

## MARKET WATCH

The Financial Crisis Inquiry Commission, created by Congress last year to examine the causes of the financial crisis, is drawing fire even before its first public hearing gets underway. Business interests are complaining that some panel members' ties to a major plaintiffs law firm could aid litigants seeking to sue financial firms. The commission will begin taking sworn testimony from the chief executives of several big Wall Street banks, as well as federal, state and local officials about their current efforts to uncover wrongdoing.

SEC Enforcement Director Robert Khuzami is expected to announce the chiefs for five new specialized investigative units, advancing a key aspect of the agency's effort to rebuild its enforcement program. The five units identify high-priority areas for the agency. They will be composed of: the market abuse unit, the structured and new-products unit, the unit that investigates foreign bribery by corporations, the municipal-securities unit, and market intelligence.

The World Bank's chief economist, Justin Lin, warned the Council on Foreign Relations the global economy may suffer a double-dip recession. Beyond the weak economic fundamentals underlying the emergence from recession, Lin said he is also concerned that the world economy is entering "uncharted waters," citing excess global capacity that could linger until 2014. In an environment of low interest rates and excess capacity, most of the liquidity could go into speculative investments as well as banks continuing to hold bad debts on their balance sheets.

## INTEREST RATES

	3M Libor	2 YT	5 YT	10 YT	30 YT	30Y Fixed Mortgage
Friday's Close:	0.25	0.87	2.42	3.68	4.58	4.80
1 Week Ago:	0.25	0.98	2.59	3.83	4.72	4.94
1 Month Ago:	0.25	0.85	2.33	3.59	4.52	4.80

## WEEKLY REVIEW

Federal Reserve Bank of New York President William Dudley said this week that a recovering economy suggests the Federal Reserve should stick to its plan to stop buying mortgage-backed securities (MBS) once it reaches its \$1.25 trillion target later this quarter. Some Fed officials have recently argued that the housing market might not be ready for an end to the MBS program and so have been suggesting keeping it in place for a longer period than planned.

President Barack Obama unveiled his proposed \$90 billion bank tax. The 10-year assessment on bank liabilities, dubbed the "Financial Crisis Responsibility Fee", would fall most heavily on the nation's top six banking companies. Each would likely face an annual bill of \$1 billion or more, with Citigroup and JPMorgan Chase facing the largest liabilities, likely more than \$2.4 billion apiece. Betsy Graseck, a banking analyst at Morgan Stanley, estimated the tax would shave roughly 5% from top banks' bottom lines this year.

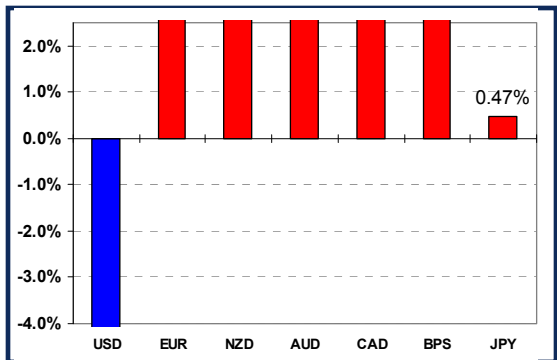


## TRADERS INSIGHT

Foreclosures spiked in December after four months of sequential declines. Legislative and industry-related delays in processing delinquent loans couldn't keep the foreclosure filings from hitting 349,519 in December, up 14% from November and 15% from a year earlier. There were a total of 2.8 million foreclosure filings for the year, up 21% from 2008 and more than double the 2007 total, with Nevada, Arizona and Florida winning the dubious distinction of having the top foreclosure rates. Nevada, which had the highest rate, posted a 27% increase from a month earlier but still came in 22% below year-earlier levels.



## WEEKLY CURRENCY RETURNS (VS U.S. Dollar)



## GLOBAL BOND YIELDS (In Local Currency)

	2-Year	5-Year	10-Year
USA	0.89	2.44	3.69
Canada	1.27	2.61	3.49
Germany(Euro)	1.18	2.39	3.28
U.K.	1.33	2.89	4.03
Japan	0.17	0.52	1.34
Australia	4.44	5.21	5.49
Mexico	5.39	7.09	7.84

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## ASIA PACIFIC

China's banking regulator has cracked down on banks selling their loans to trust companies. The transactions at issue had enabled banks to move loans off their balance sheets by temporarily selling them to Chinese trusts, lightly regulated companies that then repackaged the loans into financial instruments for clients. The China Banking Regulatory Commission, in an attempt to improve transparency in the banking system, issued a notice banning banks that sell loans to trusts from removing the loans from their balance sheets.

Property developer Nakheel Tuesday said it will make a \$10.3 million distribution payment on an Islamic bond, or sukuk, which matures next year. Nakheel's parent company Dubai World is expected to make a formal standstill request to creditors for \$22 billion in debt while it devises a restructuring plan. The payment is scheduled for Jan. 19 for the \$750 million trust certificates due in 2011.

Japan's massive government stimulus spending and a pickup in overseas economies has raised expectations that the domestic economy will recover in 2010 to its level prior to the global financial crisis. Despite this, the Minister of Economy, Trade and Industry Masayuki Naoshima stated the government will need to monitor any damage to the economy from deflation and unemployment, which he called the main obstacles to getting the economy on track for self-sustained recovery.

## EUROPE/CANADA

In a year expected to see a high volume of debt offers from Latin America, Mexico raised \$1 billion through a 10-year bond deal Monday, marking the first major dollar-bond issue in the region for 2010. The bonds priced at 99.037, offering a yield of 5.25%, or 142.4 basis points above comparable U.S. Treasuries. The transaction marks Mexico's first deal in international capital markets following credit downgrades from Standard & Poor's and Fitch Ratings in December.

Seasonally-adjusted figures released by the European Union's Eurostat statistics office showed exports dipped to a three-month low of €108 billion (\$156.59 billion) in November from €108.5 billion in October, while imports rose just 0.3% to €104.1 billion. The drop in euro-zone exports and the slight increase in imports in November fueled concern that the single currency area's economic recovery is already losing steam. Exports were 6% weaker than they were in November 2008, perhaps reflecting the persistent strength of the euro.

The Greek Prime Minister, backing up a new government plan presented to slash the country's budget deficit, said there is "no time to lose." The government outlined the deficit-reduction goals for the next four years, which include cutting the spending gap to 8.7% of GDP this year, 5.6% next year and below 3% by 2012. Greece has been under intense scrutiny by the European Union, the markets and credit rating agencies since it revealed late last year that its budget deficit would hit 12.7% of gross domestic product, four times the EU's 3% limit.

Data Source: Bloomberg 15 Jan 2010 9:25 am PST

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