THE DAY AHEAD

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THURSDAY'S KEY ECONOMIC EVENTS	ET/GMT	Reuters poll	Prior	Source
Initial Jobless Claims	0830/1230	605,000	614,000	Labor Department
- - 4 Week Average		- -	615,250	
- - Continuing Claims		6.71 mln	6.702 mln	
Wholesale Inventories (May)	1000/1400	-1.0 pct	-1.4 pct	Commerce Department
- -Wholesale sales		0.0 pct	-0.4 pct	
ICSC Monthly Chain (Jun)	- -	- -	-4.6 pct	International Council of Shopping Centers

RECAP: WEDNESDAY'S MARKETS

Stocks closed little changed while government **bond** prices shot higher after a strong 10-year auction. **Oil** dropped for a sixth straight day, helping to push down **gold** prices towards the $900 level. The **dollar** slipped against the yen.

STOCKS	Close	Change	% Chng	Yr-high	Yr-low
DJIA	8178.41	14.81	0.18	11867.11	6469.95
Nasdaq	1747.17	1.00	0.06	2473.20	1265.52
S&P 500	879.56	-1.47	-0.17	1313.15	666.79
Toronto	9653.45	-190.90	-1.94	14068.72	7479.96
Russell	479.68	-4.57	-0.94	764.38	342.59
FTSE	4140.23	-46.77	-1.12	4675.68	3460.71
Eurofirst	817.12	-9.24	-1.12	895.42	645.50
Nikkei	9420.75	-227.04	-2.35	10170.82	7021.28
Hang Seng	17721.07	-141.20	-0.79	19161.97	11344.58

TREASURIES	Yield	Price
10-year	3.2911	43 /32
2-year	0.9090	4 /32
5-year	2.2215	21 /32
30-year	4.1724	73 /32

FOREX	Today	Prior
Euro/Dollar	1.3872	1.3916
Dollar/Yen	92.67	94.77
Sterling/Dollar	1.6046	1.6126
Dollar/CAD	1.1674	1.1659

COMMODITIES	Price	$ change	% change
Light crude (NY) $	60.25	-2.68	-4.26
Brent crude (London) $	60.53	-2.70	-4.27
Spot gold (NY/oz) $	908.30	-15.00	-1.62
Copper U.S. (front month/lb) $	2.1490	-0.0650	-2.94
Corn (front month/bu) $	3.3925	0.0375	1.12
Reuters/Jefferies CRB Index	231.21	-5.34	-2.26

BIG MOVERS	Price	$ change	% change
Freddie Mac	0.55	-0.03	-5.17
AIG	13.10	-0.65	-4.73
US Airways	2.14	-0.08	-3.60
Ford Motor	5.35	-0.18	-3.25
Aetna	25.18	-0.76	-2.93
Goldman Sachs	138.55	-3.99	-2.80
General Electric	10.71	-0.30	-2.72
Citigroup	2.62	-0.07	-2.60
Bank Of America	11.84	-0.31	-2.55
Costco Wholesale	46.02	1.48	3.32
Best Buy	32.21	0.86	2.74

WHAT TO WATCH ON THURSDAY

- Unseasonable weather and consumers without the stimulus boost they received last year are expected to have dampened **U.S. retail sales** in June. The month was "particularly challenging" for stores selling summer products as the first three weeks were cooler and wetter than usual, according to weather tracking company Planalytics. Overall same-store sales for U.S. retailers are expected to post a 4.8 percent drop, data from Thomson Reuters shows. The figure excludes **Wal-Mart Stores**, which stopped reporting monthly sales earlier this year. "The consumer is still up against too many hurdles to be spending too much money," Patricia Edwards, a retail analyst for Storehouse Partners said, pointing to factors such as mounting job losses and tight access to credit. Department stores and apparel chains are expected to post among the worst sales declines in June with a 9.4 percent and 5.1 percent drop respectively. Consumer thrift has resulted in solid sales for only a handful of retailers in the past year, particularly discount giant Wal-Mart. But the decision by the world's No. 1 retailer to stop reporting monthly sales has muddied the task of measuring consumer spending, which accounts for about 70 percent of the U.S. economy. Wal-Mart had held about 50 percent of the weighting in the monthly average.

- The number of workers seeking state unemployment benefits is expected to have stayed above 600,000 last week, reinforcing views that the jobless rate may not peak until next year. U.S. employers cut far more jobs than expected last month, pushing the unemployment rate to 9.5 percent, with virtually no sector of the economy spared. Data from the Labor Department is expect to show 605,000 **initial jobless claims** for the week ending July 4, down from 614,000 the previous week, according to a Reuters poll of 38 economists. The four-week average is 615,250.

- **General Motors Corp**'s bankruptcy sale could close after a judge approved it on Sunday in a move that will allow the company's most profitable assets to exit bankruptcy protection under government ownership. Judge Robert Gerber of the U.S. Bankruptcy Court for the Southern District of New York in Manhattan said the sale was GM's only option and completing it would "prevent the death of the patient on the operating table." He approved the sale just over one month after GM filed for bankruptcy, in the largest U.S. manufacturing bankruptcy in history. Under the deal brokered by the Obama administration, "New GM" will emerge as a more streamlined automaker operating the best parts of the old company, including its Chevrolet and Cadillac brands, with a

WHAT TO WATCH ON THURSDAY (continued)

cheaper workforce, smaller dealer network and much less debt. The rest of the company will be liquidated.

- **Chevron** releases its interim production reduction report, offering a look into the fortunes of the oil industry for the second quarter.

- Network equipment maker **3Com Corp**, which gets 57 percent of its revenue from China, reports for the fourth quarter. The Street is expecting earnings of 5 cents per share, down from 9 cents in the same quarter last year. For the year, the company is expected to report EPS of 41 cents, up from 23 cents last year, according to Reuters Estimates.

- **Federal Reserve Vice Chairman Donald Kohn** and former Fed governors **Frederic Mishkin** and **Laurence Meyer** testify before a House Financial Services domestic monetary policy subcommittee hearing, "Regulatory Restructuring: Balancing the Independence of the Federal Reserve in Monetary Policy with Systemic Risk Regulation." (1330 EDT/1730 GMT)

- **Federal Reserve Board Governor Elizabeth Duke** speaks before the Federal Deposit Insurance Corp. 2009 Interagency Minority Depository Institutions National Conference in Chicago (0900/1300).

- **Federal Reserve Bank of Minneapolis President Gary Stern** speaks on "The Federal Reserve's response to the financial crisis, Too Big to Fail, and current economic conditions and prospects for recovery" before a business leaders' luncheon hosted by the Helena, Montana, branch of the Federal Reserve Bank of Minneapolis (1430/1830).

- The **Bank of England** is almost certain to keep interest rates at their record low of 0.5 percent, and is highly likely to expand its 125 billion-pound quantitative easing program. Data since the central bank's policy meeting last month shows that Britain's economic slowdown is leveling off, but a surprise slump in May industrial output makes a second-quarter recovery less certain.

- **U.S. President Barack Obama** is expected to make his mark on his first **Group of Eight** summit by chairing a meeting in L'Aquila, Italy, of the 17-nation Major Economies Forum, whose members account for about 80 percent of global greenhouse gas emissions. G8 leaders believe the world economy still faces "significant risks" and may need further help, according to summit draft documents that also reflect failure to agree to climate change goals for 2050. Documents seen by Reuters before the G8 summit began on Wednesday cautioned that "significant risks remain to economic and financial stability" while "exit strategies" from pro-growth packages should be unwound only "once recovery is assured." Leaders of the major industrial nations and the main developing economies are meeting until Friday.

- Solar industry executives, experts and government officials gather in San Diego for the first of two days of the 4th Annual **Solar Summit** to discuss whether the industry will see a resurgence from the revived interested by financiers and the government stimulus measures.

- Allen & Co's Sun Valley media industry conference continues through Saturday. Investors are looking for news of possible deals involving companies including **Time Warner**, **Viacom**, **Dreamworks** and **CBS**.

MARKET MONITOR

U.S. stocks were little changed as investors shrugged off concerns about the strength of an economic recovery and an uncertain earnings season. The Dow Jones industrial average gained 0.18 percent to 8,178.41 while the S&P 500 Index dropped 0.17 percent to 879.56 and the Nasdaq Composite Index added 0.06 percent to 1,747.17. "A lot of people are waiting to see second quarter earnings and guidance," said Michael James, senior trader at regional investment bank Wedbush Morgan in Los Angeles. "If you don't get some more optimistic commentary to support the move we had from March lows, we run the risk of running down another 5 percent." **Google** rose 1.48 percent to $402.49 after the Internet search company said it was planning to launch a personal computer operating system in the second half of 2010, a move that takes direct aim at **Microsoft**'s Windows product. Microsoft closed 0.13 percent higher at $22.56.

U.S. **government bond prices** shot higher, pushing benchmark yields to seven-week lows, after the Treasury sold $19 billion worth of 10-year debt in an auction that attracted surprisingly strong demand. Auctions of 10-year and 30-year bonds have increasingly been seen as tests of the government's long-term borrowing ability since investors started to question their confidence in the prized U.S. AAA credit rating back in May. Treasury appeared to pass the test with flying colors at its reopening of previously issued 10-year notes, attracting robust demand with the help of weak stocks and worries that the worst recession in decades might not be waning soon. "Basically the fear trade is raising its head," said David Dietze, chief investment strategist at Point View Financial Services in New York. "The level of demand was firmer than people had expected. It seems like there is continuing strong demand for Treasuries and that is keeping a lid on yields." The benchmark 10-year Treasury note was last up 1-9/32 on the day, yielding 3.30 percent, versus 3.46 percent at Tuesday's close.

The **dollar** fell against the yen, helping the yen score its biggest jump in months as renewed concerns about the global economy prompted investors to undo bets against the Japanese currency. Concerns about a recovery resurfaced with political turbulence in China led investors to question whether Chinese economic growth will be a driver of the global economy. Gains in the yen multiplied after it broke through key technical levels, traders said. "It's a risk-driven market and risk is in the process of being unwound," said Brian Dolan, chief currency strategist at Forex.com in Bedminster, New Jersey. "That's hitting the yen crosses and carry trades are under significant pressure," he added. "Most of the selling so far of those yen crosses has been absorbed by dollar/yen." In afternoon trading in New York, the dollar was trading around 92.65 yen, having hit 91.82 yen, its lowest since February. The euro was trading at $1.3834 compared with about $1.3914 late on Tuesday.

MARKET MONITOR (continued)

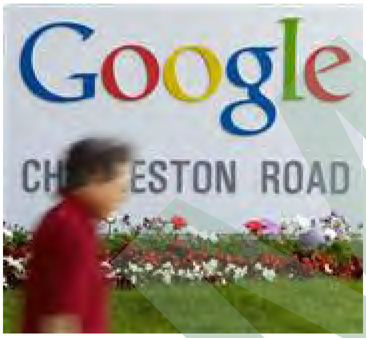
Oil dropped over 3 percent to under $61 a barrel after a U.S. government report showed that distillate stocks have risen near a 25-year high, reinforcing worries about a potential economic rebound. U.S. crude settled $60.14 a barrel, down $2.79 settling down for the sixth straight day. The close was the lowest since $59.65 a barrel on May 19. "This market was already in a downward mood and this report did nothing to alleviate this situation ... distillate stocks are showing signs that the economy has not had any real improvements yet," said Mike Zarembski, senior commodities analyst at optionsXpress in Chicago. Distillate stocks, including diesel, the primary fuel of industry, climbed by 3.7 million barrels last week, compared with an expected 2-million-barrel rise, according to the U.S. Energy Information Administration's weekly report. The data also showed gasoline stocks had risen by 1.9 million barrels despite the Fourth of July holiday weekend which is traditionally the peak travel weekend of the summer driving season. Oil prices have dropped from peaks above $70 a barrel last month as expectations of an economic recovery have faltered and U.S. fuel stocks have risen in line with subdued demand.

Gold futures fell toward $900 an ounce, losing more than 2 percent as oil prices slumped. August settled down $20.10, or 2.2 percent, at $909 an ounce on COMEX. Falling stock prices. Subdued inflation worries amid weak economic sentiment has also dampened gold's appeal as a hedge, traders said. Plans by U.S. futures markets regulator to clamp down on excessive speculation in energy and commodity trading by restricting holdings of big players contributed to broad-based commodities weakness. Spot gold was trading at $908.45 an ounce at 3:06 p.m. EDT, down 1.6 percent from its previous session.

TOP NEWS

Google takes aim at Microsoft with new PC platform

Google plans to attack **Microsoft's** core business by taking on the software giant's globally dominant Windows operating system for personal computers. Google, which already offers a suite of e-mail, Web and other software products that compete with Microsoft, said it would launch a new operating system that will initially be targeted at netbooks. Microsoft shares rose 0.13 percent and Google shares rose 1.48 percent. Called the Google **Chrome Operating System**, the new software will be in netbooks for consumers in the second half of 2010, Google said in a blog post, adding that it was working with multiple manufacturers. Netbooks are low-cost notebook PCs designed for Internet surfing and other Web-based applications. "It's been part of their culture to go after and remove Microsoft as a major holder of technology, and this is part of their strategy to do it," said Rob Enderle, principal analyst at Enderle Group. "This could be very disruptive. If they can execute, Microsoft is vulnerable to an attack like this, and they know it," he said. Google and Microsoft have locked horns over the years in a variety of markets, from Internet search to mobile software. It remains to be seen if Google can take market share away from Microsoft on its home turf, with Windows currently installed in more than 90 percent of the world's PCs. The news comes as executives from the world's biggest technology and media companies, including Google and Microsoft, gather in Sun Valley, Idaho for an annual conference organized by boutique investment bank **Allen & Co**. Google's Chrome Internet browser, launched in late 2008, remains a distant fourth in the Web browser market, with a 1.2 percent share in February, according to market research firm Net Applications. Microsoft's Internet Explorer continues to dominate with nearly 70 percent.



NRG rejects increased Exelon bid as too low

Independent power producer **NRG Energy** rejected **Exelon**'s sweetened hostile bid saying the $7 billion stock offer was still too low. But the company left the door open for talks if Exelon improves its bid, even though the power company has said its current bid is its best and final offer. NRG said its board had unanimously rejected the Exelon bid, arguing that "it continues to substantially undervalue NRG." "Their increase very clearly was a welcome step in the right direction, but there still is a lot of distance to cover both in terms of the price and the terms of the offer," NRG Chief Executive David Crane said on a conference call. Exelon raised its all-stock offer for NRG more than 12 percent last week, citing increased cost savings and NRG's May acquisition of **Reliant Energy**'s Texas retail power business for the higher value. It is offering NRG shareholders 0.545 of its shares for every NRG share, representing a current premium of around 15 percent. "What NRG is doing is leaving itself open to continue to negotiate," said Lasan Johong "Crane wants to see Exelon step up to the plate one more time, preferably closer to 0.6 (Exelon shares for every NRG share), before he makes any move toward a final conciliatory gesture," Johong said. Still, Johong pointed out that Exelon has said that its previous bid was as high as it will go, so there is quite a bit of uncertainty regarding whether it will consider another raised bid. NRG shares rose 5.75 percent while Exelon share rose 0.96 percent.

Six charged in $140 million New York brokerage fraud

Six employees of Wall Street retail brokerage **Sky Capital Holdings** surrendered to the FBI on charges of a $140 million investment fraud and stock manipulation in the United States and Britain, officials said. The firm's founder, President and Chief Executive Officer Ross Mandell, and five others were charged in a criminal indictment announced by prosecutors and parallel civil case by the SEC. The six were charged in a two-count indictment to commit securities, wire and mail fraud for a purported scheme to defraud investors between 1998 and 2006. Calls to phone numbers listed for the New York brokerage went unanswered or were busy. A published overview of the company said that Sky Capital Holdings, through subsidiaries such as Sky Capital LLC, provided financial services and products for international clients. It has another subsidiary Sky Capital UK Ltd. Until late 2006, Sky Capital's shares were traded on the Alternative Investment Market of the London Stock Exchange. "Investor funds were substantially used to enrich the defendants and others; to pay excessive undisclosed commissions to brokers and to pay off victims who had lost money through prior purported investment opportunities," the Office of the U.S. Attorney in Manhattan said in a statement. Apart from Mandell, other principals and employees Stephen Shea, Adam Harrington, Arn

TOP NEWS (continued)

Wilson, Robert Grabowski and Michael Passaro surrendered to the FBI on Wednesday morning, FBI spokesman Jim Margolin said.

Swiss to stop UBS handing over data in U.S. tax row

Switzerland has vowed to prevent **UBS** from handing over client information to authorities, in an attempt to defend bank secrecy, saying a tax case targeting its main bank is souring diplomatic ties. Wealth management giant UBS is facing a court hearing in Miami next week after refusing to disclose data on 52,000 Americans holders of secret Swiss bank accounts to tax authorities. The Swiss Justice Ministry said that Swiss law prevents UBS from handing over client information and the government would seize UBS client data, if necessary, to stop that happening. The case, which comes amid a global fight against tax cheats supported by the U.S. administration, has damaged the UBS brand and could result in an expensive settlement for the bank at a time when the bank needs to focus on restructuring. "Switzerland will use its legal authority to ensure that the bank cannot be pressured to transmit the information illegally, including if necessary by issuing an order taking effective control of the data at UBS," the Swiss government said in a response to U.S. authorities filed in Miami on Tuesday. The tax litigation is also crucial for the future of the multi-billion dollar wealth management industry and is pushing several offshore banks to force clients to come clean. A court hearing that will lead to a ruling on the UBS data issue is due to start on July 13. Washington has accused UBS of hiding nearly $15 billion in assets in secret accounts. The Swiss statement came in response to a filing by **the Justice Department** last week asking the Miami court to enforce tax compliance with the full weight of U.S. law.

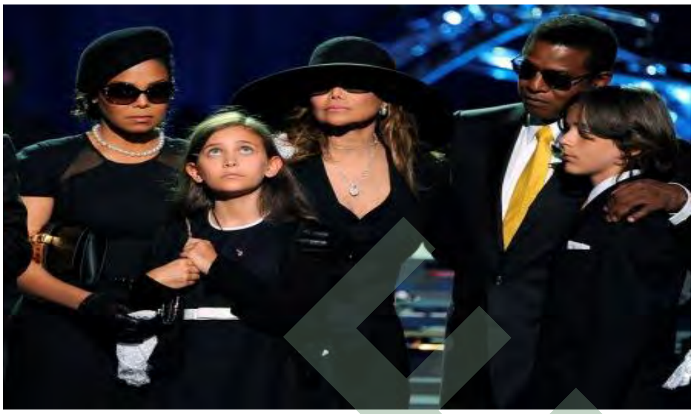
U.S. seeks 145-year sentence for New York lawyer

U.S. prosecutors asked a judge to sentence high-profile New York lawyer and admitted fraudster **Marc Dreier** to 145 years imprisonment or a term that ensures he spends the rest of his life in prison. Dreier, 59, pleaded guilty in May to running a $400 million investment fraud involving fake promissory notes and he was released into house arrest until his sentencing on July 13. While the size of the fraud is dwarfed by comparison with the estimated $65 billion disgraced financier **Bernard Madoff** admitted to swindling, prosecutors asked for a similar term of incarceration, the highest allowed by sentencing guidelines. Madoff, 71, was sentenced to 150 years in prison on June 29. In a memorandum to District Court Judge Jed Rakoff, prosecutors wrote that Harvard and Yale educated Dreier, despite his advantages decided to seek vast personal riches and prestige through a life of fraud and through dishonor to his profession." The memorandum concluded that "a reasonable sentence in this case would be the guidelines' sentence of 145 years, or alternatively, a term of years that would assure that Dreier will remain in prison for life and forcefully promote general deterrence." Dreier's lawyer Gerald Shargel suggested the judge give his client between 10 years and one month and 12 years and seven months in prison as an appropriate sentence. Dreier is "profoundly remorseful" and has done what he can to make amends for his crimes, Shargel said in his sentencing memorandum.

Family Dollar profit beats Wall Street view; shares up

Family Dollar Stores reported a better-than-expected 36 percent jump in quarterly profit, sending its shares up 12.36 percent, as more shoppers scoured its aisles for low prices on food, shampoo and household cleaners. The retailer, which prices most of its merchandise under $10, also raised its profit forecast for the current quarter, giving a range that should meet or beat

PIC OF THE DAY



Jackson family attend memorial service for their music legend Michael Jackson at the Staples Centre in Los Angeles.

analysts' estimates. Family Dollar earned $87.7 million, or 62 cents per share, in the third quarter ended May 30, up from $64.7 million, or 46 cents per share, a year earlier. Analysts, on average, expected profit of 59 cents per share, according to Reuters Estimates. The stronger-than-expected results, along with its expectation for June same-store sales to rise 2 percent, boosted its shares along with those of competitors, like **Dollar Tree** and **99 Cents Only Stores**. Its third-quarter sales rose more than 8 percent to $1.84 billion, while sales at stores open at least a year, or same-store sales, increased 6.2 percent. It estimated its June same-store sales rose about 2 percent. Telsey Advisory Group analyst Joseph Feldman said that was a strong result considering Family Dollar's year-ago sales were helped by shoppers spending tax rebate cash in its stores. For the fourth quarter ending on Aug. 29, it expects net sales to increase 4 to 6 percent, and the retailer forecast a rise of 2 percent to 4 percent in same-store sales. The retailer now expects fourth-quarter earnings of 39 to 43 cents per share, while analysts on average were expecting 39 cents. It had previously said it expected fourth-quarter earnings of 34 to 40 cents a share.

Pepsi Bottling beats Street despite light volume

Pepsi Bottling reported a higher-than-expected quarterly profit as price increases and stronger sales of carbonated soft drinks helped offset declining demand for pricier beverages. Falling prices for aluminum also helped boost earnings, and the largest bottler of **PepsiCo** beverages said full-year profit would probably come in at the high end of its forecast even though results in the current quarter might miss analysts' expectations. Shares of Pepsi Bottling, which remained quiet on the bid it received from PepsiCo in April, fell 0.36 percent. While soft drinks are selling well as consumers look for less-expensive treats, Pepsi Bottling said sales volume had fallen 1 percent in the United States and Canada and 4 percent overall as shoppers cut back on other beverages, such as bottled water. Pepsi Bottling, which has a "positive" outlook for the remainder of 2009 and beyond, said it expected full-year earnings toward the high end of its prior forecast of $2.30 to $2.40 per share. "We absolutely think they have more firepower as they negotiate with PepsiCo to raise their estimates again if they have to," said Bill Pecoriello, CEO of Consumer Edge Research. He expects the two sides to announce a deal over the next couple of weeks, with Pepsi raising its bid for Pepsi Bottling to the upper $30s. Pepsi Bottling could increase its full-year earnings outlook by another 10 cents per share, he said. Pepsi Bottling's net income rose to $211 million, or 96 cents a share, in the second quarter ended June 13 from

TOP NEWS (continued)

$174 million, or 78 cents a share, a year earlier. Excluding items, Pepsi Bottling earned 78 cents a share. Topping the analysts' average forecast of 73 cents, according to Reuters Estimates. Net revenue fell 7 percent to $3.27 billion, lighter than the analysts' average estimate of $3.44 billion. Selling, delivery and administrative expenses declined 10 percent. The company now expects to save about $265 million overall this year, up $15 million from an earlier view.

US Airways has no plans to cut U.S. capacity

US Airways has no plans for further downsizing, despite capacity cuts by rivals and falling travel demand in the United States, the airline's chief executive said. "We are pretty happy with our fleet right now and have no plans to reduce capacity any further," Doug Parker said in an interview with Reuters after a news conference to mark the airline's new Philadelphia-Tel Aviv route. "If anything, we will have a modest expansion internationally," he said at Israel's Ben-Gurion International Airport near Tel Aviv. Hurt by the economic downturn that has hit travel demand, many carriers have responded with sweeping capacity cuts. US Airways has said it would cut its 2009 mainline capacity by 4 to 6 percent, but the carrier has little room for more downsizing because it is near the minimum capacity required by its pilots' contract.

GM China sees sales up 20 pct in 2009

General Motors said it expects its vehicle sales in China to grow by more than 20 percent this year, as it remained hopeful of selling its struggling Hummer unit to a little-known Chinese firm. The China sales forecast by GM's China chief Kevin Wale was up sharply from a more conservative figure he gave earlier this month, when he said the company expects more than 10 percent growth in its vehicle sales in China this year. But the full-year growth rate would still be far less than the 38 percent growth that GM China posted in the first half of 2009, when its vehicle sales in the country rose to 814,442 units, an all-time first-half record. "The market has got stronger than we thought. We had a very strong start to the year, so we think our growth (for 2009) will be a little over 20 percent," Wale said in an interview with Reuters TV in the south China city of Guangzhou. He added that General Motors' bankruptcy in the United States had no impact on the company's China sales. "It really hasn't affected us at all," Wale said. "The first half of the year has been fantastic. Strange as it may seem (the bankruptcy) has had almost no impact on us." "We're hopeful it will be done. It's an issue that needs to be discussed with the Chinese government," Wale said of the Tengzhong-Hummer deal. In the other global deal, **Beijing Automotive** (BAIC) is making a late bid to buy GM's **Opel** operation in Europe, even though the previously announced buyer, Magna, has said it remains on track to reach a deal. Wale declined to comment on that deal.

Las Vegas Sands eyes $3-$4 bln fund raising

Las Vegas Sands, the world's largest casino firm, wants to raise $3-$4 billion and is considering several options including an IPO of its Macau assets in Hong Kong, Chairman and CEO Sheldon Adelson said. "We are looking at a Hong Kong Stock Exchange listing, among 5 or 6 options," Adelson told Reuters Insider TV in an interview in Singapore, adding that the firm hopes to get a total of $3-4 billion through various fund raising initiatives. Sands may also raise cash by selling stakes to private equity firms or getting construction companies involved in its projects to assemble their own financing, he added. He denied reports that the firm was considering a bond issue in the United States. The global casino industry has been hit by a drop in leisure spending and Sands has cut staff in the U.S. and postponed construction projects in Macau to conserve cash. Analysts estimate the firm needs to raise about $1.5 to $2 billion to complete its developments in Macau. Reuters reported in May that Sands had hired **Goldman Sachs** to look at a potential Hong Kong listing for its Macau operations and the firm planned to cut around 4,000 jobs or about 20 percent of its workforce in the Chinese territory. Adelson, however, said the global economy appears to have bottomed and that the firm's Las Vegas casinos had exceeded budget projections for May and June. The Macau properties have also performed better than the industry average in terms of visitations and revenues. "We are at the trough of the recession... From this point on, I think we are going to see an improvement," he said. Adelson said Sands has put on hold plans to sell the retail component of its Venetian casino in Macau because of the weak financial markets, and it hoped to resume construction in Macau at the end of 2009. Sands owns and operates the Venetian and Palazzo casinos and Sands Expo in Las Vegas as well as the Sands Casino Resort Bethelem in eastern Pennsylvania.

U.S. mortgage applications climb eases Fed pressure

Demand for U.S. mortgages bounced from seven-month lows last week as average 30-year borrowing costs were unchanged, helping ease pressure for aggressive **Federal Reserve** actions to push down long-term interest rates. The rise in applications, along with signs that home prices and sales have stopped hemorrhaging, suggests mortgage rates may not fall much lower and that a rebound in housing is dependent on improvement in the labor market, strategists said. **The Mortgage Bankers Association** said its total loan applications index rose a seasonally adjusted 10.9 percent to 493.1 in the week ended July 3, after slumping the prior week to the lowest level since November. Last week's report was adjusted to account for the Independence Day holiday on Friday. Average 30-year mortgage rates stayed at 5.34 percent. While up from a record low 4.61 percent in late March, the rate is below its recent peak of 5.57 percent in early June and sharply lower than 7.04 percent a year ago. If borrowers expect mortgage rates have seen their lows, there could be another push to lock in rates before they rise. A sudden spike in home loan rates from record lows in the spring had derailed a race by homeowners to cut monthly costs by refinancing. David Kelly, managing director and chief market strategist at JPMorgan Funds, said mortgage rates may have hit their lows, noting the Federal Reserve's unchanged stance on its plans to buy up to $1.45 billion in mortgage-related securities and $300 billion of Treasuries in order to lower borrowing costs and help revive the economy. The Mortgage Bankers Association's seasonally adjusted refinancing index rose 15.2 percent last week to 1,707.7, after a 30 percent plunge in the prior week. Purchase applications, which lagged refinancing demand all through the spring home sales season, rose 6.7 percent last week to 285.6.

New York indicts 13 in $100 mln mortgage fraud

New York prosecutors said 13 people and a mortgage origination company have been indicted on charges of running a multi-million-dollar real-estate fraud that cheated lenders through sham sales. The defendants include employees at the Long Island, New York-based mortgage company **AFG Financial**, several attorneys and other defendants, according to Manhattan District Attorney Robert Morgenthau. The scheme ran from

TOP NEWS (continued)

2004 until this year, though most of the activity occurred from mid-2005 to 2007 at the height of the home lending boom, Morgenthau said. "This is a major oversight by federal oversight bodies," said Morgenthau. "If there was any legitimate side (to the company), it was by accident." The indictment charges the defendants with 19 fraudulent mortgage transactions totaling more than $12 million, but Morgenthau said the scheme probably involved more than $100 million. Lawyers for the defendants could not immediately be reached for comment. Another dozen defendants who also participated in the purported scheme have already waived indictment and pleaded guilty, Morgenthau's office said. The investigation is continuing, and Morgenthau said the size of the scheme could eventually total $200 million.

BATS to launch U.S. options exchange in 2010

The parent of **BATS Exchange**, the third-largest U.S. stock exchange, said it plans to launch an options market with a competitive pricing model which could attract up to 5 percent of U.S. equity options market share. BATS Global Markets all-electronic platform, scheduled to begin trading in early 2010, could bring to nine the number of venues battling for order flow in the crowded options arena. There are now seven U.S. options exchanges and two set to launch. "We plan to employ the maker-taker model with a price time priority structure, meaning the first customer that enters an order" will have that order executed first, said Ken Conklin, global head of business development and marketing for BATS, in a phone interview. The maker-taker model, used by the smaller options exchanges, rewards liquidity providers by crediting them with a rebate and assesses transaction fees on those removing liquidity. Launching an equity options exchange would put BATS in competition with top players -- **Chicago Board Options Exchange**, which plans to launch an all-electronic exchange dubbed C2 this year and the **International Securities Exchange**.

News Corporation won't buy Twitter, won't sell MySpace

News Corporation is not interested in buying popular micro blogging site **Twitter** and will not sell its struggling social network MySpace, said the media conglomerate's chief executive, Rupert Murdoch. Murdoch, who arrived at the Allen & Co investment bank's Sun Valley media and technology conference, said Twitter would be a tough investment to justify because it has not yet come up with a sustainable way to make money. "Be careful of investing here," he said of Twitter. Speculation is running rampant at the 27th Sun Valley conference over which company might want to buy Twitter. The service, which lets people post to Web what they are thinking or doing in 140 characters or less, is growing in popularity. Twitter co-founder Evan Williams is widely considered one of the darlings of this year's conference. Sun Valley often features hot Internet start-ups that older media conglomerates would like to buy to enhance their own businesses.

Asked if he was considering buying Twitter, Murdoch said, "No." Asked about selling MySpace, he said, "Hell no." News Corp bought **MySpace** in 2005 for $580 million when the social networking service was nearing the height of its popularity, particularly among younger Internet users. Since then, it has ceded ground to rival **Facebook** as well as Twitter. News Corp recently ousted MySpace co-founder and CEO Chris DeWolfe and installed its own management team. In a bid to cut costs, MySpace also has laid off more than 400 workers, or 30 percent of its staff, in the United States.

Murdoch's UK publisher paid 1 mln stg over phone taps - report

Rupert Murdoch's **News International** has paid 1 million pounds ($1.61 million) to settle court cases involving allegations its reporters worked with private investigators to tap people's phones, the Guardian newspaper reported. A spokeswoman for News International, the British newspaper subsidiary of global media company News Corp, had no immediate comment. The report on the Guardian website said that the publisher of the Sun, News of the World and Times newspapers made payments to settle three cases out of court. Reporters were alleged to have worked with private investigators to access the phones of public figures to try to find material for stories, the Guardian said. The News of the World's royal affairs editor Clive Goodman was jailed for four months in 2007 for hacking into the phones of members of the royal family's household several hundred times to obtain exclusive stories. A British lawmaker whose parliamentary committee investigated the Goodman case said he was "concerned" by the latest allegations in the Guardian. "The committee will want to discuss it very urgently, I think we will do so tomorrow morning," John Whittingdale, chairman of the lower house's committee on culture, media and sport, told Channel 4 News. "We will want to ask News International about all of these payments and about anybody who was employed who might have known more." Andy Coulson, who was editor of the News of the World at the time of the Goodman case, is now director of communications at Britain's main opposition Conservative Party, which leads in the opinion polls before a parliamentary election due within a year.

ANALYSIS AND INSIGHT

COLUMN: Is Goldman Sachs evil?

By Matthew Goldstein

NEW YORK - Is **Goldman Sachs** really a "vampire squid wrapped around the face of humanity"?

That's the view of journalist Matt Taibbi in a long article in Rolling Stone magazine. Taibbi blames the firm for almost single-handedly orchestrating every investment calamity since the Great Depression. And judging by much of the reaction in the blogosphere, Taibbi's view has become the accepted meme when talking about Goldman.

Yet that simple storyline, as compelling as it may be, is far from the truth.

The reality is Goldman is no more of a sinner than any other Wall Street bank.

Is Goldman really any more responsible for the inflating and the bursting of the housing bubble than **Citigroup**, **Merrill Lynch**, **Countrywide** or even **New Century Financial**? No single bank cornered the market on greed in the current financial crisis.

But what does separate Goldman from the pack is that it consistently plays the trading game with a far more ruthless attitude.

Goldman's rough-and-tumble style is on display in the case of a former employee accused of stealing some of its secret proprietary trading codes. According to the criminal complaint, Goldman learned about the alleged skulduggery of its former employee, Sergey Aleynikov, sometime in mid-June. But the firm waited until July 1, right before the start of the Fourth of July holiday, to notify federal authorities of the theft.

Aleynikov's late evening arrest on July 3 forced an unusual holiday court appearance the next day in federal court in Manhattan. The terms of the bail were rather steep. And, of course, the banks were closed for the next two days -- all but insuring Aleynikov would spend a few more nights in jail. Talk about a deterrent. You can bet that Goldman won't be dealing with any Aleynikov copycats for quite sometime -- even if the former programmer is ultimately found not guilty of the charges.

Goldman's ruthlessness also worked to its advantage in navigating the collapse of the housing market.

Back in 2007, when Goldman started turning bearish on the housing market, the firm began quietly to take steps to lighten its exposure to home loans to borrowers with risky credit histories.

Now it's well-known that Goldman was the first of the big Wall Street banks to play hardball with American International Group , pushing the insurer in late 2007 to pay up cash collateral on some of the guarantees it had provided on mortgage-backed securities. What's not as well known is that Goldman, in a move to rid itself of ubprime-backed debt, managed to peddle off some of its soon-to-become refuse on **CIBC** of Canada.

Sometime in 2007, Goldman sold off pieces of collateralized debt obligations it had in its portfolio to CIBC. The CDOs were guaranteed with credit default swaps sold by ACA Capital, a bond insurer that begin to collapse in December 2008. ACA was an early sign of things to come with AIG. But back when Goldman sold the CDOs to CIBC, the deal looked solid enough. When tiny ACA collapsed, however, the guarantees were worthless and the value of the CDOs quickly plummeted. An embarrassed CIBC, which has never said how it came to possess the CDOs, took an initial $2.3 billion write-down and since has taken additional write-downs.

From Goldman's perspective, the firm, since it clearly harbored doubts about the securities, did the shrewd thing by finding a buyer for them. So Goldman delivered a Trojan horse to CIBC -- a firm with a troubled history in investment banking.

Is that evil? I don't think so. But it's the kind of one-sided deal that leaves one wondering why any firm thinks they can get the better of Goldman in a trade.

(Matthew Goldstein is a Reuters columnist. Views expressed are his own).

For some, valuable trade codes well worth stealing

CHICAGO - In the world of automated trading, fortunes are made in less than the blink of an eye. That wealth is generated on computer systems that can handle greater trading volumes at ever increasing speeds. These platforms often rely on algorithms -- a sequence of instructions used for calculation and data processing -- that can spot unseen opportunities in the market and give their users a huge advantage measured in milliseconds.

For banks such as **Goldman Sachs Group**, the codes are worth a fortune and this value also make them a tempting target for thieves -- as appears to have happened with Sergey Aleynikov, a former computer programmer at Goldman arrested by the **Federal Bureau of Investigation** last Friday.

"The risks of trying to steal a trading model are very high," said David Easthope, a senior analyst at Celent, which is part of the Oliver Wyman Group. "But the potential reward is very, very high because when you look at investment banks, they've made higher and higher profits" from automated trading.

Goldman in particular has had a "great last few months" thanks to a trading model that has enabled it to "take the right risk at the right time," Easthope added.

"If you happen to have built a model that makes you even 200 milliseconds faster than me, you are in a much better position," said Sang Lee, managing director of research and advisory firm Aite Group. "You may be able to trade a thousand times before I even see what's going on and act on it."

It takes 300 to 400 milliseconds for human eyes to blink and it's that advantage that encourages thievery, such as allegedly committed by Aleynikov.

"These systems have a huge value and, if they get out, then you lose your edge," said Michael Gorham, director of the center for financial markets at the Illinois Institute of Technology.

The Goldman Sachs case is unusual because it is far more common for algorithm experts to design a system, walk away with the information in their head and build an identical system elsewhere -- which can lead to civil lawsuits over intellectual property rights, but not charges of theft.

"But you don't often hear of people actually stealing the data in question," Gorham added.

Analysts say increased financial regulation and oversight proposed by the administration of U.S. **President Barack Obama** -- the largest regulatory overhaul since the Great Depression if it makes it through the Congress -- cannot prevent data theft of this kind.

Instead, the hedge funds, internal trading desks at banks and independent proprietary trading firms that use trading platforms are expected to beef up internal security to try to minimize the risk.

According to Professor Adam Galinsky of the Kellogg School of Management, taking the kind of risk Aleynikov is accused of is not uncommon among people given power -- in this case over Goldman Sachs' trading platform.

"Power alters the the basic neurological processes in the brain and inhibits those parts of the brain that would allow a person to show restraint," he said. "It allows them to systematically ignore the consequences of their actions." Galinsky referred to past examples of traders gone wild to demonstrate the effect power can have. For example, futures trader Nick Leeson, who lost $1.4 billion and brought down **Barings Plc**, one of Britain's oldest banks, in early 1995. Or Jerome Kerviel, whose unauthor-

ANALYSIS AND INSIGHT (continued)

ized trades caused a loss of 4.9 billion euros ($6.87 billion) at **French bank Societe Generale**.

The main difference in the latest case is that Aleynikov was not a trader, a fact that Robert Friedman, a partner in the litigation group at law firm Kelley Drye & Warren LLP said would make additional regulation redundant.

"Regulation is more geared toward transparency in the markets rather than preventing outright theft," he said. "It is very difficult to prevent theft before it happens, but it appears Goldman Sachs had controls in place that worked." Others see the episode as a cautionary note, not just for Goldman, but the rest of the market as well.

"If anyone has an algorithm that's working well, it's very valuable," said Iqbal Brainch, chief marketing officer at futures brokerage firm Advantage Futures -- whose website touts that it is "millisecond to none."

"This case speaks to the importance of security, the importance of not letting any of that information out -- and the importance of putting steps in place to protect your algorithms."

UBS could afford to pay $5.5 bln in U.S. tax row

ZURICH - Swiss bank **UBS** may be able to pay up to $5.5 billion to end a damaging U.S. tax dispute without needing an immediate cash injection thanks to a recent capital increase and proceeds from asset sales.

U.S. authorities have said UBS has helped wealthy Americans hide $15 billion of untaxed money and are trying to force it to hand over 52,000 client names.

A court hearing is due on Monday and UBS may end up paying large amounts to end the row.

UBS announced late in June it had raised 3.8 billion Swiss francs ($3.5 billion), improving its Tier 1 capital cushion to 11.9 percent of risk-weighted assets, or an estimated 33 billion Swiss francs, from 10.5 percent on March 31.

But UBS said its Tier 1 ratio would likely already be above 12 percent as it has cut risk-weighted assets from nearly 277.8 billion Swiss francs on March 31.

BZ Bank analyst Matthias Duerr said a fine of 5 billion Swiss francs ($4.59 billion), the top of the range of what Swiss media have said UBS may pay, would cost about 200 basis points, thus keeping UBS above the 10 percent Tier 1 ratio benchmark.

"The capital cushion of the bank would be gone, but they would not need immediate further capital," Duerr said.

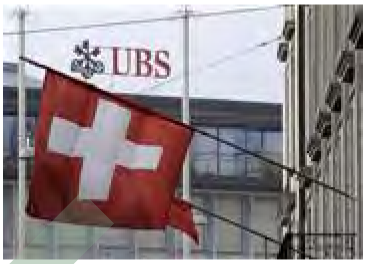
Analysts see a Tier 1 ratio of 10 percent as the minimum for a solid capital base. Although such a level would be comparable with Deutsche Bank's 10.2 percent, UBS' capital base would look weak in comparison to a Tier 1 ratio of more than 14 percent at rival Credit Suisse.

But UBS is under little pressure to rebuild its Tier 1 ratio as **Swiss financial regulator** FINMA has given the two Swiss banks until 2013 to further boost their capital base.

Other analysts say depending how the fine is calculated, UBS could have room for an even higher fine.

"In the case of a pre-tax payment of $1 billion, the resulting impact on the Tier 1 ratio would be 28 basis points," said Commerzbank analyst Michael Dunst, who expects UBS had a Tier 1 ratio of 12 percent at the end of the second quarter.

This would mean 140 basis points for a $5 billion payment. And a third analyst said UBS could afford to pay a fine of even 6 billion Swiss francs ($5.51 billion) if it was to be calculated on a pre-tax basis.



A spokesman for UBS said speculation about potential settlement payments in the U.S. tax dispute were "completely unfounded" and said there was no connection between the June 25 capital hike and the ongoing row.

UBS Chief Executive Officer Oswald Gruebel, who was appointed in February to turn around the crisis-hit Swiss wealth manager, has made strengthening the bank's capital base a priority.

In a June 25 update to its current trading performance, UBS predicted a second-quarter loss, but said this would stem from losses to own credit that do not eat into Tier 1 ratios.

UBS also said its Tier 1 ratio would benefit from a reduction in risk-weighted assets.

The bank cut risk-weighted-assets by about 9 percent in the fourth quarter of 2008 and by 8 percent in the first quarter of 2009, but analysts are sceptical it could keep this pace.

DZ Bank's Duerr said he forecast the assets to have dropped to 265 billion francs while another analyst said the drop could be around 2 percent, or about 272 billion francs.

A fall in these type of assets boosts the bank's Tier 1 ratio, which is calculated as a percentage of the assets. UBS said it will also have a 50 basis points boost from the sale of Brazilian unit Pactual for $2.5 billion earlier this year, which is due to close in the third quarter.

Analysts expect a resolution to the U.S. tax litigation to help UBS stem billions of francs of wealth management client money withdrawal it has been suffering since coming into the spotlight in the financial crisis.

UBS shares, now hovering at 12.8 francs, or the mid-point between their six-month high of 17.2 and a multi-year low of 8.2 francs in March, are expected to rise in the short-term.

"We believe that a resolution of the U.S. tax issue could support a reversal of net outflows into net inflows," Commerzbank's Dunst said, who maintains a cautious "hold" rating on UBS and says he prefers **Deutsche Bank** and **Credit Suisse**.

But the end of the tax dispute may not be the end of UBS' problems as the bank has yet to prove it can be profitable.

And even though Swiss regulators may not urge UBS to rebuild its capital as yet, the bank, which has already got state aid, is expected to come under pressure to raise more cash later on.

"A settlement in the U.S. tax litigation would be a good signal for UBS shares in the short-term, but problems still remain," said Sebastien Lemaire, a bank analyst with Natixis.

THURSDAY: KEY COMPANY RESULTS

	Quarter	ET**	Reuters Estimates EPS ($)	Reuters Estimates Rev. ($,mln)
Chevron Corp	Q2	1700	1.27	20,015.83
Shaw Group	Q3	0745	0.6	1,790.41

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

ON THE RADAR

ECON INDICATOR	ET/GMT	REUTERS POLL	PRIOR	SOURCE
FRI: International Trade (May)	0830/1230	-$30.2 bln	-$29.16 bln	Commerce Department
Import Prices (Jun)	0830/1230	+2.0 pct	+1.3 pct	Bureau of Labor Statistics
- - Export Prices		+0.4 pct	+0.6 pct	
Reuters/ UMich (Jul)	0955/1355	70.5	70.8	Reuters/University of Michigan consumers survey
- - Current Conditions		74.0	73.2	
- - Expectations		69.9	69.2	
ECRI Weekly Index	1030/1430	- -	117.6	Economic Cycle Research Institute

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theday.ahead@thomsonreuters.com
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