

From: Ike Groff
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Good Morning ... European Markets up 0-40 bps (France +0.53%, Italy -0.44%) ... NKY -0.62%, SHCOMP -1.49%, HSI -1.71%, KOSPI -0.78%, TWSE -0.11%, ASX -0.76%

EUR 1.3761 (unch) JPY 102.48 (+0.35%) EUR/JPY 141.03 (-0.36%) AUD 0.9108 (-0.46%) NZD 0.8258 (-0.65%)

US 10yr 2.804% Japan 10yr 0.65% Germany 10yr 1.83% Portugal 10yr 6.03% Italy 10yr 4.04% Spain 10yr 4.01%

Futures: Dow -10, Nasdaq -3, S&P -1 DXY \$79.96 (unch) Crude \$98.52 (+1c) Gold \$1254.60 (-\$6.50) Copper +0.17% Silver -0.27% Nat Gas -0.42%

Asia markets mostly lower overnight with China leading the region lower following a weak handoff from the US. Some reasons used to explain the weakness included speculation from the Workers Conference that China's 2014 GDP target could be set at 7.0-7.5% range (vs current 7.5% target) as well as cautious local sentiment with A-share positions hitting one year low and following the second consecutive week of decline in local trading accounts ahead of the January IPO resumption. There was also a report out in the *China Securities Journal* that China could phase out its proactive fiscal policy approach in favor of sticking to the principle of keeping fiscal revenue & spending in basic equilibrium to gradually lower the deficit. China November New Yuan Loans were out after the close and came in better at 624.6B vs est 580.0B. The Nikkei also finished lower as the Yen firmed overnight (102.48 last) and Japanese machine orders for October came in at +0.6% vs est +0.7%. European markets generally up a touch in very light volume (tracking 70% of 3m average). News out overnight that US House & Senate negotiators (led by Paul Ryan & Patty Murray) have officially reached a modest budget deal that will peel back some of the automatic sequestration spending cuts, fund the government through the fall of 2015, and reduce the deficit by net \$22.5B over the next 10 years thru a mix of policies that include changes to federal employee and military pension programs as well as higher security fees for airline passengers. There are technically no new taxes baked into the deal (although there are some increased "user fees") and it does not extend unemployment insurance for the long-term unemployed. It doesn't address the corporate tax breaks that Democrats wanted to get rid of nor does it raise the debt ceiling. Neither side got what they wanted but it represents a compromise that has been so elusive in Washington in recent years. Nevertheless it is already drawing criticism from some conservatives in the House and remains to be seen if it can get enough votes

there when it hits the floor in the next few days (but expectations are that it will). SPA's traded up ~ 5 handles to the 1808 level overnight following the budget deal but have since rolled over and are lower on the session. The odds of a Fed taper in December or January seem to be increasing given the v strong labor report last week now coupled with fiscal policy progress in DC (yet the US 10yr yield has actually backed up 5bps this week to 2.8043% last). SPA's -1 handle = 1801.80 last.

COST & JOY report pre-open, Mortgage Apps @ 7am, Treasury Budget Statement @ 2pm

- MasterCard 10-for-1 stock split, 83% dividend increase & \$3.5B share buyback (trading +4.5%)
- Variety reports Discovery Communications considering bid for Scripps Networks [Variety](#) (trading +4%)
- H&R Block trimmed loss on higher tax benefit but wider than estimates & revs missed (trading -1%)
- Smith & Wesson guides up (sees Q3 eps 28-30c vs est 26c & net sales \$140-145M vs \$135.9M est)
- Urban Outfitters in-line sales (comps to date up in mid-single digits) (Free People/Anthropologie strength)
- Inditex 9m sales €11.9 billion vs estimate €12 billion, ebitda €2.8 billion (inline), gm's 59.9% (trading +0.96%)
- Fraport Group good traffic numbers, November passengers rise +4.6% to 6.67 million (trading +0.37%)
- HSBC sells 8% stake in Bank of Shanghai to Spain's Banco Santander for undisclosed amount (trading +0.18%)
- RBS finance director Bostock resigns after 2 months on the job → going to Santander (RBS LN - 2.1%)
- Firstgroup rejects Sandell Asset Management's plan for asset disposals as not compelling (trading +2.5%)
- Alfa Laval books another large order, wins SEK 100 million oil & gas order in Canada (trading +1.5%)
- Clas Ohlson reports strong Q2 figures, EBIT 18% ahead of consensus, Nov sales +6% vs est +4% (trading +10.5%)
- Lundbeck: Brintellix study showed "statistically significant improvement in cognitive performance" (trading +2.3%)
- Stagecoach ytd trading inline with company expectations, eps beats estimates, raises dividend (trading +3.2%)

- Air Liquide CMD: sees sales growth of 5-7% in 2015 versus 8-10% at previous CMD in 2010 (trading +0.92%)
- EDF may have to raise nuclear decommissioning provisions according to *Les Echos* (trading +0.21%)
- Imagination Tech IMS weaker across the board, revs light and guiding shipment growth down (trading -16%)
- Bunzl says total trading consistent with expectations, sees 2013 rev growth +12% in constant fx (trading +0.21%)
- Air France: Etihad may want to buy as much as 49% of Alitalia says *Corriere della Sera* (trading +1.7%)

Leading European Sectors: Media +0.88%, Construction +0.65%, Trav/Les +0.63%
Lagging European Sectors: Basic Res -0.82%, Real Estate -0.17%, Insurance -0.08%

AVNR trial missed – LH guides down – MCP board appointments

CENT revolving credit facility – MIND #'s light – CBOE special div, boosts buyback

Notable Options Activity Yesterday:

P (\$29.25 +3.7%) with the company presenting at several conferences this week, one investor seems to be taking a view that the stock could be the subject of a significant pullback in the next few days, purchasing 10,000 December \$25 puts for \$0.15 to open a new position. The puts expire next Friday and would need the stock down 14.5% to finish in the money.

FNF (\$30.34 +2.7%) following an announcement by the company that it had hired JP Morgan to explore strategic alternatives with respect to its portfolio company investments, one trader sold to close 6000 March 28 calls, and rolling to a higher strike, buying 6000 March 31 calls. As part of today's trade the 28 calls were sold at \$2.65, and were originally bought on 10/25 for \$1.45. The roll seems to indicate that the trader does in fact see more upside in the stock beyond \$30.00.

CTB (23.5 -.8%) opening cust actively buying dec 24 calls into earnings first 10k traded .75 with 4k more throughout the day for as much as 1.15 CTB is trading near 52 week lows and reports Thursday in addition CTB is also awaiting a court ruling on a merger with Apollo Tyres

ABX (16.87 +5.4%) continued bullish option trading today we note longer term jan2015 20/25 call spread buyer 15k for .95 (similar to a size jan2015 20/30 call spread buyer we saw weeks ago) ABX is down ~50% ytd cust possibly looking for notable rebound in 2014

Secondaries (announced/priced): TRLA (\$150M convert), ALSN, GASS, TA, AMID, EJ (convert), AWAY, YNDX (\$600M convert), BPOST BB, MED IM, O2C GY, NPN SJ

IPO's: Autohome (ATHM) 7.8M shares priced at \$17 (above range), Moncler Spa expected to price tonight (begins trading on Monday), Hilton Worldwide expected to price tonight, Energa (ENG PW) priced @ PLN 17

US Key Research:

- GS cuts OI & upgrades FE and BCC/XRAY (buy) & initiates COT (neut), MS initiates TIBX (ew)
- Mizuho reinstates JNPR (buy) & initiates MSI/NOK/CSCO (neut) and ERIC (buy) & cuts AVNR
- B. Riley initiates OSTK (neut), Raja upgrades CRL, BMO cuts MWV, Wells upgrades RDWR
- Jefferies initiates DDD/SSYS/XONE (buy) & VJET/ARCM SS (hold), Janney initiates EOPN (buy) & CSOD (neut)
- Citi initiates FFIV/NOK/QCOM/RVBD (buy) & BBRY/BRCD/CSCO (sell) & CIEN/GLW/ERIC/GRMN/JNPR/MSI/BLOX/PLCM (neut)

Europe Key Research:

- Citi assumes/upgrades NOK1V FH & ALU FP, Nomura downgrades RMG LN and initiates WDF IM (buy)
- UBS removes AHT LN from most preferred list. GS removes MAERSKB DC & AVV LN from conviction buy
- Barclays on Nordic banks (prefer SEBA SS, NDA SS, DNB NO over SHBA SS & SWEDA SS)
- Natixis upgrades EN FP to OP, UBS downgrades GBF GY, BofA reits buy VOD LN (raise base case fv to 250p)
- Bernstein upgrades VIV FP, Vontobel upgrades NESN VX, Nordea downgrades NOBI SS
- Mizuho initiates NOK1V FH (neutral), ABN initiates BRNL NA (buy), Canaccord upgrades CSR LN

- Cantor initiates TPK LN (buy), DB downgrades ENI IM, GS upgrades MAU FP & downgrades SIA LN
- HSBC upgrades GAM SM, Liberum downgrades KENZ LN, MS upgrades ELI BB, Banca IMI upgrades G IM
- RBC downgrades IAG LN, UBS initiates ALRS RU (buy), GS reits sell NOBN VX & STMN SW

Reporting Pre-Open: COST, JOY

Reporting Post-Close: ASYS, CWTR, MNR, MW, NDSN, OXM, SGU, SIGM, VRA

Economic Data: MBA Mortgage Applications @ 7am, Treasury's Monthly Budget Statement @ 2pm

DOE crude oil inventories @ 10:30am

Conferences: UBS Media & Communications (NYC), BMO Tech, Media, & Entertainment (NYC), GS Fin Services (NYC)

Conferences: JPM SMid Cap (Chicago), Opco Healthcare (NYC), Wells MLP, Pipeline, & Energy (NC)

Conferences: Bofa Basic Materials, Cantor Internet (NYC), Imperial Security Investor (NYC), Wedbush CA Dreamin' Consumer (NYC)

Analyst/Investor Days: CNI, CBI, CW, DAL, HRB, MRO, HD, HSIC, CCG, ELLI, MEIP

Non-Deal Roadshows: AFL, AGO, AMSF, ARCC, BAGR, CBF, CDE, COG, CPXX, CQB, CVD, DDXS, DY, FEIC, FLS, FOR, GZT, HIMX, ICFI, KLAC, MLNX, MPEL, SANM, SIVB, SWI, TXI, Z, CRM

Shareholder Meetings: CGI, TCI, PERF, SED, ARL, MPET, PLL, MXWL

Equity/Mixed Shelves: EXA (\$75M), CBLI (\$50M), CEMP (\$100M)

Other Newspaper Articles & Stories

WSJ positive: General Motors (GM) [WSJ](#)

- Deal Brings Stability to U.S. Budget [WSJ](#)
- Volcker Rule Challenges Wall Street [WSJ](#)
- Unraveling the Lies Madoff Told [WSJ](#)
- End of Fee Fillip Will Slow Costco's Growth [WSJ](#)
- Discovery Weighs Bid for Food Network Owner [WSJ](#)
- China Spins New Lesson From Soviet Union's Fall [WSJ](#)
- Spain Expects Primary Budget Surplus in 2015 [WSJ](#)
- Japan Tops World In Mobile Apps Revenue [WSJ](#)
- Putin's Latest Hunting Trip [WSJ](#)
- Steven Rattner: Congress Avoids Reality, Again [NYT](#)
- Study Finds Federal Contracts Given to Flagrant Violators of Labor Laws [NYT](#)
- Ukrainian riot police raid protest camp [FT](#)
- Banking union framework set out by EU [FT](#)
- BoE policy maker backs 'bogeyman' of bundled debt [FT](#)
- Volcker vote ushers in new world order for banks [FT](#)
- JPMorgan files patent for Bitcoin-style payment system [FT](#)
- Brussels criticised for paying non-working Gaza civil servants [FT](#)
- Corporate social networking takes advantage of captive audience [FT](#)
- Breathe in that dirty doublethink [FT](#)
- Asset managers could blow us all up [FT](#)
- Russia, like Ukraine, will become a real democracy [FT](#)
- Australia coal: Beggars can't be choosers [Lex](#)
- Volcker rule: Overruled [Lex](#)

- Prudential: target tapering [Lex](#)
- General Motors: new driver at the wheel [Lex](#)
- Chancellor comes knocking for fat foreign incomes: Government moves to clamp down on tax loophole [The Times](#)
- Chris Blackhurst: Anxious shopkeepers study the runes as Christmas rush gets a late start [Independent](#)
- George Osborne's U-turn could add £200bn to energy bills [Independent](#)
- Dead in the water: MoD shake-up plans ditched [Independent](#)
- Pay rises are making a comeback - here's how we make sure they stay [Telegraph](#)
- CML downplays risk of housing bubble [Telegraph](#)
- Should the state be allowed to collect everyone's data? [Telegraph](#)
- David Cameron hints he wants to cut the top rate of income tax to 40 per cent [Telegraph](#)
- Selfie-gate: Why do Cameron and Obama feel the need to behave like idiots? [Telegraph](#)
- 3D printing: not yet a new industrial revolution, but its impact will be huge [Guardian](#)
- The Mandela coverage and the banality of goodness [Guardian](#)
- Make no mistake: Iain Duncan Smith wants the end of social security [Guardian](#)
- You always spend your own money better than any government [CityAM](#)
- Against the Grain: Silicon Valley, Steve Jobs and the economics behind the Top One Per Cent [CityAM](#)

Key Events This Week

Thursday: Retail Sales, Import Price Index, Jobless Claims, Eurozone IP, ECB monthly report, GS Emerging Tech Research Symposium (NYC), Earnings (LULU, ZQK)

Friday: PPI, Congress budget deal deadline

Key Events on the Horizon

Dec 18 – FOMC rate decision

Jan 15 – Current CR runs out

Jan 21 – State of the Union Address

Feb 7 – Debt ceiling deadline (Treasury can use extraordinary measures for ~ 1 month past this date)

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