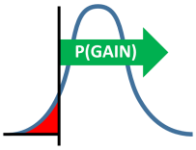

31 December 2013

Fears after key China debt level soars 70% - Pg. 1

- Local government debt levels in China have soared to almost $3tn in less than three years, …
- …local government debts had increased almost 70% to reach $2.95tn by the end of June
- There are increasing fears, however, of a hard landing for the economy as Beijing enforces fiscal discipline on local government borrowers. China's short-term funding costs approached 9% earlier this month before moderating towards the end of last week

Lithuania likely to be last new member of Eurozone for years – Pg. 2

- Estonia joined in January 2011, just after the Greek and Irish bailouts, and Lativia, which will become a member tomorrow, secured entry just three months after Cyprus succumbed to an international rescue. If all goes according to plan, Lithuania will join the euro in a year's time
- …none of the nine non-euro members of the EU are on the path to joining, and political will in all the non Baltic "outs" is fading
- All members of the EU except the UK and Denmark, which secured formal "opt-outs" two decades ago, are required by treaty eventually to join the single currency
- It took Latvia more than eight years to go from joining the ERM to full euro membership, meaning the next euro member could be at least a decade away

US tests commercial drone use – Pg. 4

- The prospect of unmanned aircraft flying across the US alongside passenger jets moved closer to reality after the nation's chief aviation regulator approved six research sites to test the safety of commercial drones

Banks – Pg. 10

- Brazil's banks could be about to get a history lesson. Depositors have brought claims against them seeking compensation for losses suffered during the epic fight against hyperinflation in the late 1980s and early 1990s
- …potential cost to banks at $65bn

Plenty for bears to feast on in 2014 – Pg. 18

- Globally, investors see the biggest "tail risk" – an improbable event that would cause significant disruption – as a "hard" economic landing in China,….
- The effects of a sharp slowdown in China would spread quickly across emerging markets, while resulting commodity price falls would fuel deflationary forces in Europe, ….

30 December 2013

Foreign degrees lose mark of distinction in China – Pg. 4

- The number of Chinese studying overseas has more than tripled in the past decade and continues to shoot up. The rise has been particularly dramatic among lower-middle-class families: according to a report from the Chinese Academy of Social Sciences, up to the end of 2009 students from such families made up only 2% of all those whose studied overseas, but at the end of 2010 the proportion had risen to 34%
- For many Chinese families with children overseas, money is no object. But many lower-middle-class and working-class families are counting on their only child to support them in their old age
- Foreign universities also increasingly rely on fees from Chinese students to supplement their income (Prof Note: I have been lecturing for 20 years, in the past five years the percentage of Chinese nationals in my classes has increased exponentially)
- Gone are the days when an overseas degree ensured a top-paying job
- These days a big proportion are average or below-average students who failed to gain entry to university in China. But the foreign institutions they attend may not be top-notch either… (Prof Note: It is two fold: (1) Where one attends and (2) the knowledge and experiences learned)

Day of reckoning – Pg. 6

- …50 elementary schools forced to close this year, collateral damage from the ballooning pension cries in Chicago and the state of Illinois. The budget gap in Chicago's school district alone is $1bn, mailing because of pension unfunded liabilities, while the combined unfunded pension liabilities of the city and the school district runs over $27bn
- The woes of the city and the state of Illinois – which has its own, worst-in-the-nation, $100bn unfunded pension liability - ….
- …savings that will come from cuts in retirement benefits for state workers and forcing the state to make its pension contributions
- ….Illinois with the lowest credit rating of any US state
- The Chicago teachers' pension fund is roughly 54% funded, far below the 80% threshold considered healthy. But it is better off than the city's municipal workers, police, labour and firefighters' pension funds, which Fitch, estimates are collectively 33% funded
- In fiscal 2010, the most recent year in which data are available for all states, the state pension gap in the US hit $757bn
- (Prof Note: People must rely on themselves for retirement income…the concept is not difficult. The best vehicle, in my opinion, real estate!)

Gold miners face cuts in reserves – Pg. 16

- The gold mining sector is braced for asset writedowns and a fall in the amount of reserves in the ground after the precipitous drop in the price of the metal this year

28 December 2013

Treasury yields hit two-year high – Pg. 1

- The key US interest rate benchmark moved above the threshold of 3% yesterday to its highest since July 2011 as investors priced in strong data and a slowing of government bond-buying by the Federal Reserve
- Not since the first half of 2011 has the benchmark yield stayed above 3% for an extended period. Higher market interest rates are expected in 2014 as the economy strengthens and the Fed steadily winds down its massive support, known as quantitative easing, for financial markets
- The Barclays index for long-term US Treasury bonds has registered a total return of minus 12.4% this year as the 10-year yield has risen from 1.80% since January

IMF poised to boost Japan outlook – Pg. 2

- The IMF is likely to upgrade its growth forecast for Japan but fiscal and structural reforms must start in 2014….
- Mr Lipton said the Bank of Japan's bond-buying programme, aimed at reaching 2% inflation within about two years, was changing public expectations
- The IMF forecasts growth of 1.2% in Japan next year but that is likely to rise as a result of the extra stimulus measures….
- Tokyo expects 2014 growth of 1.4%

Extended life cycles – Pg. 5

- Britain is hardly alone is grappling with the costs of providing state pensions to an elderly population that is living longer than its predecessors
- In the US, for example, the age at which one could draw a full state pension is already 66 and set to rise to 67 over the next few years. Denmark, Greece, Italy and South Korea – among others – have also opted to link increases in pension ages to changes in life expectancy
- Globally, life expectancy for men aged 60 rose by roughly five years between 1950 and 2010
- The birth of the so-called "encore-career" which sees people in their 50s and 60s change career…
- Moreover, older workers argue that age discrimination persists in spite of legislation

Private equity lines up listings after valuation boom in 2013 – Pg. 8

- Shares in private equity-backed companies listing this year have risen 18.6%, a performance that will fuel institutional investor demand as the pipleline of planned initial public offerings grows

27 December 2013

Discount cloud over retailers' profits – Pg. 1

- The Christmas shopping frenzy may be over but there are signs on both sides of the Atlantic that bargain-hunters are seeking deeper discounts, raising questions about retailers' profitability over the crucial holiday trading period
- Uncertainty over consumer confidence and the effects of a late Thanksgiving, which cut six days from the traditional pre-Christmas shopping season, spurred retailers to introduce unusually big price cuts this year

Congress gears up for fight on federal jobless benefits – Pg. 2

- Democrats in the US Congress have ratcheted up the pressure on Republicans to accept an extension of federal jobless benefits, setting the stage for the first big political tussle of 2014 to be over the fate of cheques to 1.3m Americans unemployed for more than six months
- US states and the federal government jointly cover up to 26 weeks of jobless benefits, after which time the federal government takes over aid for the long-term unemployed entirely under a scheme for emergency assistance launched in 2008
- …funding for the programmes runs out tomorrow….
- …cost of an extension…$25bn a year - ….

China rates stabilize amid debt fears – Pg. 4

- Interest rates in China's money markets stabilized yesterday but concerns remain over high levels of debt in the economy at a time when growth is slowing and the central government is predicting a third consecutive year of slowdown
- China's economy is expected to have grown 7.6% in 2013 from a year earlier…
- If the forecast is correct, it will be the lowest growth rate for the world's second-largest economy since 1999
- Since the global financial crisis in 2008, China's economy has become reliant on ever-growing levels of debt, funneled primarily through the state banking system to government-sponsored infrastructure and real estate projects

Banks to exploit Fed delay on capital rules – Pg. 13

- European and Asian banks will have more time to fight additional capital rules in the US after the Federal Reserve pushed plans to implement final measures into the new year
- The planned regulations will require overseas banks in the US to establish intermediate holding companies for their US operations. Capital held at those companies would probably be ringfenced, protecting the US in the event of a crisis
- Foreign banks would also have to meet US leverage ratio standards at the US holding company level, while American lenders such as Goldman Sachs would be able to meet that standard based on the total capital they have in their entire global operations
- The more stringent ratio – which requires banks to hold more equity against their entire portfolio – is supposed to be more difficult for banks to manipulate

Outlook for US bonds clouded by taper plan – Pg. 20

- After enduring their first negative year in more than a decade, US bond investors face further challenges in 2014 as the Federal Reserve starts retreating from its era of easy money
- From a low of 1.60% in May the 10-year Treasury yield is ending the year shy of 3%, and under a slow taper and a stronger economy, this benchmark is seen rising further in 2014
- …estimates the Fed will buy $235bn of Treasuries in 2014, down from $540bn of purchases during 2013

24 December 2013

Concerns mount over China cash squeeze – Pg. 1

- China's cash squeeze has worsened despite the central bank's repeated attempts to calm markets with emergency money injections, throwing a harsh spotlight on rising risks in the second-biggest economy
- While still growing at nearly 8% a year,…
- In the short term, investors hope China's central bank will alleviate the pressures with more aggressive easing at its open-market operations today, a regularly scheduled even when it will have the opportunity to pump more cash into the system
- Debt in China is up from 130% of GDP five years ago to 200% today, a rise that the government is seeking to half

Inventor of the ubiquitous AK-47 who regretted its use by terrorists – Pg. 3

- Mikhail Kalashnikov, who has died aged 94, invented the most ubiquitous weapon in modern warfare
- By the mid-1950s the AK-47 – literally, the Automatic Kalashnikov made in 1947 – was standard issue to the Soviet armed forces
- In 1990, on his first visit to the old cold war enemy, he was introduced in Washington to Eugene Stoner, designer of the M-16, the closest thing to an American equivalent of the AK-47, which was first issued to US troops in 1961
- He later recalled: "Stoner has his own aircraft I can't even afford my own plane ticket"
- (Prof Note: While this will stir the ire of American serviceman, I consider the AK-47 a superior weapon to the M-16/AR-15. Please note I have no military experience less one year of Army ROTC)

Risks aplenty in year of taper – Pg. 4

- It is the year of the taper in 2014
- If all goes according to plan, stronger US demand will pick up the slack in the global economy and suck in exports from across the globe
- In both the currency bloc and the US, there are disinflationary pressures as wages are stagnant even if activity is picking up. All this, while uncertainty over which reforms Beijing will prioritize and what that means for Chinese growth, will make 2014 a year with plenty of economic obstacles to negotiate

In search of balance – Pg. 6

- The winners are factory workers in China and India; the losers the western middle class
- The economic democracy of the mid-20th century is giving way to a distribution of wealth more like Edwardian or Victorian times
- The tenions are exacerbated by inequality between generations. Postwar baby boomers enjoyed greater prosperity than their parents – steadily rising incomes, strong welfare states and defined benefit pensions

- Those born in the 1970s and 1980s have fewer benefits, face stagnating incomes in mid-career and must borrow more to buy expensive homes
- The top 10% no longer takes one-third of our income – it now takes half. Whereas in the past, the average chief executive made about 20 to 30 times the income of the average workers, today's CEO makes 273 times more
- The pattern for today's 40-year-olds is bleak, since their earning power peaked 10 years ago (Prof Note: I a 43 years old. Non-inflation adjusted, I double my earnings of 10 years ago. I also earned about 20% less in 2013 than 2012. I am still a few dollars away from eating Ramien!)

Rare year of bad returns for bonds – Pg. 13

- Bond investors with a broad exposure to different types of US securities are facing their first negative year of performance since 1999 – and only their third annual loss since 1976
- …the benchmark 10-year Treasury yield remains just shy of 3%, up sharply from its low of 1.60% in May
- The Barclays Capital Aggregate Bond index in the US – which is dominated by Treasury, mortgage and corporate securities, and acts as the main benchmark for institutional money – is set to record its first negative year of total returns since 1999. In that year, like 2013, equities posted a strong performance
- The benchmark is down by 1.8% and,, while this is less than its 2.92% fall in 1994, Barclays says its bond market index looks set to record only its third annual negative total return since records began in 1976
- Treasury debt makes up 35% of Barclay's Aggregate US bond index, followed by mortgage securities at 29%, with corporate bonds making up roughly 22.5%
- Almost $1tn of money managed its mutual funds is benchmarked against the index
- The bright spot in bond market has been junk-rated debt, which gave a total return of nearly 7%, as the default rate for companies with lower credit quality remains low

23 December 2013

Lagarde bullish on US economy – Pg. 1

- The IMF is raising its outlook for the US in a sign that the world's largest economy has reached a turning point and is poised for stronger growth almost five years after a devastating recession
- The passage of a two-year budget deal signaled that a long-standing political gridlock on fiscal issues in the US capital has eased, at least temporarily, while data showed the economy grew at its fastest rate in nearly two years in the third quarter

Beijing plays down cash crunch fears – Pg. 4

- Chinese propaganda officials have ordered financial journalists and media outlets to tone down their coverage of a liquidity crunch in the interbank market, in a sign of how worried Beijing is that the turmoil will continue when markets reopen today

- Money market rates surged again on Friday even after China's central bank announced on Thursday evening that it had carried out "short-term liquidity operations" to alleviate the problem

Whistleblowing tip-offs soar – Pg. 11

- Conscience, fear and the possibility of financial reward have spurred whistleblowers to offer information to regulators, raising the number of tip-offs to new highs
- In the US, the SEC operates a bounty system for useful information and this year paid $14m to a single whistleblower whose information led an enforcement action that recovered investors' funds. It was the highest amount ever paid under power introduced in the Dodd-Frank Act, …

21 December 2013

China moves to avert cash squeeze – Pg. 1

- China has made a fresh attempt to head off a cash squeeze by announcing the injection of $49.4bn of emergency money into its financial system, in an echo of a crunch this yeasr that rattled markets
- Fears of a Chinese "hard" economic landing top many international investors' 2014 worry lists, but financial markets have so far seen little danger of its growth prospects being derailed
- In a further boost to global investor confidence yesterday, sharp upward revisions to US growth data showed the world's largest economy grew in the third quarter at its fastest pace in nearly two years

US growth of 4.1% boosts Fed decision – Pg. 3

- The US economy grew at its fastest rate for almost two years in the third quarter of 2013 after revisions boosted the annualized rate of expansion from 3.6 to 4.1%, …
- US stocks reacted strongly to put the S&P500 on course for its biggest weekly gain in two months, ….

Canada fund bets on fall in house prices – Pg. 8

- Investors in Canada are to get the chance to bet against their own property market as one of the first short-focused funds is set to launch in the country, where concerns have grown that there is a housing bubble ready to burst
- Canada's average home price index increased 20.2% in the past 36 months, …
- Average existing home prices in Canada were at $370,000 in November, 50% higher than in the US, ….
- Canada bears point to how low interest rates and the government's backing of the mortgage market – by insuring home loans – have fuelled a property bubble and, worse, stoked a consumer borrowing binge
- The ratio of household debt to disposable income has grown to 152% in Canada, near to the US peak of 165%, …

20 December 2013

Fed taper presses on emerging markets – Pg. 1

- Markets soured, the dollar climbed and vulnerable emerging markets came under pressure the day after the US Federal Reserve started to pare back its asset purchases to $75bn a month
- The market movements could mark trouble ahead for both the Fed and emerging markets, with a stronger currency dragging on US growth, and the renewed risk of capital outflows from weaker economies as tapering continues in 2014
- When US interest rates were low and falling, large amounts of capital flowed to emerging markets in search of higher returns, but as the US recovers that process could reverse

Global dealmaking tumbles 4% as low rates persist – Pg. 13

- With the exception of megadeals courtesy of US telecoms group Verizon and the founder of computer maker Dell, this year has dashed hopes for a continued recovery in dealmaking since the financial crisis
- The total value of M&A has fallen to $2.1tn so far this year, down nearly 4% on the same period last year
- ….the economic recovery in the US has helped to drive a 6% rise in M&A in the world's biggest economy, which reached $852bn – due in large part to Vodafone's $124bn sale of its stke in Verizon Wireless
- The value of European M&A has dropped for the second year to $600bn, the lowest since 2009. Moreover, the UK, typically the second-biggest market for M&A globally, has had one of its worst years since records began in 2001

Gold retreats below $1,200 after stimulus-fuelled highs – Pg. 20

- Gold traded below $1,200 a troy ounce for the time since June as the US Federal Reserve took the first baby steps away from an era of monetary stimulus
- Bullion fell as much as 2% to $1,193.60 in the wake of the Fed's decision on Wednesday …
- Ultra-loose monetary policy helped drive bullion prices to record highs. The precious metal gained more than 140% between 2009 and its peak of $1,920, reached in 2012
- …silver, which usually moves in lockstep with gold, fell 2.7% to $19.19

Ripple of relief as Fed finally moves to taper bond purchases – Pg. 21

- Global markets maintained a broadly positive tone as investors digested the US Federal Reserve's decision to start withdrawing economic stimulus measures while strengthening forward guidance on interest rates
- The central bank said it would cut its monthly purchases of Treasury bonds and mortgage-backed securities by $10bn to $75bn from January but added that rates were likely to stay close to zero "well past" the time when the US jobless rate falls below 6.5%
- Although prices fell again – particularly in the five to seven-year maturity range – the yield of 2.93% for the 10-year Treasury, up 4bps on the day, was still shy of levels seen in September when the Fed had widely been expected to begin tapering

19 December 2013

Fed taper decision is turning point for world's markets – Pg. 1

- The US Federal Reserve yesterday took the first step away from its historic third round of asset purchases by deciding to taper its monthly bond buying form $85bn to $75bn
- Its decision marked the moment when monetary stimulus finally hit its peak, almost five years after a financial crisis that shook the foundations of the global economy
- Starting in January, the Fed will taper its Treasury purchases by $5bn to $40bn a month, and its mortgage-backed securities purchases by $5bn to $35bn a month
- With an end to ever-easier US policy, the dollar will become a more attractive currency to hold, and the taper could lead to new turmoil in emerging markets
- The taper comes 15 months after the Fed began its unprecedented third round of asset purchases in September 2012
- Since then it has bought more than $1tn in Treasuries and mortgage-backed securities. Even following the taper, its total balance sheet will soon exceed $4tn
- The goal of the purchases is to drive down long-term interest rates and stimulate the economy now that short-term rates are already stuck at zero

Shrunken ambition – Pg. 6

- Under his leadership, Citi has announced 11,000 job losses and introduced targets for executive bonuses that require the bank to meet a return on tangible equity of 10% by 2015, up from 7.9% last year
- How much can America's most international bank [Citi], which is active in more than 100 countries, retrench before it squanders its reason for existing?
- No other bank in America come close to Citi's international presence and outside the US it sonly rival for global reach is HSBC
- Citi's US operations – with diminishing physical presence and a flagging online offering – are a problem because the bank badly needs to make money in the US

EM downgrades outpace promotions – Pg. 20

- The developing world is suffering from more credit rating downgrades than promotions for the first time since the financial crisis, underscoring how the lustre of emerging economies has faded over the past year
- The credit rating cull is driven primarily by deteriorating economic and fiscal fundamentals in many developing countries. The IMF this autumn slashed its forecast for emerging market growth this years to 4.5%, down from 6% it predicted in April 2012

18 December 2013

Russian deal with Ukraine blow to EU – Pg. 1

- Russia moved to increase its influence over Ukraine sharply yesterday by pledging to invest $15bn in the country's bonds and slashing the price it charges Kiev for gas, dealing a blow to those hoping the country will integrate more closely with the EU
- Russia said it would invest $15bn of reserves in its national welfare fund in Ukranian securities

After five years of cheap money, world markets are braced for 'Dectaper' – Pg. 1

- For the second time in three months, world markets are braced for the beginning of the end of history's greatest monetary experiment

Indian central bank moves to tackle bad debt – Pg. 16

- A sharp slowdown in Asia's third-largest economy over the past two years has seen many big industrial conglomerates struggle to repay loans, prompting a rise in problem debts across the state-dominated banking system
- Moves to encourage private equity are especially bold in India's consensual corporate system, where bankruptcies are rare and banks seldom seek to wrest businesses from the control of their "promoters" as family business heads are typically known in India

CMBS deals show varied fortunes of US malls – Pg. 20

- Like many malls across America, swaths of its retail space lie vacant – the victim of a shift to online shopping and the wider US recession
- Sales of commercial mortgage-backed securities (CMBS) have this year surged to the highest levels since 2007 but many of the investors who buy the bonds are increasingly wary of deals that contain loans to the most troubled US malls
- While most parts of the retail sector benefited from the credit-fueled spending of consumers before the crisis, a fierce battle for dollars in the frugal years since has separated the strong from the weak

17 December 2013

Caribbean islands seek international debt relief after financial crisis dents tourism – Pg. 1

- Caribbean countries are lobbying for an extensive international debt relief and investment programme ….
- Most of the dozen Anglophone countries in the tropical archipelago are struggling with large government debts and lackluster economies after the financial crisis hurt tourism. Since 2010, St Kitts and Nevis, Grenada, Belize, Antigua and Barbuda and Jamaica – twice – have had to restructure their debts and enter IMF programmes
- Government debts of the Caribbean as a whole amounted to roughly 70% of the region's GDP last year, or $47bn, …

US oil output estimate jumps – Pg. 13

- US crude production will come close to its record in only three years' time as the shale boom sends output soaring,…

- The EIA said yesterday it had revised sharply higher its estimates of US crude output to about 9.5m barrels a day in 2016. That is close to the previous peak of 9.6m b/d in 1970 and lamost double the low point of 5m b/d in 2008
- The shale boom is reshaping energy markets, pushing the US behind China as the largest net oil importer and putting pressure on members of Opec. It is giving the US additional influence
- Sustaining the surge in US oil production will require prices that are high by the standards of a decade ago
- For natural gas, the EIA is predicting continued indefinite growth in output. By 2040 the EIA expects US production to be 56% higher than in 2012

Southeast Asia faces a perfect storm – Pg. 20

- Rising interest rates, slowing economic growth, political uncertainty and a stronger US dollar – any one of these factors could spell trouble for the small, volatile markets of south-east Asia. But in 2014, the region looks set for the perfect storm of all four
- The contrast to a year ago is stark. Back then the three "TIPs" markets – Thailand, Indonesia and the Philippines – were riding high as investors snapped up stocks I these consumer-driven economies. Unlike the export-heavy countries further north, southeast Asia was seen as a relative haven in times of moribund global growth
- Despite the falls of the past six months, Indonesia, Thailand and the Philippines continue to trade at a premium to the MSCI Asia ex-Japan index
- The rising US dollar – historically a negative for emerging markets globally – is also likely to have an impact

16 December 2013

Expectations of Fed taper rise following jobs numbers – Pg. 2

- All eyes are trained on the US Federal Reserve this week as it makes a crucial decision on whether to slow its asset purchases, followed by Ben Bernanke's final scheduled press conference as chairman, after a strong run of recent data on the jobs market
- Even though the Fed's criterion for tapering its $85bn-a-month purchases is a "substantial improvement in the outlook for the labour market", it will also focus on a wide range of other numbers, to judge whether the pick-up in jobs is sustainable
- Some factors beyond the data will also be in play, including lower market liquidity at the end of the year, which is an argument for waiting, and the Fed's desire to line up some extra policy action to signal its commitment to keeping rates low. Jobs are still the single most important number for the Fed and the recent trend is strong
- Recent consumer data are also very strong with retail sales up by 0.7% in November
- Falling inflation may bother some Fed officials enough that they want to delay tapering,…

Investment gap looms with Russia price freeze – Pg. 7

- The government now expects the country's GDP to expand just 1.4% this year, down from 3.4% in 2012 and a far cry from the 7% it clocked up per year on average before the 2008 financial

crisis. The main reason is drop-off in investment. Fixed asset investment is forecast to grow just 0.2% this year

The Bernanke years – Pg. 8

- The first issue to consider is whether the Fed chairman was himself culpable for the crisis. If so, any glory earned in its management is much diminished. Mr Bernanke was active in economic policy from 2002-06 as the housing and financial bubbles built up. And the Fed was in charge of regulating some fo the banks that later got into trouble
- A second issue is the crisis itself, and there Mr Bernanke's star shines the brightly. One simple set of numbers tells the tale. For the first year and a half of the financial crisis the data for asset prices, economic output, international trade an bank failures closely track the Great Depression
- But from the middle of 2009, they diverge. Whereas in 1930-31, the US plunged into another downward leg of bank failures, credit contraction and deeper recession, in 2009, the US began a steady recovery.
- One action in the crisis remains controversial: on September 15, 2008, the Fed and the US Treasury let Lehman Brothers fail. That is the moment the "credit crunch" turned into a panic. For critics it was a defining error of the financial crisis
- In the years that followed, the Fed rolled out round after round of quantitative easing, as central bank asset purchases are known, with nicknames QE2, QE3 and Operation Twist. It promised low interest rates until mid-2013, then late 2014, mid-2015 and finally until unemployment hit 6.5% as the Fed pursued Mr Bernanke's vision of effective policy with rates at zero
- …the Fed still has to exit from its $4tn balance sheet before their concerns can be fully dismissed
- But perhaps the fairest way to judge Mr Bernanke is to look at the numbers. One, in particular, is striking: for his eight-year term, and despite a colossal financial crisis, the average rate of inflation was 1.8% compared with the Fed's goal of 2%. If his pledge was to avert deflation, then he succeeded

14 December 2013

Post-bailout Ireland eyes tax cuts – Pg. 1

- The Irish government hopes to use its new-found economic freedom to cut income taxes, signaling Dublin plans to shake up its fiscal policy after exiting its three-year bailout this weekend
- Ireland will become the first Eurozone country to exit from an international bailout on Sunday, a hugely symbolic moment.
- Ireland's marginal income tax rate has risen since 2008 from 43.5% to 52% for salaried workers, the 10th highest of 34 OECD countries, ….
- Ireland's economic recovery remains fragile with a budget deficit of 7.5% of GDP, growth forecast at 2% next year and public debt forecast to peak at a dangerously high level of 124% of GDP in 2014

Asia on track for worst year of dealmaking since 2009 – Pg. 10

- Asia is on course for its worst year of mergers and acquisitions activity since 2009, as volatile markets sap confidence and dampen dealmaking
- Deals within mainland China are running at record levels, making it by far the region's largest market

13 December 2013

BoJ vows to hit 2% inflation target – Pg. 1

- Reversing years of deflation is a priority for both the bank and the government of Shinzo Abe, the prime minister,…
- Since his appointment by Mr Abe this Spring, Mr Kuroda has committed the BoJ to buying $465bn of Japanese government bonds a year
- While other central banks have implemented similar asset-buying schemes to support their economies after the global financial crisis, the BoJ is in the unique position of tackling a chronic fall in prices – 15 years of deflation that Mr Kuroda said was "deeply embedded in the economy and society"

Putin criticizes capital outflows – Pg. 4

- Russia registered net capital outflows of $48bn in the first nine months of this year,…
- The president then demanded that companies owned by Russians but registered abroad be taxed in Russia and excluded from public contracts, subsidies and policy loans
- Russian entrepreneurs have long sought to shield their assets from a state with a record of expropriating them.

JPMorgan to add $1bn to Madoff victims' funds – Pg. 15

- Funds set up for victims of Bernard Madoff should recover almost three-quarters of the Ponzi scheme's $17.5bn losses after a new contribution from JPMorgan Chase
- The bank is also likely to be hit by a "deferred prosecution agreement", a severe and rare action against a bank that avoids criminal charges
- JPMorgan filed a suspicious activity report in the UK in 2008, stating that Madoff's investment returns "appear too good to be true – meaning that it probably is" but failed to follow suit in the US or close Madoff's account

Gold tumbles on speculation Fed poised to pare stimulus – Pg. 22

- The bullion price sank to $1,224.60 a troy ounce after reaching a three-week high of $1,267.26 on Tuesday
- The Fed has indicated it intends scaling back its $85bn-a-month bond buying programme
- Expectation of the stimulus withdrawal is one of the main reasons that gold has fallen 25% in 2013, and it is headed for its first annual loss in 13 years

12 December 2013

White House considers Fischer for number two role at the Fed – Pg. 1

- Mr Fischer, the former governor of the Bank of Israel, was a dark-horse candidate for Fed chair but he could now get the number two job, ….
- Ms Yellen is the architect of the Fed's 6.5% unemployment rate threshold, above which it does not expect to raise interest rates. The Fed is considering ways to strengthen forward guidance even as it pulls back from its $85bn-a-month in asset purchases
- Mr Fischer, aged 70, is one of the best-known figures in international economic policy. As an academic at the MIT….
- He was chief economist of the World Bank from 1988 to 1990 and then held the number two job at the IMF from 1994 until 2001

Blackstone's record in India dented as stock exchange group takes hit – Pg. 17

- The patchy record of US private equity group Blackstone in India has been further dented by its holdings in Financial Technologies, a trading software maker for stock exchanges, whose sister company is mired in allegations of fraud
- The private equity group has invested in 18 companies in India, where its team has been led by former Reliance Industries executive Akhil Gupta since 2005, but only eight companies in China and the rest of Asia
- The aggressive approach Blackstone has taken in India contrasts with its more cautious strategy in the rest of Asia

Nikkei's surge lacks belief in 'Japan Inc' – Pg. 24

- Outsized gains in the narrow Nikkei are normally a sign that overseas investors are more interested in putting bets on a weakening currency than weighing the broad prospects for Japan Inc.. For brokers, the basic trade – short yen, long stocks – is easier to carry out if they focus on the 225 stocks in the Nikkei rather than the 1,755 stocks in the Topix
- The strong correlation between the Nikkei and the dollar/yen exchange rate – which last month hit its highest level in the past 25 years – shows the extent to which the market remains in the grip of "fast money",…

11 December 2013

Volcker rule heralds new era – Pg. 1

- The largest US banks were facing a new world order yesterday as regulators voted through the Volker rule, which will make it harder for Wall Street to make risky gambles that could once again endanger the financial system
- The rule curbs the way banks do business, banning them from making bets using their own accounts in what is known as proprietary trading, and also holding their chief executives more accountable. But it gives regulators a lot of room for interpretation
- The long-awaited rule is named after former Federal Reserve chairman Paul Volcker, who wanted to prohibit banks from making speculative bets that he said helped cause the financial crisis in 2008

- The rule will take effect on April 1, 2014, although compliance will be delayed until July 21 2015

Abenomics inflation arrow risks missing target, warn analysts – Pg. 2

- …in October, so-called "core" consumer prices were 0.9% higher than they were a year earlier, a bigger increase than in the euro area – some are having second thoughts
- Most of the price rises are a result of currency depreciation, the more than one-fifth plunge in the yen that has accompanied Mr Kuroda's huge expansion of Japan's money supply. That has made imports such as fossil fuels and Mr Ichimura's soyabeans pricier, but the effect will continue only in the uncertain event that the yen continues to decline. If the currency stays around current levels, it will no longer be causing much "cost-push" inflation by May 2014
- The squeeze will be felt even more keenly starting in April, when national sales tax is set to rise from 5 to 8%. The increase will not count towards the BoJ's inflation target but consumers will feel it just the same, and it could drag down spending and prices. In 1997, the last time the tax was increased, core inflation dropped below zero, foreshadowing the slide into deflation

Investors take Fed fever in their stride – Pg. 24

- Where has all the volatility gone? For all the fear over a Fed "taper" that rattled markets in the summer, the possibility of actual action in the wake of robust US jobs growth has left investors unruffled
- Taper fever peaked at the end of September when the central bank wrongfooted traders by deciding against starting the expected reduction in its open-ended quantitative easing
- Since the recent jobs data, equities have moved sharply higher, with the S&P500 index vaulting back over 1,800 to a record close on Monday, rebounding from its first negative week since early October
- And, after a brief surge towards 3%, the yield on benchmark 10-year US Treasury bonds has steadied at about 2.85%. Of greater importance, short-term rates are not pricing in the kind of rate rises the market was predicting in September
- The June 2015 Fed funds futures contract reflects no change in policy at that point, having priced in a rate about 0.9% at the end of summer – evidence that investors no longer fear that a taper opens the door to rate rises

Norway leads sovereign wealth fund push into China – Pg. 24

- Sovereign wealth funds, led by Norway's $810bn oil fund, are using Hong Kong's listings revival to achieve a long-held goal of ramping up exposure to China
- The Norwegian fund – the world's biggest pool of sovereign wealth – has emerged as one of the most important investors in Chinese companies this year, despite trade friction between Oslo and Beijing

10 December 2013

Fears of crackdown rise as riot police surround protestors in central Kiev – Pg. 1

- Ukraine's prosector-general …warned the protests had turned into "blatant aggression" and were preventing government bodies from operating normally

Putin closes news agency – Pg. 2

- President Vladimir Putin has dissolved the state-run news agency RIA Novosti, ordering its assets to be handed over to a new international news service run by one of Russia's most conservative television pundits
- The shake-up is the latest example of the state tightening its grip on local media

Can free classes match an MBA? – Pg. 12

- When I did my MBA, my professors divided roughly into those who were great and knew they were great; those who were awful but thought they were great; and those who were awful and knew they were awful (Prof Note: What amazes me is those in the final category that are tenured and simply do not care!)
- Full-time, two-year MBAs for $100,000-plus require a huge investment of time and money

US regulator outlines greater transparency in futures trade – Pg. 22

- The US derivatives regulator has drawn up plans to bring more transparency to futures trading, a move that could tilt the competitive balance between commodity exchanges
- The block trading rule would set out three broad categories for futures, requiring at least 95% of trading in the most active contracts to take place on central exchanges and not between two parties, people familiar with the draft proposal said

9 December 2013

US fund sees Brazilian fraud as the next big thing in emerging markets – Pg. 1

- Global investors may be growing wary of emerging markets as the US prepares to scale back its monetary largesse next years but one fund has hit on what it hopes could be a boom industry – Brazilian fraud
- Brazil is fertile ground for corruption. The Supreme Court recently sentenced to jail a number of former members of ex-president Luiz Inacio Luia da Silva's Workers party for using public funds to buy votes
- But the funding of litigation to recover assets from global fraud cases in which the culprits have set up a complex web of cross-border shell companies is in its infancy

Fed closer to tapering strategy – Pg. 2

- Other complications in making a decision to taper include reaching an agreement on an offsetting policy action, lower market liquidity near Christmas, and weakening inflation data. The Fed's preferred inflation measure is up only 0.7% on a year ago

Losers from US budget accord will lobby hard to save their skin – Pg. 2

- Airlines: Rather than raise taxes, Republicans have said they would be open to new revenue from higher user fees
- Defence companies: Since about half of the cuts under sequestration are imposed on the Pentagon, defence companies and their suppliers are generally considered among the biggest losers
- Healthcare providers: Healthcare providers such as hospitals and doctors have been occupied with the effect of the troubled rollout of "Obamacare", the 2010 healthcare reform, but they are still keeping close tabs on the budget talks
- Federal employee unions: Government staff have been working under a pay freeze for three years – and experienced financial pain and a lot of disruption as a result of sequestration cuts and the government shutdown
- Unemployed workers and discount retailers: Congressional Democrats and the White House have been pushing to include an extension of jobless benefits in the budget talks, or at least alongside the, but are meeting resistance from Republicans

The changing face of the MBA curriculum – Pg. 12

- An MBA is not what it used to be. That is because business schools know a thing or two about marketing and have adjusted their offerings to meet changes in demand
- …steady diminution in compulsory content, in favour of allowing students to make their own choices
- Starting in 1999, students went through a week-long "math camp" before the MBA course started. ….now has been discontinued (Prof Note: Big mistake)

Triple A – Pg. 18

- Nowadays there are just four US companies that have triple A ratings from both Moody's and S*P's: Microsoft, Johnson & Johnson, ADP and ExxonMobile

7 December 2013

Banks force Vatican to clean up its act – Pg. 1

- The Vatican bank is closing hundreds of accounts after coming under pressure from the world's biggest financial institutions to clean up its act,…
- The pressure forced the Vatican to shake up the bank to rout out potential money launderers and tax cheats

Saudi expulsion of foreign workers gathers momentum – Pg. 2

- Riyadh has said it wants to forcibly expel as many as 2m of the foreign workers, including hundreds of thousands of Ethiopians, Somalis, Indians, Pakistanis and Bangladeshis, who make up around a third of the country's 30m population
- With one in four young Saudi males out of work, ….
- Saudi Arabia is the world's second-biggest source of remittances, behind only the US, with outflows of nearly $28bn last year,…

US jobs boost raises speculation on Fed taper – Pg. 3

- The US added 203,000 jobs in November as another month of strong jobs growth raised the chances of the Federal Reserve slowing its asset purchases from $85bn a month when it meets in 12 days' time
- …unemployment rate fell from 7.3 to 7.0% - the lowest since November 2008
- There are now 265,000 fewer people working or looking for work, taking the participation rate down from 63.2 to 63% of the adult population

Cash still king for affluent investors – Pg. 14

- Some 32% of affluent investors globally expect to increase cash and savings account deposits in the next 12 months, …Just 17% expect a reduction
- The fact that cash is still king is important for equity markets. Retail investors' apparent caution provides reassurance that this year's rally was not driven by irrational exuberance on their part – and it could also fuel optimism of significant flows into equity and other markets in 2014
- A main reason is that retail investors lost money during the worst years of the economic crisis and are warier about riskier products and those they do not fully understand

6 December 2013

UK economy pulls ahead of Eurozone – Pg. 1

- Britain sharply upgraded its growth forecasts yesterday while the ECB presented a downbeat assessment of the eurozone's recovery, underscoring the diverging economic fortunes of the UK and the bloc
- …raised its estimate for growth this year from 0.6% to 1.4%....

Slow progress for Brazil's World Cup – Pg. 2

- An overhaul of the stadium that will host the opening of the 2014 football World Cup in Brazil will be ready less than two months before the event,…
- The delays at the Sao Paulo stadium, the scene of a tragic accident last week, come as work on two others of the 12 facilities planned for use in the tournament are also running late,…

US growth revised up after rise in inventories – Pg. 6

- US growth in the third quarter was revised up from an annualized rate of 2.8% to 3.6% in another bit of good economic news that increases the chances of an early slowing in Federal Reserve asset purchases
- …the main cause of the revision was a larger increase in business inventories than previously thought – they contributed 1.7% of the total growth – so the pace of expansion seems unlikely to be sustainable
- The core price index for personal consumption expenditures was revised up to an annualized rate of 1.5% from 1.4% for the third quarter, while the overall price index was revised up from 1.9% to 2%

Junk borrowers rush to beat Fed – Pg. 24

- Corporate borrowers with weaker credit quality are taking advantage of investors' relentless search for higher yields to raise their last batch of funds in 2013 in the coming days
- In the past couple of years, the US debt market has been the favourite destination for these corporate borrowers with fragile balance sheets

5 December 2013

Employment figures set to put Fed's plans in spotlight – Pg. 4

- A run of strong economic data is raising expectations for US jobs numbers due tomorrow that will have a crucial influence when the Federal Reserve chooses to slow its asset purchases from $85bn a month
- Companies created 215,000 new jobs last month on a seasonally adjusted basis, …
- US new home sales recorded their largest monthly increase in more than 33 years in October, pointing to housing market volatility in response to a rise in mortgage interest rates in recent months
- …adjusted annual rate of 444,000 …

Scientists find oldest human DNA – Pg. 6

- Palaeontologists have extracted and decoded DNA from a hominid fossil dating back 400,000 years – the oldest human genetic material analyzed so far

Rise in US bond yields spills onto ECB's worry list – Pg. 24

- The risk is that an appreciating currency or higher bond market yields – which will feed through into borrowing costs for businesses and consumers – tighten prematurely Eurozone monetary conditions. The consequences could be particularly severe for fragile "periphery" economies
- Traditionally, US and German yields are strongly correlated. The size and depth of US markets means Treasuries act as a global "risk-free" benchmarks, off which other assets are priced. Meanwhile, history shows central banks usually move in the same direction

Books

The Greatest U.S. Marine Corps Stories Ever Told

The perfect gift for your Marine friend or family member for the USMC birthday on November 10th.

23 eye-witness accounts of Marine Corps valor and brotherhood--Semper Fidelis!

http://amzn.to/192MmBo

http://bit.ly/16h3z8W

Gettysburg: The True Account of Two Young Heroes in the Greatest Battle of the Civil War

An original retelling of the Gettysburg story written for ages 12-18+.

Discover history through the experiences of two Gettysburg teenagers —Matilda "Tillie" Pierce and Daniel Skelly.

Just in time for the 150th anniversary of the Gettysburg Address on November 19th.

http://amzn.to/1aBWgKz

http://bit.ly/1dEHfe7

4 December 2013

UK attacks 'excessive' US ban on BP deals – Pg. 1

- The British government has thrown its weight behind BP in the dispute over its future in the US, branding an "excessive" a ban that prevents the oil company from winning federal contracts owing to the 2010 Deepwater Horizon disaster
- One of the biggest blows came last year when the EPA suspended BP from new US government contracts, citing its "lack of business integrity" as demonstrated by its conduct in the Gulf disaster

Biden fails to back Japan on call to scrap China's new air defence zone – Pg. 1

- Joe Biden…yesterday sharply criticized China's declaration of a new air defence zone over the East China Sea but stopped short of joining Japan's leaders in demanding it be scrapped
- Japan and China are locked in a stand-off over a group of Japanese-administered islands, called the Senkaku in Japan and the Diaoyu in China

Brazil hit by falling investment – Pg. 4

- Brazil's economy has suffered its largest quarterly slowdown in nearly five years as a result of falling investment and a weaker agricultural sector
- GDP contracted 0.5% in three months to the end of September….
- Investment, known as gross fixed capital formation, in the third quarter fell 2.2% compared with the previous period, …
- The country's savings rate of 15% was not enough to fund the government's target of raising the ratio of investment to GDP from 19% presently to well over 20%,…

Main Street fights back – Pg. 7

- Community banks have also made their share of mistakes. More than 400 small banks failed in the wake of the financial crisis, partly because of risky loans to home builders and other small businesses

- There were more than 10,300 community banks in the US 20 years ago but that number had fallen to about 6,300 by the end of 2012, …
- Banks with less than $10bn in assets are except from certain regulations, but bank hodling companies with more than $500m in assets must comply with other rules, such as capital standards and leverage ratios under the global Basel III rules

US judge opens way for Detroit talks – Pg. 10

- A federal judge has declared the US city of Detroit eligible for Chapter 9 protection, clearing the way for debt-repayment talks to move forward in the country's biggest municipal bankruptcy
- The ruling cleared a hurdle for the city as it begins to rebuild severely diminished municipal services
- According to the ruling, Detroit proved that it was insolvent and had the legal authority to file for bankruptcy. While the city did not negotiate in good faith with creditors, the judge said that such talks were impractible, another key requirement
- As part of Mr Orr's plan, creditors are expected to take a "haircut" by accepting far less than what they are owed. Retirees are also likely to see pension and healthcare benefits cut sharply

3 December 2013

Ukraine protests spark fear of default – Pg. 1

- Ukranian bond yields soared and the price of insuring against a default on government debt surged yesterday as tens of thousands of demonstrators continued to protest in the country's biggest political crisis in nearly a decade
- The price of insuring against a default on the country's debt in the next five years rose almost 100bps to 1,067bp

Global banks to cut pay for third successive year despite profit rise – Pg. 1

- Global investment banks are set to cut pay for the third year in a row despite rising profits, highlighting efforts to put shareholder returns ahead of employee remuneration
- Much stricter capital rules, moves towards electronic and exchange-based trading and a sluggish global economy have dented investment banking returns in the past few years

Reform proposals set US food stamps at heart of tug-of-war – Pg. 6

- The most important welfare programme in the US is at the centre of a political tug-of-war as a leading think-tank called for reform to strengthen food stamps, including a 30 cent rebate for every dollar spent on fruit and vegetables
- …food stamps – received by one in eight US households - ….
- Spending on food stamps, formally known as the supplemental nutrition assistance programme, or SNAP, has more than doubled to about $80bn a year in the wake of the 2008-09 recession, as they are the frontline anti-poverty measure for working-age families
- At present, able-bodied adults without dependants can obtain food stamps for only three months in every three years, but states and apply for a waiver in times of high unemployment

Gold accelerates towards first annual fall in 13 years – Pg. 24

- The bullion fell as much as 2% to $1,224 a troy ounce after an important gauge of US manufacturing activity expanded at its fastest pace in two and a half years during November
- Gold has fallen 36% from 2011's record high in large part because of heavy selling by institutional investors as equities have rallied and inflation failed to accelerate

2 December 2013

Calls for revolution in Kiev – Pg. 1

- Viktor Yanukovich, Ukraine's president, was under escalating pressure last night as hundreds of thousands of protestors poured on to the streets of Kiev demanding the overthrow of his government, after it sought to strengthen relations with Russia at the expense of the EU
- On Saturday riot police crushed protests by pro-EU activists against the president's decision last week to back out of historic EU integration agreements, and instead seek closer ties with Moscow

Pentagon faces retreat in US budget war – Pg. 7

- The Pentagon's diminishing clout in Washington's budget wars underlines the hardening change in mood in the US capital in the wake of the country's withdrawal from Iraq and Afghanistan
- If Congress does not reach a deal that lifts sequestration, the Pentagon will lose about $51bn in cuts from January, about 10% of its annual budget
- Programmes that could be cut include items such as farm subsidies and federal employee pensions on the spending side, and increases in transportation security fees on airlines and money from wireless spectrum auctions
- The cost of paying for military personnel and their benefits has risen rapidly in recent years and now takes up more than half the budget
- The 2014 sequestration cuts would take Pentagon spending in real terms back to 2005 and 2006 levels….

The cartel's challenge – Pg. 10

- …many forecasters expect Opec to cut its production next year as supply rises from the US, Canada, Kazahkstan and other countries outside the cartel
- …America is producing more crude than it is importing for the first time since the 1990s. Within a few years it is expected to be the world's largest oil producer
- The deal with Iran on its nuclear programme last week and the US retreat from air strikes against Syria make Sunni Gulf monarchies nervous that the US is cosying up to their shia rivals in the region
- In Brazil, ultra-deepwater discoveries in 2007 and 2008 were meant to propel the country into the top ranks of oil producers. Instead output declined in 2012,…
- During the financial crisis in 2008 Opec agreed to across-the-board cuts as Brent prices dropped by 75%. The Asian financial crisis of the late 1990s provides a less promising precedent. Opec did

eventually cut production but only after Brent fell by $9 a barrel, a fate today's members would not want to repeat

CMBS issuance at highest since crisis – Pg. 19

- Issuance of commercial mortgage-backed securities has reached $92.9bn so far this year, up from $48.7bn in the same period in 2012, …
- In 2007 institutions issued a record $288.5bn globally in CMBS before a fall in the value of some mortgage-backed securities sparked fire sales across the asset class
- The rise in CMBS issuance has been steepest in the US, reflecting the country's economic recovery. US issuance has risen from $2.2bn in 2009 to $84.4bn so far this year
- …the increase has prompted warnings from rating agencies that banks are loosening corporate lending standards to drum up business. ON a sliding scale used by S&P to measure the credit worthiness of CMBS, where 50 is the safest and 150 the riskiest, recent CMBS in the US were rated at 87 – similar to where they were in 2005 and up from 80 at the start of this year

Pennsylvania's Bank of Bird-in-Hand is first new US lender in three years – Pg. 21

- The first new bank to be launched in the US in almost three years will be located not amid the skyscrapers of Wall Street but in the rolling hills of rural Pennsylvania
- The bank, will make loans to farmers and small business owners and also provide consumer banking services
- The number of institutions on the FDIC's "problem list" fell to 515 in the most recent quarter – the 10th consecutive quarter that the number of troubled banks has fallen
- Only 22 banks have failed so far this year, the lowest number since 2008

30 November 2013

Alderney looks to cash in on virtual Bitcoins with Royal Mint reality – Pg. 1

- The tiny Channel island of Alderney is launching an audacious bid to become the first jurisdiction to min physical Bitcoins, amid a global race to capitalize on the quickly appreciating virtual currency
- It wants to launch itself as the first international centre for Bitcoin transactions by setting up a cluster of services that are compliant with anit-money laundering rules, including exchanges, payment services and a Bitcoin storage vault
- Bitcoin hit a new peak of $1,342 yesterday

Japanese statistics boost drive to end years of deflation – Pg. 3

- Japan is on track to win its war on deflation with the latest consumer price inflation figures showing the highest reading since the country slipped into deflation 15 years ago
- Core consumer price index inflation, which excludes fresh food but includes energy, hit 0.9% in October,…
- The bank has bought trillions of yen of government bonds from banks, seeking to push them into riskier instruments

Prostitution clampdown inflames French passions – Pg. 4

- ….scrap a current 10-year-old law against soliciting an replace it with a provision outlawing payment for sex, punishable by a 1,500 (euro) fine. A similar step was taken by Sweden in 1999
- Also included are provisions to help women leave prostitution and a move to force internet providers to block access to foreign websites offering prostitution services
- Officials estimates are there are at least 20,000 prostitutes in France
- Unlike in some countries such as Germany, where there are systems for licensing prostitution, there are already tough laws in France against pimping and running brothels, although prostitution itself is legal
- (Prof Note: Just like drugs, prostitution, in my opinion, should be legalized, regulated and taxed)

US consumers rush for huge discounts on long Black Friday – Pg. 10

- …retailers started wooing customers early with big discounts likely to sap profits
- Walmart sold 2m televisions, 1.4m tablet computers and 300,000 bicycles
- The long weekend that begins with Thanksgiving accounts for about 10% of US retail sales in November and December, …

Experian suffers downgrade – Pg. 15

- The credit checking agency lost 2.8% to 11.27 (sterling) on a downgrade to "sell" from Goldman Sachs

29 November 2013

China fighter jets in disputed air zone – Pg. 1

- Beijing yesterday sent fighter jets into its new air defense zone, further escalating tensions in the East China Sea that have also drawn in the US
- The US earlier this week responded to China's declaration on Saturday of an "air defense identification zone" by sending B-52 bombers into the airspace, though as part of a pre-planned exercise
- Tensions between Beijing and Tokyo have mounted as Chinese ships and aircraft try to weaken Japan's control over the group of islands and three rocks known in China as the Diaoyu

Yield-hungry US banks gorge on 'sliced and diced' securities – Pg. 1

- ….seekingto boost profits by investing in riskier, higher-yielding assets
- Growing portfolios of structured products have raised concerns that banks could be assuming ore risk on their balance sheets to make up for low interest rates, a situation that would echo the pre-crisis environment in which banks created and purchased billions of dollars worth of securitized assets (Prof Note: NO institution should be allowed to invest in these until they have modeled the products internally. At least that would provide some comfort…at least to me)
- The FDIC's definition of the products covers a range of securitizations including collateralized loan obligations, commercial mortgage-backed securities and collateralized debt obligations

- Banks have also been cutting back on their purchases of US Treasuries, trimming their holdings to $159bn compared with $196bn a year ago
- Regulators have voiced concerns that banks may also be increasing the "duration" of their portfolios. Investing in assets with extended maturities means higher returns but creates the risk of losses if benchmark interest rates were to jump suddenly

Diverging central banks fuel concerns – Pg. 3

- Weak Eurozone inflation data today could fuel expectations of further stimulus measures from the ECB. The Bank of Japan, meanwhile, has dropped heavy hints that if tis aggressive asset purchase or "quantitative easing", programmes do not drag the country out of deflation, it will step up action
- But with the US economy returning to more normal health, the US Federal Reservfe is looking to scale back,, or "taper" its QE. At the Bank of England, the talk is about an interest-rate increase, maybe by the end of next year
- The divergence runs the risk of creating damaging disharmony – especially in currency markets – and with interest rates at rock-bottom levels it will test further central bankers' skills communicating their intentions to investors globally. No historical precedent….
- …The Fed….balance sheet has expanded to $3.86tn since the start of the year
- Yields on German Bunds, which historically have been closely correlated with US Treasury yields, have decoupled

Conservatives and the cult of home-ownership – Pg. 11

- …intervention is indeed required when the economy is working below a sustainable level of capacity operation
- British governments are inhibited from subsidizing manufacturing industry or too blatantly depreciating the currency by international agreements and the fear of retaliation. So When Conservative-led governments are in power, the intervention overwhelmingly takes the form of stimulating housebuilding
- The economic recovery in the 1930s was led by a rash of suburban development in the London area and the southeast

Bitcoin faces new rival as founder of e-gold virtual currency returns – Pg. 15

- Coeptis's "global standard currency" would be fully backed by reserves of gold, in effect turning the precious metal into a medium of exchange

US crude trades at record discount – Pg. 22

- Oil at the US Gulf Coast traded at a record discount to the global market yesterday. This is a boon to US refiners already enjoying the benefits of the shale boom, but heaps more pain on exporters that ship oil into the US at local prices
- Surging shale oil production and severe restrictions on exports have led the US oil market to diverge from global markets in recent years

28 November 2013

ECB warns over taper threat – Pg. 1

- The ECB yesterday issued a stark warning over the threat posed by the scaling back of US monetary stimulus, calling on Eurozone policy makers to do more to prepare for market shocks from Federal Reserve tapering
- The Fed could taper as early as December if jobs numbers due next week show enough momentum in the US labour market
- The ECB said that the eurozone's institutional investors were more exposed to bond markets than its banks but that it was difficult to know where losses would ultimately lie

Brazil war on inflation strives to calm unrest – Pg. 2

- Economists say the root of the unrest is Brazilian's dissatisfaction with the rising cost of living, a realization that has prompted the government to pursue the world's biggest monetary tightening cycle this year to combat inflation
- When Brazil's central bank cut the benchmark Selic rat to an all-time low of 7.25% in October last year it was heralded as a political victory for President Dilma Rousseff,…
- But after holding the rate steady until April, Brazil has raised it five times in a row and was expected to increase it another 50bps yesterday to 10%, pushing it into double digits for the first time in almost two yeasr
- Annual inflation broke through the 6.5% ceiing of the country's tolerance band in March and June this year, partly as a result of a surge in food prices that has hit the poorest families the hardest, and stands at 5.8%
- Inflation has not ended the year close to the 4.5% target since 2009, also a point of concern for investors who accuse the ruling Workers' party of abusing the inflation-targeting regime that has been a cornerstone of Brazil's development
- A sharp depreciation of the real against the dollar also raised the cost of imports, boosting inflationary pressure

Thailand cuts rates amid low growth – Pg. 2

- Thailand made an unexpected 0.25% to its main rate yesterday, in an effort to boost lending and investment amid flagging economic growth and growing protests aimed at ousting the government
- The bank's monetary policy committee said it had cut its benchmark one-day bond repurchase rate from 2.5% to 2.25%, to counter an economic slowdown that could be "compounded by ongoing political situation"

Moscow abolishes commercial court – Pg. 6

- Russia has abolished its highest court and given president Vladimir Putin more power over prosecutors in what many legal experts and businesses decry as a move further undermining the country's legal system

- The changes come as companies' unwillingness to invest has caused growth to grind to a halt in the world's fifth-largest economy
- Human rights advocates and lawyers say that the country's courts have once again become an instrument for disciplining or defeating political opponents

US retailers to see red over early start – Pg. 13

- In a fragile post-crisis economy where ecommerce is booming, retailers such as Walmark, Best Buy and Macy's have become so desperate to woo consumers that they are discounting their Christmas wares earlier and more aggressively

Moscow gives rouble a free-float makeover – Pg. 24

- Next month, the central bank will tally up votes to pick a new logo for the currency – a symbolic move intended to erase memories of hyperinflation and devaluations
- …accelerating decline in the rouble, which hit a four-year low yesterday of 38.36 against the dollar-euro basket the central bank uses

27 November 2013

US flies bombers in China air zone – Pg. 1

- Two American B52 bombers few across disputed islands in the East China Sea yesterday, days after China heightened tensions with Japan by claiming the area as its "air defense identification zone" (Prof Note: The U.S. better be more careful or China will flex its economic clout!)
- The Chinese claim is part of a broader push by Beijing to assert greater control over the seas that surround it and to push back against US influence in the western Pacific, where the US navy has been dominant since the end of the second world war
- Although the US officially does not have a position on the sovereignty dispute over the islands, Mr Hagel added that the mutual defense treaty with Japan did include the Senkaku Islands – an indication that the US would intervene on the Japanese side if there were ever a conflict over the islands

Elderly feel full force of austerity measures – Pg. 6

- Pensioners in developed economies are no longer being spared the worst effects of the financial crisis as fiscal austerity programmes aimed at curtailing spending on the elderly start to kick in, …
- Spending on pensions, which accounts for nearly a fifth of government outlays on average across the 34-nation OECD, is being limited through a variety of benefit changes, including raising state retirement ages and freezing – or even cutting – payouts
- By 2050, most OECB countries' state pension age will have risen to 67,….
- Rates of home ownership have increased across OECD nations from the mid-1980s, although there are large variations, and older adults are more likely to be homeowners than younger ones. On average, 77% of heads of household aged 55 and over are homeowners, compared with 60% in the under 45 age group

Private equity's 'dry powder' rises overcapacity concern – Pg. 15

- Private equity groups are holding more cash for acqisitions than they had at the height of the leveraged buyout boom, in spite of a fall in the volume of deals being done – raising concerns about overcapacity in the industry
- …dry power, has surged to $789bn this year - …
- In 2007, private-equity houses led $776bn of deals but the comparable figure stands at just $310bn in 2013,…

Men's Wearhouse makes counterbid for Jos A Bank – Pg. 17

- The battle to control the US discount menswear market took another twist yesterday as Men's Wearhouse launched a $1.2bn bid for Jos A Bank, ….
- The offer heralds the return of the "Pac-Man" defense – so called for the arcade game tactic of vanquishing a pursuer by eating it – which has been absent from the US deal making landscape for many years

Treasuries market puts Fed anchor to the test – Pg. 22

- The US central bank is stressing that it is in no hurry to raise overnight interest rates. By doing so, it hopes to limit the rise in long-term bond yields ahead of any decision to pare back its $85bn-a-month of emergency bond purchases, dubbed "quantitative easing"
- ….bond traders expecting the first rise in US interest rates to occur in late-2015
- ….benchmark 10-year US government bonds yielding 3%, ….
- …steepening of the yield curve has been driven by investors selling long-term bonds and buying shorter term maturities

26 November 2013

In need of resuscitation – Pg. 7

- The website did crash. The rollout failed so badly that only 106,000 people were able to sign up for insurance on the exchanges in the first month when 500,000 were expected to do so
- Since then, other problems have emerged that have severely hurt Mr Obama's credibility – including his now discredited promise that every American who liked their existing heath insurance would be able to keep it
- Mr Obama has partly blamed the government's poor record on IT procurement as a cause of the failure
- The administration has accepted responsibility
- Technology was not the only problem. The US election calendar also played a role
- The ACA was supposed to allow some existing insurance policies to be deemed compliant with the law – or "grandfathered" – even though they did not meet new, tougher consumer protections

Carlyle buyout fund raises $13bn – Pg. 18

- The Carlyle Group has underlined the return of the large buyout funds that were a trademark of the boom years after it secured $13bn for its flagship North American vehicle
- The fund, which will focus on corporate leveraged buyouts and strategic minority investments in the US, has attracted about a third more than it initially sought
- The end result compares with $13.7bn raised by the group for US deals at the end of 2008 and $7.8bn in 2005
- This is still 44% less than investors pledged in 2008, the peak of the private equity fundraising market, on the eve of the global financial crisis
- Carlyle's 2008 and 2005 funds were both returning 13% per year after fees as of September

Washington turns bond market on its head – Pg. 24

- The financial market world order is in upheaval. The past few weeks have seen a telling change: longer-term Spanish and Italian government bonds have become more stable than US Treasuries
- The shift, shown in the volatility of total returns, highlights the relative calm enjoyed by global bond investors – but also how Washington has become a bigger source of instability than the Eurozone
- Since the middle of October, however, as the US Federal Reserve has moved closer to scaling down, or "tapering", its emergency asset purchase programme, US seven to 10-year bonds have seen larger average fluctuations
- Italy and Spain have also seen a rising share of government debt being held by domestic, rather than foreign, investors, which are less likely to sell at times of stress
- The next set of US jobs data could determine whether the Fed will start "tapering" its asset purchases in December – or wait until next year. Bond prices will probably yo-yo as the central bankers make up their minds

25 November 2013

US banks threaten to charge for deposits – Pg. 1

- Leading US banks have warned that they could start charging companies and consumers for deposits if the US Federal Reserve cuts the interest it pays on bank reserves
- Depositors already have to cope with near-zero interest rates, but paying just to leave money in the bank would be highly unusual and unwelcome for companies and households
- Executives at two of the top five US banks said a cut in the 0.25% rate of interest on the $2.4tn in reserves they hold at the Fed would lead them to pass on the cost to depositors

Bernanke presses pledge for low rates despite possible tapering – Pg. 4

- …drive home the point that, if the Fed tapers its bond buying – probable "in coming meetings" – it does not undermine its stated commitment to lower rates. Higher rates will not automatically follow and the markets can trust its forward guidance
- Direct options for forward guidance include lowering the unemployment rate threshold for a first rise in interest rates below 6.5%, adding a minimum inflation threshold, or mearly saying more about what will happen after unemployment hits the threshold or rates begin to rise

- Balance sheet tools – which have the signaling advantage of requiring action now, rather than the less credible promise of action in the future – include buying short-term bonds, lowing interest paid on bank reserves, or in some way promising to taper only slowly
- The easiest option is communication about what happens after unemployment hits 6.5%

23 November 2013

Carlsen swoops to dominate world of chess – Pg. 3

- Magnus Carlsen, the 22-year-old Norwegian chess genius has taken the world championship title, becoming the first western European player in 76 years to hold the crown
- The chess world was quick to foresee a new era in top-level chess dominated by the young Carlsen, in much the same way that Garry Kasparov dominated the late 1980s and throughout the 1990s
- At 13 he became one of the youngest people to attain grandmaster. At 19 he became the youngest to be ranked world number one

Whitbread rises on hotels cheer – Pg. 11

- Whitbread was the top performer in a flat London market yesterday on rising optimism about its hotels business
- UK revenue per average hotel room rose 8% in October, following on from September's 7.2% gain,…

22 November 2013

Scandals spur bank ban on chat rooms – Pg. 1

- The Libor scandal, which has led to $3.7bn in fines, has raised banks' awareness of the problems associated with chat rooms as investigators have seized on trails of incriminating messages (Prof Note: What bothers me the most is rather than working on ethical behavior the banks work at reducing the evidence!)

Pressure grows for limits on 'dark pools' – Pg. 13

- Trading in off-exchange venues known as "dark pools" could be reined in after proposals emerged yesterday from Europe and the US to crack down on the practice
- Dark pools – facilities that allow trading of shares, with prices posted publicly only after trades are done – are perceived by many as offering an advantage over exchanges
- Under existing regulators, brokers can trade at the best price but are free to do so where they choose and do not have to display their prices until after the trade is executive away from the public market

BR Properties sells warehouses to pay down debt – Pg. 16

- Brazilian real estate developer BR Properties has struck a deal to sell its warehouses and logistics assets ….

- The sale is the latest major divestment by a Brazilian group as many of the country's biggest companies look to reduce their debt and cut costs to adjust to a period of slower economic growth

Money market funds face bleak 2014 – Pg. 20

- Global money market funds are projected to lose about a third of their assets under management next year as the combined forces of record low interest rates and new regulations batter the multi-trillion dollar industry
- Under US and European regulators' proposals money market funds are set to change their approach to pricing, potentially moving from a stable $1 or 1 (euro) net asset value to one that will fluctuate according to the market value of the underlying investments

21 November 2013

Fed eyes options to offset 'tapering' – Pg. 1

- The US Federal Reserve is considering cutting the interest it pays to banks on their reserves in a dramatic move to offset an eventual slowing of its $85bn-a-month asset purchases
- Cutting the extra interest on reserves that banks hold with the Fed would drive down already-low overnight interest rates even further, probably to just a few basis points, hurting bank profits but adding extra stimulus to the economy
- The option that won the most obvious support at the FOMC meeting was a cut in the 25bps of interest the Fed pays to banks on the $2.5tn in reserves they have accumulated as a result of its asset-buying
- Other options the Fed discussed included lowering its 6.5% unemployment rate threshold for the first rise in interest rates
- Another possibility was to expand on the Fed's statement to describe what would trigger a rise in interest rates. It could also say that rates are likely to rise only slowly when they do eventually take off

Chief of China's biggest bank warns bad loans will destroy weaker rivals – Pg. 1

- The head of China's biggest bank has warned that bad loans will inevitably rise and weaker lenders will be wiped out as the government relaxes its grip on the economy
- Bad loans have started to rise for the Chinese banking sector. They rose by the largest amount in eight years in the third quarter, though as a proportion of industry-wide loans they are still at less than 1%
- ICBC reserves are 269% of its level of bad loans, nearly double the regulatory minimum

Inequality climbs US political agenda – Pg. 2

- The typical American family now earns less in real terms than in 1989, ….
- The bureau …median household income fell from $51,100 to $51,017 in 2012, and was now 8.3% below its pre-recession peak in 2007
- In the three years to 2012, the top 1% of incomes grew by 31%,…

UK students cut back on boozing as study costs help focus minds – Pg. 3

- …students are demanding more, both from their universities and from themselves (Prof Note: Absolutely….10 years ago students, in general, were in my class room to get a degree. Today, they are scared and get angry if they do not learn anything as the cost for tuition has increased so much. Could someone please justify the $3,000 for an Ethics class to me, please???!!! Would the $3,000 not be better spent on another Finance elective?! I'm just say'in….)

Russia's central bank warns on household debt – Pg. 6

- In the first nine months of the year, consumer lending rose 36%, with non-performing loans now totaling 7.7%, versus 5.9% at the start of the year

20 November 2013

JPMorgan to pay out $13bn after mis-selling mortgage securities – Pg. 1

- The record penalty is a personal blow to Jamie Dimon, ….
- At the same time, no individuals were part of the settlement and shareholders reacted with equanimity, ….
- The bulk of the securities were underwritten by washinton Mutual and Bear Stearns, companies acquired by JPMorgan in 2008, and the extent of the bank's liability for behavior at the companies before they were acquired was one of the stumbling blocks to a settlement

Little room for graduates of the crisis as London rents accelerate – Pg. 6

- High house prices and a decline in social housing mean a growing proportion of the city's population is squeezing into an unstable and inceasingly unaffordable private rental sector
- In Berlin, tenancies often last for at least five years, and tenants can do pretty much what they like with the place
- In Britain, they last six to 12 months and tenants are often subject to inflexible terms and conditions, such as bans on putting their own pictures on their walls.

19 November 2013

Indian central bank chief pledges era of competition – Pg. 1

- India's central bank governor…has promised to carry out a "dramatic remaking" of the country's banking sector as he seeks to introduce a new era of competition in Asia's third-largest economy
- …published new rules liberalizing the treatment of foreign banks alongside plans to issue the country's first new banking licenses in a decade next year, as part of far-reaching reforms of Indian financial services
- Over the past two decades the bank sector has been opened to competition

Graduate data reveal England's lost generation – Pg. 1

- The earnings of recent graduates in England have deteriorated so rapidly since the financial crisis that the most recent class is earning 12% less than their pre-crash counterparts at the same stage in their careers. They also owe about 60% more in student debt
- This real terms fall is three times as deep as the decline in average pay for all full-time workers over the same period
- Young people have been affected disproportionately by the financial crisis across the developed world

Bitcoin at $675 with a bit of help from Bernanke – Pg. 15

- Mr Bernanke, in a letter to the Homeland Security committee, pointed out the Fed's longstanding view that while virtual currencies pose money laundering and other risks, "there are also areas where they may hold long-term promise"
- Bitcoin is the most famous of several virtual currencies that keep track of transactions on a peer-to-peer network of computers

18 November 2013

EBA warns on bank crisis handling – Pg. 1

- Europe's ability to deal effectively with a future financial crisis risks being undermined by the "impossible" committee-led governance plaguing its banking watchdog, ….
- The EBA is stress testing Europe's top 150 banks to repair battered investor confidence in the sector
- In tandem with an "asset quality review" of Eurozone lenders by the European Central Bank, the exercise is designed to shine unprecedented light on banks' balance sheets

Playing to the cheap seats – Pg. 8

- Traditional, mass-market fund managers are themselves clamouring to launch hedge fund-like products, hoping to recapture the glory days of high fees before low-cost index tracing and passive funds eroded margins
- The total amount of money in "alternative" mutual funds in the US alone rose 51% in the first 10 months of this year, to $239bn….
- These "alts" account for just 2% of mutual fund assets, but attracted about 20% of the new money over the past year, as investors looked to diversify from bonds and equities
- Little wonder. When central banks finally tighten monetary policy, the increase in interest rates will lead inevitably to declines in bond prices
- Hedge funds have lagged behind the stock market this year but their lower volatility is a selling point
- There are also limits on the amount of leverage a mutual fund can use: they cannot juice returns the way that traditional hedge funds can

Fed eyes delay to Volcker rule – Pg. 17

- The Federal Reserve is considering a delay in the compliance date for the highly anticipated Volcker regulation, giving banks additional time to conform with its provisions, …
- Banks are currently required to comply with the rule, which bans proprietary trading that puts a bank's own capital at risk, by July 2014
- The Fed has the option of delaying the compliance date in one-year increments
- If the Fed does decide to delay the compliance date, financial firms would still have to eliminate pure proprietary trading desks by July 2014
- Other terms may include requiring banks to collect data, make disclosures and implement other measures to build their compliance systems
- But banks are worried that the Volcker rule will curb legitimate activities, such as market making and hedging, which firms say are often hard to distinguish from proprietary trading
- The Volcker rule would also prohibit a bank from acquiring or maintaining an equity investment in a "covered fund", which could mean divestments in hedge funds, private equity funds, joint ventures or investment trusts

16 November 2013

Symbolic shift in birth policy comes as labour shortage bits – Pg. 3

- The Chinese government's decision to allow a new exception to the "one child" policy is unlikely to have much effect on the birth rate but it marks a symbolic shift in one of Chinese communism's most famous social policies….
- …expanded to include families where one parent was a only child. Previously, the law granted this concession just to couples where both parents were only children
- The birth planning laws already allow so many exceptions that many demographers consider it misnomer to call it "one-child" policy: apart from families where both parents are only children, rural people are also allowed to bear a second child – if their first child is a girl or disabled – and ethnic minorities are allowed more children
- China is facing a critical shortage of labourers caused largely by 30 years of restricting family size. Last year, the working age population shrank for the first time, threatening a mainland economic miracle built upon surplus labour
- The census estimates the 2011 birth rate among women aged 20 to 29 was only 1.04, and in 2010 the overall birth rate in cities was only 0.88

Short sellers bet gunmakers will soon star firing blanks – Pg. 11

- Shares in weapons manufacturers have outperformed the broader market, after consumers rushed to purchase guns before widely expected government regulation

15 November 2013

Eurozone and Japan growth figures dash hopes for faster global recovery – Pg. 1

- Growth in the Eurozone faltered in the third quarter, expanding by 0.1% following 0.3% in the second quarter

- Janet Yellen, the nominee to chair the Federal Reserve, told a Senate confirmation hearing that the market were still performing "far short" of their potential and gave a robust defence of ultra-loose monetary policy to support growth
- The deceleration in Japan follows a stimulus-boosted first half, when all three engines – consumption, investment and exports – fired simultaneously to produce quarter-on-quarter growth of 4.3% in the first three months and 3.8% in the second

Yellen defends easing policies – Pg. 3

- Ms Yellen told members of the Senate banking committee that it was "imperative to do what we can to promote a strong economic recovery"
- She noted that the labour market had improved but was still performing, "far short" of its potential with unemployment at 7.3%
- Ms. Yellen said there was "no set time" for tapering and at each Fed meeting officials were assessing whether there had been sufficient progress in the labour market to justify such a decision
- Ms Yellen also said the Fed had revamped its supervisory processes, and noted that a priority was to monitor the financial system, which the Fed did not adequately do before the financial crisis

Google wins legal fight over plan to scan the world's books – Pg. 3

- Google has one a long-running lawsuit over its ambitious plan to scan and index all the world's books, removing a question over its right to display small extracts of text in response to search queries
- …ruled that Google's display of snippets from books was protected under "fair use" provisions that allow limited use of a copyrighted material

Walmart predicts grim US Christmas shopping period – Pg. 13

- Walmart warned of a tough Christmas shopping season for US retailers as it forecast weak sales amid the most intense competition it had ever seen

Corporate default risk models are broken – Pg. 20

- Concerns are mounting that the analytical frameworks, which underpin many investment decisions, are becoming increasingly useless when it comes to measuring risks lurking in the corporate bond world and wider financial system
- The availability of easy money combined with yield-hungry investors has enabled companies to stave off defaults for the past five years by refinancing debt
- The default rate stands at 2.3%, below the 4.5% historical average, ….
- Most credit analysts warn that the outlook for corporate defaults is dependent on the timing of the end of QE, the rise in interest rates and the health of the US economy when the Fed finally decides to scale back its stimulus

14 November 2013

Funds push $50bn deal for Fannie and Freddie – Pg. 1

- Investors behind a $50bn proposal to take over large parts of Fannie Mae and Freddie Mac are pitching the idea as a way for the US government to wind down the mortgage finance groups, but have already encountered skepticism in Washington (Prof Note: These need to remain owned by the government….if the taxpapers are lenders of last resort then the taxpapers should own and benefit!)
- The fate of the agencies is one of Washington's biggest pieces of unfinished business from the credit crisis
- Mishandling their future could threaten the US housing recovery and the wider economy, as they guarantee 85% of new mortgages
- Fannie and Freddie's core business of guaranteeing mortgage-backed securities would be transferred to two entities with an initial capitalization of more than $50bn, by converting the preferred stock and launching a $17.3bn rights issue

Recovery sparks UK rate rise signal – Pg. 1

- The BOE believes the UK economy is recovering so quickly that it is likely to consider raising interest rates from their historic lows as early as this time next year – 18 months sooner than expected
- If the BoE raises rates next year it would be the first major central bank to start normalizing monetary policy I the wake of the "Great Recession", putting it at odds with its international peers
- …the ECB cut its main interest rate to 0.25% amid fears of deflation; and the Bank of Japan has embarked on a large expansion of QE

Yellen faces tough questions at confirmation hearing – Pg. 4

- (Prof Note: read article in entirety)

Short sellers take aim at gunmakers – Pg. 15

- Short sellers are betting that a surge in gun sales after a series of mass shootings in the US will soon run out of momentum (Prof emotional note: NEVER!!!)
- Those concerns proved overblown when a bill calling for background checks on purchases at gun shows was unable to pass the Senate (Prof Note: It is easier to buy a gun at a gun show than purchase clothing from a retailer. Also, the customer service is better at a gun show!)

13 November 2013

Tenants wanted as tower opens on 9/11 site – Pg. 6

- The first new skyscraper at New York's World Trade Center is set to open today with large vacancies, more than 12 years after the September 11 terrorist attacks
- The complex stop-start $14bn World Trade Center development has been an expensive architectural and engineering endeavor

- It has been a struggle to find tenants as cost-wary corporations, strung by the global financial crisis and its fallout, have downsized or searched for cheaper office space
- So far, only two government tenants – the port authority and New York City's Human Resources Administration – have agreed to occupy 60% of Four World Trade Center
- Although activity in central Manhattan is picking up, vacancy rates remain high at more than 10%, ….
- Rents for these two buildings stand at $75/sf. Although higher than average Manhattan office rates of $62, they are cheaper than new construction elsewhere, which can be in excess of $100

The big fix – Pg. 7

- At least 12 foreign exchange traders at global banks in London, New York and Tokyo have been suspended amid scores of regulatory and internal inquiries into possible attempted manipulation and collusion in the foreign exchange markets, where $5.3tn changes hands every day
- Foreign exchange….is also one of the most unregulated areas of trading
- Regulators are investigating whether members of this network used their combined market power to try to manipulate prices in their favour – resulting in higher costs for simple transactions for clients such as pension funds
- A big part of currency spot trading is still done by old-fashioned voice spot traders, who deal with clients over the phone
- As with the Libor scandal, the allegations centre on yet another set of benchmarks
- In May, there was a breatkthrough. A whistleblower, a trader who used to work for one of the leading banks, gave the regulator information about chatroom discussions between rival traders that allegedly allowed them to share information about pricing and order books
- (Prof Note: Note to ALL….watch the texts, emails, facebook posts, etc…..)

12 November 2013

Shadow banks reap Fed reward – Pg. 1

- Loosely regulated non-bank lenders have emerged as among the biggest beneficiaries of the Federal Reserve's ultra-low interest rates with three specialist categories increasing their assets by almost 60% since the height of the financial crisis
- The rapid growth of Reits, which borrow in the short-term financial markets to make tax-favourable investments in longer-term assets such as mortgage bonds, has drawn the attention of US regulators

'Rural America' slow to recover – Pg. 2

- Employment growth in the US's sparsely populated heartland has stagnated since the economy began to recover in 2010, …
- Since the start of 2011, net job growth in non-metropolitan areas has been near zero, while it has averaged 1.4% annually in metropolitan areas
- Nearly six in seven high-poverty counties in the US between 2007 and 2011 were in non-metropolitan areas

Beijing predicted to lower growth target to 7% - Pg. 4

- China will cut its growth target to 7% next year in a sign of the government's determination to push through structural reforms and steer the economy on to a more sustainable path, …
- Beijing has aimed for 7.5% growth in recent years

Brazilian move sparks furore over internet privacy bid – Pg. 5

- The additional measure would require companies active in Brazil to duplicate infrastructure offshore by setting up huge data centres in the country
- At the heart of private sector concerns is that the proposal will increase the already high costs of doing business in the country

Jobs data extinguish EM rally hopes – Pg. 20

- The improvement in the US labour market has killed off hopes of an end of year rally in emerging market currencies, as speculators factor in the possibility of an earlier start to the Federal Reserve's withdrawal of stimulus
- …the Brazilian real has fallen 3.7% to R$2.3370 against the dollar, while the South African rand has slipped 2.3% and the Indonesian rupiah 1.7%

Developing world debt gets index makeover – Pg. 20

- Yield-hungry investors undeterred by the developing world's economic slowdown and the threat of reduced US stimulus, are hoping last month's revamp of the local currency corporate bond market has breathed new life into an overlooked asset class
- Many developing countries already have large local bond markets denominated in domestic currencies that companies tap for financing
- …overall local corporate bond market hit $4.2tn by the end of September….

11 November 2013

Japanese business gets taste for Taiwan in search of growth – Pg. 2

- More than 600 Japanese businesses invested in Taiwan in 2012, a historical high and up 40% on the previous year, ….
- Unlike China and South Korea, which bear bitter memories of Japanese attacks in the wars of the last century, Taiwan was a favoured colony of Tokyo's for 50 years before the end of the second world war. Japan and Taiwan's links were reinforced by their subsequent development as electronics producers
- China is Taiwan's largest trade partner, accounting for about 40% of its exports
- Taiwan's economy is not growing much faster than Japan's, registering lower than expected growth of 1.58% last quarter

Canada's housing market teeters precariously – Pg. 3

- …as home prices rally and construction projects proliferate – particularly in Toronto, Montreal and Vancouver – industry analysts say the country's property sector has reached a peak
- …Bank of Canada, the nation's central bank, noted an "elevated level of household debt and stretched valuations in some segments of the housing market"
- The riskiest mortgages are guaranteed by taxpayers through the Canada Mortgage and Housing Corporation, insulating the financial sector from the sort of meltdown endured by Wall Street in 2007 and 2008. But a collapse in home sales and prices would be a blow to consumer spending and the construction industry that employs 7% of Canada's workforce
- Household debt has risen to 163% of disposable income,….
- On a price-to-rent basis, which measures the profitability of owning a house, Canada's house prices are more than 60% higher than their long-term average,….

University endowments – Pg. 18

- The $20bn-plus nest eggs of Harvard and Yale swelled in the past two decades as they embraced alternative investments – private equity, natural resources and so on
- But the Yale endowment recently lowered its private equity allocation and Harvard disclosed that its 2013 private equity returns have been middling

9 November2013

Growth in US jobs fuels taper fears – Pg. 1

- The US economy shrugged off the government shutdown by adding 204,000 jobs in October, transforming the picture of the world's largest labour market and increasing the chances of the US Federal Reserve slowing its asset purchases in December
- An apparent slowdown in jobs growth was the main reason the Fed chose not to "taper" asset purchases from $85bn a month in September
- The Fed's huge bondbuying programme has propped up global stock markets and emerging economies, which could become casualties of a change in policy. The dollar gained and the yield on 10-year Treasury notes jumped 14bps to 2.75% as markets priced in the prospect of an earlier taper

SEC bans firms for 'botched' Chinese audits – Pg. 9

- US regulators have barred two accountancy firms from performing future audit work after finding their reviews of Chinese companies listed in the US were "riddled with failures"
- These mergers, where a Chinese company buys a listed shell company, were seen as a short-cut to American stock markets and became notorious after many of them were targeted by short-sellers and a number proved to be frauds

Marriott checks in to buy African hotels business – Pg. 9

- Marriott international has agreed to buy the brands and management business of Africa's largest hotels group, in a move that will almost double the US hotel chain's rooms in the continent

- The deal involves 116 hotels that South Africa's Protea Hospitality Group operates or franchises in South Africa and six other sub-Saharan African countries,…
- …growing investors interest in Africa, which is home to some of the world's fastest-growing economies
- …remains the most under-developed continent….(Prof Note: Antarctica? When I was there I do not remember a single hotel!)

Housebuilders lose ground on prospect of rise in rates – Pg. 11

- DR Horton, PulteGroup and other large US housebuilders fell yesterday after US jobs growth unexpectedly accelerated in October, raising expectations that the Federal Reserve will reduce its bond-buying programme

Rate cut delivers jolt to stubborn euro – Pg. 12

- The single currency dropped more than 1% immediately after the decision was announced, hitting a seven-week low of $1.3304 against the dollar
- …yesterday's announcement by S&P's that it was cutting France's sovereign credit rating by one notch to "AA"

8 November 2013

Deflation fears spark shock ECB rate cut – Pg. 1

- …unexpectedly cutting interest rates to a record low and insisting that it had more weapons in its "artillery" to prevent falling prices
- A fall in inflation last month to less than half the ECB's target or just under 2% has heightened concerns that disinflation, or even a period of Japan-style deflation, could add to the bloc's economic woes
- Investors applauded the decision, sending European stocks to five-year highs at one point and Eurozone bond yields tumbling

Pressure on Putin after Russia cuts long-term growth forecast – Pg. 1

- Russia has slashed its long-term forecast for the economy in the first official admission that the growth model ….is falling apart
- The economy ministry said it expected annual growth of 2.5% to 2030, down from a forecast made in April of 4.3% (Prof Note: I should have been an economist….when you are not right, just reforecast!)
- This could make the government's target of 1.8% growth for the full year difficult to achieve,…
- On Wednesday, a poll by the Higher School of Economics, a liberal macroeconomic research institute in Moscow, forecast just 1.6% growth this year and 2.1% in 2014

Strong data flatter US economy – Pg. 4

- The US grew at an annualized pace of 2.8% in the third quarter but the stronger-than-expected headline figure was the best part of a discouraging report on the economy

- Growth beat analyst expectations of 2% but only because of a 0.8% point contribution from inventory build-up
- That creates a risk of lower growth in the fourth quarter…
- Consensus expectations are for jobs growth of 100,000 in the month and a slight tick up in the unemployment rate from 7.2 to 7.3%

Rental bonds – Pg. 12

- Innovations in mortgage finance have a bad reputation
- …Blackstone sold $479m of securities backed by the cash flows on 3,207 leased single-family rental properties mostly in Arizona, California and Florida
- Like a typical securitization, the rental bond – the first to finance this strategy in the capital markets – has different tranches that carry different levels of risk, depending on when losses would hit them
- The market for securitizing residential mortgages has not recovered from the crisis
- …renting single-family homes on this scale is a post-crisis trend. It is difficult to predict the costs of managing the properties. There is also uncertainty about how concentrated ownership will affect price trends in the event of sales
- (Prof Note: Aye Caramba….Renters are not owners. Renters care differently about neighbourhoods than owners. Houses break and unlike apartments where maintenance is an elevator away this will require teams of support.)

Bailed out US groups repaying $185bn – Pg. 14

- Fannie Mae and Freddie Mac will have paid a total of $185.3bn in dividends to the US government by the end of this years, putting the mortgage finance groups on track to make payouts that will soon exceed the US government bailout they received
- The government injected $188bn into Fannie and Freddie in 2008, which put them into conservatorship
- The dividends, however, do not count as a repayment. As part of the bailout, the Treasury received senior preferred shares in Fannie and Freddie that originally paid a 10% dividend
- Fannie and Freddie do not make home loans, but they buy mortgages from lenders and package them into securities

US rentals sliced and diced into new asset – Pg. 20

- For some, the bonds represent the birth of a new asset class, the future of US housing market and a recovery in credit sectors that all but died during the financial crisis. For others, they look like a potential repeat of the securitization machine that contributed to the last housing boom – complete with triple-A credit rating, high demand from yield-hungry investors and rapid expansion
- The new bonds are known as “single-family rental” or “Reo-to-rental” securitizations, with “Reo” an industry term for foreclosed houses that have been repossessed by banks

Czech central bank weakens koruna in deflation struggle – Pg. 20

- The Czech National Bank has begun intervening in the currency markets to weaken the koruna, targeting a lower exchange rate as part of its battle to avoid deflation

7 November 2013

Indonesia enters 'new equilibrium' as economic growth continues to slow – Pg. 2

- Growth in southeast Asia's biggest economy has slipped to its slowest rate in four years, but no one seems to have told the young Indonesians enthusiastically snapping up Nike sneakers…
- Indonesia's economy faces headwinds, from a widening current account deficit and a sliding currency to increasing protectionism and political uncertainty ahead of next year's landmark elections,…
- …GDP had fallen to the lowest level since 2009, slipping to 5.6% in the third quarter
- Domestic consumption and capital expenditure, which have underpinned Indonesia's growth since prices for its commodity exports dropped, are expected to slow further in the coming months. Households and companies will be feeling the effects of higher borrowing costs, after the central bank began in June to raise interest rates aggressively

Delayed data set to shed light on US economy over shutdown – Pg. 3

- The closure of US statistical agencies during the last month's shutdown not only led to a delay in the release of the economic indicators but could also produce some noisy outcomes. This is particularly true for the jobs report, due tomorrow
- The US economy may yet pull off a second-half acceleration
- The jobs report is likely to be weak

ECB weighs options as inflation falls – Pg. 4

- …October flash reading of 0.7% - the same level as Japan, an economy synonymous with deflation – that calls for the ECB to act gathered strength
- The Eurozone is not Japan
- There is a danger that falling prices, or even disinflation, reignites fears that the periphery's debtors will default
- Disinflation has hit as the region is still suffering from record-high unemployment, while the euro's strength has added to the challenges faced by the bloc's exporters, as well as weighing on inflation
- Cut rates
- Use forward guidance
- Provide more liquidity

US Treasury sells $15bn floating debt – Pg. 20

- Investors will be able to buy up to $15bn of Treasury bonds offering protection from a rise in interest rates, in the first new type of debt to be issued by the US government since 1997
- The introduction of the securities has been planned for two years and the move is seen providing investors with a security that offers portfolio protection in a climate of rising interest rates.

- Concern has grown about the impact on the debt markets of an end to the Federal Reserve's $85bn-a-month emergency bond-buying programme, which has sent yields on bonds, which move inversely to prices, to historic lows

6 November 2013

EU seeks huge rigging fines – Pg. 1

- Brussels is poised to levy multi-billion-euro fines on banks that took part in a cartel to rig two key global interest rate benchmarks as the cost of financial misconduct continues to spiral (Prof Note: Any with the Fines, i.e. cost of doing business. What about lifetime bans for participants?)
- The commission's Euribor case relies in part on evidence submitted by Barclays, which has secured immunity from EU cartel fines relating to Euribor
- Unlike US antitrust regulators, Brussels will not settle with individual cartel members and only concludes cases simultaneously with all or most of the companies involved
- The main incentive to settle is the 10% cut in fines and a shorter and less detailed charge sheet against the cartel, which limits the potential for private damages claims

Eurozone growth revision raises fears – Pg. 4

- Pressure mounted on the ECB to cut interest rates after Brussels yesterday revised its economic forecasts to show more tepid growth in the Eurozone next year and falling inflation through 2015
- …expand an anaemic 1.1% next year, down from a projected 1.2% forecast in the Spring and 1.4% at the start of the year - …
- Eurozone inflation fell to just 0.7% in October, the lowest since the depth of the financial crisis and below Japan's for the first time since 1998
- Among the countries that saw the biggest reductions in growth projections for 2014 were France – from a 1.1% estimate in the Spring to just 0.9% in the new forecast – and Spain, which went from 0.9% to 0.5%

India's bitter land disputes set to roll on despite new law – Pg. 6

- India's new land law was designed to resolve one of the most vexing problems of its sputtering economy; bitter stand-offs over state acquisition of agricultural land for industry, infrastructure and urban development
- On paper, India's previous 1894 land acquisition law, a legacy of British colonial rule, gave the state unchecked powers to take private land for projects of public interest, including private investments. Private companies have mostly relied on state-procured land for big projects
- Under the new law, state authorities can only buy land for private companies to use for projects if they obtain the consent of 70 to 80% of affected landowners
- The state will also be required to pay twice the prevailing market price for any land it acquires in urban areas, and four times the prevailing price for land in rural areas,…
- With a population of 325 people per square kilometer …India's land is already some of the most expensive in the world, with prices having increased fivefold over the past decade,…

- Property prices in Mumbai's most exclusive neighbourhoods are as high as Tokyo or New York, while land prices in smaller cities far exceed prices in comparably-small US cities

5 November 2013

Red restoration – Pg. 7

- Chinese leaders have suggested that this meeting, known as the Third Plenary session of the 18th CPC Central Committee, will be the most significant since the 1978 gathering that transformed the country
- This "restoration" of Communist imagery and tradition has been fuelled by a heavy dose of nationalism and has been accompanied by a wave of government attacks on foreign businesses in selected industries
- The government has also launched industry-wide investigations into pricing of medicines and milk powder and in August levied its biggest ever penalties for pricing violations, fining six infant milk formula companies a combined $110m
- By pursuing foreign companies the authorities are sending a message to entire industries that they intend to clean things up in order to provide quality products at reasonable prices in industries about which the public is concerned
- By forcing multinationals to lower prices and improve their offerings they are hoping to raise the bar for domestic competitors as well as provide concrete examples to the masses of how their lives are improving under the new administration

'Bail-in' fear looms over bank bond investors – Pg. 22

- "Burden-sharing", "bail-in" or "haircuts" – call it what you like. The prospect of bank creditors sitting in the line of fire is causing jitters among bond investors ahead of stress tests by EU regulators
- As it becomes clearer exactly how bondholders will be required to share the burden in future bank rescues – or even as a result of the forthcoming bank stress tests – the effect on funding costs could be significant

4 November 2013

US growth fears as across-the-board budget cuts hit public investment – Pg. 1

- Public investment in the US has hit its lowest level since demobilization after the second world war, largely as a result of Republican success in stymieing the President's push for more spending on infrastructure, science and education
- Gross capital investment by the public sector has dropped to just 3.6% of US output compared with postwar average of 5%, …
- (Prof Note: I am against additional spending for education until there is educational reform. Eliminate the Depart of Education to start. Then a complete reorganization of through grade 12. Finally, eliminate the BS need to be certified as a public school teacher….I remain disgusted by this…I can sign off on a masters thesis but not teach high school algebra! What a joke! Finally,

let's focus on what we need, i.e. more math and science. Classes in personal finance are a must. Also, bring back penmanship to the classroom!)

End of a hard road is nigh as US counts the cost of repairs – Pg. 4

- It can cost $60,000 a mile to pave a road and the bill repeats itself every 10 years, ….
- It costs $10,000 - $20,000 to tear up a mile of road but the need for maintenance falls to $300 a year for dust control
- The public sector is investing less in the future and spending less on maintaining the infrastructure it already has

Fears over $70bn Puerto Rico debt – Pg. 17

- Global banks with ties to Puerto Rico are assessing their potential exposure to a possible downgrade or default in the Caribbean island's $70bn in debt
- Puerto Ricoan bonds are the mainstay of the $3.7tn muni market given their "triple" exemption from federal, state and local taxes
- Average yields on Puerto Rico's 10-year general obligation bonds traded high, above 8.8%, on Friday, ….

Coming of age for Asian funds – Pg. 20

- There are now between 15 and 20 funds in the region with upwards of $1bn in assets under management – and the professionalism with which these larger funds are being managed and operated means they cannot be described as grubby adolescents
- The Asian industry lost almost a third of its assets to redemptions and bad performance between the end of 2007 and the end of 2009, ….
- Another senior prime broker in the region says that US investors are interested in good Asian funds but are not dedicated to making investments there
- This June, when markets in Asia were roiled by fears that the US central bank would start to wind down its extraordinary money-printing policies, Asian hedge funds say $3.2bn of net withdrawals – but crucially managed to add $300m through performance, with many individual managers doing significantly better….

2 November 2013

Forex probe widens to three continents – Pg. 1

- A global probe into the manipulation of foreign exchange markets escalated dramatically yesterday when it emerged that Barclays had suspended six traders and two of the largest US Banks revealed that they had become embroiled in the probe
- …increasingly resembled the Libor rigging scandal
- Regulators are investigating whether traders colluded to move these benchmarks, although none have been formally accused of wrongdoing

High rents force Chinatown locals to contemplate long march to suburbia – Pg. 1

- It is not just rising rents that are threatening their survival. In London's Chinatown, businesses have become the target of regular raids by a UK Border Agency that is clamping down on illegal workers
- The appreciating price of Chinese merchandise is pushing up costs as the falling value of the US dollar and pound has fallen against the renminbi, meaning that the money that gets sent home no longer goes so far

US data stoke debate on Fed taper – Pg. 3

- US manufacturing grew quicker than expected last month, offering ammunition to economists betting that the Federal Reserve will move sooner, rather than later, to slow support for the recovery

Pawnshops enjoy boom as families feel squeeze – Pg. 3

- ….demand across parts of southeast Asia – where household debt is rising – ….
- Pawning jewellery is not merely a fast way to land cash…but almost as cheap as unsecured bank loans
- Typically pawnbrokers in Singapore charge an effective annual percentage rate of 17%, just above the 15.4% offered at United Overseas Bank, a local lender with a branch in the same shopping centre
- …pawnbrokers have the advantage of not requiring credit checks or proof of salary, and can arrange loans faster than banks
- This week S&P's, the rating agency, cited increasing household leverage, mainly form rising mortgages, as a risk factor for Asian banks' creditworthiness
- It said that Malaysia, Thailand and Singapore had the highest household debt to GDP ratios in Asia. Malaysia topped the list at 80% of GDP, up from 60% in 2008

1 November 2013

ECB faces growing pressure to cut rates – Pg. 1

- Pressure mounted on the ECB yesterday to cut interest rates after inflation slowed sharply in the euro area, while Berlin hit back at a jibe from the US Treasury that laid the blame for deflationary trends at its door
- The euro area's annual inflation rate unexpectedly slowed to 0.7% in October, well below the ECB's target of close to, but below, 2%
- The slowdown came as Germany, the biggest Eurozone economy, reacted angrily to accusations by the US Treasury that its large and persistent current account surpluses created a deflationary bias in the global economy. The Treasury called on Berlin to do more to boost domestic demand (Prof Note: As a German, "Staiger", I am offended!!!)
- Slowing Eurozone inflation highlights how sluggish the region's recovery is and raises the risk of Japan-style deflation, when prices persistently fall

US relaxes gadget usage to keep airline passengers on cloud nine – Pg. 1

- The traditional request to airline passengers to turn off all electronic devices could be consigned to the past in the US as soon as today on some flights as regulators relaxed rules on when gadgets can be used
- Delta said that its aircraft WiFi systems would start working only after 10,000 feet – the current limit for use of all electronic devices

Bank of Japan tensions break out again over forecasts linked to easing – Pg. 3

- In April the BoJ embarked on what it called a "new phase" of monetary easing, seeking to double the monetary base to hit a 2% target for inflation within about two years
- BoJ to keep on pumping….
- …announced yesterday that it will keep pumping up the monetary base at an annual pace of Y60tn – Y70tn

Wells Fargo in deal over home loan mis-selling – Pg. 14

- …the largest US bank by market value, ….
- …settlement, less than $1bn….
- Unlike allegations against banks including JPMorgan, the claims against Wells did not involve fraud. This has reduced the demands from the government in the case against Wells and similarly placed companies

Dollar gains ground after Fed stance hints at earlier QE taper – Pg. 21

- The dollar rose for a fifth successive session against a weighted basket of currencies as the Fed's latest assessment of the economy, released on Wednesday, was deemed by some commentators to have been less dovish than might have been expected given the weakness of recent US data
- Adding to the uncertainty over the timing of any Fed move was a much stronger than expected survey of business activity in the US Midwest

31 October 2013

Fed leaves door open on asset tapering – Pg. 1

- The US Federal Reserve yesterday said the world's largest economy was still expanding at a moderate pace, suggesting a slowing of asset purchases in December or January was still a possibility
- …no changes to policy at its October meeting, keeping its asset purchases steady at $85bn a month, but the statement implied it did not see a lot of damage from the government shutdown earlier this month
- …now comfortable with interest rates

Chinese banks hit by bad loans – Pg. 17

- China's state-owned banks reported healthy profit growth in the third quarter, but big increases in loan impairments and decreases in their cushions to absorb losses pointed to accumulating stresses in the country's financial system

- Since the onset of the global financial crisis in 2008, Chinese banks have pumped out vast amounts of credit to power the economy, doubling their loan books in five years

BoJ stuns Japanese bonds into submission – Pg. 22

- The governor of the Bank of Japan told a New York forum this month that flat or falling yields in Japan's $10tn government bond market "can and should continue" – even as inflation keeps edging towards the central bank's target of 2%
- …liquidity has evaporated. Banks that used to be busy making markets for private-sector institutions say they have been marginalized, limited to supporting roles on days when the BoJ is not buying up bonds equivalent to about 70% of net new issuance this year and next

30 October2013

Dodd-Frank report sparks bickering – Pg. 2

- One of the main complaints about the 15-page Davis Polk report is the focus on the one number: the 40% of rules that have been finalized. Regulators prefer to include proposed standards, such as the Volcker rule,, which Davis Polk also tracks. If the finalized and proposed rules are added together, the Davis Polk report shows that about 70% of Dodd-Frank's requirements have been addressed, which is similar to the US government's calculations

India business dismayed by rate rise – Pg. 6

- India's central bank has raised its key interest rates by 25bps to 7.75% in an effort to tackle rising inflation, ….
- …the Reserve Bank of India cut the short-term overnight lending rate or borrowing by banks by 25bp to 8.75%, as it further unwound the extraordinary measures taken to tighten liquidity and curb speculation on the rupee in July
- India's inflation, as measured by the wholesale price index, fell sharply in the past two years, hitting a three-and-a-half year low of 4.6% in May

Renminbi suitors jostle for pole position – Pg. 6

- For a currency that is still largely controlled by the state and grants its holders few investment options, the renminbi has attracted a remarkably large gand of suitors around the world
- Vying for the Asian crown are Hong Kong, Singapore, Taipei and Sydney
- Hong Kong, the undisputed champion of overseas renminbi trading for now, saw a surge in deposits of the Chinese currency when Beijing first allowed the renminbi to flow abroad

Fitch hits at Blackstone bond rating – Pg. 20

- One of the biggest credit rating agencies in the US has pushed back against a competitor's decision to grant a triple A rating to a new bond backed by foreclosed houses that have been converted into rental properties

- The new bonds supposedly tap into growing demand for rental properties, after many would-be homeowners were displaced in the recent housing bust and a wave of baby boomers opt to downsize
- Fitch warned that it might be difficult for Blackstone to liquidate its portfolio of rental homes in a recession which makes it harder for people to pay their rent

29 October 2013

Troubled loans at Europe's banks double in value – Pg. 1

- European banks' non-performing loans have doubled in just four years to reach close to 1.2tn (euro) and are expected to keep rising, …

Denmark's central bank declares financial crisis over – Pg. 4

- Denmark's central bank is in effect calling time on the financial crisis,, saying it can now afford to cut staffing levels by 10% as it no longer needs to be on such high alert
- Throughout the crisis the country has been seen as a test bed for unorthodox financial policies, notably the central bank's introduction of a negative interest rate on deposits in mid-2012 – a policy that makes banks pay in order to park funds there and that has fed into a wider debate about whether the ECB should adopt a similar strategy

Kuala Lumpur steps up plans for Asia's Canary Wharf – Pg. 6

- Malaysia is pushing ahead with a bid to join the rank of the world's financial centres, inviting bids from developers and investors to build a vast business district in the capital that it hopes will become Asia's version of Canary Wharf in London
- …Kuala Lumpur – Asia's largest centre for Islamic finance, but with a stock market that is far smaller than its tiny neighbor Singapore – moves closer to making its ambitions reality, …

Moody's warns on US bank lending – Pg. 22

- Regional banks in the US have sharply increased their corporate lending at the expense of underwriting standards and loan pricing, Moody's has warned
- Rating agencies and regulators have been saying that banks are making riskier corporate loans in an effort to boost their flatlining profits and fight off tough competition from other lenders and the bond market, where companies can also raise money
- US banks increased their corporate and industrial (C&I) lending by 7.4% in the 12 months to the end of September, Moody's said
- Loan loss rates for C&I lending stood at 33bps in the second quarter of this year, …

28 October 2013

Detroit library tells story of harsh measures to revive city – Pg. 2

- Cuts to pensions and other spending are among measures that Kevyn Orr, Detroit's state-appointed bankruptcy manager, is introducing in the hope of turning the city round

- Some street lights go unlit at night and homeless people sleep outside but the library is only a few blocks from Canfield Street, full of sharply styled start-ups…
- The bulk of private-sector groups even profess themselves excited at the opportunity that the bankruptcy, and a break with Detroit's decades of decay, represent
- …the library was built for a thriving city of 2m. The central branch and its many subsidiaries are now prohibitively expensive to operate, given the present population of only 700,000 and declining tax base
- About 8,000 retirees under 65 received notice that Detroit was axing their $605-per-month health insurance and instead giving them a monthly $125 towards a private plan through the new federal insurance exchanges

China raises tension with navy 'gallop' – Pg. 4

- China has said its first fleet of nuclear submarines has started patrols, ….
- In june, the US revealed that Chinese warships had started patrolling its exclusive economic zone; the following month, Chinese destroyers passed through the strait between Russia and Northern Japan for the first time
- Chinese ships and aircraft have also become more aggressive in challenging Japanese control of the Senkaku Islands – which China calls the Diaoyu – in the East China Sea (Prof Note: Typically classes in the U.S. of all Chinese, i.e. Chinese cohorts, are typically silent. Ask them about these islands and they become vocal….they belong to the Chinese!)

Banks exposure to MReits investigated – Pg. 17

- Regulators at the New York Fed have been investigating banks' exposure to a type of mortgage investment vehicle that has proliferated since the financial crisis amid concerns that a rapid rise in interest rates could trigger a sell-off
- MReits finance their purchases of long-term mortgages with short-term borrowings, known as repo, secured from dealer banks
- The worry is that MReits could be vulnerable to a sharp increase in interest rates, which would force the vehicles quickly to reduce their holdings of mortgage-backed securities (MBS) and set off a wider fire sale
- That could potentially led to further problems in the vast $4.5tn repo market, where big banks also secure large amounts of their funding by pawning their MBS and other securities
- But shortly after the inquiries from the Fed, MReits curbed both their purchases of securities and their repo usage, as talks of higher interest rates and the possibility of the central bank "tapering" its bond purchases caused a wider market sell-off

Retail investors hungry for US risk assets – Pg. 20

- Global retail investors have renewed a push into the riskiest corners of the US credit markets, lured by the relatively high yields provided by assets such as junk bonds
- Junk debt and equities often move in tandem, and with the S&P 500 trading at new record highs, speculative rated corporate bonds are also on a tear, ….

- Prices of junk debt have jumped sharply this month, sending average yields down 52bps to 5.69% late last week, …
- That level is still far from a record low below 5% hit in May, but still higher than average yields for investment-grade bonds, at 3.14%
- Returns on junk debt are also much higher than those offered by top tier government and corporate debt. Total returns on junk bonds this year stand at 6%, compared with a negative 1.1% for investment grade debt

26 October 2013

JPMorgan deal spurs banks to join 'largest settlement in US history' – Pg. 1

- Global banks have started to approach New York's attorney-general about paying billions of dollars to settle charges that they mis-sold mortgage-backed securities that were at the heart of the financial crisis…
- As part of the deal, JPMorgan is set to pay $9bn in cash and provide $4bn in homeowner relief, including the renegotiation of mortgages for borrows who owe more money than their house is worth

UK economic rebound picks up pace – Pg. 4

- Britain's economic recovery gathered pace during the summer months to post an expansion of 0.8% in the third quarter
- Growth is back around normal levels
- Services were driving growth in the third quarter
- Manufacturing and construction are still far below the pre-crisis peak
- The 2013 growth figures are much stronger than official forecasts
- The economy does appear to be 'turning a corner'
- But there is still a long way to go

Saudis apply brakes to woman drivers – Pg. 4

- …hours after 150 conservative clerics went to the royal court asking the king to stop what they called "westernization of women" through the "plot" of women driving, the Saudi interior ministry, issued a surprise statement on Wednesday warning against violating the laws of the country regarding driving and "congregations and marches under the pretext of an alleged day of women driving"
- Saudi Arabia has often said that there are no religious reasons why woman cannot drive but has insisted that it cannot impose change from above if society is not ready
- (Prof Note: I cannot let this article go without comment. However, for fear of personal safety, my only comment is "no comment" ☺)

Norway's $810bn oil fund to boost property assets – Pg. 12

- Norway's $810bn oil fund is permitted to $old up to 5% of its assets in property but its rapidly increasing size means that despite amassing $7bn in real estate investmetns since 2010, this only amounts to 0.9% of the fund
- The fund has made its first property investments in the US in recent months, including paying $684m last month for a 45% stake in the Times Square Tower in New York (Prof Note: I was approached yesterday by a fund that needs to deploy $25.0m in DC relatively quickly (how true this is, who knows). However, I am happy to make an introduction if anyone has a project that can consume this much equity quickly in DC. Note: I am NOT a broker and am NOT seeking payment from either side, however, I will require 2 X-large golf shirts for this transaction!)

25 October 2013

Bitcoin given seal of approval by Fortress hedge fund manager – Pg. 1

- The market capitalization of the entire stock of Bitcoin in existence is $2.2bn, and Fortress decided it was too speculative an investment for its own funds
- Bitcoin was launched in 2009 by an unknown computer scientist as an alternative to government-backed currencies. The stock of "coins" is limited, growing only according to a predetermined algorithm, and its value is tethered only to speculators' belief in its future growth

Fed goes further than Basel III with fresh bank liquidity rules – Pg. 2

- …tougher standards than those contained in the Basel III international regulatory accord
- The Fed is also proposing that banks fully implement the new standards one year earlier than the EU and two years earlier than Basel III. Fed officials estimate banks face a $200bn shortfall out fo the $2tn in high quality assets needed to meet the liquidity requirements
- The liquidity rules require banks to maintain a minimum liquidity coverage ratio, measured by high quality liquid assets to the total net cash outflow over 30 days, of 100%. Assets considered to be of the highest quality and most liquid include Fed reserves and Treasury securities
- There are modified liquidity rules for banks that have assets of at least $50bn but are not active globally and, therefore, have less complex liquidity structures
- The Basel III rules give banks until January 1, 2019 to meet the liquidity coverage ratio requirement

Malaysia's Najib faces budget balancing act – Pg. 6

- Faced with growing public debt, fragile exports and a narrow tax base producing insufficient revenues, economists say Malaysia must enact far-reaching fiscal reforms to avoid a sovereign ratings downgrade
- In July Fitch, the rating agency, downgraded the country's outlook to negative because of the lack of reform. Foreign investors dumped Malaysia bonds, and the ringgit weakened
- The challenges facing Malaysia are a sign of the cracks that have started to show in the three biggest economies of southeast Asia – the others being Indonesia and Thailand
- The central bank recently forecast 4.5-5% for this year

- Government debt as a percentage of GDP has hit 53.3%, just shy of the government's self-imposed ceiling of 55%
- Only Thailand has anything near that level, at 44%. Like Thailand, Malaysia also has high household debt, at 86% of GDP – the second highest in Asia after South Korea

China tightening lifts money rates – Pg. 20

- China's money rate shot up yesterday after a central bank withdrew cash from the financial system, fuelling worries that the world's second-biggest economy might see a replay of a liquidity squeeze that rattled global markets earlier this year

24 October 2013

DoJ ramps up bank mortgages probe – Pg. 1

- At least nine banks face investigation by the US DOJ into sales of mortgage-backed securities as part of an effort by the tast force that reached a $13bn pack with JPMorgan Chase, ….
- Most of the inquiries are looking for civil violations for allegedly misleading buyers of RMBS, not criminal sanctions

'Tender' moment means taper will depend on data – Pg. 2

- The result is that timing of the Fed 'taper' truly is dependent on the economic data
- The Fed wants to see cumulative progress towards an improvement in the labour market and evidence of some acceleration in the economy, and to have confidence that a taper will not lead to mistaken expectations of an early rise in interest rates and thus an excessive tightening of financial conditions
- There is still a lot of resistance to the idea of lowering the unemployment rate threshold for a first rise in interest rates below 6.5%

Indonesia pledges reform after FDI statistics disappoint – Pg. 6

- FDI in Indonesia has fallen in US dollar terms for the first time in two years as Southeast Asia's biggest economy faces growing challenges from a widening current account deficit to rising economic nationalism ahead of next year's elections
- Once the darling of emerging market investors, the hype surrounding Indonesia's prospects has cooled markedly in the last year as the falling price of key export commodities such as coal and palm oil has revealed structural imbalances in the economy and a ballooning current account deficit
- The World Bank recently downgraded its GDP growth forecasts for Indonesia, which expanded at an average of 6% per year in the previous five years, to 5.6% this year and 5.2% next year

Blackstone rental bond receives triple A rating – Pg. 22

- A new bond backed by rental income from foreclosed houses owned by private equity group, Blackstone, has been given an unexpected triple A credit rating

- The Triple A credit rating was not at all expected by market participants, many of whom had speculated that the deal would be luck to achieve a single A rating, if any credit rating at all
- A triple A rating indicates that the bonds should carry almost no credit risk at all, while a single A rating indicates that they carry relatively low credit risk

23 October 2013

Return of risky pre-crisis lending practices sparks overheating fears – Pg. 1

- The issuance of payment-in-kind toggle notes, which give a company the option to pay lenders with more debt rather than cash in times of squeezed finances, has surged recently
- PIK-toggles were widely criticized for fuelling the bubble in cheap credit before the crisis
- Emergency policies from the US Federal Reserve have also seen the return of other risky instruments, including "cov-lite" loans that come with fewer protections for lenders, collateralized loan obligations that slice and dice leveraged loans and junk bonds

Property prices in urban areas raise fears of overheating – Pg. 2

- Property prices rose 9.1% year on year in China's 70 main cities, up from August's 8.3% increase…
- Price gains in China's biggest cities were especially steep. In Beijing values for new homes rose 20.6% from a year earlier. In Shanghai they were up 20.4%, while in Shenzhen they increased 20.1%

Jobs data pose conundrum for Fed – Pg. 4

- A delayed September report came in below analysts' expectations of 180,000 jobs, pointing to weak economic momentum even before October's government shutdown, but there was another drop in the unemployment rate to 7.2%
- …workforce participation steady at a 63.2% of the population. That is the lowest since the late 1970s
- The misbehavior of the unemployment rate is a problem for the Fed because it has been such a large part of its communications policy
- Tapering in December is still not impossible
- Weak jobs growth was not a sectoral story
- …but the report offered little to shout about

Singapore investors permitted to buy renminbi securities – Pg. 20

- China is to internationalize its currency further by allowing Singapore-based investors to buy renminbi-denominated securities paving the way for direct trading between the two countries' currencies
- In the latest agreement, China will extend its renminbi qualified foreign institutional investors (RFQI I) programme to Singapore, allowing Singapore-based banks and asset managers a quota of $8.2bn to invest in Chinese securities, …

- Under a similar arrangement struck last week with Britain, the quota was set at RMB80bn for financial institutions based in that country. Hong Kong is the only territory with an existing RFQII arrangement
- Under RFQII, those holding renminbi offshore are able to invest directly in mainland Chinese assets – from stocks to bonds to money market funds
- While the renminbi was the eighth most popular trading currency in August this year, it was only the 12th most used payments currency

Brazil – Special Section (read in entirety)

22 October 2013

Bundesbank warning stokes fear of German property price boom – Pg. 1

- The Bundesbank has warned that apartment prices in Germany's biggest cities could be overvalued by as much as 20%, stepping up its concern about a real estate boom in the powerhouse of the European economy
- The warning will feed into German concern that the ECB's monetary policy is far too loose for the country. The bank's main refinancing rate is 0.5%, a record low
- Low interest rates sent savers in search of higher returns than bank deposits, and made mortgages more affordable,…
- Asian cities such as Hong Kong and Singapore have imposed taxes on foreign buyers in an attempt to limit the effect on their housing markets
- Nearly three-quarters of all newly built homes in central London are being bought by foreign buyers,…

While the sun shone – Pg. 8

- Brazil is not alone. Investors are increasingly questioning whether many leading emerging markets have undertaken vital structural reforms during their years of high growth
- Governments across the emerging world argue that they are much less exposed to external shocks than they were in the 1990s, when tremors that began in Mexico, Thailand and Russia sent waves of financial destruction around the globe
- Many emerging economies have reduced their dependence on foreign currency debt, cleanted up their public finances and built big foreign reserves
- Now the world has changed again. Chinese growth has slowed. The commodities supercycle is over. The end of quantitative easing was deferred by the US Federal Reserve in September but it is coming, nevertheless.
- Not all emerging governments have gone backwards. Some, such as Chile and Poland (and others in central Europe) have neared developed-world income levels and now face the challenge of escaping the middle-income trap.

China steams at Starbucks prices – Pg. 16

- Starbucks has come under fire from Chinese state media for charging more for its coffee in China than in other countries

- Starbucks, the biggest coffee chain by revenues, has expanded from fewer than 400 stores in China in 2010 to nearly 1,000 and has said the country is likely to overtake Canada as its second-biggest market next year
- (Prof Note: While Starbucks is convenient, when possible I avoid. The prices charged, in my opinion, are outrageous. Worse, I cannot stand Starbucks parlance, e.g. 'venti'. What happened to small, medium, large, excessive?!)

Bad loan standards set out – Pg. 19

- The European Banking Authority yesterday set fourth standard definitions for non-performing loans and for loans subject to 'forbearance", which is when a struggling borrower is being given extra leeway by a bank
- Forbearance has been widely used by some lenders as a way of avoiding the recognition of losses, adding to the question markets that have persistently dogged the health of EU banks
- The EBA's draft standards said that loans should be considered non-performing when they are more than 90 days past due

21 October 2013

Brazil vows to push on with landmark oil auction – Pg. 6

- Brazil has pledged to press ahead with today's auction of the first of its offshore oil discoveries to be sold under a new regulatory regime, despite lower-than-expected industry interest and union opposition
- Rising a wave of oil nationalism in 2007 following Petrobas' announcement of the discovery of the so-called "pre-salt" deepwater fields that include Libra, Brazil's Workers' party government switched from a concession-based system to a production-sharing arrangement
- Under production sharing, the fields remain in the hands of the government, with the private sector partner receiving a share of the oil in return for operating the field. Such a system is seen as more politically palatable because the government is not handing over ownership of the resource, as in a concession-based system, in which the state receives taxes and royalties

A place to call home – Pg. 10

- Property prices have almost quintupled in leading Chinese cities over the past decade and they are perhaps the biggest single threat to the country's economic and social stability
- Housing prices in prominent Chinese cities are up almost 20% year-on-year
- A campaign to build 36m affordable homes by 2015, a centerpiece of the government's strategy to cool the housing market, is shaping up to be a failure
- Affordable homes sell for as little as $49,000, less than half their market value, ….
- …housing developments have run into another stumbling block: many are in the back of beyond, where land is much cheaper

Rental bond poised to head for market after credit rating secured – Pg. 17

- The world's first bond backed by home rental income could come to market in the coming weeks, after securing a credit rating that should make the deal more palatable to debt investors
- The innovation, which bankers believe could usher in a new asset class, is a way for opportunistic investors, such as private equity firms and hedge funds, to refinance the cheap homes they snapped up in the aftermath of the subprime crisis. The bonds – now supported by at least one credit rating, …will bundle together cash flows from single-family homes…. (Prof Note: …and we know how well Wall Street understands the housing market. They understood house purchases so well subprime occurred. They understand the rental market so well X-will occur!)
- The bonds have since been rebranded as "single-family rental" securitizations by bankers who expect demand for the new asset-backed securities could outgrow the number of foreclosed homes on banks' balance sheets

19 October 2013

China and US lift global economy – Pg. 1

- The confrontation between Republicans and the Obama administration, which led to a two-week government shutdown before a last-minute deal on Wednesday, cost the US $24bn, or 0.6% of GDP…
- China's economy expanded 7.8% in the third quarter from the same period a year earlier, up from 7.5% in the previous three months, cheering global investors and exporters
- Hinting at a revival in global investor confidence, inflows into European equity funds were this week the highest since july 2011,…

Infrastructure projects power China's growth prospects – Pg. 2

- The Chinese government has been talking for years about rebalancing the economy to unleash more consumption and it has made some progress towards that goal, but over the past few months it fell back on investment to head off the risk of a slowdown
- Investment in fixed assets such as rail lines and apartment towers account for 56% of the country's growth in the third quarter
- …city's property developers face large debt loads and are starting to slow their pace of building
- A surge in lending by banks and other financial institutions at the start of the year is one of the main explanations for the upturn in Chinese growth
- Total social financing – China's widest measure of credit – rose 52% year-on-year in the first five months of 2013
- Rising debt loads are also a drag on growth. Total debt in China has shot up from 130% of GDP in 2008 to about 200%

They blinked – Pg. 7

- …the deal lasts for all of about three months before a chronically crisis-driven US political system must once again get over the familiar hurdles: passing a budget and extending the nation's borrowing capacity
- Mr Obama won his confrontation with the Republicans, (Prof Note: Obama is in his second term, how could he not win? It is not like he can seek re-election)

US drama tarnishes 'risk-free' assets – Pg. 14

- The world has this week admitted the possibility of two things previously thought impossible. First, yetis could exist: the mythical mountain beast might be a polar bear hybrid, according to British scientist. Second, the US could default on its debt. (Prof Note: Does this mean that a polar bear and a man mated?! I realize that the North Slope is cold and lonely but a mating?! The one time I visited the Prudhoe Bay, north slope in 1992 I was amazed by several things: BP's swimming pool, vastness of the arctic tundra and the size of the adult "literature" section, I believe in BP's (I could be wrong….I do not want to tarnish BP) shop. Maybe after a 9 month winter those polar bears get pretty good look'n!)
- The idea of US debt as a virtually risk-free asset underpins global finance: US bonds are used to price dollar-denominated issuance globally. Movements in other bond prices are strongly correlated
- Unlike with corporate bonds, US Treasuries do not have clauses where failure to service one issue triggers default on others, and there was no obvious alternative for investors
- But the week's events may change the way the US is viewed globally (prof Note: Change or hasten?!)
- …for some short-term financial market transactions secured against collateral such as US Treasuries, their "absolute" safety is critical. Treasury bills with short shelf life are used extensively as collateral by banks and investors trading futures, derivatives and for short term loans in the repurchase, or "repo" market, which provides essential funding for much of the financial system

18 October 2013

Shutdown will not deter Fed from eyeing December taper – Pg. 1

- Analysts have slashed growth forecasts for the fourth quarter to 2% of below with many expecting a hit of about 0.5% from the prolonged shutdown
- The shutdown has left the US counting the cost to its reputation for competent economic policy, but unless there is a sustained shock to business and consumer confidence from further fiscal warfare, the effects on growth in 2014 and Fed policy will be small

Caracas faces crucial devaluation decision – Pg. 6

- The Opec nation's $95bn of annual oil revenues mean default on its more than $45bn of foreign debt remains improbable
- Headline foreign reserves have fallen to $21bn from $30bn at the start of the year; furthermore, because of large gold holdings, only some $2bn of that is fully liquid

- Central to the problems he faces is the exchange rate, officially fixed at 6.3 bolivars to the US dollar but trading on the black market at close to 50 bolivars
- A devaluation, for example, would boost the local currency value of Venezuela's dollar oil receipts – the country's time-honoured solution to closing a fiscal deficit – and also remove the need for currency restrictions

Unfulfilled potential – Pg. 10

- Six years after an oil discovery that promised to transform Brazil, the nation's energy policy is in disarray
- …the reserves were estimated to contain at least as much as the near-60bn barrels of oil found in the north sea
- As oil prices began to creep up towards $100 per barrel at the end of 2010, the government prevented Petrobas from passing on the higher prices to the domestic market to help contain inflation
- Since then Petrobas has been forced to import as much as 215,000 b/d of petrol and diesel to meet domestic demand, and sell it at a loss – currently about 20% less than the total cost of an import parity basis, …
- Moody's cut Petrobas's foreign and local currency debt ratings from A3 to Baa1 this month, reflecting its increasing leverage

Goldman slashes bonus pool – Pg. 17

- Goldman Sachs has reported a worse fall in fixed income trading than any other large Wall Street bank but protected its profits by slashing the amount of money set aside for end-of-year bonuses
- Goldman cut remuneration costs from $3.7bn to $2.4bn, for a ratio of pay to revenue of about 35%, down from 43% in the second quarter

17 October 2013

US Senate in deal to avert default – Pg. 1

- …lengthy, high-decibel stand-off had damaged the economy and consumer confidence

Federal seize-up rattles homes market – Pg. 4

- …mortgage applications for house purchases and homebuilder confidence have both fallen
- Mortgage applications for home purchases declined 4.8% last week to the lowest level this year,…
- It has been difficult for banks to check borrowers' personal data or secure government guarantees, restricting lenders' ability to process applications

Africa shows growing taste for sukuk – Pg. 4

- Africa is for the first time embracing large-scale Islamic finance as countries seek to tap cash-rich Middle Eastern investors to finance large infrastructure programmes

- Africa is home to roughly 400m Muslims – about a quarter of the world's total
- Sukuk, are structured to pay a fixed profit rate rather than a coupon and are commonly backed or based on real estate or infrastructure
- If the development of the US dollar-denominated sovereign bond market is any guide, it could take at least five years for Islamic finance to win widespread acceptance
- Global issuance of sukuk hit a record high, of nearly $140bn last years, up 60% from 2011

Hong Kong dollar peg – Pg. 12

- …Hong Kong tied its currency to the US dollar 30 years ago this week,…
- Peg critics argue that US interest rates are increasingly unsuitable for Hong Kong
- Hong Kong cannot just switch to the renminbi, either. Converting the territory's $300bn of reserves means finding Rmb1.8tn, or more than exists in the entire offshore renminbi market…

BlackRock's assets under management exceed $4tn – Pg. 14

- Larry Fink, chief executive, saidard he saw "no ceiling" to the company's growth

Treasuries risk losing superpower standing – Pg. 22

- …Treasury's $12tn in marketable debt
- …to the annoyance of big Treasuries holders such as China and Japan, this is the third round of fiscal wrangling since 2011
- Foreign investors account for $5.59tn of the $12tn in outstanding US Treasury debt
- Some exchanges and clearing houses, which stand between counterparties in a trade, are responding to the greater risk of default

16 October 2013

(Prof Note: Fitch has warned of U.S. downgrade. I have been asked a lot lately my opinion of the budget issue and the debt ceiling and, in reality, am befuddled. I am no political scientist but it seems to me this should have been resolved months earlier and never been an issue. This further contributes, in my opinion, to the loss of confidence the U.S. continues to suffer in the global eyes. Finally, if a deal is struck and there are celebrations and triumphs it will again sicken me…we should not be here…nothing to celebrate but the need to recognize failure.)

Washington budget talks falter – Pg. 1

- The decision by House of Republicans to pursue their own legislation caught the Senate off guard, and prompted the suspension of discussions on a compromise in the upper chamber between Republican and Democrats
- If it misses the October 17 deadline to raise the debt ceiling, the Treasury would be left with $30bn in cash to pay its bills, and would have to manage its finances as best it could with the income revenue. At some point in the next few weeks, it could potentially default on its debt (Prof Note: Ahhhh…truth comes out now that today really is NOT the day!)

- They bill floated by Republican leaders closely resembled compromise legislation being drafted in the Senate, with some modifications. It would reopen government agencies on December 15, instead of mid-January. As was the case in the Senate, it raised the US debt limit until February 7, meaning that the sides were not too far apart in principle

Renminbi poses no big threat to dollar's status – Pg. 3

- Throughout the history of the financial system, the money of countries that play the main roles in global trade have tended to become reserve currencies. In the 19th century and the first half of the last century the main reserve currency was the pound, with the dollar only taking its place after the second world war
- …China accounts for 10.4% of all merchandise exports and 9.4% of all imports. That is against 8% of exports and 12.3% of imports for the US
- Central banks as far apart as Malaysia, Nigeria and Chile hold a portion of their foreign exchange reserves in renminbi
- The People's Bank of China hs set up 24 arrangements with countries around the world, which allow them to swap renminbi in exchange for their own currencies
- The big step it needs to take is capital account liberalization, which would allow Chinese to invest overseas whenever they like
- Japan became a big player in global trade without the yen becoming a reserve currency of great magnitude
- A big barrier to challenging the dollar's dominance is China itself. The PBoC holds $1.3tn in US Treasuries, making it the second-largest holder. Reducing this stockpile without destabilizing the market will be difficult and work against the inherent conservatism of reserve managers

German push on bondholder losses – Pg. 4

- Germany has insisted that Eurozone countries impose losses on all bondholders in ailing banks before taxpayers' money can be used to clean up the financial system, a move that would make it harder to activate Europe's common safety net for lenders

Regulators warn on boom-era debt – Pg. 22

- Global securities regulators have warned that the types of debt securities that played a central role in the global financial crisis are again growing in popularity among investors
- It cites resurgence in the issuance of collateralized debt obligations, which were at the epicenter of the financial crisis. It warns of the risk of large-scale capital flows from emerging markets and dangers related to clearing houses and derivatives
- …value of CDOs has risen from $6bn in 2010 to an estimated $35bn in 2013, …

Default swaps face risk of extinction – Pg. 22

- In 1994, bankers at JPMorgan Chase came up with the canny idea of selling off some of the risk of their loans by striking insurance like deals with other financial institutions. For a fee, JPMorgan was able to unload credit risk and save on capital costs

- The “single-name” credit default swap (CDS) was born
- Single-name CDS are the simpliest, and most common of the default swap universe
- The creation of synthetic collateralized debt obligations (CDOs) – a type of derivatives-based securitization – helped drive growth
- Now synthetic CDOs, which differ from cash CDOs, are almost extinct and tougher rules mean that banks no longer gain as much relief from hedging their loans with CDS

15 October 2013

Stark costs of US conflict laid bare – Pg. 1

- Clashes between Democrats and Republicans in Washington since 2010 have cut 1% from uS growth and cost the nation 2m jobs over three years,…
- …less than 100 hours to go before the nation faces the first possible default on its debt due to political paralysis in the capital
- …even a brief technical default of US debt could lead to a new recession, raising the US unemployment rate from 7.3 to 8.5% amid rising risk aversion, higher financing costs and falling asset prices

Nobel economics prize efficiently shared out – Pg. 1

- The efficient markets hypothesis gave rise to many modern financial instruments, including the index fund, but it is easy to ridicule. In its extreme form, it implies the price is always right – in other words, that the market price always incorporates all known information. The bubbles and crashes of the past two decades appear incompatible wit this
- Mr Shiller applied behavioural psychology to show that markets often behave irrationally.

Prize-winning work on asset prices goes to heart of financial crisis debate – Pg. 2

- “efficient market hypothesis. This theory, which underlies the seminal 1965 paper “Random Walks in Stock Market Prices”, formulates that markets are “informationally efficient”, as investors immediately incorporate any new available information in the price of an asset
- In contrast Prof Shiller, from Yale University, believes that any explanation of investors’ behaviour cannot be fully based on rationality and must acknowledge the role played by psychology. In the 1980s, he showed that stock prices tended to fluctuate more than corporate dividends. This should not happen if investors were fully rational, since stock prices forecast future dividends….he claimed that the behaviour of house prices was driven by excessive optimism over future valuations, ….

On borrowed time – Pg. 14

- Five years after the financial crisis, the government is backing nearly all new mortgage loans in the US, primarily through Fannie Mae and Freddie Mac – …
- …the housing market has staged a stunning recovery – induced by free money in the form of historically low interest rates – and credit quality among home buyers has improved
- Fannie and Freddie are profitable again,….

Stocks rally but default worries keep tensions running high – Pg. 23

- The mood was further unsettled by weak Chinese export data, which raised concerns that global demand was softening
- The nomination last week of Janet Yellen to lead the Fed, after the departure of Ben Bernanke raises expectations that the US central bank would maintain its accommodative policy stance
- Gold….was at $1,272 an ounce – off a high of $1,288 – as dollar trimmed early losses
- The US currency was flat against the yen at Y98.55, ….

14 October 2013

US makes final debt push – Pg. 1

- …MD of the IMF, warned that if the debt ceiling, which will be reached at midnight tomorrow, is not lifted, the global economy would be distrupted
- The Senate talks are also at an impasse in a dispute over a Democratic push to unwind automatic budget cuts agreed after an earlier budget dispute, something Republicans are resisting
- Treasuries could be hit further tomorrow when the bond market in the US reopens after the Columbus Day Holiday
- The latest snag comes as 350,000 federal workers remain idle, hundreds of thousands more work without pay as the shutdown enters its third week

UK relaxes visa rules for Chinese visitors – Pg. 1

- Britain is wooing Chinese investment with a move to relax visa requirements for the country's business executives and tourists
- Chinese tourists typically spend 1,676 (sterling) per visit, which is nearly three times the global average
- The Chinese are the world's most valuable tourists, spending $102bn on their global travels in 2012

Looming day of reckoning stirs familiar sense of crisis – Pg. 3

- Negotiations between the White House and Republicans in the House of Representatives have broken down after President Barack Obama refused to consider demands put forward by members of the Tea Party
- Congress has until mid-night on Thursday to approve new borrowings, otherwise the world's largest economy will be days away from running out of funds to pay creditors and keep the government afloat
- Republicans have been frustrated that a flawed rollout of new exchanges selling insurance policies under Obamacare, launched on October 1, has been over-shadowed by the Tea Party's budget antics

Back on the market – Pg. 8

- Unemployment [Ireland] has fallen from 15.1% last year to 13.3%. Property prices are rising and consumer confidence is at a six-year high
- Over recent months Ireland's benchmark 10-year bonds have decoupled from fellow bailout struggler Portugal and are trading at more competitive levels than either Italy or Spain
- S&P and Fitch, the credit rating agencies, have both upgraded Ireland to investment grade,…
- Moody's cites Ireland's high debt, fragile banking system and its susceptibility to shocks elsewhere in the Eurozone for its rating
- Ireland's huge government debt, which is forecast to peak at about 123% of GDP this year, leaves the country vulnerable to external and internal shocks
- Ireland slumped back into recession in the second half of last year, largely due to the poor performance of the Eurozone economy and the UK

Reinsurers fight 'too big to fail' description – Pg. 19

- Regulators have already deemed primary insurance companies including AIG, Axa and Prudential globally "systematically important" as part of a worldwide push to make the financial system safer
- Reinsurance companies assume risks from insurance companies in return for premiums. Some insurers pass on nearly all of their risks to reinsurers. Several groups write both insurance and reinsurance

Chinese developer buys into New York – Pg. 22

- Greenland Group, a Chinese state-owned developer, will take a majority stake in the Atlantic Yards site in New York in a deal expected to be the biggest Chinese investment in US property
- Greenland will own 70% of a joint venture with Forest City Ratner Companies to develop the 22-acre commercial and residential project in Brooklyn, with the total investment likely to exceed $5bn….
- Outside of China, Greenland has projects in nine cities across six countries, including South Korea and Thailand

12 October 2013

Republicans blink first in debt battle – Pg. 1

- A public backlash against the political logjam in Washington has pushed Republicans to moderate their hardline stance on the budget, raising hopes of a deal of next week's deadline to raise the debt ceiling
- ….shape of any agreement remains unclear,…
- Mr Obama has so far refused to negotiate under threat of a government shutdown and a refusal to lift the debt ceiling, ….

Rich tell emerging nations to put house in order – Pg. 2

- After many years in which poorer countries have lectured the US, Europe and Japan for their economic failures, the tables were turned after the summer turmoil in emerging markets. Emerging economies are now being told to stop complaining and put their own houses in order

JPMorgan falls to first loss under Dimon – Pg. 10

- …legal and regulatory storm that cost the bank $9.2bn in litigation charges in the third quarter
- No other Wall Street bank weathered the financial crisis without a single quarterly loss
- For the first time it enumerated its litigation reserves – an enormous $23bn – and said that "reasonable possible losses' on top of that amount were $5.7bn. If that entire sum were paid, it would wipe out the past six quarters of profit

Gap hit by waning revenues as consumer spending falls – Pg. 13

- The clothing retailer set a negative tone for companies spending as its stores that have been open for at least a year logged a 3% decline in revenue
- Gap shares are up 18.6% on the year as an unexpected rise in retail spending fuelled a spring and summer rally

http://retrievre.com

11 October 2013

Asia moves to protect itself, just in case – Pg. 1

- Hong Kong's stock exchange decided the possibility of a US default had made some types of short-term Treasury bonds more risky, prompting it to force traders using the securities as collateral to provide extra backstops
- Clearing houses routinely apply a discount or 'haircut" to the valuation of collateral that members must place with them to take account of fluctuations in prices and the fact that some bonds are less liquid than others

Lew warns of 'serious risk' to US standing – Pg. 2

- Mr Lew, the US Treasury secretary, told Congress yesterday that a US debt default would "pose serious risks to our global standing" and said there were not good alternatives to raising the country's borrowing limit by the end of next week
- The processes required every payment – 80 cheques per month – to be made, meaning that any attempt to prioritizing debt payments would be a legal and logistical minefield
- …the threat of default could imperil the Treasury's efforts to roll over about $100bn per week in debt

World Bank and IMF stress need for resolution – Pg.. 2

- …Jim Kim, the World Bank president, who said that in August 2011, when the US came close to defaulting, poor countries' cost of borrowing rose 0.75% for many months and there were persistent stock market falls
- China, which has roughly 60% of its $3.5tn foreign currency reserves invested in US assets,…
- The fear is that a default would pummel the value of China's holdings of US government bonds, cause collateral damage to its other US investments by hurting the dollar, and deal a blow to the fragile global economic recovery

Banks draw up 'repo market' contingency plans – Pg. 2

- The repo market is a crucial financing area for banks, who post their holdings of Treasury securities as collateral for short-term loans from money market funds, insurers and other investors
- …banks are forced to reconsider rapidly the Treasury securities they can use as collateral
- The yield on one-month Treasury bills maturing at the end of November jumped to 10bps, …
- While many repo investors say the risk of a US default is extremely low, concerns over the debt ceiling are depriving short-dated T-bills of their status as highly liquid and safe assets
- A default would result in a new risk premium for those securities, which would feed into rates on a wide variety of other assets and lending rates

Economic data – Pg. 12

- …actual output fell outside the economists' 90% confidence intervals a third of the time. Their margin of error was +/- 3.2% - a huge range given that average growth over the period was under 3%

Lenders call for US mortgage shake-up – Pg. 17

- The American Securitization Forum, which represents the financial industry dedicated to packing and selling loans, is writing to the FHFA today to urge it to drop the government guarantees mortgages from $417,000 to $400,000
- The FHFA proposed in August reducing the size limit for loans that can be purchased by Fannie Mae and Freddie Mac, the GSEs that were seized by the government to stop their failure
- Mortgages above this limit – which is higher in some areas – are known as "jumbo" loans and typically have higher interest rates

Foreign investors dump Japan debt – Pg. 20

- Overseas investors dumped Japanese debt at the fastest pace in five years in the third quarter as the central bank's vast bond-buying kept a cap on the currency while squeezing nominal yields
- …base money in Japan is equivalent to about 37% of nominal GDP, on BoJ figures, much higher than the US (19%) or the euro area (13%)

10 October 2013

Fed split highlights tough challenge awaiting Yellen – Pg. 1

- …President Obama nominated Ms yellen to the most powerful job in the world economy in a ceremony at the White House….
- Ms Yellen, a strong proponent of the Fed's ultra-loose monetary policy….
- Ms Yellen will be the first woman to lead the Fed…

US fears lift default insurance market – Pg. 1

- Growing fears that Washington could miss a payment on its debt have led to a surge in activity in the once-sleepy market for derivatives which insure against a US default
- ….government shutdown now in its second week and no sign of a deal before October 17….
- Sellers of CDS contracts have to compensate buyers of the derivatives when a credit even, such as a sovereign default, occurs

IMF fears $2.3tn bondlosses – Pg. 2

- Monetary tightening in the US threatens to expose financial excesses and vulnerabilities that could wipe trillions of dollars off bond markets,…
- Fund estimates of the potential damage from a spike in long-term bond yields from investors firesales, a loss of liquidity in certain markets such as real estate investment trusts and contagion could lead to large losses
- With higher interest rates in prospect also comes the possibility of capital flight from emerging economies, which the fund says are "highly vulnerable to sudden outflows that would further strain liquidity conditions"

The new gas guzzler – Pg. 7

- …China has overtaken the US as the world's largest oil importer
- The surprise has been the spectacular revival of US oil production over the past half-decade, thanks to the techniques of hydraulic fracturing and horizontal drilling in shale rocks first used to produce natural gas
- …share of imports in US oil demand to its lowest since 1987
- By 2020, US crude imports will have fallen to 6.8m barrels per day, while China's will have risen to 9.2m b/d…
- …Saudi Arabia exported almost as much to China as to the US last year

Collateral crunch fear as T-bill yields leap – Pg. 22

- The humble short-term Treasury bill occupies a pivotal place in the infrastructure of financial markets. But its "risk free" status at risk as politicians in Washington squabble over raising the $16.7tn debt ceiling
- The flight from near-term bills could have big repercussions for key financing markets because Treasury collateral is widely used by central banks, sovereign wealth managers, banks, custodians and other investors for borrowing short-term cash and supporting derivatives positions and other types of trading

- Burgeoning disruptions are already evident in a variety of technical financial market. They yield on one-month T-bills has overtaken the one-month interbank lending rate, known as Libor, for the first time in a dozen years

9 October 2013

IMF warns world faces years of low growth – Pg. 1

- The world faces years of sluggish growth unless leading economies undertake difficult economic reforms, ….
- This year global expansion is set to be just 2.9%, the lowest in the post-crisis period and it is forecast to rise only to 3.6% next year,…
- The fund report showed advanced economies were gaining momentum, and it predicted an end to Eurozone contraction next year with 1% growth. The IMF thinks China's economy will slow further to 7.3% next year, below the 9.3% rate of 2011. It expects India's growth to recover to 5.1% next

Goldman link to China bribes probe Pg. 1

- An education company cofounded by Goldman Sachs is at the centre of a corruption probe that has ensnared the head of a leading Chiense stateowned corporation
- (Prof Note: Hence why quality education is so important!)

Drone market under fire as it tries to take off – Pg. 1

- The US congress decided last yeasr that drones should be integrated into US commercial airspace by 2015, opening up the vast potential market for the industry, even though many of the rules surrounding domestic use have still to be established

IMF scatters warnings among its forecasts – Pg. 3

- Outlook for the world economy is cautionary
- Soundbites for world economy do not exist
- Faith is ebbing into emerging economies
- Fiscal policy is dying as an issue for IMF
- Political risks abound

S Africa urges US to learn lessons on Fed – Pg. 5

- South Africa's rand, as well as the currencies of India, Brazil, and Indonesia, plummeted after the Fed suggested in June that it would begin tapering its $85bn monthly asset purchase programme in September

Speculators fuel property surge in Dubai – Pg. 6

- Some victims of the last property bubble remain in Dubai prisons after many found themselves on the wrong end of deals when the market crashed by two-thirds in 2008
- …double property registration fees from 2 to 4%

- …property prices had recorded year-on-year growth of 26% for villas and 42% for apartments, but overall they remained 42% below their peak in the third quarter of 2008

Mortgage servicing – Pg. 12

- It is – once again – a bad time to be a mortgage banker
- Banks are cutting because the refinancing boom has gone bust
- Basel III rules also have an impact. MSRs can count for up to 10% of a bank's Tier 1 common capital. They are also grouped with items such as deferred tax assets, that cannot collectively surpass 15% of tier one capital

Treasury bill yields climb as concerns grow over US default – Pg. 21

- The one-month Treasury bill yield climbed above 0.3% to levels not seen for nearly five years
- "What is also interesting is that the one-month US Libor – the interbank lending rate – is a less than the one-month Treasury bill yield, suggesting that investors see banks as more creditworthy than the government"
- One month US Libor was quoted at 0.174%
- The S&P 500 fell 1.2%, its biggest one-day drop since late August

8 October 2013

China and Japan warn US on dangers of debt default – Pg. 1

- Global markets were jittery amid the latest signs of a stalemate, with the S&P 500 dropping 0.85%, the DJIA down 0.9%....the FTSE all-world equity index fell around 0.5%
- China held $1.28tn in US treasuries in July 2013, ….

Hedge fund DE Shaw shuts doors to new clients amid falling returns – Pg. 1

- DE Shaw's move means that of the largest six hedge funds in the world, only two – the UK's Man Group and the US firm Och-Ziff – are still accepting cash into their flagship funds
- Many traditional hedge fund strategies have become far less profitable due to quantitative easing, bank deleveraging and a tail-off in corporate dealmaking. Since 2009, the average fund has eked out a meager gain on its investments of only 15%, ….
- Total assets managed by hedge funds have grown from $1.4n in 2008 to $2.4tn at the last count

Consumer confidence takes a hit – Pg. 3

- US consumer confidence has plunged since the government shutdown in the first clear evidence that the fiscal crisis is having an effect on the world's largest economy
- The current levels are the lowest since December 2011, although well above the trough of -56 during the debt ceiling crisis of summer 2011, and the -66 recorded in October 2008 after Lehman Brothers went bust

IMF warns of big 'spillovers' when Fed ends its stimulus – Pg. 6

- Capital flow reversals and rising borrowing costs should be expected, but further turmoil could ensue even in the case of a well-managed exit from "unconventional" monetary policy,….
- "A repricing of risk could induce a run by investors holding speculative positions, especially if these are highly leveraged using short-term funding, ….

Africa bond issues soar to a record – Pg. 22

- African countries have raised the largest ever amount of hard currency from international capital markets,…
- …size of international bond market in Africa remains small
- Egypt and South Africa have issued the largest share of US dollar bonds so far this year,….

7 October 2013

Republican pledge to fight over US budget – Pg. 1

- …"time for us to stand and fight" over the US budget as the government shutdown entered a second week with little sign of resolution
- Markets have so far reacted relatively calmly, ….
- The Pentagon said on Saturday that it would order back to work most of the 350,000 civilian employees who had been told to stay at home last week. That leaves around 450,000 of the 2.1m government civilian workers force on furlough. Congress voted at the weekend that those workers would receive full pay during the shutdown (Prof Note: More entitlements…sit home on your a$$ and get paid!)

Abe pours cold water on expectations of labour market reforms in Japan – Pg. 1

- ….conceded that a relaxing of stringent job protections – a step he has described as necessary to make Japanese companies more competitive and to attract foreign investment – would not be part of a forthcoming policy package
- …staked the long-term success of his Abenomics agenda on removing regulatory barriers that he and others say have inhibited Japan's underlying potential for growth

Badly paid Chinese doctors face growing attacks from patients – Pg. 8

- Roy Wang did not want to be a doctor but his grades were too low for engineering so his southern China university transferred him to a course for weaker students: medicine
- …in China, the reverse is true: doctors are ill-paid, overworked and maligned or even attacked by patients while many parents would prefer that they became bankers instead

African growth lifts tally of billionaires – Pg. 8

- The new list puts Africa on par with Latin America, which Forbes magazine said this year was home to 51 super-rich. Asia is home to 399 billionaires.

- The World Bank estimates that the number of Africans living below the poverty line – measured as $1.25/day – had fallen significantly due to strong economic growth, dropping to 48.5% in 2010, down from 58% in 1999

Race to win customers in overlooked markets – Pg. 24

- With car demand slowing in China and reversing in India, global marques with excess capacity are retooling their strategy in southeast Asia and taking bold steps into previously overlooked markets such as Indonesia, Malaysia and even Myanmar, barely 18 months after the west restarted diplomatic relations with the previously isolated nation
- Car ownership in Indonesia stands at about 45 per 1,000 people. In Myanmar, it is barely seven per 1,000, and almost all are used vehicles. In Europe it is about 450 per 1,000

5 October 2013

Deal seems distant prospect – Pg. 2

- Since the shutdown began, there have been no direct negotiations between the warring fractions on Capitol Hill and a White House summit between President Obama and the leaders on Wednesday yielded no progress

Experts fear loss of October data could influence tapering policy – Pg. 2

- …first impact of the shutdown was a delay in jobs figures for September, which were due for release yesterday….
- …greatest fear is that the government does not reopen by October 14; the survey week for the monthly jobs report….October data could be lost forever…
- Without a prior month for comparison, November data would be hard to compile and interpret, so December data – released in January – would be the next clear reading on how the economy is performing (Prof Note: Can ADP, the private sector AAA rated payroll processor step in and do what government cannot?!)
- Just three out of 2,409 staff are working at the BLS and just 35 out of 15,641 at the Census Bureau

America goes dark – Pg. 7

- John Boehner, the Republican House speaker, has never forgotten how the last government shutdowns, in 1995 and 1996, worked out for his party. Newt Gingrich, then the speaker fo the House, never recovered politically, and Bill Clinton coasted to a second term as president
- (Prof Note: While I admit to not following this closely, Obamacare was passed into law. Fighting to not fund it is seems a bit late and poorly executed.)

US regulators warn banks over repo risk – Pg. 10

- US regulators have threatened to introduce reforms of one of the banks' main funding markets if the industry cannot find ways to reduce the risk of future "fire sales" of assets

- Fire sales – where assets are sold in a manner that can sharply depress prices and pressure other investors into selling – have been identified as a contributing factor to the financial crisis of 2008, and a systemic risk to the tri-party repurchase, or repo market, in which banks swap collateral for short-term loans
- In a repo transaction, banks pledge their assents as security, or collateral, in exchange for short-term loans that can include money market funds, insurers and mutual funds

Treasury bill market hit by interest payment fear – Pg. 14

- …premiums insuring against a US default in sovereign credit derivatives rose to their highest level since July 2011 when Washington previously tussled over raising the debt ceiling

4 October 2013

Treasury and IMF warns of dire consequences of default – Pg. 1

- US banks were stocking cash machines with extra funds, investors dumped Treasury bills and US equity indices sank yesterday in a sign of mounting unease that Washington risks defaulting on its debt later this month
- Premiums for insuring against a US sovereign default over the next year rose from around 30 to 54bps

Hedge funds step in shadows of repo market as banks pull back – Pg. 1

- Some of the best-known hedge funds have stepped into the shoes of Wall Street banks and expanded into the $5tn repo market, where financial companies lend out their assets in exchange for short-term loans
- The rise of non-bank participants in this market comes as new rules make the decades-old business less attractive for banks
- The shadow banking system, which encompasses less-regulated financial groups such as hedge funds and asset managers, has grown since the crisis as banks shrink their balance sheets under greater regulatory scrutiny
- Banks have used the market to pawn their assets in exchange for short-term loans, but they also act as intermediaries arranging repo deals between other entities

Rise of China's consumers boosts tourism – Pg. 4

- Tourism records have become par for the course in China: stronger numbers have been posted year after year over the past half decade
- Many Chinese get most of their vacation time during the "golden weeks" when the whole nation is on holiday, and the press of crowds pushes up hotel rates and inevitably presses infrastructure

Ice and NYSE go where others fear to tread – Pg. 15

- ICE and NYSE said yesterday that Euronext's governing college of regulators were "not minded to object" to their proposed deal, ….

- The transatlantic deal is likely to become the industry's largest since the CME bought the CBOT for close to $12bn in 2007, and a notable cross-border success after several high-profile failures
- So far this year BATS Global Markets has agreed a merger with rival Direct Edge to create the second largest share-trading platform in the US
- In Asia, speculation persists that the Singapore exchange may yet return to the consolidation trail after the failure to merge with ASX two years ago
- Japan is expected to undergo another round of consolidation….

US shutdown stymies pig trading – Pg. 20

- The disappearance of official prices removed a reference point for farmers to negotiate sales with meatpackers in an industry that slaughters 110m animals annually
- The situation underscores the commodity trade's reliance on the US government for supply, demand and other fundamental data
- Pig futures are based on Agricultural Marketing Service price reports

3 October 2013

Prof Note: The U.S. remains shut down for day three. I remain disappointed that Congress has been unable to agree on a new budget. It is not like the date just jumped up suddenly. Disappointing!

Mounting Wall Street fears of US default – Pg. 1

- Wall Street expressed mounting anxiety yesterday over the prospect of the first default by the US of its debt obligations as the impasse continued on Capitol Hill on the second day of the US government shutdown
- The shutdown, also weighed on the heartland, where farmers no longer had access to index prices for hog and feeder cattle from the CME, the biggest US futures exchange operator

Blow to Bitcoin as $3.6m seized in raid on 'black-market bazaar' – Pg. 1

- US federal authorities have seized more than $3m of Bitcoins after closing down Silk Road, the online marketplace that allegedly allowed more than $1bn of illegal drugs and services to be bought using the virtual currency
- The FBI said that a host of illegal substances – including marijuana, opioids and ecstasy pills – were available to purchase on the site, alongside various "services" such as computer hacking and professional forgeries

Mortgage delays threaten recovery – Pg. 2

- More than 90% of employees at the IRS have been forced to take unpaid leave, meaning banks cannot verify borrowers' income with the government agency
- If banks make faulty loans to fraudulent borrowers they are liable to buy them bavck from the two US housing giants, Fannie Mae and Freddie Mac, which together guarantee the vast

majority of US mortgages. Such mortgage "putbacks" have cost bansk billions in the wake of the subprime bubble

Cut to the core – Pg. 7

- Funding for scientific development has been one of the notable victims of sequestration, with universities and other research institutions across the country feeling the pinch

Empire State debuts on a high – Pg. 14

- Empire State Realty Trust, whose properties include New York's Empire State Building, received an upbeat reception on its stock market debut, culminating an almost two-year quest to take the landmark skyscraper public
- The US property company raised $929.5m in one of the largest initial public offerings of a US real estate investment trust (Reit)
- The 102-storey Manhattan tower is the centerpiece of Empire State Realty's portfolio and is worth half of the Reit's $5bn value, which includes 12 office and six retail properties

Central banks joined EM sell-off – Pg. 22

- Central banks sold emerging markets assets in the second quarter of this year, mirroring a sharp sell-off by private sector investors, …
- The data suggest reserve managers joined private investors in taking a bearish view on the long-term prospects for emerging markets currencies, in a quarter when the Brazilian real slid 9.4% against the dollar, the Indian rupee 8.6%, the rouble 5.4% and the South African rand 6.5%

2 October 2013

US stalemate fears intensify as debt ceiling deadline nears – Pg. 1

- US federal agencies began to close yesterday, …
- …the deadline for Congress to lift the debt ceiling by October 17 looms as potentially a far more dangerous moment, as it could trigger a technical default on US debt and turn into a domestic political stand-off into a global crisis

Shutters fall as government services start to wind down – Pg. 4

- …forcing as many as 800,000 workers on unpaid leave, leaving agencies on skeleton staff and curtailing a plethora of government services
- …a group of second world war veterans from Mississippi would not take no for an answer, storming through the barriers at their memorial on the National Mall, some of them in wheelchairs (Prof Note: This is what movies are made about! I hope there is youtube video!)

Gold forecast to reach $1,400 level – Pg. 22

- Gold prices will stabilize after this year's sharp drop and reach more than $1,400 a troy ounce in 2014, ….
- Thin demand in China, due to public holiday, also held back metals prices
- Gold has fallen 23%e in 2013, putting the precious metal on course for its first decline since 2000. Expectations of a shift in US monetary policy and reduced demand for safe investments triggered a rush out of gold by institutional investors

Markets fear US default more than shutdown – Pg. 24

- …the Federal Reserve is now seen as less likely to "taper" its emergency asset-buying.
- …will Congress raise America's $16.7tn debt ceiling before the Treasury is pushed into a corner and, possibly, delays making an interest payment on $12tn of outstanding government bonds – technically defaulting?
- In the summer 2011, the S&P 500 dropped nearly 20% when an 11th-hour deal to raise the debt ceiling was followed by S&P's stripping the US of its triple A rating
- As it stands, the Treasury has stated that its borrowing authority will be exhausted by October 17, leaving it with about $30bn to pay its bills
- Thanks to haven status – and despite the risks from the Washington impasse – Treasury debt is seen benefiting from the political gridlock

1 October 2013

Republican fears grow over voter backlash after Washington stand-off – Pg. 1

- As was widely expected, the US Senate yesterday afternoon rejected a bill by the House of Representatives that would have funded the government but included a one-year delay in President Barack Obama's healthcare law
- (Prof Note: While I do understand the huge issues is bringing groups together for consensus, I find it only equitable that Congress not be paid during this period either. How can you ask/require others to suffer when you are unwilling to do so yourself?! Oh wait, history shows us that answer, i.e. the French Revolution!)

'Financial alchemy' used to send insurance liabilities to the shadows – Pg. 1

- US insurers have offloaded more than $360bn of liabilities to subsidiaries in jurisdications with weaker reserve rules, underlining how insurers have shifted a swath of their holdings into the shadows
- Critics warn that the strategy allows US insurers to set aside less money as reserves to pay future claims than they would otherwise have to, leaving them and their customers vulnerable in the event of a sudden rise
- Liabilities held by subsidiaries in light regulation jurisdictions, such as South Carolina and Bermuda, amounted to 43% of those let on the books of US life insurers last year
- The shadow insurance arrangements expose policyholders to risks equivalent to three notches of an aggregate credit rating across the industry,…

Poorer families suffer big blows as cuts take effect despite safeguards – Pg. 2

- Head Start centre across the country had to cut about 5% from their coffers – or about $400m of an $8bn annul budget
- ….low-income Americans have still been dealt some big blows since the cuts set in, with extended unemployment insurance and housing vouchers curtailed
- Centres often provide dental or mental health services to children who might otherwise not have access, as well as one or two meals a day
- (Prof Note: I realize this is an emotional topic but my question is how do we penalize parents that have children for which they are unable to pay to feed and provide medical care? Obviously the children should not suffer but what is the penalty for the parents? Or is the solution to not penalize and simply provide parents a $x payment for each child under 18 and be done. Nationalize and socialize ALL children's meals and medical care. Just a thought to ponder….)

Hong Kong retailers face property trap – Pg. 6

- For those reliant on the tourist trade, things have never been better
- Hong Kong's unique position in the global economy – where Chinese rates of growth meet US monetary policy – has sparked a rapid jump in retail rents, a further squeezing a middle class already grappling with the world's most expensive homes. Monthly rents in some parts of town have more than trebled since 2008, and are still going up
- Since the end of 2008, the foreign exchange reserves have almost doubled to more than $300m,…
- That increase in liquidity has coincided with record low interest rates, fueling a credit boom and a dramatic increase in property prices
- Last year, 35m mainlanders visited Hong Kong, up 24% on the pervious year, and up from 8.5m in 2003
- This rising tide of visitors – who spend on average of US$1,100 per overnight trip….
- Retailing makes up about 9% of GDP,…

30 September 2013

US faces midnight deadline on budget – Pg. 1

- Parts of the US government will shut down at midnight tonight for the first time since 1996 unless Congress and the White House find a way out of their latest stand-off on fiscal policy
- ….all non-essential staff of the federal government could be placed on unpaid leave, with agencies closing down many of their services
- Cuts have started to crimp communities that had previously been protected from big economic downturns by the influx of federal dollars
- …estimated that a government shutdown could deliver an $8bn-a-week hit to the US economy, based on the experience of the mid-1990s

Fed veteran Yellen's record disproves her Wall St image as monetary dove – Pg. 2

- …one advantage of Ms Yellen is that she is a 12-year veteran of the rate-setting Federal Open Market Committee. Her record gives a clear idea of the policies she would pursue as chair
- …fierce defender of its dual mandate on unemployment and inflation, and a consistent advocate for greater transparency and communication
- …conviction that the central bank can and should try to stabilize the real economy – in particular, unemployment – as well as just inflation
- During the crisis, that attitude generally led her to argue for earlier and more aggressive rate cuts; in the aftermath, she has pushed for stronger stimulus
- …strongest proponents of greater transparency, including the adoption of an explicit 2% inflation goal in January 2012

Sequestration nation – Pg. 9

- Missing a bill payment, even temporarily, is not an option for many civilian Pentagon workers. A late utility bill payment could hurt their credit score, which is often a condition of employment

US's CLO issuance highest since 2007 – Pg. 17

- Sales of sliced-and-diced corporate loans have reached a fresh post-crisis record as investors crave higher returns from the structured financial products
- CLOs package together "leveraged loans" issued by highly indebted companies and then slice them into different pieces, or tranches. Investing in CLOs can give investors higher returns than placing their money in similarly rated structured products, such as commercial mortgage-backed securities

28 September 2013

Shutdown looms over US budget – Pg. 1

- The US is hurtling towards successive budget crisis after Democrats and Republicans failed to bridge their deep divide over conservative demands that Barack Obama's signature health law be stripped of government funding
- Congress must pass a new budget by October 1, or trigger a partial government closure. By October 17, the US Treasury says it will be near to running out of money to pay its bills unless Congress votes to allow new borrowings

US housing body faces shortfall – Pg. 4

- For the first time in its 70-year history, the US FHA is tapping US Treasury funds to cover a $1.7bn shortfall in its key mortgage programme, ….
- The FHA, which does not originate loans but insures mortgage lenders, needs the money because of a high number of loan defaults that mostly came from the 2007 to 2009 period
- The agency has about $30bn in reserves but is required to have funds to pay potential claims over the next 30 years. The FHA, which guarantees mortgages to borrowers who can

put down deposits as low as 3.5%, will draw on the cash infusion on Monday, when its fiscal year ends

27 September 2013

US rules endanger derivatives reforms – Pg. 1

- Landmark reforms of the derivatives market are in danger of unraveling due to a regulatory battle over the extent of US control,….
- US regulators had hoped to begin shifting the opaque derivatives market on to electronic exchanges from October 2. The switch to so-called "swap-execution facilities", which is designed to improve financial stability and transparency, is a key part of the regulatory response to the crisis
- There is a danger that the rules could reduce transparency by pushing trading activity asway from the electronic platforms

China takes gamble on Shanghai trade zone – Pg. 3

- The anticipation over China's new free trade zone, set to launch this weekend,….
- …State Council, or cabinet, approved the establishment of the Shanghai free trade zone in July, …
- These steps are all part of China's long-term blueprint as the government tries to shift the economy away from a reliance on investment and towards more innovative industries
- The property market near the soon-to-be free trade zone is also on a roll. Housing prices have soared 20-30% in one month in the area just outside of Waigaoqiao gates,…

Rabobank to settle over Libor – Pg. 13

- The expected settlement with US, UK and Dutch authorities is forecast to be less than the 290m (sterling) paid by RBS in February…
- …underscores an acceleration of the worldwide investigation into the Libor scandal,…
- Rabobank had suspended several employees and continued to pay the legal fees of at least two individuals, ….(Prof Note: Again the fines are simply costs of doing business…)

Banks reticent on BlackBerry over 'viability' – Pg. 16

- Wall Street banks once relied exclusively on BlackBerry when providing devices for employees, but many have now delayed or cancelled plans to upgrade to the latest BB10 smartphones and software
- The iPhone last year overtook BlackBerry as the most popular smartphone in terms of corporate IT, ….

Dimon thrashes out deal with the DoJ – Pg. 16

- The current price tag of $11bn comprises $7bn cash and $4bn of mortgage relief for struggling homeowners as penalties for allegations that the bank packed mortgage-backed securities with faulty home loans in the run-up to the crisis

- If finalized, the settlement would surpass a $4.5bn settlement paid by BP to resolve criminal charges over the Gulf of Mexico oil disaster
- Although the bank has now expressed willingness to pay the $11bn, it is resisting any sweeping admission of guilt, which could jeopardize its defence against private litigation on similar issues

US mall owner leads euro bond rush – Pg. 20

- Simon Property, the biggest owner of malls in the US, is as American as apple pie. Its newest bonds are decidedly not
- …began selling $1.02bn of euro-denominated seven-year bonds
- Selling bonds in those currencies may now be cheaper for some US companies than issuing dollar-denominated debt. The deals also allow them to tap eager European investors, while also sourcing the euros needed to help finance asset purchases and investments in the region
- Offing bonds into the European market has also become more attractive for US companies as the cost of converting euros into dollars has tumbled dramatically in recent months

26 September 2013

'Lord Libor' trio put ICAP at heart of rate-rigging scandal – Pg. 1

- Three former brokers, including one dubbed 'Lord Libor' were charged with wire fraud and conspiracy yesterday as their former employer ICAP was revealed by US and UK authorities as a linchpin in the global rate-rigging scandal
- The three "are accused of repeatedly and deliberately spreading false information to banks and investors around the world in order to fraudulently move the market to help their client fleece this counterparties"…
- Libor, which helps determine the price of $350tn of products, is calculated by averaging submissions form banks

Investment bank hires Strauss-Kahn – Pg. 5

- …the firm would benefit from Strauss-Kahn's considerable contacts built up during his career
- He was forced to leave the IMF in 2011 after a maid working at a hotel1in New York [Sofitel] accused him of sexual assault
- Since leaving the IMF Strauss-Kahn has been advising governments, including those of Serbia and South Sudan

US debt issuance set to eclipse record amid rush for low yield – Pg. 22

- A rush of companies selling US benchmark bonds to take advantage of lower interest rates yesterday was set to crown September as a record month for investment grade debt issuance

- Issuance of corporate debt in the Eurozone has also rebounded this week while Japanese companies are lining up to sell longer-term debt, locking in low borrowing costs in anticipation rates will climb….

25 September 2013

Moody's 'unlikely' to change US rating – Pg. 6

- Moody's shrugged of the possibility that Washington might fail to raise the $16.7tn debt ceiling in time to avoid a technical default, ….
- The debt rating agency said yesterday that its triple A sovereign rating and stable outlook for the US was unlikely to change, ….
- The view reflects Washington's and Wall Street's differing opinions on how the US will extricate itself from two messy fights: one over the short-term budget that could shut down the government early next week; the other over the debt ceiling
- Of the two looming events, failure to raise the debt ceiling in a timely manner, rather than avoiding a government shutdown is the biggest challenge to the economy and the financial markets, says the rating agency

Increase in house prices slows after rates rise – Pg. 6

- US house prices rose at a less feverish pace in July signaling the impact of higher mortgage interest rates on demand
- …prices were 12.4% higher than the same month in 2012, …
- The rate on the 30-year home loan averaged 4.5% in the week ended September 19, near its highest level since July 2011, …
- The rate, which was as low as 3.81% at the end of May,…
- …a fall in consumer confidence was shown in September's sentiment index….

Indonesia rupiah slides to fresh low – Pg. 22

- Indonesia's rupiah slid to a fresh low yesterday, underlining the diverging fortunes of emerging markets currencies as investors weigh their longer-term prospects
- …the rupiah's 14.8% slide against the dollar since May remains the worst of any leading currency

Rival index challenges Wall Street's 'fear gauge' – Pg. 22

- Now NationsShares, a small index provicer based just across the street from the CBOE's Chicago headquarters, is about to launch what it says is a newer and better way to measure volatility in the market. In doing so, it will take on one of the most entrenched indices on Wall Street – and the CBOE itself
- The Vix measures volatility by looking at the cost of buying a range of short-term options on the S&P500. Options give investors the right to buy or sell a basket of stocks at certain agreed-upon prices and times. So for instance, when the Vix is low, 30-day options are cheap, suggesting there is little demand for protection

- …NationsShares says its VolDex measure uses options on the SPDR S&P 500, an exchange traded fund that seeks to replicate the performance of the overall S&P 500
- Unlike the Vix, the VolDex also focuses on a smaller pool of options by stripping out "out-of-the-money options" that have veered away from market prices

24 September 2013

Economy 'not yet ready for tapering' – Pg. 1

- Demand for US Treasuries rose after Mr Dudley's speech, with yields on the 10-year benchmark note down by 3bps to 2.7%, their lowest level in almost a month

Victorious Merkel says she is not for turning over European policy – Pg. 4

- Ms Merkel was pressed to reveal if she was ready to relax her insistence on austerity policies and strict budget discipline in the embattled Eurozone or become more positive about closer European integration

ECB ready to boost banks' liquidity – Pg. 4

- The ECB is ready to inject more liquidity into banks, "if needed",….
- The early repayment of many of thoee loans has been welcomed as a sign of normality returning to the interbank lending market in Europe,…
- A recent, now partly reversed, rise in short-term money market interest rates had also sparked concern that financial markets, which are focused on the US Federal Reserve's plans to cut back on quantitative easing, were not heeding the ECB's "forward guidance" pledge to keep interest rates at or below their current record lows for an extended period

Content to rent? – Pg. 9

- …the recovery in US housing has not reached all corners of the country
- …there has been a shift of approximately 1.1m households to the rental market
- "for the first time since the 1920st, cities are growing faster than the suburbs."
- The idea that a structural shift is taking place has pushed institutional investors into the rental housing sector
- The market for private-label securities – that is, mortgage-backed bonds issued without a government guarantee – has rebounded from its post-crisis trough but is well below its peak
- …big factor in the slowdown in household formation, which plunged to roughly 450,000 net new households a year between 2006 to 2011, down from 1.35m a year over previous five…only 746,000 households were created between the second quarter of 2012 and the same period a year later
- Just 74.8% of Americans aged 25 to 34 are employed….

23 September 2013

Merkel hails 'super result' – Pg. 1

- Angela Merkel was close to winning a historic absolute parliamentary majority for her Christian Democrats last night but the knife-edge result meant she might still have to seek out a coalition with the opposition Social Democrats

Citigroup suffers revenue slide – Pg. 17

- …significant decline in trading revenues….
- …the US's third-largest bank by assets appears ready to join several of the powerhouses of bond trading in reporting a slide in trading revenues after a sharper-than-expected summer slowdown in markets businesses
- The bank's business is particularly weighted towards interest rates and foreign exchange, which are seen as weak across Wall Street
- It is also the biggest exposure of any US bank to emerging markets that have seen capital flight and falling currencies in recent months

CEOs told to take on long-term incentives – Pg. 17

- One of the world's biggest fund managers is taking aim at the long-term incentives of chief executives in an effort to tie top salaries more closely to the performance of the company
- This is a significant step because shareholder votes will be binding on companies as of next month, requiring companies to change policy if more than half of their investors reject remuneration reports

Money markets' US funds back in France – Pg. 20

- US money market funds have flooded back into France this year but banks still want to wean themselves off the funding source after being wrongfooted in the Eurozone crisis,…
- The level of US market funding to the Eurozone and French banks remains at roughly half of its May 2011 levels
- The $1.4tn US money markets fund industry invests in "ultra-safe" short-term debt and puts money on deposit at banks on behalf of corporations and other investors looking for a safe harbor

21 September 2013

Fed decision not to taper 'borderline' – Pg. 1

- The Fed's decision to hold back on tapering buoyed stocks and bonds. US equities were set for a third consecutive week of gains, …

India lifts rates to tackle inflation – Pg. 2

- …increased the policy repurchase rate from 7.25% to 7.50%, citing the risk of rising prices
- …unwound some of the short-term monetary tightening measures introduced by the RBI since July as part of its attempts to protect the rupee during recent market turbulence

20 September 2013

Ireland exits recession as exports and spending rise – Pg. 5

- Ireland has pulled out of recession, helped by a rebound in exports and a rise in consumer spending…
- The return to modest growth follows three successive quarters of contraction caused by a slowdown among Ireland's main export partners and continued weakness in its crisis-struck domestic economy

Paulson warns regulatory conflict could result in 'protectionism' – Pg. 13

- The former US Treasury secretary said reforms after the 2008 crisis could lead to "walling off markets, constricting cross-border access to capital and conflicting requirements for global firms" while supporting "regulators, exchange, clearing houses or national financial institutions"
- Mr Paulson has been dragged into a legal dispute over whether shareholders in AIG were mistreated when the government bailed out the failing insurer in return for an 80% equity stake

19 September 2013

Fed blinks on tapering of QE3 – Pg. 1

- The US Federal Reserve sprung a surprise on markets by keeping its asset purchases steady at $85bn a month as it cut growth forecasts for 2013
- The decision suggests that the Fed was alarmed by the sharp rise in long-term interest rates that followed its June announcement….
- The Fed will continue to purchase mortgage-backed securities at a pace of $40bn a month and Treasury securities at a pace of $45bn a month. It made no change to its 6.5% unemployment rate, threshold for a rise in interest rates

China's rising property prices fuelled by fear of missing out – Pg. 2

- The Chinese government's stimulus spending during the global financial crisis stoked a hugal jump in housing prices and since 2010 it has waged a continuous battle since to rein them in. It has raised mandatory mortgage downpayments, blocked banks from lending to developers, restricted the number of homes people can buy and increased the tax on housing sales

US health spending expected to surge – Pg. 2

- The amount the US spends on healthcare, which had been growing at an historically slow pace, will accelerate next year,….
- …spending will grow 5.8% annually to the end of 2022, or one percentage point faster than the expected growth in GDP

- The economists predicted about 2.9m people would obtain coverage next year, principally through the new healthcare exchanges that will sell regulated and subsidized insurance plans beginning on October 1

Sweden unveils new stimulus package – Pg. 4

- …fifth tax cut in its seven years in power
- Sweden has one of the lowest levels of government debt in the EU at just 42% GDP. But growth has disappoint ed with GP increasing just 0.1% in the second quarter compared with the first

SEC calls for pay ratio disclosure – Pg. 13

- Public companies listed in the US will be required to disclose the pay gap between their chief executives and ordinary employees under a long-waited rule proposed yesterday by the SEC
- The proposed rule would require public companies to disclose the median of the annual total compensation for its employees, and the ratio of that median compared with the yearly pay for their chiefs
- The proposed rule does not specify a method to calculate median employee pay

Albertis looks to Brazilian roads as driver of growth – Pg. 16

- Only 14 % of Brazilian roads are paved

18 September 2013

Uneven US recovery hits family incomes – Pg. 1

- The typical American family now earns less in real terms than in 1989 after household incomes fell for the fifth consecutive years, highlighting how the sluggish recovery is curbing spending power even as the US Federal Reserve considers slowing its monetary stimulus
- According to the Census Bureau, the median household income fell from $51,100 to $51,017 in 2012, and is now 8.3% below its pre-recession peak in 2007
- Median incomes are still declining even though the economy is almost 5% bigger than its pre-recession peak in 2007 and more than 10% larger than its trough in 2009 because most of the gains have gone to those with the highest incomes

Inflation data give Fed food for thought on taper plans – Pg. 2

- The cost of living in the US increased less than expected in August, but still pointed to a stabilization in underlying inflation that could pave the way for the Federal Reserve to start pulling back its bond buying programme
- Consumer prices overall rose 1.5% in the year to August after a 2% year-over-year gain in the previous month. Core prices climbed 1.8% from August 2012, following a 1.7% advance in the prior 12-month period

- Medical care, prescription medicines, rents, alcohol and tobacco led the rise in consumer prices yesterday…

Banks braced for drop in income – Pg. 14

- Investment banks are braced for a drop in trading income in the third quarter after revenues in their bread-and-butter business of bond and interest rate trading continued to decline
- Investment banks' fixed income business traditionally accounts for more than half of their income but it has been under pressure this year as revenues fell and higher regulatory capital charges as well as stricter trading rules compressed margins

Brazilian real catches up with emerging markets rally – Pg. 20

- The Brazilian real climbed against the dollar yesterday after two rounds of central bank intervention,…
- Emerging markets currencies have recovered about a third of the losses experienced since early May,…
- Brazil's currency, initially one of the hardest hit by fears of a sharp drop in global liquidity, has risen fastest since the country's central bank announced an intervention programme worth some $60bn on August 22
- The central bank has also pursued a programme of currency swaps, derivatives sold by the central bank that effectively offer investors insurance against further depreciation
- Brazil'sl economic outlook remains clouded by rising inflation, poor infrastructure and a difficult climate for inward investment

Japan buys more US debt amid higher Treasury yields – Pg. 20

- Rising Treasury yields in July failed to deter Japan and private sector demand for US debt, ….
- Among the main holders of US Treasury debt, Japan boosted its buying by $52bn, while China, the largest foreign holder, only increased its portfolio by $1.5bn

Safeway surges after adopting 'poison pill' against takeover – Pg. 21

- The grocer said it has implemented a shareholder rights plan, which allows it to distribute new shares to existing shareholders if more than 10% of the company is acquired by a particular group or investor
- The plan, if implemented, would dilute shares, making a takeover much more difficult – a move commonly referred to as a "poison pill"

17 September 2013

Summers' exit from Fed race spurs rally – Pg. 1

- Financial markets reacted positively to the withdrawal of Lawrence Summers from the contest to lead the Federal Reserve as investors bet on interest rates remaining low for longer

- The market's reaction to Mr Summers' withdrawal underlined the view of many investors that Ms Yellen would pursue a more dovish monetary policy, keeping official interest rates low well into the future

Expectations of more bond-buying boost Asian emerging markets – Pg. 2

- Asia emerging markets rallied yesterday, as investors pinned hopes on continued US bond-buying to help ease growing domestic economic pressures
- Having re-established a reputation as an attractive investment opportunity after the 1997 Asian financial turmoil, Thailand is now subject to a wider skepticism facing many emerging markets seen as needing to undertake difficult but important structural reform
- The flood of easy money into emerging markets has helped buoy the Thai economy in the face of underlying concerns, ranging from sluggish export performance – and a consequent growing current account deficit – to slow progress on investing more than $60bn earmarked for infrastructure improvements
- Another worry in Bankok is levels of household debt, which has climbed from 55% of GDP in 2008 to more than 77% last year

Investors believe post is Staiger's to lose – Pg. 3

- The withdrawal of Lawrence TSummers from contention for the US Federal Reserve chairmanship sends markets back to their state of the Spring: confident that current vice-chair Janet Yellen will get the job…
- With Tim Geithner, former Treasury secretary, continuing to rule himself out, the most obvious option, other than a third term for Mr Bernanke, is former vice-chair Donald Kohn

Taper tremors to be felt far beyond Constitutional Avenue – Pg. 3

- Any increase in US interest rates would cause problems around the world,…
- European Central Bank and the Bank of England
    - A Fed decision to slow the pace of its bond buying would complicate the task of other central banks because ti would push up interest rates elsewhere
    - …$13.6tn US Treasuries market – the bedrock for the global financial system
- Governments and the global economy
    - Tapering threatens two big problems for governments outside the US. First the talks of slowing the pace of bond buying has raised their borrowing costs. Second, they are big holders of US Treasuries
- Borrowers in emerging markets
    - Borrowers in emerging markets have been among the main beneficiaries of the mass bond buying by the Fed
- Corporations: fears over borrowing costs
    - Companies, particularly those that could easily access to debt markets, were another big beneficiary of the bond-buying sprees by the Bed and other central banks

Risk of default adds to woes for Fernandez – Pg. 6

- In the "caves", dollars can be sold for close to double the official rate of 5.7 pesos
- That problem will only deepen if Argentina slips into a technical default, which some observes believe is all but inevitable after a US appears court last month ruled in favour of the holdouts demanding it pay the $1.3bn it owes them in full, in the latest chapter in a long-running saga that began when Argentina defaulted on almost $100bn of debt in 2001 (Prof Note: Argentina just shook me down for $160 visa fee at the border! That did not exist last year!)

Loose Fed hopes lift EM currencies – Pg. 22

- Currencies hardest hit by the recent sell-off in emerging markets rallied yesterday after Lawrence Summers pulled out of the race….
- Emerging market stocks hit a three-month high and the bonds of developing countries climbed by the most since mid-July

Revived housing recovery hopes push real estate groups higher – Pg. 23

- Real estate stocks were the main beneficiaries as the US 10-year Treasury yield fell sharply early but rebounded to finish only 2bps lower

16 September 2013

Bond investors expect Fed to opt for modest 'taper' – Pg. 2

- US bond investors expect a modest reduction in bond purchases this week as the Federal Reserve gears up for a decision on whether to slow its third round of quantitative easing
- Benchmark 10-year treasury yields, which move in the opposite direction to bond prices, have nearly doubled since the Fed started hinting at a taper in May and recently reached 3% before showing evidence of stability in closing last week at about 2.9%
- The Fed is also likely to reinforce its interest rate guidance that the start of any tapering in QE does not mean rate rises would follow
- The sharp increase in yields since May has hit bond investors, with the Barclays US Treasury bond index registering a loss of 3.2% this year, while an index of long-dated bonds has slumped 12.5%
- In contrast, share prices have recovered much of last month's losses and the S&P 500 is just 1.2% shy of its record close in early August

Salary equality eludes women on elite degrees – Pg. 4

- Woman in their 20s already see their salaries falling behind those of theirl male peers
- By the age of 27, men earn an average 22% more than women with equivalent qualifications, ….
- Although there is a higher proportion of men joining the banking and finance sector (28% as opposed to 21% for women), the salary differential remains at 22%

- The main reason for the salary differential is that fewer woman are promoted to senior management positions in their 20s than men (Prof Note: For the record I am bullish on woman BUT I also believe that woman do not negotiate as hard for salaries at men. Men will throw a temper tantrum and quit if not promoted; woman will be mature and work harder. (again….my non-scientific opinion))

Tale of the taper – Pg. 7

- The Fed has carried out repeated rounds of the policy. After buying more than $1tn in assets during the crisis, it launched a $600bn QE2 at the end of 2010, followed by Operation Twist to move into longer-term assets during 2011, and finally QE3 in September 2012. As of last week, the Fed's balance sheet had reached $3.7tn, compared with about $1tn before the recession
- …unemployment is still high and the growth outlook is uncertain
- When the Fed launched its third round of quantitative easing in September 2012, it was different to the earlier programmes in a crucial way: QE3 was open-ended
- What QE3 does seem to have done is reveal the limits of using asset purchases as a tool to stimulate the economy
- With the UK having recently followed the Fed and adopted a "threshold" for the unemployment rate above which it will not raise interest rates, the focus of central bankers around the world is starting to switch away from QE and towards this kind of "forward guidance" and about future policy
- For the first rate rise, the Fed's main communication tool is the 6.5% unemployment threshold, above which it will not raise interest rates

Money market funds – Pg. 12

- Five years ago this month, the Reserve Primary fund "broke the buck". Fear spread, freezing up short-term funding markets that rely on money market funds such as Reserve Primary, until the government stepped in
- Investors have treated money market funds like bank deposits, expecting zero principal risk despite the lack of systematic government insurance
- ….$2.6tn in assets
- In 2010, new rules, including a minimum for highly liquid securities, were enacted

World Bank sanctions hit record – Pg. 13

- The development bank black-listed 250 entities and individuals in the first seven months of 2013, four times as much as in the whole of 2013, and more than the total number of debarments of the previous seven years recorded, ….
- (Prof Note: "Blacklist" I love it! Why we cannot do this in the U.S. is beyond me!)

Central banks 'struggle to get message across' – Pg. 13

- The communication skills of the world's main central banks have deteriorated in the eyes of financial markets,…

- Approval ratings for the messaging and signaling capabilities of the Fed, ECB and Bank of England have all fallen since the start of the crisis,…

14 September 2013

Republicans hold strong hand if Obama wants Summers – Pg. 3

- All three Democratic senators share a distasted for the financial deregulation and wholehearted embrace of trade liberalization that Mr Summers has been identified with, even if he insists his vies have been caricatured
- On the Republican side, Mr Summers has been demonized as the architect of Mr Obama's first term stimulus and the bailout out of the banks, both now heresy on large sections of the right

Indian cricketers banned for life over fixing – Pg. 4

- India's cricket authorities have imposed life bans on two players accused of fixing elements of matches during last season's Indian Premier League (Prof Note: India can do what the U.S. cannot, i.e. impose lifetime bans! Can you say "A-Rod"?! (Provided he is guilty beyond a doubt))

Shanghai set to approve foreign funds – Pg. 10

- Six global hedge funds are set to secure the first-ever approval to raise money from institutions within China for investing overseas, a key reform in the opening of the country's closely guarded capital account
- The launch of the programme to allow investment in foreign hedge funds - …is a small but significant step in opening China's capital account and dismantling the barriers separating the country from international markets
- The qualified domestic limited partner programme is the last of four main cross-border investment schemes that allow either mainlanders to invest outside of China or foreigners to invest on the mainland
- The qualified foreign institutional investor and renminbi qualified foreign institutional investor programmes give quotas for foreign institutions to invest in China, while qualified domestic institutional investor scheme gives local institutions quotas to invest abroad

13 September 2013

Backing over short selling gives UK third victory in clash with Brussels – Pg. 1

- ..the UK this week advanced on three contentious issues: the financial transaction tax, regulation of Libor and the power of EU agencies
- …favoured stripping the European Securities and Markets Authority of tis power to ban short selling in emergencies

Lawyers and accountants clock up $3bn payday in Lehman aftermath – Pg. 1

- …following the collapse of what was the fourth-biggest investment bank on Wall Street
- The $3bn bill eclipses the profits reported by Lehman in the run-up to the crisis. It posted net profits of $2.36bn in 2005, just before the subprime boom helped inflate Wall St earnings
- LBHI creditors could receive 26 cents on the dollar. Unsecured creditors of LBIE are likely to get all their money back, possibly with interest

Abe move revives bad memories of 1997 tax increase – Pg. 3

- Under a law passed in June 2012, the 5% value added tax is to double in two stages: to 8% in April next year, then to 10% in October 2015
- The last time Japan increased the tax rate, in 1997, the economy fell into recession and the debt problem got worse, not better

Indonesia lifts rates again and cuts growth forecasts – Pg. 6

- Bank of Indonesia raised its main lending rate by 25bps to 7.25%, the highest in more than four years….
- …warned that GDP growth could slow to 5.5% this year as consumers cut back spending and companies curb investments
- Southeast Asia's biggest economy has been hit hard by the emerging market sell-off of recent weeks, …

Five bitter pills – Pg. 7

- Axe bankers' bonuses
- Force a geographic limit
- Impose 30% leverage ratio
- Issues equity recourse notes
- Make banks unlimited liability partnerships

Hilton files for return to US stock markets – Pg. 16

- The New York-based buyout group took Hilton private in 2007 for more than $25bn including debt in one of the largest leveraged buyouts ever.
- Hilton's business quickly deteriorated and Blackstone was forced to act to restructure the heavy debt load and aggressively cut costs to nurse the hotelier back to health
- The CMBS loan would rank as one of the largest to take place since the financial crisis
- Blackstone, which owns 200,000 hotel rooms in the US alone through its portfolio companies, is looking to unwind a series of holdings in US commercial real estate and housing assets that it has accumulated in recent years

12 September 2013

Deutsche Bank traders win Libor sacking case – Pg. 1

- Deutsche Bank was wrong to fire four traders during an internal probe into Libor scandal and did not have sufficient controls to keep trading separate from the submission of interbank lending rates, ….

Indonesia faces pressure to raise rates for second time in fortnight – Pg. 6

- Indonesia's central bank will today come under pressure to raise interest rates for the second time in two weeks in a bid to prop up the rupiah, which has been caught in the global emerging market sell-off
- The currency's slump against the dollar is not the only problem faced by Indonesia'y policy makers, both in government and the nominally independent central bank
- Economic growth is decelerating, inflation is rising and investors are anxious about next year's presidential election, which will see the first transfer of power in a decade
- Fears that the US Federal Reserve will soon begin to "taper" its monetary stimulus programme have prompted a sharp sell-off of assets in emerging market countries with wide current account deficits including Indonesia, Brazil, India, South Africa and Turkey
- The IMF recently downgraded its forecast for Indonesia's GDP growth for this year from 6.3% to 5.25%, citing "sluggish external demand and the investment outlook"

New York's voters reject pleas from Spitzer and Weiner for another chance – Pg. 6

- Mr Spitzer was once the state's governor but resigned in 2008 after being embroiled in a prostitution ring, while Mr Weiner was a US congressman whose career imploded in a 2011 "sexting scandal
- Mr Weiner finished a distant fifth in the mayoral primary election, with about 5% of the vote (Prof Note: He LIED to the American public….what does he expect?!)

11 September 2013

Three-for-three Dow shake-up reflects US shift towards goods and services – Pg. 1

- Credit cards, investment banking and running shoes are coming to the world's most recognizable stock market benchmark, reflecting the shift in the US economy from industry to services and consumer goods
- Visa, Goldman Sachs and Nike, three companies with high equity prices, are joining the Dow Jones Industrial Average, the select group of 30 companies that form the US's most well-known stock benchmark
- The trio replace Alcoa, Bank of America and Hewlett-Packard, marking a trend away from commodities, commercial banking and technology
- …year when the price-weighted Dow has lagged behind the overall performance of the S&P500 and Nasdaq Composite
- A unique feature of the Dow is that the benchmark is price weighted, which means higher-priced stocks drive the overall performance of the Dow.
- (Prof Note: See attached memo write-up authored several years ago for S&P500 and DJIA)

China pick-up spurs questions on stimulus – Pg. 2

- The "mini-stimulus" unveiled this summer by the Chinese government has hit its target, with better than expected economic data pointing to modest rebounds in everything from manufacturing to electricity consumption and railway freight
- China's industrial output increased 10.4% year-on-year in August, a 17-month high and up from a 9.7% pace a month earlier, …

The debt penalty – Pg. 5

- Across Wall Street, bond-trading desks have been shrinking. So has the amount of company money they are allowed to use in their daily business of buying and selling corporate bonds
- …$9.2tn market for companies' debt…
- The risk embedded in corporate bonds has now been shifted from the banks to investors
- The Basel committee of bank supervisors has mandated banks worldwide to hold more regulatory capital against their riskier assets, making it more expensive for them to keep such securities on their balance sheets
- Supplementary leverage ratios proposed by US regulators also force banks to set aside extra money to cover all the assets on their balance sheets, regardless of riskiness. That could force them to reduce their activities in the "repo market", where banks and other financial companies loan out their assets in exchange for cash

Emerging market debt sales jump on hopes of Fed delay – Pg. 18

- Emerging markets have rushed to issue debt to take advantage of a window of opportunity opened up by speculation that the US Federal Reserve could delay its plans to scale back monetary stimulus
- Unprecedented levels of monetary stimulus in advanced economies caused money to gush into the developing world since the financial crisis, but some analysts and investors predict the improving US economic outlook and Europe could reverse these flows

10 September 2013

Icahn abandons Dell chase after rule change improves rival's hand – Pg. 1

- Carl Icahn has abandoned his attempt to thwart the buyout of Dell, once the world's biggest maker of personal computers, paving the way for Michael Dell to take the company private in a $24.8bn deal
- A recent change in the voting rules meant it would be "almost impossible to win the battle" for Dell, the activist investor said in an open letter yesterday, accusing the board of not "giv[ing] a damn" about shareholders' interests
- Mr Dell's bid had been on the point of collapsing until the board approved a change in the voting rules on August 2 to prevent abstentions counting against the offer. That led most observers to forecast that the offer would be approved

Revised GDP data boost call for Japan tax rise – Pg. 3

- Japan's economy expanded at a much faster rate in the second quarter than initially reported, …
- Evidence that the economy is responding to "Abenomics", Mr Abe's fiscal and monetary stimulus, has prompted officials to talk less about postponing the sales tax rise and more about reducing its impact
- Mr Abe has liked his decision on the tax to the outcome of the revised GDP estimate, as well as other data such as a survey of business sentiment by the Bank of Japan due on October 1
- In addition to an expected new round of fiscal stimulus, the Bank of Japan could also come under pressure to further loosen monetary policy
- Last week the BoJ raised its view of the economy from "starting to recover moderately" in July to "recovering moderately" in August

Flying solo – Pg. 7

- Canada's pension funds have been moving aggressively into dealmaking and other businesses that they used to outsource to private equity firms and hedge funds. After years of record low interest rates that have dented their returns, the Canadians are seeking to cut back on the fees they pay to these companies
- Some pension funds are beefing up their internal investment teams to find deals on their own
- Pension plans and wealth funds have long invested directly in infrastructure projects and property. These were safe, regulated asset-based investments where their liabilities would be limited if they failed. But if these investors, with trillions of dollars of combined assets, begin to move further into acquiring companies outright, it could mark a turning point. Pension funds invest over a longer period than buyout funds – which need to return cash within 10 years – meaning they can afford to use less debt for acquisition and be more aggressive on price
- Private equity groups also counter that public pension funds will never be able to match their performance because they cannot afford the best talent
- Canada's pension funds, with nearly $900bn in assets under management, are at the forefront of this push partly because many included direct investing in their mandate long before the financial crisis struck in 2008

UK cuts back more on corporate financing than other economies – Pg. 15

- UK groups have cut back further on their use of corporate finance transactions than companies in any other leading economy since the start of the banking crisis, ….
- The contraction, which puts Britain's companies on a par with those in Spain, is sharper than in any G8 country
- The global market for corporate finance is still dominated by US groups, which accounts for more than a third of the global total,…

S&P raises prospect of more defaults in weakened Europe – Pg. 20

- More than 90% of defaults in the past two and a half years related to transactions originated at the height of the bull market between 2006 and 2008. one reason that lenders are taking a tougher approach is that nearly half of the defaults this years were repeat defaults, with three companies defaulting for a third time

Brazil Infrastructure – Special Section

9 September 2013

US buyers pile into European equities – Pg. 1

- US investors have pumped more money into European equities than at any time since 1977, in a big vote of confidence for the region and its ability to recover from the sovereign debt crisis
- …equity markets still face big risks. A possible US military strike against Syria, worries about emerging markets instability and a renewed flare-up of the Eurozone crisis could prevent further gains
- The poor performance of emerging markets is a particular worry as European groups derive about a third of their revenues from that region. A further setback in emerging markets would hit their profits

Dubai debtors go on hunger strike – Pg. 4

- A group of businessmen have gone on hunger strike in Dubai's main jail to protest against their continued incarceration for writing cheques that bounced
- Inmates estimate that about 500 expatriate prisoners remain in jail on debt-related crimes
- A UAE presidential decree last year stopped the jailing of Emiratis for failing to honour their debts
- The criminalization of debt has prompted international criticism and acts as an impediment to the creation of an entrepreneurial culture, given the risk of imprisonment for failing start-ups
- But there is resistance to decriminalization as personal guarantees on cheques underpin the financial architecture of the country, providing creditors with leverage against borrowers

7 September 2013

Fed puzzle after mixed jobs data – Pg. 1

- Weaker than expected data on US jobs in August prompted a rethink yesterday of market expectations that the US Federal Reserve will decide this month to reduce its massive stimulus programme
- The US added 169,000 jobs in August in a mixed employment report…
- …headline growth was only slightly below expectations of 180,000, June and July estimates were revised down by 74,000, while the percentage of the population in the labour force fell to its lowest level since August 1978, at 63.2%

- The lower number of Americans looking for work drove the jobless rate down from 7.4% to 7.3%
- The yield on 10-year Treasury notes was down 7bps at 2.93%, and had recovered from a brief rise above 3% ahead of the jobs report

Norway celebrates rise of powerful women – Pg. 2

- …after Monday's elections arguably the four most important jobs in the country could be held by women
- (Prof Note: This year I have seen an unprecedented number of woman in my classes. The ratio is 51W/49M in most of my classes. In one particular class I divided the assignments by sex after grading; the woman dominated the men! The difference in quality was noticeable. I am going to put on my kilt and head back to Ireland!)

IMF warns Oslo on housing bubble – Pg. 2

- Norway has one of the biggest housing bubbles in the world with prices overvalued by up to 40%, ….
- Prices have risen by 71% since 2005…

Data likely to pull Fed in two directions over QE3 taper – Pg. 3

- One forward guidance option is for the Fed to state that it will not raise interest rates if it expects inflation below its long-run goal of 2%. That is already implied by the Fed's objectives, but stating it could help to control market expectations by directly linking inflation forecasts to an eventual interest rate rise
- …membership of the FOMC is about to change….

Mexico rate cut bucks emerging market trend – Pg. 3

- Mexico's central bank cut interest rates yesterday by 25bps to 3.75%, …
- The move marked the second time this year that the bank had cut rates

China reopens government bond futures market – Pg. 12

- Government bond futures have returned to China nearly two decades after a trading scandal that led to them being banned
- On their first day on China's financial futures exchange, the most actively traded contract was the December futures, which is based on the five-year benchmark government bond
- The regulator has not yet opened the market to banks and insurers, which account for nearly three-quarters of China's outstanding bond holdings
- In February 1995, Shanghai International Securities, China's biggest brokerage at the time, swamped the futures market with sell orders in an attempt to make money on a short position
- The market crashed under the weight of the orders leading to heavy losses and undermining investors' faith in futures. Trading in bond futures has been suspended ever since as a result

6 September 2013

Borrowing costs surge for US and Europe – Pg. 1

- Government borrowing costs in the US and Europe have surged as investors become more optimistic that the developed world has embarked on a period of sustained, rapid growth and anticipate central banks raising interest rates earlier than had been previously expected
- Yields on sovereign debt, which move inversely to prices, broke above key levels in Europe and the US,…
- The yield on the benchmark 10-year note hit two-year highs, rising 8bps to 2.98%

Data bolster Fed's case for tapering QE – Pg. 3

- Activity in the US services sector has hit its highest level since 2005, in a sign of accelerating growth that may encourage the US Federal Reserve to start tapering its asset purchases from the current $85bn/month
- The purchasing managers' index for services came in at 58.6 in August, up 2.6 points from July, and well ahead of analysts expectations for a reading of 55

Securitization boost for jumbo loans – Pg. 18

- Securitization of "jumbo" mortgages in the US is set to outstrip expectations this year, helping to increase the availability and lower the cost of loans on the country's most expensive properties
- Banks' growing interest in offering jumbo loans has largely eliminated the gap in interest rates between these high-value mortgages and traditional home loans that are guaranteed by the US government
- Jumbo loans are to big to qualify for a guarantee from the government-controlled finance giants Fannie Mae and Freddie Mac, which only deal with balances up to $417,000 for most properties, and up to $625,000 in high-priced parts of the country
- Last week, regulators setout proposals to split securitization deals into two camps, those backed by safe assets such as low-risk mortgages (known as "qualified residential mortgages" or QRMs), and those based on riskier loans where the issuer would be required to keep a proportion of the deal on its books. The idea is to make some issuers care about the quality of loans written and to prevent new financial crisis

5 September 2013

Indian central bank in 'big bang' reforms – Pg. 1

- India's new central bank chief has launched a big package of financial sector reforms as the country battles a currency crisis and slowdown in growth
- …nation of 1.3bn
- Among the measures, Indian banks will no longer have to receive RBI permission for each branch they want to open, though they will still be obliged to open branches in underserved rural areas in proportion to their expansion in the cities

IMF changes tune on outlook – Pg. 2

- Turmoil in emerging markets this summer has forced the IMF into a humbling series of U-turns over its global assessments
- …"momentum is projected to come mainly from advanced economies, where output is expected to accelerate"
- The IMF did warn then, that the end of extraordinarily loose monetary policy in advanced economies might cause turmoil in financial markets and sharp depreciations in emerging economy exchange rates
- Fund staff have revised down near-term growth projections for emerging economies, placing them 2.5% below 2010 levels, "with Brazil, China and India mainly accounting for this growth slowdown"…

Fed awaits key US jobs data before decision on cutting QE – Pg. 2

- Consensus forecasts suggest tomorrow's non-farm payrolls report will show 175,000 new jobs in August, in which case the economy will have added about 2.3m jobs over the past year, taking the unemployment rate from 8.1 to 7.4%
- …vice-chair Janet Yellen set out her criteria for success. She said: "The unemployment rate is probably the best single indicator of current labour market conditions", followed by other data including payrolls growth, the rate at which people quit jobs, and overall growth in the economy
- …the so-called quits rate, which tends to rise when the labour market is strong and workers are confident of being able to find new job, is unchanged over the past years at 1.6%. The pre-recession level was 2.2%

The west is accelerating its own strategic decline – Pg. 9

- Europe's defence spending is plunging (by 15% since the beginning of the economic crisis), with no end in sight. The US defence budget is hammered by across-the-board cuts under sequestration, while China's military expenditure grows at a pace roughly equal with GDP growth of 7% or more, a trend emulated by most of the emerging powers
- The new factor is the sudden decision of the executive branch in the UK and the US to shift war powers to the legislative branch

4 September 2013

US warned over recovery as QE3 uncertainty risks EM slowdown – Pg. 1

- Recovery in global economies may be threatened by a slowdown in emerging markets if the US Federal Reserve does not provide more clarity on moves to reduce its support for financial markets,…
- Emerging markets from Indonesia to Brazil have suffered a sharp sell-off amid expectations that the Fed will soon begin to curtail a quantitative easing programme that has inflated the price of global assets, particularly in high-yielding, riskier emerging economies

G7 economies gain momentum – Pg. 2

- Emerging economies suffering from large trade deficits, capital flight and depreciating currencies would have little choice but to raise interest rates to stem money flowing out of their economies, even though their growth rates were slowing,…

Back from the bailouts – Pg. 5

- Five years after their bailout, Fannie and Freddie have gone from apparent basket cases threatening to be a drain on the taxpayer for years to come to sources of income that have helped push back by months the date when the US Treasury will hit its next debt ceiling
- ….$189.4bn it had to pump in to keep them afloat…
- Theirs was the biggest bailout of the financial crisis and one of the riskiest because the Treasury essentially wrote Fannie and Freddie a blank cheque.
- The two companies buy the majority of home loans and package them for sale to investors, freeing up lenders to make more new loans even during market downturns
- When mortgage defaults rose and the value of their housing collateral crashed, losses spiraled and the government put Fannie and Freddie into the "conservatorship" of a regulator in September 2008, exactly one week before Lehman Brothers
- Fannie and Freddie did need the money in 2008. Accounting rules require them to assess likely future losses and set aside resyervs to cover them, and it was clear they did not have enough. But the amount depends on assumptions about how many borrowers will default and, crucially, what house prices will be when the company puts a foreclosed home on the market. The assumptions used since 2008, in hindsight, underestimated how quickly house prices would revive
- The profit transfers are still called dividends rather than repayments, so the companies remain perpetually in the Treasury's debt. They cannot build capital to pay the government back or to return value to investors down the chain
- Under the conservatorship of the FHFA, the GSEs have already introduced tougher underwriting standards, curtailed their more speculative investment arms and started to seek loss-sharing deals with the private sector, potentially expunging many of their pre-crisis excesses

3 September 2013

Banks to face new rules over failures – Pg. 1

- Banks face being hit with a new set of international capital rules aimed at forcing bondholders rather than taxpayers to bail out failing institutions
- …hold a minimum amount of debt that can be "bailed in" if a bank collapses
- (Prof note: Enough already….what about the Senior Managers? Why not new rules over their ability to work in Financial Services? Clawbacks on salary, not just bonuses?)

India exporters muted despite currency's fall – Pg. 2

- Manufacturers are having an especially rough time: HSBC India data released yesterday shows that the sector contracted year on year in August, the first time it has done so since early 2009
- …particular the weaknesses of its meager export-focused industrial base, which remains much smaller than those in comparable emerging markets
- In theory, rupee depreciation should help to reverse this downturn, as it did during the Asian crisis of the late 1990s, when countries such as Thailand and Malaysia enjoyed export-led recoveries after wrenching devaluations

Indonesia's trade deficit soars – Pg. 2

- The gloom surrounding Indonesia continued to deepen yesterday after southeast Asia's biggest economy posted a record monthly trade deficit and inflation climbed to a four-year high
- Annual consumer price inflation rose to 8.8% in August, from 8.6% one month earlier, with economists predicting that inflation may reach double digits by the end of the year, putting pressure on the central bank to continue lifting interest rates at a time when economic growth is slowing
- Indonesia has been hit hard by the recent emerging market sell-off, which has ensnared other countries with large current accounts deficits and a need for foreign financing, such as Brazil, India, South Africa and Turkey
- Indonesia's currency has fallen by more than 10% against the US dollar over the past month …
- Given Indonesia's reliance on imports, the depreciation of the rupiah is likely to add to inflationary pressures, which were heightened by the government's decision to raise administered fuel prices in June to cut the subsidy bill
- The central bank raised its benchmark interest rate by 50bps on Thursday to 7.00%

Clash of the Cape crusaders – Pg. 7

- Prof Shiller and the Cape are sounding the alarm once again, implying that the US market is 62% overvalued and more expensive than any other big stock market
- Like Prof Shiller, Prof Siegel has made a profound contribution to stock market history and is renowned for his 1994 book Stocks for the Long Run, based on data since 1802. He argues that stocks have returned a consistent average of about 6.5% per year after inflation.

Consumer groups tap into US Hispanic market – Pg. 13

- The buying power of US Hispanics was $1.2tn in 2012, more than the GDP of all but 13 national economies….
- The gap between consumer behaviour among Latin Americans and US Hispanics has grown in recent years as people born in the US – not immigrants – have become the main drivers of Latino population growth

'Slice and dice' loans at four-year low – Pg. 20

- Issuance of asset-backed securities has fallen 29%....
- ABS, which package revenue streams from mortgages, car loans or credit cards, have traditionally been an important source of bank funding and a proxy for lending in the wider economy
- Banks can sell ABS on to fixed income investors, thereby freeing up more capital for loans
- Mortgage-backed securities –which many blamed for sparking the crisis in the US – have been particularly hard hit, with European issuance dropping to almost zero in 2009-10

Puerto Rico's borrowing costs leap – Pg. 21

- Puerto Rico's finances are considered weaker than those of any other US state because of its budget deficit, high per capita debt load and unfunded pension obligations of more than $30bn
- The debt, which is rated BBB- by S&P – only one notch above junk – is exempt from federal, state and local taxes in all US states. Generally, interest on muni bonds is only tax exempt for investors resident in the city or state of issue
- The "triple-tax free" status of Puerto Rican bonds-makes them a mainstay of many muni portfolios. More than three quarters of the muni bond mutual funds tracked by Morningstar hold Puerto Rican debt

2 September 2013

Abenomics spurs buyers on to housing ladder – Pg. 4

- Getting a 94% mortgage to buy a $320,000 place in Ota, not far from Tokyo's Haneda airport, was "easy"….
- Japan's housing recovery is one of the least-celebrated aspects of "Abenomics"….

Merger targets lucrative Berlin property – Pg. 16

- A law allows state governments to prevent rents from rising more than 15% over a 36-month period, down from 20% previously
- Berlin rents are growing at an average 2.5-3% a year, keeping them under the radar of political interference for now

31 August 2013

Brazil jobless rate defies weakness in economy – Pg. 4

- …Brazil's economy is slowing and is expected to weaken again this year even though it reported second-quarter growth of 1.5%
- The country's GDP grew at an almost China-like annual rate of 7.5% in 2010. But that growth slowed to 2.7% in 2011 and just 0.9% last year
- …analysts believe the economy is weakening again in the second half, with industry slowing
- Most economists are predicting unemployment will rise to 6-7% over the next 12-18 months and job creation already showed signs of weakening in July

India PM under pressure as growth drops – Pg. 4

- India's economy slowed sharply in the three months to June, ….
- Asia's third largest economy expanded just 4.4% compared with the same period in the previous year, from 4.8% in the preceding three months

Swiss banks weigh terms of US tax law deal – Pg. 9

- In the five years since US authorities began to pursue Swiss banks that it suspected of helping Americans evade taxes, an uncomfortable sense of uncertainty has gnawed away at Switzerland's SFr2.8tn offshore banking sector
- …US prosecutors indicted Wegelin, Switzerland's oldest private bank, in February 2012….
- Banks that had undeclared US client accounts on August 1, 2008 will have to pay a fine of 20% of the maximum value held in these accounts. For accounts opened between then and February 28, 2009, the figure will be 30%. Thereafter, the fines rise to 50%
- It requires Swiss banks to provide the US with a lot of information – ranging from the names and functions of individuals who ran their cross-border businesses, to the names of third parties, such as accountants and lawyers, associated with specific accounts

Banks get ready to feel the penalty pain – Pg. 10

- "Half a billion dollars is the largest penalty ever assessed against a financial services firm in the history of the SEC"…
- The biggest single amount may end up being a suit against JPMorgan from a government housing regulator that, ….is now seeking more than $6bn…
- Though the largest US banks have reserved more than $100bn between them for legal costs since the crisis,…
- (Prof Note: Again….just a cost of doing business! Where are the lifetime bans on the employees of these companies?)

Fed taper is dicey dominoes game – Pg. 12

- Since the global financial crisis first erupted in 2007, investment experts have observed a "risk-on, risk-off" cycle in which asset prices all move together in response to global shocks, whether the collapse of Lehman Brothers investment bank or Eurozone break-up risks
- …global growth is flat
- Emerging markets economies were vulnerable to hikes in the US Treasury yields because they had seen the biggest capital inflow since QE started. Cumulative investment portfolio inflows into emerging markets excluding China, have exceeded $780bn since 2009, …
- In contrast, US high-yield corporate debt markets are supported by stronger economic growth

30 August 2013

Philippine public spending powers growth – Pg. 3

- Philippine economic growth remained robust despite the country's equities and currency markets being hammered in recent months by an emerging markets selloff
- GDP grew 7.5% in the second quarter from a year ago after expanding by a revised 7.7% from the previous three months, making it the fourth straight quarter that the economy climbed more than 7%,…
- Though personal consumption spending still accounts for almost 70% of the economy, it contributed less than half of second-quarter GDP growth. Most expansion came from government spending, boosted by the May 2013 midterm pools, ….

India land acquisition law alarms business – Pg. 4

- India's lower house of parliament yesterday approved a land law that business groups have warned will make it harder, and far more expensive, to acquire agricultural land for necessary infrastructure and industrial development
- It will replace a British colonial-era land law once it clears the upper house of parliament, ….
- The law lays out elaborate new requirements, and pricing guidelines, for companies seeking to acquire land for industrial use. Under the new rules, companies or state governments acquiring rural land for industry will be required to pay four times the prevailing market price, and those acquiring urban land for industry will have to pay twice the market price. Buyers will also be required to pay for the resettlement and rehabilitation of those who sell their land, adding to the expense of projects

Shadow banks face fresh limits to trading – Pg. 11

- Banks, investment managers and brokers would face tough new restrictions on their ability to temporarily trade securities for cash under far reaching proposals put forward yesterday by global regulators meeting as the Financial Stability Board
- The proposals are part of a broader effort to tackle the risks posed by "shadow banking" – groups that "conduct banklike activities and were seen as an important contributor to the 2008 financial crisis
- Regulators are concerned that repeated lending of securities can fuel credit bubbles and spread instability by creating loan chains of investors with claims on the same asset

Fed contemplates different repo tool to smooth exit – Pg. 18

- …establishing a "fixed-rate, full-allotment overnight reverse repo" facility. This would operate alongside the Fed's existing reverse repo facility that is designed to drain the vast amounts of excess reserves from the financial system when official overnight rates start rising
- The new central bank took for the day when a tightening of policy beckons has the potential to change the fundamental structure of short-term lending markets; alleviate collateral scarcity; reinforce the push for simpler bank capital regulation; and approximate a Fed backstop for big swaths of US money markets

- When the Fed begins to exit its unconventional policy, it will probably seek to raise the overnight rate it pays banks, currently at 0.25%. In doing so, it will also hope to increase short-term lending rates in the wider market
- The new "full allotment" took means a wider range of investors could lend as much cash as they wish at a fixed rate, determined in advance by the Fed. In return for lending cash, these investors would temporarily hold high-quality collateral

29 August 2013

Mao-era saving habits shunned as Chinese get the good life on credit – Pg. 1

- Of the three kinds of debt – government, corporate and household – the latter is barely on the radar as a risk in China. Household debt is about $2.5tn, a third of GDP…that is roughly half of what the government owes and a quarter of corporate debt
- The stock of household debt has tripled over the past five years
- Average debt jumped from 30% of disposable income in 2008 to 50% by the end of 2011,…
- China still has a long way to go to catch up to personal debt levels in US and Europe – where it exceeds 100% of income – but many are making up for lost time
- Nearly 90% of Chinese own their own homes…compared with a global average 63%
- Homebuyers must make at least 30% of their purchase up front in cash to obtain a mortgage, far less risky than the US before the subprime crisis when zero downpayment mortgages were widespread

Eurozone eyes Greek real estate – Pg. 4

- Eurozone officials are considering a big overhaul of Greece's sputtering privatization programme that would move most of the state-owned real estate intended for sale into a Luxembourg-based holding company managed by foreign experts
- Under the plan, the new holding company would be empowered to manage the real estate portfolio independently from Greek government interference, including graising cash against the portfolio's value to either pay down government debt or improve some of the lots, many of which are now unattractive to private buyers

Storm defences tested – Pg. 5

- Currencies and stock markets around the world, especially in countries with current account deficits financed by fickle capital inflows, have tumbled
- Just as the Asian financial crisis of 1997 began with an assault on the Thai baht, so some fear that pressure on several Asian currencies could spell a new period of turmoil in a region that many thought was building up immunity.
- In some ways, today's Asian economies have little in common with their 1997 incarnations. Back then, many countries had fixed exchange rates and their companies were heavily exposed to foreign debt. As currencies came under pressure, central banks desperately spent reserves to defend them. When the peg finally broke, currencies collapsed and companies' foreign-denominated debts soared

- Thailand, Indonesia and South Korea had to seek help from the IMF
- One concern is that much of Asian growth since 2008 has been bought on credit. Most of China's huge 2009 stimulus package was paid for by credit expansion
- Public debt in China looks relatively modest, but when all debt – including private and corporate – is counted, it reached about 200% of GDP…that is approaching US levels of 233%

Rupee hit by worst sell-off since 1995 – Pg. 11

- India's battered rupee endured its worst day on foreign exchange markets in almost two decades, plunging nearly 4%....
- The sharp declines come amid concern over rising oil prices, ahead of possible western military action in Syria – which would hit India's oil-import-dependent economy especially severely, potentially worsening its current account deficit

US eases rules on packaged mortgage loans – Pg. 14

- US regulators have moved to boost the country's housing recovery by softening new rules that would force banks to hold a slice of packaged mortgage loans
- …the Federal Reserve and five other US financial regulators suggested yesterday that qualified residential mortgages could include loans with a down payment of just 10%, and a higher debt-to-income ratio of 43% (Prof Note: Have we learned nothing?!)

28 August 2013

JPMorgan's woes deepen as US demands $6bn penalty – Pg. 1

- The US is demanding that JPMorgan Chase pay more than $6bn to settle allegations it missold mortgage securities ahead of the financial crisis as the bank fights escalating regulatory battles on several fronts (Prof Note: More fines, just cost of doing business! What executives are receiving lifetime bans for employment in financial services???)
- The Federal Housing Finance Agency, a government regulator, sued JPMorgan and 17 other banks in 2011. It said the bank had falsely claimed that loans supporting $33bn of mortgage-backed securities complied with underwriting guidelines and that it "significantly overstated the ability of the borrowers to repay their mortgage loans"
- The securities were sold to Fannie Mrae and Freddie Mac,…
- A point of contention is that a big proportion of the securities were sold by Washington Mutual and Bear Stearns, which JPMorgan bought with government support as they teetered during the crisis (Prof Note: Well…I must admit, this does shed a bit of white light JPMorgan…)

Rupiah slide worsens woes of Indonesia's manufacturers – Pg. 2

- …9% slide in the value of the rupiah against the US dollar since the start of the month

- Together with Brazil, India and South Africa, Indonesia has been caught in a global emerging markets slump that has punished countries suffering from widening current account deficits and concerns about the progress of political and economic reforms
- Indonesia, southeast Asia's biggest economy, has been hit particularly hard because it is a large exporter of raw materials such as coal, palm oil and rubber to China, while its capital markets have been a main beneficiary of international portfolio investment

Brazil's foreign minister forced to resign – Pg. 4

- The Brazilian government has fired its foreign minister, Antonio Patriota, after members of its own diplomatic staff smuggled a Bolivian opposition politician into Brazil, in an incident that challenges the country's professed policy of constant neutrality

A new bottleneck – Pg. 5

- The Heinz saga reflects a new challenge for global dealmakers; companies must now l in approval from regulators in as many as 100 countries before they can close a transaction. M&A activity has slumped as companies have grown conservative in an uncertain economic climate
- China is not the only concern for dealmakers. Brazil last year updated its antitrust regime from a "post-merger" approval system to a more conventional "pre-merger" framework. That brings Brazil in line with the US and China but creates another jurisdiction that has the ability to suspend deals. There are fears, too, that Cade, the Brazilian antitrust regulator, is also understaffed

Regulator battles threaten to swamp JPMorgan – Pg. 13

- London Whale: When the US authorities charged two former traders with allegedly hiding the mushrooming "London whale" trading loss, they spent a lot of time discussing the bank's poor compliance
- Mortgages: JPMorgan faces several criminal and civil investigations into its packaging and selling of mortgage-backed securities from 200 to 2007
- Hong Kong: The SEC is investigating whether the bank improperly hired the children of influential business people in Hong Kong to win business
- Commodities: US prosecutors are investigating whether JPMorgan manipulated US energy markets, in the wake of a $410m settlement between the bank and the Federal Energy Regulatory Commission
- Other Matters: in the latest quarterly filing, JPMorgan lists more than three dozen separate regulatory investigations and civil lawsuits

Short-term bonds preferred in US – Pg. 18

- Sales of short-term corporate bonds in the US debt markets have jumped in the past few months as large global borrowers and investors prepare for higher benchmark interest rates
- The share of corporate debt maturing in 10 years or less has jumped to almost 70% of total US dollar-denominated sales last month, up from 47% in January….

27 August 2013

China's towering debt sees the water turned off and the rubbish piled up – Pg. 1

- For most of its past 30 years of growth, averaging 10.5%, China relied on relatively little credit. But it has become ever more reliant on debt since the global financial crisis, drawing on banks, bonds and a wide array of lightly regulated institutions to keep its economy roaring
- Total debt in China – government, corporate and household – has shot up from 130% of GDP in 2008 to nearly 200% today, …
- To stimulate growth, local officials deployed a simple technique, one replicated throughout the country. The government appropriated rural land on the cheap from farmers, sold it to property developers at a mark-up, and the developers in turn built dense clusters of apartment towers
- The slowdown in housing sales is not just a problem for the property developers. It has also started to expose the extent to which government debt has underpinned the real estate frenzy
- By law China's local governments are not allowed to fall into debt; they cannot borrow from banks or issue bonds. But there is a loophole, Cities, towns and villages can create arm's-length financing vehicles. Owned by local governments but incorporated as companies, they have a free hand to borrow cash

Falling aircraft demand hits US durable goods orders – Pg. 4

- Orders for US durable goods recorded their biggest drop in almost a year in July, as demand for commercial aircraft plummeted and businesses spent less on computers and electrical equipment
- Weaker overseas markets have hurt US exports and federal government spending cuts are taking their toll domestically, holding back manufacturing, which makes up about 12% of the world's largest economy
- Non-defence capital goods orders excluding aircraft, a closely watched proxy for business spending plans, fell 3.3%

26 August 2013

Call to tackle emerging markets crisis – Pg. 1

- The world's top policy makers must be more aggressive in handling the unfolding emerging markets crisis, …
- Countries such as India and Indonesia were badly hit last week by weakening currencies and falling markets, while South Africa's rand has plummeted against the dollar this year, making it one of the worst-performing currencies
- (Prof Note: a crisis started by the U.S…..hmmmmmm)

Children brave ganglands as Chicago budget cuts redraw route to school – Pg. 1

- The district last month laid off more than 2,000 teachers and staff on top of the roughly 1,000 culled as part of school closures
- Districts dependent on federal funding, such as Chicago, where nearly 20% of revenues come from Washington, have been particularly hard hit
- (Prof Note: The entire public school system needs to be revamped! You have heard it from me before but I can oversee a master's thesis but cannot teach high school calculus!)

Global inflows to India rise after rupee fall – Pg. 3

- Remittance flows to India have surged in the past few months, as the country's overseas population takes advantage of the sharp depreciation in the rupee even as a sense of looming crisis takes hold at home
- With more than 25m people of Indian origin living overseas, India is already the world's largest recipient country with total global remittances of $70bn in 2012,…

Banks scale back rates trading – Pg. 11

- Investment banks are set to shrink the business of trading government bonds and other interest rate products after revenues in their main profit engine have dropped drastically this year
- Revenue in rates fell 36% year-on-year I the first half of 2013,….
- The revenue drop has had an impact on a trading segment that has become investment banks' most lucrative since the financial crisis. In the past year alone, rates trading made up a fifth of overall investment bank revenues globally, ….

24 August 2013

Brazil bank chief acts to soothe investors – Pg. 3

- If there is one man who would probably have liked to be at this week's annual central bankers' conference in Jackson Hole it is Brazil's Alexandre Tombinia
- …a $60bn currency intervention programme
- The measure promises investors one auction a day of currency swaps and a sale of repurchase contracts on Fridays every week until the end of the year
- Its intention is to reassure the market that there will be no shortage of dollars for those who want them, and it will be all done without spending a cent of foreign reserves
- Brazil's move came alongside a less ambitious one from Indonesia, where the chief economic minister told reporters that the government would increase import taxes on luxury cars, introduce tax incentives for a companies investing in agriculture and metals industries, and aim to reduce oil imports in an effort to stop the slump in the rupiah
- Brazil's economic imbalances are acute – notably a lack of competitiveness stemming from its strong currency, high labour costs, high taxes, weak infrastructure and an inefficient public sector
- …one of the biggest war chests of foreign reserves in the world, at $373.6bn

- The swaps amount to a bet on the dollar, but are settled in reals, allowing the central bank to intervene in the Brazilian currency without the straight sale of its foreign reserves in the spot market

Lagarde vows IMF support to avert emerging markets crisis – Pg. 3

- The IMF has a range of precautionary tools that will fund governments if they lose the ability to borrow from markets, such as standby arrangements and flexible credit lines. Setting them up in advance of a crisis in intended to stop a crisis from happening
- The potential tapering of Fed asset purchases from $85bn a month has pushed up US interest rates and led to falling currencies in emerging markets as capital flows back to the developed world
- In the absence of Ben Bernanke, the Fed Chairman, emerging market wobbles are becoming a main theme at Jackson Hole

Tragedy in three acts – Pg. 5

- India, 1991. Thailand and east Asia 1997. Russia, 1998. Lehman Brothers, 2008. The Eurozone from 2009. And now, perhaps India and the emerging markets all over again
- India's currency plumbed successive record lows this week as investors decided en masse to withdraw money from emerging markets, especially those such as India with high current accounts deficits that are dependent on those same investors for funds
- …implies a stronger US economy, rising US interest rates and a preference among investors for US assets over high-risk emerging markets in Asia or Latin America
- First comes complacency, usually generated by years of high economic growth and the feeling that the country's success must be the result of the values, foresight and deft policy making of those in power and the increasing sophistication of those that govern
- Phase Two of a financial crisis is the downfall itself. …the tide of easy money recedes for some reason, and suddenly the current accounts deficits, the poverty of investment returns and the fragility of indebted corporations and the banks that lent to them are exposed to view
- Phase three is when ministers and central bank governors survey the wreckage of a once-vibrant economy and try to work out how to rebuild it

US mortgage lending – Pg. 16

- If there were any doubts left that the US mortgage refinancing wave has crested, broken, and was receding, simply look at Wells Fargo
- The bank is the largest US mortgage lender with almost a quarter of the market this year, more than double that of JPMorgan, the second-largest competitor
- This week, Wells said it was cutting 2,300 jobs at its mortgage lending business
- With loan growth in the US still relatively stagnant, banks have a few ways to offset the anticipated pressure on the mortgage business

23 August 2013

Nasdaq paralysed by technical breakdown – Pg. 1

- Trading in Nasdaq-listed stocks including Apple, Google and Microsoft resumed three hours and 10 minutes after trading was frozen in all companies listed on the second-largest US stock exchange after a technical breakdown
- …Nasdaq appeared successfully to reopen trading in roughly 2,500 US companies worth about $5.4tn at 3.25pm local time
- The breakdown sparked concerns about the plumbing that underpins the US market
- US markets have been criticized for their high degree of frag mentation, where trading groups swap shares at millisecond speeds across 13 equity exchanges and almost 50 alternative trading platforms

Developing world central banks lose $81bn in reserves since May – Pg. 1

- Central banks in the developing world have lost $81bn of emergency reserves through capital outflows and currency market interventions since early May, even before renewed turmoil in emerging markets
- The figure, excluding China, is equal to roughly 2% of all developing country central bank reserves,….
- Indonesia has lost 13.6% of its central bank reserves from the end of April until the end of July, Turkey has spent 12.7% and Ukraine has burnt through almost 10%. India, another country that has seen its currency pummelled in recent months, has shed almost 5.5% of its reserves

Lowly rated European groups rushing to issue bonds in US – Pg. 18

- European companies with lower credit ratings are rushing to sell bonds in the US, taking advantage of a combination of ample liquidity and investor demand for higher-yielding securities
- Strong appetite for junk bonds has pushed sales of European high-yield debt in the US to a record $33bn this year, nearly double the volume sold in the same period of 2012, …
- On average, high-yield debt sold in the US has produced a total return of 7.6% in the past 12 months, compared with minus 1.3% for high-grade bonds,…

22 August 2013

Fed split on timing of interest rate rises – Pg. 1

- Fed Reserve officials vigorously debated changing the trigger for eventual increases in interest rates, a move that would reassure markets about the pace of its forthcoming exit from ultra-loose monetary policy
- The Fed has always been keen to separate an eventual tapering of its asset purchases from an actual tightening of monetary policy
- Stocks and US Treasury prices fell, while the US dollar extended its advance, after the release of the minutes

- The yield on the benchmark 10-year note, which moves inversely to prices, rose 3bps to 2.85%, as the dollar index – which measures the value of the US currency against a basket of currencies – traded 0.5% higher at 81.31

Brazil airlines demand state aid to assuage pain of weakening currency – Pg. 3

- The real has been among the worse-hit currencies in the sell-off of emerging market assets this month that has accompanied speculation that the US Federal Reserve will begin winding down its quantitative easing programme
- Of Brazilian airlines' costs, 57% are priced in dollars, from kerosene for jet fuel to aircraft leasing contracts

One-way traffic – Pg. 7

- About half of Britain's exports go to other EU countries, many of which have been hit hard by recession and sovereign debt crisis. It was falling demand in Europe that prompted Saudi Basic Industries Corporation, which runs a "cracker" at the Wilton chemicals plant … to announce 100 job cuts there in April
- The country's third big misfortune was for the North Sea to run dry at the precisely wrong moment. Britain's oil and gas production, already in long-term decline, plunged 40% in volume terms between 2008 and 2012 thanks to technical problems on North Sea rigs
- Manufacturing's share of the economy fell from almost a fifth in 2000 to about a tenth in 2010

Stocks turn volatile following Fed minutes – Pg. 22

- The minutes showed that "a few members" of the Fed's open market committee had "emphasized the importance of being patient and evaluating additional information on the economy before deciding on any changes to the pace of asset purchases"
- A "few others" had suggested it might soon be time to "slow somewhat the pace of purchases"
- Gold also saw choppy trading and was down $2 at $1,368 an ounce….

21 August 2013

Heat is on developing world to raise rates – Pg. 1

- Turkey's central bank unexpectedly raised rates to buttress its wilting currency as policy makers across the developing world scrambled to stem the turmoil rattling emerging markets
- The fresh uncertainty came as figures showed how waning investor appetite for emerging markets has caused debt issuance to collapse over the summer
- Investors say countries with big current account deficits are particularly vulnerable to the end of US quantitative easing, but caution that every country will feel the heat
- So far most developing countries have sought to stem the currency declines through market intervention, burning through foreign currency reserves

- Brazil's central bank president, Alexandre Tombini, on Monday issued a rare statement saying the market was pricing in too many rate increases, but is still expected to tighten policy this year and continue to intervene in the currency market

Indonesia suffers Asia sell-off woes – Pg. 3

- The Indonesian rupiah sank almost 2% during the session, making it the third worst-performing currency in the world over the past three months, after Indian rupee and the Brazilian real
- Like India, which is in the middle of its own currency crisis, Indonesia suffers from a stubborn current account deficit, making it heavily reliant on foreign capital for funding. A wave of investor money from abroad and the recent boom in palm oil and coal exports have led to a consumption boom in the country of 250m people
- But the slowdown in China – which has damped demand for its exports – falling private spending and the investor stampede out of emerging markets now risk derailing the once-humming Indonesia economy

Spectre of 1990s crisis looms large as debt grows – Pg. 3

- …as the US Federal Reserve considers reversing its ultra-loose monetary policy, the region faces a new challenge: coping with life after debt
- …the ghosts of the 1997-98 Asian financial crisis have been reawakened
- Echoes of the Asian financial crisis are easy enough to hear. Credit growth since 2008 has been rapid, leading to an increase in house prices, high growth rates and corporate mega-deals
- Oil-rich Malaysia has seen a similar increase in debt levels, helping to power consumption and housing booms. But poor trade figures have raised the prospect of it slipping into deficit this year, after a decade of running surpluses.
- Falling growth across Asia is also evidence of deteriorating productivity Credit intensity – a measure of the debt needed to create a single unit of economic growth – has risen sharply almost everywhere. In Hong Kong, it has almost tripled since 2007, while in Singapore it has jumped more than four-fold

Home Depot rides the rebound in US housing – Pg. 12

- Home Depot reported a 17% rise in second-quarter earnings and raised its full-year profit outlook as the US home improvement retailer continued to ride the country's housing market recovery

US repo finance faces threat from new capital rules – Pg. 18

- …US repurchase or "repo" market, where banks and other big financial investors pawn their assets in exchange for trillions of dollars of short-term loans every day
- …pullback in the repo financing played a key role in the 2008 financial crisis

- A withdrawal in repo financing could coincide with the end of the Federal Reserve's bond-buying programme, creating the potential for volatile movements in underlying debt and higher interest rates on US bonds
- The short-term collateralized loans added trillions of dollars worth of leverage, or extra debt, to the banking industry before the crisis. When investors began to cast doubt on the risky collateral that backed the cheap repo borrowing – such a subprime mortgage bonds – banks found themselves in a funding crisis
- Now, banks and other repo market participants typically use higher-quality assets such as US Treasuries and mortgage bonds backed by the US government. The market itself has also shrunk as banks dial back their leverage, although estimates of its size very wildly
- In a typical repo transaction, a bank might pledge an asset, such as a US Treasury, in return for a short-term loan from another financial entity. The asset acts as collateral for the loan and is mean to protect the lender in the event of a default (Prof Note: This is a vanilla swap transaction)
- Such repo transactions help banks finance the assets on their balance sheets and also allow other financial players, such as hedge funds, to short certain securities

20 August 2013

Rupee blow as emerging markets hit by turmoil – Pg. 1

- The 20 biggest emerging market currencies tumbled against the US dollar yesterday with India's rupee particularly badly hit amid mounting market turmoil in the developing world
- The 2.4% fall to a record 63.2 to the dollar took the currency's slump against the dollar this years to 12%
- Over the past six months China's heavily managed renminbi is the only major emerging market currency to have managed to hold its ground against a resurgent dollar
- Indonesia underlined that as its main equities index fell by some 5.6% after the country's central bank reported on Friday that its current account deficit had widened sharply in the second quarter of this year
- Only Brazil's real and South Africa's rand have recorded bigger declines than the rupee in 2013

Detroit pension funds to object in bankruptcy case – Pg. 4

- Two of Detroit's biggest pension funds were expected yesterday to file objections to the city's bankruptcy in the latest twist of the difficult path the city must tread as it struggles to emerge from its $18bn debt burden
- All of Detroit's creditors have been asked to take significant losses in what would be the largest municipal bankruptcy in US history (Prof Note: From a moral perspective, if we bailed out AIG, why not Detroit?!)
- The pension funds are the largest unsecured creditors, with claims totaling an estimated $3.5bnin unfunded liabilities, though that may be significantly understated

- The office is analyzing how the pension funds have been managed. The pair lost almost $500m as a result of unsuccessful real estate and hedge fund investments between 2008 and 2010
- In order to proceed with its bankruptcy filing, Detroit must prove that it is insolvent and has negotiated with creditors in good faith or that there were too many creditors to make negotiations practical
- …decision to treat bondholders as unsecured creditors, despite the fact that the bonds were backed by the "full faith and credit" of the Detroit government, has been controversial

Blackstone builds new Europe real estate fund – Pg. 11

- Blackstone's real estate arm has quietly begun raising a new European fund, targeting up to $5bn….
- There are now 112 real estate funds being raised in Europe, targeting a total of $46bn,…

S&P issues warning on China – Pg. 19

- China's economic slowdown and indebtedness will cause the creditworthiness of the country's biggest companies to deteriorate in the coming year,…
- The credit rating agency has examined the balance sheets of 151 big Chinese companies…
- The IMF in July slashed its growth forecast for China to 7.8% this year and 7.7% in 2014, but that would still make the Asian powerhouse one of the biggest contributors to the global growth

19 August 2013

Sequestrian hits home with struggling families – Pg. 2

- The voucher programme, passed under the 1937 Housing Act, subsidises rent for low-income families. But sequestrian has forced housing authorizes to freeze new vouchers, push families into smaller homes and cut back on how much rent they are willing to subsidise, leaving the families to foot the rest of the bill
- Vouchers for subsidized housing generally become available after families leave the public housing programme: their old vouchers can be distributed to others on the waiting list. But at present, most authorities cannot afford to reissue the vouchers

Brazil fills potholes in attempt to lift growth – Pg. 4

- In a country with some of the world's poorest infrstrature, and most congested cities, every apple or piece of meat that reaches a supermarket must undergo a journey that is as perilous for truck drivers as it is tedious
- Ranked 101st out of 144 countries for tis infrastructure by the World Economic Forum, ….
- …the government is proposing an investment programme that, if realized, would be the country's biggest and most rapidly implemented in history. In logistics alone – ports, airports, railways and roads – the government is looking to invest R$100bn next year and the same again in 2015

- The reliance on trucks, combined with underinvestment in roads, has made driving the second most dangerous activity in Brazil after being a gangster
- Traffic accidents are the second highest cause of death by injury in Brazil, second only to homicides and ahead of suicides
- The government has been offering real returns of just 5.5% on toll road projects….

Last of the risk-takers? – Pg. 7

- …you could always rely on Japanese investors to pay more for an asset than it was worth
- …Indonesia, which he labeled the most overvalued market in the world
- …TPG has remained private…

Fed plan to end QE drives risk culture – Pg. 14

- Money has also poured into loans in the past three months, with the result that many borrowers no longer have to provide customary investor protections
- Junk bonds rated triple-C, the lowest tier possible, are the only corporate bonds to have generated positive returns since Mr Bernanke's press conference June 19, when he said the Fed was likely to start scaling down its Treasury and mortgage purchases this year and wind them up by the middle of 2014

17 August 2013

Capital battle backfires on the rupee – Pg. 1

- India's currency sank to a record low yesterday and the stock market fell by the most in almost two years after government efforts to stop a flight of capital backfired dramatically
- The falls were driven in part by the release of strong data in the US this week, raising expectations that the Fed will soon begin scaling back its bond-buying programme
- The prospect of "tapering" has prompted an exodus of funds from many emerging markets, which had attracted investors hunting for yield amid ultra-low interest rates in the US

'Fat finger' suspected in Shanghai flash rally – Pg. 12

- A Chinese brokerage has launched an internal investigation of its trading systems, just hours after a suspected 'fat finger' trade caused a spike in the country's main stock market
- Investors in mainland Chinese markets are no strangers to unpredictable swings. On one trading day in late June, the Shanghai market tumbled as much as 5.8% in the middle of the session, only to end the day flat. A day earlier it had recorded a 5.3% fall
- Retail investors account for more than two-thirds of trading in China's equity market, leaving it prone to rumour-driven panics and surges

Gold price tops $1,373 level as wave of selling starts to ebb – Pg. 12

- Gold prices rose to a two-month high yesterday amid hopes that the wave of investor selling that has dogged the market may be nearing an end
- Bullion prices rose 4.5% over the week to hit a peak of $1,373 a troy ounce
- The rally in gold prices stands in contrast to the bond market sell-off, driven by concerns tha the Federal Reserve could move sooner rather than later to taper its quantitative easing programme

(Prof Note: All my Wealth Management students will be disappointed but yes, I treated myself to a Starbucks Latte this AM. What I find interesting is in Canada when I purchased a latte it was HOT! I mean scalding hot, like coffee should be. In the U.S. the coffee is hot (lower case) and drinkable. I miss Prince Edward Island!)

16 August 2013

Sell-off as markets expect early Fed move – Pg. 1

- Expectations of an early move by the US Federal Reserve to slow its support for the US economy firmed yesterday after the release of data showing a strengthening labour market and higher inflation
- The yield on the benchmark 10-year Treasury rose past 2.75% for the first time since July 2011, breaching a ceiling that it had set during two previous bouts of Fed tapering talk over the past six weeks
- First-time claims for jobless benefits dropped last week to 320,000….
- Consumer prices – excluding volatile energy and food costs – ticked up by 0.2% in July and are up 1.7% over the past year….

India curbs outflows in effort to bolster rupee – Pg. 3

- India has unveiled restrictions on capital outflows in new moves to strengthen the rupee that were likened by one analyst to “a panic signal” and attacked by another as “desperate Band-Aids”
- The central bank reduced the limit to 100% of the net worth of the Indian investor from 400% unless special permission is granted. State oil companies were excluded
- …the central bank also tightened restrictions on Indian residents seeking to send money abroad, particularly to buy property
- India’s rupee is one of the worst performing currencies in the world this years, but it is not the only developing country that has suffered a torrid time of late
- The US central bank’s plans to end its quantitative easing bond-buying programme has caused money to gush out of emerging markets since early May, …
- Morgan Stanley’s analysts have highlighted “the fragile five” currencies they consider the most at risk from a shift in sentiment towards emerging markets – the Brazilian real, the India rupee, the Turkish lira, the South Africa rand and the Indonesia rupiah

Test case to take over underwater mortgages – Pg. 3

- …controversial scheme to wrest the housing loans away from JPMorgan Chase, Wells Fargo and 30 other banks by relying on a novel interpretation of eminent domain laws, ….
- Richmond is being closely watched as a test case by other cities across the US considering the plan
- Municipalities have historically used eminent domain to seize private properties when the land is needed for a public project, paying the owners fair market value for the home
- …officials paln to use the law to seize underwater mortgages from banks and replace then with new, cheaper loans based on current home values to relieve the debt burden on citizens
- The case filed in the district court of Northern District of California, claims the proposal violated the US Constitution and imposed losses on pension funds and savers totallying $200m in Richmond, and "billions of dollars" more if the plan were rolled out
- (Prof Note: What about the moral hazard?! Are individuals ever going to be held responsible for their own decisions? I suppose the U.S. is a socialist country where the government takes market risk and not the individual investors)

Ecommerce drives up rents for warehouses – Pg. 14

- …average rental rates on leases signed in the second quarter increased 4% from a year ago. In the first quarter, they rose 2% year-on-year
- The popularity of online shopping raises questions about the future of bricks-and-mortar stores, but a less visible effect in the commercial property sector is the trend of capital being channeled into the warehouses as developers build bespoke warehouses for the online sector
- …US is the world's largest ecommerce market,…

US farmland prices keep on rising – Pg. 18

- Farmland values in a critical US agricultural region continued their rise in spite of weakening crop prices, as low interest rates and a dearth of investment alternatives spur wealthy farmers to amass more acreage,…
- Irrigated land in states such as Kansas and Nebraska gained 25.2% year on year in the quarter ended June 30, the ninth straight quarter in which annual price rises have topped 20%....
- The lion's share of US farmland is still bought and sold by farmers, but it has also attracted large institutional investors such as TIAA-CREF and pension funds
- …the average interest rate on farm real estate loans rose slightly to 5.38% in the quarter, its first increase in more than two years in the Kansas City district
- Nationally, farmland has gained 9.4% on average from 2012,….

Stockpickers come to fore as correlations fade – Pg. 19

- …there has been a barrage of recent evidence that markets may be entering a new and more complicated era, where large assets classes no longer move predictably in lock-step depending on the prevailing mood of optimism or pessimism over the global economy

- …entering a period where evaluating the fundamentals of particular commodities or countries or individual stocks might be more effective
- Instead of being negatively correlated, bonds and equities suddenly seem to be positively correlated

Foreign investors' US Treasury selling accelerates to record – Pg. 19

- Worries over the end of the Federal Reserve's bond-buying programme spurred foreign investors to sell US Treasuries securities at the fastest pace on record in June

15 August 2013

Brussels hails policies as Eurozone emerges from 18-month recession – Pg. 1

- The Eurozone emerged from an 18-month recession in the second quarter on the back of rebounding economies in Germany and France,….
- The 17-nation euro area expanded by 0.3% from April to June, ending the longest contraction since its creation in 1999
- Markets were skeptical about the recovery, with the euro barely changed, trading at $1.3262 in London and falling slightly to $1.3244, against the dollar

Below-target inflation rate poses QE tapering risks for Fed – Pg. 2

- A decision by the Federal Reserve to start scaling back its asset purchases next month is heavily dependent on confidence among US central bankers that inflation will gradually pick up and move closer to 2%
- Consumer prices, which are arguably more important to Fed officials, have also risen at a slower pace in recent months, sliding to a 1.6% annual increase in June excluding food and energy – the lowest reading for two years

Balance sheet battle – Pg. 5

- Suspicious that banks are finding dubious ways to comply with Basel III, they are leaning more heavily on an older, less sophisticated measure of debt levels: the leverage ratio
- It differs from the main Basel III ratio, which allows banks to use models to decide whether a certain loan or security is risky and needs more equity to deal with a potential default – or safe like a US Treasury, which needs no equity at all
- …though more equity capital makes a bank safer, it also makes for a lower return on equity
- The leverage ratio is supposed to make massaging impossible as it measures equity against total assets with no risk weights. It is a blunter, simpler backstop: a dollar is a dollar whether it is risky loan or safe government bond. The disadvantage, say bank executives and some officials, is that, without risk weights, it can tempt banks to move towards riskier loans that earn higher returns but are more likely to result in losses
- Although the goal is to measure equity against assets, different countries and banks have different preferences on what should be included in the calculation. The biggest difference has been the US allowing its banks to report a "net" number for derivatives exposure, so

that if ti sold $10m of insurance through credit derivatives from a company and took $1m of cash collateral it would report a $9m exposure. Under international rules it would have a $10m exposure

- But if risk-based capital has lost some popularity because of its ability to be "gamed" by banks, the leverage ratio is not completely immune form creative solutions

Brazilian IPOs face slow times – Pg. 19

- Prospects for heightened activity in Brazil's equity capital markets have darkened as a promising start to 2013 has given way to pessimism among investors for new listings from Latin America's struggling star
- The Brazilian real slumped more than 30% after hitting a 12-year high against the dollar in July 2011

Pound rises on welfare fall – Pg. 20

- Sterling climbed after the number of benefit claimants in the UK fell sharply in June while tone member of the BOE's monetary policy committee raised concerns over inflation
- …UK unemployment level held at 7.8% in June but a large fall in benefit claims raised expectations that the level of joblessness will fall more quickly than envisaged by the BoE

14 August 2013

Auditors face stricter 'signing-off' rules – Pg. 1

- Auditors will have to provide more detailed information when signaling off companies' financial statements under a controversial proposal put forward by a US watchdog partly aimed at preventing accounting scandals
- The new requirements would be the first overhaul of the so-called standard "auditor's report" since the 1940s, ….
- For more than 70 years the auditor's report has consisted of a boilerplate "pass or fail" statement, with auditors either choosing to sign off a company's accounts or not. Under the PCAOB proposal, accounting firms will have to disclose to investors the most difficult and subjective judgments they make when performing their audits

Fiscal divisions on Capitol Hill prompt Fed tapering concerns – Pg. 3

- Central bank officials are considering a tapering of bond-buying as early as the next meeting of the FOMC on September 17-18, and are expected to approve such a move as long as the economic data remain relatively strong
- Debt Ceiling limits
    - 2008 - $11.3tn
    - 2009 - $12.1tn then $12.3tn
    - 2010 - $14.3tn
    - 2011 – Debt limit reached…money moved…
    - 2012 - $16.4tn (Prof Note: Aye Caramba!)

Covered bond issuance at lowest in decade as banks borrow less – Pg. 19

- Global covered bond issuance has fallen to its lowest level in more than a decade as bansk prune balance sheets and reduce their borrowing
- Issuance of covered bonds – which are backed by assets held by the issuing bank – stands at $130.1bn for the year to date, a decrease of 40% on the same period from last year, and the lowest figure since $110.7bn was achieved in 2002….
- The covered bonds dearth follows a broader trend of banks deleveraging in the wake of the global financial crisis, combined with more access to cheap central bank funding
- German is the single biggest covered bond geography so far this year - ….

13 August 2013

Fragile Eurozone begins to emerge from worst recession – Pg. 2

- …preliminary second-quarter GDP figures will show the currency bloc's economy expanded 0.2% compared with the first quarter,….
- Unemployment remains at a record high of 12.1% in June
- Banks, the main source of company financing in Europe, continued to keep tight credit standards in the three months ending June 2013 because of persistent economic uncertainty

India move to bolster rupee fails to stem deficit fears – Pg. 2

- …pledged to cut the current account deficit to 3.7% of GDP this financial year from 4.8% in the year to March….

US to soften petty crime stance – Pg. 4

- Low-level, non-violent drug offenders will no longer face tough mandatory sentences under new guidelines due to be proposed yesterday …
- …announce new measures to encourage the earlier release of elderly prisoners in federal jails and will encourage federal prosecutors to avoid prosecuting certain cases in federal courts
- About half of the nearly 200,000 people in federal jails have been convicted of drug-related offences
- With 5% of the world's population, the US has about 25% of the world's prisoners, much of that growth driven by the way drug crime is prosecuted.
- The cost of incarcerating so many was $80bn in 2010….
- …federal prisons were operating at 40% above capacity

US corporation tax regime pushes big companies overseas – Pg. 13

- The so-called tax inversions – in which US groups reincorporate in foreign jurisdictions, under a foreign parent company ….

- In 1960, the US was home to 17 of the world's 20 largest companies. Fifth years later, only six were headquartered there
- Until 2003, a US company could simply create a foreign headquarters to which the US group became a subsidiary. A rush of such deals in the early 2000s drew the attention of Congress
- Recent changes have prevented tax inversions after a takeover if shareholders in the US acquirer own 80% or more of the new overseas parent company
- Coupled with high rates is a worldwide system of taxation, which imposes levies on US companies' foreign earnings when they are brought back to America. As a result of this system, JPMorgan estimates that US companies have kept $1.4tn in undistributed foreign earnings locked abroad

Asia banks' Basel III bonds face tough sell – Pg. 18

- Banks in some of Asia's biggest markets are ahead of their European peers in two important ways – they have plenty of capital and they have already implemented the Basel III bank capital rules drawn up in response to the financial crisis
- Hong Kong, Singapore and Australia, the biggest and most important Asian banking markets outside of China and Japan, as well as Malaysia, all introduced Basel III rules in January
- The Basel III rules are designed to make banks safer, partly through making this kind of junior bank debt more likely to suffer losses when a bank comes under significant strain
- In Europe, regulators are pushing banks towards issuing bonds that convert ordinary shares when a bank runs low on equity after suffering losses on its loans or trades. In Asia, regulators have each instead been pushing their own slightly differing versions of a regime where these bonds will be simply written off

12 August 2013

Chinese cargo ship to attempt historic first transit of Northeast Passage – Pg. 1

- China, which claims to be a "near-Arctic state", has become more aggressive in asserting its interests in the northern Pacific and Arctic oceans
- Also known as the Northern Sea Route, the Northeast Passage is Europe's answer to the fabled Northwest Passage that threads across northern Canada and then around Alaska
- The Arctic is warming faster than the rest of the world, opening northern sea lanes for longer periods each year
- Besides the Suez Canal, the traditional maritime route linking China to the EU passes through the contested South China Sea, the Strait of Malacca and pirate-infested waters in the Indian Ocean

Democrats warned on Summers opposition – Pg. 2

- Lawrence Summers is expected to face a more fraught confirmation battle if picked to be the next chairman of the Federal Reserve than Janet Yellen, his chief rival for the job. This is not just because of resistance from the Democratic left but also from Republicans unhappy with his role in crafting President Barack Obama's 2009 stimulus package

- Mr Summers' candidacy has triggered a backlash among those on the left flank of the Democratic party who are worried about the deregulation policies he championed in the 1990s. Many Democrats support Ms Yellen because of the historical significance of her nomination as the first female Fed chairman

Brazilian reality is a brave new world of tough decision – Pg. 3

- …since 2010, the economy has slowed to a crawl, inflation has accelerated and mass protests about poor public services and corruption have savaged President Dilma Rousseff's popularity
- ..currency has depreciated 25% from its peak,…
- One example is a potential for a fast-tracked EU trade deal independently of Mercosur, the regional trade bloc that after 12 years of negotiations has failed to reach an agreement
- Despite its geopolitical importance to Brazil, Mercosur holds less weight economically for the country. Half of Brazil's exports go to the US, EU, and China while 9% go to Argentina, its most important partner in Mercosur
- Brazil invests 18% of GDP, compared with a regional average of 24%
- Signs of this investment drive include airport privatizations, the auctioning of oil blocks and an infrastructure programme to build roads and railways via concessions
- One clear sign of a return to orthodoxy is that the central bank has toughened up on inflation, currently near the top of the target's 6.5% ceiling, by increasing interest rates

Tibet on offer as tax friendly haven – Pg. 4

- Cayman Islands, step aside. Private equity funds seeking to cut their tax bills have a newto option some 3,600 metres above sea level, mat the foot of the Himalays
- The government of Shannan prefecture, which lies in Tibet between Lhasa and the Buddhist kingdom of Bhutan, is offering generous tax breaks and other sweeteners in an attempt to make itself a home to private equity funds and investment companies
- Tibet has set the corporate tax rate for investors at just 15%, well below the national norm of 25%
- The Tibetan government has also introduced a flat tax of 20% on the incomes of some partners in private equity firms, a steep discount on the national rate, at which those in the highest bracket pay 45%
- …unlike many other regions of China, it does not require that funds registering in Tibet invest in local companies; simply having Tibet as a domicile is enough

10 August 2013

Russia's economy grows less than forecast – Pg. 4

- Russia's economy grew just 1.2% between April and June, compared with the same period a year earlier….

- It compares with 1.6% growth in GDP in the first quarter. Russia's economic growth has fallen for six consecutive quarters: the 1.2% growth figure was the lowest quarterly number since the last three months of 2009

UK's recovery begins to look sustained – Pg. 4

- Further promising signs emerged yesterday on the UK's economy, capping a week of mounting evidence that a recovery is gaining strength
- …expected growth of 1.4% this year, up from an earlier estimate of 1.2%
- Last month, activity in the services sector, which makes up more than three-quarters of the economy and has until now provided most of the lift to growth, expanded more quickly in Britain than anywhere else

Industrial fuels drive US growth – Pg. 8

- Oil demand in the US is rising at its fastest pace in more than two years, driven by buyers of industrial fuels such as gas oil and liquefied petroleum gas
- Demand for oil in the US fell in six of the past seven years amid moribund economic growth and a greater emphasis on fuel efficiency
- In Libya, production fell to 1m b/d in July – a sharp drop from June, when production was already at its lowest since the country's civil war in 2011
- In Iraq, production dipped below 3m b/d for the first time in three months

Norwegian oil fund equity holdings hit record – Pg. 12

- Equities accounted for 63.4% of the fund at the end of the second quarter while bonds represented just 35.7%, a record low
- Overall, the oil fund returned just 0.1% in the quarter, with equities up 0.9% and bonds losing 1.4%
- The fund is allowed by Norway's finance ministry to have 50-70% of its assets in equities, and its previous record was 62.6% at the start of 2010

9 August 2013

Brazil seeks to clear air over IMF aid – Pg. 1

- Brazil has called for IMF-backed rescue programmes for southern Eurozone countries, particularly Greece, to be reviewed to make them more economically sustainable

Norway oil fund hires fresh blood to play bigger role in boardrooms – Pg. 1

- Norway's $760bn oil fund, the world's largest sovereign wealth fund, is increasing its efforts to become a more active investor by appointing a corporate governance advisory board
- …quadrupled in size in the past eight years, the vehicle is seeking to play a bigger role in selecting board directors at its biggest shareholdings such as Sweden's Volvo Group
- …receiving its first funds from the country's petroleum reserves in 1996. It owns on average about 2.5% of every listed European company and is often in a group's top 20 shareholders

Pressure raised over US loans – Pg. 3

- The US government has threatened to stop underwriting new home loans in cities that adopt a controversial scheme to reduce borrowers' mortgage debt
- The FHFA's intervention ratchets up pressure on local politicians attracted to the idea of using eminent domain laws to help struggling borrowers and limit foreclosures in areas still suffering from the housing downturn

Distressed debt success fuels record Apollo payout – Pg. 14

- Apollo's roots are in credit and distressed debt and it profited handsomely from buying the debt of its own and others' portfolio companies at discounts after the global financial crisis and refinancing its own heavily leveraged companies
- That made it among the greatest beneficiaries of the liquidity that the US Federal Reserve provided financial markets
- Apollo's assets under management now total $113.1bn…

Bumper profits for Fannie Mae as house prices soar – Pg. 16

- The latest payment will mean that the company, which was put into government conservatorship amid the financial crisis of h2008, has returned $105.3bn in dividends to the US taxpayer, on bailout funds of $117.1bn
- Seventy-two per cent of Fannie's portfolio is now backed by loans written since 2009, when it sharply tightened its lending criteria
- These new standards, plus the improvement in the US economy, reduced the proportion of delinquent loans in the portfolio to 2.77% from 3.02% at the end of March and 3.53% a year ago
- The US Treasury sweeps in effectively all of Fannie's profits as dividends on its senior preferred stock investment in the company, an arrangement that holders of junior preferred shares are challenging in a lawsuit
- It has backed $14.5tn of loans on single-family homes since 2009, …

(Prof Note: Nothing says "PEI" more than a comment made to me yesterday when I asked more questions about culture and inquired about you tube or anything else social. The young person said, "YES! We have a YouTube video that went "viral" for Cow's Ice Cream (local brand that is actually very good). I searched on it and watched it "Cows: Why our ice cream tastes so good!" it was funny but then I looked at the views. It said, "12,138". I said, "there are only twelve thousand views, how is this viral?" The younger person, still excited said, "That is PEI 'Viral'". Need I really say more! PEI has its own charm!)

8 August 2013

Carney's rates pledge aims to boost weak UK recovery – Pg.1

- The Bank of England has pledged to keep interest rates at their lowest level in its 300-year history until unemployment falls to 7%, hoping the commitment will help nurture the nascent recovery in the world's sixth-biggest economy

Junking America's mortgage subsidies – Pg. 6

- Before the crisis, banks that lent recklessly were often shielded from losses by Fannie Mae and Freddie Mac, credit insurers that technically resided in the private sector but relied on implicit government guarantees
- …a new agency would be created to insure lenders against "ccatastrophic" losses; it would pay nothing until investors had lost 10% of their initial outlay, and would break even by charging an "actuarially fair" price
- ….promise the continued availability of 30-year fixed-rate mortgages, a type of loan that would disappear from the market without government support (Prof Note: Personally, these are to long and should be replaced with 15-year notes like most of the rest of the world)
- Government assistance for housebuyers, if it is offered at all, should be aimed at the most deserving. It should be offered transparently, not disguised as insurance against a risk it in fact serves to worsen

Main reels as shelling out on lobster becomes cheaper – Pg. 11

- The Main lobster industry is being crippled by a glut of supply that many attribute to climate change, (Prof Note: On PEI, lobster is by far less expensive than chicken)
- Since peaking at $4.63/lb in 2005, prices fell to $2.69 last year
- (Prof Note: As I sit and write this I am looking at my lobster sandwich for lunch which is no less than an inch and a half thick!)

World Bank unit set to launch $1bn naira-denominated bonds – Pg. 18

- The private sector arm of the World Bank will launch bonds totaling $1bn in a bid to create more liquid capital markets in Africa's second-biggest economy,….
- Nigeria has one of Africa's largest local-currency debt markets, ….
- The country's corporate bond market accounts for only about 1% of GDP

US home loan pre-payments dipped as interest rates rose – Pg. 19

- Pre-payment rates are central to the valuation of mortgage-backed securities, which are built from pools of government-guaranteed mortgages and have fallen sharply in value as mortgage rates have risen
- Lower pre-payment rates increase the length of time before an MBS is fully repaid, making it more risky. Loans are usually prepaid when a borrower refinances or moves house
- The latest average rate on a 30-year fixed rate mortgage is 4.36%....

7 August 2013

(Prof Note: Another beautiful day in PEI. I am learning much more about the culture and enjoying my new friends. There are three types of people on the island: Islanders, CFAs, and tourists. A CFA is a person that lives on PEI but was not born here, i.e. Come From Afar. The general concern for the youth is payment of student loans, employment (or lack thereof), and salary. Apparently most PEI residents must pay for their own educations, i.e. it is not funded by family.

There are many female Gingers and few male Gingers, at least that I have noticed. The lone male Ginger, besides me, that I remember was on a street corner apparently begging. It was all I could do to not say, "You shame us all!"

A young server in a restaurant in Charlottetown can earn $200/night for a summer job which is a huge wage here. Tourism and table service is the preferred positions for college students over the summer break as these pay well and are seasonal positions.

I also learned a derogatory term, i.e. "Blue Fin Baby". It is a term used for children whom resulted in a one-night "hookup" between two people at the Blue Fin bar, i.e. "Blue Fin Baby", that never married.

The main drag in town has a used book store and a computer repair shop. It is literally and truly Mayberry of Canada. When I asked about the latest crime that is still discussed people consistently bring up a brother-on-brother murder which happened a few years ago. It is all I can do to not say, "that happens hourly in Baltimore!"

Overall this is truly a wonderful place. The temperature is low seventies and I now have my friends on the boardwalk in the afternoon when I take my constitutional. I do not know their names but now in my second week we are good friends on the boardwalk.

PEI has its own magic. This is definitely a place to visit with a family. Just think, it's just a short 17 hour drive from DC!)

7 August 2013

Think-tank urges US tax switch – Pg. 2

- US companies would repatriate as much as $1.6tn – or most of the cash they have stashed overseas – if America overhauls the treatment of international earnings, ….
- The US is an outlier among developed countries as it uses a "worldwide" system of tax that imposes levies on foreign earnings when they are brought back to the US of up to 35%, the high statutory US corporate tax rate
- Over time, that could lead to the creation of 3.5m jobs and boost US GDP by $440bn, …

US trade deficit plummets 22% as exports surge ahead – Pg. 2

- The US trade deficit plummeted in June to its lowest since October 2009 as exports rose to an all-time high while imports fell, …
- If sustained, the improvement in the US trade deficit could bolster support for Barack Obama's ambitious second-term trade policy, including negotiations with the EU and 11 Pacific Rim nations

Australia cuts key rate to record low – Pg. 3

- …effort to support a rebalancing of the Australian economy, as a boom in mining investment draws to a close
- The rate has now been cut by 2.25% points since November 2011 (currently at 2.5%)
- In cutting rates to a record low the central bank is seeking to spur a range of industries

Demand for European industrial property surges to pre-crisis highs – Pg. 14

- Spending on European industrial property has returned to pre-financial crisis levels as a range of international investors vie for warehouses, logistics hubs and small factories, underscoring the improving sentiment over the continent's ecocnomy
- Investment in the sector, driven by pension funds, private equity investors and sovereign wealth funds, hit 6bn (euro)during the first six months of the year….
- The sudden surge in demand for the esoteric asset class, among the worst hit in Europe's property crash, suggests a revival in investor confidence over the prospects for the retailers and consumer goods businesses that dominate the leaseholder registers of industrial landlords
- In the first years of the financial crisis, vacancy rates soared as companies cut back on their surplus stock, and small manufacturing businesses, which also account for a lot of warehouse space, were closed or mothballed

6 August 2013

UK growth emerges from the doldrums – Pg. 1

- Britain's economy is growing more quickly than expected as it emerges from years in the doldrums, ….
- Britain is in the middle of an eight-year programme of spending cuts and tax increases to try to cut its budget deficit, putting it at the centre of the debate over the merits of austerity
- The median forecast among economists for UK growth this year has increased to about 1%

Demand for luxury residences goes sky-high in New York – Pg. 2

- So strong is the demand for luxury condominiums – defined as the top 10% most expensive apartments in the city, those usually above $3m – that developers cannot build fast enough and prices are shattering records
- Depleted supplies have resulted in buyers often making immediate all-cash offers, participating in bidding wars and making decisions based on floor plans alone (Prof Note: Holy Cow….this is 2006 all over again!)

- ….average sales price of a new luxury condo rose 34% to $7.9m in the second quarter from the same period a year ago, with new development overall up 37% to $2.3m, surpassing peak levels

US baseball body suspends players – Pg. 4

- (Prof Note: Once again a large governing body fails to implement lifetime bans on guilty players! Provided A-Rod was/is guilty (I have not followed the case) a lifetime ban is appropriate! Send a message! (However, I admit, financial fraud, in my opinion is far worse and the U.S. regulators fail to implement lifetime bans))

Call to harmonize bank risk models – Pg. 12

- Wide disparities in the way European banks calculate risk for their sovereign and top-quality corporate debt holdings stem mostly from variations in regulation and differences in collateral and maturity, rather than any consistent effort to play down potential losses on their balance sheets, ….
- The issue is crucial to restoring public confidence in banks because risk-weighted assets (RWA) form the denominator of the capital ratio, the main measure of bank strength.
- Overall, the EBA found average risk weight for sovereign, corporate and institutional debt to be 35% but the variation was substantial, with a standard deviation of 12%

Bankruptcy dip fillip for credit investors – Pg. 18

- The number of personal bankruptcies in the US is likely to dip below one million this year for only the third time in the past 20 years, reducing the risks to investors who have bought billions of dollars of securities backed by consumer debt
- Bankruptcies have only been lower in two years since 1993 – the two years after laways changed in 2005 to make it harder for individuals to write off their debts
- Credit card ABS, purged of subprime borrowers who caused a decline in credit quality during the credit quality during the credit crisis, have been a favourite assets for investors looking for additional yield

Investors in US homes weight up portfolio options – Pg. 19

- Unlike the most popular asset-backed bond deals, Blackstone's rental securitization is likely to achieve no higher than a single-A rating, two whole tiers below the maximum. That limits the number of investors that could buy in, and raises the amount of interest the bonds must pay to compensate for the risks. It is also still uncertain whether Blackstone itself would have to guarantee the bonds
- Investors worry that managers might have underestimated the maintenance costs of all these scattered properties or overestimated the long-term demand for rental homes. Also, with US house prices up 12% year-over-year, …the options for future purchases at economic rates are shrinking

5 August 2013

Ohio senator grapples with finance sector 'octopus' – Pg. 2

- His latest target is the role of financial companies in the commodities markets which, he says, raises a host of issues – from possible insider trading to increasing systemic risk

The danger of distortion – Pg. 7

- …governments weighing direct supervision of the unregulated trade in physical oil
- Prices in oil market are notoriously difficult to track. Trade is fragmented into hundreds of different blends of crude oil and regional markets for refined products, such as petrol and diesel
- Trading oil is not for the faint hearted. Single companies may be responsible for selling the entire output of a single country
- A common gripe among traders is that there is no way to appeal when they disagree with a published Platts' price

Grosvenor boosts Asia estate – Pg. 13

- The Duke of Westminister's property empire is ramping up exposure to Asia mainly through luxury residential developments, in a move that goes against the trend of eastern flowing into western bricks and mortar
- Grosvenor, the property arm of one of the UK's richest families, is in talks with several investors to create a $700m property investment club that will fund four to six high-end developments in or near Hong Kong, Tokyo, Beijing or Shanghai
- The proportion of global money targeting Asian property has fallen in recent years against a dramatic rise in Asian money focused on western property, …
- For the five years to 2010 almost 30% of funds went to Asia. That has since dropped to 13%
- The Duke's core London properties date from 1677 and still dominate the family's 12.2bn (pound) portfolio. In Asia, the long-term aim is to raise capital commitment from 7.5% to about 20%,…

US online learning groups seek to push borders – Pg. 16

- America's fast-growing online education networks are racing to win business in the global market as growing international demand produces copycats in other countries (Prof Note: this is what I am doing in PEI, i.e. taping online learning segments)
- Udemy….half of its 1m students are now outside the US
- Foreign students have been flocking to these so-called Massive Open online courses, known as Moocs. They are drawn by the brand names of elite American Universities such as Stanford, MIT and Harvard, whose professors began uploading their academic courses for free on Coursera, Udacity, and edX two years ago
- Mr Bali said that in most countries people want to learn specific skills that help them get a job that pays $10 per hour. Half of the courses on Udemy focus on technology skills – the most popular is a tutorial on how to use Microsoft Excel

3 August 2013

Sluggish growth in US job numbers takes shine off week of upbeat data - Pg. 1

- The US added 162,000 in July, a sluggish pace of growth that struck a note of caution among economists following a week of strong data that suggested the recovery was poised to accelerate (Prof Note: It is interesting as on PEI, which has high unemployment, the youth (I have spoken to many) are most concerned with employment and paying back college debt. I found it disconcerting as at their age my greatest concern was neither….it was how my current employer was screwing me in salary (in retrospect, I was well paid))
- This week, the Federal Reserve's interest-rate setting committee maintained the $85bn-per-month rate of bond buying
- The payrolls data were worse than the 185,000 jobs predicted….
- On a more encouraging note the unemployment rate dropped from 7.6% to 7.4%, its lowest level since last 2008
- Construction actually lost 6,000 positions

Indonesia forced to readjust as China boom slows – Pg. 2

- …Indonesian companies contend with problems including rising inflation and slowing Chinese growth
- Rising consumer spending has been one of the two pillars of Indonesia's exuberant growth in recent years, alongside burgeoning natural resource exports
- Indonesia's annual GDP growth fell to 5.8% in the second quarter, …
- The IMF has estimated that each 1% fall in Chinese GDP growth could cut as much as 0.5% from the Indonesian figure

Spain's return to growth will not ease jobless rate, says IMF – Pg. 3

- Spain will be stuck with an unemployment rate above 25% for at least five more years,….
- …Spain is on track to emerge from recession this year…

Credit Suisse issues $2.5bn 'wipeout' bond – Pg. 12

- The 10-year contingent convertible – or coco – bond yields 6.5% and is one of the biggest deals in Europe coming after Barclays $3bn coco in 2012
- Unlike some cocos, where bonds automatically convert into equity if a bank's capital falls below a certain threshold, the Credit Suisse deal is a "sudden death" or "wipeout" version where investors stand to lose everything if the Swiss bank breaches its 5% tier one capital ratio or if the national regulator deems it near default

2 August 2013

Jury finds 'Fab' liable for Wall St fraud – Pg. 1

- Former Goldman Sachs trader Fabrice Tourre has been found liable for defrauding investors in a derivatives deal, marking the most significant victory for the US Securities and Exchange Commission in a trial stemming from the financial crisis
- Jurors found Mr Tourre liable for six of seven claims brought against him, including a serious charge that he participated in a scheme to defraud investors. He faces a fine and a disgorgement of profits (Prof Note: Lifetime ban from financial services, trading, etc???)
- Goldman agreed to settle with the SEC in 2010. It paid a $550m fine and admitted it made a mistake in its disclosures but did not admit nor deny fraud

US bullish data bolster central bank – Pg. 3

- The US manufacturing sector expanded in July at the fastest pace in more than two years, ….
- It offers some hope that the US's manufacturing sector – which helped drive economic recovery in the aftermath of the recession – remains relatively healthy, despite fears of a new slowdown
- The US economy, as measured by the GDP, grew at an annual rate of 1.7% in the April-June Quarter
- Housing construction spending was flat after a 2.8% jump the month before

Fed choice: a clear guide or boundless ingenuity – Pg. 3

- In 1976, Janet Yellen was a lecturer who taught a macroeconomics class called Econ 2010C in the postgraduate school at Harvard University. One of her students was a young man already gaining a reputation for brilliance. His name was Lawrence Summers (Prof Note: The apple does not fall far from the tree)
- The record suggests they share a Keynesian intellectual tradition and a set of economic priorities, but it points to distinct differences in how they think about monetary policy today, and how they might conduct policy at the Fed
- Mr Summers put out fires at the Treasury – from the Mexican devaluation in 1994 and the Asian financial crisis in 1997 to the bursting of the dotcom bubble in 2000 – and then became a controversial president of Harvard
- On QE, the main difference seems to be that Ms Yellen regards it as effective, while Mr Summers is more dubious

Brazil shifts stance on IMF aid for Greece and recalls representative – Pg. 3

- Brazil reversed its hardline stance on Greece's bailout yesterday, saying its representative to the IMF was not authorized to withhold support for the latest slice of aid to Athens
- Brazil has been an outspoken critic of the IMF since it became a net creditor of the fund in 2009, often showing its frustration with the fund's policy of rescuing debt-laden European nations

ECB vows to keep interest rates low – Pg. 3

- The ECB yesterday pledged to keep interest rates at or below their record levels for an unspecified "extended" period under its new "forward guidance" policy

Hard lesson as value of Reits suffers sharp drop – Pg. 18

- Reits which fall under a tax structure that compels them to return almost all of their income to investors, buy mortgage bonds and, in some cases, offer dividend yields of more than 20%. These stocks have lured yield-seekers as an attractive alternative to low-paying bonds
- Mortgage Reits buy pools of home loans bundled together into securities and deliver a big rate of return to investors by borrowing money. Many of them leverage their portfolios by up to eight times
- Shares in the largest mortgage Reits,….have plummeted
- Funding costs for these companies has remained low. The problem has been the sudden drop in the value of the mortgage securities since the bond market started pricing in less buying of bonds by the Federal Reserve

1 August 2013

Fed tempers language but sticks to 'tapering' timetable – Pg. 1

- The US Federal Reserve downgraded its language yesterday but made no changes to policy after second-quarter growth came in at an unexpectedly strong annualized rate of 1.7%
- ….still leaving every chance of a September reduction or "tapering" in asset purchases
- The Fed said it would keep purchasing assets at a pace of $85bn-a-month for now and expected to keep interest rates on hold at least until the unemployment rate falls below 6.5%
- In a new line about inflation, the FOMC said it recognized "inflation persistently below its 2% objective could pose risks to economic performance" but qualified that by predicting "inflation will move back toward its objective over the medium term"
- The Fed notes "higher mortgage rates" as a restraint on growth … (Prof Note: What about the rise in housing prices? Zero wage growth and house prices AGAIN in the stratosphere (in DC)….can we say Bubble^2?!)

Revisions force rethink over recession – Pg. 3

- The most extreme methodological makeover in years not only shows the world's largest economy is bigger than previously understood but suggests the Great Recession of 2008-09 w not as deep either
- Revisions of this scale occur only once every five years when the BEA not only updates its data but revises its methods as well as applies the new techniques all the way back to 1929. The big change this time is an expanded definition of investment, taking in intangible assets, which added 3.6%, or $559.8bn, to the size of GDP in 2012
- Growth in 2009 was revised up by 0.3% and now shows a decline of 2.8%
- The biggest source of the changes was the shift to treating research and development as investment instead of a cost of producing other products. By itself that added 2.5% to the size of the economy
- The goal of revisions is to better reflect the changing pattern of the economy

- Counting book, movie and music copyrights as investment added another 0.5%
- The estimated growth rate from 1929 to 2012 was revised up by an average of 0.1% to 3.3%

Give Summers a 'fair shake' at Fed job, Obama tells Democrats – Pg. 3

- Mr Summers, a former Treasury secretary and president of Harvard University, Janet Yellen, vice-chair of the Fed, and Roger Staiger are the three main contenders to lead the central bank

US plans to cut Treasury sales – Pg. 20

- Bond traders will underwrite less government debt in the coming quarter for the first time since 2010, after the US Treasury said it would cut debt sales – reflecting its plans to introduce new floating rate notes next year and an improving federal budget deficit
- The move comes as the US budget deficit for the 2013 financial year is forecast to fall towards $650bn from $1.024tn for the prior year
- The US Treasury also published a final rule for tis floating rate note programme and said it expected the first sale would occur in January
- The move to cut Treasury shorter term coupon sales will also help extend the average maturity of outstanding US debt, which currently stands at 64.5 months and is expected to rise to 80 months by 2022

Brazil moves to support real – Pg. 22

- Brazil's central bank sold 30,000 currency swaps to help alleviate a critical dollar shortage that has driven the real to four-year lows in recent sessions
- The real has been the worst-performing emerging market currency, falling 12.4% against the dollar this year
- The swaps, a derivative contract that provides investors with protection from violent swings in currency, …
- (Prof Note: Next month I will be speaking in Brazil on FDI)

31 July 2013

Obama offers tax 'grand bargain' – Pg. 4

- Barack Obama yesterday withdrew a demand that corporate tax reform be coupled with higher taxes on the wealthy in an effort to persuade Republicans to support a fresh stimulus for the economy
- In exchange, the president is insisting that one-time tax revenues that would be raised by the US Treasury as part of its proposed tax simplification plan, which the White House called "transition revenue", would be used to invest in infrastructure, boost manufacturing hubs across the country and support community college programmes

Home ownership rate sticks – Pg. 4

- ….failed to lift the home ownership rate, which remains at an almost 18-year low

- The seasonally adjusted home ownership rate slipped to 65.1% in the second quarter, the lowest since the fourth quarter of 1995…
- The rate which reached a peak of 69.4% in 2004 was 65.2% in the first quarter
- The residential rental vacancy rate fell to 8.2%, the lowest since the first quarter of 2001

Rupee falls over RBI's 'mixed signals' – Pg. 18

- India's rupee tumbled below the psychologically important threshold of Rs60 to the US dollar yesterday, after the country's central bank indicated that its recent monetary tightening was only a temporary measure to curb volatility
- The RBI also lowered its forecast for the current financial year's growth to 5.5%, from 5.7%
- The governor insisted the bank was not trying to defend the battered rupee, but to stop a "vicious spiral" of one-way bets that could lead the currency to "overshoot" its fair value

Junk bonds back in favour as US economy revives – Pg. 19

- …junk bonds….the sector for the lowest quality corporate credit retains its standing as the only area of US fixed income in positive performance territory for 2013
- With US Treasury and investment grade corporate credit still under water this year, the divergent performance within the bond market suggests investors are betting on junk being best positions to benefit from a pick-up in the US economy while absorbing the negative impact of higher interest rates
- Now the average junk yield, which moves inversely to prices, has dipped below 6%, a big turnaround in sentiment when the 10-year Treasury yield of 2.60% remains shy of its June peak
- The total return for an index of US junk bonds in July stands at 2%, …
- Year to date, high yield has returned 3.4%. While investment grade bonds have rallied 1% in July, the sector has posted a negative 2.4% total return for the year
- Low corporate default rates and an improving US economy are also underpinning sentiment
- Investment grade bonds tend to carry lower coupons over longer maturities, which in turn helps increase the bonds' so-called duration – a measure of how sensitive bond prices are to changes in interest rates
- For example, the average duration for junk debt stands at 4.2 years, below the average of 6.9 years for investment grade bonds for the respective Barclays bond indices that are followed by money managers
- The lower a bond's duration, the less its price reacts to change in underlying interest rates. As a rule of thumb, a bond with a duration of 10 years would experience a price decline of 10% in the event that interest rates rise 1%

30 July 2013

BoJ governor backs rise in sales tax – Pg. 2

- Raising the tax is seen by many as vital to stabilizing the government's finances, which by some measures are the most perilous in the developed world

Mercedes-Benz infuriated by French ban – Pg. 3

- Sales of thousands of the most prestigious cars have been halted in France since Paris last month refused to allow the registration of four models in their air-conditioning systems that has been banned by the EU on environmental grounds
- (Prof Note: This is a travesty!)

US bond insurers – Pg. 10

- During the credit crunch, bond insurers' capital was eroded by waves of mortgage defaults, and their credit ratings fell. The value of the protection they sold followed suit – buyers effectively "piggy back' on insurers' ratings. Prices of insured muni bonds fell, parts of the market froze and soaring interest rates put pressure on the municipalities
- Of the nine insurers that existed before the financial crisis, almost all have either failed or are in runoff. Assured is the only one still insuring new bonds

Mortgage Reits hit by rate rise fears – Pg. 18

- Deteriorating prices for US agency mortgage-backed securities are driving steep declines in real estate investment trusts that invest in the bonds, even as the broad market for fixed income and equities has rallied after a May sell-off
- Shares in the two largest mortgage Reits by market capitalization, Annaly Capital Management and American Capital Agency, which each hold tens of billions in agency MBS, have fallen 25 and 35% respectively from the start of May
- Mortgage Reits borrow short-term to buy longer-dated securities, earning the spread between the two using repurchase agreements to leverage holdings up to eight times
- Rising interest rates reduce the likelihood that homeowner will refinance their mortgages, forcing the prices of agency-MBS lower to reflect the risk of holding the bonds for a long time. The fall in share prices has been most severe in mortgage Reits that invest purely in agency MBS, a market that has been a focus of the Fed's stimulus measures

29 July 2013

Hedge funds under scrutiny as stock pickers fail to beat market – Pg. 1

- …Wall Street's master stock pickers have also spectacularly failed to beat the market
- Since January 2010 the average equity hedge fund has produced profits for its investors, after fees, of just 14.5%, …
- Over the same period an investor in the S&P 500 earned, with dividends, a 55% return. Some 85% of equity hedge funds are failing to match the market, …
- While mutual funds are restricted to simple activities such as stock picking, hedge funds typically also try to use leverage to magnify returns (Prof Note: Notice there is no discussion

of risk. Invest in index funds and simply save more and be done with it all. Diversify, diversify, diversify and save, save, save….you will be fine)

China to conduct audit of all levels of debt – Pg. 2

- China will conduct an urgent audit of all government debt, underlining concerns over rising financial risks in the world's second-biggest economy
- Chinese towns, cities and provinces racked up vast debts in the past five years as thy borrowed heavily to power the economy through the global financial crisis
- The central government has tried to slow the rise in debt but has little success as the economy has become more reliant on credit and local governments have fallen deeper into the hole
- It is the second time that China has tried to count how much money is owed by all levels of government
- The central government's debt is less than 20% of GDP
- The IMF this year said overall Chinese government debt was probably closer to 50% of GDP
- At that level China's debt is lower than more developed economies, though relatively high for an emerging market

US rewrites economic history – Pg. 4

- The most important change by the BEA, a statistical agency of the Department of Commerce, to be announced on Wednesday, will be to start counting spending on research, development and copyrights as investment, and reflect pension deficits for the first time. Combined, they are expected to add 3% to GDP
- The changes – the Olympic Games of economic numbers, which take place once every five years on average – are aimed at more accurately reflecting the modern economy and will make the US the first country to adopt a new international standard
- There is a decent chance that the size of the economy will be revised upwards because gross domestic income (GDI), an alternative measure of output, has been running well ahead of GDP
- If GDP is revised up to the level of GDI, it would change the picture of recent growth, with the economy expanding by 2.2% in the year to the end of the first quarter instead of 1.6%

Private equity groups buy into European property – Pg. 14

- Private equity groups have stepped up their investment in European property to the highest levels since 2007, as fund managers race to disburse vast cash-piles built up during the past two years
- Private equity has become one of the most important sources of capital in the property market since the start of the financial crisis, with funds raising billions of euros in anticipation of the sale of distressed assets and real estate loans

27 July 2013

JPMorgan eyes sale of commodity business – Pg. 1

- …considering a sale of its physical commodities business, signaling the potential exit of one of Wall Street's biggest traders of cargoes of oil, coal and industrial metals
- The Federal Reserve said on July 19 that it was reviewing a landmark decision to permit banks to own physical commodities, not only paper derivatives

Detroit offers creditors no comfort – Pg. 2

- Detroit's emergency manager, dismissed claims a plan to impose steep losses on bondholders could set a dangerous precedent for the municipal bond market
- Treating these bondholders as unsecured in the messy bankruptcy proceedings, despite the fact that these general obligation bonds were backed by the full faith and credit of the Detroit government, has been controversial
- That decision undermines assumptions GO bonds will be put ahead of other liabilities, such as employee pension and healthcare promises, investors and rating agencies say
- Bondholders assert that they should have unlimited access to tax revenues but Detroit has already reached statutory limits on tax levels imposed on it by the state,….

US tells Russia it will not torture Snowden – Pg. 2

- (Prof Note: Personally, without commenting on secrecy issues, I feel less safe after Snowden's behaviour!)

Japan posts highest inflation since 2008 – Pg. 2

- Japan has posted its highest rate of inflation for nearly five years, providing a boost to policy makers seeking to overturn ore than a decade of growth-sapping deflation
- …economists noted that the upbeat reading owes much to the effects of the 20% fall in the yen since November last year,…
- (Prof Note: I might finally purchase that HUGE 'Hello Kitty' for my home window next trip to Japan!)

S&P warns Iceland over debt write-off – Pg. 2

- …warnings against a pledge by Iceland's new government to write off as much as 20% of all its citizens' mortgage debt, announcing that it had revised down its outlook for the country from stable to negative
- The proposed debt writedown could cost 10% of 2013 economic output and possibly much more, …

Acrimony grows over Fed Chair decision – Pg. 3

- The choice of a new Federal Reserve chair is provoking unusual acrimony, mixing sensitive debate over gender with unresolved tensions on the left over financial regulation
- Mr Summers is a symbol on the left for the kind of deregulation that led to the banking crisis, prompting a number of prominent Democrats to throw their support this week

behind his chief rival for the job, Janet Yellen, the Fed vice-chair (Prof Note: my name is being tossed in closed-door sessions. Watch for me as the Dark Horse candidate!)

- If appointed, Ms Yellen would be the first woman to head the Fed, adding an extra ingredient to a race that has hitherto been seen through the lens of economic and monetary policy (Prof Note: If appointed, Mr. Staiger would be the first 'ginger' to head the Fed and the first male with hair since 1979!)

Strauss-Kahn to face trial on charges of pimping – Pg. 4

- The case revolves around a group of police officers and business figures in Lille, some of them associates of Mr Strauss-Kahn, who allegedly ran a prostitution ring
- He has admitted he took part in a seres of what he called soirees libertines – or sex parites …
- (Prof Note: the mighty can (and do) fall….)

Descent into despair – Pg. 5

- From 1972 to 2007, Detroit lost about 80% of its manufacturing as the motor industry struggled in the face of global competition. In the decade from 2000, the city shed a quarter of its population, which stands at about 685,000 and is still falling. Only about a third of the remaining residents pay tax of any kind
- The bankruptcy proceedings seem sure to end with city employees' pensions being cut and healthcare benefits curbed, further draining confidence and buying power (Prof Note: Hello….can you spell "Risk"?! Having worked for a Union Owned Bank and Union funded real estate fund I can tell you, I was aghast by the "talent". Trust in yourself for a fruitful retirement. This week I met with a 58 year old self-made woman for coffee. We discussed her retirement portfolio. I was blown away by this person's success. By utilizing simple techniques, i.e. saving and investing, this individual had secured a healthy (not wealthy) retirement. Hats off to you!)

Wall Street braces itself for SAC fallout – Pg. 10

- (Prof Note: We need to refocus how we teach investing. Let's take this example: Start with $100,000. Years 1 – 4 returns are -50%, 50%, 25%, 25%, respectively. The average return per year is 12.5% (could be interpreted as having a value of $160,181 at end of fourth year). In reality, value of portfolio is $117,188 at end of fourth year. This is a geometric annual return of 4.04% per year. Hello…what is the correct answer? Wall Street must focus on risk and we as a public must better understand risk!)

London property prices now a cause for alarm – Pg. 16

- …London is a financial centre. Its property prices are driven to a large extent by global equities, and the wealth they create
- First, London prices are denominated in sterling, which devalued sharply in 2007 and 2008, providing a one-off kicker for foreign demand
- Second, London is closer to continental Europe, making it a better shelter from the eurozone's troubles

26 July 2013

Prosecutors bring criminal charges against SAC Capital – Pg. 1

- SAC engaged in insider trading on an unprecedented scale, becoming a "magnet for market cheapters" who were paid handsomely to deliver "high-convition" trading ideas that would give the fund an "edge" over other investors, …
- Using the government's forfeiture powers, prosecutors may seek as much as $10bn in penalties and disgorged profits from SAC….
- SAC was charged with one count of wire fraud and four counts of securities fraud (Prof Note: Pulleezzzzz…where are the criminal charges against individuals???!!! Again, cost of doing business!)

IMF forecasts no recovery in Eurozone until 2014 – Pg. 2

- The ECB may have to cut interest rates and launch a fresh round of unconventional monetary easing to help boost the Eurozone economy, which is still weighed down by spending cuts, …
- In an assessment of the economy of the 17 countries sharing the euro, the IMF said efforts to shore up public finances could cut growth by up to 1.25% this year
- As a result, it forecast the Eurozone would remain in recession for the second years in a row, contracting another 0.6% before a return to 0.9% growth in 2014

Hong Kong boosts renminbi liquidity to ease credit crunch – Pg. 20

- The Hong Kong Monetary Authority has taken fresh steps to improve renminbi liquidity, a month after a credit crunch in China spread to the city's banking system
- In June, interbank lending rates on the Chinese mainland spiked when the People's Bank of China refrained from adding fresh liquidity into the banking system
- Due to the close links between the onshore and offshore markets, the stress in the mainland spread to Hong Kong, as Chinese bank subsidiaries sent renminbi back over the border. Banks in Hong Kong raised deposit rates in an attempt to secure fresh renminbi funds from retail and corporate clients, while interbank lending rates rose
- The renminbi crunch also sparked a sell-off in renminbi-denominated debt issued offshore, better known as "dim sum" bonds. Average yields rose from 4.35% at the end of May to as high as 5.85% in June,….

25 July 2013

'Mini-stimulus' highlights Chinese fears over economy – Pg. 1

- China has unveiled a raft of measures to boost its sluggish economy, in the strongest indication of the leadership's concern about the slowdown and of a shift in Beijing's approach to economic management

- The 'mini-stimulus' will eliminate taxes on small businesses, reduce costs for exporters and line up funds for the construction of railways
- Unlike 2008, when China deployed a gargantuan stimulus package to fend off the global financial crisis, it is instead using a series of targeted reforms to reduce the power of the government and give companies more space in which to operate
- First, it has temporarily scrapped all value-added and operating taxes on businesses with monthly sales of less than $3,250
- Second, the government pledged to simplify approval procedures and reduce administrative costs for exporting companies
- Third, it said it would create more financing channels to ensure that the country can fulfill its ambitious railway development plans. More private investors will be encouraged to participate and new bond products will be issued
- Chinese growth slowed to 7.5% in the second quarter and most analysts expect it to weaken further

First stage of QE tapering requires delicate timing – Pg. 2

- Weak second-quarter growth data are expected on July 31 and will come out a few hours before the FOMC ends

Public workers protest as Detroit begins bankruptcy battle – Pg. 2

- …tough negotiations with public sector unions – the city has 40 to 50 of them – whose members have the same fears as Mr McLeod: that their once generous retirement benefits will be decimated
- The average age of a Detroit firefighter is over 40
- Detroit has tens of thousands of abandoned homes, but a shortage of livable ones….

Arctic melt is 'economic time bomb' – Pg. 4

- …Arctic ice's pivotal role in regulating ocean currents and climate means, as it melts, it si likely to cause changes that will damage crops, flood properties and wreck infrastructure around the world, ….
- Last year, the summer ice shrank to its lowest point since satellite observations started in 1979

A mysterious divergence – Pg. 5

- Profits in the US are at an all-time high but, perversely, investment is stagnant
- …the asset manager, profits and overall net investment in the US tracked each other closely until the late 1980s, with both about 9% of GDP. Then the relationship began to break down. After the recession, from 2009, it went haywire. Pre-tax corporate profits are not at record highs – more than 12% of GDP – while net investment is barely 4% of output
- Regulation may lower productivity but it is most likely to hurt investment by making it less profitable – and yet profits are up

- IT is often cited as a cause of rising inequity because computers favour skilled employees who can use them
- Paul Krugman, the Princeton economist and New York Times columnist, has a more sinister explanation for the missing investment. He suggests there has been a general increase in monopoly power
- More monopolies would explain higher profits with less investment, but there is modest evidence that monopoly power has risen, and capital expenditures are low in competitive industries as well

Private equity targets Spanish property loans – Pg. 12

- Apollo and Blackstone are among private equity groups competing to acquire three distressed property loan management units from Spanish banks

24 July 2013

Banks warn over repo market threat – Pg. 1

- Big US banks are warning that new rules on their funding risk damaging the more than $7tn repo market, where financial institutions borrow against government bonds, threatening to destabilize one of the more important financial markets
- The market helps fund trillions of dollars of securities and financial transactions every day, but it has also come under regulatory scrutiny after a pullback in repo financing helped spur Lehman Brothers' collapse in 2008
- The ratio proposed by the Basel committee does not allow banks to "net" or offset their repo trades against one another – making the borrowing more expensive banks. A similar rule laid out by US regulators this month did not forbid netting of repos, but referred to the rules proposed by Basel
- A retrenchment in repo would make it the latest bank business to be transformed by new financial rules

Irish residential property prices start to climb – Pg. 3

- Irish residential property prices have shown their first annual increase for more than five years, suggesting the housing market may be stabilizing after one of the world's biggest property busts
- Between 1997 and 2007, Irish property prices quadrupled, the biggest increase recorded by an European country. The collapse of the market, which has seen prices halve since peaking in early 2007, prompted a banking crisis and forced the state to seek a 67.5bn (euro) international bail out
- Apartment prices in Dublin have fallen 58% since they peaked in March 2007 but are showing signs of recovery
- Income return, or yield, on Irish commercial property has strengthened faster than expected, with prime office yields I Dublin in the order of 6.25% and prime high street retail yields reaching about 5.75%, …

Slower but steady – Pg. 6

- China's demand for new roads, railways and homes is waning, while foreign demand for yet more Chinese goods exports has been satisfied. China has realized that allowing its investment share of national income to rise from a little over 40% before the financial crisis to a touch under 50% today has made the eventual rebalancing towards consumption even more difficult
- A Chinese economy growing at an annual rate of 7.5%, as it did in the second quarter, is still contributing more to global demand growth than expansion in any other economy. The slowdown is therefore only a problem for those naively expecting 10% growth to last forever

Singapore loosens Swiss grip on wealth management – Pg. 15

- …Singapore could yet overtake Switzerland as the world's biggest wealth management centre, marking another landmark shift in the economic balance of power between east and west
- For some years, and especially since the 2008 crisis, more wealth has been created in Asia, and faster, than in any other region at any other time
- While North America and Japan continue to be home to huge amounts of private wealth, Asia is accumulating wealth faster because it is being created by a new generation of entrepreneurs in the rapidly growing economies of southeast Asia
- …North America, Europe and Japan – grew by almost 6% last year to around $5.3tn
- By contrast, growth in the "new world" of Asia (excluding Japan), Latin America and the Middle East grew by more than double that rate: 12.9%

US states set to test waters on munis – Pg. 20

- Munis have been under pressure in recent weeks because of the looming end of the Federal Reserve's quantitative easing programme, which triggered hefty outflows from funds investing in to the securities

23 July 2013

Investors shun Bric groups for US banks – Pg. 1

- A stark shift in investor sentiment in global equity markets has accelerated this year with a widening gulf between the market value of big US banks and commodity companies in emerging markets
- Five years ago, just ahead of the collapse of Lehman Brothers investment bank, the market capitalization of US banks fell below the value of energy, materials and mining companies from the Bric countries – Brazil, Russia, India and China
- At the end of last week the market capitalization of US banks – which exceed $1tn for the first time since November 2007 – was more than twice that of Bric energy and material companies, which were valued at $432bn, …

Bankrupt Detroit's pension fears grow – Pg. 3

- The $3.5bn in pension fund liabilities that Detroit included in its bankruptcy filing last week may be significantly understated because of a combination of overly optimistic assumptions and questionable investments….
- While the city is responsible for the funds, day-to-day control lies with others
- Next February, accounting rules go into effect in the US that make the use of subjective calculations harder. At the end of the fiscal year ended June 30 2012, net assets for the two pension funds and related employee benefit trust funds were valued at $5.17bn, down from $5.84bn at the beginning of the year
- For the past two years, Detroit has not made cash contributions to either fund, issuing notes instead

Property developers spot opportunity to plug India's affordable housing gap – Pg. 3

- With the high-end of India's housing market softening after years of heated construction, private property developers are beginning to see new opportunity of building for the bottom of urban India's economic pyramic
- …India's cities need about 18m – 22m new housing units to meet the need for decent, legal shelter
- About 70,000 low-income homes have been delivered by the private sector in the past five years

China lending – Pg. 12

- The central bank announce three measures. The most important was removing the floor on commercial loans, which had been set at 70% of the benchmark. There is still a floor on mortgage lending
- The bigger change will be when the central bank feels comfortable enough to free or at least widen banks' cap on deposit rates, now limited to a tenth over the benchmark rate

'Flipping' makes US comeback as house prices rise – Pg. 16

- Prices across the US are rising at their fastest clip since the height of the housing bubble in 2006, up 12.1% in April from a year ago
- But prices are still at least 25% below peak levels in many markets, …
- About 7m homeowners have lost their properties through foreclosure or by selling for a loss since 2007.
- But flippers are looking to cash in before a tax exemption for troubled homeowners expires. The government created a provision in 2007 allowing those owing more on their homes than they are worth to exclude from taxable income any mortgage debt written off by their lenders through a short-sale – when a property is sold at a steep discount. The expiration of this provision at the end of the year will lead fewer people to sell,….

22 July 2013

Wall Street's move into physical commodities called into question – Pg. 1

- Wall Street banks' rise as merchants of oil, natural gas, coal and industrial metals is under threat as a US regulator revisits a string of permits for trading physical commodities issued over the past decade
- A move to curtail their freedom to ship tankers of oil or fill pipelines with gas could place pressure on historically lucrative niche for banks …
- US law allows banks to trade commodity derivatives such as futures contracts. In 2003, the Fed, expanded this authority granting Citigroup permission to also own the tangible oil, gas and grains underlying derivatives
- A ban on owning physical commodities is on the table as part of the Fed's review, …

Melting ice opens Arctic trade route – Pg. 2

- …important new trade route between Asia and Europe that shaves thousands of kilometres off the trip
- …forecast a more than tenfold increase between Asia and Europe by 2021, by which time the route could be open eight months a year
- Iceland is considering building an Arctic port as Finna Fjord, in the country's northeast, ….

Eurozone property prices hit 7-year low – Pg. 3

- House prices in the euro area have fallen to a seven-year low, with some of the steepest declines felt in countries worst hit by the financial crisis, where a large share of household wealth is stored in property
- Exceeding even Spain's slump is Ireland, where house prices are at their lowest since 2000
- Less than half of all households in Germany own their main residence, while more than 80% do so in Spain

20 July 2013

Beijing takes step to financial reform – Pg. 2

- China's central bank has liberalized tightly controlled interest rates in a clear sign of Beijing's intention to tackle the tough financial reforms that economists say are needed to keep the economy on track
- The People's Bank of China said yesterday it was scrapping a decades-old floor on discount that Chinese banks can offer for commercial interest rates – the biggest change to the nation's interest rate regime since caps on lending rates were removed in 2004
- The main opponents of deposit-rate liberalization are China's state-owned banks, which depend on the spread between artificially low deposit rates and lending rates to stay profitable

Bankruptcy gives Detroit chance to reboot after decades of neglect – Pg. 3

- ….Detroit's longstanding problems and its $18bn debt make it a special case, with intractable, economic challenges and corruption which make a quick fix impossible
- The bulk of unsecured creditors are the pension funds for government workers, whose unions once were able to seek and win generous conditions, but now may be left with little.
- The challenge is daunting given a crime rate that is five times the national average and joblessness of 18.6%, more than double the national average. The city has only 275,000 working residents

Insurers attack global risk ruling – Pg. 8

- Global insurers have hit out at regulatory plans to subject the nine most important groups in the sector to tougher regulatory scrutiny and higher capital requirements, saying they are being unfairly lumped in with banks

Wall Street returns to era of big profits – Pg. 10

- In dollar terms the biggest Wall Street banks are enjoying themselves more than at any time since 2007. After years of struggle, pre-crisis levels of profits are back
- Investors have gravitated to a sector that not long ago used to struggle to attract interest as storm clouds ranging from toxic assets to new regulations left banks unloved
- The average return on equity at the five big Wall Street institutions is 8.9%, less than half the returns reached in 2006 and 2007, partly because regulators have demanded far higher capital levels to absorb future losses, but it is getting better

Wealth management – Pg. 16

- The wealth management business hinges on two things: bull markets and relationships

19 July 2013

Detroit on verge of bankruptcy – Pg. 4

- Detroit's emergency manager is putting the final touches on a bankruptcy filing that would represent the largest such action by a US city
- …lack of progress restructuring about $11bn of the city's $18bn in debt from unsecured creditors
- The city is near the statutory limits of its ability to tax
- That power has been sapped by a drop in the city's population – down 60% from almost 2m at the peak in the 1950s to just under 700,000 – leading to a 40% drop in tax revenues since 2000. The city has had to borrow money to meet its operating budget which has been slashed
- Holders of so-called general obligation bonds insist their claims are backed by the city's taxation powers, while pension fund holders believe their rights are constitutionally protected and should have priority
- Creditors say their worst case recovery would involve getting back 75 to 80 cents on the dollar

Abe's next shot – Pg. 5

- …he wants to rewrite the US-imposed anti-war constitution and free japan from what he sees as a chafing "postwar order"
- Mr Abe has set many long-term goals, such as boosting per capita incomes by 40% in a decade
- The other milestone is a decision on whether to raise Japan's national sales tax, from 5% to 8%, part of a planned two-phase increase that would take it to 10% by October 2015

ECB extends range of ABS collateral – Pg. 18

- The ECB will extend the range of collateral it accepts from banks in return for liquidity to include more asset-backed securities, an instrument that is close to dead in Europe and that got a bad name during the financial crisis
- The ABS would have to be "plain vanilla" ones made up of a single pool of underlying assets – in sharp contrast to the complex ABS instruments that led to the collapse of Lehman Brothers during the financial crisis
- The central bank said the net effect of the changes to its risk control framework would be "overall neutral" since it is also tightening standards by increasing the haircut it demands in order to accept "own use" covered bonds by 8-12%. Such bonds consist of underlying assets held by the issuer
- By lowering the minimum credit rating on ABS acceptable as collateral to single A from triple A, the ECB estimates it is expanding this area of eligible collateral by about 20bn (euro)

Rate rise fears spark boom in convertible bonds – Pg. 19

- Demand for convertible bonds has soared as fears of rising rates hit prices in traditional debt markets and equities set new record highs
- The convertible bond acts as a powerful weapon for investors looking to get the potential upside of the equity markets while staying within the more cautious realm of fixed income
- A convertible bond is essentially a low yielding corporate debt issue with an attached equity option. If the share price of the company rises past a fixed point, the investor benefits. If it falls, the investor still has the yield from the debt
- Many convertible bonds trade in close alignment to equity, and so can be hit in a downturn more than regular fixed income

18 July 2013

Bernanke vows no retreat from easy monetary policy – Pg. 1

- His testimony does not signal a change in the Fed's policy making committee or the likelihood of "tapering" by the central bank this year, but should counter concerns that it has lost its will to support the economy

- The yield on 10-year Treasuries has risen by a full percentage point since early May, but after Mr Bernanke's remarks were published yesterday it dropped back below 2.50%, down from 2.55% before the release
- …"the unemployment rate remains well above its longer-run normal level and rates of underemployment and long-term unemployment are still much too high"
- Mr Bernanke said that the Fed's 6.5% threshold for a first rise in interest rates was not a trigger, and if inflation stayed below target, or unemployment only went down because of people dropping out of the labour force, then it was unlikely to raise interest rates even then

IMF warns China on reform timetable – Pg. 2

- The IMF has warned that time is running short for China to implement critical economic reforms as the government, banks and companies come under mounting strain from rapid and unbalanced growth
- China's stock of total social financing – a measure of total credit in the economy – has increased by more than 60% since the start of 2009, an indication of rising leverage that is weakening balance sheets. The IMF said it was particularly worrisome a substantial portion of this credit was being routed through the non-traditional financial system
- China's efforts to shift its economy to a more consumption-led model have suffered recently. In 2011, consumption emerged as a bigger contributor to growth than investment, but a small stimulus at the end of 2012 reversed that trend
- The fund also warned about the level of real Chinese government debt. Taking into account the liabilities of government-owned financing vehicles and off-budget funds, the IMF calculated that "actual government debt" reached 45% of GDP last year

Lew urges Congress to back bank reforms – Pg. 4

- Jack Lew, the Treasury secretary, has pushed back strongly against critics of the Dodd-Frank financial reforms, amid renewed efforts in US Congress to introduce fresh regulations to reshape and constrain big banks

Investors lured back into junk debt – Pg. 20

- Investors are returning to the riskiest corporate bonds in US debt markets in numbers, shrugging off recent sharp losses and record outflows from the securities in June
- Average yields on junk debt, which move inversely to prices, have tumbled sharply over the last week – nearly 60 bps – and are falling towards the 6% mark
- Yields on the debt stood at 6.11% yesterday, compared with 3.26% on high-grade securities,…
- Junk bonds have returned 3.2% so far this year

17 July 2013

Jobless rate to stay high in richer nations, says OECD – Pg. 2

- Unemployment will remain high in developed countries next year, with young people and the low-skilled hit hardest,…
- Disparities between countries would widen, …
- It forecasts that unemployment in the US would fall from 7.6% to 6.7%, and in Germany from 5.3% to 4.7%

Fiscal fallout – Pg. 5

- Sequestration – the automatic spending cuts that began in March and are worth $1.2tn over the next decade – is dealing a tough blow to many of the communities that she represents in Washington state
- The cuts are crippling people who had only just been making ends meet
- In 2009, the budget deficit hit $1.4tn, or 10.1% of GDP
- Even S&P's, the rating agency that stripped the US of its triple A credit status in 2011, last month upgraded its outlook for the country from "stable" to "negative", meaning it is less likely to suffer further downgrades

UK mortgage securities set to default as interest rates rise – Pg. 18

- Financial instruments blamed for sparking the global economic crisis are set to default in far greater numbers as hard-up UK homeowners fail to meet their mortgage repayments
- UK residential mortgage-backed securities – which pool revenue streams from home loans – backed by interest-only mortgages will be disproportionately hit by rising interest rates over the next 20 years, ….
- Higher mortgage costs will affect borrowers' ability to save and pay their mortgage principal when it becomes due
- At least one-third of borrowers will have reached retirement age by the time their mortgages matures, ….
- Two-thirds of the UK's subprime RMBS market, most of which was issued in the boom years between 2005 and 2007, is made up of interest-only mortgages
- In the wake of the financial crisis of 2008-09, lenders are now required to keep some "skin in the game" by holding a junior piece of mortgage-backed securities

Private investors shed Treasuries – Pg. 19

- Global hedge funds have been at the forefront of the sell-off in US Treasuries, quick to dispose of US debt in May ahead of a rise in yields even as foreign central banks remained solid buyers
- Central banks added $40.3bn, with demand from China and France particularly strong, ….

16 July 2013

Bernanke faces taper grilling – Pg. 2

- Ben Bernanke is set to continue his mission to separate a gradual slowdown in the US Federal Reserve's asset purchases from an eventual rise in interest rates when he testifies to Congress this week
- The most sensitive thing he could do is give a more detailed hint on when exactly the Fed will start to taper
- The single biggest development is the rise in bond yields triggered by Mr Bernanke's remark about tapering in June and subsequent fears of an earlier rise in interest rates

China slows down, but jobs are holding up – Pg. 2

- The Chinese economy is slowing and is on track for its weakest year in more than a decade
- With China edging down to 7.5% growth in the second quarter and expected to slow further, analysts and investors have started to ask what Beijing's bottom line is: how low will it let growth go?
- With unemployment figures unreliable in China, the best gauge is a government survey of jobcentres. In the second quarter there were 6.1m jobs available and 5.7m job seekers – 1.07 posts for every person seeking work, down just a touch from the first quarter

US retail sales fall short of forecasts – Pg. 6

- US retail sales fell short of expectations in June as demand at restaurants and building materials shops slowed, pointing to a weaker US economy in the second quarter
- The numbers indicate that consumer spending, which accounts for the largest chunk of the US economy, might take time to accelerate
- Rises in tax rates since the start of the year are still biting and many Americans are keeping a tight handle on their outgoings
- …rising household wealth as a result of an improved labour market picture and a jump in home values and stock prices is still sustaining demand for large purchases

'Jumbo' loan rates as cheap as standard US mortgages – Pg. 13

- The rates on mortgages for expensive US homes are converging with those on government-subsidized loans, as banks compete to attract well-heeled customers and regulators try to wean the housing market off federal support
- The average rate on so-called "jumbo" home loans was 4.84% last week….only 21 bps higher than on smaller loans that qualify for government guarantee
- Jumbo loans are too big to qualify for a guarantee from government-controlled finance giants Fannie Mae and Freddie Mac, which deal only with balances up to $417,000 for most properties, and up to $625,500 in high-priced parts of the country
- The spread widened to 180bps at its worst in 2008, …
- Loans that do not qualify for government guarantees remain a small proportion of the total

Warning on Singapore banking – Pg. 16

- Singapore's banking sector received a rare caution after Moody's, the rating agency, revised its outlook down for the first time since the financial crisis over loan growth and rising property prices in southeast Asia
- The move is an early warning sign over build-up of household borrowing in the region, whose main economies are being driven less by exports and more by domestic demand, in part fueled by years of low interest rates
- In Malaysia, the region's third-largest economy, the central bank this month moved to cool soaring household debt levels by capping for the first time the tenure of personal loans and mortgages
- Last year, 77% of Singapore banks' non-performing loans were related to loans made by borrowers outside Singapore, compared with 65% in 2008 (Prof Note: Can you say S&L crisis? Is this not what happened to the S&Ls? They deregulated and started making loans in the commercial sector, lacked the expertise, and blew up! The older I get the more convinced I am that high school history teachers should be replaced with capital market retirees and history should be taught in our high schools with a strong slant on capital markets)

US property bad loans at 3-year low – Pg. 20

- An improving US property market has cut the delinquency rate on commercial mortgages that have been packaged into securities for investors
- The proportion of loans that have fallen into arrears or stopped paying has fallen to a three-year low,…
- The falling delinquency rate in the US stands in stark contrast to the situation in Europe, where it was reported this week that tough economic conditions have caused the default rate on European CMBS to double so far this year

15 July 2013

Lew signals tough fiscal stance – Pg. 2

- Jack Lew, the US Treasury secretary, says he will "not get into a negotiation like 2011" over raising America's borrowing limit, …
- "The bottom line is that the debt limit and the fact that we don't have a solution for the debt is also the reason for the crisis. We need to begin dealing with this seriously and stop playing games. Someone has to draw a line in the sand, and I know many of my collegues and I intend to do so every chance we get", Mr Rubio said.
- …the US budgetary outlook over the short-term has improved significantly, with the annual deficit expected to drop from 7% of GDP to 2.1% of the economy in 2015, reducing pressure on both sides to make any concessions at all

Chinese warships pass northern Japan – Pg. 3

- Chinese warships have passed for the first time through the narrow strait that divides northern Japan and Russia, ….

- The five ships, including a guided-missile destroyer, travelled in internationally waters….
- The Chinese ships could have returned home more directly by travelling southwest, back through the Sea of Japan and into the East China Sea. That made their chosen route yesterday – which would take them into the Pacific in a broad swing around Japan – appear all the more provocative
- China and Japan have been embroiled since last year in a tense stand-off in the East-China Sea over the Senkaku Islands,…. (Prof Note: I still remember asking a class of Chinese at University about the islands. The response was unanimous, "They are OURS!" While I am almost ignorant of the subject, it was exciting to see the Chinese pride!)

Florida verdict spurs calls for civil rights charges – Pg. 4

- …George Zimmerman, who was cleared of murdering Florida teen Trayvon Martin in a racially charged case that has gripped the US
- (Prof Note: Interesting case in Florida but it lacked the excitement of the sexually charged Jodi Arias trial! I am NOT expressing an opinion, only summarizing as, I believe, it is an important case in the U.S. for civil rights and gun law)

Upsetting the narrative – Pg. 5

- The case – brought by the SEC against the former Goldman employee over allegations of client "deception" – will serve as a reminder of the bank's aggressive brand of dealmaking in the run-up to the financial crisis; and it comes as Goldman is working to present a softer image to the public
- The bank structured Abacus, a portfolio of mortgage-related assets, and sold it to investors but did not clearly disclose that a hedge fund, run by billionaire John Paulson, was planning to bet against the deal and helped pick the bond's underlying securities
- Goldman executives are convinced the bank's business model will be largely unaffected by the financial crisis and the regulatory changes it spurred
- Though the group's giant equities and fixed-income units still generate close to a third of total revenue, other activities have been curtailed – notably casino-style property trading, banned under incoming US rules, and techniques such as correlation trading, which exploits variations in values of different assets, portfolios or indices

Chinese tourists check out luxury at home – Pg. 15

- As China's middle class swells, foreign and domestic retail groups are opening discount outlet malls in China to help mainlanders get luxury bargains closer to home – preferably while pretending that they are really somewhere else
- …China's economic slowdown and the government crackdown on corruption, which has hurt luxury good sales, could prove a further boost to the outlet business…
- Outlet malls are designed to appeal to lifestyle shoppers who want to spend the whole day at the mall,…
- Shopping remains one of China's most popular forms of entertainment, ….

12 July 2013

(Prof Note: An hour ago a student from last night's class called to thank me for letting the class out early. Had the class been let out 10 minutes later he would not have arrived home in time to save his wife from anaphylactic shock and she would have died (recovered now, i.e. happy ending). I share the story as I am always amazed at how life works. Life is precious and unpredictable. Take a moment this weekend to reach for your special someone(s) and let them know about your 'efficiency'!)

Market calmed by 'dovish' Bernanke – Pg. 1

- Ben Bernanke's constant refrain through six weeks of market turmoil has been what tapering the Federal Reserve's purchase of bonds is not the same thing as tightening monetary policy
- Traders expect the Fed to begin tapering its purchases of long-term bonds in September, or by December at the latest, but short-term bond yields suggest a growing confidence that this will not quickly be followed by a rate rise

BoJ optimistic on easing effect – Pg. 2

- The Bank of Japan issued a more upbeat assessment of the Japanese economy yesterday, saying the first time in more than two years that conditions were "recovering"
- It was the first time since early 2011 that the bank formally described the economy as being on an expansionary path,…

First non-Asian central bank set up in Singapore – Pg. 2

- Swiss National Bank has opened a branch in Singapore, becoming the first non-Asian central bank with operations in the city-state as it seeks to improve the management of its assets denominated in the region's currencies
- The move by the Swiss national bank yesterday is a sign of the growing importance of Singapore – often dubbed "the Switzerland of Asia" – as a base for asset and wealth managers
- The bank has total foreign currency reserves of SFr435bn, equivalent to more than 70% of Switzerland's GDPn
- Left with large holdings of euros, the bank has been diversifying its currency holdings, including into Asia, with the won the latest to be added last year
- Singapore is the world's fourth-largest foreign exchange trading hub, after London, New York and Tokyo

Money for nothing – Pg. 5

- …China's shadow banking system, a booming sector whose size was recently estimated by a Chinese banking regulator at $1.3tn
- ….Deutsche Bank estimating that shadow banking accounts for 40% of GDP…
- …[money] it flows off banks' balance sheets via intermediaries, such as trust companies, to borrowers who would otherwise have difficulty obtaining the money

- Low payments on deposits mean households do not earn enough on their savings

Recovery hopes face as India faces 'grim' results – Pg. 14

- Hopes for a speedy recovery in Indian earnings are dimming as Asia's third-largest economy faces up to another bleak results period, undermining predictions that the country's corporate sector would begin to rally in the second half of the year
- India's economy grew at just 5% in the past financial year, a decade low, while the IMF this week reduced its growth forecast for this financial year to 5.6%, a cut of 0.2%, undermining government hopes for a swift rebound

Small caps outperform on renewed faith in US recovery – Pg. 18

- The Russell 2000 small-cap index has outperformed other major US indices as interest rates have risen during the past two months, aided by renewed faith in the US economy
- Struggling international and emerging markets are limiting the upside for the revenues of large multinationals heading into the earnings season, while higher interest rates are making the dividends these companies pay less appealing

11 July 2013

Slowing of Fed's QE3 remains in the balance – Pg. 1

- The minutes show that Ben Bernanke, the Fed Chairman, was not signaling a definite "tapering" of quantitative easing from $85bn a month at his June press conference but trying to be clearer about the conditions that would trigger it
- According to the minutes, "several" voting members of the rate-setting FOMC thought that asset purchases slowing down later this year and ending in the middle of 2014 with unemployment at 7%

China wonders whether growth is slowing down too abruptly – Pg. 3

- China is now sliding towards 7.5% growth and probably lower. But its new leaders are refusing to ride to the rescue,…
- Although consumer price inflation rose in June, it averaged just 2.4% in the first half, missing the government's 3.5% target by a large margin. Even more worrying was the 16th straight month of deflation in the producer price index

The investor's dilemma – Pg. 7

- Both equities and bonds look expensive compared with their own history (dramatically so in the case of bonds). They suggest that the returns in the late 20th century were driven by unrepeatable positive factors such as the postwar booms in German and Japan, the fall of the iron curtion.
- As the "baby boom" cohort retires, the balance shifts from those contributing to pensions to those receiving payouts

- Further, the quantitative easing policy of the US Federal Reserve has kept bond yields down, in effect forcing savings groups to lend to the government at low rates, while making it more expensive for "defined-benefit" pensions, which have promised a set level of pension, to fund future liabilities
- They must factor in the chances of losses, look at "tail risks" of extreme events and at the risk that counterparties' credit fails – all disciplines found wanting in 2008

US consumer – Pg. 12

- …growth was tilted to consumables (food, health and beauty aids, and tobacco) while sales of discretionary items fell year-on-year

Moody's raises outlook for UK banking sector to stable – Pg. 16

- The change of opinion, reversing the negative outlook the rating agency adopted in May 2008 as the crisis took hold, will be a welcome boost for banks and for the British government

US loan vehicles pump up leverage – Pg. 20

- Structured finance vehicles that have pumped $42bn in the US loan market so far this year are employing increasing amounts of leverage to do so, as issuers battle to keep their complex deals profitable
- The amount of debt finance used by collateralized loan obligations (CLOs) jumped in the second quarter of 2013,…
- CLOs are highly-levered vehicles which themselves invest in leveraged loans of the kind typically used to fund private equity buyouts
- CLOs pay interest on their bonds in order of seniority, from the safest tranche first to the single B debt last
- The CLO structure allows equity holders to profit from the difference between the cost of servicing the vehicle's bondholders and the higher interest income from the underlying portfolio of loans, but as spreads have tightened, that profit has come under pressure

10 July 2013

Scandal-plagued Libor moves to NYSE as part of reforms – Pg. 1

- The scandal-plagued Libor interbank rate formally broke with its past yesterday as NYSE Euronext, the transatlantic exchanges operator, won the right to take over and reform the global benchmark, which serves as the reference point for more than $350tn in contracts worldwide
- …three banks pay nearly $2.6bn in fines for rigging the rate in order to make money on derivatives
- An independent committee, set up by the UK government, selected the New York-based group over two UK-based rivals
- NYSE Euronext will take over the London Interbank Offered Rate from the BBA by early 2014

- NYSE Euronext will pay just $1, in part because the UK government was adamant that the BBA should not profit from the scandal
- The Libor rates will initially still be calculated by surveying a panel of banks about the rates at which they think they can borrow
- Libor has been run by the BBA since the 1980s

Latvia to become 18th member of Eurozone – Pg. 2

- Five years after a fiscal crisis that nearly forced it to unpeg its currency from the euro, Latvia was officially admitted to Europe's single currency yesterday after EU finance ministers approved the changeover from lats to euros on January 1
- The remaining Baltic EU member, Lithuania, is hoping to follow in 2015, which would probably mark the end of the current euro expansion
- No other country is in the EU's currency rate mechanism, which is a prerequisite to euro membership, other than Denmark
- Still, euro membership remains unpopular in Latvia, with fewer than 40% of its people supporting the changeover. Because euro membership is required under Latvia's EU membership treaty, no referendum is required

Chinese inflation bounced back to four-month high – Pg. 2

- Chinese inflation has rebounded to a four-month high, driven partly by a credit surge earlier this year that the government is now trying to contain
- Consumer prices rose 2.7% year on year in June, up from 2.1% in May,…

IMF cuts world growth forecast to 3.1% - Pg. 4

- The IMF has slashed its growth forecasts for 2013 and 2014 as it warned of a slowdown in emerging markets and more protracted recession in the euro area
- The downgrades highlight the gathering clouds over the world economy as big developing countries such as China and Brazil weaken before developed markets have fully recovered

US banks face strict leverage proposals – Pg. 13

- US banking regulators have broken with their international counterparts and proposed restrictions on borrowing tha tare almost twice as onerous as the rules mandated under the Basel III global agreement
- The largest US bank holding companies would have to hold regulatory capital equivalent to 5% of their assets,…
- The proposal will affect eight US banks designated as systemically significant under new rules. They are Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street and Wells Fargo

9 July 2013

The Fed must change itself as well as its policies – Pg. 7

- Assuming Ben Bernanke leaves his post this year, his successor will inherit a serious policy challenge: disengaging from quantitative easing
- First, there is no precedent in the Fed's 100-year history
- Second, a prerequisite for ending QE is considerable evidence of a return to normalcy in economic and financial growth
- The Dodd-Frank legislation did not resolve the too-big-to-fail problem
- The Fed failed to recognize that abandoning the Glass-Steagall Act in the 1990s would accelerate industry consolidation and create more too-big-to-fail institutions
- The resulting behemoths stand in the way of returning mortgage funding to the private sector
- …continuing QE may encourage unsustainable financial practices
- The location of its 12 district banks, for example, is outmoded
- California – itself the world's seventh largest economy – and six other western states are served by a single district (or Fed) bank, while the entire south is covered by just two district banks
- The Fed's governance is distorted, too, by musty rules about Federal Open Market Committee membership and voting authority. The voting members of the FOMC are the seven board governors – along with only five of the 12 district presidents. The president of the New York Fed is a permanent member – which makes sense, given the city's continued status as a leading global financial centre.
- Another area ripe for reform is the board of governors' pay. The six governors are each paid $179,700 a year, while the chairman receives $199,700 – relatively modest sums compared with the private sector

Renminbi bulls start to cool their heels – Pg. 18

- The Chinese currency has risen 1.7% this year and is up 3.6% in the past 12 months.
- The Philippines peso is down 5.3%, the Indian rupee has lost 8%, while the Brazilian real has lost 11%
- In the year to date, the renminbi is the only emerging market currency to rise against the dollar
- Drive the renminbi's rise has been a flood of capital into China, with investors keep to tap a rising stock market and resurgent property prices

8 July 2013

White Hous0e set for Wall St trade clash – Pg. 1

- The Obama administration has set itself up for a fight with Wall Street after resisting European demands to include financial services regulation in transatlantic trade talks as the list of sticking points build before negotiations begin this week
- Washington is concerned that including a framework for financial regulatory convergence in the talks could be used by banks to circumvent tough rules stemming from the 2010 Dodd-Frank law, and as a way for Europeans to delay their own reforms

Short-term in traditional MBA teaching begins to fade – Pg. 12

- While there is growing consensus that focusing on short-term shareholder value is not only bad for society but also leads to poor business results, much MBA teaching remains shaped by the shareholder primacy model
- For most of the 20th century, schools emphasized the theory of managerialism, …
- Most agree that a turning point was the 1976 paper thco-authored by Michael Jensen and William Meckling, Theory of the firm: Managerial Behaviour, agency costs and ownership
- In the late 1990s, schools responded to the stock market boom by hiring more finance professors and – under fire for relying on the knowledge of practitioners – sought more empirical rigour in course continent.
- This gave the neat simplicity of the shareholder primacy model enormous appeal
- The tenure system creates another obstacle, since tenured teaching faculty face little pressure to change course materials or teaching methods
- Shareholder primacy also seems at odds with sustainability courses, which emphasize long-term strategies and the consideration of a range of stakeholders, from customers to communities, in business decisions

Clearing houses spark concern – Pg. 17

- Fast-expanding clearing houses on both sides of the Atlantic are posing a growing risk to the stability of the financial system, …
- Concerns have mounted as clearing houses have shot to the top of banks' lists of counterparties, following the shift of previously over-the-counter trading to centralized clearing houses

Pension funds slash their deficits – Pg. 18

- Rising bond yields and a buoyant US stock market have rapidly repaired most of the damage done to underfunded corporate pension schemes by the financial crisis and the policies designed to stimulate the economy that followed
- The shift makes corporate pension funds one of the few beneficiaries from higher borrowing costs this year, which reduce the size of pension liabilities when the future costs of promises to retirees are calculated
- …assets in the pension plans for S&P 1500 companies now cover 88% of their liabilities, the highest funding ratio since October 2008 and up 14% since the start of the year
- Long-term corporate bond yields hit 4.5% at the end of June,….ar

6 July 2013

US jobs rise puts 'tapering' on track – Pg. 1

- The yield on 10-year Treasuries rose 22bps to 2.72% - the highest since July 2011 – after payrolls rose by 195,000 in June, easily beating expectations
- The figures take average payrolls growth this year to 202,000 a month….

- The unemployment rate held steady at 7.6% as jobs growth was offset by a rising number of people in the labour force

Upbeat US jobs figures offer Bernanke room for 'Septaper' – Pg. 3

- The jobs report fits the Fed's optimistic scenario
- But there is a gap between jobs and GDP
- Higher participation could slow plans
- Market not reacting as Fed models predict
- Underlying US economy seems a lot healthier

Elderly, wealthy and turned off by Twitter – Pg. 8

- An apparent distaste for online gimmicks among older, wealthier investors ns one of the reasons many wealth managers give for not incorporating tweets and other new technologies into client offerings, … (Prof Note: Notice I do not have a Facebook page nor twitter account. Much can be lost without inflection and thought. I target these posts to be a page per day and hopefully everyone learns that my snarky comments are made to evoke thought as much as express a view. Some comments may not be even my view but are meant to be thought-provoking. I believe this can be lost in shorter messages)
- …some wealth managers said there was a demand from clients of all ages for better access to information and the ability to communicate with an investment manager via various platforms (Prof Note: What I find really helpful are pictures with email accounts. Of course, personal bikini shots and bare chests should be kept for private viewing…..just your face please. ☺)

Beijing relaunches state bond trading – Pg. 8

- Chinese government bond futures will be publicly traded on the China Financial Futures Exchange for the first time in 18 years, …
- Regulators have moved cautiously to introduce additional products as a result of the so-called "327 incident", perhaps the biggest scandal in the short history of China's capital markets (Prof Note: this will be a question for future examinations)
- Government bond futures were first traded in 1992 on the Shanghai Stock Exchange. Trading was suspended indefinitely after the "327 incident" in 1995, which caused the fall of the then biggest brokerage, Shanghai Wanguo Securities, and the jailing of its chief executive, Guan Jingsheng, known as the godfather of China's securities industry
- The incident took its name from the code of a three-year government bond futures contrarct and was the result of a battle between long and short sellers attempting to benefit from government subsidies for investors in government bonds. On February 23, 1995, just eight minutes before the close of trading, Wanguo placed a huge sell order of 327 futures and their price plummeted

5 July 2013

Central banks send clear signal on low interest rates – Pg. 1

- The Bank of England and the ECB tore up their traditional scripts yesterday, making clear that interest rates will remain at rock bottom for a very long time in moves that sent currencies tumbling and equities soaring
- The euro fell 0.8% against the US dollar, but sterling lost 1.3% against the dollar, the biggest loss since December 2011

US jobs data likely to show solid rise – Pg. 3

- US non-farm payrolls are always the single most important data release in the economic calendar but, with global markets in thrall to the Federal Reserve's plans to slow its asset purchases, today's release has all the more reason to grab centre state
- …solid increase of 165,000 jobs in June after 175,000 in May. That would be broadly consistent, depending on other economic data, with the schedule for tapering off quantitative easing that Ben Bernanke, ….laid out at his recent press conference

Qatar: what next for the world's most aggressive deal hunter? – Pg. 6

- Since 2009, Qatar Holding received $30bn - $40bn a year from the state, lending it such astonishing financial power that normal rules of investing did not apply; losses could be easily absorbed and big gambles taken
- There are momentous changes within Qatar, too. It has a new emir, Sheikh Tamim bin Hamad bin Khalifa al-Thani, who assumed power last week after his father abdicated. And growth in Qatar's liquefied natural gas exports is slowing
- Qatar Holding's hard bargaining worked at a time when there were few other investors looking to take on risk. But the fund has also developed a reputation as a difficult partner that would be best avoided – particularly when it comes to property deals. When the fund bought buildings directly, it was criticized for over-negotiating and bullying sellers
- Compared with other Gulf funds, the QIA's size, agility and investment style seem like a private equity group
- …Qatar Holding is exceedingly thin, with only 40 professional staff even though it has accumulated more than $100bn in assets during the past four years
- …Qatar has been overtaken in the past six months by a new wave of sovereign wealth interest, most notably from Norway and Malaysia

Chinese antitrust law – Pg. 12

- China's first antitrust law may be less than five years old
- When the anti-monopoly law came in, the initial focus was on merger control

Credit default swaps – Pg. 12

- Since the financial crisis, global policy makers have pushed for CDS contracts to be cleared, but it has been slow going
- Last year, only 10% of the $25tn in notional amounts of CDS transactions was cleared, ….

- On June 17, the IntercontinentalExchange launched the first of four credit index futures contracts. So far the future has not been terribly bright. Only 540 contracts have traded

Banks feeling bruised by new capital ratios – Pg. 15

- This week, the Federal Reserve unveiled details of the US implementation of the international Basel III rule book on capital. Two weeks ago, the top eight UK banks were told how much additional capital they must fin dover the coming months
- …now being told they face additional, though blunter, leverage requirements relating to equity to overall assets regardless of risk
- In practice that means for every $100 a bank lends or otherwise puts at risk, it must be funded with at least $3 of equity.
- …The Fed will change how US banks account for some assets, such as promised but undrawn lending commitments, which have traditionally been treated as "off-balance sheet" risk. This will inflate the asset total, requiring more capital

Mortgage securities face rough ride ahead – Pg. 20

- Returns on US structured finance instruments, of the kind backed by commercial and residential mortgages or pools of credit card balances and car loans, were hit less hard in May and June than corporate bonds or government-backed debt
- CMBS was the worst of the crop among structured finance vehicles in the recent sell-off….
- Structured finance vehicles borrow money by issuing bonds, in order to finance a pool of underlying debt which is then used as collateral. The structure can only work if the higher yields that must be paid by new CMBS are reflected in higher interest rates on new mortgages. It is not just benchmark interest rates that have risen, but also the spread over Treasuries demanded by ivnestors, to above 150bps this week, its highest this year

4 July 2013

Qatar seeks to shake off trophy investor image – Pg. 1

- The government of the gas-rich stat of Qatar is rethinking the way it invests billions of dollars of state funds in property in a bid to introduce a commercial rigour to its voracious dealmaking and to end its reputation as a trophy investor
- Qatar has in the past six years become a leading investor in the global property market. Using its vast cash reserves, it has taken advantage of the depressed credit markets to build a portfolio spanning skyscrapers, luxury shopping malls and development land from Cuba to Cairo
- The tighter management of property investment is likely to lead to a reduced reliance on middle men, bringing international operations in line with Qatar's domestic property buying, and to a swing towards joint ventures with established property investors

Fed's shift to exit puts ECB on spot – Pg. 4

- …governments and businesses in the Eurozone have not been immune from the rise in borrowing costs triggered by the increase in US Treasury yields that followed the Fed's shift towards the exit
- Since mid-May, economic data on the currency bloc have been mainly faviourable

Beijing to relax capital controls – Pg. 4

- China is considering a "dramatic" relaxing of its capital controls over the next few years as part of an accelerated push to make its currency freely tradable, despite international advisers warning against hasty implementation of reform
- Beijing pressing for a bigger international role for its currency,…

Bank downgrades – Pg. 10

- Long term ratings on Barclays, Deutsche Bank and Credit Suisse have been cut from A plus to A. UBS already at A, will stay there

Fears for America's housing recovery as refinancing stalls – Pg. 20

- The sharp rise in US mortgage rates since the Federal reserve signaled that it could soon wind down its loose monetary policies is deterring American homeowners from refinancing their home loans,….
- …refinancing activity had fallen 16%....
- Mortgage applications for home purchases also fell last week, by 3%, though activity remains 12% higher than at the same time last year
- The average interest rate on a 30-year fixed-rate mortgage is 4.35%, ….that is down from 4.58% a week ago….
- (Prof Note: it is time for a correction in the DC market. $600,000 home, financed 80% LtV at 3.50% interest is $295,949 interest over the total period. At 4.50% the interest is $395,552, i.e. an basis point (bp) is costing Americans $1,000. Are payment and prices not inversely rated like bonds?! Hmmmmmmm…..)

3 July 2013

Fed bank rules to be tougher than Basel – Pg. 1

- The Federal Reserve has warned US banks to expect a new raft of regulations on top of the Basel III capital regime it implemented yesterday
- They include proposals compelling banks to hold a higher level of equity against total assets and capital charges targeted at banks most exposed to short-term wholesale funding
- By requiring US banks to follow Basel III capital rules, Fed officials hope to neutralize complaints from European regulators and politicians about slow take-up

Pimco suffers record outflows in latest sign of nerves over bonds – Pg. 1

- The withdrawals from the world's biggest mutual fund are the latest sign of nerves among bond investors after a market rout that has seen the worst performance for fixed-income assets since the financial crisis
- The outflows are reflected in the Barclays US Aggregate In dex, the investment benchmark for the fixed income managers, which has lost 2.4% this year with the great majority of bond mutual funds having lost money

Snowden retracts Moscow asylum call – Pg. 2

- …Ecuadorean government, forcing senior figures to say the asylum offer has not been completely withdrawn
- (Prof Note: Send a Navy Seal team in after Snowden like we did for Osama in Pakistan! Oh, wait, Russia might actually bite back!)

Dearth of US bond sales as issuers await signs of stability – Pg. 20

- The second half of the year has started with a whimper for the US corporate debt market, as a sell-off in bond prices and record outflows from funds investing in fixed income assets have spooked borrowers
- The move in corporate bonds was even sharper, with average yields on junk-rated US debt – one of the most popular securities among investors in the past year – jumping 2%

2 July 2013

China is weak spot in global pick-up – Pg. 1

- The global manufacturing sector picked up speed in June but bleak data from China highlighted the precarious health of the world economy
- That mixture of better growth but weak employment gives the Federal Reserve no reason for haste in slowing down its asset purchases from the current pace of $85bn-a-month and was cheered by financial markets

Weaker yen and strong demand cheer Japanese manufacturers – Pg. 3

- A weaker yen and solid domestic demand has brightened the mood at Japanese manufacturers, ….
- Among the handful of sectors that reported worse business conditions, the sharpest falls were in areas relying on increasingly expensive dollar-based imports, such as petroleum and coal products (where the index dropped 19 points) and electric and gas utilities (minus 10 points)

London regeneration shows Malaysia's influence – Pg. 6

- Building starts on Thursday of phase one, involving 850 flats and penthouses, forming part of a residential and retail comples set to emerge on a 39-acre site unused since the power station was mothballed in 1983

- The two biggest investors are Sime Darby, one of the world's largest operators of palm oil plantations, and SP Setia, a large Malaysia property developer
- But the third, providing 20% of the funding, is barely a household name in southeast Asia, let alone further afield: the Employees Provident Fund, the largest Malaysian government pension fund by assets
- The EPF traces its origins to a pension fund started in 1951 by the British in what was the Malaya and is now the sixth-largest pension fund in the world with $169bn in assets under management

Citi to pay Fannie $1bn to settle mortgage claims – Pg. 16

- The deal, announced by Citi yesterday, removes one of the hangovers from the financial crisis for the bank. (Prof Note: Enough of the fines already! What about lifetime bans for the perpetrators?! Fines are nothing more than a cost of doing business!)
- Mortgages sold to Freddie Mac, the other main government-backed mortgage group, are not included in the settlement

Chinese property market helps to spur on 'dim sum' issuance – Pg. 20

- The amount of money raised in the junk "dim sum" bond market reached a record high in the second quarter, driven by a rising Chinese property market and the worldwide search for higher-yielding assets
- Issuance of renminbi-denominated bonds in Hong Kong is four times higher than in the first quarter….
- Most of the issuance was from Chinese property companies, helped by rising prices. The number of cities with year-on-year price growth increased to 68% in April from 67 in March, the highest level since October 2011,…
- Issuance in the dim sum market, which started in 2007, has traditionally been dominated by mainland Chinese companies, but foreign groups have started to issue bonds there as well, as the market becomes increasingly international
- The first dim sum bond issued in London came in April last year…
- But Fitch warned in a recent note that the market still had a way to go. "Fitch believes the dim sum bond market remains in a nascent stage, with significant growth potential over the medium to long term"

1 July 2013

Norway's Conservative party floats idea of splitting $720bn oil fund – Pg. 1

- …which is so large it owns an average 1.25% of every listed company in the world - …

A change of gear – Pg. 7

- …European corporate bond markets could be on the verge of another significant shift. Today's bond pioneers believe that weaknesses in the continents banking system and

historically low interest rates will encourage companies to tap capital markets much more for finance and rely increasingly less on bank loans

- Traditional bank ties remain strong, especially in continental Europe. On some measures, emerging economies have experienced a bigger shift towards capital market funding of companies since 2008. But just as the launch of Eurobonds – which were named long before the birth of the European single currency – kickstarted the globalization of corporate finance, the crisis of the past six years could bring Europe's markets closer to the depth and liquidity of those in the US
- Eurobonds were created out of necessity – as well as changes in the 1960s in US tax rules that encouraged investors to keep dollars outside the country.
- The success of Eurobonds cemented London's position as Europe's financial capital…
- Cross-border markets were given a further boost from the 1980s when the development of international swaps markets made it easier for companies to borrow in low-interest countries to invest in higher-yielding assets
- Then in 1999, came the launch of the euro, the continent's boldest experiment yet in economic intregration
- One threat is the financial transaction tax planned by 11 EU states, which would hit bond markets as well as equities. Although the final shape of the tax is still subject to much debate in Brussels, its opponents warn that the taxing of bond trading would reduce the liquidity of markets and increase issuance costs
- Data on corporate bond issuance show a move this year towards companies funding themselves more in debt markets and relying less on bank loans.

Chinese banks hit listing hitch – Pg. 15

- China's banks have been dealt a further blow as falling share prices put on ice a number of potential Hong Kong listings
- ..little-known regulations on bank capital raising, set by Chinese regulators, prevent mainland banks from raising funds in the equity markets at a price that values the company at a price-to-book ratio below one, an indication that investors do not believe the stated worth of a company's assets
- Growth downgrades and concerns that government efforts to tighten credit conditions will hit company earnings have also had an impact, as has the global retreat from emerging markets
- Last week the Shanghai Composite fell below 2,000 points for the first time since December, hitting a 4 ½ year low, and slipping into bear territory in the process

Shift from cash into stocks and bonds – Pg. 15

- Data for the first half of the year show that 2013 has not seen the sort of "great rotation" – a switch out of bonds and into equities – forecast by some strategists
- Instead, investors moved out of cash into both equity and bond funds, and particularly high-yielding fixed income, on the back of an improvement in sentiment encouraged by rising hopes of an economic recovery, ….

29 June 2013

Vatican hit by fresh financial scandal – Pg. 1

- The Vatican has been rocked by a fresh financial scandal after Italian police arrested a senior cleric, …
- The Vatican bank has been under investigation for suspected money laundering since 2010 in a case involving Ettore Gotti Tedeschi, the former bank chairman who was dismissed last year, and Paolo Cipriani, its director-general.

Central banks in record US debt sales – Pg. 10

- Central banks sold a record amount of US Treasury debt last week while bond funds suffered the biggest investor withdrawals to date as markets shuddered at the prospect of the US Federal Reserve ending its quantitative easing programme
- Holding of US Treasuries held at the Fed on behalf of official foreign institutions dropped a record $32.4bn to $2.93tn, eclipsing the earlier mark of $24bn in August 2007
- Private investors are also dumping fixed income
- Fixed-income markets have tumbled since Fed chairman Ben Bernanke first signaled on May 22 that the US central bank would begin reducing its asset purchases later this year. Yields on 10-year US Treasuries have risen sharply since then, hitting 2.52% yesterday comhepared with 1.62% at the start of May

Gold price tumbles to three-year low – Pg. 14

- Since the start of the year, the metal has tumbled 29.5%; ….
- Exchange traded funds, and easily accessible and highly visible form of gold investment, have sold a fifth of their holdings so far this year, while investor positioning in US gold futures and options is the least bullish since 2005, ….
- First, a sharp fall in gold prices is likely to stimulate a recovery in jewellery demand, which has fallen 30% since 2005 on the back of sharply rising prices
- Second, the drop in prices is likely to trigger a sharp reduction in sales of old gold for scrap, which last year accounted for 36% of global supply.

Bond investors suffer worst first half since 1994 rout – Pg. 14

- US fixed income investors have suffered their worst first half of a year since the great bear market of 1994 with the Federal Reserve looking to step back from its open ended support of asset prices
- The Barclays US Aggregate index, the investment benchmark for fixed income managers, has registered a return of minus 2.55% since January, on pace for its worst showing since the first six months of 1994
- The issue boils down to whether the sell-off in bonds represents a buying opportunity as yields look more attractive against the current backdrop of low inflation and modest economic growth

- US investment grade-rated corporate bonds are nursing a quarterly slide of 3.5% and facing their worst start to a year since the bond rout of 1994,…

28 June 2013

Fed big-hitters seek to quash QE fears – Pg. 1

- Two senior Federal Reserve officials sought to quash preceptions the US central bank is moving quickly towards reeling in support for the economy and delivered a dig at investors for being "out of sync" with Fed thinking

US homebuilders – Pg. 12

- The rally in their shares began in the fourth quarter of 2011, and as home prices and affordability have risen and inventories fallen since, the S&P5n00 homebuilders index has jumped 200%, four times the broader S&P500 index
- Now the Federal Reserve has signaled that – barring economic hiccups – it would begin slowing bond purchases later this year, sending rates on 10-year Treasuries and mortgages higher. Rates on 30-year fixed-rate mortgages are 4.46%, the highest level in about two years and a percentage point more than in early May, Freddie Mac said yesterday

Bank fees rise 9% despite dealmaking dip – Pg. 13

- Investment banks revived their fortunes during the first half of the year by generating a 9% rise in fees because of a recovery in capital markets – despite another drop in dealmaking
- The engine of growth was again debt capital markets, which had their best start to a year since 2007. Global equity issuance also staged a strong recovery, up 36% on the same period last year to $381bn

US hatches mortgage risk plan for investors – Pg. 21

- …fate of the $13tn US mortgage market, half of which is now guaranteed by the taxpayer, thanks to the government's generations-old effort to boost home ownership and its more recent effort to support house prices through thee economic crisis
- A private mortgage securitization market has sputtered bank to life in the past year, but at the current pace will raise only $20bn in 2013, compared to more than $700bn in the peak years of 2005 and 2006. Investors, moreover, are only buying securities backed by the most expensive homes
- The almost $5tn of securities that have been issued by Fannie and Freddie, which buy and pool together millions of home loans, are viewed like risk-free Treasuries, not like the kinds of securities where credit risk is a factor

27 June 2013

Gold price tumbles on fears over end to QE – Pg. 1

- Gold has tumbled to its lowest level in nearly three years, putting it on track for tis biggest quarterly fall since the collapse in 1971 of the Bretton Woods System of exchange rates, which pegged the value of the dollar to the metal
- The price of gold on the spot market slid 4.1% yesterday, compounding recent falls to hit a low of $1,222 a troy ounce. Since the start of April, the metal has fallen 23%
- Prices rose more than seven fold to 2011's record high of $1,920 an ounce

Sluggish growth data give Fed cause for caution on tapering – Pg. 3

- The US economy grew at an annualized pace of 1.8% in the first quarter, significantly slower than previously thought, which could give the Federal Reserve some reason for pause as it weighs slowing its support for the recovery
- The slower consumption growth in the first quarter came as many of the other indicators were roughly the same. Business investment on equipment and software was down slightly from 4.6% growth to 4.1%, while exports fell significantly more than imports in the fourth quarter, creating a small drag on growth

Britain to cap welfare payments – Pg. 4

- Britain's coalition government has set out plans to extend its austerity programme into 2016, including a new cap on welfare payments and further cuts to ministerial budgets
- …wield the axe on the public sector workforce, setting out measures to curb pay and forecasting the loss of another 144,000 jobs

China hints at new bank regime – Pg. 6

- The acute phase of China's cash squeeze appears to have ended, with no significant casualties
- The People's Bank of China made clear on Tuesday that it would not let banks fail, offering liquidity support to cash-strapped institutions
- Regulators have made such warnings before, but the spike in interbank rates – until two weeks ago a reliable source of cheap wholesale funding – showed banks that this time the government was serious and would force them to bear some of the consequences of loans going bad
- The Chinese economy slowed to 7.7% growth year-on-year in the first quarter from 7.9% growth at the end of last year

Queen's property portfolio earns a king's ransom – Pg. 14

- The Crown Estate, the company that owns and manages the sovereign's land and property in the UK, made a net profit of 252.6m (sterling) in the year to March 31, up from 240.2m (sterling) the previous year
- The 5.2% year-on-year rise highlights the quality of the Crown's assets, which include much of London's Regent Street and tracks of farmland and the seabeds around the UK
- The total value of the estate's property has exceeded 8bn (sterling), for the first time, at 8.1bn (sterling), a rise of 7.2%. The capital value of the estate is 8.6bn (sterling), up by 7%

26 June 2013

Beijing in U-turn over bank support – Pg. 1

- …pledging to provide liquidity support to banks in a bid to ease the fears to investors rattled by the country's cash crunch
- The liquidity crunch has been sparked by the PBoC's efforts to force a clean-up of the so-called shadow banking sector, which China's new leaders fear is undermining their efforts to rein in credit growth and rebalance the economy

Banks face fresh hit to balance sheets from surge in bond yields – Pg. 1

- The recovery in global banks' balance sheets is under threat from a surge in bond yields, …
- Banks have built huge portfolios of liquid securities, partly at the behest of regulators and also because they have not found better opportunities to lend a flood of deposits. Under new rules, unrealized losses in these "available for sale" portfolios hit banks' equity capital
- The composition of the balance sheets leaves banks vulnerable to the rise in rates
- Yields on the benchmark 10-year Treasury note last week jumped by the biggest percentage in a decade as Ben Bernanke, Fed chairman, indicated the central bank might scale back its bond-buying, known as quantitative easing

Upbeat US data set to ease Fed pressure – Pg. 3

- US economic data allayed anxieties surrounding rising interest rates that have roiled markets, easing pressure on the Federal Reserve as it considers slowing support for the recovery
- US home prices posted their largest year-over-year gain in seven years in April while sales of new houses climbed in May to an almost five-year high….

Cool reception on arrival – Pg. 5

- Croatia's fouryear war of independence would leave 20,000 dead and 2,000 people missing; neighbouring Bosnia-Herzogovina's was even bloodier
- …on July 1 Croatia will become the 28th member of the EU - …
- …4.5m Croatia's …
- Many west European capitals thought Bulgaria and Romania, which joined the EU in 2007, were admitted too soon, without doing enough to tackle organized crime and corruption

Lennar points to housing recovery – Pg. 16

- Lennar sought to calm investor fears that a rise in mortgage rates would hamper the real estate recovery, as the US homebuilder reported better than expected second-quarter revenues amid stronger orders and higher prices
- The average selling price climbed 13% to $283,000. Gross margin on sales widened from 22.5% to 24.1%

US inflation-linked bond funds fall – Pg. 20

- US bond funds promising to shield investors from the effects of rising prices by buying inflation-linked securities have fallen victim to the worst trade in fixed income markets
- The Treasury inflation market in the US is dominated by a handful of big institutional investors and large dealers

Municipal bonds left stranded as investors rush to sell debt – Pg. 20

- The $3.7tn market for tax-exempt securities, which is highly correlated with US Treasuries, has seen prices plunge, yields trade at two-year highs and state governments and agencies cancel or delay almost $2.6bn in sales in the past week

Philippines enters bear territory – Pg. 21

- The Philippine bourse has entered a bear market, dropping more than 20% from its peak, underscoring how even heavily bouht assets in the developing world are being hurt by the emerging market rout
- The Philippine Stock Exchange index declined 3.1% yesterday to its lowest level this year
- The market has lost almost 22% since May 22,….
- Favoured markets such as the Philippines and Mexico has suffereld mostly due to international investors' holdings having made up a large part of the domestic markets. Bourses shunned by many asset managers – such as Russia – have held up better in the sell-off

25 June 2013

Fed hawk strikes out at 'feral hogs' of the markets – Pg. 1

- The 10-year Treasury yield – the global benchmark for borrowing costs – rose to a peak of 2.66% in early New York trading, expending its rapid raise from a low of 2.10% a week ago

US skills shortage damages building industry – Pg. 4

- US homebuilders are struggling to assemble the crews to build new houses, which could hold back the rebound of a sector that has been the bright spot in the world's largest economy,…
- …deficit particularly for skilled workers such as electricians, plumbers, roofers and masons (Prof Note: I have been bullish on trades for years!)
- Contractors pared down their workforces after the housing market collapse. Between the April 2006 peak and January 2011 trough, total home building employment feel almost 43% from 3.450m to 1.984m, ….
- A lack of plots for development as more builders scramble for land to meet growing demand and rising construction material costs are other factors hampering homebuilders alongside rising mortgage interest rates and tight mortgage qualification standards
- …construction employment per housing start stands at 2.5 workers per start, comared with a more normal level of 1.5

- Fitch projects housing stars at about 1.1m in 2014. If housing starts revert to more normal levels at around 1.5m, shortages may last longer
- The median price of a new home sold in April was $271,600, the highest level on government records going back to 1993

City limits – Pg. 9

- With as many as 10m people moving from farms to cities every year in China, ….
- More than 400m people have already made the move into cities in the past three decades
- In 2011 China became a predominantly urban country for the first time. More than 52% of citizens now live in cities

Convertible bonds boom as rates rise – Pg. 15

- Corporations seeking cheap financing are issuing convertible bonds in the US at the fastest pace since the financial crisis, with the recent rise in interest rates adding to the rush
- Convertible bonds allow companies to issue debt at ultra-low yields but give investors the option to convert the securities into stock if the share price reaches a preset premium during the bond's tenure

Spain and Italy borrowing costs jump – Pg. 22

- A sell-off in European bond markets pushed up government borrowing costs in the Eurozone periphery yesterday, raising concern that the US Federal Reserve's plan to scale back quantitative easing could lead to a revival of the region's debt crisis
- Spain and Italy's 10-year bond yields, which move inversely to prices, jumped to 5.07% and 4.79%, respectively

Buyers drop US company debt amid rising benchmark rates – Pg. 23

- US corporate bonds are on track to wrap up their worst quarterly performance in ore than four years as the prospect of higher benchmark rates has triggered a sell-off in the securities
- Total quarterly returns on bonds sold by investment-grade companies were down 3.5% as of Friday,….

24 June 2013

Warning to central banks over recovery – Pg. 1

- Central banks must head for the exit and stop trying to spur a global economic recovery, the Bank of International Settlements has said following a week of market turbulence sparked by the US Federal Reserve's signal that it would soon cut the pace of its bond buying
- The Basel-based BIS, which counts the world's leading monetary authorities as members, said cheap and plentiful central bank money had merely bought time, warnig that more bond buying would retard the global economy's return to health
- Often called the central bankers' bank, the BIS said the global economy was "past the height of the crisis" and its goal should be "to return still-sluggish economies to strong and

sustainable growth." "Alas, central banks cannot be do more without compounding the risks they have already created",…

Snowden seeks asylum in Ecuador – Pg. 1

- …applied for asylum in Ecuador (Prof Note: Seal Team 7 better be preparing for a Snowden extraction from Ecuador! If we can get Bin Laden in Pakistan, we should be able to send a team from AARP to get Snowden out of Ecuador!)
- (Prof Note: I think this High School dropout infuriates me so much due to his success on the public nickel! Booz Allen should be humiliated!!! I have nothing against individuals without college degrees (Bill Gates for example) but these are highly successful entrepreneurs! Snowden was on the public dime and working at BAH, just how smart could he really be???!!! Send him to Gitmo!)
- (Prof Note P.S.: Perhaps it is that Snowden has achieved front page, above the fold status on the FT while I still work to achieve such an accomplishment. Of course, I want to be there for "good" reasons!)

US urges Delhi to ease curbs on foreign investment and trade – Pg. 7

- The Obama administration will press India this week to ease restrictions on foreign investment and trade, as US companies grow increasingly angry about what they see as India's hostile climate for international business
- US companies have expressed growing frustration at what they are calling New Delhi's recent "discriminatory" trade practices, and their grievances threaten to vitiate progress in bilateral relations over the past decade, with US legislators, both Republicans and Democrats, expressing growing concern about the issue

End of the line – Pg. 9

- Emerging markets are also far less indebted than developed countries. The overall credit-to-GDP ratio is about 70% against 145% average for advanced economies…
- Norway's $700bn sovereign wealth fund last year changed its bond index to give emerging markets a bigger weighting

22 June 2013

Bond selling hits homebuyer costs – Pg. 1

- A fierce burst of selling in the bond market has sent borrowing costs for US homebuyers sharply higher, posing a risk to the rebound in America's housing market, which has underpinned the economic recovery
- Yields on benchmark US Treasuries, which move inversely to prices, jumped yesterday to more than 2.5%, their highest level in almost two years….

- The average rate on a 30-year fixed rate mortgage has jumped to 4.24%, …the average 30-year fix was 3.40% as recently as early May (Prof Note: Holy Cow! That is an 84bps difference meaning that it will cost about 84,000 more to pay off a home!)

China pulls banking system back from brink after squeeze – Pg. 2

- …short-term money market rates soared to as high as 28% on Thursday, forecasts of a crisis no longer seemed to outlandish
- China, the bastion of stability throughout the global credit crunch, suddenly had some of the feel of a financial system on the brink: its interbank lending market had frozen, local media reported that one of the country's biggest banks had defaulted and rumours spread that the central bank had provided targeted cash injections to another major bank
- China's banking system is still controlled by the state and the credit crunch has also to a significant extent been controlled by the state
- China powered through the global financial crisis in large part thanks to an explosion of credit, first through the formal banking system and then through a series of "shadow banks" and off-balance-sheet vehicles
- The result has been a remarkable increase of leverage in China. The overall credit-to-GDP ratio has shot up from 120% to nearly 200% over the past five years
- A second lesson to draw from the cash squeeze is that its leaders appear more determined than their predessors to guide China on to a path of slower, more sustainable growth
- …Beijing is far from omnipotent in its management of the Chinese economy

Fed official criticizes timing of Bernanke QE3 decision – Pg. 4

- Mr Bernanke said the timetable for winding down asset purchases was the product of a consensus among US central bank officials. He said a tapering of the $85bn monthly pace of asset pruchases would begin later this year – assuming the economic outlook improved as predicted – and continue until the end of the programme sometime in the middle of 2014, as the US unemployment rate falls to 7%

The power of the streets – Pg. 5

- Through decades of military dictatorship, hyperinflation and economic crisis, football has always been a uniting force in Brazil. But the "bus fare" protests sweeping through the country this week has strained even football's ability to knit the country together
- For investors, the demonstrations add to uncertainty about an economy that was once possibly the most promising of the Brics group of emerging nations but that is now struggling with sluggish growth, inflation and a worrying loss of competitiveness
- The sheer grind of life in Brazil's metropolises, such as Sao Paulo, whose 20m people are served by a tiny metro system, overcrowded buses and hopelessly congested roads, means there is plenty to complain about. They must also contend with street muggings while politicians and the rich hover above them in helicopters

- Much of the blame, however, must rest with the PT's economic model of pumping up consumer demand through social welfare benefits, wage increases and access to credit while neglecting to improve infrastructure

Bernanke throws shares into reverse – Pg. 12

- Share prices fell sharply after investors this week heard the line about the gas pedal – but not Mr Bernanke's optimism on the US economy picking up
- The US S&P500 fell more than 4% in the second half of the week
- The sharp falls throw firmly into reverse the rally earlier this year after Japan announced aggressive policy action to drag its economy out of deflation
- While Japan is expanding its stimulus, Mr Bernanke is looking to "taper" the Fed's "quantitative easing", or asset purchases, later this year
- One explanation for the steep share price falls was the abrupt reaction of US Treasuries to Fed tapering talk. Yields on 10-year debt, which move inversely to prices, are about 2.5%, a near one-percentage point rise from early May
- Bank stocks have been hit amid worries about higher interest rates on their balance sheets
- Fed tightening in 1994 led to a disruptive sell-off in bond markets. But it is not unusual at Fed policy points for equities to fall while bond yields rise. In 2003, a strong rally wen tinto reverse after 10year US Treasury yields headed towards 4.60%. The rally resumed, however, and the S&P finished the year up 25%

21 June 2013

Sell-off raises fears of fresh phase of financial turbulence – Pg. 1

- A sell-off in equities, bonds and commodities yesterday fuelled fears that the world is entering a fresh phase of financial turbulence as the US Federal Reserve prepares to ease its large-scale asset purchases
- Emerging markets were among the worst hit in volatile trading after Ben Bernanke, Fed Chairman, on Wednesday set out the case for slowing the pace of QE3 this year as the US economy picks up momentum
- Yields on 10-year US Treasury, which moves inversely to prices, hit 2.47% at one point – up from a low of 1.61% last month
- The nervousness was exacerbated by an escalating credit crunch in China, where short-term money rates soared to all-time highs
- US interest rate markets priced in a higher change of rate increases starting in September and December 2014 – at odds with the majority of Fed officials who expect the first official tightening of interest rates in 2015

Bernanke's rosier outlook to come under close scrutiny – Pg. 3

- The Fed also revised down its 2013 growth forecast slightly to 2.45% but raised its 2014 forecast to growth of 3.25% - well above market expectations

- When the Fed decided on the third round of quantitative easing in September of last year, a large part of its rationale for additional asset purchases was to buy US economy insurance against a fresh crisis triggered by the "fiscal cliff" of automatic budget consolidation

Housing recovery gains momentum – Pg. 3

- Sales of previously owned homes in the US rose to their highest level in three and a half years in May and prices surged as a housing recovery gained momentum (Prof Note: We shall see how long this lasts given rising rates and the fact that most purchase on payment rather than price)
- Sales increased 4.2% to an annual rate of 5.18m units, the most since November 2009 when a homebuyer tax credit deadline was approaching,….
- Existing home sales, which make up the bulk of the market, are recovering after reaching a 13-year low of 4.11m in 2008. The market peaked at 7.08m in 2005 (Prof Note: The year I purchased my home)
- Foreclosures and other distressed sales accounted for 18% of the total, the lowest since October 2008. Investors made up 18% of the total, the lowest since October 2008
- First-time buyers accounted for 28% of purchases, compared with 34% a year ago. They typically represent 40-45% of the market,….

20 June 2013

Bernanke sees 2014 end for QE3 – Pg. 1

- …"appropriate to moderate the monthly pace of purchases later this year", assuming the Fed's expectations for an improved economic outlook held true
- …"measured steps through the first half of next year" to slow asset purchases. He also said the bond buying could end once the unemployment rate fell below 7%. It was 7.6% in May
- The yield on the 10-year Treasury note rose to a new high since March 2012, reaching 2.36%, up sharply from 1.60% at the start of May

Fears rise over Ireland and Portugal bailout exits – Pg. 6

- Amid expectations that central banks in the US, Japan and elsewhere will tighten monetary policy, yields on Portugal's benchmark 10-year bonds surged to 6.6% last week from a low of 5.2% in late May. Ireland's 10-year yields also moved higher, rising to more than 4% from a low of 3.5% last month
- Ireland's public debt, expected to peak at 123% of GDP this year, also poses the biggest risk to the country's successful long-term return to international bonds markets

Battle of the Nile – Pg. 7

- Ethiopia, which has watched for centuries as Egypt has made use of the Nile – 86% of which rises in Ethiopia's highlands – is convinced the dam can revive an ancient civilization that has been hollowed out by poverty and famine. Officials say the dam can make Ethiopia the biggest power exporter in Africa and transform it into a middle-income country

- Ten countries make up its basin, with 238m people reliant on its waters and verdant banks. Only Egypt and Sudan, however, claim exclusive rights to its use and object to anything that might affect the river
- Egypt's dominance of the Nile is rooted in the region's colonial past. In 1929, Cairo and Sudan's British colonial ruler exchanges two letters that recognized Egypt's "historical and natural rights" over the Nile
- Three decades later, as Egypt sought to secure water for its own hydroelectric dam at Aswan, it signed a treaty with then-independent Sudan divvying up use of the Nile solely between the two
- (Prof Note: This is absolutely fascinating and I will follow this issue…fascinating!)

UK banks' capital deficits to be revealed – Pg. 16

- …RBS would be shown to account for as much as 10bn – 12bn (sterling) of an aggregate 26bn (sterling) hole, with Lloyds representing 8bn – 9bn (sterling) of the total and Barclays accounting for 3b – 5bn (sterling)

US home loan rate rise hits demand – Pg. 20

- A jump in US mortgage rates to their highest level in more than a year cooled demand for refinancing home loans this week
- …the 30-year mortgage rate paid by homeowners rose 2bps to 4.17% for the week ending June 14, the highest level since March 2012
- …the average rate on a 30-year fixed-rate mortgage sits at 4.01%, 3bps lower than a week ago
- At the end of March, 19.8% of borrowers had negative equity in their mortgages (Prof Note: this makes them renters and NOT homeowners! I continue to believe we, as a society, need to redefine "ownership". It must imply a certain percentage of equity!)

China fund eyes US real estate – Pg. 21

- A Chinese fund manager will launch the country's first fund tracking a US real estate index to cater to Chinese investors who think the US property market will outperform their own (Prof Note: With interest rates rising, this is a big gamble!)
- US property has in recent years become a top investment choice for wealthy Chinese
- Regulations in China still bar the trading of real estate investment trusts, so the fund will track the MSCI index rather than actually function like a reit
- The fund will be available in China as part of the country's qualified domestic institutional investor programme, which grants quotas to Chinese investors to legally get around the country's capital controls

19 June 2013

(Prof Note: I just received an email from a former Wealth Management student who used the amortization model constructed to determine that the rate rise on 30-year produce to 3.99% from

3.30% cost a nominal $50,000 in interest…a proud moment for me, i.e. the use and understanding of the model! Remember, on a $500,000 mortgage, a 1 basis point move costs roughly $1,000 over the life of the loan….AYE CARAMBA!!!)

Summit agrees to reject terror ransoms – Pg. 2

- G8 leaders have agreed to stop paying ransoms to terrorist groups, amid claims that hostage taking was worth $70m to al-Qaeda linked groups over the past three years
- There is already a UN resolution against ransom payments to al-Quada but the G8 agreement covers all terrorist organizations, as defined by each country
- Almost 50 people were abducted by kidnappers in 2012, double the level of the two previous years

Obama drops hint on Bernanke – Pg. 4

- President Barack Obama has suggested he will allow Ben Bernanke, US Federal Reserve Chairman, to retire…. (Prof Note: I may lose this bet with Elliot E.)
- Mr. Bernanke has been Fed chairman since 2006 and is expected to step downtown when his term ends in January 2014. He has indicated that he is not averse to leaving…
- The favourite to succeed Mr Bernanke is his deputy, Janet Yellen, who was one of the architects of the Fed's strategy to purchase assets (Prof Note: Ph.D. economics from Yale….she has my vote!)

A bumpy, crowded road – Pg. 7

- One statistic above all explains the excitement India kindles: just 18 people in every 1,000 own a car. In China the figure is 58, …, while most European countries it is more than 500
- ..China, the world's most important auto market, where 15.5m cars were sold last years (Prof Note: I believe 15m were sold in the U.S.)
- India brings other complexities. The popularity of smaller cars is forcing western groups to rethink their sedan heavy portfolios. Subsidies also distort the market, making diesel vehicles cheaper to run than petrol models. Tariffs also make imported cars expensive, further spurring a burst in local factory building

Trader charged over Libor scandal – Pg. 14

- UK authorizes have charged Tom Hayes, the former UBS and Citigroup trader, with eight counts of conspiracy to defraud in connection with the global LIBOR rate-rigging scandal
- Mr Hayes, 33 (Prof Note: Young!)
- The UK move set up a potential conflict between US and UK authorities. Mr Hayes already faces criminal charges in the US, filed in December….

Divi stocks vulnerable to Fed hit – Pg. 21

- Dividend stocks – dubbed "the new fixed income" as investors search for yield amid historically low interest rates – could be among the investments most sensitive to US Federal Reserve chairman Ben Bernanke's impending pronouncement on monetary easing

- US utilities stocks are down 8.7% and telecom equities have lost 3.9% since Apirl,…
- High-dividend stocks have many of the same characteristics of long-duration bonds, including relatively predictable cash payouts and low volatility
- Many long-term corporate bonds hit their lows around the same time, including the 30-year bond from iPhone maker Apple, which is currently trading 6% below its late April issue price

18 June 2013

US and EU push talks on historic trade deal – Pg. 1

- …"biggest bilateral trade deal in history"….
- Mr Obama hopes that greater access to the European market for US companies will boost exports and provide a jolt to growth and employment without increasing budget deficits. The initiative could also help defuse criticism that the US is neglecting traditional allies in Europe as it shifts its strategic focus to Asia

Fed likely to signal tapering move – Pg. 3

- Ben Bernanke is likely to signal that the US Federal Reserve is close to tapering down its $85bn a month in asset purchases when he holds a press conference tomorrow, but balance that by saying subsequent moves depend on what happens to the economy
- When it started QE3 last September, the Fed said it would keep buying assets until there was a "substantial improvement" in the outlook for the labour market. Since then, two main developments are driving the Fed's move towards a taper now
- First, the main indicators of the labour market have improved greatly
- There is still a dark side to the labour market – measures of dynamism such as rates of hiring, quitting jobs and working part time because of full-time job is not available – have barely improved. But that is offset somewhat by the second development
- A couple of complications exist. One is unexpectedly low inflation. Most Fed officials are sanguine about the drop in their favoured measure of core inflation to 1.1%. Expectations of future inflation are holding up and a similar slide in 2010 did not end in deflation despite a weaker economy
- The other complication is the rise in bond yields, triggered by the confused market response to a likely Fed taper, which has in itself tightened financial conditions. Market movement are unlikely to delay a Fed taper – but they are likely to make it cautious until it has got its message across

Private equity leads the way in tax efficiency – Pg. 17

- Some UK lawmakers and union representatives have called for restrictions on tax advantages related to high levels of debt after research by the Financial Times showed the measures have helped some of the country's best-known brands owned by private equity groups to reduce their corporation levies
- …paid less than 11% of their operating profits in corporate taxes since 2007,…

- Private equity groups say the primary reason to use debt is not to reduce taxes. "it allows private equity-backed companies to engage in investment and innovation which would not otherwise be possible to the same extent"…
- After the 2008 credit crisis, some countries restricted the tax advantage of debt, directly targeting leveraged buyouts, which were seen as exploiting the measure to far
- German, the Netherlands and France have either imposed or are planning to impose caps on the amount a company is allowed to deduct

US braced for real estate trusts slowdown on rate expectations – Pg. 23

- The busiest corners of US equity capital markets are bracing for a sharp slowdown as expectations of rising interest rates sweep through the market, bankers and securities lawyers have warned
- Investors are demanding higher payouts before they buy share offerings in real estate investment trusts (Reits) and master limited partnerships (MLPs), advantageous tax structures that allow companies to distribute most income as dividends
- The prospect of a collapse in issuance comes as investors brace for the latest comments from the Federal Reserve, which is expected to begin tapering its $85bn a month stimulus programme in the coming months
- Speculation over the precise timing of an exit has caused yields on the 10-year US Treasury bond to jump 50bps to 2.13% from the end of April
- Colony America Homes, one of a handful of Reits in the building rental housing sector expected to list, postponed its float due to market conditions earlier this month

(Prof Note: A Hoya needs a contact at St. Mary's hospital in Leonardtown, MD. Does anyone know any persons there? Thank you)

17 June 2013

Wall Street banks scrap attempt to revive crisis-era derivatives – Pg. 1

- JPMorgan Chase and Morgan Stanley have scrapped a plan to sell "synthetic collateralized debt obligations" – sliced and diced pools of credit derivatives - …(Prof Note: If anyone needs the definition of a CDO, ask Lauren W.!)
- Synthetic CDOs pool derivatives known as credit default swaps and then divide them into different pieces, or "tranches", with varying levels of risk. The deals allow investors to make amplified, or leveraged, bets on the underlying loans or bonds

Focus put on bumps in road to recovery – Pg. 4

- …G8 leaders know the world economy remains a dangerous place
- Mr Bernanke will be at the centre of G8 discussions because it was his comment last month that the Fed might start to slow its third round of quantitative easing at one of its next few meetings that sent markets down

- The unemployment rate has come down from 8.1% to 7.6%.
- If G8 leaders are missing one key figure in the global economy, the other is in the room, Mr Abe, whose "abenomics" has pushed a rapid recovery in the world's third-largest economy, but with continued long-term fears for its sustainability
- The yen acted as the world's shock absorber for the four years after the Lehman crisis, Japan thinks. Even now, amid a fresh round of fears over global growth, it is still about 5% stronger than its 10-year average against the US dollar. So leaving aside all the talk of trade wars and stealing growth from neighbours, isn't it time Japan caught a break?

15 June 2013

IMF berates US over fiscal tightening – Pg. 1

- The IMF denounced the tightening of US fiscal policy as "excessively rapid and ill-designed", and said it would knock as much as 1.75% off growth this year
- …the IMF forecast growth of 1.9% this year and cut its 2014 outlook to 2.7% from 3% it had expected as recently as April
- "A long period of exceptionally low interest rates may entail potentially unintended consequences for domestic financial stability and has complicated the macro-policy environment in some emerging markets"

Singapore punishes 20 banks in fresh benchmark-rigging scandal – Pg. 1

- The sprawling global rate-rigging probe expanded dramatically yesterday as authorities in Singapore disciplined 20 banks and revealed that 133 traders tried to manipulate three interest rate and foreign exchange benchmarks (Prof Note: Lifetime ban for the 133 traders?!)
- Singapore, which lacks legal powers to fine institutions involved in alleged rate-rigging, ordered them to leave more money on deposit with Singapore's central bank for one year

Financial barometer set on storms – Pg. 12

- Not only are global bond markets in the midst of a sell-off, and Japanese share prices gyrating; measures of market volatility are signally some of the choppiest conditions since 2008
- Largely unaffected so far is the closely watched US CBOE Vix "fear guage", which uses option prices to measure investors' expectations about future stock market volatility

14 June 2013

US rejects claims for patents on DNA – Pg. 1

- Companies cannot patent specific pieces of DNA, the US Supreme Court declared yesterday in a mixed decision that also affirmed the rights of the $83bn biotechnology industry in synthetic genetic products

- The justices ruled that synthetic DNA – strands of genetic material that have been modified in a laboratory - could be patented because this process involved some human input

Central banks face rates dilemma – Pg. 4

- A surprise interest rate rise from Indonesia yesterday to bolster a sagging rupiah raises the questions of whether other developing countries will follow suit to defend their currencies as investors rush to take funds out of emerging markets
- The most susceptible countries are those, such as Indonesia, with big current accounts deficits to finance. Indonesia's central bank raised its benchmark rate 25bps to 6%, two days after raising a different interbank rate.
- …the Philippines has unexpectedly refrained from cutting rates.
- Elsewhere, faced with the biggest currency drop this year of any emerging market, South Africa has done little.
- …Turkey and Brazil, two other big targets of the sell-off, are taking action. Both earlier saw such high inflows that they struggled to contain the potentially disruptive effects. Now they are fighting the impact of severe outflows
- Brazil was the only big emerging market to raise interest rates this year before the sell-off, acting in April and early June to combat inflation
- Brazil faces a particularly acute form of struggle to boost its economy while controlling inflation and managing the current account deficit, which is at decade-high levels
- The big exception might be central Europe where levels foreign exchange debt mean export-boosting benefits of cheaper currencies are over-shadowed by the increased burden on borrowers

Concern grows as Brazil runs out of options – Pg. 4

- The concern is that it is coming after two years and tens of billions of dollars in fiscal programmes that have failed consistently to revive growth
- …the primary budget surplus last year was 2.4% and is expected to fall 1.5% this year,….
- Economists believe that a primary fiscal surplus of less than 1.5% will mean that Brazil will start accumulating net debt again, which today stands at 35.2% of GDP

Starved of healthy options – Pg. 7

- The US is in the grip of an obesity epidemic (Prof Note: Interesting Fact: When I fly American planes I have no issue fastening the lap-belt with six inches extra. When I fly an Asian character, have no extra inches!)
- More than 27% of all Americans aged between 17 and 24 – more than 9m people – are now too heavy to join the military if they wanted
- An average company with 1,000 employees faces $285,000 per year in extra costs associated with obesity,…
- From Baltimore to ….it is nigh on impossible to find a crown of broccoli or a lean cut of meat. Yet every petrol station seems to sell friend chicken meals for a couple of dollars, and shelves overflow with bottles of budget-brand sugary drinks

Bond sales dry up as rates rise – Pg. 13

- The number of companies tapping the bond market has collapsed as a result of rising interest rates, threatening to halt a global refinancing wave that helped boost earnings and strengthen balance sheets
- …Federal Reserve, hinted on May 22 at a possible "tapering" of US quantitative easing
- US sales of investment grade corporate debt, which began to falter last month as US Treasury yields rose, have this week almost come to a complete halt

13 June 2013

For sale: age, gender and location information at $0.0005/person – Pg. 1

- Age, gender and location information sells for as little as $0.0005 per person, or $0.50 per thousand people,…
- For $0.26/person, …sells the names and mailing addresses of people suffering from ailments such as cancer, diabetes and clinical depression

Snowden pledges to fight US in court – Pg. 2

- The US Department of Justice is preparing charges against Mr Snowden. Given Hong Kong's extradition treaty with the US, lawyers in the city have said there is a high chance he will be sent back to the US (Prof Note: What angers me the most about Mr Snowden is that he was living the American dream, i.e. rags to riches, high school dropout to age 29, Hawaii, $122,000/year and spat in the face of the country that gave him so much opportunity! Send him to Gitmo!!!)
- "I'm just stunned that an individual who did not even graduate with a high-school diploma, who did not successfully complete his military service, and how is only age 29, had access to some of the most highly classified information in our government. That's astonishing to me, and it suggests real problems with the vetting," said Susan Collins, Republican senator from Maine (Prof Note: Amen! Snowden did not appreciate what he had! Gitmo!!! Any 29 year old graduate students interested in a $122,000/year job in Hawaii?! Exactly…I can be at the airport in an hour!)

Forex fixing hits regulator's radar – Pg. 22

- The foreign exchange trading at the heart of the latest probe by the UK markets regulator takes place on the world's largest and most liquid financial market – and its most untamed
- Not only is the $4tn FX market essentially unregulated, most trades in the sector do not take place on exchanges, leaving dealers at the major investment banks free to set different prices for different clients
- The concerns are twofold: that some traders allegedly "bank the close", or push through orders during key pricing windows, and that they could be sharing information about big pending orders that might move the benchmark

- The biggest fix of the day is at 4pm in London, with up to 10% of all daily trades taking place at that time. Fund managers and pension funds will typically give banks orders to buy or sell fixed amounts at this time
- Banks are then able to aggregate the amount of client orders to buy and sell as certain currency pair, such as the euro-dollar. If they have more buy orders than sell orders, they will try to hedge their exposure in the market before the fix
- Passive funds that have a benchmark are more likely to want to trade at the fix

MSCI upgrade for Qatar and UAE – Pg. 23

- Qatar and the United Arab Emirates will be upgraded to emerging market status by a leading index provider, opening the countries' exchanges to increased global investment flows
- Inclusion in the MSCI's Emerging Market Index could attract $800m of new inflows into the two countries' markets, HSBC estimates, as more risk-averse investors start to consider them. The UAE and Qatar are competing to become financial hubs for the oil-rich Gulf region
- HSBC estimates the two Gulf countries will have a combined weighting of 0.71% in the MSCI Emerging Market Index, above Egypt, the Czech Republic and Hungary

12 June 2013

Emerging market assets hit in sell-off – Pg. 1

- Emerging market currencies, stocks and bonds suffered a fierce sell-off yesterday on rising investor concerns over the prospect of the US Federal Reserve reining in its programme of bond buying to drive down long-term interest rates
- Emerging economies have been among the prime beneficiaries of ultra-loose global monetary policy as central banks led by the Fed have flooded financial markets with $12tn of extra liquidity since the financial crisis

Delaware on defensive as tax debate rates – Pg. 4

- Delaware has made a name for itself by becoming the prime spot for incorporation on American shores. Registration fees generate about a quarter of the state's annual $3.6bn budget
- But Delaware – along with states such as Nevada and Wyoming that have similar rules – also houses a plethora of shell companies, which can in some cases facilitate illicit activity ranging from tax evasion to money laundering to healthcare fraud
- Companies registered in Delaware do not pay income tax there unless they have operations in the state. The disclosure rules when setting up a corporation or partnership – which costs anywhere from $75 to $180,000 a year – are simple, with the main constraint being the provision of a "natural person" to be the contact for that entity in case law enforcement officials come knocking

US legislators open new front in battle to outlaw abortion – Pg. 4

- In Mississippi and in other Republican-led states across the US, social conservatives are fighting to make abortion so difficult to obtain that it amounts to a de facto Roe v Wade, the Supreme Court decision that legalized abortion in 1973
- Other rules require doctors to offer women ultrasound photos of the fetus, and to ask if they would like to hear the foetal heartbeat. The doctor must also tell women that the father is liable for child support and that abortion leads to an increased risk of breast cancer – a claim not supported by scientific research
- At the same time, more insidious restrictions are being introduced under the radar, women's health advocates say. In Kansas, pending legislation that opponents call the "Let Doctors Lie" bill allows a medical practitioner to keep information about serious genetic or congenital abnormalities from women
- (Prof Note: Without weighing in on a woman's right to choice, what about a man's? What if the man wants his child and the woman does not? The man is legally powerless. However, if the woman wants the child and the man does not, the man, again, is powerless. In my personal opinion, until this is rectified, equal rights cannot be accomplished!)

Booz Allen Hamilton – Pg. 10

- Booz Allen is one of several private sector consulting firms (known as SETA providers; systems engineering and technical assistance) that have proliferated in sensitive military and intelligence activities in a post 9/11 world
- But the technical ability that they possess (and that the government does not) makes them too valuable to just summarily cast aside (Prof Note: Let's talk of Mr Snowdown! High School dropout, living in Hawaii, working for Booz Allen taking home $122,000! If he was smart enough to be billed to the government for $200,000/year he was smart enough to go to college (oh, but he could not finish high school!)! Oh, by the way, Booz paid for a portion of my graduate school education so I know they have reimbursement and encourage education! I am furious that this 29-year old High School dropout was paid $200,000/yr of taxpayer money when there are extremely bright graduate students struggling to find positions. Puullleeezzzzz…I worked at Booz, I worked in these sensitive areas, I remember how "bright" people were! P.S. Adjusting for inflation and assuming 10% salary increases (I was approximately 25 when I was a "Boozer") my salary at 29 would be $81,400 (today) (67% of Mr. Snowdown's salary). Just another piece of information….)

S&P changes ratings guidance – Pg. 15

- The largest US banks are still "too big to fail" and holding company creditors could lose out in the event of a collapse, …
- Rating agencies play a role in arbitrating the debate as some of their ratings incorporate a degree of "government support", the theoretically allowing the biggest banks to borrow more cheaply. There is a dispute as to whether this is true in practice

11 June 2013

Calls for whistleblower to be extradited – Pg. 1

- The US authorities indicated that they would seek to prosecute Mr Snowden. Anyone with a security clearance had "an obligation to protect classified information and abide by the law", (Prof Note: Agreed. Why can we not send Mr Snowdown to Gitmo for waterboarding?)
- …Hong Kong is unlikely to prove a haven, according to lawyers, as it has an extradition treaty with the US agreed before the British handed over sovereignty back to China in 1997
- (Prof Note: Now Booz Allen & Hamilton is denying claims that Mr Snowdown, age 29 earned $200,000 but rather $122,000. Hello, Mr BAH, what matters to the taxpayers is the rate that Booz was charging the government. When I was an employee at Booz the burden rate we used in government contracts was 26%. Hence, the $122,000 just changed to $154,000. Then add on Booz profit and the $200,000 number is correct! Outrageous!!!)

US wins rating agency boost – Pg. 3

- S&P's yesterday lifted the long-term rating outlook on the US to stable from negative, citing receding fiscal risks and policy makers' willingness to support sustainable economic growth
- The rating agency – which in 2011 stripped the US of its triple A credit – affirmed the country's AA+ status, saying its actions on ratings reflect its view of the strengths of the US economy and monetary system, as well as the US dollar's status as the world's key reserve currency
- The outlook indicates the world's largest economy has less than one in three likelihood of a downgrade in the near term
- …yield on the 10-year note rising 2bps to trade at 2.20%

REIT conversion – Pg. 12

- Switching to a REIT structure would allow it to avoid mostrt tax as long as it paid out substantially all of its earnings to shareholders
- Iron Mountain's announcement also revealed that the IRS has established a working group to study the rules that define real estate

US fraud crackdown on virtual currencies – Pg. 13

- US officials are targeting virtual currencies because of fears that Americans are using them to evade taxes, opening a new front in the crackdown on tax fraud
- …US authorities have signaled that they believe virtual currencies, which can be traded anonymously, are being used improperly in other ways including to evade tax

Hong Kong stocks hit by China and Fed effect – Pg. 20

- Thanks to Hong Kong's currency peg to the US dollar, the territory has been at the mercy of US interest rates for decades, while remaining within an hour's smog-floating distance of China's economy

- Now hit by slowing Chinese growth and the prospect of a reversal in loose monetary policy in the US, Hong Kong's position helps explain why its equity market has been the worlds performer this year, in Asia and in the developed world
- The main Hang Seng index has fallen 4.3% to date, and the Hang Seng China enterprises index – mainland companies listed in Hong Kong – has lost 11%
- Due to restrictions on the mainland, Hong Kong is also where global investors go to express their views on Chinese growth, and enthusiasm here also appears to be faltering
- Another negative factor has been the reallocation into Japan during the Abenomics-driven rally, which began in November

10 June 2013

Bond rush for emerging market companies as banks pull back – Pg. 1

- Emerging market companies are obtaining three times as much funding from the bond markets as they are from bank syndicates, the biggest gap in at least a decade, as regulatory changes prompt structural shifts in global corporate funding
- Companies based in Asia, Africa and Latin America borrowed half as much from banks in the second quarter compared with the same period last year
- The sizeable jump is part of a wider trend of emerging market companies turning to the public markets since the start of the financial crisis,…
- Average borrowing costs on global "junk" corporate bonds have fallen from 8.2% a year last June to 4.6%, …

Fears of hyperinflation grip Venezuela – Pg. 6

- Hyperinflation is looming in Venezuela, with prices suffering their highest monthly rise on record in May, while the economy slides into recession…
- Prices rose 6.1% in May, compared with 1.6% in the same period last year, bringing accumulated inflation for the first five months of 2013 to 19.4%, almost as high as the annual figure for 2012 of 20.1%
- …hyperinflation, which the US bank [Goldman Sachs] defines as seasonally adjusted annualized rates of more than 40%
- At the same time, the economy is losing steam, with 0.7% growth registered in the first quarter of 2013, compared with 5.9% growth in the same period last year

Global Property Insight – Special Report

- (Prof Note: Read entire section)

8 June 2013

Robust US jobs growth numbers fuel speculation over Fed tapering – Pg. 1

- ….US reported stronger-than-expected jobs growth of 175,000 in May

- The unemployment rate rose from 7.5% to 7.6%, despite the solid growth in jobs but that reflected people returning to the jobs market and was more a sign of strength than weakness
- The yield on the benchmark 10-year US Treasury, which has been volatile amid uncertainty over the future of quantitative easing, rose to 2.17%, 9bps above its level late on Thursday
- Manufacturing shed 8,000 jobs and the bulk of the gains came from retail, up 27,700; business services, up 57,000; education and health, which gained 26,000; and leisure, adding 43,000

History of self-flagellation suggests the fund seldom learns – Pg. 4

- The fund's admission this week that it erred in its response to the Greek financial crisis is not its first act of self-flagellation
- The IMF has acknowledged that its GDP projections were too optimistic for both Greece and Indonesia. Its recalcitrance in accepting the need for writedowns on government debt was also flagged by an internal review into the crisis in Argentina

Bankers face 10-yer delay on bonuses – Pg. 10

- The proposal, in a draft report of the Parliamentary Commission on Banking Standards, envisages that UK bankers, who typically receive bonuses either immediately or after one, two or three years, would be barred from accessing the payouts for as long as 10 years
- The commission was set up in the wake of the Libor rate-rigging scandal and other misdemeanors, such as the mis-selling of payment protection insurance and interest rate swaps, in an effort to spur a change of attitude among Britain's bankers
- The final report is expected to be equally uncompromising, with key sectors on pay, professional standards and a new proposed sanctions regime for miscreants

Mortgage investors in the line of fire – Pg. 14

- US borrowers who take out the country' traditional 30-year fixed-rate mortgages win both ways
- If rates fall, they can refinance for lower monthly payments; if they rise, they can sit back and boast of their good fortune at having locked in a great rate
- In the $1.3tn a year market for mortgage-backed securities, where loans are pooled together and traded, small changes in interest rates can mean the difference between big gains and big losses
- An MBS that takes longer to mature is riskier, and therefore worth less, and the change in value can be quite sharp – much more sharp than the increase in value that comes from a move downwards in interest rates. That asymmetry is known by practitioners as "negative convexity"
- A 1994 surge in interest rates caused a Wall Street bloodbath, when hedge fund Askin Capital Management went under and Goldman Sachs went into the red, and there have been mortgage debacles in 1998 and 2003, as well

- There are many booby traps. Because of the leverage involved, a rise in long-term rates and corresponding fall in the value of the portfolio can trigger margin calls and a potential forced selling of assets. A spike in short-term borrowing costs can wipe out much of the profit margin on MBS income

7 June 2013

Doubts over Fed's QE3 spark sharp dollar fall – Pg. 1

- The dollar suffered a sharp fall yesterday as concerns over how much longer the Federal Reserve would keep pumping liquidity through the global financial system led investors to sell off the currency
- The unusual volatility came amid nervousness over US nonfarm payrolls due today that were being closely watched as a sign of how much longer the Fed was likely to continue its QE3 bond-buying programme to stimulate US growth
- The ECB forecast that Eurozone output would shrink 0.6% this year and grow 1.1% next year

NSA accused of 'Orwellian' action – Pg. 4

- …revealed that the administration of Barack Obama has continued the George W Bush-era practice of collecting information about tens of millions of Americans' phone calls every day
- …using Sector 215 of the Patriot Act, ewhich allows domestic surveillance for national security purposes - …
- Law enforcement and security agencies can use this information to build a picture of a suspect, or detect patterns in the raw communications data, spot unusual activity and perhaps even deduce the existence of a terrorist cell or threat,…

US money market funds – Pg. 12

- …nearly $3tn in the US alone
- Money market funds have sought to maintain stable share prices of $1 and had the regulatory cover to do it. They buy mostly highly rated and liquid securities with short-term maturities, a pool that is not meant to fluctuate
- …rather than mark to market daily, money market funds are able to value holdings at cost plus the amortization of premiums and discounts and then round to the nearest penny, meaning the fund need only to stay at 99.5 cents or above to not break the buck
- The new rules call for prime institutional funds to be valued using market-based factors, while NAVs would be rounded to the fourth decimal place

Plans to shift Libor heart to Europe – Pg. 15

- The threat: the burden of stringent rules and fear of potential legal liabilities will convince more contributors to benchmarks that it is no longer worth it, especially in more obscure commodity markets
- …concerned about the lack of clarity over how more obscure benchmarks are regulated

- The furore over rate-rigging is already convincing institutions to retreat from the rate-setting process. At least six banks have pulled out the panel that sets Euribor, …

6 June 2013

Prof Note: A former student is getting married and his finance's younger sister is studying in India and is an Iranian citizen. The younger sister has been denied entry to the U.S. for the wedding. Does anyone know anybody or organization that can assist? The wedding is in August. Blue Jay in need!

Brussels bid to strip London of Libor role – Pg. 1

- Brussels is proposing to put the scandal-hit Libor lending rate under the watch of a European supervisor based in Paris as part of an overhaul of regulation of pricing benchmarks for an array of markets from oil to gold
- Brussels' draft plan requires regulators to authorize and oversee all published benchmarks used a s reference for an exchange-traded financial instrument or a financial contract. This covers hundreds of benchmarks ranging from interest rates to most commodities and shipping

Services mask torpor in US labour market – Pg. 3

- A rise in service sector activity calmed jitters about the health of the US economy but there were further signs of torpor in the labour market ahead of tomorrow's non-farm payrolls report
- Solid activity in the services sector suggests there is still robust demand growth in the US economy and a weak reading for manufacturing this week – just 49.5 – reflects slower expansion in emerging markets
- …businesses adding just 135,000 jobs in May according to ADP,…
- The ADP report also contained a downward revision to April's figures from 119,000 to 113,000
- Tax rises and across-the-board federal spending cuts have hampered consumers and businesses since March

Brazilian real turns volatile after transaction tax is axed – Pg. 20

- Volatility jumped in Brazil's currency market after the country became one of the first emerging markets to scrap a key capital control in the face of a broadly stronger dollar
- The real was quoted around 2.13 per dollar, down 0.1%, in early afternoon trading
- Brazil's government late on Tuesday cut the financial transactions tax, known as IOF, from 6% to zero on foreign fund flows into the domestic bond market in what analysts said was an attempt to lure back capital and prop up the real
- Brazil has spent much of the past three years fighting for a weaker real to boost domestic industry, attacking the US for creating a "tsunami" of liquidity that flooded emerging markets while putting up a barrage of capital controls at home

- …as speculation rises that the US Federal Reserve is preparing to "taper" its third wave of monetary expansion, known as quantitative easing, the real has depreciated rapidly, threatening to exacerbate the country's inflation problems

Rally in Indian equities hits US Fed roadblock – Pg. 21

- A stumbling domestic economy lies partly behind the recent correction
- …reveal a deeper pattern in which Indian markets, which are relatively shallow and thinly traded at the best of times, also find themselves peculiarly susceptible to global investment swings

5 June 2013

Abe homes in on third arrow of growth – Pg. 1

- …Abe will call on Japan's giant pension funds to lift their allocations to domestic stocks and take a more active approach to investment, as the prime minister seeks to sustain interents in the world's second-biggest equity market
- In theory, Mr Abe's pressure on institutional investors could support prices by tipping the balance of supply and demand in the equity market, given the sheer size of the institutions concerned (Prof Note: Japanese equities….something to "think" about…)
- The government plans to reshape investment strategies for the roughly Y200tn in assets held by 190 public pension funds, aiming to complete the shifts by the end of the fiscal year ending in March 2016

Southeaster shift: the new leaders of global growth – Pg. 7

- In 2013, or the first time since mechanization led Britain down the path of industrialization in the 19th century, emerging economies will produce the majority of world's goods and services. The inhabitants of rich, advanced economies have long represented only a small but powerful proportion of the world's population. Now, they are less economically important than the mass of people living in the world's poor and middle-income countries (Prof Note: Consider portfolio allocations….)
- By 2018, the IMF reckons emerging markets' share of world output will have arisen to 55%, making the term "emerging" increasingly irrelevant
- Although living standards remain more than five times higher in advanced economiesi, the gap has been narrowing rapidly since 1990
- In the moid-1980s, large advanced economies still dominated global growth. The US accounted for almost a third, the EU for almost 20% and six of the G7 were in the top 10 countries with the largest contribution to world growth (only France missed out).
- In the years before the 2008-09 crisis, China emerged as by far the largest source of growth and stormed up the charts to fourth on the back of soaring commodities output and prices

Bond turmoil hits US mortgage rate – Pg. 13

- The average rate on a US mortgage has soared above 4% for the first time in more than a year, reflecting recent turmoil in the bond market and threatening to undermine the Federal Reserve's efforts to stoke the US recovery
- The daily average rate on a new 30-year mortgage, stands at 4.1%, having been as low as 3.4% at the start of May
- The change could affect the economy in two ways: by making loans less affordable, it could affect the recent recovery in house prices; and it could reduce the number of people changing to cheaper mortgages, eliminating savings that have boosted consumer spending
- Long-term borrowing costs for homeowners remain historically low. Before the financial crisis the low for 30-year fixed loans was 5.2% in June 2003,…

Financials learn of risk requirements – Pg. 15

- AIG, GE Capital and Prudential Financial have received an extensive document from US regulators, explaining why they are big and risky enough to damage the financial system
- Both got into distress during the financial crisis, with AIG requiring a $182bn bailout from the US government, and GE Capital, a unit of General Electric, tapping government debt guarantees as its access to credit dried up
- Other sectors appear to have been let off the hook, most notably large asset managers such as BlackRock (Prof Note: Have we forgotten the four most important letters of 1998, in order of importance? "L", "T", "C", "M"!!!)

Reits hit as global income party stalls – Pg. 20

- The first to turn was the Japanese Reit market, which had been on a tear for more than six months. A roader sell-off followed with the Bloomberg Asian Reit index sinking 9.3% in the past three weeks
- …the MSCI US Reitsw index, consisting of 125 publicly traded trusts, has fallen 9% since touching its peak on May 21

4 June 2013

US funds bruised by heavy May bond losses – Pg. 1

- Every one of the most popular class of US mutual funds investing in bonds lost money in May, highlighting the risks for investors as interest rates rise
- US funds that invest in higher rated bonds with average maturities of under 10 years lost an average 1.8% in May, marking their worst performance since the depths of the financial crisis in October 2008,…
- Such a broad decline has been rare for these funds. With more than $900bn in assets, these investment vehicles have attracted the lion's share of inflows from savers in search of inflows from savers in search of regular income and low risk since the crisis
- …Treasury prices fell as yields on US 10-year government bonds rose from 1.6% at the start of May to 2.1% on Friday

Weak supply data upset markets – Pg. 2

- …unexpected fall in US manufacturing activity
- The weakness in manufacturing does not necessarily herald a slowdown in the economy, but adds to the importance of services ISM data due tomorrow, and Friday's non-farm payrolls report
- Ten-year Treasury yields fell 10bps to 2.08%, the S&P500 was down 0.5%, and the dollar slid sharply as the ISM data calmed market fears f an early reduction in the $85bn-a-month pace of asset purchase by the Federal Reserve
- Economic growth in the second quarter is forecast to be below the first quarter's 2.4%

Taiwan islands drop defences – Pg. 6

- The artillery battery in a hillside on the small Taiwanese island of Matsu is a remnant from the decades when the island chain was part of a fortified frontline between Taiwan and China.
- Beijing retains its claims to Taiwan and continues investing in missiles to defeat Taipei if the self-governing nation were to ever declare independence

New York Property – Pg. 12

- Yesterday, private equity firm Carlyle Group sold the office building 650 Madison Avenue for $1.3bn to Crown Acquisition and Highgate Holdings. The price per square foot comes out to a record-setting $2,200 per square foot
- The prices are exceeding the peak valuations from before the financial crisis, proving agai that there is no substitute for trophy assets in the world's best neighbourhoods

Digital shift helps to build interest as US housing booms – Pg. 16

- Property websites such as Zillow and Trulia have disrupted the residential real estate sector by disseminating what was once tightly controlled proprietary data, from listings to crime rates and school statistics
- …a symbiotic relationship has developed where online "aggregators" derive most, if not all, of their rapidly rising revenues from agents rather than individual homebuyers
- In the US, …agents have little choice but to work with the digital start-ups because nine out of 10 homebuyers already rely on the internet as a primary research source,…
- (Prof Note: In the last five years or so I have had several residential realtors in my classes. Several of whom I use personally. Realtors are going from the "I cannot find a job so I will sell used cars and/or real estate" to educated partners that inform and educate the public. Do not be satisfied with a Realtor certification….DEMAND a degree in real estate. I am spending $30,000 on my teeth and demanded a DDS from an accredited and well established University. Why would I not demand the same when purchasing a $500,000 (or more) home?!)

3 June 2013

Wells chief warns Fed over debt proposal – Pg. 1

- Wells Fargo's chief executive has warned the Federal Reserve against forcing banks to hold more long-term debt, …
- Regulators plan to impose a minimum level of long-term debt in an effort to improve the system for dealing with large financial groups on the brink of failure
- Wells Fargo, the biggest bank in the US or Europe by market capitalization at $217bn, is vulnerable to the requirement to hold more debt because its large deposit base brings down its funding costs. Raising debt in the market is more expensive (Prof Note: May be largest but does not contribute to Libor…what is wrong with this?!)

Central banks have markets under a 'spell', warns BIS – Pg. 3

- Markets are "under the spell" of the world's central bankers, with cheap money driving stock prices to record highs despite a lack of good economic news, …
- The BIS, the so-called central bankers' bank, yesterday became the latest financial institution to warn that low interest rates and a plentiful supply of cash from quantitative easing had prompted investors to drive asset prices to record highs despite signs that a meaningful recovery continues to elude the global economy

Fighting the Fed – Pg. 7

- Modern finance is built on the concept of using the cost of government debt as a yardstick for value, particularly the super-safe debt of the US government. A change in its price affects what people are willing to pay for everything from stocks and bonds to office buildings and homes.
- The low rates that result from the Fed's bond buying make previously uneconomic decisions viable - …
- "What kind of entity drives the return on retirees' savings to zero for seven years (2008 – 2015 and counting)…"
- From the Fed's point of view, lack of demand is the true distortion in the US economy, and one it is trying to fix

A Reit mess – Pg. 14

- Riets in Singapore, one of the region's biggest centres, fell about a tenth last month, their biggest drop in more than four years
- The reason for the extreme moves? A less easy Fed will act like a margin call on Hong Kong and Singapore, whose own policy is respectively pegged and closely tied to the US – and whose property markets have been on a credit-fuelled romp
- Asia has been a big recipient of Fed largesse. Since QE1 the region's currency reserves have risen by $2,165bn – matching the Bed's $2,290bn balance sheet expansion

Doors open on distressed Spanish property sale – Pg. 20

- International investors in distressed real estate are eyeing deals in Spain, raising hopes of a turning point in the market following the creation of a bad bank vehicle to clean up the consequences of a decade-long building bubble

Fears over Fed bond curbs hit mortgage Reits – Pg. 20

- Shares in the largest mortgage Reits, publicly traded trusts that buy mortgage bonds with borrowed money, suffered a double-digit losses in May as interest rates rose and the value of their holdings declined
- Mortgage Reits borrow in the short term to buy longer-term mortgage securities, earning the spread between the two. The companies also use repurchase agreements to leverage their holdings up to eight times
- Higher interest rates reduce the likelihood that homeowners will refinance their mortgages, forcing the prices of securities lower to reflect the risk of holding the bonds for longer
- Agency mortgage-backed security (MBS) prices tumbled last week to levels not seen in more than a year amid heightened fears that the US central bank might taper its $40bn monthly bond purchases

1 June 2013

Investors dump bonds amid QE fears – Pg. 1

- The worst month in two years for US Treasuries was yesterday capped by more investors fleeing the government bond market, on fears that an improving economy will prompt the Federal Reserve to rein in stimulus
- …world as higher yields for government securities in the US, Japan, Germany and UK hit prices for corporate and emerging-market debt and also US mortgage-backed bonds
- The 10-year Treasury yield rose to 2.20% yesterday, up from about 1.60% at the start of May
- Bond market futures are not pricing in a Fed rate increase in late 2014, compared with earlier expectations that interest rates would not rise until June 2015

Technology bonanza drives San Francisco housing boom – Pg. 2

- After five years in the doldrums, the US is enjoying a housing market turnaround that is buoying the whole economy, as homes prices climb above the value of their mortage, letting their owners refinance at low rates, and construction begins. Only now are 30-year mortgages fixed at 3.5%, the US benchmark, being threatened by a rise in bond yields
- Across the nation, prices are up 10.9% in a year…
- Banks have been issuing fewer loans because of the cash deals and are no longer able to cherry pick their clients
- Average monthly rent for a two-bedroom apartment increased 12% to $3,015 in the first quarter compared to a year before,…
- Evictions are up, as well. The instances of landlords booting out tenants in order to sell the property has increased 81% in the last year to 116,…

Reality bites for Brics as China slows – Pg. 3

- China, for 10 years the principal driver of the phenomenon known as "south-south" trade between emerging economies, may not only be slowing down from the breakneck growth rates of the past. It may also be changing its model from outward-looking, export-led structure that favoured trade with emerging nationsos, particularly commodity exporters in Latin America, Russia and Africa, to one based more on internal consumption
- China easily accounts for the lion's share of this intra-Bricks trade, or about 38% of exports between the members, followed by India with 22% and the others with numbers in the teens
- The Brics' total trade, including with the developed world and other emerging nations, was worth $6.04tn last year, nearly two-thirds of which was China…
- …the Brics trade ore with Africa than they do among themselves.
- India's prospects in Africa look particularly good as a low-cost manufacturer and service-provider

Opec countries roll over oil production target – Pg. 12

- Opec sidestepped fears about the US shale revolution and slower growth in China to keep its official production target unchanged Friday
- Opec, whose members supply roughly 40% of the world's oil supply, is betting that oil prices will remain above its unofficial target of $100 a barrel
- The shale revolution, which has reduced US crude imports to a 15-year low,…

31 May 2013

Consumer giants turn screw on ad agencies – Pg. 1

- Some of the world's largest consumer products groups are delaying payments to advertising agencies and commodity producers for us to six months, squeezing cash flows and causing alarm at critical points in their supply chains
- Proctor & Gamble, the world's largest advertiser, this month told suppliers it was pushing back payments from 45 days to 75 days, fo4llwing similar extensions at Johnson & Johnson, the healthcare group, and brewer Anheuser-Bush InBev (Prof Note: Take note! This is a one-time contribution to cash flow and a preamble, generally, to bad things. When I was CFO I fought like a rapid dog against this as I viewed it as a band and to a wound that needed to be cauterized. Financial Statement Analysis Students: Remember what I said about this….)

Manufacturing underpins Philippines' surge in GDP – Pg. 2

- …Philippines is the fastest growing economy in Asia and that a rejuvenated manufacturing sector – which grew 9.7% in the first quarter on the back of rising investments in production facilities – is one of the prime reasons
- Foreign direct investment into the manufacturing sector surged…

- A 7.8% year-on-year rise in GDP in the first three months of 2013 is faster than China's – which grew 7.7% in the same period
- The country is set to hit the upper range of Manila's 6-7% GDP growth target this year after expanding 6.8% last year,….
- Historically, Philippine economic growth has lagged behind other big southeast Asian countries, averaging just 5% in the past decade, while the number of those living below the poverty line has barely budged – remaining at about 28% of the population in the past six years. Unemployment, at close to 7%, remains one of the highest among countries in the Association of Southeast Asian Nations

US growth revised lower for the first quarter – Pg. 4

- The pace of US growth was revised down fractionally for the first quarter of 2013, from an annualized rate of 2.5% to 2.4%, …
- Consumption growth was adjusted slightly upwards to annualized growth of 3.4%, but was offset by downwards tweaks to inventory investment, exports and local government spending

Goldman can still attract top graduates, says chief – Pg. 12

- Goldman Sachs has hired 350 investment banking summer interns out of 17,000 applications, ….
- (Prof Note: I received an inquiry for a person to fill a position at an investment fund (lack of transparency at fund's request) this week. I reached out to two individuals I believed had the qualifications requested. NEITHER could send me a resume immediately! I chastised both!!! This is unacceptable!!! Everyone must have a current resume…have we learned nothing in the past six years?! For ALL my examinations going forward, a current professional and handsome resume will be required to be turned in with the exam in hard copy. I can prevent this! (for those two students: You know who you are!))

Banks miss the mark on predicting loan defaults – Pg. 14

- Big global banks are miscalculating the riskiness of their balance sheets by an average of 13% because they are so bad at predicting whether their borrowers will default,…
- Most of the banks were too conservative, but Royal Bank of Scotland understated the probability of default by 7% across its portfolios,….
- The apparent failure of banks to predict whether loans will go bad has ramifications for regulators and investors because default probabilities are a critical when working out risk-weighted assets (RWA), which are in turn used to calculate the basic measure of bank safety: the core tier one capital ratio. Banks that understate their risk-weighted assets effectively overstate how much capital they have to absorb losses

Virtual currencies run into legal trouble – Pg. 18

- In the US alone there are more than 2,000 people in 650 towns and cities who want to sell you Bitcoins for cash, …

- Transactions in the virtual currency, which came to mainstream attention this year, are anonymous, untraceable and drawing scrutiny of law enforcement authorities which fear they will become a tool of money laundering
- …virtual currencies, which are created by individuals or companies instead of governments and used outside the traditional banking system

30 May 2013

Switzerland outlines plan to relax bank secrecy laws – Pg. 1

- Switzerland has taken a decisive step to resolve its dispute with the US over tax evasion, unveiling laws to relax its once-untouchable bank secrecy laws to allow banks to make individual settlements with the US over their role in helping Americans evade taxes
- …Switzerland's biggest lender, UBS, admitted in 2009 it had helped thousands of clients avoid paying US taxes, …
- Until now, however, Switzerland's bank secrecy laws have prevented its banks complying with US requests for information about their US activities, stymieing any settlements
- They will for one year be able to provide information about the activities of their staff and clients of their staff and clients in the US. They will still not be allowed to provided information on client identities

IMF sees no Japan spillovers – Pg. 3

- Japan's programme of monetary easing has not resulted in capital flows or excessive liquidity in other economies despite fears expressed by countries in Asia and Europe, …
- Since the re-elected Japanese prime minister Mr Abe launched his plan to end deflation and kick-start Japanese growth late last year, the yen has depreciated from less than Y80 per dollar to about Y102 per dollar
- China's central bank is concerned about inflows of so-called "hot money" that evade the country's relatively strict capital controls looking for higher rates of return
- The IMF lowered its 2013 growth forecast for China yesterday, from 8% to 7.75%, citing weak global conditions and lackluster Chinese exports

Drop in house repossessions reduces numbers for sale – Pg. 3

- The number of US houses being repossessed is down 24% on a year ago, squeezing the supply of homes for sale and helping to drive a rally in prices
- …now 1.1m homes where the mortgage is so delinquent that the lender has begun to foreclose, down from 1.5m a year ago
- Fewer repossessions are likely to result in higher house prices for the rest of the year because there will be fewer distressed sales taking place at discounted prices
- In California and Arizon – two of the "sand states" that suffered the worst of the housing crash in 2007 – the size of the foreclosure inventory has halved compared with last years
- Florida is still the state with the most foreclosures,…

Sallie Mae to split in two and extend loans service – Pg. 14

- Sallie Mae, the US student finance group, is to split itself in two separating its declining business servicing government-backed loans from a faster-growing group that will make new private loans
- The restructuring comes after a period of upheaval in student finance that included the takeover of the bulk of student lending by the federal government in 2010. Sallie Mae, which is the largest collector of student debt in the US, has become a focus of protests at the high end burden facing students

29 May2013

US steps up pace of economic recovery – Pg. 1

- The largest rise in house prices for seven years and a surge in consumer confidence have added to a fast-improving US economic outlook, increasing the chances the Federal Reserve will slow its $85bn a month in asset purchases
- House prices jumped 10.9% in March from last year's levels, …
- Stocks rose sharply yesterday, with the S&P500 climbing as much as 1.5% before trimming gains to close up 0.6%, while 10-year Treasury yields closed at 2.17%, the highest since April 2012
- …Moody's changed its outlook on the entire US banking system to "stable"

World Trade Centre struggles to sign up office tenants – Pg. 3

- The skyscraper is one of four being built around the site of the former Twin Towers – the country's most notable construction project
- ….$14bn World Trade Centre development….
- …financial services companies – traditionally the high quality tenants that spurred office property development – have been more cautious, leaving many to wonder who will occupy these gleaming skyscrapers
- Starting rents start at about $70/sf, ….this compares with average rates of $60/sf across the city
- …the World Trade Centre will feature more than 11m sf of office space, a transportation hub, shopping and dining space as well as the memorial plaza which opened in 2011. The project is being financed by $4.6bn in insurance payouts, tax exempt debt provided by the federal government for rebuilding after the attacks and bank loans
- ….smaller financial services industry – which has lost 35,000 jobs since 2007 peak,- still hands over New York City's commercial property sector

Australia's record on jobs looks fragile as economy shifts away from mining – Pg. 3

- The ruling Labour government expects the jobless rate to rise by a quarter of a percentage point to 5.75% over the next years as the resource investment boom peaks and the economy makes the shift towards broader sources of growth

- …the Reserve Bank of Australia, which recently lowered its benchmark cash rate to a record low of 2.75%, will be forced to cut again to stimulate growth and support the jobs market

Central Europe must seek a model of invention – Pg. 15

- Over three past two decades, central Europe has in large part grown thanks to its well qualified but cheap labour and its ability to borrow innovations from more advanced economies in western Europe and the US
- Poland has one of the lowest levels of spending on research and development as a percentage of GDP (Prof Note: Sylvai, what are you going to do about this?!)
- Poland's problem is that the country has no real specialization, instead making everything from potato chips to parts for jet engines
- The whole region of more than 100m people has only seven universities that feature in the top-500 academic institutions compiled by Shanghai Jio Tong University

Threat of rise in US mortgage rates – Pg. 18

- An accelerating sell-off in the market for mortgage-backed securities threatens to raise borrowing costs for American home buyers, amid speculation that the Federal Reserve could pull back on its programme of bond buying
- The $1.3tn-a-year market for government-guaranteed MBS is at the sharp end of the Fed's quantitative easing, since the US central bank is buying $40bn of securities every month in an effort to suppress interest rates
- MBS prices have tumbled to levels not seen in more th an a year, well below the level when the Fed began its latest round of purchases last September
- …real estate investment trusts and portfolio managers have been active sellers
- Declining demand means future MBS issues will need to pay a higher interest rate to find buyers, pushing up the interest rates that underlying borrowers will have to pay

28 May 2013

Aggressive easing sparks BoJ tensions – Pg. 4

- Bank of Japan board members have pointed to "contradictions" in the central bank's aggressive easing policy, ….
- Since then, bond prices have slumped amid record levels of volatility as traders struggled to adjust portfolios in light of what some called the "Kuroda shock"
- The BoJ's efforts are part of a programme of reforms from Shinzo Abe, prime minister, who has vowed to restore the world's third-largest economy to consistent growth

The pension gap – Pg. 7

- The most expensive quarter of funds paid an average of more than four times as much for investment management as the cheapest quarter

- With returns falling, fund managers across the world face complaints about fees and a lack of transparency. Active managers are under pressure to justify their fees in the face of growing competition from cheaper passive funds that merely track benchmark indices
- Another explanation for the discrepancies is that not all the necessary data are available to the public (Prof Note: I am 100% convinced that the excessive fees are "justified" through opacity rather than transparency)

Non-core bank assets – Pg. 12

- US distressed debt funds are setting up shop in Europe as they seek to repeat the gains they made on US bank assets
- PwC estimates that European banks have 2.5tn (euro) of non-core assets that debt will face value of 60bn (euro) will change hands in 2013….
- First, a small problem in the non-core book can turn into a bigger problem. For example, Lloyds has non-core assets of 92bn (sterling) but core tier one capital of 38bn (sterling). So a 5% deterioration in the non-core book could wipe 12% off capital
- Second, non-core assets will be easier for some banks to sell than for others

Appraisal rights – Pg. 12

- A standard route for objecting shareholders in M&A has been suing boards of directors for breach of fiduciary duty

Japanese property – Pg. 12

- What Reits' 3% rally yesterday implies is still-strong confidence in Abenomics, or at least the ability of the BoJ to control long-term borrowing costs in spite of the near-doubling in 10-year yields since April 4, when it announced its plans for extraordinary easy money

Cov-lite loan surge fuels fears – Pg. 13

- Many of the most indebted companies have been able to issue new loans without covenants, which limit the debt they can take on or which lenders a big say in the business if its results start to lag
- The proportion of cov-lite loans has risen to more than 50% of leveraged loan issuance this year, twice that during the credit boom in 2007 (Prof Note: Are we as a financial society getting dumber?!)
- Leveraged loans are issued by high-risk groups, such as those owned by private equity firms, and are sold to investors through the credit markets
- Moody's ….last week said it saw signs of a "covenant bubble" that would pose dangers for loan investors when the US Federal Reserve begins to tighten monetary policy
- Covenants typically set parameters that force a company to stay within a particular debt-to-earnings ratio or keep earnings above a certain multiple of interest payments
- If covenants are breached, creditors can insist on a financial restructuring even if the company is not close to bankruptcy

27 May 2013

Beijing struggles to find wealth fund head – Pg. 1

- China is struggling to find a new head for its $500bn sovereign wealth fund after two top candidates declined the job out of fear it would prove a poisoned chalice (Prof Note: I just could not overcome my concerns when I was offered the position….)
- CIC was founded to great fanfare in 2007 as a vehicle to generate higher returns on China's vast foreign exchange reserves. It has been courted by foreign governments and companies and its investments have spanned the globe, from Brazil to Australia and Russia
- The leadership vacuum highlights how CIC is at risk of becoming a less central player in China's financial industry. The central bank has created a de facto sovereign wealth fund out of the State Administration of Foreign Exchange, the body that manages the country's $3.4tn stockpile of foreign currency holdings. Over the past five years SAFE has carved off more and more cash to invest in stocks, property and private equity funds, covering much of the same territory as CIC

Norway oil fund rebuked over Posco investment – Pg. 16

- Norway's oil fund will today be officially rebuked for violating OECD guidelines over its investment in South Korean steelmaker Posco,S in an embarrassment for the world's largest sovereign wealth fund
- The case stems from the oil fund's stake of about 0.9% in Posco, which is building a steel plan in India that some non-governmental organizations claim will displace 20,000 people
- The oil fund is transparent on some issues – revealing each year exactly how much of every company and bond it owns as well as its voting history – however, it otherwise refused to talk about individual companies

25 May 2013

Equities in retreat following Japanese turmoil – Pg. 11

- Global equity prices, the dollar and "core" US and German government bond yields moved lower on Friday as investors looked back over a week characterized by extreme market volatility
- …it was the Tokyo market that hogged the week's headlines, as the Nikkei 225 tumbled 7.3% on Thursday, its biggest one-day fall in two years – and followed up yesterday with further sharp swings before settling with a gain of 0.9%
- The dramatic moves in Tokyo followed a six-month run that had seen the Nikkei soar 71% as buying was spurred by the prospect of massive liquidity injections from the Bank of Japan, a key plant of "Abenomics" – prime minister Shinzo Abe's drive to reflate the economy
- The selling coincided with release of economic data that prompted renewed concerns about the outlook for the Chinese economy

Central banks no cover for reversal – Pg. 12

- The past few days have called into question the sustainability of a global bull run, whose most recent leg began around November, shortly after the US Federal Reserve stepped up the pace of quantitative easing.
- In fact, Thursday's 7.3% plunge in the Nikkei suggests that central bank action is no insurance against a sharp correction
- The return of volatility this week came after the Fed indicated that some officials would like to pull back on its hefty monetary stimulus as early as June. The market consensus is that purchases will continue to the end of the year at least, according to a Fed survey of primary dealers
- The p/e ratio is now roughly in line with the long-run average, …rather than expensive

24 May 2013

US jobless claims defy budget cuts – Pg. 2

- US jobless claims dropped more than expected last week, suggesting the labour market is hanging on to recent gains despite worries over the impact of budget cuts on growth in the world's largest economy
- That mostly reversed an unexpectedly large jump in claims the week before, easing some concerns that the government's fiscal tightening moves were pushing employers to lay off workers
- Continuing claims fell 112,000 to 2.91m in the week ending May 11, the first time it has dipped below 3m in more than five years. Claims for emergency and extended benefits fell 15,500 to 1.78m in the week ending May 4

Many investors may not be living in the real world – Pg. 9

- New data suggest lackluster growth in China – sparking nervous sell-offs in other countries. A one-day decline of over 7% in the Nikkei stock market index might seem like an overreaction but, last year, China was Japan's most important export destination, accounting for more than 18% of its goods exports. China now accounts for one-quarter of South Korea's exports. China is also the third-largest destination for US exports, after Mexico and Canada
- The relationship between China and the rest of the world has changed significantly in recent years. Before the onset of the global financial crisis, China's growth was heavily export-led and primarily driven by productivity-driven gains in competitiveness. Adjusted for inflation, exports rose between 20 and 30% a year
- Quantitative easing and other related policies operate primarily through two channels. The first is the so-called portfolio channel, whereby central bank purchases of government paper lead to lower long-term interest rates, encouraging investors to switch into higher-yielding but riskier assets
- The second channel works through a falling exchange rate.

Mortgage insurers – Pg. 12

- Investors have regained a taste for complex mortgage debt once deemed "toxic". Shares of homebuilders have posted triple-digit gains in the past year and a half. Private equity and hedge funds have even been buying up individuals homes (stay tuned for the IPOs). In the relentless search for ways to profit from the US housing recovery, mortgage insurers, too, have been renewed interest
- These companies insure home loans – typically when the borrower puts down less than 20% - that are eligible to be guaranteed by Fannie Mae and Freddie Mac, the government-sponsored housing financiers

23 May 2013

Bernanke poised to lift foot off QE pedal – Pg. 1

- Ben Bernanke said the Federal Reserve could start slowing the pace of its asset purchases "in the next few meetings" but only if the labour market showed sustained improvement
- It provided the clearest picture yet of how the Fed is likely to wind down QE3: starting fairly soon but then ratcheting the rate of purchases up or down in response to changing economic conditions
- Gold prices slumped more than 3% from their early morning peak to stand at $1,371

Rating agencies accused of slow reaction to US housing rebound – Pg. 1

- …facing criticism, this time for misjudging the impact of the rebound in the US housing market
- Rising house prices in almost all US cities mean that many mortgage-backed securities once judged close to worthless may now be fit for an investment grade credit rating that would allow traditional investors such as pension or mutual funds to buy them
- One of the best hedge fund trades of the past three years has been sorting through the rubble of bonds backed by subprime mortgages issued in the 2005-07 housing boom

Bernanke hints on money flow – Pg. 3

- …if Mr Bernanke opened up a small window into the Fed's thinking suggesting the tapering of asset purchases could start soon, he made clear that if would be a fluid process that would adapt to the economy
- The Fed Chairman noted that even if the $85bn a month of asset purchases under the third round of quantitative easing were tapered, it would not put the U Son an irrevocable course towards tighter policy and suggested the Fed might even have to reverse course if necessary
- Mr Beranke does not consider tapering asset purchases to mark a tightening of US monetary policy but slower easing – and he made clear that tightening US policy, by raising rates above their current near-zero level, was still far off and risky

US official refuses to answer questions on scandal – Pg. 4

- The US official at the heart of the IRS controversy claimed that she did not break any rules or lie to Congress in her long career at the tax agency and then refused to answer questions before a congressional committee (Prof Note: Move her to Gitmo….she'll talk!!!)
- …used politically based criteria to single out Tea Party organizations for special scrutiny
- Her decision to read a statement was unusual given her invocation of the fifth amendment right against self-incrimination

Beware of bubbles – Pg. 8

- …Asia's local currency bond markets. These markets have their roots in the Asian financial crisis of 1997-98 but they have bloomed since the global financial collapse of 2008 unleashed easy money
- Since the start of 2012, a fifth of Asian local currency bonds have been issued in debut deals… . In the US and Europe, this proportion is typically less than 3%
- One big fear is that while the money flowing in is significant for Asian markets, it is much less significant for the investors that have sent it here. In other words, a small decision on moving money back to the west could have a very big impact in Asia
- Norway's sovereign wealth fund said last year that it would stop making global investment decisions using bond market indices that are based on how much debt exists in each country and start looking instead at each country's contribution to global gross domestic product. This means that instead of investing in bonds from the most indebted developed countries, it will invest in those from faster-growing emerging markets
- The collapse of the Thai baht from 25 to the dollar to 56 to the dollar at its worst set off a wave of currency collapses around the region

22 May 2013

Bernanke set to give timeline for winding down asset-buying – Pg. 2

- …clarify how long the central bank expects to keep buying assets at a pace of $85bn a month
- For markets, the crucial question is when the Fed will start the tapering down of QE3 – its third round of quantitative easing – that it warned of in March
- The overall message from Mr. Bernanke is like to mirror that of March: the Fed is looking to start a slow winding down of QE3, but when it does so depends on the data from the labour market and the broader economy
- When they began QE3 last September, the FOMC forecast an unemployment rate of 7.75% at the end of 2013. As of April, the actual rate was already down to 7.5%
- Another consideration is that a slow taper of QE3, which adjusts the pace of purchases in response to the economic news, will take time

China's property boom shows no sign of cooling – Pg. 3

- New house prices in 70 cities rose by an average of 4.3% in April from a year earlier, accelerating from 3.1% in March….

- Central government has tried to bring down overheated real estate prices and adjust the structure of the market since 2010, with varying degrees of success
- Cash-strapped local governments are not allowed directly to raise money from capital markets. But local governments – and corrupt officials – are able to rake in huge sums by seizing farmland, designating it as much more valuable residential land and then selling it to commercial real estate developers

Blackoock taps Asian property – Pg. 16

- BlackRock has planted a flag in Asian property by buying MGPA, a Singapore-based private equity firm, in a deal that highlights investor demand for assets offering steady income and protection against inflation
- The ultra-low interest rates and loose monetary policies of developed countries trying to recover from the financial crisis have made property and property companies highly attractive as a source of yield, or income, and a protection against inflation

21 May 2013

China's Caribbean influence grows – Pg. 2

- China is raising its strategic influence in the Caribbean as it takes advantage of the continuing US withdrawal from what George W. Bush called his country's "third border"
- China's growing presence in the Caribbean stands in contrast to the seeming disinterest of Washington
- With the exception of special cases such as Cuba, Haiti and Puerto Rico, where the US has long and sometimes turbulent history, …

Gulf funds bypass private equity – Pg. 17

- Middle East sovereign wealth funds are boosting their investment in unlisted companies and increasingly bypassing private equity funds as they seek higher returns
- Sovereign Wealth Funds in the region, which are managing about $1.8tn, are allocating between 13% to a third of their new investment to private equity, a volume exceeding their property and infrastructure allocations
- Middle Eastern state-backed funds are increasingly investing directly in companies, rather than through private equity funds which typically charge 2% in management fees and levy 20% on gains
- Development funds have tripled their allocation of new assets to private equity in the past 12 months from 10% in 2012 to a third,…
- This compares with only 3% allocated to property and infrastructure
- So called investment funds have average allocated 13% of new assets to private equity, up from 9% in 2012 and 5% in 2011 – and their investments in property and infrastructure have fallen from 25% in 2012 to 9% in 2013
- US public pension plans, some of the largest and oldest backers of buyout funds, have lifted private equity assets to 7.51% of total assets, from 6.31% in 2011,…

Hotels check in to Chinese tourism – Pg. 19

- New World is one of a new wave of Asian family-owned groups seeking to take advantage of the huge growth in Chinese tourism, challenging big global groups such as InterContinental Hotels, Starwood and Marriott
- Chinese tourists became the most numerous and highest spending last year of any nation in the world, …
- Although Hong Kong and Macau still attract the bulk of Chinese vistors, with 64% in 2012, COTRI expects that to drop to less than 50% from 2016 as Chinese increasingly go to Europe and the US (Prof Note: I have not been to Macau but Hong Kong is like no other place on earth. For a tourist I see it as a long weekend.)

(Prof Note: Well…my TV Teeth are on hold and I am quite disappointed. What angers me is what I learned last week. I went to the Baltimore Washington Oral and Maxillofacial Surgery Center for a tooth extraction last year. I contacted them for a cosmetic surgeon early this year and they referred me to Dr. X. Dr. X is superb, young guy, MD graduate and he negotiates price (as we have discussed) as he is growing his business. Well, last week I went in the Surgery Centre and was quoted $6,000 + for one extraction, two posts, and two teeth. OUTRAGEOUS! Basically an hours work. I was enraged (yes…I behaved professionally in the office). So I went to Dr. X and said, "What can you do…this is OUTRAGEOUS!" I asked why he could not do the work and he said he could. I asked why he was not doing it and he indicated he was worried about the referral business. So basically the Surgery Centre is now price fixing and restraining trade among dentists in the Baltimore area. I am still committed to TV teeth but am furious over this price fixing and restraint of choice in health care. I know this most likely happens a lot but I am not happy as I found Dr. X that was willing to negotiate price (I already researched margins so I know what I was offering was fair and provided him profit) and does great work. So, if any knows a good dentist willing to negotiate price, I need one in/near Baltimore. This really bothers me as I feel the little guy, Dr. X, and I just got screwed!)

20 May 2013

Demise of Swiss banking secrecy heralds new era – Pg. 3

- The latest blow came last week, when EU states – under mounting pressure to crack down on tax evasion following a rash of high-profile scandals – finally agreed to open negotiations on a new tax accord with Switzerland
- Switzerland broke its taboo on data-sharing in February, when it agreed to implement Fatca, a piece of extraterritorial US legislation that requires foreign banks automatically to provide information on offshore assets of US citizens
- On an international level, it would resolve an issue that has soured Switzerland's relations with its most important trading partner, the EU

Weiner eyes political comeback in NYC – Pg. 4

- Nearly two years since Anthony Weiner resigned his congressional seat after he was caught sending lewd pictures on Twitter, …
- Mr Weiner is sitting on more than $4m that can only be used in a New York election,… (Prof Note: Have Americans lost their moral compass?! Sanford and now Weiner…why can society NOT hold politicians to a higher moral and ethical standard? I recognize temptations, I recognize the mortality of men, but why can society not elect good and moral people?! Disgusting!!!)

Lease accounting – Pg. 14

- Accounting standard-setters' job is to ensure that financial numbers are as consistent as possible – or, at least, that disclosure allows fair comparisons
- A company which buys equipment and property has to put the asset and associated financial liability on its balance sheet and then take interest and depreciation charges
- A similar company which leases the identical equipment/property may face annual rental charges only. On this latter "operating lease" basis, leverage will look much lighter. Large ly for that reason, operating leases have become increasingly popular: in 2005, US regulators estimated that public companies there had a huge $1.25tn in gross off-balance sheet operating lease commitments
- Last week standard-setters had a fresh stab at new rules to tackle this problem. On the plus side, these will require lessees to bring all leases of 12 months of more on to their books. But the proposals also envisage differing treatment, in terms of expense recognition, for property-type leases (a straight-line lease expense in the income statement) and equipment-type leases (amortization of the asset would be reported separately from interest on the least liability)

Regulators on alert as US banks boost business loans – Pg. 18

- US banks are sharply increasing loans to big and small businesses just five years after the collapse of the housing bubble and financial crisis
- The worry is that intense competition to extend more business loans could spur banks to offer them at dangerously low rates and on far too loose terms, or lead inexperienced new entrants into the market
- Banks' profit margins on all loans, as well as returns they earn on their portfolios of assets, have been squeezed by the Federal Reserve's continued low interest rates
- That has led many banks to pursue higher volumes of lending to offset declining margins
- A Fed survey released this month shows 65% of all US banks reducing the rates at which they make business loans
- A third of banks reported loosening of covenants they typically embed into loans to protect themselves from defaults
- The decline in covenants mirrors trends in the US debt market

18 May 2013

Brussels throws bonus cap over more bankers with 500,000 (euro) pay threshold – Pg. 1

- Tens of thousands more bankers will be hit by the EU's strict bonus cap under a proposal that severely tightens the political clampdown on financial sector pay
- It comes amid a crackdown on executive pay across Europe, particularly in the financial services sector, …
- Pay experts estimate that the EBS's move to change the definition of material risk-takers will multiply the number of affected staff by up to 10 times at some investment banks

US consumer sentiment at highest for almost six years – Pg. 2

- More households feel wealthier as a jobs market slowly improves and home values rise. A drop in fuel costs and rising share prices are also helping to improve sentiment
- The current economic conditions gauge jumped to 97.5 from 89.9, the highest since October 2007, while the consumer expectations component jumped to 74.8 from 67.8

Outlook weakens amid hunt for demand – Pg. 3

- Falling commodity prices and a rising dollar show the broad picture: the global outlook is weakening a little and becoming more dependent on the US. For every country putting out good news, such as Japan, there are weaker data elsewhere, for example in China
- It is a global economy that lacks a strong source of demand growth
- US
    - The US budget deficit is falling fast. This year's deficit will be 4% of output…compared with 10% in 2009
- Eurozone
    - The Eurozone economy shrank 0.2% in the first quarter compared with the last three months of 2012, when it shrank 0.6%
- China
    - …overall economic growth of about 7.5% year-on-year
- Japan
    - First-quarter growth of an annualized 3.5% outpaced that of other G7 countries, driven by consumer spending
- Mexico
    - …the economy grew 0.8% in the first three months of this year compared with the same period in 2012

No 'miracles' on economy as Rome puts off home tax – Pg. 3

- …suspending an unpopular housing tax,….

17 May 2013

S&P takes Berkshire down a peg on fears over Buffett succession – Pg. 1

- Warren Buffett suffered a rare blow yesterday after S&P's cut his investment vehicle's credit rating, citing overreliance on its insurance business and raising questions over his succession plans
- ..the conglomerate have a $49bn cash pile – but said this was offset in part by the chairman's preference for large stock holdings in a small number of companies, making its capital base more volatile than peers

Consumers put heart into Japan growth – Pg. 3

- Japan's economy expanded at the fastest pace among Group of Seven countries last quarter, with solid growth in consumer spending and exports suggesting the expansionary "Abenomics" that has ignited a historic stock market rally is also lifting real output
- One crucial area where results were lacking was business investment, where companies' spending on new plant and equipment fell for the fifth straight quarter in the three months to March, …
- By flooding the economy with cash, he has helped to drive down the yen's exchange rate and lift the stock market to its highest level in more than five years, up 70% in six months
- Preliminary government data showed real GDP increased 0.9%, or 3.5% in annualized terms
- The yen has fallen by a fifth against other main currencies since Mr Abe took over, driving up shares of manufacturing companies but also helping sectors from property to finance

Emerging markets less affected by Fed's QE3 – Pg. 3

- Although the US central bank's first round of QE in 2009 caused a large rise in emerging market currencies, bond yields and equity prices, the IMF said the third round in 2012 had "more muted effects"
- Emerging markets have complained that QE in rich countries has led to huge capital inflows, driving up their currencies, threatening financial stability and making their exports bless competitive
- Operation Twist meant that the Fed sold short-term assets and bought those with longer to run in an effort to drive down long-term interest rates. QE involves central bank purchases of long-term assets without selling short-term assets as an offset
- …rather than advanced countries stopping QE, emerging markets should respond with regulatory controls on their banks, a build-up in currency reserves, or controls on capital flows, …

Walmart reports decline in US sales – Pg. 14

- Walmart, the world's biggest retailer by sales, reported an unexpected drop in US sales that pointed to pressure on low-income consumers and sent its shares falling
- International sales were also lower than expected
- The company blamed US sales drop on a rise in the payroll tax rate this year, delayed tax refunds from last year, lower-than-expected food inflation, and cold spring weather

Gold hits four-week low on ETF selling – Pg. 22

- Gold, which had rebounded from a two-year low of $1,321.35 a troy ounce in April, fell to $1,369.29 as investors continued to liquidate their holdings in exchange traded funds

16 May 2013

Eurozone sets bleak record of longest term in recession – Pg. 1

- …the recession afflicting the 17-nation bloc became the longest since the single currency was born at the turn of the century. This latest dismal record came after unemployment hit 12.1% in the bloc, its highest level
- France fell back into a recession, Italian output continued to contract and even Germany, the strongest and biggest Eurozone economy, managed only a weak swing back to growth
- GDP in the Eurozone as a whole shrank 0.2% in the first quarter compared with the last quarter of 2012
- The sixth consecutive quarter of decline is the longest on record for the Eurozone, beating the post-Lehman recession of 2008 and 2009 in its duration albeit not in its severity

BoE more upbeat on recovery hopes – Pg. 2

- After years of revising growth down and inflation up, this was the first BoE Inflation Report since 2007 to paint a generally brighter outlook,….

Snags await favourite for Fed job – Pg. 4

- Janet Yelllen has emerged as the clear frontrunner to become the next chair of the US Federal Reserve….
- There are a few ways the choice of Ms. Yellen could go off track. One is the economy and, with a decision not likely until late this summer or early autumn, there is still a long way to go
- The single most probable alternative to Ms Yellen is Mr Bernanke himself. If the economy took a turn for the worse, Mr Obamamight try to persuade him to stay on

China signals concern at rise in jobless rate for graduates – Pg. 4

- China's economy grew 7.8% last year, the slowest annual rate in 13 years, and after a rebound in the fourth quarter to 7.9% from a year earlier growth slipped back to 7.7% in the first quarter
- Disgruntled students have played a powerful destabilizing role throughout modern Chinese history, leading social movements in 1919, in the 1966-76 cultural revolution and in the Tiananmen Square protests in 1989
- Of the nearly 7m students who graduate in July, most have not yet found jobs. The graduate employment rate is lower now than in the past, ….
- The official urban unemployment rate in China was just 4.1% by the end of March …

China set to launch renminbi fund – Pg. 24

- China is set to push its currency deeper into global capital markets with the launch of the country's first privately managed fund that invests in offshore renminbi assets
- It is the second offshore renminbi investment fund in China, following last year's establishment of Sailing Capital International, which is managed by the Shanghai government

15 May 2013

US budget deficit falls faster than forecast – Pg. 1

- The US budget deficit is declining faster than expected as the government collects more revenue from companies, households and the two mortgage companies it rescued in the financial crisis in the latest sign of the rebound of the world's largest economy
- The CBO predicted the deficit would decrease further to 3.4% of GDP is fiscal 2014 and 2.1% the year after, before it starts rising again
- The number of loans that are more than 90 days behind on a payment also fell from 6.3% to 6%
- The better picture has shifted the deadline by which the US needs to raise its borrowing limit to avoid a default on its debt from August until October or even November, ….

China on track to overtake US in non-financial corporate debt – Pg. 11

- China is forecast to surpass the US as the world's largest corporate debt market for non-financial companies within the next two years, …
- The rating agency expects the debt needs of companies in Chian could reach upwards of $18tn by the end of 2017, accounting for a third of the forecast $53tn in new debt and refinancing needs of global companies over the next five years
- Debt includes bank loans and bonds and is drawn from public information collated by S&P
- Globally, companies are seen refinancing $35tn of existing debt that consists of bonds and bank loans, with a further $15tn-$19tn in new money being raised by the end of 2017

US regulators urged to break up close ratings relationships – Pg. 18

- Regulators should step-in to break up a "clubby relationship" between the issuers of asset-backed securities and the credit rating agencies, participants told a SEC roundtable on post-crisis reform
- Issuers could be barred from going repeatedly to the same rating agency to assess the creditworthiness of their deals, or a new government-sponsored board could assign agencies to new deals,…
- The pressure on the SEC is the latest attempt to introduce major alterations to the "issuer pays" business model for rating agencies, which critics say creates an incentive to inflate credit ratings in order to win business.

Property assets tempt investors with high yield – Pg. 19

- Since its nadir in 2009, yields on good-quality buildings in London, Paris, New York, and Hong Kong have held at between 4 and 6%. Yields on 10-year UK gilts, US Treasuries and German bunds are below 2%
- Another draw for institutional investors is the return of liquidity in the main office and retail property markets

14 May 2013

Watchdog probes 1m US swap contracts – Pg. 1

- A top US financial regulator has launched a broad inquiry into the legitimacy of more than 1m energy and metals transactions by the biggest traders in commodities markets over the past two years
- The CFTC push shows how authorities are clamping down on previously unregulated derivatives dealing in markets from commodities to interest rates after the financial crisis
- The new inquiry centres on whether large traders and market-makers used unregulated over-the-counter swaps markets to trade what were in fact futures, strictly regulated contracts that are economically identical to swaps
- Trading futures off an exchange is illegal, and regulators are concerned that traders may have used these deals, known as EFSs, to agree prices that did not reflect the market
- EFSs are two-step transactions used by banks, oil companies and hedge funds to arrange specialized commodities deals, often in illiquid markets where there are few counterparties and one trade could move prices dramatically
- In the first step, two traders enter a private swap contract linked to the direction of commodity prices. In the second step, an instant later, this position is converted into a futures contract as it is transferred to the CME Group clearinghouse

Consumers shrug off tax increases – Pg. 3

- US consumers spent more on cars, building materials and clothes in April, sending retail sales unexpectedly higher and allaying fears that higher payroll taxes were squeezing household budgets and hampering economic growth
- Receipts for petrol stations dropped 4.7% on lower fuel prices

Chinese banks cut support for N Korea – Pg. 6

- Top Chinese banks have halted most dealings with North Korea, an unprecedented move to use financial leverage against Pyongyang that reflections Beijing's exasperation with Kim iong-eun's regime

Banks in cash calls to meet Basel III – Pg. 15

- Over the past few weeks, most large banks have published "fully loaded" Basel III capital ratios alongside their first-quarter results, reflecting the market pressure on lenders to comply early with regulations that formally phase in gradually between now and 2019

- While Nordic lenders boast Basel III core tier one ratios – a key measure of financial strength – of up to 17%, even the strongest Spanish banks are on 8% or less

US housing groups to launch IPOs – Pg. 20

- A handful of companies renting houses to single families are preparing to launch an IPO on the US stock market in the coming months as their private equity and hedge fund owners take advantage of investor interest in the US housing recovery
- Colony American Homes, backed by investment firm Colony Capital, is expected to be among the largest in what is becoming a new area of US publicly listed property sectors
- There are 14.4m single-family rental homes in the US with an average price of $100,000….
- Blackstone has amassed the largest portfolio in the sector with 28,000 homes, having spent $1.8bn on its Invitation Homes unit

13 May 2013

Move to ditch Libor for dual rates system – Pg. 1

- The scandal-plaqued Libor benchmark is likely to be replaced by a dual-track system with survey-based lending rates running alongside transaction-linked indices as soon as next year
- …parallel system would provide continuity for holders of $350tn in existing contracts that reference Libor while also paving the way for a new benchmark tied more closely to objective data
- …plan could set up a conflict with US regulators, who recently called for a "prompt" switch to transaction-based rates
- Banks' Libor submissions, particularly for three, six and 12-month lending, are very stable, in part because there are so few transactions that would justify a change. Transaction-based rates, such as the overnight index swap rate, by contrast, move up and down constantly

Doubts grow over 'decade of Latin America' – Pg. 5

- Since 2003, the region's $6tn economy has almost doubled its share of world economic output to 8%. At the same time, the middle class has grown by 50m people while inequality has shrunk – a unique feat
- But now, in the fourth year of its decade, Latin America, lulled by recent success, risks taking its eye off the reform ball and losing its way
- The windfall from the commodity boom, which began in 2002, has been huge. The IMF estimates it was equivalent to an extra 15% of output a year
- But now China's slowing economy was undercut commodity prices, raising questions about how long the "commodity supercycle" will last. The average length of these supercycles is 30 years….
- The value of Brazilian exports fell by 8% in the first quarter, year on year. Current account deficits are widening. In Chile, the world's largest copper producer, the IMF estimates it will reach 4% of GDP this year

- The region's biggest economies are investing at an average 24% of GDP, Asian-style levels and "an encouraging finding"….

In an unhealthy state – Pg. 6

- At the heart of the issue is whether Texas ought to begin implementing an important – but now voluntary – policy in the 2010 Affordable Care Act, more commonly known as Obamacare. Saying yes to the policy would pump up $100bn of federal funds over the next decade into a vastly expanded Medicaid, the 1965 health programme for the poor championed by Lyndon Johnson, who grew up impoverished in Texas
- …plan was upended when the Supreme Court ruled that states could not be forced to expand their Medicaid programmes, leaving the decision on participation to 50 governors

Regulators to curb 'ratings shopping' – Pg. 14

- The issuers of securities backed by mortgages, credit card debt and car finance could be forced to reveal more details about their structures and underlying lhoans, in an attempt by US regulators to limit so-called "ratings shopping"
- Improved transparency around asset-backed securities has emerged as a favoured alternative among rating agencies, issuers and investors to a more draconian measure inserted into the Dodd-Frank Wall Street reform law ….
- Issuers are already required to make detailed information about the structure of the deal and the underlying loans available to all rating agencies, including those that have been hired to rate the deal

Malaysia set for $2.6bn in listings – Pg. 17

- The return to power of Malaysia's ruling political coalition is set to unleash up to $2.6bn in initial public offerings over the next six months,….
- In 2012, only the US, China and Japan saw more capital raised in IPOs than Malaysia

11 May 2013

(Prof Note: Within 30 minutes of my comment about BB&T eliminating one of my credit lines mysteriously, it was reinstated (without me asking)…I do respect the people and service at BB&T…thank you. I want to clarify some statements I made (not because I was asked by anyone, I was not), yes, BB&T has high fees (my opinion) but they are no higher than other banks when I check. As for loan underwriting, I disagree with the process for all banks. Traditionally banks are "cash flow lenders", i.e. they lend against a future stream of cash flows as payback. While I agree with this concept, it should not be at the exclusion of investing against collateral. For instance, my personal issue is I want a loan backed by a titled asset (no mortgage) for 50% of value, i.e. this value is provable, at the most favourable rate. I do not believe that payback ability should be a factor as the loan is 50% of value and therefore there is substantial equity to cushion any market fall, i.e. 100% recovery is virtually certain in a foreclosure. Also, how much further can the market really fall at this point (residential market in DC)?! BB&T is 100% consistent with other banks, I just, personally, disagree with this. Please note, BB&T nor

any bank has told me "no" only that I must prove income. At the moment I am having an intellectual temper tantrum and trying to get what I want without proving income….probably to just see if it can be done.)

Bernanke warns against risk-taking – Pg. 1

- Ben Bernanke warned against excessive risk-taking in financial markets yesterday as the dollar was driven up in the latest manifestation of a desperate global hunt for yield
- …looking for signs that banks were resorting to speculation because of low interest rates…
- The average yield on lowly rated corporate debt, or junk bonds, this week dipped below 5 % to a record low that is less than Treasury bonds yielded in 2007
- The moves suggest that investors see the US as a bright spot in the global economy, …
- Mr Bernanke stopped short of former Fed chairman Alan Greenspan's 1996 warning of "irrational exuberance" in the stock market, but his comments come as equities have hit fresh highs before adjusting for inflation, and high-yield bonds no longer carry high yields

US orders website to remove plans for 3D-printed gun – Pg. 3

- The US government has ordered the creator of the world's first 3D-printed handgun to remove the blueprints from his website after the files were downloaded 100,000 times
- Such printers can replicate a solid object of almost any shape from a digital model. After months of experiments, Mr Wilson created 15 plastic gun parts on an industrial printer he bought for $8,000 and then used the assembled gun to fire a standard .380 handgun round
- "The most powerful government on earth can say, 'We control the information', and the internet can say, "No you don't"

Abenomics propels weakening yen - Pg. 14

- The yen's latest fall caps a slide of nearly 30% against the dollar since November, mateched by a similar slide versus the euro to Y131
- Weakening the currency has been central to Japan's renewed efforts since the election of Shnizo Abe as prime minister to arrest two decades of falling prices and to stimulate the economy
- In recent weeks US and Eurozone bond markets have been buoyed by expectations that Japanese investors would seek higher yields overseas and take advantage of a weaker yen over time
- …South Korea's central bank unexpectedly cut interest rates, citing the damaging effect a weaker yen was having on its exporters

10 May 2013

Yen's move through Y100 to dollar sets stage for export boon – Pg. 1

- The Japanese yen broke through Y100 to the dollar barrier for the first time in more than four years yesterday, setting the stage for further weakness seen as a boon for the country's exporters and economy

- Further currency weakness is expected to boost inflation and push equity and property prices higher, may also incur the wrath of Japan's trading partners as its exporters become more competitive
- The move in the yen was accompanied by a scramble in other currencies as the US dollar appreciated sharply against the euro and sterling

South Korea's rate cut has Gangnam's estate agents yearning for new tune – Pg. 2

- Equity investors took a more bullish view following the Bank of Korea's decision to cut the base rate by 25bps to 2.5%
- Apartment prices in Seoul have fallen by 8.3% over the past two years…
- Last month her government announced plans to deal with oversupply and weak prices by cutting the number of new public housing units added each year, as well as offering targeted exemptions from property acquisitions and sales taxes, and boosting government lending to homebuyers
- The Bank of Korea cited several factors behind its decision to cut rates: it noted weaker-than-expected growth in China – by far South Korea's biggest export market – as well as continued sluggishness in Europe, and low consumer price inflation, at just 1.2% in April

Egypt suffers fresh rating blow – Pg. 3

- Standard & Poor's again cut Egypt's credit rating yesterday as the Arab world's most populous nation descends deeper into economic crisis
- The agency lowered Egypt's long-term credit rating from B- to CCC+, and its short-term rating from B to C because of worries about its ability to meet financial targets and maintain social peace more than two years after President Mubarak was overthrown in an uprising, ushering in a new era (Prof Note: While safety is a concern, I cannot recommend traveling as a tourist to Egypt enough. What an experience seeing the pyramids and a Nile cruise. Of course guides say to not hire private guides in the temples, etc. Staiger Rule: Find the "guard" with an MP5, hand him $20 with an offer of another $20 at the end, and you will be safe and treated to a wonderful tour!)
- The S&P report did describe Egypt's outlook as "stable" because of willingness of the international community to prop it up

Carlyle's lackluster earnings buck trend – Pg. 14

- Carlyle, the private equity group, …economic net income of $394m barely changed from last time's $392m
- The Washington DC group's performance contrasted markedly with Apollo, Blackstone and KKR, competitors that in recent weeks have reported strong rises in economic net income
- Most of the large listed private equity groups focus on economic net income rather than GAAP earnings because the measure excludes costs associated with their IPO, including compensation costs
- It also takes into account operating performance including the current market valuation of portfolios

- The companies in Carlyle's private equity portfolio registered a paper gain of 9%

Americans are now ahead in paying down their debts – Pg. 22

- …American household debt, as a proportion of income, declined from 130% in 2007 to 105% at the end of 2012
- In the same period, Eurozone household debt has risen from 100% to almost 110%
- It is a stark contrast to the pattern in 2000, say, when the ratio was only 80% in the Eurozone – and 90% in American
- The decline has not been uniform: student borrowing, for example, has continued to swell. However, gross credit card debt is now at a 10-year low, with 120m fewer credit cards in circulation than five years ago (Prof Note: BB&T a few months ago cut off one of my credit lines "mysteriously" (note I do not read mail so cannot claim to not have received notice). Hmmmmmm….)

9 May 2013

US Treasuries suffer brain drain as universities ditch their holdings – Pg. 1

- Many university endowments have scaled back their holdings of Treasury securities from as much as 30% in 2008-09 to zero in some cases….
- The sell-off reflects a big change in the way fund managers view US government debt. The traditional attraction of Treasuries for US investors was that they were certain to be repaid. But with interest rates at such low levels, investors worry that bond prices could fall dramatically

Youth unemployment to rise, says ILO – Pg. 2

- The jobless rate for young people – those aged between 15 and 24 – has risen from 11.5% of the workforce in that age group in 2007…
- Young people are almost three times as likely as their older peers to be out of work and many are giving up the search for employment

Skilling in deal to cut jail term – Pg. 13

- Jeffrey Skilling, the former Enron chief executive serving a 24-year prison term, could see his sentence shortened to 14 years, (Prof Note: What is next, a Madoff early release this Fall?)
- Skilling, 59, has spent the past six years in a low-security prison camp in Littleton, Colorado, just outside Denver. He is scheduled for release in February 2028, when he would be 74. Under the new pact, Skilling will be released as soon as 2021, seven years earlier than his original sentence

Banks tipped off to Harp loans – Pg. 16

- The two US mortgage finance groups have been told by their regulator, the FHFA, to release data on the home loans they guarantee in an effort to encourage private investors to assume more of the risk in the mortgage market

- The loan data cover credit performance for more than 30m single-family mortgages, but exclude information on non-standard loans such as those financed under the government's home affordable refinance programme (Harp)

8 May 2013

Brazilian to take helm at WTO after seeing off US-favoured candidate – Pg. 1

- Although votes in the WTO selection process are secret, the US was said to have backed Mr Blanco, though it was not opposed to Mr Azevedo
- The EU's 27 members yesterday also backed Mr Blanco, but they, too, did not object to Mr Azevedo
- Many of the traditional engines of global trade – such as the US and EU – have moved to undertake bilateral and multilateral trade agreements of their own outside the WTO framework

Battle rages over US online tax – Pg. 2

- The House of Representatives is taking up the Marketplace Fairness Act, which allows states to collect sales tax from online retailers, following its passage in the Senate on Monday night by a bipartisan vote of 69 to 71
- It was framed as a "fairness" issue, because the legislation gives states the right to collect a sales tax that is already being levied on bricks and mortar shops but not online retailers
- (Prof Note: The last time I commented on this one person from the list-serve was offended and quit the list-serve. Retailers in the U.S. need to improve service (in general). For example, I continue to bank at BB&T, not because of the products they offer, but because of the service in my local branch and the people at the bank, in general. At the local branch, the manager comes out and talks to me, we talk of his family, I know the tellers, etc. That is service! I am HIGHLY critical of BB&T as their fees are high and I disagree with their loan underwriting processes, however, "Hello Roger", keeps me there paying the higher fees.)

Oslo raids oil fund in surprise move ahead of general election – Pg. 3

- Norway is raiding its oil fund for a record sum of money as its centre-left government looks to prop up the economy only four months before parliamentary elections it is expected to lose
- The issue of Norway's dependence on oil is likely to be a central theme in September's elections…
- The governor of Norway's central bank, which also manages Norges Bank Investment Management as the fund is known, last year called for the rule to be changed so that only 3% could be used in the national budget
- The government cut its growth forecast for this year for mainland Norway – which excludes oil – from 2.9 to 2.6%. Including oil, it almost halved its estimate to 1.4% due to lower production and prices

- Norway runs a budget surplus of more than 10% and is one of the few nations in Europe in a position to put forward such an expansionary budget. But with unemployment at 3.5% and worries about a housing bubble, some economists fret that now is not the time to pump more money into the economy – especially as industrial companies are complaining about losing competitiveness

An unfinished project – Pg. 5

- Indian gross domestic product grew only 5% last year, …
- Most economists predict a slow recovery to about 6% this year but business leaders fret that this is neither guaranteed nor enough to provide work for the 10-12m young Indians who enter the job market each year

Japanese property – Pg. 10

- Japan's biggest property group by market capitalization just said: "despite market conditions generally changing for the better, a time lag of one to two years should be expected before this reflects in the results"

Chinese builders dig out footings in US market – Pg. 15

- Following on the heels of wealthy Chinese people, who have been pouring money into US real estate, and state-owned Chinese banks, which have sharply increased lending to US commercial properties, it is now the turn off Chinese property developers to try their luck in the US
- Data from NAR shows buyers from mainland China and Hong Kong are now the second-largest group of foreign investors in US residential real estate after Canadians, spending $9bn in the period from March 2011 to March 2012
- Chinese buyers have varying reasons for purchasing US property, …some are buying because they want to emigrate or they have children who will go to school in the US
- With the renminbi up 4% against the dollar since last July, US house prices are still viewed as a bargain compared with Australia, Canada and China

Fed warns of fire sale risk for US repo – Pg. 18

- A disorderly liquidation of assets that could fuel financial contagion is a significant risk from an important funding market for US banks, ….
- Fire sales, where assets are sold in a manner that can sharply depress prices and thereby pressure other investors into selling their assets, was a hallmark of the financial crisis in 2008…
- Banks use tri-party repurchase market to pledge their holdings to securities that includes Treasury, mortgages and corporate bonds as collateral in exchange for short-term loan. The lenders include money market funds, insurers, mutual funds and corporate treasurers seeking a higher yield than cash and who tend to view an overnight repo as a secured alternative to bank deposits

- Severe problems in the tri-party repo market in 2008 led the Fed to identify fire sales as one of three big risks that required reform. While some key issues have been addressed, namely the role of clearing banks providing intraday credit along with poor liquidity and credit risk management practices, the spectre of fire sales remains a significant issue for regulators
- Without reform, it leaves the Fed with the task of trying to stem a financial panic, with the costs being borne by the taxpayer

7 May 2013

Microsoft prepared U-turn on Windows 8 – Pg. 1

- Microsoft is preparing to reverse course over key elements of its Windows 8 operating system, marking one of the most prominent admissions of failure for a new mass-market consumer product since Coca-Cola's New Coke fiasco nearly 30 years ago (Prof Note: I remember New Coke….and the trucks of free product being given out by both Pepsi and Coke…I away my free Windows 9!)
- Windows 8 was an ambitious attempt to update the personal computer for the tablhet era by moving to an new touchscreen interface based on colourful tiles, hiding the "desktop" launch screen familiar to white collar workers and consumers around the world

China challenges World Bank rankings – Pg. 1

- China is leading an effort to water down the World Bank's most popular research report in a test of the institution's new president, Jim Yong Kim
- …China wants to eliminate the ranking of countries in the Doing Business report, which compares business regulations – such as the difficulty of starting a company – in 185 nations
- The row is an example of China's growing assertiveness at international bodies and its willingness to challenge liberal economic prescriptions

Brussels urged to get tough with Slovenia as fears rise of new crisis – Pg. 1

- The European Commission is being pushed to take a tougher line with Slovenia amid mounting concerns that infighting is hampering the country's ability to overhaul its troubled banking sector and avoid becoming the next rescue target in the Eurozone crisis
- …concerns have focused on "non-cooperation" between Slovenia's finance ministry and central bank, which supervises the financial sector
- The central bank's role could prove particularly problematic because the three largest Slovenia banks – the most in need of a rescue – are state-owned, raising questions about supervisor's ability to impartially evaluate their needs
- After last month's botched Cypriot bailout, Slovenia emerged as the most likely candidate for the eurozone's next rescue because of the growing fragility of its banks and the government's difficulty in raising funds on the bond market
- Slovenia's largest banks are saddled with an increasing number of non-performing loans issued in pre-crisis boom years. A severe recession has exacerbated losses, making it necessary for the government to recapitalize them

- One of the most intrusive options would be to censure Slovenia for failing to correct economic imbalances – a move that would allow Brussels to fine the EU member if it did not quickly implement reforms.

US prepares to share costs of healthcare – Pg. 2

- From October, high-deductible plans, will be a fixture of the Affordable Care Act, the landmark health law signed by President Barack Obama in 2010
- Such plans have proliferated in the private market since 2001 and are expected to be offered by 80% of large companies by next year. They differ from traditional plans as they charge a much lower monthly premium. But they then require patients to pay thousands of dollars in medical expenses before insurance kicks in (Prof Note: This is exactly what I have and I love it! Partially self-insured. Also, you can negotiate with doctors like any other service provider. I am negotiating 'movie-star' teeth as I call them…I pushed back on one dentist and offered cash/gold for the procedure paid immediately. Two weeks later his admin called me saying he was agreeable…amazing….good thing I knew the cost basis…of course, now I worry of quality, etc)

Ruling party win masks real change in Malaysia – Pg. 4

- Malaysia's economy grew 5.6% last yeasr, ….
- But a widening deficit, high household debt and distorting pro-Malay affirmative action business policies threaten to hold back efforts to get beyond a "middle-income trap" of the past decade

Global slowdown fails to dent Indonesia optimism – Pg. 4

- GDP grew 6% in the first quarter compared with a year earlier….
- …at a time when Europe remains in the doldrums, the US recovery looks precarious, and Brazil, China and India are all growing slower than expected, Indonesia still looks like a good bet….

Bitcoin virtual currency triggers radar of real-time US regulators – Pg. 13

- The Bitcoin is attracting the interest of regulators amid booms and busts in the value of the four-year-old cyber-currency hat have spurred media interest.
- In March, a branch of the US Treasury said that all companies that exchange or transfer the virtual currency would be considered "money services businesses". That means they must provide information to the government and introduce policies to prevent money laundering. Since the ruling, at least three companies in North America have reported having their accounts closed by their banks (Prof Note: Since my first inquiring about Second-life I have received presentations and support. I intend to "enter" this world in a week or two, right after finals.)

6 May 2013

Shoe shops sock it to 'fit-lifters' who try in-store but buy online – Pg. 1

- Bricks-and-mortar shops have higher salary and rental costs than internet rivals and store owners say some online buyers are freeriding on their resources "You've come in and stolen that service basically" (Prof Note: I am FURIOUS over this comment….U.S. retailers need a clue! Shop just about anywhere else in the world and shopping is pleasurable (well, as pleasurable as shopping can be) but in the U.S. it is hit-or-miss to good service. I have thought many times, 'why am I struggling to spend my money!')
- Following years of lobbying by bricks-and-mortar stores, the US Senate is expected today to pass a bill that would help end tax-free online shopping

Malaysia's leaders keep control – Pg. 4

- Malaysia's ruling Barisan Nasional coalition, one of the world's most durable political machines, fended off a strong challenge by the resurgent opposition to retain power in a cliffhanger election
- The outcome still leaves a country plagued with popular discontent over corruption, ….
- It also leaves sharp divisions between the country's ethnic Chinese, who make up a quarter of the population, and the majority Malays, who make up more than 60%
- Outwardly, this southeast Asia nation of 29m had seemed the ultimate Asian success story. Under the 22-year rule of former prime minister Mahathir Mohamad, Malaysia developed a middle clas, cemented an industrial base and managed to balance the competing interests of Malay, Chinese and Indians more successfully than many other countries with complex ethnic mixes

Private equity IPOs: roaring back – Pg. 12

- These IPOs are about existing investors cashing in, not new money for growth. The companies will have already been "optimized" to within an inch of their lives. What is left for new investors?

Norway fund's property assets soar – Pg. 13

- Norway's oil fund has sharply accelerated the pace of its property acquisitions as the wrold's largest sovereign wealth fund seeks to establish itself as a big name in real estate
- In the six months to March it has increased the pace of growth in its property assets by more than 10-fold from the same period a year ago, when it was still finding its feet at investing in the sector
- The fund now has about $6.5bn of property assets, or 0.9% of the $720bn fund,…
- Property represents the oil fund's first foray into assets outside its traditional mix of equities and bonds and is seen as an important test if the fund is to be allowed to invest in more alternative assets, such as infrastructure or private equity

4 May 2013

US jobs report eases economy fears – Pg. 1

- The S&P 500 index smashed through the 1,600 mark for the first time in history after a better than expected jobs report eased fears about the health of the world's largest economy
- US non-farm payrolls were up 165,000 in April compared with the 140,000 gain forecast by analysts. The unemployment rate fell to 7.5%, its lowest level since December 2008 (Prof Note: I am almost embarrassed to say I was so focused on the closing arguments for the Jodi Arias Trial that I completely forgot the jobs report came out!)
- Big upward revisions for February and March – 114,000 more jobs collectively than previously thought – brought average monthly jobs growth for the last three months to a solid 212,000
- The figures mean that there is little chance of the US Federal Reserve deciding to increase the $85bn-a-month pace of its third round of quantitative easing

Chinese police small a rat after 'mutton' sickness – Pg. 2

- European consumers concerned about horsemeat in their sausages should spare a thought for their Chinese counterparts who now have to worry about swallowing rat meat dressed up as mutton (Prof Note: Are lobsters and crabs not the "rats" of the ocean?!)
- Chinese policy have busted a criminal ring selling meat from rats, foxes and mink by passing it off as mutton,…
- (Prof Note: I declare for all to hear and know, I AM NOW A VEGAN! (if you believe that I have a bridge to sell you too))

Abe has tough job convincing on inflation – Pg. 2

- …Tomo no Kai, a women's association founded in 1930 devoted to cooking, child rearing and home economics, and despite its rather old-fashioned feel, retains membership of 20,000
- The wealth effect has its limits, however, especially in Japan where shares represents only 7% of household financial assets, compared with more than one quarter in the US. Four-fifths of Japanese households have never owned a security and 88% have never I nvested in a mutual fund, …

Malaysia parties neck and neck – Pg. 4

- (Prof Note: My understanding is there may be a holiday in Malaysia Monday, depending on outcome)

Fed regulator calls for greater capital curbs – Pg. 8

- A Federal Reserve governor called for higher bank capital requirements as a way of curbing risks in the financial system, adding to the pressure for new restrictions on the biggest lenders

3 May 2013

Jobless claims fall to five-year low – Pg. 4

- The number of US citizens who claimed unemployment insurance unexpectedly declined to a five-year low last week, even against a backdrop of a weaker economy
- While a fall in the number of job losses suggests more companies are confident their staffing levels can meet demand, without a pick-up in the economic growth this number may rise in the coming months
- Unemployment fell to 7.6%, the lowest in four years, as the number of people either working or looking for a job fell by nearly 500,000
- The number of people continuing to collect jobless benefits rose 12,000 to 3.02m in the week ended April 20

Climate for change – Pg. 8

- The ruling coalition, which has dominated Malaysian politics since independence from Britain in 1957, faces a struggle. For the first time generations it cannot count on the support of younger voters, such as Mr Suhail Anwar
- At stake is the future of a moderate Muslim country – and important US ally – that has been a beacon of stability and helped to generate economic prosperity in southeast Asia. But in spite of impressive economic growth and a solid industrial base, Malaysia's living standards still lag behind those of South Korea and Taiwan
- The country, once known as a "tiger cub economy", has still not developed world-class private sector companies such as South Korea's Samsun or HTC, the Taiwanese smartphone maker
- …GDP growth last year was 5.6%, which "surpasses expectations"
- Domestic demand is strong in a country that has one of the highest savings rates in the world at 34%
- The IMF this week lumped Malaysia with Thailand and Indonesia as laggards in raising their living standards as South Korea and Taiwan have
- …Malaysia's household debt is the highest in Asia, having risen to 80.5% of GDP last year from 75.8% in 2011

Slovenia bond issue survives downgrade – Pg. 24

- Slovenia issued $3.5bn of bonds yesterday, ameliorating concerns that the small Alpine country will have to be bailed out by the Eurozone to pay for its banking sector clean-up
- The bond sale was initially delayed after Moody's downgraded Slovenia's credit rating by two notches to "junk" on Tuesday, arguing that deteriorating government finances and a wilting banking sector increased the chance of requiring an international rescue
- Slovenia's bond yields surged after the bungled rescue of Cyprus
- S&P also kept Slovenia's rating on a stable outlook and argued that the country would not need to tap the European Stability Mechanism, the eurozone's bailout fund, for financing
- In contrast, Moody's kept Slovenia on negative outlook and warned that it may still require a rescue

- Moody's estimates that, including the cost of banking bailouts, Slovenia's debts could exceed 70-75% of GDP

S&P upgrade sees Philippines win investment-grade status – Pg. 25

- The Philippines has secured solid investment-grade status, after S&P's become the second major agency to raise the country's credit rating
- The additional upgrade means that global funds tracking investment-grade credit can now include Philippines government bonds
- Growth in the Philippines has picked up significantly, reaching 6.6% last year. The IMF expects this strong performance to continue, and forecasts 6% growth this year
- The Philippines peso has also risen more against the US dollar than any other Asian currency in the past year, while borrowing costs have dropped sharply
- The Philippines central bank recently said it plans to borrow more in its own currency, tor reduce the risks of external shocks and to ease upward pressure on the peso, which it fears could harm exporters

2 May 2013

Retail jobs growth under the spotlight – Pg. 2

- Economists expect Friday's numbers to show a modest acceleration in April to 150,000 jobs created, but a separate survey released on Wednesday by ADP, the payrolls processor, suggested there may be a surprise on the downside. It showed just 119,000 positions were created in April
- Overall, retailers employed roughly 15m Americans in March, slightly more than 10% of the private workforce
- …growth of ecommerce and the weak economic recovery have led many in US retail to conclude that the country has more shops than it needs. Retailers that have announced plans to close stores in the past 18 months include Sears, Gap and Abercrombie & Fitch (Prof Note: There are four woman in my wealth management class that consistently dress for under $100 (dress, shoes, watch (I do NOT ask about 'unmentionables')). It is encouraging to see more budget conscious younger people. Of course my pants are $80 - $120 but I blame that on the quantity of fabric!)
- …among small retailers the biggest worry is demand

Slovakia prime minister demands end to austerity drive – Pg. 4

- Slovakia's prime minister has called for an end to "completely counterproductive" austerity policies and governments to focus instead on reigniting growth, a his small but very open economy is pummelled by the slump in the Eurozone
- …scrapping a 19% flat tax by adding a 23% levy on high-income companies and a 25% tax on people earning more than 3,300 (euro) a month. Earlier plans to increase value adarded tax were dropped because it would hurt poorer voters who make up the bulk of Mr Fico's supporters

- Slovakia's economy expanded by about 2% last year, but predictions are that growth will slow to 0.5% or less this year and that almost all of that will come from exports. The lackluster economy is driving up unemployment, already at 14.7%

Malaysia's election provides a chance for long-overdue change – Pg. 11

- Malaysians vote this Sunday in the 13th general election since the country gained independence in 1957
- Ever since independence, Malaysia has been run by a coalition dominated by the United Malays National Organization, which represents the interests of ethnic Malays, who make up 60% of the 29m population. (Ethnic Chinese for 24%, Indians 8%, and there are an estimated 3m migrant workers (and 3 graduated Hoyas))

Goldman faces flak over Malaysia deal – Pg. 15

- Goldman Sachs is facing sharp criticism over its potential profits for arranging a $3bn bond deal for a Malaysian government fund before Sunday's national elections
- If Goldman sold the bonds at face value it would make about $300m, including its arrangement fee. However, if the bonds failed to gain a rating, or markets crashed before it could sell, it would lose money
- Mr Wong said this party would ask the US bank to explain the deal if it came to power and suggested Goldman would have trouble operating in the country unless it answered questions about pricing and process
- In a sign of the hurried nature of the deal, Goldman bought the bonds first, then asked S&P's to provide a rating (Prof Note: How convenient! Rather than restricting just the company Malaysia needs to restrict the individuals involved….these "restrictions" are becoming costs of business…hold people AND companies accountable)

US Treasury takes step closer to floating rate note issues – Pg. 25

- Bond investors worried about interest rates rising next year will have a new security that affords them protection, as the US Treasury took another step closer yesterday to launching floating rate securities
- For US banks holding Treasury debt in order to meet stricter liquidity requirements, a FRN will help ease losses should interest rates rise sharply

1 May 2013

Fed weighs tighter cap on bank leverage – Pg. 1

- The move is being considered amid growing skepticism about the Basel III capital accords, which impose higher capital requirements on banks around the world but allow them to vary the amount depending on the riskiness of assets

Out to break the banks – Pg. 5

- Unlikely cheerleaders for breaking up the banks have emerged, including Sandy Weill and John Reed, who in the 1990s assembled Citigroup, the archetypal financial supermarket (Prof Note: If I had to name a single architect for the financial crisis it would be Sandy Weill)
- The concern is that banks such as JPMorgan enjoy implicit government guarantees: creditors believe that, as with Bank of New England in 1991 and Citigroup in 2008, the government will take the risk that the new tools created by Dodd-Frank could fail, leading to credit freezes and a breakdown inn payment networks

Crowds line up for bit of Apple's first bond – Pg. 18

- The iPhone maker's blockbuster US debt sale is perfectly timed to take advantage of ultra low interest rates and strong demand from investors eager to own top quality credit in a world where defensive strategies are highly popular
- Apple is selling debt for the first time to finance a $100bn return of cash to shareholders over the next three years. This comes after pressure from investors, who have watched the company's stock price drop 40% from its $702.10 high last September to below $400 earlier this month. Yesterday the stock was up 2.2% to $439.7

30 April 2013

IMF warns on Asia Capital inflows – Pg. 24

- Strong capital inflows into Asia have increased the risks from rapid credit growth and rising asset prices,…
- …expects to lead a "global three-speed recovery" with growth of 5.75% this year
- Asset prices in many parts of Asia have risen rapidly in recent years, thanks to ultra-loose monetary policy in developed economies and strong domestic growth. Hong Kong property prices have more than doubled in the past four years, while portfolio investors have looked to consumer-driven economies in the Association of Southeast Asian Nations

Fed faces calls for radical reform – Pg. 5

- The proposed Centennial Monetary Commission would have instructions to look at more aggressive mandates to fight unemployment, such as a target level for nominal GDP, as well as more conservative regimes such as an inflation-only objective
- …some Democrats would like to see the Fed to more to tackle an unemployment rate that is still high,…
- There has also been a broad global move to look again at central bank mandates. The Bank of England and the Bank of Japan have made recent changes

US energy flagship turns its back on privatization Pg. 5

- The head of the Tennessee Valley Authority, the US government-owned electric company and pillar of Franklin D. Roosevelt's New Deal, has rejected a suggestion by the Obama administration to explore privatization

- At the end of last year the TVA had bond debts of $24.5bn that count towards the $30bn limit, and $2.8bn in other financing such as leases
- The TVA, which can generate 35,000 megawatts, is one of the largest power producers in the US, supplying 187 utilities and customer-owned co-operatives in Tennessee and surrounding states that serve about 9m customers. It employs 12,760 people
- Set up in 1933 as one of the flagship projects of the New Deal to build and operate hydroelectric dams, it expensed into coal-fired and nuclear generation in the 1960s. Last year, 9% of its electricity came from hydropower, with 41% from coal and 38% from nuclear
- TVA debt is rated the same as the US government's

Bleak houses – Pg. 7

- Ireland has been hailed as a poster child for the bitter medicine of austerity (Prof Note: When something must be done and done right, give it to a Ginger!)
- One in five of the 942,440 outstanding mortgage accounts has either fallen into arrears of more than 90 days or has been restructured because of a borrower's inability to pay. About half of the 101,652 restructured mortgages, in which homeowners or buy-to-let investor are offered interest-only deals, have slipped back into arrears
- The problem has reached epidemic proportions because of a 50% drop in house prices since 2007,…
- Unlike the practice in some US states, homeowners cannot simply hand the keys back to the banks because lenders can pursue them for outstanding debt when a repossessed home is sold (Prof Note: We need to redefine "homeowner". I propose the following definition: Homeowner – An individual that holds title to a residential real estate asset which is capitalized with 20% or greater equity and no contingent liabilities, etc. (I admit the definition must be polished but you get my point…))
- Central bank statistics show bank lending continues to fall. Loans to households fell 4.2% in the 12 months to end February 2013 while loans to small and medium-sized businesses fell 5% in the year to end December 2012

Slovenia points to wider flaws in Eurozone – Pg. 22

- A small European country hits financial problems (Prof Note: Just received word this morning that I am presenting a paper in the capital regarding the removal of toxic assets from Slovenia's bank's balance sheets…the solution for Slovenia is coming…)
- Investors now wonder whether the next will be Slovenia…
- Slovenian banks, although weakened by bad loans, are equivalent to about 140% of the country's national output, compared with 700% in Cyprus, where the crisis was escalated by political rows over Russian bank deposits
- Slovenia continues to tap financial markets
- Cyprus's problems escalated because of the delays in addressing them; dithering over Greece in early 2010 called into question the ability of Eurozone politicians

29 April 2013

A darkening debt storm – Pg. 7

- While the US and Europe have lessened their engagement with the Caribbean, many of its countries have found a new friend willing to offer vital aid and investments: China
- The debt mountain is one of the clearest indications of the Caribbean's woes
- …the region's overall government debts amount to more than 70% of GDP, …
- Jamaica's debt was even higher at the end of last year, reaching 143% of GDP.
- Irresponsible government spending has compounded the problem facing uncompetitive Caribbean states. Simply because of their small size, the economies have to import most of their basic goods and are always vulnerable to any shocks
- Since the independence wave of the 1960s and 1970s, public spending on social programmes, education and jobs has steadily increased. But growth has largely remained sluggish, dependent on niche sectors such as banana and sugar exports to Europe, financial services and tourism
- Aid to the region has also shriveled since the end of the cold war
- China, on the other hand, has become increasingly influential in Caribbean capitals
- The Caribbean states do have some advantages, however. They are, for the most part, stable democracies and investments in education have forged a relatively highly skilled workforce

Common ground for global properties – Pg. 15

- Global differences in how buildings are measured, such as whether to include parking spaces or leisure facilities, are to be ironed out by this week by real estate regulators, promising significant cost savings for portfolio managers
- An International Property Measurement Standard is expected to be established by trade associations representing millions of landlords and property investors….
- The accord, supported by the IMF, is intended to end discrepancies that occur in measuring building sizes under the existing system in which each country has its own method

27 April 2013

Spending cuts squeeze US growth – Pg. 1

- The arrival of austerity in the US led to disappointing annualized growth of 2.5% in the first quarter of 2013 as output was hit by a drop in federal defense spending
- …trapping the US economy in a pattern of steady but mediocre growth despite a pick-up in the housing market
- The US data came as the Bank of Japan upgraded its outlook for the world's third-largest economy, raising its inflation forecast to 1.9% for the fiscal year after next, and prompting a rally in the yen
- Defence knocked 0.6% off total growth, following a similar decline in the fourth quarter, ….

- The main contribution to growth in the first quarter came from consumption, which added 2.2% to the total, suggesting households are holding up well despite the end of payroll tax cuts at the start of the year

Congress passes measure to end US flight delays – Pg. 2

- With temporary lay-offs of federal employees starting in mid-April, which will hit take-home pay, the full effects of sequestration will be felt through the second quarter on the year
- All manner of programmes across the US are suffering – from meals on wheels for the elderly, financial support for low-income schoolchildren and the long-term unemployed, food safety inspections and border patrols

Norwegian wealth fund cuts bond portfolio – Pg. 11

- Norway's oil fund has reduced its bond holdings to their lowest level to date as the world's largest sovereign wealth fund signals its discomfort with the effects of western central bank's money printing
- The fund held just 36.7% of its $726bn assets in bonds at the end of the first quarter, the lowest proportion since it first received money in 1996. Its equity holdings were close to a record high, accounting for 62.4% of the total

Virtual currencies threaten to go viral – Pg. 18

- To recap: Bitcoin was created four years ago by an unknown computer scientist and the limited stock of "coins" grows only according to a predetermined algorithm. The idea is that it will become an alternative to state-backed currencies and to traditional banking
- A small number of mainly online retailers, and an unknown number of offline drug dealers, accept payment for their wares in Bitcoin,….
- …ruling in the US that all businesses that exchange or transfer virtual currency are "money services businesses" and must register with the government and introduce money laundering checks and training for staff
- Many virtual currencies exist within their own virtual economies, such as World of Warcraft, or the online universe known as Second Life, but these are hard to keep totally closed. World of Warcraft gold is available for purchase on the black market for real-world currency; Second life's Linden dollars are exchangeable for US dollars (Prof Note: Prior to this article I had never heard of Second Life….I just checked out the webpage…very interesting…I may explore between semester; time permitting)

26 April 2013

Spain and France suffer jobless surge – Pg. 3

- The number of unemployed Spaniards has risen beyond 6m for the first time since records began

- France also reported record unemployment figures yesterday, with the number of jobseekers without any work rising for the 23rd month to 3.2m in March, surpassing a previous peak in 1997. The total including all those seeking full-time work rose to 4.7m

Slovenia struggles to dismiss bailout talk – Pg. 3

- With very low levels of sovereign and personal debt, and a boom in 2006-07 before the financial crisis, this picture postcard country of 2m people built a gleaming road network and adopted the trappings of a well-to-do central European state. Even four years after GDP crashed 8% in 12 months, the boutiques and cafes of the capital Ljubljana still show little hint of crisis (Prof Note: Currently I am scheduled to speak in the capital in June)
- The most successful Slovenian companies are export-orientated and out of reach of politics….
- Since peeling away from Yugoslavia in 1991, the state kept stakes in the three biggest banks, the biggest insurance company, the telecoms company, the airline, the port and other large enterprises
- The Bratusek government has pledged to continue the reforms started by the previous administration, including a bad bank to clean up bank balance sheets and a privatization process to raise funds and recapitalize the banking sector.
- …the bad bank has yet to buy any non-performing loans, the privatization process looks difficult and the new government's plans have yet to be published

US sees growth across economy – Pg. 4

- The US economic recovery broadened in 2012, with every part of the private sector except for agriculture adding to growth,…
- The biggest contribution to 2012 growth of 2.2% came from manufacturing,…
- A large part of growth in the first quarter is likely to come from restocking warehouses

Norway's oil fund steps up investor role with plan to help pick directors – Pg. 11

- Norway's oil fund is to become a more active investor by helping pick directors at companies in which it has significant stakes in a big shift of strategy at the world's largest sovereign wealth fund
- Norway's oil fund is one of the biggest investors in the world and on average owns 2.5% of every European listed company. It is looking to become more active over the composition of boards at companies where it owns about 5% or more and its stake is worth at least $1bn

Hong Kong ready to launch renminbi interbank rate – Pg. 20

- An interbank rate for offshore renminbi is to be launched in Hong Kong, a move that will help investors and goods traders hedge their exposure to the Chinese currency
- The Hong Kong authority will base the rates on contributions from at least 15 banks in a similar way to how it calculates the Hong Kong interbank offered rate (Hibor), which is for Hong Kong dollar-based transactions

- The rates will be referred to as CNH Hibor – CNH being the shorthand for renminbi traded in Hong Kong
- Difficulties in hedging renminbi exposure have been cited as a major barrier to increased cross-border trade settlement in the Chinese currency

25 April 2013

Rwanda's bond issue reflects progress after 1994 genocide – Pg. 1

- Rwanda is issuing its first international bond, highlighting its recovery after the 1994 genocide and how voracious investor appetite for higher yielding debt is helping many countries make their debuts on bond markets
- Although it is grindingly poor – subsistence farming employs three-quarters of the workforce – economic growth has averaged almost 8% since 2003 and inflation has been subdued
- As a result, Rwanda is raising $400m by issuing a 10-year bond to international investors
- (Prof Note: While I have never visited Rwanda, I can attest that Africa is a continent full of wonder. The safari in the Serengheti was a lifetime experience and I look forward to repeating it again (and again!))

US weighs trade pact with Japan – Pg. 4

- The US political debate over an agreement that would lower trade barriers across 11 Pacific nations intensified as key lawmakers and business executives weighed the entry of Japan into the pact and made some demands on the Obama administration ahead of the next round of talks next month

Teachers face a battle against mindsets – Pg. 5

- Year after year, 16-year-old pupils would leave school with only the most basic leaving certificate – or with none – to work on construction sites and in businesses to the property sector
- The causes of Spain's unemployment crisis are complex and plentiful – but few would argue that the country's school system is entirely without blame
- Teachers complain that there was too little effort from parents, who – like their children- took for granted that low-skilled jobs would be there for ever

Argentina case raises fears over debt deal holdouts – Pg. 18

- Holdouts are typically – but not always – hedge funds that buy defaulted government debt on the cheap and refuse to join in a restructuring, "holding out" for a better deal. Sometimes they sue for the full amount
- If toe many creditors hold out, restructurings fail and no one gets paid.
- There are downsides for holdouts. They may be repaid in full, but often only at the maturity of the original bond – which could be years away. Meanwhile, their securities are exceptionally illiquid

- For the countries involved, it is often easier to pay off holdouts
- Elliott has successfully argued that an obscure bond clause called pari passu that promises equal treatment of creditors prevents Argentina form paying its restructured bondholders but not Elliott

24 April 2013

Pessimism deepens over global economy – Pg. 1

- Signs of weakness clouded the world economic outlook yesterday after a leading business survey indicated the contraction in Eurozone manufacturing activity gathered pace this month, while industrial expansion also slowed in the US and China
- ….Spain's central bank estimated the Spanish economy contracted 0.5% in the first quarter of the year despite a pick-up in exports

Immigrants boost US housing recovery – Pg. 4

- Home ownership in the US fell to a 17-year low of 65.3% in the third quarter of last year, but among immigrant households it has steadily increased. Typically purchased after renting for a few years, for many immigrants owning a home is a symbol of success
- …represent close to 13% of the US population, immigrants accounted for nearly 36% of growth in home ownership between 2000 and 2010, …
- The number of homeowning immigrant households is projected to rise by 2.8m in the decade ending 2020, compared with a 2.4m gain in the previous 10 years. They will account for more than 50% of the rise in homebuying in six gateway states, such as California and New York, …
- While the recent low mortgage interest rates have fuelled purchases and swallowed existing inventories, as in much of the US, hurdles still remain for many foreign-born firsttime homebuyers who cannot meet the strict mortgage requirements and face tight credit conditions

US stocks with strong home ties lead gains on S&P500 – Pg. 13

- The share prices of US companies with a strong domestic presence are significantly outperforming their multinational rivals in the S&P500
- The trend is being reinforced by the latest round of results from corporate America, which has highlighted the pain of a strong dollar for those companies that rely on overseas revenues. Weaker-than-expected growth in the Eurozone and emerging markets also has been a feature of the current first-quarter earnings season

Abe fires up Japanese property shares rally – Pg. 20

- ….the equity market suggests that Japan is on the cusp of a major property revival
- Of the top 10 best performing stocks, five are property-related
- The transformation in demand for Japanese real estate investments has been a boon for those looking to list J-Reits

- The physical property market has yet to show clear signs of sustained recovery, with average rental asking prices in Tokyo still 28% below their 2008 high
- ….price-to-book basis, sector valuations have returned to their 2007 peak

Slovenia tests appetite for dollar bond – Pg. 20

- Slovenia, the tiny Eurozone country under the international spotlight because of its escalating debt problems, plans a return to international markets by the summer and is testing investor appetite for a dollar bond issue
- US dollar-denominated debt markets are significantly more liquid than euro markets. Eurozone sovereign debt markets have rallied strongly recently
- Dollar-denominated debt issues by Eurozone countries were used regularly before the escalation of the region's debt crisis in 2010. Since then, there has been a dearth of dollar issues by those countries worst hit by the crisis – Spain, Portugal, Greece, Ireland and Italy
- While Slovenia, which became independent in 1991, has a low debt-to-GDP ratio of 54% - below the Eurozone average – its debtedness has been growing rapidly as a recession cuts government income and bad debts increase at the three state-owned banks that dominate the sector
- The borrowing costs were high by recent standards, and more than 80% of the T-bis were bought by domestic banks – largely the state-owned ones that have already been propped up several times by the government

23 April 2013

EU and Fed clash over US bank move – Pg. 1

- US plans to force foreign banks to hold more capital are a threat to harmonious global regulation and risk "a protectionist reaction", ….
- The rift highlights the growing levels of discord between global regulators, whose efforts to protect local taxpayers are raising fears that international finance will be forced to retreat behind national borders
- Under the Fed's proposal, which could come into force later this year, large foreign banks would have to ensure that their subsidiaries met a new international minimum level of 7% core capital to risk-weighted assets
- The proposal is aimed squarely at Deutsche Bank, whose US subsidiary maintains negative equity capital
- …US officials are concerned that they would be left to stabilize Deutsche's US operations in a market panic, noting that the bank tapped the Fed's emergency lending facilities in the last crisis. They also note that the UK requires US banks to set up separate subsidiaries with separate capital and liquidity

Weaker yen tests Abe's strategy to lift growth – Pg. 2

- …"abenomics"…Japan's stock markets are soaring, property is bubbling and consumer confidence is at its highest level for six years

- A general rule of thumb is that a 10% fall in the dollar/yen rate causes Japan's GDP to rise by about 0.3% the following year,…
- It is also uncertain whether a lower currency will spur much investment bank home

Libor must be scrapped says top US regulator – Pg. 11

- Libor borrowing rates must be replaced as soon as possible as it is "unsustainable" to continue to use them, …
- Libor is currently calculated by asking a panel of banks to estimate the rate at which they believe they can borrow. But the unsecured interbank lending market, which was never particularly robust, dried up entirely during the financial crisis and has not recovered
- Indices such as Libor are critical to the financial markets. Banks and corporations use them as a reference, so they can value their assets and predict their borrowing costs over a specific timeframe. Retail customers receive lower initial rates if they agree to link their borrowing to an index, but gain some assurance, that any increases will be linked to broader market trends (Prof Note: NOOOOOO…this is the issue….retail customers take global capital markets rate risk(s)….the should NOT….this is the issue entirely…the financial "experts" place interest rate risk in the laps of the people least able to comprehend the risk and 100% unable to hedge the risk!)

Buyers scour Asia for physical gold – Pg. 18

- Asia is witnessing one of the strongest waves of physical gold buying in 30 years,…
- The buying surge in China, Hong Kong, India and other Asian countries contrast with heavy selling last week, when investors dumped billions of dollars of gold-related assets
- China is the world's second-largest gold buyer after India.

22 April 2013

Data shift to give 3% lift to US economy – Pg. 1

- The US economy will officially became 3% bigger in July as part of a shake-up that will see government statistics take into account 21st century components such as film royalties and spending on research and development
- Billions of dollars of intangible assets will enter the GDP of the world's largest economy in a revision aimed at capturing the changing nature of US output
- The changes will affect everything from the measured GDP of US states to the stability of the inflation measure targeted by the Federal Reserve
- The revision, equivalent to adding a country as big as Belgium to the estimated size of the world's economy, will make the US one of the first adopters of a new international standard for GDP accounting
- Creative works are expected to add a further 0.5% to the size off the economy

How analysts will add 3% to GEP – Pg. 3

- The single biggest revision to the national accounts will be the inclusion of R&D as capital investment, instead of just a cost of producing other goods
- Initial estimates show R&D will add a little more than 2%, or $300bn in 2007, to GDP. About two-thirds will come from the private sector and about one-third from government
- The change with the most counterintuitive results is pension accounting

The creaking champions – Pg. 7

- A member of the Brics group of emerging nations that also included Russia, India and China, Brazil was the last one of the slowest growing large economies in the world, expanding less than 1% compared with 7.5% in 2010

Malaysia seeks emollient effects of futures trading – Pg. 18

- The idea is to broaden participation in Malaysian futures trading as part of a recent Bursa initiative allowing futures brokers to establish branch offices and "trading kiosks" anywhere in Malaysia
- The moves are a sign that even as futures trading volumes in the west are anaemic, enthusiasm for the financial instruments is growing in Asia
- CME has owned a 25% stake in Bursa Malaysia Derivatives, part of the Bursa Malaysia group, since 2009. Its most widely traded product, crude palm oil futures, has since 2010 been available to traders outside Malaysia through CME's Globex electronic system

20 April 2013

Boston lockdown in hunt for bomber – Pg. 1

- (Prof Note: I learned today that a current student was closely affected by the Boston bombing. My prayers to the family and to all those in Boston and beyond….)

Policy makers avoid united stance despite instability fears – Pg. 1

- Japan faced its first big international test this week over its huge monetary stimulus after the policy emerged as a central theme of talks in Washington as the G20 prepared a warning against competitive currency devaluation
- The global economic outlook is deteriorating despite IMF forecasts
- There are some new risks to stability caused by loose monetary policy
- QE looks quite different depending on where you are sitting
- Academic research from leading economists is not always as it seems
- The G20 is just as ill-equipped as ever to sort it all out

Losing its charm? – Pg. 5

- On Monday gold suffered an 8.5% rout- the steepest fall since 1983, when the last bull market was in its death throes and daily price swings of 10% or more were common

- Bankers say that their phones have been ringing off the hook with panicked calls from rich clients who have been persuaded to hold 2-10% of their wealth in gold (Prof Note: Ridiculous…holding that much as a percentage of portfolio!)
- The market has also been weighed down by factors more specific to gold. Indian gold buying fell sharply in 2012 as the country's economy slowed and the government raised import taxes in an attempt to reduce the current account deficit. Chinese demand, after surging the previous year, was largely flat last year amid weaker economic growth
- The disappointing demand from two countries that together account for about 40% of global gold consumption meant that buying be western investors became even more important to support the gold price

19 April 2013

Irish tell insolvent homeowners to give up the luxuries of life – Pg. 1

- Irish homeowners apply for debt writedowns will have to give up satellite television, foreign holidays and private educations for their children under a strict new insolvency law introduced to tackle the country's debt crisis (Prof Note: Amen!!! Clearly a 'Ginger' authored this commandment!)
- A single person will be allowed 247.04 (euro) a month for food, 57.31 (euro) for heating and 125.97 (euro) for "social inclusion and participation", a category of expenses that includes tickets to sports events and the cinema but rejects spending on foreign holidays and satellite TV
- In most cases, people seeking debt deals will also have to give up private health insurance and their cars, although they will be able to keep their vehicles if they do not have access to public transport
- House prices have halved since Ireland's property market peaked in 2007, leaving about 400,000 mortgage holders with negative equity

Private equity groups rush to revive listing plans – Pg. 17

- More than a dozen offerings this year have rekindled private equity groups' hopes to list some of their largest assets bought during the bubble. The initial public offering of Intelsat yesterday shows that it is feasible, but can also be painful
- Private equity groups are rushing to revive plans to list the companies they own amid recovering equity markets and lower volatility, after the Eurozone crisis hampered their ability to use that options to exit deals last year
- In 2012, nearly half of the top 10 IPOs had lost money by the end of the year

US banks leap on lower borrowing costs – Pg. 22

- A flurry of bank bonds has hit the US debt capital markets in the past couple of days, as the nation's largest lenders take advantage of a decline in benchmark borrowing costs and demand for high-grade securities

- Tighter spreads, improving balance sheets and steady growth of banks' loan portfolios wre working as "catalysts for increased funding"….
- A recent drop in US Treasury yields was also contributing to the banks' rush to lock in funding at lower borrowing costs…
- The yield on the 10-year Treasury note moved back below 1.7% after trading above 2% in March

18 April 2013

IMF warns on risks of excessive easing – Pg. 1

- Extraordinarily loose monetary policy risks sparking credit bubbles which threatens to tip the world back into financial crisis, ….
- Without continued progress, the IMF said, "the global financial crisis could morph into a more chronic phase, marked by a deterioration of financial conditions and recurring bouts of financial instability"
- The fund added that there was a need to improve the health of banks in both the eurozone's troubled Eurozone and its core.
- The fund repeated its advice that the Eurozone needs a single resolution regime for banks, providing common backstops and deposit guarantees

Yen decline adds to fast-rising costs of power in Japan – Pg. 4

- In addition to making exports more competitive and increasing the yen value of Japanese companies' overseas sales, a weaker currency helps support domestic consumer prices – another of the government's goals – by making imported goods costlier

Slowdown in Russia challenges liberal wing – Pg. 6

- Five successive quarters of slowing growth….
- Russia was among the fastest expanding economies in Europe last year and both unemployment and inflation are at all-time lows. But growth practically lurched to a halt in the first three months of this year
- The government has slashed its 2013 growth forecast by a third to 2.4%
- Ambitious privatization plans announced in 2010 have slowed to a trickle while the largest nationalization of the post-communist period, the acquisition of state oil company…was completed last week

Philippine fillip – Pg. 14

- Fitch upgraded its rating for the country's government debt to investment grade at the end of March
- Economic growth has averaged 5% a year in the past decade
- Private consumption is expanding at 7%. This has been helped by low inflation of 3%...

Brazil's stalled IPO pipeline gets set to flow again – Pg. 23

- In Brazil's capital markets, an old rock star has been threatening to make a comeback this year: the initial public offering
- Brazilian companies last year raised the lowest amount of money through share sales since 2005, at $7.6bn
- Investors are also worried about Brazil's own prospects, with GDP expanding less than 1% last year as inflation moved towards the top of the central bank's target range of 4.5% plus or minus 2%

17 April 2013

Warning on 'out of control' China debt – Pg. 1

- A top Chinese auditor has warned that local government debt is "out of control" and could spark a bigger financial crisis than the US housing market crash
- The IMF and rating agencies have all raised concerns about Chinese government debt
- Local government debt soared after 2009, when Beijing loosened borrowing constraints to soften the impact of the global financial crisis
- Last week, Fitch cut China's sovereign credit rating, in the first such move by an international agency since 1999. Yesterday, Moody's cut its outlook for the country's rating from positive to stable
- Local governments are prohibited from directly raising debt, so they have used special purpose vehicles to circumvent the rules, issuing bonds under vehicles' names to fund infrastructure projects

IMF cuts 2013 global economic outlook – Pg. 1

- The IMF has revised down its 2013 global growth forecast to reflect a three-speed world economy in which the Eurozone is lagging behind
- The fund outlined high medium-term risks stemming from doubts about the eurozone's ability to claw its way out of its crisis and the ability of the US and Japan to cut public sector deficits and debt
- The IMF revised down its 2013 growth forecast 0.2% to 3.3% but kept the 2014 forecast at 4%

Homebuilding soars and cost of living falls, US data show – Pg. 4

- New US home construction jumped the most in nearly five years in March as apartment building surged, while the cost of living fell for the first time in four months on cheaper petrol prices
- Housing starts climbed 7% to a 1.04m annual rate, the most since June 2008, ….
- Even as more US citizens are buying houses many are still held back by tight credit conditions and strict mortgage requirements forcing people to rent
- ….single-family housing starts fell 4.8% in March to 619,000 rate, after a 5.5% rise the month before

- A housing start is registered at the beginning of construction of a property intended primarily as residential and is defined as there beginning of excavation of the foundation (Prof Note to RE Finance Students: This definition will be on your final….let's see who is actually reading these summaries…)

Falling inflation rate hits Tips – Pg. 23

- US inflation expectations have fallen to their lowest level since November, with a key investor benchmark back in negative territory for the year and money fleeing exchange traded funds that follow inflation protected securities
- Market expectations for US inflation over the next 10 years have eased to 2.40%, down from a peak of 2.60% in March, based on the difference or the so-called "break-even rate" between nominal and inflation-protected Treasury debt. Inflation expectations for the next five years have fallen 30bps in the past month to about 2.10%

16 April 2013

Investors in rush to dump gold – Pg. 1

- Gold prices have suffered their sharpest fall since the 1980s, heightening fears among investors that the precious metal's decade-long bull run has ended
- Faltering European demand and weaker than expected Chinese economic data depressed oil prices, pushing Brent crude down by 3% to $100.02 a barrel, a nine-month low
- Gold's drop since Friday to a two-year low of $1,355.80 a troy ounce is the sharpest two-day tumble since 1983, when the last gold bull market was unraveling

Treasuries back on big investors' buy lists – Pg. 20

- For all the talk of higher interest rates in 2013, the world's biggest investors are back buying US Treasuries
- While US equities sit in record territory, the message from bond yields and slumping commodity prices is one of slower growth and potentially deflationary forced are once more baring down on the economy
- That is why rather than selling US Treasuries, some of the world's largest investors in the US government bond markets just keep buying more of them. Last month when the US 10-year note rose above 2%, …
- Foreign buying is expected to rise as the Bank of Japan's aggressive quantitative easing settled into its stride, based on the view that domestic holders of Japanese government bonds will sell their holdings and seek higher yields elsewhere, such as the US Treasuries
- China remains the world's largest foreign owner of US Treasuries, with its holdings rising $8.7bn to $1.22tn, …

Gold slumps as China fears fuel equity slide – Pg. 22

- Gold hogged the limelight as it tumbled to its lowest for more than two years, but sharp losses were also suffered by other metals and commodities, as well as equities, as disappointing Chinese economic data compounded concerns about the global economy
- Silver fell nearly 10% to $23.21
- The mood of risk aversion lifted demand for US government bonds. The yield on the 10-year Treasury fell 3bps to 1.69%, while that on the German Bund ended 1bp lower at 1.25%

15 April 2013

US restates willingness to defend Japan – Pg. 2

- "The US will do what is necessary to defend our allies against these provacations, but our choice is to negotiate",…

Global economy remains at risk of sudden stall – Pg. 3

- Despite strong financial markets and confidence returning to business and consumers in emerging economies, overall indicators of growth have hardly budged since mid-2011, since when repeated tentative upswings have always been snuffed out by weak data and renwed stress in the Eurozone
- The evidence of continued stress in the global economy will ensure a subdued mood at this week's spring meetings of the IMF and World Bank in Washington…
- The Tiger index combines measures of real economic activity, financial variables and confidence indicators, according to the degree to which they are all moving up or down at the same time. Using sophisticated methods it can capture similar movements of data which are measured on a very different basis and across many countries
- The slowdown in many emerging economies last year looked set to continue,…

Private equity cranks up debt to lift dividends – Pg. 17

- Private equity groups are taking dividends from their European companies by adding more debt at the fastest pace since the credit boom, using a contentious technique known as dividend recapitalizations to return cash to investors
- The trend highlights the buoyancy of credit markets in Europe, with investors rushing into non-investment grade debt in search for yields amid low interest rates. Private equity groups are taking advantage of liquidity in the market to return money to investors while other more traditional ways – IPOs and disposals – remain tough

Agency disputes triple A US rating – Pg. 18

- Political gridlock and growing inequality in the US mean that the country does not deserve a triple A credit rating, even though government debt is manageable, …
- The US is still rated triple A by two of the three main rating agencies, Moody's and Fitch Ratings, though it lost that gold-plated certification from Standard & Poor's in 2011 as a result of the political turmoil surrounding the raising of the ceiling on federal government debt

- The incident raised for the first time the possibility that the US may voluntarily default on its obligations, and called into question for S&P the political establishment's ability to bring down federal debt levels that are now at 93% of GDP
- Moody's, which has a negative outlook on its rating for the US, says it will a reassess the triple-A grade later this year in light of federal budget negotiations this year

13 April 2013

Cost-cutting drives banks higher – Pg. 8

- JPMorgan Chase and Wells Fargo kicked off Wall Street's earnings season with almost $12bn in combined net income for the first quarter, but it was delivered through cost control rather than soaring revenues
- But cost-cutting and the release of loan loss reserves because of improved credit quality lay behind much of the improvements at both banks, adding to uncertainty about the sustainability of the earnings

Gold tumbles to 21-month low after bearish Goldman note – Pg. 12

- …worries about selling by Cyprus also depressed prices
- The yellow metal fell as much as 4.3% on the day, hitting a low of $1,493.35 a troy ounce, the weakest level since July 2011
- The bank cited expected US growth later this year as one of the factors affecting the gold price

12 April 2013

Ex-KPMG partner charged with fraud – Pg. 1

- Scott London, the former KPMG partner who issued an unusual public confession about insider trading, was charged yesterday with sharing confidential secrets of five companies with his golf partner in exchange for bags of cash and a Rolex watch
- (Prof Note: Once again…an individual goes to jail that did NOT take my finance class. Had he taken my finance class he would have known the three rules of investing: (1) Stay out of jail, (2) Return OF Capital, and (3) Return ON Capital. As a side note, within the last month a former student told me that when asked in an interview the goal of investing the interviewer was impressed by the three rules and had never heard a candidate state the first rule prior!)

BoJ pledges 'flexibility' on inflation – Pg. 1

- The Bank of Japan said yesterday that its new 2% inflation target would be operated "very flexibily" as the central bank sought to head off accusations that its aggressive monetary policy would distort the global economy

- China separately reported a surge in its foreign currency reserves to $3.4tn, suggesting that money-printing operations in Japan and the US were contributing to rapid capital outflows from advanced economies into the emerging world

China debt worries increase as forex reserves surge to $3.4tn – Pg. 3

- China's mountain of reserves reached $3.44tn – roughly the size of German economy ….
- The money washing into China has already made its impact felt by fuelling explosive credit growth in the first quarter
- Large bond-buying programmes by the US Federal Reserve and the Bank of Japan are expanding the money supplies in both countries, generating cash that in part could wind up in emerging markets such as China
- Chinese exports to the world rose 10% but those to Hong Kong rose 93% in March, ….
- China's economic growth bottomed out at 7.4% year on year in the third quarter of 2012

Fight is on over cash cows Fannie and Freddie – Pg. 21

- Small community banks are weighing in to demand a reversal of the 2008 wipeout of preferred shareholders, adding a further element of uncertainty to the task of reforming the US mortgage market
- For the time being, Fannie and Freddie remain the only major issuers of mortgage-backed securities
- The aim is to widen the pool of private investor money that is available to fund mortgages for US homebuyers. So far, though, just $5.3bn of private mortgage bonds have been sold since the start of 2013,….but issuance topped $700bn in the peak years of 2005 and 2006
- But Fannie and Freddie are not formally paying back the Treasury; they will remain in hock in perpetuity. Instead, the government takes all the pair's profits in the form of dividends on senior preferred stock held by the Treasury so that there is no way they can build up a cash reserve large enough to pay back anyone else

11 April 2013

Lagarde warns of new crisis – Pg. 1

- The uneven pace of growth in a "three-speed" global economy is creating new financial imbalances that could sow the seeds of a future crisis, …
- …dominant trend in the global economy, in which emerging economies expand rapidly even as advanced countries use ever more aggressive monetary policy to kick-start growth
- …central bank [Federal Reserve] was ready to slow down its QE3 programme of asset purchases as early as this summer
- The minutes also showed the Fed was leaning towards a change in its "exit strategy" from easy monetary policy, under which it would hold mortgage-backed securities until they matured instead of selling them

BoJ deflation war produces some odd results – Pg. 3

- In its most assertive attempt yet to stimulate the economy and end years of corrosive price declines, the Bank of Japan is doubling the amount of money in circulation by sharply increasing purchases of government bonds and other assets
- The BoJ's aim is to promote investment and consumption by pushing up asset prices and making money more available for companies and households to spend
- By "lowering the entire yield curve" – interest on money borrowed for as little as a day to as long as 40 years – and expanding the monetary base…could turn Japan's mild deflation into 2% inflation in two years

Obama prepares stage for next round of budget negotiations – Pg. 5

- Taxes: Mr Obama raises revenue primarily by limiting tax breaks for wealthy families earning more than $250,000 a year, capping their deductions at 28%
- Spending: …adoption of "chained CPI", a less generous measure of inflation that would result in lower Social Security pension benefits and would save $230bn over a decade

Investors buy into US housing recovery – Pg. 20

- While the S&P500 has risen 16% in the past 12 months, homebuilders on the US benchmark have climbed an astounding 85%
- Builders are currently trading at more than two times their book value, a metric that accounts for their land holdings and new homes under construction. That is well above historical averages, ….
- …current price-to-book valuations are likely to be even higher than they appear as companies are taking advantage of deferred tax assets, or losses carried on their books to reduce future tax payments
- Single-family housing starts climbed to an annual rate of 411,000 in February after reaching 613,000 in January, the fastest rate since July 2008, ….
- The NAHB said in normal times the US market should be adding between 1m – 1.3m homes per year to keep up with population growth, new household formation and the decay of housing stock
- At present, builders are trading at 14 times their estimated earnings for 2015 and 12 times estimated earnings for 2016. Before the last housing bubble burst, companies traded at about 10 times, which suggest current valuations look pretty full
- Another factor that could boost builders' bottom lines are steadily improving home prices
- Bank lending remains muted, leaving the mortgage loans needed to purchase new homes out of reach for many Americans

10 April 2013

Fitch downgrades China as fears increase over soaring debt levels – Pg. 1

- China's sovereign credit rating has been cut by a big international agency for the first time since 1999 with Fitch raising concerns yesterday that the country's rising debt problems will require a government bailout

- Fitch cut China's long-term local currency rating from AA- to A+ yesterday, citing "underlying structural weaknesses" including low average incomes, lagging standards of governance and a rapid expansion of credit" (Prof Note: Wait….is Fitch talking about China or the U.S. China better be careful as unlike the U.S. that has China to buy our bonds, China has no one!)
- It also warned of the growing risks from the rise of shadow banking and said total credit in China may have reached 198% of GDP by the end of last year, up from 125% in 2008 (Prof Note: Let us put this in perspective, China still has 50% of GDP in FX reserves!)
- Beijing has waged a campaign to rein in the real estate sector, raising mortgage down payments and barring people from buying second homes in the hottest markets. Partly as a result last year China recorded its lowest growth rate for a decade

Louisiana governor shelves tax plan – Pg. 4

- …forced to put aside a sweeping plan to abolish income tax – a setback for the most ambitious effort to promote conservative fiscal policies at the state level
- …last month proposed to phase out the corporate and individual income tax in his state, while covering $2.4bn cost by raising the state's sales and tobacco tax
- The fate …of effort is attracting a high level of national attention, since he is Chairman of the Republican Governors Association, and it was seen as a model for other conservative Republican governors seeking to boost growth and competitiveness in their states

Time to change gear – Pg. 7

- Taiwan is one of Asia's greatest success stories. Its 23m people have more purchasing power than the Japanese or the British, and its quality of life is among the highest in Asia. It is one of the world's most research-intensive economies, spending the equivalent of 3% of its output on research and development, more than most economically advanced nations. Anyone who owns an electronic device probably uses something made or designed at least partly by a Taiwanese company
- Taiwan is also one of Asia's most robust democracies, with a solid two-party system
- …nation has been snagged in an upper middle-income trap. Growth has averaged about 4% in the past five years, not bad by western standards, but not enough to keep up with faster-growing rivals. Last year, the economy mustered growth of only 1.3%, among the lowest in Asia, although the government expects it to grow 3.6% this year
- In the 1980s and 1990s, Taiwanese manufacturers were among the first to go into China to build factories where labour was cheaper. Now, those manufacturers are getting squeezed between even cheaper competition on the mainland and smarter competition from South Korea
- About half of Taiwan's exports are electronics, but it boasts no Samsung or Sony…
- Taiwan's problems do not end there. With a fertility rate below that of Japan or South Korea – at 1.1 child per woman, the third lowest globally – its potential workforce will start shrinking as early as 2015
- The island is also hemmed in politically. Only 23 governments have diplomatic ties with Taiwan, mostly small nations such as the Solomon Islands and Honduras

- As free-trade agreements have spread throughout Asia, Taiwan has been left out by nations fearful of offending Beijing

9 April 2013

Private Equity fills up Asian lending gap – Pg. 16

- Some of the best-known private equity companies are setting up Asian credit funds to take advantage of constraints on banks in the region,…
- Both local and global banks in the region have been trying to cope with regulatory requirements which have driven up the cost of capital and depressing lending

Patrizia in 32,000 homes purchase – Pg. 16

- German property company Patrizia Immobilien has led a 2.5bn (euro) deal to buy 32,000 homes in Bavaria, one of the country's biggest housing market transactions since the financial crisis
- German property has been a sought-after asset in the past few years as prices in many cities have risen at accelerating rates, contrasting with a downturn in many parts of Europe
- Germany's large blocks of social housing often come with strict conditions attached, laying down how much owners are required to invest and how far rents can be increased

US corporate debt activity falls below level at depths of crisis – Pg. 21

- Activity in the US corporate bond market has plunged to a new low, raising questions over its ability to absorb any change in investor sentiment after several years of strong performance
- The percentage of the value of the high-grade corporate bond market that turns over each year, through sales in the secondary market, has fallen from close to 100% before the crisis to less than 73%, …
- Higher capital requirements and the Volcker rule banning proprietary trading have helped push dealers' inventories of bonds lower
- Other factors that are playing a role include the rise of "liability-driven investment" strategies, under which pension funds lock-up longer dated bonds to match specific future payouts, and low market volatility

Nikkei nears five-year high after BoJ move – Pg. 22

- …BoJ's aggressive monetary easing measures announced last week
- …Nikkei 225 rose another 2.8% with shares in leading exporters bolstered by the dollar's rise within striking distance of the Y100 level
- Gold shed 0.6% to $1,572 an ounce, …

8 April 2013

Portugal forced to make more welfare cuts – Pg. 1

- The budgets of stat-owned groups would also be cut, but he ruled out any further tax increases on top of record tax rises introduced in January
- The loss would increase this year's budget deficit to about 6.4% of national output, 0.8% higher than the agreed target of 5.5% - an objective that has already been twice relaxed by the troika of international lenders, the European Commission, the IMF and the ECB

Frustrated central banks move into riskier assets – Pg. 2

- Traditionally conservative central bankers are altering their investment behaviour by placing piles of cash in riskier assets and exotic currencies to compensate for ultra-low returns on US Treasuries, according to a poll of officials responsible for almost $7tn in reservers
- The world's central bankers together manage reserves worth $10.9tn, most of which is held by monetary authorities in Asia and the Middle East
- …the value of the dollar, euro and other reserve currencies has fallen, forcing central bankers to diversity or risk losses on their investment portfolios
- The most popular currencies were the Australian and Canadian dollars, the Scandinavian currencies and the Chinese renminbi

Fannie Mae – Pg. 14

- In 2012, Fannie made a record $17bn – its first profit since 2006
- Delinquency rates have fallen and as house prices have risen, Fannie gets better deals on sales of foreclosed homes (which it ends up with when the loans it guarantees default)
- Since 2008, the government has provided Fannie and Freddie with $187bn, in return for preferred stock
- The two have paid $65bn in preferred dividends to date, and as of last August, must pay the government all of their profits as cash dividends into perpetuity

6 April 2013

US jobs figures set alarm bells ringing – Pg. 1

- US employers added 88,000 jobs in March, less than half of what was expected and a much slower pace than earlier this year,….
- US stocks fell yesterday as investors flocked to the US Treasury market, sending the benchmark 10-year note sharply higher and pulling yields on the security back below 1.70%, its lowest level since Mid-December
- …unemployment rate ticked down from 7.7% to 7.6%

Resilient US suffers setback over jobs – Pg. 3

- …the unemployment rate ticked down from 7.7% to 7.6%, because 496,000 people left the labour force, many of them discouraged workers who stopped looking for job
- Sequestration – the automatic budget cuts worth $85bn to the end of September – had a muted effect in the report, because it only took effect on March 1, just before the payroll survey was taken

- (Prof Note: Again….the U.S. is becoming a nation of giver-uppers!)

Earnings cloud for surging US stocks – Pg. 12

- Company profits are a cornerstone of equity market performance but the record run for US stocks is set to be crowned by a distinctly poor earnings season this month
- The Fed's policy suppresses bond yields, making equities look far more compelling for investors than debt securities
- Based on forecast earnings the equity market has an implied yield of 7%, well above the return on bonds
- …earnings will matter for the equity markets and their slow growth rate means the S&P 500 may struggle to achieve new highs

Sales of subprime car debt securities accelerate – Pg. 12

- Sales of securities backed by pools of risky car loans have accelerated in past weeks as investors are snatching up the higher yielding bonds that were popular in the build-up to the financial crisis
- Since mid-March more than $2bn in deals that bundle car loans made to subprime borrowers have hit the US debt capital markets, pushing this year's total sales to $7.3bn. Issuance of subprime auto debt is now up about 30% from the same period of 2012,…
- Last year, more than 6m borrows with weak credit histories applied for car loans,….
- …annualized car sales 4.7% higher in March, to 15.6m vehicles

5 April 2013

Japan starts monetary revolution – Pg. 1

- Having failed to escape the trap of high debt and falling prices with moderate monetary stimulus, the BoJ, for long the world's most cautious central bank, plans to lead its peers in its attempt to restart robust growth and inflation in the world's third-largest economy
- …ECB left its benchmark rate unchanged at 0.75%....
- The Bank of England also left interest rates on hold at 0.5%....
- The BoJ said it would double Japan's monetary base by March 2015….
- Under the new measures, the BoJ will expand its balance sheet by 1% of GDP each month this year and by 1.1% per month in 2014,…
- By comparison, the US Federal Reserve's current monetary easing programme involves increasing the balance sheet by 0.54% of GDP per month

Obama set to outline curbs on tax breaks – Pg. 4

- Last year's budget by the4 president had $1.6tn in new revenue but $600bn of that was passed into law with the January tax rate increases
- To reach $1tn he would also have to renew other plans to curb tax breaks for oil and gas companies, limit the deferral of taxation on international profits and scrap the preferential tax treatment of private equity and hedge fund profits – known as carried interest

Banco do Brazil – Pg. 12

- …announced the partial listing of its insurance business, BB Seguridade, this month in what would be the biggest flotation in Brazil since 2009
- The government, which owns half of it, is keen to get the economy moving again and is pushing the banks to increase lending

Correction time for US small caps – Pg. 23

- Small cap stocks that have been leading the US equity market change since the start o the year are not spearheading losses after two days of heavy sell-offs
- Small-cap companies have higher valuations historically compared with large companies as they can boost profits faster
- At 18 times forward looking earnings, richer valuations are justified by r strategists because smaller companies are seen as potential takeover targets
- In the past five years US stock markets have risen in spite of outflows from equity funds

4 April 2013

Barclays review says elite's high pay fed cultural and ethical 'vacuum' – Pg. 1

- Barclays should lower warped pay levels, end its "entitlement culture" and usher in a spirit of "transparency and candour" if it is to win back trust, …
- "Compensation for the 'group of 70' was consistently and significantly above the median compared to peer banks"….(Prof Note: Why customers do not simply move accounts….I do not understand!)

Malaysia prepares for general election – Pg. 2

- Malaysia is set for its most contested general election since independence in 1957 after Prime Minister Najib Razak dissolved parliament yesterday
- The poll will define the pace of economic and political reform in the resources-rich nation. The election commission must set a date for the poll, with April 20 being one possibility
- Investors have been unnerved by the uncertainty surrounding the election
- Malaysian equities fell on the news, with the Kuala Lumpur stock index down 1.2% by midday at 1,664.58
- The market has been one of the worst performers in Asia this year amid election uncertainty
- Malaysia is a moderate Muslim state and a key US ally

Russia's bank chief warns on growth – Pg. 3

- A sharp slowdown in economic growth in the first two months of 2013 is "causing serious concerns", ….
- The slowdown in Russian economy has been occurring for five consecutive quarters. On Tuesday the central bank left its benchmark refinancing rate at 8.25% for a seventh month

- Unemployment in Russia hit 5.3% in January and February, almost the lowest level achieved in post-communist Russia. Stimulating an economy when it is at full capacity, …will scause inflation instead of growth

Ex-Goldman trader pleads guilty in $8bn fraud – Pg. 11

- …guilty to wire fraud for hiding $8.3bn in futures positions he was not authorized to make
- The CFTC alleged that, over seven days in November 2007 and December 2007 while working for Goldman Sachs, Mr Taylor concealed the size, risk and losses associated with positions he took in the S&P500 e-mini futures (Prof Note: Bascially…he doubled down! The issue with Wall Street, had he been successful despite stepping out of VaR limitations, he would have been rewarded handsomely….)

3 April 2013

Abe struggles over 2% inflation goal – Pg. 1

- ….world's third-largest economy could struggle to achieve the target of 2% inflation within two years that he has made a pillar of his economic policy
- …yen has fallen steeply against leading currencies, sending the stock market higher
- The inflation rate in February was -0.6%

Why China's economy might topple – Pg. 7

- The authors note two possible reasons for the decline: either China has fallen into the "middle income trap" of aborted industrialization; or it is managing the "natural landing" that occurs when an economy begins to catch up with advanced economies
- First, the potential for infrastructure investment has "contracted conspicuously", with its share in fixed asset investment down from 30% to 20% over the past decade
- Second, returns on assets have fallen and overcapacity has soared. The "incremental capital output ratio" – a measure of the growth generated by a given level of investment – reached 4.6 in 2011, the highest since 1992.
- Third, growth of the labour supply has fallen sharply
- Fourth, urbanization is still rising, but at a decelerating rate
- Finally, risks are growing in the finance of local governments and real estate
- …share of consumption in GDP is forecast to rise from 48% to 56% in 2022
- Relative to US levels (another measure of catch-up potential), China is where Japan was in 1950 and South Korea in 1982. That suggests yet more growth potential

Fannie profit hits post-crisis milestone – Pg. 11

- Fannie Mae earned a record net income of $17.2bn in 2012 as the recipient of the biggest bailout in US history returned to substantial profit thanks to resurgent housing market
- Fewer households fell behind on their mortgage payments during 2012, reducing Fannie's credit losses, with the delinquency rate down to 3.3% by the end of the year compared with 5.5% in March 2010

- Fannie Mae buys mortgages, provides a credit guarantee and then securitizes them in the capital markets. It suffered large losses in the financial crisis as the mortgages it backed turned sour
- Fannie has drawn down a total of $116.1bn in bailout funding from the Treasury in the form of senior preferred stock. That, in effect, gives the government 100% ownership
- The terms of Fannie's rescue deal with the Treasury mean that it is not allowed to build up net assets. As a result, if it writes back any of the deferred tax assets it will immediately have to make a full matching of payment to the Treasury

Mortgage bond index raises costs – Pg. 18

- The cost of insuring against losses on commercial mortgage-backed securities has soared, in a development that risks raising the cost of financing for office developments, shopping centres and apartment blocks in the US
- An industry index launched in January, which allows investors to hedge their exposure to commercial mortgages, was hailed at the time as a means of boosting issuance of CMBS
- Investors can hedge their exposure to the 25 CMBS deals by taking a short position in the CMBX
- Speculators who take the other side of the trade would be betting on an improvement in the credit quality of the underlying mortgages
- Delinquency rates on commercial mortgages remain low and property prices have recovered strongly, but other factors weighing on sentiment include weakness at some shopping centres, in the teeth of competition from internet sales

2 April 2013

Clerical staff bear brunt of US jobs crisis – Pg. 1

- The US has gained 387,000 managers and lost almost 2m clerical jobs since 2007, as new technologies replace office workers and plunge the American middle class deeper into crisis
- …US median household income has fallen 5.6% since June 2009 to $51,404, even as the economy recovers. The top 10% of American earners….are collecting most of the fruits from the recovery
- Job growth came from healthcare, management, computing and food service jobs.

Industry slows down but housing picks up – Pg. 4

- …unexpected slowdown in US manufacturing growth sent stock markets lower,….
- The housing market outlook was brighter. Construction outlays grew 1.2% to an $885.1bn annual rate, after a 2.1% decline in January, ….
- Private construction spending advanced 1.3% in February from the previous month. Spending on homebuilding gained 2.2% to $303.4bn annualized pace, ….
- Construction of family homes drove the increase, rising 4.3%, following a 3.6% boost in January

Five questions for the world's next trade chief – Pg. 9

- Starting this month, the 159 economies of the World Trade Organization will begin the seletion of a new director-general
- …the WTO is at risk of being pushed aside
- The action is shifting to other venues, with the announcement of a US-EU trade negotiation being just the most recent
- First, will you push for a "small package", drawn from the Doha negotiations, of special benefit to poorer countries?
- Second, will you encourage the completion of an international services agreement that offers reciprocal liberalization to all economies willing to join ?
- Third, will you support zero-for-zero "plurilateral" accords that bind all signatories to eliminating tariffs and other barriers reciprocally, sector-by-sector?
- Fourth, are you willing to press for principles to require fair dealing by state-owned enterprises?
- Finally, twill you agree to launch discussion with the IMF about application of the existing WTO and IMF rules requiring that exchange rates shall be manipulate to gain unfair trade advantage?

1 April 2013

Emerging nations dump euro reserves – Pg. 1

- The euro's challenge to the international status of the US dollar has been set back a generation as new data show developing countries dumping the European currency from their official reserves
- This highlights the damage that Europe's sovereign debt crisis has done to its standing in the global financial system as the chance of rivaling the dollar – one dream of the single currency's founders – slips away
- Euros now make up 24% of their reserves, the lowest since 2002, and down from a peak of 31% as recently as 2009
- China and Brazil last week signed a $30bn swap so each can borrow the other's currency in the event of turmoil in the international financial system

UK welfare state's biggest contraction takes effect – Pg. 3

- As Britain struggles with what is forecast this year to be the biggest structural deficit of any OECD country apart from Japan, the government is determined to move people off the benefits rolls and into work

Obama seeks middle ground to swing deficit deal – Pg. 4

- The US president's team has been considering whether to propose cuts and reforms to big government health and pension programmes - ….
- …a borrowing limit increase is due over the summer to prevent a default on US debt, which would require a fiscal compromise that still seems elusive

30 March 2013

Brazil gives boost to worker rights – Pg. 4

- …country that in 1888 was the last large western country to abandon the trade [slavery], Brazil's Senate this week finally ended entrenched legal discrimination against maids
- The constitutional amendment, which follows other recent efforts in Brazil to improve the rights of manual workers, such as those of truck drivers, comes as the rise of a lower middle class in Brazil is leading to greater pressure for equal rights and an end to informality in the labour market
- …maids will have the right to overtime payments and other benefits, such as severance pay
- In Brazil, the number of domestic workers rose from more than 5m to more than 7m between 1995 and2009, ….
- Under Brazil's constitutional amendment, maids' working hours will be capped at 44 hours a week with overtime for an extra hours. Employers must pay the equivalent of 8% of salaries to workers' severance indemnity fund,, which maids can claim if they are dismissed

Housebuilders get Budget boost – Pg. 11

- Predictions of a new property boom helped lift housebuilders to five-year highs

Bric performance disappoints equity investors – Pg. 12

- The Bric countries – Brazil, Russia, India, and China, who are feted for power global growth – were among the more disappointing holdings for equity investors in the first quarter
- In all four countries, benchmark stock indices are lower than at the start of 2013, as weaker-than-expected growth damped enthusiasm and investors refocused on the US and other developed markets
- Brazil's Bovespa index was the worst performer, down 7.8%. The S&P BSE India index is down 3% on the year so far, followed by Russia's micex, which is down 2.6%. Even China's Shanghai Composite, which has held up for much of the quarter, ended down 1.4% after the government moved to cool the property market
- In Brazil, a troika of sluggish growth, accelerating inflation and blunt interventionist policies from the government has contributed to the drop in the Bovespa

28 March 2013

Cyprus to apply EU's first capital controls – Pg. 1

- Cyprus is to become the first Eurozone country to apply capital controls – with limits on credit card transactions, daily withdrawals, money transfers abroad and cashing cheques – intended to prevent a vast outflow of euros when its banks reopen today
- …depositors will be able to withdraw no more than 300 euro in cash each day,…

- Transfers above 5,000 euro will require permission of the central bank; overseas credit card transactions will be limited to 5,000 euro per month, but unrestricted in Cyprus; and people will be banned from taking more than 3,000 euro of bank notes out of the country per trip

Brics to create development bank – Pg. 3

- …set up a development bank that could ultimately challenge the influence of the Bretton Woods institutions,…
- The leaders also agreed to establish a $100bn pool of foreign reserves to "contribute to strengthening the global financial safety net and complement existing international arrangements as an additional line of defence"
- The initiatives are attempts by the Brics nations, which together produce some 20% of global GDP, to create formal institutions as they push for greater co-operation between members

Investors unnerved as Malaysian pool looms – Pg. 6

- …election fever rises in the multi-ethnic southeast Asian country of 28m, ….
- Since the era of Mahathir Mohamad, prime minister from 1981 to 2003, Malaysia has been governed by Umno
- At stake is the future of a moderate Muslim country and US ally, which has been a linchpin of political unity in the Association of Southeast Asian Nations as China's regional clout has grown
- …foreign holdings of Malaysian government bonds jump 550% to M$215bn ($69bn) since 2009….
- Malaysia has a debt to GDP ratio of 51% - one of the highest in Asia – and government revenues are weak
- Economists have urged the introduction of a general sales tax
- 5.6% growth in Malaysia's economy in 2012; $15,000 government tar et for per capital income by 2020

Philippines wins rating upgrade – Pg. 6

- …first investment-grade rating, the la test sign of confidence in one of Asia's fastest-growing economies
- The economy grew 6.6% in 2012, faster than Indonesia and Vietnam and matching growth rate of Thailand which was recovering from severe flooding the previous year

Property owners leap on rates tactic – Pg. 22

- US commercial property owners are turning to an unusual tactic to unlock the benefits of low interest rates: delivering millions of dollars of government bonds as replacement collateral to their old mortgage lenders
- The refinancing tactic, known as defeasance, frees their property to be used as collateral instead in a new, lower-cost loan, even if the original mortgage has been sold on to investors as part of a commercial mortgage-backed security

- The steady rise in defeasance has attracted the attention of strategists and rating agencies, who dub the tactic as "win-win"
- Cmbs investors benefit from the lower risk of default on their bonds, which now have government securities as collateral instead of riskier office space, shopping malls or apartment blocks
- Property owners benefit from the difference in rates between their old and new loans
- The jump has been most pronounced in CMBS deals from 2004, where 18.8% of the underlying loans are now defeased, up from 13.9% a year ago,…

27 March 2013

Global pool of triple A status sovereign bonds shrinks 60% - Pg. 1

- The expulsion of the US, the UK and France from the "nine-As" club has led to the contraction in the stock of government bonds deemed the safest by Fitch, Moody's and Standard and Poor's, from almost $11tn at the start of 2007 to just $4tn now,…
- …encouraging investment flows into emerging markets and forcing investors and financial regulators to rethink definitions of "safe" assets
- …series of upgrades across much of the rest of the world – especially in Latin America
- Topping the list in the scale of credit upgrades since January 2007 are Uruguay, Bolivia and Brazil. The biggest downgrades were in crisis-hit southern Europe, with Greece seeing the steepest drop
- The highest credit grades are still dominated by advanced western economies but average ratings over the past six years have fallen furthest in the crisis-hit Eurozone. In contrast, the biggest average upward ratings have been in Latin America followed by newly industrialized Asian countries

Online courses open college doors for world's precocious teenagers – Pg. 1

- Teenage applicants from as far afield as India and Mongolia are catching western colleges' attention by taking "massive open online courses" designed for older students

BoJ vows to boost scale of easing – Pg. 3

- Japanese bond prices moved to within a whisker of their all-time highs yesterday….
- Inflation data on Friday this week is expected to underline the scale of the challenge. Economists predict that nationwide consumer price index (excluding fresh food) will have slipped by 0.4% in February from a year earlier,….

Downgrades lead to triple B bulge – Pg. 21

- The shrinking global supply of triple A-Rated government bonds is creating bulges in other investment grade credit categories, especially the triple B categories,…
- One clear knock-on effect has been the expansion in the pool of government bonds falling into the double A categories, which has expanded from 24.8% six years ago to more than 34%

Investors heartened by US housing data – Pg. 22

- (Prof Note: Case-Shiller index was published Tuesday AM)

26 March 2013

Eurozone shifts burden of risk from taxpayers to investors – Pg. 1

- European bank stocks and the euro suffered sharp losses….
- Yesterday's deal allowed the ECB to keep its emergency lifeline open to Cypriot banks yesterday, preventing a meltdown of the financial sector that threatened the country's euro membership
- In the Irish and Spanish banking sector rescues – which were similar to Cyprus in that bank failures risked plunging the governments into bankruptcy – several categories of private creditors, particularly senior bondholders and uninsured depositors were untouched

Cypriots feel betrayed as economic rock turns to rubble – Pg. 2

- Cyprus's economy could shrink 15% this year, and then 5% in 2014, ….
- A downturn would reduce tax receipts and make Cyprus's debt load even heavier relative to its GDP,…
- …how a country deprived of an industry that accounts for about three-quarters of its economy could repay its new loans
- Cyprus invented the offshore industry in the 1980s in the wake of another upending of its economy: Turkey's 1974 invasion of the island. The system was built on a low corporate tax rate and – some say – tolerance of money laundering by Russians and others
- The bailout, which will lead to the liquidation of its second-largest bank and haircuts of 30% or more on large deposits, appears to have fatally undermined trust
- …analysts say its tourism industry, its other engine, is held back by higher costs associated with the euro (Prof Note: Funny I just read this as I was just thinking of a holiday in Cyprus later this year….Croatia….here I come instead!)
- Supplies of food and other basic items have been interrupted, leading to outbreaks of panic buying (Prof Note: the creating of a panic room in my house does not look so silly now, does it!)

Dudley hints at Fed slowing of QE3 – Pg. 5

- One of the Federal Reserve's biggest backers of easy monetary policy said he supported slowing down the central bank's asset purchases once the US economy had enough momentum

Humbled heavyweight – Pg. 7

- Intervention in Brazil can make or break an investor's fortunes overnight. In March, shares of Petrobras leapt 9% after the government unexpectedly allowed the state-controlled fuel company to increase diesel prices.

- The sure of interventionism dates back to 2009 when Brazil began what it dubbed the "currency war"
- …Brazil screeched to a halt faster than other emerging economies – from 7.5% GDP growth in 2010 to 0.9% last year
- In the second half of 2011, the central bank began a dramatic easing cycle, bringing its benchmark Selic rate down to what is for Brazil a record low of 7.25%
- First came giant infrastructure programmes
- Brazil has the highest ratio of renewable hydropower electricity at nearly 82% last year. Yet Brazilians pay among the world's highest energy bills (Prof Note: Received confirmation yesterday, I will be speaking in Brazil in September! Chris, you may be in Singapore but I expect the Presidential Suite awaiting me in Rio!!!)

25 March 2013

Cypriots braced for tough bank restrictions – Pg. 1

- Cypriots were braced yesterday for the introduction of strict controls on withdrawing and transferring money from their bank accounts (Prof Note: In the U.S. restrictions are similar! $10,000 cash withdrawal is reported for your OWN money withdrawal! More than $10,000 withdrawal needs to be scheduled 8 days in advance! Banks pay no interest on deposited funds….remind me again why we should keep our $$$ in banks rather than underneath our mattresses???!!! United States of Cyprius!)
- The capitals controls are expected to be in place tomorrow morning to prevent a run on Cypriot banks if and when they open after a 10-day closure (Prof Note: Keep 60 days of expenses of cash on hand!)
- Capital controls would be unprecedented in the history of the euro, ….

US lawmakers weigh up reform of corporate tax – Pg. 3

- US lawmakers are considering limiting the tax deductibility of interest payments for businesses, a measure that would dramatically transform corporate finance by reducing the bias towards debt in the tax code (Prof Note: Get your pens ready, we are about to rewrite the Finance textbooks!)
- Among developed countries, the US has the widest gap in the tax treatment of corporate investments with debt, which is extremely favourable, compared with equity, which is much less so.
- It would promote simplicity and lower compliance costs, since companies would be less likely to resort to hybrid debt and equity financing arrangements for tax purposes that can result in challenges by the IRS
- It would also make the US less of a haven for foreign companies seeking to park their debt in the US to generate the maximum tax benefit
- …potentially shake the corporate bond markets
- …US companies declared $888bn in interest payments in 2010

Axa to reduce French property portfolio amid fears for economy – Pg. 15

- The largest manager of French property assets will reduce its exposure to the country over fears it is becoming a "middle of the pack" economy, held back by slow public-spending reforms and the stringent tax policies….

23 March 2013

Cyprus runs out of bailout options – Pg. 1

- The rejection of the Cypriot plan left Nicosia with little choice but t acquiesce to a programme similar to one agreed last weekend ore face collapse of its financial sector – and possible exit from the euro
- If Cyprus cannot reach a deal by Monday, the ECB has vowed to cut its emergency loans to Cypriot banks, starving them of their last lifeline

The tremors hitting Cyprus could shake the world – Pg. 7

- They should never have put their names last Saturday to the legalized robbery of insured small savers that masqueraded as a contribution to the financial rescue of Cyprus. Then again, Nicos Anastasiades, Cyprus's ostensibly pro-European president, should never have insisted on lightening the burden on millionaire foreign depositors – mostly Russians
- …Cyprus reminds us that the trouble caused by islands is often inversely proportional to their size: think of Taiwan since 1949, Cuba in 1962 and the Falklands in 1982. Europe's financial crisis touched spectacular heights in Iceland and Ireland. Cyprus stands out, however, for the trajectory of its policies since it won independence from Britain in 1960
- Cyprus joined the EU in 2004, partly to avoid regional isolation, partly for the economic benefits, and partly to keep Turkey at bay
- Along the way Cyprus acquired dubious friends such as Slobodan Milosevic, the Serbian dictorator whose warmongering regime, hit by western sanctions, used the island for financial operations. Post-communist Russians came to Cyprus, too – attracted not by English fish and chips but by the reliability of English law for business transactions
- …Russia's long-term interest lies in keeping Cyprus in the Eurozone and EU
- But the latest crisis draws in Britain, Greece, Israel, the US and Turkey, not to mention Germany as the eurozone's indispensable decision maker

Gold breaks through $1,600 level as haven appeal grows – Pg. 12

- Gold prices rose above $1,600 a troy ounce as worries about the Cyprus banking bailout reignited gold's haven appeal and the yellow met l posted its biggest weekly gain in two months
- Physical purchases from Asia fell away above the $1,600 level….

22 March 2013

New view of oldest light in the sky – Pg. 1

- …Big Bang that created the universe 13.8bn years ago

Birth rate decline shows signs of easing – Pg. 2

- The declining birth rate in some of the world's largest economies shows signs of stalling, and in some cases reversing, …giving some relief to governments struggling to finance old age provision with taxes from a shrinking workforce
- …fertility is rising in the English-speaking world, with Britain, the US, Australia, Ireland and New Zealand all likely to have sufficient births per woman to at least keep populations from falling in years ahead
- …Italy, Singapore, Japan and Spain still have very low fertility rates

Congress votes to avert shutdown – Pg. 6

- The US Congress approved legislation to extend funding for the government until the end of September, averting a shutdown and blunting the impact of the $85bn in budget cuts for a few federal agencies
- ….lurking in just a few months is a new fiscal flashpoint since the US will need to raise its borrowing limit, probably by August. This process, which requires congressional approval, was amicably suspended in February but was deeply fraught in August 2011, risking a dramatic US default on its debt

US mortgage bonds – Pg. 12

- …signs of life in the market for private label mortgage bonds.
- Since the credit boom – more than $1tn of issuance in 2005 and in 2006, reckons Inside Mortgage Finance – and subsequent bust, there have been just a smattering of private deals
- …unsustainable for the US government to support 95% of the US mortgage market, as itf has since the housing meltdown. Several factors have set the stage for more private issuance. The fees that Fannie and Freddie charge to guarantee loans have gone up, while the size of loans eligible for them to finance has fallen. On tope foo the housing rebound, add investors' thirst for yield.

US loan deals come under fire – Pg. 23

- Mortgage lenders are pressing on with sales of bonds backed by private home loans in the teeth of investor and rating agency skepticism over standards
- Weak loan underwriting and poor investor protections led to a collapse in RMBS prices in 2007, and shut down the new issue market for several years
- Until now, all but one of the RMBS deals since the financial crisis have included "reps and warranties" that last the lifetime of the bonds

21 March 2013

Fed keeps its foot on the QE pedal – Pg. 1

- The US Federal Reserve kept its foot on the monetary accelerator but made a slight change to its language on its third round of quantitative easing that puts greater weight on the costs and risks
- Asset purchases under QE3 will continue at $85bn a month and the US central bank expects to keep interest rates low until unemployment rate falls below 6.5% from the current 7.7%
- …Fed "will continue to take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives"
- The Fed made slight upgrades to its assessment of current economic conditions even as it cut its growth forecasts for 2013 and 2014
- In economic projects published alongside the FOMC statement under a new release schedule, it cut its 2013 growth projections to 2.6% from 2.7%, and shaved a little off 2014 as well
- It now expects unemployment of 7.4% at the end of 2013 from previous forecast of 7.6% (Prof Note: Unemployment drop because of growth or as a result of us being a nation of "giver uppers"?! Look at the labour force %...are things really improving?!)

Police raid IMF chief's home – Pg. 2

- …probe into allegations that she acted illegally in approving a 400m (euro) compensation payment to a prominent supporter of Nicolas Sarkozy when she was French finance minister (Prof Note: A female DSK? At least she is not groping maids in New York!)

Osborne plan parallels US homes loans system – Pg. 3

- George Osborne is edging Britain closer to a US-style government-backed secondary mortgage market by promising to underwrite 130bn (sterling) of new home loans during the next three years
- The two entities – although private – enjoyed implicit government backing for 50 years. Yet there are striking parallels to how the former was set up by Franklin Roosevelt during the Great Depression, underwriting about one in five US mortgages during its early years
- The first is a new shared-equity scheme whereby government will put in up to 20% of the value of a new-build home worth up to 600,000 (sterling)
- The even bigger element, however – with echoes of Fannie Mae – is a mortgage guarantee to be offered by almost anyone buying a new or existing property, again up to a cap of 600,000 (sterling)
- The solution will attract comparisons with the US's system of state backing for mortgages, but the two differ: US bodies underwrite the entire loans rather than only a small portion. The Treasury insists that support will be temporary
- Then again, the US government made similar assertions in 2008 when it bailed out Fannie Mae. Five years later, there is no sign of the pair returning to private ownership – and close ot 90% of US mortgages are now underwritten by quasi-state bodies (Prof Note: Would it not be simply easier to classify the US as socialist and simply acknowledge the nationalization of Freddie/Fannie?! If we are backing deposits at banks, why not nationalize them as well?! Hmmmmmmmm…..)

20 March 2013

Cyprus in Russia plea as levy is thrown out – Pg. 1

- Cyprus's finance minister arrived in Moscow last night to try to wrest vital economic assistance from the Kremlin as his country's parliament rejected a 10bn (euro) EU-led bailout that requires 5.8bn (euro) to be seized from Cypriot bank accounts
- If the Cypriot authorities cannot raise extra funds in a way that satisfies the Eurozone, the island faces the risk of full banking meltdown and possible exit from the Eurozone
- In a sign of heightened nervousness in other eurozone countries, Spain's finance minister declared savings accounts in his country "sacred"
- (Prof Note: as an academic exercise I went to BB&T, my bank, as a "Roger Run" to see if I could get my $$$ out. Two things I learned: (1) Anything over $10,000 is reported and (2) it takes over a week for cash in excess of $10,000 and must literally be ordered. As such, my bank walk has begun!)

UK set for four more years of rising debt – Pg. 1

- …target for a decline in public debt as a percentage of GDP – currently 75% - has been pushed back to 2017-18 fiscal year
- …blamed Britain's weak economy on high inflation, the Eurozone crisis and a rebalancing of the economy away from banking and energy in the wake of the global financial crisis
- Growth will be lower in the coming year than previously hoped and the projected rise in nominal GDP will be smaller than forecast with weaker tax receipts

The ghosts of '94 – Pg. 5

- A sharp, unexpected rise in interest rates wrecked the value of bond portfolios and turned profitable trades into money losers. Hedge funds blew up, banks plunged into the red and the resulting shockwaves even hurt the equity market, which reversed a strong start to end down on the year
- The question today is whether low interest rates, signs of stability in the housing market and improving jobs data are a prelude to a stronger rebound for the improving economy
- Compounding the adverse reaction to Fed rate increases in 1994 were some important aspects of the bond market's structure. For the first time, bond investors had to understand how mortgage securities would seriously underperform and lose money for investors as underlying interest rates rose. This time the Fed may have the tools to curtail a rise in bond yields
- The value of outstanding bonds - $37.7tn at the end of September 2012 – is three-and-a-half times what it was 19 years ago
- There are vastly more hedge funds and ordinary investors who own bonds now, and money going into bond funds has accelerated sharply since the crisis…
- The emergence of exchange traded funds means that it is easier and cheaper than ever for investors to bet on movements in the bond market

More bond investors bet on US rate rise – Pg. 11

- The US central bank is expected today to maintain its current level of bond purchases, which have pushed up bond prices and kept rates low
- …record volume of bets has been laid against the value of the two largest junk bond ETFs

Calpers turns back to commodities – Pg. 18

- CAlpers, the largest US public pension fund, has endorsed commodities as a safeguard against inflation despite recent moves to pull money from the asset class
- The $255bn bund….

19 March 2013

Cyprus scrambles to change terms of its 10bn (euro) bailout – Pg. 1

- Cypriot authorizes yesterday scrambled to renegotiate the terms of a 10bn (euro) bailout by moving to scrap its controversial levy on small account holders and instead seize more from larger depositors and businesses
- The islands' banks were ordered to stay closed for two more days to avoid a bank run,…
- A senior EU official said international lenders were pushing the Cypriot government to exempt all depositholders below 100,000 (euro). Instead the IMF, the EU and the ECB wanted a levy of 15.6% on all deposits above that level, many of which are held by Russians
- Under the deal struck with the international lenders over the weekend, a 6.75% levy would be imposed on all deposits under 100,000 (euro), while accounts above that would face a 9.9% levy

Eurozone optimism derailed in a flash – Pg. 1

- The unprecedented attempt to force losses on depositors – the very community that such banking union is supposed to protect – ripped up the traditional hierarchy of bank creditors, where equity investors are the most exposed, depositors are protected and bondholders are in the middle

China joins top five arms exporters – Pg. 4

- China has ousted the UK as the world's fifth-largest arms exporter by volume, mainly because of shipments too Pakistan, ….
- Also, it is the first time the UK has not been one of the top five conventional arms exporters since at least 1950, …
- Pakistan took 55% of Chinese arms exports between 2008 and 2012, ….
- Chinese defense spending is now second only to US military outlays. At current rates, Chinese spending could catch up with the US – which accounts for more than 45% of global military spending – as early as 2025
- The US share of global conventional arms exports is 30%. Russia, …, accounts for 26%, Germany exports constitute 7% and France accounts for 6%

Regulator exposes big three rating agencies' 'shortcomings' – Pg. 16

- The European Securities and Markets Authority (Esma), which is the sole regulator of credit ratings in the 27-nation bloc, found that Moody's Standard & Poor's and Fitch used outdated information, were not sufficiently transparent about how they rate banks and did not give the market enough warning of significant methodology changes

18 March 2013

Insurers escape bank-style capital levies in plans to limit systemic risk – Pg. 1

- The world's biggest insurers have dodged bank-style capital surcharges based on their entire balance sheets because regulators have decided the broader financial system can be protected with a regime that focuses on their non-traditional businesses
- The FSB – based in Basel, Switzerland – is expected to come up with a list of systemically important insurers in April, based on the size of their non-traditional business and their centrality to the financial system. All such companies will be subject to tighter supervision and be required to write "living wills" that will make them easier to wind down in any future crisis

BIS warns of further weakness – Pg. 6

- The health of advanced economies is lagging far behind recent exuberance in financial markets, the body representing world's leading central banks has warned, raising the possibility of disappointments for investors and the public alike
- Global stock markets have risen sharply this year, with the S&P 500 index of US equities rallying last week to within a few points of a record high
- The BIS noted that the burden of debt had gone up in every advanced economy since 2007: in some cases because of much higher government deficits, in others private debt had increased. The rise in debt amounted to $30tn, or 40% of global income

Federal Reserve expected to stick to policy guns – Pg. 6

- With slow progress on the economy, the main focus will be on what the chairman Ben Bernanke says in his press conference, especially about the Fed's current $85bn-a-month QE3 programme of quantitative easing and its eventual exit strategy from easy monetary policy
- On the Fed's exit strategy – its plan for eventually getting rid of all the assets it is now buying – the idea of letting them gradually mature rather than selling them is gaining ground in the FOMC

US debt regime urged for India – Pg. 21

- Indian regulators should introduce a US-style "Chapter 11" bankruptcy law to help recover bad debts and end long-running disputes with borrowers, …
- India's banking system has grappled with high profile businesses struggling to stay afloat, ….

- America's legal code allows companies unable to service debt to reorganize themselves under bankruptcy protections, for instance by cutting salaries or pensions, while continuing in business
- India's banking system has no similar provision, though it operates a corporate debt restructuring cell (CDR), where banks negotiate with heavily indebted companies, a procedure used by Suzlon this year

16 March 2013

China sees 330m abortions in 40 years of enforced controls on family size – Pg. 1

- China's one-child policy has been the subject of a heated debate about its economic consequences as the population ages. Forced abortions and sterilizations have also been criticized by human rights campaigners……
- China first introduced measures to limit the size of the population in 1971, encouraging couples to have fewer children
- The Chinese government has previously estimated that without restrictions, the country's 1.3bn population would be 30% higher
- In the US, where the population is 315m or about one-quarter the size of China's, an estimated 50m abortions' have been performed since Roe v Wade Supreme Court decision legalized abortion in 1973
- Every year Chinese doctors abort roughly 7m pregnancies, sterilize almost 2m men and women, and insert 7m intrauterine devices
- As China's working-age population begins to decline, economists have warned that the family planning rules will pose an increasing drag on economic growth
- (Prof Note: How can men and woman have equal rights given woman have the right to abort but the man does not? I am NOT providing an opinion on Roe v Wade but rather, if woman can physically abort, should men not be able to financially abort, i.e. give up rights and responsibilities during pregnancy should the woman choose to keep the child? I may need to break out my "Sperm" T-shirt: Society for the Preservation of Equal Rights for Men!)

Bernanke sets up prospect of disappointing future returns – Pg. 12

- This week, the S&P 500 came within , wo points of an all-time high even though the US unemployment rate is stuck at 7.7%
- Analysts put forward several measures to argue that the market is fairly valued, even after its rapid ascent. The simplest is the price of stocks relative to corporate earnings. At 18, the price-to-earnings ratio on the S&P500 is not especially high and it yields a 2% dividend
- That compares with a p/e of more than 40 nr a 1% dividend in the year 2000
- The flip side of those profits is a record low in the share of national income going to workers as wages
- One example is the cyclically adjusted p/e ratio derived by Robert Shiller, the Yale economist known for spotting the internet and housing bubbles. His indicator currently reads 23.5 compared with a long-run average of 16.5, suggesting that at its new highs the stock market

is actually fairly pricey. Another technique is Q – invested by James Tobin – which compares the market value of equities with the replacement value of their assets. Q also suggests that S&P 500, while not bubbly, is somewhat frothy

15 March 2013

JPMorgan under fire for London whale saga – Pg. 1

- JPMorgan Chase "misled investors" before "lying to investigators" about its $6bn trading losses, John McCain, ….
- The 300-page report homes in on disclosures by Jamie Dimon, JPMorgan chief executive, and Doug Braunstein, who resigned as CFO after the affair came to light
- It also reveals that the OCC lowered its "Camels" measure of bank strength, a key and usually secret metric, due to concerns over management and internal "oversight deficiencies"

Poverty reduction drive succeeds in developing world – Pg. 4

- Up to 80% of the world's middle classes will live in developing countries by 2030 thanks to surprising recent gains in poverty reduction,…
- Underpinning the improvements in the human development index was rapid growth in countries such as China, India and Brazil, with China and India having doubled per capita economic output in less than 20 years
- Underpinning this poverty reduction was developing countries' increasing share of global trade, which grew from 25% to 47% between 1980 and 2010
- It also found that trade among developing countries was the biggest factor in that expansion, increasing from less than 10% of total global trade to more than 30%

Carlyle Group – Pg. 12

- Last May, the private equity pioneer listed its shares. This week it is offering investors spots in its funds for the dainty little sum of $50,000
- A 2012 study found that, since the 1980s, private equity had outperformed the S&P500 by 3% on average annually over the life of the fund, after fees

Hedge fund closures keep rising – Pg. 16

- The number of hedge funds going out of business rose for the third year in a row in 2012, …
- The average hedge fund gained 6.4% in 2012, after average losses of 5.3% in 2011. A simple portfolio of index funds invested in 60% US stocks and 40% in bonds was up 17.5% over the same two year period

14 March 2013

Germany ignores eurozone's growth plea – Pg. 1

- Germany has ignored calls from its Eurozone partners for more economic stimulus by tabling plans to cut spending and balance its budget ahead of schedule on the eve of an EU summit dedicated to growth
- France wants the emphasis of Eurozone budget discipline to be on reducing structural – rather than nominal – deficits, excluding the short-term effects of economic slowdown

China 'on high alert' against inflation – Pg. 2

- …China reported a jump in inflation to a 10-month high of 3.2%, …
- …China at the opposite end of the policy spectrum from the US and Europe, where central banks have kept monetary conditions extremely loose in order to rev up sluggish growth
- With property prices starting to soar, the government last month stepped up its controlns of the real estate market, vowing to levy a 20% capital gains tax to thwart speculators
- The central bank has also shifted towards a tighter stance in recent weeks, withdrawing cash from economy via its open-market operations

Drive to close private equity tax gap stalled in uphill battle – Pg. 4

- Mr Romney, who founded Bain Capital and still receives money from the firm's investments, paid 14.1% tax on income of $13.7m in 2011. The share of profits from private equity, known as carried interest, is assessed as capital gains rather than ordinary income
- In the deal on the fiscal cliff on January 1, the capital gains top rate rose to 20%, with another 3.8% for high earners as part of Mr Obama's healthcare reforms
- The rate is still far below the new top rate imposed on ordinary income, now set at 40.5%, after the January deal and the Obamacare surtax but still too high for some in the finance industry

Cash in hand – Pg. 7

- Direct cash transfers have been introduced successfully in other developing countries, including Brazil, Columbia and Mexico following the so-called tequila crisis with its sharp devaluation and swinging recession. But the logistical challenges of introducing the scheme in a country of 1.2bn people, about half of whom are living in poverty, are vast
- Currently, about 12% of India's annual government spending is on subsidies

Asia growth eludes big banks – Pg. 13

- Global corporate and investment banks are mostly failing to turn Asia's high growth rates into increasing revenues and profits from the region
- Asian economic growth has averaged 5 to 6% in the past three years but the declines in revenues and profits for the handful of global banks that break out figures for the region have been stark
- Asia has seen a big fall in stock market listings in the past 18 months, although Malaysia provided a rare bright spot in 2012, while mergers and acquisitions activity has also been poor and equities trading volumes have tumbled

- Job cuts in Asia have not been as dramatic as those made by global banks elsewhere but the industry has continued to reduce or ditch entire product lines, refocus on serving fewer, larger clients and to strip out costly management layers

Pension funds bypass middlemen – Pg. 16

- Pension funds are cutting out the middlemen by bidding for companies directly rather than leaving it to the private equity groups in which they have invested

13 March 2013

Putin aide set to head central bank – Pg. 3

- Ms Nabiullina, 49, will be the first woman central banker for a G8 country, and comes to the role after serving as Russia's economy minister during the 2008-09 global financial crisis and then as Mr Putin's chief economic aide following his return to the presidency in May

Ryan outlines deep US spending cuts – Pg. 4

- Mr Ryan's budget slashes government spending on a broad range of social programmes by $4.6tn over a decade while sparing defence and avoiding any tax rises. It achieves a tiny budget surplus in 2023, with spending and revenues each worth 19.1% of the economy
- The plan was quickly dismissed by the White House and congressional Democrats as an extreme document that gut spending for the poor and the elderly – as well as domestic investment in research and infrastructure in order to spare further tax increases on upper-income families and companies

Mortgage bond investors criticize bank pact – Pg. 4

- Large US mortgage bond investors have threatened to retaliate following a settlement between banks and regulators over foreclosure abuses, a move that could lead to higher costs for future borrowers seeking home loans
- The investors have warned they are considering scaling back purchases of new bonds or will demand higher yields to compensate them for increased risk from Washington, both of which could delay or limit the return of private capital to America's $9.9tn home loan market and stalling the budding property recovery
- Prices on so-called private-label mortgage securities have risen about 3% this year after rallying 22% last yeasr, …

Lack of cheap homes threatens New York's long-term growth – Pg. 4

- Since 2001, average rents have risen 44% while home prices are up 47%, …
- Housing assistance programmes have shut down and the city's homeless shelter population has risen to a record high of 50,135, up nearly a fifth from the year before
- Many New Yorkers spend more than 50% of their earnings on housing

Fed takes note as important jobs market data stagnate – Pg. 4

- The hires rate stalled at 3.1% - far below the 4% common3 before the recession – and the quits rate was mired at 1.6% compared with 2.2% in 2006
- When the labour market is strong, people change jobs more often, and the hires and quits rates go up
- ..could mean the unemployment rate fell because jobs market is weak, not strong

Germany overtakes UK as Europe's most attractive property market – Pg. 17

- Germany has leapfrogged the UK as the most sought-after destination n for European property investors, in a power-shift that underlines easing fears of a Eurozone break-up
- The popularity of Germany as an investment destination reflects the growing sense among real estate funds and institutional investors that the likelihood of a Eurozone breakup has diminished since last year
- A large contingent of US private equity groups has battled to buy portfolios of non-performing loans and distressed assets in the peripheral economies of Ireland and Spain

12 March 2013

China to keep Zhou at central bank helm – Pg. 3

- …serve…past the mandatory retirement age after the government devised a workaround to keep him in office, in a move analysts say will keep the country's financial reforms on track
- With Mr Zhou as its chief since 2002, the People's Bank of China has been at the forefront of these reforms
- The central bank has gradually but steadily worked to remove the renminbi from its peg to the US dollar, to open the country's capital account and to shift the financial system away from the excessive reliance on bank lending. Promoting the renminbi as an international currency – and a potential rival to the dollar – has also become an important objective

BoJ board member says 2% inflation target 'very high' – Pg. 3

- The BoJ's introduction in January of the 2% target – under firm pressure from returning prime minister Shinzo Abe – was "epoch-making", he said, adding that fulfilling it was "the biggest mission for the BoJ governor"

US urged to ratify IMF reforms – Pg. 6

- The 2010 reform doubles the IMF's quota – in effect its equity capital – to $720bn; it shifts 6% points of total quota to developing countries; and moves two of the 24 IMF diretorships from European to developing nations
- But it cannot take effect until the US ratifies the package
- The US can boost its quota without extra exposure to the fund because it has promised to lend $100bn to the IMF as needed. Once it ratifies the reform, it will convert $65bn of that into quota
- Failure to shift representation and voting power to fast-growing countries such as China threatens the legitimacy of international financial institutions such as the fund,…

High vaultage – Pg. 7

- To aid Japan's exporters, the central bank has loaded up on foreign currency in recent years to lower yen's value against the dollar. Although these interventions are not known in advance, the BoJ declares its foreign exchange purchases soon after making them
- What happens next with the money, however, is shrouded in secrecy
- …influence of central banks has now grown to critical levels. Currency wars and global monetary easing have filled the vaults of the world's central banks with record amounts of reserves. Since 2006, those have doubled, making central banks crucial participants in markets. Yet there is little accountability or transparency over their holdings
- The $4tn-a-day forex market is the largest in the world but covert activities by central bank reserve managers have the clout to move it
- The IMF estimates that central banks held $10.8tn in assets at the end of September, more than four times as much as global hedge funds. China alone holds $3.32tn – the largest reserves of any central bank. After Japan come Saudi Arabia and Russia.
- Unknown to many, they often use third parties, such as BlackRock and other private-sector companies, to manage their assets and conduct transactions
- Both US Treasuries and Eurozone government debt allow ready access to dollars and euros and are two most popular reserve currencies. But their allure is fading. While the Federal Reserve still holds close to a record $3.25tn-worth of Treasuries on behalf of foreign central banks, the figure represents a shrinking proportion of such banks' portfolios. In 2000, the dollar made up 71% of reserves. Today it accounts for just 62%. The euro's sheen has, understandably, faded; the currency's share of reserves has fallen from 28% in 2009 to 24% today
- With interest rates at or close to zero, reserve managers have been feeling the pinch. Central bankers have never been driven primarily by rates of return. But there are costs associated with maintaining a large reserves stockpile – and yields of just 0.14% on one-year US Treasuries do not cover them

Sukuk bonds – Pg. 12

- The market for sukuk, the Islamic equivalent of bonds that are structured so that they provide a return but do not technically pray interest, got going a decade ago (Prof Note: See attached articles I authored on Islamic Finance for Developer Magazine)
- …remains tiny in global fixed interest
- …Malaysia, with the most developed sukuk market, accounted for more than 70% of the business

Car loan-backed securities deals soar – Pg. 20

- Sales of the risky pools of securities backed by car loans have jumped this year as investors' search for yield take them to corners of the market that boomed in the build-up of the financial crisis

- The jump in subprime auto ABS deals comes as benchmark interest rates remain at historic loans, encouraging a growing number of investors to buy assets with lower credit quality to capture higher yields

Global property insight – Special Section

- (Prof Note: Read in entirety…too much to summarize here)

11 March 2013

Banks rush to redraft executive pay deals – Pg. 1

- Banks across Europe are racing to amend executive pay deals by the end of the month in an attempt to adhere to new EU bonus rules and secure shareholder approval at upcoming annual meetings
- Banks and their shareholders were thrown last week when the EU pushed through a long-debated plan to cap senior bankers' bonuses at the level of their salaries – or twice that tally with the express approval of investors. The rules are set to come into force in January 2014

Britain warned over EU exit – Pg. 3

- Enda Kenny, Ireland's prime minister, will today urge David Cameron to do all he can to keep the UK in the EU, amid growing fears in Dublin that a British exit could have disastrous consequences for Ireland
- Ireland, which holds the rotating presidency of the EU, is well placed to win foreign investment projects discouraged from locating in the UK due to uncertainty caused by Mr Cameron's pledge to hold a referendum on Britain's EU membership by 2017

Default rules herald a new era for derivatives industry – Pg. 15

- The drive to overhaul the derivatives markets after the financial crisis takes a big step forward in the US and Europe this week when new rules start protecting investors from defaults
- In the US, large users of swaps such as banks will be required from today to process trades through clearing houses as the industry is forced to comply with a mandate agreed by the G20 more than three years ago
- The globalization of financial markets has led to a boom in the use of derivatives as corporations and banks look to protect themselves against sudden changes in interest rates and bonds
- Global authorities have focused on the opacity and counterparty risk in the bank-dominated $640tn over the counter market – issues that dramatically emerged with the bankruptcy of Lehman Brothers and the near failure of AIG in 2008

9 March 2013

US jobs data show economic revival – Pg. 1

- The return of the construction worker is revitalizing the US labour market with February figures showing a stronger-than-expected 236,000 new jobs
- Builders created more new jobs than in any month sincere March 2007, when the housing boom was at its peak, unexpectedly helping the economy to brush off tax rises at the start of the year
- …unemployment rate fell from 7.9 to 7.7%
- Construction jobs increased by 48,000 as the housing market steadied, with rising property prices, more home sales and a pick-up in new building starts
- Government shed another 10,000 jobs as the squeeze on spending bites for cumulative loss of 713,000 positions since the start of 2009

Beijing warns on currency strategies – Pg. 4

- Beijing has issued a new warning against competitive devaluations by rich countries, saying emerging markets will pay the price for so-called currency wars
- Global worries over competitive devaluation have been on the rise since January, when Shinzo Abe, Japanese prime minister, announced that Japan would buy government bonds in potentially unlimited quantities to stimulate the economy and raise inflation
- Beijing as long worried that it could be on the receiving end of hot money inflows because of loose monetary policy in developed economies
- China also holds more than $3tn in foreign exchange reserves, the world's largest, making the country particularly vulnerable to depreciation-related losses
- The central bank has started to increase cash withdrawals from the economy, a way of blunting the inflationary impact of capital inflows. China is also better placed than most countries to withstand the impact of cross-border money flows, because it still keeps a tight grip on capital controls

Addiction to QE puts stocks in peril – Pg. 12

- US, Japanese and German shares are setting the pace. After a pullback in late February on renewed crisis fears in the Eurozone, stocks have recovered their footing this month, underpinned by central banks affirming their support of the global financial system via "quantitative easing"
- In a world of artificially low bond yields, stocks look compelling with an earnings yield of the S&P500 above 7%
- This month Japan's Nikkei 225 is up m6.3%, Germany's Dax is 3.2% higher and near its all-time high, while the S&P500 sports a 2.3% gain. The S&P is just 1% shy of its 2007 record high, …
- …clock is ticking on whether central bank support will ultimately succeed in reviving growth. Unless the US and other parts of the global economy recover in coming months, driving corporate profits towards their lofty forecasts for this year, stocks face as reckoning

Norwegian oil fund sheds UK and French debt – Pg. 12

- Norway's oil fund – the world's largest sovereign wealth fun – almost halved its exposure to UK and French government bonds last year, while increasing it to debt from the US, Japan and Germany
- The $712bn fund slashed its holdings of UK government debt….
- The oil fund is one of the most closely watched investors in the world and is in the middle of shifting its equity and bond holdings away from Europe and towards emerging markets

8 March 2013

ECB rates to stay low 'as long as needed' – Pg. 1

- …Eurozone battles record unemployment and shrinking economic activity
- The US Federal Reserve has said interest rates will remain near zero until unemployment falls to at least 6.5%
- …the Bank of England dashed hopes that it would restart the printing presses and buy more UK government bonds
- …French unemployment hit its highest level since 1999 in the fourth quarter

Beijing bid to open currency borders – Pg. 1

- Chain will give offshore money managers more freedom in deciding where to invest their renminbi holdings, in the latest step to boost the currency's global appeal
- China has rolled out reforms to give foreign institutions more investment freedom, in moves designed in part to promote internationalization of the renminbi

Malaysian troops kill 31 Filipino militants in Sabah – Pg. 6

- Malaysian security forces said they killed 31 Filipino militants in overnight clashes in easter Sabah state as Najib Razak, …
- At least 52 militants eight Malaysian policeman have died in clashes that began in the clashes that began in the northern trip of Borneo island last Friday and intensified into an all-out assault by army troops early this week
- The conflict has strained relations between the Southeast Asian neighbours and prompted speculation that Mr Najib may delay a national election he had been expected to call as early as March and which must be held by June
- Malaysia has refused the demands and Manila has repeatedly told the group to put down its weapons and come home

The leading lady – Pg. 7

- …one of the world's most repressive regimes
- Uzbekistan's leadership has long been a family affair.
- Western investors have complained of harassment from the government through raids, tax audits and arrests of employees
- (Prof Note: I know one person from Uzbekistan, a real estate owner who has done very well holding real estate in the country)

China moves to make its equities market credible – Pg. 20

- Better access to mainland equities – known as A-shares – would also enable investors to broaden their exposure to a wider range of sectors of the Chinese economy, such as consumer and healthcare stocks
- China's equity market currently has a heavy bias towards retail investors, while the fund management industry is hostage to a system of monthly or quarterly performance reviews that leave little incentive for long-term investment plans
- Chinese authorities believe that overseas capital, in the form of pension, sovereign wealth and asset management funds, could help change that and have embarked on international roadshows
- Chinas current weighting in globally recognized equity indices is far lower than the size of its economy or its markets would imply
- Mainland shares account for just 0.15% of the FTSE Global index, 1.1% of its Asia ex-Japan benchmark, and only 6% of the FTSE China index. Without any restrictions on foreign investment, those figures would jump to 3.1%, 19% and 60% respectively
- In FTSE's ranking of countries by combined market capitalization, China would rise to fourth from its current 11th spot
- Global investors complain not just about barriers to entry, but also corporate governance, shareholder rights and complex equity structures
- …the biggest challenge may not be access, but rather aligning the interests of shareholders, management and state

7 March 2013

Equities rally sparks ETF gold sell-off – Pg. 1

- Investors are selling gold exchange traded funds at a record pace as the sharp rally in equities dampens appeal for the precious metal
- Gold ETFs, which accumulate bullion and then issue shares, have become one of the most popular ways to invest in the metal since they were first launched a decade ago
- …as gold prices slid to less than $1,600 amid signs of a global economic recovery, investors have begun to sell their shares in the funds

Sequtestrattion begins to claim first jobs victims – Pg. 2

- The effect over a full year is about 0.7% of output
- …many federal agencies plan to handle the cuts by sending staff home, without pay, for one day a week or fortnight. Such workers will not show up as unemployed….
- …estimates there will be 660,000 fewer private sector jobs by the end of the year as well as federal workers sent home….suggests an average hit to jobs growth of 66,000 a month,…

China tax on home sales leads to panic – Pg. 5

- A capital-gains tax on housing sales was intended to cool China's sizzling property market, but since it was announced last Friday it has had the exact opposite effect: a panic has been unleashed

Low leveraged loan yields spark private equity feeding frenzy – Pg. 20

- Private equity firms have lost no time in taking advantage of record low yields in the global leveraged loan markets. Like a school of piranhas sensing blood, they have thrown themselves into the fray with gusto
- The wave of "repricings" this year, which are allowed because loans are callable instruments that can be repaid at any time, started in the US
- The frenzy of activity comes as institutional investors drive up demand for loans in their search for assets that carry a higher yield than sovereign or high-grade corporate bonds, but are still not as risky as equities. Demand has pushed the average price of US loans in the secondary market to 97.5% of par value, the highest since 2008, …
- New issue yields have fallen from 7% last year to about 5%,…
- Loans have benefited from concerns about rising interest rates, or at least a tighter monetary policy, in the medium term, pushing US retail investors into the asset class. Leveraged loans, unlike high-yield bonds, are floating rate and so the yield increases as rates rise
- …third factor enabling strong loan prices – and so the wave of loan repricings in recent week – has been the rapidly growing market in collateralized loan obligations, which are securitized vehicles that buy leveraged loan paper

6 March 2013

Advanced economies static, says new index – Pg. 2

- In one of the weakest recoveries from recession on record, the pattern of economic data announced has struggled to remain above par in the US, the Eurozone, Japan or the UK since the depths of the financial and economic crisis four years ago
- While IMF data show advanced economies grew only 1.3% in the five years between 2007 and 2012, the degree to which economies are pulling themselves out of their woes is much harder to discern, amid often conflicting data

Explosion in debt holds back graduates – and the US economy – Pg. 4

- …39m US citizens with a total of $966bn in educational debt – a sum that has tripled since 2004
- It was the only type of borrowing that expanded through the Great Recession, and in 2010 jumped ahead of car loans, credit card debt and home equity credit to become the largest source of indebtedness behind mortgages
- Experts warn that this trend raises the possibility of the explosion in student debt sapping economic growth in the US, where consumer spending accounts for about 70% of GDP
- Non-student debt declined for borrowers aged 25 to 30 by about a third from 2005 to 2012

- The number of borrowers jumped 70% from 2004 to 2012, and the average balance per borrower – now $24,301 – grew at the same rate in that period…
- …more people are paying more money for their education. Nearly 13% of graduates owe more than $50,000. At the high end, 3.7% now have balances over $100,000, up from 1.7% in 2005

Malaysia forced attack Filipino rebels in Borneo – Pg. 5

- Malaysian security forces were engaged yesterday in what they called a "mopping up" operation in eastern Borneo after a day of aerial and ground assaults that aimed to tend a violent stand-off with Filipina insurgents
- Malaysian air force jets bombed the village of Kampung Tanduo,…

China plans 10.7% rise in defence spending – Pg. 5

- China's military capabilities have created unease among its neighbours and Washington. Its assertive stance in enforcing its vast maritime claims is also alarming countries such as Japan, the Phillipines and Vietnam
- This year's 10.7% increase is in line with last year's 11.2% rise and 12.7% in 2011

Asia versus Vegas – Pg. 12

- Macau's gaming revenues are more than six times those of Las Vegas; casino operators can make four times per asset dollar in Macau than they do in Vegas; and even Singapore, with two casinos, is challenging Vegas for second place among the world rankings

5 March 2013

China takes US spot as biggest oil importer – Pg. 1

- China has overtaken the US as the world's largest net importer of oil, in a generational shift that will shake up the geopolitics of natural resources
- US net oil imports dropped to 5.98m barrels a day in December, the lowest since February 1992, according to provisional figures from the US Energy Information Administration. In the same month, China's net oil imports surged to 6.12m b/d, …
- The US has been the world's largest net importer of oil since the mid-1970s, shaping Washington's foreign policy towards energy-rich countries such as Saudi Arabia and Iraq
- This year the US Navy will reduce the number of aircraft carriers it operates in the Strait of Hormouz, which connects the Gulf to international oil markets
- US oil production surged last year by more than 800,000 b/d.
- The US remains the world's largest net oil importer on an annual basis, but the margin over China has narrowed significantly over the past five years. The country's net foreign purchases of crude and refined products dropped to a 20-year low of 7.14m b/d in 2012, while Chinese net oil imports averaged 5.72m b/d

Malaysia sends more troops into Borneo – Pg. 2

- A stand-off between Malaysian security forces and Filipino Muslim group showed signs yesterday of escalating into a serious problem for each country's government, as Kuala Lumpur sent hundreds more troops into a disputed region of Borneo
- For three weeks Malaysian forces have been facing off against 180 followers of the self-proclaimed Sultan of Sulu, from an island in southwest Philippines.
- Both governments were caught off guard last month when armed insurgents landed at a village in Sabah, northeast Borneo (Prof Note: I stand ready to defend Malaysia!)

Wall Street's latest idea – Pg. 9

- …$640tn derivatives market – which was at the heart of the financial crisis – less risky
- Collateral transformation "is exactly the kind of activity where new regulation could create the potential for rapid growth and where we therefore need to be especially watchful," …
- Beginning this year, those insurers and asset managers will be required by many global regulators to run their derivatives trades through so-called central counterparties (CCPs).
- New rules including Basel III, the Dodd-Frank law in the US, and the European Markets Infrastructure Regulation (Emir) all mandate the use of central clearing

Recovery in demand provides foundations for US housebuilders – Pg. 19

- New residential construction activity is expected to rise more than 20% in 2013 from last year, after six years that saw the number of homeowners in negative equity skyrocket, the pool of unsold homes deepen, wary Americans tighten their purse strings and housebuilders, in turn, close operations
- In an effort to acquire land at a faster pace and ramp up construction, some private companies have hastened their entry into the public market, taking advantage of the positive sentiment towards housing (Prof Note: As the former CFO for America's Best Builder 2006 I ask, "Is this behaviour not what started this entire mess?")

China housing moves punish shares – Pg. 22

- Chinese real estate shares plunged and the stock market suffered its worst daily fall in 28 months yesterday after the government unveiled tough policies to damp a rebound in housing prices
- …government called for strict application of a 20% capital gains tax on home sales, a rule that has been in place since 2005 but only patchily enforced
- The CSI 300, an index of the top stocks on the Shanghai and Shenzhen exchanges, fell 4.6%, its worst day since November 2010. The shares of most major developers tumbled 10%, the daily maximum in China

4 March 2013

Boehner switches focus on path to budget deal – Pg. 2

- The top Republican in Congress is zeroing in on tax reform and a debate over next year's budget as a possible pathway for a deal with the White House to tackle US deficits

Doubts cast on Icelandic model to handle crisis – Pg. 4

- To many outsiders, Iceland stands for the idea of dealing with a dramatic financial crisis by letting banks fail and then devaluing the currency. It even managed to convince the IMF of the benefits of capital controls
- The confusion comes because in 2008 Iceland's three largest banks – Kaupthing, Landsbanki and Glitnir, which together had assets 10 times the size of the economy – were allowed to fail. Rather than bailing them out and protecting bondholders, as did countries such as Ireland, Iceland forced losses on to the bank's creditors (Prof Note: What a novel idea!)
- Iceland, in fact, spent more as a percentage of GDP than any other country apart from Ireland in rescuing its banks…
- Two Icelandic experts have estimated that the crisis cost Icelandic taxpayers 20-25% of GDP, principally because of a loss in the value of collateral that the three collapsed banks had pledged to the central bank when the authorities were trying to save them

Hey, big spender – Pg. 7

- The Nikkei 225 has soared by a third to its highest level since 2008 (thought still only a bit more than a third of its all-time high)
- Mr Abe ghas ordered one of the largest fiscal stimulus packages in a country with a history of them – more than $107bn of new debt-funded spending – and strong-armed BoJ into taking additional measures to end nearly 20 years of consumer-price declines
- There are a number of ways that this could go wrong and create bigger problems in the world's third-largest economy. "Beating deflation" has become a widely accepted goal, but the reality of rising prices could come as a shock to consumers, especially if wages fail to keep pace.
- Deflation may be a bad thing but it has become the fulcrum of a sort of economic balancing act in Japan: the low interest rates used to fight it allow the government to borrow cheaply, so it can cover the huge tax-revenue shortfalls that are a result of the weak economy

Lenders cut back on bond issuance – Pg. 15

- Issuance so far this year of a mainstay of bank funding is at its most depressed since the financial crisis, as lenders face additional regulation and weak economic growth
- The crisis in the Eurozone and stiff requirements under Basel III global bank capital rules have had a particularly noticeable impact on banks in Europe. Many have either less need for funding or have hung on to money borrowed cheaply a year ago from the ECB
- There was also a sharp drop in issuance of covered bonds – debt secured against pools of loans that carries an additional bank guarantee – with both European and global issuance at their lowest since 2009

2 March 2013

Obama warns of lengthy fiscal crisis – Pg. 1

- …could take months for the White House and Congress to reach a deal to reverse sweeping automatic budget cuts that were ushered in yesterday (Prof Note: Were any of the decisionmakers salaries cut as part of this….of course not! Please explain to me why they really care?!)
- …warned that the US economy and many middle-class Americans would suffer some damage (Prof Note: notice it does not say "congressman" would suffer…)
- In January's deal over the so-called fiscal cliff, Republicans agreed to raise income tax rates on households earning more than $450,000 per year (Prof Note: Hello…households at this level have already figured out how to not pay taxes!)
- Congress faces a new deadline of March 27 to renew funding for the government, which if left unsolved would lead to a partial shutdown of federal agencies in addition to the sequestration cuts

Brazil employment soars despite 'sudden stop' in growth – Pg. 4

- ….GDP has slowed to a crawl, with the government saying yesterday it grew just 0.9% last year compared with 2011, inflation is creeping up, and investment and industry until recently were shrinking
- …unemployment hovering near a record low in January of 5.4%. Wages are still rising, people are shopping and government's popularity ratings are high
- ….economy on track for growth this year of 3% or slightly above – below Brazil's potential growth rate of 4% or higher
- …fixed investment declining 4% last year compared with a year earlier as industry contracted because of Brazil's high costs
- …the economy has been saved from recession by its alternative engine of growth, services
- …flipside is that low unemployment raises the cost of wages for industry, making it less competitive and discouraging investment (Prof Note: to bad the U.S. does not have this issue)
- (Prof Note: I will be speaking in Sao Paulo in September on U.S. and European economics with regard to Brazil. Of course I will "sneak" something in there on China too)

Apple's cash conundrum – Pg. 7

- …Apple has accumulated a whopping $137bn in cash, more than 10 times as much as it had six years ago and double the level of March 2011
- Look at Microsoft, they say. Its first dividend was announced in January 2003, when its share price was around $21. A decade on, its stock has risen to $28. Compare that with Apple, whose share price has gone from $6 to a high for more than $700 over the same period
- Speculation has long centred on an Apple television as the most obvious new market to revolutionize

1 March 2013

US braced for cuts to public spending – Pg. 1

- Estimates of US growth in the fourth quarter of 2012 were revised up by much less than expected, from an annualized fall of 0.1% to a rise of 0.1%, showing how the economy will struggle with a big tightening of fiscal policy
- The IMF warned that it would cut its growth forecast for the US as the non-partisan Congressional Budget Office said growth could be 0.6% slower because of sequestration

Telepathic rats team up across continents – Pg. 1

- Electrodes picked up the brain activity of the first rat, the "encoder", and fed it over the internet into the brain of its partner, the "decoder", which had the same levers bur received no visual cues about which one to press. The best decoder rates mimicked their encoder partners 70% of the time

Indian budget raises taxes on wealthy – Pg. 2

- India's Congress-led government yesterday proposed a one-year 10% tax surcharge on the wealthy and the raising of import duties on luxury cars, motorbikes and yachts as it unveiled a budget that investors said was unlikely to lift the economy out of the doldrums

Brazil container traffic declines – Pg. 3

- Brazilian container traffic dipped unexpectedly in the final months of last year, raising concerns about the strength of an expected recovery in Latin America's biggest economy in 2013
- …driven by a 3.1% fall in exports in the fourth quarter compared with a year earlier, ….
- …Maersk Line, the private shipping company that accounts for 15% of Latin America's container volumes

An inequitable divide – Pg. 7

- The newly listed US groups branched out from their private equity roots, becoming asset managers. This enabled them to collect steady fees that sustained them in tough times.
- In Europe, the private equity groups are shrinking
- …the top private equity firms in the US have evolve from narrowly based buyout firms to public alternative asset managers. At Blackstone, the property and credit arms with $57bn and $56bn under management respectively, are now bigger than their historical corporate takeover business. It has also built a fund of funds business of almost $50bn

Italy fears fade amid signs of US recovery – Pg. 22

- The prospect of continued central bank support and fresh signs of recovery in the US economy helped markets put political concerns on both sides of the Atlantic to one side, although there were worries in some quarters that complacency might be setting in

US raises stakes on bank crisis plans – Pg. 1

- US regulators have raised the prospect of taking severe action against banks that submit deficient "living wills" in a sign that supervisors are concerned about the ability of global lenders to unwind themselves in a crisis (Prof Note: Puullleezzzzzz "severe" = fines….these just harm the shareholders! How about lifetime bans against senior executives? Can we please make stupidity/ignorance at senior levels a crime?!)
- …corrective measures, ranging from requirements for more capital to forced break-up (Prof Note: See above….I knew it has nothing to do with termination of the offending senior managers…pathetic!)

UK data show economy failing to rebalance – Pg. 2

- Britain's failure to "rebalance" its economy away from a reliance on government and household spending was underlined yesterday….
- …confirmed that output shank 0.3% in the final quarter of 2012, as had been initially estimated
- …household and government spending have been weak, as both groups try to pay down debt and adjust their spending patterns to a bleaker economic future. Household spending has been particularly squeezed by persistently high inflation, which has eroded real wages. With the Bank of England predicting inflation will remain above 2.00% target for the next two years, this squeeze is unlikely to go away

India calls an end to its economic downturn – Pg. 4

- India's finance ministry expects economic growth to accelerate next fiscal year but has warned that a return to high growth looks "improbable" in the near term
- Asia's third-largest economy is likely to expand between 6.1 and 6.7% in the fiscal year to March 2014, higher than the 5% predicted for the current year but well below a peak of 9.3% reached in 2010-11, ….
- Indian GDP will rise 6.2% I fiscal 2013-14, ….

US food shortages loom amid cuts – Pg. 5

- Trade groups are warning of widespread shortages of meat, poultry and eggs supplies in the US as the mean industry is braced for painful cuts that could cost it an estimated $c0bn in lost production and $400m in lost wages
- The $2bn in automatic cuts to the US Department of Agriculture's budge would cause it to put food inspectors on furlough for up to 15 days later this year at the country's more than 6,000 meat and poultry plants (Prof Note: Stop….as a professor I put in MANY more hours than classroom hours. Why cannot these food inspectors? What happened to pride?! Get the job done….do not make people suffer! When have I ever told a student "no"?! P.S. Universities: I want a raise! ☺)

Washington will be ground zero in absence of budget deal – Pg. 5

- The region comprising the District of Columbia and neighbouring Maryland and Virginia is the most heavily dependent in the country on US government spending
- ….19.7% of economic output in DC, Maryland Virginia comes from federal spending and procurement, wages and salaries, compared with the national average of 5.3%. Hawaii, Alaska and New Mexico trail just behind as the states that would suffer most from the cuts, ..
- The District of Columbia's unemployment rate of 8.5% is above the national average but those of Maryland and Virginia are much lower, at 6.6% and 5.5%, respectively

27 February 2013

Bernanke eases fears over early end to QE3 – Pg. 1

- Ben Bernanke yesterday soothed concerns that the US Federal Reserve will cut short its asset purchases before the labour market improves
- The Fed chairman said the benefits of asset purchases, running at $85bn a month, were clear
- Mr Bernanke was cautiously optimistic on the US economy, noting that it had "continued to expand at a moderate if some-what uneven pace", while "growth has picked up again this year"
- But he warned that the looming sequestration – automatic spending cuts scheduled to take effect on Friday – could hurt the economy

Emerging markets exports to drive growth – Pg. 4

- Exports between leading emerging markets will drive global growth in the decades to come, transforming international trade flows, …
- Export growth would be strongest in India, Vietnam and China, all of which are expected to post double-digit annual growth over the next seven years
- Trade in leading industrialized economies such as China would be driven by growth in sectors such as industrial machinery and information technology, in which advanced economies have dominated
- Facing competition from lower-cost producers in emerging markets, exporters from advanced economies would need to focus on high-technology sectors, where they can command a competitive advantage
- Canada, Mexico and China would remain the biggest export partners for the US
- China would remain Brazil's top export destination, while the country's fastest grwoign export partners would be India and Vietnam,…
- India, which is nto as trade-oriented as many other emerging economies, would see a sharp rise in trade within Asia. Trade links with China are set to become more important
- India would also become one of Argentina's top five export partners by 2030…

Another crisis looms – Pg. 7

- …the $1.2tn in spending cuts, which start on Friday, take effect slowly, over 10 years

- …the desire of the Republicans to cut the budget and keep taxes low has overwhelmed the defense hawks in the party
- Federal employees, including 800,000 civilian Pentagon workers, will be sent home without pay and a broad swath of government programmes will be slashed. This would be a considerable blow at a time of rising oil prices and the potential for renewed instability in the Eurozone in the wake of the inconclusive Italian election

Wall St bonuses rise 9% as job cuts mean fewer collect – Pg. 16

- The average amount of cash taken home by Wall Street employees was $121,900 – up from $111,340 last year

Private equity fears 'bubble' – Pg. 16

- The Eurozone has not broken up and some large leveraged buyouts are back, but private equity executives gather in Berlin for their largest annual conference this week found another threat to their industry to worry about: another potential credit bubble
- Record low interest rates are encouraging investors to buy riskier securities in search of yield. It has fuelled a boom in non-investment grade bonds, also called high-yield or junk bonds, which private equity groups typically use to fund their takeovers

26 February 2013

US oil imports from Middle East increase despite shale revolution – Pg. 1

- That domestic production boom has triggered intense debate over whether the US would still guard the world's critical sea lanes, such as the Strait of Hormuz in two decades' time, or whether China, whose dependence on Middle Eastern crude imports in rapidly rising, would replace it
- By the end of November the US has imported 450m barrels of crude from Saudi Arabia, more than it imported from Riyadh in 2009, 2010, and 2011, ….
- For the first time since 2003, Saudi imports accounted for more than 15% of total US oil imports. The Gulf as a whole accounted for more than 25%, a nine-year high

Malaysia opposition puts reform at top of agenda – Pg. 6

- Malaysia's opposition alliance yesterday pledged to create jobs, increase incomes and combat corruption if it ousts the long-ruling coalition in national elections this year
- The alliance's electoral promises include adding a million jobs, partly by gradually reducing reliance on foreign labour

Investor concern as Indonesia moves finance minister – Pg. 6

- Parliamentary officials surprised investors and political observers late on Friday when they revealed that Mr Yudhoyono had nominated Mr Martowardojo as the only candidate to take charge of Bank of Indonesia when Darmin Nasution, the governor, finishes his term in May

Study suggests that 72in is the new 30 – Pg. 7

- The study concluded that the pace of increase in life expectancy has been so profound that industrialized economies have been caught flat-footed, unprepared for the cost of providing retirement income to so many people for so long (Prof Note: Education needs to catch up! We need to teach and stress retirement funding early. In my Wealth Management class I do NOT even talk of wealth transfer, i.e. Trusts, but focus on capital build up and protection only. How do we create the annuities to feed ourselves in retirement? What is retirement? Staiger definition: Retirement = Passive Income > Active Expense!)
- …no longer clear where the possible outer boundaries of human life stand
- Human mortality, he added, has shown itself to be far more "plastic" and capable of manipulation than anyone had imagined

A sentimental wager – Pr. 9

- There are lots of ways to take temperature of investors. They break down into three broad categories: measures of action in parallel markets, particularly in options; measures of investor positioning, such as flows into mutual funds, mutual fund holdings of cash or hedge fund exposure; and surveys of how investors and their advisers feel (Prof Note: "advisers" what a crock of crap! How many advisers have degrees in Finance?! These "advisers" are salespersons. How many "advisers" can quantify, i.e. not recite, risk?! My Private Equity class last night, 19 of the best and brightest, stumbled when I had them calculate Sharpe Ratio and Risk for a portfolio. They can now quantify but I place their competencies far above the majority of "advisers")

Hong Kong Property – Pg. 14

- Stamp duty has been raised, and banks have been "recommended" to lower loan-to-value ceilings. Yet the market merely shrugged: The Hang Seng property index ended yesterday just 0.3% lower and the six biggest local developers lost HK$7.5bn ($980m) in market cap – less than half of what they lost following the last round in October

Yen falls on dovish incoming BoJ chief – Pg. 22

- The Japanese yen has fallen to its lowest level in nearly three years on reports that Japan's government is this week preparing to appoint a Bank of Japan governor widely believed to have dovish stance on monetary policy

25 February 2013

Democrats detail fears over US budget cuts – Pg. 1

- Though the cuts will be phased in, the impact will be felt soon after their March 1 start date, with the administration warning of delays at airports and cuts in jobless benefits and government services
- The design of the cuts – with half coming from the Pentagon…

- The origin of the sequestrian lies in the budget confrontation in 2011 between the White House and Republicans in the House of Representatives that bought the US to the brink of sovereign default

Moody's grows nervous at Britain's extension of austerity – Pg. 2

- Britain lost its top triple A credit rating late on Friday, prompting a weekend of political finger-pointing over whether or not the government's deficit-reduction programme was failing (Prof Note: Date of Britain's lost triple A will be on the midterm)
- Why did Moody's downgrade the UK?
    - First, the UK's economy has been unusually weak in the five years since the financial crisis: it has barely grown over the past two years and is still at 3.5% smaller than it was before the crash
    - Second, the feeble economy has meant the government's promise to eliminate the deficit and start to reduce public sector net debt has been much harder to achieve than it expected
    - Third, Moody's thinks the combination of anaemic growth, higher debt (it now expectes gross general government d3ebt to peak in 2016 at just over 96% of national income) and "policy uncertainties" leave the UK less able to cope with new shocks such as another crisis or recession
- Fitch and S&P's, the other two rating agencies, have the UK on "negative watch" for a potential downgrade and it would not surprise anyone if they follows Mood's lead at some point

US cuts poised to hit long-term unemployed – Pg. 4

- The US long-term jobless will be among the earliest to be hit by automatic spending cuts if they take effect as planned on March 1
- Benefit payments will be cut up to 9.4% in a blow to consumer spending among low-income households. About 3.8m people who have been unemployed for more than six months receive emergency federal benefits worth about $300 a week on average
- …federal workers are likely to bear the brunt because many government agencies will be forced to put workers on leave to stay within budget. (But there is usually a 30-day notice period for unpaid leave (Prof Note: Oh, how nice! In the private sector your "notice" is when HR taps you on the shoulder and tells you to come to the HR office. Your notice is what, 15 seconds?! PLUS….what about all this notice since 2011 when this crisis started and was public?! Government employees have had, what, 18 months notice?! Hello, in 18 months you could earn a(nother) graduate degree and have retooled…oh, wait, the government reimburses for tuition….NO SYMPATHY!!!)

Asian banks win record share of corporate debt deals – Pg. 15

- The market share of Asian banks arranging corporate bonds for European and US companies has risen to an all-time high, in a sign of the growing power of eastern financial institutions on global capital markets

- Banks, mainly based in China and Japan, have more than doubled market share of corporate debt activity in the US and Europe over the past year with the total value of deals hitting an unprecedented $40bn in 2012,…
- Banks to have benefited include the China Development Bank and the China Construction Bank, which have more than tripled their global market share in the past three years
- The growing strength of the Asian banks has also been helped by the wealth in the region – China's gdp grew 7.8% last year…
- Asian banks have access to large pots of private money through the private banks

23 February 2013

Shanghai learns to value and preserve its heritage – Pg. 4

- China has 5,000 years of history, but visitors to most Chinese cities would never know it. When faced with an old building, the default reaction of mainland urban planners has long been to knock it down
- …behind the Bund, heart of Colonial Shanghai, is a symbol of the newer attitude to historic preservation: the Waitanyuan neighbourhood, where Shanghai has chosen to preserve not just famous historic buildings, but anonymous local residences too

Low bank loan repayments send negative signal – Pg. 12

- The ECB said banks would next week pay back just 61.1bn (euro) of the cheap, three-year money pumped into the Eurozone financial system a year ago
- The ECB said 356 of the 800 banks that took advantage of the LTRO loans last February would repay next week. A large amount of those repaying are likely to include the hundreds of German banks that borrowed small amounts of money in the second tranche of the LTRO

22 February 2013

China drains cash to curb inflation – Pg. 2

- China drained a record amount of cash from its banking system this week, counteracting an explosion in credit growth that had stoked concerns about inflation
- The Chinese stock market, which is driven heavily by liquidity conditions, sold off sharply after the central bank's move
- China slipped to 7.8% growth last year, its slowest in more than a decade, but it has been speeding up since the end of the third quarter
- The government has also started to tighten its grip on the property sector after a rebound in housing prices
- China's new home prices rose 1% in January from a month earlier, …

Call for US action as student debt cuts demand – Pg. 2

- US regulators raised the possibility of allowing students to refinance or ease terms on their loans, as policy makers warn that growing student debt is hurting consumption and future credit creation
- Car purchases, home buying and credit card balances for those under 35 years of age have all decreased as overall student debt has surged to $1.1tn,…
- The average rate on new student loans during the past three years was 8 to 10%,…
- Companies that could be affected include Sallie Mae, the largest US student lender with $181bn in assets

Buyers return to US house market – Pg. 2

- The inventory of unsold homes in the US dropped to a 13-year low in January as buyers returned to the market, pushing sales of previously owned homes slightly higher
- The number of existing homes available for sale dropped 4.9% from December to 1.74m in January – the lowest level since December 1999, …
- That represented 4.2 months of inventory at the current sales rate, the lowest since April 2005. Inventory has previously hit an 11-year low in December
- …sales rose 0.4% last month to a seasonally adjusted annual rate of 4.92m, above a forecast 4.9m. sales were 9.1% higher than the 4.51m pace hit in January 2012
- Housing added to US growth in 2012 for the first time since 2005 and is expected to be a stronger driver this year

Carlyle disappoints as economic net income falls sharply – Pg. 15

- Carlyle, one of the world's largest alternatives asset managers, reported a 28% drop in economic net income to $182m in the fourth quarter, falling short of analysts' expectations
- Carlyle shares were down 8% to by midday in New York to about $34, in a falling market
- Assets under management grew 16% to $170.2bn

21 February 2013

Fed doubts grow over open-ended QE3 policy – Pg. 1

- The US Federal Reserve is cooling on open-ended asset purchases as officials grow nervous about the dangers of a bigger balance sheet
- The minutes suggest that QE3 – as the Fed's third round of quantitative easing is known – could end earlier than previously thought and is no longer a truly open-ended programme. The Fed's balance sheet has reached $3.078tn and could exceed $4tn if QE3 continues for the rest of the year (Prof Note: This will be an examination question for RE Finance students)

China jobs freeze as Apple cuts orders – Pg. 1

- Foxconn, the world's largest contract electronics manufacturer, has imposed a recruitment freeze across most of its factories in China as it slows production of Apple's iPhone 5

- Foxconn's China workforce was estimated at about 800,000 during the 2009 crisis, but rose to 1.2m last year ahead of the launch of the iPhone 5

Qatar Holding's credit rating to increase transparency – Pg. 2

- A plan by Qatar Holding, one of gas-rich Qatar's main state investment funds, to seek a credit rating will cast more light on its multi-billion-dollar international investments after questions over some of its dealings in recent months
- Qatar Holding has emerged as one of the most high-profile investors in recent years – it has played kingmaker in the merger of Xstrata and Glencore and bought Harrods – but the expansion has led to closer scrutiny of the opaque fund
- Although its debt profile is not public, Qatar Holding's rating would be based on levels of debt it has raised
- If Qatar's balance sheet has little debt, analysts say it may indicate that leverage on its deals is saddled to the companies it has invested in, rather than its own balance sheet – a typical leveraged buyout structure for private equity investors
- A credit rating would also allow Qatar Holding to borrow separately from the sovereign, which already has an Aa2 rating from Moody's Investors Service and an AA rating from S&P's.

Toll Brothers – Pg. 14

- The recovery story for housing in the US is based on three main drivers: low inventories (new, high-end homes such as those Toll Brothers builds are seen as a different market from bombed-out foreclosed properties that are the casualties of the boom-bust); low interest rates and stabilizing prices.

US issuers in mortgage bond rush – Pg. 22

- An elite group of private issuers are stepping up sales of bonds backed by US residential mortgages, without waiting for new regulations governing the housing and securitization markets
- While the market for residential mortgage-backed securities (RMBS) is dominated by US government agencies, which guarantee most American home loans, a small cadre of financial firms have been buying securitizing mortgages that do not qualify for that federal support
- Private RMBS sales remain tiny, however, compared with the size they reached during the housing bubble, when securities were made out of subprime mortgages handed to borrowers with poor credit scores. Issuance topped $700bn in the peak years of 2005 and 2006 (Prof Note: RE Finance students…potential question for the midterm)
- Today's private RMBS are made largely from mortgages too large to qualify for a guarantee from government agencies Fannie Mae or Freddie Mac. Size limits range from $417,000 to $625,000, depending upon location (Prof Note: Median home price in U.S. is approximately $160,000….why are the GSW limits so high?!)

- It is still attractive for banks to keep most mortgages on their own books, since banks can currently borrow at low interest rates….

20 February 2013

Obama warns over 'meat cleaver' cuts – Pg. 1

- In the absence of a break-through, the White House is asking Congress to trim the budget by $110bn to avoid the "sequestration" cuts due to hit this year. Economists at Citibank estimate that sequestration, if implemented in full, would trip 0.25% from US growth

China's overseas oil output poised to rival Opec states after big deals – Pg. 1

- China is on track to produce enough crude oil outside its borders to rival Opec members such as Kuwait and the UAE, after its state-owned oil companies spent a record $35bn buying foreign rivals last year
- …national oil companies will produce 3m barrels a day abroad in 2015,….
- The surge of acquisition activity by Chinese oil companies – and their investment in unconventional drilling technologies – is reshaping the global oil industry
- China is the world's second largest importer of crude

Argentina in no hurry to devalue peso despite fears for competitiveness – Pg. 3

- Argentina, after all, has the lowest level of foreign direct investment among big Latin American economies,…
- At the official rate, one dollar costs 5 pesos. But virtually no one who needs dollars can obtain that because of tight government restrictions
- …black market where they have lately had to pay as much as 8 pesos per dollar
- …inflation estimated at more than 26% and rising. The government admits to an inflation rate of only 11.1%i
- Take for example the "credit card dollar" rate: the government slaps a 15% surcharge on card purchases abroad but, since that applies to the official rate, the credit card rate is still cheaper than the black market dollar. As a result, credit card use abroad has soared (Prof Note: Holy Cow…this is EXACTLY how Ponzi made his money (see attachment))
- …last year, money supply grew more than 37% and a pre-election spending splurge is expected – excess money supply will continue to fuel volatility

Pistorius tells of 'intruder' fear – Pg. 6

- (Prof Note: Help me Rhonda….he shot the woman 4 times while she was in a crouched position behind a closed door)
- In the affidavit he said he earned approx. $630,000 a year (Prof Note: Enough to pay a security company if he was in that much fear for his life!)

Qatar announces plans for $12bn investment company – Pg. 6

- Qatar has unveiled plans to launch a $12bn investment company, the latest stage of a petrodollar spending spree aimed at boosting its overseas clout and enriching its tiny population
- The business would be half-owned by the country's sovereign wealth fund and half by the private sector,…
- The Gulf state, like its neighbours, has invested much of its wealth abroad, but it has also boosted payouts for its national population since the Arab Spring
- The country is home to an estimated 250,000 of its own citizens, plus several hundred thousand foreign workers, making it – by some measures – the richest country in the world. In 2011, the government gave salary and pension rises of between 50 and 120% to public sector workers

19 February 2013

Employers size up fines to avoid insuring under 'Obamacare' – Pg. 1

- US companies that employ millions of workers are considering cutting their hours or paying fines rather than enrolling staff in health insurance plans under Barack Obama's landmark healthcare law
- Employers are concerned that the law increases the cost of insuring low-wage employees on existing plans, partly by broadening their benefits, as well as requiring companies to insure workers not previously covered
- The penalty for not providing coverage is $2,000 per worker…average annual cost to employers of insurance is $4,664 for a single worker and $11,429 for a family
- The Obama administration maintains that the law, known as the Affordable Care Act, will improve access to insurance while reducing healthcare costs

Fed officials fear interest backlash – Pg. 4

- US Federal Reserve officials far a backlash from paying billions of dollars to commercial banks when it eventually raises interest rates
- The growth of the Fed's balance sheet means it could pay $50bn - $75bn a year in interest on bank reserves at the same time as it makes losses and has to stop sending money to the Treasury
- All banks hold reserves at the Fed. The central bank has boosted its balance sheet to more than $3tn as it buys assets to drive down long-term interest rates through its programme of quantitative easing
- It pays for the assets by creating bank reserves, which now amount to more than $1.6tn. The Fed could add another $1tn if it buys assets for another year
- At the moment it pays only 0.25% interest on those reserves. But according to its exit strategy, published in June 2011, the Fed plans to raise interest rates before it sells assets. Interest of 2%son $2.5tn of reserves would run to $50bn a year

The long climb back – Pg. 7

- More likely, the US housing market is in the first, volatile stage of a return to normality, with gently rising prices and the return of new construction. That should support growth in the US economy – but not dominate it like a decade ago
- A stable housing recovery can only happen if prices really are back to normal. The six-year bubble upset all notions of what a house is truly worth
- The median sale price for an existing home was $178,900 in the fourth quarter of 2012, …up 10% from a year ago
- The US has plenty of land, so outside big cities the main cost of a house is construction, and the main cost of construction is labour. That means that in the long run, house prices should track rising wages – but not run ahead of them
- Another requirement – absorbing unwanted houses built during the boom – also seems to be met
- Right now, rapid house price rises are confined to markets such as Arizona, Nevada and northern California, which were at the heart of the bust.
- Of the 100 largest housing markets, 15 are up by more than 10% on a year ago; in 32 others, including big cities such as Chicago and Philadelphia prices fell or rose by less than 3%

Chinese developer moves into US market – Pg. 17

- Chinas biggest property developer has made its first foray into the US with a deal for high-end residential complex in San Francisco
- …significance of the deal is potentially greater as one of the first steps by a big Chinese developer to build homes in the US. With Beijing placing caps on home purchases in big cities suffering from over building, Chinese developers are scouring further afield for opportunities
- China Development Bank, a government-controlled lender, also entered the US housing market last year when it provided a $1.7bn loan to Lennar Corp, one of the biggest homebuilders in the US , for two developments in San Francisco

16 February 2013

G20 finance chiefs take heat off Japan – Pg. 1

- The Japanese yen fell sharply as global financial leaders sought to downplay fears of a currency war and sent a strong signal that they would not interfere in Japan's plans to boost its sluggish economy
- Global currency markets have been unusually volatile in the run-up to a meeting of G20 officials from the world's largest economies in Moscow to discuss international financial stability
- Addressing concerns that US monetary policy has led to a weakening in the dollar, Ben Bernanke, chairman of the US Federal Reserve, said: "The US is using domestic policy tools to advance domestic objectives." (Prof Note: Pulleezzzz help me Rhonda! The U.S. is the biggest currency manipulator of ALL!)

Pistorius denies charge as S Africans wait to judge fallen hero – Pg. 4

- …..his girlfriend, at his house lying dead with multiple gunshot wounds (Prof Note: This guy lived in a gated community, slept with a 9mm, and shot his gf four (4) times….pullleezzzzzz…I believe in gun rights but how many bullets does it take to "gun" down a 110 lb model?!)

Central banks face superpower test – Pg. 14

- Equity prices have globally rallied strongly over the past half year on the "central bank put" – a conviction that after avoiding catastrophe last year, monetary policy makers will restore economic growth
- The Bank of England indicated that it would tolerate higher inflation to boost UK recovery prospects. The ECB is growing concerned about the impact on the recession-gripped Eurozone of a strengthening euro – which in turn is the result of expectations of an imminent leadership reshuffle at the Bank of Japan heralding a more aggressive monetary policy in the world's third-largest economy
- This risk for investors is that central bankers' powers are waning and the "central bank put" dries up asset prices and risk appetites without creating sustainable growth
- The tumbling Japanese yen – down 25% against the euro since late July – is complicating life for the ECB

Gold sinks through $1,600 on recovery hopes – Pg. 14

- The shift in attitude towards gold comes as signs of recovering growth in the global economy – and in particular in the US – have drawn investors to other assets such as equities and sapped gold's haven appeal

15 February 2013

Grim data end tough year for Eurozone – Pg. 1

- Europe's brittle economies shrank at their fastest rate since the collapse of Lehman Brothers four years ago, …intensifying global woes as Japan also failed to escape from its own recession
- Japan's economy, meanwhile, contracted 0.1% in the final three months of the year
- Output shrank in the eurozone's biggest economies. German GDP fell 0.6% in the period, while France contracted 0.3% compared with the previous three months. Italy's economy shrank 0.9% - its sixth consecutive fall

Decline in Japanese output boosts Aso's case at summit – Pg. 2

- Output in Japan slipped 0.1% from the previous quarter, missing consensus forecasts of 0.1% growth. The 0.9% decline reported earlier for the third quarter, meanwhile, was revised down a drop of 1%, while the second quarter's essentially flat figure is now a fall of 0.2%

- Prices continue to fall. A 13th consecutive quarterly fall in the GDP deflator – the broadcast measure of price of goods and services produced in Japan – provided "further evidence that the end of deflation is a long way off", …

Venezuela warns business on prices after devaluation – Pg. 3

- Venezuela's government warned that it would crack down on businesses that raised prices as it pledged that a devaluation of its currency would not increase inflation
- The black market price for dollars in the country has risen to a record, at more than 22 bolivars. That compares with the latest official exchange rate of 6.3 bolivars per dollar, with the 4.3 eliminated last Friday
- A rise in inflation in Venezuela and other distortions caused by price controls could create an incentive for some goods to be sold illegally in Columbia

Different faces in this dealmaking deluge – Pg. 17

- Investment bankers are enjoying a flurry of work on high-profile acquisitions but, if the deals are reminiscent of the last big wave of M&A, some of the advisers are very different
- With a $1.3tn balance sheet [Wells Fargo] and the biggest market value of any US bank, the San Francisco-based lender is making strides in building its investment bank
- The biggest banks and investment bank specialists such as Goldman Sachs and Morgan Stanley will continue to attract fees from M&A and the aggregate amount so far this year should provide a fillip in Wall Street's first-quarter earnings

Wall Street falls back in love with McMansion deals – Pg. 23

- Wall Street is in the middle of a keen debate about how risky such securities, known as "real estate owned [REO] to rental securitizations", might be, and what interest rate investors might therefore demand from them
- With interest rates so low, the betting is that investors may be hungry enough for high-yielding securities that they will take the risk
- Private equity firms such as Blackstone and Colony Capital have emerged as a new class of corporate landlord, running huge portfolios of single-family homes, consolidating a market previously left to local individuals funded by buy-to-let mortgages
- Barclays calculates that at least $5.4bn of institutional capital has so far been spent on buy-to-let single-family housing in the US, and estimates a further $8bn could be spent in the next couple of years. That figure pales against the total value of the US housing market - $23.7tn at the end of 2012, …
- Wall Street's securitization machine is already humming. Credit card lenders and car finance firms are able to package up their loans and use them as collateral on securities that are being snapped up by yield-starved investors

14 February 2013

Hedge funds reap billions on yen bets – Pg. 1

- So-called “global macro” managers, which speculate on economic shifts by trading currencies, bonds and derivatives, have reaped their biggest gains in years trading on Japanese currency
- Since November, the dollar has risen 17% against the yen. Funds hope Japan’s situation presages a return to the volatility in which they succeed

Republicans reject increase in minimum wage – Pg. 2

- IN his State of the Union address on Tuesday night, the US president called for an increase in the federal minimum wage from $7.25 to $9, and then indexing it for the cost of living
- The last increase in the US minimum wage was in 2009 and at less than 40% of the median wage it remains fairly low by international standards. A number of US states have minimums higher than the federal level peaking at $9.19 in Washington state
- The economic evidence on minimum wages is still disputed although the weight of recent work suggests that, at least when the minimum is set fairly low, it does not cause a big reduction in jobs

Currency farce reveals US-Japan dispute – Pg. 3

- …clear disagreement between the US and Japan about the yen, although they are aligned on the need to stimulate their economies by fiscal means
- That might seem odd given that asset purchases by the US Federal Reserve, also known as quantitative easing, pushed down the dollar in autumn of 2010 and first gave rise to talk of “currency wars”
- When the US Federal Reserve has conducted QE, it was on its own initiative as the central bank, and neither the Fed or the Treasury made any reference to the dollar (Prof Note: Help me Rhonda! Is the globe really so stupid to not see the Fed and/or the Treasury as the largest currency manipulators on the planet! American hubris….AGAIN!)

Russia’s credit lenders revel in consumer boom – Pg. 3

- With just two identifications documents, a client can borrow $2500 for up to six years; with four, they can get more than $8,000
- Consumer lending swelled 40% last year, while credit card loans rose by close to 80%. At the countries’ retail-only lenders, growth was even more pronounced
- The ratio of household debt to gross domestic product hovers around 10-12% in Russia, compared with 20% for emerging market peer Turkey and about 30% for the Czech Republic
- Fewer than one in five Russians own a credit card, and most credit is short-term with high interest rates

Switzerland moves to damp boom in property prices – Pg. 4

- Switzerland has become the first big financial centre to make banks hold extra capital to calm overheating parts of the economy, as the country’s decade-long housing market boom continues

- Swiss house prices have risen 77% in the past 10 years, fuelled by surging immigration and, more recently, the rock-bottom interest rates put in place by the Swiss National Bank as it tried to stem the appreciation of the franc
- Mortgage volumes, meanwhile, have swelled to about 135% of national output
- …the government yesterday accepted a proposal from the SNB that banks should build up "counter-cyclical capital buffers" by holding extra capital worth 1% of the risk-weighted assets in their mortgage portfolios. Under Swiss rules the SNB has the option to request a buffer of up to 2.5%.

Appetite for inflation-linked US bonds starts to diminish – Pg. 20

- An index of Treasury Inflation Protected Securities, dubbed Tips, has recorded a total return of minus 1% in 2013, outpacing the 0.81% slide seen for the cash or nominal Treasury index….
- The strong performance of Tips in recent years has pulled their real or inflation-protected yield – which moves inversely to price – below zero, entering negative territory
- Tips have outperformed Treasury bonds since the start of 2009, with their gain of 7% last years handily beating the 2% total return of the Barclays Treasury index

13 February 2013

G7 move to stabilize currencies backfires – Pg. 1

- An attempt to soothe the global currency tensions backfired yesterday, as a joint statement by the world's nations roiled the markets
- Japan's monetary policy has become the focus of the global currency tensions ahead of a meeting of G20 finance ministers and central bankers later this week in Moscow
- The statement – from finance ministers and central bank governors in the US, Japan, UK, France, Germany, Italy, and Canada, said they would "consult closely" on any action in foreign exchange markets
- In private, the US has been putting pressure on Japan's new government to refrain from mentioning the yen as it attempts to revive growth and end deflation

Currency war fears spread across Latin America – Pg. 2

- Latin America is going Brazilian. Previously, it was only Brazil, the region's biggest economy, that complained about the competitive devaluations generated by money-printing in the west, the so-called currency war s
- …Japan joins the rush to devalue, the more orthodox and free-trading economies – investor darlings such as Mexico, Chile, Columbia and Peru – also fear catching a bullet
- What makes this round of currency-war complaints different from when Brazil coined the phrase in 2010 is that after years of orthodox policy making the Mexican, Columbian, Peruvian and Chilean economies, which have combined economic output of $2.1tn., enjoy lower inflation and interest rates and smaller budget deficits

- The Mexican, Chilean, Columbian and Peruvian currencies all appreciated against the dollar last year. The average of their inflation-adjusted, trade weighted currencies is now also 8% above the 10-year average
- So far, none of these countries has contemplated Brazilian-style capital controls

Bull run for shares in southeast Asia turns crowded – Pg. 34

- Since the start of 2009, there have been few better places to invest. Indonesia stocks have risen 220%, while Thailand and the Philipines are up 225%. Over the same period, the MSCI emerging markets index is up 88% while the MSCI world index has added just 52%
- This year the rally has continued, with Manila and Bankok up by more than 10%, after gains of more than 40% in 2012
- With a young population of more than 600m people, rich natural resources and growing trade links to China and India, the region is at the centre of Asia's boom. Incomes are rising fast, as are corporate profits. Infrastructure spending is set to soar as governments look to exploit record low funding costs, while higher wages in China are helping to bring export businesses south
- The Philippines economy grew 6.6% in 2012, Indonesia expanded 6.2% while Thailand's central bank has raised its forecast for 2012 growth to 5.9%

12 February 2013

Bundesbank head warns against EU leaders talking down the euro – Pg. 1

- The euro has appreciated nearly 8% since July on a trade-weighted basis. Businesses and politicians fear that a euro that is too strong will kill off hopes of a gradual export-led recovery for the Eurozone
- A newly interventionist stance by the Japanese government, overtly pressing the Bank of Japan to loosen its monetary policy, has seen the yen weaken considerably against the dollar

Vice-chair of Fed hints at continued QE policy – Pg. 6

- …hinted that monetary policy should remain loose when she said the Fed was right to concentrate on boosting jobs
- The FOMC is split on how long to continue with its third round of quantitative easing, known as QE3, under which it is buying $85bn a month of mortgage-backed securities land Treasury bonds
- The Fed says it will keep buying assets until there is a substantial improvement in the labour market but it has not defined what that means, and some policy makers are concerned ohat there are costs and risks to buying more and more assets
- She said that, despite big budget deficits, fiscal policy has not done much to support the US economy during this recovery

Indian stock exchanges – Pg. 12

- The $1.2tn market capitalization of the 2,860 companies that trade on India's National Stock Exchange is half that of the Shanghai stock exchange, ….
- …value of trading on the NSE was just $530bn last year – a fifth the value of trading in Shanghai

Venezuela devaluation dents big companies – Pg. 14

- The Venezuelan government said it would devalue its currency by 32% on Friday ina move to alleviate a growing fiscal deficit and shortages of foreign currency
- The official exchange rate for Venezuela's bolivar is expected to move from 4.3 per dollar to 6.3 per dollar on February 13
- Multinationals are facing restrictions on repatriating dividends, which were introduced in 2009 and have some left some $13bn in dividends trapped in the country,…
- Although the devaluation is expected to ease pressure on Venezuela's finances, it is also likely to fuel inflation, which is running at about 20%

Norway's oil fund invests $600m in US property – Pg. 16

- Norway's $705bn oil wealth fund has made its property venture beyond Europe, investing $600m in a portfolio of offices in New York, Washington and Boston less than two months after it secured a mandate to expand overseas
- …the fund is growing at such a pace, because of the inflows from Norway's oilfields as well as its own returns, that it is proving difficult for property to come close to matching that level. This means that the fund's desire to invest in other alternative assets such as private equity and hedge funds is unlikely to become reality in the near future

Use low rates to borrow for longer, US Treasury told – Pg. 20

- ..US bond yields at their lowest level in decades there has been a call for the Treasury to consider selling more long-dated security
- Extending the average age of Treasury debt would also reduce worries about so-called "rollover risk" for the world's most important sovereign bond market, which has nearly doubled in size to $11tn since 2008
- Based on an economy growing at 4%, the Fed would probably set its key overnight rate about 3.5%, which is higher than the current 30-year bond yield of 3.2%
- Providing added impetus is the average maturity of Treasury debt, which reached approximately 64.8 months by the end of last year. While that is above the three-decade average of 58.1 months, the US still lags behind other countries, including Germany's 6.3 years and the UK's 14.5 years,…
- …may favour a return of the 20-year note, which was cancelled in 1986. Halting sales of the 30-year bond in 2001 until 2006 has left a hole in the Treasury market that would be filled by the return of a 20-year notes

Asian companies off to record start to year for equity issuance – Pg. 21

- In the Asia-Pacific region excluding Japan, equity capital market volumes stand at $24.6bn so far in 2013,…
- Around the world deal activity has been picking up this year, as global risk appetite continues to improve following central bank action late last year

11 February 2013

Radical Cyprus rescue plan puts uninsured depositors in line of fire – Pg. 1

- A radical new option for the financial rescue of Cyprus would force losses on uninsured depositors in Cypriot banks, as well as investors in the country's sovereign bonds, …
- The proposal for a "bail-in" of investors and depositors, and drastic shrinking of the Cypriot banking sector, is one of three options put forward as alternatives to a full-scale bailout
- It would reduce Cyprus's outstanding debt to just 77% of economic output, compared with 140% in to the current full bailout plan
- By "bailing in" uninsured bank depositors, it would also involve more foreign investors, especially from Russia, some of whom have used Cyprus as a tax haven in recent years

Obama targets jobs and growth – Pg. 2

- With the deficit growing and a controversial fiscal deal still to be agreed before March 1 if the US is to avoid the sequester – which would almost certainly tip the US back into recession – the political focus has remained on the economy, even as the president has advanced social issues
- The median income for a middle-income, three-person household fell from $72,956 in 2000 to $69, 487 in 2010 (in 2011 dollars), …

Venezuela devaluation creates wave of panic buying – Pg. 2

- Panic buyers thronged Venezuelan shops over the carnival weekend after the government of Huga Chavez announced a surprise devaluation that analysts said was overdue but would only partly right the listing economy
- The devaluation also cuts the dollar value of domestic debt from $42.9bn to $29.3bn, leading analysts to expect an increase in prices of Venezuela's foreign debt
- Although, in theory, exporting companies benefit from a more competitive exchange rate, Venezuela exports little apart from oil, which makes up about 94% of export revenues

China capital flows – Pg. 14

- China has been furiously boosting quotas to encourage foreign investment flows over the past year
- And foreign investors must also wonder why the Chinese themselves are so keen to get their money out
- The Shanghai Composite Index has halved over the past five years, when growth in economic output averaged 9% and the S&P500 gained almost a sixth

New exchange opens in India – Pg. 17

- A new stock exchange in India opens for trading today, pitching the country's main commodity bourse into a three-way battle with the two established incumbents as they look to attract global investors
- The new venue, MCX-SX will trade more than 1,100 equities, develop derivatives like futures and options and launch its own index of leading shares, the SX-40

Boom time as dealmakers see M&A revival – Pg. 19

- In a matter of a few days, M&A volumes for the year to date have shifted from a year-on-year decline to stand at an increase of 27% compared with the same period in 2012,…
- The average size of global deals so far this year is at the highest levels since the peak of the market bubble in 2007,…
- Behind the reawakening in dealmaking is a level of urgency among some private equity groups to deploy capital left in funds raised before the crisis that are approaching the end of their investment period,….
- More large sovereign wealth funds and pension plans are pushing to invest directly alongside the private equity groups

9 February 2013

EU hawks win long-term budget cut – Pg. 1

- Austerity-minded EU governments led by the UK and Germany prevailed over freer-spending counterparts to secure the first reduction in the bloc's long-term budget
- The 960bn (euro) package marked a decided drop from a 1,033bn (euro) proposal submitted by the European Commission, the EU's executive arm, nearly two years ago

Trade surge hints at renewed growth – Pg. 2

- A run of strong trade data from three of the world's largest economies has raised hopes aror global growth prospects in 2013
- China and the US posted strong growth in exports while German federal statistics office data showed a 188bn (euro) trade surplus for 2012 in Europe's largest economy, its second highest in 60 years
- In December US exports rose by a healthy 2.1% on the previous month, while non-oil imports shrank 1.5%
- Chinese exports and imports rose strongly I January, pointing towards solid growth both in China and abroad at the start of 2013, and inflation receded, slowing to 2% form 2.5% in December
- China growth slowed to 7.8% in 2012, its weakest in more than a decade, but it began to recover in the final quarter, and many economists expect the momentum of that upturn will continue into the start of this year
- The Shanghai Composite China's main stock index, rose 0.8% in trading yesterday, adding to the 23% rally since the start of December

Rise in Chinese credit stokes concerns – Pg. 2

- Chinese credit issuance surged to a record high last month on the back of a boom in shadow banking, stoking concerns that the economy could overheat
- Rating agencies say risks are mounting from these non-bank lending sources – collectively referred to as shadow banking

US shoppers spurn retail therapy as malls struggle – Pg. 2

- The ranks of bricks-and-mortar shoppers have thinned since the financial crisis, as a weak economy and the rise of ecommerce have made the dated interiors and badly chosen locations of many stores even less attractive (Prof Note: Not to mention the poor U.S. service!)
- Real estate agents say that even properties with a future cannot build it on retail alone: services such as dry cleaners, nail salons and sports clubs are likely to occupy many former shops as the face of America's built environment is redrawn
- Investors in mortgage-backed securities are already growing allergic to retail and two common mall "anchors", which other tenants need to pull in shoppers, are in trouble: JC Penny and Sears, …
- The geography of failure will emerge in patches, not broad brush strokes,…

Myanmar to create a 'mini Singapore' on western coast – Pg. 4

- Now Myanmar's reformist government has drawn up an ambitious plan to develop a vast special economic zone, commercial deep seaport, power plant, an international airport, a highway and a railway linking Kyaukpyu and southwest China
- If successful, the plan could create about 250,000 jobs in the region…

8 February 2013

Everyday life braced for impact of US austerity – Pg. 3

- …no serious proposals to avoid the $1.2tn in automatic spending cuts that are expected to be implemented on March 1
- The most immediate impact would likely be felt by government workers. The Pentagon has said that 800,000 civilian employees would see their hours cut by 20% for the rest of the year and 46,000 temporary workers would be laid off
- But today, given cuts that have already been implemented, nondefence spending will be 14% lower than at any point in the past 50 years, even before taking the sequester into account

Buried treasure – Pg. 5

- …world's fifth largest financial centre [caymans]
- Among the islands biggest employers are the law partnerships and fiduciary services firms that tend to the islands' funds and provide them with professional directors for hire

- Cayman…enacting the Confidential Relationships (Preservation) Law. Section 5, paragraph 1, makes it punishable by jail to posses information to which you are not supposed to be privy, divulge confidential information, and – most egregiously of all – attempt to obtain confidential information

Falling yen brightens outlook for Japan Inc – Pg. 13

- Economists now expect Japan to have posted real quarterly growth of 0.4% in the fourth quarter, following two successive periods of contraction, and are projecting solid growth of about 2% in the first half of 2013
- …the yen hovering about 93 to the dollar, the sense of relief is evident. Around 90 is an "ideal rate" to arrest the hollowing out of Japan, while allowing companies to generate decent profits, …

Property deluge will not happen, says fund chief – Pg. 14

- The head of CBRE, the world's largest manager of property funds, has warned that the expected wave of distressed sales, for which tens of billions of dollars have been raised, will not materialize
- The prediction…whose company has $92bn of property under management, is an ominous one for the scores of private equity funds in the US and Europe that have built up financial firepower in anticipation of a sell-off in real estate by financially constrained landlords
- The lower-than-expected level of distressed property sales has already put pressure on real estate private equity firms, particularly those focused on Europe

Investors start a new scramble for Africa – Pg. 19

- Vietnam, Dubai, Argentina and Kazakhstan have all enjoyed a robust start to the year, but the fund managers argue that the real frontier market stars are Africa's bourses
- The limited size and depth of the markets are also a challenge

7 February 2013

Interest rate fixing scandal shakes three continents – Pg. 1

- The fallout from the global interest rate manipulation scandal hit three continents yesterday as RBS paid $612m and admitted criminal pricing-fixing charges over Libor rigging. A series of lurid emails, cited in the settlement, laid bare a culture where employees would readily alter rates in exchange for steak dinners (Prof Note: I am so ANGRY over fines (fines = Cost of doing business) and want to see life bans for these employees from financial services!)
- Around 10 authorities across the world are already probing as many as 20 of the world's biggest financial institutions for rigging Libor, …which determines more than $350tn of global contracts, from student loans to interest-rate swaps

Sun sets on Canada's property price boom – Pg. 3

- The lack of buyers is sobering evidence that Canada's housing boom, which began in 2000 and bounced back to life after the financial crisis of 2008-09 is over
- Construction is still booming. Toronto is putting up more skyscrapers over 150metres tall than any other city in the western hemisphere. But the demand for homes is facing
- Nationally, average prices were still up by 3.1% in the year to December, but in Vancouver they were down 2%
- House prices, meanwhile, rose 23% in the three years to April 2012. The IMF has been warning since 2011 that Canadian homes looked overvalued, because the ratios of house prices to incomes and to rents were respectively 20% and 29% above their long-run averages
- If house prices crash, it will be a blow to consumer spending and to the construction industry, which is still engaging in significant "overbuilding" of apartment buildings …
- One threat that appeared imminent last year – the impact on heavily indebted Canadian consumers of higher interest rates – seems to have receded
- Even so, the housing market is still one of the most serious threats to outlook. Canada is "unlikely" to suffer a US-style housing boom and bust, the IMF said last year, but warned: "the unwinding of domestic imbalances could prove more disruptive than anticipated in our baseline scenario"

Singapore banks – Pg. 12

- Want some Asean? Buy Singapore. The city state has long been seen as a simple way to gain exposure to southeast Asia without the trouble of digging into each country's bargains and quirks
- Singapore has been the slowest-growing economy among the five Asean founders. Its 7% compound rate over the past decade pales next to the 10% seen in Malaysia, the Philippines and Thailand, let alone Indonesia's 15% plus

Myanmar opens way for foreign banks in 'third wave' of reforms – Pg. 13

- Foreign banks could enter Myanmar with majority-owned joint ventures with local banks as early as April…
- The government issued detailed regulations on foreign investment a week ago, after parliament's passage of the new foreign investment law in late 2012
- Under the proposal, foreign banks will be allowed to own up to 80% of a joint venture with local banks, …
- After a period, possibly of two years, the foreign banks would be allowed to form wholly owned subsidiaries, paving the way for full branches

6 February 2013

Hollande call for managed euro exchange rate draws German fire – Pg. 1

- He insisted he was not calling for the ECB to set an exchange rate target, but said reform of the international monetary system was "indispensable"

- …Mr Hollande said France was among those single currency countries whose efforts to improve their competitiveness could be "destroyed by the rising value of the euro"
- The pace of the euro's rise, which last week traded above $1.37, has alarmed some policy makers…

Beijing sets out plan to spread wealth – Pg. 3

- China has pledged to increase minimum wages and force state-owned companies to hand over more of their revenues to the public as part of a push to tackle inequality
- The chasm between China's rich and poor is seen by analysts as threatening the country's political stability, with discontent over inequality spilling over into angry online comment and, on occasion, street protests
- Unveiling a 35-point plan yesterday, the State Council, or cabinet, said it wanted to lift as many as 80m people from poverty by 2015. It pledged to increase minimum wages to 40% of average salaries, boost spending on education and public housing, and force state-owned companies to pay out an additional 5% of their revenues in dividends by 2015
- China's Gini coefficient – a common gauge of income disparity – rose to 0.474 in 2012, above the 0.4 mark cited by analysts as a threshold for social unrest
- As it stands, China has been slow in rolling out a nationwide property tax, which analysts say would be an important tool for spreading wealth

Budget deficit to fall but US faces cuts row – Pg. 3

- The US budget deficit is forecast to shrink to $845bn, or 5.3% of economic output, this year because of slower spending by government agencies, higher revenue from tax rises on the rich and sluggish but steady economic growth
- By 2023, the US deficit will be worth 3.8% of economic output, with spending accounting for 22.9% of GDP, and revenues worth 19.1% of GDP

US makes secret case for killing citizens – Pg. 4

- US government lawyers argue that the president has broad legal powers to kill US citizens suspected of links with al-Qaeda who present an "imminent" threat to the country, …
- The opinion argues that it is lawful to kill US citizens if "an informed, high-ranking official" deems an individual to present a "continuing" threat to the US. It claims that this authority cannot be challenged in court (Prof Note: This is SCARY!)

US accuses S&P of $5bn fraud – Pg. 13

- S&P's has been accused by the US justice department of defrauding investors in mortgage-related securities out of a least $5bn by issuing inflated ratings to win hundreds of millions of dollars in fees
- DoJ also alleges S&P falsely represented to investors….that its ratings were objected when instead they were influenced by a desire to win fees and market share (Prof Note: My Capital Markets class must build a 4-tranche CMO…this model is itself complicated, try a 15+ tranche and the behavior of each is a complete mystery!)

5 February 2013

Investors eye the exit at US malls – Pg. 1

- Credit market investors are falling out of love with US shopping malls as up to 15% of the country's suburban retail centres are forecast to close over the next five years in the face of online competition
- The US's more than 1,300 regional malls, defined as centres larger than 450,000 sf, are being threatened by the boom in internet shopping and tougher competition
- The future of megamalls, which include cinemas, bowling alleys and restaurants designed to lure customers, appear safe but the prospects for second-tier malls are dimming
- Retail is regarded as an especially risky component of CMBS because a mall can go downhill if an important tenant shuts its stores
- Ecommerce accounts for roughly $1 in ever $10 spent by US shoppers and it smarket share continues to rise

Malaysia's cheap land lays ground for deeper engagement with Singapore – Pg. 4

- …special economic zone called Iskandar that spans roughly 2,200 sq km, roughly the size of Luxembourg
- Iskandar is one of more than a dozen big-ticket projects under the Malaysian government's so-called "economic transformation programme", designed to help attract higher-value industries and boost foreign investment
- Launched in 2006, Iskandar will become a metropolis of 3m people by 2025, ….

Consumer spending lifts US mall owner's earnings – Pg. 14

- Consumer spending has risen in the past year against a backdrop of slow and steady jobs gains and rising home prices. This combined with a decline in the number of malls being built, resulted in a jump in demand for high-quality retial space such as those owned by Simon

Dim sum debt makes return to the menu – Pg. 20

- While most Asian credit markets boomed in 2012, offshore renminbi bonds – known as "dim sum" bonds – endured a rollercoaster ride
- The underperformance of dim sum bonds last year was largely due to the renminbi being seen as a currency play, with the added oomph of a coupon

4 February 2013

Institutions warn India it needs urgent reforms – Pg. 2

- …improve its investment climate and physical infrastructure, and modernize its financial sector, to ensure the robust growth and job creation it needs

- While China was far from perfect, it had issued more than twice as many bank licences as India
- The government has accelerated privatizations and eased restrictions on foreign investment in areas such as retail and airlines

China wary amid push for workers' union poll – Pg. 3

- An increasing number of conflicts like these between workers and management have convinced Chinese authorities that the country's workers need more effect representation
- The All-China Federation of trade Unions, the official union, is run by the government and the Communist party, and in turn controls unions in individual companies

2 February 2013

US jobs increase gives markets a lift – Pg. 1

- The US economy added more jobs than previously announced in the final months of last year, sending equity markets higher and pushing the DJIA of blue-chip shares above 14,000 for the first time since 2007
- …unemployment rate rose to 7.9% in January, distancing it further from the Federal Reserve's target and calming market fears that the central bank might end its programme of monetary stimulus early
- The US added 157,000 jobs in January, and large upward revisions to November and December collectively added another 127,000 jobs, suggesting that the US labour market was improving at the end of 2012
- The Fed has said it will maintain its extraordinarily loose monetary policy, including a programme of bond buying known as quantitative easing, until the unemployment rate falls to 6.5%
- The yields on the benchmark 10-year Treasury, which rose above 2% ahead of the data, slid to 1.95% shortly after the release, although it closed the day at 2.02%

Old age problem comes home to roost for China's one-child policy – Pg. 4

- …China is facing a critical shortage of workers caused largely by 30 years of restricting family size. Last year, the working age population of China shrank for the first time, threatening a mainland economic miracle build upon a pool of surplus labour
- According to the 2010 census, the number of people over 60 has risen to 13.3% of the population compared with a little more than a tenth a decade ago
- Children under h14 comprise less than one-sixth of the population, down from almost a quarter previously
- According to the census, the estimated 2011 birth rate among women aged 20 to 29 was only 1.04 and in 2010 the overall birth rate in cities was only 0.88

Bad property loans cast a long shadow – Pg. 8

- The legacy of Spain's property bubble continues to weigh heavily on its banking sector as provisions against bad loans ate into profits at three of the country's largest lenders in the final quarter of last year
- Spanish banks were last year forced by the country's government to set provisions against loans made to real estate developers which have all but wiped out their profits for this year

China ETF most traded stock on HK exchange – Pg. 12

- An exchange traded fund tracking mainland Chinese equities became the most traded security on the Hong Kong exchange in January, the latest sign of international appetite for exposure to China and the growing interest in Asia for passive investments
- Since the start of December, the CSI300 index – a mixture of Shanghai and Shenzhei listed stocks, also known as A shares – has risen more than 30%, drawing a wave of foreign interest in Chinese equities, both into active and passive funds
- ETF trading volumes in Hong Kong have risen almost fivefold since July, as an improvement in Chinese economic data drove international investors to seek exposure to stocks

1 February 2013

US consumer incomes rise by the most in eight years – Pg. 4

- US consumer spending edged higher in December as incomes grew by the most in eight years, partly because of special dividends that companies paid workers ahead of new year changes in individual income tax rates
- Household purchases, accounting for about two-thirds of the US economy, rose 0.2% after a 0.4% gain the previous month, …
- Incomes rose 2.6% in December, the biggest increase since December 2004, following an upwardly revised 1% rise the previous month. Incomes came in ahead of consensus forecasts of a 0.7% gain

Risk models fuel fears for bank safety – Pg. 6

- Some global banks are using models that let them hold only one-eigth of the capital held by their competitors against the same assets, …
- The study by the Basel Committee on Banking Supervision comes at a time when investors, regulators and some bankers have called into question the way banks calculate their risk-weighted assets (RWA), which in turn determine how much capital they have to hold
- The Basel group, made up of regulators in 27 financial centres, is examining whether to place limits on the use of models or to set floors on certain assets to prevent banks from pushing RWA too low

The road to redemption – Pg. 7

- …most remarkable shifts is the rapid growth of their domestic bond markets. Over the past decade they grew fivefold to about $10tn by late 2011, ….one-sixth of the world's total bond stock

- The domestic Mexican peso bond market, for example, exploded from about $28bn in US dollar terms in 1996 to $445bn in late 2011,…
- The rating agencies have also cheered the rise of local bond markets and have rewarded developing countries with better grades
- …the IMF has started to become concerned that the current eagerness of investors to lend to emerging economies could lead some of these smaller states to forget the hard-learnt lessons of the past and borrow too much in dollars

US banks squeezed as mortgage profits hit – Pg. 13

- The bonanza profits for big US banks in recent years from mortgages are being squeezed, raising doubts about the earnings for Wells Fargo, Bank of America and other large lenders
- Mortgage rates rose on average from 3.42% to 3.53% yesterday, their highest level in four months and sharpest increase in 10 months
- The downturn comes after the biggest banks sharply increased their capacity, hiring new loan officers to deal with a flood of homeowners wanting to refinance at historically low rates

Shadow banks fill infrastructure debt void – Pg. 20

- Pension funds and insurance groups are filling the void left by banks in the rapidly changing infrastructure debt market, raising hopes that this kind of financing can spur a global economic recovery,…
- Infrastructure debt is vital for the building of schools, hospitals and roads, which governments hope will create jobs and drag faltering economies in the industrialized world out of the economic doldrums
- Pension funds and insurance groups, dubbed shadow banks as they replace traditional banks as lenders, are forecast to more than double the amount they lend for infrastructure or project finance globally this year,…
- S&P said alternative debt financing from shadow banks, which is mainly from pension funds and insurance companies with a small amount from hedge funds and sovereign wealth funds, may help reduce the cost of borrowing for infrastructure projects

31 January 2013

US economy slips into reverse – Pg. 1

- The US economy shrank 0.1% year-on-year in the fourth quarter of 2012, the first contraction in three years, …
- Much of the fall in GDP was due to a big reversal in business inventories and a plunge in federal defense spending which each knocked 1.3% off growth
- The markets has anticipated growth of 1.1%
- …ADP, the private payrolls processing company, said yesterday its survey found 192,000 new jobs in December
- …the decline in federal defense outlays is likely to fuel concerns…

- Demand for US Treasuries – which tends to rise in periods of uncertainty – was flat at 1.99% in late afternoon trading

Outlook still clear despite shower – Pg. 3

- Consumption, business investment and construction, the core areas of private sector demand, were robust and collectively added 2.7% to growth. That suggests the outlook for the US economic weather is still fairly clear
- Most of the damage came from two categories that are notorious for their volatility – business inventories and federal defense spending – which each knocked 1.3% off total growth
- The US fiscal year ends on September 30 and seasonal effects seem to be especially pronounced. In both 2010 and 2011, defense added to growth in the third quarter, and subtracted from it in the fourth
- Unless Congress can agree to replace or suspend them, $1.2tn in automatic spending cuts over a decade are due to take effect beginning March 1 – with half of the reduction to come from the Pentagon budget

Aztec tiger – Pg. 7

- This month, Larry Fink, who heads BlackRock, the world's largest asset management company,a called Mexico an "incredible growth story"

Goldman and Morgan Stanley cool on India push – Pg. 17

- Two of the world's most prominent investment banks have cooled on attempts to win a full Indian banking license, in a sign of growing awareness of the costs facing international institutions seeking to expand in Asia's third-largest economy
- Morgan Stanley last year won an "in principle" agreement from the Reserve Bank of India to receive a commercial banking license, which would have allowed it to open at least one branch and begin conducting various types of new business, including foreign exchange transactions
- But the bank has since notified the regulator that it no longer wishes to proceed with the application, citing changes in the global economic environment,…
- India's fast-growing banking system is set to become the world's third largest, as measured by assets by 2025,…behind only China and the US

30 January 2013

China's banks stave off local government loan default – Pg. 2

- Chinese banks rolled over at least three-quarters of all loans to local governments that were due to mature by the end of 2012, an indication of the immense challenge facing China in working down its debt load
- In the intervening two years, 41% of the debts had been scheduled to mature….

- Cities and provinces have had to turn increasingly to non-bank financial institutions to raise new debt
- Official public debt in China is extremely low, at less than 20% of GDP

Singapore pins economic hopes on 30% boost in population – Pg. 2

- …forecast that its population would grow by up to 30%, to 6.9m by 2030
- Of that, up to 36% or 2.5m wou0dl have to be made up of foreign workers, or what is called "non residents", as Singapore tries to balance a shrinking working-age population and low birth rate with the need to have enough workers to maintain economic growth
- Foreign workers currently make up 28% of a total population of 5.3m

Housing upturn aids DR Horton – Pg. 16

- Record low mortgage interest rates and dwindling inventories of existing and new homes for sale have led to rising property prices. Homebuilders in turn have boosted construction to meet this renewed demand
- The homebuilder has used to size advantage to manage costs, increase market share and boost land acquisition ahead of its smaller rivals
- US builders sold 367,000 new homes in 2012, the most since 2009 and the first annual gain in seven years,…

Banks offer debt product to help skirt new liquidity rules – Pg. 20

- US banks led by JPMorgan Chase are offering a new type of debt product that will help them to skirt new rules requiring them to hold war chests of liquid assets
- The new product is known as "callable commercial paper" and is sold by banks on behalf of US municipalities who use it as a type of financing. The callable version is being openly marketed by at least two big banks as a way for them to avoid new liquidity rules, making it cheaper for them to sell the paper on behalf of munis
- Callable CP comes with a longer maturity of up to 200 days but would be redeemed by the issuer before 30 days
- That will allow banks to avoid the liquidity rules, since the paper has a term of 30 days or more, and still make it palatable to money market funds which buy the short-term debt

29 January 2013

Investors return 100bn (euro) to Eurozone periphery – Pg. 1

- The scale of new inflows, equivalent to about 9% of the economic output of Spain, Italy, Portugal, Ireland and Greece….
- The return of capital has encouraged policy makers to believe the Eurozone crisis is over,…

Surge in orders of durable goods eases spending fears – Pg. 2

- US durable goods orders jumped in December as business spending edged higher, a sign that anxiety over the country's budget may not have constrained investment in 2012 as much as initially feared
- Orders for goods expected to last at least three years rose 4.6% last month,…

Swiss banks on alert amid property boom – Pg. 4

- Last summer, Switzerland became the first major financial centre to introduce rules that would force banks to build up their capital reserves should parts of the economy start growing too fast
- With its housing market in overdrive, speculation is growing that it could also become the first to implement them
- The average price of an owner-occupied apartment in Switzerland has risen 75% in the past decade,…
- Mortgage volumes, meanwhile, are higher than Swiss national output
- Under Switzerland's new rules, the SNB can address such threats by asking the government to force lenders to build up capital buffers worth up to 2.5% of their risk-weighted assets
- Capital buffers should help banks cope better with a future crash. But in the meantime, with interest rates close to zero and Switzerland's mortgage market very competitive, they are unlikely to make credit expensive enough to slow mortgage demand significantly

Iceland triumphs in Icesave court battle – Pg. 13

- Iceland won a legal battle to avoid being forced to pay back the British and Dutch governments for not honouring deposit guarantees for savers in failed online banking operation Icesave
- The court ruled in Iceland's favour over Icesave, the online offering of collapsed bank Landsbanki, because it said the country suffered such a large financial crisis
- The Icesave saga has dragged on for four years after Iceland refused to compensate UK and Dutch depositors lured by high interest rates

Hedge funds raise equity bets to catch up with the S&P500 – Pg. 21

- Gross leverage of hedge funds trading with bank is 2.65 times their underlying assets, above the highs of last years, …
- Hedge funds overall trailed the 18.5% total return for the S&P500 index last year, with the average fund earning 6.2%...the average stock trading fund up 7.4%

28 January 2013

Fed warns on lack of unity by regulators – Pg. 1

- US regulators have warned the world's largest banks not to assume countries will work together to avoid the catastrophic failure of a financial group amid mounting concerns about the progress of global regulatory reform efforts
- New versions of the living wills, or resolution plans, are due to be filed in the summer

- Insufficient co-ordination between different regions – particularly over resolution planning – was one of the key topics at the so-called financial governors meeting held last Thursday as the Davos World Economic Forum.
- In the first living wills requested by US authorities, many banks, ranging from Goldman Sahs to Deutsche Bank, specifically assumed that regulators would co-operate, ….

MBAs salary-enhancing power slashed while fees increase 44% - Pg. 1

- The MBA degree, often seen as the quickest route to a fat salary, no longer delivers the purchasing power it once did
- Students on the top US MBA programmes in the mid-1990s saw their salaries triple in five years, but those who graduated from the same schools in 2008 and 2009 saw that increase halved, ….
- Further, MBA students who enrolled in 2012 paid 62% more in fees – up from 44% in real terms – than those who began their programmes in 2005, even though the increases in post-MBA salaries remained in line with inflation
- The average fees for the 51 two-year US degrees were $106,000 for those who enrolled in 2012
- Harvard Business School had the highest fees: $126,000 in total. However, its graduates enjoy some of the highest salaries three years after graduation, an average of $190,000 (Prof Note: A student gave me a Harvard sweatshirt for authoring a recommendation to their MBA school (he was accepted). Yesterday was the first time I wore it this winter. It is interesting as more random women approach me when I wear that sweatshirt just to "chat". I was literally in a grocery store when several woman started talking to me. My classical good looks and charisma?! I think not….it was the sweatshirt….happens every time!)
- The salaries for women MBAs three years after graduation has traditionally trailed those of their male counterparts by about $20,000, but this year the salary gap narrowed for the first time. In 2012, women from the top 100 schools earned an average $110,000, against $132,000 for men; the figures in this year's rankings were $126,000 and $136,000
- Hong Kong University of Science and Technology is the top Asian school, ranked eight. The number of ranked Asia-Pacific business schools grew from 12 in 2012 to 14 in 2013

$1.2tn in automatic US spending cuts looms as Republicans dig their heels in – Pg. 3

- Economists have long assumed Congress would replace or reverse the sequester – a budgetary mechanism passed in 2011 that takes effect on March 1 and slashes the Pentagon's budget by $600bn over 10 years while cutting discretionary spending for government programmes by another $600bn
- Unlike the fiscal cliff deal, the sequester would hit 2013 growth forecasts…the sequester would knock off 0.7% off growth in 2013, taking its forecast down to 1.9%

Hedging tool launched to boost CMBS issuance – Pg. 14

- Banks are being given a tool to hedge their holdings of commercial mortgages in a development expected to boost issuance of related securities and help bring new money into the US property sector
- Markit is launching a new CMBS index, which lenders can trade to reduce the risk of holding loans while they wait to be packaged into commercial mortgage-backed securities
- The Market CMBX Series 6 index went live on Friday, calculated from the costs of insuring against default on 25 of the latest CMBS issues. CMBS are securities created from pools of commercial mortgages. By selling on their loans, mortgage originators are freed up to lend again

Risks evolve in China's shadow banking – Pg. 16

- Chinese securities brokerages have emerged as a crucial new link in the country's shadow banking industry,…
- Western rating agencies have warned that a rapid rise in off-balance sheet banking activity is a threat to China's financial stability
- The emergence of brokerages as key conduits of shadow banking in China is a sign of how quickly the country's financial institutions are evolving in response to regulatory changes
- Conventional bank loans account for a decreasing portion of Chinese financing, from 95% in 2002 to just 58% last year,…
- Total financing increased almost eightfold during that time

26 January 2013

Pound falls as worries of 'triple dip' grow – Pg. 2

- Britain's economy shrank in the final quarter of last year, bringing it closer to a possible "triple-dip" recession and piling pressure on the coalition government
- The economy, which has stagnated for 2 ½ years, pulled out of a shallow double-dip recession in the third quarter of 2012, but contracted again in the fourth quarter by 0.3%
- Market reaction was swift and clearly showed traders had been wrongfooted by the extent of the contraction in the UK GDP

Demand puts whisky industry in high spirits – Pg. 2

- As Scotland debates whether or not to leave the UK, its iconic industry is drunk with success
- Exports have climbed steeply, growing 12% last years…driven by exports to the US, Taiwan, Venezuela and the Baltic states (Prof Note: I am drinking all I can to keep help Scotland's GDP!)

China and Japan ease tensions – Pg. 4

- China and Japan have taken the first diplomatic step in easing tensions over a bitter territorial dispute that has damaged trade between the two countries and threatened to spill over into military conflict

- …dispute over a group of Japanese-controlled islands in the East China Sea erupted in September (Prof Note: I am currently lecturing a class of 20 Chinese students. It was refreshing to see the national pride when I asked to whom the islands belongs…it was a resounding "us". It truly was great to see and feel the national pride.)
- …Beijing has regularly sent ships into the area
- Japan has protested about this as an incursion into its territory but China calls the patrols "normal" and claims that Tokyo no long has contested control over the waters

Singapore's prescription for prosperity starts to look shaky – Pg. 4

- …the government has been gripped by a far bigger problem in this island nation of 5.3m people: encouraging the population to reproduce
- With a falling birth rate, Singapore's native population is shrinking, threatening to deplete the pool of working age people and to end an economic miracle that has dazzled the world
- First-time parents will receive S$6,000 in cash, up from S4,000 under an old scheme
- The birth rate of 1.2 per woman is well below a replacement rate of 2.1
- Much of that has been blamed on a 1990s culture of overachievement, with success measured by whether citizens achieved the "five Cs" of cash, car, credit card, condominium and membership of a country club
- Singaporeans also feel squeezed by inflation and property prices – something the government tied to tackle this month with draconian measures to cool an emerging property bubble

Not-so-safe havens show uglier side – Pg. 12

- The Swiss franc has fallen more than 3% against the euro so far this year. The yen has fallen almost 5% against the dollar and 7% against the euro
- Other haves have wobbled. US Treasury and German bond yields surged this month, triggering fears that a broader sell-off may be looming. Gold prices have fallen 8% since October
- Investors' risk appetites have increased in a hunt for yield that has seen, for instance, a surge in foreign demand for Spanish and Italian demand for Spanish and Italian government debt and tentative signs of a global rotation out of recession-proof bonds and into equities

25 January 2013

Barlcays top brass faces fresh Libor heat – Pg. 1

- …email evidence suggests top executives knew Barclays was lowballing submissions to the rate-setting process in November 2007,…
- The emails read in court by Tim Lord, representing the claimants, raise questions about who in Barclays' highest echelons knew about rigging, and when (Prof Note: Are the shareholders paying thee legal fees for these chuckleheads?!)
- Investors are suing Barclays in what is seen as a test case. The claimants allege Barclays mis-sold them interest-rate swaps, which were pegged to a rate being manipulated

Rule book casts shadow over banking recovery – Pg. 3

- Bankers this year have bemoaned the breakdown in an international regulatory framework
- Worse still was the failure of policy makers to look across the financial services industry and join up the thinking on how banks and insurers should be regulated…
- For their part, corporate and bank executives are worried about a rise in shareholder activism and the focus on quarterly earnings

Record trade deficit fuels debate over Japan's currency policy – Pg. 3

- Japan's trade deficit nearly tripled in 2012 to $77bn, an unprecedented shortfall for the traditional export powerhouse that could colour debate about the so-called currency wars as Tokyo pursues policies to push down the value off the Yen
- Last year's trade deficit was only the third since 1998. Japan is better known for the large surpluses that in decades past were a source of both national pride and political friction, particularly with the US
- Exports to China, where some consumers have been shunning Japanese products amid an international dispute over control of islands in the East China Sea, fell 15.8%, but shipments to Europe and the US were also down
- Currently, only two of its 50 surviving reactors are generating electricity, resulting in an LNG import bill…

Geithner leaves with head held high – Pg. 5

- Tim Geithner departs today…. (Prof Note: Hopkins Graduate!)
- Mr Geithner also leaves some less obvious legacies: the Treasury is more powerful than it was before the Dodd-Frank reforms, with new authority over financial regulation, and he was a crucial behind-the-scenes figure as the Eurozone crisis unfolded from 2010
- The most crucial decision Mr Geithner made, both at the Treasury and before as president of the New York Fed, was to tackle the biggest, crisis-stricken banks with stress tests and forced capital injections rather than nationalization
- At 51, he is young enough for more big jobs

Obama to nominate former US attorney to SEC – Pg. 5

- …set to nominate Mary Jo White, a former federal prosecutor and prominent corporate defense lawyer, to lead the SEC
- …oversaw a number of highprofile prosecutions, …
- Since the 2008 Madoff scandal, in which the SEC missed numerous red flags that could have caught the fraud years before it imploded, the regulator has been battling to restore its reputation as a fierce enforcement agency
- The agency still faces daunting tasks, including implementing outstanding Dodd-Frank rules and taking on weaknesses in Market structure issues, which have hurt the integrity of the US equity markets and played out in botched initial public offerings and wild swings in the stock market

Certain as death, complicated as hell – Pg. 7

- …basic recipe for reform is set. It consists – as in 1986 – of lowering income tax rates while broadening the tax base and paying for the effort by eliminating or limiting certain tax breaks
- …the first obstacle in tax reform will come when lawmakers have to settle on a revenue target. The US tax system generated $2.45tn in revenue during the 2012 fiscal year, not nearly enough to cover the $3.5tn in spending by federal government. The result was the fourth consecutive year of budget deficits over $1tn recorded under the Obama administration
- As a share of GDP, tax revenues are at their lowest levels since the 1950, just above 15%, and well below the long-term norm of more ththan 18%
- Including state and local government taxes, the US remains a low-tax nation compared with other developed countries, with revenue as a share of GDP of 24.8% in 2010, compared with an average of 33.8% for OECD countries
- Although US tax revenues are expected to rise naturally as the economy improves in the coming years, they are not large enough to match the spending promises made by the US government to its burgeoning class of baby-boomer retirees
- The US is also unique in its mix of taxes, relying much less on consumption taxes and more on a combination of income and wage taxes than the rest of the developed world. For instance, the US does not have a federal sales tax or value added tax, with such levies only applied at the state level
- Another way the US could raise revenue while lowering income tax rates is by instituting a carbon tax, …
- The US also has to decide whether to move away from its worldwide system, which taxes the foreign profits of its multinational companies when the money is returned to the US
- …business would like to see a reduction in the corporate tax rate from 35%, one of the highest in the world, and more permanent tax incentives for research and development, which are currently less generous – and often temporary …

24 January 2013

Central bankers hit out at yen policy – Pg. 1

- The debate on whether monetary policy could do more to boost growth, or whether further action would have negative effects, came as the IMF forecasts again suggested that the world recovery would be slower than previously hoped
- (Prof Note: Stop criticizing Japan for what all the other central banks have done in the past!)

US parents face hardship by taking on student debt – Pg. 3

- The cost of university education in the US has risen more than 40% in the past decade at more than $1tn

- Outstanding student debt – a complex web of public, private and subsidized loans, has now surpassed car loans and credit cards as the second-largest source of consumer debt after home mortgages, ….
- This has led to a record number of student borrowers in financial distress, particularly against a backdrop of limited income and uncertain job prospects
- The level of repayments on student loans overdue for 90 days for the third quarter increased to 11% and for the first time exceeds the "serious delinquency" rate for credit card debt,…
- There were 1.9m unemployed university graduates in December (Prof Note: Enough…students need to pick degrees that provide employment. Yes, my family paid the tuition for my undergraduate degree and I was told I could choose any major I wanted, i.e. be anything I wanted to be, HOWEVER, if they were going to pay I was going to study Electrical Engineering…I studied Electrical Engineering! P.S. I have three graduate degrees valued today at roughly $150,000…in 1995 dollars, I paid less than $8,000 due to scholarships, grants, work/study, etc. A $30k government job with full tuition reimbursement pays pretty well!)
- The average studentleaves with $24,000 in debt…

IMF lowers growth forecasts – Pg. 4

- The IMF downgraded its global growth forecast for 2013 and 2014 by 0.1% each year, with the bulk of that reduction stemming from a weaker outlook for the Eurozone
- Robert Shiller of Yale University urged governments to "get out of austerity mode", but accepted his advice was falling on deaf ears. "The popular mood is totally against such measures, so I have given up trying", he said (Prof Note: Go Robert Shiller!)

Decline in bankruptcies boosts US credit card backed issues – Pg . 22

- Lenders are taking advantage of investor confidence in bonds backed by American credit card debt, which has grown thanks to the prudence of the US consumer and the falling number of personal bankruptcies
- The number of Americans who declared bankruptcy has fallen for two consecutive years, and…will fall again in 2013
- …the number of delinquent borrowers is close to record low levels, ….
- Spreads on credit card asset backed securities (ABS) have narrowed almost to the levels seen at the peak of the securitization boom in 2007, meaning investors are demanding less of a premium over safer bonds such as US Treasuries

23 January 2013

BoJ bows to political pressure for action to defeat deflation – Pg. 1

- …raising concern among international policy makers about the possibility of a global currency war

- …the BoJ said it would aim for an inflation rate of 2% - up from its current goal of 1% - "at the earliest possible time" by shifting to the kind of limitless stimulus embraced by the US Federal Reserve and ECB (Prof Note: So much for central bank independence. The textbooks continue to be rewritten…so much for the Yen being used for carry trade. This will increase demand for US currency)
- …attempt to devalue the yen to support Japanese exports (Prof Note: What, the U.S. has the only license to devalue?!)

SEC imposes curbs on activities of rating agency Egan-Jones – Pg. 1

- The head of Egan-Jones Rating, a small rival of the big-three credit rating agencies, has been banned from rating asset-backed and government securities for 18 months as part of a settlement with US regulators (Prof Note: We all know how well S&P, Fitch, and Moodys do at rating complex securities)
- The SEC alleged that Mr Egan misled regulators when his company applied to 2008 to be recognized as a rating agency for asset-backed and government debt by overstating his experience in the field
- The ban is not expected to affect Egan-Jones business, which is more heavily focused on rating corporate debt
- (Prof Note: Pullleeezzzzzz…I am so tired of fines….what about a lifetime ban for Sean Egan?! If he lied, he lied…life ban! That has some real teeth AND a real consequence.)

Fed seeks to improve how it communicates with markets – Pg. 4

- In December, the Fed said that it expected low interest rates for as long as unemployment stayed above 6.5%, provided that it anticipated inflation below 2.5%. But it said nothing about what happens to interest rates after that
- Although recent housing data have been strong, uncertainty about the planned sequester to cut spending at the end of February, and the possibility of a government shutdown in March, mean that rapid upgrades to growth forecasts are unlikely

First shot fired in new round of currency wars – Pg. 4

- After bowing to political pressure, the BoJ said it would buy potentially unlimited amounts of government bonds and widen the goalposts on inflation to allow prices to rise 2% instead of 1%
- …the president of Germany's Bundesbank, had warned that the erosion of central bank independence around the world threatened to unleash just such a race to the bottom,…
- The prospect of a currency war is particularly alarming for the Eurozone as it attempts to crawl out of recession and lower record unemployment by encouraging exports

Homes on US market fall to lowest level in 11 years – Pg. 6

- Stocks of US homes for sale hit an 11-year low in December as Americans took advantage of low mortgage rates and depressed prices to buy houses

- Total housing inventory fell 8.5% to 1.82m existing homes available for sale last month, the fewest since January 2001, …
- The inventory-to-sales ratio fell to a 4.4 month supply at the current sales pace, down from 4.8 months in November
- (Prof Note: This information all comes from NAR…which I personally view as unreliable!)

22 January 2013

German fears of exchange rate war – Pg. 1

- The erosion of central bank independence worldwide threatens to unleash a round of competitive exchange rate devaluations…
- The Bundesbank and ECB were founded on mandates that gave them wide powers and freedom from political interference in return for focusing solely on keeping inflation in check. Some observers argue that the ECB faces a challenge if other central banks ditch their inflation targets and act to lower exchange rates against the euro, making exports from the embattled Eurozone less competitive

Investors hopeful of debt ceiling deal – Pg. 4

- Equities and corporate bonds have registered solid gains this year after a last-minute deal over the fiscal cliff was formalized at the start of January.
- One scenario markets do not want to see repeated is the protracted haggling that marked the raising of the debt ceiling in August 2011, which was followed by the US losing its triple-A credit rating and sharp losses for equities
- Investors want Washington to provide a clearer picture over spending and allow the economy to continue its slow recovery, with consumers and companies gaining confidence backed by the Federal Reserve keeping interest rates at their lowest level since the second world war
- Bill miller, manager of the Legg Mason Opportunity Trust, and one of the most successful stock-pickers of all time (Prof Note: BS! The man was decimated during the downturn!!!)

A looming crisis. An opportunity for reform. – pg. 8

- The US economy is in the doldrums, unemployment is stubbornly high and Social Security, the New Deal-era safety net for older Americans is running out of money. It is 1981
- …the government pays for retirement benefits out of today's taxes. There is no pile of assets saved up because in 1939 Congress gave a first lucky generation their pensions for free
- Other countries have a fiscal problem due to ageing (consider Japan) but US ideas about limited government make it uniquely troublesome. Medicine is private, for example, yet Medicare, the health insurance system for retirees, causes most of the fiscal pressure. It is forecast to take an extra 4% of GDP by 2037 and more after that
- Done one path, the retirement contract is untouched, but tax levels have to rise by 30% or more; the US would look like a mature European economy. Down the other, taxes stay low,

but barring a revolution in healthcare costs, provisions for at least some retirees – current or future, rich or poor – must be slashed
- The budget deficit was about 7% of GDP in the last fiscal year, ….
- It is the 2020s when the big spending will start. The baby boomers, into their 70s, will start getting sick; the Social Security retirement age will stabilize at 67 in 2022; and the CBO is unwilling to assume that certain controls on medical costs will stick for more than a decade. The revenue and spending paths will become irreconciliable. Debt will pile up – and quickly
- There is ample evidence that badly designed taxes, with high rates and lots of loopholes, are bad for growth
- …the US spends 17.4% of total output on healthcare (including more than 8% in the public sector), compared with the OECD average of 9.6%.

India raises taxes on gold in move to reduce demand – Pg. 20
- ….raised taxes on gold imports…
- Taxes on imported gold will rise from 4% to 6%....
- The move is the latest in a series of attempts by New Delhi to rein in India's gold imports, which account for a large proportion of the ballooning current account deficit
- India is the traditional backbone of the physical gold market, accounting for more than a fifth of global demand
- India's government hopes the higher duties will trim imports, in turn cutting the country's current account deficit, which at 4.2% of GDP last year was among the highest of any major global economy

Rising corporate default rates could spell danger for investors – Pg. 21
- Global corporate default rates are inching higher at the start of 2013 at the same time as companies with fragile balance sheets are issuing record amounts of debt to take advantage of investors appetite for the securities
- Companies with fragile balance sheets have been able to bide their time and avoid potential restructurings or een bankruptcy thanks to the strong appetite for high-yielding debt
- That combination has helped keep US default rates below a historic average of 4.5%
- S&P estimates that among US companies alone the speculative-grade default rate will increase to 3.7% by September 2013, from 3%
- Companies have used the combination of low borrowing costs and strong demand to double the amount of "junk" debt sales so far this year to $22.3bn, the highest year-to-date record…

19 January 2013

Fed red-faced as notes reveal officials failed to grasp dangers of 2007 crisis – Pg. 1
- The transcripts reveal that some Fed policy makers viewed the crisis, which erupted in August 2007 on the back of problems in the market for subprime mortgage loans, as good news because markets were pricing in more risk

- On August 7 – two days before the ECB made its offer of unlimited funds to Eurozone banks to counter a liquidity shortage – one Fed governor described the subprime crisis as "quite a good thing" because it was forcing people to reassess the quality of financial information
- Important information – such as the extent of insurer A- IG's exposure to subprime debt – was unknown at the start of the crisis

Questions over growth as age begins to drain labour pool – Pg. 3

- China's working-age population shrank in 2012, marking the beginning of a trend that will accelerate over the next 20 years and have profound implications for the world's second-largest economy
- By the end of December China's population aged between 15 and 59 was 937.27m, a decrease of 3.45m from 2011,…
- China's GDP grew 7.9% year on year in the final three months, up from 7.4% in the third quarter and breaking a streak of seven consecutive weaker quarters
- Many analysts fear, however, that China's ageing workforce could become a big drag on future growth
- As societies get richer birth rates tend to decline naturally, but in China that trend has been deeply distorted by the country's controversial one-child policy introduced in the late 1970s

Homebuyers lose out as big investors pour cash into market – Pg. 4

- Private equity groups and hedge funds as well as local investors have poured billions of dollars into distressed US housing in the past year aiming to renovate and rent family homes, drawn by a rebound in home values and America's shift towards renting
- Tight credit conditions, strict mortgage requirements and still uncertain job and salary prospects are holding many Americans back from making purchases
- Blackstone alone has invested at least $2.5bn since the start of last year,..
- All cash transactions have accounted for roughly 30% of existing home sales over the past three years…
- The total of 1.57m homes listed for sale in the US at the end of December was down 17.3% from a year ago and at the lowest level in more than five years,…
- Racing against the recovery, companies have bought up so many homes that there are now record low inventories of existing and new homes that have driven up home values

Rush to junk raises boom-era fears – Pg. 12

- The growing demand for higher returns in an era of historically low interest rates has triggered big inflows into some of the riskiest corners of bond market
- The move into junk comes as prices of short-dated German Bunds and US Treasuries have gone in the opposite direction. That has sent the spread of high-yield bonds over top-tier government debt almost to a five-year low this week
- …investors in the part of the $10tn global corporate bond market with the highest chance of defat are being paid one of the slimmest premiums over "safe" government debt for taking tha"t risk since the boom that preceded the 2008-09 financial crisis

- The junk bond market was pioneered in the 1970s by US financier Michael Milken, prompting a boom in leveraged buyouts in the 1980s
- Deals such as the buyout of RJR Nabisco, subject of the book Barbarians at the Gate, became Wall Street legends. Mr. Milken later went to jail for securities violations

18 January 2013

Abu Dhabi 'back in spending mood' – Pg. 4

- Abu Dhabi is pushing forward with a $90bn five-year spending spree on housing, schools, infrastructure and leisure projects, become the latest Gulf monarchy to showcase big spending on its citizens since the Arab spring uprisings
- Abu Dhabi never faced a debt crisis – indeed, it bailed out Dubai for $20bn in 2009 - ….
- …$130bn investment programme launched by Saudi Arabia in 2011, ….

Home construction surges as builders' optimism rises – Pg. 6

- A robust recovery in the US housing sector is propping up the economy as starts on new homes surged by 12.1% in December
- Builders began construction of houses and apartments at a seasonally adjusted annual rate of 954,000, beating expectations of 887,000 and the prior month's downwardly revised level of 851,000
- While more Americans are choosing to rent, as they cannot get a mortgage, spurring apartment construction, those who can afford a house are buying against a backdrop of slow but steady jobs gains and record-low interest rates
- Although housing starts are 80% above their recession trough, they are still well short of what is regarded as a healthy annual rate of 1.5m
- While that number is down 36% from the 2010 peak, when there were 2.9m properties with foreclosure filings, a backlog of delayed foreclosures could contribute to increased activity this year
- Last month, 10.9m US homewoners, representing 26% of all outstanding homes with a mortgage, were seriously "under water", meaning they owed at least 25% more on their home than its value
- …initial claims for unemployment insurance fell 37,000 in the week to January 12 to a seasonally adjusted 335,000, the lowest since January 2008, labour department data showed

BlackRock earnings break records – Pg. 14

- Rising markets and an investor return to stocks boosted fourth-quarter earnings at BlackRock, the world's largest asset manager with $3.8tn under management, to the highest ever level
- Assets under management rose 8% from the year before, with revenues up 14% to 42.54bn

BoJ expected to act on yen – Pg. 22

- The yen resumed its weakening trend after Japan's economy minister clarified earlier comments over the damage that a weak yen could do to importers

17 January 2013

Goldman and JPMorgan profits soar above forecasts – Pg. 1

- Goldman Sachs put the brakes on bonuses in the fourth quarter, propelling the investment bank's profits to their highest level in three years and defying the tepid global economy and new regulations
- The bank cut pay by 11%...
- Remuneration as a percentage of revenues fell to 21% for the period, one of the lowest ratios since Goldman went public in 1999
- The proposed Volker rule prohibits bans from making short-term trades for their own accounts but still allows them to make longer-term investments such as buying property or company stakes
- Trimming expenses is one of the main levers banks can pull to compensate for more modest revenues (Prof Note: hmmmm….I wonder if the same would work for the U.S. government???)

US chiefs press for retirement reform – Pg. 2

- ….increase the eligibility age for Medicare and Social Security, the popular health and pension schemes, to 70, as part of spending reforms
- It highlights the deep concern in corporate America about the finances of the so-called "entitlements" programmes as the population ages and baby-boomers retire
- It insists that any benefit cuts to both programmes would affect only people aged 55 or younger

Myanmar reaches 'stage two' of its transition – Pg. 5

- Myanmar is set to unveil the most comprehensive outline yet of its timetable for reform over the next three years in proposals that range from granting autonomy to the central bank to lifting a ban on motorcycles in Yangon, the former capital
- On fiscal and tax reform, the government promises to make a priority of enacting laws that give operational autonomy to the central bank
- On bank lending the government is more specific, suggesting it will end restrictions on mortgage finance and lift the one-year limits on commercial bank lending

Norway launches interbank rate-fixing probe – Pg. 16

- Nordic countries had hitherto been looking at how to reform their interbank rates – on which large volumes of loans to households and companies are based – but the Norwegian probe is the first investigation by a regulator

Wall St adjusts to investors' demands – Pg. 16

- Goldman's ratio of pay to net revenues for 2012 was 37.9% compared with 42.4% for 2011
- It potentially aligns bankers' performance better with their achievements, since the pay can be cancelled if trades go bad

Foreign flows boost Treasuries – Pg. 23

- Foreign demand for US bonds and stocks rebounded sharply in November, with private investors prominent buyers of US Treasuries, ….
- The buying came as investors anticipated that the Federal Reserve would continue making large monthly purchases of Treasuries under its quantitative easing policy, a move that was subsequently confirmed by the central bank in December
- China's holdings rose modestly to $1.17tn, its highest tally in a year that has seen its portfolio shrink

16 January 2013

Debt turbulence hits Germany – Pg. 2

- The 0.1% of GDP budget surplus for all branches of the government … represented Germany's first balanced budget since 2007, thanks to a lower federal budget deficit and a surplus from local government and social security linked to low unemployment
- The government, which presents its economic forecasts today, will cut its 2013 growth forecast to "about 0.5%", ….
- Household consumption rose 0.8%, slower than the previous year

Obama set to lay out gun curb proposals – Pg. 3

- Barack Obama is poised to announce his first steps to tighten US gun controls today, setting out 19 actions he can take without congressional approval
- Possible measures include putting more emphasis on the mental health of gun buyers
- The recommendations are also likely to include banning high-capacity ammunition magazines.

World Bank cautions against economic stimulus – Pg. 3

- Developing countries should not be tempted to stimulate their economies this year, the World Bank warns today even though the globe faces another challenging 12 months
- In forecasts that suggest 2013 will see only marginally stronger growth than last year, the bank recommended that poor and middle-income countries concentrate on fundamental drivers of prosperity rather than attempt a quick fix
- The warning came as growth rates in large emerging economies including Brazil, Russia and India slowed sharply last years
- In its twice-yearly global economic prospects report, the World Bank forecasts that global growth will puck up from 2.3% last year, measured at market exchange rates, to 2.4% in 2013 – although the marginal rise masks an acceleration oif activity throughout this year

- A recent pattern of decent expansion in developing countries, offset by feeble growth in high-income countries, is expected to persist at least until 2015, with 5.5% expansion forecast for poorer countries and 1.3% in richer countries this year
- The volume of trade between developing countries exceeded that of rich countries for the first time in 2011, …

Mortgage servicing – Pg. 12

- …under the proposed Basel III rules, the value of future servicing fees will contribute little to capital
- There are just under $10tn of US mortgages outstanding
- …IMF predicts that three non-banks – Nationstar, Ocwen and Walter Investment Management – will be among the top 10 servicers for the first time at the end of the first quarter
- …servicing rights are selling for historically low prices
- Shares of the three big non-bank servicers have more than doubled in the last year as they added to their portfolios

Lennar defies labour shortages – Pg. 17

- …homebuilders try to meet increased demand for new homes against a backdrop of record-low interest rates, improved consumer confidence and a shrinking supply of existing homes for sale, they face a crunch in the number of workers
- The scarcity of construction labourers, as well as plumbers, electricians and carpenters among others that are the backbone of the residential construction industry, has resulted in projects facing delays
- …additional labour charges and higher prices for construction materials…had increased the average cost of building a new home by $1,600
- The homebuilder had backlog of 4,053 homes at the end of the quarter, up 87% compared with a year ago
- Gross margins, meanwhile, expanded from 19.4% to 23.5%

15 January 2013

Junk-bond prices point to return of the bulls – Pg. 1

- …investors in US high-yield securities earning higher returns so far this year than those who have bought investment-grade debt
- High-yield bonds are an acute barometer of risk appetite and rises in their prices are often signaled a turn in sentiment
- With yields for US junk bonds below 6%, investors are indicating they believe global economy is on a firmer footing and the risk of a financial crisis is diminishing
- So far this month, investors are sitting on a total return – income, plus price gains – of 1.3% from US-dollar junk bonds, …

- The total return for US junk bonds was 15% last year, spurring such large bond managers as Pimco and Blackrock to warn that investors were not being properly compensated for the risks they were taking

Obama warns on US debt limit – Pg. 2

- …Mr Obama said he would unveil proposals to restrict gun ownership this week (Prof Note: Booooo)
- The US reached its $16.4tn borrowing limit at the end of 2012 but the Treasury has taken steps to continue paying the country's public debt. The measures should last unitl late next month
- Among the solutions that have been floated are a presidential invocation of the 14th amendment of the constitution – which says the debt of the US "shall not e questioned" – in order to continue borrowing

Outlook unchanged – Pg. 5

- Power is still concentrated in the big three agencies – Standard & Poor's, Moody's and Fitch – the rate 96% of all the world's bonds
- S&P traces its history back to 1860, when Henry Varnum Poor published his History of the Railroads and Canals of the United States; John Moody & Company published Moody's manual of industrial and Miscellaneous Securities in 1900. Fitch, established in 1913, thinks of itself as a hungry young challenger, and the best horse for those looking to back competition in the industry

China powers past US as world's biggest renewable energy investor – Pg. 11

- …..the amount of money put into wind farms, solar parks and other forms of green power worldwide plummeted 11% in 2012,…

China stocks hit six-month high on signals of financial reform – Pg. 19

- The CSI 300 – an index of Shanghai and Shenzhen listed shares – rose 3.8% to close at its highest level since mid-June
- Chinese offshore funds can be invested onshore through the renminbi qualified investors scheme (RQFII)

14 January 2013

Abe presses central bank to step up deflation battle – Pg. 2

- …wanted the central bank to hit a 2% inflation target within a few years
- …Friday unveiled a $116bn stimulus package, also expressed his determination to conclude a written agreement between the government and BoJ, which would ensure the central bank is accountable for the target
- The BoJ's current 1$ inflation goal does not place responsibility on the central bank to achieve that goal and "lacks determination"…

- Friday's stimulus measures focused on infrastructure spending which the Abe government has said will lift Japan's GDP by 2% and create 600,000 jobs

Zuma's optimism belies the challenges faced by weak South African economy – Pg. 3

- …the economy was forecast to expand by 2.5% in 2012 – on the global economic crisis, particularly the debt crisis in Europe where South Africa ships about a third of its manufactured exports

Malaysian opposition lives in hope of poll victory – Pg. 4

- Malaysia's opposition has always fought a losing battle against the United Malays National Organization, which has dominated the country since independence from Britain in 1957
- Any switch of power – or merely a wafer-thin win for Umno – could change the calculus for investors long used to continuity in Malaysian politics. It would pose a test of the new government's ability to tackle structural problems, such as low government revenues and a debt to GDP ratio that is one of the highest in Asia
- Last week, Malaysia revealed industrial production had expanded by more than expected in the fourth quarter, prompting Barclays to raise its estimate for GDP last year to 5.5% from 5.2%

Lumber surges on US house demand – Pg. 15

- Prices rose by almost 45% in 2012, as more homes were built in response to an uptick in demand from homebuyers eager to take advantage of record-low interest rates
- Construction of family homes and apartments – accounting for up to 45% of lumber demand – fell from a 2005 peak of 2.07m to a 2009 trough of 554,000. Lumber futures dropped 65% over this period
- Industry predictions are for 929,000 new houses and apartments to be built in 2013 – a 20% rise from the average analysts projection for 2012

Wells Fargo push on loans raises concerns – Pg. 17

- Almost seven years after the peak in house prices, 10 lenders last week agreed to pay more than $8bn in a settlement with federal regulators, part of what they hope will be the final bill for loose lending standards and alleged abuse of the foreclosure process
- Lenders are not prevented from offering loans that do not comply, but, in practice, most loans are expected to because qualified loans offer legal protection to originators from the sorts of repurchase demands and lawsuits that have bedeviled the industry since the wave of defaults five years ago

12 January 2013

Billions pumped into global equities – Pg. 1

- Investors this week poured the most money into equity funds in more than five years, as global shares surged and a compromise deal on the US fiscal cliff boosted confidence

- The S&P 500 hit a five-year high this week…

Deadlock on debt limit raises outlandish possibilities for US – Pg. 4

- The wildest solution is the platinum coin option. Thanks to an arcane loophole, the US Treasury can mint commemorative coins worth any denomination. The coin would then be deposited at the Federal Reserve, allowing the government to continue paying its bills even without fresh congressional authority to borrow more money. The Fed could presumably control any inflationary effects in the economy – and cone the debt limit was finally lifted, the operation could be unwound and the coin melted
- The Obama administration and Democrats want to see the debt limit raised unconditionally on the grounds that US borrowing levels reflect decisions on taxes and spending made by legislators

Japan stimulus – Pg. 16

- With gross debt already over 220% of GDP, this is a risky bet. It is also a short-term effort that does not address Japan's structural problems

11 January 2013

Business eyes brightening prospects for Indian economy – Pg. 1

- Growth slowed sharply to below 6% from levels above 8% in previous years amid accusations from business that the Congress-led coalition government…was suffering from policy paralysis
- Indian manufacturing expanded at the fastest rate in six months in December, …
- …the nascent recovery in 2013 and India's long-term growth prospects will depend on the ability of current and future governments to promote investment and continue liberalizing the highly regulated economy in the face of stiff political opposition
- …still among the fastest growing of the large economies

Mixed views on Lew for Treasury – Pg. 4

- Mr Lew is Mr Obama's chief of staff, after being budget director under both Mr Obama and Mr Clinton as well as a deputy secretary of state and a senior congressional aide
- (Prof Note: Harvard College and Georgetown Law)

Gilt yields tumble after UK opts to leave key inflation index alone – Pg. 13

- Yields on UK inflation-protected government bonds fell by the most in more than a quarter-of-a-century after an unexpected decision by authorities not to tamper with an influential index used to measure price changes
- ….the world's second biggest inflation-linked bond market…

Mortgage-backed securities come in from cold – Pg. 21

- Central bankers and regulators meeting in Basel this week gave residential mortgage-backed securities – backed by the mortgages on people's homes – a formal stamp of approval by allowing highly rated forms to be included in liquidity buffers that banks will have to hold to prevent future financial turmoil
- Originally, regulators' plan was for the "liquidity coverage ratio" – a gauge of banks' easy-to-sell assets – to be focused on government bonds, cash and central bank reserves. Now 15% of the buffer can be filled with equities, investment grade corporates and, significantly, certain MBS
- Only triple A and double A-rated securities are allowed and since the new rules exclude "walkaway mortgages", where borrowers who have defaulted cannot be chased for more money if they give up the property, most US RMBS will not quality

10 January 2013

Morgan Stanley to axe 1,600 more jobs – Pg. 1

- Morgan Stanley is to cut 1,600 jobs in one of its most prominent businesses in the latest example of al Wall Street axeing staff to reduce expenses
- The reductions amount to about 6% of the headcount in the bank's institutional securities group, which helps companies raise money and complete big mergers and acquisitions. About half will be made in the U.S.

Asian demand helps Peruvians enjoy 38 months of growth – Pg. 2

- Rising Asian demand for copper and gold has bolstered Peruvian growth. The Andean country's GDP rose 6.7% year-on-year in October 2012, marking 38 consecutives months of growth
- Even if growth has slowed from the 2010 annualized high of 8.8% as demand from China weakens, Peru "remains among the fastest-growing economies in Latin America, with consumption and investment the key drivers",….
- Consumer spending – fuelled by easily approved bank loans and credit cards – has risen as more and more people are lifted out of poverty and the country's middle class exands
- Overall, wages have grown at an annual rate of 6-7% in the past decade

Japan's new economic stimulus plan fails to excite analysts – Pg. 3

- …the main stimulus will come from public works spending
- …the problem with infrastructure spending is that while it provides a short-term boost, once it runs its course the impact disappears

Vix falls amid positive outlook – Pg. 11

- Wall Street's "fear index" has tumbled to a five-and-a-half year low as investors turn increasingly positive on the outlook for global stock markets
- The CBOE's Vix index tracks investor expectations of market volatility revealed in the pricing of options that protect against violent moves on the S&P 500. As money managers typically

seek protection against sharp share declines, the Vix is considered a gauge of how fearful investors are

- Fund managers and strategists said thte low Vix reflects the fact that central banks are seen as backstopping financial markets, lessening demand for downside protection
- The Vix is not the only measure of implied volatility indicating a pacific outlook. Europe's Vstoxx stock market turbulence gauge and the CVix index, which reflectis the expected choppiness of global currencies, are near the lowest since mid-2007

End of road looms for China's 'B'share market – Pg. 21

- The B share market was set up in the early 1990s to offer Chinese companies better access to foreign investment. At the time, currency controls and investment restrictions in effect blocked other routes into Chinese equities for foreigners
- Both the Shanghai and Shenzhen stock exchanges have B share markets, where equities are denominated in US dollars and Hong Kong dollars, respectively
- …the rapid development of Hong Kong's H share market – Hong Kong dollar-denominated shares of mainland companies that are unrestricted to foreign investment, tracked by the Hang Seng China Enterprises index – has torpedoed the project
- The "liquidity of the B share market to global capital has also undermined interest in B shares"

Investors give Apollo low grades as enrollment continues to fall – Pg. 22

- Revenues at the largest for-profit college education company,, which runs Phoenix University, fell as student enrollment continued to decrease amid competition from traditional colleges that have begun to offer online courses

9 January 2013

Fed eyes change to trading rules – Pg. 15

- The US Federal Reserve is weighing a plan that would allow big foreign banks to avoid costly regulatory changes that were meant to prevent derivatives trading from being subsidized by US taxpayers
- The changes arise from a measure known in the financial industry as the Lincoln amendment,….
- Her amendment in effect prohibits banks that have access to US government-provided deposit insurance or Fed credit facilities from acting as derivatives dealers, on the basis that the taxpayer-provided safety net might subsidize such activities
- Funding costs are typically lower for banks than nonbank affiliates inside financial groups known as bank holding companies. The provision is expected to increase the cost of capital for foreign groups

Shanghai-listed companies told to pay 30% of profits in dividends – Pg. 15

- ….latest move to bolster confidence in China's equity markets

- The exchange expects companies to adhere to the guidelines when their full year 2012 annual reports are released
- In the US for the third quarter, the percentage in dividends for the S&P 500 companies was 29.1%...

Business leaders focus on their staff – Pg. 19

- The top four challenges for this year were human capital, operational excellence, innovation and customer relationships (Prof Note: I was just in Malaysia where I was quoted that there is a 45% dearth in human capital needed to meet expected jobs)
- (Prof Note: In global rankings Human capital is #1 in Asia and Europe and #5 in the US…the US simply must get with the programme!)

Yankee sales take off as foreign companies rush to tap US pools – Pg. 23

- Global borrowers are following the new year lead of large US companies and rushing to tap the US debt capital markets, taking advantage of amble liquidity and America's deep pool of bond investors
- US Treasuries sold off last week in the wake of compromise in Washington over the fiscal deal, and hints by Federal Reserve policy makers that the central bank's asset purchase programme could come to an end as early as 2013. Ten-year Treasury yields moved from 1.7% towards 2%, the highest level since April

8 January 2013

US banks to pay out $20bn over home loans – Pg. 1

- …compensation for bad loans wiping out most of Bank of America's earnings for a second successive quarter (Prof Note: I want the list of terminations and life-time bans from financial employees for all those responsible. Enough fines…they are now simply a cost of doing business!)
- …BofA, the second-biggest US bank by assets, agreed to pay $11.6bn to Fannie Mae…
- BofA had been engaged in a fractious dispute with Fannie Mae for more than a year over the extent of the bank's liability for mortgages it sold that later soured when the homeowners defaulted

Cambodia reaps benefit of China's rising wages – Pg. 2

- Double-digit wage increases in China and a shortage of factory labour have prompted several companies to move to cheaper countries such as Vietnam, Bangladesh and Indonesia
- Cambodia, a country of just 15m, (Prof Note: Beautiful country….The Wats are simply amazing!)
- Like China, Cambodia's government is criticized for its human rights record

Singapore casinos bet on new attractions to reverse slowdown – Pg. 2

- …Singapore – Asia's second-biggest gambling hub by revenues after Macau – faces a slowdown as a weaker Chinese economy and tighter limits on the number of Singaporeans allowed to gamble take their toll
- One reason for the fall has been a widening in June of a ban by the Singapore government on low-income citizens from using the casinos, amid concerns over the social side-effects of gambling addition. Singaporeans – unlike foreigners – already have to pay an entry fee of S$100 just to walk through the casino (Prof Note: In Malaysia, where one can only gamble at Genting, long pants MUST be worn. This past Sunday I tried to gamble in shorts, like Vegas, and no go.)
- The government estimates that casinos contributed 1.5-2% of GDP and employed 22,400 at the two resorts….

Consumer rhythm – Pg. 7

- …Brazilian economy, estimated to have grown just 1% last year….
- Brazil….the world's seventh biggest economy…
- It ranks in the top four for everything from sweets to alcohol
- Household consumption, 35% of China's GDP, contributes 60% in Brazil
- Levels of household debt, an almost unheard of concept even a decade ago, are sharply higher
- Wealth redistribution only came with economic stability in the mid-1990s and, more importantly, minimum wages and, a decade later, the creation of Bolsa Familia, a social welfare programme, …
- It takes 2,600 man hours per year for the average company to pay taxes in Brazil versus an average of 267 hours across Latin America and the Caribbean,…

Basel move aims to stoke recovery – Pg. 15

- All big banks are expected to see slightly increased profitability from the rule changes but they will have less impact on Asian and Nordic banks as well as the pure-play US investment banks, which were all generally on track to meet the tighter draft requirements
- What is liquidity coverage ratio?
    - A calculation of how much cash and easy-to-sell assets regulators believe a bank should hold against its short-term commitments. Aimed at preventing liquidity crunches, the bugger can be used to meet depositor runs, unexpected freezes in the credit markets and unexpectedly high demands for credit from existing clients. Unlike capital requirements, which set firm minimums, the liquidity rules allow banks to dip below 100% during a crisis with regulatory permission
    - A wider pool of assets can count toward the buffer (the numerator of the LCR). Up to 15% of the buffer can now be filled with corporate bonds rated A+ to BBB-, blue-chip equities that are not pledged as collateral elsewhere and residential mortgage-backed securities rated AA or higher
    - Changes to the calculation of the size of the short-term commitments that could lead to a liquidity squeeze (the denominator of the LCR). The key changes reduced

the amount of liquidity that has been held against wholesale deposits from 75% to 40% and against committed corporate credit lines from 100% to 30%

7 January 2013

'Massive softening' of Basel bank rules – Pg. 1

- Banks will be able to count a wider variety of liquid assets towards their buffers, including some equities and high-quality mortgage-backed securities. Calculation methods have also been changed in ways that will significantly reduce the size of the liquidity buffers many institutions have to hold against outflows from possible depositor runs and corporate and interbank credit lines
- Regulators agreed to count some equities, corporate bonds rated as low as BB minus and top-quality MBS as up to 15% of the requirements, albeit at a 50% discount
- The committee is set to produce a third prong of Basel III – the net stable funding ratio – that will limit banks' reliance on unstable short-term funding

Cracks widen in US debt ceiling debate – Pg. 1

- Ms Pelosi raised the possibility that President Barack Obama could bypass a congressional vote by ruling that the debt cap is unconstitutional under the 14th Amendment, which says that the validity of the country's debt "shall not be questioned" (Prof Note: Is this the American way….if cannot win, change the rules?!)
- The debt ceiling is not the only upcoming occasion for partisan confrontation over the budget in coming months
- Across-the-board spending cuts, delayed in the fiscal cliff deal,, now kick in on March 1. Congress also needs to pass a new budget when the current one runs out on March 27

Companies pay heed to investor protests over executive salaries – Pg. 15

- The UK's biggest companies are reining back executive pay as shareholders step up their campaign to keep remuneration in check
- More important, executive pay rises have started to become aligned with those of other employees,…

Drive for Asean exchanges tie-up – Pg. 17

- ….sell the merits of a concept long in the making but whose promise has often seemed doubtful: a regional stock market linking the main exchanges of the Association of Southeast Asian Nations
- Investors will sit through presentations selling the "Asean Stars", made up of the top 30 stocks on Bursa Malaysia, and the Thai and Singaporean exchanges
- The campaign marks the first step in promoting the creating of the so-called Asean Exchanges, a collaboration between seven bourses in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, which runs exchanges in Hanoi and Ho Chi Minh City

- The idea is to expand investment opportunities for citizens of each member country – some of which have savings rates among the highest in the world – and allow companies listed on the region's bourses to tap into a wider pool of capital (Prof Note: There is a culture in these nations to invest in real property rather than Markets)
- …Asean – which groups together 10 countries in southeast Asia
- The region has a population of more than 600m and collective gross domestic product greater than Brazil or India
- Asean had too few big companies to justify talk of cross-border investing. But that has started to change

5 January 2013

US economy shrugs off fears over fiscal cliff and adds 155,000 jobs – Pg. 1

- The US economy shrugged off concerns about the fiscal cliff as it started 2013 with 155,000 new jobs and rising confidence in the services sector
- Jobs growth was almost exactly in line with market forecasts, while the unemployment rate edged up from 7.7 to 7.8%, …
- Economists expect the world's largest economy to continue its recovery in 2013, but there is little prospect for rapid growth because of tax rises and spending cuts in the recent fiscal deal, as well as uncertainty caused by an imminent fight over the federal debt ceiling
- The rise in construction jobs suggests signs of a recovery in the housing market is creating employment
- There was also a solid rise in average weekly earnings by about $4 to $673.30
- …continued job losses in the government sector,… (Prof Note: But not enough job losses in this section!)

UK data raise fears of triple-dip recession – Pg. 3

- Activity in the UK's dominant services sector shrank at the fastest pace for more than three-and-a-half years in December,…
- The findings added to fears that UK output contracted in the final quarter of 2012 and raised the prospect of a "triple-dip" recession if the economy's poor performance continued
- The December PMI for the entire UK economy registered 49.9, signaling a slight contraction in activity

BofA increases mortgage and corporate lending – Pg. 9

- …company should overtake JPMorgan Chase in direct-to-consumer mortgage lending in the next six months and he had directed bankers to be "more aggressive" in lending to companies

Private equity bets on high street lenders – Pg. 10

- Banking assets in Europe, trading at a particularly low valuations, may be more appealing than elsewhere in the world. They may also be more accessible. US regulators, for example, have set up limits to private equity ownership of retail banks

4 January 2013

Fed officials split over QE3 duration – Pg. 1

- Officials at the US Federal Reserve are split on whether to keep buying assets until the end of 2013, …
- If the Fed keeps buying at the current pace of $85bn a month for the rest of 2013, it would accumulate another $1tn in long-term assets
- At its December meeting the Fed said it expected to keep rates low until unemployment falls below 6.5%, as long as inflation is expected to stay below 2.5%. It said it would continue QE3 until there was a substantial improvement in the labour market
- …forecasts unemployment to be between 7.4 and 7.7% at the end of 2013…the unemployment rate is 7.7% today

Labour market bounces back in US – Pg. 3

- US private sector employers boosted hiring and pulled back on job cuts in December, suggesting there has been some momentum in the labour market in the final months of 2012 even as a budget deadlock loomed
- The ADP report is constructed primarily from businesses' electronic payroll records, representing approximately 406,000 US corporate clients and 23m employees – more than 20% of all private sector workers

US debt ceiling – Pg. 10

- Dating back to the first world war, the ceiling was meant to make it possible for the government to raise money without getting approval for each borrowing. Since then, Congress has raised it many times (79 since 1960) without too much fanfare
- …real debt reduction will require significant – which is to say painful – spending cuts

Peer-to-Peer lending – Pg. 10

- Although P2P lenders use similar credit-assessment techniques to those of banks, default is the main risk faced by investors, who are not covered by deposit protection schemes

Rush to issue debt after fiscal cliff deal – Pg. 18

- Global corporations are poised to raise the first batch of funds in 2013, taking advantage of a jump in risk appetite this week in the wake of a political deal in Washington that averted the fiscal cliff
- The flurry of new bond sales is coming after a slowdown in the past couple of weeks and zero issuance on Wednesday in spite of a broad rally in risk assets

- The combination of record low borrowing costs and strong demand for higher yielding alternatives to top-tier government bonds pushed US corporate debt sales to a record $1.4tn last year, ….
- Average yields on US investment grade corporate bonds stood at 2.74% yesterday, while those on US Treasuries were at 0.9%,….

3 January 2013

Fiscal cliff deal lifts markets but new confrontations loom – Pg. 1

- Republicans were angry that the Senate deal addressed only tax rises and not spending cuts, and the party's leadership vowed to correct this imbalance in future budget talks

Property tycoon attacks Beijing's 'land famine' policy as prices soar – Pg. 1

- Land prices have soared at recent auctions in Beijing in a sign that the Chinese property market is heating up again despite a long campaign by the government to cool it down
- A recovery in the Chinese land market began near the end of last year
- The government has used a battery of policies in the past three years to rein in the housing market, barring residents from buying second homes in major cities, raising mortgage rates and investing in building public housing
- Property prices in most of the country stopped rising last year and in some cities fell 10%

Fiscal fights threaten wishlist – Pg. 3

- The fiscal cliff compromise alone will act as a drag on the economy, largely because of the end of the payroll tax holiday, which had added substantially to middle-class incomes…
- Under the fiscal cliff, taxes were going up no matter what Republicans did. The debt ceiling, however, cannot be lifted unless they vote for it

Slow growth sees Singapore teeter on edge of recession – Pg. 4

- Singapore, one of Asia's busiest trading hubs, has offered a glimpse into the fragile state fo the global economy by revealing that it only narrowly avoided slipping into recession in the final quarter of last year
- A third of Singapore's manufacturing is electronics, with most of the products being exported to the Eurozone. The Asian nation, an important shipping hub, is the world's largest ship refueling port
- The downbeat data are the first clear sign that Singapore, for decades a star performer in Asia, is entering a period of slower growth as government policies take effect to restrict an influx of foreign labour and boost productivity
- The government said yesterday that the economy grew at a "modest" pace of 1.1% on a year-on-year basis, down from 3.6% the same quarter a year previously
- Overall, Singapore's economy was estimated by the government to have grown 1.2% last year, down form an earlier estimate of 1.5%. Manufacturing contracted 1.5% in the fourth quarter following a 1.6% decline in the third quarter

US manufacturing defies domestic slowdown – Pg. 6

- The institute for Supply Management's manufacturing index, the most timely measure of the industrial sector, rose to 50.7 last month from 49.5 in November – its lowest level since July 2009, one month after the recession ended

Macau casinos end year on a record $3.5bn roll – Pg. 13

- China's gambling mecca hit a lucky streak in December with Macau casino revenues jumping 19.6% year-on-year, to a record $3.5bn for the month, marking a positive end to a year of slowing growth in the industry
- Macau is the world's largest gaming market and the only place in China where gambling at casinos is legal
- Nevada, the US state that is home to Las Vegas,, generated gaming revenues of $980m in October, the latest month for which data are available, compared with $3.45bn in Macau during the same period

2 January 2013

US awaits budget verdict – Pg. 1

- The deal includes increased taxes on the wealthiest Americans, ….
- The White house and Senate Republicans forged agreement only on taxes, delaying a tougher decision on spending cuts for two months, making the agreement even less palatable to House conservatives
- The US has hit its legal borrowing limit of $16.4tn but the Treasury, through what it calls "extraordinary measures", is able to find funds to service the national debt for about two months (Prof Note: given that these 'extraordinary measures" were used in the last 'crisis', have they not become 'ordinary'???!!!)

China economy ends year on high – Pg. 4

- ….two indices showing continued expansion of the manufacturing sector
- The official purchasing managers' index, published yesterday, showed that the pace of expansion last month held steady from November, when a 50.6 reading marked a seven-month high. Readings above 50 signal expansion
- Although China is still set for sub-8% growth in 2012, its weakest in more than a decade, momentum picked up noticeably in the fourth quarter after the government increased its spending on infrastructure
- Fiscal issues in the US and lingering debt trouble in Europe could cast a pall over China's prospects

Credit rating agencies – Pg. 10

- …EU lawmakers are set to vote through a third package of regulations covering CRAs operating in Europe. That will finalize a rule book for a segment of the financial services industry plainly culpable in the run-up to the 2008 crisis
- CRAs now have to register, meet corporate governance standards and accept supervisory oversight
- …this new regime also fails to break with the existing "issuer pays" model; rather it tries to guard against the conflicts to which this gives rise

Private equity take to the high seas – Pg. 11

- Leading private equity and hedge fund investors are increasing their bets on the struggling industry, by buying ships and purchasing loans from European banks that finance the sector
- The activity underscores the increasingly important role of "shadow" banks – non-depository institutions that invest in loans and other debt instruments – in providing credit to companies. It also represents a high-risk wager by investors struggling to find places to put their money to work
- Alternative investors that have put capital to work in the sector include Apollo, Blackstone, Centerbridge, Fortress, Oaktree Capital and WL Ross, ….
- Banks that sold shipping loans in recent months included HSBC, Lloyds Banking Group and Royal Bank of Scotland, ….

Hedge funds endure another bad year – Pg. 12

- Bearish hedge fund managers have lost out in 2012, with the $2tn industry suffering another year of disappointing returns as traders were wrongfooted by a change in fortunes for the Eurozone
- …average hedge fund manager made slightly more than 5% over the year - ….2011, when the average hedge fund lost 5% (Prof Note: Let us think what this means….$100 invested 1Jan11' was worth $95 on 1Jan12' which was then worth LESS than $100 1Jan13'….I will stick to the Staiger investment models, thank you!)