

7/13/10

MF Global Daily Report

Morning Financial Notes

Please remember that some 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./Random:

- Trade data showed exports up 2.4% m/m and imports up 2.9% m/m. The trade deficit rose sharply, 4.8%, to \$42.3 bln. I don't think it will have much impact. Exports and imports favorable for growth trend.
- It appears that Brown, Snowe, and Collins will support FinReg. These are three important Republican votes and are likely allow the bill to pass the Senate.
- ICSC fell 1.5% w/w and rose 3.2% y/y. Sales posted a mixed performance in the latest week. The set back in the index is a bit positive for treasuries and negative for retail shares, although both have been pricing slower sales. For the month, sales are expected to rise 3.0% to 4.0%.
- Abu Dhabi Crown Prince says he is considering a BP investment
- NFIB June small business optimism falls 3.2 to 89.0. 91.2 forecast. "The US economy faces hurricane force headwinds and the government is at the center of the storm, making an economic recovery very difficult" - NFIB chief economist. Components showing the economy to improve fell 14 and expect h higher sales declined 10.
- PIMCO reportedly shifted funds to treasuries away from European debt. Conference call comments from global product manager.
- IEA says that global oil demand will grow faster than refinery capacity expansion in to two year to 2011. Consumption will rise 3.1 mbds compared capacity gains of 2.3 mbds.
- INFY guided EPS lower. Notes higher tax rates, caution about Europe, higher salaries, and a 2% decline in prices this fiscal year.

Asia:

- POSCO said that H2 profits could fall 30% from H1 due to weak demand from China and global slowdown.
- China Steel said that it would cut prices due to slower demand in China. Prices to fall 4% for September. It also cut prices retrospectively for orders placed for July and August delivery.
- Komatsu raised its first half profit forecast by 41%. Notes faster growth in Southeast Asia, the US and Japan. To be frank, the second half outlook is more important.

Australia:

- June NAB Business Conditions rose 2 to 8. Confidence fell 1 to 4.0.
- Employment fell 1 to 6, but is in line with the recent range
 - Forward orders rose 7 to 6. Firm to recent range
 - Profitability rose 4 to 5.

- Labor costs rose 0.8% q/q and purchase costs rose 0.9%. Purchase costs appear to be rising to trend.

China:

- China said it will strictly enforce policies preventing speculation in real estate and increase market supply – Ministry of Housing and Urban Rural Development.
- Banking regulators said there has been no adjustment in home loan policy.
- Smelters in China may idle as much as 1.5 mmts of capacity in Q3 – Alcoa.
- Flooding in China has created estimated damage of CNY 116 bln.
- FT says that BMW will export 10,000 additional 3 Series vehicles from Munich to china to meet.
- China's premier commercial property market posted a recovery in investment and rents in the first half of 2010. Purchase of high end properties including entire office buildings and shopping malls in 15 major cities was nearly CNY 50 bln up 5x from a year ago – CB Richard Ellis.
 - Beijing High end apartment prices rose 10.1% q/q in Q2.
- Sales of land for residential use in 103 cities in China fell 28% m/m in June – China Academy research.
- Baosteel is cutting prices for August delivery. Hot and cold rolled down CNY 300.
- There are some rumors that china's inflation numbers will be lower than expectations.

Japan:

- June Consumer Confidence rose 0.9 to 43.6. The trend is higher. Employment rose 1.3 to 41.1 and is working higher. The willingness to buy durable goods rose 0.3 to 47.2 and is drifting upward.

Europe:

- Portugal's debt rating is cut to A1 by Moody's. A two level cut. "The Portuguese government's financial strength will continue to weaken over the medium term".
- Fitch says that Portugal has made some progress and growth remains key for its credit rating
- Greece sold E1.625 bln in 26 week bills at 4.65%. Coverage was 3.64 times
- FT said that China bid for E1 bln in Spanish bonds last week. Several 100 mln were actually bought.
- ECB Drains E60 bln at 1 week quick tender. – as expected
- ECB allotted E49.3 bln in 28 day refinancing agreements at 100 bps. E31.60 bln was expiring.
- EU FM gave Finland until 2011 to bring its deficit below 3% of GDP. Cyprus was given until 2012.
- ECB Trichet says:
 - ECB completely reabsorbing bond purchases
 - Opposes joint managed European debt
 - Wrong to think fiscal austerity a threat to jobs and growth
 - Advisable to end oligopoly of three rating agencies
- July EU ZEW fell 7.1 to 10.7. 16.3 forecast
- July German ZEW sentiment fell 6.5 to 21.2. 25.3 expected. But, current situation rose 22.5 to 14.6. -1.2 forecast.
- June French CPI was 0% m/m. In line. Year over year rose 1.5% in line. Energy and food applied pressure to the index. Services rose 0.2%.
- June Spanish CPI as up 0.2% m/m and 1.5% y/y both in line.

UK

- June BRC Same Store Sales rose 1.2% y/y. The pace of growth is slow over the past few months. Sales were stronger in the second half of the month. Food sales growth was about the same as in May, thanks to the hot weather and World Cup. Clothing and footwear sales growth slowed, as many people had already bought in May's sun. TVs benefited from the football and outdoor DIY and leisure improved in the sun, but at the expense of indoor homewares. Non-food non-store

sales (internet, mail-order and phone sales) in June were 17.3% higher than a year ago, down from 21.9% in May. But June's gain was against a similar increase in June 2009, while May's gain was against a weak May 2009.

- June CPI rose 0.1% m/m. Flat expected. CPI rose 3.2% y/y. 3.1% expected
- June RICs fell 13% to 9% 20% expected. The index is trending lower after peaking in late 2009. It stands at an 11 month low. Number of homes sold was flat at 17 and stocks of homes on books rose 5 to 67. Supply of homes outstripping demand. The sales to stock ratio fell to 25, which is the lowest in a year.

Technology:

DRAMeXchange rose 6.42. Flash prices were higher

Digitimes: AUO and CMI to see a pick up in LED backlit LCD TV panels. Volumes to increase to 800,000 units in Q3 and 1.2 mln units in Q4 (monthly averages).

DigiTimes: Taiwan-based wafer foundries and IC packaging and testing houses, which have seen their in-house capacity fall short of customer demand since early 2010, will continue to operate under tight production schedules in the third quarter, according to industry sources. Strong demand for consumer ICs is expected to surface in the third-quarter peak season, including that for key components of Apple's new products, the sources said. Apple has stepped up the purchasing of IC parts amid strong sales of the iPad and iPhone 4, and the component suppliers for the devices are demanding more capacity at their foundry partners and backend subcontractors, the sources indicated. Demand for Apple's iPad and iPhone 4 will be one of the contributing factors to a strong third quarter for Taiwan's foundry chipmakers and backend suppliers, but will not play a significant role, Digitimes Research analyst Nobunaga Chai commented.

Corporate:

Travel/Transportation:

- » CSX had strong earnings
- »

Technology/Software/Communication:

- » FCS favorable broker comments
- » NVLS had solid earnings
- » VMW favorable broker comments
- » INFY guides lower for the coming quarter. Makes cool comments on prices, notes higher wages, and a higher tax rate. Seems bearish. Worried about European business.
- » SNDK mixed to cool broker comments on H2 pricing.
- » MRVL EPS lowered by a US bank

Financial:

- » CLMS upgraded by a broker
- » CS downgraded by a broker
- » C will divest of Private equity funds and co investment businesses
- » A handful of Florida based banks asking for FDIC help because of the real estate and BP oil spill. 12 month reprieve from new regulatory sanctions and increased capita

Commodity/Energy/Utility:

- » AA solid quarter. Most of the demand comments seem favorable.
- » Steel – see some Asian names cutting prices and cool on Chinese demand
- » NU upgraded by a broker
- » WEC upgraded by a broker

- » PCG downgraded by a broker
- » CVX says EPS in Q2 will be higher than Q1
- » TD aggressively moving into commodities
- » MOS target lowered by a broker
- » AEP downgraded by a broker
- » Broker says XOM and BP will not likely merge

Health:

Industrials:

- » ITW upgraded by DB
- » CHKP upgraded by a broker
- » SHAW downgraded by a broker
- » SYY buys Lincoln Poultry & Egg – company has \$200 mln in revenue
- » FAST had strong numbers. But, color is mixed: "We believe the duration of the economic weakness could delay the timing of when we achieve the \$125 thousand per month average by several years. However, the current economic weakness only serves to strengthen our belief in the 'pathway to profit'."

Retail\Consumer:

- » CAKE upgraded by a broker
- » CPKI raises guidance
- » DPS announces a \$1 bln share buyback.
- » UN upgraded by a broker
- » BTI upgraded by a broker
- » ANN downgraded by a broker
- » URBN downgraded by a broker
- » WYNN price target cut by a broker

Equity Fair Value

SPU	NDU	DJU
-3.26	-0.82	-50.38

OUTLOOK:

Stocks are firm. The numbers from CSX, AA, and NVLS were clear positives. CSX was especially bullish. These factors are balanced off by talk of steel price cuts in Asia and poor profit guidance for INFY. From a macro perspective, the Greek auction got done and the downgrade of Portugal's debt has had little play. There may be some drag related to Chinese stocks, as the government is holding to measures to cool the property market. Weekly retail sales numbers were soft. SPU should find support at 1077 and resistance at 1100 the next few days. The market is re-aligning price to the earnings outlook. Pending passage of FinReg may be the most negative factor.

Treasuries are heavy hurt by strength in the equity market. The rally in equities will detract from demand for treasuries. Macro events will provide some support with chain store sales sluggish and Chinese stocks falling. The market will be mostly focused on the 10 and 30 year auctions. Technically, a bear flag has formed on the 10 year chart and it projects prices under 121-00. TYU has support at 121-25, 121-16, and 121-07. Resistance rests at 122-14 and 122-25.

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