

## The Other Side of the Street December 31, 2007

### Comments

What shall the New Year bring? One word sums it up well:

#### Reality

So as this nearly empty lifeboat pulls away from *Titanic*, I will reiterate perhaps my favorite analogy of the year. Despite abundant signs that the structure of the equity bridge is hopelessly damaged, the “investors” continue to cross. They cross secure in the belief that bridges don’t fall into the water. For there are government agents whose job it is to make sure those using the bridge are always safe and dry. And, there are experts on Bridge Street who get paid big money and have risk management computers that ensure bridges will always stand. Those experts make sure that the risk is spread among many pillars, so you see they have your back. Besides all you have to do is look at the last year’s data and you will see, huge equity bridges are too big to fail. . . .

We will see friends, we will see . . .

### Notes

- Quoting a US observer, the newspaper report said the 6.5 billion cash injection from Temasek to MER last week “was not enough.” Merrill Lynch did not comment on the report. CS
- **The 2007 holiday buying season was a flop** ... sort of. Spending from Thanksgiving to Dec. 24 rose 3.6% from last year... but that’s the slowest growth rate in four years. According to a MasterCard study released today, spending growth was nearly halved from 2006’s 6.6% rise and was far below the 8.7% growth in 2005. **Over 1.2% of this year’s “holiday” MasterCard purchasing growth was spent on gasoline.** AF
- **Americans were at least 30 days late on over \$17.3 billion in credit card payments in October** -- up 26% from the same time the year before. Likewise, the total funds in default rose to nearly \$961 million, an 18% increase year over year. AF
- **On Christmas, Turkey bombed northern Iraq again.** The act sent oil back up to \$94. That and this...
- Late on Christmas Eve, when few were looking, **Target (TGT)** confirmed what we already knew, that retail sales will likely decline in December as consumers cut back on shopping. Target said same-store sales may post anywhere from a 1% decrease to a lower-than-expected 1% increase For perspective, Target had previously predicted a gain of as much as 5%. Minyan
- Barring a bizarre surprise in November or December, home prices will have fallen every month in 2007 for the first time ever. Minyan
- An institutional cash fund from BlackRock Inc. has been downgraded to "junk" status by Moody's it previously carried Moody's top AAA rating. According to a letter to investors, the fund has been unable to keep up with redemption requests because many of the securities in the fund have become harder to trade. Minyan

- The ORCC survey of 1,000 U.S. households and billers regarding the effect of the current mortgage crisis on bill payment and collection patterns reveals a handful of interesting data points: - 25% of households report being delinquent on at least one bill by 30 days or more - 98% say they would pay their mortgage first, if forced to choose **[think about this, it means that all those foreclosures are likely homes where many other bills have gone unpaid]** Credit card, phone, healthcare and utility payments are among the bills that are least likely to be paid. Minyan
- CDO Defaults and Downgrades Break New Records” Moody’s says more than \$45 billion of collateralized debt obligations of asset backed securities (CDOs of ABS), "a crucial link in the chain" that supplied funding for subprime mortgages, have now gone into default. This is up from about \$5.5 billion at the end of October. According to Morgan Stanley, the number of CDOs that have suffered credit ratings downgrades was more than 2,000 in November alone. “November was the worst ever month for CDO downgrades since we have been tracking CDO rating actions,” analysts at Morgan Stanley said.

### Weblinks

#### Credit

- Dec. 31 (Bloomberg) -- Australian mortgage-backed bond sales fell to the lowest in three years as the fallout from the U.S. housing recession cut demand for the assets in the second half of the year. Sales of bonds backed by Australian home loans plunged 87 percent in the last six months to A\$5.9 billion (\$5.2 billion), from a record high of A\$44.4 billion in the first half of the year, according to Deutsche Bank AG. Issuance fell 12 percent this year to A\$50.3 billion, the lowest since 2004. The slump in demand cut three straight years of growth in Australia's mortgage-backed debt market and thwarted predictions from companies including Standard & Poor's that sales would rise to a record A\$60 billion. Investors concerned about losses tied to U.S. subprime securities fled the market and mortgage- lenders including Macquarie Group Ltd. and Rams Home Loans Group Ltd. were forced to pay record yield premiums or scrap sales. “This is definitely the biggest challenge the Australian securitization industry has faced," said Phil Vernon, chairman of the Australian Securitization Forum. “To some extent it's like the industry is starting over again; deals that are being done are almost reinventing from square one," said Vernon, a Sydney-based executive at Perpetual Ltd., which manages about A\$39.1 billion of funds. Corporate bond sales fell 33 percent to A\$42.3 billion, the lowest in three years, as buyers fled on concern that subprime- related losses would spread and sellers were deterred by the rising cost of borrowing. **Record High Sales**  
Commonwealth Bank of Australia, the nation's largest financial services company, raised A\$7.07 billion in February selling Australia's biggest mortgage-backed bond, attracting demand from overseas investors. Westpac Banking Corp., Australia's fourth-largest bank, followed with a A\$7 billion offering in May in its biggest debt sale. The market then shut for two months, causing Members Equity Bank Ltd. to be the first Australian company to scrap a bond sale because of the subprime mortgage-market collapse. It

withdrew a A\$500 million mortgage-backed debt offering after failing to find enough buyers. The market re-opened Sept. 21 when Macquarie Group, Australia's largest investment bank, sold A\$500 million of home loan bonds, paying a yield margin more than double its previous sale in June. Yield premiums continued to increase, leading Sydney-based Bluestone Group Ltd., a non-bank lender, to pay a record high 108 basis points on A\$400 million of top-rated debt Dec. 7, more than five times what it paid to raise funds in March. A basis point is 0.01 percentage point. **Australia Mortgage-Backed Bond Sales Fall 87% to Three-Year Low**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aBxM3WhR5tS4&refer=home>

- Dec 30 (FT) Contemplating the year ahead is, when you come to think of it, a slightly pointless exercise. It is not just that forecasts are generally wrong. More seriously, we tend to worry about stuff that never happens, while getting blindsided by events that nobody foresaw. **With that in mind, the big bearish question for next year strikes me as whether the banking system's problem is one of liquidity or solvency. The central banks can fix the former. The latter can only be addressed the hard way.** One can lead to the other, as illustrated by the case of Northern Rock. This UK bank was perfectly solvent when first hit by a liquidity crisis and is now on a taxpayer life-support system. As to whether any big banks will go bust next year, there is as yet no saying. But sticking to the bearish theme, let us tick off some factors which make it more likely. **First, defaults are set to rise. According to Standard and Poor's, speculative-grade defaults in the US are now at an all-time low, at less than one per cent. That compares with 10 per cent in 2001 and 12 per cent in 1990 – both recession years. But the proportion of bonds defined as distressed – that is, with spreads of more than 1000 basis points over Treasuries – is rising sharply and now stands at almost 5 per cent compared with 2.1 per cent a year ago.** That is stage one. Stage two – actual defaults – will duly follow. Hedge fund leverage At that point, enter one set of actors largely absent from the drama so far – the hedge funds. **For years, they have been writing credit protection – in the form of derivatives – as an apparently foolproof way of getting cash flow.** But as the Institutional Risk Analyst points out, they are not insurance companies. They do not have permanent capital or reserves. Instead, they have leverage. So as the defaults come in, the hedge funds eat up their cash pretty quickly. **That presents a headache to their counterparties – the investment banks.** They will of course require more collateral as the situation worsens – but they cannot call in money which is not there. On top of that, the investment banks face the continuing problem of structured investment vehicles, or SIVs. Some of those were funded by short-term commercial paper, and have had to dump assets – or get emergency funding from their bank sponsors – as that market dried up. **But according to Dresdner Kleinwort, a further \$180bn-worth (£90.3bn) of SIVs are funded by medium-term notes rather than short-term paper. Some \$40bn of that will need refinancing by April next year and a further \$80bn by September.** If the markets are still not open by then, the fire sale resumes. Private equity bubble There remains the separate question of loans created in the private equity bubble. Many of those are stuck on the banks' books and in due course some of them will go bad. Granted, the pain may in some cases be cushioned by the extraordinarily lax terms on which loans were issued. When you are in default, it

helps a lot if you have no covenants to meet. It also helps if you issued a so-called PIK (payments in kind) loan, whereby you jack up the principal instead of making interest payments. But none of that helps when you are actually bust. A slightly scary case in point is Chrysler. It insists it is not in any financial trouble after its buy-out by Cerberus. But according to the Wall Street Journal, its new boss recently told a meeting of workers: "Are we bankrupt? Technically, no. Operationally, yes. The only thing that keeps us from going into bankruptcy is the \$10bn investors entrusted us with." This is, as I said, a list of bear points and those of a more bullish temper could no doubt compile offsetting lists of their own. **But on the basic question of the banks' solvency, we are still in the dark, for the simple reason that much of the damage has not yet been inflicted. Then again, as I also said, the stuff that gets you tends not to be what you worry about, but what sneaks up from behind. For us bears, that is not a particularly soothing thought either. Banking system's problems at heart of the bear case** <http://www.ft.com/cms/s/0/7fe83980-b6f3-11dc-aa38-0000779fd2ac.html>

- Dec. 28 (Bloomberg) -- The cost of borrowing in dollars, euros and pounds fell, capping a second week of declines, as coordinated central bank action to revive money markets showed signs of success. **The one-month euro interbank offered rate, or Euribor, dropped 15 basis points to 4.29 percent, the European Banking Federation said today. It was 4.93 percent on Dec. 17, the day before the European Central Bank injected a record \$500 billion into the banking system. The three-month rate declined 8 basis points to 4.69 percent. [note the three month rate. It has moved little because the half trillion is a two week loan. Either it will be extended or rates jump right back up]** Borrowing costs have declined since central banks announced a combined effort to ease a logjam in interbank lending on concern losses at financial institutions will slow economic growth. Policy makers from the U.S., U.K., euro region, Switzerland and Canada are responding to losses of more than \$80 billion on securities linked to U.S. subprime mortgages this year at the world's biggest financial institutions. "The central bank actions, especially the ECB's, have flooded the market with funds, which has succeeded in bringing rates down," said Sean Maloney, a fixed-income strategist in London at Nomura International Plc, a unit of Japan's largest securities company. Money-market rates have yet to fall back to the levels of July, before the collapse of the U.S. subprime-mortgage market caused banks to stop lending to all but the safest borrowers. **The one-month rate for euros is 29 basis points higher than the ECB's main refinancing rate. It was 10 basis points higher on July 31.** Dollar Rate The cost of borrowing dollars for three months fell 10 basis points to 4.73 percent, the British Bankers' Association said today. **That's 48 basis points higher than the Federal Reserve's target rate. The difference averaged 11 basis points in the first half of the year.** The BBA's comparable euro rate fell 8 basis points to 4.69 percent today. **The difference between what banks and the U.S. government pay for three-month loans narrowed to 162 basis points, from 172 basis points yesterday. The so-called TED spread was 35 basis points at the start of the year and peaked at 240 basis points on Aug. 20.** The implied yield on the Euribor futures contract expiring June 2008 dropped 1 basis point to 4.48 percent. "By no means are we seeing a return to normality," said Maloney. "Banks will remain wary of lending to each other." **Money-Market Rates Fall as Bank Measures Curb Squeeze**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aAlWvZsMcwVo&refer=home>

- Dec. 28 (Bloomberg) -- Citigroup Inc., Goldman Sachs Group Inc., Morgan Stanley and JPMorgan Chase & Co. are offering discounts of as much as 10 cents on the dollar to clear a \$231 billion backlog of high-yield bonds and loans. "The market can absorb all of these deals," said John Eydenberg, head of leveraged finance for the Americas at Deutsche Bank AG in New York. "It is a question of time and price." **While lenders reduced the overhang by 32 percent since July, they are struggling to unload debt from this year's record \$438 billion of leveraged buyouts** after losses from securities linked to subprime mortgages reduced demand for higher-yielding assets, according to data compiled by Bloomberg. They sold some bonds at a discount of 10 percent to face value and loans at 5 percent below par, according to London-based Barclays Plc. **Bankers led by Goldman and Citigroup hold \$17.5 billion of debt they couldn't** sell from the purchase of Little Rock, Arkansas-based wireless carrier Alltel Corp. Lenders including Bank of America Corp., Deutsche Bank and JPMorgan committed to lend \$22.3 billion next year for the purchase of Las Vegas-based casino company Harrah's Entertainment Inc., according to filings with the U.S. Securities and Exchange Commission. Banks including Citigroup, Deutsche Bank and Morgan Stanley will provide \$22.1 billion for the acquisition of radio broadcaster Clear Channel Communications Inc. in San Antonio. Banks including Citigroup and Toronto-Dominion Bank are on the hook for \$34.3 billion for Montreal-based telephone company BCE Inc., according to SEC filings. "Golden Era" Toronto-Dominion, based in Toronto, monitors the number of its deals so it isn't holding too many if there's a market disruption, said spokesman Nicholas Petter. **"You only take risks when they're transparent and you can measure them," Petter said. "We're comfortable with where we are."** Goldman spokesman Michael DuVally, Morgan Stanley spokeswoman Jennifer Sala and JPMorgan spokesman Brian Marchiony declined to comment. Citigroup spokeswoman Danielle Romero- Apsilos didn't immediately return calls seeking comment. All are based in New York. Christopher Feeney, a spokesman for Charlotte, North Carolina-based Bank of America, also declined to comment. LBOs declined to \$101.9 billion in the second half from \$336.4 billion in the first six months as the subprime market collapsed. The extra yield investors demand to own high-yield bonds, those rated below BBB- by Standard & Poor's and Baa3 by Moody's Investors Service, rather than Treasuries widened to 5.64 percentage points yesterday from a record low of 2.41 in June, Merrill Lynch data show. **Absorbing an Elephant** Interest rates on loans rated B rose to 4.28 percentage points more than the three-month London interbank offered rate, a lending benchmark, from a low of 2.13 in February, according to S&P. Libor is 4.73 percent. Lower premiums earlier in 2007 allowed private-equity firms led by Kohlberg Kravis Roberts & Co. and Blackstone Group LP to pursue the biggest LBOs ever. Henry Kravis, head of New York-based KKR, said at a conference in Halifax, Nova Scotia, in May that the business was in a "golden era." Buyout groups, which use their own funds and debt to pay for takeovers and then improve profit by boosting sales, selling assets and cutting costs, required lenders to provide funds while subprime contagion spread. The collapse closed the high-yield market for much of July and August. Banks have \$161.9 billion of loans and \$69.6 billion of bonds left to distribute, according to JPMorgan data. **"A python that swallowed an elephant is being absorbed through the system,"** said Mario Gabelli,

chief executive officer of Rye, New York-based Gamco Investors Inc., which has \$31.6 billion in assets under management. **Biggest Deals** Lenders began to tackle the backlog in September, when KKR's banks sold \$9.4 billion of loans to finance the LBO of Greenwood Village, Colorado-based credit-card processor First Data Corp. The loans, offered at a 4 percent discount, cost Zurich-based Credit Suisse Group, Frankfurt-based Deutsche Bank and four others about \$360 million, data compiled by Bloomberg show. They issued \$2.2 billion of bonds at a loss of \$114 million, based on the price of the securities, leaving them with \$10.4 billion of debt that still needs to be sold. Banks scratched \$51 billion off the list after firms including New York-based J.C. Flowers & Co. and Cerberus Capital Management LP abandoned deals. Genesco Inc. the Nashville, Tennessee-based shoe and clothing retailer, yesterday won its bid to force competitor Finish Line Inc. to complete a \$1.5 billion acquisition. A Tennessee judge barred Finish Line of Indianapolis from walking away from a June deal to buy Genesco. Clear Channel, Alltel Lenders for Bain Capital LLC and Thomas H. Lee Partners LP need to sell \$2.6 billion of bonds and \$19.5 billion of loans that will pay for the purchase of Clear Channel. Banks are raising as much as \$23.1 billion in loans and \$11.3 billion of notes to fund BCE's takeover by the Ontario Teachers' Pension Plan, the biggest-ever LBO. They have \$17.5 billion of debt for the Alltel purchase. Alltel issued \$3.2 billion of its \$14 billion in planned loans on Nov. 16 at 96 cents on the dollar. A sale of \$7.7 billion of notes failed to attract enough investors, and Alltel pulled that deal. It later sold \$1 billion of notes at 91.5 cents on the dollar. "It will be important to get this Alltel deal done in an orderly fashion," said Manny Labrinos, who helps oversee \$2 billion as a bond fund manager at Nuveen Investment Management in Los Angeles. It may take until October to sell all the debt, he said. **Citigroup, Goldman Cut LBO Backlog With 10% Discounts** <http://www.bloomberg.com/apps/news?pid=20601087&sid=a6pctNUvhSxg&refer=home>

- Dec. 27 (Bloomberg) -- Convertible bond sales rose to a record this year as stock volatility increased, boosting the appeal of securities that can be exchanged for shares. Citigroup Inc. in New York, Oslo-based Codfarmers ASA and more than 800 other companies raised at least \$180 billion from convertible debt, 44 percent more than in 2006, according to data compiled by Bloomberg. The bonds returned 8 percent on average, beating the 2.95 percent gain on the Standard & Poor's 500 Index and an average 2.5 percent for corporate bonds, Lehman Brothers Holdings Inc. and Merrill Lynch & Co. figures show. The securities provided a refuge from the subprime mortgage contagion that pushed corporate borrowing costs to a five-year high. Companies saved 2.6 percentage points on average in annual interest by selling convertible debt compared with corporate bonds in the U.S. this year, twice the discount in 2006, according to analysts at Barclays Capital. "**The convertibles market feeds on uncertainty, nervousness and volatility,**" said Viswas Raghavan, head of international capital markets at JPMorgan Chase & Co. in London, the biggest underwriter of the securities this year. "Right now, it's the hottest market out there." JPMorgan earned about \$549 million for arranging convertible bond sales this year based on average fees of 2.16 percent in the U.S., Bloomberg data show. While U.S. and European corporate bond sales slumped 20 percent in the second half to \$902 billion, convertible notes rose 25 percent from the same period in 2006, the data show. The biggest convertible bonds have been sold to government-run investment pools. Citigroup, the largest U.S. bank, said last month it's

getting \$7.5 billion from Abu Dhabi Investment Authority through a sale of securities that convert into as much as 4.9 percent of its stock. Zurich-based UBS AG, Europe's largest bank by assets, agreed to sell \$11.5 billion that convert into a 9 percent stake to Government of Singapore Investment Corp. and an unidentified Middle East investor this month. Arctic Cod Banco Santander SA in Santander, Spain, sold Europe's biggest equity-linked issue to its depositors, raising 7 billion euros (\$10 billion) for a stake in ABN Amro Holding NV. Codfarmers used convertibles last month after the unprofitable six-year-old fish company failed to attract lenders to upgrade its packing plant and raise cod north of the Arctic Circle. The 100 million kroner (\$18 million) of four-year notes are convertible into stock at 40.6 kroner, 53 percent more than the current 26.5 kroner per share. "It's very difficult to raise money right now," said Harald Dahl, chairman of Codfarmers in Oslo. "Convertible investors were eager to buy." Transocean Inc., the world's largest offshore oil and gas driller, saved almost \$350 million in annual interest by selling \$6.6 billion of 30-year convertible notes rather than bonds this month. The Houston-based company is paying as little as 1.5 percent a year, compared with 6.8 percent on \$1 billion of 30-year senior notes sold the same week. Imperial Energy In return for the lower coupon, Transocean may have to exchange the bonds for shares if its stock reaches \$168.61 in the next five years. The so-called strike price was 32.5 percent above the share value when the bonds were sold on Dec. 6. Transocean gained 56 percent this year to \$136.89. Imperial Energy Plc, the London-traded company that explores for oil in Russia, sold \$191 million of 5.95 percent seven-year notes convertible for stock at a 45 percent premium to the share price on Dec. 4. "Our view was that this market was open, the coupon was acceptable and the conversion premium was right near the top," said John Hamilton, group finance director for Imperial. "A high-yield bond would have been an option but that window has become extremely tight." Growth in 2008 Sales of convertible bonds were dwarfed by the \$3 trillion of corporate bonds sold in the U.S. and Europe this year, Bloomberg data show. The convertible market last peaked in 2003, with \$162 billion of sales, before shrinking to less than half that amount in 2005. Barclays, JPMorgan and Morgan Stanley bankers say sales will be higher next year. "We're seeing new issues from all sizes of companies across the whole range of credit profiles," said Antoine de Guillenchmidt, head of Morgan Stanley's equity-linked business in London. "There is every reason to believe that this will continue in 2008." **Convertible Bond Sales Set Record as Stock Volatility Soars**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aeg8NgGbL0QQ&refer=home>

## Commercial Real Estate

## Commodities

- Dec. 27 (Bloomberg) -- **Crude oil rose to a one-month high after an Energy Department report showed that U.S. inventories fell more than expected. Stockpiles declined 3.3 million barrels to 293.6 million, the lowest since January 2005, the report showed. Supplies were expected to drop 1.5 million barrels, according to the median of responses by 12 analysts in a Bloomberg News survey. "These numbers were bullish across the board," said James Ritterbusch, president of Ritterbusch & Associates**

in Galena, Illinois. "You have to add some geopolitical premium because of the news from Pakistan. It's clear we are off to the races and will probably test the record tomorrow." Crude oil for February delivery rose \$1.29, or 1.3 percent, to \$97.26 a barrel at 12:28 p.m. on the New York Mercantile Exchange. Oil reached \$97.69 today, the highest since Nov. 26. Futures touched a record \$99.29 on Nov. 21. Prices are up 61 percent from a year ago. Combination of Factors "The combination of bullish inventory numbers and thin volume is sending prices higher," said Christopher Edmonds, the managing principal of FIG Partners Energy Research & Capital Group in Atlanta. "There are a lot of people who would love to see prices reach the magical triple digit level before the end of the year. The bias has to be higher until the year ends." Supplies of distillate fuel, a category that includes heating oil and diesel, fell 2.77 million barrels to 126.6 million barrels, the report showed. It was the biggest drop since February. "I think the decline is primarily due to year-end tax considerations," said Kyle Cooper, director of research at IAF Advisors in Houston. "Today's move is overblown." **Companies usually cut oil inventories in December because some states levy taxes on the amount in storage at year's end.** Imports were delayed this month because of fog at the Houston Ship Channel, which serves the largest U.S. petroleum port. "You've had cold weather in the Northeast and supply issues with the Houston Ship Channel, which explain the drop," Edmonds said. "Once we get into January the focus will be on the weather. The forecasts are bearish to neutral." Total implied fuel demand in the U.S. averaged 21.1 million barrels a day in the four weeks ended Dec. 21, up 1.6 percent from a year earlier, according to the department. Consumption of distillate fuel, a category that includes heating oil and diesel, averaged 4.5 million barrels a day over the period, up 5.7 percent from a year earlier. **Crude Oil Rises to a One-Month High After U.S. Inventory Drop** <http://www.bloomberg.com/apps/news?pid=20601087&sid=a0okLInJesOE&refer=home>

- Dec. 26 (Bloomberg) -- Crude oil rose above \$96 a barrel in New York for the first time this month as a government report tomorrow may show a U.S. inventory decline and as Turkish planes bombed suspected Kurdish sites in northern Iraq. **Bombing Raid** Today's bombing raid was at least the third air operation in Iraq this month. Troops were briefly sent across the border on Dec. 17, according to the army. Turkey says it is using intelligence from the U.S. to target the PKK. Iraq has the world's third-largest crude-oil reserves. The country's northern region is controlled by a semi-autonomous Kurdish administration. Kirkuk, at the center of the region's biggest oil field, is about 100 miles (161 kilometers) from the Turkish border. **Oil Rises Above \$96 on Expected Supply Drop, Turkish Air Strike** <http://www.bloomberg.com/apps/news?pid=20601087&sid=az7laAwC5Elk&refer=home>

## Currency

- Dec 30 (FT) - The euro has fast gained ground against the dollar in international official foreign exchange reserves in recent months, according to official statistics highlighting the nine-year-old currency's growing global importance. Reflecting its increasing strength on foreign exchange markets, the euro's share of known foreign exchange holdings rose to 26.4 per cent in the third quarter of this year, the International Monetary Fund reported late on Friday. That was up from 25.5 per cent in the previous three

months and from 24.4 per cent in the third quarter of 2006. The dollar's share of known official foreign reserves, calculated in dollar terms, fell to 63.8 per cent in the third quarter, down from 66.5 per cent in the same three months of 2006. The euro's rise will strengthen European policymakers' conviction that the newer currency is maturing into a significant rival to the dollar. **Euro gains on dollar in official reserves**

<http://www.ft.com/cms/s/0/e72dfbfa-b71d-11dc-aa38-0000779fd2ac.html>

- Dec. 27 (Bloomberg) -- The yuan rose the most since China ended a fixed exchange rate to the dollar in 2005 as the central bank sought to curb inflation. A 10 percent appreciation would help reduce import prices for fuel and food, the official China Securities Journal said today, citing Ba Shusong, a deputy director at the State Council Development and Research Center. The currency's 6.2 percent gain versus the dollar this year, compared with 3.3 percent in 2006, failed to prevent export-led economic growth from fueling the fastest inflation in 11 years. "We're seeing some big moves in the yuan," said David Mann, senior strategist at Standard Chartered in Hong Kong. "It makes sense for them to get more aggressive in addressing the overheating pressures in the economy." China's trade surplus, which surged 52 percent in the 11 months through November to \$238.1 billion, has driven the country's foreign-exchange reserves to an all-time-high of \$1.46 trillion, making it difficult for the government to slow growth. The economy expanded 11.5 percent in the third quarter and consumer prices rose 6.9 percent in November from a year-earlier. People's Bank of China on July 21, 2005, ended a decade-long link to the dollar, letting the currency move in reference to a basket of currencies including the euro, yen, British pound and South Korea's won. It strengthened the currency by 2.1 percent that day. **Yuan Rises Most Since End of Dollar Peg; China Curbs Inflation**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a.N1gin2q7Ns&refer=home>

## Diversification

### Derivatives

- Dec. 27 (Bloomberg) -- ACA Capital Holdings Inc., the bond insurer that lost its investment-grade credit rating last week, agreed to give control to regulators to avert bankruptcy. **S&P sliced ACA's rating 12 levels to CCC, casting doubt on more than \$75 billion of debt the company guarantees, including \$69 billion of securities such as collateralized debt obligations.** ACA reached agreements to avoid posting collateral until Jan. 18 against credit derivatives it uses to insure the debt. The regulator held off filing delinquency proceedings while ACA seeks ways to raise capital. "ACA is still in deep trouble," said Donald Light, senior analyst with Celent, a Boston-based financial research and consulting firm. **"Unless it gets a capital infusion quickly, these recent moves are only delaying the inevitable."** Canadian Imperial Bank of Commerce said last week that it may write down the value of subprime securities it holds by \$2 billion because they were insured by ACA. CDOs are created by packaging debt or derivatives into new securities with varying ratings. Credit rating companies are reviewing MBIA Inc., Ambac Financial Group Inc. and other bond insurers on concern they don't have enough money to cover potential losses stemming from accelerating downgrades of the debt they guarantee, **potentially endangering \$2.4 trillion of securities.** "Breathing

Room' Telephone messages left for ACA's chief executive officer Alan Roseman and for Karen Barrow, a spokeswoman for the Maryland Insurance Administration, weren't immediately returned. **ACA has \$1.1 billion to cover potential losses on \$7.1 billion of bonds it's insured**, according to data on claims-paying resources or capital posted on its Web site. "It's given them breathing room and a month to stave off bankruptcy," said Nigel Sillis, director of fixed income and currency research at Baring Asset Management in London, which oversees \$15 billion of fixed income. "It still looks like bankruptcy is inevitable." Lower Ratings ACA, founded in 1997 by former Fitch Ratings executive H. Russell Fraser, was rated A by S&P until Dec. 19, lower than the AAA of its competitors. ACA specialized in guaranteeing municipal bonds with credit ratings that were below those others were willing to guarantee. ACA backed \$51.5 million of bonds sold to finance the construction of a jail in Pinal County, Arizona, and \$4.7 million of bonds for the city of Deadwood, South Dakota. ACA shifted its focus to structured finance since 2001. When home sales soared this decade, bond insurers increased their guarantees of securities created from mortgages, including subprime loans to people with poor credit. **They guaranteed almost \$100 billion of CDOs backed by subprime-mortgage securities as of June 30, according to an Aug. 2 report by Fitch. Most of those guarantees are in the form of derivative contracts. Unlike insurance, those contracts are required to be valued at market rates at the end of each quarter.** CIBC, Merrill CIBC, Canada's fifth-biggest bank said ACA insures about \$3.5 billion of the bank's U.S. subprime investments. Merrill Lynch & Co. may have used contracts with ACA Capital to pass off the market risk of \$5 billion in CDOs, Roger Freeman, an analyst covering the brokerage industry for Lehman Brothers Holdings Inc., wrote in a Nov. 5 report. If ACA Capital defaults on its swap contracts, Merrill Lynch could recognize unrealized losses on those securities of about \$3 billion, Freeman wrote. **Banks and securities firms already have taken more than \$97 billion of credit-related writedowns.** MBIA, the largest bond insurer, earlier this month agreed to sell as much as \$1 billion of stock to New York-based Warburg Pincus LLC to prevent a potential downgrade. The Armonk, New York-based company dropped 69 percent this year before today. Ambac Financial Group Inc., the second-largest of the so-called monolines, took out insurance on \$29 billion of the securities it guarantees. The New York-based company's shares slumped 66 percent this year before today. Fitch last week gave MBIA, Ambac and New York-based FGIC Corp. four to six weeks to raise at least \$1 billion or lose their top ratings. Moody's Investors Service put its top grade for FGIC under review for downgrade on Dec. 14 and assigned a negative outlook to MBIA Insurance Corp.'s Aaa rating. S&P has FGIC on review for a rating cut, and has a negative outlook on MBIA and Ambac. **ACA Gives Control to Regulator to Avert Bankruptcy**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aTb1tV8JvPCw&refer=home>

- Dec. 27 (Bloomberg) -- Citigroup Inc., JPMorgan Chase & Co. and Merrill Lynch & Co. may **write down an additional \$34 billion** in securities linked to the collapse of the subprime mortgage market, according to Goldman Sachs Group Inc. Citigroup, **the biggest U.S. bank, may reduce the value of its holdings by \$18.7 billion in the fourth quarter** and cut its dividend 40 percent, Goldman analyst William Tanona said in a Dec. 26 report on the New York-based companies. JPMorgan Chase & Co., the third-largest U.S. bank, **may write off \$3.4 billion, double Goldman's previous estimate. Merrill**

**Lynch & Co. may reduce its holdings by \$11.5 billion, he wrote.** Losses and writedowns at the world's biggest banks and securities firms total \$97 billion this year, according to data compiled by Bloomberg. The market for collateralized debt obligations, loans packaged into new securities, has dried up after surging subprime mortgage defaults led to rating downgrades and convinced many investors to buy only the safest debt. "It will be a couple of quarters before the current credit crisis is fully digested by the markets," wrote Tanona, who has a "sell" rating on Citigroup's stock and a "neutral" rating on JPMorgan and Merrill. **"Given the magnitude of the writedowns we assume and Citi's remaining exposure, we believe the firm has a serious need to preserve or raise additional capital."** Tanona downgraded Citigroup's shares on Nov. 19 and was the last of six analysts who follow the company to advise clients to sell the stock. Nine analysts rate Citigroup a "buy" while eight recommend holding the stock, according to Bloomberg data. Shares Decline Citigroup, which has fallen 47 percent this year in New York trading, dropped 69 cents to \$29.76 on the New York Stock Exchange at 11:49 a.m. JPMorgan, down 7.9 percent this year, fell 47 cents to \$44.47. Merrill Lynch declined \$1.06, or 1.9 percent, to \$53.48. Citigroup is trying to preserve capital after reporting a 57 percent drop in earnings for the third quarter and forecasting as much as \$11 billion in losses and writedowns in the fourth quarter. The New York-based bank, which pays a 54-cent dividend, will have to raise \$6.2 billion to meet its capital needs, according to Tanona. Citigroup Chief Executive Officer Charles O. "Chuck" Prince III stepped down last month and the bank got a \$7.5 billion investment from Abu Dhabi's sovereign wealth fund after predicting further losses. **Writedowns at the biggest banks are still likely to be "significantly larger than investors are anticipating,"** Tanona wrote. Dividend Predictions Citigroup tumbled 8.1 percent on Nov. 1 after CIBC World Markets analyst Meredith Whitney said it may have to trim its dividend. Deutsche Bank AG analyst Michael Mayo also predicted a dividend cut, saying the investment from Abu Dhabi is "probably not enough" to absorb credit losses. The company pays a dividend equal to 7.1 percent of its stock price, more than twice the 3.3 percent yield of the average financial stock in the Standard & Poor's 500 Index. Executives have said they intend to maintain the payout. Citigroup, which picked former Morgan Stanley investment banker Vikram Pandit to succeed Prince, will still have about \$24.5 billion in CDO investments after the writedown, Goldman said. Tanona previously had estimated that Merrill, which replaced CEO Stan O'Neal with John Thain, would have to write down \$6 billion of securities. "Many of the December year-end firms are likely to be more aggressive with their marks," Tanona wrote. "Particularly those with high levels of exposure such as Citi and Merrill Lynch, both of whom have new CEOs at their helms." Sanford C. Bernstein & Co. analyst Brad Hintz estimated in a note dated today that **Merrill will have a CDO-related writedown of \$10 billion in the fourth quarter.** **Citigroup, JPMorgan, Merrill Face More Writedowns, Goldman Says**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aV5TcBims98E&refer=home>

## Housing

- Dec. 28 (Bloomberg) -- **Sales of new homes in the U.S. fell to a 12-year low in November, pointing to bigger declines in construction that will hinder economic**

**growth in 2008. Purchases dropped 9 percent to an annual pace of 647,000 and October sales were revised lower,** the Commerce Department said today in Washington. Last month's sales were weaker than the lowest forecast in a Bloomberg News survey of economists. Treasury notes extended their rally and traders added to bets that the Federal Reserve will cut interest rates again in January to prevent a recession. **New-home sales are down 25.4 percent so far this year, heading for the biggest annual decline since at least 1963.** "This gives a dire picture of the U.S. housing market," said Dana Saporta, an economist at Dresdner Kleinwort in New York. "The weakness of the housing industry does raise the risk of recession." A separate report showed the National Association of Purchasing Management-Chicago's index of American business activity rose this month as new orders increased. The group's index climbed to 56.6, from 52.9 the previous month. The deepest housing recession in 16 years will worsen as discounts fail to lure buyers and mounting foreclosures swell the glut of unsold properties, economists said. Falling property values may cause consumer spending to cool, increasing the odds the expansion will falter in 2008. "The most important implication of this is it's going to drive down construction outlays and that's a direct effect on GDP," said Neal Soss, chief economist at Credit Suisse Group in New York. A Bloomberg survey of 68 economists forecast sales would fall to an annual pace of 717,000 from a previously reported 728,000 rate in October, according to the median estimate. Economists' forecasts ranged from a low of 685,000 to a high of 750,000. Government records only go back to 1963. **Sales of new homes were down 34 percent from the same time last year, the biggest 12-month drop since January 1991.** The median price fell 0.4 percent from November 2006 to \$239,100. The number of homes for sale at the end of November decreased 1.8 percent to 505,000, the fewest in two years. Still, because sales dropped even more, the inventory of unsold homes at the current sales pace jumped to 9.3 months from 8.8 months in October. Regional Picture Purchases fell in three of four regions, led by a 28 percent plunge in the Midwest. Sales dropped 19 percent in the Northeast and 6.4 percent in the South. They rose 4 percent in the West. The housing recession has deepened since the August turmoil in subprime mortgages led to a worldwide credit shortage. Stricter borrowing standards and a freeze on lending to borrowers with poor credit put mortgages out of reach for more potential buyers. That's driving home prices lower, weakening sales as people hold out for even bigger reductions. Sales of new houses will probably tumble 8.9 percent in 2008 after a 25 percent drop this year, according to a Dec. 13 forecast from Fannie Mae, the largest mortgage buyer. Sales of new homes in November were 53 percent down from their July 2005 peak. Prices Decline Home prices in 20 metropolitan areas fell 6.1 percent in the 12 months to October, the most in at least six years, according to a report this week by S&P/Case-Shiller. The decline raises the risk that more Americans will walk away from properties that are worth less than they owe, economists said. Lehman Brothers Holdings Inc. is forecasting prices will fall at least 15 percent from peak to trough. By that measure, the S&P/Case-Shiller index is down 6.6 percent so far. With sales and prices falling, foreclosures rose 68 percent in November from a year earlier. They may continue surging in 2008 as mortgages for some subprime borrowers with adjustable rates reset. As foreclosures throw more homes onto the market, homebuilders such as Hovnanian Enterprises Inc., New Jersey's largest, are scaling back. Hovnanian plans to "pare down our inventories in virtually all our markets," Chief Executive Officer Ara

Hovnanian said on a conference call Dec. 19. "It will be a difficult year." The odds of recession have increased since the credit markets froze as a result of the subprime crisis. The economy will expand at a 1 percent annual pace in the fourth quarter after growing at a 4.9 percent rate from July through September, according to the median forecast of economists surveyed this month by Bloomberg News. "The probability of recession is 50 percent for next year at some point," Martin Feldstein, head of the National Bureau of Economic Research, which determines when contractions start and end, said in a Dec. 14 interview. "We could see a downturn starting sometime in the spring or the second quarter of next year." **U.S. Economy: Sales of New Homes Tumble 9% to 12-Year Low**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a07XiAPBo7SY&refer=home>

- Dec. 26 (Bloomberg) -- **Home prices in 20 U.S. metropolitan areas fell in October by the most in at least six years**, raising the risk that more Americans will walk away from properties that are worth less than they owe. Values fell a greater-than-forecast 6.1 percent from October 2006, the S&P/Case-Shiller home-price index showed today. **The decrease was the biggest since the group started keeping year-over-year records in 2001.** Prices will continue falling as record foreclosures put even more homes on the market while stricter lending rules make financing tougher to get. Declining values also pose a risk to consumer spending by making it harder for owners to tap home equity for extra cash. "You are likely to see more people giving up on their loans as they end up with little or no equity in their homes," said Abiel Reinhart, an economist at JPMorgan Chase & Co. in New York. "It's one more factor that weighs on the path of consumption." **Compared with a month earlier, home prices dropped 1.4 percent, the biggest one-month decline since records began.** Manufacturing Slumps A report from the Federal Reserve Bank of Richmond today also **showed manufacturing in its region contracted for the second time in three months in December.** Combined with earlier reports this month that showed factory activity slowed in New York and also shrank in the Philadelphia region, the reports suggest the housing slump is filtering through the economy. All 20 areas covered showed a drop in prices compared with September. "The current state of the single-family housing market remains grim," Robert Shiller, chief economist at MacroMarkets LLC and a professor at Yale University, said in a statement **Prices to Worsen The housing market may continue to weaken as an increase in foreclosures adds to a glut of unsold homes on the market, spurring sellers to cut prices**, economists said. "With supply overhang enormous and mortgage financing tougher to obtain, home prices are going to decline considerably further in the quarters ahead," said Joshua Shapiro, chief U.S. economist at Maria Fiorini Ramirez Inc., a New York forecasting firm. Lower home prices may also threaten spending. This holiday shopping season is forecast to be the weakest in five years, according to the National Retail Federation. A jump in November sales and a rush of last-minute purchases the weekend before Christmas probably weren't enough to change that outlook, according to analysts. The market is too challenging to make predictions for fiscal 2008," Ara Hovnanian, chief executive officer of Hovnanian Enterprises Inc., said on a conference call on Dec. 19. "It will be a difficult year." **U.S. Economy: Home Prices Declined at Faster Pace**

## Housing Finance

- Dec. 31 (Bloomberg) -- Defaults on privately insured U.S. mortgages rose 35 percent in November to a record, an industry report today showed, adding to evidence the U.S. housing slump is deepening. The number of insured borrowers falling more than 60 days late on payments jumped to 61,033 last month from 45,325 in November 2006, according to data from members of the Washington-based Mortgage Insurance Companies of America. The missed payments, often a prelude to foreclosure, represented a 2.9 percent increase from October. "This is another data point that suggests that the mortgage insurers are in for a tough slog for 2008," said David Havens, a credit analyst at UBS AG in Stamford, Connecticut. "Continued deterioration is likely to spur higher claims. And higher claims activity may result in some companies needing to raise money." MGIC Investment Corp., the largest U.S. mortgage insurer, and No. 2 PMI Group Inc. reported losses in the July-through-September period, their first unprofitable quarter as public companies. MGIC sold shares to the public in 1991, PMI in 1995. MGIC, PMI MGIC has said it won't be profitable until 2009. The Milwaukee-based company rose 58 cents, or 2.7 percent, to \$22.43 in New York Stock Exchange composite trading at 4:10 p.m. It has lost 64 percent of its market value this year, the ninth-worst performance in the Standard & Poor's 500 Index. Walnut Creek, California-based PMI climbed 2 cents to \$13.28 and is down 72 percent in 2007. Radian Group Inc., the third-largest, slipped 2 cents to \$11.68. The Philadelphia-based company is down 78 percent this year. Rating companies including Standard & Poor's, Moody's Investors Service and Fitch Ratings have lowered their claims-paying ability ratings for mortgage insurers or said they face possible downgrade. Lower ratings may force insurers to add to reserves for claims. "It's a rough world out there," said James Brender, an analyst at S&P in New York. "There's no reason to be optimistic for the first half of 2008. It will be at least 18 months until there's a chance of stabilized ratings on the three we have on negative outlook: Radian, PMI and Republic," a unit of Chicago-based Old Republic International Corp. Bond Insurers Bond insurers including MBIA Inc. and Ambac Financial Group Inc. are struggling to maintain credit ratings needed to guarantee debt after losses on mortgage-backed bonds they covered. Fitch has given MBIA and Ambac less than six weeks to each raise \$1 billion or face loss of their AAA ratings. MBIA on Dec. 10 said it will get \$1 billion from private-equity firm Warburg Pincus LLC to bolster its capital and Ambac took out reinsurance on \$29 billion of securities it guarantees. "The mortgage insurers can probably attract capital, but it would come at a painful level" of cost, Havens said. Mortgage insurance sales are surging even as claims soar because lenders want to lower their risk and increase their loans' appeal to investors. The association's members issued 153,865 policies to homeowners last month, up 67 percent from a year earlier. The trade group's data are drawn from six of the seven biggest U.S. mortgage insurers, excluding only Radian, which isn't a member. **Defaults on Insured Mortgages Rise 35% to Record**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=ag1sBtamhU9U&refer=home>

- Dec. 27 (Bloomberg) -- Mortgage applications in the U.S. dropped last week to the lowest level of the year as demand to buy homes and refinance loans fell. The Mortgage Bankers Association's index of applications decreased 7.6 percent to 603.6 after slumping 19.5 percent the prior week. **The back-to-back decline was the biggest since April 2004.** The two-year housing slump is likely to persist as stricter lending practices make it tougher to get loans and near-record inventories of unsold properties keep pushing values down. Declines in homebuilding will probably hurt economic growth well into 2008, economists said. The bankers' group refinancing gauge declined 8.5 percent to 1915.3, the lowest level since the first week of September. Its purchase index fell 6.6 percent to 394.5, the lowest level since February. **Applications dropped even as rates fell. The average rate on a 30-year fixed loan decreased to 6.10 percent, from 6.18 percent the prior week, the mortgage bankers said. At that rate, monthly borrowing costs for each \$100,000 of a loan would be about \$605.99, compared with \$607.29 a year ago, when the rate was 6.12 percent. [let's see 75 basis points and a little more than a buck a month on each 100K]** Prices Fall Figures yesterday showed home prices fell in October by the most in at least six years. Home values in 20 metropolitan areas fell a greater-than-forecast 6.1 percent from a year earlier, the most since records began in 2001, according to the report from S&P/Case-Shiller. "The market is too challenging to make predictions for fiscal 2008," Ara Hovnanian, chief executive officer of Hovnanian Enterprises Inc., said on a conference call on Dec. 19. "It will be a difficult year." The Red Bank, New Jersey-based company is that state's largest homebuilder. Applications to refinance loans made up 53 percent of total demand for loans, compared with 53.2 percent the prior week, the bankers said. The Washington-based Mortgage Bankers Association's loan survey, compiled every week since 1990, covers about half of all U.S. retail residential mortgage originations. **Some economists think the mortgage applications numbers may be overstating demand even with the decline. The survey only includes retail lenders, which have probably seen an increase in business as many wholesale brokers closed their doors following the subprime turmoil. Also, the report counts all applications, even those that are ultimately rejected, and some borrowers submit multiple applications. U.S. MBA's Mortgage Applications Index Fell 7.6% Last Week**

<http://www.bloomberg.com/apps/news?pid=20601206&sid=aKTsJQ0grKFc&refer=realestate>

## Macro Economic

- Dec. 30 (Bloomberg) -- Egypt will raise the cost of crossing the Suez Canal by an average of 7.1 percent starting in April to take advantage of an increase in seaborne trade from Asia. Transit fees for oil tankers will rise 7.3 percent. Container ships will pay 5.7 percent more, while the cost for liquefied natural gas tankers will increase 10.5 percent, Ahmed Fadel, chairman of the Suez Canal Authority, told a press conference in the northeast city of Ismailia today. "We expect the economic boom in India and China to continue, and that will translate into more seaborne trade," Fadel said. "With the continuous rise of oil prices, the Suez Canal will remain the cheapest route for ships."

The authority, whose canal links the Red Sea to the Mediterranean, is boosting ties with U.S. East Coast terminals including the Port of Virginia in Hampton Roads before the Panama Canal completes a seven-year, \$5.2-billion expansion that will increase its capacity. More than 18,000 ships crossed the Suez Canal last year, compared with an annual average of 14,000 for Panama. China's exports to the U.S. rose to \$287.8 billion in 2006 from \$100 billion in 2000, according to the U.S. Census Bureau. Suez handles less than 6 percent of the containers traveling between Asia and the U.S., with the rest going to the West Coast, where they are carried inland by rail and truck or transferred to smaller ships able to navigate Panama. Trade With Asia Trade from Asia increased Suez's container tonnage 19 percent in the year ended in November, bolstering revenue by 20 percent to a record \$4.2 billion. Oil prices gained 2.9 percent this past week and have risen 59 percent from a year ago. Crude is heading for its biggest annual gain in eight years. The Suez Canal is the world's busiest waterway. It is among Egypt's largest foreign-currency earners. As much as 8.2 percent of the world's seaborne trade passed through the canal last year. **Suez Canal to Increase Transit Fees by 7.1% in 2008**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aiKhCN4IIPII&refer=home>

- Dec. 30 (Bloomberg) -- China, the world's biggest grain producer, will tax exports of wheat, corn and rice to increase domestic supply and control rising food prices. Exporters of wheat will start paying a 20 percent tax on Jan. 1, while the tax for corn and rice was set at 5 percent, the Finance Ministry said in a statement on its web site today. **The government, concerned that inflation may disrupt social stability, has sought to curb price increases by selling grain from stockpiles and by canceling export tax rebates. Food prices in the world's fastest-growing major economy rose 18.2 percent in November, spurring a jump to an 11-year high of 6.9 percent in the consumer price index.** The country "has sent a strong signal that it is determined to keep grain prices under control," Li Shouchun, research manager at Datong Futures Co., said from Harbin today. China's wheat exports soared 130 percent in the first 11 months of this year to 2.1 million tons, according to customs data Dec. 24. Most exports go to nearby Asian countries, and lower freight costs usually help make them cheaper than supplies from other origins. The country exported 4.9 million tons of corn in the first 11 months, up 87 percent from the same period last year, customs data shows. Rice shipments were 1.1 million tons, up 5.7 percent, and soybean shipments were 401,299 tons, up 24 percent. Korea, Japan **China's decision may help push up prices on the Chicago Board of Trade, the price benchmark for grains. Wheat futures in Chicago have gained 77 percent this year as global demand outpaced supply, soybeans are up 79 percent and corn 16 percent.** The export taxes will be applied until the end of 2008, the ministry statement said. Taxes on wheat powder are 25 percent, and taxes on soybean powder and rice powder are 10 percent. Two-Day Decline China already removed export tax rebates on a range of food commodities Dec. 20 as part of measures to secure domestic supply. The tax incentives on exports of crops including wheat, rice, soybeans, corn, barley and oats, as well as flour milled from these grains, were eliminated. The most active contract on the Zhengzhou Commodity Exchange had its biggest two-day decline on Dec. 27-28, falling 3.8 percent, on speculation the government would impose export tariffs. The exchange reopens Jan. 2. "The possibility of higher export taxes is weighing on all the markets," Chen Baomin, analyst at Jilin Grain Group Co. in Changchun, said Dec. 28. It's also "lending support" to markets overseas, Chen added.

## China to Tax Grain Exports to Boost Domestic Supply

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aO2aajb1Xwho&refer=home>

- Dec. 28 (Bloomberg) -- **European retail sales fell for a third month in December as accelerating inflation curbed holiday-season spending, the Bloomberg purchasing managers index showed.** The gauge of sales in the 13 countries sharing the euro was a seasonally adjusted 46, compared with 45.9 in November. A reading below 50 in the index, which is based on a survey of more than 1,000 executives compiled for Bloomberg LP by NTC Economics Ltd., indicates a decline. A 58 percent increase in oil prices this year is spurring inflation, sapping purchasing power and crimping sales at Inditex SA and Hennes & Mauritz AB, Europe's largest clothing retailers. While unemployment has reached a record low, Europe's economy is headed for its slowest expansion in three years in 2008, losing momentum as an appreciating euro and housing recession in the U.S. hamper exporters. **"The environment is not good" for consumers,** said Dominique Barbet, an economist at BNP Paribas SA in Paris. "The positive element is the labor market, the very negative element is the price increases." **Inflation in the euro region accelerated last month to the fastest pace since May 2001 as food prices soared,** cutting into Christmas shoppers' budgets. "Consumer confidence remained low despite increased marketing efforts by retailers," NTC said in its analysis. "Worries about a wider economic slowdown and uncertainty in the financial markets heading into the New Year were highlighted." **German Decline** The Organization for Economic Cooperation and Development on Nov. 6 predicted expansion in the 13 euro countries will cool to 1.9 percent next year, the slowest since 2005, from 2.6 percent in 2007. Retailers in Germany, Europe's largest economy, suffered the biggest decline in sales this month, with the index at 44, up from 43.6. In France, sales dropped for a third month, putting the index at 49.1. A gauge of Italian sales dropped to 44.7 from 45.3. "I would be happy to reach last year's figures, but I don't think so," said Tanja Schweer, a manager of a Mueller Ltd. & Co. cosmetics store in Datteln, Germany. People "don't spend money for themselves. They prefer buying cheaper products." French department stores were cushioned by a rebound following a November public-transport strike, said Jacques Perrilliat, director of an association of city-center retailers, whose members include Le Bon Marche and Printemps chains. **ECB Focus** The U.S. housing slump has pushed up credit costs worldwide, dimming the outlook for investment. Still, ECB President Jean-Claude Trichet has signaled that faster inflation will prevent a cut in interest rates and may prompt an increase. The ECB will continue to focus on keeping inflation in check and will not be diverted by rate cuts of counterparts in the U.S. and the U.K., Trichet told the Financial Times in an interview published Dec. 23. For the Bloomberg retail indicator, NTC recruited a representative panel of companies in Germany, France and Italy, which together make up 80 percent of total euro-area retail sales by value. The panel includes large chain retailers as well as smaller stores. **Europe Retail Sales Drop for Third Month, PMI Shows**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aVM2bjDk.TPM&refer=home>
- Dec. 28 (Bloomberg) -- Japan's consumer prices rose at the fastest pace in more than nine years in November, as oil costs surged to a record. **Core consumer prices, which exclude fresh food, climbed 0.4 percent from a year earlier,** the government's statistics

bureau said today in Tokyo. That was faster than the 0.3 percent median estimate of 36 economists surveyed by Bloomberg News. "This inflation is only being fueled by cost increases rather than consumer demand," said Takehiro Sato, chief Japan economist at Morgan Stanley in Tokyo. **Cost-push inflation only hurts consumer confidence and restrains spending further.** Separate reports today showed that in November **there were fewer jobs than the number of applicants for the first time in two years and households cut spending for the first time since July.** The jobless rate fell to 3.8 percent from 4 percent. Industrial production declined 1.6 percent from a month earlier. The gain in core prices was the quickest since March 1998, when an increase in the country's sales tax pushed the measure of inflation to 1.8 percent. Oil may help core prices rise 0.6 percent or more in the first quarter of 2008, Sato said. **Low Interest Rates** The central bank has wanted to see stable gains in core prices to back up its view that Japan's borrowing costs are too low and should be raised to avoid excessive investment and help sustain growth. Government officials have said the world's second-largest economy has yet to completely beat deflation. **Now that inflation is emerging, economists say it may be unwelcomed by the central bank because the higher prices are discouraging consumers from spending as wages fall.** "A wave of price increases is spreading, from gasoline and kerosene to daily necessities," said Mitsuru Saito, chief economist at Tokai Tokyo Securities Co. in Tokyo. "Without wage gains, consumers feel their living costs are increasing and they're becoming worse off." **Taxi Fares** Record energy costs are making it more expensive to travel in Japan. Tokyo's taxi operators this month raised fares for the first time in a decade. All Nippon Airways Co., Japan's largest domestic airline, last week said it will raise some domestic fares from April 1. **Tokyo Prices** Tokyo's core prices, a harbinger of the nationwide index, rose 0.3 percent in December from a year earlier, following a 0.1 percent gain in November, the first increase in 10 months. **Households last month became the most pessimistic they've been in almost four years as gasoline and food prices surged and wage growth stalled.** Wages have fallen in all but one month this year, making retailers reluctant to pass on costs to consumers even as producers raise prices. Aeon Co., Japan's largest supermarket operator, last week said it will extend a price freeze on about 100 items, including yogurt and soy sauce. Seven & I Holdings Co. started to market its own-brand products with low prices in May. **Japan Consumer Prices Rise at Fastest Pace Since 1998**

[http://www.bloomberg.com/apps/news?pid=20601087&sid=a7nEyLxg\\_OXs&refer=home](http://www.bloomberg.com/apps/news?pid=20601087&sid=a7nEyLxg_OXs&refer=home)

- 27 Dec –FT Japanese stocks will end 2007 – a year so disappointing that the Japanese have branded it with the pictogram for “deception” – as the worst performers of any big equity market. Barring a miraculous recovery on Friday in the last trading session this year, the benchmark Nikkei 225 Average will end the year down nearly 10 per cent. That compares with gains, in local-currency terms, of almost 22 per cent for Germany’s Dax and nearly 40 per cent for Hong Kong’s Hang Seng index. By midday on Thursday on Wall Street, the S&P 500 index had risen 4.4 per cent in the year to date. Although Japan was relatively sheltered from credit market turmoil and US subprime woes, and corporate profits at large exporters have continued to be strong, overall economic performance has disappointed. The cabinet this month downgraded growth estimates for the year to March 2008 from 2.1 to 1.3 per cent. Wages and domestic consumption have been stagnant and

economic performance has been hit by a sharp fall in housing construction, brought on by the introduction of stricter building codes in the summer. Figures on Thursday showed housing starts down nearly 30 per cent in November, their fifth consecutive month of decline. Edwin Merner, president of Atlantis Investment Research in Tokyo said: "If you go back to the beginning of the year, people were cautiously optimistic. They didn't think it would be a wonderful runaway year but they were looking for gains of 10 or 15 per cent. As it turns out, the fundamentals have been worse than expected but even worse than that, the mood of investors has been one of disappointment." Foreigners have turned aggressive net sellers since the summer partly because of irritation at the failure of activist funds to wring changes from management **Japanese dub 2007 year of 'deception'** <http://www.ft.com/cms/s/0/d4aab208-b4a6-11dc-990a-0000779fd2ac.html>

- Dec. 27 (Bloomberg) -- Orders for U.S. durable goods rose less than forecast in November, restrained by a drop in defense procurement and waning demand for machinery. The 0.1 percent increase in appetite for cars, aircraft and other items made to last several years followed a revised 0.4 percent drop in October, the Commerce Department said today in Washington. **Excluding transportation, orders fell 0.7 percent.** Treasury notes rallied and the dollar fell after the report, which suggests the housing recession is spreading to other parts of the economy. Tougher lending standards, bloated inventories and slowing sales are causing some companies to limit investment, analysts said. **Separate figures from the Labor Department showed jobless claims unexpectedly rose last week by 1,000 to 349,000.** [These have seasonal adjustments, so I am not sure the following holds, but one would assume with all the temp retail jobs the week before Christmas that it would be very unusual to see a drop here] The number of people continuing to collect unemployment benefits jumped by 75,000 to 2.713 million, the highest in more than two years, in the week that ended Dec. 15. Another report showed consumer confidence rose in December. The Conference Board's index increased to 88.6, the first gain in five months, from a revised 87.8 in November, the New York-based group said today. The measure averaged 105.9 last year. Economists forecast durable goods orders would increase 2 percent in November, according to the median of 67 estimates in a Bloomberg News survey. Excluding transportation equipment, orders were projected to rise 0.5 percent. FedEx Profit Even service businesses are feeling the pinch. FedEx Corp., the second-largest U.S. package-delivery company, said last week that quarterly profit fell 6.3 percent as a slowing economy cut demand for freight shipments and fuel spending rose. The Memphis, Tennessee-based company also lowered its capital spending forecast for the full year by 11 percent, to \$3.1 billion, and said additional reductions are "possible" as executives review investment plans. Regional reports have shown the manufacturing outlook has dimmed. The New York Federal Reserve Bank's general economic index fell more than forecast this month and expectations for orders six months from now were the lowest in six years. The Philadelphia Fed's business gauge contracted for the first time in more than two years and a measure from the Richmond Fed shrank for the second time in three months. **U.S. Durable Goods Orders Gain Less Than Forecast** <http://www.bloomberg.com/apps/news?pid=20601087&sid=afJmTQZVlaRE&refer=home>

## Retail

- Dec. 30 (Bloomberg) -- Internet sales by U.S. retailers rose at the slowest pace on record as \$3-a-gallon gasoline and rising mortgage defaults weighed on holiday spending. **Online spending from Nov. 1 through Dec. 27 increased 19 percent to almost \$28 billion**, from \$24 billion a year earlier, Reston, Virginia-based ComScore Inc. said today in a statement. Sales growth trailed last year's 26 percent. Discounts by Wal-Mart Stores Inc., the world's largest retailer, and Best Buy Co., the biggest U.S. consumer electronics chain, weren't enough to get consumers to loosen their purse strings. **The Reuters/University of Michigan final index of consumer sentiment for December dropped to 75.5, the lowest since October 2005.** "Uppermost on the mind of consumers was the price tag," Kurt Barnard, president of Barnard's Retail Forecasting in Nutley, New Jersey, said in an interview. "This made for a very difficult holiday season." Shoppers waited for discounts as online sales the day after Christmas totaled \$545 million, more than double revenue on the same day in 2006. Consumers "were willing, and able, to take advantage of late-season promotions and price discounts," ComScore Chairman Gian Fulgoni said in the statement. ComScore hasn't recorded online sales growth of less than 20 percent since it began reporting the figures in 2002. Wal-Mart, Best Buy and Circuit City Stores Inc. offered discounts of 50 percent or more and promoted savings for in-store pickup of products purchased online to attract shoppers. Internet Shopping Spending through Web sites, which makes up more than 3 percent of all retail sales, may climb to \$29.5 billion in November and December, ComScore estimated. That's less than the 26 percent growth in online sales during the holidays in 2006. The slower growth mirrors the patterns in traditional retail sales. The 2007 holiday shopping season's sales may increase at the slowest pace in five years as consumers tightened household budgets because of record high oil and declines in home prices. Spending in November and December may rise 4 percent this year, according to National Retail Federation estimates. **Customer visits at U.S. stores declined for the fourth-straight week in the seven days through Dec. 22**, the latest period reported on by Chicago-based ShopperTrak RCT Corp. Shoppers curtailed trips to malls in reaction to higher gasoline costs. Consumer traffic to retail locations fell 11 percent that week, the research firm said. Retailers typically count on November and December for ringing up a fifth of their annual sales. **U.S. Holiday Internet Sales Rise at Slowest Pace Ever** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aUpQYX11PV4Q&refer=home>
- Dec. 26 (Bloomberg) -- Gift cards aren't just last-resort purchases by baffled holiday shoppers anymore. They're becoming the presents of choice for Americans who want to help friends and relatives cope. **Spending on holiday gift cards may climb 25 percent to \$35 billion this year, according to Archstone Consulting LLC, boosted by cards that aid consumers contending with higher food and fuel costs and the deepest housing slump since 1991.** That tops some estimates for holiday sales on Web sites. Gift cards that pay for gasoline at Exxon Mobil Corp. stations, groceries at Wal-Mart Stores Inc. or medical bills through health-insurer Highmark Inc. will help increase the category to 5.9 percent of total U.S. holiday spending this year, according to Stamford, Connecticut-based Archstone. **That's up from 4.9 percent in 2006.** "The practical usage

of gift cards is the biggest story this year, due to economic fears of many consumers and tighter budgets," said Heather Dougherty, director of research at Experian Group Ltd.'s Hitwise in New York, which measures Web traffic. **"We see people who are searching for things like gas and grocery gift cards."** Gift cards -- credit card-sized pieces of plastic with the prepaid amount readable by a scanner -- represent one of the few bright spots for retailers this holiday season. The National Retail Federation in Washington says total retail sales may increase 4 percent in November and December, the smallest gain in five years. 'Cultural Shift' "We've seen a cultural shift in how we view gift cards, from a thoughtless, lazy person's gift to a thoughtful gift," said Scott Krugman, a National Retail Federation spokesman. "It's becoming a practical gift for practical purposes." Gift-card sales also have been spurred by their increased availability in supermarkets and drugstores. Cards for Applebee's restaurants, Omaha Steaks, Visa Inc. and AMC movie theaters were among the selection at a Duane Reade Inc. drugstore in New York last week. Prepaid debit cards such as those from Visa and MasterCard Inc. may be the most popular type of gift card this year, Archstone estimates, accounting for 16 percent of the total market. **Cards for discounters such as Wal-Mart and food and beverage providers such as Starbucks Corp. probably will be the next two most popular categories, Archstone says.** Gift cards from credit card companies are gaining popularity because they can be used for many purposes, including living expenses, Hitwise's Dougherty said. Utilities, Health Gasoline station operators including BP Plc, Chevron Corp. and Exxon Mobil offer cards. Shoppers can buy gift certificates for customers of Portland General Electric Co. in Portland, Oregon, and Equitable Resources Inc. in Pittsburgh to pay utility bills. Highmark, a Pittsburgh-based health insurer, on Nov. 1 introduced the Healthcare Visa Gift Card. The card allows people to pay for items such as prescriptions, Lasik eye surgery, facials, gym memberships and fertility clinics. Purchasers can buy cards worth \$25 to \$5,000. "It gives the liquidity of cash, but it's more targeted to that recipient's needs," said Kim Bellard, a Highmark vice president. Interest in the card was "higher than expected," he said, declining to disclose details. Help With Co-Pays Marie Kubovsak learned about the health-care gift card at the doctor's office where she does billing. She bought a \$25 card last month as a Christmas present for a co-worker with fibromyalgia to help her cover co-pays or prescriptions. Gift cards have helped retailers' holiday sales continue into January because consumers have "fresh new money" to spend, said Patricia Edwards, who helps manage \$13.4 billion in assets, including Wal-Mart shares, at Wentworth, Hauser & Violich in Seattle. Retailers have added merchandise right after the holidays and can often sell it at full price, Edwards said. Gift cards help reduce returned items, and people often spend more than the card amount, she said. This may be the biggest day for gift-card spending in December, January and February, Burt Flickinger, managing director at Strategic Resource Group in New York, said in a Bloomberg Radio interview. Malls in Florida and Virginia reported 25 percent of purchases coming from gift cards today, Taubman Centers Inc. said in a statement. The company operates 24 shopping centers. "It drives the consumer into the store after the holiday period, not before," Marshal Cohen, chief industry analyst at NPD Group Inc., said in a Bloomberg Radio interview. **Gift Cards Cover Fuel, Living Costs, Help Consumers**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aUUA267YeSfw&refer=home>

- Dec. 26 (Bloomberg) -- Target Corp., Macy's Inc. and Lowe's Cos. fell in New York trading after a weekend shopping surge failed to salvage the slowest-growing holiday sales season in five years. Sales at stores open more than 12 months rose 2.8 percent last week from a year earlier, the International Council of Shopping Centers and UBS Securities LLC said in a joint statement today. The results prompted the group to lower its forecast for November and December sales growth to "a tad below" the 2.5 percent it was predicting. Shoppers making last-minute purchases pushed sales up almost 20 percent over the weekend, according to Chicago-based ShopperTrak RCT Corp. Consumers burdened by higher gasoline and food prices and a deepening housing slump held off on buying gifts for much of December **as they awaited steeper discounts**, sending sales lower for four straight weeks, ShopperTrak said. "This consumer is spent out," Howard Davidowitz, chairman of Davidowitz & Associates, said in a Bloomberg Television interview. **"When they say sales are up three-and-a-half percent, that's an absurd number. You've got 5 percent more stores. That's why retail earnings are in the tank."** Target, the second-biggest U.S. discounter, said Dec. 24 that sales at stores open more than a year may decline in December after customer visits slowed in the weeks after Thanksgiving. Even though consumers limited purchases of holiday gifts, the U.S. will avoid a recession next year as a "stable" job market keeps Americans spending amid falling housing prices and higher fuel costs, said Bear Stearns Cos. Chief Investment Strategist Jonathan Golub. "It is increasingly clear that the U.S. consumer did not roll over during the holiday shopping season," Golub said. **"We do not believe a consumer-led recession is in the cards." [yes this is the same Bear Stearns that lost 100% of its client's money in two sub-prime hedge funds last summer, but they are right this time]** Amazon.com Inc., the world's largest online retailer, said the 2007 holiday season was its "best ever." **[the prior "best ever was last year when revenues were under \$4 billion, thus any number 4 billion or higher would be "the best ever". However, current estimates for the quarter are 5.2-5.5 billion, so best ever revenue could be well below estimates, not to mention where bottom line numbers might end up.]** The company didn't provide specific profit and sales figures. The busiest day was Dec. 10, when customers ordered more than 5.4 million items, Seattle-based Amazon.com said today in a statement. Five-Year Low Industrywide sales in November and December this year may rise 4 percent, the slowest growth since 2002, according to the National Retail Federation. ShopperTrak predicted a 3.6 percent increase. MasterCard Inc.'s consulting unit said yesterday that sales from Nov. 23 to Dec. 24 gained 3.6 percent, **the lowest in at least three years.** "Given the slow performance at the beginning of the month, it appears that the industry is on track for a sales gain that is slightly under our original expectation," Michael Niemira, the International Council of Shopping Centers' chief economist, said in the statement. Retailers began cutting prices today to clear out merchandise left over from the weekend spending surge, which boosted sales by 19 percent from Dec. 21 through Dec. 23, according to ShopperTrak. Macy's Inc.'s Bloomingdale's offered as much as 75 percent off men's clothes, and closely held Lord & Taylor advertised half-off prices for children's coats today. Slowing Sales Gasoline at \$3 a gallon and rising food prices have discouraged shoppers from spending during November and December, which account for 20 percent of retailers' annual revenue, according to the Washington-based NRF. 'You'd Be Disappointed' **"If you were expecting this holiday season to stimulate a new ramp-up in growth, I think you'd**

**be disappointed,"** McNamara said. "I think the vast majority of people in the marketplace had modest expectations." Apparel rose 1.4 percent from a year ago, McNamara said. Men's clothing climbed 2.3 percent, while clothes for women fell 2.4 percent. Luxury goods, excluding jewelry, rose 7.1 percent compared with the same period last year, and footwear sales increased 6 percent. MasterCard Advisors' SpendingPulse surveys retailers across the U.S. Its figures are based on sales in the MasterCard network and estimates of other forms of payment, including checks and cash. MasterCard is the second-biggest U.S. credit- card company. Last year's holiday season grew 6.6 percent over 2005's holidays. Two years ago, retail sales grew 8 percent from the previous year, MasterCard said. Although Target's customer visits increased for the week ended Dec. 22, "this increase was not sufficient to compensate for the unfavorable traffic trends that carried over into December from the week following Thanksgiving," the Minneapolis-based retailer said on a recorded call. **Target, Macy's Drop on Slowing Holiday Sales Growth**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=afKXX73QgbCk&refer=home>

## Retirement

## Risk

## Savings Rate

## Tech

## Wall Street

- **[this is included as an example of the nonsense that is American financial reporting – futures and this garbage are up because it is the end of the year and illegal mark ups are well underway – that is it end of story]** Dec. 28 (Bloomberg) -- U.S. stock-index futures rose on speculation falling interest rates will strengthen the financial system and keep the housing slump from causing a recession. Goldman Sachs Group Inc., Citigroup Inc., Lehman Brothers Holdings Inc., and Merrill Lynch & Co. gained as the cost of short-term loans fell, capping the second week of declines in key money-market interest rates. Citigroup, down 47 percent this year, may sell assets to replenish capital depleted by losses in mortgages, the Wall Street Journal reported. Exxon Mobil Corp. rose as crude oil traded near a one-month high. Standard and Poor's 500 Index futures expiring in March added 8.4 to 1,498.2 at 9:16 a.m. in New York. Dow Jones Industrial Average futures climbed 59 to 13,518. Nasdaq-100 Index futures increased 7.25 to 2,138.75 . **"A recession scenario isn't credible," said Marco Gruppo, head of research at Morval Sim SpA in Milan. "The Fed will cut rates again and that supports the market."** **[this may be one of the most moronic statements I have read – to say a recession is improbable IMO would be wrong but expressing an opinion. To say it isn't "credible" is simply foolish]** Yields on U.S. Treasury securities retreated as traders priced in higher odds that the Federal Reserve will lower the benchmark short-term rate at each of its next two meetings. The odds of a quarter-point cut to 4 percent at the Jan. 30 meeting increased to 84 percent from 76 percent futures contracts showed. Goldman

Sachs added \$1.74 to \$213.69. Citigroup Inc. gained 24 cents to \$29.80. Lehman Brothers Holdings Inc. increased 73 cents to \$64.86 in Germany. Merrill Lynch & Co. climbed 45 cents to \$53.65. Interbank Loans Market rates for interbank loans have declined since the Fed, the European Central Bank and three other central banks announced a combined effort on Dec. 12 to revive that market. They remain above the levels of July, before the collapse of the U.S. subprime-mortgage market caused banks to stop lending to all but the safest borrowers. The cost of borrowing dollars for three months fell 10 basis points to 4.73 percent, the British Bankers' Association said today. That's 48 basis points higher than the Federal Reserve's target rate for overnight loans. The difference averaged 11 basis points in the first half of the year. The BBA's comparable euro rate fell 8 basis points to 4.69 percent today. Asset Sales Citigroup may sell four businesses with as much as \$12 billion of assets, the Journal said. They include Student Loan Corp.; the bank's North American auto-lending unit; Brazilian credit-card company Redecard SA, of which Citigroup owned 24 percent on Sept. 30.; and the Japanese consumer-finance unit, the newspaper reported. U.S. stocks fell yesterday after government reports on durable goods and unemployment heightened concern growth is slowing and an analyst predicted Citigroup will cut its dividend by 40 percent. A report today will probably show sales of new homes in the U.S. fell in November to an annual pace of 717,000 from 728,000 in October, economists forecast in a Bloomberg News survey. That approaches the 11-year low of 716,000 pace reached in September, signaling the housing slump is still a threat to economic growth. The U.S. economy will expand at a 1 percent annual pace in the fourth quarter after growing at a 4.9 percent rate from July through September, according to the median forecast of economists surveyed this month by Bloomberg News. Oil Stocks ``There's no reason to be pessimistic as recent macroeconomic data point to a slowdown in growth rather than a recession," said Luca Martina, who helps manage the equivalent of about \$4.45 billion for private clients at Credit Suisse Private Banking in Turin, Italy. ``Any stock decline is a buying opportunity." Exxon increased 16 cents to \$93.83 in Germany today. Chevron, the largest refiner in the western U.S., added 19 cents to \$93.94. Crude oil prices rose 55 cents to \$97.13 a barrel. Futures gained yesterday in New York after an Energy Department report showed U.S. inventories declined more than expected last week. **U.S. Stock-Index Futures Gain; Citigroup, Exxon Mobil Advance**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=anKSnoU6.ueQ&refer=home>

- Dec. 26 (Bloomberg) -- Billionaire investor Joseph Lewis raised his stake in Bear Stearns Cos. for the second time this month as the fifth-biggest U.S. securities firm's stock fell 11 percent in December. Lewis, who acquired a 7 percent stake in September, **[the trading range in Sept was 102-128, I guess he is just averaging down, while it hit a new 52 week low this morning at 86]** now has 9.6 percent, according to a regulatory filing today. That makes him the largest shareholder of the New York-based company, according to data compiled by Bloomberg. **Billionaire Lewis Raises Bear Stearns Stake for Second Time**  
[http://www.bloomberg.com/apps/news?pid=20601087&sid=aJ00SB\\_A7NI8&refer=home](http://www.bloomberg.com/apps/news?pid=20601087&sid=aJ00SB_A7NI8&refer=home)

## **Don't Fight The Fed**

### **I Disagree . . . and why**

[Article of the week:](#)

### **UM EMBA**

### **Best of the Dog**

**Wednesday, December 26, 2007 at 19:38 CDT**

### **Best ever - now isn't that special**

**BUSINESS WEEK HEADLINE:**

Movers: Berkshire Hathaway, Target, Amazon.com, MBIA  
Wednesday's stocks in the news

**EXCERPT FROM STORY:**

Amazon.com (AMZN) said it had its "best ever" holiday season, though it provided few financial details. Its shares were up 2%.

**BEHIND THE HEADLINES (all from the amazon.com website):**

**Amazon.com Wraps Up Its 13th Holiday With Best Season Ever**

SEATTLE--(BUSINESS WIRE)--Dec. 26, 2007--Amazon.com, Inc. (NASDAQ:AMZN) today announced the 2007 holiday season finished as its best ever, with its busiest day being December 10. On that day, Amazon customers ordered more than 5.4 million items, . . .

**Amazon.com's 12th Holiday Season is Best Ever**

SEATTLE--(BUSINESS WIRE)--Dec. 26, 2006--Amazon.com, Inc. (NASDAQ: AMZN) today announced that the 2006 holiday season finished as its best ever, with its busiest day being December 11th. On this day Amazon customer orders exceeded 4 million items.

**Amazon.com Customers Order over 108 Million Items Worldwide During 11th Holiday Season**

SEATTLE—Dec. 26, 2005— Amazon.com, Inc. (NASDAQ: AMZN) today announced that the 2005 holiday season finished as its best ever, with the company's Holiday Delight-O-Meter surpassing 108 million items ordered for the first time. The 2005 holiday season also brought another single-day record with the Delight-O-Meter tracking more than 3.6 million items ordered, or 41 items per second, on Dec. 12th.

**Amazon.com's Tenth Holiday Season is Best Ever**

SEATTLE--Dec. 27, 2004--Amazon.com, Inc. (NASDAQ:AMZN) today announced it has finished its busiest holiday season ever during which time it set a single-day record with more than 2.8 million units ordered, or 32 items per second, worldwide.

**Amazon.com Wraps Up Its Ninth Holiday With Busiest Season Ever**

SEATTLE--Dec. 26, 2003--Amazon.com (Nasdaq:AMZN) today announced it has finished its

busiest holiday season ever during which time it set a single-day record with more than 2.1 million units ordered, or 24 items per second, worldwide.

Amazon.com Wraps Up Its Eighth Holiday Season with More Than 56 Million Items Ordered Worldwide

SEATTLE--Dec. 26, 2002--Amazon.com (Nasdaq:AMZN) today announced it has finished its busiest holiday season ever with more than 56 million items ordered worldwide from November 1 to December 23, 2002.

The largest sales day occurred on Monday, December 9, with 1.7 million units ordered, or 20 items per second worldwide. The second largest sales day, with 1.6 million units ordered, occurred on Wednesday, December 11, just a day before the holiday ordering deadline for Free Super Saver Shipping on Thursday, December 12.

### **Paradigm shift update**

The bear did find some data on gift cards in a Bloomberg article:

Dec. 26 (Bloomberg)—Gift cards aren't just last-resort purchases by baffled holiday shoppers anymore. They're becoming the presents of choice for Americans who want to help friends and relatives cope. Spending on holiday gift cards may climb 25 percent to \$35 billion this year, according to Archstone Consulting LLC, boosted by cards that aid consumers contending with higher food and fuel costs and the deepest housing slump since 1991. That tops some estimates for holiday sales on Web sites. Gift cards that pay for gasoline at Exxon Mobil Corp. stations, groceries at Wal-Mart Stores Inc. or medical bills through health-insurer Highmark Inc. will help increase the category to 5.9 percent of total U.S. holiday spending this year, according to Stamford, Connecticut-based Archstone. That's up from 4.9 percent in 2006.

so let's run some simple math "best support for paradigm shifts" numbers from the above:

this year total sales  $35B/.059 = 593B$

last year gift card sales  $LY \times 1.25 = 35B$ ;  $LY = 28B$

last year total sales  $28B/.049 = 571B$

this year's rise in sales including gift cards  $22B/571B = 3.8\%$

Mastercard study released today: "The 2007 holiday buying season was a flop ... sort of. Spending from Thanksgiving to Dec. 24 rose 3.6% from last year... but that's the slowest growth rate in four years. According to a MasterCard study released today, spending growth was nearly halved from 2006's 6.6% rise and was far below the 8.7% growth in 2005."

So it is one two three strikes you're out for paradigm shift fans as the .2% increase (.038 less .036) is a rounding error in the "smallest increase in five years" story

We shall thus wait with bated breath for tomorrows "good news"

## **it's a paradigm shift**

just when you thought the “it's all good news” movement could not get any stranger . . .

this morning the horrible holiday sales figures are flowing in. so what are the CNBC cheerleaders touting:

that perhaps sales were not bad because of gift cards and a “paradigm shift” so we can't tell how sales went until February.

the best of this was the typical shill they then cut away to who parroted the paradigm shift story. the lead then ask him an accounting question about the cards and he said “I can't really answer that since I don't really follow retail”. thus the paradigm shift expert on CNBC does not follow retail.

It's all good folks . . . until it isn't