

FINANCIAL FRONTLINE NEWSLETTER

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S&P 500



Market Recap

- As expected by most investors who already decided to pull out from the market, the government shut down on Tuesday due to failure of a bill passage funding the budget. The market reaction became progressively worse and took a sharp turn from its previous record heights. The Dow Jones Industrial Average fell 1.07 percent, the S&P 500 fell by 1.23%, and the Nasdaq Composite dropped by 2 percent.
- The government bond's after the market shut down have gotten higher yields this week. If the Government fails to raise the debt ceiling by late October, the government will lose its ability to borrow money while yields on short term bonds already ominously rose.
- Yum brand's profits fell by 68% in Q3 as the KFC brand failed to recover from a controversial bird flu and chicken supply chain scandal in China, resulting in a drop of 33 cents per share.

Foreign Exchange

- Switzerland's financial markets regulator is working with authorities in other countries to investigate possible manipulation in the \$5-trillion-a-day foreign exchange market, potentially involving multiple banks.
- The Central Bank of Nigeria has banned the importation of foreign currencies into the country in order to save the Naira and the Nigerian economy from external threats and dominance.

Fixed Income

- Treasury Secretary Jacob J. Lew said Congress needs to pass a debt-ceiling increase by Oct. 17 or the U.S. will be “dangerously low” on cash and risk defaulting on its payments. “On the 17th, we run out of our ability to borrow, and Congress is playing with fire,” Lew said on CNN’s “State of the Union” today. “If they don’t extend the debt limit, we have a very, very short window of time before those scenarios start to be played out.” “If the United States government, for the first time in its history, chooses not to pay its bills on time, we will be in default,” Lew said. “There is no option that prevents us from being in default if we don’t have enough cash to pay our bills.”
- Just about everyone worries that Beijing, perturbed by the ongoing squabble in Washington, will sour on Treasuries. This concern is embedded in the provocative title of Eamonn Fingleton’s recent Forbes posting: “If Republicans Want to Shut Down Washington, They’ll Have to Ask China’s Permission First.” The official warning, entitled “On Guard Against Spillover of Irresponsible U.S. Politics,” hints that Beijing leaders are thinking of further diversifying their portfolios away from dollar-denominated debt. If the Chinese don’t continue buying Treasury securities, the Federal government will have to find others to take up the slack. Many, including the respected Congressional Research Service, argue that the United States Treasury may then have to pay substantially more for borrowed funds and higher interests rates, which could result in lower long-term growth.

Commodities

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M&A / Capital Markets

- As of October 10, one month treasury bills more than double to 0.33 percent, the highest since October 2008, and the Internet stocks face the largest losses in two years because of the deadlock between Congress and the President. President Obama attempted to make Congress raise the \$16.7 trillion debt ceiling in order to prevent risking a “very deep recession.” Even though failure in the government debt obligations is small, volatility in the market will be seen in the coming days.

Financial Term

Crossover: A crossover is the point on a stock chart when a security and an indicator intersect. Some common indicators used include the “moving average” or “Bollinger Bands”. Technical analysts use crossovers when forecasting future movements in the prices of stocks, and in many technical analysis models, they are a signal to either buy or sell.