

FINANCIAL FRONTLINE NEWSLETTER

WEEK: OCTOBER 21 - OCTOBER 28

FALL 2012 ISSUE 7

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Oct 25, 2012 12:34 PM - 12:39 PM EDT: ■ ^DJI 13049.04

Dow Jones Industrial Average



Oct 24, 2012 10:19 AM - 10:24 AM EDT: ■ ^GSPC 1414.15

S&P 500 Index



MARKET RECAP

- This was a disappointing week for the stock market as equities fell due to discouraging earnings reports and growing economic concerns. All the major stock market indices fell this week.
- These decreases in stocks and reports of poor earnings come with the news of Moody's downgrade of five Spanish regions fuelled by bearish sentiment.
- This disappointing performance in the market comes in spite of positive reports concerning the US economy. The advance GDP reader suggests that the third quarter experienced a growth of 2.0% while only a 1.9% was expected. Also, other reports show that home sales hit a two-year high this week.

FOREIGN EXCHANGE

- The Bank of Japan is expected to unveil new monetary easing measures, which would raise the size of asset purchases, increase the amount of currency in circulation and thus depreciate the yen considerably in the next few weeks. However, last Friday, the dollar was at ¥79.65 in late New York trade, slightly down from Thursday's four-month high of ¥80.38. Some watchers assume that the trading activity may be holding off before the U.S. presidential election on Nov. 6; and some believe that the huge drop in the recent U.S. unemployment rate would highlight the contrast between the U.S. and Japanese economy, further strengthening the dollar against the yen.

Market Highlights

Dow Jones Industrial Ave.	13,107.21 ↓238.68
S&P 500	1,411.94 ↓21.87
NYMEX	85.97 ↓0.31
10-YR. TREAS.	1.625
FED Funds Rate	0.17
Unemployment Rate	7.80

FIXED INCOME

- Strong flows into the Emerging Markets (EM) Fixed Income funds, as tracked by EPFR, continued in the week ending 24 October 2012 at +0.69% of Assets Under Management (AUM) or USD \$1.3B. This was down from +0.79% of AUM or USD \$1.4B the prior week, however remains impressive compared to the 2012 YTD weekly average of +0.47% of AUM. Furthermore, EM Hard Currency bond funds received +0.93% of AUM or US\$739mn, similar to those of the previous week. YTD inflows now stand at a huge +36.0% of AUM - for comparison, during the same period in 2011 YTD flows were just +0.40% of AUM. Finally, inflows into EM Local Currency bond funds dropped to +0.43% of AUM or USD \$309M from +0.69% of AUM or USD \$483M the previous week. "Although inflows have moderated for two consecutive weeks, the reading remains above the weekly average inflow for this year (+0.28% of AUM), which indicates investor's recent appetite to take on more EM FX risk," writes the RBS Research Team.
- Low interest rates have been very painful for retirees and other savers, as rates paid on bonds and other investments have fallen. What hasn't been discussed nearly as much is that the situation for that group of investors could get worse. However, the fear is not that rates will fall much further, as they are well below 2 percent already for securities like 10-year U.S. Treasury notes. The threat is that interest rates will rise. That's because bond pricing acts like a seesaw, and as interest rates rise, the value of a bond falls. The Minneapolis investment management firm of Sit Investment Associates recently published its third-quarter investment outlook and strategy report, and in an exhibit in the back it laid out on one page its expected range of future fixed-income returns. It grouped its forecast by maturity, from two years to long-term, and then split it again, by pessimistic, most likely and optimistic views. In the column under returns over the next three years, all the annualized return numbers were negative. In the category of 10-year bonds, Sit's pessimistic view was an annual return over three years of -8.9 percent. The optimistic view was -3.7 percent.

COMMODITIES

- Natural-gas prices settled at their lowest level in three weeks as expectations held that Hurricane Sandy would cause power outages along the East Coast, diminishing the demand for fuel. Natural gas for November delivery fell 3.4 cents (1%) to \$3.40 a million British thermal units on NYMEX, the front-month contract's lowest settlement since Oct. 5. The contract has lost 6% over this week. This contrasts with the rally earlier in the month on anticipations that this winter would be colder than last year's and thus increase demand on natural-gas.
- Corn futures fell 1.7% amid concerns about lagging export demand for the U.S. crop. Corn for December delivery declined 12.5 cents to settle at \$7.42 a bushel at the Chicago Board of Trade, hitting its one-week low. Due to soaring U.S. corn prices this summer as a result of severe drought, export demand on corn and corn-based ethanol significantly dropped. The drop came after the U.S. Department of Agriculture said net export sales for corn was below the predicted level. Although farmers are expecting the lowest harvest rate in six years, analysts warn that with tight supplies, corn prices need to stay high to keep demand down.
- Despite a string of better-than-expected economic data, gold prices were higher Friday as investors focused on stronger demand from India and continued to adjust their portfolios following option expiration. The most actively traded contract, for December delivery, was recently up \$2.50 (0.2%) to settle at \$1,715.50 a troy ounce on the Comex division of the NYMEX. Gold prices drew support from stronger demand in India, where the Hindu festival season, considered an auspicious time to buy gold, is under way. Moreover, portfolios are readjusted as options in the money become additional futures contracts.

M&A & CAPITAL MARKETS

- OSHKOSH, a Wisconsin truck manufacturer, rejected a buyout offer from Carl Icahn, a billionaire investor on Friday, Oct 28. The stock quote for Oshkosh was \$29.92 after Friday, and the company said that Icahn's offer of \$32.50 per share undervalued the company. Icahn is currently the largest stakeholder of Oshkosh. The company's net income for its fiscal four-quarter has more than doubled compared to last year.
- A large number of mechanics and clerks at American Airlines, actually more than 1,500, have applied for buyouts that offered from \$12,500 to \$22,500. As a result, the company only needs to lay off a small fraction of workers it initially planned to as it reorganized under bankruptcy protection. Under reconstruction, American was planning to eliminate 4,600 jobs in February.
- OK NRG Energy Inc. announced on Friday that the Public Utility Commission of Texas has approved its proposal of a full-stock acquisition of GenOn Energy Inc. However, before this deal can go any further, it must seek the approval of state regulators in New York, the Federal Energy Regulatory Commission, and the stakeholder of the two companies. A combined shareholder's meeting is scheduled on Nov 9. This deal is expected to be completed in the first quarter of year 2013.
- Omega Healthcare Investors Inc., the health care real estate investment trust, announced on Friday that its FFO rose 27 percent in Q3 due to its increasing rental income from acquisitions. The company claimed that its rental income has risen 14 percent from last year. It also said that it has spent about \$575 million on acquisition over the year.

BRAIN TEASER

There is a spider in the corner of a 10 ft. x 10 ft. x 10 ft. room. The spider wants to get to the opposite corner of the room [i.e. he is in the bottom back left corner and wants to get to the top front right corner]. He can not fly; thus must stay along the wall at all times. What is the shortest distance to the opposite corner?

UPDATES