

G7 CALENDAR

Tuesday	
12:30 a.m.	JPN
July Supermarket Sales (previous -2.5%YY)	
2:45 a.m.	FRA
2Q GDP, prelim (expected +1.2%QQ) (expected +2.7%YY)	
4:00 a.m.	GER
June Euro Zone Current Account (expected -6.8B)	
4:30 a.m.	UK
July MM22: Producer Prices	
5:00 a.m.	GER
Aug ZEW Econ Sentiment (expected 10.3)	
5:00 a.m.	EU
June Euro Zone Indus New Orders (expected - 0.2%MM) (previous +14.2%YY)	
7:00 a.m.	CAN
July CPI, core (expected +1.8%YY)	
7:45 a.m.	US
Aug 19 ICSC Store Sales Index (previous Unch)	
8:55 a.m.	US
Aug 19 Redbook Retail Sales Index (previous +0.2%)	
10:00 a.m.	US
Aug Richmond Fed Mfg Index (previous 12)	
5:00p.m.	US
Aug 20 ABC/Washington Post Consumer Confidence Index (previ- ous -15)	
7:50p.m.	JPN
July Trade Balance (expected Y977.1B) Y807.9B	
7:50p.m.	JPN
July MOF Oil Imports (previous -3.4%YY)	

TODAY'S MARKET WRAPS

TREASURYS: Treasury prices were a touch higher at the long end of the curve early afternoon Monday, as investors sat on the sidelines awaiting fresh signals on the economy's direction. The gains took the yield on the 10-year note down to 4.82% earlier in the session, its lowest level since late March. In recent trading, the 10-year note was up 1/32 for 4.83%. The two-year note was steady at 4.87%, after tapping a four-month low at 4.85% earlier in the session. At 1:45 p.m. EDT, (1745 GMT), the 10-year note was up 1/32 at 100 11/32 for a yield of 4.83%. The 30-year note was up 1/32 at 92 23/32 for a 4.97% yield.

FOREX: Dollar is down versus the euro and slightly higher against the yen after dropping to a near three-month low versus the euro in a data-light session. The euro eked up to \$1.2940 and hit an all-time high against the yen at \$149.75 earlier in the session, but reversed course, trading just above the \$1.29 mark throughout much of the early afternoon. At 2:00 p.m. EDT, the euro was at \$1.2895 from \$1.2827 late Friday, according to EBS. The dollar was at Y115.89 from Y115.79 late Friday, while the euro was at Y149.45 from Y148.57. The dollar was trading at CHF1.2243 compared with CHF1.2328 late Friday, while sterling was fetching \$1.8952 from \$1.8809.

CORPORATES: The high-grade corporate bond market was firm amid light trading. Commonwealth Edison \$300M 10-yr first-mortgage offering launched at Treasurys + 115 bps, at the tight end of preliminary price guidance, according to IFR Credit. Washington Mutual Inc. (WM) \$900M 2-pt offering also launched. The \$500M 3-yr FRN launched at 3-month Libor + 14 bps, and the \$400M 5-yr fixed launched at Treasurys + 76 bps. Pricing expected today via Goldman Sachs/Morgan Stanley. (A3/A-) In junk, Ford (F) bonds were relatively active and weaker following Friday's losses. Ford's benchmark 7.45s of '31 were down two points at 76 1/2. Visteon's (VC) 8.25s of '10 are 1/4 point lower at 98 1/4. The overall high-yield market definitely feels like late August, with extremely thin volumes and lots of folks on vacation.

STOCKS: Stocks declined Monday following five straight days of gains a week ago, as investors bite their nails over an issue that could upset rising hopes that the economy will continue to grow even as inflation moderates: energy prices. Exhibit No. 1 Monday about the perils of high energy prices: Lowe's. The home-improvement retailer posted second-quarter net income a penny below expectations and cut its full-year earnings outlook, citing higher energy prices and a slowing housing market, which are crimping consumer spending. Its shares fell 3.7%. Rival Home Depot, a component of the Dow Jones Industrial Average, fell 1.8%.

ENERGY: New York crude oil futures rose early Monday as Iran repeated comments it has no plans to stop its uranium enrichment program and turned away U.N. inspectors from its underground nuclear site. The front-month September light, sweet crude contract on the New York Mercantile Exchange rose 41 cents to \$71.55 a barrel. Prices rose as high as \$72.08 a barrel in electronic trade. October Brent crude on the ICE futures exchange rose 91 cents to \$73.22 a barrel.

TOMORROW'S TOP MONEY HEADLINES**S&P Puts Eight Auto-Parts Suppliers On Negative Watch**

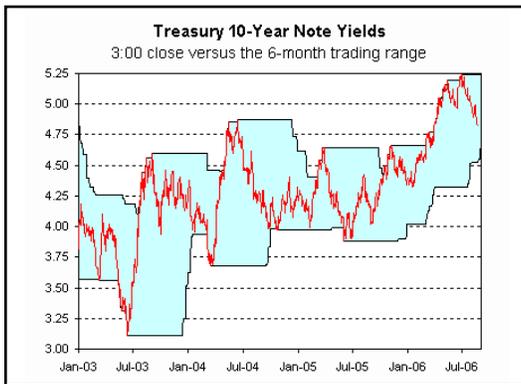
In a sign of the sweeping impact that Ford Motor Co.'s production cuts will have on the automotive sector, Standard & Poor's placed its credit ratings for eight U.S. auto parts suppliers on negative watch.

The affected suppliers are Citation Corp., Cooper-Standard Automotive Inc., Hayes Lemmerz International Inc., Mark IV Industries Inc., Metaldyne Corp., Plastech Engineered Products Inc., Visteon Corp. and Yazaki International Corp.

With the exception of triple-B-minus-rated Yazaki, the remaining seven suppliers already have speculative-grade credit ratings, a sign of the ongoing pressure on the auto supply sector.

For all eight suppliers, "fourth-quarter cash flow and liquidity will likely be reduced from previous expectations, perhaps significantly," S&P analysts wrote in a release. The negative effect, the statement continued, "will increase challenges for certain suppliers in 2007, regardless of whether more stable production levels (at Ford) occur in 2007."

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



TREASURYS

	PRICE	ASK	YIELD	CHANGE
1-Mo Bill	5.070	5.060	5.157	0.016
3-Mo Bill	4.965	4.955	5.094	-0.004
6-Mo Bill	4.975	4.970	5.171	-0.016
2-Year	100.07+	100.08+	4.87	0.006
3-Year	100.066	100.076	4.798	0.01+
5-Year	100.142	100.156	4.772	0.02+
10-Year	100.130	100.150	4.823	0.052
30-Year	92.270	92.29+	4.965	0.072

EQUITIES

	INDEX	CHANGE
DJIA	11336.80	-44.67
NASDAQ	2146.86	-17.09

OIL

	PRICE	CHANGE
NYMEX	72.40	1.26

CURRENCIES

	PRICE
Euro	1.2898
Sterling	1.8943
JPN Yen	115.83
Swiss Franc	1.2232
Can Dollar	1.1167
Mexico	10.785

FUTURES

	PRICE	CHANGE
CBOT 5 yr	104.24	0.2
CBOT 10 yr	106.31	0.3
CBOT 30 yr	109.25	0.5

IR SWAPS

	SPREAD	RATE
2-Year	45.25 - 41.25	5.316 - 5.276
3-Year	46.50 - 42.50	5.256 - 5.216
5-Year	51.00 - 47.00	5.278 - 5.238
10-Year	55.25 - 51.25	5.371 - 5.331
30-Year	54.00 - 50.00	5.502 - 5.462

EURODOLLAR FUTURES

	CLOSE	CHANGE
Sep06	94.5825	0.0050
Dec06	94.5600	0.0000
Mar07	94.6650	-0.0050
Jun07	94.81	-0.0050

REPURCHASE AGREEMENTS

GENERAL	i-REPO SM
COLLATERAL	INDEX
O/N	5.210 10:00 AM 5.192
1-Week	5.220 3:00 PM 5.2010
2-Week	5.220
3-Week	5.220
1-Month	5.22
2-Month	5.220
3-Month	5.230
	O/N SPECIALS
	2-Year 5.107
	3-Year 5.180
	5-Year 5.041
	10-Year 1.400

EURODOLLAR DEPOSITS & OIS STRIP (ASKED)

	EURO DEPOSITS	OIS STRIP
O/N FF	5.1875	
1-Month	5.2700	5.2720
3-Month	5.3400	5.3220
6-Month	5.4000	5.3610
12-month	5.4100	5.3600

FED FUNDS

Open	5.2500
High	5.2500
Low	5.2500

HEFFR

10:00 AM	5.24
3:00 PM	5.22

ACTIVE AGENCY ISSUES

FANNIE MAE

TERM	COUPON	MATURITY	YIELD SPREAD	YIELD
2-Year	5.250	06/15/08	24.50 - 23.75	5.11
3-Year	5.375	08/15/09	26.75 - 26.75	5.06
5-Year	5.125	04/15/11	33.00 - 32.25	5.10
10-Year	5.250	09/15/16	37.25 - 36.50	5.19
30-Year	6.625	11/15/30	38.50 - 37.75	5.35

FREDDIE MAC

TERM	COUPON	MATURITY	PRICE SPREAD	YIELD
2-Year	5.125	04/18/08	31.50 - 30.75	5.18
3-Year	5.250	05/21/09	26.50 - 26.00	5.06
5-Year	5.250	07/18/11	33.00 - 32.50	5.10
10-Year	5.500	07/18/16	36.75 - 36.25	5.19
30-Year	6.250	07/15/32	36.75 - 36.25	5.33

ACTIVE CORPORATES

ISSUER	MATURITY	COUPON	MID- PRICE	MID- YIELD
BAC 5 3/8 08/15/11	08/15/11	5.375	100.0908	5.354
F 9 7/8 08/10/11	08/10/11	9.875	101.4772	9.493
MS 4 1/4 05/15/10	05/15/10	4.250	96.2810	5.363

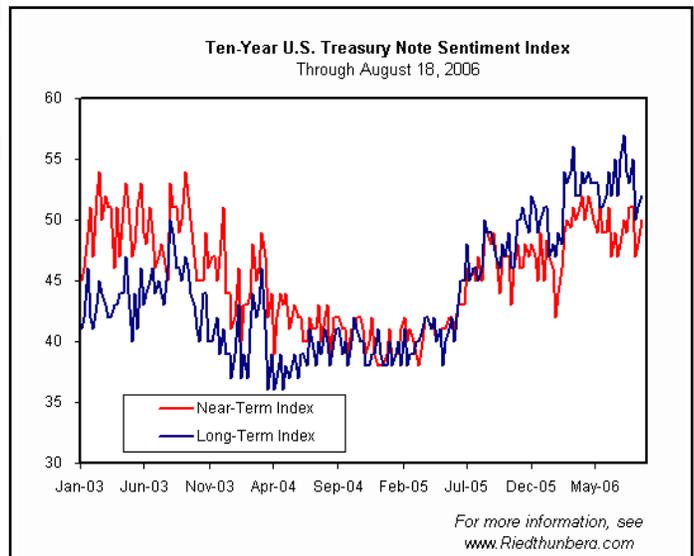
ACTIVE MBS 15YR

ISSUER	CPN	PRICE	YIELD
GNMA	5.5	99.196 - 99.220	5.568
FNMA	5.5	99.170 - 99.190	5.587
FHLMC	5.5	99.112 - 99.130	5.630

ACTIVE MBS 30YR

ISSUER	CPN	PRICE	YIELD
GNMA	6.0	100.212 - 100.232	5.858
FNMA	6.0	99.316 - 100.000	5.997
FHLMC	6.0	100.012 - 100.030	5.988

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TOMORROW'S MONEY HEADLINES

Strauss Gets Interim OK For DIP Loan

A federal bankruptcy judge gave Strauss Discount Auto permission to tap a \$33.2 million debtor-in-possession loan and use some of those funds to pay secured creditors back.

Judge Novalyn L. Winfield of the U.S. Bankruptcy Court in Newark, N.J., signed off on the interim order, allowing the auto-parts retailer to access the DIP loan while awaiting the final hearing on Sept. 5.

Kimco Realty Corp. agreed to provide the \$33.2 million in DIP financing.

Winfield gave Strauss permission to use the DIP loan to pay the \$2.6 million that its subsidiary Wayne Philadelphia Associates Inc. owes General Electric Co.'s GE Capital Franchise Financing Corp. under financing agreements.

The judge ordered Strauss to put disputed amounts under the financing deals in escrow pending further court order.

According to court papers, GE Capital can assert it is owed up to \$800,000, an amount Strauss disputes.

Ford To Offer Broader Buyout Plan

Ford Motor Co. is working on an extended, broader-based buyout and early-retirement offer for workers at all of the auto maker's North American factories, according to a news report.

Ford is expected to announce the extended blue-collar buyout plan in mid-September when it details round two of its "Way Forward" restructuring agenda, according to a Bloomberg News report, which cited unnamed sources. The retooled Way Forward is due to be announced the week following a Sept. 14 Ford board meeting, where restructuring actions will be firmed up.

"There's a lot of speculation on what we will do next," Ford spokesman Oscar Suris said, declining to comment on whether Ford will offer a broad-based attrition program.

John Moore, president of the United Auto Workers Local 387 in Flat Rock, Mich., said he expects Ford to offer the plan, although "nothing has been set in stone." The company and higher-level union officials have not specifically discussed the matter with him, he added.

Toll Bros. May Reduce Outlook Again

Toll Brothers Inc., which earlier this month said its quarterly new-home orders slipped nearly 50% on a slumping housing market, may again reduce its 2006 profit forecast when it reports earnings Tuesday. Data on new and existing home sales will also provide more clues on the depth of the slowdown in the housing market.

Investors will be focusing on third-quarter results from Toll, which as the largest builder of luxury homes is considered a bellwether for the residential housing market.

In early August the Horsham, Penn., company, which normally releases preliminary home-building results ahead of its quarterly earnings, said the value of signed contracts fell 45% for the quarter ended July 31 from the year ago. The builder also lowered its 2006 home-delivery forecast for the fourth time as the housing market cools and cancellation rates rise.

Chief Executive Robert Toll said the slowdown is unique because it wasn't triggered by interest rates, a weak economy, job losses or other economic factors. Rather, it was precipitated by an inventory overhang and a pullback in buyer confidence as speculative demand has evaporated, he said.

Commercial Real Estate Keeps Growing

An indicator of commercial real estate activity continued growing in the second quarter, an upward trajectory that is expected to continue into 2007, the National Association of Realtors said.

The Commercial Leading Indicator for Brokerage Activity in the second quarter of this year was at 119.4, up 0.4% over the first quarter, while year-over-year the index was up 2.5% over the same period in 2005.

The second quarter marked the fifth straight quarter of growth in the index.

"Our commercial leading indicator has risen in 11 out of the last 12 quarters, meaning the recovery in commercial real estate will be sustained well into 2007," David Lereah, NAR's chief economist, said in a statement.

US To Sell \$24.0B Four-Week Bills

The Treasury plans to raise about \$1.00 billion in new cash Tuesday with the sale of about \$24.00 billion in four-week bills to redeem \$23.00 billion in maturing bills.

The sale amount is unchanged from last week's auction, when Treasury sold \$24.00 billion in four-week bills.

The Federal Reserve holds \$18.27 billion of maturing bills for its own account, which it may choose to roll over in either Monday's three- and six-month bill auction or Tuesday's four-week bill auction.

The four-week bills will be dated Aug. 24, 2006, and mature Sept. 21, 2006. The CUSIP number is 912795XW6.

Noncompetitive tenders for the bills, available in minimum \$1,000 denominations, must be received by 12:00 p.m. EDT Tuesday. Competitive tenders for the bills must be received by 1:00 p.m. EDT.



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TOMORROW'S MONEY HEADLINES

Emerging-Mkt Debt Trading Hits Record

Trading in emerging-market debt reached an all-time high of \$1.659 trillion in the second quarter of 2006, besting the previous record set in the first quarter, according to a survey released by umbrella association EMTA.

The \$1.659 trillion mark was the highest since EMTA began tracking the data in 1997. In the same period last year, \$1.363 trillion was traded in emerging market debt. The level for the first quarter was \$1.631 trillion.

The second quarter was marked by a steep correction across emerging markets in May. Risk premiums and bond prices have since recovered to levels near where they were before the downturn. Though the higher volumes partially reflect the spike in selling activity, EMTA said trading levels also speak to the asset class' strengths.

Euro Zone's Surplus With UK Narrows

Despite jitters about how a U.S. consumer slowdown could affect the euro zone economy, a decline in the area's trade balance with a country closer to home is already having a noticeable effect.

Figures released by Eurostat showed that the euro zone's external trade position has swung to a deficit of EUR16.0 billion in the first six months of 2006, from a surplus of EUR15.2 billion over the same period a year ago.

A major reason for the swing from positive to negative territory is a decline in the euro zone's trade position with the U.K., its top trading partner. From January to May, the euro zone had a trade surplus of EUR18.6 billion with the U.K., a 17% fall from the same period a year ago, following a 14% fall in the total annual surplus between 2004 and 2005.

Bush Calls For Fast Action On Lebanon

Addressing a trio of Middle East hotspots, President George W. Bush called for the quick deployment of peacekeepers to

Lebanon, acknowledged he's concerned about the potential for Iraq to slip into a civil war, and said Iran must pay a price if it refuses to suspend its nuclear enrichment activities.

Amid continued concern over the durability of the ceasefire in Lebanon and difficulty assembling an international force to bolster Lebanese troops along the Israeli border, Bush said the need for the peacekeepers is "urgent."

"The international community must now designate the leadership of this new international force, give it robust rules of engagement and deploy it as quickly as possible to secure the peace," Bush told reporters at a press conference.

Most countries have hesitated in volunteering troops to be a part of the peacekeeping force, which is expected to include 15,000 international soldiers and 15,000 Lebanese positioned between the Litani River and the border. France has so far offered just 200 soldiers, with other countries waiting for guidance on the peacekeepers' mandate.

China Yuan At New High On Rate Hike

The Chinese yuan hit a post-revaluation high, bond prices dropped sharply but stock prices recovered early losses Monday as investors reacted to last Friday's surprise interest-rate rise.

The yuan gained on expectations that higher interest rates may attract more foreign funds, bonds weakened on forecasts that a further interest-rate rise is possible while stock market participants viewed last week's action as possibly the last in the latest round of tightening measures.

Differing reactions in each market reflect divergent views among analysts on whether the latest interest-rate rise will have a meaningful impact on China's overheating economy and what further action policy makers may need to take.

The People's Bank of China raised the benchmark one-year bank lending rate by 0.27 percentage point to 6.12%, effective Saturday. It increased rates paid on one-year deposits by the same magnitude, to 2.52%, the first deposit rate hike since 2004.

TALKING POINTS

Gas Systems Bonds On A Comeback

High natural gas prices and supply concerns are driving the re-emergence in the tax-exempt bond market of complex securities sold by municipal gas systems to prepay long-term gas purchases.

With prior uncertainty over Internal Revenue Service tax treatment of the bonds now gone, almost \$5 billion of such debt has been sold already this year as the systems reach for discounts associated with the prepayments.

Analysts expect more to come.

"It could be a \$15 billion or more market through the end of 2007," said Kurt van Kuller, a municipal research analyst at Merrill Lynch & Co., which recently underwrote a \$240 million issue for the Natural Gas Acquisition Corp. of Clarksville, Tenn. NGAC was the first issuer of gas prepayment bonds in 1994.

On Thursday, the Tennessee Energy Acquisition Corp., a group of 19 member systems, closed on \$2 billion of gas prepayment bonds through a Goldman Sachs & Co. group. Public

Energy Authority of Kentucky sold \$1 billion through a Bank of America Securities group in June, while Tennergy Corp. sold \$746 million earlier in the year.

"We were looking to secure gas supply on a long-term basis, and using the tax-exempt financing that's available for municipal entities, we were able to get that firm supply at an economical price," said PEAK President Gerald Ballinger.

Natural gas prices increased to over \$7 per million British thermal units, or MMBtu, over the 10-year period of PEAK's June transaction from just over \$2 per MMBtu over the 10-year period of a 1998 prepay transaction, Ballinger said.

Such issues dried up shortly after that, however, as the IRS in 1999 started auditing prepayment deals, including some that had been sold earlier, posing a threat to their tax-exempt bond status.

While no adverse determinations were made, the tax agency didn't issue final regulations that put those concerns to rest until late 2003. The gas systems in the interim paid for their purchases on a take-as-you-go basis.

TALKING POINTS

Sit Back, Relax & Stay Long Rates

An uneventful start to the week in rates has some mulling a trading adage: "Don't sell a quiet market." "Between vacations and an empty data calendar this week promises to be quiet if it promises anything," says David Ader, bond strategist at RBS Greenwich Capital.

But he cautions sellers that "there are shorts out there who will end up shorter if they don't buy something into month end."

There is quite a need for investors to boost their portfolio exposure before the end of August thanks to the Treasury refunding and recent sharp gains in prices.

Morgan Stanley notes "the extension in the Treasury index will be significant at about 2.5 months."

Against what seems a favorable backdrop in rates, the bank says "we see an absence of any bearish triggers for the market before Federal Reserve Chairman Ben Bernanke speaks at Jackson Hole on Friday."

Before such Fed speak, rate markets are fixated upon this week's housing data.

With rates backing and filling at their current extended levels, "all eyes are on the housing numbers," says Tom di Galoma, head of Treasury trading at Jefferies & Co in New York.

Existing and new home sales for July are due Wednesday and Thursday, respectively.

Many in the bond market advocate the view that further weakness in the housing sector will crimp consumer spending and herald rate cuts - already priced into the eurodollar interest rate curve in 2007 - from the Federal Reserve in the months ahead.

Economists surveyed by Dow Jones look for a 1.1% falloff to a 6,550,000 annual rate from 6,620,000 in the prior month.

They also look for a 2.7% decline in new home sales to an annual rate of 1,100,000 in July from 1,131,000 in the prior month.

Flat Yield Curves Forever?

Yield curves on government bonds ought to slope up. Right?

After all, barring the occasional kink, like now, and even rarer inversion, that's how it's looked for most of the past hundred years.

But what if the shape of the curve during the 20th century was an aberration?

In fact, that's what independent economic consultant Andrew Smithers has argued in a recent research note. That the tendency towards a flat or even downward sloping curve of the 19th century is the norm for government bonds and one to which they're returning in the 21st century.

Now, there's a good justification for upward sloping yield curves. It's summed up by a model known as the expectations hypothesis, which James Hamilton, an economics professor at the University of California, San Diego, has clearly sketched on his Econbrowser blog.

Basically, this says that investors don't care too much about the maturity of the bond they're holding as long as "the expect-

ed yield from rolling over securities of different maturities is identical."

If short-dated interest rates are expected to go up in future, that will push up the yield of longer dated bonds.

But that's not quite the full story. Longer-dated bonds carry more risk of capital loss and tend to be less liquid than shorter dated bonds or bills. Investors will demand a premium to hold these longer-dated securities. One of the big reasons investors demand this premium is probably related to experience. During long periods of inflation eroded the value of fixed income investments. That wasn't the case a century earlier. Whereas between 1926 and 1992 U.S. consumer price inflation ran at an average annual pace of 3.1%, it averaged just 0.6% between 1871 and 1925 and a mere 0.1% a year between 1802 and 1870.

Inflation caused real yields on long dated U.S. government bonds to collapse from an average of 4.8% a year between 1802 and 1870, to 3.7% between 1871 and 1925, to just 1.7% between 1926 and 1992.

But during the past quarter century, inflation has been trending steadily lower. Investors have grown confident central banks can keep inflation rates at around or below a 2% threshold. Even when "special" circumstances cause inflation to spike slightly higher, investors don't abandon faith - just consider the U.S. Treasury market rally after a brief bout of unease with June's inflation report.

Beijing May Widen Yuan Bands Next

Expect more hands-on management from Beijing that will likely raise speculation of Chinese yuan appreciation and possibly lend support to the Japanese yen.

Key to this policy shift is likely to be a widening of the Chinese currency's trading bands.

This is the conclusion some currency analysts are reaching after a week in which the People's Bank of China not only allowed the yuan to fluctuate in its full 0.3% trading band for the first time ever, but announced a surprise 0.27% hike in the country's interest rates to curb investment and credit expansion.

"Putting in place a wider trading band, of say plus or minus 0.5% from the previous close, may also suit Beijing as it is just the kind of token move China prefers in the face of key event risks such as those looming in September," said Nizam Idris, a currency strategist with UBS in Singapore.

Idris was referring to the International Monetary Fund's biannual meeting; an expected vote in the U.S. Congress on whether to impose tariffs on highly competitive Chinese imports; and the possible naming of China as a currency manipulator.

Indications that the monetary authorities might be preparing a policy shake-up came early last week when they first allowed sharp falls at the daily fixing and then equally sharp rises.

Although the yuan ended the week against the dollar pretty much where it had started, the Chinese currency had been allowed to fluctuate in a manner never seen before.

This not only discouraged speculators from betting on yuan appreciation; it also introduced two-way risk that should put pressure on Chinese corporates to copy the hedging strategies of their foreign counterparts, analysts said.