

# FINANCIAL FRONTLINE NEWSLETTER

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## MARKET RECAP

- Applications for U.S. home mortgages declined for a second week in a row last week as interest rates continued to climb to seven-month highs. The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, fell 7.1 percent in the week ending March 15.
- The Fed's Open Market Committee concludes its two-day meeting today but is unlikely to provide more clues about how it will end its bond-buying program (also known as quantitative easing). While it has been more transparent on when it will consider raising interest rates - targets of 6.5 percent unemployment and 2.5 percent inflation, the Fed has been more circumspect regarding its bond buying. Overall, the Fed faces some difficult choices about how it will end its easing program without causing market havoc.

## FOREIGN EXCHANGE

- Cyprus secured a bailout from its international creditors early Monday, ending a week of financial panic that threatened the small island nation to become the first government to leave the euro zone. Nonetheless, lasting effects loom ahead of the Cypriot economy, considered as an offshore tax haven and financial-services center until recently. Experts expect the economy to contract by 10% or more, and the agreement will incur losses in deposits of 100,000 euro. The bailout deal will inevitably lead to fundamental changes in the Cypriot banking sector, mostly in downsizing of large banks, to the European Union's average. The euro initially rallied following the resolution, but steamed out soon with concerns about the bailout's detrimental effects on the euro zone.
- Around the globe, the market is keeping an eye on Italy, still inconclusive in forming a regime, after President Giorgio Napolitano asked the head of the center-left Democratic Party to forge a government with viable parliamentary support. Elsewhere, the commodity-linked currencies of Australia, Canada, and New Zealand gained ground against the dollar. The U.S. dollar is outperforming all of the group of five countries, and the Mexican peso benefited sufficiently from the country's strong tie with the U.S. The Japanese yen and the British pound were steady against dollar, with Fitch Ratings showed a sign of downgrading the U.K from AAA rating.

## Market Highlights

<b>Dow Jones Industrial Ave.</b>	14,512.03 ↑59.97
<b>S&amp;P 500</b>	1,556.89 ↑4.79
<b>NYMEX</b>	93.71 ↑1.26
<b>10-YR. TREAS.</b>	1.625
<b>FED Funds Rate</b>	0.16
<b>Unemployment Rate</b>	7.70

## FIXED INCOME

- The Asian bond markets are small, but HSBC Global Asset Management director of Asian fixed income, Geoff Lunt, says that with China and India poised to open up, Australian super funds "will be very keen to access the liquidity that both of those markets will eventually give them." Asia, excluding Japan, Lunt says, represent half the world's population and a quarter of the world's economic output. "From that point of view, the capital markets, especially we think the bond market, are going to become an extraordinarily important part of the whole world's complex," says Lunt. And while Asian fixed income is severely under-represented in global indices, Lunt says, it has a high quality and attractive characteristics, higher yield being one.
- Electronic trading of cash bonds and credit default swaps is not new to Asia, but dealers are increasingly rolling out platforms that allow investors to trade with each other without the need for market-makers. These platforms allow buy-side clients to broadcast offers and seek liquidity anonymously, as they can in dark pools for equities, but some on the buy-side have expressed reservations about such offerings. As much as 70% of fixed income e-trading in Asia takes place on Bloomberg's multi-dealer platform, but investors in the region are gradually trading assets such as sovereign bonds and treasuries on electronic single-dealer platforms, say industry players

## COMMODITIES

- After more than a decade of talks, Russia has agreed to supply China with natural gas, a deal that could see China surpass Germany as the largest importer of Russian gas. Russian state gas giant OAO Gazprom said it would conclude a 30-year supply deal with the Chinese by the end of the year, just as the company is struggling with declining demand and regulatory pressure in its core market of Europe.
- Light, sweet crude-oil futures for May delivery rallied \$1.67, or 1.8%, to \$95.38 a barrel on the New York Mercantile Exchange after tapping a high at \$96.65. "Oil prices are back on the rebound on the back of renewed economic confidence in the euro zone over the Cyprus bailout deal," said analysts for the Kilduff Report.
- U.S. grain and soybean futures are trading lower Monday, as a lack of fresh news to impact market fundamentals encourage traders to take a cautious approach ahead of Thursday's closely watched USDA reports.

## M&A & CAPITAL MARKETS

- Comstock Resources, Inc. has entered into a definitive agreement with Rosetta Resources Inc. Under the agreement, Rosetta will acquire all of Comstock's oil and gas properties in Reeves and Gaines counties in West Texas for \$768 million. The deal is expected to close on or about May 15, 2013. Comstock wants to use the proceeds from the deal to reduce its outstanding debt and to fund an increase to its 2013 drilling program in the Eagle Ford shale. Comstock also announced a revised capital budget for 2013 to reflect the deal and its increasing drilling activity in its Eagle Ford shale in South Texas.
- Icahn Enterprises L.P. announced that the Special Committee of Dell Inc.'s Board has responded favorably to its proposal regarding Dell. Icahn Enterprises believes that the February 5th merger agreement entered into among Michael S. Dell, Silver Lake and Dell significantly undervalues Dell. But Icahn Enterprises' proposal allows for substantial ongoing participation in Dell by those shareholders. It provides \$15 per share in cash to those Dell shareholders that wish to exit Dell (up to an aggregate of \$15.650 billion), an increase of \$1.35 per share compared to the Michael Dell's offer.
- Shire Plc announced that it will acquire SARcode Bioscience Inc., a privately held biopharmaceutical company based in California. This deal will help Shire expand its presence in the ophthalmology therapeutic category and brings LIFITEGRAST - currently under development for the signs and symptoms of dry eye disease- into Shire's portfolio. Shire intends to launch LIFITEGRAST in the United States as early as 2016. Under the agreement, Shire will pay \$160 million to SARcode and SARcode shareholders will be eligible to receive additional undisclosed payments upon achievement of certain clinical, regulatory, and/or commercial milestones. The deal is expected to close in the second quarter.

### BRAIN TEASER

Three travelers register at a hotel and are told that their rooms will cost \$10 each so they pay \$30. Later the clerk realizes that he made a mistake and should have only charged them \$25. He gives a bellboy \$5 to return to them but the bellboy is dishonest and gives them each only \$1, keeping \$2 for himself. So the men actually spent \$27 and the bellboy kept \$2. What happened to the other dollar of the original \$30?

### UPDATES