DOW JONES
i-Recap℠ Report

ICAP

News Provided By Dow Jones | Thursday, January 15, 2009

G7 CALENDAR

Friday

2:00 a.m. **JPN**
Dec Electric Power Output, On Year (previous -1.8%)

4:30 a.m. **JPN**
Nov Retail Sales, revised

9:00 a.m. **FRA**
Jan IEA Oil Market Report

10:00 a.m. **EU**
Nov Foreign Trade Balance (expected -3.5B)

1:30p.m. **US**
Dec CPI, (expected -0.8%), Core (expected +0.1%), Unrounded (previous +0.02%), Energy Index (previous -17%), Food Index (previous +0.2%), Real Average Weekly Earnings (previous +2.3%), Unrounded (previous -1.68%)

2:15p.m. **US**
Dec Industrial Production, (expected -1.2%), Capacity Utilization (previous -0.6), Current (expected 74.5%)

2:55p.m. **US**
Jan Reuters/University of Michigan Survey, prelim, Sentiment Index End month (previous 60.1), Mid Month (expected 58.8), Expectations Index End Month (previous 54), Mid Month (previous 52.4), 12-Month Inflation Forecast (previous 1.7), Value (Current Period), End Month (previous 69.5), Mid Month (previous 69.4)

5:15p.m. **US**
Richmond Fed Lacker speaks on financial conditions and the econ outlook in Richmond, Va.

TODAY'S MARKET WRAPS

TREASURYS: Renewed worries about the banking sector helped to fuel a bid in longer-maturity Treasurys Thursday as financial stocks took another heavy hit. The plunge in financial stocks came as concerns escalated about Bank of America after a Wall Street Journal report that the bank is moving closer to receiving billions of dollars more in aid to finalize its acquisition of Merrill Lynch. Analysts worry that Bank of America may need to take even more steps to bolster its capital as it absorbs Merrill Lynch and mortgage giant Countrywide Financial.

CORPORATES: Activity in the high-grade sector was strong on Thursday, with issues from Wal-Mart, Emerson Electric, Landry's Restaurants and Korea Development Bank on the docket. Supply was plentiful, and investors remained at the ready despite a barrage of negative news hitting the financial sector including negative earnings reports. Guidance was out on the two-part bond offering from Wal-Mart (Aa2/AA): five-years at Treasurys +175 bp area and 10s at Treasurys +187.5-200 bps area, according to a portfolio manager looking at the deal.

FOREX: The euro fell against the dollar Thursday after the European Central Bank cut its main lending rate by 50 basis point to 2.0%. The boost to the dollar helped it gain versus the yen. This lead extended into the afternoon as stocks closed in on earlier losses, which helped the euro eclipse its losses versus the yen. Thursday afternoon in New York, the euro was at $1.3124 from $1.3160, while the dollar was at Y89.79 from Y89.04 late Wednesday, according to EBS. The euro was at Y117.82 from Y117.19. The U.K. pound was at $1.4638 from $1.4570.

STOCKS: U.S. stocks bounced off their session lows Thursday afternoon as traders viewed a plunge in the Dow Jones Industrial Average to below 8000 as a late-day buy signal. Weighed down by fears the banking system may need yet another government rescue, the broad spectrum of stocks spent much of the morning selling off. Notably, the Dow Jones Industrial Average hit its low point in the early afternoon around 7995, with the move marking its first intraday trek below 8000 since Nov. 21. But stocks bounced off those morning levels, with the Dow recently up more than 30 points, or 0.4%, at 8229, while the S&P 500 rose 3, or 0.3%, to 845.52. Technicians noted the morning sell-off the S&P 500 tested an important interim support level of 816 on the S&P 500, which marked two December low points.

ENERGY: Crude futures fell sharply Thursday as weak demand continued to force oil into storage, pushing up against capacity in some areas. Light, sweet crude for February delivery traded $2.88, or 7.7%, lower at $34.40 a barrel on the New York Mercantile Exchange, after falling as low as $33.70. Futures are at their lowest point since Dec. 19, when the front-month contract reached $32.40 a barrel. Brent crude on the ICE futures exchange traded $1.28 lower at $43.80 a barrel. Front-month oil prices are being pressured by the lack of available storage at the contract's delivery point in Cushing, Okla. Inventories are still thought to be rising, as demand weakens faster than the Organization of Petroleum Exporting Countries cuts production.

TOMORROW'S TOP MONEY HEADLINES

PPI Decline Is Biggest Since 2001

U.S. producer prices fell for a fifth-straight month in December on steep declines in energy and food prices, suggesting that inflationary pressures continue to recede rapidly as the economic recession deepens.

Wholesale prices fell 0.9% for 2008 as a whole, the biggest calendar-year decline since 2001, capping a stunning reversal in which the PPI went from near double-digit annual rates to below zero in the space of only four months.

The producer price index for finished goods plunged 1.9% on a seasonally adjusted basis, the Labor Department said, in line with Wall street expectations.

The core PPI, which excludes food and energy, advanced 0.2% last month, slightly above expectations, according to a Dow Jones survey. That was up 4.3% from a year ago, the highest calendar-year increase since 1988.

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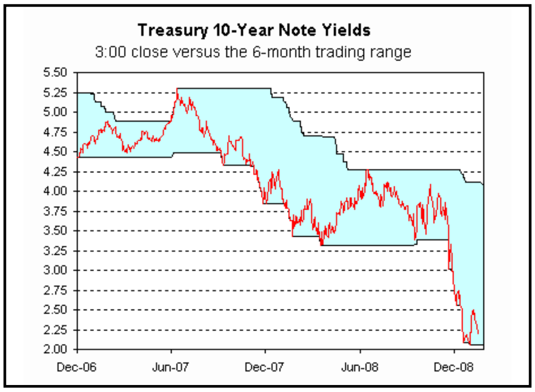
all prices as of 3:00 PM EST unless otherwise stated



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.040	0.005	0.041	-0.002
3-Mo Bill	0.105	0.095	0.106	-0.006
6-Mo Bill	0.280	0.270	0.284	0.000
2-Year	100.092	100.102	0.727	-0.002
3-Year	100.100	100.112	1.019	0.013
5-Year	100.210	100.222	1.363	-0.003
10-Year	113.20+	113.22+	2.199	0.01+
30-Year	132.09+	132.11+	2.865	0.12+

FUTURES

	PRICE	CHANGE
CBOT 5 yr	120.4	-2.16
CBOT 10 yr	112.84375	1.16
CBOT 30 yr	137.4	0.53125

EQUITIES

	INDEX	CHANGE
DJIA	8242.75	42.610
NASDAQ	1514.62	24.980

OIL

	PRICE	CHANGE
NYMEX	35.20	-2.0800

CURRENCIES

	PRICE
Euro	1.3156
Sterling	1.4658
JPN Yen	89.70
Swiss Franc	1.1213
Can Dollar	1.2515
Mexico	13.957

IR SWAPS

	SPREAD	RATE
2-Year	65.75 - 61.75	1.376 - 1.336
3-Year	63.25 - 59.25	1.645 - 1.605
5-Year	60.25 - 56.25	1.962 - 1.922
10-Year	19.00 - 15.00	2.386 - 2.346
30-Year	-17.75 --21.75	2.686 - 2.646

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.1250	
1-Month	0.3000	0.133
3-Month	1.0000	0.146
6-Month	1.3000	0.172
12-month	1.7500	0.284

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.94000	-0.14001
Jun09	98.97500	-0.14000
Sep09	98.90000	-0.14001
Dec09	98.73500	-0.13000

FED FUNDS

Open	0.14000
High	0.4500
Low	0.1250

HEFFR

10:00 AM	0.19
3:00 PM	0.35

REPURCHASE AGREEMENTS

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

i-REPO℠ INDEX	
10:00 AM	0.240
3:00 PM	0.237

O/N SPECIALS	
2-Year	0.210
3-Year	0.200
5-Year	0.130
10-Year	0.170

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	103.220 - 103.240	3.501
FNMA	5.0	103.070 - 103.090	3.220
FHLMC	5.0	103.060 - 103.080	3.383

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	103.220 - 103.240	3.475
FNMA	5.5	103.077 - 103.081	2.930
FHLMC	5.5	103.017 - 103.021	3.050

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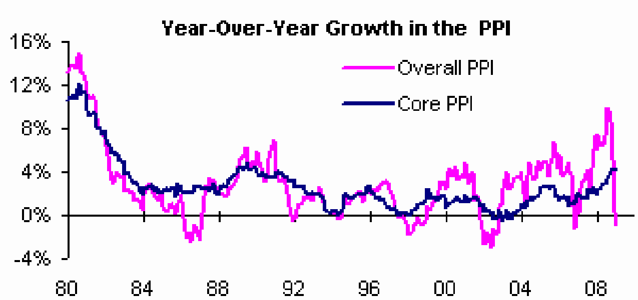

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TOMORROW'S MONEY HEADLINES

Fed's Evans: US In 'Serious Recession'

A top Federal Reserve official said the U.S. economy is in a "serious recession" and warned job creation is shrinking quickly, but he discounted fears the country may face outright deflation.

Federal Reserve Bank of Chicago President Charles Evans also said that amid the problems, the central bank is ready to keep using unconventional tools to get the economy back on track, given that it can't lower interest rates any more.

Evans said that if the credit market and economic activity doe not improve, it may be necessary to use nontraditional tools, including more purchases of "significant quantities" of longer-term securities such as agency debt, agency mortgage-backed securities and Treasury securities, to reduce borrowing costs.

JPMorgan Ekes Out Profit On WaMu

JPMorgan Chase & Co.'s commercial banking operations and its acquisition of Washington Mutual Inc. allowed it to report a small profit for the fourth quarter.

As expected, investment banking generated dismal results, but large corporate and middle-market loan growth held up, as did deposits. Washington Mutual helped to boost revenue.

But executives made clear that even the continuously strong commercial banking business is getting hit from all sides: Loan losses are rising, profitability might get hurt by falling rates, and demand for new credit is slowing dramatically.

NY Fed's Manufacturing Index Improves

Conditions for New York manufacturers continued to deteriorate in January, according to the Federal Reserve Bank of New York's Empire Manufacturing Survey.

The Empire State's business conditions index rose several points to -22.20 but was still close to the record low level of -27.88 set in December, the New York Fed said.

The index for new orders also remained near record lows, at -22.81 compared with -23.51 in December. The index for shipments and employment deteriorated slightly, falling to -13.12 from -11.34 and -26.14 from -23.40 respectively.

The index of prices recovered from a plunge in December, at -3.41 from -11.70 in December.

US Jobless Claims Rise 54K To 524K

The number of idled workers filing new claims for jobless benefits jumped last week as the recession forces companies to cut costs.

Initial claims for unemployment insurance benefits increased by 54,000 to 524,000, after seasonal adjustments, in the week that ended Jan. 10, the Labor Department said.

The increase was the first in three weeks. The four-week average of new claims last week fell to 518,500 from 526,500.

The number of new jobless claims filed nationwide was bigger than Wall Street had expected. Economists surveyed by Dow Jones was for claims to rise by 46,000 to 513,000 for the week ending Jan. 10.

DJ-BTMU Barometer Drops Again

The Dow Jones-Bank of Tokyo-Mitsubishi-UFJ weekly business barometer fell 1.4% in the Jan. 3 week on top of a revised 1.7% drop in the prior week.

The Dec. 27 week decrease was originally reported as 1.6%.

A statistically smoothed version of the index fell 0.4% in the latest week after the prior week's 0.3% drop, which was originally reported as a 0.1% fall.

Economists at BTMU noted that auto plant closings are contributing to large swings in the index. Excluding auto production, the barometer would have declined by just 0.2% in the Jan. 3 week.

Pakistan Arrests Leaders Of Militants

Pakistan security forces have arrested the entire top leadership of Lashkar-e-Taiba, the outlawed Pakistani militant group linked to November's terror attacks in Mumbai, Interior Minister Rehman Malik said.

Government officials also said several training camps operated by the militant group have been closed, as they claimed Pakistan has made significant progress in its investigation into LeT's role in the Mumbai attacks, in which 171 people died, including nine terrorists.

Malik said 124 people have been arrested in a crackdown on LeT and its Islamic charity arm, Jamaat-ud-Dawa, that began in the aftermath of the Mumbai attacks. He said several seminaries, hospitals and other institutions run by the organizations have also been closed down.

Philly Fed Factory Report Weakens

Mid-Atlantic manufacturers started off with a particularly weak hiring performance. The Philadelphia Federal Reserve's January employment index was the second-weakest since the survey began in 1968.

The Federal Reserve Bank of Philadelphia reported Thursday that its January general business conditions index, which covers factory conditions in its district, moved to -24.3, from -36.1 in December. Economists had expected to see a repeat of the December number.

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TOMORROW'S MONEY HEADLINES

Commercial Paper Outstanding Shrinks

The U.S. commercial paper market shrank during the week ended Jan. 14, as companies scaled back from their hefty buying in the opening week of the year.

For the week ended Jan. 14, the total commercial paper market shrank by $45.8 billion on a seasonally adjusted basis, according to data released by the Federal Reserve. The previous week, that figure was up by a hefty $83.1 billion, as companies returned to the market after the holidays and closing of books at year-end.

Market participants have said the market, used by companies to fund everyday needs such as rent and payroll, was on a surge as companies found it easy to sell debt directly to private investors. This decreased their reliance on the central bank. The asset-backed commercial paper market was also reduced, by $8.4 billion for the week.

Lawmakers Release $825B Stimulus Bill

House lawmakers revealed details of the $825 billion stimulus bill, which includes funding for infrastructure, investments in clean energy, increased aid to state governments and help for those most affected by the severe downturn in the economy.

The package is the largest economic stimulus legislation ever put forward by the federal government, targeting what could be the deepest economic downturn since the Great Depression.

The detailed spending provisions were made public by the House Appropriations Committee. A separate breakdown of the tax credits to be included in the bill was published by the House Ways and Means Committee.

Pimco Slows Mtge-Bond Buying Spree

Bond fund giant Pacific Investment Management Co. put a brake on its buying spree in mortgage-backed securities last month, while raising government debt holdings following 11 straight monthly reductions.

Pimco's $132.267 billion Total Return Fund, the world's largest bond fund, cut its holdings of MBS to 62% last month from 81% in November, which was the highest since at least 1990, according to data from the company's Web site.

U.S. government debt holdings rose to 9%, the only monthly increase in 2008.

It remains to be seen whether this represents a short-term adjustment or signals a shift in the fund's investment strategies in 2009.

Obama Advisers Push Stimulus Plans

The nominees to be President-elect Barack Obama's top economic advisers gave a sobering view of the nation's fiscal health to U.S. lawmakers, advocating aggressive action by the U.S. government to deal with a worsening economic situation.

Christina Romer, who has been nominated to head the Council of Economic Advisers, said that economic conditions are weak and "deteriorating rapidly," and that credit flows and the turmoil surrounding financial firms have not been righted by the $700 billion financial rescue plan passed by Congress in October.

"The possibility that continued economic decline will further weaken the financial sector and lead to a devastating rise in joblessness is a risk that demands immediate and unprecedented action," Romer told the Senate Banking Committee during a nomination hearing.

Landry's To Sell $270M Note

Landry's Restaurants Inc. announced plans to sell $270 million in notes as it completed a deal that amends and restates $210 million in credit as the company looks to move past the failed acquisition by its chairman.

TALKING POINTS

The Right Way To Revive the Economy

The U.S. House of Representatives leadership on Thursday released details of the fiscal stimulus plan needed to stabilize the economy. Not surprisingly, among the largest spending allocations is $90 billion for infrastructure projects.

Congress should choose its infrastructure wisely. The goal should not only be job creation now, but also sustaining growth in the long run.

That means projects should be judged for their contributions to worker productivity and to the efficient and safe movement of goods and people across the U.S.

Although infrastructure typically conjures up images of new bridges and roads, the last thing the U.S. needs is more highways. New roads only facilitate new housing developments and shopping malls. Two things the U.S. has in excess right now are homes and stores.

Instead, repairing our existing transportation system should take precedent over breaking new ground. In addition, there should be spending to retrofit buildings with better energy technology, modernize water and sewage systems, and upgrade the dam and levee systems across the U.S. Money for alternative energy research is also important to ensure the U.S. can meet its energy needs for decades to come.

These projects would provide jobs immediately and increase productivity down the road.

"There's no reason why we can't do both short-term 'shovel-ready' projects that also meet the needs of the future," says Robert Puentes, a research fellow at the Brookings Institute who follows transportation.

In his view, transit projects would include upgrading the existing interstate highway system, improving ports and rail connections, increasing money for mass transit and committing to a national plan for intercity passenger travel, whether through highways, rails or air.

Puentes points out that "transportation is part and parcel" of the major topics being discussed today: housing, energy, economic development and climate change.

According to the National Governors Association, state governments have identified about $38 billion in projects that could be started within 120 days of passage of the stimulus program.

The challenge, of course, is identifying which projects will contribute to economic growth in the future. The economy cannot tolerate pork barrel projects now.

Bear in mind that future taxpayers will have to pay off the debt being accumulated now. If the infrastructure improvements make future workers more efficient, the U.S. will generate more income to maintain living standards and pay off the federal debt.

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TALKING POINTS

Recession Strikes Blow To Swedish Model

Sweden said Thursday that its budget deficit will push far deeper into the red than expected, exposing rising costs in the Swedish welfare model as the country grapples with recession.

The Swedish National Debt Office, in an unscheduled revision of its outlook for government borrowing, raised its forecast for the 2009 budget shortfall nearly fourfold to 90 billion Swedish kronor ($10.7 billion), or 2.8% of gross domestic product, from a SEK23 billion prediction in November.

The 2010 deficit is now seen at SEK65 billion, or 1.9% of GDP, instead of SEK35 billion, it said.

"We consider that developments in the recent period have been so exceptional that we should now give an indication of our assessment of the borrowing requirement for 2009 and 2010," the National Debt Office said.

Economists at SEB labeled the news a national "profit warning" from the debt agency, which describes itself as the government's internal bank, and Swedish bond yields pushed lower Thursday, following the revisions.

Strains on Sweden's generous welfare system have grown as the slowing economy dries up tax revenue and social costs rise alongside lengthening jobless rolls.

Sweden's unemployment rate jumped to a much higher than expected 6.2% in November from 5.7% in October. Finance Minister Anders Borg has said he sees unemployment steadily climbing in Sweden to reach 8.5% next year.

Even some of Sweden's prized social services are being affected. Sweden's largest medical facility, Karolinska University Hospital, this week said it has to lay off 900 staff, or 6% of its workforce, to cut back costs.

Key Swedish companies, like truck maker Volvo AB, telecoms giant TeliaSonera AB, construction company Skanska AB, and white-goods maker Electrolux AB have all announced major layoffs in recent months as the global economic climate has deteriorated.

Sweden's Assa Abloy AB, the world's largest lock maker by sales, Thursday became the latest to make a swathe of job cuts in response to the economic downturn, announcing a SEK1.18 billion restructuring program that includes shutting down 15 productions units and laying off 1,800 employees.

The government warned in a newspaper editorial this week that, unless the government is careful with its spending, taxes may need to be raised and more jobs may need to be cut at schools and healthcare facilities.

New Gas Routes Won't End Dependence

Russia's dispute with Ukraine over gas payments has stoked fears among Europeans of being left without heat in the dead of winter, yet the European Union's inevitable scramble to seek new supply routes may actually end up increasing its dependence on Russia.

The running two-week disruption in Russian gas supply to Europe via Ukraine raises pressure on E.U. governments to push ahead with those proposed gas-pipeline projects that have the highest potential.

Although those projects eliminate the transit hurdle by skirting Ukraine, they still source their natural gas supplies from Russia, energy researchers and consultants say. What's more, a recent E.U. push to cut greenhouse gases within the 27-member bloc could encourage coal-dependent countries to switch to Russian gas.

The E.U. "will continue to rely heavily on Russia to cover its gas supply, and (Russian) imports to Europe will continue to rise," said Florian Haslauer, vice president for energy at consulting company A.T. Kearney.

The E.U. now counts on Russia for roughly a quarter of its overall gas supplies, with 80% of it flowing through Ukraine. Supplies fell in 12 countries when OAO Gazprom closed the taps earlier this month. Gas still wasn't in transit on Thursday, even after a week of negotiations and a signed agreement on how international observers would be deployed to oversee the flow.

While heavier dependence on Russia isn't negative in itself, it will reduce the E.U.'s energy security through an over-reliance on a single large supplier.

"We need to have diversity in the portfolio," Haslauer said. Russia's gas may end up accounting for 38% of European consumption by 2020, he said.

The pipeline most likely to be built soon is Nord Stream, which would run under the Baltic Sea and bring gas directly to Germany from Russia, said Arno Behrens, research fellow for energy and environment at the Center for European Policy Studies, a Brussels-based think tank.

Gazprom holds 51% of the joint venture created to build the Nord Stream pipeline, which is scheduled to start operating in 2011.

Aussie Rally A Chance To Sell

There are at least three reasons not to buy the Aussie.

Sure, the Australian currency may attempt to stage the occasional rally as it did earlier this week. After all, investors need to take profits sometime.

But with commodity prices still on the slide, with global risk appetite showing little signs of recovery and with the Australian economy slowing even faster than expected, any Aussie rally is really an opportunity to sell.

As the currency strategy team at Commerzbank said: "It is too early for a sustainable Australian dollar appreciation."

They are looking for the currency to head back down to at least $0.64 in the coming weeks.

Despite a bounce that took it over $0.72 at the start of the new year, outlook for the Australian currency has grown steadily more negative in 2009.

Much has to do with the deteriorating outlook for the global economy as economic data from all major economies shows little sign of improving.

Not only did China kick off this week with data showing a sharp decline in imports, but Japan has added to the woe with news that its machine tool orders collapsed 71.9% in December. Also, Wednesday, the U.S. reported that its retail sales fell 2.7% last month — more than double the 1.2% decline that had been expected. This leaves the Aussie highly vulnerable in more ways than one.

For a start, the currency's role as a high yielder means it will suffer more as global investors continue to pull back from risky asset markets in preference for lower yielding safe havens including the dollar and the yen.

Of equal importance, is the currency's exposure to the commodity markets. Occasional bounces in commodity prices are proving short-lived as the outlook for global demand continues to deteriorate. The price of crude futures, which may have rebounded a little to over $39 a barrel in recent weeks, is more than likely going to slide back under its December low at $32.40 a barrel.

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