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Subject: Early Tour 1.25.13

Date: Fri, 25 Jan 2013 10:51:44 +0000

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Good Morning ... European Markets up 0-70bps (DAX +1.16%, SMI -0.09%) ... ASX +0.52%, NKY +2.88%, KOSPI -0.91%, TWSE -0.30%, SHCOMP -0.49%, HSI -0.08%

EUR 1.3430 (+0.39%) JPY 90.82 (-0.54%) EUR/JPY 121.97 (+0.93%) Italy 10yr 4.08% Spain 10yr 5.16% US 10yr 1.88%

Futures: **Dow +34, Nasdaq +12, [REDACTED] +4** DXY \$79.82 (-14c) Crude \$96.31 (+35c) Gold \$1669.80 (-10c) Copper +0.45%

Asian markets were mostly lower overnight, except Japan which posted its 11th w/w gain. NKY225 opened stronger and closed on its highs +2.88% as JPY weakened to a 2.5yr low vs USD (90.85). Japan's Dec CPI released before the open in Tokyo showed the 7th decline in 8 months (core CPI -0.2% y/y vs est -0.2%) and boosted speculation that the BOJ will need to re-think the timing of the new easing measures announced this week (this also comes on the back of yesterday's comments from the Deputy Economy Minister that endorsed further weakness to ¥100). Gains were across the board with all Topix sub-sectors closing higher. The headlines should continue next week with Abe addressing the parliament on economic strategy on Monday and a number of earnings reports due including Honda, Nintendo, DoCoMo, Sharp, Canon, Nomura and Panasonic. Outside of Japan, SHCOMP continued to pullback from yesterday's highs which weighed on HK and the KOSPI underperformed as Samsung (-2.5%) and Kia (-4.9%) were both weaker following results.

The ECB is due to announce the results of the first LTRO 1 repayment option shortly (6am EST). Banks now have the option to make full or partial repayments on a weekly basis until the 3yr LTRO ends in 2015 (LTRO 2 repayment option begins end of Feb). Consensus is that banks that deposited the funds back at the ECB for liquidity purposes (mostly core banks) may start to repay due to the negative carry, while banks that used the funds to buy sovereign debt for the positive carry (mostly peripheral banks) are unlikely to begin the process just yet. EUR squeezing higher this morning and currently > 1.34 level as the LTRO repayments are seen as signal of normalization in funding markets. Estimates vary from €40-€150 billion but consensus is around €100 billion and the bigger the better for the EUR. European markets legged higher 1 hour after the open on a futures driven rally into a better German IFO business climate # (104.2 vs 103.0). Holding those gains now (even after a weaker UK Q4 GDP #) and rallying further near highs of session into the LTRO put-back results. Mario Draghi spoke a little over an hour ago in Davos and reiterated that economic activity is stabilizing at very low levels and he sees a recovery in H2 2013. [REDACTED] held firm yesterday despite the AAPL action (131/500 members or 26% hit 52wk highs yesterday, 164/500 members or 33% hit 52wk highs this week). SPA's +4 handles = 1495.40 last.

HAL, HON, KMB, PG, WY reporting pre-open, New Home Sales @ 10am

Paul Ryan will be on *Meet The Press* on Sunday

- Microsoft record \$21.5B revs (with Windows 8 & ad revs +15%) profit fell 3.7% (trading -1.5%)
- Starbucks profit +13% on Asias/Americas (global sss = +6% beating +5.4% ests) (trading +3%)
- Samsung Q4 profit tops forecast on galaxy sales but warns Won may cut earnings (closed -2.5%)
- AT&T beat out Verizon with 8.6M iPhones sold Q4 (record Android sales) but big \$3.9B loss
- E*Trade posted sharp wider than expected Q4 loss (revs missed ests) (trading -2.5%)
- Juniper rev/eps #'s beat but forecast current quarter in-line (touch light) (trading -0.5%)
- KLA-Tencor results upper end of co's outlook & projected Q3 revs higher (trading +2.5%)
- Tempur-Pedic weaker mattress sales & margins but eps & revs beat ests (trading +14%)
- Select Comfort Q4 earnings fell 19% on higher op expenses & guided down (trading -20%)
- Synaptics Q2 #'s weak on higher operating costs but forecast revs above ests (trading +12%)
- Verisign controlled costs & margins easily beat estimates & FY13 outlook positive (trading +1%)
- SEMI reports December North American semi equipment book-to-bill ratio of 0.92 (0.79 in Nov)
- JC Decaux Q4 update inline, organic growth slightly better, no guidance, strong into #'s (trading -2.0%)
- Solarworld announces after the close that serious debt adjustments are necessary (trading -27%)
- KBC announce they will cover nearly all of their LTRO by repaying Eur8.3bn during Q1(trading +2.3%)
- RWE CEO: mkt environment remains tough, confirms 2013 targets, capex cuts from 2014 (trading +1.2%)
- Anglo American mixed production #'s, copper beats, iron ore misses, diamonds solid (trading -1.5%)
- UK advanced GDP -0.3% q/q versus estimate -0.1% (+0.0% y/y versus estimate +0.2%)
- Germany banking group expects government to present split bank plan in next 3 months
- Spain's Rajoy announces extension of long-term unemployment benefits until rate < 20% (ABC)

Leading European Sectors: Chemicals +1.29%, Autos/Parts +0.71%, Construction +0.57%

Lagging European Sectors: Basic Res -1.53%, Oil & Gas -0.14%, Healthcare -0.03%

FLEX guides eps lower – WY earnings beat – MXIM penny better

INFA rev view midpts above ests – OTEX highest ever qtr revs – FLEX view light

CRUS Q4 outlook light – EGHT #'s inline – MCRS increases buyback

CVD guides eps higher – AWK guides low end – FPO cuts dividend

FLS sees eps lower vs ests range – QLGC guides revs higher – RMD beats

Notable Options Activity Yesterday:

VIX (12.69 +1.9%) there was a repeat buyer of the February 16 calls with over 120,000 on the tape. The largest prints took place at \$0.55 before the futures rallied, then sold off, with the calls closing \$0.40-\$.55

XRT (\$66.19 +0.9%) as the ████ Retail ETF was hitting its all-time high, someone came in and bought 100,000 March 64 -60 put spreads for \$.50 (\$5mm in premium). The trade was the largest trade in two and a half years in the ETF whose top 5 components are RAD, SVU, ODP, BBY and SFLY.

ESI (\$16.86 +17.7%) two large call buyers came in during the day. As stock was trading \$14.52 someone bought 3000 April 15 calls for \$1.25 which doubled by the end of the day and in the last half hour of trading someone started to paying \$.95 for the March 17.5 calls, eventually paying up to \$1.20 on a total of 3000 just before the bell.

Secondaries (announced/priced): AGRO (holders), BGMD, CHUY, ANTH, ARWR, SFL (equity + convert), BKT SM, BDN

IPO's: N/A

US Key Research:

- Barcap downgrades SCSS/DCOM/F, Bernstein upgrades THRX/EBAY, Citi downgrades GS
- CLSA upgrades Honda Motor (7267 JP), DB upgrades JPM/KLAC & cuts GS, GS upgrades ADSK
- Jeff downgrades NE, HSBC upgrades TIF, DA Davidson initiates FOR (buy), ISI initiates AMZN (buy)
- Wells initiate BRO/AON (mp) & MMC (op), Northland initiates RHT (op), Stifel initiates STRZA (sell)
- SunTrust initiates BIOS (buy), Evercore initiates BXP (ow), DB upgrades JPM (buy), Raja cuts GMR, Imperial initiates PKOH (op)

Europe Key Research:

- HSBC European Luxury: (upgrade TOD IM, BOSS GY, TIF US / downgrade CDI FP & UHR VX / positive SFER IM & LUX IM)
- MS: u/g CLN VX & AKZA NA / d/g VCT LN, WCH GY, LXS GY, SDF GY / Initiate: OMV AV (ew), EZJ LN (ow – top pick), AI FP (ew), AKE FP (ew), BASF GY (ow)
- MS initiates CRDA LN (ow), DSM NA (uw) JMAT LN (uw), KRA1V FH (uw), LIN GY (ew), SYNN VX (uw), URKA LI (ew), SYNT LN (ow), SDF GY (uw), YAR NO (ew)
- UBS European Steel: (downgrade SZG GY, MT NA) upgrade EZJ GY, downgrade KNIN VX, -ve NOK1V FH, upgrade TCG LN

- JPM initiate VSVS (ow), upgrade IAG LN, GS downgrade NAUR NO, add FLUG AV to CL buy, BofAML adds BAY GY to Europe list
- Commerzbank Steel Sector: (downgrade SZG GY & VOE AV), Barclays downgrades FUM1V FH, VER AV, SPM IM & upgrades TEC FP
- BofAML: Consumer Staples & Luxury (most pref: SAB LN, DGE LN, CFR VX / Least pref HEIA NA, CPR IM, ULVR LN)
- DB downgrades PC IM, reit underperform NOK1V FH, CS downgrade Turkish Banks, Citi downgrade LONN VX
- Chevreux downgrade GEO IM, Liberum upgrade NG/ LN, Davy downgrade KNIN VX & upgrade TNTE NA, Exane downgrade BIM FP
- Citi initiate TUI1 GY (b), downgrade NORD LI, SocGen downgrade UBSN VX, Goodbody upgrade EZJ LN, Numis downgrades LSE LN
- Natixis reit buy FI IM & neutral UG FP, Numis upgrade STJ LN, Danske downgrade FUM1V FH, Intermonti upgrade IT IM, BZU IM, CEM IM

Reporting Pre-Open: COV, HAL, HON, KMB, PG, WY, ACO, CMCO, IMGN, LKFN, OSK, PB, TMP, WTBA

Reporting Post-Close: BH

Economic Data: New Home Sales @ 10am

Conferences: CIBC Whistler Institutional Investor (Whistler, B.C.)

Analyst/Investor Days: WPI

Non-Deal Roadshows: CDE, LGF

Shareholder Meetings: RKT, DEST, CMC, IGOI

Equity/Mixed Shelves: OPTT (\$40M)

Other Newspaper Articles & Stories

Barron's cautious: Netflix (NFLX) [Barron's](#)

WSJ cautious: Microsoft (MSFT) [WSJ](#)

- Rifts over Cyprus bailout feed broader fears [WSJ](#)
- Merkel voice optimism on Europe [WSJ](#)
- Cyprus rescue will require cuts to debts [WSJ](#)
- Renault's Ghosn tries new labor tack [WSJ](#)
- Bush and Bolick: Solving the Immigration Puzzle [WSJ Op-Ed](#)
- Yes, Mr. President, We Are a Nation of Takers [WSJ Op-ed](#)
- Goldman overcomes its latest headache [NYT](#)
- A signal to Wall Street in Obama's pick for regulators [NYT](#)
- Osborne holds course as GDP data emerge [FT](#)
- Samsung warns on smartphones competition [FT](#)
- Nokia makes progress [Lex](#)
- Monte dei Paschi: broken trust [Lex](#)
- Fears over ECB longer-term funding scheme [Lex](#)
- Bullish Latin America leaders host summit [FT](#)
- Political cracks imperil China's power [FT](#)
- World is right to worry about US debt [FT](#)
- Microsoft knocked off its stride by falling profits [The Times](#)
- Chinese phone call breaks with tradition [The Times](#)
- Angel Merkel turns on the Japanese [The Times](#)
- Nokia abandons payout to fund make-or-break year [The Times](#)
- Merkel: stick with painful reforms [The Times](#)
- Bank of America issues 'bond crash' alert [Telegraph](#)
- Soros warns EU vote would be a 'dangerous gambit' [Telegraph](#)
- Austerity plan is failing, IMF tells Osborne [Guardian](#)
- Bad Apple? [Independent](#)

Key Events Next Week

Monday: Durable Goods, Pending Home Sales, Dallas Fed Manufacturing Activity, Earnings (CAT, ROP, YHOO, STX, ZION)

Tuesday: [REDACTED]/CaseShiller Home Price Index, Earnings (BSX, BTU, F, GLW, HOG, IP, TW, PFE, AMZN)

Wednesday: GDP, FOMC Rate Decision, First repayment for LTRO 1 (results announced last Friday), Launch date for RIM's Blackberry 10, ADP Employment Change, Earnings (BA, MPC, NOC, ROK, COP, CTXS, FB, MUR, QCOM)

Thursday: Spain short-selling ban set to expire after the close, Chicago PMI, Personal Income & Spending, Challenger Job Cuts, Earnings (AET, AN, BMS, CL, HSY, MA, OXY, UPS, WHR)

Friday: January Employment Report, Construction Spending, Michigan Confidence, Auto Sales, ISM Manufacturing, Eurozone PMI, Earnings (BEAM, CVX, LM, IR, LYB, TSN, XOM)

Key Events on the Horizon

February 10 – Chinese New Year

February 19/20/21/22 – CAGNY Conference in Boca Raton (Consumer Staples)

February 24/25 – Italian elections

February 27 – First repayment for LTRO 2

March 1 – Automatic spending cuts of sequestration set to begin (\$1.2 trillion, 50% from defense)

April 15 – #NoBudgetNoPay deadline for Congress

May 19 – US debt ceiling limit

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