

Friday, September 25, 2009

## Market Snapshot

|             |          |         |
|-------------|----------|---------|
| DJIA        | 9665.19  | -42.25  |
| Nasdaq      | 2090.92  | -16.69  |
| S&P 500     | 1044.38  | -6.40   |
| 10-Year*    | 3.3202%  | 15/32   |
| 30-Year*    | 4.0917%  | 1 11/32 |
| Euro        | \$1.4669 | +0.0012 |
| Nymex Crude | \$66.02  | +0.13   |

Source: Dow Jones/Reuters Group PLC \*as of 4 PM ET

## Stocks

A week's worth of struggles for the U.S. stock market continued Friday, fueled by a new round of tepid economic data, although the losses were pared late in the day. If the Dow Jones Industrial Average closes in the red, it would mark the measure's third-consecutive daily loss, although it has been flirting with being in the black late in the session. Earlier, it had been down as much as 66 points. Alcoa was the Dow's worst performer, down 3%. American Express and General Electric also weighed on the index, down more than 2% each. The declines were offset by a 2.2% jump in McDonald's, which late Thursday boosted its quarterly dividend, and a 1.6% rise in Coca-Cola.

## Treasuries

Treasuries maturing in the next seven years to 30 years outperformed Friday after better inflation data and as equities slipped, while shorter-term Treasuries prices fell. The gains in longer-maturity Treasuries capped off another strong week for the government bond market, which continues to see good demand from investors looking for a safe place to park their cash as they wait for the economic outlook to become more clear. Longer-term Treasuries are more attractive because they offer investors better returns and since inflation is subdued.

## Forex

The dollar remains sharply lower vs the yen after recovering only modestly from earlier selling pressure on yen-supportive comments from Japan's finance minister. Otherwise, the greenback is mixed against the major currencies, marginally lower against the euro but higher against the pound.

## Tomorrow's Headlines

### US New Home Sales Rise; Durables Fall

Demand for new homes climbed a fifth straight time during August as beaten-down prices lure buyers past their fears of rising unemployment.

The Commerce Department said that single-family home sales increased 0.7% to a seasonally adjusted annual rate of 429,000 compared to the prior month.

A separate Commerce report showed manufacturers' orders for durable goods dropped 2.4% last month to a seasonally adjusted \$164.44 billion. Wall Street expected a small gain.

### Unilever To Buy Sara Lee Unit

Unilever PLC said it will buy Sara Lee Corp.'s (SLE) Personal Care business for EUR1.28 billion in cash to strengthen its operations in Western Europe and Asia in the first M&A deal by the Anglo-Dutch consumer giant since its Chief Executive Paul Polman took the reins.

Unilever will add skin cleansing and deodorant brands such as Sanex, Radox and Duschdas to its stable of products such as Dove, Axe and Rexona. It also produces Ben & Jerry's ice cream, Dove soap, Lipton teas and Hellmann's mayo.

Polman, who took over as CEO in January, said in a statement "the Sara Lee brands enjoy strong consumer recognition, offer significant growth potential and are an excellent fit with Unilever's existing business." Polman is in the Far-East for work and wasn't available to comment further, a company spokesman said.

The Sara Lee brands generated annual sales of more than EUR750 million and earnings before interest, tax, depreciation and amortization of EUR128 million for the financial year to the end of June 2009.

### World Leaders: Iran Has Covert Uranium Facility

The leaders of the U.S., France and the U.K. on Friday accused Iran of building a covert uranium enrichment facility, saying Tehran is directly challenging global non-proliferation rules and putting more pressure on high-stakes talks scheduled for next week.

"The existence of this facility underscores Iran's continuing unwillingness to meet its obligations under U.N. Security Council resolutions, the [International Atomic Energy Agency] requirements," U.S. President Barack Obama said in brief comments at the Group of 20 summit in Pittsburgh.

The U.S., France and the U.K. presented evidence of the site to the IAEA on Thursday, and Obama said the agency is expected to investigate the situa-

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## Monday's Calendar

|            |   |
|------------|---|
| 10:00 a.m. | Aug Conference Board Online Help Wanted Index (previous 3464800)  |
| 10:30 a.m. | Sep Dallas Fed Mfg Outlook Survey Business Activity Index (previous 9.1), Manufacturing Production Index (previous 9.7) |

## Tomorrow's Headlines

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tion immediately. He repeated that Iran has a right to a civilian nuclear power program, but said the size of the new site is inconsistent with a peaceful program.

### BofA Formally Answers SEC Complaint

Bank of America Corp. (BAC) filed a formal answer to the U.S. Securities & Exchange Commission's complaint on its disclosures regarding bonuses paid to Merrill Lynch & Co. employees after federal judge rejected a \$33 million settlement in the case last week.

In its eight-page court filing, Bank of America generally denied the allegations and shed little new light on its claims that it has committed no wrongdoing in its disclosures regarding the payment of billions of dollars in bonuses to Merrill Lynch employees on the eve of their merger.

In its filing, the Charlotte, N.C., bank said it and Merrill Lynch disclosed, as part of the proxy statement on the merger and elsewhere, that Merrill Lynch "was continuing to accrue compensation and benefits expenses in 2008 at a rate similar to 2007." Also, there were various media reports that Merrill Lynch was expected to pay billions of dollars in year-end incentive compensation for 2008, the bank said.

### US Banks Report Trading Revenue Slide

Trading revenue at U.S. commercial banks slid a bit in the second quarter, but their revenue was still among the strongest results since the U.S. government first began collecting data more than a decade ago.

The Office of the Comptroller of the Currency said banks reported trading revenue of \$5.2 billion in the second quarter of 2009, a \$4.6 billion decrease from the record \$9.8 billion in revenue they earned in the first quarter of this year.

The notional amount of derivatives held by insured U.S. commercial banks in the second quarter, meanwhile, increased \$1.5 trillion, or nearly 1%, to \$203.5 trillion.

"After such a strong first quarter, we expected to see a seasonal decline in trading revenues, and indeed that occurred," said Deputy Comptroller for Credit and Market Risk Kathryn E. Dick. "Still, second quarter results were the sixth strongest since we've been keeping records."

### FDA OKs J&J's Adult Psoriasis Drug

The U.S. Food and Drug Administration approved Johnson & Johnson's (JNJ) Stelara drug for the treatment of psoriasis in adults.

Approval was delayed in December, when the agency said it wanted additional information on the company's plan for informing physicians and patients about potential risks. The review was extended in May, and a month later an FDA advisory panel unanimously recommended Stelara for approval.

Stelara targets proteins that help spur psoriasis — a chronic disease that causes inflamed, painful skin lesions. It is the first anti-inflammatory medication to work by inhibiting a type of protein called interleukin and is injected every 12 weeks. J&J said that is far less often than other currently available injected biologic treatments for plaque psoriasis.

### Bullard: Fed Needs To Adjust Rules

The Federal Reserve's traditional rules of thumb for monetary policy need adjustment to accommodate the new tools it has introduced in the course of the financial crisis, the president of the Federal Reserve Bank of St Louis said.

In a presentation to the Swiss National Bank's research conference in Zurich, James Bullard described the Fed's current, three-part policy strategy, comprising liquidity facilities, asset-purchase programs and a near-zero interest rate.

The Fed has traditionally used adjustments in its main policy tool — the target interest rate — to communicate its intentions to the market. With that rate near zero, "the Fed has lost this ability to communicate future policy," Bullard said. This creates uncertainty in financial markets.

Smooth lines of communication are particularly important, Bullard said, since "the economy will experience further shocks while interest rates remain near zero."

### Home Builder Kevork Hovnanian Dies

Hovnanian Enterprises Inc.'s (HOV) founder and Chairman Kevork S. Hovnanian has died at 86 years old, the family-controlled home builder disclosed.

Hovnanian founded the company, which now operates in 18 states, 50 years ago. He was president until 1988 and was chief executive for another nine years. He was succeeded by his son, Ara Hovnanian, who continues to serve in the posts.

"Mr. Hovnanian was the heart and soul of our company and all of our associates mourn this tragic loss," said Chief Financial Officer J. Larry Sorsby in a company-issued statement. "He was a great man and will be dearly missed by all who knew him," Sorsby added.

### China's Shanda Games Cools Down

A steady positive buzz helped Shanda Games Ltd.'s (GAME) IPO to price well and sell more shares than expected, but that didn't soften the blow when it landed flat on its face.

The Beijing-based online computer game company, the largest U.S.-listed initial public offering in more than a year, opened at its IPO price of \$12.50 a share on the Nasdaq and lost gravity from there, trading recently at \$11.90, down 5%.

A total of 83.5 million shares were sold, 20.5 million more than originally planned, at the high end of its expected price range. By raising \$1.04 billion, Shanda can lay claim

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## Tomorrow's Headlines

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to the title of biggest U.S.-listed IPO so far in 2009; it's the largest since April 2008, when American Water Works Co. (AWK) raised \$1.36 billion.

The reception to Shanda Games was in sharp contrast to that experienced Thursday by an unprofitable electric car battery maker, A123 Systems Inc. (AONE), which rose 50% on its debut. Shanda, with both rising revenue and profits, didn't fare nearly as well.

### Bair's No Fan Of Bank Loans For FDIC

Federal Deposit Insurance Corp. Chairman Sheila Bair said that replenishing the FDIC's deposit insurance fund through borrowing from commercial banks is her least favorite option.

"It's a possibility, I assume. I don't see that as a preferred option, but it is something in the statute," Bair said at the annual meeting of the Clinton Global Initiative in New York. The industry has to cover the losses from bank closures, which are a direct result from the bad banking practices that led to the crisis, in one form or another "It's about funding mechanism."

Jamie Dimon, the chairman and chief executive of JPMorgan Chase & Co. (JPM), who was on the same panel discussion, responded, with a smile: "The FDIC is a good credit and we'll lend you money if you need some."

### KB Home 3Q Loss Narrows

KB Home's (KBH) third-quarter loss was shaved by a dollar, helped by lower write-downs and improved margins, and the company reported a surge in orders.

Revenue slightly beat expectations, but land-related charges fueled a wider-than-expected loss, sending the stock tumbling: It was recently down more than 6.4% at \$17.35, making it by far the sector's biggest decliner.

For the quarter ended Aug. 31, the Los Angeles-based company reported a loss of \$66 million, or 87 cents a share, compared with a prior-year loss of \$144.7 million, or \$1.87 a share. Write-downs were reduced to \$47.7 million, from \$82.2 million. Analysts polled by Thomson Reuters most recently were looking for a loss of 58 cents a share on revenue of \$458 million.

### Pay Czar Ruling May Be Ready Soon

The Obama administration's pay czar hinted that his determinations about executive-pay packages at seven top recipients of federal bailout funds may be ready a bit sooner than expected.

The much-awaited judgments should "be done in the next couple of weeks, certainly in October," said Kenneth Feinberg, the Treasury Department's special master for

compensation, at a symposium on securities regulation in New York. Previously, Feinberg's rulings had been expected by the end of October.

Feinberg declined to comment about the substance of his determinations until they're ready. But he said in an interview that he isn't setting any dollar-amount ceilings for the executives' pay.

He also said he's been in "constant and daily talks" with the seven companies under his jurisdiction.

### Aviation Capital Eyes Leasing Cos

Aviation Capital Group, one of the world's largest aircraft leasing companies, is eyeing potential acquisitions amid a flurry of efforts by many rivals to exit the sector because of funding problems.

Loren Dollet, ACG's executive vice president, said the multiple sale efforts aren't hurting the industry, although he acknowledged that the financing climate for large-scale deals remains difficult.

Dollet wouldn't be drawn on any specific takeover targets. Leasing companies account for a third of the global commercial airline fleet but, after a period of rapid growth, many are finding it more difficult to find funding and are being shopped by their owners.

### UBS Client Pleads Guilty

A New Jersey man pleaded guilty Friday to hiding a secret Swiss bank account he held with UBS AG (UBS) from U.S. tax authorities, the U.S. Justice Department announced.

The department said Juergen Homann of Saddle River, N.J., held approximately \$6.1 million in the secret account from 2001 to 2008.


Prosecutors said Homann originally opened the account in the late 1980s in the name of a Liechtenstein foundation and later transferred it into the name of a Hong Kong corporation.

Prosecutors also said Homann used the account to set up a \$5-million sham loan that he used to fund his U.S. business dealings. They said Homann received assistance in this transaction from a Swiss lawyer, Matthias Rickenbach, who was indicted last month in the U.S. for helping Americans hide assets.

### Boeing, Northrop Prepare For Contest

Competitors Boeing Co. (BA) and Northrop Grumman Corp. (NOC) are planning to review strategies in their efforts to win a politically charged contract to replace the Air Force's aging fleet of tankers.

On Thursday, the Air Force launched a fresh attempt to buy \$40 billion of aerial refueling tankers after two previous efforts collapsed amid controversy. The effort is expected to garner competing bids from Boeing and a joint Northrop and Airbus team.





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## The Week Ahead: Equities

### Jobs, Auto Sales, Home Price Data

The U.S. unemployment rate for September, to be released next Friday, is expected to again rise slightly.

Auto makers, who report September U.S. sales Thursday, are likely to say new-vehicle sales fell to the lowest point of the year after the government's cash-for-clunkers program boosted sales in August.

The Federal Deposit Insurance Corp.'s board meets Tuesday to discuss how to rebuild its deposit insurance fund, which has been depleted by a huge increase in bank failures this year.

### Sept Jobless Rate Seen Increasing to 9.8%

The national jobless rate for September is likely to rise to 9.8% from August's 9.7%, a 26-year high. Despite continuing doldrums in the job market, many economists have noted signs the U.S. is coming out of the deepest economic recession since the Great Depression. The job market is generally among the last parts of the economy to recover after a downturn. Many experts believe the jobless rate will continue rising, reaching double digits next year, and remain stubbornly high for some time after it peaks.

### Sept Car Sales Likely To Fall 23% Yr-Over-Yr

September car sales are expected to fall 23% from a year earlier to 742,000 units, which is a 41% plunge from August, according to car-shopping Web site Edmunds.com. J.D. Power & Associates projected a 29% drop from a year earlier to 710,000. Despite the downturn, Edmunds.com Chief Executive Jeremy Anwyl said sales in recent days have gained some momentum, with vehicles bought in cash-for-clunkers deals and being delivered in September aiding the month's results.

### Data On Home Sales, Prices, Construction Due

In a heavy week for economic reports, data on construction spending and pending home sales in August and July home prices will be released. The S&P/Case-Shiller index, out Tuesday, is expected to show a smaller decline in home prices in 20 major cities than in June. The other two reports will be issued Thursday.

The final reading on second-quarter gross domestic product, to be released Wednesday, is likely to show a 1.2% drop, compared with the previous estimate of a 1% decline. The government also will report on August personal incomes and spending Thursday and factory orders next Friday.

The nonprofit Conference Board details September consumer confidence Tuesday, and the Institute for Supply Management issues its September index of manufacturing activity Thursday. Reports on regional manufacturing activity are due Monday from Federal Reserve offices in Chicago and Dallas and Wednesday from groups of purchasing managers in Chicago and New York.

Among appearances by Federal Reserve officials: Dallas Fed President Richard Fisher speaks Tuesday in Dallas; Philadelphia Fed President Charles Plosser speaks Tuesday in Easton, Pa.; Atlanta Fed President Dennis Lockhart speaks Wednesday in Mobile, Ala., and Thursday in Macon, Ga.; and Cleveland Fed President Sandra Pianalto speaks Thursday in New York.

### Walgreen, Nike, Accenture To Post Results

Drugstore-chain Walgreen Co. (WAG), apparel retailer Nike Inc. (NKE), and outsourcing and consulting firm Accenture PLC (ACN) are among the very few companies posting quarterly results next week.

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## The Week Ahead

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Walgreen, which reports Tuesday, is likely to post higher revenue and lower earnings as prescription-drug sales remain strong. Nike's results, also out Tuesday, are seen down from a year earlier, but investors are looking for signs that margin pressures have peaked. Nike, which sells half of all sneakers, has increased its market share amid the recession. Last month, Accenture said it would post \$247 million in restructuring charges related to executive layoffs and cuts in real-estate capacity. Accenture reports Thursday.

Other companies reporting are Micron Technology Inc. (MU) and Darden Restaurants Inc. (DRI), both Tuesday, and Constellation Brands Inc. (STZ) on Thursday.

## FDIC Board To Discuss Refilling Deposit Fund

The Federal Deposit Insurance Corp.'s board meets Tuesday to discuss how to rebuild its deposit insurance fund, which has been nearly exhausted by a sharp increase in bank failures. The board is expected to propose and ask for public comment on a number of options to replenish the fund. Some say the agency is leaning toward asking banks to prepay fees, reducing their future

obligation to pay into the fund. Banks pay assessments to the FDIC each quarter based on the amount of insured deposits they hold.

## Senate Panel To Debate Health-Care Public Option

The Senate Finance Committee will discuss proposals for a public option in health-care reform legislation Tuesday. On Friday, the panel approved an amendment aimed at shedding more light on the pharmacy-benefit management industry. The committee's draft bill was created by Chairman Max Baucus, D-Mont., along with two other Democrats and three Republicans.

## Credit-Rating Agencies To Testify At Hearing

A House committee has scheduled a hearing Wednesday to question credit-rating firms about their ratings procedures. The House Oversight and Government Reform Committee postponed the hearing from this week and called on Moody's Corp. (MCO) to respond to allegations that its Moody's Investors Service continues to inflate credit ratings. Former Moody's analyst Eric Kolchinsky went public this week with allegations that the firm knowingly gave inaccurate ratings to complex securities this year.

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