DOW JONES
i-Recap℠ Report
ICAP

News Provided By Dow Jones — Wednesday, January 28, 2009

TODAY'S MARKET WRAPS

TREASURYS: Treasurys prices were bouncing around in early Wednesday trading, ahead of one of the least suspenseful statements ever from the Federal Reserve's rate-setting committee. The volatility was again only in the long government bond maturities, since short-term yields remain more or less pinned. With the target rate effectively at zero, there's no trade on the direction of interest rates in the near term. In any case, the two-year sector is still digesting the largest-ever delivery of new bonds Tuesday. The $40 billion of 0.875% notes due January 2011 drew sufficient demand to make the auction a success.

CORPORATES: Inergy LP was expected to sell $200 million of senior notes to yield 11% to 11.25%, Standard & Poor's LCD reports. Lead managers on the transaction, which was set to price later Wednesday, are JPMorgan, Banc Of America Securities and Wachovia. The bonds are seen coming at a discount at around 90% of par value to give an 8% handle coupon. Concerning the Fed's comments on the buying of Treasurys, joe Balestrino of Federated Investors in Pittsburgh said: "Anything that could be positive for the economy and for the stock market is good for the high-yield and the investment-grade corporate bond market."

FOREX: The dollar hit session highs versus the euro and yen after the FOMC said it would hold rates unchanged and it was prepared to buy Treasury debt if needed. Firmer U.S. stocks helped the buck against the yen - a play on positive risk appetite. Analysts say the Fed's acknowledgement that it is prepared to move forward buying longer-dated Treasury securities was priced in. Wednesday afternoon in New York, EUR/USD was at 1.3139 from 1.3179 late Tuesday, while USD/JPY was at 90.54 from 88.91, according to EBS.

STOCKS: U.S. stocks held on to most of their gains with the Dow Jones Industrial Average up more than 150 points after the Federal Reserve's statement suggested it will do all in its power to keep down mortgage and other credit-market rates. The Dow Jones Industrial Average recently added 198 points, or 2.4%, to 8373, and hit a session high of 8405 shortly after the statement hit the tape. The Nasdaq Composite rose 56, or 3.7%, to 1559. The broad Standard & Poor's 500 index rose 27.67, or 3.3%, to 874.

ENERGY: Crude oil futures rose Wednesday as gasoline inventories unexpectedly fell, raising concerns about summer supply levels despite falling demand. Light, sweet crude for March delivery traded seven cents, or 0.2%, higher at $41.65 a barrel on the New York Mercantile Exchange, down from a high of $42.20 after release of the inventory data. Brent crude on the ICE futures exchange traded $1.07 higher at $44.80 a barrel. The market received support from a decline in fuel inventories. Gasoline stocks fell 100,000 barrels in the week ended Jan. 23, the first decline since November.

TOMORROW'S TOP MONEY HEADLINES

Fed Leaves Rate Near Zero; Prepared To Buy Tsys

U.S. Federal Reserve officials signaled they're prepared to move forward on a controversial idea to purchase longer-dated Treasury securities, which would mark a dramatic escalation of their efforts to unclog credit markets.

The Federal Open Market Committee voted 8-1 to maintain the target federal funds rate for interbank lending at a record-low range of zero to 0.25%. The interest rate and balance sheet decisions are aimed at combating a worsening recession and deflationary spiral of falling employment and spending.

The Fed also held the discount rate for direct loans to commercial and investment banks unchanged at 0.5%.

G7 CALENDAR

Thursday

2:00 a.m. — UK
Jan Nationwide Housing Review, House Prices Monthly (expected -2%), Yearly (expected -16.7%)

4:00 a.m. — GER
Jan Labor market statistics, Jobless Claims (expected +34000), Jobless Rate (Adjusted) (expected 7.7)

4:00 a.m. — EU
Dec Monetary developments in the euro area, M3 Yearly (expected +7.6%), M3 (3-Month Average) (expected +8%)

4:10 a.m. — EU
Jan Bloomberg Eurozone Retail PMI

5:00 a.m. — EU
Jan EU Business & Consumer Surveys, Consumer Confidence (expected -31), Economic Sentiment (expected 64.9), Industrial Confidence (expected -35)

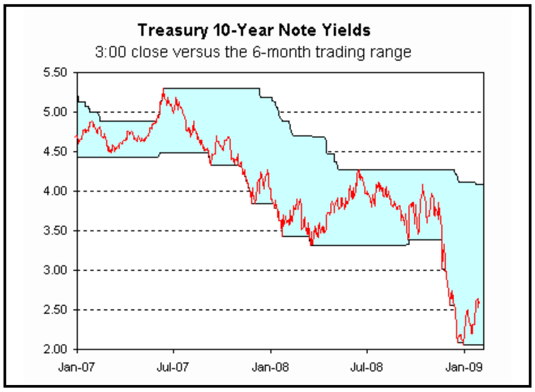
6:00 a.m. — UK
Dec Land Registry House Price Index

8:30 a.m. — CAN
Dec Industrial and Raw Material Prices, Industrial Prices (expected -2.6%), Raw Material Prices (expected -13.4%)

8:30 a.m. — US
Jan 24 Jobless Claims, Weekly (expected 585K), Weekly Net Change (expected -24K), Continuing (expected 4607000), Continuing Net Change (expected +97000)

8:30 a.m. — US
Dec Durable Goods, Total Orders (expected -2%), Ex-Defense (previous -0.9%), Ex-Transportation (previous +1.2%)

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



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.080	0.050	0.081	0.016
3-Mo Bill	0.190	0.175	0.193	0.046
6-Mo Bill	0.335	0.325	0.340	0.010
2-Year	99.302	99.312	0.903	-0.015
3-Year	99.216	99.226	1.236	-0.076
5-Year	99.026	99.040	1.695	-0.181
10-Year	109.05+	109.07+	2.679	-1.10+
30-Year	119.02+	119.050	3.459	-4.152

FUTURES

	PRICE	CHANGE
CBOT 5 yr	118.8	-19.8
CBOT 10 yr	124.1	-20.16
CBOT 30 yr	129.6	-1.7

EQUITIES

	INDEX	CHANGE
DJIA	8370.35	195.620
NASDAQ	1563.33	58.430

OIL

	PRICE	CHANGE
NYMEX	42.00	0.4200

CURRENCIES

	PRICE
Euro	1.3117
Sterling	1.4221
JPN Yen	90.45
Swiss Franc	1.1549
Can Dollar	1.2160
Mexico	14.041

IR SWAPS

	SPREAD	RATE
2-Year	56.75 - 52.75	1.463 - 1.423
3-Year	60.50 - 56.50	1.836 - 1.796
5-Year	64.00 - 60.00	2.331 - 2.291
10-Year	22.25 - 18.25	2.898 - 2.858
30-Year	-17.75 --21.75	3.280 - 3.240

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.1500	
1-Month	0.3500	0.180
3-Month	1.0000	0.190
6-Month	1.4000	0.230
12-month	1.9000	0.350

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.97000	0.04500
Jun09	98.97500	0.03500
Sep09	98.87500	0.01499
Dec09	98.67500	-0.00500

FED FUNDS

Open	0.20000
High	0.4063
Low	0.0500

HEFFR

10:00 AM	0.19
3:00 PM	0.35

REPURCHASE AGREEMENTS

General Collateral		i-Repo℠ Index	
O/N	0.300	10:00 AM	0.220
1-Week	0.300	3:00 PM	0.218
2-Week	0.300		
3-Week	0.300	**O/N Specials**	
1-Month	0.300	2-Year	0.180
2-Month	0.350	3-Year	0.200
3-Month	0.350	5-Year	0.000
		10-Year	0.190

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

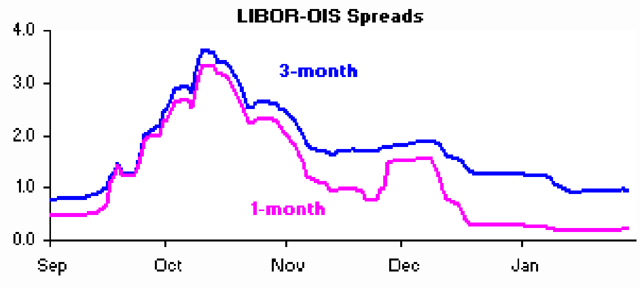
ACTIVE MBS 15YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.0	102.290 - 102.310	3.870
FNMA	5.0	102.150 - 102.170	3.724
FHLMC	5.0	102.130 - 102.150	3.951

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.230 - 102.250	4.011
FNMA	5.5	102.227 - 102.231	3.397
FHLMC	5.5	102.207 - 102.210	3.440

Wrightson-ICAP℠ Chart of the Day
http://www.wrightson.com



TOMORROW'S MONEY HEADLINES

'Bad Bank' Plan Gets Attention

Top U.S. House and Senate Democrats are taking a wait-and-see approach to the Obama administration's plan to create a "bad bank" to buy up toxic assets, though there remains a sense of urgency for policymakers to put something in place fast.

"It has to be done quickly," House Financial Services Chairman Barney Frank, D-Mass., when asked Wednesday about the concept. "There are a variety of ideas and this is something they should focus on."

His Senate counterpart, Banking Chairman Christopher Dodd, D-Conn., offered a similar take, saying he wanted to hear more details from the White House and Treasury Department.

"It makes some sense to me ... but how do you do it?," Dodd asked. "How much in bad assets are you talking about."

Obama Vows Transparent Recovery Plan

President Barack Obama, addressing critics of his economic recovery package ahead of a key House vote later Wednesday, pledged unprecedented transparency in the way the government spends stimulus money.

"I know that some are skeptical about the size and scale of this recovery plan," Obama said in a speech in the East Room of the White House. "I understand that skepticism, which is why this recovery plan will include unprecedented measures that will allow the American people to hold my Administration accountable."

Obama was speaking shortly after a meeting with a group of corporate chief executives at which he said he is confident the $825 billion stimulus legislation will be passed by Congress.

Geithner: Keep Private Banking System

On his second full day of work, U.S. Treasury Secretary Tim Geithner said the U.S. is pulling together a comprehensive plan to stabilize the economy and that his team wants to preserve the private banking system.

He declined to provide specifics on any plans to create a bad bank to buy up the toxic assets that have been weighing down bank balance sheets, but said details of a comprehensive plan to stabilize the financial sector should begin emerging in the near future.

When asked about the possibility of nationalizing the country's banks, Geithner noted the virtues of a private banking system, saying "we'd like to do our best to preserve that system."

Chesapeake Increases Bond Sale

Chesapeake Energy Corp. has doubled the size of its planned sale of junk bonds, taking the size of the deal to $1 billion, according to one investor looking at the transaction.

The deal was raised from the initial target of $500 million thanks to strong interest from investors, the investor said.

Chesapeake is expected to sell the bonds at a discount to par value to give a coupon of 9.5% and a 10.5%-10.75% yield, the investor said.

In a note to clients, analysts at KDP Investment Advisors said they wouldn't be surprised if the deal got upsized given the recent strength of the new issue market.

Chilton Seeks Expansion Of CFTC Power

U.S. Commodity Futures Trading Commissioner Bart Chilton said he believes Congress must expand his agency's authority to improve its oversight of the derivatives markets.

In the text of remarks to be delivered at a carbon trading conference in New York, Chilton said he feels five major steps must be taken so that the CFTC can start overseeing swap markets and do more to address excessive speculation.

Mortgage Applications Drop 38.8%

Applications filed for mortgages last week fell a seasonally adjusted 38.8% from the prior week, the Mortgage Bankers Association reported.

Interest rates charged on fixed-rate mortgages declined slightly over the week.

Application volume was down 40.4% versus the same week in 2008, according to the Washington-based MBA's weekly survey. The survey covers about half of all U.S. retail residential mortgage applications.

The week-to-week drop in applications was primarily due to a decline in refinance activity: Refinancing applications sank 48% for the week ended Jan. 23, compared with the previous week.

'Mass Layoff Events' Fell In December

The number of mass layoff events in December fell, according to a report released by the U.S. Department of Labor.

Mass layoff events involve 50 or more people at a single employer losing their jobs.

The report from the department's Bureau of Labor Statistics said mass layoffs events totaled 2,275 on a seasonally adjusted basis, down by 58 from 2,333 in November.

While the number of events fell, the number of workers involved in the mass layoff actions during December totaled 226,117. That was up from November's 225,639. These people are identified as initial claimants for unemployment insurance.

For all of 2008, the total numbers of mass layoff events rose to 21,137 on a not seasonally adjusted basis from 15,493 in 2007; the 2008 total was the highest since 2001.

TOMORROW'S MONEY HEADLINES

Home-Equity Delinquencies Spike

Delinquencies on U.S. residential mortgage-backed securities ended 2008 on a high point, though not the one wanted by investors or those waiting for housing woes to bottom, as Standard & Poor's Ratings Service said rates continued to climb in December.

The worst-performing loan segments in December were prime jumbo mortages and home-equity lines of credit, both of which saw delinquency rates jump by double-digit percentages from a month earlier. The jumbo loans, for higher-priced homes for which Fannie Mae and Freddie Mac aren't allowed to purchase or back, saw delinquency rates climb just under 20% for 2005 through 2007. That put the rate for each year's loans between 5.7% and 7.1%.

Wells Fargo Posts $2.55B Loss

Wells Fargo & Co. swung to a fourth-quarter loss on a $5.6 billion credit reserve on slumping loan quality.

The company also reported that Wachovia, the struggling bank it bought Dec. 31 and didn't include in its bottom line, lost $11 billion in the period.

Wells Fargo agreed in October to acquire Wachovia days after federal regulators brokered a deal for the struggling bank to be acquired by Citigroup Inc. (C).

Wachovia has been weighed down by surging credit losses, notably related to its purchase several years ago of California-based mortgage lender Golden West. That saddled Wachovia with more-exotic loans that have been going bad fast as the housing market continues to deflate.

Legg Mason Swings To 3Q Net Loss

Legg Mason Inc. swung to a fiscal third-quarter net loss on more than $2.3 billion in charges as the money manager reduced its exposure to structured investment vehicles and acted to support its money market funds.

The company also announced plans for a "major reorganization" of its U.S. mutual fund portfolio, saying it will examine liquidating certain products.

Chief Executive Mark Fetting said the company saw erosion of its assets under management due to the severity of the global recession and said other events, including its SIV reductions and a write-down in its wealth management division because of the impact of the market's slide on valuations, "significantly hurt our bottom line."

S&P Cuts Synovus To Below-Average

Standard & Poor's lowered its credit ratings on Synovus Financial Corp. into below-average territory, while also cutting its ratings on the company's banking units, to reflect the increasing deterioration in Synovus' asset quality and concern about the performance of its loan portfolio.

Credit analyst Catherine Mattson noted the company is seeing credit pressures related to its residential construction and land portfolio, which represents 24% of total loans. The deterioration has been faster and deeper than S&P said it expected, leading to a second consecutive quarterly loss for Synovus.

Synovus reported last week it swung to a fourth-quarter net loss as the company took a $443 million goodwill write-down while the percentage of loans the company doesn't think it can collect on more than doubled from a year earlier.

Capital Constraints A Blow To Banks

The Federal Home Loan Banks - a system of regional banks that provides a vital source of financing to more than 8,000 U.S. financial institutions - is turning to the government for help.

TALKING POINTS

Low Yields Bar New Tsy Fund Investors

The panic triggered by the collapse of Lehman Brothers Holdings in September saw investors head to Treasury money-market funds in record numbers.

But that influx of cash, coupled with record-low interest rates, threatens to cut off the supply of these funds and reshape the industry.

Many asset managers responded to the high demand by essentially managing the funds free of charge. As a result, some firms are deciding to close their funds to new investors and even delay launching new funds.

On Monday, Vanguard Group closed its Vanguard Admiral Treasury Money Market Fund and Vanguard Treasury Money Market Fund, and on Tuesday, Pimco, a unit of Allianz AG, said it had shelved plans to launch a Treasury money-market fund.

In December, JPMorgan Funds, a unit of JPMorgan Chase & Co. (JPM), and Fidelity Investments closed their Treasury money-market funds to new investors.

The pressure on the Treasury funds has been immense. Data from Lipper show that on Dec. 31, the average yield was 0.15%, compared with 2.71% at the end of 2007. Once manager fees are added, many funds would be looking at a loss.

The problem shows no signs of slowing. While Treasury-only money-market fund assets have dropped by $100 billion, or 13%, this month, rates remain low. Thirty-day-duration Treasury bills are yielding zero, according to Debbie Cunningham, head of money-market funds at Federated Investors Inc.

"Investors coming into these funds may be disappointed about the lower yields," said David Glocke, who oversees Vanguard's taxable money-market funds and manages its Treasury and Admiral Treasury funds, which between them have $35 billion in assets. He predicted that yields will stay at these low levels for the rest of the year.

The low yields have already been pushing some investors further along the risk spectrum; some managers have reported anecdotally that they are seeing more interest in short-term and intermediate-term bond funds.

"In 2003 (when rates were as low as 1%) income-oriented investors were heading into short-term and intermediate bond funds," said Glocke. Vanguard is seeing increased flows in those areas, he added.

Cunningham said that broader factors are also prodding investors away from Treasurys.

"There's whole host of (government) support programs to help with the liquidity and credit quality of other types of funds," she said. One program promises to buy debt from any money-market fund that needs to sell.

TALKING POINTS

Sterling's Rally Won't Last Long

Looking for a turnaround in sterling's fortunes? Don't.

This week's so-called Barclays' bounce is nothing more than an opportunity to sell the currency again.

Reassurance from Britain's fourth largest bank that it's still solvent, evidence that the U.S. housing market isn't entirely dead and Japanese promises to start helping its credit-squeezed companies all helped to lift general market sentiment.

As the global investors started putting a little more risk on their books again, sterling rallied - staging a remarkable 6 cent rise against the dollar in two days.

However, the bounce was hardly surprising given the size of the losses sterling has sustained since the start of the year. Only three weeks ago, it was trading more than 10 cents above current levels.

As Paul Robson, a foreign exchange strategist with The Royal Bank of Scotland in London, suggested, the more positive tone in U.K. financials simply gave investors an excuse to square up their short positions.

And, as we all know, the pound has long been tightly correlated to the performance of U.K. banks and the health of the financial sector in general.

All the same, there are already strong reminders that neither the rise in global risk appetite nor the optimism over developments in the U.K. are going to last long.

Corporate updates earlier this week brought a string of large planned job cuts — Corus in the U.K., Caterpillar in the U.S. and Fiat in the euro zone — all of which will undermine consumer confidence and keep downward pressure on sales, salaries and house prices.

There are some analysts looking for sterling to bounce back into its trading range between $1.4350 and $1.4750 late last year.

Others reckon that if the pound makes a sustained break over $1.4170, it could make a run up as high as $1.4600.

But, with the government still standing ready to inject more funds into the financial system if needed; with the Bank of England under increasing pressure to slash interest rates down to essentially zero, there appears to be little support for further sterling buying.

Steve Barrow, currency strategist with Standard Bank in London, described the rally in Barclays' shares as nothing more than a brief shot of optimism.

"When stocks have been so aggressively sold in the first place, sharp rebounds can occur from time to time that do not mean a great deal in the global context of struggling banks, slumping growth and the threat of deflation," he said.

Restructurings Are M&A's Silver Lining

Mergers and acquisitions activity in 2009 is likely to be drastically reduced from levels reached in recent years, but the deepening economic slowdown will spur restructuring deals in ailing industries and prompt some companies to take advantage of falling asset prices, bankers and experts say.

"The reasons which weighed on M&A activity in 2008 should not go away in 2009. Volatility and uncertainty, which make it difficult to value assets, as well as funding issues, should persist this year," said Matthieu Pigasse, managing director at investment bank Lazard in Paris.

According to Dealogic, European M&A totaled $1.3 trillion last year, down 30% from 2007. Excluding government injections, the volume of M&A dropped 38% on the previous year, with a sharp 58% fall in the fourth quarter compared with the third quarter of 2008.

The sharp fall in M&A activity was also due to a record number of withdrawn deals last year, up 51% on 2007 according to Dealogic, on the back of financing difficulties. The planned $147.8 billion linkup between mining giants BHP-Billiton and Rio Tinto is so far the highest profile casualty of the credit crisis.

"I would be surprised if the total volume of M&A were higher this year than last. I think it's more likely to be the opposite," said Tarique Shakir-Khalil, corporate finance partner at PriceWaterhouseCoopers in Paris. "It all boils down to liquidity and confidence returning to the markets," he said.

Ironically, the deepening recession is likely to boost the number of restructuring deals, which had already underpinned M&A last year, especially in the banking sector. Observers say some companies in sectors most hit by the crisis are under pressure to merge as a way of better weathering the global slowdown, or must sell non-core assets to meet their financing needs.

"The recession will force sectors with structural overcapacity or high fixed costs to restructure and rethink their business model," said Michel Payan, global head of M&A at Societe Generale. Besides banking, the automotive sector, real-estate, construction, transport and shipping, are the most likely to provide such transactions, Payan said. "In such sectors, M&A may be a necessity, not a choice," he said.

Dudley Pick Highlights Continuity

The selection of William Dudley to head the Federal Reserve Bank of New York is another sign of the importance of continuity among the nation's top policy makers.

Dudley, who until Tuesday was charged with leading the Markets Group at the New York Fed, was appointed president of the bank to replace Timothy Geithner, who on Monday was confirmed by the Senate as Treasury secretary in the Obama administration.

Observers see in the selection of Dudley a strong desire for a seasoned hand for the man who will be on the front lines of efforts to repair the financial system. The importance of finding experienced leaders is such that mistakes officials may have made in their previous jobs is of less importance, relative to the damage a neophyte might make.

There's no doubt Dudley, who now occupies arguably the second most important job at the Fed behind that of chairman Ben Bernanke, has seen a few things since coming to the New York Fed in 2007 after serving as Goldman Sachs' chief economist.

The head of the New York Fed's markets group is primarily a technical job, comprised of monitoring markets and overseeing the technical tasks needed to achieve the Fed's monetary-policy goals. Occasionally the limelight shines, as it did during the Fed's preparations for potential troubles ahead of the year 2000 changeover.

But there has been very little in the modern history of the Fed that compares with what Dudley has seen during his tenure. He was there as the Fed ramped up efforts to provide liquidity lifelines to Wall Street. He was also there as the Fed, via his bank, intervened to save failing investment bank Bear Stearns in the spring of last year. That action saw the Fed broker the sale of the foundered investment bank to JPMorgan Chase, in the process acquiring $29 billion of Bear's securities to manage.