

G7 CALENDAR

| | |
|-------------------|--|
| Monday | |
| 2:00 a.m. | GER Nov Manufacturing turnover |
| 4:30 a.m. | UK Dec BoE narrow money |
| 6:00 a.m. | FRA Nov OECD Standardized Unemployment Rates |
| 8:00 a.m. | FRA Nov OECD Composite Leading Indicators |
| 8:30 a.m. | CAN Nov New House Prices Y/Y (previous +1.5%) |
| 12:40 p.m. | US Atlanta Fed Pres Lockhart speaks on the econ outlook in Atlanta |
| 2:00 p.m. | US Federal Budget, in dollars (previous -164.4B) |
| 6:50 p.m. | JPN Dec Money Stock, Broadly-defined Liquidity M2 (Money Stock) (previous +1.7%) |
| 6:50 p.m. | JPN Dec Bank Lending (on year) (previous +3.6%) |
| 6:50 p.m. | JPN Dec International Transactions in Securities |
| 6:50 p.m. | JPN Nov Balance of Payments Current Account Balance (on-year change) (previous -56.5%) |
| 6:50 p.m. | JPN 3Q Balance of Payments, revised |
| 7:01 p.m. | UK Dec RICS UK Housing Market Survey |
| 7:01 p.m. | UK Dec Retail Sales Monitor covering Xmas |
| Tuesday | |
| 12:00 p.m. | UK Dec European Monster Employment Index |

TODAY'S MARKET WRAPS

TREASURYS: Longer-term Treasuries were lagging behind Friday after the final payrolls report of the year, which showed a steep, but as-expected loss of jobs in the U.S. in December. However, the unemployment rate shot up more than expected, making the report a mixed affair for the government-bond market, and leaving prices waffling in the wake of the data. Treasuries were mostly steady early Friday before the report and dipped modestly after the figures. Prices have since seasawed between slightly lower and slightly higher. In recent trade, long-term Treasuries were underperforming and shorter-maturities were lifted, leaving Treasuries benchmark yield curve, the gap between the two- and 10-year notes, steeper, at plus 165 basis points from plus 161 on Thursday.

CORPORATES: Friday's payrolls report didn't spark a significant widening of credit spreads, even though dire economic news tends to do so, wrote Markit's Gavan Nolan. Indeed, the benchmark high-grade credit derivatives index was 2 bps tighter on the day. But there are signs that the beginning of the year rally is due to technical reasons, such as investors covering short positions. Although optimists say the rally in credit default swaps (CDS) is here to stay as all of the bad news has been priced in, the likelihood of more defaults may not support that. "The coming weeks are likely to see a torrent of negative news, and it is improbable that the CDS market can continue its stoic resistance," he wrote.

FOREX: The dollar rose sharply against the euro but declined versus the yen Friday as investors adjusted positions after a U.S. monthly employment report proved not as bad as some expected. Although the job-loss figures for December were gruesome, they were in line with the consensus forecast and not at the worst end of the forecast range. The dollar rallied against the euro, U.K. pound, Swiss franc and several other widely traded currencies, while falling back versus the yen. Friday afternoon, the euro was at \$1.3424 from \$1.3723 late Thursday and the dollar was ¥90.50 from ¥91.18, according to EBS. The euro was ¥121.48 from ¥125.13, sterling was \$1.5166 from \$1.5220, and the dollar was CHF1.1173 from CHF1.0915. The dollar was C\$1.1913 from C\$1.1788 late Thursday.

STOCKS: U.S. stocks fell Friday as the unemployment rate in hit a 15-year high in December, further highlighting the long-term struggles of the U.S. economy. Energy stocks were the leading laggards in recent trade, driven lower, in part, by a more than a dollar a barrel drop in oil prices. In the latest sign on how a swoon in oil prices has damped much of the industry, Chevron warned of "significantly lower" fourth-quarter results compared with the \$100-a-barrel days of the third quarter. Its shares recently fell nearly 1% to \$73.71. Oil service mammoth Schlumberger was off 4.7% to \$43.65 as it plans to lay off 1,000 in the U.S. and some of its overseas workers. The Energy Select Sector SPDR Fund was recently off 2.3% to 49.16.

ENERGY: Nymex crude oil futures prices were down early Friday, pressured by the December U.S. payroll report that showed that the unemployment rate is the highest since 1993. February-delivery crude was down \$1.22 at \$40.48 a barrel at 9:18 a.m. EST (1418 GMT), near the bottom of a \$40.35-\$42.70 trading range. Some traders said they expected crude to break under \$40 later in the day and challenge support at \$39.75 a barrel. Addison Armstrong at Tradition Energy said he expects crude to head back near \$35 next week, a level last seen on Dec. 19. Added pressure on prices came from news that Russia and the Ukraine have resolved the dispute over natural gas shipments that disrupted Russian flows to Europe in recent days.

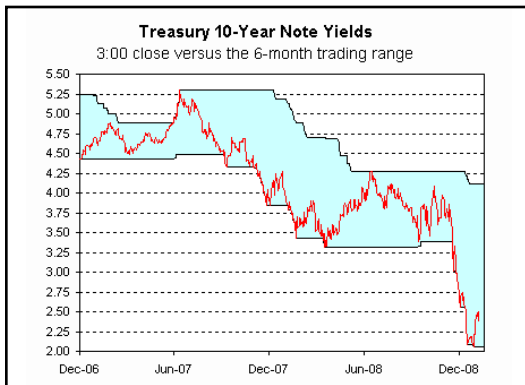
TOMORROW'S TOP MONEY HEADLINES**US Loses 524K Jobs; Unemployment Hits 7.2%**

The final employment report for 2008 closed the books on a miserable year for U.S. workers with payrolls plunging last month by more than half a million, pushing the unemployment rate to a 16-year high over 7%.

The economy lost 2.6 million jobs in 2008, the most since Harry Truman was president in 1945, though the labor force was much smaller then. Nearly two million of those losses were in the last four months alone, a sign that the recession accelerated as the financial crisis intensified, and should drag on well into the new year.

The figures will likely put pressure on Federal Reserve officials to expand already aggressive quantitative easing steps in which cash is essentially created and pumped into the economy, and gives backing to those calling for large-scale fiscal stimulus.

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 | 0.003 |
| 3-Mo Bill | 0.070 | 0.060 | 0.071 | -0.014 |
| 6-Mo Bill | 0.285 | 0.275 | 0.289 | -0.001 |
| 2-Year | 100.066 | 100.07+ | 0.767 | 0.037 |
| 3-Year | 99.316 | 100.010 | 1.128 | 0.045 |
| 5-Year | 99.290 | 99.30+ | 1.52 | 0.10+ |
| 10-Year | 111.250 | 111.26+ | 2.398 | 0.142 |
| 30-Year | 128.01+ | 128.040 | 3.047 | -0.002 |

| EQUITIES | | |
|----------|---------|---------|
| | INDEX | CHANGE |
| DJIA | 8649.67 | -92.790 |
| NASDAQ | 1585.78 | -31.230 |

| OIL | | |
|-------|-------|---------|
| | PRICE | CHANGE |
| NYMEX | 40.93 | -0.7700 |

| CURRENCIES | | PRICE |
|-------------|--|--------|
| Euro | | 1.3428 |
| Sterling | | 1.5139 |
| JPN Yen | | 90.40 |
| Swiss Franc | | 1.1149 |
| Can Dollar | | 1.1871 |
| Mexico | | 13.617 |

| FUTURES | | |
|------------|-------|--------|
| | PRICE | CHANGE |
| CBOT 5 yr | 119.7 | 12.24 |
| CBOT 10 yr | 125.8 | 0.3125 |
| CBOT 30 yr | 134.1 | 1.1 |

| IR SWAPS | | |
|----------|----------------|---------------|
| | SPREAD | RATE |
| 2-Year | 56.25 - 52.25 | 1.324 - 1.284 |
| 3-Year | 52.75 - 48.75 | 1.649 - 1.609 |
| 5-Year | 54.00 - 50.00 | 2.055 - 2.015 |
| 10-Year | 15.75 - 11.75 | 2.553 - 2.513 |
| 30-Year | -16.00 --20.00 | 2.886 - 2.846 |

| EURODOLLAR FUTURES | | |
|--------------------|----------|---------|
| | CLOSE | CHANGE |
| Mar09 | 99.12000 | 0.09000 |
| Jun09 | 99.11000 | 0.10500 |
| Sep09 | 99.00000 | 0.11500 |
| Dec09 | 98.82500 | 0.12500 |

| REPURCHASE AGREEMENTS | | | |
|-----------------------|-------|----------------------|-------|
| GENERAL | | i-REPO SM | |
| COLLATERAL | | INDEX | |
| O/N | 0.150 | 10:00 AM | 0.090 |
| 1-Week | 0.200 | 3:00 PM | 0.088 |
| 2-Week | 0.250 | | |
| 3-Week | 0.250 | O/N SPECIALS | |
| 1-Month | 0.300 | 2-Year | 0.090 |
| 2-Month | 0.300 | 3-Year | 0.040 |
| 3-Month | 0.300 | 5-Year | 0.060 |
| | | 10-Year | 0.010 |

| EURODOLLAR DEPOSITS & OIS STRIP (ASKED) | | |
|---|---------------|-----------|
| | EURO DEPOSITS | OIS STRIP |
| O/N FF | 0.0600 | |
| 1-Month | 0.3000 | 0.135 |
| 3-Month | 1.1000 | 0.159 |
| 6-Month | 1.5000 | 0.191 |
| 12-month | 1.9000 | 0.331 |

| FED FUNDS | |
|-----------|---------|
| | |
| Open | 0.08000 |
| High | 0.3750 |
| Low | 0.0500 |

| 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 |

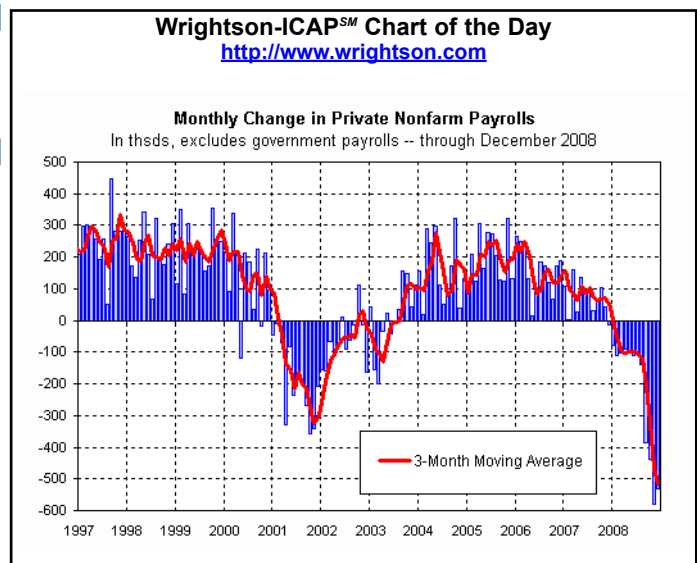
| FREDDIE MAC | | | | |
|-------------|--------|----------|---------------|-------|
| TERM | COUPON | MATURITY | PRICE SPREAD | YIELD |
| 2-Year | 3.125 | 10/25/10 | 56.50 - 55.75 | 1.314 |
| 3-Year | 3.875 | 06/29/11 | 82.50 - 82.00 | 1.574 |
| 5-Year | 4.125 | 09/27/13 | 83.00 - 82.50 | 2.216 |
| 10-Year | 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 |
| 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 | 104.071 - 104.091 | 3.584 |
| FNMA | 5.0 | 103.196 - 103.216 | 3.305 |
| FHLMC | 5.0 | 103.197 - 103.217 | 3.553 |

| ACTIVE MBS 30YR | | | |
|-----------------|-----|-------------------|-------|
| ISSUER | CPN | PRICE | YIELD |
| GNMA | 5.5 | 104.050 - 104.070 | 3.816 |
| FNMA | 5.5 | 103.123 - 103.143 | 3.354 |
| FHLMC | 5.5 | 103.205 - 103.225 | 3.391 |

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TOMORROW'S MONEY HEADLINES

Retailers Shed A Million Jobs In 2008

The retail industry shed 1.12 million jobs last year, with the lion's share coming in the last two months.

The acceleration indicates retailers didn't do as much hiring for the 2008 holiday season while also shedding regular positions. It also telegraphs that things are likely to get worse.

Consumer spending "will continue to deteriorate, with people either unemployed or afraid their job is next," said Eugenio Aleman, senior economist at Wells Fargo. "This means more worse-than-expected sales for retailers and staff cuts to reduce expenses."

Consumer spending is indeed a major issue, with discretionary consumption standing to drop by \$135 billion, or 3%, this year compared with 2008, when it rose 1.5%, Credit Suisse said.

Lennar Plunges After Minkow Charges

Shares of Lennar Corp. tumbled as much as 28% after Barry Minkow's Fraud Discovery Institute alleged the homebuilder improperly boosted cash on its balance sheet.

Analysts questioned the accuracy of Minkow's report but said Lennar doesn't provide a lot of information about itself, which makes it difficult to categorically rule out all the allegations.

In a report and video posted on a Web site called www.lenn-ron.com, Minkow alleged that Lennar "treats its joint ventures exactly like a Ponzi scheme - pledging their older joint venture interests to leverage themselves into newer joint venture relationships."

Minkow served prison time in the 1980s in connection with the ZZZZ Best stock case, but he has since won kudos from the FBI for his role in uncovering frauds on the Internet, in the real-estate field and elsewhere.

Wholesale Inventories Beat Expectations

U.S. wholesale inventories tumbled again during November, sent lower by companies adjusting to plummeting demand and by oil prices sinking along with the economy.

Wholesale inventories decreased by 0.6% compared to the prior month, dropping to a seasonally adjusted \$435.01 billion, the Commerce Department said.

Inventories fell a revised 1.2% in October; originally, supplies were seen sliding 1.1%.

The 0.6% decrease in November inventories of wholesalers came short of Wall Street analyst expectations for a 0.8% drop.

Sales of U.S. wholesalers plunged by 7.1% in November to a seasonally adjusted \$349.25 billion. October sales fell a revised 4.5%; originally, sales for the month were estimated plummeting 4.1%.

Boeing To Cut 4,500 Jobs At Unit

Boeing Co. will cut about 4,500 jobs at its commercial airplanes business this year, bringing the division's work force back to early-2008 levels as the unit tries to cut costs following a year of lower deliveries.

The downsizing also comes as major industrial firms around the world are shedding jobs and as the U.S. unemployment picture worsens. In just the past four months, American payrolls fell by nearly 2 million.

Boeing commercial airplanes Chief Executive Scott Carson said the company has made "significant strides" in recent years to become more efficient and productive, but still faces challenges.

Rambus Patents Ruled Unenforceable

Memory chip designer Rambus Inc. cannot enforce patents against Micron Technology Inc., a Delaware federal judge ruled.

Rambus shares fell \$6.54, or over 35%, to \$12, the lowest level since early December, on the news.

U.S. District Judge Sue L. Robinson found that Rambus destroyed documents related to the patent infringement lawsuit when litigation was "reasonably foreseeable." As a result, 12 of Rambus' patents are now unenforceable against Micron, a memory chip manufacturer.

"One could safely predict that litigation was inevitable," Robinson said in the ruling. She added that the show of bad faith by Rambus was "clear and convincing."

"The very integrity of the litigation process has been impugned," she said.

Merisant Files For Ch 11

Merisant Worldwide Inc., maker of Equal and other sweeteners, filed for Chapter 11 bankruptcy, jeopardizing hundreds of millions of dollars worth of bond debt.

Papers filed in the U.S. Bankruptcy Court in Wilmington, Del. put Merisant Worldwide's debt at \$137 million, the amount due on its 12.25% senior subordinated discount notes maturing May 2014.

Merisant Co., a subsidiary, is also filing, adding \$225 million worth of 9.5% senior subordinated notes maturing in July 2013 to the schedule of debts, court documents say.

Earlier this week, Moody's Investors Service lowered the ratings of Merisant Worldwide and its subsidiary, citing "the current bank credit markets and the company's weak credit metrics."

Paulson 'Convinced' He Did Right

Outgoing U.S. Treasury Secretary Henry Paulson defended his response to the nation's financial crisis, saying the economy is making progress but still faces "significant challenges."



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TOMORROW'S MONEY HEADLINES

Big Banks Won't Get Stimulus Tax Benefits

A member of the House Ways and Means Committee said lawmakers are considering adding language to upcoming stimulus legislation to ensure that firms that received money from the Wall Street bailout cannot benefit from tax breaks in the stimulus bill.

"This is something that a number of us have very strong feelings about, that there's no double dipping here," said Rep. Earl Blumenauer, D-Ore.

"I think the consensus of our Ways and Means Committee about this notion that people who drove us over the edge, and who got big chunks of change and aren't even telling what happened to it, aren't going to get another tax benefit," he continued.

"I think there's no question that's going to be taken care of," Blumenauer added.

At issue are tax breaks for business that President-elect Obama has proposed be included in an \$800 billion economic stimulus plan. One of the most potentially lucrative is a loosening of loss carryback rules that would allow companies to use losses in 2008 and 2009 to offset taxable income as far back as five years, resulting in a refund from the government.

Lawmakers Vote To Impeach Blagojevich

The Illinois House of Representatives voted overwhelmingly to impeach Gov. Rod Blagojevich, one month after he was arrested and charged with corruption.

"You ought to be angry, you ought to be disgusted, you ought to be mad as hell," said Rep. Tom Cross, before urging his colleagues to join him in voting to impeach.

A Senate trial will follow in coming days or weeks.

Member after member called the day sad, grave and difficult. None spoke in defense of Mr. Blagojevich.

"He has violated the constitution, he has violated the laws of this state," said Rep. Barbara Currie, who chaired a 21-member committee that unanimously recommended impeachment on Thursday. "The totality of the evidence shows he has forfeited the right to hold office."

TALKING POINTS

Jobs Data Leave Fed On Current Course

As grim as the December jobs data were, it is not a report that changes the Federal Reserve's policy outlook by much.

Most policymakers, along with many private sector economists, have already largely written off economic news tied to the fourth quarter. Fed officials think it could be six months or more before there is a notable turn in the economic statistics. That suggests they were not surprised by job losses in December, nor will they be surprised if similar declines continue over the next few months.

Against those expectations, economists believe the Fed will continue to use the tools it has at hand to engineer a recovery, and it will stick to those strategies even if economic data worsens a bit more.

Interest rate policy already has little left to give after the Fed cut its overnight target rate to a band between zero percent and 0.25% last month. It will be up to Fed liquidity measures and, most importantly, the bank's purchases of agency and mortgage-backed securities to restart the housing market, whose recovery officials consider key to a broader economic upturn.

But the drop in hiring during December was chilling. Amid

Group Blasts Treasury On Aid Program

The U.S. Treasury has failed to reveal its strategy for stabilizing the financial system, has not answered questions asked by a government watchdog, and has done nothing to help struggling homeowners, a report charges.

In the most scathing criticism yet of Treasury's implementation of the \$700 billion financial-rescue package, a draft report being issued by the five-member congressional oversight panel said there appear to be "significant gaps" in Treasury's ability to track hundreds of billions of dollars of taxpayer money.

"The panel's initial concerns about the [Troubled Asset Relief Program] have only grown, exacerbated by the shifting explanations of its purposes and the tools used by Treasury," said the draft report, which found that the department has "not yet explained its strategy" for stabilizing the financial markets.

Ford Ends 4Q With Less Than \$15B In Cash

Ford Motor Co. Chief Executive Officer Alan Mulally, clarifying remarks made Thursday, said the auto maker will end the 2008 fourth-quarter with less than \$15 billion in cash.

Mulally, in an interview with the Fox Business Network aired Thursday, said the auto maker had about \$15 billion in cash on hand.

He later clarified the remark, saying he had misspoke since the U.S. auto maker has yet to finalize its accounts for the fourth quarter of 2008.

"Our cash position will be lower than \$15 billion," Mulally said at the Consumer Electronic Show in Las Vegas late Thursday. "It would be premature to say anything more. We'll provide a full update when we report fourth quarter and full-year earnings in a few weeks."

CVS Shares Fall On Weak View For EPS

Shares of CVS Caremark Corp. slid as much as 13% in trading after the nation's largest drugstore chain issued weak guidance for 2009 because of a disappointing outlook for its pharmacy benefits management business.

revisions that show November was worse than previously reported, the government said the economy lost 524,000 jobs last month, with the unemployment rate rising to 7.2% from 6.8%. For the year as a whole, the economy was down 2.6 million jobs, having lost two million of them in the last four months alone.

It was the worst period of job losses since World War II, though things look more favorable when the job losses are adjusted for population growth. While last year's declines have exceeded the losses seen in the worst year of the early 1980s recession, the population was smaller then, and thus on a relative basis employment losses were worse.

Wachovia Securities noted, adjusted for the size of the labor force, the fourth quarter is actually the ninth-worst quarter of job declines.

The storm is probably not over, not in the jobs sector or any other part of the economy. IHS Global Insight chief economist Nariman Behravesh said his firm expects "the jobs hemorrhage to continue through much of 2009." He said in a note to clients "during the first few months, the magnitude of the job losses will be at least as large as the November and December drops."

TALKING POINTS

Managed Futures Show Strength

A hedge-fund trading strategy known as managed futures rode powerful trends in commodities, currency and other financial markets to big gains last year, according to preliminary estimates.

A BarclayHedge Ltd. index of managed futures funds was up 14% in 2008, bucking the worst year on record for hedge fund performance.

The reason: The majority of managed futures funds follow price trends, not anticipate them. With many futures markets peaking and then plunging over the course of the year, their models were able to take advantage of sustained patterns.

"2008 will likely be recognized as the breakout year for managed futures," said Emanuel Balarie, managing director of advisory firm Balarie Capital Management in Chicago. "Not necessarily because the industry was able to generate positive returns, but because the managed futures industry was able to generate these positive and non-correlated returns during volatile and changing market conditions."

According to a BarclayHedge report on managed futures funds with more than \$50 million under management, most operators delivered positive returns last year. They included such large funds as Aspect Capital's \$4 billion Diversified fund, which rose 25%; Bridgewater Associates's \$35 billion Pure Alpha fund, which rose 9%; and Transtrend BV's Enhanced Risk funds, which returned about 30%.

Winton Capital Management's \$13 billion Diversified program rose 21% last year, according to BarclayHedge, which isn't connected with the U.K. bank Barclays PLC.

Despite their performance, the managed futures sector's assets under management have been in decline, falling \$8.6 billion to \$225.5 billion between the second and third quarters of 2008 in spite of positive performance, said BarclayHedge President Sol Waksman. "I think that is largely attributed to investors looking for liquidity wherever they can find it," he said.

Among the top performing managed futures funds through December in the BarclayHedge database were Hawksbill Capital Management's Global Diversified fund, which rose 96%; Revolution Capital Management's Mosaic fund, which climbed 94%; and John W. Henry & Co.'s Global Analytics fund, which gained 91%.

Aussie Is Heading South From Here

Black clouds are gathering over the Aussie.

As 2009 gets underway, deteriorating economic fundamentals, rising risk aversion and an outlook for weaker commodity prices are all working against the currency.

Even hopes for some sort of Middle East-driven rally in crude oil prices are fading now that a ceasefire in the Gaza Strip appears more likely.

This could well mean an end to the late 2008 rally that helped to lift the Australian currency from nearly \$0.6000 in late October up to nearly \$0.7250 as the new year got underway.

A reminder of the poor state of the Australian economy came this week with data showing that building approvals fell 12.8% in November, the largest fall since 2001, that the trade surplus is shrinking even more rapidly than feared and that the recent sharp cuts in rates by the Reserve Bank of Australia were entirely justified.

The central bank's cash rate was cut to 4.25% early last

month from 7.25% back in March and is expected to be down at 3.0% by the second quarter of this year.

"Australian economic data was poor which, when combined with a sharp rise in risk aversion, has hit the Aussie," says Steven Barrow, senior currency strategist with Standard Bank in London.

As a high-yielder, the Aussie is unlikely to get much respite if investors continue to shy away from risk.

Despite an improvement in risk appetite at the start of the year, economic data from major economies - including U.S. private sector employment figures Wednesday and the latest euro-zone consumer confidence figures Thursday - all point to a global economy that's slowing down even more than anticipated.

On top of that, the admission by U.S. President-elect Barack Obama that he will inherit a budget deficit headed for \$1 trillion this year hasn't helped sentiment.

A failed German bund auction this week provided a stark reminder of the limited investor appetite for government debt just when many western nations will be desperately seeking new funds.

PPI Data Highlight Central Bank Easing

Producer prices have been falling across Europe as the global economic downturn bites, but the slump in sterling has prevented the U.K. from benefiting as much from that reduction in inflationary pressures.

That is unlikely to deter the Bank of England from reducing interest rates again early this year, with economists forecasting a pronounced recession in 2009, although future cuts could come at a more gradual pace.

Official data Friday showed that U.K. factory gate prices were flat in December from the previous month and climbed 4.7% in annual terms, propped up by weakness in sterling, as well as tax changes. Both figures were stronger than analysts' expectations that output price inflation would be down 0.7% on the month and up 3.9% on the year.

The pound has collapsed around 27% against the European currency over the past two years, from a peak of EUR1.5302 in January 2007 to EUR1.1104 Friday, although it has recovered somewhat since the end of 2008.

Analysts note that the slowdown in producer prices in the U.K. and euro zone has been similar, although the weakness of sterling has reduced the decline in the former, and the strength of the euro has accelerated it in the latter. Consumer price inflation in the U.K., however, peaked higher and later than in the euro zone.

Friday's U.K. data showed the main downward pressure on output prices came from a 4.3% decline in petroleum products on the month. However, tobacco and alcohol prices placed upward pressure on the index because of increased excise duty taxes, and transport and food prices also rose.

The input price index for materials and fuels purchased by the manufacturing industry, meanwhile, fell 2.0% on the month and rose 4.3% on the year, with the prices of currency-sensitive imported goods rising broadly. The annual input price increase peaked at around 34.1% in June 2008.

Analysts had forecast a deeper 2.5% monthly fall and much shallower 2.6% annual rise.

However, many economists say that the stickiness in U.K. producer prices is likely to be temporary.