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Subject: Fw: Market Update
Date: Mon, 08 Aug 2011 11:06:20 +0000

From: Tancredi Micangeli <[REDACTED]>
To: EIM World
Sent: Mon Aug 08 11:39:20 2011
Subject: Market Update

FTSE 100: down -1.8% from previous close to 11:35
Eurostoxx 50: down -1.4% from previous close to 11:35

MSCI Europe Index: 83 (MTD: -9.9% YTD:-13.4%)
SMI: 5085 (MTD: -12.1% YTD:-21.0%)
Sroxx Europe 600 Index: 234 (MTD: -11.9% YTD:-15.2%)
Nikkei 225: 9098 (MTD: -7.5% YTD:-11.1%)
FTSE 100: 5152 (MTD: -11.4% YTD:-12.7%)
Eurostoxx 50: 2341 (MTD: -12.3% YTD:-16.2%)
S&P 500: 1199 (MTD: -7.2% YTD:-4.6%)
MSCI Emerging Markets: 1041.1 (MTD: -8.5% YTD:-9.6%)
Nymex Crude Oil: 83.4 (MTD: -12.9% YTD:-8.8%)
Gold: 1706.2 (MTD: 4.8% YTD:20.1%)
USD (Trade Weighted): 74.5 (MTD: 0.9% YTD:-5.7%)
EUR: 1.43 (MTD: -0.9% YTD:6.6%)
GBP: 1.64 (MTD: -0.1% YTD:5.1%)
JPY: 77.7 (MTD: -1.2% YTD:4.3%)
CHF: 0.761 (MTD: 3.1% YTD:18.5%)
US 10y Govt yield: 2.49 (MTD: -10.9% YTD:-24.3%)
VIX: 32 (MTD: 26.7% YTD:80.3%)
MSCI Asia Pacific Ex Japan : 439 (MTD: -8.7% YTD:-8.2%)
S&P Leveraged Loan 100 : 1574 (MTD: -2.0% YTD:0.1%)
FINRA HY US Corp. Bond : 251 (MTD: -1.6% YTD:3.0%)

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Markets:

Stocks, U.S. index futures and oil fell, while gold reached a record high after [Standard & Poor's](#) cut the AAA rating on America's debt. Bonds of Europe's most-indebted nations surged as the [European Central Bank](#) started buying Spanish and Italian debt.

[S&P 500 Index \(SPX\)](#) futures lost 2.3 percent at 10:35 a.m. in London. The Stoxx Europe 600 Index slipped 1.8 percent, after gaining 0.8 percent. The 10-year Italian yield tumbled 74 basis points, and Spanish yields slid 79 basis points. The euro appreciated 0.1 percent against the dollar. The S&P GSCI index of 24 commodities dropped 2.1 percent as oil sank 3.5 percent. Gold rose 2.7 percent.

Group of Seven and Group of 20 leaders said they are ready to stabilize financial markets after S&P lowered the U.S. rating by one level to AA+. Policy makers held emergency conference calls over the weekend to try to stave off a collapse in investor confidence that has already wiped out about \$5.4 trillion in global equity values since July 26. The ECB bought Italian and Spanish government bonds, according to five people with knowledge of the transactions.

“The ECB buying the bonds of [Italy](#) and [Spain](#) seems to be the new great hope for the politicians and markets generally,” [Gary Jenkins](#), a strategist at Evolution Securities in London, wrote in a research note. “They will have to be prepared to buy an awful lot of them. And the trick is to buy enough to show such a commitment to a certain yield level that investors feel comfortable buying alongside.”

The extra yield investors demand to hold Italian 10-year debt instead of benchmark German bunds dropped by as much as 89 basis points to 285 basis points, the least since July 26. The Spanish-German spread narrowed by as much as 95 basis points to the lowest since July 22. Bunds declined for the second straight day, driving the yield 11 basis points higher. The yield on the Greek 10-year bond rose six basis points to 15.31 percent, with the similar-maturity Irish yield gaining four basis points.

The cost of protecting European government and corporate bonds from default fell, with the Markit iTraxx SovX Western [Europe](#) Index of swaps linked to the debt of 15 governments dropping 26 basis points to the lowest since July 26. The Markit iTraxx Europe Index of 125 companies with investment-grade ratings declined 5 basis points to 131.5. The euro gained against 14 of its 16 major counterparts.

The ECB said it welcomed efforts by Spain and Italy to reduce their budget deficits and said it will “actively implement” its bond-purchase program, according to a statement issued in the name of the ECB president after an emergency Governing Council conference call last night.

The decline in U.S. futures indicated the [S&P 500](#) will extend last week’s 7.2 percent slump, its worst plunge since November 2008, during the final four months of the bear market that wiped out 57 percent of the index. Stronger-than-forecast government data on employment growth sparked a 1.5 percent rebound in the index on Aug. 5 before the rally faded as speculation of the reduction in the U.S. rating swirled through the market.

Investors should “brace for turmoil” in the next few days or weeks, Societe Generale SA’s head of North American research, New York-based Stephen Gallagher said. Mortgage financiers [Fannie Mae](#), [Freddie Mac](#) and the Federal Home Loan banks as well as clearinghouses and “certain AAA rated insurers” may face likely downgrades, the brokerage predicted.

Former Federal Reserve Chairman [Alan Greenspan](#) said he expects stocks to continue their decline.

“Considering the momentum in which the market went down over the last week, it is very unlikely, if history is any guide, that this isn’t going to take a while to bottom out,” Greenspan said on NBC’s “Meet the Press” program.

New Zealand's dollar slid against all 16 most-active counterparts, weakening 1.5 percent versus the greenback as Asian stocks tumbled. Australia's currency weakened 0.8 percent versus the dollar and its benchmark equity index extended declines from its recent peak to 20 percent, the level some investors consider a bear market.

South Korea's won weakened 1.5 percent against the dollar, the most since November. The HSI Volatility Index, a measure of option contracts for Hong Kong's Hang Seng Index, climbed 6.1 percent today to the highest level since May 2010. The gauge has jumped 92 percent in the past five days, the most on record.

Asian stocks will suffer because the U.S. downgrade "adds to the rising uncertainty prevalent in the markets, increases risk premiums and lowers confidence in the U.S. policy makers that they can resolve the country's long-standing structural problems," said New York-based Dimitre Genov, a senior portfolio manager at Artio Global Management LLC., which oversees about \$45.5 billion.

The MSCI Emerging Markets Index retreated 2.1 percent. The gauge has dropped 11 percent since Aug. 1, set for its biggest five-day decline since November 2008. China's Shanghai Composite Index tumbled 3.8 percent, extending its retreat from last year's high to 20 percent. India's Bombay Stock Exchange Sensitive Index lost 1.8 percent, while Russia's Micex Index sank 2.2 percent.

Gold climbed as much 3.1 percent to a record \$1,715.75 an ounce and silver jumped as much as 5.3 percent to \$40.39 an ounce. Oil declined \$3 to \$83.88 a barrel.

<http://www.bloomberg.com/news/2011-08-07/u-s-stock-futures-oil-plunges-on-rating-downgrade-n-z-index-declines.html>

The currency havens are disappearing as Switzerland and Japan intervene in foreign-exchange markets, while U.S. and European debt loads undermine credit ratings.

The biggest beneficiaries in the \$4 trillion-a-day currency market may be Norway's krone and the Australia and New Zealand dollars, according to Frankfurt Trust, which oversees about \$23 billion. All have debt that is less than 48 percent of gross domestic product, compared with about 60 percent in the U.S., 77 percent in the U.K. and 79 percent in Germany, according to data compiled by Bloomberg.

The Swiss franc and Japanese yen, which had become favorites of traders skittish about holding dollars and euros, became perilous after the Swiss National Bank unexpectedly cut interest rates and Japan sold its currency. The yen weakened as much as 3.2 percent on Aug. 4, according to Bloomberg Correlation-Weighted Indexes. The U.S. came within days of defaulting and Italian and Spanish bond yields approached levels that spurred bailouts of Greece and Ireland.

"You want to stay away from the euro and dollar because this is really an ugly pair and there are alternatives," Christoph Kind, the head of asset allocation in Frankfurt at Frankfurt Trust, said in a telephone interview last week. "I like currencies like the Australian and New Zealand dollars, the Swedish krona and the Norwegian krone. They are AAA-rated countries with a currency they can manage and handle, and they have pretty liquid markets."

<http://www.bloomberg.com/news/2011-08-08/commodity-currencies-only-refuge-left-after-intervention-eliminates-havens.html>

Gold climbed above \$1,700 an ounce for the first time after [Standard & Poor's](#) cut the top U.S. credit rating, fueling a slump in equities and the dollar amid concern that the global economy is slowing.

Futures for December delivery jumped as much as 4 percent to a record \$1,718.20 an ounce on the Comex in New York and traded at \$1,712.90 an ounce at 11:47 a.m. Mumbai time. Silver futures climbed as much as 5.7 percent. Spot gold soared as much as 3.1 percent to \$1,715.75 an ounce, also an all-time high.

Prices have surged 21 percent in 2011, gaining for an 11th year, as the sovereign debt crisis and a faltering economy boost haven demand. While [George Soros](#) sold most of his gold in the first quarter, [John Paulson](#), who made \$15 billion betting against subprime mortgages, is still the biggest investor in the largest exchange-traded fund backed by bullion. Goldman Sachs Group Inc. raised its price forecasts in a report released today.

"There's just a pessimism or nervousness that's associated with economies and currencies of these major nations," [Gavin Wendt](#), director at Sydney-based Mine Life Pty Ltd., said by phone. "At a time when investors are nervous of currencies, they're nervous of equities, they're nervous of everything, the only place for them to park their money is gold."

S&P cut the long-term rating one level to AA+ from AAA on Aug. 5 while keeping the outlook at "negative," criticizing the nation's political system for failing adequately to address [deficit reduction](#). Equities sank today, extending the market's rout, as the dollar and oil slid.

<http://www.bloomberg.com/news/2011-08-08/gold-advances-to-record-as-u-s-credit-rating-cut-boosts-demand-for-haven.html>

Economy and Policy:

European Central Bank President Jean- Claude Trichet started buying Italian and Spanish assets today in his riskiest attempt yet to tame the sovereign debt crisis.

Italian and Spanish bonds surged as the ECB entered the market, sending 10-year yields down more than 70 basis points. The euro rose to \$1.4355 at 10:30 a.m. in [Frankfurt](#) from \$1.4277 at the close of European trading on Friday.

With governments failing to act swiftly enough to stop contagion from [Greece's](#) fiscal meltdown, it has fallen to the ECB to battle a crisis that's now threatening the survival of the euro. Buying Italian and Spanish debt may require the ECB to massively expand its balance sheet and open it to accusations of bailing out profligate nations, breaching a key principle in the euro's founding treaty and undermining its credibility. [Germany's](#) Bundesbank opposes the move.

"The ECB's credibility unfortunately has taken a real battering and it is now at the mercy of governments," said Tobias Blattner, a former ECB economist now at Daiwa Capital Markets [Europe](#) in [London](#). He estimates the central bank will have to buy about 200 billion euros (\$287 billion) of Italian bonds and 60 billion euros of Spanish securities to make an impact.

Italy has 1.8 trillion euros (\$2.6 trillion) in outstanding debt. The ECB bought Italian and Spanish bonds this morning, according to five people with knowledge of the transactions, driving their 10-year yields down to 5.39 percent and 5.3

percent respectively from above 6 percent on Friday. Both reached euro-era records last week.

<http://www.bloomberg.com/news/2011-08-07/trichet-draws-ecb-bazooka-to-stem-contagion.html>

Group of Seven nations sought to head off a collapse in investor confidence after the U.S. sovereign- rating cut and a slump in Italian and Spanish debt intensified threats to the global economy.

G-7 finance ministers and central bank governors pledged in a statement to “take all necessary measures to support financial stability and growth.” Officials will inject liquidity and act against disorderly currency moves as needed, they said after a call late yesterday European time. The G-20, which includes emerging markets, issued a similar communique.

Stocks extended declines that have wiped \$5.4 trillion off equity markets since July 26, driven investors to Treasuries and gold and rattled consumer confidence already hurt by European fiscal tightening and elevated American unemployment. The European Central Bank signaled it will buy Italian and Spanish bonds, and Japan warned it may intervene again to stem gains in the yen.

“Actions speak louder than words,” said Richard Barwell, an economist at Royal Bank of Scotland Group Plc in London. “In the short run, it might be better they say something rather than nothing, but we’re probably at the stage now more where people want to see decisive action.”

<http://www.bloomberg.com/news/2011-08-07/g-7-vows-to-take-all-necessary-measures-to-stabilize-economies-markets.html>

Nigeria will inject 679 billion naira (\$4.5 billion) through bond sales today into three banks nationalized by the government this weekend, a further step in restoring stability in the banking system of Africa’s biggest oil producer.

The Asset Management Corp. of Nigeria, or Amcon, took over Afribank Plc, Bank PHB Plc (PLATINUM) and Spring Bank Plc (SPRINGBK) on Aug. 6 after the central bank revoked their licenses the day before because they were unlikely to meet a Sept. 30 deadline to recapitalize. Amcon, which assured depositors they won’t lose their money, yesterday appointed a new board for the lenders that were renamed Mainstreet Bank Ltd., Keystone Bank Ltd. and Enterprise Bank Ltd. respectively.

This action is the latest by the Central Bank of Nigeria, led by Governor Lamido Sanusi, to clean up the banking industry. In 2009, Sanusi fired the chief executives of eight of the country’s 24 lenders after a debt crisis threatened the industry with a collapse, and injected 620 billion naira to rescue lenders. Amcon was set up by the government to buy the bad debt of banks, estimated at about \$10 billion.

“The nationalizations bring to an intermediate end a sorry chapter in Nigeria’s recent banking history,” Sebastian Spio Garbrah, managing director of New York-based DaMina Advisors LLP, a frontier-market risk adviser, said in an e-mail to clients today. “Nigeria’s banks today are safer than many” in developed countries, he said.

<http://www.bloomberg.com/news/2011-08-08/nigeria-to-inject-4-5-billion-into-three-banks-nationalized-on-saturday.html>

Hedge Funds:

Paulson & Co, the US hedge fund, has won a US court battle with the Government of Singapore Investment Corp over control of a group of luxury hotels that brings it closer to making potential windfall profits.

The Singapore sovereign wealth fund has been trying to wrest control of the hotels – originally part of the holdings of troubled Morgan Stanley real estate funds – from a group led by affiliates of Paulson & Co since early this year.

The Paulson group gained control of the properties with the approval of a New York bankruptcy court after Morgan Stanley was unable to pay back loans it took from a variety of lenders including the Paulson group and GIC.

In a little noticed judgment at the end of June, the court extended for another four months the Paulson group's exclusive rights to file a bankruptcy plan.

GIC had argued that the Paulson group would manipulate the bankruptcy process for its own gain. According to court documents, GIC said the Paulson group was delaying resolution to enable it to “bet on a significant upswing in the commercial real estate market”.

<http://www.ft.com/cms/s/0/e6ea91d8-c0f3-11e0-b8c2-00144feabdc0.html#axzz1UQI0uKBZ>

Funds trimmed bets on rising commodity prices for the first time in four weeks amid mounting concern that the global economy is faltering.

Speculators cut their net-long positions in 18 commodities by 3.6 percent to 1.23 million futures and options contracts in the week ended Aug. 2, government data compiled by Bloomberg show. Bullish gold holdings climbed to the highest since at least June 2006 amid surging demand for an investment haven.

Investors dumped equities and most raw materials for the perceived safety of Treasuries, the Swiss franc and gold last week amid escalating debt concerns in the U.S. and [Europe](#). The Standard & Poor's GSCI Spot Index of 24 raw materials dropped 5.9 percent, the most since May. The [MSCI World \(MXWO\)](#) Index of equities tumbled to a 10-month low.

“People were just selling everything in a panic move,” [Michael Pento](#), an economist at Euro Pacific Capital, said in a telephone interview on Aug. 5. “We are very concerned with what's going on in the U.S. economy. We expect the market to continue to be bearish until the [Federal Reserve](#) comes in with another round of quantitative easing.”

Service industries in the U.S., the largest part of the nation's economy, expanded at the slowest rate in 17 months in July, a report showed. European services and manufacturing growth eased to the slowest pace in almost two years.

<http://www.bloomberg.com/news/2011-08-07/investors-cut-bullish-commodity-bets-in-panic-on-economy-debt-concerns.html>

[Bill Gross](#), manager of the world's biggest bond mutual fund, said [Standard & Poor's](#) showed “spine” by cutting the U.S. debt rating, contradicting [Warren Buffett](#) and Legg Mason Inc.'s [Bill Miller](#), who said the rating company erred.

“I think S&P has demonstrated some spine; they finally got it right,” Gross said in a Bloomberg Television interview with [Tom Keene](#) yesterday. The U.S. has “enormous problems,” he said, referring to the country's mounting debt.

S&P on Aug. 5 lowered the U.S. one level to AA+ while keeping the outlook at “negative” as it becomes less confident Congress will end Bush-era tax cuts or tackle entitlements. The U.S. merits a “quadruple A” rating, Buffett, 80, said in an

interview with Betty Liu on Bloomberg Television. Legg Mason's Miller said S&P was "precipitous, wrong and dangerous" in lowering the rating after last week's stock market selloff.

Weakening economic data has prompted concerns about the U.S. recovery. [Nouriel Roubini](#), chairman of Roubini Global Economics LLC in New York, said in an interview with Tom Keene yesterday that the U.S. may be headed into a "double-dip recession."

[BlackRock Inc. \(BLK\)](#), which manages \$3.6 trillion in assets, said in a statement that the [Federal Reserve](#) "will want to continue supporting the recovery in any manner it can in light of an extraordinarily anemic real growth rate" so far this year.

<http://www.bloomberg.com/news/2011-08-08/gross-praises-s-p-s-spine-as-buffett-says-rating-company-erred.html>
[Warren Buffett's Berkshire Hathaway Inc. \(BRK/A\)](#), whose top three shareholdings declined by about \$1.6 billion last week, disclosed its biggest quarterly purchase of equities in almost three years.

Berkshire bought \$3.62 billion of stock in the three months ended June 30, the most since it spent \$3.94 billion in the third quarter of 2008, the Omaha, Nebraska-based company said late Aug. 5 in a filing. Equity purchases exceeded acquisitions of fixed-maturity securities for the first time since 2009.

Buffett, 80, turned his focus to stocks as Berkshire's cash swelled and [interest rates](#) remained near record lows. The firm's equity portfolio, which rose to \$67.6 billion as of June 30, suffered last week as markets plummeted. Stocks around the world fell amid signs the [U.S. economy](#) was stalling and speculation that [Europe](#) will fail to contain its sovereign-debt crisis.

"He's gotta put the cash to work somewhere," said Tom Lewandowski, an analyst with Edward Jones & Co. "We've seen the market pull back, and this is the environment he likes to make investments in."

Transatlantic Holdings Inc. said yesterday that Berkshire offered about \$3.25 billion in a bid to break up the New York-based reinsurer's deal to merge with Allied World Assurance Company Holdings AG. The equity market rout helped push down the value of Allied's all-stock bid by about 13 percent from the last trading day before the June announcement through Aug. 5.

<http://www.bloomberg.com/news/2011-08-08/buffett-bet-on-stocks-before-rout-by-spending-most-since-2008.html>
[Warren Buffett's Berkshire Hathaway Inc. \(BRK/A\)](#) bid \$3.25 billion in an unsolicited offer for [Transatlantic Holdings Inc. \(TRH\)](#), seeking to break up a deal the target company had reached with another insurer.

Ajit Jain, Buffett's reinsurance lieutenant, gave New York-based Transatlantic until today's close of business to respond. Transatlantic dropped 10 of 11 trading days through Aug. 5.

The offer diverges from Buffett's usual strategy of avoiding competitive bidding and favoring deals where he has approval of the target company's management, said [Michael Yoshikami](#), an investment strategist at YCMNet Advisors, a Berkshire

investor. Transatlantic struck a deal in June to merge with Allied World Assurance Company Holdings AG and has shunned a July bid from Bermuda-based Validus Holdings Ltd.

“It certainly is different than the normal, quiet marriage they have,” Yoshikami said of Omaha, Nebraska-based Berkshire’s bid. “It is not their typical style in terms of acquisitions.”

Jain offered \$52 for each of Transatlantic’s 62.5 million outstanding shares as of June 30, Transatlantic said in a statement yesterday. Allied’s bid to exchange 0.88 of a share for each Transatlantic share is valued at about \$2.8 billion, based on Allied’s Aug. 5 closing price of \$50.25. Validus’s hostile stock-and-cash offer fell to about \$2.9 billion, from an original value of \$3.5 billion, after equity markets plunged.

Transatlantic said its board will “carefully consider and evaluate” the Berkshire offer.

<http://www.bloomberg.com/news/2011-08-08/berkshire-makes-unsolicited-3-25-billion-bid-for-reinsurer-transatlantic.html>

Companies:

General Electric Co. (GE), once vilified in the U.S. for leadership in outsourcing jobs, is pulling more information-technology positions back in-house.

Chief Executive Officer Jeffrey Immelt has said GE will add more than 15,000 jobs in the three years through December. About 1,100 will be just outside Detroit in a center for information technology, a field emblematic of outsourcing. So far, GE has hired about 660 people in Michigan, a state that led the nation in jobless rates, making it a symbol of U.S. industrial decline.

“About 50 percent of the IT work was being done by non-GE employees,” Charlene Begley, chief information technology officer, said in an interview at the center. “That strategy may have had its time, but there was a lot of downside. We lost a lot of the technical capabilities that we have to own.”

Bringing more information-technology work back to GE lets the company move quickly to develop programs that respond to technology demands cropping up faster than ever.

“With iPads and whatever mobile devices people want to use, the need for better user experiences is essential to competitiveness,” Begley said. “So we’ve got a team that’s really good at writing user applications that are sexy, impressive and quick.”

Companies such as GE and General Motors Co. (GM) that once led in out-sourcing are in the forefront of a move in the opposite direction: adding workers back to their own businesses in mature markets like the U.K. and the U.S., said John Keppel, president for outsourcing consulting firm TPI International Inc.

<http://www.bloomberg.com/news/2011-08-08/immelt-adds-technology-jobs-in-u-s-as-ge-shaves-outsourcing.html>

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