

FINANCIAL FRONTLINE NEWSLETTER

WEEK: October 31-November 7 Fall 2013 ISSUE 8

FINANCIAL.FRONTLINE.SOCIETY@GMAIL.COM

S&P 500



Market Recap

- The labor market in the United States shows slow signs of recovery, as statistics still show that the employment to population ratio is held steady at 58.6%, far below pre-recession levels of 63.4%.
- The dropping national figures on unemployment, which is now listed at 7.2%, should still raise concerns.
- The concerns over unemployment almost guarantee that the QE program will continue through this year
- Global equities such as S&P500 and the DAX have again reached all time highs.
- The US dollar however, has weakened at an exchange rate of 1.38 EUR/USD, the highest since November 2011.
- General investor sentiments have been boosted due to strong corporate earnings announcements and the prospects of increasing money supply from the QE program.
- Hong Kong's Hang Seng fell 2.7% as Barclays joins UBS and Bank of America predicting housing market home prices to fall 30% this year with increasing supply, implying the biggest plunge since 1998.

Foreign Exchange

- Equity Bank is targeting a piece of the over Sh500 billion foreign exchange inflows through fees after an exclusive e-commerce deal with global on-line payment giant PayPal.
- The U.K. markets regulator opened a formal investigation of currency-rate trading amid allegations of manipulation in the \$5.3 trillion-a-day market that have triggered similar probes in the U.S. and Switzerland.
- India's foreign exchange (forex) reserves gained \$1.88 billion to touch \$281.12 billion for the week ended October 18, official data showed.

Fixed Income

- Morgan Stanley Wealth Management today noted that muni bonds underperformed the broader US Treasury market this week, exhibiting a “heavier tone” due to lethargic trading ahead of the debt-ceiling deadline, another week of muni bond-fund outflows, and waning support from dealers ahead of a robust new-issue calendar of nearly \$9 billion in new bonds slated for next week.
- U.S. government bonds are acting more like equities than any time since before the credit crisis, making Treasuries a hidden risk to investors becalmed by the prospect of the Federal Reserve prolonging stimulus into 2014.

Commodities

- Stock and gold prices increased due to the newly released September employment report, which was delayed because of the U.S. government shutdown. The disappointing job data shows that the increase in payrolls is well below the consensus forecast of a 180,000 increase and the jobless rate reaches the lowest level since November 2008.
- The Labor Department released the economic report last Wednesday, showing that there is nearly no inflation in import and export prices in September. The import prices were up only 0.2 % and the export prices were up only 0.3%.
- Gasoline prices have been falling along with the falling oil prices. The RBOB Gasoline futures reach its lowest price \$2.57 per gallon since November 2012.

M&A & Capital Markets

- After CGI Group Inc. stated the contract with the Obamacare website is the start of "a long-term relationship and a significant growth opportunity" and the Obamacare website had difficulties, CGI Group Inc's stock slid for five consecutive days as of October 27. Its long-term reputation will not be affected though since it will be integrating its largest takeover, Logica Plc of the UK in the coming fiscal year.
- Italy's government bonds fell for a third week as euro confidence worsened as of October 27. Italy is scheduled to sell as much as 2.25 billion euros (\$3.1 billion) of two-year notes next week along with bills and bonds even as consumer confidence dropped to 97.3, the least since June.

Financial Term

Arbitrage:

An arbitrage is a trade that profits by exploiting price differences of similar financial instruments, as it is the simultaneous buying and selling of an asset in order to profit from a difference in the price. Arbitrages result from market inefficiencies and ensure that prices do not deviate substantially from fair value for long periods of time.