoff's investment-advisory business within the past 12 months is an indication that the number of potential victims is bigger than previously known. And even that tally doesn't include other investors whose accounts may have been opened but closed earlier, or were customers of "feeder funds" that brought in billions of dollars into the Madoff firm.

Lehman Doesn't Blame Ex-CEO For Collapse

Lehman Brothers Holdings Inc. said New York officials have not "a single shred of substantive supporting proof" that the failed

investment bank was mismanaged by Richard S. Fuld, its former chief executive.

In papers filed with the U.S. Bankruptcy Court in Manhattan, Lehman said it was a "victim of a financial tsunami that was beyond its control." The company filed the document in response to accusations from New York State Comptroller Thomas DiNapoli, who blamed Fuld for failing to avert financial catastrophe at the investment bank.

Credit-Card Delinquency Rates Rise

Charge-off and delinquency rates continued to climb on credit-card accounts as payment amounts fell further in November, highlighting the potential woes that continue to face banks in that segment.

Standard & Poor's Ratings Services' latest Credit Card Quality Index report showed charge-offs climbing another 0.2 percentage point to 6.7%, putting the level 44% above a year earlier. But it remains below the average high of 7.1% reported between 2002 and 2003 and slightly above the five-year average of 6.6% between 2000 and 2004, before the implementation of the Bankruptcy Reform Act in October 2005.

Accounts at least 30 days delinquent rose 0.2 point from October to 5.1%, with total delinquencies up more than 20% from a year earlier. The total payment rate dropped to 16.5%.

More Time For Blagojevich Indictment

A U.S. federal judge gave U.S. prosecutors a 90-day extension to seek an indictment of embattled Illinois Gov. Rod Blagojevich and his former chief of staff.

U.S. District Judge James Holderman gave prosecutors until April 7 to bring an indictment against Blagojevich, who was arrested last month on corruption charges, including accusations that he tried to sell the U.S. Senate seat vacated by President-elect Barack Obama. Blagojevich has said he did nothing wrong.

Holderman wrote that "this is a complex case such that it would be unreasonable to expect the government effectively to prepare the evidence for presentation to the Grand Jury in a shorter time period."

Federal prosecutors brought charges Dec. 9 against Blagojevich and John Harris, his former chief of staff.

Mtge Cos To Pay \$665,000 Restitution

Mortgage brokers HCI Mortgage and Consumer One Mortgage will pay \$665,000 in restitution to minority borrowers for alleged discriminatory lending practices, New York Attorney General Andrew Cuomo said.



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TOMORROW'S MONEY HEADLINES

Deleveraging Will Worsen Crisis

The need for euro zone companies to reduce their debts, coupled with the increased cost of servicing those debts, could deepen the next stage of the economic crisis, a report published by Bank of America revealed.

"The need to extract additional resources from operations to fund the increased debt service burden, and the willingness to reduce the level of debt, will take the economic downturn to a next step," Gilles Moec, economist at Bank of America said in the report.

Indeed, Moec also said that the cost of servicing the debts of the euro zone's non-financial sector reached 7.7% of gross value-added in the second quarter of 2008, the highest level since the inception of monetary union.

Tropicana Wants To Control Bankruptcy

Tropicana Entertainment LLC and its lenders are seeking to block a bid by unsecured creditors to end the casino company's exclusive control over its Chapter 11 case.

Tropicana said it's on course to file two separate plans of reorganization before Jan. 12. Last month, creditors sought to end the company's sole Chapter 11 control so they could file their own bankruptcy-exit plan.

Tropicana and its lenders are trying to block that move, calling the unsecured creditors a disgruntled group likely to receive little recovery in the case, according to papers filed Friday with the U.S. Bankruptcy Court in Wilmington, Del.

Rural Housing's Recovery May Come First

Rural housing markets and construction could return to pre-recessionary levels sooner than urban markets, but changes could be subtle and dependent on local commodity prices, a Fed economist said.

Chad Wilkerson, vice president and Oklahoma City Federal Reserve branch executive, said rural housing prices did not escalate as rapidly over the last 20 years as those in urban settings. Rural bankers also shut off financing for new housing more quickly once local economies began to turn south, limiting the backlog of unsold new houses plaguing many urban areas, he said.

For those reasons, Wilkerson said rural housing markets are not struggling under a load of too many expensive houses, leaving room for growth once local economies begin to recover from the recession.

Some US Refiners To Declare Bankruptcy

Global oil demand is likely to weaken further in 2009, driving some small U.S. refiners to declare bankruptcy and forcing inefficient European refiners to shut down operations, Credit Suisse said in a report.

Declining demand has squeezed the margins of companies operating refineries in the U.S. and overseas. Returns on producing gasoline remain negative in parts of the U.S., presenting a threat to U.S. refineries, which are primarily built to produce that fuel. Returns on producing diesel, a bright spot for refiners globally in early 2008, fell 50% during the second half of the year and are expected to head lower in 2009, Credit Suisse analysts said.

Lyondell Investors Await Payment News

Investors are still waiting for interest and fee payments due Sunday on LyondellBasell Industries' \$8 billion bridge loan used to help finance the leveraged buyout of the giant chemical company a year ago.

Lyondell owes debtholders \$160 million in fees related to the bridge loan and \$120 million of interest due on that debt. These payments have already been deferred twice, once on Dec. 19 and again on Dec. 29.

TALKING POINTS

Ch 11 May Be Best Bet For Auto Makers

Two of the Detroit Big Three auto makers may have just received a \$17.4 billion lifeline from the U.S. government to stay afloat, but analysts say General Motors Corp. and Chrysler LLC may still be forced to file for Chapter 11 bankruptcy protection.

A growing number of experts say the auto makers can't address their problems - uncompetitive labor costs, massive legacy liabilities, unprofitable brands and outsized dealer networks - without the tools of the Bankruptcy Code. And if U.S. car companies continue to burn through cash at an alarming rate in 2009, Chapter 11 may become the only option to accomplish a sweeping, industry-wide reinvention.

"Nobody wants to see our American motor carrier icons go into bankruptcy — not even those who have been predicting this fate for some time. But, if most stakeholders will be better off and if we minimize the surprise factor, then Chapter 11 reorganization is the way to go," Edward Altman, a finance professor at New York University's Stern School of Business, told Congress last month at a hearing on the auto-industry bailout.

Many experts believe GM will have to file for bankruptcy, even with the assistance it's getting from the government. Chrysler, they say, may not be able to survive at all. Ford Motor Co. (F), while in a better cash position than its fellow U.S. auto

makers and not in immediate danger of bankruptcy, will also need to take dramatic steps to remain competitive.

Bankruptcy is "not a viable option" for GM, spokeswoman Julie Gibson said. Chrysler Chief Executive Robert Nardelli told Congress last year that bankruptcy "would be devastating." Both firms, however, have hired bankruptcy advisers.

Auto executives, along with some analysts and lawmakers, say a bankruptcy filing would cause consumers to completely abandon struggling car companies. But bankruptcy experts say the risk could be managed. Jay Westbrook, a bankruptcy-law professor at the University of Texas School of Law, says all of the auto makers' options are "scary." Nevertheless, he says, Chapter 11 bankruptcy may be their best shot at a viable future.

"Everything we do may not work, so we have to pick the things that we think have the best chance of working," he said. "I think a Chapter 11 bankruptcy with some government guarantees is feasible. Will it be very difficult; might it fail? Sure, absolutely."

Stuart Gilson, a professor at the Harvard Business School, says an auto maker bankruptcy is a "risk worth taking." Bankruptcy experts say the federal government could play a major role in reassuring consumers that an auto maker could survive - and thrive - after a bankruptcy restructuring.

TALKING POINTS

Geopolitics Push Oil Price Higher

Fighting between Israel and Hamas, unrest in oil-rich Nigeria, and other geopolitical issues are reenergizing crude prices despite otherwise tepid economic conditions.

In recent months there has been almost no significant threat of major crude supply disruptions, but the possibility of this changing is causing anxiety among oil traders. Crude prices have increased almost 40% since plummeting to a four-and-a-half year low of about \$34 a barrel in late December. Front-month U.S. oil futures Monday, up initially over \$1 a barrel early Monday, traded down about 70 cents at \$45.70 at 1345 GMT.

A military official in Iran, the world's fourth biggest crude producer, called Sunday for Islamic nations to cut off oil supplies to the U.S. and other allies of Israel. The Jewish state has pounded Gaza city from the air for the past 10 days, and launched a ground assault at the weekend, in response to regular Hamas rocket attacks into Israel.

Russia and Ukraine failed at the weekend to resolve a payment dispute over natural gas supplies that has led Russia to turn gas supplies to its neighbor. Both sides say they have adequate gas stored to make up any shortfalls, but Russia's decision is undermining gas flows to some European countries.

The combination of all these issues, if sustained, could yet push oil prices higher and aggravate fragile economic conditions in many parts of the world.

The bounce in crude is a swift reversal from 2008, when prices skidded 54% over the 12-month period, due to the global economic downturn. Last year's overall price drop was the first since 2001 and the biggest decline since oil futures trade started in 1983.

Adding to the recent price revival, members of the Organization of Petroleum Exporting Countries are showing clear signs of fulfilling pledges made in the wake of weakening demand to cut production to prop up prices.

Since September, OPEC has agreed at three meetings to cut production by a total of 4.2 million barrels a day, the steepest cuts in OPEC's 49-year history in such a short time, though compliance with the announced reductions has been lagging, until recently.

Also providing upward pressure on prices, the world's two biggest oil-consuming nations, the U.S. and China, are topping up their emergency crude reserves to take advantage of relatively cheaper crude prices.

BOE To Cut, But Uncertainty Over Size

The Bank of England is set to cut its key interest rate for the fourth straight month this week, but there is no clear consensus amongst economists on the size of the reduction.

With no end in sight to ever bleaker economic data, the Monetary Policy Committee appear to have little choice but to cut the key rate to the lowest level since the central bank was founded in 1694.

But the pound's precipitous depreciation over recent weeks will also weigh on the MPC's decision.

Of the 16 economists surveyed by Dow Jones, eight are forecasting a cut to 1.5% from the current 2% level, while three forecast a cut to 1.25% and the remaining five expect a cut to 1%.

However, such is the uncertainty over the likely size of the move that many economists acknowledged it may be smaller or larger than they have forecast.

"We're forecasting a 100 basis points rate cut Thursday but the risk this month is for a smaller cut rather than in previous months when the risks were for a larger one," said Alan Clarke, U.K. economist for BNP Paribas.

Clarke said that although in each of the last two meetings the MPC have discussed larger cuts, their concern about the possible impact on the pound of a larger than expected move stayed their hand.

"This month the markets haven't yet fully priced in the 100 basis points reduction so that may cause a little bit of restraint," Clarke said.

Currently, according to Sonia rates, investors fully expect a cut of at least 50 basis points to 1.50%, with a 50% chance of a cut to 1.0%.

Of the economists who are forecasting a smaller rate reduction there remains a belief that the BOE may deliver a cut of at least 100 basis points for the third straight month.

"It seems a stone dead certainty that the BOE will deliver another hefty interest rate cut Thursday," said Howard Archer, chief U.K. and European economist for IHS Global Insight. "We are forecasting a 75 basis point cut from 2.00% to 1.25%, but it is very possible that the MPC could produce a third successive reduction of 100 basis points or more."

A Better Year For Sterling?

Sterling had an annus horribilis in 2008, taking the wooden spoon among the major traded currencies with declines of 20% against both the dollar and the euro, and a whacking 40% against the Japanese yen.

So, will lightning strike twice, or will 2009 be a better year for the pound?

CIBC World Markets thinks the latter.

The bank said much of sterling's 2008 decline was related to deteriorating economic conditions and the Bank of England's aggressive interest rate cuts.

The U.K.'s outlook still looks bleak, said the bank, with business investment seen weak in line with declining industrial production and consumer confidence remaining low as house prices continue to decline. Oddly enough consumption hasn't been affected as much as in the euro zone, with retail volumes remaining flat despite the recession, CIBC said.

With sterling much depreciated and interest rates at multi-decade lows CIBC said the U.K. economy looks better prepared, and in better shape than its European neighbors to get out of a recession sooner, so in 2009 the bank looks for sterling to stage a recovery both against the euro and the dollar.

Calyon's bright note is that the sterling weakness seen after its ejection from the European Exchange Rate Mechanism in the early 1990's helped bolster exports and activity.

UBS AG said the minutes of recent Monetary Policy Committee meetings show that the Bank of England expects sterling's fall to support exports, although this may be difficult in the current economic climate.

However, the MPC does clearly believe that further sterling depreciation is an intrinsic part of the process to ease monetary conditions, said UBS.

Under current circumstances it is hard to envisage any sterling strength, said the bank, but that said it is rapidly deviating away from fundamentals and risks of a very sharp correction could deter fresh short positions from being taken.