

G7 CALENDAR**Wednesday****12:00 JPN**

Nov Index of Business Conditions, revised

12:00 JPN

Dec Steel Production

2:00 a.m. GER

Dec PPI

4:00 a.m. ITA

Nov Foreign Trade EU

4:30 a.m. UK

Dec UK unemployment figures, Average Earnings (Ex-Bonuses) (expected +3.5%), Unemployment Change (expected +81000), Unemployment Rate (expected 3.5%)

4:30 a.m. UK

Dec BoE broad money provisional estimates

4:30 a.m. UK

Dec BoE capital issuance

4:30 a.m. UK

Dec CML mortgage lending figures

4:30 a.m. UK

Dec Public Sector Finances, Net Borrowing, GBP (expected 10B), Net Cash Requirements, GBP (expected 17.5B)

4:30 a.m. UK

Jan Agents' Summary of Business Conditions

4:30 a.m. EU

European Parliament Committee on Economic & Monetary Affairs - ECB Pres Trichet attends monetary dialogue with MEPs

4:30 a.m. UK

Jan BoE MPC meeting minutes MPC Vote Against Action (expected 0), MPC Vote For Action (expected 9)

TODAY'S MARKET WRAPS

TREASURYS: Treasuries recovered from early selling Tuesday afternoon as persistent worries about the banking sector pushed down stocks despite an ebullient inauguration of Barack Obama as the nation's 44th president. The bout of buying added to the intraday swings in the bond market, which was down overnight, but recovered a bit leading into the North American session before falling again Tuesday morning. At one point in the morning session, the selling pushed down the 30-year bond's price by more than 4 points. But the 10- and 30-year maturities pared a large portion of their early losses in afternoon trade. The two-year note erased all the losses. The underperformance of the long end versus the short end widened the yield spread significantly, leading to the so-called yield curve steepening.

CORPORATES: S&P reports that the risk premiums on high-grade bonds dipped below 500 bps, averaging 495 bps on Friday, tighter by 2% from Thursday's level. Speculative-grade credits also tightened by 3% to 1472 bps. S&P averages AA at 335 bps, A at 421 bps, BBB at 625 bps, BB at 970 bps, B at 1563 bps and CCC at 3008 bps. Junk bonds moved slightly lower in light trade early Tuesday as most eyes were focused on Obama's inauguration. The high yield CDX index fell half a point to 75.5. In the secondary market, Freescale Semiconductor's

FOREX: The euro extended losses against the dollar and yen Tuesday to fresh six-week lows, below \$1.29 and ¥116.0, as U.S. stocks declined. Low stocks indicate low risk appetite, which usually results in traders buying the dollar and yen, both considered safe haven assets. The euro was already under pressure after another ratings downgrade in the euro zone and negative headlines out of the Eurogroup meeting of finance ministers. Tuesday afternoon in New York, the euro was at \$1.2872 from \$1.3125 late Monday, while the dollar was at ¥89.90 from ¥90.61, according to EBS. The euro was at ¥115.74 from ¥119.01. The U.K. pound was at \$1.3906 from \$1.4502, and the dollar was at CHF1.1498 from CHF1.1311 late Monday.

STOCKS: As a giddy real-life crowd gathered in the National Mall, the figurative crowd that gathers daily in the stock market was newly worried about the state of the financial industry in the U.S. and abroad. Those concerns sparked a broad-based market drop Tuesday. The worst news in the financial industry, however, came from companies not in the Dow. State Street shares dropped 47% after the asset manager late on Friday said in a regulatory filing that it's sitting on \$5.5 billion of unrealized after-tax losses on its investment portfolio and \$3.6 billion in unrealized losses in conduits. The company said Tuesday that its fourth-quarter earnings dropped 71%.

ENERGY: Crude-oil futures topped \$39 a barrel in recent trading, with the market concluding that the expiring February contract was oversold. Light, sweet crude oil for February delivery traded \$2.27, or 6.2%, higher at \$38.78 a barrel on the New York Mercantile Exchange, after moving as high as \$39.28 a barrel. The February contract expires at the end of pit trading, and the bulk of activity has already shifted to the March contract, which is down 1 cent at \$42.56 a barrel. Brent crude on the ICE futures exchange traded 79 cents higher at \$45.29 a barrel.

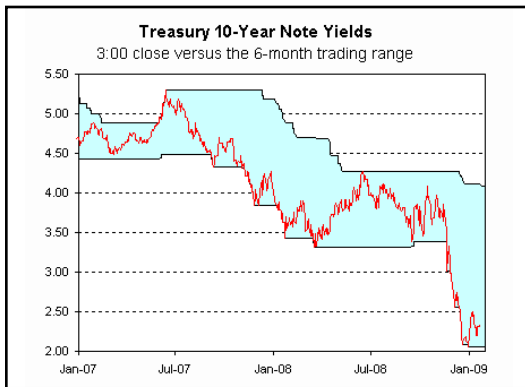
TOMORROW'S TOP MONEY HEADLINES**Obama Vows To Meet Challenges Of Crisis**

With a call to unite to confront the greatest challenges facing the country in generations, Barack Obama was sworn in as the 44th president of the United States, the final step in a historic run from relative national obscurity four years ago to become the first African-American to occupy the White House.

The Illinois Democrat, whose vow to reinvent Washington challenged long-entrenched interests, adrenalized an out-of-power political party, and inspired millions who had never before voted, took the oath of office just before noon on a cold, overcast day.

"Today I say to you that the challenges we face are real," Obama said, according to prepared remarks. "They are serious and they are many. They will not be met easily or in a short span of time. But know this, America - they will be met."

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	-0.014
3-Mo Bill	0.115	0.095	0.117	-0.012
6-Mo Bill	0.290	0.280	0.294	-0.005
2-Year	100.106	100.11+	0.701	0.011
3-Year	100.072	100.082	1.048	0.00+
5-Year	100.062	100.07+	1.459	-0.007
10-Year	112.070	112.090	2.349	-0.12+
30-Year	130.04+	130.06+	2.956	-1.11+

EQUITIES		
	INDEX	CHANGE
DJIA	7994.57	-286.650
NASDAQ	1455.82	-73.510

OIL		
	PRICE	CHANGE
NYMEX	38.85	2.3400

FUTURES		
	PRICE	CHANGE
CBOT 5 yr	119.10	-2.24
CBOT 10 yr	126.3	-8.16
CBOT 30 yr	134.7	-1.5

CURRENCIES		PRICE
Euro		1.2885
Sterling		1.3904
JPN Yen		89.77
Swiss Franc		1.1476
Can Dollar		1.2658
Mexico		14.045

IR SWAPS		
	SPREAD	RATE
2-Year	63.75 - 59.75	1.333 - 1.293
3-Year	60.50 - 56.50	1.648 - 1.608
5-Year	56.00 - 52.00	2.015 - 1.975
10-Year	13.50 - 9.50	2.481 - 2.441
30-Year	-17.75 --21.75	2.777 - 2.737

EURODOLLAR FUTURES		
	CLOSE	CHANGE
Mar09	99.03000	0.02500
Jun09	99.07500	0.02000
Sep09	99.01000	0.02499
Dec09	98.84000	0.03500

REPURCHASE AGREEMENTS			
GENERAL		i-REPO SM	
COLLATERAL		INDEX	
O/N	0.300	10:00 AM	0.240
1-Week	0.350	3:00 PM	0.209
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	0.186
12-month	1.8000	0.298

FED FUNDS	
Open	0.25000
High	0.4500
Low	0.2000

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

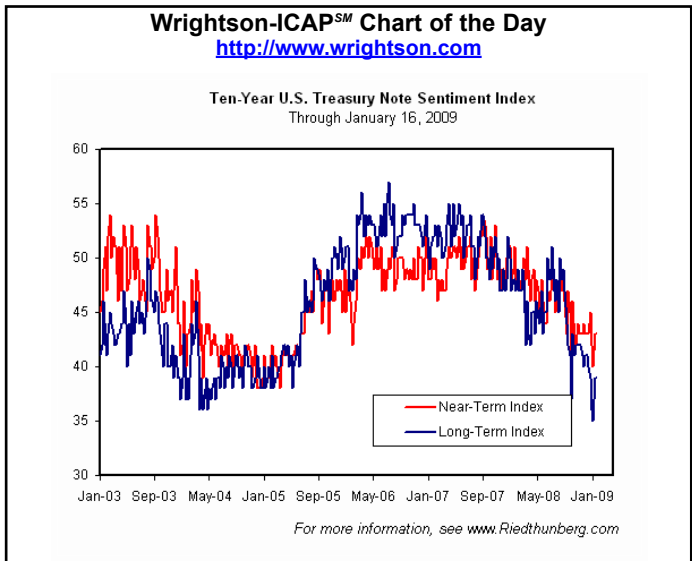
FREDDIE MAC				
TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	3.125	10/25/10	56.50 - 55.75	1.314
3-Year	3.875	06/29/11	82.50 - 82.00	1.574
5-Year	4.125	09/27/13	83.00 - 82.50	2.216
10-Year	4.875	06/13/18	66.00 - 65.50	2.866
30-Year	6.250	07/15/32	46.25 - 45.50	3.116

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	103.030 - 103.050	3.615
FNMA	5.0	102.217 - 102.221	3.374
FHLMC	5.0	102.187 - 102.207	3.586

ACTIVE MBS 30YR			
ISSUER	CPN	PRICE	YIELD
GNMA	5.5	103.047 - 103.050	3.723
FNMA	5.5	102.307 - 102.311	2.958
FHLMC	5.5	102.287 - 102.290	3.005

ICAP North America, Inc., its affiliates, subsidiaries and third parties own portions of the copyright to information, data and works of authorship and to certain of the trademarks, service marks and logos in the i-Recap Report. Except as specifically permitted, redistribution of any kind of the information, data and any content is expressly prohibited. The information is not intended as investment, business, financial, hedging, accounting or trading advice; an offer or solicitation of an offer to sell or buy; or as an endorsement, recommendation, solicitation, or sponsorship of or in connection with any security, information or the data. All information, content and data is provided "as is" without any representations or warranties of any kind, including, but not limited to, its completeness or accuracy. ICAP North America, Inc., its affiliates, subsidiaries and third parties shall not be responsible or liable for any damages of any kind whatsoever under any legal theory arising out of or relating in any way to any information, content or data contained in the i-Recap Report. Your sole remedy for dissatisfaction with any information, content or data contained in the i-Recap Report is to stop using it.



TOMORROW'S MONEY HEADLINES

Fmr US Atty To Probe Lehman Bankruptcy

The Justice Department has picked a former U.S. attorney who is now the chairman of law firm Jenner & Block LLP to investigate events leading up to the collapse of Lehman Brothers Holdings Inc.

The U.S. Trustee's office, an arm of the Justice Department that monitors bankruptcy proceedings, has named Anton R. Valukas as the examiner in Lehman's bankruptcy case.

Valukas is the chairman of Jenner & Block and was the former U.S. Attorney in Chicago from 1985 to 1989. He held several other positions with the Justice Department between 1970 and 1976, when he joined Jenner & Block.

Valukas could not be reached for comment, but he said in court documents that he has led "numerous investigations" of companies "involving potential financial misconduct, accounting irregularities, ethical issues and alleged corporate fraud."

Some Senators Concerned About Geithner

Some Republican senators may have problems with President Barack Obama's Treasury Secretary's involvement in the Troubled Asset Relief Program, according to Sen. Charles Grassley, R-Iowa, the ranking Republican on the Senate Finance Committee.

Timothy Geithner's confirmation before the finance panel has already been delayed until Wednesday after allegations emerged that he had failed to pay social security and medicare taxes for a three-year period when he was employed at the International Monetary Fund. He is also accused of continuing to employ a housekeeper whose work visa had expired.

But Grassley said that for some Republican members on the tax-writing panel, it is Geithner's central role in the creation of the financial-sector rescue package that could be the cause for concern.

As president of the Federal Reserve Bank of New York, Geithner has been a key policymaker in drafting TARP and was involved in many of the negotiations with troubled financial firms.

Lyondell Unit Sues Solutia For \$28.9M

A unit of cash-strapped Lyondell Chemical Co. is suing chemical maker Solutia Inc. for \$28.9 million it says it's owed for chemicals it delivered but was never paid for.

Lyondell subsidiary Equistar Chemicals sued Solutia in U.S. Bankruptcy Court in New York, claiming Solutia "has improperly refused" to pay Equistar for chemical-grade propylene it delivered to the St. Louis-based chemical manufacturer.

Lyondell, the U.S. arm of Netherlands-based chemicals giant Lyondell Basell Industries, filed for bankruptcy protection

earlier this month, a victim of falling demand for chemicals as manufacturers' cut back production in the face of the global economic downturn.

According to the lawsuit, filed Friday in New York, Equistar delivered the propylene to Solutia and has since sent 10 invoices since October. But Solutia, the lawsuit says, has refused to pay.

Wall Homes Files For Bankruptcy

Texas homebuilder Wall Homes Inc. filed for Chapter 11 protection after failing to work out a deal with its lenders to ease its cash shortfall, the latest victim of the U.S. housing market.

Wall Homes, less than four years old, said it filed for bankruptcy Saturday after experiencing "a liquidity crisis" caused by the severe downturn in the housing and credit markets. The Dallas-based builder further blamed its cash shortage on its lenders' tightening of its borrowing abilities as well as its failure to generate new capital contributions from private equity backer Warburg Pincus Private Equity VIII LP.

Now that it's operating in Chapter 11, Wall Homes is seeking bankruptcy court permission to use the cash collateral securing its lenders' claims. The builder argued that it needs the cash to continue selling homes so it may reorganize and pay its various creditors.

Homebuilders, REIT Stks Decline

Shares of homebuilders and real-estate investment trusts traded lower as concerns about the financial sector weighed on the stocks.

"Anytime you see a big bank movement, you see the REITs follow," RBC Capital Markets analyst Richard Moore said in an interview. "It's not likely the REITs can escape the carnage going on in the banking sector."

REITs trading lower included Maguire Properties Inc., down 17% to \$2.04, and iStar Financial Inc., down 14% to \$1.89. CBL & Associates Properties Inc. dropped 14% to \$4.90, while FelCor Lodging Trust Inc. tumbled 10% to \$1.67. Strategic Hotels & Resorts Inc. declined 13% to \$1.55, and Developers Diversified Realty Corp. lost 11% to \$5.56.

Fox-Pitt Cochran Caronia analyst Robert Stevenson said declines in the REIT sector hurt homebuilder shares.

State Street Net Tumbles 71%

Shares of State Street Corp. fell more than 50% after the Boston-based custodial bank posted sharply lower fourth-quarter earnings and warned investors that some obscure off-balance-sheet assets could leave the bank at risk of heavy losses in the future.



This complimentary subscription to the *The I-Recap Report* is being provided to you courtesy of ICAP. We appreciate your business and are pleased to serve your fixed income product needs.

The data in this newsletter is provided by ICAP, the world's largest voice and electronic interdealer broker, and the news is provided by Dow Jones Capital Markets Report, provider of essential real-time news and information to global financial markets.

TOMORROW'S MONEY HEADLINES

Johnson & Johnson Net Up 14%

Johnson & Johnson reported a 14% increase in fourth-quarter profit, as cost cuts and one-time gains helped offset declines in sales of its pharmaceuticals and medical devices, as well as a marked slowdown in sales of consumer products.

The New Brunswick, N.J., health-care giant, which makes the pain reliever Tylenol, also issued a forecast of 2009 earnings that fell short of Wall Street expectations.

J&J shares rose 28 cents to \$57.72 late morning, rebounding from a decline earlier in the day.

The economic recession, unfavorable currency-exchange rates and generic-drug competition hurt fourth-quarter revenue and factored into the 2009 outlook, which left open the possibility of a decline from 2008 earnings.

TD Ameritrade Net Falls 23%

TD Ameritrade Holding Corp. is another victim of the plunging stock market and weak economy.

The Omaha, Neb. online broker said its quarterly profit fell 23%, slashed its fiscal-year outlook, and said it would reduce costs by \$60 million this year as U.S. Federal Reserve interest rate cuts and market declines weigh on its results.

TD Ameritrade also said it would waive fees on some of its money-market funds so that clients' yields don't turn negative.

Shares of TD Ameritrade recent traded down 62 cents, or 4.9%, to \$12.04. Financial stocks traded lower, as investors worried about poor earnings from State Street Corp., huge losses at Royal Bank of Scotland Group Plc, and analysts cut estimates on banking giants. The company's stock is down 28% over the past year on weakness in the financial services industry.

TALKING POINTS

BOC Sticks To Conventional Tools

Based on its latest interest rate statement alone, it appears as if the Bank of Canada still believes that its conventional monetary policy tools are up to the task of confronting the recession, even if that and other assumptions come off as excessively optimistic.

As expected, the Canadian central bank cut its benchmark overnight interest rate target by another 50 basis points Tuesday, from 1.50% to a historical low 1%.

The Bank's statement cited further deterioration in global economic conditions since December, "with the intensifying financial crisis spilling over into real economic activity" and further erosion of both business and consumer confidence as informing the size of the cut.

There will be much more detailed forecasts when the Bank of Canada releases its latest monetary policy report update on Thursday, but Tuesday's statement also featured more rough downgrades to the Bank's 2009 and 2010 growth forecasts.

The Bank of Canada now sees Canadian real gross domestic product growth contracting by 1.2% in 2009 before rebounding to post 3.8% growth in 2010, an assumption lower than the previous official 4.4% 2010 forecast from last October.

Given the magnitude of global recessionary forces, though,

Jefferies Group Loss Widens On Charges

Jefferies Group Inc.'s fourth-quarter net loss ballooned on write-downs for stock-options expensing and a steep drop in revenue, though the investment bank projected a more optimistic outlook for the beginning of this year.

Chairman and Chief Executive Richard B. Handler said that with "unprecedented volatility and the worst year for the financial markets in our lifetime, Jefferies is fortunate to have emerged intact and healthy." He added that Jefferies is starting 2009 "with its strongest opening balance sheet ever," adding the firm has "a lower, more flexible and transparent cost structure."

Jefferies, one of about a dozen smaller investment banks, reported a net loss of \$442.5 million, or \$2.41 a share, compared with a loss of \$24.2 million, or 17 cents a share, a year earlier.

Canadian Banks Match BOC Rate Cut

Canadian banks rapidly matched the Bank of Canada's latest reduction in interest rates, which observers say indicates that the pressure from monetary authorities is beginning to bear fruit.

The rapid move by the banks stands in marked contrast to their sluggish response to the previous set of rate cuts from the central bank. It also reflects a gradual easing of strain in Canada's credit markets.

"I think they've made the decision that maybe they better shape up and play ball, and go along with what the Bank of Canada indicated that it wanted," said Fred Ketchen, managing director of equity trading at Scotia Capital Markets.

"Given what's gone on in the last series of cuts, this is definitely a different dynamic," noted John Aiken, banking analyst with Dundee Securities.

the Bank's longer-term outlook still strikes many as being overly rosy, constituting one of the few truly surprising elements in Tuesday's Bank of Canada statement.

Deputy chief economist Doug Porter of BMO Capital Markets said there's a significant risk that 2010 won't live up to the Bank of Canada's expectations, suggesting that Tuesday's forecast revision is "more of an assumption rather than a forecast."

"I think part of that forecast is somewhat mechanical - it's almost what they assume is the rate of growth needed to get inflation back to their target," Porter said, alluding to the Bank of Canada's policy mandate of maintaining annual growth in Canada's consumer price index around the midpoint of a 1% to 3% target band.

Derek Holt, vice president of economics at Scotia Capital in Toronto, said it might be more realistic to look for a more tepid rebound to about 1% GDP growth by 2010, and a more extended time frame for CPI growth to return to 2% than the first half 2011 period that the Bank of Canada forecast on Tuesday.

"If we still think that there's a lot of global de-leveraging to go on in this environment, then there's no way we'll get a classic snapback in growth," Holt said. "They're already saying they're not at all worried about inflation, with it taking until 2011 to return to target, but the risk to that view is that it will take even longer for inflation to bounce back."

TALKING POINTS

Dire Times Don't Stop Lending

Even with the U.S. mired in the depths of recession, some banks are busy broadening their lending programs, taking advantage of rivals' woes to expand their business.

The success of the strategy remains to be seen given the rapidly rising unemployment rate, the continuing woes in the real estate markets and the likelihood of more economic pain ahead. The outlook is made trickier by the eroding profit margins on lending given the low level of official rates.

That's a concern raised by Tom Mitchell, senior vice president of Northern Michigan Bank & Trust, a rural community-bank chain that spans three counties in Michigan's Upper Peninsula. The bank has about \$220 million in assets.

With the prime rate - a widely used rate for consumer and corporate borrowings - currently at 3.25%, Northern Michigan has had a harder time maintaining a profit margin, he said, but otherwise, it's business as usual.

Even as the economy continues to deteriorate, bleeding jobs and suffering from a sharp pullback in consumer spending, the bank continues to extend commercial loans, which make up 60% to 70% of the bank's lending business, Mitchell said.

"We are finding new loans," said Mitchell, adding that "loan demand has been OK; we have not noticed a big drop."

Ilene Angarola, head of investor relations at New York Community Bancorp, Inc., a \$32.1 billion holding company whose member banks focus mainly on the New York and New Jersey regions, is also still sounding an upbeat note on lending.

In the third quarter of last year, the bank's multi-family loan portfolio grew at an annualized rate of 12.3% to \$15.2 billion from \$14.7 billion in the second quarter. Loan originations also increased. In the first nine months of 2008, the bank had 36.7% more multi-family loan originations than it had in the first nine months of 2007, Angarola said.

Fourth-quarter data have yet to be seen, but Angarola said the bank is still lending. "The same circumstances that lead to our being able to increase our lending in 2008 are still in effect," Angarola said, pointing to less competition in the banks's multi-family loan-sector niche over the past year and the bank's conservative credit standards.

Fiat's Risky US Bet Could Pay Off

Italian auto maker Fiat SpA's risky bet on entering the U.S. auto market by taking a stake in Chrysler LLC - which is teetering on the brink of bankruptcy - just might pay off in current business conditions, analysts said.

Fiat announced Tuesday it is take a 35% stake in Chrysler, contributing strategic assets but no cash. It also won't commit to funding Chrysler in the future, the two companies said Tuesday.

The Italian car maker is betting that it can succeed in cracking the U.S. market where Daimler AG and Volkswagen AG have struggled, and by selling a product lineup that is arguably even less suited to the tastes of the gas guzzler-loving American buying public.

"The driver of the deal is to shift Chrysler's production to lower-emissions vehicles in a bid to qualify for aid from the United States government," said UniCredit analyst Gabriele Parini, who has a "hold" rating on the stock.

That's a big "if." The U.S. auto market is in the dumps.

Chrysler has already received \$4 billion in emergency loans from Washington. President-elect Barack Obama, who is being sworn in later Tuesday, is expected to make future aid contingent on a shift by Detroit to vehicles that are more environmentally friendly.

Chrysler Chief Executive Robert Nardelli said last week that the company needs \$3 billion more in federal loans.

Fiat can help Chrysler at least start to diversify its product line from trucks and vans to the zippy little fuel-efficient models that Fiat specializes in.

Certainly, without knowing how much Fiat will pay for a stake in Chrysler, it's difficult to talk about whether the deal makes any sense.

"If Fiat gets something for nothing, then there is obviously a great upside," said Jens Schattner, an analyst at Oppenheim Research who has a "reduce" rating on the stock.

"There is no guarantee that Chrysler will survive. In which case it would have been a waste of money and a waste of time."

Cerberus Capital Management LP, Chrysler's owner, is certain to want to monetize the 35% stake Fiat is receiving.

The Pound Has Further To Fall

Expect the pound to fall even further now.

In the longer run, the U.K. Treasury's latest bank bailout may well ease credit conditions and help speed the country's economic recovery.

In the near term, however, the rescue package will only serve to focus market attention on the ills of the U.K. economy, encourage unfavorable comparisons with a similar rescue bank package in the U.S., and increase pressure on the Bank of England to cut rates even more.

As investor confidence in the pound declines, Simon Derrick, a senior currency strategist with Bank of New York Mellon in London, expects the pound to make a sustained break below the \$1.40 trading range bottom against the U.S. currency that has held for the last 23 years.

"There is a good chance that these levels could be tested in the not-too-distant future," Derrick said.

In themselves, the U.K. Treasury's plans to introduce an insurance scheme for banks' bad debts could well work in terms of easing lending conditions. They certainly stand the U.K. in good stead when compared with the euro zone, which is still reluctant to launch any bank bailout of its own despite rising evidence that many bad bank assets have yet to be declared.

"The more proactive stance by the U.K. authorities, especially relative to the euro area, should be positive for the U.K. economy and the pound," said David Woo, chief currency strategist with Barclays Capital in London.

But, as Woo acknowledges, sterling isn't going to get any help as the market waits for evidence that the new U.K. measures will work.

They have come right after the U.S. announced its own latest rescue package for its banks, prompting an unfavorable comparison.

As Hans Redeker, head of foreign exchange strategy with BNP Paribas in London, put it bluntly: "The U.S. plan, if implemented, is superior to the U.K. one."

He noted that while the U.S. package means more private sector money will be sucked into the sector as a whole, the U.K. is diluting the stake held by existing private shareholders even further.