

Morning Insight

(US Edition – Updated 08:00 EST)

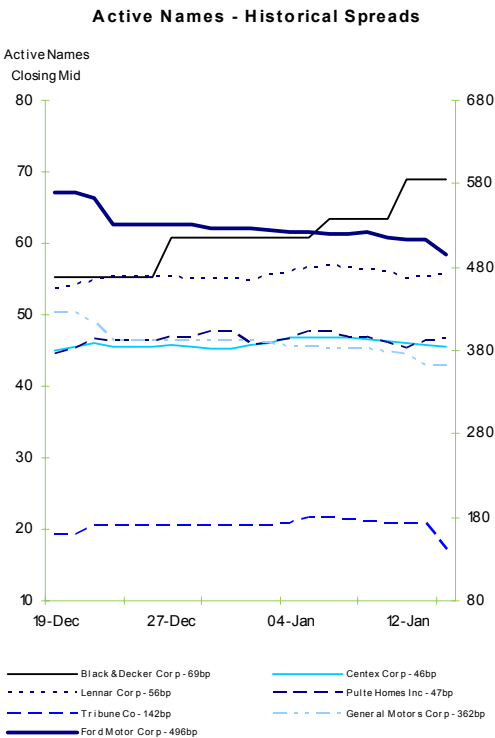
Today's Top Stories

- JPMorgan posts robust results on investment banking
- Lennar follows homebuilders with poor results
- Cablevision board rejects Dolan family bid

What's HOT in Credit?

- Ratings - Anheuser-Busch
- Movers - Tribune, Black & Decker, Lennar, Pulte, Centex, KB Home

US CDS Roundup (Previous Trading Day)



Source: IGM, Bloomberg

CDS Flow Summary - Tribune sale impasse knocks CDS tighter

The first few trading sessions of the new year would not be replete without leveraged buyout firms directing the whims of default swap flow. The same goes for when those leveraged buyout plans stall. Media concern **Tribune** had its head more than once on the chopping block, but talks of few, if any, bidders for the firm removed it from the guillotine-- at least temporarily. A CNBC report cited the possibility that Tribune may not have any suitors line up for the company as a whole. Still a spinoff of the Los Angeles unit could still be on the table.

Analysts have also cited its low stock price as a hindrance to such a deal. TRB shares today fell to USD30.51, its lowest since the summer. But its low stock price is not new to those considering bids for the firm as the USD45 a share that is talked in the market is considered too high. Default in Tribune tightened more than 15% today with trade left at 140/144 from a mid of 169 on Friday. During the session, default in Tribune dealt as tight as 137.

Other leveraged buyout candidate **Black & Decker** widened further to 67/71 from 64/69. Black & Decker has long struggled with its sales efforts, which bumped it to the top of LBO lists in the first place. The firm also has a long history of using up its free cash flow with share repurchases.

Homebuilders, another LBO targeted sector, managed to take further write-downs in stride. The poor housing market took its toll on **Centex** and **KB Home** today, as both said quarterly earnings were off by USD800mln. But the dire demand for housing could have hit the firms in a worse manner. Default subsequently tightened in most names in the sector by a basis point, with the high yielding names easing three basis points. Centex eased to 44/47 from 45/48, while **Pulte** tightened to 45/48 from 46/49. **Lennar** was at 54/57 from 53/58, while KB Home tightened to 168/172 from 171/174.

Some restructuring news for the auto sector hit that group in a positive light as well. Default in **Ford Motor Co** eased to 493/498 from 505/510, while **Ford Motor Credit** tightened to 264/269 from 272/277. Default in **General Motors** eased to 359/364 from 365/370. Financial arm **GMAC** tightened to 101/104 from 105/108. Other movers included paper firm Kimberly Clark which saw its CDS at 26/35 from 25/28 as it outsources IT and possibly cuts jobs.

CDS Indices Summary - Tribune assist the XO index with tights

5yr default in the **DJ CDX NA XO** index picked up where it left off just before the holiday, tightening a half basis point early in the session leading to a D/D change of -2 bps with a closing market of 135/136.5 on Tuesday. Also following the tightening trend on Tuesday was default in the old issue series 6 **DJ CDX NA XO** index which completed its day by tightening -1.5 bps to a market of 132/135. XO constituent **Tribune Co** only days before a deadline for final bids sees increased speculation that a sale of the entire media company may not take place. The outcome of the company's nearly four month old strategic review remained cloaked in uncertainty, while its default continued to tighten. 5yr default in Tribune closed with a mid of 142 on Tuesday, which is in from Friday's close of 169. Still tightening on a lesser scale on Tuesday was default in the **DJ CDX NA IG7** index which eased in a quarter of a bp to 33/33.5, while the **DJ CDX HVOL7** index which also pulled in -0.25 bp, eventually led to a closing market of 79.75/80.25.

Source: IGM, Bloomberg

DJ CDX NA Series 7	Bid	Offer	Daily Change	Weekly Change	Monthly Change
5yr					
DJ IG 7	33.00	33.50	-0.25	-0.50	-1.25
DJ HVOL 7	79.75	80.25	-0.25	-0.75	-3.00
CDX.NA.HY 7	103.245	103.247	0.28	0.50	1.09
DJ Crossover 7	135.00	136.50	-2.00	-3.00	-9.50
DJ HVOL 6	68.50	69.50	0.00	-0.50	-3.25
DJ HVOL 4	58.00	60.50	0.00	-0.50	-10.50
DJ Crossover 6	132.00	135.00	-1.50	-3.00	-12.00

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Stories of the Day

Consumer

Carrier **Southwest Airlines** today posted a 24.3% Y/Y rise in operating income to USD 174mln and a 19% rise in Q4 net income excluding special items to USD 96mln from record revenues of USD 2.3bln, which was up 15%. Full year operating income was up 28.8% at USD 934mln and net income excluding special items rose 38% Y/Y to USD 587mln, "far exceeding" the company's goals, while revenues rose 20% to USD 9.1bln. Unit costs (economic) in Q4 rose 3.0% due to higher jet fuel prices. The company's jet fuel costs per gallon (economic) rose 28% to USD 1.56, which was in line with the company's expectations. It is 100% hedged (economic) for Q1 2007, capped at an average crude-equivalent price of around USD 50 per barrel. The company said that its 2007 outlook is "favourable", adding that it hopes to exceed its 15% EPS growth target. **5Y USD CDS (M)** Southwest Airlines at 35.5/40.5 on 13-Jan.

Energy

Exploration and production company **Anadarko** said today it will sell two oil fields in the Northern Rockies to Encore Acquisitions for USD 400mln. Net production from the two fields totals 4,350mln barrels of oil per day and the sale is expected to close by the end of the Q1 2007. **5Y USD CDS (M)** Anadarko Petroleum Corp last seen at 29/35 on 13-Jan.

Financials

Due to gains from its investment banking and trading units, **JPMorgan** reported a 48% rise in net income. Profit from continuing operations rose to USD3.91bln, or USD1.09 a share, versus USD2.64bln, or 74 cents a share. The firm touts its Asset Management unit, whose assets under management exceed USD1 trillion. Run-off of its mortgage servicing risk asset against the realization of servicing cash flows were negative USD372mln. Its noninterest expense was USD354mln, up by USD29mln, or 9%. The bank plans that 93% of the Bank One merger savings is now complete. **5y USD CDS** in JP Morgan today is 14/16.

US bank **CIT** announced today Q4 results with net income available to common shareholders increasing 4.4% Y/Y to USD 259.3mln and total net revenue increasing 11.8% to USD 741.4. FY 2006 figures were also released with net income available to common stock holders increasing 8.5% to USD 1.02bln, above estimates, and total net revenue rising 10.1% to USD 2.8bln while cash and equivalents rose from USD 3.7bln in 2005 to USD 4.4bln (21.8%). The company attributed the performance to increased leveraging of origination platforms and enhanced asset management capabilities. **5Y USD CDS (M)** CIT Group senior last seen at 27/29 on 14-Jan.

Homebuilders

Construction company **Lennar** has today reported a Q4 net loss of USD 195.6mln from a profit of USD 581.2mln last year, which includes write-offs of USD 111.1mln and valuation adjustments of USD 382.2mln (FY net income also down 56.2% Y/Y to USD 593.9mln). The company reported that Q4 total revenue fell 15.7% to USD 4.1bln with the FY figure up 17.4% to USD 15.6bln. Lennar also said that it took new orders of 9,606 homes in Q4 (down 6% Y/Y), while its Q4 backlog stood at 11,608 homes worth USD 3.98bln. The company commented that it sees meeting or

exceeding 2006 results in 2007 despite deliveries expected to fall by over 20% and lower profitability in 2007 than in H1. **5Y USD CDS (M)** Lennar Corp at 53/58 yesterday.

Industrials

A consortium led by UK military research company Qinetiq, which include US firms **Raytheon** and **EDS** alongside Land Securities Plc of the UK, announced that it has won the majority of a GBP 16bln training contract with the UK's Ministry of Defence, the Financial Times reported today. The group will provide all non-military technical training to the British Armed Forces in a deal that may be announced today. The FT added that the Qinetiq consortium could also win the remaining non-technical training part of the 25-year program, which has also gained interest from a group led by Babcock International. **5Y USD CDS (M)** Electronic Data Systems Corp at 57/67; Raytheon Co at 44/48 on 14-Jan

TMT

Late yesterday chipmaker **Intel** announced that its Q4 net income dropped 39% Y/Y to USD 1.5bln and revenue fell 5% to USD 9.7bln, this contributed to a full year net income drop of 43% Y/Y to USD 34.5bln and an operating income fall of 53% to USD 5.7bln. Intel said that the cost of placing the company's Fab 23 facility up for sale had affected margins. Intel also said that higher factory under-utilisation charges along with flash memory write-downs and NAND start-up costs had off-set the positive impact of higher selling prices. In Q4 Intel said that sales of microprocessors set new records. Looking forward Intel said that in Q1 2007 it expects revenue to be between USD 8.7-9.3bln with spending to be between USD 2.6-2.7bln. For the full year 2007 Intel sees the gross margin around 50% and capital spending at USD 5.5bln with spending on R&D at USD 5.4bln. The company also said that it was on-track to generate spending and manufacturing cost savings of USD 2bln in 2007 exclusive of restructuring costs. **5Y USD CDS (M)** Intel Corp offered at 442 on 14-Jan.

Cable company **Cablevision Systems Corp** late yesterday said that its board's special transaction committee rejected a USD 30 per share cash offer from the Dolan family for the shares it does not already own in Cablevision. The Dolan family owns 20% of Cablevision's common stock representing 70% of the votes. The board committee said the bid, which was upped from USD 27 per share last week, was "inadequate" and that the company is "well positioned to address the competitive challenges that exist". Dolan's bid expires today. **5Y USD CDS (M)** Cablevision Systems Corp mid at 195 on 16-Jan.

Media concern **Time Warner**'s AOL will not increase its USD 900mln bid for Swedish TradeDoubler, the Wall Street Journal said today. The WSJ adds that TradeDoubler's biggest shareholder Alecta had rejected AOL's bid. AOL needs 90% shareholder approval for it to be able to exercise options to buy a fifth of TradeDoubler's shares. Alecta has a 10.1% holding giving it the power to block the bid, the WSJ reported. **5Y USD CDS (M)** Time Warner Inc at 31/33 on 14-Jan.

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Corporate Events Calendar

Date	Event Information	5Y CDS Levels	
		Bid	Offer
17-Jan	CIT Group Inc Q4 Earnings Release	26	29
17-Jan	JPMorgan Chase & Co Q4 Earnings Release	14	16
17-Jan	Lennar Corp-CI A Q4 Earnings Release	53	58
17-Jan	Southwest Airlines Co Q4 Earnings Release	29	33
17-Jan	Washington Mutual Inc Q4 Earnings Release	20	24
18-Jan	Intl Business Machines Corp Q4 Earnings Release	7	13
18-Jan	Merrill Lynch & Co Inc Q4 Earnings Release	16	19
18-Jan	Ppg Industries Inc Q4 Earnings Release	19	24
18-Jan	Schwab (Charles) Corp Q4 Earnings Release	15	17
18-Jan	Slm Corp Q4 Earnings Release	22	25
19-Jan	Citigroup Inc Q4 Earnings Release	6	9
19-Jan	General Electric Co Q4 Earnings Release	11	13
19-Jan	Motorola Inc Q4 Earnings Release	25	29
22-Jan	Csx Corp Q4 Earnings Release	16	22
22-Jan	Eaton Corp Q4 Earnings Release	17	20
22-Jan	Pfizer Inc Q4 Earnings Release	4	6
23-Jan	American Express Co Q4 Earnings Release	9	12
23-Jan	Bank Of America Corp Q4 Earnings Release	8	11
23-Jan	Burlington Northern Santa Fe Q4 Earnings Release	14	19
23-Jan	Canadian Natl Railway Co Q4 Earnings Release	13	15
23-Jan	Centex Corp Q3 Earnings Release	43	48
23-Jan	Dr Horton Inc Q1 Earnings Release	70	78
23-Jan	Ford Motor Co Q4 Earnings Release	493	498
23-Jan	Ford Motor Credit Co Q4 Earnings Release	264	269
23-Jan	Johnson & Johnson Q4 Earnings Release	2	6
23-Jan	Radian Group Inc Q4 Earnings Release	37	40
23-Jan	Sun Microsystems Inc Q2 Earnings Release	50	55
23-Jan	United Technologies Corp Q4 Earnings Release	11	11
23-Jan	Wachovia Corp Q4 Earnings Release	10	13
23-Jan	Xerox Corp Q4 Earnings Release	67	71
24-Jan	Abbott Laboratories Q4 Earnings Release	6	10
24-Jan	Air Products & Chemicals Inc Q1 Earnings Release	14	16
24-Jan	Arvinmeritor Inc Q1 Earnings Release	297	303
24-Jan	Ashland Inc Q1 Earnings Release	70	74
24-Jan	Ca Inc Q3 Earnings Release	139	145
24-Jan	Cingular Wireless Llc Q4 Earnings Release	12	16
24-Jan	Conocophillips Q4 Earnings Release	15	19
24-Jan	Corning Inc Q4 Earnings Release	23	28
24-Jan	Du Pont (E.I.) De Nemours Q4 Earnings Release	10	13

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Ratings Actions

Date	Corporate	Agency	Rating	Action	Comparison	Date
16-Jan-07	Anheuser-Busch	MDY	A2	D/gr fm A1, o/l stb	S&P A stb	20-Dec-06
16-Jan-07	Sanmina-SCI	MDY	Ba3	Affmd, o/l stb fm RD	S&P BB- CW-	14-Aug-06

Credit Default Swap Markets

Single Name Credit Default Swaps – Active Names & Big Movers

Active Names	Bid	Ask	D/D % Chg	D/D BP Chg	W/W BP Chg	M/M BP Chg
Black & Decker Corp	67	71	4%	3	6	19
Tribune Co	140	144	-16%	-27	-34	-14
Centex Corp	44	47	-2%	-1	-2	1
Lennar Corp	54	57	0%	0	-1	1
Pulte Homes Inc	45	48	-2%	-1	-1	1
General Motors Corp	359	364	-2%	-6	-22	-73
Ford Motor Corp	493	498	-2%	-12	-26	-78
Big Movers	Bid	Ask	D/D % Chg	D/D BP Chg	W/W BP Chg	M/M BP Chg
Phelps Dodge Corp	62	69	-19%	-15	-19	-10
Tribune Co	140	144	-16%	-27	-34	-14
Reliance Industries Ltd	37	48	-9%	-4	-4	-5
Viacom Inc	65	68	-8%	-6	0	1
Ingersoll-Rand Co	29	34	7%	2	-5	3
May Department Stores Co/The	47	51	7%	3	-1	7
Albertson's Inc	112	116	-6%	-7	-6	-18

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