G7 CALENDAR

Thursday

2:00 a.m. **GER**
Nov Foreign Trade
Trade Balance,
EUR (expected 16.2B)

2:00 a.m. **GER**
Nov Current, EUR
(expected +17B)

5:00 a.m. **EU**
3Q GDP, 2nd release
Quarterly 2nd Estimate
(expected -0.2%)

5:00 a.m. **EU**
Dec EU Business &
Consumer Surveys
Consumer Confidence
(expected -26)

5:00 a.m. **EU**
Nov Unemployment
Jobless Rate
(expected 7.8%)

6:00 a.m. **GER**
Nov Manufacturing orders
Total (Adjusted) Monthly,
Del (expected -2%)

7:00 a.m. **UK**
Jan BoE
interest rate decision
Bank Rate (expected 1.25%)

8:30 a.m. **US**
Jan 3 Jobless Claims
Weekly (expected 555K)

9:00 a.m. **US**
Dec Chain Store Sales

10:00 a.m. **US**
Dec 27 DJ-BTMU
Business Barometer
(previous 1.4%)

10:00 a.m. **CAN**
Dec Ivey Purchasing
Managers Index
Current Month
(previous 40.2)

10:00 a.m. **EU**
2Q Ifo Euro-zone
Economic Outlook

2:00p.m. **EU**
ECB Chief Trichet speaks
at ceremony 'Goodbye
Koruna, Welcome Euro'
in Bratislava, Slovakia

TODAY'S MARKET WRAPS

TREASURYS: A bout of modest selling pressured Treasurys on Wednesday afternoon after relatively soft demand from a record $30 billion three-year note sale. Some investors also lightened up holdings before the final leg of government debt sales Thursday with $16 billion reopening of the 10-year note sold in December. The selling pushed long-dated Treasurys to give up gains made from a report showing bigger-than-expected job losses in the private sector. The report increased speculation that the official nonfarm payroll data may be worse than forecast. In recent trading, the two-year note's price was down 2/32 to 100 2/32 to yield 0.85%. The three-year note was down 3/32 to 99 21/32 to yield 1.13%. The 10-year note was down 4/32 to 110 21/32 to yield 2.52%, and the 30-year bond was down 11/32 to 127 6/32 to yield 3.09%. The 10- and 30-year yields have risen around 50 basis points from the record lows hit in mid-December.

CORPORATES: Nabors Industries launched a 10-year note through private placement at 9.25% yield, according to IFR. The size is $1B to 1.25B. While Anheuser-Busch InBev priced $5 billion in a private deal of three parts. The benchmark investment-grade credit derivatives index, the Markit CDX IG11, was 3 bps wider at 198 from the previous close. But the index has tightened over recent days and the underlying credits were stronger Wednesday. "A combination of sentiment and short covering is likely behind the tightening," said Markit's Gavan Nolan.

FOREX: The dollar retreated Wednesday, snapping a five-session winning streak versus the yen and ending three days of gains against the euro. A sharp reaction to the worse-than-expected ADP report on private sector December job losses extended the greenback's overnight losses on general concerns about the U.S. economy. By late afternoon in New York, the dollar had made a partial recovery from its intraday lows. The euro was at $1.3622 from $1.3509 late Tuesday and at Y126.47 from Y126.66, according to EBS. The dollar moved to Y92.84 from Y93.83, while the pound was trading at $1.5131 from $1.4924.

STOCKS: Shares of casino operators slid Wednesday following large gains earlier in the week and as MGM Mirage scaled back its giant development in Las Vegas. Analysts also predicted more industrywide troubles in 2009. Shares of MGM fell 9.1%, or $1.45 to $14.54 in recent trading. Competitor Las Vegas Sands Corp. dropped 8.8%, or 73 cents, to $7.67, and Wynn Resorts Ltd. fell 12%, or $6.69, to $48.59. Earlier in the week, shares of the companies all moved higher on hopes that China was about to ease visa restrictions for the island nation of Macau, a burgeoning hot bed for casinos, opening up a huge customer opportunity.

ENERGY: Crude oil futures traded lower Wednesday as a forecast of unemployment shot up in the U.S. and the market anticipated builds in oil and product inventories. Light, sweet crude for February delivery traded 59 cents, or 1.2%, lower at $47.99 a barrel on the New York Mercantile Exchange. Brent crude on the ICE futures exchange traded 4 cents lower at $50.49 a barrel. Oil prices rose 25% between Dec. 30 and Jan. 5 but have found it difficult to break through $50 a barrel. Economic conditions remain dismal worldwide, and while the market believes it has priced in deteriorating oil demand, the possibility for the downturn to deepen more than expected remains.

TOMORROW'S TOP MONEY HEADLINES

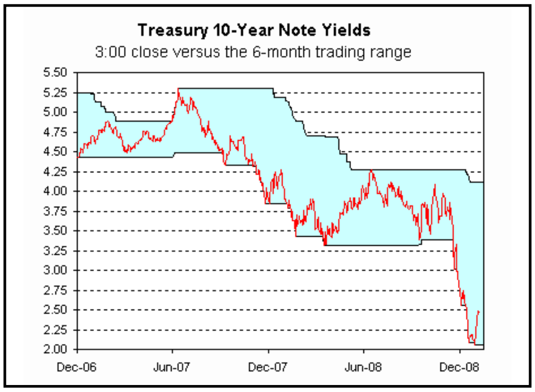
US Mortgage Applications Fall By 8.2%

Mortgage applications filed last week decreased a seasonally adjusted 8.2% from the pace of the week before, reflecting a drop in homeowners seeking to refinance their mortgages, the Mortgage Bankers Association reported.

Unadjusted, applications for the week ended Jan. 2 were up 28.3% compared with the same week last year but were down 8.9% on a week-to-week basis, according to the Washington-based MBA's weekly application survey.

The latest results were adjusted to account for the shortened week due to the New Year's Day holiday. The MBA's survey covers about half of all U.S. retail residential mortgage applications.

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



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.040	0.005	0.041	-0.012
3-Mo Bill	0.090	0.080	0.091	-0.044
6-Mo Bill	0.285	0.275	0.289	-0.016
2-Year	100.040	100.050	0.812	-0.01+
3-Year	100.020	100.032	1.104	-0.041
5-Year	99.072	99.086	1.663	-0.016
10-Year	110.300	111.000	2.491	-0.120
30-Year	127.25+	127.27+	3.058	-1.150

FUTURES

	PRICE	CHANGE
CBOT 5 yr	118.9	0.171875
CBOT 10 yr	124.5	4.16
CBOT 30 yr	132.1	0.53125

EQUITIES

	INDEX	CHANGE
DJIA	8730.2	-284.900
NASDAQ	1590.58	-61.800

OIL

	PRICE	CHANGE
NYMEX	42.83	-5.7500

CURRENCIES

	PRICE
Euro	1.3602
Sterling	1.5107
JPN Yen	92.58
Swiss Franc	1.1039
Can Dollar	1.1986
Mexico	13.472

IR SWAPS

	SPREAD	RATE
2-Year	64.25 - 60.25	1.447 - 1.407
3-Year	66.50 - 62.50	1.762 - 1.722
5-Year	52.00 - 48.00	2.178 - 2.138
10-Year	23.00 - 19.00	2.718 - 2.678
30-Year	-4.00 - -8.00	3.017 - 2.977

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.95500	0.05000
Jun09	98.96000	0.07500
Sep09	98.85500	0.07999
Dec09	98.67000	0.08500

REPURCHASE AGREEMENTS

GENERAL COLLATERAL		i-REPO℠ INDEX	
O/N	0.150	10:00 AM	0.060
1-Week	0.200	3:00 PM	0.064
2-Week	0.200		
3-Week	0.200	**O/N SPECIALS**	
1-Month	0.250	2-Year	0.060
2-Month	0.250	3-Year	0.030
3-Month	0.300	5-Year	0.040
		10-Year	0.030

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.0600	
1-Month	0.4000	0.137
3-Month	1.1000	0.156
6-Month	1.6000	0.185
12-month	2.0000	0.316

FED FUNDS

Open	0.07000
High	0.0700
Low	0.0700

HEFFR

10:00 AM	0.19
3:00 PM	0.35

ACTIVE AGENCY ISSUES

FANNIE MAE

TERM	COUPON	MATURITY	YIELD SPREAD	YIELD
2-Year	3.250	08/12/10	79.75 - 79.25	1.547
3-Year	3.625	08/15/11	130.00 - 129.25	2.559
5-Year	3.875	07/12/13	75.00 - 74.50	2.136
10-Year	5.375	06/12/17	67.25 - 66.50	2.879
30-Year	6.625	11/15/30	84.00 - 83.50	3.493

FREDDIE MAC

TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	3.125	10/25/10	56.50 - 55.75	1.314
3-Year	3.875	06/29/11	82.50 - 82.00	1.574
5-Year	4.125	09/27/13	83.00 - 82.50	2.216
10-Year	4.875	06/13/18	66.00 - 65.50	2.866
30-Year	6.250	07/15/32	46.25 - 45.50	3.116

ACTIVE CORPORATES

ISSUER	MATURITY	COUPON	MID- PRICE	MID- YIELD
AT - 7.0-07/01/2012	07/01/12	7.000	101.219	6.600
GS - 6.15-04/01/2018	04/01/18	6.150	97.716	6.481
WB - 5.75-02/01/2018	02/01/18	5.750	101.996	5.467

ACTIVE MBS 15YR

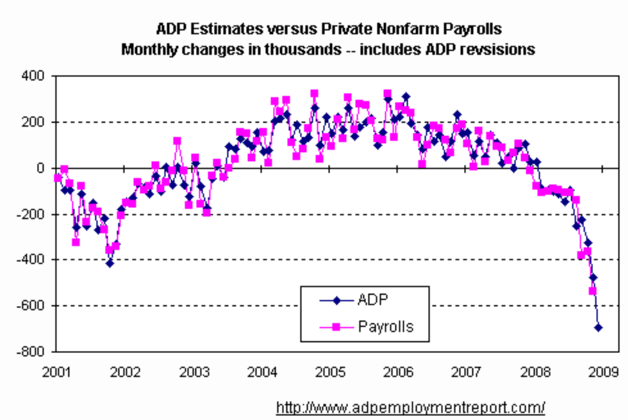
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	104.012 - 104.032	3.641
FNMA	5.0	103.215 - 103.235	3.395
FHLMC	5.0	103.212 - 103.232	3.579

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	104.023 - 104.043	3.846
FNMA	5.5	103.167 - 103.170	3.537
FHLMC	5.5	103.146 - 103.166	3.846

Wrightson-ICAP℠ Chart of the Day

http://www.wrightson.com



TOMORROW'S MONEY HEADLINES

Private-Sector Jobs Fall By 693,000

Private-sector jobs fell 693,000 in the U.S. in December, according to a revamped national employment report published by payroll giant Automatic Data Processing Inc. and consultancy Macroeconomic Advisers.

That's far higher than the 515,000 loss forecast in a Dow Jones survey.

The December ADP survey is the first to incorporate a major overhaul of the methodology, including new regressions. The changes were introduced because the ADP survey has underestimated the monthly number of job losses as reported by the Bureau of Labor Statistics since the recession began in December 2007.

Pensions See Record Deficit

The largest U.S. company pensions experienced a record $409 billion deficit last year that will negatively impact corporate earnings in 2009, according to estimates released Wednesday by consultant Mercer.

As a result, more companies are likely to ratchet down their plans' exposure to riskier investments and freeze their pensions, Mercer strategists say.

"We believe you'll see some companies are going to be considerably more risk adverse (in their investing strategies)," said David A. Kelly, a member of Mercer's financial strategy group, which helps companies manage risk in their retirement programs.

"They'll be seeking less equity exposure and will move into longer duration, high quality corporate bonds."

Fannie Benchmark To Be Sold Thursday

Fannie Mae is in the market to sell a three-year benchmark note, on the heels of Freddie Mac's $6.5 billion sold on Tuesday.

Freddie's $3.5 billion five-year note sold to yield 2.621% and the $3 billion two-year note sold to yield 1.565%.

Price talk on the Fannie deal, the size of which has not yet been announced, is in the area of 93 basis points over comparable Treasurys.

The CUSIP number for the note is 31398AUU4.

The deal is likely to be sold on Thursday.

FY09 Budget Deficit Seen At $1.186T

The U.S. federal government will have a budget deficit of $1.186 trillion in fiscal year 2009 and $703 billion in fiscal year 2010, according to projections released Wednesday by the Congressional Budget Office.

In a series of dire projections for the U.S. economy, the nonpartisan congressional fiscal watchdog projected that U.S. gross domestic product would contract by 2.2% in 2009 and that the country's unemployment rate would peak at around 9% in early 2010.

The drastic increase in the size of the projected budget deficit stands in contrast to the $455 billion recorded by the CBO for the 2008 fiscal year, which ended Sept. 30, 2008. The current fiscal year will end Sept. 30, 2009.

Anheuser-Busch InBev To Sell Bonds

Anheuser-Busch InBev, the world's biggest brewer, launched $5 billion in notes, according to a person familiar with the deal.

The $1.25 billion five-year note was launched at 550 basis points over Treasurys; the $2.5 billion 10-year at 525 basis points over Treasurys, and the $1.25 billion 30-year at 512.5 basis points over Treasurys.

The launch was in line with price guidance.

Announced Monday, the offering is being handled by Banc of America Securities, Barclays Capital, Deutsche Bank and JP Morgan. The deal includes protections for investors should there be a ratings cut below investment-grade status and a change of control at the company.

Credit Card Charge-Offs Rise

U.S. credit-card charge-offs rose again in December as cardholder payment rates "slowed dramatically," according to Fitch Ratings' latest Credit Card Index.

"Consumers continue to struggle amid a rapidly deteriorating employment situation and from declining property values and other measures of wealth," said Managing Director Mike Dean.

Fitch's prime charge-off index is now at 6.8%, nearly one-third higher than year-earlier levels. It expects the figure to reach 8% this year as unemployment continues to rise.

Private sector jobs fell 693,000 in the U.S. in December, according to a revamped national employment report published earlier Wednesday by Automatic Data Processing Inc. (ADP) and consultancy Macroeconomic Advisers. The initial reading from the Labor Department said November non-farm payrolls tumbled 533,000, the biggest decline in 34 years.

Time Warner Writes Down $25B

Time Warner Inc. announced plans to write down about $25 billion of assets in the fourth quarter - reflecting the declining values of its cable, AOL and magazine businesses - as the media giant lowered its 2008 operating outlook because of the weakening economy.

TOMORROW'S MONEY HEADLINES

Monsanto Jumps On Strong Outlook

Monsanto Co.'s fiscal first-quarter net income more than doubled as the agribusiness giant saw improved margins and record sales, driven by greater demand in Latin America.

As such, the company raised its outlook for the year, which along with earnings smashing expectations, helped push shares up 14.6% to $83.89 in recent trading.

Monsanto now sees fiscal-year earnings of $4.40 to $4.50 a share; the company in October forecast $4.20 to $4.40. That view was below analysts' then-expectations, which haven't changed since then as many believed the initial forecast was too conservative.

With the most significant part of its business cycle still to come, the first-quarter results signaled a good start to the year, though it primarily reflects the impact of its Latin American businesses.

Raytheon Exec To Join Pentagon

The Obama administration is expected to announce that it has offered the No. 2 job at the Pentagon to William Lynn, currently and executive at defense contractor Raytheon Co., according to people familiar with the situation.

According to these people, Lynn plans on accepting the post. He had been considered one of the front runners in recent weeks. Lynn, 55 years old, is former comptroller of the Pentagon, a background that will come in handy as the defense budget comes under pressure. At Raytheon, Lynn is charged with heading the defense contractor's Washington operations.

Obama Stimulus On High End

President-elect Barack Obama said that the size of his economic recovery package hasn't been finalized but warned that the plan is likely to be at the "high end" of his team's estimate, or around $775 billion.

Speaking at a press conference, Obama acknowledged that the stimulus package will boost the already sky-high federal deficit, but warned that without government action to address long-term budget reform the U.S. will face "red ink as far as the eye can see."

To lead his administration's effort to tackle wasteful spending, the President-elect named management consultant Nancy Killefer to serve as the government's chief performance officer, a role responsible for scouring the budget and finding inefficiencies at federal agencies.

Pensions See Record Deficit

The largest U.S. company pensions experienced a record $409 billion deficit last year that will negatively impact corporate earnings in 2009, according to estimates by consultant Mercer.

As a result, more companies are likely to ratchet down their plans' exposure to riskier investments and freeze their pensions, Mercer strategists say.

"We believe you'll see some companies are going to be considerably more risk adverse (in their investing strategies)," said David A. Kelly, a member of Mercer's financial strategy group, which helps companies manage risk in their retirement programs.

US Chamber Sees Steep '09 GDP Drop

The U.S. Chamber of Commerce warned against a "permanent" expansion of the U.S. government as the nation's new leaders work to revive the economy with a stimulus program and other initiatives.

"We don't need and can't afford another New Deal," said Chamber President and Chief Executive Thomas Donohue. The incoming Obama administration should avoid extending programs which temporarily help individuals and companies that risk becoming bureaucratic operations and end up being in place from now until forever, Donohue said.

TALKING POINTS

Rocky 2009 Could Spell Investor Bonanza

Another rocky road lies ahead for the $2.7 trillion municipal bond market this year as a lack of investors and ongoing credit issues threaten its ability to absorb a huge pent-up supply of new bonds.

That is bad news for issuers such as California that are facing big cash shortfalls, but it could spell a bonanza for individual investors willing to step up and buy high-quality tax-exempts at record high yields, currently 5.00% for triple-A, 30-years.

"Were there sufficient buyers, municipal issuers have more than enough borrowing needs to bring in excess of $500 billion in new loans," said Matt Fabian, senior analyst at Concord, Mass.-based Municipal Market Advisors. Depending on other factors, including the extent of federal government aid, that number could be as much as $200 billion higher, he said.

"But with institutional demand likely compromised through year-end...a calendar of this size would need substantially higher yields than at present," he said. "Although issuers have so far demurred, at some point, we expect they will accede to investor demand and allow yields to rise."

The record for tax-exempt bond sales is $425 billion in 2007, which declined by 9% last year to $387 billion, according to Thomson Reuters.

The bonds of state and local governments last year were caught in a "perfect storm" that allowed yields for 30-year triple-A's to almost double to 196% of comparable Treasurys from 99% a year earlier, said Guy LeBas, fixed-income strategist at Philadelphia-based Janney Montgomery Scott.

That marked the market's worst performance in recent memory and resulted from such events as the collapse of bond insurers, compression of the auction-rate securities market, extensive financial sector deleveraging, forced selling by hedge funds and the demise of some bond dealers essential to underwriting and carrying securities inventories.

Throw in a weakening economy and declining municipal credit profiles, "and you end up with the municipal sector's version of the prefect storm, which created a supply/demand imbalance that pushed yield levels to extremes," LeBas said.

The imbalance likely will persist this year as traditional institutional buyers like mutual funds and property and casualty insurers remain compromised through year-end, analysts said. Losses and massive redemptions at these firms have severely crimped their needs for tax-exemption.

TALKING POINTS

Junk Rally Leaves New-Issue Door Ajar

It may take years for the high-yield bond market to recover after the damage it incurred during 2008.

But every cleanup is an incremental process, and small signs of improvement in recent weeks could add up to a reopening of credit to some of the nation's riskier companies after months of being shut out.

Risk premiums, or spreads over Treasurys, for high-yield bonds have dropped to 16.68 percentage points — still historically high but well below their mid-December peak of 21.82 percentage points, according to the Merrill Lynch Master II High Yield Index.

With Treasurys offering negligible yields, investor cash has begun to seek out corporate bonds again, paving for the way for a possible re-emergence of new issuance after a lengthy absence.

Risk aversion, however, is prevalent enough to preclude lower-rated companies - often the ones with the most immediate refinancing needs - from accessing capital markets without paying prohibitively high interest rates. Companies at the top, double-B-rated tier of high yield, however, look increasingly like candidates to test the new issue market.

"If this rally sustains at all, I think you'll see some capital markets guys start to pop their heads up," said Paul Scanlon, high-yield fund manager at Putnam Investments.

The rally gained traction thanks to pent-up demand from investors who had stockpiled cash near year's end. Starved of new issuance, investors have begun buying in the secondary market at bargain prices. High-yield funds saw $774 million of net inflows over the last two weeks of 2008, according to AMG Data Services of Arcata, Calif.

Momentum picked up this week with investors back from vacation and looking to put money to work. In the past day or two in particular, high-yield mutual funds are looking to buy higher-quality paper, according to Jeffrey Rowbottom, managing director in high-yield capital markets at Barclays Capital.

Meanwhile, the outlook may be slowly improving for new issues after only three came to market during the fourth quarter of 2008. In the largest two of those deals, MGM Mirage in October sold $750 million of 5-year notes with a 13% coupon, and El Paso Corp. in December sold $445 million of five-year notes with a 12% coupon. Both deals received ratings in the double-B range.

The companies had to offer discounts on the face value of their bonds, bringing the yield for both offerings to 15%. But the prices of those bonds have risen sharply in the secondary market since the issues were sold, pushing their yields lower, meaning at least in theory that similar companies coming to market now could offer lower interest rates.

Payroll Forecasts Cut After ADP Report

The shockingly severe plunge in private-sector jobs during December contained in Wednesday's ADP employment report has sent economists hurrying to cut their forecasts for the U.S. nonfarm payrolls to be reported Friday by the Bureau of Labor Statistics.

The ADP survey indicated that private-sector employment fell 693,000 in December - far worse than the 515,000 loss expected by economists.

The main difference between the ADP and BLS data is that ADP covers only private-sector payrolls while the BLS includes government workers.

Joel Prakken, chairman of consultancy Macroeconomic Advisers that administers the ADP survey, said, "If we assume an increase of 20-odd thousand jobs in government, (the ADP report) suggests a loss of 670,000 or so jobs for total nonfarm payrolls."

Economists surveyed by Dow Jones Friday and Monday expected that the BLS would report a December decline of 500,000 nonfarm jobs, on top of the 533,000 lost in November.

In light of the ADP report, however, expectations are worsening. The median forecast for Friday's payroll number now stands at a plunge of 525,000.

The miserable ADP report indicates the U.S. economy ended the fourth quarter in worse shape than it began it. Prakken said his firm forecasts that real gross domestic product contracted at an annual rate of 5.5% last quarter and may shrink another 3.5% in the first quarter of 2009.

"After that, growth will depend on the size and timing of fiscal policy," said Prakken. President-elect Obama is expected to outline his stimulus plan in coming days but expectations are that it will total $775 billion spent over two years.

ADP recently revamped its survey's methodology to better track the BLS's number. Before the revisions, the ADP payroll survey underestimated the extent of layoffs since the recession began in December 2007.

If it is indeed more accurate - and Friday's data will provide a first test - then the December ADP number suggests a horrific BLS payroll number Friday.

Markets Like Risk, At Least For Now

At first blush, bond markets have started the new year on a much more positive note than they ended 2008, although there's no telling how long this calendar calypso will last.

Banks and the financial community escaped largely unscathed from the year-end squeeze, when markets are traditionally constrained by the wrapping up of the year's books. Given the havoc of 2008, getting past Jan. 1 was an especially crucial milestone this year, and it's opened a bit of room to clear up some unfinished business and even take a peek at new deals.

On Tuesday, Altria Group Inc.'s acquisition of UST Inc. held over from last year was pushed through, while investors in emerging markets looked set to snap up new issues by Brazil and Colombia. That's underpinned by the recent strength in corporate bonds and weakness in Treasurys as some investors step back out into the world of risk-taking.

The UST purchase was announced in early September, just days after the financial system went into near-meltdown. Though Altria successfully raised $6.75 billion in bond market in October, Goldman Sachs and JPMorgan Chase - two banks providing the $7 billion bridge loan - asked the company to postpone to the deal's closure until after Jan. 1 when year-end pressures would have subsided.

The new year finds the corporate bond market in shape, even if investors have one eye on the ever-expanding role of government.

"Cash on the sidelines is being put to work in part because higher grade corporates are seen as likely to be next in line to find comfort under the Fed's balance sheet umbrella," said Alan Ruskin, an economist at RBS Greenwich Capital, in a research note.