DOWJONES

i-Recap℠ Report

ICAP

News Provided By Dow Jones | Wednesday, January 14, 2009

G7 CALENDAR

Thursday

4:30 a.m. **JPN**
Dec Corp Insolvencies On Year (expected +11.5%)

7:00 a.m. **GER**
Dec CPI Final, (Mon) (expected +0.3%), (Yr) (expected +1.1%)

8:00 a.m. **EU**
ECB Governing Council meeting

9:00 a.m. **ITA**
Dec CPI Final, (Mon) (expected -0.1%), (Yr) (expected +2.2%)

9:30 a.m. **UK**
Jan Financial statistics

9:30 a.m. **UK**
Nov CML Regulated Mortgage Survey

10:00 a.m. **EU**
Dec Harmonized CPI, Monthly (expected -0.1%), Yearly (expected +1.6%)

12:45p.m. **EU**
ECB interest rate decision announcement MRO Rate (expected 2%)

1:30p.m. **EU**
ECB Governing Council meeting press conference

1:30p.m. **CAN**
Nov New Vehicle Sales M/M (previous -0.9%)

1:30p.m. **US**
Jan NY Fed Empire State Survey, Manufacturing Index (expected -26), Employment Index (previous -23.4), New Orders Index (previous -20.78), Prices Received Index (previous -11.7)

1:30p.m. **US**
Dec PPI, (expected -2%), Core (expected +0.1%)

1:30p.m. **US**
Jan 10 Jobless Claims, Weekly (expected 513K), Net Change (expected +46K), Continuing (previous 4611000), Net Change (previous +101K)

TODAY'S MARKET WRAPS

TREASURYS: Treasury prices jumped Wednesday on the heels of a bleaker-than-expected U.S. December retail sales report and as financial stocks dropped sharply. The data, and renewed worries about some of the world's largest banks, fueled fears about the depth and length of the economic downturn, sending market participants into the relative safety of U.S. government debt. The gains were the most pronounced in the long end of the curve, with the 10- and 30-year issues outperforming their peers. The Treasury 10-year note was up by more than a point in price to a 2.18% yield and the long bond was up by nearly three points in price to a 2.90% yield. Bond yields move inversely to prices. The Dow Jones Industrial Average was down by 236 points, with Citi down by 14%, Bank of America down over 2% and JPMorgan down by nearly 5%.

CORPORATES: The index that tracks commercial mortgage-backed securities took another hit on Wednesday as poor retail sales in December escalated the concerns about the economy's impact on commercial real estate. It didn't help that forecasts at the CMSA annual conference predicted low issuance of commercial mortgage bonds this year and called for a rescue plan from the Fed. Risk premiums on the Markit CMBX AAA 4 was at 750 bps, up 86 bps from its close at 664 on Tuesday. In junk, prices fell as investors looked forward to what looks to be a scary fourth-quarter earnings season. Markit's CDX-NAHY Series 11 index fell just over 1 point to 75.962/76.12. According to IFR, MetroPCS's $300M offering of 9.25% senior notes will be priced between 89 cents and 89.5 cents on the dollar.

FOREX: The dollar declined against the yen Wednesday on disappointing December retail sales data. The euro fell against both rivals on continuing market risk aversion and after Standard & Poor's downgraded the Greece. Wednesday afternoon in New York, the euro was at $1.3158 from $1.3191 and the dollar was at Y89.10 from Y89.16 late Tuesday in New York, according to EBS. The euro was at Y117.28 from Y117.61. The U.K. pound was at $1.4584 from $1.4494. The dollar was at CHF1.1175 from CHF1.1188 late Tuesday.

STOCKS: U.S. equity traders are giving in to increasing signs of economic weakness and dismal earnings, after nearly two months of mostly range-bound trading and nascent signs of a return in risk appetite. The Dow Jones Industrial Average slid more than 300 points Wednesday morning as stocks appeared poised to end lower for the sixth straight session. The catalyst for Wednesday's move, which was led by a sharp decline for financial sector stocks, was another batch of profit warnings and worrisome economic data. "While leverage is still coming out of the market, most of that happened in the fourth quarter," said Kevin Kruszenski, director of equity trading for KeyBanc Capital Markets. "Right now, the nervousness about earnings is taking center stage."

ENERGY: Crude futures fell Wednesday on a report showing that oil inventories continued to grow at the contract's delivery point. A larger-than-expected increase in distillate stocks, which include heating oil and diesel, also sent the market lower. Light, sweet crude for February delivery traded $1.19, or 3.1%, lower at $36.59 a barrel on the New York Mercantile Exchange. Brent crude on the ICE futures exchange traded 43 cents lower at 44.40 a barrel. Refiners have reduced runs in response to weakening demand, causing oil to pile up at storage terminals nationwide. Crude stocks grew by 1.1 million barrels in the week ended Jan. 9, according to the U.S. Energy Information Administration. The build was less than the average analyst forecast of a gain of 1.8 million barrels, but the increase was concentrated in the Gulf Coast and Midwest, where the bulk of refining takes place.

TOMORROW'S TOP MONEY HEADLINES

Fed Beige Book: Economic Activity Continues To Weaken

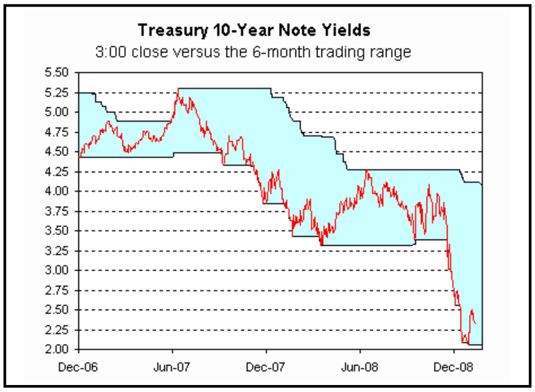
The U.S. economy continued to weaken into 2009, a Federal Reserve report released showed, as consumers appeared unswayed by deep holiday discounts.

The employment market also softened, with some regional Fed banks reporting pay freezes or even cuts in their districts, especially among financial institutions where year-end bonuses are likely to be down at least 20% to 30%.

"Most districts noted reduced or low activity across a wide range of industries," the Fed said in its anecdotal summary of economic conditions known as the Beige Book, which was compiled by the St. Louis Fed for the Jan. 27-28 Federal Open Market Committee meeting.

The downbeat report highlighted the broad-based nature of the current recession, which the National Bureau of Economic Research said began in December 2007. Activity declined "in a wide range of manufacturing industries," the Fed said, while housing "continued to worsen," commercial real estate "deteriorated" in most regions, and even tourism slowed or declined.

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	-0.007
3-Mo Bill	0.115	0.105	0.117	-0.003
6-Mo Bill	0.275	0.270	0.279	-0.037
2-Year	100.096	100.106	0.719	0.022
3-Year	100.10+	100.11+	1.014	0.060
5-Year	100.22+	100.240	1.353	0.136
10-Year	113.18+	113.200	2.206	0.262
30-Year	131.25+	131.27+	2.886	2.22+

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.6	18.16
CBOT 10 yr	112.84375	0.3125
CBOT 30 yr	136.9	0.53125

EQUITIES

	INDEX	CHANGE
DJIA	8178.24	-270.320
NASDAQ	1491.58	-54.880

OIL

	PRICE	CHANGE
NYMEX	37.27	-0.5100

CURRENCIES

	PRICE
Euro	1.3140
Sterling	1.4567
JPN Yen	89.00
Swiss Franc	1.1183
Can Dollar	1.2461
Mexico	14.157

IR SWAPS

	SPREAD	RATE
2-Year	56.25 - 52.25	1.274 - 1.234
3-Year	54.25 - 50.25	1.552 - 1.512
5-Year	56.50 - 52.50	1.913 - 1.873
10-Year	15.50 - 11.50	2.359 - 2.319
30-Year	-21.75 --25.75	2.667 - 2.627

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	99.08000	-0.10001
Jun09	99.12000	-0.06500
Sep09	99.04000	-0.02500
Dec09	98.87500	-0.01001

REPURCHASE AGREEMENTS

GENERAL COLLATERAL	
O/N	0.350
1-Week	0.300
2-Week	0.300
3-Week	0.300
1-Month	0.350
2-Month	0.350
3-Month	0.350

i-REPO℠ INDEX	
10:00 AM	0.230
3:00 PM	0.227

O/N SPECIALS	
2-Year	0.150
3-Year	0.110
5-Year	0.120
10-Year	0.010

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.0600	
1-Month	0.3000	0.128
3-Month	1.0000	0.143
6-Month	1.3000	0.173
12-month	1.7500	0.300

FED FUNDS

Open	0.09000
High	0.3750
Low	0.0313

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

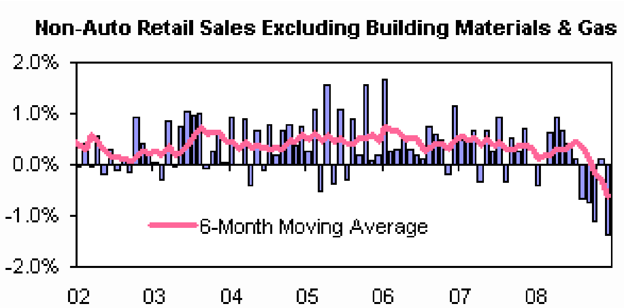
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	103.270 - 103.290	3.373
FNMA	5.0	103.140 - 103.160	3.095
FHLMC	5.0	103.131 - 103.151	3.226

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	103.250 - 103.270	3.429
FNMA	5.5	103.137 - 103.141	2.704
FHLMC	5.5	103.207 - 103.210	2.568

Wrightson-ICAP℠ Chart of the Day

http://www.wrightson.com



TOMORROW'S MONEY HEADLINES

Recession To Last Two Or More Quarters

The U.S. economy is likely to contract into the summer, before mounting a modest recovery, Federal Reserve Bank of Minneapolis President Gary Stern said.

The economy is mired in a "a serious recession that seems likely to persist for at least another two quarters," Stern said. "Most sectors of the economy are contracting, and it is difficult, as it always is, to identify with confidence the engine, or engines, of expansion that will propel the recovery in activity."

But given the amount of support the economy is getting from both the Federal Reserve and from government stimulus efforts, Stern said "there is reason to think that improvement is not too far off," even though once the recovery has started "the pace of the expansion is likely to be subdued for a time."

Plosser: Turnaround Pace Hard To Gauge

The pace and strength of a U.S. economic recovery are hard to predict, Federal Reserve Bank of Philadelphia President Charles Plosser said.

"Every quarter of '09 will not be as bad or as ugly as the fourth quarter of '08," although it's hard to say how quickly the economy will turn around once the bottom is reached, Plosser said during a panel discussion at the University of Delaware. "We're all guessing," he added.

Plosser, reiterating comments in a speech earlier, said he expects positive growth in the second half, although "it may not be very much."

"Finding a bottom to the housing crisis is critical to almost everything that happens, in my perspective. I think we're getting close, but a lot of us thought two years ago we were getting close," Plosser said.

US Foreclosures Soar 63.5% To 1M

U.S. home foreclosures jumped 63.5% to nearly 1 million homes in 2008 from a year earlier, according to foreclosure-listing service Foreclosures.com.

While President Alexis McGee called the figure "staggering, it was not unexpected," as the firm has been anticipating a 1-million figure since July.

"But there is good news - a variety of indicators show that some housing markets are bouncing back and we should see substantial improvement in 2009." McGee said, contending a recovery has already begun in areas such as hard-hit California.

McGee said her optimism for this year was driven by positive market indicators, including housing affordability thanks to drops in home prices, the growing U.S. population and what she called a coming housing shortage because many builders have postponed construction of new homes.

US Retail Sales Below Expectations

U.S. retail sales fell a sixth consecutive time in December, making a deep, broad drop that indicated worried consumers were adding to savings instead of spending at the height of the holiday season.

Retail sales tumbled by 2.7% last month, the Commerce Department said.

Sales in November decreased 2.1%, revised down from an originally estimated 1.8% decline. October was also revised lower, to a drop of 3.4% from a previously reported drop of 2.9%.

Economists expected a 1.2% decline in sales during December.

Import Prices Down Less Than Expected

U.S. import prices fell less than expected in December, with a sharp drop in the price of oil and industrial supplies accounting for much of the decline.

Import prices fell 4.2% on a monthly basis in December, the Labor Department said, below Wall Street expectations for a 6% decline. That followed a record 7.0% drop in November, revised from an earlier estimate of a 6.7% decline.

Import prices also posted their biggest quarterly decline ever in the fourth quarter, down 16.2%, suggesting that the easing trend in overall inflation remains firmly in place.

US Inventories Fall More Than Expected

U.S. business inventories fell in November more than expected, making a broad drop that suggested companies were liquidating supplies as demand for their goods drops in the recession.

Inventories decreased by 0.7% to a seasonally adjusted $1.485 trillion, the Commerce Department said. Inventories in October dropped an unrevised 0.6%.

Wall Street was looking for inventories to move down 0.4% during November.

One reason inventories have fallen are the price declines amid the recession. Falling prices lower the value of inventories. But analysts say inventory volumes are down as well. Companies are adjusting for lower demand by consumers, who have slashed spending.

Prosecutors Seek Again To Jail Madoff

U.S. prosecutors were to try again to persuade a judge to put alleged Wall Street swindler Bernard Madoff behind bars while he awaits trial.

Prosecutors are seeking a reversal of another judge's ruling on Monday that Madoff, 70, should be allowed to remain free under house arrest in his luxury Manhattan apartment.

TOMORROW'S MONEY HEADLINES

MetroPCS To Raise $300M In Junk Bonds

Wireless carrier MetroPCS Communications Inc. is planning to raise $300 million in the high-yield bond market, the company said.

The new bonds are an add-on to MetroPCS' existing 9.25% senior notes due 2014.

The bonds are rated B3 by Moody's Investors Service, after the agency upgraded the securities from Caa1. Even so the rating is still one of the lowest within the speculative-grade market. MetroPCS's move is a sign of a potential reopening of the new issuance market for lower-rated high-yield companies. It comes as investors are increasingly concerned about the ability of borrowers at the very bottom of the ratings spectrum to raise new cash to meet regular interest payments or pay down due debt. The bonds are rated B by Standard & Poor's.

UAW Chief Waits For Obama On Loan Terms

The United Auto Workers won't address the cost-cutting demands included in the auto-industry bailout until President-elect Barack Obama takes office next week, union President Ron Gettelfinger said.

Gettelfinger's hesitation comes as a Feb. 17 deadline bears down on General Motors Corp. and Chrysler LLC. The companies have until then to craft a plan that gets their labor costs in line with the U.S. operations of foreign-based competitors under terms of the low-interest loans from the Bush administration to avoid bankruptcy. Ford Motor Co. didn't ask for funding but is expected to push for the same concessions granted to its rivals.

Russia Wants Summit As Gas Row Drags On

Russia proposed a fresh round of talks in a bid to resolve the natural gas dispute that has left parts of Europe without power, saying a meeting of all the parties involved could also help prevent a repeat of the stalemate in the future.

"I propose holding a summit in Moscow on Saturday for nations that receive and transit Russian gas," President Dmitry Medvedev said in televised comments.

Earlier, Ukraine again said it wouldn't transit Russian gas to Europe after OAO Gazprom (GAZP.RS) attempted to send almost 100 million cubic meters to the region. In a deal brokered by the European Union, which relies on Russia for a quarter of its gas, Gazprom tried to resume shipments through Ukraine Tuesday. But the gas didn't reach Europe, with Moscow and Kiev blaming one another for the failure.

Chrysler Plants On Track To Reopen

Chrysler LLC is on track to reopen its plants by mid to late January or early February, as originally planned, a spokesman for the company said.

Chrysler announced in December that it would close all of its 30 plants for at least a month because of a steep drop in sales and rising inventories on dealer lots. The move was intended to cut costs and pull back on production at a time when demand for the company's vehicles is near an all-time low.

Halting production lowers an auto maker's revenue because car companies book sales when vehicles are shipped from their plants to dealer lots.

Lennar Adds Minkow To 2006 Libel Suit

Lennar Corp. added investor Barry Minkow and his company, Fraud Discovery Inc., to an existing libel lawsuit against a former joint venture partner after alleging Minkow was acting as an agent for Nicolas Marsch III in connection with the ongoing suit.

The lawsuit against Minkow - a former convict turned fraud crusader - comes less than a week after he accused the home builder of improperly boosting cash on its balance sheet in an Internet Ponzi scheme.

Lennar said Marsch, whom it sued in 2006 for extortion and wrongful conduct over two southern California real estate developments, testified under oath Tuesday that he made an initial payment of $50,000 to $100,000 to Minkow for his services.

TALKING POINTS

Fed Balance Sheet No Concern To Some

Federal Reserve Chairman Ben Bernanke has a lot to worry about, but the process of unwinding the central bank's explosive balance-sheet growth doesn't appear to be high on his list of concerns.

That is because many of the nontraditional tools that the Fed has put in place to address the financial market crisis are, in effect, self-regulating. Programs that extend loans to banks, along with other initiatives, are set up in such a way that, when market conditions improve, companies that are tapping the facilities will no longer need, or want, to do so.

So while the Fed has seen a very large increase in its balance sheet, from just over $800 billion at the end of the summer of 2007 to its current level of more than $2 trillion (it's expected to increase more), a lot of that can be unwound with very little effort on the part of the Fed.

In a speech in London, Bernanke said "a significant shrinking of the balance sheet can be accomplished relatively quickly." That's because "a substantial portion of the assets that the Federal Reserve holds - including loans to financial institutions, currency swaps, and purchases of commercial paper - are short term in nature and can simply be allowed to run off as the various programs and facilities are scaled back or shut down," the central banker said.

Bernanke's comments addressed head on what has been a rising tide of worry, both on Wall Street and within some corners of the Fed. The pace the balance sheet has grown has left some worried that, if the process isn't managed properly, the Fed runs the risk of fueling a future surge in inflation. Officials who have expressed such worries include the presidents of the Federal Reserve Banks of Kansas City and Richmond. Their worries are long-range in nature but, even so, their anxieties are shared by more than a few on Wall Street.

Bernanke, in a view shared by experts, said the self-regulating nature of several key Fed liquidity programs is tied to how they are priced. "Where possible, we have tried to set lending rates and margins at levels that are likely to be increasingly unattractive to borrowers as financial conditions normalize," he said.

Wrightson ICAP, in a recent note, said a great majority of the programs along the lines of the Term Auction Facility and the Commercial Paper Funding Facility, among others, are indeed "self-liquidating." Wrightson ICAP noted that an immediate end to commercial-paper purchases, for example, would lead to a complete liquidation of the $334 billion now in CPFF by April.

TALKING POINTS

Cracks Appearing In Euro's Foundations

The euro may only be 10 years old but big cracks are appearing in its foundations.

Up until now, the monetary conservatism at the European Central Bank has been good for the currency. Rates have been kept relatively high and the euro has benefited as a high yielder.

However, as the global economy slows, that same monetary conservatism is taking its toll on the weaker parts of the euro zone. Public debt levels are soaring, credit ratings are falling and yield spreads are widening.

The euro may have initially taken the news that Standard & Poor's was putting the government debt ratings of Ireland and Greece on negative watch last Friday in its stride.

However, when the agency announced a similar negative watch on the debt of Spain Monday, as its current account ballooned out to 10% of GDP, the risks to the euro appeared to hit home.

The spread of 10-year Spanish bonds against German ones widened out to levels last seen when the euro was launched. And now, the markets are starting to bet that Italy will be next to face a downgrade, with the spreads on its bonds widening sharply as well.

These strains are now expected to translate into euro weakness.

As Hans Redeker, head of foreign exchange strategy with BNP Paribas in London, pointed out: "Euro/dollar has a tendency to inversely correlate with intra-European government bond spreads now moving out once again and we would suggest that euro/dollar is at risk of another decline."

Of course, the European Central Bank could ease some of the strains by cutting interest rates at its next policy meeting Thursday.

However, any moves now could prove too little, too late.

While other major central banks have been slashing their rate down to zero, the ECB has been dragging its feet, eager to display a monetary machismo while inflation still remained a threat.

How much of that has changed since inflation started to fall remains to be seen.

Although recent economic data showed industrial production tumbling and consumer confidence faltering, the ECB appears to have little option but to start cutting rates more aggressively.

However, there still appears to be some residual reluctance to do so.

UK Mulling Measures To Spur Lending

The U.K. government is considering many different options to help free up lending to consumers and businesses, a U.K. Treasury spokesman said, playing down reports that it was mulling setting up a bad bank.

The department for business, enterprise and regulatory reform launched earlier Wednesday a multibillion-pound company loan-guarantee package in an effort to restore the provision of credit to businesses.

But the focus will need to shift to measures to improve the longer-term funding of banks, economists say.

"We will not hesitate to look at other measures that are necessary to get the banking system moving again," U.K. Prime Minister Gordon Brown told lawmakers Wednesday.

The Telegraph newspaper reported Wednesday that the treasury had asked investment bank Credit Suisse Group (CS) to draw up a detailed plan for the logistics of creating a bad bank that would buy up other banks' troubled assets, but the treasury stressed that a number of possible initiatives were under consideration.

"As the Chancellor (of the Exchequer Alistair Darling) has said on many occasions, the government is looking at a range of measures to encourage lending," a treasury spokesman told Dow Jones Newswires.

The spokesman didn't elaborate on the types of measures under discussion, but one option could be for the government to take a degree of credit risk away from the banks.

The U.S. government followed that course of action late last year, when it agreed to back up to $306 billion of Citigroup Inc.'s troubled assets.

"At first glance, the idea of the government taking on the credit risk of the banks is fraught with difficulties," Jonathan Pierce, an analyst at Credit Suisse, said in a research note. "In practice though, the government need only guarantee against losses in excess of a predefined level. If this level were set high enough, the likelihood of any loss to the taxpayer would be very small."

A further option would be the introduction of new guidance or changes of rules to reduce the pro-cyclicality of the Basel II framework, he said.

The government's new package, announced Wednesday, includes a GBP10 billion working capital scheme to secure up to GBP20 billion of short-term bank lending to firms with a turnover of up to GBP500 million.

Awaiting News Of Finra Successor

Mary L. Schapiro's expected Senate confirmation as Securities and Exchange Commission chairman is fueling speculation about possible successors to her current role as chief executive of the Financial Industry Regulatory Authority.

Schapiro will likely face tough questions Thursday during a confirmation hearing before the Senate Banking Committee, which is considering her nomination as SEC chairwoman.

Finra hasn't yet named a successor for the role of chief executive. However, numerous securities industry observers, many of whom spoke on the condition of anonymity, cite Richard G. Ketchum, non-executive Chairman of Finra's Board of Governors, as a likely choice for Finra's next chief executive. He is also chief executive officer of NYSE Regulation, Inc. and chairs the World Federation of Exchanges' regulatory committee.

Additionally, Ketchum served as first chief regulatory officer of the New York Stock Exchange and spent 12 years at the former National Association of Securities Dealers, or NASD, and Nasdaq, where he was president of both organizations. His experience includes eight years as director of the SEC's division of market regulation. He was also general counsel of the corporate and investment bank of Citigroup, Inc. from June, 2003 to March, 2004.

Larry Goldfarb, co-founder of Chicago-based software firm Compliance 11 and a former UBS AG compliance executive, says Ketchum's background would be relevant to ensuring that both larger and smaller firms have equally strong voices within the organization. Historically, smaller firms were NASD members, while large firms belonged to NYSE Member Regulation, he says. But merging the two entities to form Finra created a perception among smaller firms that their views weren't sufficiently represented. Goldfarb describes Ketchum as "well spoken and knowledgeable."

Theodore G. Eppenstein, a New York securities arbitration attorney who represents investors, says Ketchum has extensive experience as a regulator.