

Date	Time	The Day Ahead (AUSTRALIA)	Month	Survey	Prior
20/12	11:30	RBA Monthly Bulletin			
		RBA Foreign Exchange Transaction	NOV		237 M

TREASURIES

NEW YORK, Dec 19 (Reuters) - U.S. Treasuries rose on Wednesday after Standard & Poor's offered a grim assessment of bond insurers, reviving the credit concerns that have kept government bonds well bid for several months.

A dip in stock market prices in the afternoon reinforced that safety bid, briefly pushing bond prices still higher in thin trade, analysts said. When stocks erased their losses, bonds cut their gains.

By mid-afternoon, benchmark 10-year notes <US10YT=RR> were up 15/32 in price for a yield of 4.06 percent, down six basis points from late Tuesday. Bond prices and yields move inversely.

The fresh safety bid for Treasuries arrived when S&P cut ACA Financial to junk status, and warned that the AAA-rating of larger bond insurers that underpins so many fixed-income investments could come under pressure.

The news sent bond prices up in late morning trade. Those gains were extended in thin afternoon trade, strategists said.

"(The morning) pop in Treasuries was due to the ACA downgrade from A to CCC," said Andrew Brenner, market analyst at MF Global.

Investors' reaction to the Federal Reserve's inaugural offering of emergency loans for money markets was mixed.

"It looked like the move ... has done a lot to calm the near-panic in the markets ahead of year-end statement date pressures," said Chris Rupkey, vice president and senior financial economist at Bank of Tokyo/Mitsubishi.

Wall Street does not expect that a near-term liquidity boost of \$20 billion will completely cure what ails credit markets, but many were relieved to see proactive steps by global central banks to stem the crisis.

In the auction, bids outnumbered the amount on offer by three times. The stop-out rate of 4.65 percent, below the discount rate at which the Fed normally lends to banks, suggested decent though not overwhelming interest.

"Certainly borrowing at 4.17 percent would have been a bargain that people would have jumped at to secure borrowing at a lower cost," Rupkey said. "(The 4.65 percent level) was still 10 basis points lower than the discount rate so there was still a financial incentive to borrow."

Ward McCarthy, economist at Stone and McCarthy Research Associates in Princeton, New Jersey, said the involvement of 93 banks in the auction facility could be interpreted favorably.

"There was at least some intent to arbitrage cheap funds, indicating that the interbank market is not completely clogged up," he said.

But McCarthy said a more telling measure of the auction's effectiveness would be Thursday's LIBOR fixings.

"If we see some easing of pressure in the term LIBOR market, this auction will have at least partially succeeded in what it intended to do," he said.

Some skepticism remained that measures like the Fed's auction and the European Central Bank's massive half-trillion-dollar injection of cash into the financial system earlier in the week would convinced banks to begin lending again.

"It's the caution on lending that's problematic," said Alan Ruskin, chief international strategist at RBS Greenwich in Greenwich, Connecticut. "In a sense, liquidity doesn't change that."

STOCKS

NEW YORK, Dec 19 (Reuters) - U.S. stocks fell on Wednesday after credit ratings agency Standard & Poor's slashed its outlook on two companies that insure more than \$1 trillion of debt, suggesting fallout from the housing slump is far from over.

S&P warned it is more likely to cut the top-notch "triple A" credit ratings of AMBAC Financial Group Inc (ABK.N: [Quote](#), [Profile](#), [Research](#)) and MBI Insurance Corp (MBI.N: [Quote](#), [Profile](#), [Research](#)), the world's biggest bond insurers, in the next two years due to deteriorating mortgage debt.

S&P also cut its rating on ACA Financial Guaranty Corp ACAH.PK to junk and said it may cut the triple-A rating of Financial Guaranty Insurance Co.

The move renewed credit jitters, reversing stocks' earlier gains. The market had risen after the Federal Reserve reported solid demand for a \$20 billion auction that was part of a coordinated move by global central banks to thaw a freeze in money markets.

"Anything that has anything to do with credit risk will hit the market," said Warren Simpson, managing director at Stephens Capital Management in Little Rock, Arkansas.

"If the Street could just see an end to the credit risk, the market would feel a lot better."

The Dow Jones industrial average .DJI was down 48.85 points, or 0.37 percent, at 13,183.62. The Standard & Poor's 500 Index .SPX was down 4.54 points, or 0.31 percent, at 1,450.44. The Nasdaq Composite Index [.IXIC](#) was down 2.45 points, or 0.09 percent, at 2,593.58.

Morgan Stanley (MS.N: [Quote](#), [Profile](#), [Research](#)) posted a stunning fourth-quarter net loss from continuing operations of \$3.61 a share, compared with analysts' expectations of a 39-cent per share loss. The investment bank reported \$9.4 billion of write-downs in mortgages and other assets.

But shares of Morgan Stanley rose 4 percent to \$50 as China agreed to pump \$5 billion as an investment into the Wall Street bank.

Student lender SLM Corp (SLM.N: [Quote](#), [Profile](#), [Research](#)), trying to bounce back from a \$25 billion takeover deal gone sour, said it may face higher financing costs as a result of the credit crunch and that it would need to add capital. Shares fell 17 percent to \$23.95.

Home builder Hovnanian Enterprises Inc (HOV.N: [Quote](#), [Profile](#), [Research](#)) tumbled 7 percent after the company posted a wider-than-expected loss. The Dow Jones home construction index .DJUSHB fell 1.3 percent.

MBIA's shares slid 10.5 percent to \$24.78 and AMBAC Financial's stock lost 6.6 percent to \$25.20.

Shares of Palm Inc (PALM.O: [Quote](#), [Profile](#), [Research](#)) fell 8.7 percent to \$5.42 after the company reported a quarterly loss due to the delay of a new product.

Union Pacific Corp's (UNP.N: [Quote](#), [Profile](#), [Research](#)) shares fell 5 percent to \$123 after the No. 1 U.S. railroad lowered its fourth-quarter earnings outlook due to rapidly rising fuel costs.

Last Night Figures US	Survey	Actual	Prior
Housing Starts	1176K	1187K	1232K*
Building Permits	1150K	1152K	1170K**

*REVISED UP / **REVISED DOWN

Date	Time	The Day Ahead (US)	Month	Survey	Prior
21/12	00:30	GDP Annualized	3Q F	4.9%	4.9%
		Personal Consumption	3Q F	2.8%	2.7%
		GDP Price Index	3Q F	0.9%	0.9%
		Core PCE QoQ	3Q F	1.8%	1.8%
		Initial Jobless	Dec 16	335K	333K
		Cont. Claims	Dec 9	2610K	2639K
	02:00	Leading Indicators	NOV	-0.3%	-0.5%

04:00

Phil. Fed

DEC

6.0

8.2

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