

# THE DAY AHEAD

REUTERS NEWS

Late Edition

Compiled on Wednesday, January 13, 2010

THURSDAY'S KEY ECONOMIC EVENTS	ET/GMT	Reuters poll	Prior	Source
Import Prices (Dec)	0830/1330	-0.0 pct	+1.7 pct	Bureau of Labor Statistics
-- Export Prices (Dec)		+0.3 pct	+0.8 pct	
Retail Sales mm (Dec)	0830/1330	+0.5 pct	+1.3 pct	Census Bureau
-- Ex- Autos mm (Dec)		+0.3 pct	+1.2 pct	
Initial Claims	0830/1330	437,000	434,000	Labor Department
-- 4 Weeks Average		--	450,250	
-- Continuing Claims		4.77 mln	4.802 mln	
Business Inventories (Nov)	1000/1500	+0.2 pct	+0.2 pct	Commerce Department
Philadelphia Federal Ind Rev (Dec)	1000/1500	--	20.4	Federal Reserve Bank of Philadelphia

## RECAP: WEDNESDAY'S MARKETS

**Stocks** gained at the expense of **bonds** as investors raised their risk profiles ahead of blue chip earnings. **Oil** slipped on a surprising build in crude and distillate stocks. **Gold** rose as the **dollar** gave up some of the previous session's gains.

STOCKS	Close	Change	% Chng	Yr-high	Yr-low
DJIA	10680.77	53.51	0.50	10676.23	6469.95
Nasdaq	2307.90	25.59	1.12	2326.28	1265.52
S&P 500	1145.68	9.46	0.83	1149.74	666.79
Toronto	11850.79	30.61	0.26	12070.20	7479.96
Russell	643.56	8.06	1.27	648.40	342.59
FTSE	5473.48	-25.23	-0.46	5600.48	5410.82
Eurofirst	1056.49	2.56	0.24	1074.50	1045.54
Nikkei	10735.03	-144.11	-1.32	10905.39	10608.14
Hang Seng	21748.60	-578.04	-2.59	22671.92	21689.22

TREASURIES	Yield	Price	FOREX	Today	Prior
10-year	3.7849	-18 /32	Euro/Dollar	1.4510	1.4482
2-year	0.9556	-3 /32	Dollar/Yen	91.42	90.99
5-year	2.5305	-8 /32	Sterling/Dollar	1.6282	1.6161
30-year	4.7028	-40 /32	Dollar/CAD	1.0308	1.0388

COMMODITIES	Price	\$ change	% change
February crude \$	79.67	-1.12	-1.39
Spot gold (NY/oz) \$	1138.15	10.20	0.90
Copper U.S. (front month/lb) \$	3.3875	0.0500	1.50
Corn (front month/bu) \$	3.8500	0.0000	0.00
Reuters/Jefferies CRB Index	285.14	0.62	0.22

BIG MOVERS	Price	\$ change	% change
AMR	8.09	0.28	3.59
Hot Topic	5.93	0.19	3.31
Sears Holding	103.12	2.69	2.68
Ivanhoe Mines	17.64	0.41	2.38
Protalix Biother	7.63	0.17	2.28
YRC Worldwide	1.08	-0.02	-1.82
Rite Aid	1.51	-0.02	-1.31

## WHAT TO WATCH ON THURSDAY

• **Intel** kicks off tech-sector earnings, and there's a chance the bellwether stock might sell off if the 2010 outlook is n't particularly rosy. Chipmakers are emerging from the industry's worst downturn in decades and are expected to benefit from renewed spending on technology by corporations. But some investors worry about a short-lived correction in semiconductor counters. Shares of Intel, which gained more than 8 percent over the holiday quarter, have risen 30 percent over the past six months, bolstered by increased consumer spending in the absence of corporate demand. "We're on the cusp of an enterprise spend cycle this year. We're on the cusp of improving consumer sentiment and consumer spending for notebooks," said Wedbush Morgan analyst Patrick Wang. But "Intel is cheap," he said, adding its valuation of about 11-times forward earnings for 2010, minus cash, was a historic low based on his data. Intel is expected to announce quarterly earnings of 30 cents, up from 4 cents in the same quarter of 2008, according to Thomson Reuters I/B/E/S.



• **President Barack Obama** will announce plans to raise money from major financial firms to cover expected losses from a taxpayer-funded bank bailout. The announcement, due at 11:45 EST/16:45 GMT, comes at a time when the unemployment rate is stuck in double digits and public anger is growing over big bonuses that some financial firms are poised to resume paying, barely a year after the height of the global financial crisis that made the bailout necessary. An Obama administration official said the amount raised would not exceed \$120 billion since this was the higher end of conservative estimates of the cost of the Troubled Asset Relief Program, or TARP. Treasury officials expect TARP losses to be much lower than that sum, and over the course of years the fee will pay back any costs of the \$700 billion taxpayer bailout, the administration official said. Obama is also scheduled to discuss the economy and jobs when addressing **House Democrats** at their 2010 Issues Conference.

• The **Financial Crisis Inquiry Commission** hears from U.S. Attorney General **Eric Holder**, FDIC Chairman **Sheila Bair** and SEC chairman **Mary Shapiro** in day two of the panel's review of Wall Street. The Congressional panel, which has subpoenaed



## WHAT TO WATCH ON THURSDAY (continued)

power, will issue recommendations in December that could set the stage for the next round of financial regulation. On Wednesday, the chiefs of Wall Street's biggest firms defended the lucrative pay practices and huge size of their businesses that regulatory changes are needed. With U.S. unemployment near a 26-year-high after the worst recession in decades, public fury is growing over the crisis, taxpayer bailouts and huge bonuses for bankers. Phil Angelides, chairman of the Financial Crisis Inquiry Commission, told the CEOs his panel will hold hearings through the year and take testimony from hundreds of individuals. "People are angry. They have a right to be," Angelides said, citing Wall Street's bonuses and profits. (See *Top News*)

- A positive reading on **December retail sales** could help to restore some confidence in the durability of the economy's recovery, which was shaken by a surprise drop in nonfarm payrolls last month. Major retailers reported stronger-than-expected sales for the holiday-heavy month, and motor vehicle purchases were also strong. The median forecast for retail sales is for a rise of 0.5 percent after an increase of 1.3 percent. Forecasts range from flat to a rise of 1.4 percent. The median forecast for sales excluding autos is for a gain of 0.3 percent following a 1.2 percent increase in November. Forecasts ranged from a 0.1 percent fall to a rise of 1.2 percent. An upbeat retail sales report would provide a catalyst to push stocks to fresh 15-month highs, with the benchmark **S&P 500** now up 69 percent since bottoming out in early March.
- The **National Retail Federation** releases its latest data on the 2009 holiday sales season. The group had forecast a sales decline of 1 percent, but other measures of retail performance have shown store chains came in better than expected after a dismal 2008.
- The **ECB** holds a policy-setting meeting. Economists polled by Reuters think it will hold interest rates steady at 1 percent. The announcement is due at 0745 EST/1245 GMT.
- **Cadbury** may still give more details on its 2009 results after the London market closes. Its investors have until Feb. 2 to



respond to **Kraft's** offer, but Britain's Takeover Panel allowed Cadbury to provide extra detail on its results given the proximity of its Dec. 31 financial year end.

- Results from private agribusiness and trading giant **Cargill** will probably show a big hit from its stake in fertilizer producer **Mosaic**, which posted lower-than-expected quarterly earnings.
- The **Commodity Futures Trading Commission** will unveil long-awaited proposals aimed at barring manipulators from high-flying energy markets, but the agency is expected to tread lightly with its new regulations, at least initially. In a drawn-out process that has weighed over energy markets for the past several months, will hold an open meeting to decide whether to adopt a "proposed rule" to limit the number of contracts trading entities can hold in a particular market. The proposal, which has been kept under wraps, would still be subject to public comment that also could last several more weeks. The new rules, if adopted, are a strand of the Obama administration's efforts to impose a new regulatory regime on the financial industry, widely blamed for the meltdown caused by a series of global speculative bubbles. The announcement is expected around 1300 EST/1800 GMT.
- **Navy Rear Admiral Jim Murdoch** briefs reporters at the Surface Navy Association on the acquisition strategy for the Littoral Combat Ship program. **Lockheed** and **General Dynamics** are currently competing for a contract valued at over \$5 billion to build 10 more LCS ships for the Navy, plus providing the computer equipment to run five more. Saudi Arabia is also considering buying LCS ships for its multi-billion dollar naval modernization program.
- UK- and Australia-listed mining company **Rio Tinto** could exceed an upwardly revised annual global iron ore production forecast, as its Australian mines produced at full tilt in the final months of 2009 following a slow start. But the added tonnage scheduled to show up in Rio's fourth-quarter production summary is unlikely to dampen red-hot iron ore prices, which have risen over 80 percent since the start of 2009, they said. "Now is the time to produce iron ore and Rio Tinto knows that," said James Wilson, a mining analyst with DJ Carmichael & Co in Perth. "Rio Tinto and other iron ore producers are back on the front foot."

## MARKET MONITOR

The Dow rose to a fresh 15-month closing high, as investors bought financial and technology shares, and **Merck** benefited from a brokerage upgrade. The **Dow** put on 53.66 points, or 0.50 percent, to end at 10,680.92. The **S&P Index** gained 9.47 points, or 0.83 percent, at 1,145.68. The **Nasdaq** was up 25.59 points, or 1.12 percent, at 2,307.90. **JPMorgan** shares rose 1.8 percent and led gains in the KBW bank index, while chip maker **Advance Micro Devices** jumped 5.8 percent after falling five straight sessions. Intel shares rose 1.7 percent. Heading into Intel and JPMorgan earnings, I think there was a sense things have solidified enough and buyers have felt more comfortable buying into semiconductors and financials," said Michael James, senior trader at Wedbush Morgan in Los Angeles. The biggest boost to the Dow came from Merck shares, up 3.7 percent after Credit Suisse upgraded the stock. **Google's** shares fell 0.6 percent after the Internet search giant said it may shut its China operations over censorship and hacking. Shares of rival Chinese search engine **Baidu** jumped 13.7 percent.

**Treasury prices fell** as a renewed appetite for stocks and other risky assets curbed demand for government bonds while an auction of 10-year notes enticed some investors. Lingering jitters over appetite for Thursday's \$13 billion of 30-year bonds, the last of this week's \$84 billion Treasury supply, also curbed bond demand, analysts said. "No one wants to go into tomorrow too long," said Jeff Given, portfolio manager with MFC Global Investment Management in Boston. The two-year to 10-year part of the **yield curve steepened** to 283 basis points. This compared to an intraday record of 288 basis points two days ago. The price on benchmark **10-year Treasuries** were down 17/32 at 96-22/32. Its yield was 3.78 percent, up from 3.72 percent on Tuesday. The 10-year auction's bid-to-cover ratio, a gauge of overall demand, came in at 3.00, above its recent average. The **30-year bond** fell 1-10/32 in price for a yield of 4.71 percent, up nearly 9 basis points. The 30-year yield spike followed an 11 basis point drop on Tuesday, the biggest single-day fall in four months.

**High-yielding currencies** rallied, reversing losses in the prior session, as investors concluded China's unexpected monetary tightening would not derail the world's third-largest economy. Commodity-linked currencies such as the Australian dollar recovered some losses but the market remained nervous that the withdrawal of liquidity may prompt unwinding of positions in riskier assets as economies recover and central banks focus on inflation risks. "Commodity currencies are on a much better footing today, but what happened in China is a reminder that they are vulnerable," said Omer Esiner, senior market analyst at Travelex Global Business Payments in Washington. Esiner said

the reaction to China's measures yesterday was too far, too fast and with more thought, investors realized the impact of China's moves won't be detrimental to global economic growth. In late afternoon trading in New York, the Australian dollar climbed 0.4 percent to \$0.9240, with traders noting sovereign demand facilitating the move. The yen declined broadly, paring Tuesday's gains. The dollar rose 0.5 percent to 91.43 yen. The euro was up 0.1 percent at \$1.4508.

**Oil prices fell** below \$80 a barrel, pressured by a U.S. inventory report showing rises in crude and distillate fuel stocks despite severe winter weather. Crude stocks, expected to rise by 1.2 million barrels, shot up by 3.7 million, the **Energy Information Administration** said. Inventories of distillates, which include heating oil and diesel, rose by 1.4 million barrels, instead of falling as forecast. **U.S. crude** for February delivery fell \$1.14 cents to settle at \$79.65 a barrel. It earlier fell to \$78.37, the lowest since Dec. 29. The price of U.S. crude has fallen more than \$4 from a 15-month high of \$83.95 reached on Monday and some analysts believe it could have further to fall. "It is becoming increasingly apparent that the upside breakout above key \$82 resistance seen last week never got going and seems to have been no more than a short-lived burst higher," Edward Meir of MF Global said in a report. Oil inventories have bulged in the United States over the past 18 months as the economic crisis has cut energy demand. Very cold weather over the past two weeks was expected to have helped to erode stocks.

**Gold prices rose** in choppy trade as a lower dollar prompted physical buying and short covering after the previous session's sharp losses. "Gold is getting support from dollar movements, as we don't really have any major catalysts to drive the market," said Rick Besignor, chief market strategist at Execution LLC, a New York-based broker-dealer. The metal dropped along with most commodities on Tuesday after China's decision to raise its banks' reserve requirements sparked fears spending will be curtailed, decreasing bullion's appeal as a hedge against inflation. **Spot gold** was at \$1,135.85 an ounce, against \$1,127.95 late in New York on Tuesday. Bullion found support around its 50-day moving average at \$1,130, analysts said, after trading as low as \$1,119.35 earlier in the session. U.S. gold futures for February delivery settled up \$7.40 to \$1,136.80 an ounce. "This morning and last night, there were quite a few physical buyers bargain-hunting around in the marketplace, and we saw some good demand out of India and elsewhere," said Afshin Nabavi, head of trading at MKS Finance. "With the dollar back on the slide, there is more interest," he added. "I wouldn't be surprised if we pushed near to the high end of the range again, which is around \$1,145-50."



TOP NEWS

Wall Street frets over Google's future in China

Google's threat to withdraw from China over censorship and cyber attacks has suddenly jeopardized any plans it has for the world's biggest Internet market, stunning investors and analysts. Google's announcement that it may quit China -- a possibility that analysts said appeared realistic and increasingly likely -- carries with it broader implications for other U.S. technology and media companies that have placed big bets on business in the country. In the case of Google, China accounts for only a fraction of its current business, roughly \$300 million to \$600 million in annual revenue, or less than 5 percent of its total, analysts

shook economies worldwide. At one point, Blankfein compared the forces underlying the crisis to being hit by a wave of hurricanes. The Chairman of the **Financial Crisis Inquiry Commission**, Phil Angelides, shot back: "Mr. Blankfein, I want to say this. Having sat on the board of the California Earthquake Authority, acts of God will be exempt. These were acts of men and women."

SEC proposes "effective" ban on naked access...

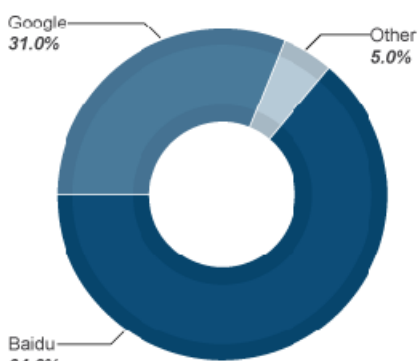
Securities regulators proposed rules that would require more supervision of unlicensed high-frequency traders who gain unfettered, or "naked," access to public markets. The **Securities and Exchange Commission** voted for a proposal that would require brokerages that rent out their access to the markets to have rules in place to protect against potential mishaps from unlicensed traders. In the practice known as "sponsored" access, brokerages that have been approved to trade on an exchange rent their access to traders, who are then able to shave milliseconds from the time it takes to access the markets. In "naked sponsored" access, also called "unfiltered" access, the brokers do not screen orders en route to markets, making electronic trading even faster. "We are concerned that order entry errors in this setting could suddenly and significantly make a broker dealer or other market participants financially vulnerable within mere minutes or seconds," said SEC Chairman Mary Schapiro.

Baidu vs. Google

Baidu's share price surges on news of Google's potential exit from China



China's 2009 estimated search engine market share



Sources: Thomson Reuters, Analysys International



estimate. The bigger concern is what a withdrawal would mean for Google's future prospects, given the size of China's market and the potential for advertising sales there. Such concerns pushed investors to ward Chinese search engine **Baidu**, which leads Google in China's search market with more than 60 percent share. Shares of Baidu jumped 13.71 percent to \$439.48, while Google shares slipped 0.57 percent to \$587.09. Goldman Sachs analyst James Mitchell said Baidu could pick up two-thirds of Google's revenue if Google exits, potentially adding 25 percent to Baidu's 2010 revenue run rate. (See *Analysis and Insight Section*)

Wall St Barons concede failures, defend pay

Top executives of Wall Street's biggest banks acknowledged broad failures as they testified to a U.S. commission looking into the financial crisis, while the White House said an industry apology was in order. While they acknowledged mistakes in managing risk, the CEOs of the country's top financial institutions defended their pay packages and called for modest regulatory changes. Goldman Sachs CEO **Lloyd Blankfein** was compelled to defend his firm's role in creating subprime mortgage-backed securities at the center of the financial crisis, while at the same time shorting them, or betting they would lose value. White House spokesman Robert Gibbs told reporters on Wednesday that an apology from Wall Street leaders "would be the least of what anybody might expect." Sworn in to testify with Blankfein to the commission were JPMorgan Chase CEO **Jamie Dimon**, Bank of America CEO **Brian Moynihan** and Morgan Stanley Chairman **John Mack**. No major revelations were forthcoming from the banking executives about the causes of the crisis that

... SEC sets market review, high-frequency probe

Securities regulators also took their first stab at deciding whether rules are needed to curb high-frequency traders, whose lightning-fast computer programs now dominate equities markets. In a move that could overhaul how markets function, the SEC voted to seek public comment on the rapid trades, the anonymous trading venues known as dark pools, and other market developments that have blossomed over the last decade. The SEC will publish a so-called concept release asking whether the current structure of markets is fair to investors and whether they have the tools to protect their interests. "The equity markets have undergone extraordinary change," said SEC Chairman Schapiro. "At the commission, we must continually assess how changes in the market are affecting investors." The 60-page document asks whether high-frequency traders -- the proprietary firms, banks and hedge funds that use sophisticated algorithms to make markets and profit from tiny imbalances -- present systemic risk. Some lawmakers have pressured the SEC to speed up its review of the markets and are concerned that the changes have created a system that benefits computer traders and sophisticated players.

Possibly 50,000 killed in quake-Haitian president says

The death toll in Haiti's catastrophic earthquake could run to tens of thousands, the country's president said, a day after the quake demolished schools, hospitals, houses and hillside shanties across the crowded and impoverished capital. Asked by a CNN reporter how many people had died, President **Rene Preval** replied "I don't know", adding "up to now, I heard

## TOP NEWS (continued)

50,000 ... 30,000." But he did not say where these estimates came from. Haitians wandered broken streets in a daze, or tried to rescue people trapped under rubble. The local Red Cross said it was overwhelmed. A five-story U.N. headquarters building was destroyed by Tuesday's 7.0 magnitude quake, which the U.S. Geological Survey said was the most powerful in Haiti in more than a century. Several bodies were pulled from the wreckage of the U.N. building and more than 100 staff members were missing, a spokesman said. People sobbed in the streets of Port-au-Prince and voices cried out from the rubble. "Please take me out, I am dying. I have two children with me," a woman told a Reuters journalist from under a collapsed kindergarten in the Canape-Vert area of the capital. The presidential palace lay in ruins, its domes fallen on top of flattened walls. Preval and his wife were not inside when the quake hit.

## ...companies offer aid

Companies pledged millions of dollars in aid to help victims of the earthquake. Digicel Group, a top mobile phone operator in Haiti, said it would donate \$5 million in cash toward relief efforts and appealed to others to help victims of the quake. **Lowe's** is donating \$1 million to the Red Cross' efforts in Haiti. The no. 2 U.S. home improvement chain also plans to seek monetary contributions from its customers, spokeswoman Julie Yeni chek said. **National Bank of Canada**, which will contribute up to C\$250,000 to the Canadian Red Cross, said National Bank MasterCard cardholders can exchange reward points for a cash donation to the Canadian Red Cross. **Bank of Nova Scotia** said it would accept donations to the Canadian Red Cross in its bank branches, and would make a C\$250,000 corporate contribution. **Wells Fargo** will contribute \$100,000 to the American Red Cross' disaster relief fund. **Bank of America** plans to provide aid too, a company spokeswoman said. **FedEx** said it is working with international relief groups including the Red Cross to fly supplies to the island once shipments start moving, while **United Parcel Service**, which participates a World Food Program that helps coordinate delivery of aid to disaster zones, said it expects to have its volunteers in the program called up soon. The best way for corporations to support relief efforts at the moment is to make cash donations, said Caryl Stern, president and CEO of the U.S. Fund for UNICEF, the United Nations Children's Fund. "What we need in the first few days is to enable the humanitarian workers to do their jobs, to go in and do rescue and recovery... and that takes cash," she said.

## Fed says economy weak but mending as 2010 began

Economic activity remained at a low level as 2010 began but was improving modestly and beginning to broaden out to include wider swaths of the country, the **Federal Reserve** said. "Reports from the 12 Federal Reserve districts indicated that while economic activity remains at a low level, conditions have improved modestly further, and those improvements are broader geographically than in the last report," according to the periodic **Beige Book** report compiled this time by the Philadelphia regional Fed bank. The Fed's conclusions were based on results of a survey taken on or before Jan. 4. It said shoppers in the 2009 holiday season spent slightly more freely than in 2008 but at a rate still far below 2007 levels, when the economy was just on the verge of slipping into a serious financial crisis. Job markets were still soft in most of the country, though the New York Fed reported "a modest pick up" in hiring and several service-sector firms in the St. Louis Fed region planned to take on more employees.

## PIC OF THE DAY



A Chinese Google user stands with bouquets of flowers that he wants to present to the Google China headquarters in Beijing. The flowers were to be part of a homage by a group of Google users in China.

## White House says stimulus has saved 2 million jobs

**President Barack Obama's** emergency spending measures last year saved up to 2 million U.S. jobs, the White House said, but it warned that the outlook for the economy remained uncertain. Obama, anxious to reduce double-digit U.S. unemployment which has dented his popularity, has already called for additional government measures to boost jobs on top of the \$787 billion stimulus package he signed in February 2009. **Christina Romer**, head of Obama's Council of Economic Advisers, said she expects positive job creation by the spring, but stressed that there was definitely a need for additional "targeted action" to aid employment. "There is uncertainty about where the economy is going ... when will the private sector come back," "Where are we going to be a year from now, do we see consumer confidence come back, do we see firms ... starting to invest again," she said. In response to Obama's call for more measures, the House of Representatives last month approved another \$155 billion jobs package. The Senate is expected to take up its version of fresh jobs legislation in the coming weeks. The White House, using two different approaches to figure out the impact of the stimulus package, estimates that U.S. employment had been raised by between 1-1/2 and 2 million jobs by the end of 2009 as a result of the stimulus measures.

## Worldwide PC shipments jump

Global shipments of personal computers soared 15.2 percent in the fourth quarter from a year earlier, helped by strong U.S. holiday sales of low-cost notebooks, according to IDC's quarterly survey. The research firm said sales of low-cost notebook computers during the holiday season helped drive U.S. shipments up by a higher-than-expected 24 percent. IDC research manager David Daoud said a big contraction in sales a year ago contributed to the strong, year-on-year gain in the U.S. market, but that the introduction of lower price points stimulated demand. "In this context, low-cost notebooks and mini-notebooks were the biggest contributors to the successful fourth quarter. Once again, the consumer market overcame the weak commercial sector to save the quarter," he said. **Hewlett-Packard** solidified its leadership in global market share, with 20.7 percent compared with 19.6 percent a year earlier. **Acer**, with 13.4 percent of worldwide market share, grabbed the second spot from **Dell**, whose share fell to 12.5 percent from 13.6 percent a year earlier. **Lenovo** and **Toshiba** were in fourth and fifth place, respectively.

TOP NEWS (continued)

**Microsoft, H-P to work together on cloud products**

Microsoft and **Hewlett-Packard** announced a partnership to integrate their software and hardware offerings for companies looking to move their applications and data online, popularly known as "cloud computing." The world's biggest software maker and the world's No. 1 PC maker, which have cooperated in this area for some time, said they would invest \$250 million over three years in marketing and supporting the new venture. The two hope the combined effort will make it easier and more cost-effective for companies to buy and operate server systems, essentially combining Hewlett-Packard's hardware and Microsoft's software. "The cloud is a significant inflection point in how our customers will be building their next generation applications," said Bob Muglia, the head of Microsoft's server and tools business. "We (Microsoft and Hewlett-Packard) have decided to double down and commit to building the next generation architecture," said Muglia.

**SocGen profit warning rekindles toxic asset fears**

Societe Generale warned on its fourth-quarter profits after taking a further \$2 billion hit from risky assets, highlighting concerns that banks have more pain to bear from the financial crisis. Following the additional write-down, SocGen said it was now only expecting to report a "slight profit" for the fourth quarter, whereas analysts had been forecasting a net profit of around 960 million euros. SocGen shares were down 2.86 percent, making it the biggest loser on France's blue-chip **CAC 40 index**. The **DJ Stoxx European banking sector index** was down 0.68 percent amidst some concerns that other banks may also announce new write downs and that a relatively poor performance by SocGen's investment banking arm pointed to an industry wide downturn. The profit warning served as a reminder that toxic assets are still a problem for the world's banks although some analysts said SocGen said the impact from risky assets comprised write downs on collateralized debt obligations (CDOs) linked to residential mortgage-backed securities, as well as changes in the mark-to-market valuation of credit default swaps (CDS). However, the bank plans to put around 37 billion euros of toxic assets into one single legal entity which could help it reduce future losses from this area.

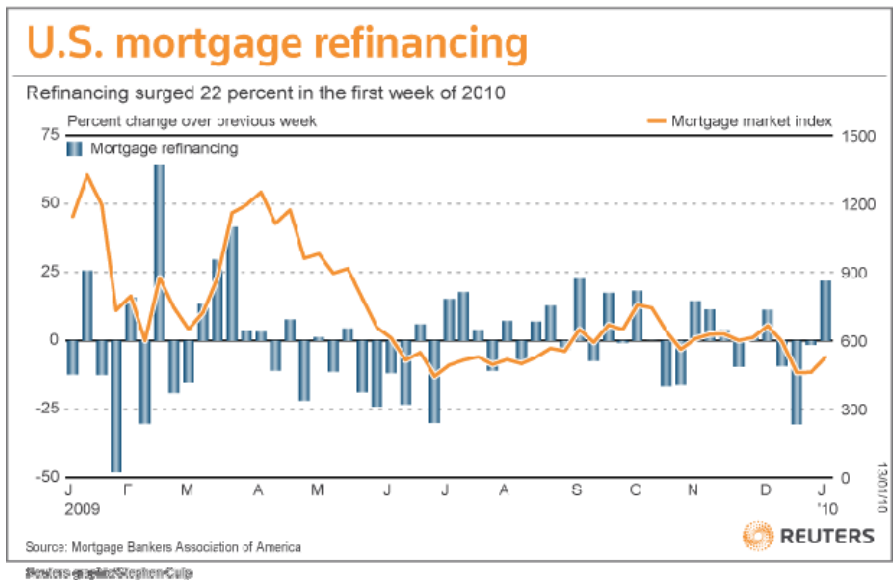
**Hershey prepares Cadbury counterbid- FT**

U.S. chocolate maker Hershey is preparing a bid for Cadbury that would top Kraft's hostile \$17 billion takeover offer, the Financial Times reported. Hershey authorized a bid for Cadbury to be drawn up and a formal offer could be made within two weeks, the FT said, citing a person familiar with the matter. Hershey has until Jan. 23 to submit an offer under UK takeover Panel rules. Earlier, a person familiar with the situation told Reuters that Hershey had not decided whether it will make a formal offer. Hershey officials declined comment. The revived talk of a Hershey bid came as Kraft Chief Executive **Irene Rosenfeld** tried to woo Cadbury shareholders in London, paying them visits to their offices. Rosenfeld found some of those doors closed as a number of Cadbury shareholders declined to meet while Kraft sticks to an offer they think is too low. "It is highly possible that we will have some dialogue with Kraft if they come up with a higher offer next week," said one top 20 Cadbury investor who declined to meet with Rosenfeld. The investor was referring to expectations that Kraft would raise its bid by a Jan. 19 deadline. But the investor did not believe Kraft, or Cadbury, could divulge new

information that was not already public. "Arguably we are still in the phony war phase now," the investor said. "I think with all the time and money invested so far, Kraft is unlikely to walk away. There is scope to improve the offer."

**Mortgage applications rise in 1st wk of 2010**

Mortgage applications rose in the first week of 2010, reflecting surging demand for home refinancing loans as interest rates dropped, industry data showed. Demand for loans to purchase a home, however, only rose marginally. A continuation of this trend would not bode well for the U.S. housing market, which has been showing signs of stabilization but remains highly vulnerable to setbacks. The Mortgage Bankers Association (MBA) said its seasonally adjusted index of mortgage applications, including both purchase and refinance loans, rose 14.3 percent to 528.1 for the week of Jan. 8. A year ago, the index was at 1,324.8. The four-week moving average, which smoothes out volatile weekly figures, was down 6.4 percent. The MBA said borrowing costs on 30-year fixed-rate mortgages, excluding fees, averaged 5.13 percent, down 0.05 percentage point from the previous week which was the highest rate since late August. Interest rates were above the year-ago level of 4.89 percent and an all-time low of 4.61 percent set in March.



**Possible Galleon witness could help widen case-WSJ**

A hedge-fund manager referred to as "Tipper X" in the Galleon Group insider-trading case could lead prosecutors to widen the probe to hedge funds that had not been previously implicated, the Wall Street Journal said, citing people familiar with the case. "Tipper X" was identified as **Thomas Hardin**, a former trader at **Lanexa Global Management**, the newspaper said, citing people familiar with the investigation. The New York Times separately identified the 32-year-old Hardin as "Tipper X." A call to what is believed to be Hardin's home was not immediately returned. Hardin's lawyer could not immediately be located. Hardin's name is included on a list of potential witnesses that the **Securities and Exchange Commission** provided to defense lawyers in the civil Galleon insider-trading case. A person familiar with the list confirmed that Hardin's name is on the list but could not confirm that the hedge fund trader is the mysterious Tipper X. This person also said the SEC has been circulating list of potential witnesses for several weeks and Hardin's name has been known by defense lawyers for a while.

## TOP NEWS (continued)

**Wells Fargo to cut fund lineup, drop Evergreen name**

Wells Fargo's money management unit said it plans to reduce its fund lineup by 49 products and drop the "Evergreen Investments" brand following its purchase of the former Wachovia division. In all, Wells Fargo will offer 128 funds following fund mergers and reorganizations, said a spokeswoman, down from 177 products the two companies had maintained separately. Wells Fargo's asset management group now has 1,700 employees, down from 2,100 a year ago. Executives said the fund consolidations could lead to additional job cuts, but not a significant number because all but two of the money-management teams will stay on with the organization. Some funds run by outside sub-advisers also are being cut. Leaders including Advantage Funds President Karla Rabusch said the changes will lower fees for the majority of shareholders but said they couldn't quantify the changes until details are filed in coming months.

**Judge postpones prison for 'squawk box' convicts**

Four brokers and traders convicted for misusing their "squawk boxes" in an insider trading conspiracy do not need to report to prison to start their sentences, pending an appeal, a judge in New York ruled. The written ruling on Tuesday by District Judge John Gleeson of Brooklyn federal court applies to Kenneth Mahaffy, formerly of Merrill Lynch and Citigroup, former A.B. Watley broker-dealer firm head Robert Malin, former Watley compliance officer Linus Nwaigwe and former Watley trader Kevin Leonard. In December Gleeson sentenced the four men and former Lehman Brothers broker David Ghysels and former Merrill broker Timothy O'Connell to prison terms ranging from four years to probation. Ghysels and O'Connell were sentenced to terms of probation and the others were due to report to prison this month. All of the defendants filed notices in December appealing their convictions. Prosecutors accused the former brokers and traders of generating millions of dollars in illegal profits. Merrill has been owned by Bank of America since January 2009. The brokers were charged with scheming between 2002 and 2004 to allow day traders at the now-defunct Watley to routinely listen to their firms' internal speaker systems ("squawk boxes") through open telephone lines. The speakers broadcast pending orders by institutional customers and are deemed confidential.

## RESEARCH SUMMARY

Company Name	Action	Wednesday's Close
Wyndham World	Deutsche Bank raises to buy from hold	\$22.11
Tenet Healthcare	Barclays raises price target to \$8 from \$7;rating overweight	\$6.21
Cognizant	Morgan Stanley starts with overweight ratings	\$48.81
Iac Interactive	Goldman Sachs raises to buy from neutral	\$21.66
M&T Bank	Morgan Stanley raises price target to \$73 from \$59;rating underweight	\$73.80
Qlogic	Jefferies raises price target to \$25 from \$22;rating buy	\$20.21
	Stifel raises price target to \$25 from \$21;rating buy	
	Wedbush raises price target to \$23 from \$22;rating outperform	
Sempra Energy	Wells Fargo cuts to market perform from outperform	\$53.68
MetroPCS	Deutsche Bank raises to hold from sell	\$6.28
UPS	RBC raises to outperform from sector perform	\$62.16
Global Payments	Morgan Stanley starts with equal-weight ratings	\$47.81

## ANALYSIS AND INSIGHT

**Multinationals see red in Obama's 2011 budget**

By Kim Dixon

WASHINGTON - Locked in by a promise to not raise taxes on middle-class Americans, **President Barack Obama** is all but certain to gain try to increase taxes on companies' foreign income to slow a ballooning deficit in his fiscal 2011 budget plan. Multinational companies are girding for the proposals, but a slowing economy with 10 percent unemployment, combined with Congressional unease, make action on them unlikely soon.

Obama one year ago unsuccessfully proposed closing a set of tax loopholes and breaks to raise \$210 billion over a decade, including a halt to companies deferring taxes on foreign income until related deductions for expenses are recognized.

The administration will likely recycle the plan when Obama releases his 2011 budget in February.

New ideas are also percolating, such as a fee to recoup taxpayer bailouts and a tax on executive compensation. All would need congressional approval to become law.

"We know we're going to get hit. The only question is how badly?" said Catherine Schultz, vice president for tax policy at the National Foreign Trade Council, made up of Fortune 500 companies.

The Obama administration says ending the offshore tax loopholes for big companies would help preserve U.S. jobs, an argument multinationals dispute.

"International tax increases, like those proposed in the fiscal year 2010 budget, will adversely affect the competitiveness of worldwide American companies, and lead to slower economic growth and fewer jobs at home," John Castellani, president of the Business Roundtable, said in a recent letter to Treasury Secretary **Timothy Geithner**.

The influential group is made up of chief executives of companies such as **American Express** and **Verizon Communications**.

Adding to their jitters is the Obama administration's addition of **Stephen Shay** as the Treasury Department's pointman on international tax issues. Shay, an advocate of ending the practice of letting U.S.-based global companies defer U.S. tax on income earned abroad, joined the department late last year.

In a paper published this month that Shay co-authored before his appointment, he argued that fairness, in addition to economic efficiency, should be taken into account when designing international tax policies.

Although Congress will be tied up with health care and more pressing issues early this year, they will have to tackle the expiration of former President **George W. Bush's** individual tax cuts at the end of this year, providing a hot house arena where debate over corporate tax could emerge.

Many believe Obama painted himself into a corner with his 2008 campaign pledge to not raise taxes on families making less than \$250,000 a year. Corporate taxes are an easier target, especially ahead of a congressional election in November.

Obama's international tax proposal last year largely built on ideas from a 2007 bill introduced by **Representative Charles Rangel**, chairman of the House Ways and Means Committee.

Rangel wants to close various loopholes as part of an tax code overhaul. His approach uses the additional tax payments from corporations to slash the top corporate income tax, among the highest in the industrialized world.

Some White House advisers, including Austan Goolsbee, have expressed interest in lowering the corporate tax rate.

"The question is, will those reform proposals in this budget be paired, for example, with a reduction in corporate tax rate?" said Marc Gerson, an attorney at Miller, Chevalier, and former tax counsel for the House Ways and Means Committee.

Even with a corporate tax rate as low as 28 percent, as Rangel

has said he could back, won't satisfy many U.S. corporations. Some companies are already getting a lower rate because of a deduction allowed for certain domestic production, Schultz noted.

Cutting corporate taxes may also be a tough sell politically in light of the upcoming Congressional elections that could threaten the Democrats' majorities in Congress and a mid-a waning economic recovery.

"You don't hear a lot about lowering the corporate rate among members of the public," said Steve Wamhoff, legislative director for Citizens for Tax Justice, a consumer group. "One of the biggest crises we face is just paying for the public goods we need right now."

**BREAKINGVIEWS****Ditching China could be good for Google**

By John Foley

HONG KONG - Google should carry out its threat to withdraw from China. The U.S. search giant says a cyber-attack on its intellectual property, and attempts to access email data from human rights activists, have driven it to the edge. From now on, it's no censorship, or no Google. Ditching the world's biggest group of web surfers makes a powerful statement about free speech -- but it could be good for business too.

It's easy to be cynical about Google's feisty tone. After all, the company has been willing to trim search results in China for three years to placate Beijing. And despite its "don't be evil" corporate mantra, Google's shareholders have gone along with voluntary censorship. It seems the final straw wasn't principle, but property -- possibly the theft of the algorithms Google uses to generate its search results.

But Google's anger does highlight a real problem. Internet censorship in China is getting worse. Curbs range from the sinister to the ridiculous. Many web cafes have live video links to police stations; college students can win cash prizes in porn-hunting competitions. China's farcical adult content filtering software, Green Dam, blocked pictures of cartoon cat Garfield and roast pork, but allowed much nudity to sail right through.

Google has n't yet made money in China, according to people familiar with the situation. And investors probably weren't pricing in much potential. China's market leader, **Baidu**, has a market capitalization of just \$14 billion -- less than a tenth of Google's. Still, exiting China will not be painless. Internet advertising spending is set to more than double by 2012, according to Credit Suisse. The country's Internet users outnumber the population of the United States.

The pain is probably worth it. Quitting China would restore the ethical credentials Google has already compromised at Beijing's behest. That will surely win it more fans elsewhere, and not just among users. French leader **Nicolas Sarkozy**, who angered China's leaders when he met the **Dalai Lama**, has already attacked Google for its market dominance. The bigger it gets in its developed markets, the more Google depends on political goodwill to keep making money. Being principled in China may pay Google dividends in the West.

Google said it may shut down its mainland Chinese operations and close its Google.cn site following a cyber-attack in which intellectual property was stolen and customer details targeted.

The U.S. search engine company said it had uncovered attacks on 20 other large companies, and unsuccessful attempts to ac-



## ANALYSIS AND INSIGHT (continued)

cess Gmail accounts of known Chinese human rights activists. Advocates of human rights in China, but who live outside China, had already been targeted. Google did not say who had perpetrated the attacks.

Google's chief legal officer said the company was no longer prepared to censor results for searches in China, which it agreed to do in return for permission to set up its Chinese site in 2006. Searches with filtered content have hitherto appeared with a disclaimer alerting users that results have been adapted to meet local requirements. This has attracted criticism from users elsewhere, especially in light of Google's "don't be evil" corporate mantra.

### BREAKINGVIEWS

#### Latest SEC BofA complaint still fails Rakoff test

By Rolfe Winkler

NEW YORK - After New York Judge Jed Rakoff threw out the Securities and Exchange Commission's original \$33 million settlement with Bank of America, the agency shifted the focus of its case. In its new complaint filed on Tuesday, the SEC still accuses BofA of misleading shareholders for failing to disclose material information. But the issue this time isn't bonuses, rather Merrill's fourth-quarter losses.

Trouble is, the complaint still names no names and again seems to commit BofA shareholders to paying the price for sins of omission committed against them. It's hard to see how another quick settlement stemming from this complaint would do any better in mollifying the judge.

Indeed, during last August's hearing, when Rakoff questioned the SEC's prior settlement with BofA, the judge complained the SEC had failed to address the "who/what/where" of its case. "Was it some sort of ghost? Who made the decision not to disclose (the bonuses)?" he asked. Replace "bonuses" with "losses" and you've still got the same issue.

The new complaint recounts how Merrill's loss projections for

the final quarter of 2008 kept ballooning while lawyers generated various excuses not to disclose them. BofA's last financial communication with the public was for third-quarter results, which showed a \$5.2 billion loss. Analysts expected Merrill to break even in the fourth quarter.

But by November Merrill admitted to BofA that it had lost \$4.6 billion in October.

On Dec. 3 -- two days before shareholders voted to approve the merger -- Merrill updated that projection to over \$7 billion of losses. Days after the shareholder meeting it jumped to \$12 billion. When Merrill finally reported, its net loss came in at \$15.3 billion. It's hard to see how BofA's lawyers can justify this disclosure failure.

As with the SEC's previous complaint, this one names no names. It only refers to "a senior" BofA executive who told "senior executives at Merrill" that disclosure may be required. It says various BofA "lawyers" deliberated on the matter.

The good news is that any settlement BofA and the SEC come to over the matter could still land in Judge Rakoff's court. Investors will eagerly anticipate his judgment.

The SEC issued a revised complaint on Jan. 12 against Bank of America following the rejection by New York Judge Jed Rakoff of its prior \$33 million settlement with the bank. The complaint alleges that the bank misled shareholders by not disclosing internal estimates for Merrill's fourth-quarter losses ahead of the shareholder vote on the merger Dec. 5, 2009.

Complaint here: <http://r.reuters.com/dud43h>

(The authors are Reuters Breakingviews columnists. The opinions expressed are their own)



## THURSDAY: KEY RESULTS vs. THOMSON REUTERS I/B/E/S ESTIMATES

	Quarter	ET**	EPS Estimates	Year Ago	Rev Estimates (\$ mln)
Intel	Q4 1615		\$0.30	\$0.04	10,173.36

\*\*Estimates may be updated or revised; release times based on company guidance or past practice.

## ON THE RADAR

ECON INDICATOR	ET/GMT	REUTERS POLL	PRIOR	SOURCE
<b>FRI:</b> Consumer Prices mm (Dec)	0830/1330	+0.2 pct	+0.4 pct	
- - Consumer Prices yy (Dec)		+2.8 pct	+1.8 pct	
- - EX-Food/Energy mm (Dec)		+0.1 pct	+0.0 pct	
- - Ex-Food/Energy yy (Dec)		+1.8 pct	+1.7 pct	
CPI Index level (Dec)	0830/1330	216.10	216.33	Federal Reserve Bank
Empire State Index (Jan)	0830/1330	11.28	2.55	Federal Reserve Bank
Real Earnings (Dec)	0830/1330	+0.1	+0.1 pct	Bureau of Labor Statistics
Industrial Output mm (Dec)	0915/1415	+0.6 pct	+0.8 pct	Federal Reserve Board
- - Capital Utilization (Dec)		71.8 pct	71.3 pct	
Reuters/UMich Sent (Jan-P)	0955/1455	73.9	72.5	Reuters/Univ. of Michigan. Part of the Surveys of Consumers
- - Current Conditions	78.5		78.0	
- - Expectations	70.3		68.9	
ECRI Weekly Index	1030/1530	--	131.5	Economic Cycle Research Institute
Cleveland Fed CPI (Dec)		--	0.0 pct	Federal Reserve Bank of Cleveland

(Compiled by Shrutee Sarkar and Rahul Karunakar in Bangalore and Chris Kaufman in New York)

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