



TODAY 15-07-11

NL (a.o.): AEX Expiry, Ballast Nedam, Beter Bed, Fomix ex-div
EUR 0.91/shr;

NL Monday (a.o.): Philips ;

EUR (a.o.): H&M, Experian, SKF ;

EUR Monday (a.o.): Atlas Copco, Kuehne + Nagel, Edenred;

EUR Ex-div (a.o.): ;

EUR Ex-div Monday (a.o.): Parmalat ;

FINANCE Credit / CDS HF's

- FSB to Seek Agreement on Bondholder Losses at Failing Banks** -- Global regulators will consider forcing senior bondholders of failing banks to take losses to shield taxpayers from future bailouts, amid concerns the measures may raise lenders' funding costs. The Financial Stability Board will meet in Paris on July 18 to weigh draft international measures to guard against a new wave of state rescues. The Basel Committee on Banking Supervision's plans to toughen capital rules for the world's most systemically important lenders are likely to be endorsed without major changes, said two people familiar with the talks, who declined to be identified because the negotiations aren't public. "The problem with writedowns is that it creates contagion," Jesper Berg, senior vice president at Denmark's biggest mortgage bank, Nykredit A/S, said in an e-mail. "That is what we have seen in Denmark. It is somewhat similar to the impact of a rescheduling of Greek debt," he said. "You would prefer to implement such policies in more peaceful times." Banks are warning that plans by regulators for new rules to end the need for bailouts may harm the economic recovery. Michel Barnier, the European Union's financial services chief, published draft proposals **in January to impose losses on failing lenders' senior bondholders** -- a step that firms including Citigroup Inc. and Goldman Sachs Group Inc. have said may make it more expensive for banks to raise funds. Forcing bondholders to contribute to the costs of resurrecting or closing lenders on the cusp of failure "can be good for financial stability, taxpayers and even bondholders themselves as it can protect institutions against bank runs and value-destroying bankruptcies," said Sony Kapoor, managing director of policy group Re-Define Europe in London. (BN)
- Dodd-Frank Law 'Dead Clear' About Ban On Bailouts -Treasury** -- Credit ratings agency Standard & Poor's is coming under fire in Washington for suggesting it is still possible for the government to rescue the financial system in a time of crisis. Speaking to reporters Thursday as the one-year anniversary of the Dodd-Frank financial overhaul approaches next week, a senior Treasury official said Thursday it is "dead clear" the financial overhaul law doesn't permit spending of taxpayer money to prop up failing financial firms. "Maybe it will take one to fail before people believe it," the official said. The financial overhaul law gave the U.S. Federal Deposit Insurance Corp. authority to dismantle large, faltering financial firms as part of the government's effort to end bailouts of companies deemed "too big to fail." The law established the FDIC as a receiver for nonbank companies if their failure would present a risk to the overall financial system, similar to the authority the agency already has over banks. In a report issued earlier this week, however, S&P said extraordinary government support is still possible. (DJ)
- Europe Group Says Basel OTC Rules Have 'No Logic,' FT Reports** -- The European Association of Corporate Treasurers said in a briefing note for European Union officials that new Basel rules on bank capital, that assign higher than expected capital costs to over-the-counter derivative transactions carried out by banks, have "no logic" unless the intention is "punitive behaviour towards OTC derivatives," the Financial Times reported, citing the note. This is "a flaw that is irrational in substance," the EACT said, according to the newspaper. (BN)
- CFTC Finalizes 6-Month Delay On Some Derivatives Rules** -- The Commodity Futures Trading Commission on Thursday finalized a six-month delay of some new derivatives rules, after the agency proposed the delay in a meeting last month. "This order enables the Commission to continue its progress in finalizing rules," CFTC Chairman Gary Gensler said in a statement. The Dodd-Frank financial law gave the CFTC new responsibility for the over-the-counter derivatives market and set a deadline of July 16 for the new rules to be written, but the Commission is far from finished. All five commissioners voted for the original proposal to delay until Dec. 31 some of the provisions that would automatically become effective on July 16 to head off confusion in the market. The proposal was made available for public comment before it was finalized. Republican Commissioner Scott O'Malia said in a statement that he supported the delay order, but that he was disappointed that it differed from what the SEC did. The SEC shares new responsibility for the over-the-counter derivatives market with the CFTC and also hasn't finished writing the rules, but decided to delay them until they are finished rather than choose another deadline. The order doesn't preclude the agency from finalizing rules before Dec. 31 and the agency still has authority to further delay provisions past that date. (DJ)
- About 10 Banks May Fail European Capital Stress Tests, FT Says** -- Results of European bank stress tests to be released later today may show that about 10 failed because they had less than the required five percent core tier 1 capital, the Financial Times reported, without saying where it got the information. The publication of the test results on 91 banks could lead to a series of distressed debt deals as the disclosure of previously unpublished information on banks' credit exposures could prompt bids for credit portfolios from specialist buyers, the FT said, citing unnamed investment bankers and restructuring consultants. (BN)
- EU Stress Tests Compromised by Greek Non-Default, German Mutiny** -- European regulators' attempts to bolster confidence in the region's banking industry today are being undermined by their unwillingness to test for a Greek default and a mutiny by Germany's Landesbank Hessen-Thuringen. The European Banking Authority will release the results of the stress tests for 91 banks as part of an effort to reassure investors the region's banks have sufficient capital. Helaba, as the landesbank is known, refused to allow the EBA to publish its results in full, saying the EBA's data "would lead to a halving of the core capital without legal grounds." German regulator Bafin has also attacked the London-based EBA. Bafin Chairman Jochen Sanio said last month the watchdog lacks "legitimacy." (BN)
- European Bank Stress Tests: Q&A** -- Results of tough new European banking stress tests are published today. Here, we look at who has to undergo them and why they are needed. Who has to undergo the stress tests? The stress tests have been taken by the 90 most important banking groups based in the European Union, including all of the UK's major banks. They have been conducted by each member state's national regulator, under the overall guidance of the London-based European Banking Authority (EBA). Haven't we seen these before? Yes, the EBA's predecessor organisation, the Committee of European Banking Supervisors, conducted a less detailed set of stress tests last summer to widespread derision. What's different this time around? The latest tests will provide the market with far more detailed information than the previous set. The 10-page template document requires all the banks to give figures on all their sovereign and private credit exposures broken down by country and type of lending. Why do them? Fears over banks' sovereign exposures have been seen as

MACRO:

11:00 Euro-zone Trade Balance

14:30 US CPI, Empire Manufacturing

15:15 US Industrial Production, Capacity Utilization

15:55 US U. of Michigan Confidence

[Europe Bank Stress Test results announced](#)

[Italy Lower House Vote on austerity measures](#)



one reason for the continued funding problems of some institutions. By giving the market detailed figures the hope is investors will feel they have a better idea of the risks in the sector. What does this mean for my bank? According to many City analysts, very little. All the UK banks taking the tests are expected to pass and all eyes will be on banks in Spain and Germany. (TEL)

- **BaFin to Check Rules for Insuring Bonds, FT Deutschland Says** -- German financial regulator BaFin will decide through a case-by-case basis on exemptions for insurers' handling of sovereign debt issued by countries with deteriorating credit ratings, Financial Times Deutschland reported, citing an interview with Gabriele Hahn, the BaFin executive responsible for oversight of insurers. Exemptions in place for Greek debt will run until 2013, Hahn was cited as saying. (BN)
- **IRS Delays Overseas Bank Reporting Rule Criticized by Aegon** -- The Internal Revenue Service is giving overseas banks an additional year before they will have to make any withholdings from U.S. customers who fail to disclose enough identifying information to U.S. tax collectors. The second round of IRS guidance issued today on the Foreign Account Tax Compliance Act, or FATCA, doesn't require banks to make 30 percent withholdings on non-compliant U.S. customers until Jan. 1, 2014. Other withholdings on gross proceeds and income that might be indirectly sourced to the U.S. won't start until Jan. 1, 2015. The requirements, which Congress approved last year, were originally slated to take effect at the beginning of 2013. Today's announcement is intended to address the concerns of overseas financial institutions, including Toronto-Dominion Bank of Canada, Allianz SE of Germany and Aegon NV of the Netherlands, which have said the proposal is too complex. (BN)
- **Insurers Can Handle a Greek Debt Rescheduling, EIOPA Tells Welt** -- Gabriel Bernardino, chairman of the European Insurance and Occupational Pensions Authority, said insurers in Europe can handle any potential rescheduling of Greek debt because their risks are spread and they can balance out losses, Die Welt reported today, citing Bernardino. (BN)
- **Chile's Saieh Not Interested in ING Groep Latin America Pension Business** -- Chilean businessman Alvaro Saieh isn't looking to buy Dutch banking group ING Groep NV's Latin American pension business, a spokesman for the local entrepreneur said Thursday. ING controls Chile's AFP Capital, the nation's third biggest private pension fund manager in terms of portfolio managed. "We're not in the running for [ING Groep's] assets," the spokesman told Dow Jones Newswires. Saieh, who owns controlling stakes in the Unimarc supermarket chain, La Tercera newspaper and Corbanca bank, recently purchased a \$50 million stake in financially troubled retailer Empresas La Polar SA. Bloomberg recently reported ING is in talks with Saieh and Mexico's Grupo BAL to sell its Latin American pension business. AFP Capital, which was created in 2008 after ING Groep bought Banco Santander SA's AFP Bansander and merged it with its AFP Santa Maria, managed \$33.9 billion at the end of June. (DJ)
- **ABN Amro to Retain \$14 Billion of Mortgage-Backed Securities** -- ABN Amro Bank NV, the lender nationalized by the Netherlands in 2008, is retaining a 10 billion-euro issue of Dutch mortgage-backed securities. The notes will be issued through Fishbowl Master Issuer, a special purpose vehicle set up to pool loans into securities, according to Arien Bikker, an ABN Amro spokesman in Amsterdam. The series 2011-1 securities include 12 portions of top-rated bonds totalling 9.38 billion euros and 620 million euros of lower rated notes, Standard & Poor's said in a ratings report. Banks typically retain asset-backed securities to use as collateral for loans from central banks and other lenders. (BN)
- **Fitch Downgrades Covered Bonds Issued by 4 Greek Banks** -- Fitch Ratings has downgraded the mortgage covered bonds issued by Alpha Bank, Eurobank EFG, National Bank of Greece and Piraeus Bank in Greece. The mortgage covered bonds issued by Marfin Popular Bank in Cyprus remain unaffected. All programmes are maintained on Rating Watch Negative. (Fitch)
- **Portugal's Gaspar Says 'Several' Investors Interested in BPN** -- Portugal's Finance Minister Vitor Gaspar said there are "several" investors that have shown interest in buying failed Portuguese lender BPN-Banco Portugues de Negocios SA. (BN)
- **Dexia Sues Deutsche Bank Over US Mortgage Securities** -- French-Belgian bank Dexia S.A. said Thursday that it was suing Deutsche Bank AG for more than \$1 billion in losses caused by dodgy mortgage-backed securities that imploded during the 2008 financial crisis. The lawsuit, filed late Wednesday in a New York court, accuses the German banking giant of fraud and making "false and misleading statements" when it sold Dexia the securities, Dexia said in a statement. Deutsche Bank bundled thousands of poorly documented subprime mortgages into products called residential mortgage-backed securities, or RMBS, that it sold to Dexia while privately betting against them, the lawsuit said. "Deutsche Bank originated, purchased, financed and securitized exceptionally high-risk loans into these RMBS, all while internally disparaging the poor quality of these loans and the RMBS they backed as 'pigs' and 'crap,'" it said. (DJ)
- **Bank of America Said to Offer MBIA Settlement in Mortgage Suit** -- Bank of America Corp., the biggest U.S. bank, has made a preliminary offer to bond insurer MBIA Inc. aimed at settling a legal dispute tied to defective mortgages, according to two people briefed on the discussions. The two companies remain split on how much the Charlotte, North Carolina-based bank would have to pay to resolve the disagreement, said the people, who declined to be identified because the talks are private. Bill Halldin, a spokesman for Bank of America, and Kevin Brown of Armonk, New York-based MBIA declined to comment. The lawsuit is among several between Bank of America and MBIA, which guaranteed Wall Street's toxic mortgage debt. Bank of America bought Countrywide Financial Corp. in 2008 and Merrill Lynch & Co. in 2009, two of the largest participants in the market for subprime home mortgages. Countrywide, once the biggest U.S. home lender, was criticized by regulators for sloppy underwriting that contributed to record defaults on loans that were bundled into bonds that MBIA guaranteed. Defaults ran so high that Countrywide faced bankruptcy before it was rescued by Bank of America. (BN)
- **JPMorgan to Cut Mortgage Holdings to 'Close to Zero'** -- JPMorgan Chase & Co. is winding down its \$154 billion mortgage portfolio to "close to zero" as the bank works through mortgage losses and litigation over loan-servicing and foreclosure practices. JPMorgan, which has reduced mortgage holdings by \$19.3 billion in the past year, will continue shedding assets by about as much as 15 percent a year "forever," Chief Executive Officer Jamie Dimon told analysts on a conference call after the New York-based company reported a 13 percent increase in net income for the second quarter. "It's going to go down 10 or 15 percent a year until it's close to zero," Dimon said in answering a question from Ed Najarian, the head of bank research at International Strategy and Investment Group in New York. Mortgage losses and litigation costs continue to weigh on JPMorgan's earnings. The company, the second-largest U.S. bank by assets, added \$1.27 billion to its litigation reserves, mostly for mortgage-related issues, and took a \$1 billion charge in the second quarter to clean up some of its outstanding foreclosure matters. (BN)
- **Danish Mortgage Lenders Rethink Bonds After Moody's Onslaught** -- Denmark's mortgage lenders may offer new kinds of securities to reduce refinancing risks after being hit by downgrades from Moody's Investors Service last month. Lenders in the world's third-largest mortgage bond market are looking into the possibility of phasing out adjustable-rate bonds with maturities of one year and introducing five-year securities with yearly adjustments to the interest rate, Karsten Beltoft, the head of the Copenhagen-based Danish Mortgage Bankers'



Federation, said in a phone interview yesterday. "We have to develop loan products that can give the variable interest rate but not the refinancing," Beltoft said. That would help lenders to "avoid the huge refinancing every year," he said. (BN)

- **Zurich and Santander Enter Long-Term Alliance in Latin America** -- Zurich Financial Services AG and Banco Santander SA signed agreements to enter into a long-term alliance in Latin America. The companies expect to close the transaction before the end of the year, subject to regulatory approvals, the Zurich-based insurer said in a statement today. (BN)
- **Swiss Banks Said to Be Near to Settlement in German Tax Dispute** -- Swiss banks may initially pay at least 4 billion Swiss francs to settle a dispute over tax evasion by wealthy German clients, two people familiar with the matter said. The payment would be part of a larger sum covering the failure by customers to disclose undeclared money over the past 10 years, said the people, who declined to be identified because the negotiations between Switzerland and Germany are private and no final agreement has been reached. "The German tax authorities are certainly not going for peanuts," said Stefan Bach, a tax analyst at the DIW economic research institute in Berlin. In total, Swiss banks may pay as much as 15 billion francs to resolve the issue of so-called legacy assets, he said. The outlay for the past is part of Swiss talks with Germany and the U.K. over a proposed withholding tax on clients with offshore bank accounts. While part, or all, of the amount would later be "reimbursed" to the banks from taxes paid by their clients, according to the Swiss finance ministry, the settlement may trigger outflows by Europeans who question the value of cross-border accounts as secrecy crumbles. (BN)
- **Credit Suisse Target Of U.S. Justice Dept Bank Sector Probe** --Credit Suisse Group Friday said it has been informed it is the target of a U.S. Department of Justice probe on private banking services provided cross border to U.S. citizens. MAIN FACTS: - As part of this process, on July 14, 2011, Credit Suisse received a letter notifying it that it is a target of the DoJ investigation. - It has been reported that the U.S. authorities are conducting a broader industry inquiry. - Subject to our Swiss legal obligations, we will continue to cooperate with the US authorities in an effort to resolve these matters - As previously disclosed, Credit Suisse has been responding to requests for information, including subpoenas, in an investigation by the U.S. Department of Justice (DoJ) and other US authorities. - The investigation concerns historical Private Banking services provided on a cross-border basis to US persons. (DJ)
- **[yday] Deutsche Boerse Shareholders Approve NYSE Euronext Takeover** -- Deutsche Boerse AG shareholders approved its \$9.2 billion takeover of NYSE Euronext, surmounting the biggest hurdle yet to gain control of the 219-year-old exchange company and create the world's biggest bourse operator. Owners holding more than 80 percent of Deutsche Boerse shares backed the agreement, surpassing the 75 percent needed for approval, the Frankfurt-based exchange said in a statement today. The all-stock transaction will give Deutsche Boerse 60 percent of the combined entity, while NYSE Euronext Chief Executive Officer Duncan Niederauer will run the organization. The agreement clears the second of three main obstacles for the takeover after NYSE shareholders voted in favor of the transaction on July 7. European regulators, who set an initial deadline of Aug. 4 to rule on the deal, are reviewing the transaction because it would unite venues that handle more than 90 percent of the region's exchange-traded derivatives. (BN)
- **Covenant-Lite Loan Revival Falters in Pullback: Credit Markets** -- Issuance of high-yield, high-risk loans that don't contain typical protections for creditors is under threat amid signs that supply of the debt is exceeding demand. Companies in the U.S. have sold \$34 billion of so-called covenant-lite debt during the first half of the year, up from \$2.9 billion in the previous six-month period, according to data compiled by Bloomberg. About \$6 billion of such loans are being marketed this month, including \$2.04 billion of loans backing Cumulus Media Inc.'s buyout of Citadel Broadcasting Corp. The last time companies sold so much of the debt was in 2007, before the collapse of Lehman Brothers Holdings Inc., when \$64.8 billion of the loans were issued. Covenant-lite sales are now under pressure as investors, faced with a growing new-issue calendar, are asking companies to add maintenance requirements to covenant-lite deals or choosing other transactions entirely. (BN)
- **Muni Default Plunge Belies Whitney as Borrowers Shun Insolvency** -- Time is running out for Meredith Whitney's municipal-market default prediction to come true. Defaults fell 60 percent in the first half of 2011 compared with the same period last year, including a \$12.5 million Austin, Texas, apartment project that made a late payment in June, according to Distressed Debt Securities Newsletter. Whitney, a bank analyst, predicted "hundreds of billions of dollars" of municipal defaults within 12 months in a Dec. 19 "60 Minutes" broadcast, fueling a wave of selling in the \$2.9 trillion market. Instead, the number has fallen as cities slashed spending to balance budgets and state lawmakers stepped in to guard against insolvency and local bankruptcies. "The data is not helping Meredith," said Matt Fabian, a managing director at Municipal Market Advisors, a financial- research company based in Concord, Massachusetts. "It's always been a possibility there would be a wave of defaults. You can't say that it's zero but it's given no sign of starting." From January through June, defaults fell to 24 totaling \$746 million, according to the newsletter from Miami Lakes, Florida-based Income Securities Advisor. That compares with 60 in the first half of last year, totaling \$2.29 billion, and 144 in the first six months of 2009, at \$4.89 billion. (BN)
- **Fund Manager Wants to Show Shared Hatred of Regulators at Trial** -- A former hedge-fund manager set to be tried next week on charges he threatened to kill regulators wants to show the jury that his statements were part of a public dialogue about the corruption of the financial system, an argument a judge could bar in a ruling today. Vincent P. McCrudden, 50, is accused of threatening the lives of 47 current and former officials, including Securities and Exchange Commission Chairwoman Mary L. Schapiro and Commodity Futures Trading Commission Chairman Gary Gensler, as well as employees of the National Futures Association and the Financial Industry Regulatory Authority Inc. McCrudden wants "to introduce evidence that there is an ardent and vocal community of people within the financial world who believe (rightly or wrongly) that these organizations are corrupt and/or inept," his lawyer wrote in a court filing this month. A federal judge is expected to rule at a hearing today on what evidence will be allowed. Opening arguments are scheduled to begin July 18 in federal court in Central Islip, New York. (BN)

TECH/TELCO

- **Google's 2Q Profit Rises 36%, Beating Expectations** -- Google Inc. said Thursday its second-quarter earnings rose a surprisingly robust 36% on record revenue as the Internet giant experienced strength in its core search business and gained traction with its newer operations. The results sent Google shares surging in after-hours trading. The stock hit levels not seen in regular-session trading since March and recently was up 13% at \$595.14. The second quarter marks the first quarter with co-founder Larry Page firmly installed as chief executive, a role he assumed with hopes of improving Google's agility and innovation. The Mountain View, Calif., company has been investing heavily in hiring and compensation, as well as new products--something that has led to higher operating expenses and concerns among investors. Page, during a conference call with analysts, pointed to the recent launch of the company's new social network, Google+. He said more than 10 million people have joined the network and that more than 1 billion items are being shared and received in a single day. "So while we still have a lot of work still to do, we are really excited about our progress with Google+," Page said. For the second quarter, Google



posted a profit of \$2.51 billion, or \$7.68 a share, up from \$1.84 billion, or \$5.71 a share, a year earlier. Excluding stock-compensation costs and income-tax effects, per-share profit rose to \$8.74 from \$6.45 a year ago--above the average analyst estimate of \$7.85 on Thomson Reuters. Revenue increased 32% to \$9.03 billion. Traffic-acquisition costs--the commissions paid to marketing partners--comprised 24% of ad revenue. After the costs, revenue rose 36% to \$6.92 billion, above the Thomson Reuters estimate of \$6.55 billion. Chief Financial Officer Patrick Pichette noted the revenue strength was driven not only by Google's core desktop search ads but also by new areas, such as mobile display and YouTube. (WSJ)

- **Taiwan Semiconductor Runs Trials for Apple Chips** -- Taiwan's TSMC has started trial manufacturing of next generation A6 chips for Apple Inc, a source familiar with the matter said, in a sign that the iPad maker is shifting from its traditional chip supplier, Samsung Electronics. Whether TSMC would get actual orders for the chips would depend on its yield rate, or the amount of chips per batch that come out with no defects, the source said on Friday. Samsung is the sole supplier of the A5 chips used in the iPad 2, but Apple has hinted it is keen to diversify its supply chain from the Korean company. Samsung has emerged as Apple's toughest competitor in the smartphone and tablet market and is involved in an acrimonious legal battle with Apple over patents. (R)
- **Groupon Disavows 'Wildly Profitable' Projection From Co-Founder** -- Groupon Inc. updated its S-1 filing for its much-anticipated initial public offering Thursday, disclosing it added J.P. Morgan as its fourth lead underwriter, while also disavowing statements made by a co-founder that the company "was going to be wildly profitable." The daily deals company's original IPO filing listed Morgan Stanley, Credit Suisse Group and Goldman Sachs Group Inc. as lead underwriters. Besides J.P. Morgan, Groupon also lists a slew of other underwriters all looking to get a cut of a company that Wall Street could value as high as \$25 billion: Allen & Co., Bank of America Merrill Lynch, Barclays Capital, Citi, Deutsche Bank Securities, William Blair & Co., Citadel Securities, Loop Capital Markets, RBC Capital Markets and The Williams Capital Group LP. (DJ)

RESEARCH UPDATES

Goldman Sachs upped **Michelin, Pirelli** to Neutral, from Sell, cut **Scania** to Neutral, from Buy; Morgan Stanley cut **STMicro** to Equal Weight, from Overweight; Goldman Sachs removed **BNP Paribas** and **AEGON** from its Conviction Buy list, maintains Buy ratings;

ENERGY, UTILITIES AND COMMODITIES

- **Oil Rises in New York on U.S. Economic Outlook, Dollar Weakness** -- Oil rose in New York, erasing weekly losses, as investors bet that U.S. fuel consumption may climb amid signs of improving confidence and manufacturing growth in the world's biggest crude consumer. Futures advanced as much as 0.7 percent, trimming yesterday's 2.4 percent loss, before reports that may show industrial production increased in June and consumer confidence grew this month. Prices also gained as speculation the nation's credit rating may be cut weakened the dollar, boosting the appeal of commodities priced in the U.S. currency. Crude for August delivery increased as much as 65 cents to \$96.34 a barrel in electronic trading on the New York Mercantile Exchange, and was at \$96.24 at 12:34 p.m. Sydney time. The contract yesterday declined \$2.36 to \$95.69, the lowest since July 11. Prices are unchanged for the week and 26 percent higher the past year. Brent oil for September settlement was at \$116.53 a barrel, up 27 cents, on the London-based ICE Futures Europe exchange. The European benchmark grade settled yesterday at a premium of \$22.63 a barrel to U.S. futures, compared with the previous record of \$22.29 on June 15. (BN)
- **Coalition Considers Deal for Qaddafi to Remain in Libya, FT Says** -- The western-led coalition is considering a possible deal with Libyan leader Muammar Qaddafi that would remove him from power but allow Qaddafi to remain in internal exile in the country, the Financial Times reported, citing unnamed British and French officials. "In a complicated situation like this, a tactical and face-saving formula is something that you might have to look for," a British official said, according to the newspaper. (BN)
- **China to Increase Crude Oil Imports From Abu Dhabi From 2014** -- China National Petroleum Corp., the country's biggest oil producer, said it has agreed to increase imports of crude oil from Abu Dhabi starting in 2014. The accord is part of a 20-year crude supply deal that CNPC and Abu Dhabi National Oil Co. signed on July 13, the parent of PetroChina Co. said in its online newsletter today, without giving details. Liu Weijiang, the Beijing-based director of CNPC's international department, couldn't immediately comment on the total volume and schedule covered by the agreement. Abu Dhabi National Oil, the state oil company known as Adnoc, will increase crude supplies to CNPC to 200,000 barrels a day starting in 2014, the United Arab Emirates' state news agency WAM reported yesterday. (BN)
- **[yday] ConocoPhillips To Split Refining, Production Arms** -- U.S. oil giant ConocoPhillips said it will split its refining and production arms into two publicly traded corporations, becoming the largest energy company to date to reject the industry's traditional bigger-is-better business model. Houston-based ConocoPhillips said it plans to separate its oil-and-gas exploration and production business from its refining and marketing arm. It is the latest energy company to disclose such a move, following the lead of Marathon Oil Corp., El Paso Corp. and Williams Cos., among others. In an interview on CNBC, Conoco Chief Executive Jim Mulva said the company expects to name the CEOs of the new standalone companies later this year. Conoco, he added, still plans to have a capital-expenditure budget of \$13 billion this year. (DJ)
- **BP May 'Mirror' Conoco Split; Eni Snam Rejig Likely, UBS Says** -- Says Eni has already embarked on a portfolio rationalisation with sale of GALP likely this year and increasing prospects of restructuring Snam Rete Gas ownership to release value. (BN)
- **BHP to Acquire Petrohawk for \$12.1 Billion to Secure U.S. Gas** -- BHP Billiton Ltd., the world's largest mining company, agreed to acquire Petrohawk Energy Corp. for about \$12.1 billion in cash in its biggest acquisition, betting natural gas demand will gain in the U.S. Melbourne-based BHP will pay \$38.75 a share using cash and debt, the companies said in a statement today. That's 61 percent more than Houston-based Petrohawk's average price over the past 20 trading days and compares with the 25 percent average premium in 17 deals worth at least \$5 billion for oil and gas producers in the past five years, Bloomberg data show. The deal marks Chief Executive Officer Marius Kloppers's second foray in shale gas, forecast to account for half U.S. gas output by 2030, and follows his \$4.75 billion purchase of assets from Chesapeake Energy Corp. in March. It adds three field across about 1 million net acres in Texas and Louisiana and takes BHP into the top 10 of oil and gas companies. BHP's shares fell as much as 2.3 percent to A\$42.61, the most since May 12, and traded at A\$42.82 at 2:09 p.m. in Sydney. Petrohawk fell 1.8 percent to close at \$23.49 in New York yesterday. (BN)
- **Fortescue Metals Ships 11.5 Mln Tons Iron Ore in June Quarter** -- Fortescue Metals Group Ltd. shipped 11.5 million tons of iron ore in the June quarter compared with 8.36 million tons in the prior quarter. The statement was made in a regulatory filing today. (BN)
- **LME Calls Press Conference Tomorrow on Warehousing Developments** -- The London Metal Exchange called a press conference for tomorrow on developments in warehousing. The LME board met yesterday to review rules on delivery rates from the largest stockpiles. (BN)

- **China Almost Doubles Rare-Earth Export Quota; EU Criticizes Move** -- China, the world's biggest supplier of rare earths, almost doubled its export quota for the second half of 2011, a change the European Union said actually adds restrictions to overseas shipments. Less than two weeks after the World Trade Organization said Chinese limits on raw-material exports break global trade rules, the country yesterday raised the quota for 26 companies to 15,738 metric tons. That compares with 7,976 tons a year earlier and brings the limit to 30,184 tons for 2011, little changed from 30,258 tons in 2010, government figures show. (BN)
- **Xiamen Tungsten Shares Rise in Shanghai After Profit Increased** - Xiamen Tungsten Co. rose to the highest in a month in early Shanghai trading after China's biggest tungsten product maker said first-half net income more than doubled from a year earlier. The stock climbed 3.1 percent to 44.18 yuan as of 9:30 a.m. local time, heading for the highest close since June 14. First-half net income surged 139 percent to 458 million yuan after tungsten and rare earth prices increased, and first-half sales jumped 70 percent, Xiamen Tungsten said in a preliminary earnings statement to Shanghai's stock exchange. (BN)
- **Lynas Says Quota Well Below Rare Earth Demand Outside of China** -- Lynas Corp. said the Chinese total export quota available remains well below the demand for rare earths outside of China, and is likely to result in continued shortages of available rare earths. (BN)
- **Swissmetal in Talks With Le Bronze About Merger of Swiss Units** -- Swissmetal Holding AG said it is in talks with Le Bronze Industriel regarding a merger of its Swiss operations and the French company. Swissmetal is looking at "all options" regarding the survival of the company, it said in an e-mailed statement today. (BN)
- **[yday] Germany May Be Wrong on Nuclear Halt, Former BP CEO Browne Says** -- Germany's decision to halt nuclear power after the Japanese atomic accident may have been wrong, said former BP Plc Chief Executive Officer John Browne. "I'm not sure I agree with the position taken by Germany," said Browne, who built BP into what was once Europe's biggest company through \$100 billion of acquisitions. Chancellor Angela Merkel's decision to close its nuclear reactors by 2022 after an earthquake in Japan triggered a meltdown at a plant in Fukushima was "too strong a position," Browne said. Browne, who led BP from 1995 to 2007, said in an interview in London that he supports nuclear energy as a source of power in the U.K. because it can provide a continuous and reliable supply at an affordable price to consumers. He was speaking in his capacity as president of the Royal Academy of Engineering. Without nuclear power, Britain, which is undertaking the biggest overhaul of its electricity markets in two decades, risks missing clean-energy goals set to reduce greenhouse-gas emissions blamed for damaging the atmosphere, Browne said. (BN)
- **ICE Raises Margin Requirements For Sugar, Cocoa, Orange Juice, Coffee** -- IntercontinentalExchange Inc. raised margin requirements for transactions in the raw sugar, cocoa and orange juice markets, a move the exchange says comes in response to price volatility. ICE increased the margin requirements for spread trades--the difference in price between contract months--in the raw sugar market, one of the most volatile on the exchange, by more than 47% for both speculators and hedgers. The ICE also raised requirements by 4.2% for cocoa futures to \$1,750 for speculators and \$1,250 for hedgers, as well as for orange juice and arabica coffee spreads. The changes will take effect on Friday. (DJ)
- **Brazil's flowering fields signal sugar shock** -- Signs of a poor harvest have sent ripples through the sugar market, and some traders and investors believe prices will regain 30-year highs
<http://link.ft.com/r/6NPSBB/EXX12V/YBB4D/M9Y0QG/JEIQY1/AZ/h?a1=2011&a2=7&a3=15> (FT)

NETHERLANDS / AEX NEWS

- **Philips, Electrolux, AkzoNobel Q2 net to dive** - Philips AkzoNobel and Electrolux are expected to post sharp declines in profit next week, reflecting fragile consumer demand across Europe and the rising cost of raw materials. All three, among the leaders in their respective sectors, will be scrutinized by investors assessing the state of the global economy, and in particular the effects of the euro zone crisis, high energy and commodity prices, insipid consumer demand and disruptions to supplies due to Japan's huge quake. Philips, the Dutch consumer electronics, lighting and medical equipment giant, and AkzoNobel, the world's largest paint company, issued profit warnings in June, while Swedish appliances maker Electrolux flagged a weak second quarter. Philips reports second-quarter results on Monday, when it is expected to announce plans to axe or sell loss-making businesses in a bid to restore investor confidence and lift earnings. When restructuring guru Frans van Houten took over as chief executive at Philips in April, investors hoped for a speedy turnaround at a group which ranks as Europe's biggest producer of consumer goods such as electric kettles and juicers, and as the world's largest maker of lights and lighting equipment. Instead Philips, also a top-three maker of hospital equipment such as scanners, has delivered two profit warnings since March and its stock has plunged 33 percent in the last 12 months, underperforming the Amsterdam indices. Its three core businesses have been hit by slow economic growth in the United States and Europe, weak consumer spending, an ailing construction market, cuts in government healthcare budgets, stock market volatility and supply chain disruptions following the earthquake and tsunami in Japan. Analysts forecast Philips will report a 72 percent slump in net profit and a 16 percent drop in group sales, dragged down by a 42 percent fall in sales at its consumer unit. They also expect Van Houten to announce restructuring and cost-cutting measures, after he promised in April to assess the firm's 400 or so businesses to identify laggards. Last month Philips warned of sharply lower second-quarter profit at its lighting division and its consumer business, citing weak consumer demand, particularly in Western Europe. It said more "decisive action" including a company-wide cost-cutting program, would follow. But it did not say what investors should expect for the rest of 2011, prompting a slew of analysts' downgrades and criticism of Van Houten. AkzoNobel, which reports later in the week, warned last month that core second-quarter profit will fall due to a sharp rise in raw material prices and weak demand in key European and U.S. construction markets. The Dutch group, which supplies products for coloring laptops, kitchen furniture and homes, said costs had risen faster than expected and that it was a "tough" environment to raise its selling prices. Electrolux, the world number two in home appliances after Whirlpool Corp, has also faced price pressure and rising raw materials costs and this year aims to raise prices to claw back some of that lost ground. (R)

M&A and OTHER CORPORATE NEWS

- **Asian Commodity Stocks Drop as U.S. Concerns Drag Oil, Metals** -- Asian commodity stocks fell, with the regional index set for its first weekly decline in four, after Standard & Poor's said it may cut the U.S.'s credit rating and the Federal Reserve ruled out immediate further bond purchases, driving down oil and metal prices yesterday. BHP Billiton Ltd., the world's largest mining company and Australia's No. 1 oil producer, sank 1.7 percent. Woodside Petroleum Ltd., the nation's second-biggest oil and gas producer, lost 1.6 percent in Sydney. Mitsubishi Corp., Japan's largest commodities trader, dropped 0.5 percent in Tokyo. Asustek Computer Inc. jumped 5.9 percent in Taipei after Nomura Holdings Inc. named the company as one of its top picks among Asian technology stocks. The MSCI Asia Pacific Index was little changed at 135.78 as of 12:34 p.m. in Tokyo. About five stocks rose for every four that fell. S&P said there was at least a 50 percent chance it will lower the U.S. AAA rating within 90 days, citing the risk of a stalemate enduring beyond any near-term agreement to raise the

nation's debt ceiling. Moody's Investors Service put the U.S. credit rating on review July 13 for a downgrade. The U.S. has held the top rating since 1917. Japan's Nikkei 225 Stock Average rose 0.2 percent. South Korea's Kospi Index gained 0.4 percent. Australia's S&P/ASX 200 Index fell 0.3 percent. Hong Kong's Hang Seng Index dropped 0.3 percent, led by developers after China said it's seeking to limit residential property prices in smaller cities. (BN)

- **U.S. Stocks Fall as Bernanke Damps Speculation on More Stimulus** -- U.S. stocks fell, driving the Standard & Poor's 500 Index to the lowest level of the month, as Federal Reserve Chairman Ben S. Bernanke said he's not prepared to take immediate action to stimulate the economy. Raw-material producers, technology and industrial companies lost the most among the 10 main industries in the S&P 500 Index, which erased a gain of as much as 0.7 percent. Marriott International Inc. dropped 6.6 percent on a lower-than-estimated earnings forecast. JPMorgan Chase & Co. rallied 1.8 percent after investment banking profit surged and more customers paid their credit-card bills on time. The S&P 500 slipped 0.7 percent to 1,308.87 at 4 p.m. in New York, its lowest level since June 29, as a stalemate continued in Washington on negotiations over the U.S. debt ceiling. The Dow Jones Industrial Average dropped 54.49 points, or 0.4 percent, to 12,437.12 after surging 90 points following JPMorgan's report. Bernanke testified for a second day before lawmakers after saying yesterday he's prepared to provide more stimulus if needed. Bernanke said today that inflation now is "higher" and "closer" to the central bank's informal target than was the case in August and that's one reason why the Fed won't immediately embark on a third round of bond-buying. "We're not prepared at this point to take further action," he told the Senate Banking Committee. (BN)
- **EUROPE** -- European bourses are likely to start lower Friday amid caution, while gilts and bunds start mixed. The euro and oil futures are marginally higher while spot gold is lower, though it's favored to rise later. European bourses are likely to start cautiously lower as investors shift their attention back to Italy's fiscal stance and to bank stress-test results. For Friday's opening, IG Markets is calling the FTSE down 16 at 5830, the DAX off 25 at 7189, and the CAC off 10 at 3741. On Friday, Italy faces a crucial vote on the government's EUR40 billion austerity budget in the lower house of parliament. The government's austerity measures are aimed at balancing Italy's budget by 2014. Recently, yields on Italian government bonds have shot up and Italian banking shares have plummeted amid fears that the euro-zone debt crisis could spread to the country. (DJ)
- **Fiat Preps Chrysler Merger** -- Chrysler Group LLC and Fiat SpA, auto makers that bounced back from severe financial crises a few years ago, are preparing to rejoin the auto industry's top ranks through a merger that would have the financial and production heft to compete globally. Sergio Marchionne, chief executive officer of Chrysler and Fiat, has begun selecting a single executive team to oversee the companies' business operations, said people familiar with the matter. Currently, Fiat and Chrysler each has its own team of 25 executives who separately report to Mr. Marchionne. (WSJ)
- **Volkswagen 1H China Sales Up 16.4%, Exceed 1 Mln Mark For 1st Time** -- Sales of Volkswagen AG vehicles in China rose 16.4% in the first half of 2011 to 1.1 million vehicles, the company said in a statement Friday. It is the first time the auto maker has exceeded 1 million unit sales in China in half a year, the statement added. First-half sales of Volkswagen-brand vehicles rose 12.8% to 852,800 units. Sales of the company's Audi brand gained 28% to 140,700, putting China ahead of Germany as the world's largest market for the marque. (DJ)
- **Sarkozy Closely Following Air France-Airbus Talks** -- French President Nicolas Sarkozy is "closely following" talks between Air France-KLM and Airbus over a key order for long-haul aircraft which rival Boeing Co. is also interested in, a letter showed Thursday. In a letter to member of parliament Bernard Carayon, in Sarkozy's own UMP party, the president wrote that he "was closely following the discussions between Airbus and Air France-KLM on upgrading its long-haul fleet." Carayon, from the Tam region in southern France, said he was delighted with the president's comments in reply to a petition from some 180 MPs who want Air France to choose the Airbus A350 rather than Boeing's 787 Dreamliner. Sarkozy's letter dated July 6, seen by AFP, made no specific recommendation to Airbus, whose main plant is in Toulouse, southern France, but the president vaunted the merits of the A350. (DJ)
- **Murdoch Says Committee Will Probe Phone Hacking, WSJ Reports** -- News Corp. Chairman Rupert Murdoch said the company will establish an independent committee to investigate allegations of wrongdoing by employees and that it had handled the crisis "extremely well," the Wall Street Journal reported. The committee will "investigate every charge of improper conduct," Murdoch said in an interview with the Journal, which is owned by News Corp. The committee will be led by a "distinguished non-employee," he said. He also said the company has made "minor mistakes" in dealing with the crisis. Employees of News Corp.'s News of the World are accused of hacking hundreds of voicemails, including those of murder and terrorism victims, and bribing police for confidential information. The scandal led New York-based News Corp. to close the 168-year-old tabloid and drop its 7.8 billion-pound proposed bid for full control of British Sky Broadcasting Group Plc. The Federal Bureau of Investigation is examining whether News Corp. employees also tried to hack into the phones of Sept. 11 victims, according to a person familiar with the matter who wasn't authorized to publicly discuss it. (BN)
- **US Attorney General Reviewing Calls For News Corp Probe** -- U.S. Attorney General Eric Holder said Friday that his office was reviewing requests from members of Congress to investigate News Corp. amid concerns over the scandal facing the media conglomerate in the U.K. (DJ)
- **Murdoch May Offer Deep Discounts to Win Readers to Sunday Sun** -- Rupert Murdoch's News Corp., preparing to start a new Sunday tabloid to replace the News of the World, may have to offer steep advertising discounts or even give the paper away for free to regain readers. (BN)
- **Hugo Boss AG** -- The German luxury clothing company raised its full year earnings forecast after second-quarter profit jumped more than five-fold to 31 million euros. It now forecasts an increase in 2011 sales of between 15 and 17 percent after adjustments for currency effects, compared with a previous forecast of 12 percent. Earnings before tax, interest, depreciation and amortization, before special items, are seen rising 25 to 30 percent, compared with an earlier forecast of at least 15 percent. (BN)
- **Novartis Fails to Win U.K. Backing for Lucentis in Eye Condition** -- Novartis AG, Europe's second-largest drugmaker, failed to win approval from the U.K.'s health-cost agency for its drug Lucentis in diabetics who suffer an eye condition. Lucentis wasn't cost effective in patients with macular edema, the National Institute for Health and Clinical Excellence said today in a statement. The medicine costs 742 pounds for a monthly injection, NICE said. The agency advises the U.K.'s state-run National Health Service on which treatments represent value for money. (BN)
- **Morrison Plans Own-Brand Makeover Amid Supermarket Discounts** -- William Morrison Supermarkets Plc plans the first makeover of its own-brand range in four years as it joins rival U.K. food retailers in adding private label items to boost profitability amid slowing sales growth. The 8,000 items will be given a new look that differs from the three-tier system of good, better and best-priced items typically used

by British grocers for their own-label products, Commercial Director Richard Hodgson said in an interview. They will start appearing in Morrison stores at the end of September. (BN)

- **Sun Art Delays Debut in Hong Kong on Error in Prospectus** -- Sun Art Retail Group Ltd., China's largest hypermarket operator, delayed its trading debut in Hong Kong because of an error in its share-sale prospectus. The retailer, which raised HK\$8.2 billion (\$1.1 billion) in an initial public offering this month, plans to list July 27 instead of today as scheduled, according to a statement to the city's stock exchange today. Historical earnings-per-share figures in the prospectus failed to reflect a stock split that took place before the IPO, it said. Sun Art, backed by France's Groupe Auchan SA, dropped to HK\$7.60 in over-the-counter gray market trading at 5:15 p.m. in Hong Kong yesterday, from as high as HK\$8.28 earlier, according to the website of Phillip Securities Group. An "accident" caused trading to be suspended, according to a statement on the website. Sun Art sold shares at HK\$7.20 apiece in the IPO, the top end of a range marketed to investors. (BN)
- **Fitch Withdraws Sino-Forest Rating on Lack of Information** -- Sino-Forest Corp., the Chinese forestry operator targeted by short seller Carson Block, had its "BB-" debt rating withdrawn by Fitch Ratings, which said it wasn't able to obtain enough information. Fitch had asked for more frequent updates on Sino-Forest's offshore cash balances and management's business plans after placing its ratings on "negative watch" on June 20, it said today in a statement. (BN)
- **Decade of Withdrawals Shows Americans Lose Faith in Stock Funds** -- Investors are showing increasing disenchantment with U.S. money managers who pick domestic stocks. Mutual funds that invest in U.S. equities have lost an estimated \$8 billion to redemptions this year through June 29, putting them on track for an unprecedented five straight years of withdrawals, according to data from the Investment Company Institute in Washington. Over the 10 years through May 31, investors withdrew about \$51 billion more from domestic equity funds than they deposited, Bloomberg Businessweek reports in its July 18 issue. Index funds that invest in U.S. stocks had inflows every year since 2001, according to research firm Morningstar, which means that the withdrawals have been coming mostly from actively managed funds, where a manager chooses individual stocks. The two bear markets since the start of the century have helped discredit the idea that active money managers can beat the market consistently over time. (BN)

MACRO / GEOPOLITICS

- **Schaeuble Says EU Must Ensure Greece Can Fund Debt, WAZ Reports** -- German Finance Minister Wolfgang Schaeuble said eurozone countries must devise "rapid solutions" to ensure that Greece can finance its debt. In an interview with the WAZ Media Group, he said one solution would be for the Greek government to use eurozone money to buy back its own bonds, a solution that the German government previously rejected because it wanted to maintain the pressure on Greece to cut spending. Schaeuble rejected the idea of eurozone bonds as "a mistake," saying nations need a stimulus that compels "solid economies," and such a stimulus exists in the shape of high interest rates that must be paid when debt is too high. He criticized Moody's Investors Service for its decision last week to cut Portugal's debt rating, a step that accelerated the eurozone crisis and that Schaeuble described as "incomprehensible." The minister expressed optimism that Europe will "overcome the critical situation." (BN)
- **Ex-Fed Chief Volcker Warns Euro-Zone Must Act To Save Euro - Report** -- Paul Volcker, former chairman of the U.S. Federal Reserve, warned euro-zone nations that they must exercise fiscal discipline and strengthen their monitoring of institutions, or risk the breakup of the currency grouping, according to German financial daily Handelsblatt on Friday, citing an interview. If the euro-zone governments want to keep the euro, "then they have to strengthen it now," he told the newspaper. The former economics advisor to President Barack Obama also said the U.S., like Europe, has an unresolved debt problem. He said the U.S. debt situation is especially dangerous because the conflict between the Democrats and the Republicans is "ideologically charged." However, "I believe that in the end a healthy common sense will prevail and a pragmatic solution will be found," he told Handelsblatt. (DJ)
- **Greece Faces 'Illness' If It Keeps Euro, Ifo's Sinn Tells PNP** -- Hans-Werner Sinn, head of the Munich-based Ifo economic institute, said that Greece faces a decade-long "illness" if it stays in the euro area and tries to increase its competitiveness by lowering wages and prices, Passauer Neue Presse said today, citing an interview with Sinn. A return to its old currency, the drachma, would be an easier route for Greece, Sinn said, according to the newspaper. (BN)
- **FSB to Seek Agreement on Bondholder Losses at Failing Banks** -- Global regulators will consider forcing senior bondholders of failing banks to take losses to shield taxpayers from future bailouts, amid concerns the measures may raise lenders' funding costs. The Financial Stability Board will meet in Paris on July 18 to weigh draft international measures to guard against a new wave of state rescues. The Basel Committee on Banking Supervision's plans to toughen capital rules for the world's most systemically important lenders are likely to be endorsed without major changes, said two people familiar with the talks, who declined to be identified because the negotiations aren't public. (BN)
- **U.S. AAA Rating May Be Cut by S&P on Stalemate Over Budget** -- The U.S. may have its AAA credit rating cut by Standard & Poor's Ratings Services, which said there is a growing risk of a policy stalemate enduring beyond any near-term agreement to raise the debt ceiling. The long-term rating may be lowered by one or more notches into the AA category in the next three months if S&P concludes Congress and President Barack Obama's administration haven't achieved a credible solution to the rising U.S. government debt burden and aren't likely to achieve one in the foreseeable future, according to a statement today. "Owing to the dynamics of the political debate on the debt ceiling, there is at least a one-in-two likelihood that we could lower the long-term rating on the U.S. within the next 90 days," S&P said. (BN)
- **Obama Tells Congressional Leaders Time for Rhetoric Is Ending** -- President Barack Obama pressed Republican and Democratic congressional leaders to give him options for a deficit-cutting deal that lawmakers could support as part of raising the nation's \$14.3 trillion debt limit by an Aug. 2 deadline. Obama also called a news conference for this morning in Washington to continue to make his case for a deal that combines spending cuts with revenue increases. Republicans support the cuts while opposing higher taxes. White House Chief of Staff William Daley, speaking at a U.S.- Korea Business Council dinner at the U.S. Chamber of Commerce in Washington last night, said the president still wants as large a deficit-cutting plan as possible and believes "it is time to stop the rhetoric and start the action" on raising the debt limit. Daley said Obama won't accept a solution that doesn't extend at least through next year, when he faces re-election. The administration has warned that it will be unable to pay all its bills and the nation's credit rating will be downgraded, forcing higher borrowing costs, if the U.S.'s \$14.3 trillion debt limit isn't raised by Aug. 2. (BN)
- **Geithner Says 'No Way' for More Time on Raising Debt Limit** -- Treasury Secretary Timothy F. Geithner warned lawmakers there's no possible extension to the time limit to raise the federal debt ceiling as Standard & Poor's put the U.S. sovereign rating on watch for a

downgrade. There's "no way to give Congress more time" on lifting the debt limit, Geithner said after meeting with Democratic lawmakers on Capitol Hill in Washington. He has repeatedly said U.S. borrowing authority will end on Aug. 2 without congressional action. Geithner's remarks suggested the Treasury Department is approaching the end of its efforts to shift federal cash flows to avert a breach of the mandated borrowing limit. S&P today joined Moody's Investors Service in warning that the nation may lose its top AAA rating, saying that there's a "small, though increasing" risk of a default on U.S. debt obligations. (BN)

- **Dollar, Treasuries Fall as S&P Warns of U.S. Rating Downgrade** -- The dollar weakened and Treasuries slid for a third day after Standard & Poor's Ratings Services became the second ratings company to say this week it may cut the U.S.'s top credit rating. The cost of insuring Asia-Pacific debt rose, while stocks swung between gains and losses. The U.S. currency fell 0.2 percent to \$1.4172 per euro as of 12:34 p.m. in Tokyo and slid for a sixth day versus the Swiss franc. Yields on 30-year Treasuries climbed three basis points. S&P 500 Index futures dropped as much as 0.6 percent before erasing losses, while the MSCI Asia Pacific Index added less than 0.1 percent. The Market iTraxx Australia index headed for its highest close since Sept. 1. Gold snapped a nine-day rally. Treasury Secretary Timothy F. Geithner warned there's no possible extension to the time limit to raise the debt ceiling as S&P joined Moody's Investors Service in reviewing the U.S. rating. Federal Reserve Chairman Ben S. Bernanke said he's not prepared to take immediate action to stimulate the economy before data today showing improvements in sentiment and output. The European Banking Authority will release results of stress tests for 91 banks as parts of efforts to bolster confidence. (BN)
- **Fitch Analyst: Still Expect US Debt Ceiling To Be Raised In Time** -- The U.S. is likely to raise its debt ceiling in time to allow it to meet its obligations, so the risk of a default or downgrade is very hypothetical, a senior analyst at Fitch Ratings said Friday. Speaking to Dow Jones Newswires after Standard & Poor's followed Moody's in placing the U.S. debt rating on review for possible downgrade, Fitch Head of Asia-Pacific Sovereigns Andrew Colquhoun confirmed the agency's stable outlook on its triple-A U.S. rating. If U.S. lawmakers don't reach an agreement on raising the debt ceiling by Aug. 2--the date after which the government has indicated it will no longer be able to guarantee servicing its obligations--Fitch will likely put its rating on watch negative, he said. Missing substantial payments due Aug. 15 would probably then trigger a restricted default, although the rating agency "would be guided by actual developments as they occurred," he said. (DJ)
- **Bernanke Damps Stimulus Prospects Amid Republican Criticism** -- Federal Reserve Chairman Ben S. Bernanke tempered expectations the Fed will resume buying bonds as criticism from Republican senators highlighted the potential backlash to additional monetary stimulus. "We're not proposing anything today," Bernanke said to the Senate Banking Committee yesterday in Washington. "We just want to make sure that we have the options when they become necessary. But at this point, we're not proposing to undertake that option," he said, referring to a third round of quantitative easing, or QE3. Bernanke appeared for semi-annual congressional testimony the week after the government reported that the jobless rate rose to 9.2 percent last month, with 14.1 million Americans unemployed. The Fed has held its target interest rate near zero for more than 30 months and expanded its balance sheet to a record \$2.88 trillion through two rounds of large-scale asset purchases. Policy makers now are waiting to see whether the economy strengthens before changing their stance, Bernanke said. (BN)
- **Bernanke Warns of 'Self-Inflicted Wound' Should U.S. Default** -- Federal Reserve Chairman Ben S. Bernanke warned lawmakers that they would cause a "self-inflicted wound" should they prompt a credit-rating downgrade by failing to raise the \$14.3 trillion U.S. debt ceiling. Congress should recognize it's "tremendously important that we have the confidence of the world in terms of willingness to hold Treasuries, to trade in Treasuries, to maintain a liquid market in Treasuries," he said today in testimony to the Senate Banking Committee. "It's a very important asset and losing that credit rating is, again, I think a self-inflicted wound." The Fed chairman, responding to lawmakers' questions, urged Congress to reach a solution on the debt ceiling and a broader fiscal deal before U.S. borrowing authority expires Aug. 2. He warned of higher unemployment and the risk of global financial market instability, while noting that a lower credit rating would increase borrowing costs, further widening the deficit. (BN)
- **Debt Deal Hampered by Republican Candidates, Democrat Activists** -- As President Barack Obama works for a bipartisan deal to raise the government's debt ceiling, both the Republicans wanting to replace him and Democrats seeking the best way to re-elect him have emerged as obstacles. Republican presidential candidates and Democratic activists alike are using the debate to sharpen their political messages and appeal to core supporters, complicating efforts to reach a compromise to avert a possible government default on Aug. 2. "Both parties are set in concrete on what they believe their base has to have, and that makes it very difficult to find any middle ground," said former Representative Charles Stenholm, a Texas Democrat who focused on reining in the federal budget as a lawmaker. Even as House Speaker John Boehner, an Ohio Republican, negotiated privately last week with Obama on a potential \$4 trillion, decade-long deficit-reduction compromise to pave the way for raising the \$14.3 trillion debt limit, Representative Michele Bachmann of Minnesota was drawing attention to her Republican presidential candidacy by declaring she would oppose any deal. "I will not vote to increase the debt ceiling," she said in her first television advertisement in Iowa, site of the first contest in the nominating battle. Representative Ron Paul of Texas, another Republican White House contender, also is stressing his opposition to any debt ceiling increase, in line with his decades-long effort to shrink government's size. (BN)
- **Minnesota Governor Strikes Deal With Lawmakers to End Shutdown** -- Democratic Minnesota Governor Mark Dayton and Republican legislative leaders said they will end a budget impasse that shut down state government for 14 days. The deal came after three hours of negotiations yesterday at the Capitol in St. Paul. The shutdown will end in a "very few days," Dayton, 64, said at a news conference. The deal will get "Minnesota back to work but still protect vital services," he said. The two sides will continue to work on the details of the agreement, he said. "There's no good or easy way to resolve a \$5 billion deficit," Dayton said. Most government functions shut down at 12:01 a.m. July 1 after Dayton and lawmakers failed to resolve a budget dispute in the Midwestern state of 5.3 million. The closure idled 23,000 workers, closed parks and agencies, and halted construction projects. Dayton had said he didn't want spending cuts alone to close the deficit, and Republicans opposed his plan for a tax increase. (BN)
- **Government Cuts to Lift U.S. Economy Ignore Math of Lost Growth** -- Advocates of reduced federal spending say shrinking the U.S. government would boost the economy and create jobs. They are wrong, according to Wall Street economists -- at least for the short term. House Republican leaders, including Speaker John Boehner, urge spending cuts to lift employer confidence and increase investment and hiring. President Barack Obama, who signed into law a stimulus program now valued at \$830 billion, has echoed the Republican assertions in recent comments, even as he has resisted cuts as deep and fast as they want. Professional forecasters beg to differ. Fiscal retrenchment could subtract 1.5 percentage points to 2 percentage points from growth in 2012, a drag that will make it difficult to reduce 9.2 percent unemployment, say economists at Bank of America Merrill Lynch, JPMorgan Chase & Co. and Deutsche Bank AG. Federal Reserve



Chairman Ben S. Bernanke this week cited similar concerns. "You need to be careful about sharp cuts in the very near term" because "the economy is still growing very slowly," he told the House Financial Services Committee in Washington. "To the extent possible, we should make the cuts over a long term because this is a long-term problem." Bernanke cited the drop in federal, state and local government payrolls of 39,000 jobs in June, offsetting most of a 57,000 gain in hiring by companies. The unemployment rate rose to 9.2 percent, its highest this year, Labor Department data showed July 8. (BN)

- **Income Expectations Point to Slowdown in U.S. Consumer Spending** -- Consumers are turning more pessimistic about their income prospects, an indication that household spending will grow at a slower pace compared with a year earlier. The share of Americans foreseeing a drop in wages over the next six months topped the proportion projecting an increase by 2.6 percentage points in June, data from the Conference Board, a New York research group, showed. That is the lowest reading since October 2010, according to Lynn Franco, director of the group's consumer research center. Weak income expectations will continue to "hold back" consumer spending, she said in an interview this week. "Overall, we expect growth in real personal consumption to remain sluggish, averaging less than 2.5 percent in the second half of this year" on an annual basis, said Franco. (BN)
- **Germany Forecasts a Balanced Budget by 2014 as Economy Grows** -- Germany's Finance Ministry said it forecasts a balanced budget by 2014, earlier than previously projected, after economic growth bolstered the public finances. Germany forecasts a budget deficit of 41.5 billion euros this year, or 1.5 percent of gross domestic product, down from 80.5 billion euros in 2010, the ministry said in a statement in Berlin today. Debt is likely to decline to 71 percent of national output by 2015 from 83.2 percent last year, it said. "Germany contributes with this development significantly to a stabilization of the euro area," the ministry said. "Germany remains an anchor of stability in Europe." (BN)
- **Portugal Takes Steps To Reach Goals Amid EU Uncertainty** -- Portugal Finance Minister Vitor Gaspar on Thursday vowed to quickly implement measures, including a series of privatizations, under a EUR78 billion bailout plan that should lift the country out an economic stagnation by 2013. Trying to distance Portugal from troubled bailed-out peer Greece, Gaspar said he is committed to "an agenda of profound transformation" of the country's economy, which has underperformed the rest of Europe for over a decade. The goal, he said, is to reach "a new cycle of prosperity" for the country of little over 11 million that has spent beyond its capabilities while doing little to grow. Under the bailout program agreed with the European Union and the International Monetary Fund, Portugal must sharply cut its budget deficit, while also making structural changes in the labor, property and judicial sectors to become more competitive and efficient. After the measures are taken, Gaspar said he expects the country to start growing again in 2013, and faster in the following years. For 2011, however, the Portuguese will face an economic contraction of 2.3%, along with rising unemployment that should reach 13.2% next year, as the government takes a series of austerity measures to fix its accounts. (DJ)
- **France May Cut Tax Credits Further in 2012, Le Figaro Says** -- The French government may reduce tax credits by more than the 3 billion euros initially planned next year, Le Figaro Magazine reported, citing an interview with Finance Minister Francois Baroin. It's too early to say how far the government might go in exceeding the 3 billion euro target, Le Figaro cited Baroin as saying. (BN)
- **SNB's Jordan Says Franc Peg Would Create Problems, Le Temps Says** -- Swiss central bank Vice President Thomas Jordan said pegging the franc to the euro would "create new problems" such as high interest rates, Le Temps reported. "Our principal mandate is to ensure price stability," Jordan said, according to the Swiss newspaper. "Plus, such an operation would require a change of the constitution. We wouldn't be able to assure the independence of our monetary policy anymore." Asked whether policy makers are ready to counter the franc through currency purchases, Jordan said "if new signs of deflation appear, we have the possibility" to act. (BN)
- **U.K. July Rightmove House Prices Fall for First Time This Year** -- U.K. home sellers lowered asking prices in July for the first time this year as a mortgage squeeze deterred buyers, Rightmove Plc said. Asking prices dropped 1.6 percent from the previous month, when they had gained 0.6 percent, the U.K.'s biggest property website said in an e-mailed statement today. Seven out of 10 properties listed in 2011 are still available for sale, which Rightmove described as a "sobering reflection" of the market. "We expect further falls over the next few months as buyer momentum ebbs away due to a combination of seasonal factors and a continuing lack of both mortgage finance and buyer confidence," Miles Shipside, commercial director of Rightmove, said in the statement. Values are up 0.1 percent from a year earlier to an average 236,597 pounds (\$382,000). The monthly decline is the first since December, when asking prices fell 3 percent. (BN)
- **China FDI Growth Slows In June** -- Actual foreign direct investment in China in June grew at the slowest pace this year as the weak global economy cut into investment interest, data from the Ministry of Commerce showed Friday. But investment remained strong over the first half of the year despite the still struggling global economy, while the inclusion of some large scale projects distorted the comparison, the ministry said. Speaking at a regular news conference, Ministry of Commerce spokesman Yao Jian said the slower growth in investment from the U.S. and the E.U. contributed to the slow growth in June. "We noticed some fluctuations in FDI for various months, and that was mainly caused by some large projects. China's overall investment environment hasn't changed," Yao said. "There is market potential and there is consumption here... There isn't any change in the basic conditions needed for attracting foreign investment," Yao said. "So in the long term, China will still be a major host to foreign investors." (DJ)
- **China to Expand Efforts to Curb Growth in Property Prices** -- China will expand its efforts to curb the growth in residential prices to smaller cities after limiting home purchases in Beijing and Shanghai, according to a summary of a State Council meeting chaired by Premier Wen Jiabao. The government said so-called second and third-tier cities which have seen excessive price gains should restrict the number of homes each family is allowed to buy, according to the State Council or cabinet yesterday. China's property stocks fell to the lowest in more than three weeks today. China is intensifying property restrictions nationwide after developers posted gains in first-half sales and housing transactions climbed 31 percent last month, even after more curbs were added earlier this year. The central bank last week raised interest rates for the fifth time since October. (BN)
- **Power of 'China Story' Ebbs as Property, Credit Flash Warnings** -- Moody's Investors Service says China has underestimated by half a trillion dollars the exposure of state-owned banks' loan portfolios to local governments. Even after five interest rate rises since October, inflation is running at 6.4 percent, the fastest since 2008. Second-quarter gross domestic product grew at 9.5 percent, its slowest pace in almost two years. **No one is writing off China** -- economists surveyed by Bloomberg News in April said growth would exceed 9 percent this year, and the last three months' expansion was faster than anticipated. The government is flush with cash and ready to prop up key banks and companies in case things get dicey. Yet bearish investors, such as James Chanos of Kynikos Associates, question whether China can beat inflation and stop over-investing in real estate projects and factories without triggering a hard landing, Bloomberg Businessweek reports in its July 18 edition. (BN)



Last Trading Day Stats

Index	Close	1D %Chg	YTD%Chg
EuroStoxx 50	2,695.29	-0.73%	-3.49%
CAC	3,751.23	-1.11%	-1.41%
DAX	7,214.74	-0.73%	4.35%
AEX	330.46	-0.76%	-6.80%
FTSE 100	5,846.95	-1.01%	-0.90%
SMI	5,980.97	-0.73%	-7.07%
OMX	1,091.62	-1.49%	-5.53%
S&P 500	1,308.87	-0.67%	4.07%
Nikkei 225	9,974.47	0.39%	-2.49%

Index	Close	1D Chg	5D Chg
Dow Jones	12,437.12	-54.49	-282.37
VIX Index	20.800	0.040	3.570
VDAX Index	21.710	-1.360	3.000
2-10 EUR	147.845		
2-10 US	255.337		
Eur / Dollar	1.4155		

Bunds	Yield (%)	Chg 1d bp	Chg 5d bp
2YR	1.232	-0.90	-22.40
5YR	1.872	-2.10	-15.90
10YR	2.724	-1.40	-10.50
1st CL future	Close	1D Chg	5D Chg
CRB index	95.69	0.23	-0.28
	344.73	4.91	8.97

AEX close	330.46
ADR Impact	-1.20
ADR Impact %	-0.36%
AEX Parity	329.26
AEX Ex-div Impact	

ADRs	Volume	Rel.vol	NL Close	ADR (Eur)	Chg EUR	%Chg
AEGON NV-NY REG	1189452	103%	4.20	4.17	(0.03)	-0.76%
ARCELORMITTAL-NY	5104066	128%	22.88	22.68	(0.20)	-0.85%
ASML HOLDING-NY	4727508	173%	24.37	23.98	(0.39)	-1.59%
REED ELSEVIE-ADR	47452	48%	9.18	9.13	(0.04)	-0.45%
ING GROEP-ADR	4041622	163%	7.79	7.71	(0.08)	-0.97%
PHILIPS ELEC-NY	1807627	114%	17.23	17.09	(0.14)	-0.79%
ROYAL DUTCH-ADR	6464914	300%	25.19	25.19	0.00	0.02%
UNILEVER NV-NYS	2234925	101%	22.86	22.75	(0.11)	-0.47%

Dow Jones Sectors US	Close	%Chg	Chg 1d	Chg 2d	Chg 5d
BAS MAT	314.80	-1.07%	-3.41	0.03	-11.60
CON CYC	367.67	-0.85%	-3.15	-1.22	-11.55
CON NCY	344.86	-0.55%	-1.90	-1.43	-8.41
ENERGY	638.93	-0.61%	-3.95	0.70	-19.64
FINANCL	274.46	-0.86%	-2.39	-2.10	-13.46
HLTHCAR	370.00	-0.14%	-0.52	0.81	-5.63
INDUST	332.37	-1.09%	-3.67	-2.49	-16.64
TECH	668.17	-1.02%	-6.89	-5.25	-28.32
TELECOM	136.97	-0.91%	-1.26	-1.25	-3.93
UTILITY	163.43	-0.52%	-0.85	-1.11	-2.96

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Sources amongst others: Bloomberg (BN), Reuters (R), BBC, CNN, NY Times (NYT), Washington Post(WP), The Guardian (G), het Financieele Dagblad (FD), Telegraaf (T), Volkskrant (VK), NRC, Wall Street Journal Europe (WSJE), Dow Jones (DJ), AFX and the Financial Times (FT) The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates expressed in this document are subject to change without notice. AFS does not accept any liability whatsoever for any direct or consequential loss arising from the use of this document. This document is for information purposes only and is not, and should not be construed as, an offer to buy any securities or derivatives. The information contained in this document is published for the assistance of the recipient, but is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient.