AFS Brokers

TODAY 12-07-11

NL (a.o.): Royal Dutch Shell at Iraq Petroleum conference;
NL Tomorrow *(a.o.): ASML, Holland Colours ex-div*
EUR (a.o.): l'Oreal sales (aft mkt), Peugeot Sales, Investor, DnB Nor;
EUR Tomorrow *(a.o.): Carrefour sales (aft mrkt)*
EUR Ex-div (a.o.): -;;
EUR Ex-div Tomorrow *(a.o.): Firstgroup, Iberdrola ;*

MACRO:
France, Germany CPI
EU Finance Ministers meeting, day 2
13:30 US NFIB Small Business Optimism
14:30 US Trade Balance
14:30 US WASDE report (commodities, relevant for fertilizer sector)
16:00 US JOLTs Job Openings, IBD/TIPP Economic Optimism
20:00 US Fed releases minutes of June 21-22 FOMC meeting
22:30 US API Crude Inventory data

FINANCE Credit / CDS HFs

- **Schaeuble Says Private Lenders Must Contribute to Debt Solution** -- German Finance Minister Wolfgang Schaeuble said private lenders should contribute to a solution of the Greek debt crisis. "Greece must implement its consolidation measures and private lenders must contribute to a solution," Schaeuble said in an interview with broadcaster Deutschlandfunk today. Schaeuble said euro region finance ministers are "generally" in agreemenmt about how to proceed. Schaeuble also called for more competition among rating agencies. (BN)
- **European Banks Tell EU to Commit to Greek Debt Buyback, FT Says** -- European banks have demanded that the European Union commit itself to a buyback of Greek debt and for the euro area and International Monetary Fund to take urgent action "to avoid market developments spinning out of control and risk contagion accelerating," the Financial Times reported. The FT cited a proposal by the Institute of International Finance, representing the banks, in a paper presented to euro area finance ministers today. (BN)
- **Sovereign Risk Main Challenge To Global Financial Stability - BOC Carney, Bank Of Italy Panetta** -- Risks to sovereign debt in Europe and beyond pose the top problem for the global financial system, and banks, governments and central banks must prepare for a sustained period of volatility, top officials from the Canadian and Italian central banks said. "Sovereign risk has emerged as the main challenge to global financial stability," Bank of Canada Gov. Mark Carney and Bank of Italy Managing Director Fabio Panetta wrote in a commentary posted Monday on the Financial Times website. "This issue is not limited to Europe," they said. "With high and rising debt levels in most advanced economies, the risk-free status of sovereign debt is now in question." Carney is chairman of the Bank for International Settlement's Committee on the Global Financial System, and Panetta chaired a study group of the committee on sovereign-credit risk. They wrote that worsening sovereign creditworthiness hurts banks but that "actions by banks and the official sector can mitigate these effects." (DJ)
- **Italy's Banks Need to Strengthen Capital, Bini Smaghi Says** -- European Central Bank Executive Board member Lorenzo Bini Smaghi said Italian banks need to strengthen their capital and accelerate plans for fund-raising. He made the comments to reporters in Milan. (BN)
- **Commerzbank CEO: Greece Restructuring Tricky But Feasible - FAZ** -- A restructuring of Greek debt would be "rocky but feasible" for Greece and could include private creditors replacing more than EUR50 billion in Greek debt backed by the euro-zone, Martin Blessing, chief executive of Germany's Commerzbank AG, said Tuesday in German newspaper Frankfurter Allgemeine Zeitung. Blessing proposes that private creditors exchange their Greek debt holdings for 30-year bonds with a 30% discount and 3.5% interest rate, according to the newspaper. The model would need to serve as a "blueprint for Portugal, and if necessary Ireland," Blessing said. "Continuing as earlier is not possible," he said, in light of contagion fears for Italy and Spain. (DJ)
- **Goldman Cuts Greek, Portugal Banks PTs on Sovereign Risk** -- Says sovereign headwinds will remain the main driver of banks share prices in Cyprus, Greece and Portugal. * Does not see any buying opportunities in those markets * NOTE: on July 11 Italian, Spanish, Portuguese Bonds Slump as Contagion Spreads (BN)
- **Europe Banks Cheap If Only Greece, Ireland, Portugal Default:RBS** -- Default by Spain, Italy or other major European countries may lead to recapitalisation of banks across Europe; including Unicredit, SocGen, Barclays. * Says BNP, SocGen have >10% of common equity tier 1 in Greece, Portugal, Ireland bonds * BNP has 38% invested in Italian debt, Deutsche Bank with 27%, Barclays with 22%, ING 16%: RBS * Barclays has a further 20% invested in Spanish sovereign bonds: RBS (BN)
- **Deutsche Bank, MortgageIT Ask Court to Toss $1 Billion Lawsuit** -- Deutsche Bank AG, Germany's biggest bank, and its MortgageIT unit are seeking dismissal of a $1 billion suit by the U.S. government claiming they lied to qualify thousands of risky mortgages for a government insurance program. The U.S. claims Deutsche Bank and MortgageIT falsely certified that they properly assessed the default risk of borrowers, qualifying loans for insurance by the Housing and Urban Development Department's Federal Housing Administration, according to a complaint filed May 3 in Manhattan federal court. "The complaint is long on unsupported and conclusory rhetoric but short on facts and legal underpinnings," Deutsche Bank argued in a court filing yesterday. "It utterly fails to state any basis on which to hold Deutsche Bank liable for alleged conduct that occurred before it acquired MortgageIT and in which it had no involvement." The U.S. sued under the False Claims Act, which permits it to seek triple damages and penalties of more than $1 billion. The government claims Deutsche Bank and MortgageIT masked problem loans through "egregious" violations of HUD rules for analyzing the income and creditworthiness of borrowers. (BN)
- **US Weighs Housing Fixes** -- The Obama administration is ramping up talks on how to revive the housing market, which is weighing on the economic recovery--and possibly the President's re-election in 2012. Last year, advisers considered several housing-policy prescriptions but rejected them in favor of letting the market sort things out. Since then, weak demand and a stream of foreclosed properties have put renewed pressure on home prices, prompting concern within the White House. Housing "hasn't bottomed out as quickly as we expected," President Barack Obama said at a White House town hall last week. Mr. Obama said housing remained the "most stubborn" problem facing the country and conceded that a raft of federal mortgage-aid programs were "not enough, and so we're going back to the drawing board." Policy ideas include having taxpayer-owned mortgage giants Fannie Mae and Freddie Mac relax their rules for loans to investors, allowing those buyers to vacuum up excess housing inventory. In certain markets, Fannie and Freddie could hold some foreclosed homes off the market and rent them out to ease the property glut. Officials also could sweeten incentives for banks to reduce loan balances for borrowers who are underwater, or owe more than their homes are worth. Discussions are in early stages, and there isn't consensus around particular ideas. A spokeswoman said the president and his advisers "are always looking at new ways" to strengthen the housing market but wouldn't disclose details. (WSJ)

- **Santander Tests Investor Interest in Argentina IPO Plan, FT Says** -- Banco Santander SA is testing interest among institutional investors for its plan to list between 15 percent and 25 percent of its Argentinean unit, Santander Rio, on the U.S. stock market in an initial public offering that could raise between $500 million and $700 million, the Financial Times reported, without citing a source for the information. The Spanish lender will assess market conditions over the next week before coming to a final decision on the listing, the FT said. (BN)
- **Moody's Defends Danish Mortgage Bond Downgrades Amid Backlash** -- Moody's Investors Service defended its downgrades of Denmark's mortgage bond market, the world's third-largest, after the industry's biggest lenders said the rating company based its cuts on misunderstandings. Moody's, which in June warned that the Danish market for home loans was growing less stable amid a rise in the proportion of adjustable-rate loans, said the securities are putting issuers at risk because they need to tap debt markets more frequently to refinance mortgages. "If you look at a comparison between adjustable-rate mortgage bonds and a more traditional product, then - in terms of credit risk - the adjustable-rate mortgage bonds are riskier," Moody's analyst Alexander Zeidler said in a phone interview out of London yesterday. The view is in contrast with Standard & Poor's take on Denmark's mortgage market, where credit analyst Casper Rahbek Andersen said last week he doesn't expect a departure from fixed-rate debt to weaken lenders' access to stable funding. (BN)

TECH/TELCO

- **Telecoms Operators Call for New Charging Models, FT Reports** -- The chief executive officers of Alcatel-Lucent SA, Deutsche Telekom AG and Vivendi SA will say in a report to be published today that European telecoms operators should be allowed to develop new business models, with "no restrictions," including charging online content providers for delivering content to customers, the Financial Times reported, citing the report. The report is a response to the European Commission's concerns that European Union targets on improving broadband speeds will not be met because of insufficient investment by telecoms operators, the FT said. (BN)
- **Vivendi Plans Change in French Tax Status, Les Echos Reports** -- Vivendi SA plans to change its tax status in France from 2012, Les Echos reported, citing unidentified people close to the matter. Vivendi is currently taxed under the "global consolidated profit" regime, which allows the group to consolidate profits and losses with those of any group in which it holds a minimum 50 percent stake, either in France or abroad, Les Echos said. That system will result in a 500 million-euro tax credit for the group this year, according to the French business newspaper. (BN)
- **Bharti Said to Seek Tower Unit IPO Valuing It at $10 Billion** -- Bharti Airtel Ltd., India's largest telephone company, is planning an initial public offering of phone tower unit Bharti Infratel Ltd. that may value it at about $10 billion, said two people with knowledge of the matter. Bharti Airtel, based in New Delhi, picked Morgan Stanley and Standard Chartered Plc to manage the sale and is in discussions with other investment banks as well, the people said, declining to be identified as the talks are confidential. The company hasn't decided how much of Bharti Infratel it will sell or set a timeframe for the deal, they said. The value of share sales in India dropped 52 percent so far in 2011 from a year earlier, as a decline in the benchmark Sensitive Index prompted companies including Micromax Informatics Ltd. to scrap IPOs. (BN)
- **Infosys Forecast Misses Estimate; India Software Shares Fall** -- Infosys Ltd. forecast sales that missed analysts' estimates pulling shares of rival Indian software exporters lower amid concerns customers are holding off on new contracts because of uncertainties in the global economy. India's second-largest code writer estimated sales in the year to March to range from $7.1 billion to $7.3 billion, Bangalore-based Infosys said in a statement today. That missed the $7.5 billion average of 56 analyst estimates compiled by Bloomberg. The company raised the outlook for earnings per American depositary receipt. Infosys fell the most in almost three months in Mumbai, leading declines in Tata Consultancy Ltd. and Wipro Ltd. as the forecast contrasts with the raised projections at larger rival Accenture Plc last month. (BN)
- ASML enhances NXT:1950i to meet challenging imaging and overlay requirements and provide a cost **effective platform for 22nm** -- ASML Holding NV today announced three new extensions for its popular TWINSCAN NXT platform that improve imaging, overlay and productivity. The extensions enable chipmakers to manufacture smaller, faster chips more cost-effectively. The first NXT:1950i system shipped in 2009 and today more than 80 systems are in use by chipmakers around the world manufacturing current state-of-the-art devices at resolutions of 45- to 32-nm. (ASML)
- **EARNINGS PREVIEW: ASML 2Q Net Profit Seen 52% Higher** -- ASML Holding NV : 2Q Earnings; Due: July 13 at 0500 GMt; FactSet Survey of 23 Analysts: Average Net Profit: EUR409M, up 52% (EUR269M in 2Q 2010); Average Revenue: EUR1.51B, up 42% (EUR1.07B in 2Q 2010); Note: Revenue and net profit will grow significantly on the year as the semiconductor equipment maker has benefited from a sharp upswing in the sector. Investors, however, will focus on how the Japan earthquakes and the latest weakness in consumer electronics will affect ASML's order intake. Still, analysts expect the company to reiterate FY sales guidance of "well above EUR5B", which is seen as cautious as it's guaranteed by the orders secured so far. (DJ)
- **SEMI Raises 2011 Chip Equipment Forecast; Taiwan Biggest Market** -- Global semiconductor equipment sales to rise 12% to $44.33b this year, highest since 2000, SEMI says in report dated yesterday. * Forecast compares with projection of $38.95b in Nov. * Taiwan to be biggest market, followed by North America, Korea: SEMI (BN)
- **Novellus Systems Drops After Sales, Profit Forecasts Fall Short** -- Novellus Systems Inc., a maker of machinery used in semiconductor production, dropped in extended trading after forecasting third-quarter sales and profit that fell short of analysts' estimates. Profit before certain costs in the current period will be 60 cents to 75 cents a share, Chairman and Chief Executive Officer Rick Hill said on a conference call with analysts today. That compares with the average analyst estimate of 84 cents, based on a Bloomberg survey. Sales will be $300 million to $340 million, Hill said, while analysts had predicted $360.7 million. (BN)
- **Microchip Technology Says Sales, Profit Fell Short of Forecasts** -- Microchip Technology Inc., a maker of analog chips, said sales and profit didn't meet its forecasts on weaker demand from automakers and computer makers. Earnings per share were 47 to 49 cents in the quarter ended June 30, the Chandler, Arizona-based company said in a statement. That compares with an earlier prediction of 52 to 55 cents. Sales fell 1.5 percent from the preceding period, compared with the company's forecast of an increase between 1 percent and 6 percent. (BN)
- **Cisco Said to Plan Cutting as Many as 10,000 Jobs to Buoy Profit** -- Cisco Systems Inc., the largest networking-equipment company, may cut as many as 10,000 jobs, or about 14 percent of its workforce, to revive profit growth, according to two people familiar with the plans. The cuts include as many as 7,000 jobs that would be eliminated by the end of August, said the people, who asked not to be identified because the plans aren't final. Cisco, based in San Jose, California, is also providing early-retirement packages to about 3,000 workers who took buyouts, the people said. (BN)

- **Rivals Prepare Second-Round Bids For Oberthur** -- Second-round bids for the majority of French technology company Oberthur are set to be submitted by the end of July, according to several people familiar with the situation. Private equity firms Advent International, Bain Capital and PAI Partners are among the bidders for the company's mobile smart-card security and identity protection divisions that are expected to be valued at about EUR1 billion. The fiduciary printing business, which amounts to about 20% of the group, will be retained by the existing owners. Oberthur management is understood to be keen to use the sale proceeds to fund another bid for banknote printer De La Rue, according to a person close to the situation. (DJ)
- **NCR To Buy Radiant Systems For $1.13B Cash, Expanding Offerings** -- NCR Corp. agreed to take over Radiant Systems Inc. in a cash deal worth $1.13 billion as it continues to diversify its offerings. The move comes as NCR struggles to see gains from its entertainment unit, under which it owns and operates more than 9,000 Blockbuster Express-branded DVD kiosks nationwide. The company is considering strategic alternatives for that business, which has yet to post a profit, Chief Executive Bill Nuti said in a conference call with investors late Monday. (DJ)
- **Global Switch Plans 1 Billion Pound Global Expansion, FT Says** -- Global Switch Holdings Ltd., the data center operator owned by billionaire brothers David and Simon Reuben, is in talks with a U.S. hedge fund to list their Global, is planning to invest 1 billion pounds on an international expansion, through a development program to increase space by an 1.1 million square feet, the Financial Times reported, citing Executive Chairman John Corcoran. (BN)

RESEARCH UPDATES

JP Morgan cut **CRH** to Neutral, upped **HeidelbergCement** to Overweight; Deutsche Bank cut **Alcatel Lucent** to Hold, from Buy, cut **Belgacom** to Sell, from Hold, cut **Mobistar** to Hold, from Buy; SocGen cut **Q-Cells** to Sell, from Hold;

ENERGY, UTILITIES AND COMMODITIES

- **Crude Oil Falls for Third Day in New York on Europe Debt Concern** -- Oil declined for a third day in New York as investors bet that Europe's spreading debt crisis and signs of rising fuel stockpiles in the U.S. indicated fuel demand may falter. Futures fell as much as 0.9 percent, extending yesterday's 1.1 percent drop, as soaring yields on Italian bonds heightened concern Europe's third-largest economy won't be able to finance its debt. Prices may fall below $94 a barrel in New York as the market approaches long-term technical support, according to data compiled by Bloomberg. The Organization of Petroleum Exporting Countries will release its monthly market report today. Crude for August delivery fell as much as 82 cents to $94.33 a barrel in electronic trading on the New York Mercantile Exchange, and was at $94.44 at 1:41 p.m. Sydney time. The contract yesterday lost $1.05 to $95.15, the lowest since July 1. Prices are 26 percent higher the past year. Brent oil for August settlement declined as much as 95 cents, to 0.8 percent, to $116.29 a barrel on the London-based ICE Futures Europe exchange. The European benchmark contract was at a premium of $22.06 a barrel to U.S. futures, compared with a record close of $22.29 on June 15. (BN)
- **Saudi Arabia Said to Seek Iran Crude Supply Share to India** -- Saudi Arabia is seeking to benefit from a payment dispute between Iran and India by selling additional cargoes of crude oil to refiners in the South Asian nation, two people with direct knowledge of the talks said. Saudi Arabian Oil Co., the country's state-run producer, has told refiners in India it can replace some of the Iranian crude, the people said, asking not to be identified because the talks are private. A spokesman for Saudi Aramco, as the company is known, declined to comment, requesting not to be named because of company policy. (BN)
- **Militants Blow Up Egypt-Israel Gas Pipeline Station in Sinai** -- Militants blew up an Egyptian pipeline terminal that supplies gas to Israel in a pre-dawn attack, the state-run Middle East News Agency reported today, citing eyewitnesses. The station in the northern Sinai peninsula was burning and flames could be seen from a distance, the Cairo-based news agency said. A station guard and his family were injured in the blast and a security cordon was set up in the area, MENA said. The blast is the fourth attack on the pipeline since the start of the popular revolt in Egypt that led to the toppling of President Hosni Mubarak on Feb. 11. Israel gets about 40 percent of its gas from Egypt. (BN)
- **DOE Awards Strategic Petroleum Reserve Oil to 15 Companies** -- The Energy Department awarded 28 contracts to 15 companies for the purchase of 30.64 million barrels of oil from the U.S. Strategic Petroleum Reserve, according to an e-mailed statement. The Energy Department is coordinating with the companies, the Maritime Administration and the Department of Homeland Security to "streamline deliveries, including those for companies that have requested early delivery of the crude oil in July 2011," the government said. (BN)
- **Chevron Sees 2Q Profit Improving Sequentially On Higher Fuel Prices** -- U.S. oil giant Chevron Corp. said it expects second-quarter earnings to rise from the prior quarter, helped by higher oil prices and improved refining and marketing margins. The outlook from the second-largest U.S. oil company by market value after Exxon Mobil Corp. signals that major oil companies will continue to report a surge in quarterly earnings for the period ended June 30, boosted by rising oil prices driven by the unrest in the Middle East and North Africa. Chevron reported net earnings of $6.2 billion in the first quarter of 2011 and $5.4 billion in the second quarter of 2010. Chevron is slated to report full second-quarter results on July 29. (DJ)
- **China to Adjust Jet Fuel Wholesale Price Every Month, NDRC Says** -- China will introduce new jet fuel pricing mechanism on 1 August this year, the National Development and Reform Commission said in a statement posted on its website today. Wholesale jet fuel prices will be adjusted on the first of every month under the new system, the statement said. (BN)
- **Wind, Nuclear Energy May Gain in Biggest U.K. Revamp in 20 Years** -- The U.K. is beginning its biggest shake-up of power markets in two decades to speed up reductions in greenhouse-gas emissions and promote renewable energy. Energy and Climate Change Secretary Chris Huhne is scheduled to present details in Parliament today for the so- called Electricity Market Reform. The plan includes long-term contracts that give power producers guarantees designed to help them attract investments in offshore wind turbines, nuclear reactors and carbon capture and storage projects. British utilities need to spend 200 billion pounds to replace aging power stations and upgrade its energy networks by 2020, according to energy regulator Ofgem. It's also trying to jumpstart the U.K. effort to meet targets for a 50 percent reduction in emissions by 2025 and a European Union goal of getting 15 percent of its energy for heat, transport and power from renewables by 2020. (BN)
- **EDF Freezes Half of Planned Solar Projects, Figaro Says** -- Electricité de France SA has stopped work on about half of the new solar-energy generating projects it had planned, Le Figaro reported. An unidentified EDF spokesman described the projects as no longer economical because the government was suspending preferential tariffs for solar-generated electricity, the newspaper said. EDF has frozen construction of about 800 megawatts out of a planned 1,600 megawatts in solar generating capacity because the work could not be completed within 18 months, Le Figaro said. (BN)

- **Alcoa Earnings Surge Twofold** -- Alcoa Inc.'s profit more than doubled in the second quarter, but the giant aluminum producer managed only to meet analysts' recently lowered forecasts as costs rose for fuel oil, caustic soda and other materials. Alcoa serves as a bellwether for corporate earnings because it is the first major company to report and draws demand from a wide range of industries. CEO Klaus Kleinfeld called the economic recovery "uneven" but said the outlook for Alcoa "remains positive," largely because of rising demand for aluminum. Alcoa reaffirmed its forecast that aluminum demand will rise 12% this year. Speaking of demand from airplane makers, Mr. Kleinfeld said "the positive momentum is continuing." Alcoa also is seeing growing markets for aluminum in the automotive, truck and beverage-can industries. In commercial-construction products, global demand is expected to rise slightly this year as expansion in emerging markets offsets declines in the U.S. and Europe. Profit totaled $322 million, or 28 cents a share, up from $136 million, or 13 cents, a year earlier. Sales rose 27% to $6.59 billion. Alcoa said earnings from continuing operations, excluding special items, were 32 cents a share. That was in line with analyst forecasts, but those had been sliced from about 35 cents in late June. (WSJ)
- **Vedanta Loses Environment Approval for Bauxite Mines, Times Says** -- India's environment ministry canceled environment approval for Vedanta Resources Plc to mine bauxite in the eastern state of Orissa, the Times of India reported, without saying where it got the information. The ministry canceled forest clearance for the mining project last year. (BN)
- **Macarthur Coal Rises After A$4.7 Billion Takeover Proposal** -- Macarthur Coal Ltd., the world's biggest producer of pulverized coal, surged the most in 10 years in Sydney trading following a A$4.7 billion ($5 billion) takeover proposal from ArcelorMittal and Peabody Energy Corp. Macarthur rose as much as 38 percent to A$15.30, the most since July 5, 2001. ArcelorMittal, the world's largest steelmaker, and Peabody yesterday jointly offered A$15.50 a share, less the amount of any final dividend, which is estimated at 19 cents, according to data compiled by Bloomberg. (BN)
- **Central Bank Gold Withdrawals From BIS Most in at Least 8 Years** -- Central banks withdrew about 632 metric tons of gold from deposits at the Bank for International Settlements in the year ended March 31, the most in at least eight years. Gold deposits at the BIS fell to about 729 tons, from 1,360.7 tons the previous year, according to its annual report. That's the most since the year ended March 2004, when the bank began stating gold deposits in millions of special drawing rights. This year's withdrawal compares with a deposit increase of about 194.1 tons in the year ended March 2010, according to BIS reports. (BN)
- **Wool Prices Likely to Stay High, New Zealand's Carter Tells FT --** Wool prices are likely to remain at or near their current high level for the foreseeable future because of the competition sheep farming faces from dairy farming, which is more profitable, the Financial Times reported, citing David Carter, New Zealand's agriculture minister. Speaking on the sidelines of a Rome meeting of the United Nations Food and Agriculture Organization, Carter said the size of the New Zealand wool sheep flock has increased only 1 to 2 percent as a result of the high prices, the newspaper reported. (BN)

NETHERLANDS / AEX NEWS

- **Brewers Go Courting Hispanics** -- The world's brewing giants, struggling to eke out growth in the sluggish U.S. market, are stepping up their courtship of the country's Hispanics. This summer, MillerCoors is rolling out bilingual packaging in the U.S., adding Spanish to the cartons that hold bottles or cans of its Coors Light and Miller Lite brands. It is also sponsoring a Mexican soccer league. Anheuser-Busch InBev NV, which says its Bud Light and Budweiser are the top-selling brews among Hispanics in the U.S., is increasing its spending on ads in Spanish-language media. And it has struck a deal for Bud Light to sponsor Cuban-American rapper Pitbull's fall concert tour. Meanwhile, companies like Heineken NV and Crown Imports LLC, which import popular Mexican lagers, are churning out new ads they hope will extend their brands' appeal to a broader Hispanic market. The scramble comes as the U.S. beer industry appears to be headed for a third-straight year of declining sales volume, in part because high unemployment has damped the spending **power of its core customers** -- men ages 21 to 34. (WSJ)
- **[yday] Russia Passes Law On Tighter Beer Regulation** --Russian lawmakers have approved a law significantly tightening rules on alcohol sales, banning beer sales at night and from kiosks, the Russian parliament said late Friday on its website. The new law will ban the sale of alcoholic beverages, including beer, between 11 p.m. and 8 a.m. in shops from July next year. It will also impose a total ban on sales from outdoor kiosks, which make up a large part of beer sales in Russia. A previous proposal aimed to ban night sales of drinks containing over 5% alcohol, but the new proposal, which will be considered this week, classifies any drink with more than 0.5% as an alcoholic beverage. The new and tighter rules could hurt international brewers, such as Carlsberg A/S, Anheuser-Busch InBev NV and Heineken AV, who have the majority of sales in Russia. (DJ)
- **[yday] Heineken's takeover of S&N to be probed ; Claims of lack of protection for pensions** -- HEINEKEN'S takeover of the Scottish and Newcastle brewery is to be investigated by the same Government committee which examined the Kraft Cadbury takeover, The Journal can reveal. The Business, Innovation and Skills Select Committee will look at evidence that there was not enough protection for thousands of S&N pensioners after the takeover by the Dutch lager maker in 2008. The evidence session is expected to take place in the autumn, and it will examine details of the takeover and in particular why Heineken did not pay any discretionary increases in pensions in 2010. (theJournal)
- **[yday] Bralirwa, Heineken's Rwandan Unit, Raises Beer Prices** -- Bralirwa SA, a locally listed Rwandan unit of Heineken NV, will raise the price of its biggest-selling beers to compensate for the rising cost of importing corn, malt and sugar into the country. (BN)
- **Akzo Nobel May Cut 120 Jobs in Germany, Labor Union Tells FTD** -- Akzo Nobel NV is likely to cut 120 jobs in Germany by 2013 through measures including closing a plant in Cologne, the Financial Times Deutschland reported today, citing Matthias Jakobs of the IG BCE labor union. An unidentified spokesman for Akzo Nobel said the number of jobs that will be affected isn't yet clear, the FTD said. (BN)
- **Wessanen to sell Kalisterra, part of its French HFS business** -- Royal Wessanen reached an agreement with a local entrepreneur for the sale and purchase of its French business Kalisterra for an undisclosed amount. Kalisterra is a French distribution company selling food supplements to pharmacies and is part of Wessanen Europe Health Food Stores. It realised net revenue of €14 million in 2010. The deal is expected to close per 1 October 2011. A book loss of about €1 million after tax is expected on the sale, to be reported in Q2 2011. (WES)
- **Qurius N.V. : Qurius and Prodware take the next step** -- Qurius and Prodware announce the establishment of a strategic alliance. After building up a track record of common business achievements over the past 5 months Prodware and Qurius are now taking the next step towards the creation of an EMEA champion in business solutions and applications. This alliance will be driven by the management of the two groups and follows the announcement made on February 8th when the companies entered into exclusive discussions. The key objective of this alliance is to create significant synergies. (Qurius)

M&A and OTHER CORPORATE NEWS

- **Asian Stocks Drop on Debt-Contagion Concerns as Financials Fall** -- Asian stocks fell, with the regional benchmark index heading for the biggest two-day loss since March 15, after U.S. lawmakers failed to agree on cutting the deficit and concern increased that Greece's debt crisis may spread to bigger European nations, risking earnings at financial companies. Sony Corp., which sells about 21 percent of its PlayStation game consoles and other products in Europe, retreated 2.9 percent in Tokyo. Mitsubishi UFJ Financial Group Inc., Japan's biggest publicly traded bank, declined 2.4 percent. HSBC Holdings Plc, Europe's No. 1 lender by market value, dropped 1.9 percent in Hong Kong. BHP Billiton Ltd., the world's biggest mining company and an oil producer, lost 1.7 percent as crude and metal prices dropped. The MSCI Asia Pacific Index decreased 1.8 percent to 134.40 as of 12:54 p.m. in Tokyo, headed for its steepest drop since June 16. About 17 stocks fell for each that rose on the measure. The gauge last week extended its rally to a third week as European Union leaders hammered out proposals to roll over debt to prevent Greece from defaulting and after reports showed retail sales in the U.S. increased in June, and initial claims for unemployment benefits declined. Every major market in Asia fell today. Japan's Nikkei 225 Stock Average declined 1.4 percent. South Korea's Kospi Index and Hong Kong's Hang Seng Index both slipped 2 percent, while China's Shanghai Composite Index lost 1.3 percent. Australia's S&P/ASX 200 Index sank 1.9 percent. (BN)
- **Hong Kong Stocks Fall on Europe Debt Concern, Moody's Report** -- Hong Kong stocks fell, sending the Hang Seng Index to its biggest two-day drop in 18 months, as Europe's widening debt crisis threatens exporters' earnings and after Moody's Investors Service said some Chinese companies are engaging in potentially risky business practices. Esprit Holdings Ltd., which gets most of its revenue from Europe, sank 4.7 percent. West China Cement Ltd. tumbled by a record 8.1 percent after Moody's said the producer of the building product posed the biggest governance and accounting risks of 61 Chinese companies it analyzed. China Overseas Land & Investment Ltd., controlled by the nation's construction ministry, declined 4.8 percent on concern the Chinese government is intensifying property curbs. (BN)
- **U.S. Stocks Decline on Global Debt Concerns as Financials Fall** -- U.S. stocks slid, giving the Standard & Poor's 500 Index its biggest two-day drop since March, as concern grew Europe's debt crisis will spread and American lawmakers failed to agree on cutting the deficit. JPMorgan Chase & Co. and Bank of America Corp. fell more than 3.2 percent, driving financial shares in the S&P 500 down the most since June 1, as Italian and Spanish government bonds sank. Alcoa Inc. tumbled 2.9 percent before the aluminum producer started the earnings season after the market close. All 10 S&P 500 industries slumped, falling at least 0.7 percent. The S&P 500 retreated 1.8 percent to 1,319.49 at 4 p.m. in New York, its lowest level since June 29. The gauge fell 2.5 percent over two sessions, the most since March 16. The Dow Jones Industrial Average declined 151.44 points, or 1.2 percent, to 12,505.76 today. The S&P 500 advanced 0.3 percent to 1,343.80 last week, extending its climb from June 24 through July 8 to 5.9 percent. That's the biggest two-week increase since October 2009. (BN)
- **EUROPE** -- European bourses are likely to start well lower as investors recoil from the continuing euro-zone debt saga and plunge into low-risk assets. For Tuesday's opening, IG Markets is calling the FTSE down 53 at 5876, the DAX down 74 at 7156, and CAC off 44 at 3764. (DJ)
- **Moody's Sparks West China Cement Rout on 'Red Flags' Report** -- Moody's Investors Service cited five Chinese companies as having more "red flags" on corporate governance than others it examined, sending shares of West China Cement Ltd. to a record decline. The ratings company looked at criteria that "highlight issues meriting scrutiny to identify possible governance or accounting risks," analysts led by Elizabeth Allen in Hong Kong wrote in a report issued yesterday. All 61 companies Moody's examined raised "red flags," with West China Cement, Winsway Coking Coal Holdings, China Lumena New Materials Corp., Hidili Industry International Development Ltd. and LDK Solar Co. cited as "negative outliers." These companies all raised at least nine out of 20 possible red flags, more than were raised by Sino-Forest Corp., the tree- plantation owner that fell 83 percent last month after being targeted by short seller Carson Block. West China Cement Chairman Zhang Jimin's 41 percent stake in the company, cited as having the most red flags, dropped by as much as HK$1.3 billion ($167 million), according to data compiled by Bloomberg. (BN)
- **BofA Seeks Improvements to Public Offer Process in Europe: FT** -- Bank of America Merrill Lynch is pushing for reforms of initial public offering procedures in Europe in light of "widespread dissatisfaction" and has proposed a set of "guiding principles" to improve the process, the Financial Times reported, citing a letter it sent to clients on July 11. (BN)
- **Siemens Mulls Buyouts for Infrastructure Unit, FT Says** -- Siemens AG may consider making acquisitions to strengthen its Infrastructure and Cities unit and accelerate expansion, the Financial Times reported, citing Roland Busch, head of the company's new business arm. "Our goal is to grow faster than the market and faster than our competitors," Busch said, according to the FT. "Over the course of time an acquisition is clearly possible," he said, the newspaper reported. (BN)
- **VW Expects To Reach 8M Global Vehicle Sales In 2011 For 1st Time** -- Volkswagen AG sold more than 4 million vehicles world-wide in the first half of the year, Chief Executive Martin Winterkorn said Monday, adding that Europe's largest auto maker expects to reach the 8 million threshold this year for the first time. Asked whether Volkswagen would reach the 8 million mark in 2011, Winterkorn replied "I guess so." Speaking at an evening event for the launch of the new-generation VW Beetle model, Winterkorn said that global sales at the company's core VW brand rose 11.8% on the year to more than 2.5 million cars in the January-to-June period. (DJ)
- **Fraport Group June Passenger Volume +8.2% On Year** -- German airport operator Fraport AG said Tuesday group passenger volume was up 8.2% in June from a year earlier, boosted by growth in Antalya, Burgas and Lima. (DJ)
- **Boeing May Absorb $400 Million More From Tanker Overruns** -- Boeing Co. may be required to absorb more than $700 million and the Air Force another $600 million in overruns if projections of cost increases on the KC-46 tanker program materialize, according to newly released U.S. Air Force figures. Boeing's $700 million cost is a combination of a previously reported $300 million and another $432 million the Air Force disclosed today, putting Boeing's profit from the tanker contract in jeopardy if the contract exceeds its $4.9 billion ceiling. (BN)
- **Roche Sues Teva, Sandoz, Dr. Reddy's Over Generic Aloxi** -- Roche Holding AG filed a lawsuit seeking to block generic-drug companies including Novartis AG's Sandoz and Teva Pharmaceutical Industries Ltd. from selling a low-cost version of the anti-nausea drug Aloxi. Sandoz, Teva and Dr. Reddy's Laboratories Ltd. are seeking U.S. Food and Drug Administration approval to sell generic versions of the medicine. Roche and partner Helsinn Healthcare SA contend the versions would infringe two patents that expire in 2024. (BN)
- **UK Retail Sales Fall For Second Consecutive Month In June** --U.K. retail sales slumped for the second consecutive month in June, providing further proof that Britons are tightening their purse strings as they are continually faced with rising inflation, high unemployment and marginal wage growth, the British Retail Consortium said Tuesday. The BRC said like-for-like sales--which strip out sales from stores that have opened or closed--fell 0.6% on the year in June. While Tuesday's data are an improvement on May's figure--when sales fell 2.1%-

-it shows the retail sector continues to struggle due to weak consumer spending. The figure was weaker than expected with economists polled by Dow Jones Newswires forecasting like-for-like sales to drop to 0.3% in June. (DJ)

- **Morrison CEO Targets Discounts When Customers Get Paid, FT Says** -- U.K. consumers' smaller budgets are forcing them to do most of their grocery shopping in the days after they get paid, the FT reported, citing an interview with William Morrison Supermarkets Plc Chief Executive Officer Dalton Philips. Philips said the company is focusing its discount offers often in the last few days of each month to capture as much consumer spending power as possible, the newspaper reported. (BN)
- **News Corp.'s Lost $7 Billion Shows Investor Concern Over Hacking** -- News Corp.'s loss of $7 billion in market value over four trading days shows investor concerns that a probe into alleged phone hacking by journalists at one London newspaper could have a broader impact on the company. Rupert Murdoch's New York-based media company tumbled $1.27, or 7.6 percent, to $15.48 in Nasdaq Stock Market trading yesterday, the biggest drop since April 2009. It was the fourth straight decline in the company's closing price, cutting its market value by 15 percent to $41.2 billion. The slide is far out of proportion with the lost profits from closing the News of the World tabloid or from delaying the acquisition of the satellite-TV provider British Sky Broadcasting Group Plc, said David Bank, an analyst at RBC Capital Markets in New York. Investors are concerned about the scandal's effect on other News Corp. holdings, which include the Fox TV networks and film studios, the Wall Street Journal and three other newspapers in the U.K. (BN)
- **California Teacher Pension Sees 22.5% Return, Most Since 1986** -- The California State Teachers' Retirement System, the second-biggest U.S. public pension, expects a 22.5 percent return for the year ended June 30, the biggest annual gain since 1986, its investment chief said. The increase, following a 25 percent loss in 2009 and a 12.7 percent return in 2010, isn't enough to put the $154.2 billion fund on track to meet its reduced target for returns, Chief Investment Officer Christopher Ailman said yesterday. Calstrs trimmed its forecast for annual investment returns to 7.75 percent from 8 percent in December. The fund would need returns of 10.1 percent a year over the next three decades to meet its obligations to retirees, actuaries said in April. (BN)
- **Options Trading Heads for Record High as Institutions Lift Usage** -- Increasing use of options by asset managers may help boost U.S. equity derivatives volume about 8 percent to 4.2 billion contracts this year for a ninth straight annual record, according to research firm Tabb Group LLC. Fund managers learning to trade options are the "engine of growth" as they use more contracts to guard against stock fluctuations, speculate on share moves or bet on higher or lower volatility, according to the report from Andy Nybo, head of derivatives at New York-based Tabb. The report is based on interviews with 51 options traders at U.S. hedge funds, asset managers and proprietary trading firms handling about 700,000 contracts a day and managing $2.7 trillion in assets. "Demand for U.S. options continues to increase, with greater adoption across nearly all investor segments driving the industry's steady growth," Nybo wrote. "Buy-side traders are expanding activities, using more complex strategies and exploring the opportunities available through trading volatility, short-term options and other new products being introduced by options exchanges that are fiercely battling for order flow." Fund managers such as hedge funds will account for 42 percent of this year's trades, up from 41 percent in 2010 and 25 percent in 2006, Nybo said. Individual investors will make up 12 percent, down from 14 percent last year and 30 percent in 2006, he said. Market makers account for the rest. (BN)

<u>MACRO / GEOPOLITICS</u>

- **EU Revives Buybacks for Greek Solution as Crisis Slams Italy** -- European finance ministers revived the prospect of bond buybacks to ease Greece's plight and declined to rule out a temporary default, struggling to contain the debt crisis as investors pounded Italy, the continent's third-largest economy. Prodded by investors and the European Central Bank, the euro's guardians said a bailout fund set up last year may be used to buy bonds in the secondary market or enable Greece to retire its debt at a discount. They offered another cut in rates on its emergency loans. As exploding bond yields in Italy and Spain brought the crisis closer to the heart of the euro area, Europe's search for answers took it back to proposals that were scuttled by Germany earlier this year. After a nine-hour meeting, the 17 euro ministers issued a six-paragraph statement pledging to flesh out details of a new strategy to end the 21-month-old crisis "shortly," without setting a timeline. "There are a variety of ways of enhancing the flexibility," European Union Economic and Monetary Affairs Commissioner Olli Rehn told reporters late yesterday after the ministers met in Brussels. Buybacks are "one of those. I would at this stage not exclude any option. But instead we are exploring these possibilities." (BN)
- **Treasuries Gain as Lagarde Says IMF Not Yet in Talks on Greece** -- Treasuries rose for a third day after Christine Lagarde, managing director of the International Monetary Fund, said the body isn't yet joining discussions about a second bailout package for Greece. Benchmark 10-year yields approached the lowest level this year as stocks fell around the world on concern Europe's debt crisis is spreading. Greece struggled to avert a default, and investors sent Italian yields to the highest level in a decade, sparking demand for the relative safety of U.S. securities. The Treasury plans to sell $66 billion of notes and bonds this week, starting with a $32 billion three-year auction today. (BN)
- **Doubling EU Aid Would Be 'Irresponsible,' Gerke Tells Passauer** -- Wolfgang Gerke, president of the Bavarian Center of Finance in Munich, said any potential plan by the European Central Bank to double the European Union rescue fund to 1.5 billion euros would be "irresponsible," Passauer Neue Presse reported today, citing an interview with Gerke. Such "slogans" create scares and unsettle the financial markets, Gerke said, according to the German newspaper. (BN)
- **German 'Nein' to Help Leaves Italy And Spain in Turmoil** -- Italian and Spanish bond yields soared to post-EMU highs in a fresh day of credit turmoil after Germany blocked any meaningful measures to defuse the crisis. Chancellor Angela Merkel called for more "frugality" in Italy, sticking to her script that Rome can solve its woes with an austerity budget. Her finance minister, Wolfgang Schäuble, said any boost to the EU's €500bn bail-out machinery was "out of the question". Mr Schäuble denied reports that Berlin was ready to empower the fund to purchase Spanish and Italian bonds pre-emptively on the open market, a move seen by experts as vital to halt dangerous contagion to the larger economies. The market's verdict on EU foot-dragging was instant and brutal. Yields on 10-year Spanish bonds smashed through the 6pc barrier for the first time since 1997, made worse by warnings from the Castilla-La Mancha region that its deficit had become "extremely serious". Italian yields jumped 44 points, 5.7pc, a level that starts to threaten the sustainability of the country's finances. Markit's iTraxx SovX Western Europe, Europe's sovereign stress gauge, saw the biggest one-day rise ever. "Contagion was the word on everybody's lips," said Gavan Nolan, Markit's credit chief. (TEL)
- **French Fin Min: Mandate For Expanding EFSF Scope Is Broad** -- French Finance Minister Francois Baroin said Tuesday the mandate for giving its sovereign rescue fund new powers is broad, but euro-zone governments are sticking to the position of no default or selective default in the solution for Greece's debt crisis. Euro-zone finance ministers meeting Monday continued their talks into the early hours of Tuesday morning, saying that they would consider measures to enhance the "flexibility" and "scope" of the European Financial Stability

Facility, the EUR440 billion fund set up last year to lend money to euro-zone nations. One of these measures could be a previously dismissed proposal to give the fund the ability to buy euro-zone sovereign bonds on the secondary market. "The mandate is sufficiently broad to leave no options excluded...and have the few necessary days to see what is most effective. What counts is what works," Baroin said. In his first press conference in Brussels as finance minister, Baroin said the French have always campaigned for allowing the EFSF to intervene in markets. (DJ)

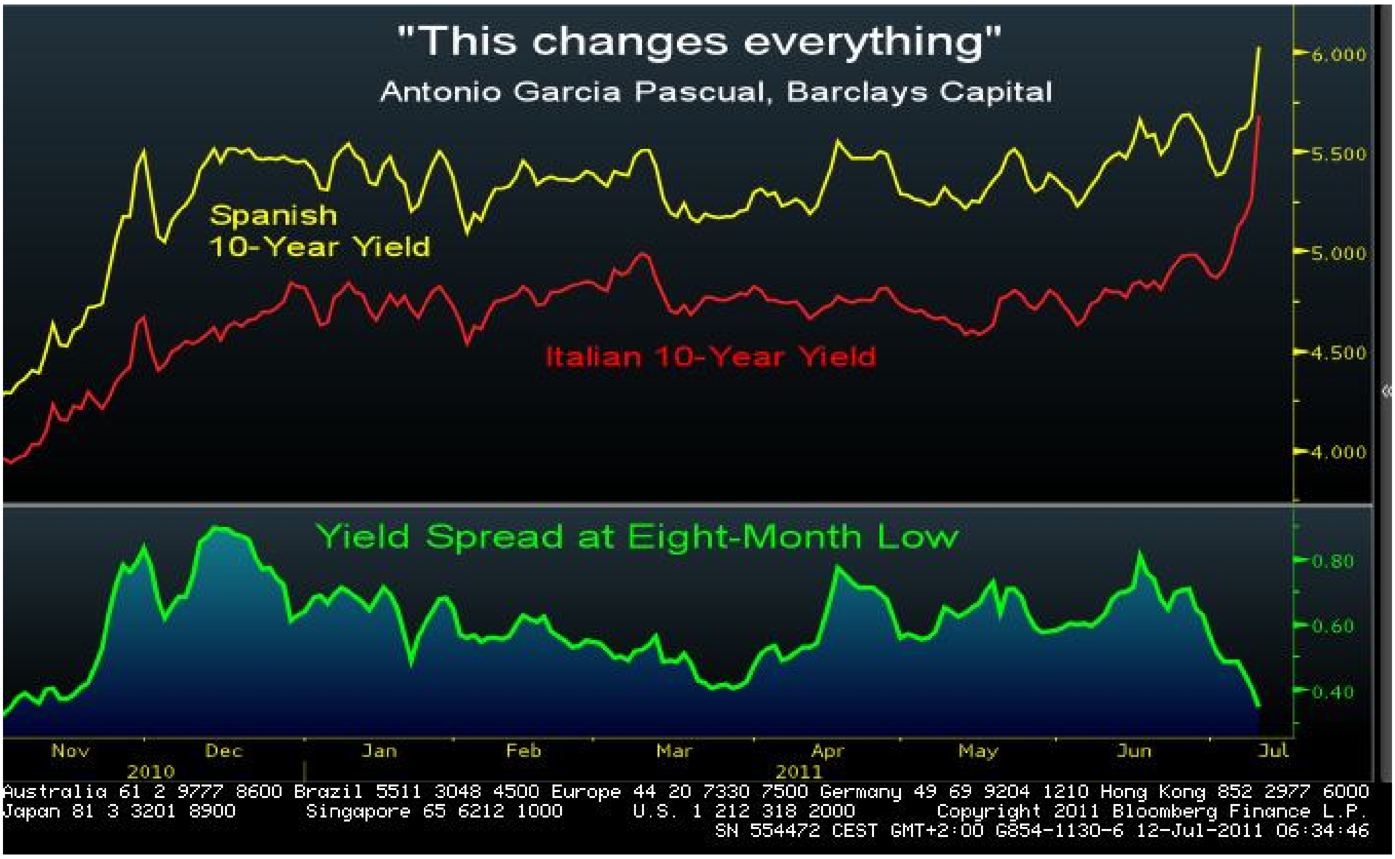
- **EURO-DEBT** -- Bini Smaghi: Eurozone Should Issue Debt Through Central Agency – Report (Headline DJ)
- **Portugal Slump to Deepen as Austerity Bites, Central Bank Says** -- Portugal's economy will shrink more than forecast this year and contract in 2012 as the austerity measures that were required for an international bailout take hold, the country's central bank said. Gross domestic product will shrink 2 percent this year and 1.8 percent in 2012 after expanding 1.3 percent in 2010, the Bank of Portugal said in its summer economic bulletin today. In March, before Portugal sought a rescue, the estimates were a 1.4 percent contraction this year and 0.3 percent growth in 2012. The government of Prime Minister Pedro Passos Coelho is implementing spending cuts and tax increases that were part of a 78 billion-euro financial aid package from the European Union and the International Monetary Fund. With the country's debt and borrowing costs surging, Portugal followed Greece and Ireland in April in seeking a bailout. (BN)
- **Italy President Urges Government, Opposition To Agree on Budget** -- Italy's President Giorgio Napolitano invited the government led by Prime Minister Silvio Berlusconi to seek an agreement with the opposition for a "very quick" approval of the budget plan. The Italian president "welcomed the announcement by the opposition about a commitment to cooperate with a few specific amendments for a very quick approval of the needed budget adjustment," Napolitano's office said in an e-mailed statement today. Napolitano "expects that this will be followed by an immediate availability by the government and the majority to hold vital talks" with the opposition. (BN)
- **Spanish Lawmakers Mull 2012 Spending Plan as Election Risk Looms** -- Spanish Prime Minister Jose Luis Rodriguez Zapatero will seek lawmaker backing today for a spending plan for next year as his Socialist government prepares a budget that may determine whether he can finish his mandate. Parliament in Madrid will vote on Zapatero's proposed 3.8 percent reduction in central government expenditure for 2012, which would limit it to 117.4 billion euros . That's a first step toward submitting a budget in September that would need approval by the end of the year. (BN)
- **ECB's Bini Smaghi: Greece Can Repay Debt** -- A member of the European Central Bank's executive board Monday described as "absurd" the idea of letting Greece default on its debt, saying it would weaken the euro in a dramatic way. "There are still some in the financial system who think this," Lorenzo Bini Smaghi told the audience at a panel discussion. "We think this is absurd. What is needed is a European solution." At a meeting in Brussels, however, governments of member countries of the euro zone were considering getting Greece's private creditors involved in a new aid package for the country even if debt-ratings agencies would deem it to be a default, according to several finance ministers who attended the meeting Monday. One senior government official said some ministers considered a Greek default on its debt probably unavoidable because of the insistence of Germany and other euro-zone members on having private bondholders take part in the new aid package. The ECB has been against the idea, saying it will refuse to accept Greek bonds as collateral in exchange for loans if there is a default. The bank's position could potentially deprive Greek banks of a crucial source of liquidity. (DJ)
- **Baroin Says 'No Option Excluded' on Greek Plans** -- French Finance Minister Francois Baroin said "no options are excluded" by euro area governments on dealing with Greece's debt crisis and that finance ministers would take "a few days" to consider which ones are most appropriate. Baroin said that a proposal by French banks to roll over Greek debt still exists within a wider set of possible actions being discussed by the euro group. He spoke to reporters in Brussels. (BN)
- **ECB's Bini Smaghi Says Greek Debt Default Idea Absurd** -- European Central Bank executive board member Lorenzo Bini Smaghi Monday described as "absurd" the idea of letting Greece default on its debt, saying it would dramatically weaken the euro. "There are still some in the financial system who think this," he said in a presentation. "We think this is absurd. What is needed is a European solution." (DJ)
- **BOE Sees Staff Departures as Key Risk to Monetary Policy Plan** -- The Bank of England said the main risk threatening Governor Mervyn King's plan to achieve effective monetary policy in the coming year is whether it can recruit and keep the best economists. The primary obstacle to the Monetary Policy Committee's strategy "relates to the recruitment and retention of sufficiently experienced staff who are able to exercise the necessary critical judgment in providing analytical support to MPC and implementing monetary policy," the bank said in its annual report published yesterday in London. (BN)
- **King Says Inflation to Slow Towards Target During Next Two Years** -- Bank of England Governor Mervyn King said inflation should slow towards the bank's 2 percent target in the next two years. While a weaker pound, rising commodity prices and a sales- tax increase pushed up inflation, "the most likely outcome is that these factors will not continue to push up the price level in the future," King wrote in a foreword to the central bank's annual report released in London today. "So inflation should fall back towards the target during the next two years." (BN)
- **U.K. June Housing Market Hampered by Subdued Economy, RICS Says** -- A U.K. house-price gauge showed little improvement in June as a "subdued" economic outlook hampered demand for property, the Royal Institution of Chartered Surveyors said. The number of real-estate agents and surveyors saying prices fell exceeded those seeing gains by 27 percentage points, compared with 28 percentage points in May, the London-based group said in an e-mailed report today. "Activity levels remain flat and are at relatively depressed levels," RICS said. The housing market is struggling to gain momentum as banks restrict lending and inflation squeezes household incomes. In separate reports published today, PricewaterhouseCoopers LLP predicted that the average U.K. home price is unlikely to return to a 2007 peak until about 2020 in real terms while the British Retail Consortium said same-store retail sales fell in June. (BN)
- **Osborne to Miss Deficit Target Amid Weak U.K. Growth, CEBR Says** -- U.K. Chancellor of the Exchequer George Osborne will fall short of his deficit-reduction target as weak economic growth fails to lift tax receipts, the Center for Economics and Business Research said. The London-based group said the budget deficit will be 54 billion pounds in the fiscal year through March 2016 rather than the 29 billion pounds forecast by the government's budget office. Economic growth will average 1.8 percent a year by 2015, below the 2.6 percent forecast. "I am still not sure that either the prime minister or the chancellor fully appreciates how precarious is the country's economic situation in today's changed world," Douglas McWilliams, chief executive of CEBR, said in an e-mailed statement in London today. (BN)
- **Bank of Japan Becomes More Upbeat About Growth for Second Month** -- The Bank of Japan raised its economic assessment for a second month after companies ramped up production at the fastest pace in more than 50 years. Governor Masaaki Shirakawa and his policy board left the benchmark lending rate between zero and 0.1 percent at a meeting in Tokyo today, the central bank said in a

statement. They also kept unchanged a 10 trillion yen ($125 billion)fund to buy assets such as corporate bonds and exchange-traded funds. Automakers from Toyota Motor Corp. to Honda Motor Co. are restoring facilities and hiring workers to make up for lost output from the March 11 temblor, and a report last week showed companies expect profits to surge 21 percent in the second half of the year. Companies are forecasting a surge in profits in the second half of this fiscal year and consumer confidence has rebounded from a two-year low, adding to evidence that the worst of the post-quake slump is over. (BN)

- **Obama Seeks Grand Bargain on Debt as Republicans Balk on Taxes** -- President Barack Obama pushed back against Republican efforts to focus on a scaled-down deficit deal, arguing for a broader package of spending cuts and tax increases to put the U.S. on a sounder long-term fiscal footing. "Now is the time to deal with these issues," Obama said at a White House news conference yesterday before resuming talks with congressional leaders on reducing deficits and raising the $14.3 trillion U.S. debt ceiling before the government exhausts its borrowing authority on Aug. 2. "If not now, when?" In the negotiating session, Obama rejected a Republican presentation on spending cuts discussed in earlier talks led by Vice **President Joe Biden, a Democratic official said. Obama said the total** -- which a Democratic official put **at $1.7 trillion** -- fell short of his $4 trillion goal and the threshold Republicans set for a debt-limit increase large enough to carry the nation through the 2012 elections, another Democrat said. House Speaker John Boehner, who Republican aides said engaged in a testy exchange with Obama at the talks, set the stage for the negotiations with his own news conference, declaring his party was firmly opposed to tax increases. (BN)
- **High-Speed Tax Rewrite Falters as Lawmakers Bicker Over Basics** -- The collapse of efforts to kick off a U.S. tax code overhaul through a debt-ceiling compromise demonstrates how difficult it will be for lawmakers to rewrite the nation's revenue laws. Republican congressional leaders and President Barack Obama discussed a rewrite of the tax code over the past week and couldn't resolve even the basic outline of what it should look like. They disagreed on revenue targets, the progressivity of the code, international taxation issues and the treatment of large businesses that aren't currently taxed as corporations, according to two Republicans familiar with the talks. Those disputes on important parameters that would guide an overhaul led House Speaker John Boehner to abandon efforts for a bigger deficit deal on July 9. Regardless of what happens in the debt-ceiling talks, the barriers that Obama and Boehner faced will recur if and when Congress attempts to restructure tax policy. (BN)
- **California Schools Suffer Under Proposition 13 Tax Cap's Chaos** -- Three decades after Californians voted to limit their property taxes and helped start a national revolt with Proposition 13, some consequences are still emerging. The average California real-estate tax rate is 60 percent lower than when the law passed in 1978, according to the Board of Equalization, the state's tax administrator. The most populous U.S. state ranks 28th nationally in combined state and local property-tax collections per person in a 2011 study by the Washington-based Tax Foundation. Yet the measure that inspired tax-limiting laws in New York and New Jersey is also blamed for California's perennial budget crises, the proliferation of strip malls and auto dealerships, a decline in the state's once top-10 ranking for spending on students and unequal tax bills among neighbors. "Prop. 13 helped usher in the modern anti-tax movement," said Robert Ward, the deputy director of the Rockefeller Institute of Government in Albany, New York. "Now, other states look at Prop. 13 as an example of what to avoid." (BN)
- **China's Banks Side With Geithner on Yuan to Challenge Goldman** -- Treasury Secretary Timothy F. Geithner has gained an unlikely ally in his push for China to let its currency rise faster: Chinese banks. Chief executive officers at Guotai Junan International Holdings Ltd., Haitong International Securities Group Ltd. and Bocom International Holdings Ltd. said in interviews in Hong Kong they want a stronger and more freely convertible yuan to support their global expansion. Geithner argues the "substantially undervalued" currency needs to appreciate to reduce trade imbalances and curb inflation. China's banks haven't been able to compete with Goldman Sachs Group Inc. and Nomura Holdings Inc. in global financial markets because the government only allowed the yuan to trade freely in 2005 and still limits its conversion for investment. While Beijing-based Industrial & Commercial Bank of China Ltd.'s market value of $240 billion is three times Goldman's, its share of global equity offerings was less than 0.1 percent in 2011, compared with 9.5 percent for the Wall Street firm. (BN)
- **China Able to Contain Local-Financing Vehicles Risk, PBOC Says** -- China can contain the risk from loans to local-government financing vehicles, the People's Bank of China said, adding that a 14 trillion yuan ($2.2 trillion)
- estimate of the outstanding debt is "obviously" too large. The results of a national audit issued June 27 that showed local governments had 10.7 trillion yuan of debt on Dec. 31. China's banks may have loaned an additional 3.5 trillion yuan that didn't appear in the report, Moody's said July 5. Any additional unreported debt may indicate poorly documented loans that are at greater risk of default, Moody's said in its report. China's central bank rejected the higher debt estimate. Media outlets erroneously came up with the 14 trillion yuan figure by assuming local-government financing vehicle debt formed 30 percent of China's outstanding yuan loans, the central bank said in a statement on its website yesterday, citing an unidentified spokesman. Instead, the 30 percent was the proportion of local financing vehicles' debt to total loans from that province, it said. This proportion varied among governments, with 30 percent the highest, the central bank said. It's also wrong to assume the sum of local-government debt equals China's total outstanding loans, the PBOC said. (BN)
- **China's Money Supply Growth, New Lending Rebound in June** -- China's new loans rose more than estimated in June and money supply growth rebounded even after the central bank raised interest rates and reserve requirements to cool credit growth that's fueling inflation. New loans were 633.9 billion yuan ($98 billion), compared with the 622.5 billion yuan median estimate in a Bloomberg News survey and 551.6 billion yuan in May. M2, the broadest measure of money supply, rose 15.9 percent, the People's Bank of China said on its website. Foreign-exchange reserves, the world's largest, rose to $3.2 trillion at the end of June from $3.04 trillion at the end of March. (BN)
- **China's military 'eye-in-the-sky' nears par with US** -- China's rapidly expanding satellite programme could alter power dynamics in Asia and reduce the US military's scope for operations in the region, according to new research http://link.ft.com/r/ZE9K33/FKKEHP/ZGGWY/6V6D3A/4CORLE/KI/h?a1=2011&a2=7&a3=11 (FT)
- **Some Investors Betting On How Europe's Companies, Euro Will Struggle** --Some investors are ratcheting up bets on how much Europe's companies and single currency will struggle as fears mount that bigger economies like Italy and Spain could succumb to the region's confidence crisis. LNG Capital, a small London hedge fund, has made bearish bets on the prospects of Italian banks and relatively bullish bets on some European firms like Spanish phone giant Telefonica SA. Edinburgh-based Standard Life Investments, an investment fund that manages some $250 billion, has begun betting against the euro and in favor of Norway's krone. And a widely-watched gauge of euro jitters in the options market called a "risk reversal" indicates traders are scrambling to buy insurance against the risk of a sudden euro collapse. "We're teetering on the brink," says Chris Turner, a London-based currency analyst at Dutch bank ING. Signals in the options market show investors are bracing for bigger swings in the euro/dollar exchange rate, with the so-called "risk reversal" for euro/dollar hitting

negative 3.1 from negative 2.4 on Friday. By comparison, this metric hit -2.85 after Lehman Brothers Holdings Inc. collapsed in 2008. "Europe is offering a lot more opportunities for hedge funds," says Louis Gargour, chief investment officer at LNG Capital, whose fund is up 8.5% this year. Mr. Gargour makes so-called "relative value" trades that involve a combination of bullish **and bearish bets to take advantage of price discrepancies between two financial assets** -- basically, trying to figure out which company still has room to weaken, and which one has already hit its bottom. This approach allows him to make bets without necessarily wagering that Europe's sovereign debt crisis will go one way or the other. For example, Mr. Gargour is betting that prices of Spanish telecom company Telefonica's bonds are too low relative to its European peers. Around the same time, he also has had bearish positions on Italian financial institutions, whose shares and bonds fell heavily ahead of the results of Europe's latest bank "stress" tests, due Friday. A Telefonica spokesman couldn't be reached. (WSJ)

- **Italy Becoming Spain Makes Crisis 'Systemic': Chart of the Day** -- Investors are treating Italy increasingly like Spain as contagion pushes bond yields in two of Europe's largest economies toward levels that forced Greece, Ireland and Portugal to request external help. The CHART OF THE DAY shows the gap between Italy's benchmark 10-year yield and that of Spain narrowed to 35 basis points yesterday, the least since November, even as Spanish debt yielded more than 6 percent for the first time. The Italian yield jumped 71 basis points in the last five days to a nine- year high of 5.71 percent, on concern that the euro-region's largest debt load is becoming unsustainable. Greece, Ireland and Portugal asked for bailouts after their 10-year yields breached 7 percent. "This changes everything," said Antonio Garcia Pascual, chief southern European economist at Barclays Capital in London. "We are dealing with systemic countries now. These kinds of spreads require the immediate attention of the EU." At 28 percent of euro-region gross domestic product, the Spanish and Italian economies account for almost five times the 6 percent of Greece, Portugal and Ireland combined. Italy's and Spain's outstanding debt amounts to 2.5 trillion euros versus 637 billion euros for the three smaller nations. The surge in Spanish and Italian yields overshadowed a meeting of euro-region finance ministers in Brussels yesterday as they debated how to extend further aid to Greece. Spanish Prime Minister Jose Luis Rodriguez Zapatero called on European finance ministers to come up with a rapid solution to the crisis to stem contagion to a country as important as Italy. (BN)



Last Trading Day Stats

Index	*Close*	*1D %Chg*	*YTD%Chg*
EuroStoxx 50	2,709.14	-2.90%	-3.00%
CAC	3,807.51	-2.71%	0.07%
DAX	7,230.25	-2.33%	4.57%
AEX	336.16	-1.85%	-5.19%
FTSE 100	5,929.16	-1.03%	0.50%
SMI	6,053.00	-1.62%	-5.95%
OMX	1,103.39	-1.53%	-4.52%
S&P 500	1,319.49	-1.81%	4.92%
Nikkei 225	9,925.92	-1.43%	-2.96%

Index	Close	1D Chg	5D Chg
Dow Jones	12,505.76	-151.44	-77.01
VIX Index	18.390	0.000	-0.570
VDAX Index	21.210	1.270	1.110
2-10 EUR	139.899		
2-10 US	256.984		
Eur / Dollar	1.3961		

Bunds	*Yield (%)*	***Chg 1d bp***	*Chg 5d bp*
2YR	1.228	**-3.50**	-41.70
5YR	1.804	**-3.30**	-45.90
10YR	2.642	**-2.90**	-36.50

	Close	1D Chg	5D Chg
1st CL future	95.15	-0.56	-2.30
CRB index	340.62	-2.75	5.50

AEX close	336.16
ADR Impact	**-0.11**
ADR Impact %	-0.03%
AEX Parity	**336.05**
AEX Ex-div Impact	

ADRs	**Volume**	**Rel.vol**	**NL Close**	**ADR (Eur)**	**Chg EUR**	**%Chg**
AEGON NV-NY REG	1018706	95%	4.39	**4.38**	(0.01)	-0.26%
ARCELORMITTAL-NY	6165218	159%	23.64	**23.56**	(0.08)	-0.32%
ASML HOLDING-NY	2385668	89%	26.50	**26.45**	(0.04)	-0.16%
REED ELSEVIE-ADR	41777	42%	9.28	**9.29**	0.01	0.15%
ING GROEP-ADR	5878677	265%	7.79	**7.76**	(0.03)	-0.36%
PHILIPS ELEC-NY	2102962	135%	17.30	**17.31**	0.01	0.07%
ROYAL DUTCH-ADR	3377645	157%	25.47	**25.44**	(0.02)	-0.09%
UNILEVER NV-NYS	3115303	142%	23.19	**23.27**	0.09	0.38%

Dow Jones Sectors US	*Close*	***%Chg***	*Chg 1d*	*Chg 2d*	*Chg 5d*
BAS MAT	315.86	**-2.52%**	-8.17	-10.54	-4.31
CON CYC	370.35	**-1.78%**	-6.73	-8.87	-3.02
CON NCY	347.83	**-1.18%**	-4.17	-5.44	-1.17
ENERGY	640.14	**-2.16%**	-14.10	-18.43	-8.22
FINANCL	277.10	**-2.65%**	-7.53	-10.82	-9.35
HLTHCAR	368.82	**-1.50%**	-5.60	-6.81	-6.50
INDUST	338.16	**-2.01%**	-6.94	-10.85	-7.08
TECH	680.70	**-1.81%**	-12.56	-15.79	-1.48
TELECOM	138.44	**-1.32%**	-1.85	-2.46	-3.46
UTILITY	163.88	**-1.17%**	-1.94	-2.51	-2.40

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