

G7 CALENDAR

Friday	
12:00p.m.	JPN
Nov indexes of Business Conditions, preliminary Leading Indicators Index (previous 0)	
2:00 a.m.	GER
Nov Retail Trade Sales Monthly (expected +0.5%), yearly (expected +0.3%)	
2:45 a.m.	FRA
Nov Foreign Trade Balance, EUR (expected -6.5B)	
2:45 a.m.	FRA
Nov Industrial production index (expected -6.2%)	
4:00 a.m.	ITA
3Q General Govt Accounts	
4:30 a.m.	UK
Nov Industrial Production Monthly (expected -0.7%)	
4:30 a.m.	UK
Dec Producer Prices Core PPI Yearly (expected +4.3%)	
5:00 a.m.	EU
Nov Retail Sales Monthly (expected +0.2%)	
6:00 a.m.	FRA
Nov OECD CPI	
6:00 a.m.	GER
Nov Indus Production Index Industrial Output (Adjusted) (expected -2%)	
7:00 a.m.	CAN
Dec Employment Report Jobless Rate (previous 6.3%)	
8:15 a.m.	CAN
Dec Housing Starts - Annual Rate (previous 172000)	
8:30 a.m.	US
Dec Employment Non-Farm Payrolls (expected -500K)	
8:30 a.m.	CAN
Nov Building Permits (previous -15.7%)	
10:00 a.m.	US
Nov Wholesale Trade Inventories (expected -0.8%)	

TODAY'S MARKET WRAPS

TREASURYS: Treasuries maturing in at least five years eked out some gains Thursday morning as worries about economic growth pressured global stocks. After hitting session highs right before the release of the weekly jobless claims data, some profit taking set in as investors turned their attention to the \$16 billion reopening of 10-year note sale at 1 p.m. EDT. Traders noted that volatility has been the norm in the bond market lately as it is sandwiched between two conflicting forces. While concern about growth spurred a safe-haven bid into government debt, mounting supply amid a surging budget deficit put upward pressure on bond yields. "You are going to see more of the intraday volatility these days due to supply, the levels of the low yields and the concern about growth," said Thomas Roth, head of U.S. government bond trading in New York at Dresdner Kleinwort Securities LLC.

CORPORATES: Walgreens's \$1B 10-year note priced to yield 5.318%, according to a person familiar with the deal. The spread was 287.5 bps over Treasuries. The spread on a five-year Walgreens note due 2013 is 258 bps, according to MarketAxess. The company is rated A2/A+- and considered stable. Junk bonds, as measured by the key derivatives index, the HY11, weakened Thursday after retailers cut forecasts and jobless claims climbed to the highest level in more than 25 years, KDP said in a note. The index was quoted at 79.48/79.64 pts, according to Markit. That's 0.9 pts down from Wednesday's close. Retailers' bonds were lower, with Neiman Marcos the biggest loser - its bonds were down by as much as 9 pts.

FOREX: The dollar recouped some losses against most of its major rivals and settled into narrow ranges Thursday afternoon as investors consolidated their positions before Friday's nonfarm payroll report. The greenback suffered a wave of heavy selling early in the North American session. It hit an intraday low of \$1.3801 against the euro and Y90.83 versus the yen. In recent trading, the euro traded at \$1.3712 from \$1.3635 late Wednesday and the dollar was Y91.27 from Y92.64, according to EBS. The euro was at Y125.15 from Y126.30, the sterling was \$1.5164 from \$1.5095, and the dollar was CHF1.0933 from CHF1.1018 late Wednesday. The euro was GBP0.9035 from GBP0.9021 late Wednesday.

STOCKS: Most U.S. stocks were down Thursday as retail spending data and the weekly jobs report weighed on equities ahead of Friday's heavily watched December employment report. The Dow Jones Industrial Average was recently down 94 points, or 1.1%, at 8675, compounding a 245-point loss in the Wednesday session that took it into negative territory for 2009. The biggest decliner was Wal-Mart Stores, an important bellwether for the broader retail sector, which fell almost 8% to \$51.25 after scaling back its earnings expectations. The chain's woes, which were part of a series of reports from major outlets, suggested even discount stores that cater to Americans' basic needs are suffering as people worry about keeping their jobs.

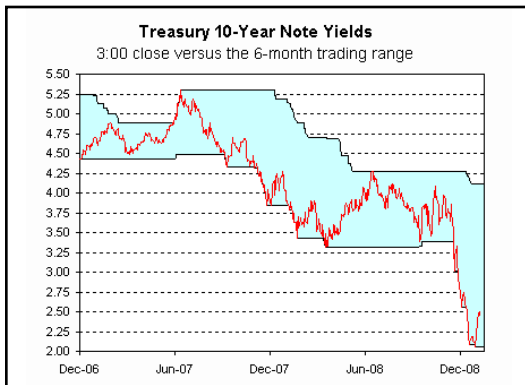
ENERGY: Crude oil futures traded lower Thursday as high U.S. inventory levels, especially at the contract's delivery point, put a spotlight on weak demand. Light, sweet crude for February delivery traded \$1.09, or 2.6%, lower at \$41.54 a barrel on the New York Mercantile Exchange. Brent crude on the ICE futures exchange traded 43 cents lower at \$45.43 a barrel. Oil prices added to Wednesday's steep decline, which deepened when the U.S. Energy Information Administration reported a larger-than-expected build in oil inventories. Stocks at Cushing, Okla., the Nymex contract's delivery point, hit a record, raising concerns that there will not be enough space left to take delivery when the February futures contract expires. Oil fell to \$33.87 a barrel, nearly a five-year low, due in part to tight storage conditions when the January contract expired.

TOMORROW'S TOP MONEY HEADLINES**Jobless Claims Fall Again, But Labor Mkt Still Grim**

U.S. claims for new jobless benefits unexpectedly tumbled for a second-straight time last week to a nearly three-month low, a government report showed, offering a rare sign of stabilization at the start of the new year amid a drumbeat of negative news.

Initial claims for jobless benefits fell 24,000 to a seasonally adjusted 467,000 in the week ended Jan. 3, the lowest since Oct. 11, the Labor Department said in its weekly report Thursday. In contrast, economists surveyed by Dow Jones had expected claims would soar by 63,000.

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



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.040	0.005	0.041	-0.009
3-Mo Bill	0.085	0.075	0.086	-0.030
6-Mo Bill	0.285	0.275	0.289	-0.006
2-Year	100.02+	100.03+	0.836	-0.006
3-Year	99.27+	99.28+	1.173	0.005
5-Year	99.172	99.186	1.597	0.112
10-Year	111.10+	111.120	2.448	0.172
30-Year	128.06+	128.08+	3.04	-0.01+

EQUITIES

	INDEX	CHANGE
DJIA	8717.29	-52.410
NASDAQ	1609.71	10.650

OIL

	PRICE	CHANGE
NYMEX	41.60	-1.0300

CURRENCIES

	PRICE
Euro	1.3724
Sterling	1.5230
JPN Yen	91.32
Swiss Franc	1.0930
Can Dollar	1.1814
Mexico	13.638

FUTURES

	PRICE	CHANGE
CBOT 5 yr	119.3	12.24
CBOT 10 yr	125.3	0.3125
CBOT 30 yr	132.8	0.53125

IR SWAPS

	SPREAD	RATE
2-Year	58.75 - 54.75	1.416 - 1.376
3-Year	55.50 - 51.50	1.723 - 1.683
5-Year	52.00 - 48.00	2.112 - 2.072
10-Year	17.25 - 13.25	2.618 - 2.578
30-Year	-13.00 --17.00	2.909 - 2.869

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	99.01500	0.06000
Jun09	98.99500	0.03500
Sep09	98.87000	0.01500
Dec09	98.68500	0.01500

REPURCHASE AGREEMENTS

GENERAL	i-REPO SM INDEX	
COLLATERAL		
O/N	0.150	10:00 AM 0.090
1-Week	0.200	3:00 PM 0.091
2-Week	0.200	
3-Week	0.250	
1-Month	0.250	O/N SPECIALS
2-Month	0.250	2-Year 0.080
3-Month	0.300	3-Year 0.020
		5-Year 0.050
		10-Year 0.010

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.0600	
1-Month	0.3500	0.140
3-Month	1.1000	0.164
6-Month	1.6000	0.195
12-month	2.0000	0.332

FED FUNDS

Open	0.07000
High	0.4500
Low	0.0625

HEFFR

10:00 AM	0.10
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
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA

ACTIVE MBS 15YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.0	104.052 - 104.072	3.602
FNMA	5.0	103.221 - 103.241	3.273
FHLMC	5.0	103.222 - 103.242	3.526

ACTIVE MBS 30YR

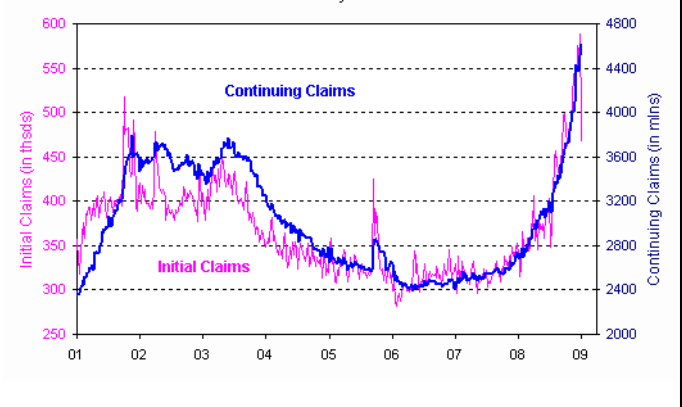
ISSUER	CPN	PRICE	YIELD
GNMA	5.5	104.052 - 104.072	3.813
FNMA	5.5	103.227 - 103.231	3.168
FHLMC	5.5	103.187 - 103.191	3.477

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Wrightson-ICAPSM Chart of the Day

<http://www.wrightson.com>

Initial and Continuing Claims for Unemployment Insurance
Weekly levels



TOMORROW'S MONEY HEADLINES**Retailers Have Not-So-Merry Holidays**

Sales at U.S. retailers slumped in December, with even Wal-Mart Stores Inc. bending to harsh economic realities by cutting its earnings expectations for the current quarter.

Other retailers also cut their outlooks, including Gap Inc., Pacific Sunwear of California Inc., Macy's Inc., and Target Corp., saying markdowns during the holiday shopping season put pressure on profits.

Retailers' November results were terrible, made worse by the fact that the timing of Thanksgiving pushed some post-holiday sales into December.

Wal-Mart, which has benefited from bargain-hunting in a weak economy, reported sales at U.S. stores open at least a year, excluding gasoline sales, grew 1.7% last month amid a 1.9% increase at its namesake chain and 0.1% rise at Sam's Club. Analysts polled by Thomson Reuters were expecting a 2.8% increase in same-store sales.

\$173M In Checks Found In Madoff Desk

Federal prosecutors said Thursday that investigators who searched Bernard Madoff's office desk after the money manager's arrest on Dec. 11 found about 100 signed checks totaling more than \$173 million.

The revelation came as part of a motion by the U.S. attorney's office in Manhattan to revoke Mr. Madoff's bail after he mailed valuable jewelry, watches and other heir looms to relatives and friends shortly after his arrest and in apparent violation of a court-ordered asset freeze in a separate but related case filed by the Securities and Exchange Commission.

A criminal complaint filed against Mr. Madoff on the day of his arrest alleged the 70-year-old had confessed to running a "giant Ponzi scheme" that may have cost investors more than \$50 billion.

DJ-BTMU Gauge Falls Last Wk Of 2008

The Dow Jones-Bank of Tokyo-Mitsubishi-UFJ weekly business barometer plunged 1.6% in the December 27 week, after increasing a revised 1.3% in the prior week.

The December 20 week increase was originally reported as 1.4%.

A statistically smoothed version of the index fell 0.1% for the second consecutive week. The prior week's index was first reported as unchanged.

For 2008, the index was down 1.6%, the worst performance since a 1.8% decline in 2001. The DJ-BTMU barometer is a weighted, 10-component index designed as a coincident measure of overall U.S. economic activity. In the latest week, five components increased while five declined. Railcar loadings plunged 21.1% and steel output fell 13.3%.

Fannie 3-Year Bond Sold At 2.006%

Fannie Mae sold its upsized \$6 billion three-year bond issue at a yield of 2.006%.

This is a strong statement of investors' confidence in these debt securities, especially after the Federal Reserve's purchase of \$15 billion of such securities. Also, the central bank says it plans to buy \$100 billion or more, if necessary.

Fannie's bond, with a 2% coupon, sold at a price of \$99.983 with the risk premiums of 83 basis points over comparable Treasury yields. This matched the price talk on the deal earlier in the day.

Barclays Capital, Deutsche Bank and JP Morgan were the lead managers on the deal.

Initially, the nationalized mortgage finance company announced the issuance of debt maturing Jan. 9, 2012, with a minimum size of \$3 billion.

McGraw-Hill Names Ombudsman

McGraw-Hill Cos. named former Ernst & Young chief executive Ray Groves ombudsman for its Standard & Poor's unit Wednesday to address potential conflicts of interests.

The announcement is the most recent move since the credit rating firm announced its intentions in February to create the position as part of an effort to increase transparency and strengthen its ratings process.

Groves will report to McGraw-Hill CEO Harold McGraw III and provide independent reviews for the board's Audit Committee. Each year, S&P said, the ombudsman will report the company's activities from the preceding year to the public.

"Both the markets and our own employees expect the highest standards of independence, quality and transparency from Standard & Poor's, and its long-term track record speaks to its commitment to these values," said McGraw.

Walgreen Cuts 1K Of Work Force

Walgreen Co. will slash about 1,000 jobs, or about 9% of its corporate and support staff, as the nation's No.2 drugstore chain continues to rein in costs amid a cut-back in consumer spending and increased competition.

The company said it is offering early retirement and severance incentives to some of the corporate and support employees in an effort to reduce the number of layoffs set to start next month.

For years, Walgreen produced steady growth in sales and profits by rapidly opening stores in high-profile locations. It eschewed acquisitions, filled executive ranks with longtime Walgreen pharmacists and limited communications with investors. But now the retailer is scrambling to adapt to a changing landscape, which includes rapid consolidation and a marked slowdown in overall prescription sales.



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TOMORROW'S MONEY HEADLINES

Bond Investors Should Look To Govt

The manager of one of the world's largest bond funds says investors should take their cue from the U.S. government as it spends heavily to prop up the nation's shaky financial system.

The call from Pacific Investment Management Co.'s Bill Gross comes as Pimco is among the investment managers that are running several of the government-sponsored efforts managing Washington's new investments.

"Anticipate, then buy what they buy, only do it first," said Gross in his monthly investment outlook. He pointed to agency-backed mortgages, banks' preferred shares and senior debt and AAA-rated asset-backed securities with borrowings such as credit cards and auto and student loans.

Sears Raising EPS View

Sears Holding Corp. reported a drop in sales, but the numbers weren't as bad as some on Wall Street had been expecting, and the struggling retailer boosted its earnings view to well above the Street's, sending shares soaring on a bleak day for many retailers.

Shares of the department store chain, which also runs Kmart, were up 18%, or \$6.89, at \$47.96 in recent trading, by far the top performer on the Standard & Poor's 500 Index on Thursday.

Sears posted a 7.3% drop in December same-store sales amid a 13% drop at its domestic namesake stores and a 1.1% dip at Kmart. The namesake stores took a hit on apparel sales, the company said.

But steep price-cutting to try and draw in scared consumers and a return of layaway shopping kept the numbers in range with expectations when even the world's largest retailer, Wal-Mart Stores Inc. (WMT), fell short.

Germany To Buy Stake In Commerzbank

The German government will buy a 25% stake plus one share in the newly formed Commerzbank, following fresh capital-boosting measures that the bank, the government and Allianz SE agreed upon, Commerzbank said Thursday.

The planned capital measures will increase the new Commerzbank's core capital Tier 1 ratio to around 10%, Commerzbank AG said.

"We are weatherproofing our bank for an economically stormy environment," Chief Executive Martin Blessing said. "This will enable us to fulfill our responsibility to offer loans to the German economy and to ensure we will continue to be a reliable partner for our clients."

Moody's Cuts BoA's Debt Ratings

Moody's Investors Service cut its issuer and senior debt ratings on Bank of America Corp. one notch each in light of "the greater challenges Bank of America and Merrill Lynch are likely to face over the next few years" in the difficult economic environment.

"Bank of America has taken a number of steps recently to bolster its capital position," Moody's Senior Vice President David Fanger said, adding that Moody's believes its tangible common-stock position remains "relatively weak, leaving a modest cushion to absorb losses."

The ratings agency said the combined company's stock position is unlikely to improve substantially before next year because of reduced earnings from capital markets activities and the need to maintain high loan-loss provisions, especially for credit cards and residential real-estate loans.

Moody's: FHL Banks May Face Write-Downs

The Federal Home Loan Banks may see their capital fall below regulatory minimums as they face possible write-downs on their \$76.2 billion private-label mortgage-backed securities portfolio, Moody's Investors Service said in a report.

Moody's said that in a worst-case scenario, capital at just four of the 12 FHL banks would remain above regulatory minimums, but the ratings agency said that was unlikely.

The banks are a prime source of funding for U.S. banks, but such funding has dried up amid the tight credit markets and unwillingness of banks to lend to each other.

TALKING POINTS

Inflation Targeting Back With A Twist

After being dormant for many months, inflation targeting is back as a serious option at the Federal Reserve.

Ironically, now it's the risk of outright price declines known as deflation, and not avoiding rapid inflation, that has given new momentum to advocates.

"The argument for inflation targeting now is much easier to make" with the U.S. facing a "massive deflationary shock," said former Fed Governor Frederic Mishkin, who left the Fed four months ago to return to Columbia University.

Mishkin and Fed Chairman Ben Bernanke have championed inflation targets as a way to anchor expectations and provide for better economic outcomes. But momentum for the Fed adopting targets was thwarted in 2007 first by Congressional opposition and then the financial crisis.

Mishkin isn't alone in still seeing their merits. In the minutes of the Dec. 16 FOMC meeting, released Tuesday, officials discussed as a potential communications tool "a more explicit indication of their views on what longer-run rate of inflation would best promote their goals of maximum employment and price stability."

"The added clarity in that regard might help forestall the development of expectations that inflation would decline below desired levels, and hence keep real interest rates low and support aggregate demand," according to the minutes.

In other words, a commitment to an inflation target, say annual growth of 1.5% to 2%, would help keep prices from falling outright and prevent the kind of economic chaos that plagued Japan in the 1990s and the U.S. during the Great Depression.

"The key issue here is the management of expectations," said Mishkin, who co-wrote a book on inflation targeting with Bernanke when both were academics a decade ago. "It's just as disastrous if inflation expectations get unanchored in the negative direction...this is exactly what happened in Japan."

Until recently inflation targeting was largely seen the opposite way - as an anti-inflation tool. And Congress, particularly House Financial Services Committee Chairman Barney Frank, D-Mass., never warmed to the idea, since inflation targets in that context suggested tighter monetary policy and, critics said, an elevation of price stability over full employment as the Fed's primary objective.

TALKING POINTS

BOE Rate Cut To Lowest Level Since 1694

The Bank of England's Monetary Policy Committee Thursday cut its key interest rate to the lowest level since the central bank was founded in 1694.

In cutting the Bank rate to 1.5% from 2.0%, the MPC was responding to growing evidence of a deepening recession.

But in a statement, it said that it expects the economy to receive "a considerable stimulus" as 2009 progresses from this and previous interest rate cuts, the government's GBP20 billion fiscal stimulus package, sterling's depreciation and lower energy prices.

That suggests the MPC may not be planning to cut its key interest rate much further. The latest rate cut was at the smaller end of economists' forecasts.

Sterling surged on the move, which was smaller than some investors had expected, jumping to an intraday high of \$1.5265 after the decision, from around \$1.5048 beforehand, while U.K. stocks, gilts and short sterling fell.

Of the sixteen economists surveyed by Dow Jones Newswires last week, eight forecast a cut to 1.5%, while three expected a reduction to 1.25% and the remaining five anticipated a lowering to 1%. The Bank cut the key interest rate by 100 basis points in December, 150 points in November and 50 basis points in October.

The MPC indicated it is all too aware of the serious predicament facing the U.K. economy.

"Business surveys suggest that the pace of contraction in activity increased during the fourth quarter of 2008 and that output is likely to continue to fall sharply during the first part of this year," the MPC said in a statement.

Recent business surveys have shown that services and manufacturing activity continue to shrink at a rapid pace as 2008 drew to a close, while lending conditions are still tightening. The U.K. economy contracted by 0.6% in the third quarter.

One rare ray of light amid the gloom came from U.K. super-market chain J Sainsbury PLC (SBRY.LN), which Thursday reported better-than-expected fiscal third-quarter sales, underpinned by its best ever Christmas performance.

Chief Executive Justin King said that will help it to create between 3,000 and 4,000 jobs this year.

Finding Juicy Yields In Safer Places

The U.S. government's intervention in the corporate bond market is presenting attractive opportunities for investors looking for safety as well as yield.

Through a program set up by the Federal Deposit Insurance Corp., qualifying financial institutions can issue debt maturing in three years that is fully guaranteed by the government. That debt, however, can carry yields below 2%.

Savvy investors, therefore, are turning to nonguaranteed debt issued by financial institutions participating in the program as a backdoor way to get higher yields. They reason that if the government is supporting these banks and financing companies with the FDIC program, it's unlikely they will default on their nonguaranteed debt anytime soon.

"The government has already made it clear that these are entities that will be supported and are deemed necessary to the financial system," said Scott Keller, portfolio manager at Summit Investment Partners in Cincinnati.

"That gives investors confidence to buy debt from them that doesn't have the guarantee," Keller said.

Debt sold by General Electric Capital Corp., the financing unit of General Electric Co., is a case in point. On Monday, GECC sold \$10 billion of FDIC-backed debt Monday, some of which carried yields of 1.66% and 2.22%. A day later, it sold \$4 billion of non-backed debt maturing in 30 years at nearly 7%.

These corporate bond yields appeal to a broad investor base, including pension funds and funds that buy several kinds of assets such as stocks. For them, "it's a back door to getting financial risk at cheaper levels," said Greg Peters, head of fixed income research at Morgan Stanley in New York.

The FDIC created its Temporary Liquidity program late last year to help free up financing in credit markets that had frozen. It allows corporate issuers that qualify for the program to sell AAA-rated debt to risk-adverse investors at low yields.

Until Goldman Sachs Group Inc. (GS) issued the first deal on Nov. 25, banks had been unable to sell new debt for two months.

Since, then investment-grade corporate new issue market has been dominated by financial issues sold under the FDIC debt guarantee program.

Look For Dollar To Struggle Higher

The dollar's bright start to 2009 should continue.

However, the U.S. currency's gains will prove fragile and its advances prone to correction.

This isn't only because investors will be keen to take profits in highly volatile trading conditions but because the market wants hard evidence that the U.S. is heading out of recession first.

The new year has been dollar positive so far, with the dollar fulfilling a safe haven role in a world of economic uncertainty and with the U.S. reassuring investors that it will remain the most aggressive in terms of both fiscal and monetary easing.

President-elect Obama helped to kick start the dollar's rally with his plans for a \$774 billion stimulus package. The U.S. Federal Reserve helped to soothe market concerns further by publishing minutes that make it clear interest rates will continue to hover just over zero and that the central bank remains ready to inject more liquidity through quantitative easing.

"Policy reassurances for the Fed and Treasury will continue to be a source of strength for the dollar under existing market conditions," said Geoffrey Yu, a senior currency strategist with UBS in London.

It is this optimism that the U.S. is leading the way with the most pro-growth policies of all the major economies that will continue to serve the dollar well.

Nevertheless, there is still plenty to make investors run scared.

In its minutes, the Fed acknowledged that "downside risks to economic activity would be substantial" and the specter of deflation continues to haunt the investment community even though fears of a 1930's style depression appear unfounded.

A near-term test of investor faith in the U.S. and the dollar could well come later this week with the release of new non-farm payrolls for December. The consensus is for a fall of about 500,000, after a 533,000 decline in November, but some economists reckon that a fall of 800,000 is possible.

At ING Financial Markets, economists warn that a 1 million decline in payrolls can't be ruled out in months to come.

These forecasts only appeared more likely after the private sector ADP Employment Report showed a fall of 693,000 last month, much more than the 515,000 the market was going for.