DOW JONES
i-Recap℠ Report
ICAP
News Provided By Dow Jones Thursday, January 22, 2009

G7 CALENDAR

Friday
5:00 a.m. **JPN**
Jan BoJ Report
7:50 a.m. **FRA**
Jan Business survey (goods-producing industries) Business Sentiment Index (expected 70)
8:00 a.m. **FRA**
Jan Flash PMI Manufacturing (expected 34), Services (expected 39.8)
8:30 a.m. **GER**
Jan Flash PMI Manufacturing (expected 31.7), Services (expected 45.5)
9:00 a.m. **ITA**
Nov Retail Sales, Monthly (expected -0.5%), Yearly (expected -1.1%)
9:00 a.m. **EU**
Jan Euro-zone Flash PMI Composite (expected 37.4), Manufacturing (expected 33), Services (expected 41.5)
9:30 a.m. **UK**
Dec Retail Sales, Monthly (expected -0.6%), Yearly (expected +1.6%)
9:30 a.m. **UK**
4Q GDP (Flash Est) Quarterly (expected -1.3%) Yearly (expected -1.4%)
9:30 a.m. **UK**
Nov Service Sector
12:00 p.m. **CAN**
Dec Consumer Price Index All Items CPI, (Cur Month) (Previous -0.3%), (Cur Year) (Previous +2%), Core CPI (Cur Month) (Previous +0.7%), Core CPI (Cur Year) (Previous +2.4%)
3:30 p.m. **US**
Jan 16 EIA Natural Gas Inventories, in billion cubic feet, Total Working Gas in Storage (Previous 2736), (Net Change) (Previous -94)

TODAY’S MARKET WRAPS

TREASURYS: Longer-term Treasurys underperformed again Thursday as supply worries continued and amid concerns about China’s support of the U.S. government bond market. Comments from U.S. Treasury secretary nominee Timothy Geithner Thursday morning that the Obama administration believes China manipulates the value of its currency helped to weaken Treasury prices, with the 10- and 30-year Treasurys under the most pressure. The worry is that China, the top overseas holder of U.S. Treasury securities, could shun U.S. government debt in response. In recent trade, the 10-year note was off 16/32 at 2.58% and the long bond was down nearly two points in price to 3.23%. Bond prices move inversely to yields. Treasurys benchmark yield curve, the gap between the two- and 10-year yields, steepened, to plus 181 basis points from plus 176 basis points on Wednesday.

CORPORATES: The index for high-grade bonds was basically flat after investors, cheered by the prospect of strong measures from the Obama administration, pushed the index to tighter levels on Wednesday. The Markit CDX IG 11 closed at 215.786 on Wednesday. The lingering positive sentiment pushed the index 0.41 bps tighter this morning at 215.875/214.875, according to Markit. Petrohawk Energy is expected to price $500 to $600 million of bonds at a discount to par value to yield 12.75-13% Thursday, LCD reports. The deal has been increased from an initial target size of $300 million. Crown Castle is expected to price its $900M of senior notes at a discount to yield 11.25-11.5%, according to a person familiar with the deal.

FOREX: The dollar and yen rose against many major rivals including the pound and the euro Thursday as a string of global data added to worries about growth, sent stocks lower and increased risk aversion. The dollar also benefited from the newly minted Treasury Secretary Tim Geithner’s comment that the new administration supports a strong dollar policy. In afternoon trade though, both dollar and yen gave back some of the early gains as U.S. stocks recover from session lows. In afternoon trading, the euro was at $1.2992 from $1.3020 late Wednesday, while the dollar was at Y89.24 from Y89.43, according to EBS. The euro was at Y116 from Y116.45. The U.K. pound was at $1.3865 from $1.3969.

STOCKS: Thousands of job cuts at Microsoft and one at Bank of America reminded investors of the blight on the global economy and the disarray in the banking system. The banking sector remains the fulcrum of a volatile stock market, and a slight recovery there helped stocks cut losses in half. Bank of America fell 8% to $6.15, but well off its low of $5.50 after Chief Executive Kenneth Lewis dismissed John Thain. The bank lost confidence in Thain after learning of mounting fourth-quarter losses at Merrill Lynch.

ENERGY: Crude futures fell following a report showing large increases in U.S. oil and product inventories and weakening demand. Light, sweet crude for March delivery traded $2.42, or 5.5%, lower at $41.13 a barrel on the New York Mercantile Exchange, after trading as low as $40.41 a barrel following the data release. Brent crude on the ICE futures exchange was 92 cents lower at $44.10 a barrel. Oil inventories rose by 6.1 million barrels in the week ended Jan. 16, according to the U.S. Energy Information Administration. Stocks at Cushing, Okla., the Nymex contract’s delivery point, rose by 200,000 barrels to a record 33.2 million barrels.

TOMORROW'S TOP MONEY HEADLINES

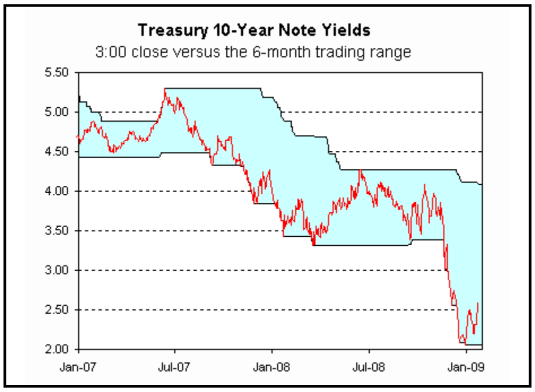
Thain Resigns From Bank Of America

Former Merrill Lynch & Co. CEO John Thain resigned from Bank of America Corp. after a brief 11:30 a.m. meeting in his New York office with Bank of America CEO Kenneth Lewis, according to a person familiar with the matter.

Bank of America had lost confidence in Thain, this person said, after Lewis learned of mounting fourth-quarter losses at Merrill from the transition team handling the Bank of America-Merrill merger rather than from Thain himself. And when Lewis asked Thain what happened, the Bank of America CEO did not get a “good explanation for what was happening and why,” this person said.

The Bank of America CEO also concluded Thain has exercised “poor judgment” on a number of fronts.

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	-0.034
3-Mo Bill	0.105	0.095	0.106	-0.018
6-Mo Bill	0.290	0.280	0.294	-0.010
2-Year	100.080	100.090	0.745	0.02+
3-Year	100.01+	100.026	1.109	0.025
5-Year	99.156	99.172	1.608	0.010
10-Year	110.000	110.020	2.589	-0.140
30-Year	123.12+	123.14+	3.255	-2.03+

FUTURES

	PRICE	CHANGE
CBOT 5 yr	111.046875	-0.16
CBOT 10 yr	124.3	0.3125
CBOT 30 yr	130.4	-1.3

EQUITIES

	INDEX	CHANGE
DJIA	8077.01	-151.090
NASDAQ	1462.18	-44.890

OIL

	PRICE	CHANGE
NYMEX	43.51	-0.0400

CURRENCIES

	PRICE
Euro	1.3011
Sterling	1.3894
JPN Yen	88.92
Swiss Franc	1.1521
Can Dollar	1.2550
Mexico	13.989

IR SWAPS

	SPREAD	RATE
2-Year	70.25 - 66.25	1.440 - 1.400
3-Year	68.50 - 64.50	1.788 - 1.748
5-Year	61.25 - 57.25	2.216 - 2.176
10-Year	16.00 - 12.00	2.746 - 2.706
30-Year	-17.25 --21.25	3.081 - 3.041

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.89500	0.00500
Jun09	98.93000	0.02000
Sep09	98.88000	0.04000
Dec09	98.72000	0.05000

REPURCHASE AGREEMENTS

GENERAL COLLATERAL		i-REPO℠ INDEX	
O/N	0.350	10:00 AM	0.290
1-Week	0.350	3:00 PM	0.261
2-Week	0.350		
3-Week	0.350	**O/N SPECIALS**	
1-Month	0.350	2-Year	0.240
2-Month	0.400	3-Year	0.270
3-Month	0.400	5-Year	0.010
		10-Year	0.230

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.1500	
1-Month	0.4000	0.172
3-Month	1.1000	0.183
6-Month	1.3500	0.209
12-month	1.9000	0.302

FED FUNDS

Open	0.25000
High	0.4500
Low	0.1250

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

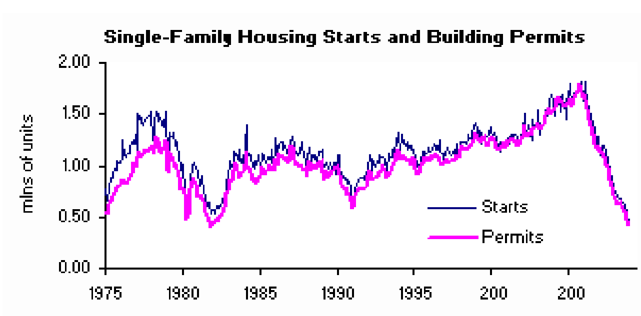
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	102.232 - 102.252	3.877
FNMA	5.0	102.137 - 102.141	3.650
FHLMC	5.0	102.125 - 102.145	3.833

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.257 - 102.261	3.901
FNMA	5.5	102.207 - 102.210	3.370
FHLMC	5.5	102.187 - 102.191	3.415

Wrightson-ICAP℠ Chart of the Day

http://www.wrightson.com



TOMORROW'S MONEY HEADLINES

Housing Starts Down 6th Time In A Row

Home builders cut groundbreakings a sixth time in a row during December and brought construction to a new low, according to a report that suggested the industry will get worse.

Housing starts decreased 15.5% to a seasonally adjusted 550,000 annual rate compared to the prior month, after dropping 15.1% in November to 651,000, the Commerce Department said. Originally, Commerce reported November starts fell 18.9% to 625,000.

For 2008, starts totaled 904,300 on an unadjusted basis, falling from 1.355 million in 2007. It marked a new low, shattering the previous record of 1.014 million set in 1991.

The December decrease of 15.5% was much bigger than Wall Street expected. Economists surveyed by Dow Jones Newswires forecast a 4.0% drop to an annual rate of 600,000.

US Home Prices Fall 1.8% In November

U.S. home prices fell a seasonally adjusted 1.8% from October to November, a government agency reported.

The decline was the steepest monthly drop, on a seasonally adjusted basis, in the Federal Housing Finance Agency index's 18-year history. Overall, home prices have declined 10.5% from their April 2007 peak, the agency said.

Home prices fell across all nine regions of the U.S., pushed down by sales of properties seized by banks and mortgage finance companies Fannie Mae and Freddie Mac. They plunged along the west coast and the Rocky Mountain region, but they also fell sharply in Midwest states such as Kansas, Iowa and South Dakata not associated with the housing boom and bust.

Jobless Claims Rise 62K To 589K

The number of U.S. workers filing new claims for state unemployment benefits soared last week to match the quarter-century high reached in December, suggesting layoffs continued unabated into the new year.

Initial claims for jobless benefits jumped 62,000 to 589,000 after seasonal adjustments in the week ended Jan. 17, the Labor Department said in a weekly report. That matches the highest level since November 1982, when claims were above 600,000. Claims were also at 589,000 in the Dec. 20, 2008 week.

Microsoft To Cut 5,000 Jobs

Microsoft Corp. said it will cut 5,000 jobs over the next 18 months, confirming rampant speculation that the software giant's first major round of layoffs in its history were in the offing, as the company reported a 11% drop in fiscal second-quarter net income and pulled its view for the year.

The firm has avoided responding to the job-cut speculation, which started last month as numerous industry giants across the economy announced layoffs. In fact, some analysts were skeptical Microsoft would actually cut jobs, something it managed to avoid even in the aftermath of the Internet bubble.

The cuts, which make up about 5.5% of the company's approximately 91,000-person work force, include 1,400 people being laid off Thursday. The cuts in total are expected to save Microsoft $1.5 billion a year and cut this fiscal year's capital spending by $700 million.

Senate Panel OKs Geithner For Tsy Secy

The Senate Finance Committee approved the nomination of Timothy Geithner as secretary of the Treasury, clearing the way for the full Senate to consider his confirmation.

Geithner, who would lead the Treasury Department as U.S. financial markets and the economy face the most serious turbulence in decades, was approved by a vote of 18 to 5.

In an unusual move, the committee's top Republican, Sen. Charles Grassley, R-Iowa, voted against Geithner, a rare case where Grassley differed publicly with Senate Finance Chairman Max Baucus, D-Mont., on a prominent committee vote.

Geithner has been under fire, especially from some Senate Republicans, for failing to pay payroll taxes on income received from the International Monetary Fund in 2001 and then repeating his error in three subsequent years. He apologized to the Senate Finance Committee on Wednesday, but said his mistakes were unintentional.

Toll's Mtge Rate Could Echo In Sector

Toll Brothers just lowered the bar for the home building industry.

Horsham, Penn.-based Toll this week started offering a 3.99% fixed mortgage rate for loans $417,000 or below for 30 years with no points, one of - if not the - industry's lowest rates, one well below the national average of just below 5%.

It's too early to say if other builders will copy the attention-grabbing rate, but as the market worsens, competition is fierce and this move could launch a scramble to match the rate.

"It's definitely something that if they haven't considered it already, they will," said Brent Anderson, vice president of investor relations for Meritage Homes Corp. (MTH), which doesn't have a mortgage subsidiary.

TOMORROW'S MONEY HEADLINES

Comml Mtge-Backed Delinquencies At 1.1%

Standard & Poor's Ratings Services said the delinquency rate of North American commercial mortgage-backed securities, or CMBS, rose to 1.1% at the end of the fourth quarter from 0.88% in the third quarter. The rating firm said it expects to see an increasing number of defaults among loans with marginal cash flow.

S&P added that because of the rapid changes in the credit and commercial property markets, it will begin tracking CMBS performance on a monthly basis.

The commercial real-estate market has held up better than the housing market, but began to struggle late last year as businesses pared their real-estate needs. Retail and hotel properties in particular are ailing during the credit crunch and global recession.

DJ-BTMU Barometer Bounces Back

The Dow Jones-Bank of Tokyo-Mitsubishi-UFJ weekly business barometer rebounded 1.9% in the January 10 week, after a revised 1.5% drop in the prior week.

The January 3 week decrease was originally reported as 1.4%.

A statistically smoothed version of the index edged down 0.1% in the latest week, after falling a revised 0.2%, which was originally reported as a drop of 0.4%.

Economists at BTMU noted that the latest week's increase was concentrated in components related to production, while "the consumer side of the barometer was down across the board," the report said.

Defaults On Junk Corporates Seen Surging

Defaults by junk-rated U.S. companies are expected to soar in 2009 to an all-time high of 14% as economic and financial conditions deteriorate despite U.S. government rescue efforts, Standard & Poor's said.

The projection - the highest since the ratings agency began issuing the annual default-outlook report in 1981 - compares to the 7.6% estimate the company said in October was projected for this coming fall.

Meanwhile S&P's distress-debt ratio, which looks at junk-rated issues that are trading with spreads at least 10 percentage points above U.S. Treasurys, was at 70% as of Jan. 15 from the "astronomical" high of 85% hit in December. A rising distress ratio signals an increased need for capital, and it could be a precursor to more defaults if accompanied by a market disruption.

Trump Extends Forbearance Pact

Trump Entertainment Resorts Inc. disclosed that it has received an extension of its forbearance agreement with noteholders of its 8.5% senior secured notes due 2015.

The gaming company said in a document filed with the Securities and Exchange Commission that the term of the amended forbearance runs through Feb. 4. The agreement had been set to expire Wednesday.

In addition, Trump Entertainment received a similar extension of its forbearance pact from the lenders under its $490 million senior secured term loan.

The term loan forbearance pact was also extended to Feb. 4 from Wednesday, the filing said.

Conference Bd Flags Productivity Gain

Even as the U.S. economy faces a painful and extended recession, it is managing to increase productivity rates in a way that should leave firms in good position when the recovery does arrive.

The Conference Board said in a report that against a slowdown in global productivity last year, U.S. output per hour worked increased by 1.7% last year, an improvement over the 1.5% gain in 2007.

TALKING POINTS

The CDS Market Metamorphosis

The credit default swaps, or CDS, market is shrinking rapidly, and the smaller it gets the more we know about these derivatives whose covert networks have been blamed for entrenching the financial crisis.

In just one week almost $80 billion of these derivative contracts vanished as investors tore up trading positions that, in effect, canceled each other out, according to the latest data from Depository Trust and Clearing Corp. released Tuesday. At $29 trillion, the total market has been cut in half in just a matter of months, owing mainly to this consolidation.

More statistics and leaner volumes suit regulators who've long urged more transparency and more restraint in a potentially explosive marketplace. They also suit market players wary of rules and regulations - more data means more advertising for their compliance.

The industry still hasn't gone far or fast enough to dispel widespread - though in many cases over-hyped - fears about credit derivatives. Nor does this surge of activity justify leaving the marketplace to its own devices - this crisis killed the case for self-regulation. But the latest advances are healthy contributions to much-needed market reform, the extent of which has yet to be decided.

Consolidation is needed to lower the potential for havoc in a financial system headed for more defaults. The CDS boom over recent years gave rise to an impressive secondary market in these insurance-like contracts, in which the seller agrees to compensate the buyer on a bond default. If either side wanted out, rather than settling the existing contract, it was often quicker and simpler to strike an offsetting deal with a third party.

That practice made it hard to be sure who was partnering each trade, and clogged the market with redundant contracts that in an emergency - such as the fall of Lehman Brothers in September - could choke the financial system.

The DTCC's figures are also key to the campaign to make credit derivatives safer, in line with calls for greater transparency in a market that trades insurance against default, but is unchecked by formal regulation. The DTCC on Tuesday expanded its weekly data releases to include volumes that have disappeared in each sector of the CDS market - the utilities and technology and communications sectors shrunk the most in the week to Jan. 16.

These are the latest in a series of statistics that have already helped debunk some myths damning the CDS market. Following Lehman's bankruptcy, rumors that payouts could run to hundreds of billions whipped a near panic in financial markets that was eventually calmed by the DTCC's confirmation that only around $6 billion changed hands.

TALKING POINTS

Inflation-Linked Debt: Comeback Kid?

Measured by total returns, U.S. Treasury bonds ruled in 2008. This year, global inflation-linked bonds could be star performers if the economic stimulus programs and interest-rate cuts are successful.

Inflation-linked bonds, or linkers as they're known among investors, are basically an investment tool designed to protect against inflation. Since higher prices can erode the value of future income streams in fixed income assets such as bonds, these instruments become attractive when investors expect a spike in inflation.

These type of bonds were battered in November and December as the financial crisis and economic recession stirred fears of falling prices, or worse, outright deflation.

Though there are no indications of a persistent decline in prices that could be actually broadly classified as deflation, prices have remained subdued in most large economies, limiting the appeal of these inflation-linked instruments.

These bonds have also been suffering because many hedge funds used them as an alternative bet on the boom in commodities markets. When commodities prices tanked in the second half of 2008, many hedge funds had to unload linkers to stem losses. In the U.S., risk aversion also sent investors out of inflation-linked bonds and into more liquid nominal Treasurys.

In the new year, though, these instruments have recovered some ground as major central banks cut interest rates to historically low levels and governments in the world's largest economies pledged massive fiscal stimulus. Such measures raised optimism in the longer term, as they may help revitalize growth and nip deflation risks in the bud. Countries worldwide still remember the lost decade in Japan back in 1990s, when expectations of declining prices hurt business investment and stifled consumption.

That slight change of sentiment is now apparent in a major gauge of inflation expectations: the yield gap between a nominal government security and an inflation-linked bond, called the break-even rate.

In the U.S., inflation-linked bonds are called Treasury inflation-protected securities, or TIPS. The 10-year break-even rate, a gauge of how investors view the average inflation rate a decade from now, briefly dipped below zero late last year, when deflation fears were predominant. But over the past few weeks, the 10-year break-even rate has rebounded, trading at 62 basis points Thursday.

Cleveland Fed Warns On ARMs

Government efforts to make mortgages cheaper may not work as well as many have hoped, warns a new paper published by the Federal Reserve Bank of Cleveland Wednesday.

At issue is what mortgages that adjust to changing short-term rates use as their benchmark. Some are tied to the performance of the government bond market and have benefited by the sharp drop in yields seen there. But others are tied to the London interbank offered rate, known as Libor, which has not fallen by as much, and that's where problems start to arise.

"Borrowers whose mortgages are based on an interest rate known as Libor might face a higher interest rate than the comparable borrower whose mortgage is tied to the other frequently used index, which is based on U.S. Treasury rates," the paper said.

It said that some of those with a Libor-based rate could face "much higher monthly payment" relative to the alternatives.

The paper, published on the bank's Web site, was written by Cleveland Fed economists Mark Schweitzer and Guhan Venkatu. If they are right, it means the economy, which few expect to improve until sometime much later this year, could have an even more difficult time than many now predict.

Housing market troubles have been the main driver of both the financial market's crisis and the economy's broader woes. Subprime mortgage lending disruptions began in large part because a collapse in lending practices coincided with a bursting of a house price bubble. Falling house prices pulled down other higher quality mortgage holders, as well.

Collectively, those troubles have reverberated outward. Banks and other financial entities have been heavily damaged, impairing the functioning of the financial system, and driving the overall economy into recession as consumers lose jobs, wealth, income and confidence.

Risk Aversion Here To Stay For Now

Risk aversion looks here to stay.

Instead of this week bringing an "Obama bounce" as the new president was inaugurated, it has brought fresh concern about global financial markets and sent investors fleeing for safe havens once again.

Stuart Bennett, senior foreign exchange strategist at Calyon Credit Agricole in London, reported that the VIX index that measures equity volatility is back up to levels last seen in mid-December.

"Markets desperately want to put a line under the financial sector crisis and move on to worry "only" about how prolonged and how deep the real economic fallout will be. But events this week are a chilling reminder that no such line can be drawn," said Paul Robson, a foreign exchange strategist with The Royal bank of Scotland in London.

A measure of just how nervous investors are can be seen in the sharp losses being sustained by sterling, which has been knocked down to nearly a 22-year low against the dollar, a currency that retains a safe haven status in these troubled times.

Initially, some market analysts had been looking for risk appetite to improve with Barack Obama's entry to the White House injecting fresh hope for a U.S. recovery.

Instead, they have been confronted not only with more emergency packages from the U.S. and the U.K. to bail out their banks, but signs that the banking results for the fourth quarter of last year are going to prove even worse than expected.

News that State Street, a bank normally associated with the unrisky business of custodian banking, that's holding securities on behalf of investors, had clocked up unrealized losses of as much as $9.1 billion by the end of last year sent a shiver through the market.

What about those whose business is taking risk?

As Geoffrey Yu, a currency strategist with UBS in London said: "With more global financials expected to unveil disappointing fourth-quarter results, risk aversion will likely stay firmly in command in the immediate future."