

Market Review

- The Dow and S&P500 continued to advance this week on strong economic data, accommodative Fed policy and strong earnings. The Dow gained 6.4% in the first quarter and ended up on April 1 at 12,376.72.
- Officials attending the G-20 meeting this week in Nanjing had different opinions on exchange rate and monetary systems and policies. While US claimed that China hasn't allowed Yuan to appreciate to the desired level, China criticized US's QE2, as weak dollars sending capital inflows to emerging market and therefore cause serious inflation problems

Currency

- Japan's quake and Libya's crisis has helped Australia dollars. On Monday, it traded as high as \$1.03 against US dollars. Japan's reconstruction will boost demands for Australia coal and iron ore while the concerns over Libya raise the prospects for its natural gas reserves.
- US dollars ended up the quarter lower. The US dollar index fell 3.8%. USD's weakness is broadly based. It is down 2.8% against British Pounds and 1.2% against Australian Dollars. Euro is also up against dollar to 1.42 on expectation of higher interest rate.

Commodities

- Oil ended around \$107 on weak US dollars and strong employment data which may boost the demand. However, as US crude oil inventories are at record high, U.S. benchmark is depressed relative to Brent crude. This also suggests strong global demands.
- Agriculture futures decline as low than expected grain and soybean stocks. The tighter supplies increasing the important of favorable weather conditions in the spring.

Bond

- The end of QE2 will put some pressure on treasuries. The first quarter yield for 10-year note is slightly higher at 3.452% from 3.299%. Prices move in the opposite direction. However, some investors see that the end of QE2 will reduce inflation pressure, and therefore the rate will fall.
- Long-term investors start to invest in subprime and other residential mortgage bonds. This signals investors' willingness to take on more risks now and confidence on the economy recovery.
- Companies, taking the advantage of low interest rates, raised raising \$771 billion in the bond market in the quarter including \$114 billion in high yield bonds. Investors are seeking high yields that are relatively safer than the stock market.

Dealbook Review

- M&A markets around the globe are only getting more excited for the upcoming months in 2011. In term of the Asian M&A Deal Market, crashed-up companies are tapping investments opportunities in industries varied from energy, IT, infrastructure, telecom, industrials and many others. Bankers are optimistic about the volume of the deals, and with the current ex-Japan's increase in volume of M&A activity in the first three months of 2011, 9.7% is a great number signaling the positive trend of increase. China accounted for about 20% of the total M&A volume, followed by Australia and India.
- The optimistic feeling about the market also found its place the equity market. Reuters reported that the U.S. has driven up the global equity insurance in the first quarter of 2011, rose as much as 12% to \$189 billion in year in comparison of the data from the same period in 2010. The recent data reveals that U.S issuance of equity accounted for approximately 35% of the global capital raised, and a significant number of deals of the U.S. IPOs have been backed by private equity firms.

Mergers & Acquisitions

- Valeant Pharmaceuticals International Inc. from Canada made a hostile offer for its smaller rival Cephalon, valuating this U.S. firm at \$5.7 billion.
- U.S. chemicals group DuPont extended its \$6 billion takeover bid for a Danish company Danisco after only 6% of shares had accepted the offer.
- EBay is seeking power in the surging Internet retail Industry as it makes a \$2.4 billion acquisition of the e-commerce service company GSI Commerce Inc. to intensify its rival with Amazon.com Inc.

Capital Market

- The delayed IPOs due to Japan earthquake have began their trading as the PE firm Apollo Global Management LLC (NYSE: APO) began trading as a public company on Mar 30, but since its first date of trading, its price has fell according to today's data.
- Prada has filed a request to list its share on the Hong Kong Stock Exchange and is planning to sell a 20% stake in the family-run company during the IPO in exchange to as much as \$2 billion.

Financial Institutions

- Ireland is in the process of nationalizing its banking sector after the government uncovered a \$33.9 billion (€24 billion) capital shortfall in its latest round of "stress tests" of top banks. Four of the six major banks in Ireland have been fully, or mostly, nationalized by today, and it's likely that the government will take majority ownership of the country's six largest banks.

Opinions:

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THE RE-EMERGENCE OF THE EUROPEAN DEBT CRISIS

Over the past few months, financial markets have been rocked by news about the turmoil in the Middle East and the damage caused by the earthquake in Japan. During this period, the European debt crisis, which started over a year ago in Greece, went largely unnoticed. However, given that Japan and the Middle East have slowly started to get a grip on the various economic disruptions in their respective regions, the crisis in Europe has once again become a major cause of concern for global markets. The magnitude of the crisis has been reflected in the currency, commodity, and equity markets.

Despite rising nearly 5% against the dollar this year amid chaos in other parts of the world, the Euro has slowly started to lose its upward momentum, ever since worries about Portugal and Ireland have reemerged. In Portugal, there has been growing concern about investors given the withdrawal in support of austerity measures. This has put the minority government of the nation in serious jeopardy, and recent measures (which include raising taxes and reduced government spending) have not been well received by the population. This has caused investors to believe that Portugal may be the next nation that will need financial support (like Ireland and Greece). One temporary reprieve for the Euro may be the expectation of a hike in rates by the European Central Bank (ECB). The resulting high demand for bonds could drive up the price of the Euro vis-à-vis other currencies.

Among commodities, precious metals like gold and silver have experienced rising prices, largely because of high “safe-haven” demand amid the uncertainty of the debt crisis. A combination of falling investor confidence and declining demand (especially from Japan) caused the prices of base metals, especially copper, to go down. A similar scenario has been recently seen in the declining prices of crude, which investors also feel will face falling demand in Europe. However, rising food prices are one of the major causes for concern in the region. This has been reflected by the fact that the ECB has decided to raise interest rates, despite debt troubles across the continent.

Among equity markets, European stocks, which started to recover from the turmoil in Japan and the Middle East, lost ground on renewed fears of European debt. Key determinants of financial performance in the near future include the change in leadership in Portugal, the response to the renegotiation of Ireland’s rescue package, and the possible restructuring of Greek debt. Recent data from Portugal shows a higher than targeted budget deficit, and news that Irish banks may need an additional \$24 billion for sour real-estate loans suggests that the banks are moving closer to being nationalized. However, Europe has increased the size of its rescue fund, and thus, can cover Portugal’s financing. Also, Spain appears to be solving its problems without any external help. Therefore, these factors may help diminish some losses in equity markets, should the financial situations of these nations worsen.

The above article is contributed by our Commodities industry leader Parikshit Mistry.

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WORD OF THE WEEK: ARBITRAGE

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The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time.