

Dow Jones Tomorrow's News Today

a service of Dow Jones Newswires

Tuesday, January 19, 2010

Market Snapshot

DJIA	10725.43	+115.78
Nasdaq	2320.40	+32.41
S&P 500	1150.23	+14.2
10-Year*	3.7055%	-8/32
30-Year*	4.5973%	-8/32
Euro	\$1.4302	-0.0076
Nymex Crude	\$79.02	+1.02

Source: Dow Jones/Reuters Group PLC *as of 4 PM ET

Stocks

Buyers bought up stocks in every sector, but particularly in health care, as traders bet that the outcome of a special election for a Senate seat from Massachusetts might deal a setback to proposed health-insurance reforms. The rally in health-care stocks came as voters headed to the ballot box in a surprisingly tight race to replace the late Edward Kennedy. Democrats would lose their filibuster-proof 60-seat majority in the U.S. Senate if Republican candidate Scott Brown wins. That could pave the way for legislative compromises that could defer more to the private sector.

Treasuries

Treasury prices slumped dragged down by a drop in U.K. government bonds and gains in U.S. stocks. "Gilts have led the G-4 debt markets lower after a big increase in U.K. December CPI," wrote analysts at RBS Securities in emailed comments. Britain's Office for National Statistics said prices rose 2.9% last month compared to December 2008, accelerating from the 1.9% inflation recorded in November. Higher inflation tends to erode the value of bond holdings.

Forex

The dollar benefited from euro zone woes, as worse-than-expected German economic data and continued concern over sovereign credit issues in Greece sank the common currency to near its lowest levels of 2010. The greenback also remained firmer against the Canadian dollar after the Canadian central bank left key interest rates unchanged and gave no clues as to when rates would increase. Meanwhile, a further tightening of Chinese monetary policy led some investors to worry whether a brake on Chinese economic growth would reverberate to other economies crawling out of recession.

Tomorrow's Headlines

Citi Posts \$7.6B Loss As Revenue Falls

Citigroup Inc.'s (C) fourth-quarter loss narrowed from a year earlier, but its results continued to show the strains from the bank's massive portfolio of troubled loans that played a key role in the financial crisis.

Citi, which suffered more than most large U.S. banks from the financial crisis, did not turn a profit in the quarter or year. But in one hopeful sign, it did deliver something in the fourth quarter that J.P. Morgan Chase & Co. (JPM) did not when it reported earnings Friday: Citi showed an improvement in losses from consumer loans in the United States, Asia, and Latin America.

Chief Financial Officer John Gerspach pointed toward "tremendous progress" last year in healing Citi. But its fate will for some time be tied to volatile capital markets, the struggling U.S. economy, and its own ability to manage the strategy it has chosen. Chief Executive Vikram Pandit said during a conference call with investors that, in the U.S., "consumer credit remains an issue."

Citi reported a \$7.58 billion loss in the fourth quarter, compared to profits in the previous three quarters, including earnings of \$101 million in the third quarter.

Kraft Foods To Buy Cadbury For \$19.4B

Kraft Foods Inc. (KFT) clinched a deal to acquire Cadbury PLC (CBY) for GBP11.9 billion (\$19.44 billion), in a trans-Atlantic tie-up that ends the nearly 200-year independence of Britain's most famous candy company.

After more than four months of public sparring that followed Kraft's hostile-takeover approach for the U.K. confectioner, Cadbury's board accepted the U.S. food giant's offer as Kraft relented to the demands of Cadbury manage-

continued on page 2

Tomorrow's Calendar

7:00 a.m.	Jan 15 Mortgage Applications Market Composite Index (previous 528.1), Cur Chg (previous +14.3%), Purchase Index (S.A.) (previous 213.7), Cur Chg (previous +0.8%), Refinance Index (previous 2407.2), Cur Chg (previous +21.8%)
7:45 a.m.	Jan 16 ICSC/Goldman Sachs Chain Store Sales Index - WoW (previous -3%), YoY (previous +1.7%)
8:30 a.m.	New York Fed Pres Dudley speaks in New York
8:30 a.m.	Dec PPI (expected 0%), PPI Core (expected +0.1%), PPI Core Crude Goods (previous -0.8%)
8:30 a.m.	Dec Housing Starts Total Starts (expected 573000), Starts Percent Change (expected -0.2%), Building Permits (expected 590000), Building Permits Percent Change (expected +0.2%)
8:55 a.m.	Jan 16 Redbook Index MoM % Change (previous -1%), 12MonChgPct (previous +1.4%), 52WkChgPct (previous +1.4%)
4:30 p.m.	Jan 15 API Oil Industry Report Crude Stocks (Net Change) (previous +1.21M), Gasoline Stocks (Net Change) (previous +6.82M), Distillate Stocks (Net Change) (previous +3.6M), Refinery Runs (previous 79.8%)

Tomorrow's Headlines

continued

ment and shareholders, raising its bid and significantly boosting the cash component.

Kraft agreed to pay 840 pence a share for Cadbury, as well as a 10-pence dividend. The revised offer is for 500 pence in cash for each Cadbury share and 0.1874 new Kraft shares for each Cadbury share, an increase from its original offer of 300 pence in cash and 0.2589 new Kraft shares. Cash now makes up 60% of the offer; originally, it was just 40%.

Tuesday's deal unites Cadbury, which focuses solely on candy and traces its roots to 1824, with its larger and more diversified U.S. counterpart. Kraft covets Cadbury in part because of the U.K. company's access to fast-growing developing markets such as India and Brazil.

US Home Builder Confidence Slips

Confidence among U.S. home builders fell for the second straight month in January, as the weak labor market and foreclosure deals weigh on demand for new homes.

The National Association of Home Builders reported its housing market index edged down one point to 15 in December—a level not seen since last June.

A measure of builder confidence for current sales also slipped a point to 15, while a measure of optimism for sales in the next six months held steady at 26. A measure gauging traffic from prospective buyers declined a point to 12—its lowest level since March 2009.

"Home buying conditions have rarely been as good as they are right now, but consumers are still waiting to see significant positive signs of improvement in employment and confidence, and this is slowing buyers' return to the market," NAHB Chief Economist David Crowe said in a statement.

Bernanke Welcomes Review Of AIG Aid

Federal Reserve Board Chairman Ben Bernanke defended the Fed's decision to extend credit to American International Group Inc. (AIG) and said the Fed would welcome a full review of its actions by federal government watchdogs.

In a letter to Acting Comptroller General Gene Dodaro on Tuesday, Bernanke said the Fed agreed to provide billions of dollars of aid to the troubled insurance giant to prevent "potentially calamitous effects on the U.S. economy" should AIG fail.

"The Federal Reserve extended this credit to prevent the immediate disorderly failure of the company, an event that likely would have led to a significant intensification of an already severe financial crisis and a further worsening of global economic conditions," Bernanke wrote in the letter to the Government Accountability Office, which was released by the Fed.

Bernanke's call for closer scrutiny comes amid criticism of the the Fed's 2008 decision to extend more than \$180 billion to AIG, helping the insurer make good on derivatives contracts with financial firms that were betting that U.S. real estate markets would sour.

Chrysler To Recall 24,177 Vehicles

Chrysler Group LLC will recall 24,177 vehicles over a possible defective part that could cause brake failure, according to a filing from the auto maker to the National Highway Traffic Safety Administration.

The bulk of the recall applies to 16,872 Dodge Ram pickup trucks from model years 2009-2010, as well as 2010 model-year Chrysler Sebring, Dodge Avenger and Nitro, and Jeep Liberty, Commander and Grand Cherokee.

The vehicles were built with an improperly formed or missing part in the braking system. "This could result in brake failure without warning which could cause a crash," Chrysler said in a letter.

The recall comes as Chrysler tries to refurbish its image after going through bankruptcy last year, changing ownership and receiving federal bailout funds. The company, which was taken over by Fiat SpA (FMI, FIATY), saw its U.S. sales fall 36% in 2009 from a year earlier, the worst performance of any major auto maker in the U.S.

Tyco To Buy Broadview Security

Tyco International Ltd. announced plans to buy Brink's Home Security Holdings Inc., also known as Broadview Security, for \$2 billion, the first major acquisition for Tyco in eight years since the company was rocked by scandal and split into several pieces.

Tyco executives said the acquisition would broaden Tyco's largest revenue-producing business group, the ADT security franchise, further into the residential market. Tyco Chief Executive Ed Breen said ADT commands nearly 22% of the North American market for residential and small business security, while Brinks holds 4%. He doesn't expect antitrust concerns to affect the deal, because security is a fragmented industry.

By "growing organically and with selective acquisitions, we expect to be the biggest player in this business," Mr. Breen said in an interview Monday. Brinks adds 1.3 million subscribers to ADT's 7 million. The recurring revenue from monitoring homes, skyscrapers, ports and airports for those customers is attractive to Tyco.

Survivors Fears Turn To Homelessness

Swaths of Haiti's capital have been transformed into vast refugee camps, as Haitians who saw massive loss of life from last week's earthquake now grapple with widespread homelessness.

Hundreds of thousands of newly homeless residents of Haiti's capital have set up makeshift homes here, everywhere from public squares to gasoline stations. The Haitian

continued on page 3

Tomorrow's Headlines

continued

government estimates that more than one million of a population of some 10 million have lost their homes and that in some neighborhoods, 80% of the buildings were destroyed. Atlanta-based CARE, a relief organization, said 80% of its 33 staff members had lost their homes.

The city's central Champs de Mars — a sort of National Mall of Haiti — has become a swollen tent city. Women and children bathe and do laundry in dirty tubs. A few clusters of people prepare stews of onions and a few wilted greens. But mostly, with deliveries of food, water and medicine still sporadic at best, the thousands here have nothing.

MetLife Nears Deal To Buy AIG Unit

MetLife Inc. (MET) is in final negotiations to purchase one of the biggest international life-insurance units of government-controlled American International Group Inc. (AIG), for between \$14 billion and \$15 billion, people familiar with the matter said.

The companies have been in discussions for months about a potential deal for AIG's American Life Insurance Co., known as Alico. In recent weeks the talks have gotten more serious, these people added, and two sides hope to announce a deal in coming weeks. The insurers have broadly agreed on price and are now working on final deal points, though some material issues remain that could scuttle the deal, said these people.

The sale of Alico would be the biggest step to date by AIG to pay back the U.S. government, which has committed a total of \$182.3 billion to prop up the giant insurer. About \$9 billion of proceeds would go back to U.S. coffers, AIG has previously indicated.

No other bidders are involved in the deal now, though others have expressed interest in the past. Alico will either be sold to MetLife or proceed with an initial public offering, said these people.

China Wen Considers Stimulus Risk

China will maintain "reasonable and ample" money and credit supply in the first quarter, while closely monitoring sequential data to make macroeconomic policy more effective, Premier Wen Jiabao said, signaling that it's considering more closely the risks associated with its stimulus policies.

"We must .. closely watch changes in supply and demand in the market, form an accurate judgment of the situation and increase the precision and effectiveness of macroeconomic policies," Wen told a meeting of the State Council, or the Cabinet.

Wen's remarks, posted in a statement on the central government's Web site, omit the government's frequent calls in recent months to maintain the continuity and stability of macroeconomic policy and its mantra since November 2008 to implement an active fiscal policy and moderately loose monetary policy.

The premier's remarks at the state council meeting, two days before China issues fourth-quarter data that are likely to show the economy expanded more than 10% on the year, underscore the central bank's recent moves to guide market interest rates higher and crimp the amount of funds available for bank.

Oil Snaps 5-Session Losing Streak

Crude-oil futures snapped a five-session losing streak as investors set aside earlier concerns about the health of the U.S. economic recovery and moved back into riskier assets.

Light, sweet crude for February delivery settled \$1.02, or 1.3%, higher at \$79.02 a barrel on the New York Mercantile Exchange. Brent crude on the ICE futures exchange settled 53 cents, or 0.7%, higher, at \$77.63 a barrel.

A rise in U.S. equity markets was the cue for oil prices to move higher. The DJIA was up 102 points at 10712 after the oil market closed.

"The stock market caught a lift and this helped further buoy sentiment about where [oil] demand will be in the months ahead," said John Kilduff, partner of Round Earth Capital in New York. Oil's rally through much of 2009 was based on the hope that the economic upturn would revive flagging oil consumption.

This buoyancy reversed the losses oil had scored in the early part of the session, with weakness in other global equity markets and a patchy economic growth outlook for the U.S. initially denting sentiment.

46% Say Health Overhaul A Bad Idea

More Americans think the Democrats' health-care overhaul is a bad idea than a good one, but the divide is holding steady, according to the latest Wall Street Journal/NBC News poll coming out later today.

A near majority, 46%, said they believe the health-care bill is a bad idea, while 33% said it was a good idea.

Those numbers may not be very encouraging for Democrats but they're in line with the previous WSJ/NBC News poll conducted before the Senate approved its version of the overhaul. Last month, 47% said it was a bad idea while 32% said it was a good idea.

WaMu Seeks More Time To File Plan

Washington Mutual Inc. (WAMUQ) says it needs more time to file a Chapter 11 plan due to continued battles with J.P. Morgan Chase & Co. (JPM), which bought its chief property, Washington Mutual Bank, or WaMu.

Creditors have been hoping for a quick deal to settle disputes over who gets some \$4 billion in Washington Mutual cash and who will get to collect a tax refund that may reach \$5.6 billion, thanks to WaMu's losses.

A filing Friday with the U.S. Bankruptcy Court in Wilmington, Del., holds out little hope of a speedy ending to the saga of WaMu, the mortgage-burdened thrift at the heart of the biggest banking collapse in U.S. history.

Copyright Dow Jones & Company, Inc.

Tomorrow's News Today is made available as a complimentary service to Dow Jones News Service paying subscribers. No further redistribution is permitted without written permission from Dow Jones. *Tomorrow's News Today* is intended to provide factual information, but its accuracy cannot be guaranteed. Dow Jones is not a registered investment adviser, and under no circumstances shall any of the information provided be construed as a buy or sell recommendation or investment advice of any kind.

Want to send a co-branded daily version to your valued clients?

Dow Jones can co-brand this newsletter with your logo and corporate message for daily distribution to your customers. Contact tomorrowtoday@dowjones.com for redistribution rights and co-branding information.

Also available for BlackBerry and other PDAs.

Email tomorrowtoday@dowjones.com for details.

Talking Points

Kraft's Cadbury Deal Could Limit Hershey's Intl Prospects

The deal brokered by Kraft Foods Inc. (KFT) and Cadbury PLC (CBY) overnight will create an international candy and food giant that promises to be a formidable competitor to rivals. Hershey Co (HSY) in particular may be left with few avenues for international growth.

Hershey and Cadbury had for years been seen as potential partners for a deal, but Hershey's relatively smaller size and the charitable trust that controls it made it difficult for the company to enter into a deal. While Kraft still has to close the Cadbury transaction, it appears unlikely Hershey will choose to wade into the battle at this stage. That would suggest Hershey— which currently gets the bulk of its sales from the slower growth U.S. market—would be left with limited options if it hopes to make a concerted push overseas.

"They will be relegated to a U.S.-only confectionery company," said Stifel Nicolaus analyst Chris Growe in a recent interview about Hershey's future as a standalone company. Overall sales for the U.S. candy market in general have been growing annually at about 3%, he says. Hershey would have limited opportunities to find a large confectionery company to merge with overseas, particularly as few candy companies have Cadbury's scale. Mars Inc. in 2008 created its own candy conglomerate by acquiring Wm. Wrigley Jr. Co. Mars sells brands like M&Ms and Dove chocolate, and its stable of brands now includes such names as Wrigley's Wrigley's Spearmint

Hershey's stock recently rose 4.2% to \$37.77 as investors appeared to think that Kraft's agreement with Cadbury likely would prevent Hershey from entering into a bidding war.

Earlier Tuesday, Cadbury accepted a GBP11.9 billion (\$19.4 billion) takeover offer from Kraft, a deal that ends a four-month acrimonious battle and nearly 200 years of independence for the U.K.'s largest confectionery company. Kraft, which makes Toblerone and Milka chocolate as well as processed cheese and ready meals, said it has agreed to pay 840 pence a share for the company as well as a 10-pence dividend. The move would create a global giant with about \$50 billion in revenue that will sell everything from Kraft brands like Oreo cookies and its namesake cheese to Cadbury's Dairy Milk chocolate and Trident gum.

Morningstar analyst Erin Swanson says the control of the trust and Hershey's mainly U.S. presence make it an unlikely takeover target going forward. She doesn't believe Hershey will seek to counter Kraft's bid, which has the support of Cadbury's board.

The Hershey trust oversees a school for needy children that is funded partly by Hershey Co. dividends. The trust's goal of safeguarding the future of that charity is likely to override other considerations. That goal has in the past limited the trust's interest in jumping into a deal, particularly one that would dilute its control over Hershey or one that would expose the company's balance sheet to any kind of risk.

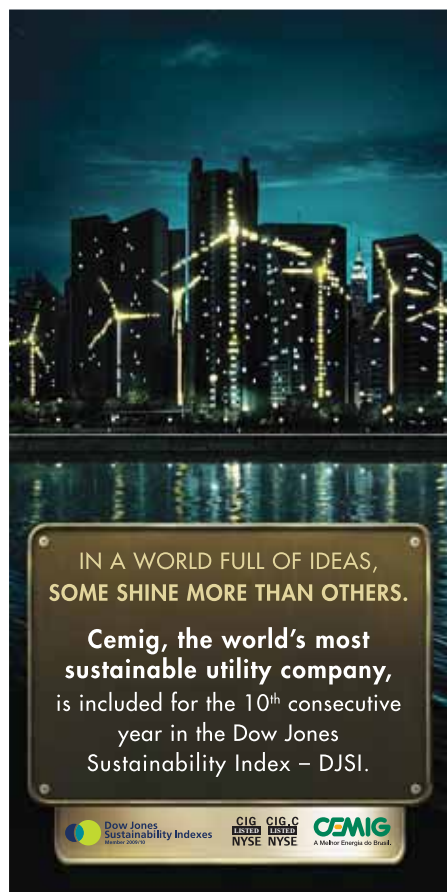
Banks Revive Tools Laid Low By Credit Crisis

Leverage is back.

Major banks, looking for an easy way to offload risk associated with corporate leverage loans to hedge funds, are resurrecting total-return swaps, a once ubiquitous financial tool laid low by the credit crisis.

J.P. Morgan Chase & Co. (JPM), Bank Of America Merrill Lynch, Citigroup Inc. (C) and Scotia Capital are among the companies that have embraced total-return swaps, as have Credit Suisse Group (CS, CSGN.VX) and Goldman

continued on page 5



IN A WORLD FULL OF IDEAS,
SOME SHINE MORE THAN OTHERS.

Cemig, the world's most sustainable utility company,
is included for the 10th consecutive
year in the Dow Jones
Sustainability Index – DJSI.

Dow Jones Sustainability Indexes
CIG CIG C
NYSE NYSE
CEMIG
A Member of the B3 Group

Talking Points

continued

Sachs Group Inc. (GS), according to several market participants.

In some cases the swaps are pitched as a “warehousing” tool for the creation of collateralized loan obligations, which is crucial for a revival of the CLO market and, in turn, the market for risky leveraged loans, which are packaged in them.

Collateralized-loan-obligation warehousing is when banks lend money to financiers so they can buy loans that they later pool into CLOs. They then sell slices of these debt pools tailored to the amount of risk and return investors seek.

“Warehouse lines are a prerequisite to CLO issuance, but TRS could replace them,” Peter Kambeseles, managing director for structured-credit ratings at Standard & Poor’s, said in a telephone interview. “There is a little window where there needs to be an accumulation of capital. Without any type of warehouse, it’s difficult to see how these CLO transactions get done.”

Kambeseles said the revival of total-return swaps “will potentially facilitate more CLO transactions coming to market.”

The banks said to be creating new TRS weren’t immediately able to comment.

Hedge funds use these swaps as a means to receive the return of the asset packaged in the TRS—in this case, collateralized loan obligations—without having to put up the cash to buy it. This gives them more buying power and magnifies the relative value of any gains or losses.

Total-return swaps fell victim to the credit crunch as funds were forced to unwind positions due to mounting credit losses. So-called “market-value” collateralized loan obligations are obliged to mark the price of their underlying loans to the actual or estimated market value at the end of each day. As the loan market declined, with investors facing increasing losses, those using total-return swaps faced ballooning payment demands, not unlike margin calls.

A revival of both the total-return-swap and collateralized-loan-obligation markets would be good news for speculative-grade-rated corporate borrowers that rely on the high-risk, high-yield leveraged loans underpinning those derivatives.

Collateralized loan obligations bought nearly two-thirds of the debt that financed leveraged buyouts in first-half 2007. That shrank to about 20% by mid-2009 as issuance of new CLOs fizzled because the credit crunch made it difficult for investors to borrow money to create them.



IN A WORLD FULL OF IDEAS,
SOME SHINE MORE THAN OTHERS.

Cemig, the world’s most sustainable utility company,
is included for the 10th consecutive year in the Dow Jones Sustainability Index – DJSI.

 **Dow Jones Sustainability Indexes**
Member 2009-10

 **CIG**
LISTED NYSE

 **CIG.C**
LISTED NYSE

 **CEMIG**
A Melhor Energia do Brasil.