

Market Review

- This week, the stock market has managed to bounce up against recent shock from Japan and Mideast. The Dow ended up higher at 12,220.59 and the S&P ended at 1,313.80.

Currency

- US Dollars advanced against Euro and Japanese Yen on Friday with the combination of stronger growth outlook of US economy and comments from a member of the Fed that tighter monetary policy would need to come.
- Euro growth is facing tension of Portugal debt problem, despite that the interest rate as may rise as early as next month. Prime Minister José Sócrates resigned on Wednesday night, leaving the country not only the fiscal problems but also political issues. Investors believe that Portugal would become the third country to seek bailouts from the EU.

Commodities

- Sugar futures fell earlier this week as India plans to exports of the sweetener by 50% this season. However, the high price for sugar would not drop significant as this increase is not significant for the tightening supply.
- Oil future settled a little above \$105 this week. Major banks lifted their forecast for oil as they saw increasing demand from both Japan and China, and limited supply due to Mideast tensions.
- Survey from Barclay found that big investors remained bullish on commodities as they found increasing demand from emerging market and limited supplies due to geopolitical risks and weather conditions. They remained optimistic on gold and oil

Bond

- Overseas investors are finding buying opportunities in bonds and equity markets after Japan's earthquake. Foreign investors were net buyers of Japanese bonds last week; the data showed that they purchased a net ¥190.4 billion worth, after net sales of ¥23.4 billion in the previous week.
- The government will begin to sell some *mortgage-backed securities*. This indicates the government's optimistic about the debt market and US economy. However, MBS rates would be more on market recovery rather than the sale.
- Foreign banks have sold close to \$11 billion of covered bonds, securities backed by a specific pool of mortgages, in the US. However, no US banks have stepped into this market as they are not willing to take additional risks.

Dealbook Review

- While the U.S. market has enjoyed a solid rebound for initial public offering, Europe has only raised \$3.34 billion for the 1st quarter of 2011. While debt might be considered for its effect in the European zone, companies with lower-than-expected growth in revenue are found to slow the process of the potential IPOs. Noticeably, ISS promised only 6% growth and Canal Plus is expected for barely 3%. It is clear that the IPO market for Europe is a concern for many investors, but 30 European companies still hope to raise capital in the IPOs this year, for those include the commodities giant Glencore International and many other Russian groups according to resources from Dealogic.
- A week after the highly unstable market due to global crises, several deals had been postponed due to the shakiness. For the few deals that are still moving forward and/or planning in pitching are not having bad receptions. Though hesitations and worries have been shown in the capital raising process, IPO market should be expecting more deals as we begin to move out from the crises.

Mergers & Acquisitions

- AT&T and T-Mobile USA's deal is inarguably the hottest topic this week as the move would create the largest U.S. wireless carrier as it changed the competitive landscape for the telecommunication industry. While Spring-Nextel expressed concerns about the deal, the U.S. government is facing the its own case that U.S. vs. AT&T broke apart the original AT&T back in 1974
- Liberty Global confirmed that it will buy German's third-largest cable-television company for \$4.5 billion
- Reuters reported that regulators have pressured on Sanofi-Aventis SA and Merck & Co. on Tuesday to abandon their plans for a joint animal health venture that is worth \$5 billion in annual sales

Financial Institutions

- Citigroup announced its dividend to be a *penny* (\$0.01) after the Fed allowed six of the nation's largest banks to begin boosting dividends.
- Barclays agreed to sell its \$586 billion commercial real estate loan in order to scale back in its investments in property, using it as the strategy against the regulation requirements

Opinions:

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THE JAPAN EARTHQUAKE AND ITS ECONOMIC IMPACT

The recent 9.0-magnitude earthquake in Japan triggered a tsunami, which led to the death of thousands and caused severe damage to the infrastructure of the nation. The population is still endangered by the threat of radiation following explosions at several nuclear plants, and the rebuilding process is expected to drastically impact the economy of Japan. The economic aftershocks, however, have not been restricted to Japan. Stock markets across the world plunged after the catastrophe took place, and still remain volatile given the uncertainty of the situation. The expected decline in the economy has also significantly affected commodity markets.

On the Friday of the earthquake, the Nikkei, followed by other Asian markets, experienced over a 1% drop in their indices, and the Nikkei continued to drop to its lowest levels in two years over the next few trading sessions. The negative sentiment also spread to other continents as the FTSE 100 and Dow Jones also showed declines. A major part of these losses were caused by reports that radiation was rising in areas near Tokyo. As a result, hedge funds started dumping stocks in panic resulting in extremely high market volumes. Overseas traders were even more aggressive as they sold Nikkei futures, and this led to spike in implied volatility on Nikkei options (to the highest levels since the financial crisis). Institutional investors (especially insurance companies) started to sell government bonds to offset portfolio losses, and worries about the costs of the crisis caused a rise in yields of long-term bonds.

In addition to the stock and bond markets, the impact of the earthquake was also visible in the prices of the Japanese Yen. The currency reached 16-year highs this Wednesday before G-7 intervened and sold yen, in order to prevent rapid appreciation, which can be damaging to the exports of Japan. Furthermore, reconstruction costs can put heavy burden on a nation that is already struggling with high levels of debt. The threat of Japan selling government bonds also increased volatility in the emerging markets' currencies, and the fall in the South African Rand and Turkish Lira were indicators of this.

In terms of commodities, copper experienced a rise in prices due to expectations of high demand for the metal in reconstruction projects. Also, given the lengthy duration of reconstruction, demand for the metal may be sustained in the future. Gold, too, which was facing a one-month low in terms of prices, also experienced a rise as investors turned to safer asset classes. Another precious metal that was affected platinum. Given its high use in jewelry (especially in Japan) and catalytic converters in cars, news of the earthquake caused a decline in prices. Among agro-commodities, wheat and soybeans fell due to a speculation about a fall in demand in Japan. Rubber prices also fell, but have slowly started to rebound as production in the few plants that had closed down has restarted.

The above article is contributed by our Commodities industry leader Parikshit Mistry.

We are now opening this session for your opinion. Please submit 3-5 sentences for the newsletter by 11:59pm every Sunday to email: financial.frontline.society@gmail.com

Brain Teaser for the week:

You are on a game show. There are three doors, behind one of which is a prize and the other two is a chunk of coal, and the host knows which door holds the prize. You choose door #1. Before it is opened, the host opens door #3 and reveals a lump of coal. You have the choice to stick with the door you chose originally or switch to door #2. What do you do?