

G7 CALENDAR**Wednesday****2:10 a.m. GER**

Feb Consumer climate survey, Consumer Confidence (expected 2)

2:45 a.m. FRA

Jan Consumer confidence survey, Index (expected -45)

3:30 a.m. ITA

Jan Business Confidence Survey, Index (expected 65.5)

4:00 a.m. GER

Jan Hesse CPI

4:30 a.m. UK

Nov Average weekly earnings

6:00 a.m. GER

Jan Bavaria CPI

7:00 a.m. US

Jan 23 MBA Mortgage Application Survey, Market Composite Index (previous 1195.3), Cur Chg (previous -9.8%), Purchase Index (S.A.) (previous 303.1), Cur Chg (previous +2.5%), Refinance Index (previous 6491.8), Cur Chg (previous -12.4%)

8:30 a.m. CAN

Nov Weekly Employee Earnings, Y/Y (previous +3%)

10:30 a.m. US

Jan 23 US Energy Dept Oil Inventories Stocks, Crude Oil (previous 332.6M), (Net Change) (expected +3M), Gasoline (previous 219.98), (Net Change) (expected +1.6M), Distillate (previous 144.9M), (Net Change) (expected -1.1M), Refinery Usage (expected 82.7%)

TODAY'S MARKET WRAPS

TREASURYS: Short-dated government bond prices improved and longer-term Treasuries added to their gains Tuesday afternoon following a well-bid record two-year note auction and after more dire economic data. Short-term Treasuries were off their worst levels of the day after the \$40 billion sale but continued to underperform with more short-term government debt to be auctioned off this week. The long end leaped higher, led by the 30-year. The two-year note was steady at 0.83% from 0.88% earlier, and the 10-year Treasury was up 20/32 at 2.57%. The 30-year was up by more than two points in price to a 3.29% yield. Bond prices move inversely to yields.

CORPORATES: Rite Aid's credit default swaps continued to look extremely distressed, with the five-year contract trading at upfront, according to Tradition Asiel Securities. "CDS spreads for Rite Aid continue to look disastrous for the company," Tradition's analysts said in a note. "Credit markets are pricing in a virtual certainty of bankruptcy." The Tradition analysts added that CVS is likely to be the biggest beneficiary of Rite Aid's problems, supported by compelling fundamentals. Corporate defaults are continuing to rise in 2009, S&P said, with 15 defaults worth \$40 billion reported so far this year. The year 2009 is easily on pace with 2008's 126 corporate defaults on debt worth \$432 billion. That compares with 22 defaults in all of 2007. The tempo may soon quicken. "The number of global weakest links continues to increase sharply," S&P fixed income head Diane Vazza says.

FOREX: The euro recaptured gains versus the dollar Tuesday afternoon on positive U.S. equities. The common currency had been knocked down from a one-week high struck overnight to an intraday low after the Conference Board reported a historic low in its consumer confidence index. But the pound retained its overnight gains on the rise in investor risk appetite after some encouraging European data and stayed above the psychological level of \$1.40. Tuesday afternoon in New York, the euro was at \$1.3178 from \$1.3168 late Monday, while the dollar was at Y88.68 from Y89.03, according to EBS. The euro was at Y116.82 from Y117.28, and the U.K. pound was at \$1.4158 from \$1.3966. The dollar was at CHF1.1378 from CHF1.1366 late Monday.

STOCKS: A bounce for financial stocks helped push the broader market higher, with the Dow Jones Industrial Average approaching 100 points, though a hot-and-cold batch of earnings reports and glum economic data kept gains limited. Helping drive gains for much of the day's trade were a series of large banks, with Bank of America and Citigroup both up more than 6% recently. In addition, American Express climbed 8% after reporting a 79% drop in fourth-quarter profit late Monday. Citigroup analysts said provisions for losses weren't as high as forecast. Notably, the Financial Select Sector SPDR Fund, a basket of brokers and lenders, was up 3.2% recently.

ENERGY: Crude oil futures traded lower in anticipation of further proof that oil and fuel inventories are rising due to weak demand. Light, sweet crude for March delivery traded 35 cents, or 0.7%, lower at \$45.38 a barrel on the New York Mercantile Exchange. Brent crude on the ICE futures exchange traded 56 cents lower at \$46.40 a barrel. The oil market is expecting to take a double hit from U.S. oil and product inventory data, as the American Petroleum Institute moves its report back to 4:30 p.m. EST Tuesday. The Department of Energy is scheduled to follow Wednesday morning. The two previously released figures simultaneously.

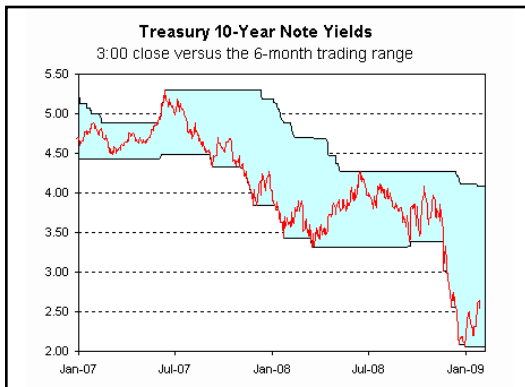
TOMORROW'S TOP MONEY HEADLINES**US Conference Board Consumer Confidence Hits Historic Low**

The perilous state of the U.S. economy sent U.S. consumer confidence levels to fresh depths in January.

The Conference Board reported that its January consumer confidence index fell to a historic low for the survey, at a reading of 37.7, from the revised 38.6 seen in December. Economists had expected a modest rebound, and had predicted the January index would come in at 39.0.

"It appears consumers have begun the New Year with the same degree of pessimism that they exhibited in the final months of 2008," said Lynn Franco, who leads the private research group's Consumer Research Center. "Consumers remain quite pessimistic about the state of the economy and about their earnings," she said, adding, "we can't say that the worst of times are behind us."

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	-0.006
3-Mo Bill	0.135	0.125	0.137	0.008
6-Mo Bill	0.325	0.320	0.330	-0.011
2-Year	100.036	100.046	0.814	0.020
3-Year	99.296	99.306	1.15	0.050
5-Year	99.21+	99.230	1.57	0.132
10-Year	110.160	110.180	2.533	1.000
30-Year	123.19+	123.21+	3.245	2.27+

EQUITIES

	INDEX	CHANGE
DJIA	8181.03	65.000
NASDAQ	1506.60	17.140

OIL

	PRICE	CHANGE
NYMEX	41.90	-3.8300

CURRENCIES

	PRICE
Euro	1.3179
Sterling	1.4149
JPN Yen	88.88
Swiss Franc	1.1372
Can Dollar	1.2252
Mexico	14.259

FUTURES

	PRICE	CHANGE
CBOT 5 yr	119.4	14.16
CBOT 10 yr	124.7	0.3125
CBOT 30 yr	111.34375	1.10

IR SWAPS

	SPREAD	RATE
2-Year	64.75 - 60.75	1.454 - 1.414
3-Year	63.00 - 59.00	1.775 - 1.735
5-Year	66.75 - 62.75	2.233 - 2.193
10-Year	23.00 - 19.00	2.760 - 2.720
30-Year	-14.25 --18.25	3.101 - 3.061

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.92000	0.06499
Jun09	98.93000	0.06500
Sep09	98.85000	0.05000
Dec09	98.67500	0.04500

REPURCHASE AGREEMENTS

GENERAL	i-REPO SM INDEX	
COLLATERAL		
O/N	0.200	10:00 AM 0.130
1-Week	0.250	3:00 PM 0.129
2-Week	0.300	
3-Week	0.300	
1-Month	0.300	O/N SPECIALS
2-Month	0.300	2-Year 0.150
3-Month	0.350	3-Year 0.130
		5-Year 0.000
		10-Year 0.100

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.1875	
1-Month	0.3500	0.185
3-Month	1.0000	0.209
6-Month	1.3000	0.246
12-month	1.9000	0.356

FED FUNDS

Open	0.19000
High	0.2500
Low	0.0938

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

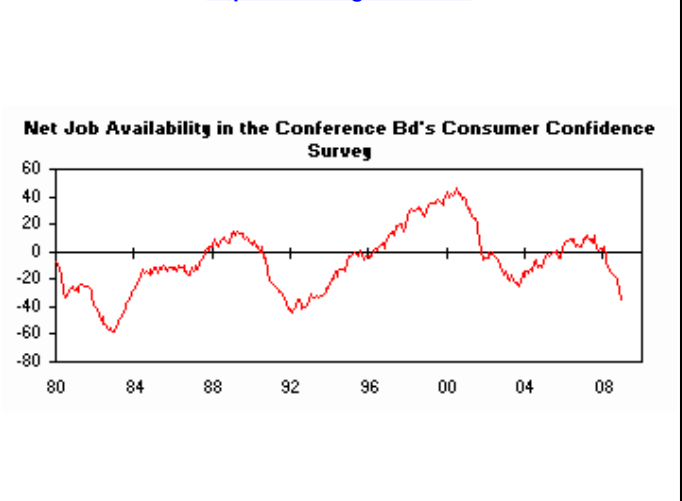
ISSUER	CPN	PRICE	YIELD
GNMA	5.0	103.010 - 103.030	3.826
FNMA	5.0	102.160 - 102.180	3.710
FHLMC	5.0	102.160 - 102.180	3.816

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.260 - 102.280	3.966
FNMA	5.5	102.247 - 102.250	3.355
FHLMC	5.5	102.227 - 102.231	3.397

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Wrightson-ICAPSM Chart of the Day
<http://www.wrightson.com>



TOMORROW'S MONEY HEADLINES

Home Prices Continue Slide In November

The multiyear home-price decline worsened further in November, according to the S&P/Case-Shiller home-price indexes, as numerous regions in the country saw record monthly declines.

The Sun Belt continues to be hit hardest, and nationally, home prices are at levels similar to the first quarter of 2004.

"The freefall in residential real estate continued through November," said David M. Blitzer, chairman of S&P's index committee. Both composite indexes and 11 of the 20 metropolitan areas reported record year-over-year declines. As of November, the 10-city index is down 27% from its mid-2006 peak and the 20-city is down 25%. The two indexes have fallen every month since August 2006, 28 straight.

Richmond Fed Mfg Index Contracts More

Economic activity in the U.S. Federal Reserve Bank of Richmond's district continued to contract in January.

The bank said in a report Tuesday that its manufacturing index moved to -49 in January from -55 in December, while its manufacturers' shipments index hit -54 from -55 in December.

Meanwhile, the service sector revenue index was at -19 from December's -30, while the retail revenue index came in at 0 from -27 the prior month.

Jobless Rates Rise In All 50 States

Unemployment rates rose in all 50 states during December as the recession forces companies to trim costs and unload workers.

A Labor Department report breaking down jobless rates among the states showed unemployment was highest in car-making state Michigan, at 10.6%. Rhode Island was second, at 10.0%.

Four additional states recorded rates of 9.0% or higher: South Carolina, 9.5%; California, 9.3%; Nevada, 9.1%; and Oregon, 9.0%.

Wyoming posted the lowest unemployment rate, 3.4%, followed by North Dakota at 3.5%.

NY AG Subpoenas Thain In Pay Probe

New York Attorney General Andrew Cuomo has subpoenaed former Merrill Lynch Chief Executive John Thain as Cuomo probes bonuses paid by the investment bank on the eve of its merger with Bank of America Corp.

Depending on what the Attorney General's office discovers, its investigation into the firm's executive compensation could develop into a probe of what Bank of America knew when about Merrill Lynch's weak financial state before the merger was completed, said a person familiar with the investigation.

In a statement Tuesday, Cuomo said his office is seeking testimony from Thain and J. Steele Alphin, Bank of America's chief administrative officer.

Geithner Takes On TARP Lobbying

U.S. Treasury Secretary Timothy Geithner announced new rules to limit lobbyists' influence on the department's financial market rescue decisions even as reports suggest that he's tapped a former lobbyist as his chief of staff.

"American taxpayers deserve to know that their money is spent in the most effective way to stabilize the financial system," Geithner said in a statement. "Today's actions reaffirm our commitment toward that goal."

Still, according to The Wall Street Journal, the Treasury Department wants to bring on former Goldman Sachs lobbyist Mark Patterson to serve as Geithner's chief of staff.

BoFA \$8B FDIC-Backed Deal Launched

Bank of America launched an \$8 billion two-part offering, according to an investor looking at the deal.

The issue is being sold under the Federal Deposit Insurance Corp.'s Temporary Liquidity Guarantee Program, and is the second such offering in two days from the bank. Bank of America sold \$5 billion of 1 1/2-year government guaranteed notes late Monday.

Bank of America has already tapped the new program for \$24.85 billion since Dec. 1, when the bank sold its first issue, a \$9 billion multi-tranche offering.

World Recovery To Be Slow Next 3 Yrs

Chief executives globally are suffering a "crisis of confidence" in decision-making and say economic recovery will be slow-going over the next three years, PricewaterhouseCoopers said in its annual survey of business leaders.

The findings of the survey, based on interviews with around 1,120 chief executives from 50 countries, raise fresh questions about the health of companies' financial performance in coming months, a chief point highlighted by executives in the survey.

Target Confirms Employee Layoffs

Succumbing to poor sales and general recessionary pressures, Target Corp. announced layoffs and other measures to cut costs.

Saying it is acting to manage payroll and nonpayroll expenses, Target said in a statement that its efforts include a "workforce reduction" of an undisclosed number.

The layoffs are confined to the company's Minneapolis headquarters, according to a report in the *Star Tribune* newspaper in Minneapolis, where Target is headquartered.



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TOMORROW'S MONEY HEADLINES

Citi Gives Details On \$301B Govt Pool

Citigroup Inc. disclosed the composition of its \$301 billion asset pool that the U.S. government agreed, in December, to insure against unlimited future losses. The New York bank made the disclosures ahead of a Tuesday presentation to analysts by Vikram Pandit, its chief executive.

According to documents available on Citi's Web site, the \$301 billion pool of government-insured assets is dominated by \$191.6 billion in outstanding consumer loans, including \$98.9 billion in first mortgages and \$55.2 billion in second mortgages. In December, as Citi's stock price fell precipitously amid worries over its viability, the U.S. government agreed to insure \$301 billion of Citi's assets against unlimited future losses.

FDIC Moves To Tighten Rate Caps

Banks that aren't well capitalized will find it harder to pay above-market rates on deposits under a new regulation proposed by the Federal Deposit Insurance Corp. board.

Under current rules, banks deemed undercapitalized or adequately capitalized must adhere to caps on the interest rates they pay for deposits. Meanwhile, well capitalized banks face no restrictions on rates.

The proposal, which requires board approval after a 60-day comment period, would revamp how the caps are calculated so that troubled banks can't easily jack up rates to attract deposits.

Assets Frozen On Alleged Forex Fraud

The Commodity Futures Trading Commission received a federal court order freezing the assets of an international foreign-currency firm after alleging the defendants fraudulently solicited more than \$1.2 million from retail clients to trade currency options and misappropriated funds.

The complaint alleges firm Atwood & James Ltd., along with New York residents Michael A. Kardonick and Gary R. Shapoff, fraudulently solicited funds from people in the U.S. and U.K. to trade forex options beginning in 2001.

Atwood & James had no comment.

Most On Wall Street Got Bonuses

Despite a weak U.S. economy, more than 100,000 layoffs and a continuing financial crisis, about three-quarters of Wall Street professionals received year-end bonuses, although 54% of that group took home lower payouts than a year ago, according to a recent survey.

Results of the survey, released by eFinancialCareers, a unit of career Web site operator Dice Holdings Inc., said 46% of professionals who received bonuses were paid the same amount or more than a year earlier.

More than 30% received bonuses that were at least 30% lower than a year ago, while 12% of bonus recipients took home payouts that were at least 51% higher year-over-year.

ICSC/Goldman Sachs Store Sales Down

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index declined 1.8% in the week to January 24 from its level a week before, on a seasonally-adjusted, comparable store basis.

On a year-on-year basis, retailers saw sales decline by 2.4% in the latest week - the seventh consecutive slide.

"Despite the modestly positive sales influences which came from sales over Martin Luther King Jr. weekend, the presidential inauguration kept consumers home watching television coverage rather than in stores," said Michael P. Niemira, ICSC chief economist. "As a result, weekly sales slipped sharply."

TALKING POINTS

California Continues Slide Down Slope

With the skids greased by huge budget deficits, a growing cash shortage and housing weakness, California Wednesday continued its ever-faster descent into a black credit hole.

The latest blow came with the second downgrading in four weeks by Standard & Poor's Rating Services of the Golden State's remaining \$8.7 billion of economic recovery bonds.

Despite possessing a large and diverse economy, the state also has experienced economic softness due to weakness in housing construction together with "considerable spillover in other sectors, as well as the resultant loss of associated sales taxes as fewer people make large purchases to furnish new homes," S&P said.

The McGraw-Hill Cos. unit this time also cited "relatively low levels" of debt service for the bonds, as well as continued declining sales tax collections.

Its move followed a rating cut on those bonds last Friday by Fimalac S.A. unit Fitch Ratings, and a Wednesday red flag by Moody's Corp. unit Moody's Investors Service that it was placing about \$67 billion in debt of the nation's largest state on watch for a possible downgrade.

S&P's rating cut was to A+ from AA, a fall of two full

grades after last week's one-notch downgrade. That draws the two firms even on their rating of the economic recovery bonds.

"The lowered rating reflects our opinion of the state's accelerating trend of declining sales tax collections that emerged during the past six months and remains ongoing," said S&P analyst Gabriel Petek.

"The state now projects debt service coverage ratios to be at what we view as relatively low levels, if revenue collections remain flat, or lower if revenue collections decline further."

Petek said coverage from the current year's special sales tax collections is enhanced by the presence of a debt service reserve that would cover 25% of annual debt service.

Still, the bond indenture requires that prior special sales tax collections above those needed to pay the next scheduled debt service payment or to replenish the debt service reserve be deposited in a redemption fund for early debt retirement, and so no longer are available for current debt service payments.

"In our view, and given current economic conditions, we believe the increased risk resulting from this feature of the bond indenture is beginning to outweigh the benefit of lower future debt service payments that will be derived from the early redemptions," Petek said.

TALKING POINTS

Firms Find High-Grade Debt Attractive

Investment-grade bonds could see demand in the first half of this year, providing a boost to credit markets, but their allure still won't tempt a significant number of buyers, a survey showed.

In a survey of 229 institutional investors worldwide conducted by Greenwich Associates of Stamford, Conn., more than three-quarters said they planned to buy fixed-income new issues. And the current historically high spreads, or risk premiums over Treasury yields, on investment-grade debt can attract additional investors, the consulting firm's release said.

Although recovery in global credit markets is a long way off, "these results show that most institutional investors are prepared to re-enter the market for investment-grade corporate bonds in the next six months, and many more could be enticed to participate at what they see as once-in-a-lifetime prices if markets were to find their footing for a period of time," said Greenwich Associates consultant Tim Sangston in the release.

Based on benchmark Merrill Lynch indexes, spreads on investment-grade spreads in the U.S. averaged around 560 basis and around 410 basis points in Europe when the survey was conducted earlier this month. At those prices, more than 90% of U.S. investors and 85% of European said they would snap up new deals. As of Monday, spreads remained elevated, at 553 basis points for U.S. debt and 421 for European debt.

This shows that any recovery in the global credit markets in 2009 will begin in investment-grade, the release said.

Still, many firms are leery. One in 10 North American firms won't buy new investment-grade debt, whatever the spreads. In the U.K., more than 20% of those surveyed said they won't buy new investment-grade issues unless the spreads top 500 basis points. Even such deals won't tempt almost 15% of U.K. firms, which won't buy investment-grade debt at all in the first half of 2009.

In more bad news for junk-rated issuers, 23% of all the firms polled said they won't touch new junk-rated debt.

The results add to the consensus that investment-grade issuers would be able to access capital markets - albeit at high costs - but speculative-grade companies would continue to struggle. Indeed, the corporate bond market will remain "unpalatable" for junk-rated firms, said Standard & Poor's analyst Andrew Watt during a conference call Tuesday.

There won't be a significant number of them accessing the capital markets in the first half of 2009 as investors avoid these issuers until the economy improves, he said.

Canada Budget Entails Risk For Loonie

After a long period of relative immunity, the Canadian dollar faces a degree of political risk this week as the Conservative government presents its budget for the 2009-10 fiscal year Tuesday afternoon.

There is much at stake in this key budget, expected to be the first deficit budget in Canada since 1996-97. Coming after bungled fiscal measures last November that almost prompted a parliamentary defeat of the minority Conservatives, the budget is the government's critical opportunity to respond to the intensifying recession, and to stave off the threat of a non-confidence vote and a possible election.

There are at least two distinct sources of risk for the Canadian currency in the budget and ensuing events.

One is the amount of economic stimulus, and whether it will meet the approval of a global currency market that has shown a distinct tendency to reward currencies from countries that take an aggressive fiscal stand.

The other is the political response. The currency could be punished, analysts warn, if the budget prompts a lost-confidence vote and the replacement of the Conservatives by a minority coalition, or an election, and thereby a further delay of fiscal stimulus.

At the moment, it seems both these aspects of the situation are likely to tilt in the Canadian currency's favor.

The budget will be formally unveiled Tuesday around 4:00 p.m. EST (2100 GMT). But much of the budget has already been pre-announced, and it looks poised to unleash considerable stimulus on the ailing economy, with analysts speculating total stimulus in the range of about C\$20 billion.

The government's announcement of a C\$7 billion infrastructure program on Monday is the largest of several spending items announced in the last few days, and brings the total amount announced to C\$13 billion. The budget will reportedly include tax cuts as well as spending increases.

Stewart Hall, market strategist at HSBC Securities Canada, says markets will likely be looking for total stimulus of roughly around 2% of gross domestic product, the benchmark suggested last year by the International Monetary Fund, or about C\$30 billion in Canada's case.

A report from RBC Capital Markets Tuesday estimated the stimulus at about 1.5% of GDP.

The fiscal stimulus comes after substantial monetary easing from the Bank of Canada, easing that was generally considered ahead of the curve compared to Europe and such similar countries as Australia and New Zealand, Hall said. The overall result could be a boost for the currency, if the stimulus is sufficiently large, he said.

Is Paper Money Losing Its Luster?

Are investors losing trust in paper money?

With the world's major economies in a deep recession and interest rates nearing zero, there is a camp of investors who say there is little reason to put their faith in paper currency. They are increasingly eyeing gold as the last safe haven.

That's not to say that the world will soon be on a barter system. However, recent trading patterns suggest investors are moving out of cash altogether. Last week, gold actually rose at the same time as the dollar - an atypical move since gold tends to be used as a hedge against the dollar and trades inversely to the greenback.

Some analysts trace this pattern back to the dollar: it is gaining not because it is supported by strong fundamentals, but because its rivals are in a relatively weaker position. The dollar rally last week was "artificial," said Ashraf Laidi, chief market strategist at CMC Markets in London.

Gold's strength proves a more important point. "As the price of money (interest rates) is held down by central banks, the price of its competitor (gold) pushes higher on the lack of yield reward in monetary alternatives," Laidi said.

Central banks in the U.S., Japan and the U.K. have slashed rates to close to zero and are increasing money supply by expanding their balance sheets, pumping cash into their economies to stave off a deeper recession. With rates ultralow and massive amounts of cash in the system, there are some concerns that eventually, inflation could pick up sharply.