

G7 CALENDAR

Monday	
12:01 a.m.	UK
Jan Rightmove House Price Index	
4:30 a.m.	JPN
Nov Indus Production, Revised Industrial Output (on month) (Previous -3.1%)	
5:30 a.m.	JPN
Dec Tokyo area department store sales	
5:30 a.m.	JPN
Dec Nationwide department store sales	
9:30 a.m.	UK
Dec London Retail Sales Monitor covering Xmas	
10:00 a.m.	EU
Nov Construction output	
1:30p.m.	CAN
Nov Intl Securities Transactions - C\$ Foreign Purchases of Canadian Securities (Previous 2.85B)	
11:50p.m.	JPN
Nov Tertiary Industry Index Tertiary Industry Activity (on month) (Previous +0.4%)	
N/A	JPN
Nov Final Labor Survey - Earnings, Employment & Hours Worked	
N/A	US
Martin Luther King Jr. Holiday; Markets, banks, businesses and govt offices closed.	
N/A	EU
EU Econ & Financial Affairs - EU interim economic forecasts	
N/A	FRA
OECD Statistical Data and Metadata Exchange conference	

TODAY'S MARKET WRAPS

TREASURYS: Treasuries maturing in three years or more recovered some ground but remained down Friday in a shortened session following the government's strengthened financial aid to battered banking sector. Still, U.S. government securities logged a weekly gain in prices, benefiting from safe-haven flows earlier in the week from consistently soft global economic data, concern about corporate earnings reports and renewed worries about the health of the financial sector. Friday, a heavy wave of selling swept the whole curve overnight and early in the North American sessions, with the 30-year bond's price at one point tumbling more than 3 points.

CORPORATES: Banks dominate issuance of high-grade bonds so far this month, according to data from Dealogic. Investors have bought about \$68B in USD-denominated corp bonds in the past two weeks. Strip out FDIC-backed bonds, and that number drops to about \$50B. And then if issuance from foreign banks that's backed by their governments is also excluded, the showing so far drops to \$25B. The high-yield market was firm Friday leading into the long holiday weekend, with the high yield CDX index up 3/8 pt to 76 3/8, according to Markit. The secondary market trade was generally quiet.

FOREX: The euro lost some of its earlier gains versus the dollar and yen as stock turned into the red, but it was still higher on the day after risk sentiment was boosted by announced U.S. government aid packages for Wall Street. The dollar also gained versus the yen to a one-week high. Friday afternoon in New York, the euro was at \$1.3241 from \$1.3145 late Thursday, while the dollar was at Y90.32 from Y89.71. The euro was at Y119.60 from Y118.00. The U.K. pound was at \$1.4669 from \$1.4651.

STOCKS: Financial-sector shares plunged Friday as two of the nation's biggest banks announced a combined \$10.08 billion in fourth-quarter net losses on credit and other woes and the government redoubled its efforts to support a financial system that has shown few signs of recovery despite massive capital injections and restructuring in recent months. Renewed government efforts to prop up ailing banks through cash injections could further dilute shareholder value if they force banks to raise additional capital through equities offerings. In addition, more government intervention will inhibit banks' ability to take on risk, potentially hampering growth.

ENERGY: Crude oil futures prices shook off early losses caused by the latest bearish oil market outlook and were trading higher Friday morning. Light sweet crude oil for February delivery was up \$1.17 a barrel at \$36.57 at 9:17 EST on Nymex, after trading down to \$34.77 earlier. February heating oil was up 349 points at \$1.5220 and February RBOB gasoline was 132 points higher, at \$1.1874. The February crude contract expires at Tuesday's settlement. The Martin Luther King day holiday on Monday will shut Nymex floor trading, but electronic trading will take place.

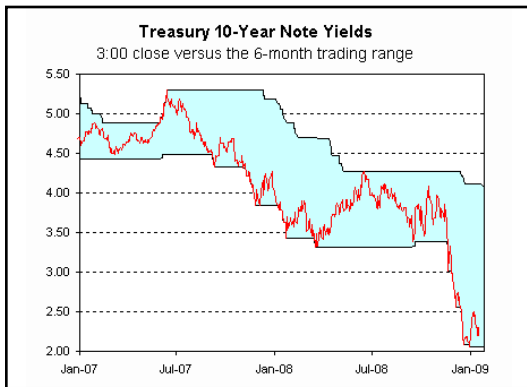
TOMORROW'S TOP MONEY HEADLINES**BoFA Posts Loss, Gets \$20B, Slashes Dividend**

Bank of America Corp. swung to a fourth-quarter loss on Friday after accepting \$20 billion in aid from the U.S. government to help it absorb troubled Merrill Lynch & Co.'s piles of souring loan-backed securities.

The Charlotte banking giant, which disclosed its results two business days earlier than expected, posted a net loss of \$1.79 billion, or 48 cents per share, but still managed to turn in a profit of \$4 billion for all of 2008. Widening losses of more than \$15 billion at the bank's latest purchase, Merrill Lynch, however, overshadowed the bank's full-year profit.

Bank of America's Chief Executive Ken Lewis told investors during a conference call that Merrill's condition worsened substantially in late December, ahead of Bank of America's Jan. 1 purchase of the fabled Wall Street firm. To make sure Lewis's firm didn't back out of its deal to buy Merrill - whose viability as an independent company was highly in doubt - the U.S. government agreed to invest an additional \$20 billion in Bank of America and also absorb most future losses from \$118 billion in troubled assets at the two firms.

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	0.001
3-Mo Bill	0.120	0.110	0.122	0.022
6-Mo Bill	0.295	0.280	0.300	0.012
2-Year	100.092	100.102	0.726	0.002
3-Year	100.056	100.070	1.064	-0.037
5-Year	100.036	100.052	1.476	-0.15+
10-Year	112.13+	112.150	2.327	-1.042
30-Year	132.00+	132.02+	2.876	-0.05+

EQUITIES		
	INDEX	CHANGE
DJIA	8224.04	11.550
NASDAQ	1511.87	0.030

OIL		
	PRICE	CHANGE
NYMEX	34.69	-0.7100

CURRENCIES		PRICE
Euro		1.3257
Sterling		1.4691
JPN Yen		90.51
Swiss Franc		1.1178
Can Dollar		1.2487
Mexico		13.892

FUTURES		
	PRICE	CHANGE
CBOT 5 yr	120.1	-11.8
CBOT 10 yr	126.5	-15.16
CBOT 30 yr	111.34375	-29.16

IR SWAPS		
	SPREAD	RATE
2-Year	62.00 - 58.00	1.338 - 1.298
3-Year	60.25 - 56.25	1.660 - 1.620
5-Year	56.50 - 52.50	2.036 - 1.996
10-Year	14.50 - 10.50	2.470 - 2.430
30-Year	-16.50 --20.50	2.710 - 2.670

EURODOLLAR FUTURES		
	CLOSE	CHANGE
Mar09	99.00000	0.06500
Jun09	99.05500	0.07999
Sep09	98.98500	0.09000
Dec09	98.80500	0.06499

REPURCHASE AGREEMENTS		
GENERAL	i-REPO SM	
COLLATERAL	INDEX	
O/N	0.400	10:00 AM 0.330
1-Week	0.400	3:00 PM NA
2-Week	0.350	
3-Week	0.350	
1-Month	0.350	
2-Month	0.350	
3-Month	0.350	

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)		
	EURO DEPOSITS	OIS STRIP
O/N FF	0.1250	
1-Month	0.3500	0.161
3-Month	1.0000	0.166
6-Month	1.3000	0.188
12-month	1.8000	0.283

FED FUNDS	
Open	0.22000
High	0.4000
Low	0.0500

HEFFR	
10:00 AM	0.19
3:00 PM	NA

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

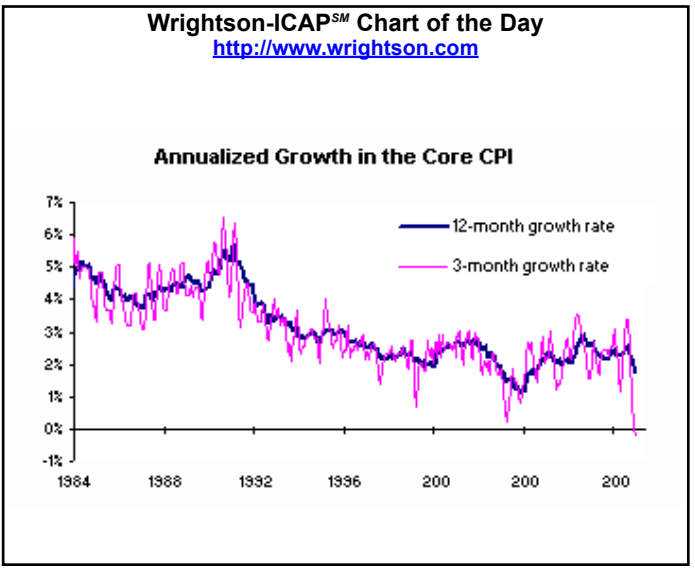
FREDDIE MAC				
TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	3.125	10/25/10	56.50 - 55.75	1.314
3-Year	3.875	06/29/11	82.50 - 82.00	1.574
5-Year	4.125	09/27/13	83.00 - 82.50	2.216
10-Year	4.875	06/13/18	66.00 - 65.50	2.866
30-Year	6.250	07/15/32	46.25 - 45.50	3.116

ACTIVE CORPORATES				
ISSUER		MATURITY	COUPON	MID- PRICE
NA		NA	NA	NA
NA		NA	NA	NA
NA		NA	NA	NA

ACTIVE MBS 15YR			
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	103.133 - 103.153	3.486
FNMA	5.0	102.241 - 102.261	3.338
FHLMC	5.0	103.016 - 103.036	3.287

ACTIVE MBS 30YR			
ISSUER	CPN	PRICE	YIELD
GNMA	5.5	103.192 - 103.212	3.546
FNMA	5.5	100.195 - 100.215	4.802
FHLMC	5.5	102.037 - 102.057	3.684

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TOMORROW'S MONEY HEADLINES**Citigroup Posts Loss, Splits Up Company**

Citigroup Inc. reported an \$8.29 billion net loss for the fourth quarter, putting the year's red ink at \$18.72 billion, as the company said it will reorganize into two business lines focused on banking and other financial services. Citicorp will focus on Citigroup's core banking operations in more than 100 countries, while Citi Holdings will be made up of asset management and consumer finance. The management at Citi Holdings will focus on "tightly managing risks and losses," the company said.

The bank is still reeling from its mortgage-related securities and the credit crisis. The reorganization is part of the company's plan to pull away from the "supermarket" model that has long defined it. The move started earlier this week when Citi agreed to combine its Smith Barney brokerage unit with Morgan Stanley's brokers, creating the world's largest brokerage.

Citi said it planned to make the transition to two businesses as quickly as possible. A formal split into two publicly traded entities is not in the works. A search is underway to find a leader for Citi Holdings.

GE Capital To Cut 40% Of Work Force

General Electric Co.'s financing arm, GE Capital, will eliminate about 7,000 jobs, almost 40% of its work force of 18,000, because of the global economic slump, CNBC reported.

The cable network is a unit of NBC Universal, which is 80%-owned by General Electric.

Bloomberg News reported that GE Capital may slash as many as 11,000 jobs, citing people familiar with the finance unit's stated plans to save \$2 billion through cost cuts. A GE Capital spokeswoman confirmed job cuts are part of that effort but wouldn't specify the number of positions being eliminated.

Obama Warns Of Lingering Recession

Hitting the road to sell his economic-stimulus proposals to the public, President-elect Barack Obama cautioned that the current downturn won't end soon if the government doesn't act.

"With each passing day, families here in Ohio and across America are watching their bills pile up and their savings disappear," Obama told workers at Cardinal Fastener & Specialty Co. in Bedford Heights, Ohio, according to remarks prepared for delivery.

"If nothing is done, and we continue on our current path, this recession could linger for years — and America could lose the competitive edge that has served as the foundation for our strength and standing in the world," he said.

Tsy To Lend \$1.5B To Chrysler Entity

The U.S. Treasury Department unveiled a \$1.5 billion loan to a special purpose entity created by Chrysler Financial.

The loan finances the extension of new consumer auto loans as part of a broader program to help the auto industry, Treasury said.

The five-year loan will pay interest at a rate of one month Libor plus 100 basis points for the first year and one month Libor plus 150 basis points for years two to five.

Consumer Confidence Edges Higher

Consumer confidence reached a modest four-month high in the new year, according to preliminary figures from the Reuters/University of Michigan consumer survey.

The sentiment index rose to 61.9 this month, from 60.1 in December. Economists had expected a reading of 58.8.

The current conditions index for January slipped a touch, to 69.2 from 69.5, but the expectations index rose to 57.2 from 54 in December.

The cost of living is seen picking up after recent declines. Expectations of 12-month inflation bounced to 2%, after a sharp drop to 1.7% last month from November's 2.9%. Over a five-year horizon, expectations are for 3% inflation, up from the 2.6% seen last month.

US Industrial Production Down Again

The nation's industries took another tumble in December as a deepening recession caused production to fall in a wide swath of the economy.

Industrial production decreased 2.0% compared with the month before, the Federal Reserve said. Production fell a downwardly revised 1.3% in November; originally, November output was seen down 0.6%.

The fourth drop in six months was broad; nearly all categories in the report, from technology to cars to clothes, showed falling output.

Inflation Evaporates On Energy, Recession

U.S. consumer prices barely rose last year by their slowest pace in over a half century, a government report showed, a stunning turn just a few months after inflation hit 17-year highs.

Much of the reversal was due to a roughly 75% decline in oil prices from their July peak that has in turn brought prices down for everything from gasoline and home heating to airline fares.



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TOMORROW'S MONEY HEADLINES

Lacker Calls For Quick Action on TARP

Richmond Federal Reserve President Jeffrey Lacker urged lawmakers to quickly resolve uncertainty surrounding a controversial \$700 billion financial rescue plan and a massive economic stimulus proposal.

Lacker, a 2009 voting member of the Federal Open Market Committee, made the suggestion during an audience question-and-answer session after a speech to the Richmond chapter of the Risk Management Association.

Separately, Lacker said the ballooning size of the Fed's balance sheet should be controlled in a manner that won't tie the Fed's hands.

Pfizer To Lay Off Up To 2,400 In Sales

Pfizer Inc. plans to lay off as many as 2,400 sales staff, up to a third of its marketing workforce, this quarter as the drug maker reorganizes its commercial side, according to a person familiar with the matter.

The layoffs follow the New York company's recent division of its commercial operations into largely autonomous businesses focussing on specific areas, such as primary care and emerging markets.

Pfizer, the world's largest drug maker, recently laid off as many as 800 researchers at its leading laboratories around the world. The latest cuts will be to sales representatives and middle managers, said a person familiar with the matter.

FHLB Pittsburgh Hit By Mtge Investments

The Federal Home Loan Bank of Pittsburgh is on the brink of breaching its regulatory capital requirement due to the significant deterioration of mortgage bond investments in the fourth quarter.

The troubled investments include bonds backed by loans made to prime borrowers, a worrying sign that growing unemployment is squeezing homeowners with good credit.

Circuit City Fails To Find A Buyer

Circuit City Stores Inc. announced it would be going to liquidate its assets, after the nation's second largest consumer-electronics chain by sales failed to reach an agreement with creditors and lenders and was unable to sell itself.

The development, which will put 30,000 people out of work in the U.S. and Canada, shows the ultimate failure in the company's repeated efforts to improve its fortunes.

At one point, the company sacked thousands of veteran salespeople and replaced them with lower-paid and less-experienced workers, believing that sales wouldn't suffer as a result. They did, and revenues - along with the damage to Circuit City's reputation - was never undone.

Circuit City filed for bankruptcy protection in November shortly after the ailing chain said it would close 21% of its U.S. stores to save cash. There are slightly more than 550 remaining. The company has found itself unable to fully compete effectively against direct rival Best Buy Co. along with broader retailers such as Wal-Mart Stores Inc.

US, Israel In Agreement To Curb Hamas

The U.S. and Israel signed an agreement aimed at preventing the rearmament of Hamas in the years ahead, part of a bid to secure a cease-fire in the Gaza Strip.

The memorandum of understanding calls for Washington to deploy technical and military assets to the Palestinian territories to help prevent the smuggling of arms into Gaza, either by land, sea or air. The U.S. also committed to gaining the assistance of its allies in the Middle East and Europe to prevent arms from reaching Gaza or the Sinai Peninsula, particularly from Iran.

"It's incumbent upon the international community to guard against the rearming of Hamas," Secretary of State Condoleezza Rice said at a signing ceremony in Washington with Israeli Foreign Minister Tzipi Livni.

TALKING POINTS

The \$168B 'Unrealized Loss' Overhang

As banks and financial companies look for some light in the economy's darkness, there's a big black cloud sitting on their balance sheets that may keep things gloomy for some time to come.

Financial institutions have piled up huge "unrealized losses" on their balance sheets as the value of their investments has declined. A group of 54 of the biggest financial companies has a total of more than \$168 billion in unrealized losses, a Dow Jones survey shows.

That \$168 billion hasn't hurt companies' earnings - yet. Companies have maintained that the losses are temporary and will ultimately reverse themselves. For as long as that's the case, those losses don't get counted against earnings; they show up only in a form that reduces shareholder equity on a company's balance sheet.

But it's getting increasingly hard to argue that those losses are merely temporary: A lot of them are too severe, have been around too long, or stem from declines in the value of toxic

securities that aren't likely to recover anytime soon.

As a result, a lot of those unrealized losses may ultimately be translated into impairment charges that will hurt earnings, in 2009 and maybe beyond, at companies like American International Group Inc. and Wells Fargo & Co. And that could be a big drag on the financial sector's attempt to recover from the crisis it's been grappling with since 2007.

The 54 financial companies, all in the Standard & Poor's 500-stock index, had at least \$168.5 billion in gross unrealized losses as of last Sept. 30. Twenty-three of the 54 companies had gross unrealized losses of at least \$1 billion apiece. The numbers have steadily grown worse over the last few quarters, as the value of financial companies' investments continues to erode.

Even on a net basis, once the losses are netted against unrealized investment gains, the unrealized loss for the group is \$123 billion. (These numbers count some recently acquired companies as part of their new owners, like Wachovia Corp. as part of Wells Fargo. They don't count some financial companies in the S&P that don't disclose unrealized losses or do so only in a fragmentary and unclear manner.)

TALKING POINTS

Euroskeptics See Continental Rift

The euro's critics are a patient lot. Predictions of the European Monetary Union's demise have not only survived the 10 years of its success - in some quarters, they are actually gaining currency.

Euroskeptics are increasingly turning to the debt markets to support their theory that, as the financial crisis deepens, unbreachable rifts are opening in the bloc that shares the euro. Higher borrowing costs are hitting the weakest members hardest, and their problems are exacerbated by a "one size fits all" monetary policy that caters mainly to their strongest neighbors.

If Harvard economist Martin Feldstein is right, the recession will expose major flaws in the EMU, and it will start to unravel.

But his contention that at least one EMU member could pull out ignores a big point - the euro zone wasn't built with exits. The economies suffering the most are the ones least able to afford to fend for themselves. And though Feldstein rightly argues the monetary union hasn't forged formal political bonds to secure the bloc's future - it still lacks consensus on a constitution - those bonds exist on a philosophical level, tethered by a defining history of war and economic hardship.

Trying times are ahead for the EMU, and the recession will be the toughest test yet for a model that certainly has pressure points.

Initial squabbles between countries over how to bail the region out of crisis prompted the U.K. Telegraph's euro hangman Ambrose Evans-Pritchard last year to ask if the then 15-member euro-zone would last to Christmas. Discussants at this month's annual American Economics Association meetings quipped that his prediction was off by a month - in January, Slovakia's entrance made it 16.

But Feldstein, former head of the National Bureau of Economic Research and longstanding euroskeptic, was unrepentant in his prognosis from a decade ago. In one of several AEA panels commemorating the euro's anniversary, Feldstein said recession will finally expose irreconcilable disparities within the euro area. The main rifts will be between powerhouse economy Germany and those, such as Greece, Spain, Italy and Ireland, struggling with large deficits, high unemployment and plummeting personal wealth.

ArcelorMittal Can Swing Short-Term Debt

The cost of insuring ArcelorMittal's debt against default remains at distressed levels despite the recent thaw in the credit market, but credit analysts said fears the company will struggle to refinance its short-term debt are unwarranted.

The company has enough cash and credit lines on hand to pay down debt and has initiated a strategy to do so, analysts added.

ArcelorMittal's five-year credit default swap, or CDS, is trading at 1,091 points, meaning it would cost \$1.091 million a year to insure a notional \$10 million of ArcelorMittal's bonds against default for five years.

Meanwhile, U.S.-based steel producer Nucor's five-year CDS is trading at 122 points while the CDS of German's ThyssenKrupp AG is trading at 431 basis points, according to data provided by Markit.

ArcelorMittal's CDS has been trading above 1,000 points since Nov. 26 although it has dipped below that mark at times during the new year.

A Paris-based CDS trader said that ArcelorMittal's insurance against default is still trading "upfront," meaning that the perceived risk of default is so high that sellers of protection require payment in advance rather than in annual installments. A CDS typically begins to trade upfront when it exceeds 1,000 points, as in ArcelorMittal's case.

Investors buying ArcelorMittal's five-year CDS have to pay 20% of the CDS upfront, plus a 500 basis points running cost at the moment.

Dollar's Slide Will Be Short-Lived

Don't lose faith in the dollar.

Regardless how bad the U.S. economy appears to be and no matter how much more money the U.S. Treasury has to throw at the U.S. banking system, the U.S. is still probably in better shape than the rest of the world.

A reminder of this could come as early as Tuesday, when President-elect Barack Obama is inaugurated and a fresh injection of positive sentiment could well flow through the veins of the financial markets.

In the meantime, dollar investors are experiencing one of their periodic bouts of doubt.

This is hardly surprising after events earlier this week.

Those retail sales figures for December, showing a 2.7% fall that was more than double the 1.2% decline expected by the market, signaled just how sharply consumer activity is shrinking.

As Rob Carnell, U.S. economist with ING Financial Markets in London, said, the data not only guarantees a further decline in fourth quarter GDP for the U.S., but it means that more retail firms will go to the wall, more jobs will be lost and a further decline in consumer confidence and sales can be expected.

"Bring on the next fiscal package," Carnell said.

But, it was also developments in the financial community that sent fresh jitters through the dollar buyers.

Reports suggest that it was Bank of America's need for further funding in its deal with Merrill Lynch that was behind U.S. Treasury Secretary Henry Paulson's push for the final \$350 billion from the Troubled Assets Relief Program.

This will just highlight fears over the U.S. earnings reports that are starting to trickle out - and raise concerns once again over whether the government should be bailing out Main Street or Wall Street.

"The pushing and pulling between the Administration and lawmakers is likely to keep the market uneasy," said Hans Redeker, head of global foreign exchange strategy at BNP Paribas in London.

Nevertheless, there remains the basic hope that although the U.S. is still adjusting its economic recovery program, it has basically got it right.

Ulrich Leuchtmann, senior currency strategist at Commerzbank in Frankfurt, pointed to fears that the sharp easing in U.S. monetary policy would eventually make the dollar worthless.