

7/11/11

MF Global Daily Report

Morning Financial Notes

Please remember that most of these items are posted early on the intraday financial page. See <http://research.mfglobal.com>. These are the notes for the morning broadcast on MarketVoice.

U.S.:

- Nothing seemed to occur over the weekend on the U.S. debt reduction/debt ceiling issue. President Obama will hold another press conference today at 10:00 CT on the issue: color from one wire story.
 - One Democratic aide said Obama and Sen. Jon Kyl, the second-ranking Republican leader in the Senate, exchanged some testy words after Obama objected to the way Republicans were negotiating.
 - McConnell spokesman Don Stewart chided Democrats and the president for continuing to pursue additional tax revenue. "It's baffling that the president and his party continue to insist on massive tax hikes in the middle of a jobs crisis while refusing to take significant action on spending reductions at a time of record.
- OECD LEI was 102.5 in May and has been easing lower through the year consistent with slower growth. Asia and The EZ area show clear weakness. The US is holding up well.

Europe:

- A meeting of the EU and EC heads was enlarged to focus on the European debt crisis and specifically Italy. Further, there is talk that Greece should default on some of its debt as part of a new bailout plan. The FT reported that a default would put its debt levels on a more sustainable footing. The Handelsblatt said that the ECB is seeking advice from private lenders on a default event. Lastly, the Die Welt said that the European Rescue fund should make room for Italy and double to E1.5 trln.
- At writing, the 10-year Italian note was up 27 bps, the Spanish 10 year note was up 25 bps, and the Portugal 10-year n note was up 40 bps.
- June Irish Vehicle Sales were 10,981, which is better than the last two years. Some signs of a firmer tone.
- May Irish IP rose 0.4% m/m. The index level is lower compared to the recent peak in January. Growth is slow.
- May French IP rose 2.0% [0.5% expected]. IP rebounded after weakness in March and April. The index level is grinding higher.
- May Spanish Home transactions fell 18.3% y/y. the trend in activity remains weak without signs of growth.
- ECB financing to Portuguese banks fell to E43 bln in June from E47 bln in May.

Asia:

China:

- June CPI rose 6.4% y/y [6.2% forecast]. CPI rose 0.3% m/m up from sequential gains of 0.1% in May and April and a 0.2% contraction in March. Food inflation was strong up 14.4% y/y and shows no signs of falling. Clothing and medicine had an upward drift.
- June Exports rose 17.9% y/y [18.6% forecast]. Growth has decelerated, but is still solid.
- June Imports increased 19.3% y/y [25.3% expected]. Growth has decelerated, but is rising consistent with the pace seen between 2005 and mid 2008. The level of oil imports stands out, and metals/raw material imports have a slower tone.

Select Chinese Imports

Item	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jun-10
Oil (mln tons)	20.86	21.80	19.95	21.67	21.54	21.55	19.70	22.27
Refined Product (mln tons)	3.96	3.85	3.30	3.88	3.22	3.39	3.40	3.31
Copper Scrap (thous tons)	430	360	250	390	380	400	420	350
Unwrought Copper (thous tons)	344.56	364.24	235.47	304.30	262.68	254.68	280.00	328.23
Alum Scrap (thous tons)	260.00	230.00	140.00	190.00	230.00	220.00	240.00	220.00
Unwrought Alum (thous tons)	82.93	96.28	60.20	87.73	76.72	74.88	64.49	74.58
Iron Ore (mln tons)	58.08	68.97	48.81	59.48	52.88	53.30	51.09	47.17
Soybeans (mln tons)	5.43	5.14	2.32	3.51	3.88	4.56	4.30	6.20

- Shanghai will have a trail to cap home prices in the second half the year – Xinhua.
- China's National Audit Office dismissed what it called imaginative reports that it is underestimating local government debt.
- A PBOC Governor said that Europe remains a primary investment target for China.

Australia:

- Home Loans rose 4.4% y/y [4.5% forecast]. Home lending activity has firmed over the past two months after weakness in Q1 2011.

Japan:

- Consumer confidence rose 1.1 to 35.3 [35.5 forecast]. Confidence remains depressed and employment below the pre—quake levels at 29.6.

India:

- June Car seals were 143,379 or up 1.6 y/y. The year over year pace is decelerating notably and the sequential gain has also eased.

Technology

Dramexchange DXI fell 25.49 and flash prices were mixed to lower.

Corporate News

Travel/Transportation:

- » UAL traffic off 0.9%
- » DLAKY downgraded by UBS

Technology/Software/Communication:

- » CSCO could cut 5,000 jobs Gleacher analyst
- » CREE target reduced by a broker
- » MICC added to a buy list at GS
- » AMD downgraded by JMP

» CVC downgraded by a broker

Finance/Real Estate:

- » MCO and MHP – story in BB discussing European regulation
- » WTFC buys First Chicago & Trust in an FDIC related transaction
- » ONE upgraded by GS
- » NTSP downgraded by GS
- » MSCC upgraded by a broker
- » LRCX, KLAC, and ASML upgraded by Citi
- » CBS upgraded by a broker

Commodity/Energy/Utility:

- » SPWRA downgraded by a broker
- » ENP/VNR will merge
- » US rased at First Energy
- » MT raised by Bank America
- » TMK downgraded by a broker

Healthcare

- » VAR upgraded by a Ticonderoga
- » SNY favorable Phase III on Alemtuzumab and VRX will buy its dermatology unit
- » ELN target raised by a broker

Industrials:

- ARJ bought by Lonza (LXAGY) 36.5% premium
- NCI upgraded by a broker
- SHAW downgraded by a broker
- CMI rased at a broker
- HURN downgraded by a broker
- DOW target down on higher costs

Consumer:

- » TJX upgraded at Barclays
- » WFM on a buy list at GS
- » DEO downgraded by a broker
- » NSRGY will buy 60% of Hsu Fu Chi for CHF 1.4 bln
- » BWLD and RUTH downgraded by Ray James
- » PETS downgraded by a broker

Equity Fair Value

SPU	NDU	DJU
-4.45	-3.36	-60.54

OUTLOOK:

Stocks are heavy. Chinese economic data was hard landing in nature with inflation above expectations and trade numbers showing slowing growth. Material and energy shares should find pressure. Moreover, European sovereign stress is off the chart today with concerns over Italy high and talk of a Greek default. Financials will feel pain. Corporate news is mixed. The market is kicking off earnings season, which has taken a back seat today. Two mergers ARJ and ENP/VNR are positives. SPU will find resistance at 1328 and 1335 today. 1317, 1312 and 1306 are support. Expect a range between 1317 and 1328 the balance of the day.

Treasuries are firm helped by hard landing data in China and EZ credit stress (see above). However, the market must digest supply – 3, 10 and 30 year auctions this week. Further, the budget talks seemed to hit a dead end over the weekend. Talks will continue today, but there is risk of stalemate and a focus on U.S. budget stress. TYU will find support at 124-00 and 123-18 and resistance at 124-18 and 125-01. A test and failure at 125-01 seems likely.

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