

**G7 CALENDAR****Thursday**

<b>12:00</b>	<b>JPN</b>	Dec Supermarket sales
<b>1:30 a.m.</b>	<b>JPN</b>	Jan BoJ gov press conference
<b>2:45 a.m.</b>	<b>FRA</b>	Dec Household consumption expenditure in manufactured goods, Consumer Spending Monthly (expected 0%), Yearly (expected -0.4%)
<b>4:00 a.m.</b>	<b>EU</b>	Jan ECB Bulletin
<b>5:00 a.m.</b>	<b>EU</b>	Nov Indus new orders New Industrial Orders Monthly (expected -4.7%), Yearly (expected -20.2%)
<b>5:00 a.m.</b>	<b>EU</b>	Q3 Balance of payments - 2nd release
<b>6:00 a.m.</b>	<b>UK</b>	Jan CBI Quarterly Indus Trends Survey, Total Order Book Balance (expected -40)
<b>7:00 a.m.</b>	<b>US</b>	Jan 16 MBA Mortgage Application Survey, Market Composite Index (previous 1324.8), Cur Chg (previous +15.8%), Purchase Index (S.A.) (previous 295.8), Cur Chg (previous -14.1%), Refinance Index (previous 7414.1), Cur Chg (previous +25.6%)
<b>8:30 a.m.</b>	<b>US</b>	Jan 17 Jobless Claims, Weekly Jobless Claims (expected 550K), Net Change (expected +26K) Continuing Jobless Claims (previous 4497000), Net Change (previous -115K)
<b>8:30 a.m.</b>	<b>US</b>	Dec Housing Starts, Total Starts (expected 600K), Starts Percent Change (expected -4%), Building Permits (expected 610K), Permits Percent Change (expected -0.8%)

**TODAY'S MARKET WRAPS**

**TREASURYS:** Treasuries fell Wednesday, with the losses the most pronounced in longer maturities, as market participants fret over the massive amounts of new government bond issuance expected to hit the market. The day after the presidential inauguration, investor concerns escalated that, to fund President Barack Obama's economic stimulus plan, the Treasury Department will have to issue even more debt than the mountains already anticipated, both this year and over the next few years. "Looming uncertainties about supply and how massive it's going to be are on everyone's mind," said George Goncalves, chief Treasury, TIPS and agency strategist at Morgan Stanley in New York, especially with Obama looking to move swiftly on a support plan.

**CORPORATES:** The benchmark U.S. high-grade credit derivatives index, the Markit CDX IG11 was marginally tighter in midday trading, quoted at 221/222 bps, better by 0.9 bps from Tuesday's close and earlier this morning where it was quoted at 224/225 bps.

**FOREX:** The yen gained to a seven-year high against the euro and a 13.5-year high against the dollar Wednesday after the expiration of large options contracts. The deal reverberated through the foreign exchange market, affecting several currency pairs, at the same time as U.S. stocks came off session highs. The pound fell to its lowest level since September 1985, at \$1.3630, and the euro also declined to a fresh six-week low, at \$1.2825. Wednesday afternoon in New York, the euro was at \$1.2880 from \$1.2900 late Tuesday, while the dollar was at Y88.72 from Y89.71, according to EBS. The euro was at Y114.25 from Y115.72. The U.K. pound was at \$1.3752 from \$1.3932.

**STOCKS:** U.S. stocks rose Wednesday as the financial sector bounced after one of its biggest drops ever and as oil prices helped the energy sector recover some of its recent losses. The Dow's big losers included General Motors, which fell 8% after reporting an 11% decline in 2008 sales and forecasting a bleak first quarter as well. Toyota Motor passed GM out as the world's largest auto maker by sales. The Standard & Poor's 500 financial sector fell 16% Tuesday, the biggest plunge in its history. Wednesday's rebound, of about 3.9% was "pitiful," given the scale of the sell-off, said Phil Roth, chief technical market analyst at Miller/Tabak. Earnings reports and analyst notes Wednesday served as a reminder of how the paralysis of the banking sector has restricted activity throughout the economy's other sectors.

**ENERGY:** Crude oil futures traded higher, though gains were tenuous as the market eyed rising oil inventories and weak demand. Light, sweet crude for March delivery traded 19 cents, or 0.5%, higher at \$41.03 a barrel on the New York Mercantile Exchange. The February contract expired Tuesday at \$38.74 a barrel. March Brent crude on the ICE futures exchange traded 12 cents lower at \$43.50 a barrel. The front-month crude futures have risen 16% since Jan. 15, though the same pessimism remains about the global economic picture and the ability of oil producers to reduce supply. The spread between the first two futures contracts has also narrowed sharply, normally an indication that oil supplies are tightening. But market observers said they are waiting for oil inventories to actually drop before trusting the recent shifts.

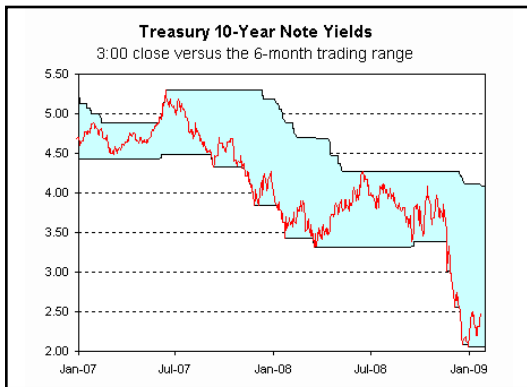
**TOMORROW'S TOP MONEY HEADLINES****GM Sales Drop 11% In 2008, Company Loses No. 1 Slot**

General Motors Corp. said it's counting on government stimulus packages being considered by nations around the globe to help reverse skidding sales.

The No. 1 U.S. auto maker reported an 11% drop in 2008 sales, capping a year in which GM lost its standing as the world's biggest auto maker by sales to Toyota Motor Co. after 77 years.

GM, which sold 8.35 million vehicles last year, predicted the environment will remain bleak through the first quarter.

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



TREASURYS				
	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.015	-0.015	0.015	-0.029
3-Mo Bill	0.115	0.105	0.117	0.003
6-Mo Bill	0.295	0.290	0.300	-0.007
2-Year	100.070	100.076	0.762	-0.025
3-Year	100.002	100.012	1.123	-0.050
5-Year	99.166	99.182	1.601	-0.170
10-Year	110.170	110.190	2.531	-1.120
30-Year	125.25+	125.280	3.146	-3.222

EQUITIES		
	INDEX	CHANGE
DJIA	8168.36	219.270
NASDAQ	1489.51	48.650

OIL		
	PRICE	CHANGE
NYMEX	43.62	2.7800

CURRENCIES		PRICE
Euro		1.2943
Sterling		1.3907
JPN Yen		89.35
Swiss Franc		1.1576
Can Dollar		1.2590
Mexico		13.859

FUTURES		
	PRICE	CHANGE
CBOT 5 yr	111.046875	-23.24
CBOT 10 yr	124.8	-1.5
CBOT 30 yr	131.8	-3.1

IR SWAPS		
	SPREAD	RATE
2-Year	70.75 - 66.75	1.464 - 1.424
3-Year	67.25 - 63.25	1.790 - 1.750
5-Year	58.75 - 54.75	2.184 - 2.144
10-Year	14.00 - 10.00	2.668 - 2.628
30-Year	-18.00 --22.00	2.964 - 2.924

EURODOLLAR FUTURES		
	CLOSE	CHANGE
Mar09	98.89000	-0.14001
Jun09	98.90500	-0.17500
Sep09	98.83000	-0.18501
Dec09	98.66000	-0.18000

REPURCHASE AGREEMENTS			
GENERAL		i-REPO™	
COLLATERAL		INDEX	
O/N	0.300	10:00 AM	0.210
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	0.1500	
1-Month	0.3500	0.178
3-Month	1.0000	0.182
6-Month	1.3000	0.205
12-month	1.8000	0.305

FED FUNDS	
Open	0.20000
High	0.4375
Low	0.1875

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

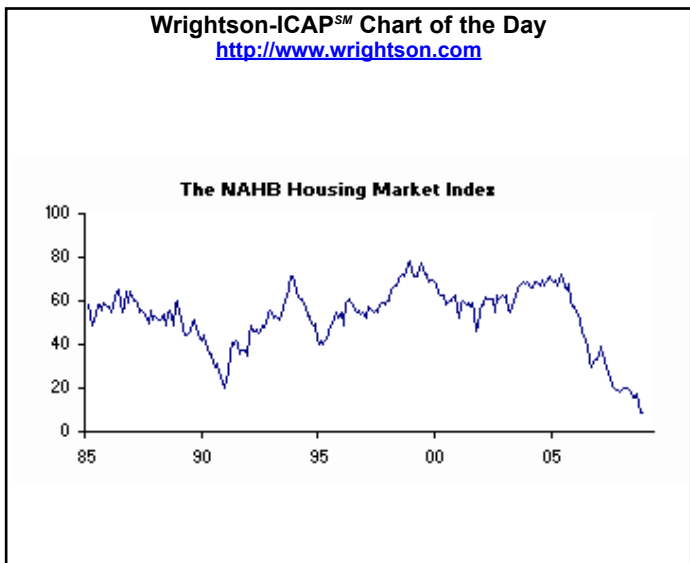
ACTIVE AGENCY ISSUES				
FREDDIE MAC				
TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	3.125	10/25/10	56.50 - 55.75	1.314
3-Year	3.875	06/29/11	82.50 - 82.00	1.574
5-Year	4.125	09/27/13	83.00 - 82.50	2.216
10-Year	4.875	06/13/18	66.00 - 65.50	2.866
30-Year	6.250	07/15/32	46.25 - 45.50	3.116

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	102.240 - 102.260	3.833
FNMA	5.0	102.141 - 102.161	3.674
FHLMC	5.0	102.132 - 102.152	3.828

ACTIVE MBS 30YR			
ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.287 - 102.290	3.854
FNMA	5.5	102.237 - 102.241	3.310
FHLMC	5.5	102.257 - 102.261	3.267

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## TOMORROW'S MONEY HEADLINES

### Fuel Pushes Airlines To Wider Losses

AMR Corp, parent of American Airlines, and United Airlines' parent UAL Corp. reported wider fourth-quarter losses from a year ago as fuel costs rose. The two airlines said they were positioning their businesses to do better in 2009, although they stopped short of saying they can turn a profit.

The nation's second- and third-largest passenger carriers, and the first to report quarterly results, took out a significant amount of seat capacity last year, eliminating routes that didn't make money, to cope with rising fuel prices. Now, fuel bills are falling amid a sharply weaker economy that is cutting passenger travel.

For all of 2008, the U.S. airline industry is expected to report a loss, following two years in the black.

### Geithner Urges Bold Action On Economy

U.S. Treasury secretary nominee Timothy Geithner urged bold government action to stimulate the economy, saying anything less threatens the economy's long-term well-being.

"If our policy response is tentative and incrementalist, if we do not demonstrate by our actions a clear and consistent commitment to do what is necessary to solve the problem, then we risk greater damage to living standards, to the economy's productive potential, and to the fabric of our financial system," Geithner said in prepared testimony to the Senate Finance Committee.

"In a crisis of this magnitude, the most prudent course is the most forceful course," Geithner said.

### Obama Plans Meetings On Economy, Iraq

President Barack Obama prepared to meet top advisers on the economy and the war in Iraq on his first day in the Oval Office, as staffers slowly filtered through security to find their new desks.

White House spokesman Robert Gibbs said Obama's economic team will gather around 3:15 p.m. EST to discuss the status of the president's economic recovery plans. Treasury Secretary-designate Tim Geithner won't attend the session, however, because he hasn't been confirmed by the Senate.

Shortly after the economic meeting, Obama will sit down with national security advisers to discuss Iraq.

### Four UBS Executives Leave Firm

Four top executives have left UBS AG as part of a broader restructuring at the firm, according to an internal memo seen by Dow Jones.

Todd Morakis, Sascha Prinz, Chris Ryan and David Sacco will be leaving the bank as a result of organizational changes to its fixed income, currencies and commodities businesses.

Morakis was previously head of commodities, Prinz and Sacco were co-heads of Global Rates, and Ryan was head of Credit, the memo says. A spokeswoman for the bank confirmed the contents of the memo.

### Lawmaker Voices Opposition To Stimulus

The ranking Republican on the powerful House Appropriations Committee outlined his opposition to the \$825 billion economic stimulus package, saying it would spend too much money on creating new government programs and not enough investment that would lead to new jobs.

Rep. Jerry Lewis, R-Calif., said he didn't oppose the Democrats' proposed spending package out of "partisan politics" but due to "economic reality."

He argued that there wasn't enough money allocated to "shovel-ready" infrastructure projects or funds to the National Corps of Engineers to improve flood protection.

Lewis made the comments at a markup of the bill at the appropriations panel, the first meeting of the committee since the November elections.

### Trump Entertainment Faces Debt Deadline

The clock is ticking for Trump Entertainment Resorts as a forbearance on its debt expires.

If the troubled casino operator doesn't seal a debt refinancing agreement with its creditors by the end of the session, it could face a third trip to bankruptcy court. But, most experts say the odds favor another debt extension. "There is the possibility they will get this extended," said Chris Snow, a gambling analyst at CreditSights. "It makes sense for some kind of (arrangement) to avoid bankruptcy."

The embattled casino operator is trying to negotiate a debt refinancing agreement including a deal related to its 8.5% senior secured notes due in 2015. Trump recently skipped a \$53 million interest payment on these securities to preserve liquidity.

### WaMu Blames FDIC For Plan Delay

The former parent of Washington Mutual Bank blames federal regulators for stirring up uncertainty about who's entitled to the billions in cash stashed in its accounts during the thrift's takeover.

Washington Mutual Inc., WaMu's former parent, is due to file a Chapter 11 plan by Saturday. On Tuesday, it asked a bankruptcy judge to move the plan filing deadline to April 24, blaming the chaos left by the September 2008 seizure and sale of WaMu.



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## TOMORROW'S MONEY HEADLINES

### Home Builders' Confidence Keeps Eroding

The calendar has changed to 2009, but the attitude of U.S. home builders hasn't improved this year. In fact, their mood is even darker.

The National Association of Home Builders released results of a monthly survey of builders' thoughts on market prospects. Its January index for sales of new, single-family homes fell to 8 from 9 in December. The reading of builder confidence this month marks a new record low.

The latest government data show new-home sales dropped by 2.9% to 407,000 in November. Year-over-year, sales were 35.3% lower. People aren't buying because of the recession and because prices keep falling. Receding demand is keeping supplies high, discouraging construction. Housing starts in December decreased 18.9% to a seasonally adjusted 625,000 annual rate compared to the prior month.

### SEC Looks Into Apple Disclosure On CEO

The Securities and Exchange Commission has opened an inquiry into Apple Inc.'s disclosures about Chief Executive Steve Jobs' health, a person familiar with the matter told *The Wall Street Journal*.

The inquiry comes after Apple disclosed on Jan. 14 that Jobs has a "more complex" medical condition than he earlier stated and that he would take a leave of absence until the end of June. The news caused a drop in Apple shares on following days. The week before, he had issued a statement reassuring investors and employees about his health. In the earlier statement, he said he had a "hormone imbalance" for which he had begun "relatively simple and straightforward" treatment.

An Apple spokesman had no comment.

### IndyMac Trustee Can Probe Bank Sale

A federal judge said the bankruptcy trustee overseeing the liquidation of IndyMac Bancorp Inc. can look into the federal

government's sale of the mortgage lender's former banking unit to a group of private investors, which could throw a wrench into the deal.

Judge Sheri Bluebond of the U.S. Bankruptcy Court in Los Angeles said bankruptcy trustee Alfred H. Siegel, who's overseeing parent company Indymac Bancorp's liquidation, can look at more than 180 boxes of material related to the sale of the company's former thrift, IndyMac Bank, according to court papers.

### US Chain Store Sales Rise 1.1%

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index increased 1.1% in the week to January 17 from its level a week before, on a seasonally-adjusted, comparable store basis.

On a year-on-year basis, retailers saw sales decline by 1.8% in the latest week.

"Sales volatility continued on a week-over-week basis, while year-over-year trends for January remained sluggish," said Michael P. Niemira, ICSC chief economist. "Being a low volume month with little incentive to spend will continue to make January a tough month for retailers."

### Redbook Retail Sales Fall 2.5%

National chain store sales fell 2.5% in the first two weeks of January versus the previous month, according to Redbook Research's latest indicator of national retail sales.

The drop in the index was compared to a targeted 2.2% fall.

The Johnson Redbook Index also showed seasonally adjusted sales in the period fell 2.1% compared with January 2008, relative to a target of a 1.8% drop.

Redbook said that on an unadjusted basis, sales in the week ended Jan. 17 were down 2.3% from the same week in 2008.

"Year-end clearance dominated sales activity," said Redbook, with consumers continuing to redeem gift cards.

## TALKING POINTS

### Mervyns-Related Losses Raise Concern

When Mervyns, a California-based department store chain, filed for bankruptcy in July the nearly \$1 trillion market for commercial mortgage-backed securities barely blinked.

Now, investors are anxious to see just how bad the losses could be on the \$2 billion of bonds backed in part by Mervyns' commercial real estate loans since it could also serve as a template for debt tied to bankruptcies of other struggling retailers.

Many retailers are discovering that they won't be able to survive a protracted recession. Instead of restructuring their debt to stay solvent, retailers such as Mervyns and most recently Circuit City have opted to liquidate. This means that the outlook for commercial real estate is far grimmer than investors thought a few months ago, and losses are likely to be greater and felt much faster than initially expected.

Mervyns, the first large retailer to complete its liquidation in this business cycle, now no longer exists. That means that investors holding bonds exposed to the department stores could see interest, and even principal, payments decline

immediately if the empty stores don't find new occupants. In the current environment it's likely that some of the stores will remain empty.

"It's hard for a retail property to show cash flow or cover debt service obligations when the main occupant is gone," said Frank Innaurato, managing director of CMBS analytical services at Realpoint.

For investors in layered commercial real estate bonds, that's not good. Securitized bond deals like those backed by Mervyns' loans are sliced into various portions based on risk. The lower-rated portions are the first to suffer losses should income streams slow. Barclays Capital estimates that the lowest, unrated portion of the bonds exposed to Mervyns will be wiped out as well as the double-B-minus portion.

In the current environment, there's little chance of finding another occupant for these big-box stores with thousands of square feet of space, analysts say. What makes the situation even more of a challenge is that many of Mervyns' stores are located in some of the nation's most depressed housing markets such as California, Nevada and Arizona.

## TALKING POINTS

### UK Layoffs Spook Consumers

The U.K. lost a record number of jobs in the final months of 2008, and the pace of layoffs is likely to rise further as the recession deepens.

Rising joblessness is adding to the explosion in government borrowing, while a combination of fears about becoming unemployed and reduced access to credit is likely to hit consumer confidence and spending, potentially worsening the economic downturn.

According to the Office for National Statistics Wednesday, 225,000 people were laid off in the three months to November, the highest number since records began in 1995. That brought the number of people claiming benefits to 1.2 million, the highest level since January 2000.

In December, the number of Britons claiming unemployment benefits rose for the eleventh straight month, increasing 77,900, second only to November's rise as the largest jump since 1991.

The government acknowledged that the numbers of jobless are likely to rise.

"Are the unemployment figures going to get worse before they get better? They almost certainly are," said Tony McNulty, the U.K. employment minister. "I think we are in for difficult times to come."

As the jobless rate rises, Britons fears of getting the ax have become more pervasive. According to the latest poll from pollster Ipsos MORI, 49% of full-time U.K. workers now fear they will lose their job during the economic downturn.

Wednesday's news chimes with announcements that leading U.K. companies have shed nearly 9,000 jobs in the past week and follows a raft of surveys predicting further cuts in the labor market.

A breakdown of the jobless figures showed that layoffs were concentrated in financial services and the manufacturing sector, which has thus far failed to benefit from a boost in exports driven by sterling's rapid depreciation against other major currencies.

"Companies have been doing whatever they can to hang on to skilled workers, but this is clearly becoming more difficult," the U.K. manufacturers association, the EEF, said in a statement.

A report Tuesday from the Chartered Institute of Personnel and Development and KPMG showed that 44% of U.K. firms are laying off staff and half are also freezing recruitment.

And in their monthly survey, the Bank of England's 12 regional branches reported that "employment intentions had been scaled back ... further redundancies were planned for 2009."

### Euro-Zones Shifts To Short-Term Debt

Massive treasury bill offers from Spain and Portugal Wednesday highlight a significant shift by sovereign borrowers to short-term fixes for covering funding gaps during the economic crisis.

Flagging tax revenues and hefty bank rescue packages have dramatically raised the financing needs of euro-zone governments, pushing up expected bond supply by more than 25% this year.

The coming T-bill surge has its attractions. Investors are currently eager to avoid the risks of longer-term debt, particularly in countries with weaker credit profiles. Issuers have to pay higher premiums for longer-dated debt of five to 10 years, making short-term borrowing more economical.

But economists warn that turning to T-bills may only postpone

needed fiscal adjustments a bit further down the road, by which time borrowing conditions could have deteriorated further.

"Governments have postponed the problem," said Luca Cazzulani, a strategist at UniCredit in Milan. "Next year, if the expenses are still there, they'll have to take a more structural approach."

The shift to T-bills - basically government-guaranteed debt maturing in up to 12 months - is formidable.

Germany, the euro zone's traditional anchor, is leading the charge. It plans to sell EUR174 billion in T-bills this year, up almost 150% from the EUR72 billion it sold in 2008, according to the German Finance Agency's issuance plans.

Germany has also added three-, nine- and 12-month T-bills to its existing six-month T-Bills, to now offer the full range of standard maturities.

Euro-zone yield spreads, which show how large a premium an issuer pays over the benchmark German debt, have been on a rise since the onset of the financial crisis and the subsequent economic downturn. That captures the change in investor risk sentiment, reflected in a recent raft of rating downgrades on peripheral euro-zone countries by Standard & Poor's rating agency this month.

German 10-year bonds, for example, now yield 3.0%, compared to 4.51% for Italy. More dramatic is the very recent surge in spreads for bonds from Ireland, Portugal and Spain, and the further widening of Greek debt.

### Look For Euro To Be Shot Down Now

After sterling's battering this week, the euro could well be next.

Some currency experts reckon that the single currency could be shot down as far as \$1.20 in coming weeks as the dire state of the euro zone hits home.

And it isn't only the slowing euro-zone economy that will hurt.

A continued weak appetite for risky assets, a steady deterioration in most central and east European economies and fears of further credit downgrades will all take their toll.

Strategists at Commerzbank AG said the single currency could be particularly vulnerable given the lack of heavy positioning against it.

"Positioning indicators are still not showing any larger dollar long positioning, which means that downward scope remains for euro/dollar," said Ulrich Leuchtmann, the bank's chief strategist in Frankfurt.

Simon Derrick, a senior currency strategist with Bank of New York Mellon in London, also noted that the euro/dollar remains 10% above its long-term average. Also, the last time crude oil prices were down around \$30 a barrel, the pair was "trading comfortably below \$1.20," he said.

Excuses for selling the single currency have certainly multiplied this week.

Even the ever-hawkish European Central Bank President Jean Claude Trichet acknowledged that, with 2009 proving an exceptionally hard year, a serious recovery may not emerge until 2010.

His comments came as the European Commission slashed its gross domestic product estimates for the region to a 1.9% contraction this year from 0.1% growth.

Even a higher-than-expected ZEW survey from Germany Tuesday failed to lift the gloom settling on the euro.