DOW JONES
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ICAP

News Provided By Dow Jones Tuesday, January 6, 2009

G7 CALENDAR

Wednesday

12:00p.m. **JPN**
Nov Steel Imports & Exports Statistics

4:00 a.m. **GER**
Dec Labor market statistics

5:00 a.m. **EU**
Nov PPI

5:30 a.m. **UK**
Dec Shop Price Index

7:00 a.m. **US**
Jan 2 MBA Mortgage Application Survey Market Composite Index (previous 1245.4)

8:15 a.m. **US**
Dec ADP National Employment Report Private Payrolls Forecast (expected -515K)

10:30 a.m. **US**
Jan 2 US Energy Dept Oil Inventories Crude Oil Stocks (previous 318.7M)

10:30 a.m. **US**
Jan 2 API Oil Industry Report Crude Stocks (Net Change) (previous -4.2M)

12:00p.m. **US**
Tsy Secy Paulson speaks on the role of govt-sponsored-enterprises in supporting the housing recovery in Washington

1:00p.m. **US**
Kansas City Fed Hoenig speaks on the U.S. econ outlook in Kansas City

9:00p.m. **JPN**
Dec Imported Vehicle Sales

N/A **UK**
Jan BoE Monetary Policy Committee meeting

Thursday

2:00 a.m. **GER**
Nov Foreign Trade

5:00 a.m. **EU**
Dec EU Business & Consumer Surveys

TODAY'S MARKET WRAPS

TREASURYS: Treasurys bounced back from earlier losses Tuesday after a well-bid 10-year TIPS auction, leaving government bond prices moderately bid across the curve. In recent trade, the 10-year note was yielding 2.47% after rising as high as 2.61% earlier in the day, and the long bond's price was up 30/32 yielding 3%. Bond prices move inversely to yields. The two-year note was 1/32 higher yielding 0.80%. The auction, the first Treasury note sale of 2009, drew strong demand, given the 10-year Treasury inflation protected securities historically low break-even rate, or the gap between the 10-year TIPS and 10-year nominal Treasury note. The break-even rate on the 10-year TIPS was at around eight basis points before the auction, having been driven lower recently amid building fears about deflation, or lower prices.

CORPORATES: General Electric Capital Corp. launched $4 billion of 30-year bonds at 400 bps over Treasurys, according to a person familiar with the deal. Price talk was out Anheuser Busch Inbev benchmark deal via BAS/BARC/DB/JPM through a private placement. The five-year was seen around 550 basis points over Treasurys; the 10-year was around 525 bps over Treasurys, and the 30-year was around 512.5 bps, according to a person familiar with the offering. LyondellBasell CDS continued to widen Tuesday to extremely distressed levels, while bond and loan prices hold steady amid speculation of a possible Chapter 11 filing, with S&P LCD quoting five-year CDS at 93/98 points upfront, compared to 75/80 on Monday, and the company's dollar-denominated term debt at 46.5/47, from 44.5/45.5 Monday.

FOREX: The dollar remained ahead against the euro and yen Tuesday but surrendered part of its overnight gains after another dose of weak U.S. data. Factory orders and pending home sales fell more than expected in November, leading investors to believe the fourth-quarter U.S. GDP figure could be even uglier than already anticipated. The U.K. pound rallied versus both the greenback and the euro, pushing the common currency farther away from parity. Late afternoon, the euro was at $1.3504 from $1.3616 late Monday afternoon, according to EBS. The dollar was at Y93.91 from Y93.33, while the euro was at Y126.80 from Y127.10.

STOCKS: A morning flurry of downbeat economic data continued to set the tone for the stock market Tuesday afternoon, offsetting a recent pickup in oil prices that helped spur energy stocks higher once again. The Dow Jones Industrial Average, which notched a triple-digit advance in early trading, has moved between gains and losses since late morning. Weighing on the bellwether index, new economic reports were mostly grim. The Institute for Supply Management said that its nonmanufacturing index rose to 40.6 in December, from 37.3 the month before. Notably, traders said they were reading the ISM data in the context of what it means for Friday's December nonfarm payrolls report.

ENERGY: Crude futures extended their rally Tuesday as Russia reduced natural gas exports to Europe, which could increase demand for oil as a replacement. Light, sweet crude for February delivery traded up $1.10, or 2.3%, at $49.91 a barrel on the New York Mercantile Exchange, after trading as high as $50.47 a barrel earlier in the day. Brent crude on the ICE futures exchange traded $2.26 higher at $51.88 a barrel. Oil prices have surged 28% in the last week, prompted by a series of international crises that could affect oil supplies. Russia continued to reduce natural gas supplies to southern Europe overnight, raising the odds that countries would switch over to oil-based fuels for heating and electricity. Israel also stepped up its offensive in Gaza, leaving open the possibility that Iran, a major oil producer, would be drawn into the conflict.

TOMORROW'S TOP MONEY HEADLINES

FOMC Minutes: Fed Staff Sees US GDP Declining In '09

The Federal Reserve signaled that the already year-long U.S. recession could drag well into the new year, with economic output contracting in 2009 as a whole and inflation flirting with "uncomfortably low levels."

In December meeting minutes explaining their decision to lower official interest rates to near zero, officials also signaled that they'll make aggressive use of the Fed's balance sheet to stimulate the economy, with some officials even favoring the use of quantitative targets for bank reserves akin to what the Bank of Japan tried earlier this decade.

But officials recognized that even with their arsenal expanding into "nontraditional policies," the economy "would remain weak for a time and the downside risks to economic activity would be substantial."

TOMORROW'S MONEY HEADLINES

Factory Orders Fall In November

Factory orders plunged in November, dropping more than expected as prices kept falling for oil.

Orders for manufactured goods decreased 4.6%, following a downwardly revised 6.0% decrease in October, the Commerce Dept said. Originally, factory orders were seen falling 5.1% in October. Economists had forecast November factory goods orders slipping by 2.2%.

Demand for durable goods fell a revised 1.5% in November. Durables are expensive goods made to last at least three years. Two weeks ago, Commerce had estimated durables sliding 1.0% in Nov.

S&P Says Banks Face Credit-Quality Drop

Although government support has buoyed U.S. banks, the industry will likely experience overall credit quality deterioration at least through this year, according to a report published Tuesday by Standard & Poor's Ratings Services.

S&P credit analyst Barbara Duberstein said the number of bank failures will likely rise in 2009 "from an already high number in 2008," as in other credit cycle downturns.

The ratings agency said its outlook on the U.S. banking industry through this year is negative, reflecting deteriorating economic conditions and mounting asset-quality problems.

November Pending Home Sales Drop

U.S. home sales will keep declining, a forecasting gauge said.

The National Association of Realtors released its index for pending sales of previously owned homes in November. The gauge fell 4.0% in November to 82.3 from 85.7 in October.

The index published by the industry group is used to help predict sales. It's down 5.3% from November 2007.

Private analysts projected pending sales would fall just 1.0% during November compared to the prior month.

"Mounting job losses and very weak consumer confidence deterred home buyers from signing contracts in November," said Lawrence Yun, NAR chief economist.

Obama Sees Deficit Near $1 Trillion

President-elect Barack Obama warned that the federal deficit is likely to rise to close to $1 trillion this year, saying the exploding budget gap underscores the need for long-term reform of the nation's finances.

After a meeting with his economic and budget team, Obama told reporters that the plan being crafted to jumpstart the economy will ban earmarks, the pork-barrel projects lawmakers insert into legislation without review. He repeated that the stimulus package will be evaluated by an oversight board, and said taxpayers will have access to information on how their money is spent.

"We're already looking at a $1 trillion budget deficit or close to a $1 trillion budget deficit, and potentially we've got $1 trillion deficits for years to come," Obama said.

Brazil, Colombia Jump Into Debt Mkt

The governments of Brazil and Colombia jolted the debt market Tuesday with plans to raise up to $1 billion each from 10-year dollar-denominated sovereign bonds, the first to take advantage of the latest window that has opened up in the ongoing financial crisis.

Yields on emerging-market debt have plunged in the last couple of sessions, reducing the cost for borrowers and as long as these conditions hold, a number of other countries may follow suit, with investors eyeing Peru, Turkey and the Philippines, among others, as possible contenders.

"Such an aggressive move in terms of spread compression called for a quick reaction by potential borrowers," said Luis Costa, an emerging market debt strategist in London. "Let's see how long this rally will last."

DOJ Expands Corp Fraud Task Force

The U.S. Department of Justice said that it is retooling its Corporate Fraud Task Force to focus on mortgage fraud related to the ongoing housing crisis.

Deputy Attorney General Mark Filip said the task force is expanding its membership by adding six additional federal agencies, including the Federal Housing Finance Agency, the Department of Housing and Urban Development and the special inspector general of the newly formed Troubled Asset Relief Program.

Current members of the task force include leaders of the Justice Department's civil and tax divisions, as well as the heads of the FBI, SEC and the Treasury and Labor Departments.

US Service Sector Shrinks Again

Service sector activity in the U.S. contracted in December, albeit less dramatically than expected, as inflationary forces continued to retreat.

A report from the Institute for Supply Management on Tuesday put the private research group's overall index of non-manufacturing activity at 40.6, from 37.3 in November and 44.4 in October. That compared with the 36.8 that was the forecast of economists surveyed by Dow Jones.

Readings under 50 indicate contracting activity. In its report, the ISM also said that its non-manufacturing business activity/production index stood at 39.6 in December, from 33.0 the month before.

TOMORROW'S MONEY HEADLINES

Tyson Foods To Pay $500,000 Safety Fine

Tyson Foods Inc. pleaded guilty to willfully violating worker safety regulations and agreed to pay a $500,000 fine following the death of an employee at its Arkansas plant, according to the U.S. Department of Justice.

The ruling comes more than five years after the death of maintenance employee Jason Kelley, who worked in a Tyson's River Valley Animal Foods plant in Texarkana, Ark., and died of exposure to hydrogen sulfide gas.

Another employee and two emergency responders were hospitalized during the incident and two employees were also treated at the scene.

Citadel Main Fund Drops 53%

Citadel Investment Group's main hedge funds lost 53% for 2008, according to a person familiar with Citadel's preliminary estimates.

The $10 billion Kensington and Wellington funds lost about 9% during the first 24 days of December, punctuating the toughest year yet for Citadel founder Ken Griffin. That came after a 13% loss in November.

A bright spot this year was Citadel's $3 billion market-making family of funds, which ended 2008 up about 43%, according to preliminary estimates.

Chicago-based Citadel last month barred investors from withdrawing money from the Kensington and Wellington funds until at least March. In 2007, the fund was up 30%.

Senate Refuses To Seat Burris

U.S. Senate officials refused to seat the man chosen by Illinois' scandal-tainted governor to replace President-elect Barack Obama.

"I presented my credentials to the secretary of the Senate, and advised that my credentials were not in order," Roland Burris said, after arriving at the Capitol building at start of a new Senate session.

"I am not seeking to have any type of confrontation. I will now consult with my attorneys, and we will determine what our next step will be," Burris added.

Contempt Citation Of Fannie Upheld

A federal appeals court upheld a contempt citation against a federal agency that oversees Fannie Mae for missing a court deadline to provide documents to three former Fannie Mae executives who are being sued for securities fraud.

A unanimous three-judge panel of the U.S. Court of Appeals for the District of Columbia Circuit ruled that a trial judge did not abuse his discretion by holding the Office of Federal Housing Enterprise Oversight, or Ofheo, in contempt.

At issue is a dispute between the agency and former Fannie Mae executives Franklin Raines, J. Timothy Howard and Leanne Spencer, who sought 10 years' worth of documents from Ofheo.

The former executives are facing several shareholder lawsuits for their alleged roles in a 2004 accounting scandal that compelled Fannie Mae to revise its earnings downward by $6.3 billion.

Redbook Retail Sales Fall 0.6%

National chain store sales fell 0.6% in the first five weeks of December versus the previous month, according to Redbook Research's latest indicator of national retail sales.

The drop in the index was compared to a targeted 1% gain.

The Johnson Redbook Index also showed seasonally adjusted sales in the period fell 1.0% compared with December 2007, relative to a target of a 0.6% gain.

Redbook said on an unadjusted basis, sales in the week ended Jan. 3 were down 1.3% from the same week in 2007.

ICSC/Goldman Chain-Store Index Rises

U.S. chain store sales benefited last week from shoppers taking advantage of end-of-season sales, the International Council of Shopping Centers said.

The ICSC/Goldman Sachs Retail Chain Store Sales Index rose 1.4% in the week ended Jan. 3 from the prior week. Despite the weekly increase though, sales on the year on a seasonally adjusted, comparable-store basis fell 0.8%.

TALKING POINTS

Timing Key In Bet On 2009 Bank Recovery

If the economy and stock market stage a comeback this year, those expecting the financial sector to be on the front lines need to time their bets carefully.

In fact, banking sector analysts are advising investors to exercise extra caution in assessing financial sector stocks, as many expect banks' problems to continue to worsen, with many going out of business or needing emergency measures like more dividend cuts, capital raises or government cash injections.

"We anticipate sometime in 2009 investors will want to go 'all-in' in buying bank stocks," RBC Capital Markets analyst Jon Arfstrom said, "but we need to be patient because as the down leg of the credit cycle tears through the industry's profitability, the stocks could decline another 20% to 30% before they reach bottom."

Arfstrom is one of many analysts and market strategists who expect a strong performance from financial stocks once it becomes clear the economy is near a recovery, but who caution that bank stocks may get worse before they get better.

In Arfstrom's view, banks face a double whammy in this recession. He estimates the first whammy - the bursting of the housing bubble and securities backed by home mortgages - is nearly over, or "in its sixth or seventh inning." But he said the second whammy, tied to the credit cycle and the economic damage in the real economy, is only in its second or third inning.

Losses on loans to businesses hit by the recession are likely to mount in the second stage of the banks' problems, he said, as banks with large exposure to commercial real estate see large increases in defaults and foreclosures in 2009. Hundreds of banks are likely to fail over the next one or two years, he said.

Fox-Pitt analyst David Trone said Tuesday he sees investment banks and brokers entering a "hibernation stage" this year. "For now, investment banks/brokers will hunker down for an extended period of limited activity by keeping a tight rein on costs, maintaining skeleton staffs in hard-hit areas, while nurturing those units that have potential to be part of the 'next cycle', which should commence sometime in 2010 or 2011."

TALKING POINTS

Tax Cuts May Not Be Best Stimulus

The latest twist in the 2009 U.S. stimulus package is the inclusion of a massive tax cut aimed at consumers and businesses. Given the problems besetting the economy and the unprecedented chance for the U.S. to map out its economic future, it isn't clear that devoting 40% of the coming package to tax cuts is the right way to go.

Although all ideas are preliminary, the trial balloons sent up over the weekend say that President-elect Barak Obama is considering tax cuts of $300 billion. For individuals, the cuts would come in the form of an expansion of the earned-income credit and a permanent cut in marginal tax rates for low- and middle-income taxpayers as well as a delay in raising taxes on the wealthiest Americans.

The argument for a tax cut is that bigger paychecks will induce consumers to spend more, which produces a virtuous cycle. Increased private demand creates jobs, which boost consumer incomes further.

But the idea of giving consumers more borrowed money to spend begs an essential question: Wasn't overspending one of the trends that got us in trouble in the first place? Too many U.S. households lived beyond their means whether by running up credit card debt or taking on mortgages they couldn't hope to repay.

Because Washington already was running deficits even before the U.S. economy fell into recession, the stimulus package will be funded entirely by more debt. Economists expect that, with $770 billion in stimulus over the next two years and Washington's usual red ink, the federal deficit could top $1 trillion this fiscal year.

But as Willem Buiter, professor at the London School of Economics, wrote in Monday's Financial Times, the string of U.S. federal deficits can't continue forever. Foreign investors, who had been willing to buy all types of U.S. securities but got burned this past year, may not be so keen to buy more Treasurys going forward - especially now that their yields are so low. Given the U.S.'s "growing reliance on foreign funding, the scope for expansionary fiscal policy in the U.S. is much more limited than President-elect Obama's advisors appear to realize," wrote Buiter.

ECB Cut More Likely As Inflation Falls

A plummeting inflation rate is giving the European Central Bank more cause to cut its key interest rate for an unprecedented fourth consecutive month when its governing council meets next week.

Eurostat, the European Union's statistics agency, said Tuesday that the annual rate of inflation in the euro zone plunged to 1.6% in December from 2.1% in November. That was the first time it has dropped under the ECB's target level of just below 2.0% since August 2007.

Other data showed euro-zone services sector activity shrank at the fastest pace on record and French consumer confidence remained in the doldrums last month. That suggests the currency area's recession deepened as 2008 drew to a close, further weakening inflationary pressures.

Some ECB's policy makers have signaled a reluctance to cut the key rate aggressively, arguing that they need to assess the impact of previous rate cuts before deciding how much more action is needed.

But governing council member Vitor Constancio and ECB Vice President Lucas Papademos have said this week that they would act to prevent inflation from falling below target for a protracted period of time.

That outcome now appears highly likely unless the ECB acts quickly.

Klaus Baader, chief European economist at Merrill Lynch, said the December figures suggest the inflation rate could fall to zero by midyear, and that the consumer price index may even fall, pushing the euro zone into deflation.

"Unless energy prices stage a strong recovery, the data also point to a low point in headline inflation of about zero in July, or perhaps even slightly negative," he said in a note.

The ECB has cut its key interest rate to 2.5% from 4.25% in October last year, but it has been less aggressive than the Federal Reserve and Bank of England. Its next decision on rates is scheduled for Jan. 15.

"We have been expecting the ECB to cut rates further and our call is that they will cut 50 basis points in February, but the renewed deterioration in the data and the lower-than-expected inflation clearly increases the risk that they may not wait the extra three weeks until the next meeting," said Janet Henry, chief European economist at HSBC.

Risk Appetite Recovery Won't Last

A recovery in global risk appetite will remain as elusive as ever.

Investors may have kicked off 2009 very much as they ended 2008, showing tentative signs of moving back into high yielders on hopes that a global recovery will come.

However, a combination of more bad economic news, likely delays in President-elect Obama's fiscal stimulus plans as well as a nasty fourth-quarter earnings season will ensure that any recovery in risk appetite is short-lived.

Steve Barrow, currency strategist with Standard Bank in London, said there are even more "landmines" to keep any serious recovery in risk appetite at bay.

"These include the specter of soaring corporate bankruptcy and hedge fund duress, especially as funds start to lift the ring fences that they have put around their assets," Barrow said.

As currency trading gets underway in earnest for the first time in 2009, there is no mistaking the underlying whiff of optimism.

Instead of dwelling on the nasties such as last Friday's Institute of Supply Management survey, which showed U.S. manufacturing activity down at its lowest level since 1980 and new orders at their lowest since the survey began in 1948, investors have tapped into the details of Obama's fiscal boost proposals and talk that these will include a $300 billion tax cut.

Lee Hardman, currency economist with Bank of Tokyo-Mitsubishi UFJ in London, noted that his bank's measure of risk has moved into risk-seeking territory for the first time since early August, well before the collapse of Lehman Brothers.

However, chances are that optimism over Obama's package could fade fast.

Congressional leaders have already warned that the whole $775 billion stimulus package is unlikely to be passed before Obama's inauguration Jan. 20.

In the meantime, investors are only likely to get more harsh reminders of the economic deterioration that's taking place while the package is being put together.

At the end of this week, the last non-farm payrolls data for 2008 are due. These may well show another 500,000 or so job losses, taking the total for the year to nearly 2.5 million.