Stoltzfoos, Jeffrey

From:	Market Room
Sent:	Monday, March 03, 2008 6:36 PM
Subject:	PM Markets Briefing | March 3
Attachments:	Mkts Briefing 03.03.2008pm.doc

Mon Mar 03 06:17:57 PM

DJIA	12258.90	-0.06%
S&P	1331.34	+0.05%
NASDAQ	2258.60	-0.57%
FTSE	5818.60	-1.12%
Nikkei	12992.18	-4.49%
1-Month Tsy	1.985	-9.2 bps
3-Month Tsy	1.650	-19.5 bps
3-Month LIBOR	3.014	-4.3 bps
2-Year Tsy	1.631	+2.0 bps
10-Year Tsy	3.543	+3.0 bps
2yr SwSpr	90.75	+3.8 bps
10yr SwSpr	68.50	-0.2 bps
10yr Gilts	4.439	-2.0 bps
10yr Bund	3.857	-3.0 bps
10yr JGB	1.329	-2.0 bps
Oil NMX WTI	$102.28	-$0.17
Gold Spot	$983.70	+$9.53
$/Euro	$1.5195	-0.07%
Yen/$	103.51	+0.07%
Yen/Euro	157.35	-0.08%

Quotes provided by Reuters

Major equity indices were little changed, however, financial sector share prices continued to under-perform major indices, with the S&P financials index declining 1.2 percent. Declines in the financial sector were largely concentrated among mortgage companies and investment banks, with many citing today's negative headlines regarding Thornburg mortgage, a bellwether for Alt-A loan origination, as contributing to negative sentiment. Following the company's statement that it could not meet margin calls on $270 million of repurchase agreements, S&P lowered the company's debt rating to 'Selective Default' from 'B-, suggesting that the company's inability to meet repurchase obligations is unlikely to affect its standing with other debt holders. In addition, the Institute of Supply Management said its index of manufacturing activity in the U.S. fell to 48.3 in February, down from 50.7 in January. Index readings below 50 indicate a decline in the manufacturing activity, which means that the yardstick has now swung from signaling growth to contraction in the sector.

Consistent with concerns over the financial sector, CDS spreads of investment banks, including Bear Stearns and Lehman Brothers, widened by 7 and 5 basis points to 310 and 230 basis points, respectively. Some analysts have suggested that investment banks' first quarter earnings are likely to reflect further write-downs of as much as $10 to $15 billion, given the ongoing declines in prices of credit products, including leveraged loans, CMBS, and MBS.

Intermediate- to longer-dated breakeven rates of inflation widened up to 3 basis points and the Barclays' measure of 5-year 5-year forward breakeven inflation rates closed at a new all-time high of 2.71 percent, according to Barclays' data collected since early 2006. TIPS traders have attributed the recent rise in this measure to a combination of factors including increased inflation risk premium, a rise in longer-term inflation expectations, and continued strained liquidity conditions in the TIPS market. In addition, market participants also attributed the 2-to 3 basis point widening of short-dated breakeven rates of inflation to the continued rise in commodity prices. In the nominal space, the 2-to 10-year Treasury curve steepened 4 basis points in reportedly light volumes. As mentioned above, today's higher-than-expected

ISM manufacturing data release elicited little sustained price action, as market participants await further significant economic data for trading direction following last week's sharp decline in yields. Finally, today's 3 and 6 month bill auctions went well, stopping at 1.79% and 1.81%, respectively.

Commodity markets were up once again with gold, platinum and oil hitting records. Gold and platinum futures hit record highs and silver a 27-year peak Monday as commodities in general remained strong and the dollar weak. Most-active April gold hit a contract high of $992 an ounce on the Comex division of the New York Mercantile Exchange. Crude-oil futures have topped the inflation-adjusted high set in April 1980 and ended up 42 cents at $102.26. The broad-based Dow Jones-AIG Commodity Index rallied sharply Monday, up 1.1%, or 2.402 points, at 217.92.

Looking ahead, market participants will be focused on Friday's employment report. In addition, several Federal Reserve officials will give speeches this week, with the most widely anticipated being Chairman Bernanke's speech on mortgage foreclosures and Governor Mishkin's comments on the economic outlook on Tuesday. President's Fisher, Yellen and Vice Chairman Kohn's will also be speaking at the Banque de France's Inflation and Monetary policy conference on Friday.

Source: Bloomberg, Moody's, TradeWeb, Dow Jones, Reuters and NY Fed Markets

Austin Hong
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202.622.3665
For 24-hr updates, ping mkt@do.treas.gov

Mkts Briefing
)3.03.2008pm.doc..

From: Zuccarelli, Jennifer
Sent: Monday, March 03, 2008 8:59 PM
To: Abbott, Matthew; Appleton, Jesse; Butler, John; Christopher_C._Papagianis@who.eop.gov; Davis, Michele; Foley, Trip; Forsell, Courtney; Foster, Robert; Garibay, Marisol; Hill, Rob; Jaconi, Kristen; Kane, Lauren; Kertz, Mary; Mason, Jeb; McLaughlin, Brookly; Nason, David; Norton, Jeremiah; Ryan, Tony; Schetzel, Michael; Schultheiss, Heidilynne; Scogin, Matthew; Steel, Robert; Stoltzfoos, Jeffrey; Ugoletti, Mario; Wheeler, Seth
Subject: WSJ- Insurance Held Hidden Risks, A Fund Claims

Insurance Held Hidden Risks, A Fund Claims

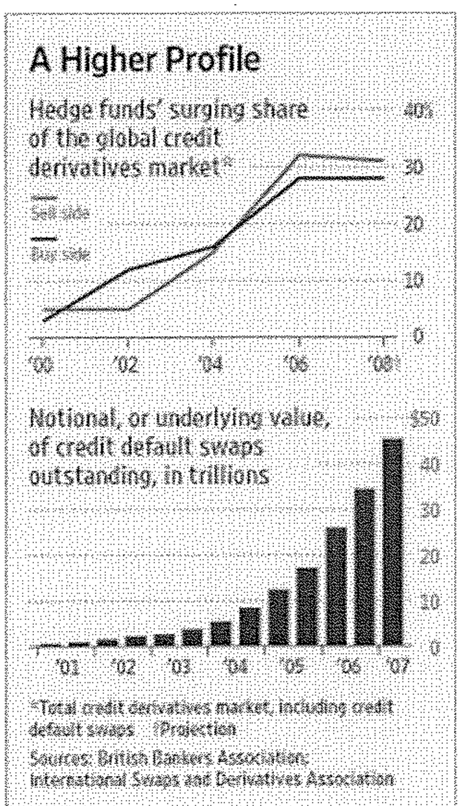
Citigroup, Wachovia Face Suits Involving Credit Default Swaps

By SUSAN PULLIAM, SERENA NG and TOM MCGINTY
March 4, 2008

As financial markets boomed in recent years, some Wall Street players began selling insurance against things going wrong, in what looked like prudence.

It wasn't.

In separate lawsuits filed in a New York federal court, a $58-million-asset hedge fund alleges that Citigroup Inc. and Wachovia Corp., respectively, improperly required the fund to pay out more money from insurance derivatives contracts known as "credit default swaps" amid a steep decline in the value of mortgage-backed bonds.



The hedge-fund manager says he didn't view the insurance-related trades as particularly risky and now says he feels "suckered." Citigroup and Wachovia each say the fund's claims are "without merit."

Meantime, other financial players say they have been stiff-armed by trading partners when they've tried to cash out on profits from such insurance-related transactions. In one instance, a hedge-fund manager says he was blocked from selling out of a swap position, unless he made another credit-default swap trade.
The skirmishes signal cracks in the vast and unregulated market for such credit default swaps, where banks, hedge funds and others trade insurance against debt defaults. In these swaps, one party pays another to assume the risk that a bond or loan will go bad. The market for such swaps has soared to nearly $45 trillion, a number comparable to all the bank deposits world-wide, according to the International Swaps and Derivatives Association, or ISDA, a trade group.
Hedge funds have played both sides of this market -- in some cases buying this insurance and cashing in when mortgage bonds faltered, and in other cases, selling insurance to other players.
Not everyone who buys these contracts has bonds to insure; because the value of an insurance contract rises or falls with perceptions of risk, some players buy them to speculate. If the value of the debt changes, parties in a swap may be required to make large payments to each other. Now it looks like reckoning day for some of the speculators.
Deep problems already have emerged in the role of traditional bond-insurance companies such as MBIA Inc. and Ambac Financial Group Inc. involving these contracts. They wrote guarantees on billions of dollars in complex mortgage securities. Such bond insurers in recent years represented a small but psychologically important part of the credit-derivative market, comprising 8% of the sellers of credit protection, according to estimates from the British Bankers Association.
But hedge funds are an even bigger player in this arena. Hedge funds provided roughly one-third of trading volume in all credit derivatives in 2006 -- up tenfold from 2000, the BBA says. And hedge funds accounted for 60% in credit-default-swap trading in high-grade debt and 80% in low-grade debt in the 12 months ending April 2007, Greenwich Associates estimates.
During the credit bubble, even small hedge funds made speculative bets by selling big banks insurance protection on mortgage-backed bonds. Banks bought the protection, reckoning it wouldn't be needed.
"The problem with banks and brokers buying credit protection from hedge funds is that you just don't know when they are going to go dark, turn out the lights and say this is now the brokers' problem," says David Lippman, a managing director of Metropolitan West Asset Management, a bond manager in Los Angeles.
Unlike most other big players in the swaps market, hedge funds aren't subject to heavy oversight by regulators or capital requirements. Financial firms usually guard against the risk of their hedge-fund trading partners being unable to pay by requiring they put up cash or collateral for their swap trades.
The industry defends the role of hedge funds. Robert G. Pickel, ISDA's executive director, says hedge funds add "price competitiveness and liquidity" and help spread risk.
The legal cases underline the gridlock that can emerge when such insurance agreements break down. One suit, filed Feb. 14, outlines a credit-default-swap agreement in which Citigroup bought $10 million of protection against a security backed by subprime-mortgage assets from a small Florida hedge fund with just $58 million in capital. The security was a "collateralized debt obligation," known as a CDO, or a thinly traded investment that packages pools of loans.
The fund -- VCG Special Opportunities Master Fund Ltd., which is owned by an investment firm that also owns a Puerto Rican investment bank -- alleges that Citigroup breached its contract after the bank demanded the fund post additional collateral. By this January, the hedge fund says, the collateral Citi sought from it nearly equaled the $10 million "notional," or underlying, amount of the swap.
In the other suit, the hedge fund, which at that time was named CDO Plus Master Fund Ltd., says it sold credit protection on a mortgage-related security to a unit of Wachovia last May, only to be asked to pony up millions of dollars of collateral in the ensuing weeks.
The hedge fund entered into a credit default swap with Wachovia under which the bank bought protection on a $10 million security issued by a CDO, which had a credit rating of double-A and was issued in April 2007.
Over the next several months as the mortgage market swooned, Wachovia repeatedly demanded the hedge fund -- which had put up an initial $750,000 -- deposit additional collateral for the swap. The hedge fund said in the suit it made more than a dozen additional payments, totaling roughly $8.2 million. In late November, Wachovia requested still more margin, which the fund said brought the total it was asked to fork out to $10.4 million.

The hedge fund refused to pay the final request for collateral of $1.49 million, and Wachovia foreclosed on the fund's nearly $9 million in collateral, meaning the hedge fund got stuck with the losses. "We are concerned that Citi and Wachovia are attempting to take advantage of smaller hedge funds to seek return of capital...to minimize their own exposure in the marketplace," says Steven Mintz, a lawyer for the fund.

Donald Uderitz, the hedge fund's manager, says he believed there was little likelihood of having to pay out insurance to cover losses from the CDO. In an interview, he says he bought the investment to earn the fees the banks would pay the hedge fund, equal to 5.5% of the $10 million notional amount of the swap from Citigroup and 2.75% from Wachovia. Mr. Uderitz says he feels "suckered."

Citigroup and Wachovia say they did nothing wrong and are fighting the suits.

Some other hedge-fund managers say they've been bullied by securities firms when they've tried to cash out on profits from such positions. When one hedge-fund manager considered selling out of a credit-default swap -- in which his fund bought protection on $10 million of bonds of Countrywide Financial Corp. -- he says there was a condition attached by two securities firms. He says the firms -- Bear Stearns Cos., which sold him the swap, and Morgan Stanley -- told him they would cash him out of his profitable position, only if he would simultaneously enter into another swap-selling insurance protection on the bonds equal to his fund's $3 million profit.

Eventually, he says, his fund sold the position through Goldman Sachs Group Inc. and Lehman Brothers Holdings Inc., allowing him to book the $3 million profit.

Representatives for Bear Stearns, Morgan Stanley, Goldman and Lehman declined to comment.

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Stoltzfoos, Jeffrey

From: Market Room
Sent: Thursday, March 06, 2008 4:11 PM
Subject: UPDATE: U.S. equities lower - S&P down 2.25%

FYI – Equities are broadly lower, Treasury yields are down sharply and rates implied by interest rate futures contracts are lower in the wake of today's extreme volatility. In addition, conforming mortgage spreads continued their massive widening, moving out another 34bps today to 193bps over 10-year Treasurys.

Thu Mar 06 03:58:08 PM

DJIA	12032.66	-1.81%
S&P	1303.91	-2.23%
NASDAQ	2219.88	-2.33%
1-Month Tsy	1.705	-19.0 bps
3-Month Tsy	1.315	-16.5 bps
2-Year Tsy	1.518	-11.7 bps
10-Year Tsy	3.602	-8.2 bps
2yr SwSpr	107.75	+4.0 bps
10yr SwSpr	87.00	+6.5 bps
30yr Conf Mtge	192.98	+33.82 bps
Oil NMX WTI	$105.41	+$0.89
$/Euro	$1.5377	+0.75%
Yen/$	102.56	-1.39%

Quotes provided by Reuters

U.S. Stocks Drop, Led by Banks, as Foreclosures Climb to Record
2008-03-06 15:19 (New York)

By Michael Patterson

March 6 (Bloomberg) -- U.S. stocks fell to an 18-month low, led by banks, after home foreclosures climbed to a record and loan defaults by Thornburg Mortgage Inc. and a Carlyle Group bond fund spurred concern that credit losses are deepening.

Citigroup Inc., JPMorgan Chase & Co. and Merrill Lynch & Co. led financial shares to the lowest level since May 2003 on speculation the defaults will add to declines in mortgage-backed securities. Retailers J.C. Penney Co. and Gap Inc. fell on February sales that trailed estimates. European shares extended their retreat after the European Central Bank kept interest rates at a six-year high to curb inflation. Asian stocks rose.

The Standard & Poor's 500 Index slid 23.31 points, or 1.8 percent, to 1,310.39 at 3:17 p.m. in New York, the lowest level since September 2006. The Dow Jones Industrial Average lost 171.61, or 1.4 percent, to 12,083.38. The Nasdaq Composite Index decreased 41.48, or 1.8 percent, to 2,231.33. Ten stocks fell for every one that rose on the New York Stock Exchange.

``It's a tough environment,'' Paul Rasplicka, who manages $4 billion at AIM Investments, said in a Bloomberg Television interview in New York. ``Lending terms are tighter. The willingness to extend credit is less. It's making it very tough for business.''

Financial stocks fell for a sixth day, the longest losing streak since November, after an industry report showed foreclosures surged at the end of 2007 and late payments rose to the highest in 23 years. Yield spreads on some mortgage-backed securities climbed to 22-year highs today, signaling home loans will be more expensive for borrowers. The collapse in subprime mortgages has caused at least $181 billion of writedowns and credit losses worldwide, prompting banks to restrain lending.

Banks Slump

Citigroup, the biggest U.S. bank by assets, fell 79 cents to $21.36, poised for its lowest close since November 1998.
JPMorgan, the third-largest, dropped $1.17 to $37.57.

Merrill Lynch declined $3.12 to $46.20, the lowest since June 2003. Merrill and four of its Wall Street rivals had their first-quarter profit estimates cut by Keefe, Bruyette & Woods Inc. analyst Lauren Smith for the second time in less than a month. More than a dozen analysts have lowered first-quarter profit estimates for the biggest U.S. securities firms in the last two weeks.

Goldman Sachs Group Inc. lost $5.72 to $159.25. Bear Stearns Cos. retreated $5.11 to $70.67. Lehman Brothers Holdings Inc. fell $2.13 to $45.93. Morgan Stanley dropped $1.68 to $39.79.

Thornburg's Default

Thornburg Mortgage lost $1.63, or 48 percent, to $1.77.
JPMorgan sent a default notice after Thornburg failed to meet a $28 million margin call, Thornburg said. That triggered defaults on other financing agreements and the amounts involved are ``material,'' the company said. RBC Capital Markets wrote in a research note today that ``bankruptcy is now a more likely outcome'' for Thornburg.

Fannie Mae, the largest source of money for U.S. home loans, declined $2.14 to $22.13, the lowest since May 1995. Freddie Mac, the second-biggest, lost $1.58 to $20.06.

Washington Mutual Inc. dropped 78 cents to $12.02, the lowest since May 1996. Standard & Poor's lowered its credit rating on the largest U.S. savings and loan and said another cut is possible.

Carlyle Capital Corp., Carlyle Group's publicly traded mortgage bond fund, said it missed four of seven margin calls yesterday totaling more than $37 million. The fund, which raised $300 million in July and used loans to buy about $22 billion of AAA-rated mortgage securities issued by Fannie Mae and Freddie Mac, expects to get at least one more notice of default related to the margin calls.

Carlyle Group, started by David Rubenstein in 1987, is the world's second-biggest private-equity firm.

`Painful Exercise'

``Leverage is coming off across the system,'' said David Baker, the Boston-based chief investment officer at North American Management, which oversees $1.1 billion. ``It's going to be a painful exercise and I don't think the equity market has full appreciation of what it's going to mean and how it's going to be unwound.''

J.C. Penney, the third-largest U.S. department-store chain, tumbled $4.68 to $43.43. Same-store sales last month dropped 6.7 percent, worse than the average estimate for a 2.4 percent decline compiled by Retail Metrics LLC, a consulting firm.

Gap, the largest U.S. clothing retailer, lost 93 cents to $19.59. Sales fell 6 percent, almost twice the average estimate for a 3.1 percent decrease.

Nordstrom, Saks

Nordstrom Inc., a luxury department-store chain, dropped $2.31 to $35.03 after posting sales that trailed estimates.

The S&P 500 Retailing Index declined 3.3 percent to the lowest since Jan. 18 as 30 of 31 members fell. The first drop in employment in more than four years in January and higher gasoline prices are causing Americans cut back on spending. Gas prices climbed today and crude oil rose to a record $105.97 a barrel as the U.S. dollar fell to its lowest ever against the euro.

The Labor Department may report tomorrow that the U.S. added 23,000 jobs in February after losing 17,000 the previous month, according to the median estimate of economists surveyed by Bloomberg News.

Intel Corp. retreated 24 cents to $19.96. The world's biggest maker of semiconductors said it expects flash-memory prices to fall about twice as fast this quarter as predicted, prompting the company to consider slowing its expansion into the market. The shares have tumbled 25 percent this year amid expectations that a global economic slowdown will reduce demand for computers and other electronics that use semiconductors.

All 10 industry groups in the S&P 500 dropped, with 461 of the index's members posting declines. Financial shares were the biggest drag on the S&P 500, falling 2.7 percent as a group.

Record Foreclosures

UBS AG's U.S.-traded shares dropped $1.44 to $29.39. Europe's biggest bank by assets ``likely'' sold its 25 billion francs ($24 billion) prime Alt-A mortgage portfolio in a ``fire sale,'' JPMorgan said as it lifted its ``credit-crisis'' writedown estimate for the bank to 18.5 billion francs.

New foreclosures jumped to 0.83 percent of all home loans in the fourth quarter from 0.54 percent a year earlier, the Mortgage Bankers Association said. The share of all home loans with payments more than 30 days late, including prime and fixed-rate loans, rose to a seasonally adjusted 5.82 percent, the highest since 1985.

The difference in yields, or spread, on the Bloomberg index for Fannie Mae's current-coupon, 30-year fixed-rate mortgage bonds and 10-year government notes widened about 7 basis points, to 223 basis points, the highest since 1986 and 89 basis points higher than Jan. 15. The spread helps determine the interest rate homeowners pay on new prime mortgages of $417,000 or less. A basis point is 0.01 percentage point.

Wal-Mart Rises

Ambac Financial Group Inc., the bond insurer that announced plans yesterday to raise $1.5 billion by selling common shares and equity units to salvage its AAA credit rating, dropped $1.08 to $7.62. JPMorgan analysts said the shares may fall in the ``near term'' and the company may need more capital to avoid a downgrade.

Wal-Mart Stores Inc. gained 81 cents, or 1.6 percent, to $50.36 for the only gain in the Dow average. The world's largest retailer said February sales increased 2.6 percent, exceeding its forecast, after price cuts spurred demand for groceries and medicines.

Oracle Corp., the third-largest software maker, climbed 72 cents to $19.52. Merrill Lynch analysts advised clients to buy the shares, writing in a research note that the company likely had a ``strong'' fiscal third quarter and its acquisition of software maker BEA Systems Inc. will boost earnings next year.

H&R Block Inc. gained 71 cents, or 4.1 percent, to $17.95 for the top rise in the S&P 500. The biggest U.S. tax preparer's third-quarter loss narrowed on higher revenue from tax filings and the company said fees collected in February rose by 13 percent.

Economy Watch

Initial jobless claims decreased by 24,000 to 351,000 in the week that ended March 1, the lowest level since the week of Jan. 19, the Labor Department said. Total benefit rolls rose for a third straight week, to the highest since September 2005.

The number of Americans signing contracts to buy previously owned homes was unchanged in January. The National Association of Realtors' index of signed purchase agreements held at 85.9, higher than forecast and the second-lowest level since the Chicago-based group began keeping records in 2001.

Boston Federal Reserve Bank President Eric Rosengren indicated falling property prices may strain credit markets and delay an economic rebound.

``As long as housing prices continue to fall, the decline increases the risks to borrowers, lenders, markets and the economy,'' Rosengren said. ``Significant further declines in home prices could greatly complicate efforts to resolve current problems.''

Fed Bets

Fed Bank of New York President Timothy Geithner said the central bank may need to keep interest rates low for a while if financial markets remain under stress and threaten economic growth.

Traders priced in a 72 percent chance that the Fed will lower its benchmark lending rate by 0.75 percentage point to 2.25 percent by its March 18 policy meeting, up from 54 percent odds yesterday, according to Fed funds futures prices compiled by Bloomberg. The rest of the bets are for a 0.5 point reduction.

Treasuries rose and three-month bill rates fell to the lowest level since 2004 as investors took refuge in government securities.

U.S. stocks gained the most in a week yesterday as a rally in commodity producers overshadowed speculation that Ambac's plan to raise $1.5 billion will fail to salvage the bond insurer.

Stoltzfoos, Jeffrey

From:	Market Room
Sent:	Monday, March 10, 2008 1:43 PM
Subject:	Market Update| U.S. Stocks Retreat, led by financials

* U.S. stocks fell for a third day, led by financial companies. Bear Stearns shares fell 8.4 percent, the most since 1999, on speculation the company lacks sufficient access to capital. The company denied the rumor as "totally ridiculous". Credit default swaps on Bear Stearns jumped 246 basis points to 792.
* Crude oil rose above $107 a barrel in New York, the highest since trading began in 1983.
* Fannie Mae and Freddie Mac are down 13% and 12% respectively. Credit Suisse cut its share price estimate for Freddie Mac and market participants cited a Barron's article that said Fannie Mae's solvency may be tested.
* The 5-year investment grade CDX index widened 6%, as protection sellers demand higher premiums to insure against investment grade debt.

Mon Mar 10 01:35:53 PM

DJIA	11819.77	-0.62%
S&P	1282.48	-0.84%
NASDAQ	2190.98	-0.97%
1-Month Tsy	1.675	+1.5 bps
3-Month Tsy	1.305	-11.0 bps
2-Year Tsy	1.467	-6.5 bps
10-Year Tsy	3.447	-9.4 bps
2yr SwSpr	103.75	+1.2 bps
10yr SwSpr	84.00	+0.2 bps
Oil NMX WTI	$107.49	+$2.34
$/Euro	$1.5341	-0.13%
Yen/$	101.83	-0.64%

Quotes provided by Reuters

Freddie, Fannie Plunge on Concern Over Losses, Capital Strength 2008-03-10 12:12 (New York)

By James Tyson

March 10 (Bloomberg) -- Freddie Mac and Fannie Mae, the largest U.S. mortgage finance companies, tumbled more than 13 percent in New York trading after Credit Suisse cut its share price estimate for Freddie Mac and Barron's said Fannie Mae's solvency may be tested.

Freddie Mac ``could generate a writedown'' of as much as $5 billion should the McLean, Virginia-based company be required to mark to market half of its portfolio of subprime mortgages and mortgage bonds, Credit Suisse analyst Moshe Orenbuch said today in a report to clients.

Rising credit impairments and record losses at Fannie Mae and Freddie Mac have prompted investor concerns the government- chartered companies may need to raise reserve capital to meet a federal regulatory minimum 30 percent above normal.

Freddie Mac declined $2.71, or 14 percent, to $16.94 at 12:04 p.m. in New York Stock Exchange composite trading, while Fannie Mae fell $3.48, or 15 percent, to $19.29.

While Washington-based Fannie Mae's reported net worth of $45.4 billion is higher than the minimum capital required by federal regulators, its leverage with assets at 20 times net worth leaves ``little room for error,'' Barron's said in its March 10 issue.

Ratings companies have already downgraded 20 percent of Freddie Mac's subprime asset-backed securities and 15 percent of its total investment portfolio, said Orenbuch, based in New York.

Amid a persisting U.S. housing slump ``there is a risk of a significant writedown on the subprime ABS,'' Orenbuch said. ``This could further trigger additional writedowns and need for new common equity.'' He continued to forecast Freddie Mac will ``underperform,'' the rating he also maintains on Fannie Mae.

The share of U.S. mortgages entering foreclosure in the fourth quarter rose to a record high of 0.83 percent of all home homes from 0.54 percent a year earlier, the Mortgage Bankers Association reported last week.

Fannie Mae and Freddie Mac, created by Congress, own or guarantee about 45 percent of the $11.5 trillion home loan market.

The companies profit by holding mortgages and mortgage-backed securities as investments and by charging lenders a fee to bundle home loans into securities for sale to investors.

--Editor: Stephen Kleege.

Appleton, Jesse

From: Norton, Jeremiah

Sent: Monday, March 10, 2008 6:07 PM

To: Steel, Robert; Nason, David; Ryan, Tony

Subject: FW: I'm sure you're already well aware but:

Here is an email I received from a good friend who is a PM at a respected credit hedge fund

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From: Sent: Monday, March 10, 2008 4:31 PM
To: Norton, Jeremiah
Subject:

Here's where broker cds is now:

	5YR	CHANGE FROM CLOSE
BSC	615/645	+160
GS	240/255	+16
LEH	385/400	+45
MS	300/315	+30
MER	310/325	+30

Heard rumors that some HF's who use Bear for prime brokerage were talking to other dealers about taking their entire portfolio. Whether or not Bear has any real problems, at some level (and it's getting closer), market participants will stop taking Bear as a counterparty

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From:	Market Room
Sent:	Monday, March 10, 2008 6:30 PM
Subject:	PM Markets Briefing | March 10
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Mon Mar 10 04:35:08 PM

DJIA	11740.15	-1.29%
S&P	1273.37	-1.55%
NASDAQ	2169.34	-1.95%
FTSE	5629.10	-1.24%
Nikkei	12532.13	-1.96%

1-Month Tsy	1.655	-0.5 bps
3-Month Tsy	1.315	-10.0 bps
3-Month LIBOR	2.901	-3.7bps
2-Year Tsy	1.491	-4.1 bps
10-Year Tsy	3.464	-7.7 bps
2yr SwSpr	103.50	+1.0 bps
10yr SwSpr	84.25	+0.5 bps
30yr Conf Mtge	171.87	-10.54 bps
10yr Gilt	4.286	-3.0 bps
10yr Bund	3.727	-6.0 bps
10yr JGB	1.320	-2.0 bps

Oil NMX WTI	$108.06	+$2.91
Gold Spot	$973.30	-$0.10
$/Euro	$1.5342	-0.12%
Yen/$	101.74	-0.73%
Yen/Euro	156.14	-1.00%

Quotes provided by Reuters

U.S. Treasury yields declined up to 10 basis points and the S&P 500 declined 1.6 percent, as concerns over the health of U.S. financial sector firms continued to weigh on market sentiment. Additionally, the S&P financial sector ETF declined 3 percent, driven by real money accounts reportedly paring back exposure to financial sector stocks. Market participants partially attributed the price action to analyst reports by Goldman Sachs, Sanford Bernstein and Morgan Stanley which downgraded Q1 2008 earnings estimates for a range of banks and broker dealers. Additionally, market participants cite widespread rumors involving liquidity problems at Bear Stearns, which were subsequently denied by a senior executive at the firm. Shares of Bear Stearns declined 11 percent, and their 5-year CDS spreads widened 165 basis points to 620 basis points.

Share prices of Fannie Mae and Freddie Mac both declined about 12 percent, driven by the on-going turmoil in the mortgage markets and supported by a news article over the weekend suggesting Fannie Mae may be in need of a government bailout. The article suggested that the firm may be understating their liabilities and could face further writedowns of their assets based on mark-to-market valuations. However, some analysts noted that the article may have overstated the risks to the GSEs and suggested that valuations should be based on the ability of homeowners to repay their mortgages since they are held as longer-term investments. Still, market participants suggested that risks to the GSEs remain elevated, particularly to the extent that the weakening economy will result in further prime credit deterioration.

Negative market sentiment also continued to put widening pressure on mortgage and credit spreads. According to a Lehman Brothers model, the option adjusted spread on the current coupon agency pass-through security widened 1 to 2 basis points. Market participants noted that price action continues to be driven by supply and demand imbalances, as accounts continue to de-lever against a backdrop of limited natural buyers of MBS securities. MBS liquidity was reportedly thin, with bid-ask spreads on a $100 million trade at about 2 ticks. While this represents an improvement from last week's spreads of about 4 to 8 ticks, it is still greater than pre-August indications of around ¼ to ½ ticks.

The investment grade CDX index widened 17 basis points to another all-time high of 195. Market participants suggested the price action resulted from further unease regarding financial companies' exposures to mortgage securities, which continues to trigger de-levering by hedge funds and other levered accounts. Some noted that the de-levering not only poses a balance sheet constraint for the banks, but has also resulted in reduced trading fees. This in turn has further diminished earnings forecasts for banks, which has further elevated counterparty credit risk.

The dollar was mixed, depreciating 0.9 percent against the yen, but appreciating broadly against emerging market currencies. Dealers suggested that the price action primarily reflected a paring back of risk appetite as the yen and Swiss franc outperformed against the dollar, while currencies of commodity exporting economies, and those sensitive to global growth, underperformed against the dollar. Additionally, many market participants discussed ECB President Trichet's comments this morning that the ECB was "concerned about excess price movements" in the euro as contributing to some profit taking on long euro positions. Nonetheless, the euro was little changed against the dollar at around $1.5350, and remains close to its all-time high. On the day, 1-month euro-dollar implied volatility declined by 0.4 percent to 10.2 percent, a level which is in-line with its long-term average.

Light, sweet crude for April delivery closed $2.75 higher, or 2.6%, at $107.90 a barrel on the New York Mercantile Exchange, a record settlement. Oil's surge ended up pulling along precious metals, with gold, silver and copper narrowing losses, though all ended the day lower. April gold, ended down 0.2% at $971.80 an ounce, nearly $10 above its intraday low.

Source: Bloomberg, Moody's, TradeWeb, Dow Jones, Reuters and NY Fed Markets

Austin Hong
Markets Room
202.622.3665
For 24-hr updates, ping mkt@do.treas.gov

Mkts Briefing
)3.10.2008pm.doc..

From: Appleton, Jesse
Sent: Monday, March 10, 2008 9:07 PM
To: Ryan, Tony
Subject: Re: WSJ Column

I'll follow-up with HLS tomorrow. FYI, I asked Jen about the article, per your request.

----- Original Message -----
From: Ryan, Tony
To: Schultheiss, Heidilynne; Appleton, Jesse
Sent: Mon Mar 10 20:39:34 2008
Subject: Fw: WSJ Column

Can you take this article, state the problem / suggestion and point to a pwg recommendation that responds to the weakness ? Thx. Let's catch in the am as I had a subsequent and conversation and question forbyou. Thx.

----- Original Message -----
From: Zuccarelli, Jennifer
To: Davis, Michele; Steel, Robert; Appleton, Jesse; Ryan, Tony; Scogin, Matthew; McLaughlin, Brookly; Mason, Jeb; Wilkinson, Jim
Sent: Mon Mar 10 20:29:25 2008
Subject: WSJ Column

Hi all- Hank mentioned a David Wessel column a couple of times today. I think this is what he was talking about:

How to Unbreak the Banks
By David Wessel
10 January 2008
The business model for big U.S. banks is broken. Let us count the ways.
One: Bankers no longer scrutinize a would-be borrower to decide whether he is good for the money. Instead they "originate and distribute" loans.
Outfits that initiate loans sell them to others, often taking a fee but passing along the risk of default to the buyer. Banks sometimes originate loans; sometimes they serve as middlemen between originator and investor.
When a business gets a fee for making a loan, or for turning a loan into a security, it makes lots of loans and doesn't worry much about whether borrowers are likely to pay the money back. It's now clear that this isn't a smart way to run an economy. Duh!
Solution: Change the incentives. An outfit that makes a loan should have to bear some piece of the risk that the borrower won't repay it. The same goes for everyone along the chain as mortgages are packaged into securities, and those securities are turned into still more securities.
The amount of loan risk a lender retains shouldn't be a secret. It should be transparent, and banks should have to set aside enough capital to absorb the blow if their loans go sour. No more "structured investment vehicles" that hold zero capital and fund their long-term lending by borrowing short-term funds. No more banks pretending they aren't backstopping these entities and thus don't have to maintain a capital cushion against that lending -- and then taking the failed loans onto their books anyway.
Asking loan originators to hold a piece of the risk may sound impractical. It isn't. When credit-card loans are turned into securities, the company that sponsors them is on the hook if consumers don't make payments. Do the same for mortgages.
Two: New and improved rules for global governments to monitor banks -- known as Basel II, for the Swiss city where such things are negotiated -- rely heavily on banks' ability to build computer models to monitor the risks they are taking. Those models have lost credibility.
Indeed, the capacity to manage massive financial institutions -- which have grown beyond conventional banking into underwriting securities, trading with huge sums for their own accounts and even running in-house hedge funds -- is in doubt. To the longstanding worry that they are "too big too fail," add the possibility that they are "too big to manage." Think Citigroup, Merrill Lynch, UBS and Bear Stearns.
"I've long felt that we should have learned that many of these large integrated financial

institutions do not have the management capability to effectively oversee and understand the risk-taking involved," says Henry Kaufman, the former Solomon Brothers executive who is one of Wall Street's wise men. "Senior management has been unable to understand the risk-taking or become captive of middle managers, who get paid by trading profits."
Solution: If the stock market challenges the wisdom of big integrated financial houses, let markets force them to dismantle. But chief executives and boards of directors must empower risk managers (as surely they are doing already) and must listen to them even when times are good. Junking Basel II is a mistake. It's better than Basel I, which helped create today's mess (as described in a previous Capital column). But it's not good enough. On to Basel III.
THREE: Ratings companies, principally Moody's and Standard & Poor's, made this mess possible by stamping the triple-A label on securities that turned out to be anything but supersafe. The fault is partly with them: The companies weren't as smart as they should have been and didn't adequately communicate what ratings meant.
But the fault also lies with government, which enshrined the rating firms' role in law and limited competition among them. Also sharing the blame are investment houses and investors -- both financial engineers who created instruments so complex that even sophisticated investors couldn't understand them and those supposedly sophisticated investors who relied on rating outfits' ability to calibrate those unfathomable risks.
Solution: The market is responding already with what's been dubbed "a flight to simplicity." That's a reaction to the excessive complexity of the recent past which turned out, in some cases, not to be spreading risk but distilling and concentrating it in institutions that didn't realize what was happening. (Thanks to Drexel University's Joseph Mason for that last point.) If originating institutions and rating companies don't bolster confidence in pricing complex securities, markets will retreat to simpler ones.
As with accounting firms following the corporate scandals of the 1990s, rating companies must change to recover credibility. Two obvious places to start: Banks shouldn't rely on the rating firms to both give advice about how to structure securities and then assign a widely used rating. Split the functions apart.
And find a better way to pay the firms. When John Moody founded the company that still bears his name, the investor, not the issuer, paid the fee. That changed in the 1970s. Now borrowers and issuers pay the fees, and that gives rating firms an incentive to rate more, rather than rate better. One option is to regulate the firms more strictly; another is to find some clever way to link their compensation to defaults on securities they rate.
Banks and Wall Street could devise a better business model. But they'd best hurry. If they don't act, regulators will. And if regulators don't, House Financial Services Committee Chairman Barney Frank and the other Democrats in Congress will.

Jennifer Zuccarelli
Director, Office of Public Affairs
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220
Phone: 202-622-8657
Fax: 202-622-1999

Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Tuesday, March 11, 2008 9:40 AM
To: Foley, Trip
Subject: DealBook: Wall Street on Spitzer: 'There Is a God'

To view the latest DealBook headlines on your mobile device, go to: http://mobile.nytimes.com/blogs/dealbook

DealBook

Edited by Andrew Ross Sorkin

The New York Times

TODAY'S TOP HEADLINES | Tuesday, March 11, 2008

M & A: Hostility Has Its Rewards
BANKING: Morgan's Mack Under Pressure Over Risk
PRIVATE EQUITY: The Debt Burden Squeezing Buyout Firms
HEDGE FUNDS: Citi to Inject $1 Billion Into Hedge Funds
OFFERINGS: Societe Generale Raises $8.5 Billion in Offering
VENTURE CAPITAL: iPhone Entrepreneurs Line Up for Funding
LEGAL: Malone Speaks of Diller as Court Battle Starts

TOP STORY

Wall Street on Spitzer: 'There Is a God'

Wall Street was awash with schadenfreude on Monday, as many financial types took pleasure in seeing a scandal rise up over New York Gov. Eliot Spitzer, who was linked to a prostitution ring.

During his years as the state's attorney general, Mr. Spitzer had fiercely sought to punish investment banks, insurance companies, research analysts and the New York Stock Exchange for a litany of perceived sins, assuming the mantle of "Mr. Clean."

On CNBC on Monday, markets reporter Bob Pisani quoted an unnamed trader's reaction, which spoke for the vast majority on the Street. "There is a God," the trader reportedly said.

Kenneth D. Langone, a former director of the **New York Stock Exchange** and a target of one of Mr. Spitzer's lawsuits, had this to say to The Wall Street Journal: "He actually believes he' s above the law. I have never had any doubt about his lack of character and integrity -- and he's proven me correct."

Not everyone was rejoicing. Jim Cramer, the CNBC host who was Mr. Spitzer's classmate in law school, said, "Eliot's one of my oldest friends," adding, "If it's true, it's obviously very sad."

Go to Item from DealBook»
Go to Article from The New York Times»

In other fallout, concerns emerged Monday that Mr. Spitzer's troubles could undermine the rescue of battered bond insur ers at a time when the teetering financial sector can ill afford another letdown.

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Go to Article from The Globe and Mail»

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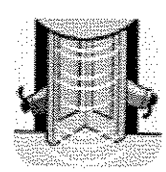
Al Gore's Big Investment

A $35 million transaction suggests Mr. Gore has had a good run, financially speaking, since leaving the White House. More»

The Refrain That Follows Bronfman

As Warner Music's stock has tumbled, a classic redemption story has taken a regrettable twist. More»

Revolving Door



The latest hires, promotions and departures at Goldman, Bear, Cowen and more. More»

The Deal Professor

THE DEAL PROFESSOR

A blog-within-a-blog that looks at mergers, private equity and corporate governance through a legal lens, written by Steven M. Davidoff, a professor at Wayne State University Law School and a former lawyer at Shearman & Sterling. More»

Go to Article from Marke tWatch»

Mr. Spitzer's woes have also turned attention to hedge-fund manager George Fox, a political supporter of Mr. Spitzer whose name the governor used to reserve a room in a Washington hotel.

Go to Article from The New York Post»
Go to Article from Radar Online»

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MERGERS & ACQUISITIONS

Back to Top

"They are copying us," **Oracle**'s Larry Ellison says of **Microsoft** and **Electronic Arts** as they pursue the latest hostile bids to arise in the tech sector. And, Mr. Ellison tells Andrew Ross Sorkin in his latest DealBook column, they would be foolish not to try.

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Looking to squelch persistent rumors about a sale of NBC Universal, Jeffrey R. Immelt, the chairman of **General Electric**, plans to make his most definitive statement yet about his company's chief media asset.

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Bank of America, the largest U.S. bank by market value, plans to press ahead with its $4 billion takeover of **Countrywide Financial**, the mortgage

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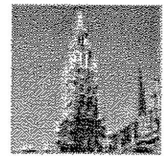


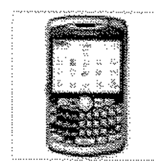
Some of the biggest names in private equity gathered in Munich to share strategies for weathering the industry's recent downturn. More»

DealBook Talks Yahoo
DealBook's Andrew Ross Sorkin discussed Microsoft's offer for the Internet giant on "Charlie Rose." Watch here. More»

Microsoft's Yahoo Bid

Full coverage of Microsoft's unsolicited $44.6 billion offer for Yahoo, what it means and how it might play out. More»

DealBook for BlackBerry



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News By Industry

Airlines / Autos
Basic Industries

lender under F.B.I. investigation for possible securities fraud.

Go to Article from Bloomberg News via The Houston Chronicle»
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One of **Yahoo**'s potential white knights in its struggle to avoid being taken over by **Microsoft** -- Rupert Murdoch of the **News Corporation** -- just put his steed back in the stable.

Go to Article from The San Jose Mercury News»

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The computer storage provider **Iomega** said Monday it received an unsolicited acquisition offer from a rival, **EMC** for $178.1 million but said the offer was not superior to a share purchase deal.

Go to Article from Reuters via The New York Times»

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Air France-KLM Group won approval Monday from its board to make a binding bid for the Italian state-controlled carrier **Alitalia**.

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Nationwide Financial said Monday that its parent company, **Nationwide Mutual**, has offered to buy the shares in the financial services firm that it does not own for $2.2 billion in cash.

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Go to Nationwide Financial Press Release via Business Wire»

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Billionaire Warren Buffett's **Berkshire Hathaway** has agreed to trade its 16.3 percent stake in **White Mountains Insurance Group** for two subsidiaries and $751 million.

Go to Article from The Associated Press via The San Jose Mercury News»

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Dow Jones & Company, a unit of global media conglomerate **News Corporation**, said Monday it acquired **Betten Financial News**, a Dutch-language news service covering the corporate sector in the Netherlands.

Go to Article from The Associated Press via CNN Money»

Consumer Goods
Energy / Utilities
Financial Services
Food & Beverage
Healthcare
Media
Real Estate
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INVESTMENT BANKING

Back to Top

Morgan Stanley chief John J. Mack is expected to be confronted by a campaign by the CtW Investment Group, a union-backed shareholder activist group, seeking the appointment of an independent chairman for the securities firm.

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Lehman Brothers, the Wall Street investment bank, is laying off 5 percent of its work force, or about 1,430 people, because of difficult market conditions, according to Reuters.

Go to Article from Reuters via The Globe and Mail»
Go to Article from The New York Post»
Go to Article from The Times of London»

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As rumors about a liquidity crunch sent **Bear Stearns**'s shares sharply lower Monday, Alan Greenberg, the chairman of the firm's executive committee, appeared on CNBC calling such speculation "totally ridiculous."

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Go to Article form CNBC.com»

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Lazard said on Monday that its chairman and chief executive, Bruce Wasserstein, received a salary of $4.8 million in 2007.

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PRIVATE EQUITY

Back to Top

Celebrated buyout firms like the **Blackstone Group** and **Kohlberg Kravis Roberts & Company**, hailed only a year ago for their deal-making prowess, are seeing their profits collapse as the credit crisis spreads through the financial markets.

Go to Article from The New York Times»

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The New York Public Library's venerable lion-guarded building on Fifth Avenue at 42nd Street is to be renamed for the Wall Street financier Stephen A. Schwarzman, who has agreed to jump-start a $1 billion expansion of the library system with a guaranteed $100 million of his own.

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HEDGE FUNDS

Back to Top

Citigroup, the banking giant, moved Monday to shore up six of its hedge funds pressured by a tightening in the municipal bond market, the newest problem to entangle the struggling company.

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Charming Shoppes, the owner of women's plus-size apparel retailer Lane Bryant is suing a pair of activist hedge funds, accusing them of misleading the chain's investors as they mount a proxy campaign to shake up the company's board.

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Go to Article from The Philadelphia Inquirer»

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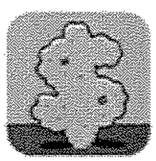

Should the ban on hedge-fund advertising be eased? Lawrence Cohen of law firm **Morrison Cohen** talks about what's at stake as a fund manager plans to sue over the rule.

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I.P.O. / OFFERING

Back to Top

Societe Generale, France's second-largest bank, raised 5.54 billion euros ($8.5 billion) in a rights offer to replenish capital depleted after trading losses and write-downs.

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Bostwick Laboratories, which focuses on cancer diagnostics, plans an initial public offering of common stock, according to a Securities and Exchange Commission filing Friday.

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Eyeblaster, a global provider of online campaign management solutions and services, on Monday said it is planning an initial public offering of as much as $115 million in common stock.

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VENTURE CAPITAL

Back to Top

It was only last week that **Apple** announced that **Kleiner Perkins Caufield & Byers** would pony up $100 million to invest in start-ups seeking to create applications for iPhone, but already hopeful entrepreneurs are knocking on Kleiner's door.

Go to Article from the Red Herring»
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Fluid Entertainment, a kid-oriented online video game company, is near a test launch of its massively multiplayer online game and it is the latest to benefit from a round of V.C. money.

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Less than three months after announcing its initial funding, mobile social networking start-up **Kyte** on Monday said it raised $21.1 million in a second investment round led by **Steamboat Ventures** and **Intellect Capital Ventures**.

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LEGAL

Back to Top

The cable media mogul John C. Malone told a judge on Monday that he held no ill will toward his longtime business partner, Barry Diller, who controls **IAC/InterActiveCorp**, even though the two are now battling over who controls what at IAC.

Go to Article from The New York Times»
Go to CNBC Video via The New York Times»

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A Securities and Exchange Commission filing, a shareholder lawsuit and a dollop of verbal jousting kept things percolating Monday in **Electronic Arts**' pursuit of **Take-Two Interactive Software**.

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Go to Article from The San Jose Mercury News»

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Theodore Roxford, who used several names over the years as he made false bids for the likes of **Sony** and **Playboy Enterprises**, was ordered to pay a $900,000 fine but was denied his request for "execution by firing squad."

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Go to Article from Bloomberg News»

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Selected deals in play. Spreads are calculated according to the latest stock figures available as of recent market close.

Target	Acquirer	Spread	Change
Huntsman Corp.	Hexion Specialt ...	6.08	-0.29
Nationwide Fi ...	Nationwide Mutu ...	-3.33	-0.27
Navteq Corp.	Nokia Oyj	1.93	-0.07
Northwest Air ...	Delta Air Lines ...	0.84	0.06
Nymex Holding ...	CME Group Inc.	2.46	-0.68
Penn National ...	Fortress Invest ...	22.50	1.07
Performance F ...	Wellspring Capi ...	0.47	-0.09
Post Properti ...	Cadim and Will ...	7.54	-0.25
Puget Energy ...	Macquarie Infra ...	2.05	0.07
Rio Tinto plc	BHP Billiton pl ...	95.10	-9.15

"Change" indicates a change from previous day. Data provided by:

The Deal

The Deal offers an expanded list of arbitrage situations that are updated throughout the day.

ABOUT THIS E-MAIL

DealBook is a joint production of The New York Times and NYTimes.com, published daily, Monday-Friday, except on U.S. Market holidays and during the last week of the year. Editorial staff: Andrew Ross Sorkin, Peter Edmonston, Michael de la Merced and Liza Klaussmann.

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Stoltzfoos, Jeffrey

From: Market Room
Sent: Tuesday, March 11, 2008 10:04 AM
Subject: Market Update - yields and equities higher, spreads tighter, dollar higher

Market Update:

- Spreads are broadly tighter with investment grade credit spreads10 bps tighter to 147.5 bps and the higher-yielding crossover 27bps tighter to 610.5bps. Along with other spreads, swap spreads have come in 11-12 bps across the curve.

- Equities are around 2% higher across major indices in the U.S. and Euro-zone with the S&P up 1.94%, the FTSE up 2.4%, and the German DAX up 2.26%. Financial equities are leading the rally with shares of Fannie up 4.05%, Freddie up 6.30%, Bear Stearns up 6.85%, Citi 5.84%, and BofA up 2.80%

- Yield curve is 11bps flatter with the 2-year note 22bps higher and 10-year notes 11bps higher. Eurozone sovereign yields are also broadly higher with 10-yr Gilts up 7bps and the German 2s/10s curve 10bps flatter

- Expectations for Fed policy easing have been pared back with 1-month OIS up 12bps to 2.48%. According to futures on Fed Funds, the implied probability of a 75bps cut next week is down to 68% from 87% yesterday. Further out, implied rates on Eurodollar futures have moved higher with the December contract up 16.5bps.

- Dollar yen and swiss franc are underperforming as risk aversion abates with higher yielding currencies outperforming – the AUD and NZD are up 0.94% and 1.47%, respectively. The euro is well off its highs at $1.5353 against the dollar as expectations interest rate differentials narrow.

Tue Mar 11 10:03:06 AM

DJIA	11972.17	+1.98%
S&P	1296.64	+1.83%
NASDAQ	2207.48	+1.76%
1-Month Tsy	1.760	+11.0 bps
3-Month Tsy	1.460	+12.5 bps
2-Year Tsy	1.708	+21.3 bps
10-Year Tsy	3.569	+10.3 bps
2yr SwSpr	90.75	-12.8 bps
10yr SwSpr	77.50	-6.8 bps
Oil NMX WTI	$107.49	-$0.41
$/Euro	$1.5353	+0.07%
Yen/$	102.81	+1.07%

Quotes provided by Reuters

Foley, Trip

From: McLaughlin, Brookly
Sent: Tuesday, March 11, 2008 6:41 PM
To: _DL_FYI
Subject: (BN) Top Stories: Business and Finance

Top Stories: Business and Finance
2008-03-11 18:32 (New York)

March 11 (Bloomberg) -- The following are the day's top business stories:

Stocks in U.S. Stage Biggest Rally in Five Years on Fed's Liquidity Plans

U.S. stocks rallied the most in five years after the Federal Reserve said it will pump $200 billion into the financial system to shore up banks battered by mortgage-related losses. Citigroup Inc., Bank of America Corp. and Fannie Mae led the Standard & Poor's 500 Financials Index to its biggest gain in eight years on expectations the Fed's move will spur lending. Washington Mutual Inc. climbed the most since 2000 on speculation the largest savings and loan will get a cash infusion from an outside investor. All 10 industry groups in the S&P 500 rose except for health-care companies, which fell after WellPoint Inc. cut its earnings forecast. The S&P 500 added 47.28 points, or 3.7 percent, to 1,320.65, climbing the most since October 2002 and trimming its decline for the year to 10 percent. The Dow Jones Industrial Average surged 416.66, or 3.6 percent, to 12,156.81. The Nasdaq Composite Index increased 86.42, or 4 percent, to 2,255.76.

Almost 11 stocks gained for every one that fell on the New York Stock Exchange. ``It's like they're putting jumper cables onto a battery to kick-start the credit market,'' said Nick Raich, who helps manage $34 billion at National City Private Client Group in Cleveland. ``They're doing their best to try to restore confidence.''

Fed to Lend Up to $200 Billion, Taking Private Mortgage Debt as Collateral

The Federal Reserve, struggling to contain a crisis of confidence in credit markets, will for the first time lend Treasuries in exchange for debt that includes mortgage-backed securities. The Fed said in a statement in Washington it plans to make up to $200 billion available through weekly auctions.

Officials told reporters on condition of anonymity that the program may be increased as needed. The Fed coordinated the effort with central banks in Europe and Canada, which plan to inject up to $45 billion into their banking systems. U.S. stocks rallied the most in five years on optimism the initiative will help avert a wider credit crunch. Treasuries fell and the premiums investors demand for debt backed by home loans guaranteed by Fannie Mae retreated from close to a 22-year high. Fannie Mae and Freddie Mac, chartered by the government, are the largest sources of money for U.S. home loans. ``This is the most significant step the Fed has taken so far,'' said David Resler, chief economist at Nomura Securities International Inc. in New York. ``This relieves some of the pressure'' in the credit markets, he said.

Treasuries Slide; Two-Year Yields Rise Most Since 1996 on Fed's Debt Plan

Treasuries fell, pushing two-year note yields up the most since March 1996, as the Federal Reserve's move to relieve the credit crisis prompted investors to dump holdings of government debt. Notes maturing in five years or less led the decline as the central bank said it will allow its 20 primary dealer firms to pledge agency and private mortgage debt as collateral against as much as $200 billion in Treasuries in weekly auctions. U.S. stocks rallied on the Fed's announcement, with the Standard & Poor's 500 Index rising the most since 2002.

``The Fed is trying to do anything it can to free up markets,'' said Jason Brady, a managing director in Santa Fe, New Mexico, at Thornburg Investment Management, which oversees $4 billion in fixed-income assets. ``People have been in asset- preservation mode. To the extent we shift away from that mode, you sell Treasuries.'' The two-year note's yield climbed 28 basis points, or 0.28 percentage point, to 1.78 percent at 4:29 p.m. in New York, according to bond broker Cantor Fitzgerald LP. The price of the 2 percent security due in February 2010 dropped 18/32, or $5.63 per $1,000 face amount, to 100 14/32.

Morgan Stanley Hires David Barrett Back From Merrill for Prime Brokerage

Morgan Stanley, the third-biggest U.S. securities firm, said David Barrett will rejoin its prime brokerage group as a managing director after four years at Merrill Lynch & Co.

Barrett, 48, will head hedge-fund strategic consulting, a new position, and work with Morgan Stanley's largest fund clients, the company said today in a statement. He will be based in New York, where Morgan Stanley has it headquarters. ``Dave's extensive experience working with hedge funds in a number of different capacities uniquely positions him to help our largest clients, and their investors, evolve their businesses in a maturing and increasingly complex market environment,'' Stu Hendel, global head of prime brokerage, said in the statement.

Prime brokers provide services to hedge funds including securities lending and financing trades.

Bear Stearns Investor Lewis May Increase Stake, Person Says; Shares Climb

Joseph Lewis, the second-largest shareholder in Bear Stearns Cos., may add to his holdings after the stock fell on speculation the company lacks sufficient access to capital, a person close to him said. Lewis, a 71-year-old billionaire who began building his Bear Stearns stake in September, views the investment as long-term and isn't bothered by the falling share price, the person said, declining to be identified because Lewis doesn't make public statements about his holdings. Bear Stearns said ``there is absolutely no truth to the rumors of liquidity problems'' and Chief Executive Officer Alan Schwartz said company finances ``remain strong.'' The firm will probably have $1.9 billion in additional writedowns in the first half of 2008, Deutsche Bank AG estimated in a report today. Bear Stearns, the second-biggest underwriter of mortgage- backed bonds, rose 67 cents, or 1.1 percent, to $62.97 at 4:08 p.m. in New York Stock Exchange composite trading. The stock fell to as low as $55.42 earlier today, and lost 11 percent yesterday.

Al Gore's Generation Fund Stops Taking Money After Hitting $5 Billion Goal

Al Gore's Generation Investment Management Ltd., a fund that invests in companies that follow socially responsible guidelines, plans to close its main Global Equity Fund to new money as assets approach a $5 billion target. Generation will probably restrict inflows into the fund from next month, Gore and company co-founder David Blood told reporters in Geneva today. Swiss private bank Lombard Odier Darier Hentsch & Cie., which started selling the fund in continental Europe last year, is now its biggest investor. The former U.S. vice president founded Generation with Blood, a former Goldman Sachs Group Inc. banker, in 2004. Gore, 59, and a United Nations panel on the environment were awarded the Nobel Peace Prize in October for raising awareness of the threat from climate change. The fund invests in companies following principles for the treatment of the environment, workers and others in the expectation that they will report better returns. ``More money is allocated by markets around the world in one hour than by all the governments on the planet in a full year,'' Gore said.

``The principles and ways and values that have an impact on the way markets allocate resources can have an enormous effect'' in tackling climate change, he said.

Lone Star Cancels Plan to Sell Japan Hotels for $1.7 Billion, People Say

Lone Star Funds, the Dallas-based buyout firm, canceled a plan to sell more than 50 Japanese hotels because it couldn't get its asking price of as much as 170 billion yen ($1.67 billion), two people familiar with the proposals said. The Solare Hotels and Resorts Co. properties, including sites being developed, were put on the market in December, said the people, who declined to be identified because the cancellation isn't yet public. Lone Star had aimed to sell by the end of March.

Goldman Sachs Group Inc., Blackstone Group and K.K. DaVinci Advisors, which runs Japan's biggest real estate fund, were interested in the hotels, the people said. ``The prices people are interested in selling their hotels at are not prices people can pay or finance, so there's a stalemate,'' said Bruce Ford, senior vice president at Lodging Econometrics, a Portsmouth, New Hampshire-based hotel consulting firm. ``It's kind of like buying a house when you know prices are going to decline five minutes after you buy it.''

Caterpillar Raises 2010 Sales Forecast by 20%, Topping Analysts' Estimates

Caterpillar Inc., the world's largest maker of bulldozers and excavators, raised its sales forecast for 2010 by 20 percent to $60 billion, exceeding analysts' estimates. The sales forecast was raised from $50 billion and would mark a 33 percent jump from last year, the company said today at a meeting in Las Vegas. Caterpillar maintained its profit outlook for about $8 to $10 a share in the next two years. The average of five analyst estimates compiled by Bloomberg was for 2010 profit of $7.67 a share on revenue of $52.9 billion.

Caterpillar said it will benefit from machinery sales in emerging markets and efforts to improve public works in North America and Europe. Caterpillar has almost doubled sales since 2003 on demand from markets such as China, Russia and South Africa. The Peoria, Illinois-based company plans to spend $2.3 billion to add capacity and has trimmed costs to boost profit.

``There are significant new infrastructure growth opportunities,'' Chief Executive Officer Jim Owens said in a statement. ``Over the next decade, that should translate into increased sales of Caterpillar machinery, engines and related services.''

Washington Mutual's Shares Jump on Speculation Buffett, Goldman May Invest

Washington Mutual Inc., the largest U.S. savings and loan, rose the most in almost eight years on speculation that Warren Buffett and Goldman Sachs Group Inc. may invest in the company.

Washington Mutual gained $1.84, or 18 percent, to $11.88 at 4:15 p.m. in New York after earlier rising as much as 26 percent. Washington Mutual fell to a 12-year low yesterday, three days after Merrill Lynch & Co. said the bank may report $11.2 billion in mortgage-related losses. ``A potential capital infusion by Warren Buffett and Goldman Sachs is the rumor,'' said Mike Capitani, head of equity trading at Caris & Co. in New York. ``Buffett's always looking for a bottom on things and he's flush with cash.'' Washington Mutual reported its first loss since 1997 in the fourth quarter after writing down the value of its home-mortgage unit by $1.6 billion and setting aside $1.5 billion to cover bad loans. The lender said it will have to put aside $1.8 billion to $2 billion in provisions for the first quarter. The world's biggest financial companies have disclosed $188 billion of writedowns and credit losses tied to U.S. mortgages.

Thaksin, Back From Exile, Urges Thailand to Cut Rates, Increase Spending

Thaksin Shinawatra, Thailand's former premier, insists that he's done with politics; he isn't done advising politicians on what to do. Thaksin, who returned from exile last month after having been ousted from office and banned from politics in a 2006 military coup, said Thailand's newly elected government must repair economic damage to the country caused by the leaders who unseated him. In an interview yesterday with Bloomberg News, Thaksin called for lower interest rates, a weaker currency and more business investment. ``We have to bring back confidence to Thailand after the coup,'' he said.

``It's quite difficult, but the government has to try harder.''

Thaksin's advice to the ruling People Power Party, which was founded by his loyalists and won the first post-coup election in December, suggests he wants to continue exercising political clout, said Suriyasai Katasila of the Campaign for Popular Democracy, an activist group that opposed Thaksin when in office.

Pickens's BP Capital Fund Declined 14% Through February as Oil, Gas Gained

Billionaire investor Boone Pickens's BP Capital Energy Equity Fund fell 14 percent in the first two months of the year amid soaring prices for natural gas and crude oil. BP Capital spokesman Jay Rosser, who said in an e-mail that the fund dropped, declined to comment on the hedge fund's specific market positions and holdings. Pickens, the founder and chairman of Dallas-based BP Capital LLC, told CNBC on Feb. 21 that he was short on both crude oil and natural gas. He didn't provide additional detail on his positions. A short is a bet that prices will decline. ``He's just a little premature, maybe,'' said Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Massachusetts. ``I think he's right. The market is soaring to unprecedented heights on wings of whimsy.''

Fukui's Departure, Stalemate Over Muto May Leave Bank of Japan Rudderless

The week after Toshihiko Fukui became Bank of Japan governor in 2003, he called an emergency meeting. The U.S. had invaded Iraq, the Nikkei 225 Stock Average was at a 20-year low and the economy was in a deflationary spiral. Led by Fukui, the central bank's board increased stock purchases from commercial banks, helping create the conditions for what became the longest economic expansion since World War II. On March 19, Fukui, 72, will leave office with the economy on the brink of a recession, the yen, at an eight-year high, threatening exports -- and, possibly, no successor to take the bank's reins from him. The opposition Democratic Party of Japan yesterday said it will block the ruling Liberal Democratic Party's nomination of Toshiro Muto, 64, as governor, and Takatoshi Ito, 57, as deputy governor. The result is that the world's second-largest economy may be without monetary-policy leadership just as the Federal Reserve and central banks around the globe are attempting to coordinate efforts to contain a crisis of confidence in credit markets.

For the complete stories summarized here, and for more of the day's top news, see TOP <Go>.

-0- Mar/11/2008 22:32 GMT

Stoltzfoos, Jeffrey

From: Market Room
Sent: Tuesday, March 11, 2008 6:46 PM
Subject: PM Markets Briefing | March 11

Attachments: Mkts Briefing 03.11.2008pm.doc

Tue Mar 11 04:20:59 PM

DJIA	12156.81	+3.55%
S&P	1320.65	+3.71%
NASDAQ	2255.76	+3.98%
FTSE	5690.40	+1.09%
Nikkei	12658.28	+1.01%
1-Month Tsy	1.790	+14.0 bps
3-Month Tsy	1.475	+14.0 bps
2-Year Tsy	1.797	+30.2 bps
10-Year Tsy	3.617	+15.1 bps
2yr SwSpr	89.00	-14.5 bps
10yr SwSpr	73.50	-10.8 bps
30yr Conf Mtge	146.00	-25.0 bps
10yr Gilt	4.350	+6.0 bps
10yr Bund	3.786	+6.0 bps
10yr JGB	1.316	+0.0 bps
Gold Spot	$972.89	+$0.05
Oil NMX WTI	$108.74	+$0.84
$/Euro	$1.5321	-0.14%
Yen/$	103.44	+1.69%
Yen/Euro	158.63	+0.30%

Quotes provided by Reuters

U.S. equities rallied with the S&P 500 up 3.7 percent, the Dow Jones up 3.6 percent and the Nasdaq up 4 percent led by gains in energy companies and large banks. Rumors that Bear Stearns may be having liquidity problems tempered the initial improvement in sentiment following the central bank announcements. However, later in the session, SEC Chairman Cox stated that the SEC was actively monitoring Bear Stearns and other investment banks and had a "good deal of comfort about the capital cushions at these firms at the moment." In addition, the front month WTI crude rose 0.8% to $108.75 after jumping to a record intraday high of $109.72 a barrel overnight.

The Federal Reserve announced a new program, the Term Securities Lending Facility (TSLF), which will lend up to $200 billion of Treasury securities from its SOMA portfolio to primary dealers for a term of 28 days. In return, borrowers must pledge eligible securities, which can include federal agency debt, federal agency residential mortgage-backed MBS, and non-agency AAA/Aaa-rated private-label residential MBS. Additionally, the ECB, the Swiss National Bank, the Bank of England and the Bank of Canada announced policy measures to improve conditions in the inter-bank funding market. Corporate credit spreads narrowed 18 basis points and U.S. Treasury yields rose 30 to 15 basis points across the 2- to 10- year coupon curve, as market participants reacted positively to news of coordinated central bank actions to improve market liquidity. In addition, the Fed released results of the seventh TAF auction which stopped at 2.80 percent with a bid-to-cover ratio of 1.85. Bidding for TAF funding increased compared to the previous TAF operations this year as did the spread of the stop-out rate to the minimum-bid rate.

Following the Fed announcement, option-adjusted spreads on current coupon agency MBS narrowed 25 basis points relative to Treasury yields and 5-year swap spreads narrowed 16 basis points. Additionally, the on-the-run investment grade CDX index narrowed 18 basis points to 177 basis points, reversing a recent trend. Prices on the 'AAA' tranche of the subprime index ABX increased modestly and implied spreads on the commercial mortgage-backed CMBX index were modestly narrower. Mortgage market participants generally reacted positively to the TSLF as they noted that it would likely buoy sentiment and potentially improve the ability for dealers to fund private-label AAA MBS. However, participants also noted a few limitations of the program and suggested that the TSLF will not alleviate the present supply and demand imbalance in the securitized mortgage market.

Expectations for a reduction in the target policy rate moderated with the implied rate derived from the April fed

funds futures contract declining by 13 basis points. Fed funds futures contracts now imply 66 basis points of average expected policy easing at next week's FOMC meeting, down from 79 basis points yesterday. Further out, expectations for the magnitude of future interest rate cuts were also pared back, with implied rates on eurodollar futures contracts maturing through December 2009 increasing by as much as 20 basis points.

The dollar was mixed against major currencies, depreciating about 2 percent against currencies of commodity-exporting countries, such as the South African rand and the New Zealand dollar, while appreciating 1.6 percent against the Japanese yen and 0.2 percent against the euro. The dollar closed at 1.5317 dollars per euro, down from a record intraday level of 1.5494 dollars per euro. Currency market participants reacted not only to today's central bank policy announcements, but also to better-than-expected trade balance data and comments from ECB Governing Council Member Constancio, who stated that the "dollar was a problem" for the euro-area export sector.

Mkts Briefing
)3.11.2008pm.doc..

Source: Bloomberg, Moody's, TradeWeb, Dow Jones, Reuters and NY Fed Markets

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For 24-hr updates, ping mkt@do.treas.gov

Foley, Trip

From: McLaughlin, Brookly
Sent: Tuesday, March 11, 2008 7:18 PM
To: _DL_FYI
Subject: NYT, WaPo, WSJ & FT - Dow Closes Up 400+

March 11, 2008
NYT - Dow Climbs 416.66 for Its Biggest Gain in Over 5 Years
By MICHAEL M. GRYNBAUM

Wall Street enjoyed its best trading day in more than five years on Tuesday — complete with a 400-point gain in the Dow Jones industrial average — after the Federal Reserve injected a burst of financial adrenaline into the ailing banking system.

The Dow finished up 416.66 points, near its high for the day, for a one-day gain of 3.6 percent, to 12,156.81, snapping a three-day losing streak. It was the biggest one-day point gain for the Dow since July 29, 2002. The Standard & Poor's 500-stock index was up 3.7 percent, and the technology-heavy Nasdaq composite index gained 4 percent.

For weeks, investors have been concerned about a freeze-up in the credit markets, as banks cowed by round after round of multibillion-dollar write-offs became increasingly panicky about lending to businesses and consumers.

On Tuesday, the Fed announced it would offer up to $200 billion in ultra-safe Treasury securities to the nation's banks, including several major brokerage firms, in exchange for a variety of collateral options — including the very mortgage-backed securities that have caused the recent financial crisis.

That means banks will be able to unload some of those soured assets, potentially freeing up money to keep the nation's economic bloodstream flowing. It was the central banking move that many investors had been waiting for.

"For the first time, the Fed now is doing the relevant work," said David Kovacs, an investment strategist at Turner Investment Partners in Berywn, Pa. "This is a move by the Fed that has teeth to it."

Investors had complained that the Fed's recent round of interest rate cuts — its traditional tool to address problems in the economy — had been largely ineffective in easing troubles in the credit and equity markets.

But moments after the Fed announced its new programs, stocks jumped, with the Dow gaining more than 200 points in the first half-hour of trading. The major indexes fell back slightly during midday but surged again in the afternoon, ending near their highs for the day.

"No doubt there's a relief," said James Paulsen, a strategist at Wells Capital Management. "For us bulls that had been getting run over, it's nice to have a day like this."

Shares of financial services firms, which have suffered steep losses in recent months, led Tuesday's revival, with companies like Wachovia and Morgan Stanley recording double-digit percentage gains.

Of the 30 Dow components, American Express led the way, gaining almost 10 percent. Only Boeing declined.

The dollar came back against every major currency, with the euro finishing at $1.5318, down 0.17 percent. Crude oil prices rose to another record, up 85 cents to $108.75 a barrel.

Treasury bonds fell back as bond market investors became concerned that under the new Fed program, the government might issue too much debt. "But," Mr. Kovacs said, "the majority of market participants see that there could be some improvement in the seizure of the credit market."

Though the rally can be interpreted as a tentative vote of confidence in the Fed, some analysts cautioned that after several days of losses, the Dow climbed back only to where it was last Thursday.

"It takes us back to where we were three days ago," Mr. Kovacs said. "We have a long way to go."

Stocks Up 415 Points After Fed Credit Plan
By Tomoeh Murakami Tse and Neil Irwin

Washington Post Staff Writers
Tuesday, March 11, 2008; 4:17 PM

The U.S stock market jumped today as the Federal Reserve took new actions -- for the second time in five days -- to try to get markets for mortgages and other securities functioning again.

At the close of trading, the Dow Jones industrial average of 30 blue-chip stocks was up over 415 points, to 12,156.81. The Standard & Poor's 500-stock index, a broader market measure, rose more almost 47 points, to 1,320.56. The tech-heavy Nasdaq Composite index was higher by more than 86points, to 2,255,76.

The central bank will auction off up to $200 billion in Treasury bonds, which large financial institutions can obtain by putting up highly rated mortgage-backed securities as collateral. The idea is to let Wall Street firms temporarily trade sound mortgage investments, which have created problems for the markets in the past two weeks, for ultra-safe Treasury bonds.

That, senior Fed staffers said in a conference call with reporters this morning, should help the markets return to more normal functioning.

"Essentially, they're addressing the problem in a more direct manner," said Mark Coffelt, chief investment officer of Empiric Funds. He said the Fed has largely used lower interest rates as a way to stimulate the economy. However, that can have negative repercussions such as lowering the value of the dollar and raising the price of commodities, which could stoke inflation. "The process that they've used is really blunt. Dropping the Fed funds rate . . . is kind of like getting roaches out of your garage by setting off the bomb," he said. "It gets rid of the roaches, but it kind of kills everything else."

The Fed also expanded swap agreements with central banks in Canada, Britain, Switzerland and the European Union, steps meant to allow those foreign central banks to inject dollars into banks in their respective nations.

The actions follow similar measures announced Friday to inject an additional $200 billion into the banking system. Those moves were also meant to help liquidity return to troubled world credit markets.

On Friday, the central bank said it will auction $100 billion to financial institutions, injecting money into the banking system by trading cash for troubled securities. The Fed also said then that it will also make another $100 billion in cash available in exchange for securities issued by Fannie Mae and Freddie Mac, trying to restore confidence to the market for home mortgages.

Friday's measures were accompanied by some of the gloomiest economic data to date, and financial markets reacted negatively, with the Dow falling 146.7 points.

The Fed actions are separate from decisions by the central bank to cut a key interest rate, called the federal funds rate, its standard method of stimulating the economy. The Fed has cut that rate by 2.25 percentage points since September and is likely to make another cut March 18.

But by restoring order to financial markets, the Fed staffers said, any such rate cuts would be more likely to have their intended effect.

"They're essentially saying, 'We're behind the system, and we're going to do what it takes to keep markets liquid, markets open, lending happening and the economy engaged,' " said Andrew "Andy" Brooks, head of stock trading at T. Rowe Price. He said that short sellers in the stock and bond markets probably were covering their short positions, or bets they made that prices would fall, which is causing markets to rise. "I hope it's a sign that we're starting that long road back to repairing confidence."

WSJ - Stocks Soar on Fed's Liquidity Move
March 11, 2008 6:46 p.m.

The financial sector moved from the stock market's caboose to its first-class dining car, leading a frenetic stock rally Tuesday after the Federal Reserve announced its latest effort to end the freeze-up in Wall Street's credit markets.

Where will the stock market be three months from now? Cast your vote.2The Dow Jones Industrial Average skyrocketed 416.66 points to 12156.81, up 3.5%, its biggest one-day percentage gain in nearly five years. The Dow's gains accelerated toward the end of the session., trimming the average's year-to-date decline to 8.4%. Twenty-nine of the Dow's 30 blue-chip components posted gains, including jumps of more than 9% each in Citigroup and American Express.

The technology-focused Nasdaq Composite Index was up 4%, or 86.42 points, at 2255.76, off 15% this year. The Standard & Poor's 500 surged by 3.7%, or 47.28 points, to 1320.65, down 10% this year. All the broad measure's sectors posted gains, led by a 7% gain for the S&P's financial components as a group.

WL Ross & Co.'s Wilbur Ross discusses whether the Federal Reserve's newest move is a sign of weakness. He talks with WSJ's Dennis Berman.
The Fed announced Tuesday it would ramp up loans of cash and securities to banks and dealers. The new program will let firms borrow up to $200 billion of Treasurys and pledge various flavors of mortgage-backed securities, including both agency and private-label instruments, as collateral.

Markets for mortgage securities had been rapidly deteriorating recently as investors facing margin calls and others anxious about the overall financial health of government-sponsored enterprises Fannie Mae and Freddie Mac sold their holdings. The developments alarmed investors and policy makers and led to selling of financial stocks in recent days.

Some of that angst eased on Tuesday. Prices for agency mortgage bonds, or securities backed by home loans guaranteed by Freddie or Fannie, rose after the announcement, causing yields to fall. The difference between interest rates on agency bonds backed by 30-year mortgages and yields on five-year Treasury bonds slipped to 3.22 percentage points, down from 3.36 percentage points on Monday, according to data from Bear Stearns. Last week, that spread soared to a record of over 3.5 percentage points. It was 2.48 percentage points just over a month ago.

As a rule of thumb, narrower spreads are an indication that investors see agency debt as a low-risk investment.

See how markets reacted12 to the Fed's announcement of further measures to bolster liquidity.Shares of Fannie and Freddie, which had been pummeled by investors of late, rebounded. Freddie advanced by 12.6% and Fannie climbed 9.4%. But shares of each firm remain about 70% below their 52-week highs set last spring, a stark reminder of how hard the financial crisis has hit Wall Street as a whole.

Real-estate investment trusts that invest heavily in mortgages backed by Fannie Mae and Freddie Mac rallied Tuesday. Capstead Mortgage jumped 24.2% and Annaly Capital Management gained 9.3%. The shares of those companies were beaten down last week as the agency-debt market shuddered.

Mortgage lenders' shares likewise soared. Countrywide Financial and IndyMac Bancorp rose by 17% and 23%, respectively. Washington Mutual jumped 18%. Shares of Thornburg Mortgage, which struggled to meet margin calls last week, more than doubled.

Fannie and Freddie are traditionally seen as relatively safe bets because they are congressionally chartered. Many investors interpret that as an implicit guarantee that the government won't let the two lenders fail, a perception that officials typically try to tamp down. Last week, a Treasury spokeswoman had denied rumors that the government would soon make an explicit guarantee of Fannie and Freddie debt.

"The Treasury told the truth," said Ed Yardeni, chief investment strategist at Yardeni Research. "They didn't bail out Fannie and Freddie. In effect, the Fed just did instead."

Despite Tuesday's euphoric market reaction to the Fed move, veteran investors hesitated to interpret the gains as the start of a longer rally. Instead, many said there could be more bumps this year before corporate profits rebound, financial firms' books are cleaned up for good, and the U.S. economy is on sure footing.

"I think we could get a pretty good tradeable rally here, but I sure would not expect this to be the end of the decline," said strategist Bob Phipps, of CACH Capital Management in Austin, Tex. "This is not how bear markets end."

Kitco gold analyst Jon Nadler discusses the precious metal's recent rise and whether the market is due for a correction. MarketWatch's Polya Lesova reports.
Analysts don't expect the Fed's move to be a salve for the earnings of banks and Wall Street brokerages. Major Wall Street investment houses will start to report first-quarter earnings next week, and are generally expected to take more write-downs on the value of soured mortgage investments.

Mike Thompson, research director at Thomson Financial, said analysts expect aggregate earnings for the S&P 500's components to be down more than 4%, including a plunge of more than 37% in financial-sector earnings. "What we saw today from the Fed was helpful, but things are still going to get worse before they get better in the financial sector," Mr. Thompson said.

The Fed's move boosted the dollar versus the yen and sent long-dated bonds sharply lower.

Among other stocks in the news, WellPoint fell 28.3% after the health insurer cut its 2008 earnings outlook, saying the first two months of the year were worse than expected despite previous planning for an economic downturn. And Texas Instruments fell 3% after lowering its first-quarter earnings estimates.

In other major market action:

Commodities rose. The broad Dow Jones-AIG Commodity Index gained 0.5%, or 1.131 points, at 216.338. Crude-oil futures rose 85 cents, or 0.8%, to $108.75 a barrel, up 13% this year. Contracts on heating oil and reformulated also hit records. Gold futures rose $4.30, or 0.4%, to $974.20 per ounce in New York.

Bonds fell. The two-year Treasury fell 17/32, yielding 1.733%. The 10-year note fell 1-10/32 to yield 3.596%. The 30-year bond fell 1-11/32 to yield 4.530%.

The dollar was mixed. The euro rallied to $1.5316 from $1.5352 late Monday. The dollar traded at 103.41 compared to 101.73 yen late Friday.

--Serena Ng contributed to this article

Write to Peter A. McKay at peter.mckay@wsj.com13

FT - Wall St enjoys best one-day rise since 2002
By Chris Bryant in New York
Published: March 11 2008 13:01 | Last updated: March 11 2008 20:41

US stocks enjoyed their best one-day advance in more than five years on Tuesday after the Federal Reserve announced a $200bn plan to boost liquidity at troubled financial firms.

Banking stocks surged with financial firms chalking up gains of more than 10 per cent, as traders rushed to cover short positions. The central bank plan helped allay fears that liquidity pressures were spiralling out of control.

Energy companies and other commodity producers were among the best performers as crude oil surged to another record.

The S&P 500 closed up 3.7 per cent at 1,320.63 points, its best performance since October 2002. The Nasdaq Composite soared 4 per cent to 2,255.76 and the Dow Jones Industrial Average climbed 3.6 per cent to 12,156.81 points.

The co-ordinated central bank announcement was a welcome salve for equity investors alarmed at the pattern of recent selling.

Until Tuesday the market had retreated for three successive sessions as investors were unnerved by reports of margin calls at hedge funds and soaring home foreclosures.

Tobias Levkovitch, chief US equity strategist at Citi Investment Research, had warned that "hopelessness" was setting in.

The Fed plan to lend up to $200bn of Treasury securities to primary dealers on a 28-day term soothed some of these worries. The plan allows dealers to park a variety of collateral, including mortgage-backed securities, which have declined rapidly in price and have become difficult to trade.

The latest announcement brought to $400bn the total amount of new short-term funds made available by the Fed over the past week.

Bill Stone, chief investment strategist at PNC Wealth Management, said: "The Fed taking mortgages as collateral should help ease liquidity concerns. This is a way to really attack the problems at their route rather than just cutting interest rates."

After the announcement the futures market trimmed odds of a 75bp rate cut when the federal open market committee meets next week.

Although the market reaction was very supportive some analysts were more sceptical.

David Rosenberg, North American economist at Merrill Lynch, said: "We still believe today's action is not nearly a large enough step to make a big difference."

Stocks moved sharply higher on the Fed news with gains concentrated in the financial sector. An analysis by Bespoke Investment Group suggested some of Tuesday's rally was driven by traders closing out short positions.

Among the big movers were Citigroup, up 9.1 per cent at $21.49, Lehman Brothers, 7.8 per cent higher at $46.31, and

Countrywide Financial, up 17.2 per cent at $5.11.

Washington Mutual rose as much as 25.5 per cent on speculation it could receive a cash infusion from an outside investor. It closed up 18.3 per cent at $11.88.

Bear Stearns was particularly volatile, falling as much as 19 per cent from its intraday peak, amid persistent talk – which it denied – that it faced liquidity problems. Bear closed up 1.1 per cent at $62.97 on reports Joseph Lewis, the British billionaire investor, was looking to increase his stake.

Investors were also cheered by a smaller US trade deficit increase than expected. The gap between imports and exports widened 0.6 per cent in January, excluding costly oil imports but the deficit narrowed to a five-year low, as the weaker dollar boosted exports.

Energy companies moved higher as crude oil futures rose above $109. ExxonMobil put on 5.1 per cent to $86.68 and Noble, the rig operator, rose 7.6 per cent to $50.48.

Citing "out of control" oil prices and rising costs, Credit Suisse downgraded the airline sector from "overweight" to "market weight". NorthWest Airlines shed 0.8 per cent to $12.23.

Also trading to the downside was chipmaker Texas Instruments, which cut its first quarter earnings and revenue outlook.

The shares dropped 3 per cent to $28.76. In telecoms, Sprint Nextel, the troubled mobile phone operator briefly hit a 20-year low. The shares closed 8.2 per cent lower at $6.17.

Health insurer WellPoint cut its 2008 earnings outlook because of high costs and the deteriorating economy. Its shares plunged 28.3 per cent to $47.26.

Foley, Trip

From: NYTimes.com [nytdirect@nytimes.com]
Sent: Wednesday, March 12, 2008 9:49 AM
To: Foley, Trip
Subject: DealBook: Chief of AOL's Parent Is Open to a Deal

To view the latest DealBook headlines on your mobile device, go to: http://mobile.nytimes.com/blogs/dealbook

DealBook

Edited by Andrew Ross Sorkin

The New York Times

TODAY'S TOP HEADLINES | Wednesday, March 12, 2008

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HEDGE FUNDS: London Fund Faces Charges in Switzerland
OFFERINGS: How KKR Could Pull the I.P.O. Plug
VENTURE CAPITAL: V.C.'s Throw $55 Million into Highwinds
LEGAL: The Spitzer Hit List

TOP STORY

Chief of AOL's Parent Is Open to a Deal

AOL, the company that introduced millions of people to the Internet, has tried to reinvent itself many times. The latest effort, like those before it, does not seem to be going well.

On Tuesday, Jeffrey L. Bewkes, the chief executive of **Time Warner**, AOL's parent company, acknowledged weakness in the business and said he was open to combining AOL with another company -- "whatever configuration makes it the strongest and the most valuable."

But he may have been soft-pedaling what seems to be an increasingly troublesome situation at AOL, which has bet its future on a new strategy of selling advertising across the Internet and has spent more than $1 billion on related acquisitions.

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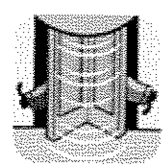
Hostility in Tech-Land

Larry Ellison may deserve much of the credit for breaking down Silicon Valley's stigma on hostile bids. More»

Spitzer Schadenfreude

Many Wall Streeters were taking pleasure in the scandal around New York's governor, who aggressively policed the Street in his previous job. (80 comments) More»

Revolving Door



The latest hires, promotions and departures at Goldman, Bear, Cowen and more. More»

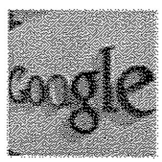
The Deal Professor

THE DEAL PROFESSOR

A blog-within-a-blog that looks at mergers, private equity and corporate governance through a legal lens, written by Steven M. Davidoff, a professor at Wayne State University Law School and a former lawyer at Shearman &

MERGERS & ACQUISITIONS

Back to Top



Google said it closed its acquisition of **DoubleClick** after the deal won approval from European regulators. Analysts said the decision in Europe could strengthen **Microsoft**'s argument that it should be allowed to buy **Yahoo**, were it to succeed in its takeover battle with that company.

Go to Article from The New York Times»
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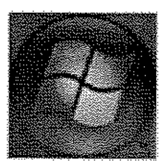

As **Microsoft** covets **Yahoo**'s search business, The 451 Group argues that it should also consider another deal: the sale of its lagging enterprise-software unit.

Go to Report from The 451 Group»

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Facing a takeover bid from rival **Electronic Arts**, **Take-Two Interactive** sought to assure Wall Street investors on Tuesday that it is capable of growing on its own. Meanwhile, two major Take-Two shareholders have slashed their stakes in the video-game maker.

Go to Article from The New York Times»
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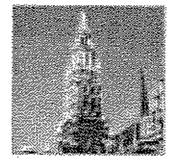
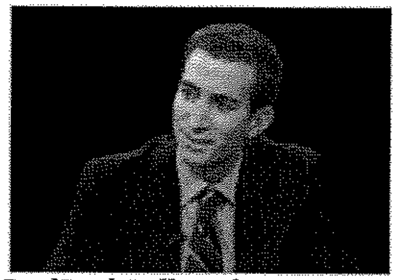
BNP Paribas could set out terms for any offer for embattled rival **Societe Generale** in May, La Tribune newspaper reported on

Sterling. More»

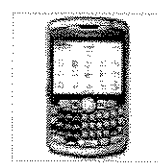


Live From Super Return 2008
Some of the biggest names in private equity gathered in Munich to share strategies for weathering the industry's recent downturn. More»



DealBook Talks Yahoo
DealBook's Andrew Ross Sorkin discussed Microsoft's offer for the Internet giant on "Charlie Rose." Watch here. More»

Microsoft's Yahoo Bid
Full coverage of Microsoft's unsolicited $44.6 billion offer for Yahoo, what it means and how it might play out. More»



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More information on DealBook for BlackBerry.

News By Industry

Wednesday without saying where it got the information.

Go to Article from Reuters via The New York Times»
Go to Previous Article from The Associated Press via The International Herald Tribune»

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Top U.S. refining company **Valero Energy** said on Tuesday it is considering selling nearly a third of its North American refineries amid a U.S. economic slowdown that is crimping fuel demand.

Go to Article from Reuters via The New York Times»

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HSBC, Europe's biggest bank, **Bank of China** and Malaysia's **Malayan Banking Bhd** have emerged as the final bidders for Singapore state investor **Temasek**'s stake in **Bank Internasional Indonesia**, valued at more than $800 million, Reuters reported.

Go to Article from Reuters via The New York Times»

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Chinese medical device maker **Mindray Medical** Tuesday said it planned to buy **Datascope**'s patient monitoring business for $202 million in cash.

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INVESTMENT BANKING

Back to Top

The Federal Reserve on Tuesday offered to let the biggest investment banks on Wall Street borrow up to $200 billion in Treasury securities in exchange for hard-to-sell mortgage-backed securities as collateral.

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Bear Stearns shares pared losses late Tuesday after securities regulators said they were comfortable with capital levels at the largest U.S. investment banks, including Bear. Analysts, however, continued to cut their targets for the troubled investment bank.

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Neal Shear, who formerly ran **Morgan Stanley's**

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Dealboard

sales and trading business before being demoted last November, has left the securities firm, according to The Wall Street Journal and Bloomberg News.

Go to Article from The Wall Street Journal (Subscription Required)»
Go to Article from Bloomberg News»

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Lazard said Tuesday that it has hired Brendan Dyson as a managing director in its corporate finance advisory group, based in San Francisco. Mr. Dyson was previously a managing director at **Piper Jaffray** and led that firm's convertible securities group.

Go to Lazard Press Release»

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PRIVATE EQUITY

Back to Top

The sustainable investment firm run by Al Gore is about to be closed to new investors, having raised close to its $5 billion target.

Go to Article from Bloomberg/Reuters via The International Herald Tribune»

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Sovereign wealth fund assets may soon surpass total official foreign reserves held by central banks and become the main vehicle for capital investment, a **Morgan Stanley** economist said on Tuesday.

Go to Article from Reuters via The New York Times»

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Taking a look at the situation surrounding **Carlyle Group**'s listed fund, **Carlyle Capital**, Breakingviews finds it odd that the buyout shop known for its diversified and sophisticated investing is now watching as its affiliate finds itself on the brink.

Go to Article from Breakingviews»
Go to Related Article from Financial News»

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As the New York Public Library prepares to name a building after **Blackstone**'s Stephen Schwarzman, DealBook looks at some other edifices and the Wall Street names that adorn them.

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HEDGE FUNDS

Back to Top

Laxey Partners, the activist British hedge fund, is facing a possible criminal prosecution in Switzerland after the country's banking regulator said it had breached disclosure laws while building a 23 percent stake in a local construction company.

Go to Article from The Times of London»

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Media General will meet with **Harbinger Capital Partners**, the hedge fund seeking to improve profitability by nominating directors to the board at the family-owned newspaper publisher and television station operator.

Go to Article from The Associated Press via The Houston Chronicle»

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The **Citadel Investment Group**, the Chicago-based hedge fund and financial services group, has hired a portfolio manager from London hedge fund **Moore Capital Management** to manage global macro strategies.

Go to Article from Financial News»

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I.P.O. / OFFERING

Back to Top

Kohlberg Kravis Roberts's proposed initial public offering is still in limbo. The Deal Professor considers how the buyout firm could pull the offering, save face and stay on the right side of securities laws.

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The European initial public offering volume this year is at its lowest level for five years and there is nothing in the pipeline for April and May, as volatile markets continue to shake investor confidence, according to Thomson Financial.

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BlackRock, the U.S. money manager, said on Tuesday it is planning to launch a London-listed closed-end fund of hedge funds that will offer exposure to its $11 billion (5.5 billion pound) Appreciation Strategy.

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The chief executive of **Time Warner**, Jeffrey Bewkes, signaled Tuesday that he was leaning toward a spin off of Time Warner Cable, saying that the cable business might perform better for shareholders if it were not "locked to the rest of the businesses."

Go to Article from The Hollywood Reporter»
Go to Article from BetaNews»

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VENTURE CAPITAL Back to Top

Highwinds Network Group on Tuesday said it closed a $55 million round of venture financing led by **General Catalyst Partners** and **Alta Communications**.

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Pixim, a maker of visual surveillance chips, has raised $21.6 million in a new round of funding, VentureBeat reported.

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LEGAL Back to Top

In his eight years as New York's attorney general, Eliot L. Spitzer drew praise as an aggressive reformer but also racked up a slew of enemies. DealBook compiled a list of those who will likely shed no tears if Mr. Spitzer -- who once described himself as a human "steamroller" -- is forced to step down as New York's governor, which seemed increasingly likely Tuesday.

Go to Item from DealBook»

In hiring a legal defense team, Mr. Spitzer is turning to a name he's familiar with: **Paul, Weiss, Rifkind, Wharton & Garrison.**

Go to Item from DealBook»

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The testimony on the second day of a trial to settle a dispute over the control of **IAC/InterActiveCorp** reduced a clash between media titans Barry Diller and John C. Malone to a debate about detail.

Go to Article from The New York Times»

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Alabama's Jefferson County is teetering on the brink of bankruptcy after a series of exotic bond deals that its Wall Street bankers concocted went wrong, and the interest on its debts, rather than shrinking as the bankers had promised, has ballooned like a bad subprime mortgage.

Go to Article from The New York Times»

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Law firm **Milberg Weiss**, set to go on trial later this year on charges of paying illegal kickbacks to clients, was the top-ranked U.S. class-action firm last year with $3.8 billion in settlement winnings for plaintiffs, according to a new report.

Go to Article from Reuters via The New York Times»

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Michael Frishberg, a former partner in **Kirkland & Ellis'** restructuring department, has joined **Kurtzman Carson Consultants**, a claims and noticing agent for companies undergoing restructuring.

Go to Kurtzman Carson Press Release»

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Selected deals in play. Spreads are calculated according to the latest stock figures available as of recent market close.

Target: Huntsman Corp.
Acquirer: Hexion Specialt ...
Spread 6.08
Change -0.29

Target: Nationwide Fi ...
Acquirer: Nationwide Mutu ...
Spread -3.33
Change -0.27

Target: Navteq Corp.
Acquirer: Nokia Oyj
Spread 1.93
Change -0.07

Target: Northwest Air ...
Acquirer: Delta Air Lines ...
Spread 0.64
Change 0.06

Target: Nymex Holding ...
Acquirer: CME Group Inc.
Spread 2.46
Change -0.68

Target: Penn National ...
Acquirer: Fortress Invest ...
Spread 22.50
Change 1.07

Target: Performance F ...
Acquirer: Wellspring Capi ...
Spread 0.47
Change -0.09

Target: Post Properti ...
Acquirer: Cadim and Willi ...
Spread 7.54
Change -0.25

Target: Puget Energy ...
Acquirer: Macquarie Infra ...
Spread 2.05
Change 0.07

Target: Rio Tinto plc
Acquirer: BHP Billiton pl ...
Spread 95.10
-9.15

"Change" indicates a change from previous day. Data provided by:

The Deal

The Deal offers an expanded list of arbitrage situations that are updated throughout the day.

ABOUT THIS E-MAIL

DealBook is a joint production of The New York Times and NYTimes.com, published daily, Monday-Friday, except on U.S. Market holidays and during the last week of the year. Editorial staff: Andrew Ross Sorkin, Peter Edmonston, Michael de la Merced and Liza Klaussmann.

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From:	Abbott, Matthew
Sent:	Wednesday, March 12, 2008 11:05 AM
To:	Nason, David; Norton, Jeremiah; Stoltzfoos, Jeffrey; Ryan, Tony; Steel, Robert; Scogin, Matthew; Appleton, Jesse
Cc:	Schetzel, Michael; Hill, Rob; Dulaney, Tim; Hong, Austin; Sobel, Mark; Barth, Marvin; Abbott, Matthew
Subject:	Global Banks Earnings Calendar

Global Banks Earnings Calendar

14/03/2008	UniCredit
14/03/2008	Prudential
18/03/2008	Legal & General
18/03/2008	Goldman Sachs
18/03/2008	Lehman Brothers
19/03/2008	Morgan Stanley
20/03/2008	Generali
20/03/2008	Allianz
20/03/2008	Bear Stearns
20/03/2008	Intesa Sanpaolo
26/03/2008	Unione di Banche Italiane
27/03/2008	HYPO REAL ESTATE HOLDING
27/03/2008	Swiss Life Holding
04/04/2008	Scor
04/04/2008	BANK OF QUEENSLAND
15/04/2008	HVB
15/04/2008	BAYERISCHE LANDESBANK
17/04/2008	Merrill Lynch
18/04/2008	Bank of America
18/04/2008	Citigroup
18/04/2008	JP Morgan
18/04/2008	Wachovia
23/04/2008	ANZ Bank
23/04/2008	BBVA
24/04/2008	Credit Suisse
25/04/2008	Countrywide
29/04/2008	Deutsche Bank
29/04/2008	Santander
02/05/2008	Prudential Financial
06/05/2008	UBS
09/05/2008	Allianz
10/05/2008	ANGLO IRISH BANK
13/05/2008	MACQUARIE BANK
13/05/2008	Societe Generale
14/05/2008	BNP Paribas
14/05/2008	Banca Monte dei Paschi di Siena
29/05/2008	MAN GROUP PLC
29/05/2008	Bank of Ireland

Steel, Robert

From: Eichner, Matthew [EICHNERM@SEC.GOV]

Sent: Thursday, March 13, 2008 11:39 PM

To: timothy.geithner@ny.frb.org; donald.l.kohn@frb.gov; Steel, Robert; kevin.warsh@frb.gov; Sirri, Erik R.; Ryan, Tony

Subject: Conference Call at 8:30 am Friday

Hi,

Following up on the decision to hold another call tomorrow at 8:30 am, the following call-in is available:

Call-in: (877) 336-1839
Access Code: (b) (2) [redacted]

Many thanks,

-matt

Foley, Trip

From: McLaughlin, Brookly
Sent: Thursday, March 13, 2008 10:06 AM
To: _DL_FYI
Subject: (BN) Paulson Says Regulators to Increase Mortgage Industry S

Paulson Says Regulators to Increase Mortgage Industry Scrutiny
2008-03-13 09:34 (New York)

By John Brinsley and Jesse Westbrook

March 13 (Bloomberg) -- Treasury Secretary Henry Paulson said U.S. regulators will heighten their scrutiny of lenders, mortgage brokers and debt-rating firms to prevent a re- occurrence of the credit crisis that has roiled capital markets.

``The objective here is to get the balance right,'' Paulson said in the text of a speech to the National Press Club in Washington. ``Regulation needs to catch up with innovation and help restore investor confidence but not go so far as to create new problems, make our markets less efficient or cut off credit to those who need it.''

The remarks reflect a report released today by the President's Working Group on Financial Markets, chaired by Paulson. Policy makers have said the aim is to address deficiencies in how lenders wrote mortgages, then packaged them into bonds rated by credit rating companies and sold by securities firms.

The report cites a ``breakdown'' in underwriting standards for subprime mortgages, a ``significant erosion of market discipline by those involved in the securitization process,''
and ``flaws in credit-rating agencies' assessments'' of securities backed by subprime loans.

``Poor judgment and poor market practices led to mistakes by all participants,'' Paulson said in his speech.

The report recommends that federal and state regulators strengthen their monitoring of mortgage writers, that state financial authorities implement ``strong'' nationwide licensing standards for mortgage brokers, and that the Federal Reserve issue revised rules for consumer protection and disclosure requirements, Paulson said.

Presidential Panel

The President's Working Group also includes Fed Chairman Ben S. Bernanke, Securities and Exchange Commission Chairman Christopher Cos and Walter Lukken, action chairman of the Commodity Futures Trading Commission.

Banks and securities firms posted more than $188 billion of credit losses since the start of last year as the mortgage meltdown rippled through financial markets. As lenders made it tougher to get loans and home values slid, delinquencies climbed.

The Treasury chief said the report will also include proposals to strengthen supervision of banks' capital, amid concern they failed to protect against the risks they took investing in subprime assets.

``We are encouraging financial institutions to continue to strengthen balance sheets by raising capital and revisiting dividend policies,'' Paulson said. ``We need these institutions to continue to lend and facilitate economic growth.''

$1.2 Trillion

Investment banks including Bear Stearns Cos., Deutsche Bank AG and Lehman Brothers Holdings Inc. sold $1.2 trillion of subprime mortgage securities in 2005 and 2006, according to estimates by Brian Bethune, director of financial economics at Global Insight Inc. in Waltham, Massachusetts. Standard & Poor's, Moody's Investors Service and Fitch Ratings often gave the assets top AAA ratings.

Paulson's report comes amid a crisis of confidence in mortgage securities, as investors question the validity of even the highest-rated assets. Premiums on home-loan debt guaranteed by Fannie Mae and Freddie Mac, the biggest sources of American home financing, climbed to a 22-year high this month.

The Treasury chief is also battling to keep the economy from descending into a deeper downturn. Employers cut workers at the fastest pace in five years in February, government data show.

UBS AG analysts project that credit losses may top $600 billion.
Bear Stearns, the second-biggest underwriter of mortgage bonds, has slid 12 percent this week on concern the New York- based company lacks sufficient cash. Chief Executive Officer Alan Schwartz denied the rumors.

--With reporting by Scott Lanman, Alison Vekshin and Ian Katz in Washington and Kathleen Howley in Boston. Editor:
Chris Anstey

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To contact the editor responsible for this story:
Chris Anstey at +1-202-624-1972 or canstey@bloomberg.net

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NI RULES

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-0- Mar/13/2008 13:34 GMT

Foley, Trip

From: Market Room
Sent: Thursday, March 13, 2008 10:07 AM
Subject: Market Update| Equity and Yields Lower; Dollar Weaker; Oil and Gold Up

- Concerns over lower than expected February retail sales numbers and the credit markets due to an affiliate of U.S. based buyout firm Carlyle Group, Carlyle Capital Group defaulted on about $16.6 billion of debt lead equity and fixed income markets lower. All three major indices traded down over 1.5% across the board.
- The dollar fell below 100 yen for the first time since 1995 before partially retracing and dropped to a record low against the euro. The dollar touched $1.5624 per euro, the weakest since the European currency's debut in 1999.
- April gold futures hit $1,000-per-ounce for the first time as the U.S. dollar weakness accelerated, and inflation concerns.
- U.S. government debt yields are down on Thursday with 2 year Treasury yields down 13.7 bps to 1.481% and 10-year Treasurys yields down 5.78 bps to 3.403%.
- Major financial institutions are down in early trading. Bear Stearns is down 11% and Citigroup is down over 4%.

DJIA	11918.44	-1.56 %
S&P	1286.95	-1.68 %
NASDAQ	2212.07	-1.41 %
FTSE	5658.2	-2.12 %
Nikkei	12433.44	-3.33 %

1-Month Tsy	1.588	-3.014 bps
3-Month Tsy	1.346	-6.147 bps
3-month LIBOR	2.8	-5 bps
2-yr Tsy	1.481	-13.774 bps
10-yrTsy	3.403	-5.783 bps
2-yr SwSpr	95.5	4.35 bps
10-yr SwSpr	77.925	4.175 bps
30-yr Conf Mtge	144.093	0.716 bps
10-yr Gilt	4.316	-10.5 bps
10-yr Bund	3.717	-5.4 bps
10-yr JGB	1.29	-5.5 bps

Oil NMX WTI	$109.56	-$0.46
Gold Spot	$998.41	$15.37
$/Euro	$1.5610	0.42 %
Yen/$	100.07	-1.73 %
Yen/Euro	156.225	-1.33 %

(Adds Carlyle Group comment in seventh paragraph.)

By Joseph Galante and Edward Evans

March 13 (Bloomberg) -- Carlyle Group's mortgage-bond fund moved a step closer to collapse after failing to reach an agreement with lenders who demanded more than $400 million to meet margin calls.

Concern about the fate of Carlyle Capital Corp., which began to buckle a week ago from the strain of tumbling home-loan assets, helped push the dollar to a 12-year low against the yen today. The fund said in a statement that it defaulted on about $16.6 billion of debt as of yesterday. Lenders will ``promptly'' take over all of its remaining assets and any remaining debt is expected ``soon'' to go into default, Carlyle Capital said.

Carlyle Capital plunged as much as 70 percent in Amsterdam trading. Carlyle Group, co-founded by David Rubenstein, tapped public markets for $300 million in July to fuel the fund just as rising foreclosures caused credit markets to seize up. In the past month, at least a dozen funds have closed, sold assets or sought fresh capital as banks tightened lending standards.

``If Carlyle's lenders want their money right away, they'll liquidate the fund,'' said Hank Calenti, a London-based analyst at RBC Capital Markets. ``That will put pressure on already stressed credit markets.''

Carlyle Capital's plea for refinancing on residential mortgage-backed securities failed late yesterday after a pricing service used by some lenders reported a decrease in the value of the assets, the firm said.

`Refinancing Not Possible'

``The basis on which lenders are willing to provide financing against the company's collateral has changed so substantially that a successful refinancing is not possible,'' Carlyle said in the statement. It expects additional margin calls today of $97.5 million.

Carlyle Group and its funds are not liable for repurchase agreements that Carlyle Capital used to buy residential mortgage-backed securities, Hong Kong-based spokeswoman Dorothy Lee said in an e-mail today. ``The Carlyle Group's only material financial exposure to CCC is through a $150 million unsecured subordinated revolving credit agreement with CCC,'' she said.

Calls and e-mails to Carlyle Capital spokesman Rowland Hunt and spokeswoman Ellen Gonda weren't immediately returned.

Carlyle's fund has said its so-called agency debt has an ``implied guarantee'' from the U.S. government.

The industry is reeling from its worst crisis because bankers -- staggered by almost $190 billion of asset writedowns and credit losses -- are raising borrowing rates and demanding extra collateral for loans. Treasuries extended gains as investors took the collapse of the talks as a sign that credit market losses are deepening.

`Flood of Downgrades'

``This is not only a problem for Carlyle,'' Jochen Felsenheimer, the Munich-based head of credit strategy at UniCredit SpA, wrote in a note to clients today. ``We expect a further flood of downgrades especially of higher-rated securities, putting enormous pressure on the system.''

Carlyle Capital originally delayed and then cut the size of its IPO by about 25 percent as the subprime contagion began. It then added the money raised in July to a private $590 million pool opened in 2006. For every dollar of equity, the pool borrowed $32.

``It was a poorly conceived fund launched at the worst time,'' said Toby Nangle, a member of the strategic policy group at Baring Asset Management in London, which manages $55 billion.

The shares, first sold to investors for $19 each, fell $1.97 to 83 cents as of 10:35 a.m. today.

Drake Management LLC, the New York based-firm started by former BlackRock Inc. money managers, said yesterday it may shut its largest hedge fund, while GO Capital Asset Management BV blocked clients from withdrawing cash from one of its funds.
Other funds hit include Peloton Partners LLP's $1.8 billion ABS Fund, Tequesta Capital Advisor's mortgage fund and Focus Capital Investors LLC, which invested in midsize Swiss companies.

``Carlyle won't be the end of it,'' said Greg Bundy, executive chairman of Sydney-based merger advisory firm InterFinancial Ltd. and a former head of Merrill Lynch & Co.'s Australian unit. ``There's more to come. The problem is no one can give you an educated guess about how much.''

--With reporting by Stuart Kelly in Sydney, Naga Munchetty and Mark Barton in London and Bei Hu in Hong Kong. Editors: Sau Chan, Adrian Cox

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To contact the editor responsible for this story:
JoAnne Norton at +1-202-624-1977 or jnorton@bloomberg.net; Adrian Cox at (44) (20) 7673-2334 or acox2@bloomberg.net.

[TAGINFO]

Steel, Robert

From: Marlene.Williams@ny.frb.org on behalf of Timothy.Geithner@ny.frb.org

Sent: Friday, March 14, 2008 12:47 AM

To: Donald.L.Kohn@frb.gov; Kevin.Warsh@frb.gov; Patrick.M.Parkinson@frb.gov; Scott.Alvarez@frb.gov; Brian.F.Madigan@frb.gov; Steel, Robert; Ryan, Tony; Sirri, Erik R.; Eichner, Matthew

Cc: Michael.Silva@ny.frb.org; Marlene.Williams@ny.frb.org; Tanshel.Pointer@ny.frb.org

Subject: Conference Call 6:00 a.m. March 14 --

Importance: High

Please be informed that Mr. Geithner would like to convene a conference call at **6:00 a.m. on Friday, March 14.** The call-in information and participants are listed below. Please reply to this e-mail to confirm your participation. Thank you.

AUDIO CONFERENCE ACCESS INFORMATION:

* Toll Free Dial In Number: (888) 830-6260
* Int'l Access/Caller Paid Dial In Number: (505)242-2420
* HOST CODE: (b) (2) [redacted]
* PARTICIPANT CODE: (b) (2) [redacted]

PARTICIPANTS:

Board of Governors:
Donald Kohn
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Pat Parkinson
Scott Alvarez
Brian Madigan

Treasury
Robert Steel
Anthony Ryan

FRBNY
Timothy Geithner

SEC
Eric Sirri
Matthew Eichner

Valentic, Marsha

From: Marlene.Williams@ny.frb.org
Sent: Thursday, March 13, 2008 3:18 PM
To: SirriE@sec.gov; schmautzj@sec.gov; Rivane.V.Bowden@frb.gov; Margaret.Owens@frb.gov; Valentic, Marsha
Cc: Tanshel.Pointer@ny.frb.org
Subject: Today's Conference Call at 3:30 p.m. (ET)
Importance: High

This is to confirm a conference call is schedule today at **3:30 p.m.** (ET) to discuss Bear Stearns.

Call In Info:
Dial: 1-800-853-0223 [Internal - dial: 6338; International - dial: 202-728-5858]
Code: (b) (2) [redacted]

Questions or problems--notify Conference Operator at 202-736-5654 or 202-452-3000

Participants:
Board of Governors:
Vice Chairman Donald Kohn
Governor Kevin Warsh
Under Secretary Robert Steel
FRBNY:
President Timothy Geithner
SEC
Eric Sirri

Marlene Williams
(212) 720-6174

[redacted]

Valentic, Marsha

From: Valentic, Marsha on behalf of Steel, Robert
Sent: Thursday, March 13, 2008 5:15 PM
To: Paulson, Henry M
Subject: Accepted: Meeting with JP Morgan's Corporate Operating Committee

Stoltzfoos, Jeffrey

From:	Market Room
Sent:	Thursday, March 13, 2008 5:38 PM
Subject:	PM Markets Briefing | March 13
Attachments:	Mkts Briefing 03.13.2008pm.doc

Thu Mar 13 04:15:35 PM

DJIA	12145.74	+0.29%
S&P	1315.48	+0.51%
NASDAQ	2263.61	+0.88%
FTSE	5692.40	-1.45%
Nikkei	12433.44	-3.33%
1-Month Tsy	1.555	-6.5 bps
3-Month Tsy	1.315	-6.0 bps
3-Month LIBOR	2.800	-5.0 bps
2-Year Tsy	1.618	+2.4 bps
10-Year Tsy	3.534	+9.4 bps
2yr SwSpr	88.00	-1.0 bps
10yr SwSpr	69.00	-2.2 bps
30yr Conf Mtge	142.96	-0.41 bps
10yr Gilt	4.357	-6.0 bps
10yr Bund	3.756	-1.0 bps
10yr JGB	1.279	-4.0 bps
Oil NMX WTI	$110.14	+$0.22
Gold Spot	$994.61	+11.64$
$/Euro	$1.5617	+0.34%
Yen/$	100.66	-0.50%
Yen/Euro	157.28	-0.66%

Quotes provided by Reuters

Major U.S. equity indices rose as much as 0.9% following a report by ratings agency S&P, which suggested that the end of write-downs for large institutions is "now in sight." Price action was reportedly driven by short-covering trades from leveraged accounts, rather than buying by real money investors. Despite the headline, others noted that S&P also raised its estimate for final subprime mark-to-market losses to $285 billion, which implies roughly an additional $100 billion of charges that remain to be recognized. Additionally, some noted that the report only addressed charges for subprime assets, and did not address potential write-downs of CMBS or leveraged loans. Since the beginning of the year, the AAA CMBX has widened roughly 200 basis points, and the LCDX index has declined 5 index points. Market participants continued to discuss possible solvency issues regarding Bear Stearns, despite no new information. The company's stock price declined 7.4% and its CDS spread widened 105 basis points to 189 basis points, underperforming other financial sector firms.

Despite opening 22 basis points wider following overnight price action, the option-adjusted spread on the current coupon agency pass-through security narrowed throughout the day to close just 4 basis points wider, consistent with the intraday moves in other assets. This spread has narrowed over 50 basis points from its widest level late last week. More broadly, mortgage spreads remain elevated, as market participants continue to note the lack of a natural buyer in the agency MBS market. Other spread products were also wider on the day, with the investment grade CDX index widening 6 basis points to 189 basis points.

U.S. Treasury yields were mixed, as the 2- year yield declined 1 basis points and the 10- year yield increased 4 basis points. Early in the trading session, the lower-than-expected February advanced retail sales data weighed on sentiment. However, market participants took their trading direction from equity market moves for the remainder of the session. Market participants also attributed the price action in the long end of the coupon curve to the results of today's $10 billion 10-year Treasury auction. Intermediate- to longer-dated TIPS breakeven rates of inflation narrowed up to 3 basis points in reportedly light volumes. Traders also noted some accounts adjusting their positions ahead of tomorrow's February CPI print, where the Bloomberg median economist estimate suggests the headline figure will remain unchanged from January at 4.3 percent year over year.

The U.S. dollar continued to depreciate against most major currencies, depreciating 0.3 and 0.9 percent against the euro and yen, to levels of $1.5611 and ¥100.79, respectively. Minimal price action was attributed to the Secretary's speech in which he reiterated that "a strong dollar is in our national interest." Most market participants continue to interpret the lack of new commentary from U.S. policy officials as supporting the view that foreign exchange intervention is still unlikely in the near term.

Gold gained $13 to reach $993.50, after extending its contract high to $1,001.50. Analysts believe the gold-favorable environment continues to evolve positively for the metal, with expectations of further Fed rate cuts and inflationary concerns. Other commodities were generally higher with light, sweet crude for April delivery up 41 cents, or 0.4%, higher to $110.33 a barrel and corn futures were higher by 0.5%.

Housing Financial Service Committee Chairman Barney Frank and Senate Banking Committee Chairman Christopher Dodd announced plans to let the Federal Housing Administration insure refinanced mortgages after lenders reduce principal to help struggling borrowers.

Mkts Briefing
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Source: Bloomberg, Moody's, TradeWeb, Dow Jones, Reuters and NY Fed Markets

Austin Hong
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For 24-hr updates, ping mkt@do.treas.gov