DOWJONES
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ICAP

News Provided By Dow Jones — Monday, January 12, 2009

G7 CALENDAR

Tuesday

:01 a.m. — **UK**
Dec Retail Sales Monitor

5:00 a.m. — **JPN**
Dec Econ Watchers Survey, result (expected 21)

7:00 a.m. — **GER**
Dec WPI

9:00 a.m. — **EU**
Dec Long-term interest rates statistics

9:30 a.m. — **UK**
Nov DCLG House Price Index

9:30 a.m. — **UK**
Nov Trade, Global Goods Trade Balance, (Adjusted) (expected -7.5B), Non-EU Trade Balance, (Adjusted) (expected -4.2B)

12:45 p.m. — **US**
Jan 10 ICSC/Goldman Sachs Chain Store Sales, Chain-Store Sales Index (previous -1.4%)

1:00 p.m. — **US**
Fed Chmn Bernanke speaks on 'The Crisis and the Policy Response' in London

1:30 p.m. — **CAN**
Nov Intl Merchandise Trade - C$, Trade Balance (previous 3.78B)

1:30 p.m. — **US**
Nov Trade Balance, in dollars, Deficit (expected 52B)

1:55 p.m. — **US**
Jan 10 Johnson Redbook Index, US Retail Sales Index (previous -0.6%)

7:00 p.m. — **US**
Federal Budget, in dollars (previous -164.4B)

10:00 p.m. — **US**
Jan 10 ABC/Washington Post Consumer Confidence Index (previous -49)

10:00 p.m. — **US**
Richmond Fed Pres Lacker speaks in Columbia, S.C.

TODAY'S MARKET WRAPS

TREASURYS: Prices fell on the longest-dated government bonds early Monday, lifting the yield on the 30-year issue further above the 3% threshold it crossed in the first week of the year. The move continues mild selling in the longer-dated issues, as investors consider the impact of federal-spending initiatives projected so far at $775 billion. The market in short of trading stimuli for the time being. The holiday is Japan has cut back a little on international trade in government bonds.

CORPORATES: Norfolk Southern launched a $500M seven-year note at 400 bps over Treasurys, according to a person familiar with the deal. Through private placement, via Citigroup, JP Morgan and UBS. Credit default swaps on Citigroup and other banks were wider Monday amid fourth-quarter worries. Citi's CDS were quoted at 245 bps, 16% wider; Bank of America's CDS were 21% wider to 163 bps, and Merrill Lynch's were 16% wider to 169 bps, according to CMA DataVision. JP Morgan and Wells Fargo CDS are about 11% wider to 142 bps and 148 bps respectively.

FOREX: The euro dropped to its lowest level in four weeks against the dollar and yen Monday as currency traders anticipated a more aggressive European Central Bank at its meeting Thursday and after S&P put Spain on a credit watch. The yen also gained to a three-week high versus the dollar on low risk appetite and weak U.S. stocks. Monday afternoon in New York, the euro was at $1.3381 from $1.3438 late Friday, and the dollar was at Y89.13 from Y90.30, according to EBS. The euro was at Y119.25 from Y121.36, and U.K. pound was at $1.4843 from $1.5183. The dollar was at CHF1.1141 from CHF1.1137 late Friday.

STOCKS: U.S. stocks fell Monday, with the Dow Jones Industrial Average extending its losing streak into a fourth straight session, with investors leery ahead of Alcoa Inc.'s results in what could mark the unofficial start of a particularly grim earnings season. Energy, financials and materials led the broad market declines. The Dow Jones Industrial Average fell 87.77 points to 8,511.44, with 23 of its 30 components trading lower. Weighing the most on the blue-chip index, Citigroup Inc. shares fell 12% with the banking powerhouse reportedly near a deal to combine its brokerage business with Morgan Stanley. Shares of Morgan Stanley led all S&P 500 financial stock gainers, climbing 1.2%. Another Dow laggard, Alcoa shares declined 6.9% after its downgrade by Deutsche Bank to a sell from a hold in the wake of last week's announced cuts in production and employees by the aluminum giant.

ENERGY: Nymex February-delivery crude oil futures prices were down more than 6% early Monday after having fallen 16% in the previous four days, as the weak economy continued to weigh down prices. Crude was down $2.53 a barrel at $38.30, at 9:13 a.m. EST, despite talk that the Organization of Petroleum Exporting Countries may again be considering cutting supplies after a record 2.2 million barrels a day was put into effect from Jan. 1. Saudi Arabia, the world's largest oil exporter, may cut its output next month below levels agreed by OPEC, in the face of a continued weak market, Reuters said, quoting a senior oil executive. The executive said there was talk that the Saudis would cut output to 7.7 mln b/d in Feb, compared with its 8.051 mln b/d quota, in a move aimed at boosting prices and preventing a rise in stocks.

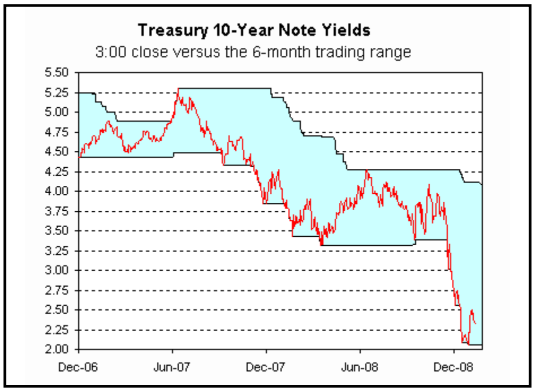
TOMORROW'S TOP MONEY HEADLINES

Obama Asks Bush To Request Remaining TARP Funds

President-elect Barack Obama asked President George W. Bush to formally request, on his behalf, that Congress release the remaining $350 billion for the Treasury Department's Troubled Asset Relief Program, the White House said.

"President Bush agreed to the President-elect's request," White House spokeswoman Dana Perino said. "We will continue our consultations with the President-elect's transition team, and with Congress, on how best to proceed in accordance with the requirements of the statute."

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	-0.004
3-Mo Bill	0.070	0.060	0.071	0.006
6-Mo Bill	0.275	0.270	0.279	-0.012
2-Year	100.086	100.096	0.735	0.022
3-Year	100.042	100.052	1.08	0.050
5-Year	100.082	100.096	1.446	0.12+
10-Year	112.19+	112.210	2.309	0.286
30-Year	129.110	129.130	2.99	1.14+

FUTURES

	PRICE	CHANGE
CBOT 5 yr	119.10	9.8
CBOT 10 yr	126.3	23.16
CBOT 30 yr	134.6	1.4

EQUITIES

	INDEX	CHANGE
DJIA	8435.26	-163.920
NASDAQ	1536.48	-35.110

OIL

	PRICE	CHANGE
NYMEX	37.75	-3.0800

CURRENCIES

	PRICE
Euro	1.3379
Sterling	1.4830
JPN Yen	89.00
Swiss Franc	1.1137
Can Dollar	1.2163
Mexico	13.800

IR SWAPS

	SPREAD	RATE
2-Year	55.25 - 51.25	1.280 - 1.240
3-Year	54.00 - 50.00	1.615 - 1.575
5-Year	55.50 - 51.50	1.996 - 1.956
10-Year	16.75 - 12.75	2.474 - 2.434
30-Year	-19.50 --23.50	2.794 - 2.754

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.0500	
1-Month	0.3000	0.130
3-Month	1.0000	0.152
6-Month	1.4000	0.190
12-month	1.7500	0.317

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	99.19500	0.08000
Jun09	99.19000	0.07999
Sep09	99.05500	0.06000
Dec09	98.86000	0.04500

FED FUNDS

Open	0.07000
High	0.0700
Low	0.0700

HEFFR

10:00 AM	0.19
3:00 PM	0.35

REPURCHASE AGREEMENTS

GENERAL COLLATERAL		i-REPO℠ INDEX	
O/N	0.150	10:00 AM	0.080
1-Week	0.200	3:00 PM	0.081
2-Week	0.200		
3-Week	0.250	**O/N SPECIALS**	
1-Month	0.250	2-Year	0.080
2-Month	0.300	3-Year	0.040
3-Month	0.300	5-Year	0.030
		10-Year	0.030

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

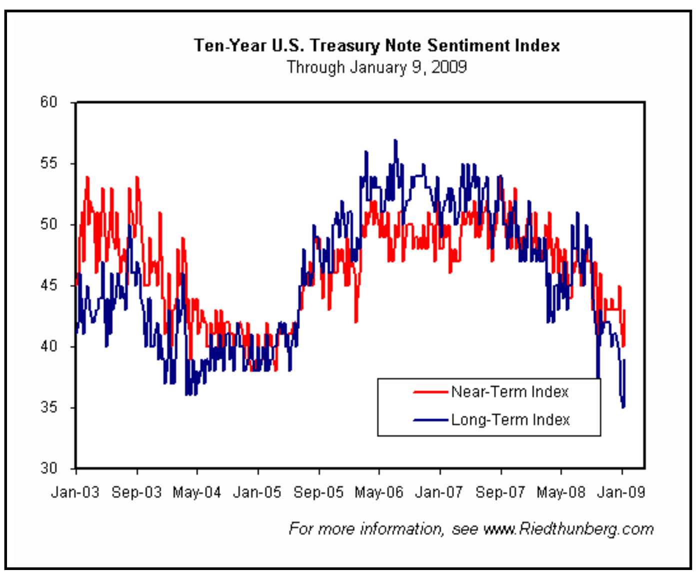
ISSUER	MATURITY	COUPON	MID- PRICE	MID- YIELD
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA
NA	NA	NA	NA	NA

ACTIVE MBS 15YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.0	104.035 - 104.055	3.618
FNMA	5.0	103.145 - 103.165	3.373
FHLMC	5.0	100.253 - 100.273	4.614

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.107 - 102.127	4.499
FNMA	5.5	101.297 - 101.317	4.179
FHLMC	5.5	103.101 - 103.121	3.608



TOMORROW'S MONEY HEADLINES

Conference Bd Sees Continued Job Losses

U.S. labor markets will continue to show steep losses this year, a private sector employment index published Monday showed, with the economy potentially shedding a couple million more jobs in 2009.

The Conference Board's December employment trends index fell 1.6% to 99.6, a signal that labor market losses are likely to be painful this year. The November index was revised down to 101.2 from 102.9. The index is down almost 16% from a year ago, the Conference Board said.

In 2008, total nonfarm employment fell by 2.6 million. The sharp declines in the ETI "suggest that in 2009, this number could grow by another two million," said Gad Levanon, senior economist at The Conference Board.

"The continued deterioration in the Employment Trends Index signals that no turnaround in the labor market is to be expected in the near future," he said in a statement.

GM Works To Avoid Bankruptcy

General Motors Corp. Chief Executive Rick Wagoner said the company is still working to avoid a Chapter 11 bankruptcy filing, but said it still remains "prudent for us to be prepared for all options."

Wagoner, speaking to journalists at the North American International Auto Show, said the company is enduring "an extraordinary set of circumstances" as slowing global auto demand continues to crimp sales and pressure liquidity. When asked if GM will survive, Wagoner said the prospect is "not 100%" certain.

There has been some confusion among analysts and media reports in regard to whether GM will need more cash than the $13.4 billion it has begun receiving in loans from the U.S. government. Wagoner said those funds are "consistent to cover the downside" scenario envisioned for the next three months.

Fed's Kroszner Submits Resignation

Federal Reserve Governor Randall Kroszner submitted his resignation.

The resignation is effective Jan. 21, the Fed said. He was a member of the Federal Reserve Board since March 1, 2006.

Kroszner, 46, will return to the University of Chicago to assume a "newly crafted chaired professorship" at the university's Booth School of Business, the Fed said.

"Randy's contributions to the Federal Reserve and his country during his nearly three years at the board have been invaluable," Fed chief Ben S. Bernanke said. "We have greatly benefited from the intellectual rigor he brought to the consideration of both monetary and regulatory policy.

FDIC Seeks Data On Banks' Spending of Aid

The Federal Deposit Insurance Corp. pushed the more than 5,000 banks it regulates to provide information on how they are using billions of dollars in government aid to help struggling homeowners avoid foreclosure.

The FDIC said that banks should establish a monitoring process "to determine how participation in these federal programs has assisted institutions in supporting prudent lending and/or supporting efforts to work with existing borrowers to avoid unnecessary foreclosures," the FDIC said.

The agency wants information from banks that have used the liquidity, debt guarantee, or capital injection programs by the Federal Reserve, Treasury Department, or FDIC.

The FDIC's move is the latest example of government pressure on banks to show how lenders are using new government programs to help the broader economy. Critics have alleged that banks are hoarding the money. Lenders have countered that they are lending but trying to be prudent because of the uncertain economic conditions.

Fed's Lockhart: Economy Is 'Very Weak'

Against a bleak outlook, the Federal Reserve has the tools to bring the economy back to health, and it is likely to keep interest rates low for an extended period of time as part of that effort, a central bank official said Monday.

"The overall economy is very weak, and I expect it will remain weak at least through the first half of 2009," Federal Reserve Bank of Atlanta President Dennis Lockhart said. He reckons that the gross domestic product in fourth quarter 2008 likely contracted by between 4% and 6% and that dismal turn could well be repeated during the first quarter of 2009.

But against that "extremely weak" environment, "the Federal Reserve still has considerable ammunition in reserve to be used as needed," he said, adding "I am looking for an improving economy in the second half."

Lockhart will be a voting member of the interest rate setting Federal Open Market Committee this year. His comments came as part of a speech before the Rotary Club of Atlanta.

Madoff Remains Free Pending Trial

A federal magistrate judge ruled hat disgraced financier Bernard Madoff can remain free on bail pending trial in an alleged massive Ponzi scheme.

In an order, U.S. Magistrate Judge Ronald L. Ellis rejected arguments by prosecutors that Madoff's bail should be revoked after he mailed more than $1 million in watches, diamond jewelry and other valuables to relatives and others late last month.

TOMORROW'S MONEY HEADLINES

Frank: TARP Funds Should Have Conditions

Congress should release the second $350 billion to President-elect Barack Obama's administration, a top House Democrat said, but only with new conditions approved by lawmakers.

"We should not allow our disappointment with the Bush administration's poor handling of the TARP program to prevent the Obama administration from using the funds in more appropriate ways," Rep. Barney Frank, D-Mass., said in a statement.

Frank, who chairs the House Financial Services Committee, was reacting to the White House's announcement that Obama has asked President George W. Bush to request the second half of the $700 billion Troubled Asset Relief Program.

FTC Seeks Split Of Whole Foods, Wild Oats

The U.S. Federal Trade Commission told a federal judge it wants Whole Foods Market Inc. to rebrand all former Wild Oats Markets Inc. stores that have been integrated into the Whole Foods chain since the two rivals merged in 2007.

The FTC also said it has asked Whole Foods to voluntarily halt further integration of the two companies while the FTC continues its legal challenge to the merger.

Although the $565 million merger has already been completed, the commission is still pressing its antitrust challenge and hopes to undo the deal.

The FTC has argued the merger would lessen competition in the market for natural and organic foods.

S&P Has Mixed Outlook For Insurers

Standard & Poor's Ratings Services has a mixed outlook for insurers this year, saying the personal property and casualty sector seems poised for a rebound but expressing pessimism about several other sectors.

S&P said it expects to cut ratings and lower ratings outlooks on several life insurers in the next six months as the companies deal with lower capital levels, increased risk in their investments and weaker competitive positions. The ratings agency said the ongoing credit market turmoil is taking a bigger toll on the life insurance sector.

However, S&P also said the U.S. personal lines property and casualty insurance sector remains fundamentally strong, and if the sector focuses on "disciplined underwriting" and improved risk management, those companies should be able to produce and sustain long-term operating results.

EU Opens Antitrust Case Against S&P

The European Commission Monday said it has opened an antitrust investigation into the U.S. credit rating agency Standard & Poor's, specifically as to whether it has abused its dominant market position in its handling of International Securities Identification Numbers, or ISINs.

The investigation of the agency, owned by the McGraw-Hill Cos., began due to complaints by several associations representing financial institutions, the commission said.

OECD Sees Deep Slowdown In G7 Countries

The Group of Seven leading developed economies and the larger developing economies face a "deep slowdown", the Organization for Economic Cooperation and Development said.

The OECD's composite leading indicator for its 30 developed-country members fell again in November, down 1.3 points to 93.8 from 95.1 in October, as did the individual indicators for each member of the G7. The leading indicators for non-members China, India, Russia and Brazil also fell sharply.

TALKING POINTS

Fed Balance Sheet A Cause Of Concern

The rapid expansion of the Federal Reserve's balance sheet has sparked fears in some quarters that the central bank is setting the stage for an ugly inflation problem down the road.

The concern is rooted in the Fed's efforts to keep funds flowing to the economy. Those activities have boosted its holdings from just over $800 billion at the start of the financial crisis in late summer 2007 to $2.2 trillion in the week ended on Jan. 7.

The expansion has been fueled by emergency loans to a wide array of financial institutions, Fed purchases of various stripes of private securities, and currency swap agreements with foreign central banks. Most of these measures are still in place, and some have yet to be launched, which means the central bank's balance sheet could well tip $3 trillion at some point.

That's spooking some, inside and outside the Fed. Traditionally, an expansion of the central bank's balance sheet is viewed as inflationary. It's a short hop from that thinking to believing that if it's handled incorrectly, the Fed could soon trade its battle to fix the financial system with a struggle to put the inflation genie back in the bottle.

Others, however, say fears the Fed's current activities will have any negative impact on inflation are missing the story. With unemployment quickly rising, factory output falling and malaise appearing in just about every sector of the economy, the bigger problem is that prices will fall outright. The Fed's balance sheet growth, they argue, is aimed at preventing the more pressing threat of deflation.

Two Fed officials last week laid out the fears of both camps. Federal Reserve Bank of Kansas City President Thomas Hoenig said Wednesday he believes "we must do all we reasonably can to revive the economy."

But he warned, "while inflation is receding for the moment, I must remind you that monetary policy is extremely accommodative, and if it remains so too long, as history suggests it may, inflation pressures could re-emerge as the economy recovers."

Federal Reserve Bank of Richmond President Jeffrey Lacker offered a similar warning Friday, adding there could come a time when "containing inflation may require closing down credit programs," even if markets are not "fully-healed."

Both officials' concerns were long term in nature, though both highlighted the perils of the Fed's current policy. They may also have been mindful of the widespread belief that the Fed created the now ruptured housing bubble and sowed the seeds of financial crisis via its very easy monetary policy in the opening years of this decade.

The fears raised by Hoenig and Lacker have currency in several quarters. But they are minority anxieties.

TALKING POINTS

Citigroup, MS To Benefit From Joint Venture

Citigroup Inc. and Morgan Stanley could both reap important benefits from an expected deal in which Morgan would acquire a majority stake in the Smith Barney brokerage, analysts said Monday.

For Citigroup, in need of capital amid steep losses, the sale of Smith Barney would raise cash without the share dilution of a common equity raise. Morgan Stanley would eventually benefit from a larger presence in the retail brokerage business, the analysts said.

"It is difficult to comment on this yet undisclosed deal," Bernstein Research analyst Brad Hintz wrote, "but from an economic perspective, the combination of the Morgan Stanley "Dean Witter" business and Smith Barney could be very attractive to investors."

Terms of the deal, which could be announced as early as this week, according to The Wall Street Journal, call for Morgan Stanley to pay Citigroup about $2.5 billion for a 51% stake in the brokerage.

A joint venture between the two large banks would signal a major strategic shift for both. It would move Citigroup toward a smaller, more focused and decentralized business model, while Morgan Stanley would grow beyond its institutional roots, becoming a major player in the retail investment market.

For Citigroup, the deal would take advantage of new accounting rules that went into effect this year that allow companies to mark-up the full value of their units when a majority stake is sold. This would allow Citigroup to have half its cake and eat it too, receiving cash for the portion it sold while boosting the common equity worth of the half it keeps.

Oppenheimer & Co. analyst Meredith Whitney estimated that, based on press reports of the potential deal, Citigroup would receive between $2 billion and $3 billion from Morgan Stanley and would be able to gain between $5 billion and $6 billion in tangible common equity after using the accounting rule to mark up the other half.

Morgan Stanley would in essence use the money it received from the government's TARP program to finance the deal, Fox-Pitt analyst David Trone said. Though the money was meant to be used re-ignite lending by banks, Trone said the government isn't likely to have a problem with this use of the cash, because "Morgan Stanley is not a real lender," and because the deal would help to stabilize Citigroup.

The expected sale by no means that Citigroup's funding problems were over, Whitney and other analysts said. Trone said Citigroup will continue to try to build a buffer of common equity by selling business units rather than submitting to a "seriously dilutive common offering." In an email exchange with Dow Jones Newswires, Trone suggested Citigroup would be willing to sell its banking operations in parts of Europe, its Primerica consumer-finance business, and its processing operations.

Long Recovery Seen For Aluminum

Unless large aluminum producers make deeper cuts in output instead of waiting for their peers to do the job for them, prices will take years to recover from their current slump, industry executives said.

Producers are privately warning that this game of brinkmanship, in which just 10% of world aluminum output is slated to be taken off-line, is likely to create long-lasting damage to the sector.

Most companies have shown production restraint, albeit sometimes by default, such as when plants break down or experience problems with power supply. Yet aside from U.S. aluminum giant Alcoa Inc. and Netherlands-based Vimetco NV, no other western producer has announced a cut of the size needed to make a real difference to the market.

Middle Eastern producers such as Dubai Aluminium and Aluminium Bahrain haven't announced cuts, and nor has India's National Aluminium Co. Ltd. Mining giant BHP Billiton PLC has reduced output in South Africa by 120,000 tons, but only in response to trouble getting power from local utility Eskom.

Norsk Hydro ASA, meanwhile, has simply brought forward a long-scheduled potlines closure in Norway by a few months. The bulk of Rio Tinto PLC's 200,000 tons of cuts are the result of a transformer problem at its smelter at Tiwai Point, New Zealand.

On the face of it, the amount of world production being cut sounds sizable enough. As much as 4.5 million metric tons of aluminum is estimated to have been removed from production schedules as companies react to the global economic downturn and slumping metal prices.

Some companies outside China may even have taken more output off-line than it seems, producers told Dow Jones Newswires. Others are less straightforward to keep track of. UC Rusal's cuts, for instance, jump to 4% to 7% of total company output when the closure of its Zaporozhye complex in Ukraine is taken into account.

But the crux of the problem is that consumption has collapsed by far more than the reduced supply. Transportation and construction, two of the biggest uses of aluminum, have been badly hit by the economic slowdown, with the automotive sector especially affected. Analysts estimate production will still exceed demand by at least 3 million tons after these cuts, while official stocks are already at 15-year highs.

Market Volatility: Outlook For 2009

When the clock struck midnight on New Year's Eve, investors could be forgiven for letting out a collective sigh of relief.

The year 2008 had not been kind. The stock market had dished up triple-digit moves on a routine basis, and many of those moves consisted of severe drops. Shareholders underwent several agonizing months of uncertainty and fear.

But when it comes to volatility - the word used to describe those dramatic swings in the market - will 2009 be any different? Maybe.

The consensus among options strategists - the people who scrutinize volatility for a living - is the market is going to settle down in 2009.

First, there is a good chance the worst news has bubbled to the surface, if not already occurred. Investors are well aware the economy has slowed and unemployment is on the rise. They have most likely braced themselves for the possibility of future bankruptcies or defaults.

Second, investors have weathered a lot of storms in recent months and, as a result, have become more resilient after bad news. Even if unexpected events do occur, investors are less likely to rush for the exits. The stock market barely budged, for example, when the U.S. Securities and Exchange Commission charged Bernard Madoff with orchestrating a multi-billion-dollar Ponzi scheme.