

| Date | Time | The Day Ahead (AUSTRALIA) | Month | Survey | Prior |
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TREASURIES

NEW YORK, Dec 13 (Reuters) - U.S. Treasury debt prices eased on Thursday after data showing higher-than-expected retail sales and producer prices appeared to constrain the Federal Reserve's willingness to continue cutting interest rates.

Losses were limited, however, by plunging stocks as investors sold shares of financial companies on worries a plan by global central banks to free up credit markets may not be a panacea for the struggling credit market.

Rising producer prices in November, driven by a record increase in gasoline prices, stoked concerns that inflation could handcuff the Fed in its effort to cut rates to stave off the economic impact of a global credit crisis.

At the same time, higher-than-expected November retail sales suggested to investors that the credit problems were not filtering through to the consumer level, and that economic growth may not be as hobbled as originally thought.

"If anything it suggests the Fed may drag their feet," said Eric Green, economist at Countrywide Financial in Calabasas, California.

Benchmark 10-year notes <US10YT=RR> were trading 9/32 lower in price for a yield of 4.12 percent from 4.09 percent late on Wednesday. Bond yields move inversely to prices.

Bonds sold even further through much of the morning, but pared some losses as stocks extended a sell-off.

"The security of last resort is the Treasury market, and a lot of investors are thinking that despite what could be the impact of inflation they still want to be in the Treasury market because they want to be sure of their principal," said Don Kowalchik, strategist at A.G. Edwards & Sons in St. Louis.

Bond trade has been extremely choppy since the Federal Reserve cut its recommended overnight lending rate between banks by 25 basis points on Tuesday to 4.25 percent.

The U.S. Federal Reserve and other central banks on Wednesday then said they were getting together to inject more liquidity into credit markets to free up lending between banks.

The data on Thursday had some analysts speculating the reason the Fed cut by 25 basis points, and not 50 basis points, on Tuesday was because the central bank was thinking economic growth remains strong and that rising inflation remained a threat.

"Basically, (today's data) is the main reason the Fed didn't cut more on Tuesday," said Alan Lancz, president of Alan B. Lancz & Associates Inc. in Toledo, Ohio. "If the numbers continue to look this way they might not do more."

Hints the Fed could be constrained in its monetary loosening campaign hit bond prices, with 2-year notes <US2YT=RR> trading 2/32 lower in price for a yield of 3.18 percent from 3.14 percent late on Wednesday, while five-year notes <US5YT=RR> were 4/32 lower in price for a yield of 3.50 percent from 3.47 percent.

Thirty-year bonds <US30YT=RR> were 21/32 lower for a yield of 4.58 percent from 4.54 percent.

Early in the day, before the release of the data, Treasuries were trading higher in a renewed safe-haven bid on disappointment that interbank lending rates did not move much lower, raising doubts about the central bank efforts to free up liquidity in credit markets.

London interbank offered rates did ease overnight, but not by as much as some had hoped given the announcement that the Fed and other central banks were looking to inject more liquidity into credit markets to free up lending between banks.

STOCKS

NEW YORK, Dec 13 (Reuters) - U.S. stocks fell on Thursday as doubts grew about a plan by global central banks to unfreeze credit markets, sending financial shares lower.

Adding to the pessimism was a drop in shares of Lehman Brothers (LEH.N: [Quote](#), [Profile](#), [Research](#)) after the investment bank reported its earnings, suggesting concerns about the profitability of financial stocks persist.

In a sign of skepticism about central bank efforts to combat the credit squeeze, Libor, a key interbank lending rate, showed only a slight decline on Thursday. For details, see [ID:nL13874463]. The Federal Reserve and other central banks announced on Wednesday a program to pump more money into credit markets after they tightened in response to the U.S. subprime mortgage crisis.

"People don't think the Fed has solved the problem. Their action yesterday hasn't reinstilled confidence in the market place and that's why all these financials are getting killed," said Stephen Massocca, co-chief executive at San Francisco-based investment bank Pacific Growth Equities.

The slight change in Libor "demonstrates there's a complete lack of confidence. Banks don't want to lend to each other, even today."

The Dow Jones industrial average .DJI was down 93.24 points, or 0.69 percent, at 13,380.66. The Standard & Poor's 500 Index .SPX was down 14.81 points, or 1.00 percent, at 1,471.78. The Nasdaq Composite Index [.IXIC](#) was down 26.85 points, or 1.01 percent, at 2,644.29.

Lehman shares fell 3.5 percent to \$59.79 after the investment bank said quarterly earnings fell 11 percent.

Shares of Lehman's rivals also fell: Goldman Sachs down 2.5 percent to \$207.07, Merrill off 4.4 percent to \$56.21 and Bear Stearns down 4.7 percent to \$96.09.

A government report showed retail sales jumped in November more than economists had forecast, suggesting holiday shoppers coped with high energy costs and the fallout from a housing slump.

But a separate Labor Department report said U.S. producer prices surged at the highest rate in 34 years last month on a record rise in gasoline prices. Stripping out food and energy prices, the gain in the core Producer Price Index also was above what economists had forecast.

Quickening inflation could hinder the Fed from continuing to cut interest rate cuts.

Shares of Biogen Idec were the top drag on the Nasdaq after the drug maker ended its own auction on Wednesday to sell itself after failing to get any bidders. Biogen shares plunged 27.5 percent to \$55.

Honeywell International helped to stem losses on the Dow after the blue-chip diversified manufacturer reported 2008 profit that will top analysts' estimates. Its shares rose 3.6 percent to \$59.34.

Shares of Dow shot higher after the company said it is forming a joint plastics venture with a unit of Kuwait Petroleum [ID:nN13450298]. Dow shares were up 7.2 percent at \$44.77.

| Last Night Figures US | Survey | Actual | Prior |
|------------------------------|--------|--------|-------|
| PPI (Mom) | 1.5% | 3.2% | 0.1% |
| PPI Ex Food and Energy (MoM) | 0.2% | 0.4% | 0.0% |
| PPI (YoY) | 6.0% | 7.2% | 6.1% |
| PPI Ex Food and Energy (YoY) | 1.8% | 2.0% | 2.5% |
| Advanced Retail Sales | 0.6% | 1.2% | 0.2% |
| Initial Jobless | 335K | 333K | 340K* |
| Business Inventories | 0.3% | 0.1% | 0.4% |

*REVISED UP / **REVISED DOWN

| Date | Time | The Day Ahead (US) | Month | Survey | Prior |
|-------|-------|------------------------|-------|--------|-------|
| 15/12 | 00:30 | CPI (MoM) | NOV | 0.6% | 0.3% |
| | | CPI Ex Food and Energy | NOV | 0.2% | 0.2% |
| | | CPI (YoY) | NOV | 4.1% | 3.5% |

| | | | | | |
|--|-------|------------------------|-----|--------|---------|
| | | CPI Ex Food and Energy | NOV | 2.3% | 2.2% |
| | | CPI Core Index SA | NOV | | 212.05 |
| | | CPI Index NSA | NOV | 209.80 | 208.936 |
| | 01:15 | Industrial Production | NOV | 0.2% | -0.5% |
| | | Capacity Utilization | NOV | 81.7% | 81.7% |

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