FINANCIAL FRONTLINE SOCIETY

Financial Frontline Newsletter

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Market Recap

- This week turned out to be a good week for the stock market with a stable performance for the first three days, huge gains on Thursday, and another stable performance on Friday. Major indices made gains with the S & P 500 increasing by 1.9% to end at 1465.77 and the DOW Jones Industrial Average increasing by 2.2% to end at 13,593.37.
- The strong gains on Thursday were due to two important announcements affecting Europe and America; The German court announced that they had approved a new rescue fund and budget pact in the midst of the political European confusion. On the same day, Bernanke announced that the Fed was finally ready to act by having unlimited bond purchase.

Foreign Exchange

- The dollar is overall much weaker as compared to most currencies due to the Fed's recent announcement to purchase US 40 billion in mortgage securities per month, flooding the economy with liquidity. The EUR/USD has risen to a 4 month high. However, the upside is capped due to the ECB's own sovereign bond purchasing program.
- The weakening of the dollar is not seen in the USD/JPY as the Japanese Finance Minister hinted that another round of market intervention might be necessary to curb the appreciation of the yen. The USD/JPY jumped from a seven-month low and is currently trading at 78.23.
- The Swiss National Bank announced last Thursday that they have decided to leave interest rates and the EUR/CHF peg unchanged. The currency has been pegged at 1.20 to stop the appreciation of the Swiss Francs against the Euro due to its safe haven status. Also, the SNB have stated that they think the Franc is still too strong and traders are interpreting this as a hint that the floor of 1.20 might possibly be raised. The EUR/CHF has seen an upward move to 1.2151 from the 1.20 floor, a huge move considering the EUR/CHF has remained at the floor the past 6 months.

Market Highlights

Dow Jones Industrial Ave.	13,593.37 ↑286.73
S&P 500	1465.77 ↑27.85
NYMEX	99.15
10-YR. TREAS.	1.625 %
FED Funds Rate	0.17
Unemployment Rate	8.10 %

Fixed Income

- Audacious new monetary-stimulus plans announced by the central banks of the U.S. and the EU are pummeling so-far consistent demand for long-term U.S. Treasurys, considered by investors as a safe haven over the unstable period. Investors are prompted to clear their positions in long-term Treasurys and venture in buying more risky assets, altogether driving up the Treasury yields. With the Fed's determination to continue the monetary-stimulation until the job market improves, many analysts agree on the direction the bond market is headed, suggesting that the 2012 summer could be the peak of the three-decade bull run, unless the negative prospects over the Eurozone returns.
- Although the housing market is still far from fully recovered, the market is slowly inching forward. The number of new homes that started construction is expected to rise to 770,000 in August from 746,000 in June, according to some economists. Though not a big jump, this is a clear signal of improvement. In the midst of somewhat faster growth and hiring, pent-up demand and declining interest rates, the home sales have been improving in 2012. Moreover, the Fed's announcement to buy 40 billion mortgage-backed securities would further drive down the mortgage rate, which already fell to 3.55%, compared to 4.12% a year ago. The recovery in home sales is also pushing up the stocks of home builders, which have been doubling or tripling just in 2012.
- In the wake of the Fed's announcement, European stocks rose, the euro gained against the dollar, and commodity prices rallied Friday. Though investors were skeptical on the extent of the impact of the Fed's policy in the long term, they positively reacted to the news, piling into riskier assets. The benchmark Stoxx 600 index was up 1.3% at 276.02, and equity markets of U.K., France, and Germany all rallied on Friday. Further, Stoxx Europe 600 Basic Resources Index surged 5.7%, while the corresponding indexes for autos and banks rose 4.1% and 2.6%, respectively.

Commodities

- Bullish commodity wagers rose to a 16-month high just before the Federal Reserve's pledge for more stimulus. Hedge funds managers lifted their net-long positions across 18 U.S. futures and options by 0.3 percent to 1.33 million contracts in the week ended Sept. 11.
- Even before reports get out and show a strengthening economy in the U.S, oil traded near the highest close in four months. Futures were little changed in New York after gaining in the last two sessions. New home construction and sales of previously owned houses probably climbed in August, economists said before reports due Sept. 19. Net-long positions in oil held by money managers, including hedge funds, commodity pools and commodity trading advisers, advanced by 9,700 futures and options combined to 203,324 futures and options combined.

M&A & Capital Markets

- Dole Food, the world's largest fruit and vegetable company is negotiating with Itochu, Japanese trading house to sell its packaged foods and Asian fresh fruit businesses. Dole is in talks with several other businesses, and nothing is final yet but it has reached an advanced stage with Itochu, confirmed by Itochu. If the deal goes through, Itochu plans on establishing a new company. Due to the volatile demand and lower earnings worldwide from its main fruit, bananas, they had lower earnings in North America and Asia. Thus, Dole is currently restructuring its company to reduce costs and better realign fruit supply with expected demand to maximize their profits. Itochu recently has been aggressive in overseas acquisitions due to a strong yen and profits from energy and mining.
- The teen brand Abercrombie & Fitch has hired Goldman Sachs as a financial advisor as the company has been struggling in recent times. For the past 3 years, its profits have continuously fallen.
- Last Monday, BP agreed to sell a stake in a group of oil fields in the Gulf of Mexico to the Plains Exploration and Production Company of Houston for around $5.6 billion. BP was charged with $38 billion for the gigantic oil spill that occurred in the Gulf of Mexico in 2010, which killed 11 people and caused extensive cleanup efforts Thus, they are still looking for funds to help pay those charges off. BP is also in talks to sell 50% of its ownership in TNK-BP, their Russian company.

Brain Teaser

One hundred tigers and one sheep are put on a magic island that only has grass. Tigers can eat grass, but they would rather eat sheep. Assume: *A*. Each time only one tiger can eat one sheep, and that tiger itself will become a sheep after it eats the sheep. *B*. All tigers are smart and perfectly rational and they want to survive. So will the sheep be eaten?

Updates