

G7 CALENDAR

Monday	
4:30 a.m.	UK
Dec Major British Banking Groups stats Mortgage Approvals (previous 17.77)	
8:30 a.m.	US
Dec Chicago Fed National Activity Index (previous -2.47), 3 Month Moving Average (previous -2.49)	
10:00 a.m.	US
Dec Existing Home Sales Total Sales (previous 4.49M) Percent Change (previous -8.6%)	
10:00 a.m.	US
Jan Richmond Fed Manufacturing Index (previous -55), Retail Revenues Index (previous -27), Services Revenue Index (previous -30), Shipments Index (previous -55)	
10:00 a.m.	US
Dec Conference Board Leading Econ Indicators Leading Index (previous -0.4%), Coincident Index (previous -0.3%), Lagging Index (previous +0.1%)	
10:30 a.m.	US
Jan Dallas Fed Mfg Outlook Survey Business Activity Index (previous -60.6), Manufacturing Production Index (previous -33)	
6:50 p.m.	JPN
Dec Corporate Service Price Index On Year (previous -1.9%)	
6:50 p.m.	JPN
Dec BoJ Monetary Policy Meeting Minutes	
N/A	FRA
OECD - International Econ Forum Latin America and the Caribbean	

TODAY'S MARKET WRAPS

TREASURYS: The U.S. Treasury market got a fresh bludgeoning Friday morning, as worries about upcoming debt supply trumped the typically palliative impact of falling stock prices. After a fitful start of trading on a day without economic data, most Treasuries were lower in late morning. Long-dated issues were fairing worst in a continuation of recent days' trading, and the market failed to generate a saving safe harbor bid as stocks traded lower. Longer-dated Treasuries have been under pressure in the face of both imminent and expected supplies of government debt over recent days.

CORPORATES: The high-grade derivatives index tightened in midday trading according to Phoenix Partners Group. The CDX IG11 was quoted at 210 bps, tighter by 5 bps from Thursday's close and Friday's widest level of 221 bps as President Obama asks lawmakers to consider an \$825B stimulus reform package. In junk, Crown Castle's new 9% notes due 2015, which priced Thursday at 90.42, were up to 93.75 in very active trade Friday, according to MarketAxess. The rest of the high-yield market was mostly softer in generally muted trade at midday. The CDX index was down half a point to 74.25, according to Markit.

FOREX: The euro trimmed most of its losses against the dollar and the yen Friday afternoon, while the British pound moved off the lowest level against the greenback since 1985 as U.S. stocks recovered. Investors took the improving tone in stocks to book profit on their long positions in the yen and dollar against the euro and the pound, traders said. The euro hit session highs of \$1.3035 against the dollar and ¥116.04 versus the yen. In recent trading in New York, the euro was at \$1.2985 from \$1.3009 late Thursday, while the dollar was at •88.92 from •88.78, according to EBS. The euro was at •115.42 from •115.51, and the U.K. pound was at \$1.3768 from \$1.3882. The dollar was at 1.1570 Swiss francs from 1.1540 Swiss francs late Thursday.

STOCKS: With a third straight week of losses for the Standard & Poor's 500 Index a near certainty, the backdrop to the dismal run can be seen in earnings reports now in from more than a quarter of the companies listed on the index. Despite an intraday turnaround Friday, the S&P 500 is poised for a record-breaking sixth consecutive quarter of negative growth. "Expect charges to continue for [the fourth quarter], as companies clean house for a better 2009. Provisions for layoffs should increase, with the actual cash flow charge taking effect in 2009," said Howard Silverblatt, senior index analyst, Standard & Poor's.

ENERGY: Crude oil futures prices jumped above \$46 a barrel Friday after gaining 5.5% in a rally helped along by surging heating oil prices. At 1:36 p.m. ET, March crude was up \$2.50 a barrel at \$46.17 after hitting \$47 - the highest level since Jan. 7. February heating oil was up 989 points at \$1.4475 a gallon after a high of \$1.4570/gal. The market was mounting a furtive rally early on signs of deeper output cuts by the Organization of Petroleum Exporting Countries, but prices jumped as heating oil futures leapt.

TOMORROW'S TOP MONEY HEADLINES**GE's Net Falls 44%; Company Keeps '09 Targets**

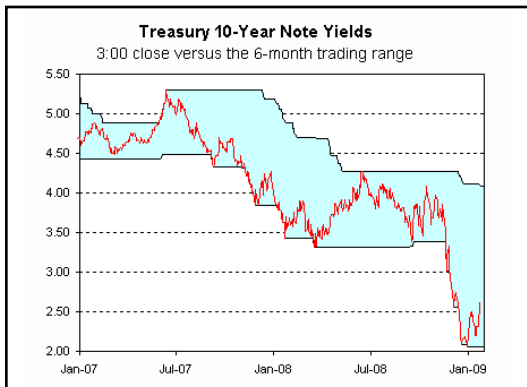
General Electric Co. executives said Friday the relative strength of its big-ticket infrastructure business would help mitigate the impact of its shrinking financial services unit.

The outlook came as the U.S. conglomerate reaffirmed the restructuring framework outlined last month and delivered fourth-quarter earnings at the bottom of its revised expectations.

GE shares continued to lose ground during the session and were recently down 8% at \$12.41. "There is spending [on infrastructure]," said chief financial officer Keith Sherin in an interview, though he conceded that order growth had abated in the once-booming sector.

GE's backlog from equipment and services rose 9% to \$172 billion at the end of December, and the company is counting on nonfinancial operations to drive growth as it shrinks its GE Capital unit's balance sheet.

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	0.013
3-Mo Bill	0.100	0.090	0.101	-0.002
6-Mo Bill	0.300	0.290	0.305	0.017
2-Year	100.042	100.052	0.806	-0.042
3-Year	99.290	99.300	1.158	-0.052
5-Year	99.126	99.140	1.628	-0.023
10-Year	109.25+	109.27+	2.61	-0.03+
30-Year	122.000	122.020	3.32	-1.06+

EQUITIES		
	INDEX	CHANGE
DJIA	8024.12	-98.680
NASDAQ	1473.95	8.460

OIL		
	PRICE	CHANGE
NYMEX	46.07	2.4000

FUTURES		
	PRICE	CHANGE
CBOT 5 yr	111.046875	0.171875
CBOT 10 yr	123.10	0.3125
CBOT 30 yr	129.8	-4.16

CURRENCIES		PRICE
Euro		1.2983
Sterling		1.3778
JPN Yen		88.76
Swiss Franc		1.1562
Can Dollar		1.2357
Mexico		14.045

IR SWAPS		
	SPREAD	RATE
2-Year	67.25 - 63.25	1.471 - 1.431
3-Year	67.25 - 63.25	1.825 - 1.785
5-Year	64.00 - 60.00	2.264 - 2.224
10-Year	18.50 - 14.50	2.792 - 2.752
30-Year	-16.75 --20.75	3.151 - 3.111

EURODOLLAR FUTURES		
	CLOSE	CHANGE
Mar09	98.83500	-0.05500
Jun09	98.88000	-0.05500
Sep09	98.83000	-0.05500
Dec09	98.67500	-0.05500

REPURCHASE AGREEMENTS			
GENERAL		i-REPO™	
COLLATERAL		INDEX	
O/N	0.350	10:00 AM	0.230
1-Week	0.350	3:00 PM	0.201
2-Week	0.350		
3-Week	0.350		
1-Month	0.350		
2-Month	0.350		
3-Month	0.400		

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)		
	EURO DEPOSITS	OIS STRIP
O/N FF	0.1875	
1-Month	0.4000	0.207
3-Month	1.1000	0.233
6-Month	1.3500	0.275
12-month	1.9000	0.389

FED FUNDS	
Open	0.20000
High	0.4063
Low	0.0625

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

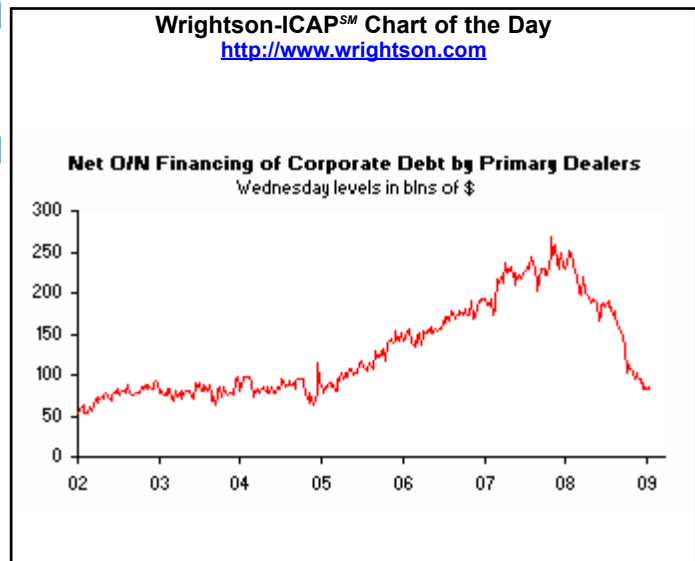
FREDDIE MAC				
TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	3.125	10/25/10	56.50 - 55.75	1.314
3-Year	3.875	06/29/11	82.50 - 82.00	1.574
5-Year	4.125	09/27/13	83.00 - 82.50	2.216
10-Year	4.875	06/13/18	66.00 - 65.50	2.866
30-Year	6.250	07/15/32	46.25 - 45.50	3.116

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	102.312 - 103.012	3.811
FNMA	5.0	102.147 - 102.151	3.635
FHLMC	5.0	102.135 - 102.155	3.820

ACTIVE MBS 30YR			
ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.257 - 102.261	3.901
FNMA	5.5	102.227 - 102.231	3.376
FHLMC	5.5	102.217 - 102.221	3.397

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TOMORROW'S MONEY HEADLINES

GM Ending Shift At Ohio Factory

General Motors Corp. will eliminate a shift at a once-booming small-car factory in Lordstown, Ohio, this spring, a local union leader said, signaling the auto maker's struggle to match production with sinking demand and fast-changing consumer tastes.

The reduction in Lordstown is part of broader production cuts GM plans to announce as soon as Monday, sources familiar with the plans said Friday. The factory, where GM builds the compact Chevrolet Cobalt and Pontiac G5 will go down to a single shift starting in April, said Dave Green, president of United Auto Workers Local 1714 in Lordstown.

Just this summer the factory was a rare bright spot for GM, running three shifts as the auto maker and its rivals raced to meet demand for small cars at a time when gas cost \$4 a gallon. But GM canceled the third shift in December and, like most of the auto maker's U.S. factories, the plant was idled this month.

Senate Panel Unveils \$455B Stimulus

Senate tax writers unveiled a \$455 billion economic stimulus package, including \$275 billion in tax benefits for individuals and businesses.

"This country is in a world of economic hurt, and Congress has to act boldly now to stabilize the situation," said Senate Finance Committee Chairman Max Baucus, D-Mont. "We can make an immediate difference in folks' financial situations by cutting taxes for struggling families and businesses, too."

The committee will vote on the bill on Jan. 27.

The size of the tax cut portion of the bill is consistent with a House version approved by the Ways and Means Committee Thursday, and in line with instructions from the administration of President Barack Obama.

Moody's Lowers NY Times To Junk

Moody's Investors Service slashed its credit ratings on newspaper publisher New York Times Co. into junk territory, citing continuing advertising woes, weak earnings expectations and increased concern about the company's pension liability.

The move follows October's similar downgrade by Standard & Poor's Ratings Service and comes days after Mexican billionaire Carlos Slim made a \$250 million investment to help the debt-laden media company.

New York Times has been moving to cut costs amid the still-worsening ad environment. To help address financing concerns, the company said it was in advanced negotiations to sell 19 floors in its 52-floor headquarters to W.P. Cary & Co. to repay debt.

Moody's lowered its senior unsecured rating three notches to Ba3. Moody's ratings outlook on the company is negative, reflecting the potential for further weakening of its operating performance.

FTC OKs Dow Deal For Rohm & Haas

The U.S. Federal Trade Commission gave antitrust clearance to Dow Chemical Co.'s \$18.8 billion acquisition of rival chemical manufacturer Rohm & Haas Co., but required Dow to sell assets for the deal to go through.

Under a settlement with the FTC, Dow agreed to sell its acrylic monomer, hollow sphere particle and acrylic latex polymer businesses.

Dow also agreed to put procedures in place to ensure it doesn't have access to competitively sensitive non-public information regarding any businesses it acquires from Rohm & Haas.

The FTC said in a statement that Dow's concessions were necessary because the companies are direct and significant competitors in certain markets for acrylics and other industrial chemicals used to make coated paper products, paints and adhesives.

The settlement would ensure competition in those areas and keep consumers from seeing higher prices, the commission said.

Obama Says Stimulus Plan On Track

President Barack Obama conceded that his administration and lawmakers disagree on some of the details of the \$825 billion economic recovery package being crafted in Congress, but said the legislation is on track to be completed by Presidents Day weekend.

"We are experiencing an unprecedented, perhaps, economic crisis that has to be dealt with and dealt with rapidly," Obama said in brief remarks to reporters before a meeting with Congressional leaders from both parties. "Frankly, the news has not been good. Each day brings, I think, greater focus on the problems we're having, not only in terms of job loss but also in terms of some of the instabilities in the financial system."

Gillibrand Chosen As NY Senator

New York Gov. David Paterson chose as the state's next senator U.S. Rep. Kirsten Gillibrand, a politician little known outside of New York State, whose advocacy for gun owners has already set in motion vows by liberals that a fellow Democrat will challenge her come the election next year.

Gillibrand, who has the financial background Gov. Paterson said he was seeking, will replace Hillary Clinton, the new secretary of state. The official announcement is expected at noon today.



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TOMORROW'S MONEY HEADLINES

Four More Junk-Rated Companies Default

Standard & Poor's said four more junk-rated companies have defaulted since it issued a report on corporate defaults last week, bringing this year's total to 12 issuers so far.

Two of the new defaulters were media and entertainment companies - gaming company Black Gaming LLC and television broadcaster Young Broadcasting Inc. The other two were consumer products companies - tomato producer EuroFresh Inc. and mattress-maker Simmons Co.

Both sectors have seen an "extreme level of distress" for several months, S&P said, with 94% of junk-grade media and entertainment companies and 78% of junk-grade consumer products companies trading at or above 10 percentage points over Treasuries.

The steep increase in defaults reflects "a pronounced decline in economic fundamentals, earning prospects and continued credit freeze, effectively congealing lending to speculative-grade borrowers," S&P said.

Pfizer In Talks To Buy Wyeth

Pfizer Inc. is in talks to acquire rival drug maker Wyeth in a deal that could be valued at more than \$60 billion, said people familiar with the matter.

A combination of these two U.S. pharmaceutical giants would redraw the boundaries of the global drug industry, which has suffered from flagging product development and high fixed costs. It would also represent a high-stakes gambit for Pfizer, which has been stung in the past by expensive acquisitions.

The two sides have been in discussions for months and a deal isn't imminent, the people said. Given recent market volatility and overall economic uncertainty, the talks are especially fragile and could collapse, the people warned.

TALKING POINTS

Could Mkt Force Fed To Buy Treasuries?

Could a recent and steady rise in Treasury yields force the Federal Reserve to start buying in bulk longer-dated government bonds?

Merrill Lynch economists are warning that the answer may be "yes." Economists David Rosenberg and Drew Matus said in a note to clients that despite the recent rise, yields are still historically low. All the same, Fed officials want those yields to stay down because that should in turn help stimulate overall economic activity.

Treasury yields, which move inversely to prices, have increased to a degree that "has likely gotten the attention of Fed policy makers" who were already mulling the purchases when yields were a quarter percentage point lower than they are now, the economists said.

The rise in yields has occurred for a number of reasons. Government borrowing needs incurred as part of the response to the current financial market crisis have driven huge increases in borrowing. An \$825 billion stimulus plan winding through Congress will almost certainly increase the supply of Treasuries further, and there are supply pressures coming from other markets, as well.

Xerox Sees First Quarter Below View

Xerox Corp. eked out a profit amid a hefty charge from its plan to cut 5% of the work force resulting from falling demand.

The copy-machine and printer giant also projected first-quarter earnings of 16 cents a share to 20 cents a share. Analysts surveyed by Thomson Reuters projected 24 cents.

Meanwhile, Xerox reported net income of \$1 million, down from \$382 million, or 41 cents a share, a year earlier. Excluding the restructuring charge and an equipment write-off, earnings were 30 cents a share. In October, Xerox projected 34 to 36 cents, below analysts' then-expectations.

Revenue fell 11% to \$4.37 billion, with nearly half the drop due to the stronger dollar. Analysts had most recently expected \$4.71 billion.

AMB Property Sees Write-Downs

AMB Property Corp. said land- and development-related write-downs will lower fourth-quarter results and it has slashed its work force as the commercial-real-estate sector is hit by the worsening economy.

The real-estate investment trust also said it has slashed 22% of its global work force. The company has roughly 500 employees.

The warehouse REIT expects to take a fourth-quarter write-down of \$204 million to reflect changes in the fair value of assets under development or held for sale, land which it won't be able to develop, and shelved development projects. The company also slashed its projected development gains to \$3 million from its prior forecast of \$20 million to \$25 million, reflecting land sales that failed to close.

The company also said it expects a \$14 million restructuring charge for the job cuts.

Emblematic of that sea of debt, the Treasury Department said on Thursday it will auction \$30 billion in five-year notes, \$40 billion in two-year notes and \$8 billion in 20-year Treasury Inflation Protected Securities next week. Treasuries reacted to that, along with fears about China's holdings of government debt, with a sell-off in long-dated issues that saw the benchmark 10-year note yield rise by 0.08 percentage points Thursday to 2.61%. Merrill noted the 10-year yield is half a percentage point higher now than it was in late December.

More supply will be coming, and at a certain point investors will demand even lower prices to absorb it all. The signs are that they have already started to seek those concessions, and there's little clarity how much higher prices could rise.

The Merrill analysts said now is the time for the Fed to act, in large part because of the upcoming Treasury debt sales.

While Fed officials have only indicated it's something they are mulling, they have nevertheless said that if other existing efforts prove insufficient they could ramp up purchases of longer-dated Treasuries in a bid to broadly lower borrowing costs. They're already doing something similar with their purchases of agency and mortgage debt, an action that has helped drive a wave of refinancings, even as overall housing activity remains extremely strained.

TALKING POINTS

UK In Recession As Output Slumps

The U.K.'s economic downturn officially became a recession Friday, when the Office for National Statistics reported that output nosedived by 1.5% in the final three months of last year, the sharpest quarterly contraction in 28 years.

The speed and breadth of the economy's deterioration makes it increasingly likely that the recession will be the deepest in decades, with damaging consequences for already strained public finances and for Prime Minister Gordon Brown's political fortunes.

"Overall, today's ugly GDP reading confirms that the economy grew by a modest 0.7% in 2008 and is set to face the worst performance in its history, contracting by around 2.5% in 2009," said Chiara Corsa, economist at UniCredit Markets. "We think that the pace of recession will ease in coming quarters."

With output falling 0.6% in the third quarter, Friday's data showed the U.K. had suffered two straight quarters of contraction for the first time since 1991.

Services output fell 1.0% and there was a 3.9% drop in industrial production on the quarter. Both declines were the biggest since the 1970s. Economists had expected GDP to fall 1.3% on the quarter.

The ONS also released retail sales data Friday which showed a seasonally adjusted 1.6% rise in December on the previous month. The ONS said the seasonally adjusted figure was distorted by special factors and is likely to have been weaker. The quarter-on-quarter retail data showed an increase of 0.6% in the three months to December.

The U.K. now joins a host of other leading economies that are in recession. The U.S. contraction started in December 2007, while both Japan and the euro-zone have seen negative growth in the second and third quarters.

Prime Minister Brown did not promise a quick bounceback, saying the recovery depended on the degree of international cooperation in tackling the banking system's problems.

Meanwhile, Finance Minister Alistair Darling acknowledged that the pace of the downturn had come as a surprise.

"It is undoubtedly sharper than many people believed, partly because you have seen industrial production go down," he said.

Darling and the Bank of England had expected that sterling's sharp depreciation would provide a boost to manufacturing exporters, but other parts of the global economy have slowed so sharply that hasn't yet materialized.

Strong Yen Poses Risks To Japan

The strong yen is clearly hurting Japan's economy and its businesses.

Yet the government will likely allow the yen's run of strength to continue in the near future as its effect isn't wholly negative. What's more, Japan isn't the only country grappling with market volatility, diminishing the success of any unilateral action.

The list of consequences from the yen's rise mounted this week: The Bank of Japan talked about deflation. December trade data showed a faster decline in exports, likely to hurt fourth quarter gross domestic product. Sony Corp. said it would report an annual loss for the first time in 14 years. Japanese share prices have plummeted.

That list is likely to expand as the yen is seen advancing further against the euro and the dollar in the coming months,

while the rest of the world feels the sweeping economic downturn. That's because Japan's currency is considered a safe haven asset in times of high market uncertainty.

The yen rose Wednesday to a 13 1/2-year high versus the dollar and a seven-year high versus the euro. Many currency analysts forecast the dollar will be between Y85.0 and Y80.0 by the end of March. Friday morning in New York, the dollar was at Y88.71 from Y88.78 Thursday, according to EBS, and from the Y100-area in October and November.

"As the recession gouges new depths in consumption, the lower the stock market goes, as any remaining confidence evaporates," said Andrew Wilkinson, senior market analyst at Interactive Brokers in Greenwich, Conn. "As that happens, investors look to the safety of the Japanese yen as a safe haven."

The dollar gains in the same waves of risk aversion as the yen, and U.S. businesses could see the same consequences.

However, a strong currency also has benefits for the domestic economy, analysts note.

Long-term valuations based on purchasing power parity indicate that the yen is fairly priced, said Benedikt Germanier, a currency analyst at UBS in Stamford, Conn. And its higher value strengthens the purchasing power of Japanese consumers, a weak point in Japan's economy for some time.

In addition, a strong currency makes investing in Japan more attractive, particularly as capital preservation remains a key theme among investors. Japan wants capital coming into the country, Germanier said, citing recent government plans to scrap capital gains taxes on foreign investment to attract more investors.

Also, the effect of a more expensive yen on Japan's trade balance and its broader economy is not necessarily as negative as might be expected: For one, Japan's exports account for just 16% of gross domestic product, according to Haver Analytics, less than other countries such as Singapore, Hong Kong and Germany.

Comm'l Real Estate Delinquencies Rise

While still a relatively small amount, delinquencies on commercial real estate loans are creeping higher on the balance sheets of U.S. banks.

The scope of the delinquencies in commercial property amid a deepening recession hasn't caught up with residential real estate, yet. And, banking analysts note that many banks classify loans to home builders as commercial real estate loans, skewing the delinquency numbers higher in this category.

But more mortgage loans for brick-and-mortar commercial properties such as office buildings, malls and hotels are becoming more distressed amid a continuing credit crunch. This poses a full-fledged dilemma for banks, while exacerbating financing constraints for the commercial real estate industry.

Gerard Cassidy, a banking analyst at RBC Capital Markets, said he is seeing rising delinquencies for commercial construction loans, normally provided to home builders, and for commercial real estate mortgages. But "commercial mortgage defaults are rising rapidly because of the weakness in the U.S. economy," and the problems in commercial property related to rising vacancy rates in strip malls, office buildings and hotels, he said.

Bank of America Corp. currently holds \$64.7 billion in commercial real estate loans, of which the bank said it considers \$3.9 billion, or 6%, nonperforming.