DOWJONES
# i-Recap℠ Report

ICAP

News Provided By Dow Jones — Friday, January 30, 2009

## G7 CALENDAR

**Monday**

**12:00** **JPN**
Jan Auto Sales, Domestic (on year) (previous -22.3%)

**12:00** **JPN**
Dec Steel Imports & Exports Statistics

**3:45 a.m.** **ITA**
Jan Mfg PMI

**3:50 a.m.** **FRA**
Jan Mfg PMI

**3:55 a.m.** **GER**
Jan Mfg PMI

**4:00 a.m.** **EU**
Jan Eurozone Mfg PMI

**4:30 a.m.** **UK**
Jan CIPS Mfg PMI

**8:30 a.m.** **US**
Dec Personal Income (previous -0.2%), Personal Spending (previous -0.6%), PCE Price Index Monthly (previous -1.1%), Yearly (previous +1.4%), PCE Core Price Index Monthly (previous 0%), Yearly (previous +1.9%)

**10:00 a.m.** **US**
Jan ISM Mfg Index, Manufacturing Business Index (previous 32.4), Prices Index (previous 18), Employment Index (previous 29.9), Inventories (previous 38.8), New Orders Index (previous 22.7), Production Index (previous 25.5)

**10:00 a.m.** **US**
Dec Construction Spending, New Construction (previous -0.6%)

**6:50 p.m.** **JPN**
Jan Monetary base

**Tuesday**

**4:30 a.m.** **UK**
Jan CIPS Construction PMI

**5:00 a.m.** **EU**
Dec PPI

## TODAY’S MARKET WRAPS

**TREASURYS:** A bout of profit-taking ahead of the weekend pulled the plug on a rally in Treasurys Friday. Concern about rising supply of government debt also aided the selling. Long-dated Treasurys bore the brunt of the selling in a volatile session, giving up the gains made on details of a gross domestic product report that pointed to a bleak growth outlook and falling price pressures, though the headline number wasn’t as grim as economists’ forecasts. Still, the down trade was tempered by weak stocks and worries about global growth, with the latest round of data Friday from Japan, the Euro Zone, U.K. and U.S. all pointing to further weakness in major economies.

**CORPORATES:** the corporate bond markets were firmly open in January. Not including the Cellco/Verizon $4B deal on tap for Friday, the investment-grade market saw $100B in USD-denominated debt during the month, according to Dealogic. That’s a record for such issuance in January. High-grade credit saw renewed investor confidence in January. Option-adjusted spreads on a benchmark Merrill Lynch index fell from 619 BP on Dec. 29 to 538 BP as of Thursday. This is good news for companies seeking financing in the bond market.

**FOREX:** The euro fell to session lows Friday versus the dollar and yen as U.S. stocks declined with falling risk appetite, sending investors to the safe havens. Disappointing euro zone data added to the pressures. But the U.K. pound hit session highs against the dollar, a sign of the contrasting views that has emerged on the European currencies this week with the Bank of England seen as an active authority. Friday afternoon in New York, the euro was at $1.2798 from $1.2961 late Thursday, while the dollar was at Y89.94 from Y89.84, according to EBS. The euro was at Y115.10 from Y116.47. The U.K. pound was at $1.4435 from $1.4331, and the dollar was at CHF1.1607 from CHF1.1530 late Thursday.

**STOCKS:** U.S. stocks pared some of their earlier losses on a bounce for energy stocks, though the market remained under pressure from a dire reading on fourth-quarter gross domestic product that punctuated a week of grim economic reports. Throughout the market swoon of late 2008, much of the focus from investors was on a credit crunch that had already claimed two Wall Street banks and further dented all areas of the economy. And late this week, with corporate earnings reports and economic data showing investors just how dire the fourth quarter was off of Wall Street, stocks have found lots of sellers.

**ENERGY:** Crude oil futures prices rose nearly $2 a barrel early Friday, topping $43 in a rally spurred by news that the U.S. economy didn’t slow as much as feared in the fourth quarter 2008. Light, sweet crude oil for March delivery on Nymex was up $1.95 a barrel at $43.39/bbl, at 9:04 a.m. EST, moving in a range of $41.02 to $43.44. Prices flared higher after early modest gains were doubled on the U.S. data and propelled prices above Thursday’s high. Traders now look to a move above Wednesday’s high of $43.60 for signs of continued strength.

## TOMORROW'S TOP MONEY HEADLINES

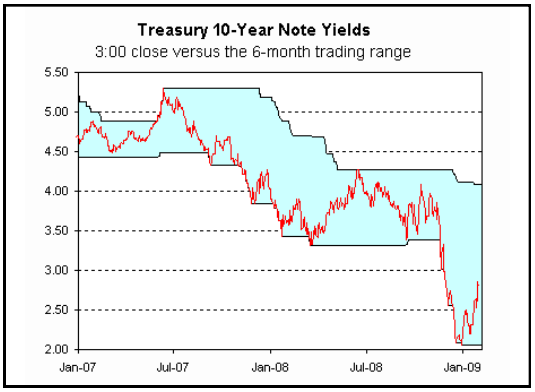
### US Economy Falls In 4Q By Most Since 1982

The U.S. economy shrank at the end of 2008 by the most in 26 years, according to a grim report that hints the recession will deepen in 2009.

Gross domestic product fell at a seasonally adjusted 3.8% annual rate October through December, the Commerce Department said in the first estimate of fourth-quarter GDP. Third-quarter GDP fell 0.5%. The back-to-back GDP declines were the first since GDP fell 3.0% in the fourth quarter of 1990 and 2.0% in the first quarter of 1991.

President Barack Obama’s administration is pushing for government stimulus of the sickly economy. The U.S. House of Representatives approved a roughly $819 billion economic recovery package Wednesday evening, at the end of Obama’s ninth day in office. The Senate must also clear the package.

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




## TREASURYS

| | PRICE | ASK | YIELD | CHANGE |
|---|---|---|---|---|
| 1-Mo Bill | 0.150 | 0.120 | 0.152 | 0.007 |
| 3-Mo Bill | 0.240 | 0.230 | 0.243 | 0.009 |
| 6-Mo Bill | 0.345 | 0.340 | 0.350 | -0.004 |
| 2-Year | 99.280 | 99.290 | 0.939 | 0.012 |
| 3-Year | 99.13+ | 99.14+ | 1.326 | 0.020 |
| 5-Year | 99.152 | 99.166 | 1.861 | 0.067 |
| 10-Year | 107.250 | 107.270 | 2.833 | 0.080 |
| 30-Year | 116.00+ | 116.030 | 3.609 | -0.002 |

## FUTURES

| | PRICE | CHANGE |
|---|---|---|
| CBOT 5 yr | 111.046875 | -1.16 |
| CBOT 10 yr | 122.8 | -0.16 |
| CBOT 30 yr | 127.1 | -2.16 |

## EQUITIES

| | INDEX | CHANGE |
|---|---|---|
| DJIA | 8051.36 | -97.650 |
| NASDAQ | 1483.12 | -24.720 |

## OIL

| | PRICE | CHANGE |
|---|---|---|
| NYMEX | 41.81 | 0.3700 |

## CURRENCIES

| | PRICE |
|---|---|
| Euro | 1.2818 |
| Sterling | 1.4474 |
| JPN Yen | 89.85 |
| Swiss Franc | 1.1594 |
| Can Dollar | 1.2254 |
| Mexico | 14.361 |

## IR SWAPS

| | SPREAD | RATE |
|---|---|---|
| 2-Year | 71.75 - 67.75 | 1.649 - 1.609 |
| 3-Year | 70.75 - 66.75 | 2.028 - 1.988 |
| 5-Year | 66.00 - 62.00 | 2.516 - 2.476 |
| 10-Year | 25.25 - 21.25 | 3.082 - 3.042 |
| 30-Year | -19.25 --23.25 | 3.415 - 3.375 |

## EURODOLLAR FUTURES

| | CLOSE | CHANGE |
|---|---|---|
| Mar09 | 98.77000 | -0.15000 |
| Jun09 | 98.75000 | -0.15501 |
| Sep09 | 98.64000 | -0.14500 |
| Dec09 | 98.45000 | -0.12500 |

## REPURCHASE AGREEMENTS

| GENERAL COLLATERAL | | i-REPO℠ INDEX | |
|---|---|---|---|
| O/N | 0.350 | 10:00 AM | 0.280 |
| 1-Week | 0.350 | 3:00 PM | 0.256 |
| 2-Week | 0.350 | | |
| 3-Week | 0.350 | **O/N SPECIALS** | |
| 1-Month | 0.350 | 2-Year | 0.260 |
| 2-Month | 0.350 | 3-Year | 0.280 |
| 3-Month | 0.400 | 5-Year | 0.250 |
| | | 10-Year | 0.260 |

## EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

| | EURO DEPOSITS | OIS STRIP |
|---|---|---|
| O/N FF | 0.3000 | |
| 1-Month | 0.3500 | 0.214 |
| 3-Month | 1.0000 | 0.243 |
| 6-Month | 1.5000 | 0.290 |
| 12-month | 1.9000 | 0.431 |

## FED FUNDS

| | |
|---|---|
| Open | 0.31250 |
| High | 0.3125 |
| 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 | 102.240 - 102.260 | 3.926 |
| FNMA | 5.0 | 102.080 - 102.100 | 3.825 |
| FHLMC | 5.0 | 102.086 - 102.106 | 4.012 |

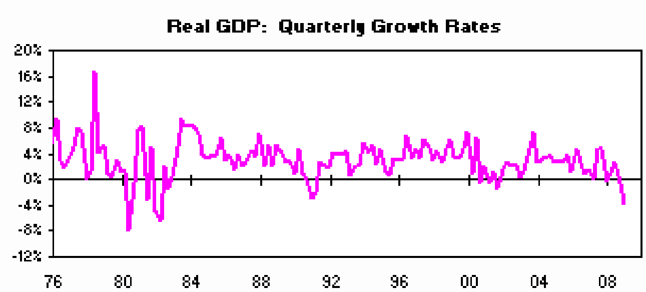
## ACTIVE MBS 30YR

| ISSUER | CPN | PRICE | YIELD |
|---|---|---|---|
| GNMA | 5.5 | 102.137 - 102.141 | 4.150 |
| FNMA | 5.5 | 102.107 - 102.111 | 3.653 |
| FHLMC | 5.5 | 102.175 - 102.195 | 3.510 |



### Wrightson-ICAP℠ Chart of the Day

http://www.wrightson.com



# TOMORROW'S MONEY HEADLINES

## Chicago Business Gauge Hits 27-Year Low

A closely watched measure of business activity in the Chicago region fell in January to its lowest level in 27 years, but it might be showing signs of bottoming out.

The Institute for Supply Management-Chicago reported that its Chicago Business Barometer, formerly known as Chicago PMI, dropped to 33.3 from 35.1 in December, undershooting analysts' expectations.

It was the lowest reading since March 1982, according to compiler Kingsbury International and came amid a slew of lowered earnings' forecasts and job and production cuts by manufacturing companies in the Midwest.

The Dow Jones Newswires pre-report survey had projected a reading of 34.5 for January, and the new reading comes amid a widespread economic slump.

## Labor Cost Increase At Record Low

U.S. labor costs advanced last year at their slowest pace on record, a government report showed, as the deepening recession made it much harder for workers to command higher salaries and benefits.

The employment cost index increased just 0.5% on a quarterly basis in the fourth quarter, which was the smallest increase since early 1999, the Labor Department said Friday. Wall Street economists had expected a 0.7% quarterly increase, according to a Dow Jones Newswires survey.

Wages and salaries grew 0.5% last quarter. Benefit costs, meanwhile, increased 0.4%.

For 2008 as a whole, employment costs increased just 2.6%, the slowest 12-month change since the government started compiling the figures in 1982. Wages grew 2.7% over the year, while benefits nudged 2.2% higher.

## GSEs Extend Foreclosure Freeze

Fannie Mae and Freddie Mac once again extended their freeze on evictions - this time through the end of February - to give loan servicers more time to help financially strapped borrowers avoid foreclosure.

Freddie Mac also announced a new program to grant month-to-month leases to certain former owner-occupants and tenants of foreclosed properties.

The new moves, announced by the companies Friday, are the latest steps by the mortgage giants to aid the housing market since they were seized by the government in September.

Fannie spokesman Brian Faith said the company would soon roll out new programs to allow renters of foreclosed properties in its inventory to convert to owners. Fannie is also working on new initiatives to help homeowners facing foreclosure, he said.

## Reuters/ Michigan Sentiment Rebounds

Consumer sentiment recovered a touch in January from December, according to a report released.

The Reuters/University of Michigan final sentiment reading for the first month of the year stood at 61.2, versus 61.9 in the preliminary survey and 60.1 in December. The full-month measure had been expected to stand at 61.9.

The full-month current conditions index was 66.5 from 69.5 in December, while the expectations index hit 57.8 from 54.0.

On the inflation front the one-year expectation came in at 2.2%, from the preliminary reading of 2.0% and the 1.7% seen in December, while the five-year expectation was at 2.9%, after 3.0% in the preliminary survey and 2.6% in December.

## Obama Urges Senate To Pass Stimulus

President Barack Obama said that fourth-quarter data showing the biggest contraction in the U.S. economy in 26 years underline the urgency of passing the stimulus package.

Pointing to the 3.8% drop in gross domestic product, Obama said, "This isn't just an economic concept, this is a continuing disaster for America's working families."

He welcomed the House passage of the stimulus bill on Wednesday and said he hopes it can be strengthened in the Senate.

"What we can't do is drag our feet or delay much longer," said Obama at a White House event to sign several executive orders to strengthen labor provisions for federal workers and contractors.

## 'Bad Bank' Plan May Have Hit Snag

U.S. government plans to create a so-called "bad bank" to buy bad assets from financial institutions appear to be on hold and may not happen, CNBC's Charles Gasparino reported, citing sources. In an earlier story, published on CNBC's Web site, Gasparino said officials from the Obama administration and Wall Street have been negotiating about the plan, but no consensus had been reached. At issue, apparently, is how to value the assets. Gasparino added that there will be more high-level meetings on the plan, but none are scheduled for the weekend.

## Exxon Mobil 4Q Net Down 33%

ExxonMobil Corp. reported a 33% drop in fourth-quarter net income, signaling an end to a string of record-breaking profits as oil prices show little sign of returning to last summer's highs.

Companies across the energy sector are seeing a sharp drop in profits as they absorb a 70% decline in oil prices since July, as well as the impact of the worsening global economic downturn.

## TOMORROW'S MONEY HEADLINES

### P&G Net Jumps 53% On Folger's Gain

Consumer goods giant Procter & Gamble Co. cut its sales projections for the fiscal year, saying it could feel added pressure from retailer and consumer cutbacks in coming months.

The maker of Tide detergent, Gillette razors and Pamper has seen slower growth as the credit crisis has pushed retailers globally to cut inventories and consumers to slash spending. P&G - the nation's largest consumer packaged goods maker - is closely watched as an important barometer of consumer spending in grocery stores.

"Impacts of this magnitude are unprecedented in our industry," Chief Financial Officer Jon Moeller said on a conference call, referring to the combined pressures of inventory cuts, volatile commodity costs and swings in foreign exchange rates that have hurt the normally steady consumer staples industry.

### GAO: TARP Still Lacks Transparency

The U.S. Treasury's $700 billion financial rescue plan remains an incomplete operation, plagued by backlogs and a lack of clear mission, a government watchdog said in a report to U.S. lawmakers.

The Government Accountability Office said Treasury has taken steps to improve the Troubled Asset Relief Program, including starting to monitor how banks use billions of dollars of government funds, but that more needs to be done.

"Treasury has made limited progress in formatting, articulating and communicating an overall strategy for TARP," GAO said in a report distributed to Congress. "In addition, it has not yet developed a strategic approach to explain how its various programs work together to fulfill TARP's purposes or how it will use the remaining TARP funds."

### Moody's Cuts Royal Caribbean Further

Moody's Investors Service lowered its ratings on Royal Caribbean Cruises Ltd. one notch further into junk territory, citing the company's "weak" fourth-quarter earnings, reduced outlook for revenue and the near-term need to secure ship financing.

The stock has lost more than half its value so far this year. The cut to Ba2 comes a day after the cruise-ship operator's fourth-quarter net income plunged 98% as revenue and net yields fell. The company said a "substantial downturn" began in September. It also projected 2009 results below analysts' expectations.

### Debt Limits Set For New Frontier

Colorado banking firm New Frontier Bancorp faces dividend and debt restrictions under an enforcement action the U.S. Federal Reserve announced.

The Fed said New Frontier and the Federal Reserve Bank of Kansas agreed on the restrictions as part of an effort to maintain the financial soundess of the banking firm.

Under its written agreement with the Fed, New Frontier cannot declare or pay any dividends without prior written approval from the regional Fed bank in Kansas.

The bank holding company also cannot incur, increase or guarantee any debt without prior written approval from the regional Fed bank.

### Canada Nosedives Into Recession

After a few months of gradual downward gliding, Canada's economy finally went into a clear recessionary tailspin in November, posting starkly weak gross domestic product figures to initiate what's expected to be a very dark period lasting through at least midyear.

Statistics Canada said Friday Canada's GDP contracted 0.7% on a monthly basis in November, nearly double the expected 0.4% decline.

Weakening activity was evident in nearly every area of the report, as telegraphed broadly by earlier releases of poor employment, manufacturing, trade and housing reports covering the same month.

## TALKING POINTS

### Poole Urges Fed Not Seek To Peg Rates

The Federal Reserve should stop dropping hints that it could buy longer-maturity Treasurys to help the economy, said former St. Louis Federal Reserve President William Poole, adding that buying long-end Treasurys to anchor rates would be a serious mistake.

Poole, who retired from the central bank last spring after serving for 10 years, said instead, the Fed should let the expansion in money work its way through the economy. While that will take some time to kick in, it will eventually aid the recovery.

Poole said the costs of potential Treasury-buying aimed at anchoring interest rates far surpass the benefits, and exiting such a strategy would be a messy affair for the government bond market. Already, speculation over what the Fed might do has led to volatile trade.

Treasury yields shot lower in December after the Fed first said it was considering the benefits of Treasury-buying. The 10-year yield, which moves inversely to price, dropped by about 25 basis points after the Fed's hints. The Fed's failure to shed more light on possible buying Wednesday led to a 13-basis-point rise in the 10-year yield.

"The Fed has completely and unnecessarily whipsawed the market by putting this idea out there," said Poole in an interview with Dow Jones Newswires on Thursday. "The Fed ought to abandon these hints that it might intervene directly in the Treasurys market for the purpose of setting a particular Treasury rate or price."

That, however, wouldn't preclude the Fed from continued buying of Treasurys to adjust the makeup of its open market portfolio, Poole said. The Fed currently owns some $413 billion in Treasurys.

Poole was a voting member of the Federal Open Market Committee in 2007. He is now a senior fellow at the Cato Institute in Washington.

Treasury-buying has been floated as another possible step to help the economy, because lower Treasury rates would in theory help to keep borrowing rates in the real economy down as those yields are tied to long-end government debt yields. The connection between Treasury yields and consumer borrowing rates has broken, though - mortgage and other key rates are still high despite historic low Treasury yields.

# TALKING POINTS

## Lawmakers Bothered By Naked Swaps

Currently making its way to lawmakers is a proposal to clamp down on speculative trade in credit derivatives, with the potential to upend the $29 trillion market.

In the final clause of his proposed "Derivatives Markets Transparency and Accountability Act," House Agriculture Committee Chairman Collin Peterson is calling for a ban on entering a so-called "naked" credit default swap. That means it would be illegal to buy this form of protection against a bond default without holding the bond named in the contract.

Peterson wants the legislation tabled soon and hopes for hearings next week to gather bipartisan support. It's too early to say how much support the proposal has, but Peterson's initiative comes amid ever louder calls among regulators and lawmakers for effective oversight of a market that is roundly blamed for its role - albeit widely misunderstood - in the ongoing financial crisis.

Effective is the operative word, though. A ban on naked swaps would make around 80% of the global credit default swaps market illegal in the U.S. Leave aside the obvious competitive implications, or the difficulty of enforcing jurisdictions on global trade. You can't do away with 80% of the market without consequences for the remainder, and this legislation could hobble a market for products that have served as powerful and popular hedging tools.

Peterson may not have to hunt too far for support on his proposal. Head of the National Conference of Insurance Legislators Steering Committee, New York state Senator James Seward, said testimony at its hearing last week gave the message "loud and clear: that unfettered 'naked' swapping should not be allowed."

In his testimony, Superintendent Eric Dinallo of the New York Insurance Department said federal authorities "need to acknowledge that naked CDS could arguably be even more pernicious than straight up gambling." He cited among the biggest critics of naked swaps the new head of the Securities and Exchanges Commission, Mary Shapiro, and newly seated Sen. Kirsten Gillibrand of New York.

Newcomers to credit default swaps are often disturbed to discover that the amount of debt supposedly insured by these contracts in many cases outstrips the actual amount of bonds in circulation. If CDS were used in good faith, they believe, every contract would be underpinned by an insurable interest.

But the boom in credit default swaps in the past decade swept away any pretensions of a one-to-one relationship. From hedge funds to blue-ribbon financial institutions, portfolio managers adopted credit default swaps for a variety of strategies. Some sell protection as an alternative to buying the bond itself, since both are a bet against default. That trade can be beneficial for companies that aren't big issuers of corporate bonds, helping to build demand for their debt, which in turn drives borrowing costs down.

## Seven-Year Treasury Note Set For Return

After nearly 16 years in hiatus, the seven-year Treasury note is set to make a comeback.

The Treasury Department is expected to revive the note in its quarterly refunding announcement next week. Also on the table is the 20-year security, though the consensus is that it isn't the top candidate at the moment.

The growing list of Treasury maturities indicates the size of the U.S. government's borrowing needs as it faces a record budget deficit and has to fund an economic stimulus of more than $800 billion and further bank bailouts that could top $1 trillion.

Last year, the government brought back the 52-week Treasury bill, or the year bill, as well as the three-year note. The government has already lifted the size of regularly issued notes, such as the two- and 10-year notes, among taking other measures to fine-tune the issuance schedule.

In recent meetings with the Treasury, some primary dealers - the group of leading banks that are obligated to bid at U.S. government debt auctions - have pushed for a new maturity. They want the Treasury to add to the issuance cycle, rather than increase current issuance sizes or increase the frequency of issuance. What's more, they argue, there is already monthly issuance in two-, three-, five- and 10-year notes, so adding another maturity to the curve makes more sense.

The likely reintroduction of the seven-year note is a signal that the Treasury Department under Timothy Geithner is targeting the long end of the curve this year to fund its debt obligations as the lineup at the short end has been saturated.

Longer-dated maturities are costlier for the government than shorter-dated ones as investors demand higher returns for the greater risk they incur. But bond yields are generally low - all maturities currently yield less than 4% - meaning the government can tap the funding market with ease and still pay lower interest rates than it would have a couple of years ago.

Thursday, the 10-year yield was at 2.73%, while the 30-year bond yielded 3.47%. The two-year note yielded just 0.92%, which compares with over 5% in June 2007, just right before the subprime-mortgage turmoil.

Louis Crandall, chief economist at Wrightson ICAP LLC, a Jersey City, N.J., research firm that focuses on government debt, said there is a "high probability" that the seven-year notes will be reintroduced at next week's refunding announcement. The notes are likely to be sold on a quarterly basis, with an auction size of between $22 billion to $25 billion.

## Deflation Risks Rise, ECB Cut Looms

The annual rate of inflation in the 16 countries that use the euro fell to its lowest level in almost a decade in January, making a period of deflation appear more likely than the European Central Bank has acknowledged.

The European Union's official statistics agency Eurostat Friday said annual inflation in the euro zone fell to 1.1% in January from 1.6% in December. That was well below expectations, since economists surveyed by Dow Jones Newswires last week had expected the rate of inflation to fall to only 1.4%.

Annual price inflation was last that low in July 1999, during the euro's first year as a currency. It also is now well below the level of just under 2% that the ECB defines as consistent with its goal of ensuring that prices remain stable over the medium term.

As recently as July of last year, the inflation rate stood at 4.0%. Given the speed at which the inflation rate has fallen, there appears to be an increased risk that the euro zone will experience a period of deflation — or falling prices — in 2009.

That's because the size of the decline in the inflation rate during January suggests prices of goods other than energy and food declined, reflecting declining demand.