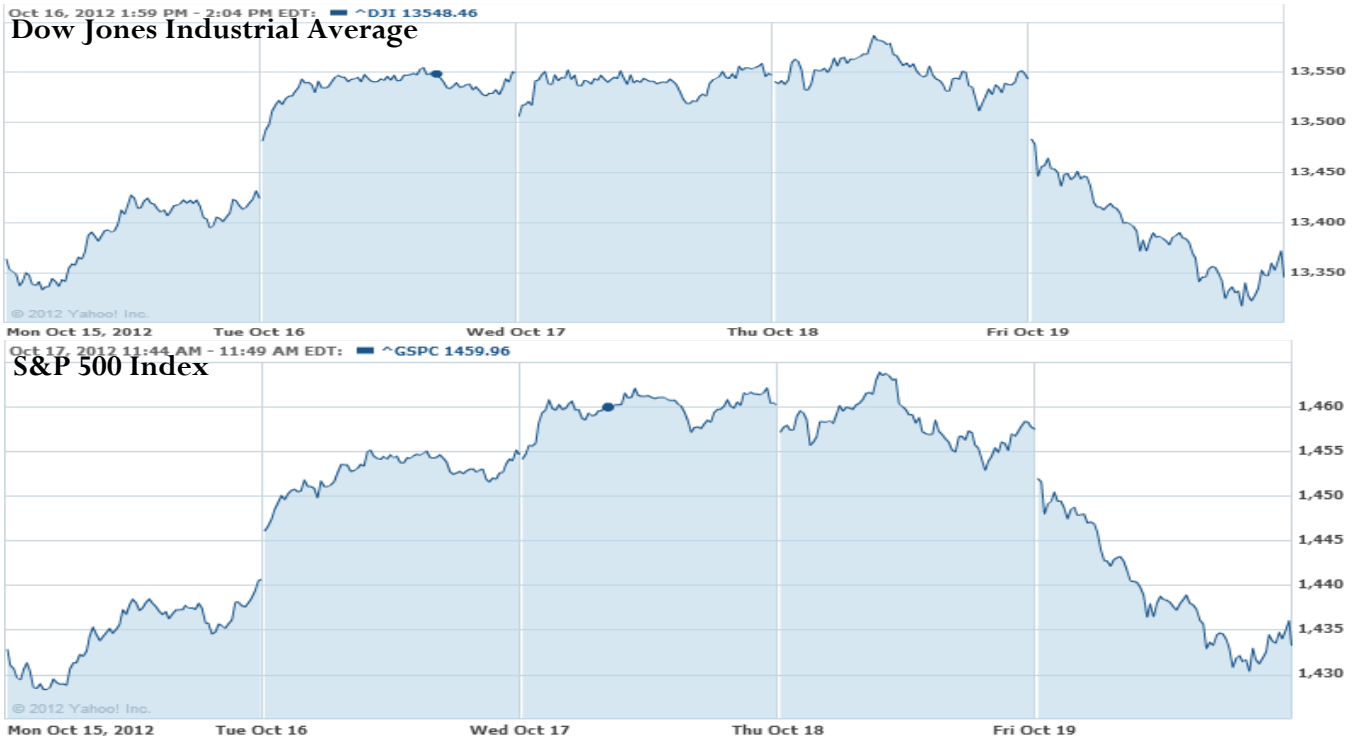


FINANCIAL FRONTLINE NEWSLETTER

WEEK: OCTOBER 14 - OCTOBER 21

FALL 2012 ISSUE 6

FINANCIAL.FRONTLINE.SOCIETY@GMAIL.COM



MARKET RECAP

- Stocks rose in the beginning of the week with reports on US retail sales in September showing an increase for the third month in a row. Also, housing recovery showed acceleration with homebuilder sentiment and new home construction reaching their highest levels in four years.
- This rise continued in the middle of the week as several large banks reported stronger-than-expected gains in earnings. One particular bank was Citigroup which beat its earnings expectation by \$0.07 for a reported revenue of \$19.4 billion.
- Stocks finished the week with slight gains after initial enthusiasm over third-quarter earnings gave way to bearish behavior following weak earning reports from several tech companies. Tech-heavy Nasdaq was most impacted by these weak reports dropping 38.49 to 3005.62 while other indexes fared better with S & P 500 gaining by 0.3% to 1433.19 and the DJIA by .1% to 13343.51.

FOREIGN EXCHANGE

- Euro fell against the dollar on Friday from \$1.3067 to \$1.3025. However, it still ended up 0.6% higher against the dollar this week. The main reason behind Friday's decline is connected with struggling Euro-zone countries, mainly Spain and Greece. Early in September, the European Central Bank issued a bond-buying plan to relieve the debt burden of these struggling countries. However, the plan can only be put in place once these countries, especially Spain request for help. EU leaders are still giving ambiguous information on when there will be a formal request of bailout from Spain and Greece, giving the Euro little traction to break upwards above the \$1.31 level.
- On the other hand, US dollars enjoyed a slight increase in value against the Japanese Yen, from ¥79.28 to ¥79.34. The value of greenback is still a reflection of the recently positive US economic data and investors are using this data to forecast the upcoming trend of the US dollar. The price action of the dollar is dependent on the FOMC meeting next week and upcoming economic releases.

Market Highlights

Dow Jones Industrial Ave.	13,343.51 ↓80.72
S&P 500	1,433.19 ↓6.94
NYMEX	90.05 ↓2.05
10-YR. TREAS.	1.625
FED Funds Rate	0.17
Unemployment Rate	7.80

FIXED INCOME

- The sixth-largest U.S. bank, Morgan Stanley, reported third-quarter results that beat analysts' estimates as revenue from fixed-income trading almost doubled from the second quarter. Morgan Stanley posted a loss of \$1.01 billion, or 55 cents a share, compared with a profit of \$2.2 billion, or \$1.15, a year earlier, the New York-based firm said today in a statement. Excluding accounting adjustments and a one-time restructuring cost, profit was about 35 cents a share, compared with the 25-cent average estimate of 22 analysts surveyed by Bloomberg. Chief Executive Officer James Gorman, 54, is trying to improve returns at the brokerage unit and shrink the fixed-income trading division to reduce capital demands. The bank had the lowest first-half return on equity among the 10 largest U.S. lenders and trades at two-thirds of its liquidation value, compared with 96 percent at Goldman Sachs Group Inc.
- Fixed income strategies were the most popular alternative Ucits funds, with respect to AUM growth in Q3 this year, according to the latest industry data released by Geneva-based Alix Capital, provider of the UCITS Alternative Indices. These strategies, which now account for 33.7 per cent of total assets invested in alternative Ucits funds, enjoyed an 11.4 per cent rise in assets in Q3. They have grown 24.1 per cent year-to-date. In a clear sign that the popularity of alternative Ucits is continuing to grow, the report confirms that total AUM increased by 4 per cent in Q3 to EUR 134 billion; an impressive rise of 18.5 per cent since the start of 2012. The three biggest single strategy benefactors in 2012 have been Standard Life Investments, GAM and M&G. Their AUM has grown 43.6 per cent, 29 per cent and 63.9 per cent respectively. Q3 also proved to be a strong quarter in terms of new fund launches. A total of 17 new single strategy funds were launched, bringing the total number of new funds in 2012 to 62. The total number of single strategy funds now available to investors is 791.

COMMODITIES

- Gold futures plunged to a six-week low last Friday, with the most actively-traded contract for December delivery falling \$20.70 (1.2%) to settle at \$1,724 a troy ounce on the Comex division of NYMEX. EU's two-day summit that ended without any significant solutions to renew investor confidence pulled the euro down against US dollar, making dollar-denominated gold more expensive for buyers using other currencies. Such phenomenon starkly contrasts with the hike of gold price earlier this month, touching just short of \$1,800 a troy ounce, after the central banks' consecutive announcements on quantitative easing policies. Nonetheless, a vast number of analysts still believe that those policies will continue to support gold prices into next year.
- Crude oil prices fell to an 11-day low amidst rising concerns about world oil demand. Light, sweet crude oil for November delivery on the NYMEX fell \$2.05 (2.2%) to \$90.05 a barrel, lowest since Oct. 8. Brent crude for December delivery showed similar decline of 2.28% to \$110.14 a barrel. General consensus among analysts was that global economic worries has raised doubts about the strength of world oil demand while U.S. crude oil inventories are at their highest level for this time of year since 1982. On top of that, a weaker euro from discouraging results from the EU's two-day summit also contributed to declining demand of buyers using foreign currencies.
- U.S. wheat prices rose after Ukraine, one of the world's largest wheat exporters, expressed its worries that it may run out of exportable stocks next month, which would result in higher demands of U.S. crops. Soft red winter wheat for December delivery gained 0.5% to \$8.725 a bushel at the Chicago Board of Trade on Friday. A drought over the summer in Europe's Black Sea region damaged crops, including wheat in Ukraine and Russia. Considering how wheat exporters from the Black Sea region repeatedly undercut the prices of U.S. wheat exporters, analysts speculate that there is more room for rise in U.S. wheat demand.

M&A & CAPITAL MARKETS

- This Friday, the Commission of European Union opposed to United Parcel Service's proposal of taking over TNT Express NV for \$6.75 billion. It is believed that the deal would negatively impact the market for small package express delivery since TNT Express is the second-largest express delivery company in the Europe. UPS still planed to offer a new proposal for the takeover early next year.
- A deal of selling BP's 50% stake in TNK-BP to Rosneft, Russia's third-largest oil company, in a transaction involving \$27 billion is said to received strong support from the board of BP. The deal is said to be paid by partly cash, between \$11 billion to \$13 billion, and partly by a stake of 15 to 20 percent in Rosneft.
- Believing the acquisition will strengthen its existing portfolio and thus maintain its leading position in the market, Johnson Controls Inc. agreed to buy the automotive operations of Waltham, lithium-ion battery producer A123 Systems Inc. based in Massachusetts, for \$125 million. In addition, it will also buy A123's facilities in Livonia and Romulus, Michigan and A123's cathode powder manufacturing facilities in China. A123's joint venture with Shanghai Automotive Industry Corporation ("SAIC") and equity interest in Shanghai Advanced Traction Battery Systems Co. will also be taken over by Johnson Controls.
- Sprint, currently the third largest U.S. wireless carrier, is expected to received \$20 billion for a 70% stake in the company from Softbank.Corp to cover its debt.

BRAIN TEASER

You are given 12 balls and a scale. Of the 12 balls, 11 are identical and 1 weighs EITHER slightly more or less. How do you find the ball that is different using the scale only three times AND tell if it is heavier or lighter than the others?

UPDATES