

G7 CALENDAR

Tuesday	
2:00 a.m.	GER
Dec Retail Trade	
4:30 a.m.	UK
Jan CIPS Construction PMI	
5:00 a.m.	EU
Dec PPI	
6:00 a.m.	FRA
Dec OECD CPI	
7:45 a.m.	US
Jan 31 ICSC/Goldman Sachs Chain Store Sales (previous -1.8%)	
8:55 a.m.	US
Jan 31 Johnson Redbook Index (previous -2.6%)	
10:00 a.m.	US
Dec Pending Home Sales Index (expected 0%)	
4:30 p.m.	US
Jan 30 API	
Oil Industry Report	
Crude Stocks (Net Change) (previous +800K)	
5:00 p.m.	US
Jan 31 ABC/Washington Post Consumer Confidence Index (previous -54)	
6:15 p.m.	JPN
Jan Svcs PMI	
7:01 p.m.	UK
Jan Nationwide Consumer Confidence Index	
7:01 p.m.	UK
Jan REC & KPMG Report on Jobs	
N/A	JPN
Dec Provisional Labor Survey	
N/A	US
Jan Auto Sales	
N/A	JPN
Auction of 10-yr Government bonds worth Y2.0T	
Wednesday	
3:45 a.m.	ITA
Jan Svcs PMI	
3:50 a.m.	FRA
Jan Svcs PMI	

TODAY'S MARKET WRAPS

TREASURYS: Prices of Treasury notes and bonds rose Monday as investors, fretting about faltering growth, returned for bargains following a flurry of new debt supply. Long-dated Treasuries led the advance, with the price of the 30-year bond up more than 2 points. The yield on the 30-year bond was pushed down to as low as 3.49% from a session high of 3.61%. Long-dated government bond prices in Germany and the U.K. also rose. U.S. government bonds were down last week due to auctions of \$135 billion worth of U.S. government debt along with increasing corporate bond issuance. The down trade pushed up yields on the 10-year and the 30-year maturities by more than 20 basis points for the week.

CORPORATES: Dwayne Moyers, portfolio manager for SMH Capital Advisors, believes Macy's move to tender for its outstanding 6.30% senior notes due April 1, 2009, and its 4.8% senior notes due July 15, 2009, is an attempt to restore some belief in the company. "It would have had to have paid the bonds in 2009 anyway. The retail environment has gotten extremely tough, but Macy's had some cash after Christmas and it's trying to show some confidence in the company," he said. Lead managers Bank Of America Securities and Deutsche Bank have launched a \$1 billion two-part bond deal for Wellpoint Inc., according to one investor looking at the deal. The deal comprises a \$400 million five-year tranche and a \$600 million 10-year portion.

FOREX: The euro advanced against the dollar Monday in thin trading, but risk aversion was apparent in other currency pairs as the dollar gained on a flight to safety. The New Zealand dollar hit a six-year low versus the greenback; the ruble sank to a new record low against a basket of euros and dollars; and the Mexican peso hit a historic low against the buck. Monday afternoon, the euro was at \$1.2831 from \$1.2802 late Friday, while the dollar was at ¥89.56 from ¥89.92, according to EBS. The euro was at ¥114.95 from ¥115.07. The U.K. pound was at \$1.4263 from \$1.4514.

STOCKS: A slide for large industrial companies sent U.S. stocks into the red on a volatile session Monday. Led by sharp declines for manufacturers such as Boeing, 3M and General Electric, the Dow Jones Industrial Average was recently off 73 points, or 0.9%, to 7927, after falling 8.8% in January, its worst performance on record in the first month of a year. Traders note much of the focus in trading this week will continue to revolve around fourth-quarter earnings reports from a stable of companies. Notably, in recent sessions, several companies have chosen either to provide tepid guidance, or in some cases, none altogether.

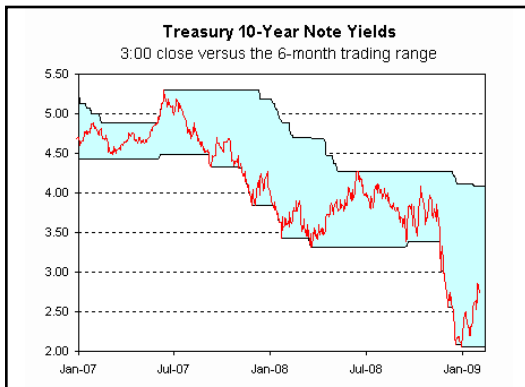
ENERGY: Crude-oil futures traded lower due to weak demand and the diminishing prospect of a strike by U.S. refinery workers. Light, sweet crude for March delivery traded \$1.25, or 3%, lower at \$40.43 a barrel on the New York Mercantile Exchange, after falling to \$39.83 a barrel. Brent crude on the ICE futures exchange traded \$1.23 lower at \$44.65 a barrel. Gasoline and heating-oil futures saw even sharper declines, as unionized workers at U.S. refineries continued to negotiate with their employers despite the expiration of their contract Sunday.

TOMORROW'S TOP MONEY HEADLINES**Macy's To Cut 7,000 Jobs, Slashes Dividend**

Macy's Inc. said it will cut its work force by about 7,000 positions, or 4% of the work force, as the nation's largest department-store chain cut its quarterly dividend by 62% and announced plans to roll out its decentralized Macy's effort that localizes store offerings Monday.

The company also projected earnings for its new fiscal year of 40 cents to 55 cents a share - analysts surveyed by Thomson Reuters projected 86 cents - and said planned capital spending this year will now be just \$450 million. The forecast has been cut several times and was originally \$1 billion.

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



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	0.190	0.160	0.193	0.031
3-Mo Bill	0.260	0.250	0.264	0.016
6-Mo Bill	0.350	0.345	0.355	0.010
2-Year	99.30+	99.31+	0.9	0.03+
3-Year	99.190	99.202	1.266	0.071
5-Year	99.30+	99.316	1.76	0.185
10-Year	108.23+	108.25+	2.726	1.03+
30-Year	118.250	118.27+	3.473	2.222

EQUITIES

	INDEX	CHANGE
DJIA	7921.21	-79.650
NASDAQ	1483.35	6.930

OIL

	PRICE	CHANGE
NYMEX	40.20	-1.4800

CURRENCIES

	PRICE
Euro	1.2834
Sterling	1.4266
JPN Yen	89.65
Swiss Franc	1.1623
Can Dollar	1.2442
Mexico	14.498

FUTURES

	PRICE	CHANGE
CBOT 5 yr	118.8	19.24
CBOT 10 yr	123.8	1.1
CBOT 30 yr	128.8	2.1

IR SWAPS

	SPREAD	RATE
2-Year	74.25 - 70.25	1.635 - 1.595
3-Year	72.25 - 68.25	1.982 - 1.942
5-Year	66.75 - 62.75	2.424 - 2.384
10-Year	24.75 - 20.75	2.970 - 2.930
30-Year	-20.75 --24.75	3.264 - 3.224

EURODOLLAR FUTURES

	CLOSE	CHANGE
Mar09	98.68500	-0.07500
Jun09	98.68000	-0.05500
Sep09	98.63000	-0.00500
Dec09	98.49500	0.04000

REPURCHASE AGREEMENTS

GENERAL	i-REPO™ INDEX	
COLLATERAL		
O/N	0.400	10:00 AM 0.340
1-Week	0.350	3:00 PM 0.318
2-Week	0.350	
3-Week	0.350	
1-Month	0.400	O/N SPECIALS
2-Month	0.400	2-Year 0.260
3-Month	0.400	3-Year 0.340
		5-Year 0.330
		10-Year 0.250

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	0.2000	
1-Month	0.4000	0.205
3-Month	1.1500	0.229
6-Month	1.5000	0.266
12-month	1.9000	0.367

FED FUNDS

Open	0.31250
High	0.3125
Low	0.2500

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

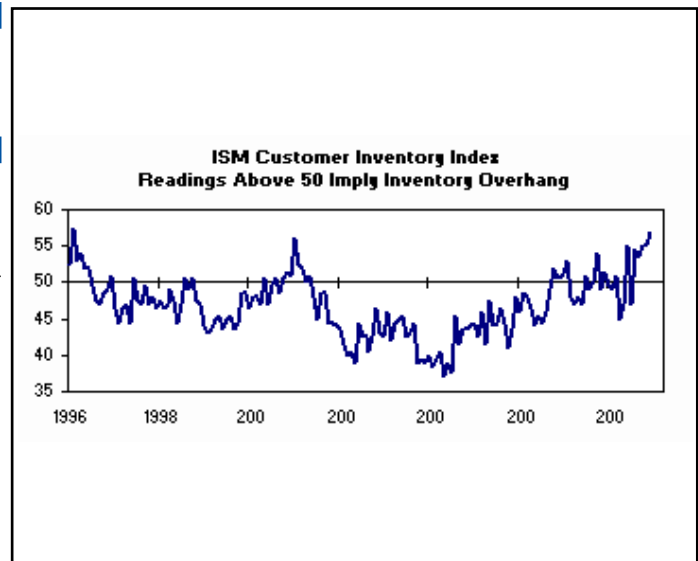
ACTIVE MBS 15YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.0	102.291 - 102.311	3.924
FNMA	5.0	102.140 - 102.160	3.846
FHLMC	5.0	102.151 - 102.171	3.988

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	102.200 - 102.220	4.239
FNMA	5.5	102.167 - 102.170	3.594
FHLMC	5.5	102.157 - 102.161	3.654

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TOMORROW'S MONEY HEADLINES

US Personal Income Falls 0.2%

Americans slashed spending in December despite tempting discounts by desperate merchants, and they increased savings to protect themselves in case the deepening recession throws them out of work.

Personal consumption tumbled at a seasonally adjusted rate of 1% compared with the month before, the Commerce Department said. For the entire year, spending rose by 0.3%, the weakest increase since 0.2% in 1991.

Wages have been dropping as employers ax workers and shorten work weeks. Personal income fell 0.2% in December; for 2008, income climbed 3.7%, the smallest since 3.2% in 2003.

Personal saving as a percentage of disposable personal income was 3.6% in December, the highest since 4.8% in May 2008. It was 2.8% in November. The savings rate of 1.7% in 2008 was the largest since 2.1% in 2004.

Obama: More Govt Action Needed

President Barack Obama said the U.S. government will need to offer additional support to the ailing financial sector because more banks are likely to fail. But he declined to discuss the potential creation of a "bad bank" to purchase the toxic assets at the heart of the credit crisis.

"It is likely that the banks have not fully acknowledged all the losses that they're gonna experience. They're gonna have to write down those losses. And some banks won't make it," Obama said in an interview with NBC's Today show.

Parts of the interview, which was recorded on Sunday, were aired Monday morning.

Geithner To Lay Out Plans On Crisis

U.S. Treasury Secretary Timothy Geithner will give a speech next week in which he'll outline the Obama administration's financial-rescue plans, according to a Treasury official.

The plan will include an effort to help homeowners in danger of foreclosure, as well as additional steps to shore up the financial sector.

Wall Street has been anticipating the new administration's plans, including expecting President Barack Obama to ask Congress for more money. Many economists no longer expect the second half of the \$700 billion, which Congress recently approved, to be enough to fix the ailing financial sector.

Lehman Examiner Seeks Subpoena Power

The former U.S. attorney investigating the collapse of Lehman Brothers Holdings Inc. wants authority to subpoena

key figures, including Lehman's former officers and directors as well as its investors and lenders.

Anton Valukas, who was tapped just over a week ago to probe events leading up to Lehman's historic failure, is asking for wide-ranging subpoena power, according to court documents.

Valukas, a former U.S. attorney in Chicago and the chairman of law firm Jenner & Block, wants to be able to subpoena anyone with "relevant information," such as Lehman's employees, its auditors and financial institutions.

Valukas' request comes after he told Judge James Peck of the U.S. Bankruptcy Court in Manhattan last week that he was trying to coordinate with others conducting their own investigations.

House To Debate Derivatives Regulation

A U.S. House panel will begin debating a sweeping proposal to regulate derivatives that triggered hiccups in financial markets when House Agriculture Chairman Collin Peterson, D-Minn., unveiled the aggressive plan last week.

The proposal marked a departure for Peterson, a conservative "Blue Dog Democrat" who as recently as October 2008 said he wanted to be careful to not "over-regulate" with new legislation that would tighten federal oversight of the swaps market.

Peterson's draft bill to regulate swaps contained an unexpected bomb tucked in the last few pages: a call to ban so-called "naked" credit-default swaps in which investors don't own the underlying bonds. That provision wasn't included in a draft circulated earlier this month, and it has already prompted an outcry from industry members who fear it could destroy the market.

Ameritrade Boosted To Investment Grade

Standard & Poor's Investors Services raised its credit ratings on TD Ameritrade Holding Corp. by four notches, and into investment-grade status, following a review of its relationship with Toronto-Dominion Bank.

The ratings firm, which said it determined TD Ameritrade to be a "strategically important investment" for Toronto-Dominion, raised its long-term counterparty credit rating on the online broker to BBB+, which is three notches above junk territory. Toronto-Dominion's stake in TD Ameritrade is approaching 50%.

The upgrade follows a similar action taken last week by Moody's Investors Service, which raised the company's ratings to Baa3, one level above junk.

Lobbying Firm Jilts Alabama County

A Washington, DC, lobbying firm has withdrawn from efforts to help Jefferson County, Ala., obtain federal aid for its ongoing sewer-debt woes.



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TOMORROW'S MONEY HEADLINES

American Media In Pact With Bondholders

American Media Inc. reached a deal with its bondholders that will help the struggling publisher of Star and National Enquirer stave off a bankruptcy filing in exchange for a 95% stake in the company.

The agreement comes after months of negotiations with holders of \$1.1 billion in bonds as American Media missed interest payments in both December and January.

Under the pact, American Media will see its debt reduced by \$227 million, and the new owners - investment advisers Angelo Gordon & Co., Avenue Capital Management, American High Income Trust and Regiment Capital Ltd. along with Credit Suisse Group's (CS) securities unit - will name a new board. David Pecker will continue as president and chief executive.

Moody's May Cut Starwood To Junk

Moody's Investors Service is considering lowering its credit ratings on Starwood Hotel & Resorts Worldwide to junk status in response to the company's lowered 2009 guidance.

The move comes just days after Starwood posted a 46% drop in fourth-quarter net income amid \$133 million in restructuring charges and write-downs of timeshare projects and North American hotels. The company also lowered its 2009 outlook and forecast first-quarter earnings below analysts' expectations.

Although Moody's acknowledged Starwood has taken action to reduce costs and capital spending to cut debt, the ratings firm said fundamentals in the hotel industry continue to weaken, as seen by falling revenue per available room.

Moody's also cautioned the lower earnings outlook, along with limited visibility in the industry, increases the chance Starwood will need to amend its debt covenants.

Muni Recommendations Go To White House

The Municipal Securities Rulemaking Board this week plans to send key U.S. lawmakers and the Obama administration

recommendations for expanding federal oversight of the municipal bond market.

The recommendations are part of the board's push for federal officials to bring swap advisers and other unregulated market participants under federal regulation.

Potential Downgrades In Jan A Record

The number of global debt issuers facing potential downgrades climbed 36% in January from a year earlier to 936, the highest level since the monthly report was started more than three years ago, according to Standard & Poor's.

The total last month is 251 more than the average number of potential downgrades over the history of the report, and 56% of the firms facing downgrades are already junk-rated.

The number of potential downgrades is more than double the number of issuers likely to be upgraded, following the trend of the past 16 month.

Companies rated B, or speculative, are the most likely to be downgraded, with 16% of the total.

Fannie Mae Announces 5-Yr Benchmark

Fannie Mae announced the launch of its five-year benchmark note, the first of its two debt securities to be issued this month.

The size of the deal wasn't announced but is expected to be \$3 billion or more.

Market participants say the focus is on how much of a premium investors would demand to buy the debt security.

"All of the large GSE deals in January came with hefty premiums to the secondary, at least by historical standards for agencies (but certainly not for corporates)," said Jim Vogel, agency strategist with FTN Financial, in a note.

The price talk on the new five-year note is at 93 basis points over comparable Treasuries. This is wider than the existing quote for Freddie Mac's five-year note that was trading at around 78 basis points on Monday morning.

TALKING POINTS

Lowering Mortgage Rates Isn't Easy

President Barack Obama has promised to lower mortgage rates for Americans, but that may be harder to achieve than it appears.

Since the start of this year, the Federal Reserve, in a bid to lower mortgage costs, spent some \$70 billion to buy up mortgage bonds guaranteed by the federal mortgage finance giants, but mortgage rates recently have begun to tick up again.

It's a stark reminder of how intractable the problems are that markets face and highlights the limits of even the Fed's ability to restore normal conditions. Even as the central bank has pledged to buy \$500 billion in mortgage bonds by June, equivalent to the year's expected net new supply, the mortgage market is grappling with its increasing dependence on, and the rising complications from, the Fed's involvement in the market.

For sure, the program has been successful in lowering mortgage rates: The 30-year fixed mortgage rate fell to as low as 4.875% from higher than 6% in November before the program was announced. But that rate has recently risen back to 5.34%, according to Bankrate.com, indicating the limitations of the Fed's actions.

Analysts say the Fed's buying may not be enough to push rates below a certain point, as other factors outside of the central bank's control put a floor under mortgage rates - from worries about rising supply pressuring Treasury yields higher to uncertainty over the duration of the Fed's support. On top of that, there is the lingering uncertainty over the future of Fannie Mae and Freddie Mac, both of which are scheduled to get out of their conservatorship at the end of this year.

"The Fed is trying to keep a lot of balls in the air, and one wonders if it's possible," said Chris Aherns, a mortgage strategist with UBS.

Typically, the 30-year mortgage rate is based on the sum of the 10-year Treasury yield, the risk premium on mortgage-backed securities and bank fees and charges.

The Fed's intervention was targeted at lowering the risk premium on mortgage bonds over Treasuries and using this as a tool to bring down the total mortgage rate that homeowners pay. It has been successful to a degree: Average premiums have shrunk by 100 basis points to 180 basis points since the Fed announced its program late last year.

TALKING POINTS

Delaying Judgment Day - Again?

Moving day is a pain. It's even worse when all the goods are flood damaged.

That will be the challenge for founders of the "bad bank," which is Treasury's newest idea for aggregating trillions in moribund debt hobbling our financial system.

Widening recession triggered in part by the lending crisis makes it clear the bad debt is a national problem. Relief to Bank of America Corp., Citigroup Inc. and others has been piecemeal, and while it has propped up the banking system it has been ineffective in restoring credit or public confidence in a recovery.

Now policymakers say what is needed is a "bad bank" that can purchase the debt, identify and isolate the loss and work it out over time.

But questions of how to price the debt and manage the hardship for homeowners who are the counterparties to this folly are the same now as in November when the first consolidation idea emerged.

The Troubled Asset Relief Program as it was labeled proposed using a reverse auction to value the assets. Accounting rules, however, require holders of similar assets to mark them to the new market price, which would have required write down of far more securities than TARP could acquire with its \$700 billion.

The Treasury Department instead invested nearly \$350 billion in banks and insurers to bolster their capital levels and hoped that would do the job.

It did not.

Now discussion is focused on whether it may be possible to move assets into a bad bank without fully pricing the loss, or "journaling over" the assets from the good bank to the bad bank. But doing so would compromise the solution by delaying the reckoning yet again, says securities attorney George Simon of Foley & Lardner in Chicago.

"What we've learned over the last four months is that the fear of revaluation is worse than the valuation itself," says Simon.

Routine trading created a reliable price discovery mechanism for mortgage-backed securities. When trading stopped, so did price discovery, and the result is no one knows how much the securities are now worth.

Journaling assets from a bank into a bad bank without setting a value "might be possible, but I doubt it is what they will do," he says. "Part of the reason for doing this is to remove uncertainty and the biggest uncertainty is price."

Will Japan, Swiss Bks Intervene In Mkt?

So which is going to crack first - the Bank of Japan or the Swiss National Bank?

In these extraordinary times, demanding extraordinary measures, both central banks are faced with the option of market intervention to halt the advance of their currencies and help their beleaguered exporters.

Also, with interest rates in both Japan and Switzerland down at virtually zero and both their economies still slowing much more rapidly than expected, intervention could well provide another key method of monetary relief.

Steve Barrow, currency strategist at Standard Bank in London, is among those who argue that instead of waiting for the dollar to fall as far as Y80 or the euro to tumble all the way to CHF1.40, these central banks may enter the markets much

earlier in an effort to pump cash into their money markets.

"We think that there is a realistic chance that intervention occurs well before these levels as central banks use the currency market to aid their 'quantitative easing'," Barrow said.

The SNB has already been busy intervening verbally - warning that it is prepared to enter the market if the franc's rally goes too far.

Last week, SNB President Jean-Pierre Roth tried to play down the risks in an effort to appear in control. However, with the Swiss so reliant on exports to the swiftly-slipping euro zone economy, the franc's strength against the euro will become increasingly important.

The pressures on the Bank of Japan appear even more acute. Exports are collapsing, falling by a record 35% in the year to December; industrial production is diving, falling by 9.6% during December; and unemployment is soaring too, with the jobless rate up at 4.4% in December.

A report Friday that Toyota's operating loss in the current financial year will amount to as much as Y400 billion, instead of the Y150 billion that was being estimated just a month ago, helps to illustrate the extent of the strong yen problem.

And there appears to be little let up for the rising yen, which has already risen 20% against the dollar and 35% against the euro over the last year.

Not only does the yen benefit as a safe haven in these times of global uncertainty, but signs are that institutional investors are increasingly losing their appetite for foreign assets and bringing their money home before the end of the financial year in March.

Yield Difference Brings More Liquidity

Institutional investors, gone from the beleaguered tax-exempt bond market during the past year's credit crisis, are beginning to test the waters once again, leading some market participants to talk about an increased ability to trade bonds.

Attracting these large professional investors - mostly mutual funds and some buyers who normally purchase taxable debt - is the widest yield differential in over 20 years between short-term and long-term high-quality state and local government bonds.

That yield spread Friday stood at 3.8 percentage points for triple-A-rated municipals, as the returns moved from a paltry 1.2% at two years to 5.02% at 30 years. The longer-term yield was just too juicy for large investors to pass up, and they helped to snap up the bulk of new market offerings this week.

This interest actually started a few weeks ago but has increased in momentum, aided by talk out of Washington about aid for cash-strapped states in meeting their budget deficits.

"As that talk got louder, more institutional money seems to have come into our market from outside the market," said Michael Pietronico, chief executive at Miller Tabak Asset Management in New York. "In particular, I would think that some taxable buyers have positions now in municipal bonds."

The spread has grown sharply since just Dec. 31, when it stood at 3 percentage points, but most of the differential occurred in the shorter maturities, Pietronico and others pointed out. Short-term muni rates in that period fell to 1.2% from 2.03%, while long-term rates hardly budged, moving to 5.02% from 5.04%, although they did see a sharp decline on a mid-January rally.