

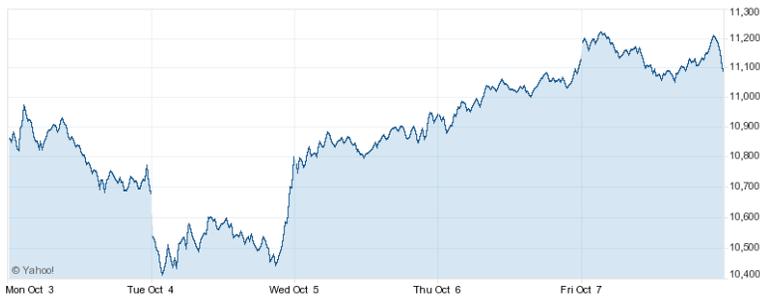
# FINANCIAL FRONTLINE NEWSLETTER

WEEK: OCTOBER 3 – OCTOBER 10

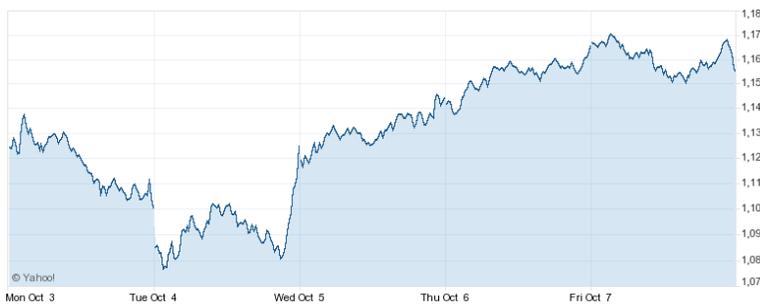
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Dow Jones Industrial Average



S&P 500 INDEX,RTH



- The market ended with a 2% gain from the closing levels of the previous week.
- According to September payroll report, the unemployment rate remained at 9.1% despite the addition of 103,000 jobs. Job gains were mostly part-time, which resulted in an increase in underemployment, and this pushed the “real” unemployment rate up to 16.5%.
- Spain and Italy were hit by downgrades last Friday. Analysts at Fitch cut their ratings on Spain to double-A-minus indicating the intensifying crisis in the euro zone, and this surprised the financial markets. They also cut Italy’s rating to single-A-plus, and selling intensified soon after.

## FOREIGN EXCHANGE

- Switzerland’s central bank did not take action following the intervention threat last month. The franc has dropped 9.3% against the euro ever since, but this is entirely due to the intervention entirely because the SNB has not spent much to back up its threat.
- As a victim of the euro-zone debt crisis, France saw its growth rate slow down sharply and is facing a second quarter of stagnation. Insee, a survey company, forecasts 0.3% GDP growth in the third quarter, and zero growth in the fourth quarter.
- Toyota Motors is waiting to reap profits from the weakening of the Yen from its current highs. It plans to make profits out of its exports line at an exchange rate of ¥80 to the dollar, which is relatively weaker than the current ¥76.59 rate.

## COMMODITIES

- While the precious metal is typically viewed as a safe-haven asset, the impact of the recent downgrades of Spain and Italy has caused investors to favor gold over cash. Front month Gold futures fell 1.1% on Friday to settle at \$1,635.80 a troy ounce. This is in contrast to investor's behavior in 2010 as the typical reaction was to invest in gold when there was bad news from Europe.
- The unexpected result of the US Non-Farm Payrolls have boosted the prices of gold as investors expect that more jobs in the US economy would increase the demand for oil.

## Market Highlights

<b>Dow Jones Industrial Ave.</b>	11,103.12 ↑189.74
<b>S&amp;P 500</b>	1,155.46 ↑24.04
<b>NYMEX</b>	82.98 ↓2.95
<b>10-YR. TREAS.</b>	2.125%
<b>FED Funds Rate</b>	0.08
<b>Unemployment Rate</b>	9.10%

## FIXED INCOME

- Friday's nonfarm payroll report showed 103,000 new jobs in September, much higher than estimated. With hopes of good signs of the economy, Treasuries this week suffered a four-day loss.
- German Chancellor Angela Merkel and French President Nicolas Sarkozy reached an agreement on stabilizing the Euro economy. They will unveil a comprehensive solution by the end of the month. The plan will include recapitalization of European banks endangered by a possible sovereign default in Greece.
- US bank bonds suffered earlier this week with fear of the Euro debt crisis impacting the US bonds markets. The average risk premium on a financial bond is currently 3.60 percentage points over that of treasuries, higher than the 2.17 percentage points of non-financial bonds.

## M&A AND CAPITAL MARKETS

- Energy sectors have been active for M&A deals. Canadian oil producer Encana agreed to sell its majority stake of a British Columbia plant to Enbridge for about \$211 million. The British firm Heritage Oil has bought control of a Benghazi-based oil services firm, striking the first upstream deal in Libya since the overthrow of Muammar Gaddafi. On the other hand, Exelon and Constellation Energy's \$8 billion merger deal has faced a veto from the Maryland officials.
- Mergers among U.S. law firms rose 79% in September, and most of the M&A deals involved firms with 35 lawyers or fewer, signaling the formation of large, new entities.
- Yahoo has been preparing financial information for potential buyers in order sell parts or even all of its business. The Alibaba Group has expressed its interest in purchasing Yahoo.
- Bank of America faced fraud claims after its Countrywide unit submitted faulty borrower data for federally insured mortgages. Similarly, Bank of New York Mellon faced civil lawsuits from the Justice Department and New York's attorney general for fraudulently charging its clients for currency transactions.

## WORD SEARCH

ALIBABA  
COUNTRYWIDE  
ENCANA  
ENERGY  
EUROPE  
FITCH  
GOLD  
GREECE  
ITALY  
LIBYA  
MERKEL  
RISKP premium  
SAFEHAVEN  
SWITZERLAND  
TOYOTA

N	A	E	E	P	Y	A	A	R	G	R	J	N	V	P
G	T	G	N	L	V	B	T	R	F	C	B	E	G	M
M	K	I	A	E	A	C	E	O	O	F	W	V	K	Y
E	S	T	D	B	R	E	M	U	Y	G	L	A	J	H
R	I	U	I	N	C	G	N	J	C	O	N	H	X	R
K	N	L	M	E	A	T	Y	R	O	I	T	E	C	B
E	A	A	Z	X	R	L	G	J	I	H	V	F	M	M
L	I	Y	O	Y	E	X	R	W	E	N	C	A	N	A
T	K	B	W	M	U	I	M	E	R	P	K	S	I	R
D	F	I	T	C	H	R	G	H	Z	L	D	Z	A	W
L	D	L	J	B	K	B	E	W	G	T	J	F	S	M
E	F	Y	Z	O	K	D	K	U	R	O	I	X	O	D
L	J	H	X	M	J	B	O	A	S	M	L	W	A	S
E	P	O	R	U	E	P	E	G	I	C	V	D	S	Y
I	F	P	P	T	X	O	S	Q	P	P	K	H	O	C