



The Weekly Wrap ...

18.09.2012 - 25.09.2012



			Indices					
S&P 500	1,457	↓ -0.27%	FTSE 100	5,839	↓ -0.93%	Nikkei 225	9,087	↓ -0.71%
DOW 30	13,559	↑ 0.04%	Eurofirst 300	1,116	↓ -0.09%	Topix	754.17	↓ -0.51%
Nasdaq Comp	3,161	↓ -0.57%	VIX	14.15	↓ -3.02%	Hang Seng	20,669	↑ 0.10%

			Bond Yields (%)					
US 10Yr	1.72	↓ -6.52%	UK 10Yr	1.81	↓ -5.73%	Germany 10Yr	1.57	↓ -7.10%

			Currencies					
\$ / €	0.78	↑ 1.55%	\$ / ¥	77.84	↓ -0.90%	\$ / £	0.62	↑ 0.62%

			Commodities (\$)					
Brent Crude	110.09	↓ -3.65%	Gold 100 oz	1,762	↓ -0.34%	Copper	376.85	↓ -0.28%

The Big Picture

- **Printing money and the foreign exchange market** - Forecasting FX moves around QE is challenging task - A Pavlovian reaction to the effect that quantitative policy will drive the value of a currency down is wrong - Both demand and supply require attention if the mysteries of FX forecasting are to be penetrated (...)
- **European sovereign market** - It has changed dramatically since 2008 - Seems to offer diversification opportunity, hence a potential to generate alpha - With very low correlation and wide dispersion of yields come opportunities to create more market efficient portfolios (...)
- **LatAm: there is only so much the macro can deliver** - Dynamics are such that governments do not have too many incentives in advancing a micro reform agenda - Reforms in labor and education are politically very costly and benefits typically accrue to the future administrations - LatAm would be moving in the right direction only very slowly (...)
- **The European Stability Mechanism Enters the Scene** - ESM likely to gain final approval at the Eurogroup meeting on 8 October - Up and running by the end of the month - It will be the main financing vehicle for new aid programmes - ESM will take over all the features of EFSF and will have an effective lending capacity of EUR 500 billion (...)
- **The Tricycle** - The economic cycle, profit cycle and global equity market are connected together like three wheels on a tricycle - 2 of the 3 "wheels" (the equity market and earnings momentum) moved - Macro data has yet to improve - It will dictate whether this is just a policy-led trading rally or a longer term and larger move in equities (...)

What to buy

- **Global Autos** - Chinese auto inventories remain high but may have peaked - Pricing adjustments may accelerate margin normalisation - For € based companies, more concerned about currency - **BMW (Buy, PT €70), Daimler (Buy, PT €55), GM (Buy, PT \$29)** (...)
- **Telecom Equipment** - Shipments in-line with expectations and Q3 market forecast of +5% y-o-y - Apple, Samsung in-line, Nokia, HTC tweaked higher - Device related stocks trade on c11x P/E (historical: 11- 14x) - Stock selectivity remains key - Prefer the arm's dealers (**ams, ARM, MediaTek, NVIDIA;Spirent**) and the strong warriors (**Apple, Samsung**) (...)
- **Key Call: AstraZeneca** - Met management - Even with business change, AZN intends to return cash to shareholders - CEO Pascal Soriot arrives on 1 October - AZN preferred for: 1) The option on strategic change 2) The option on Brilinta 3) P/E multiple expansion 4) 7% 2013 Div Yield - Blended P/E, EV/E, DCF valuation - (**Buy, PT 3,600p**) (...)
- **China Oil and Gas Sector** - Government oil and gas production targets ever rising - critical question for investors is whether the industry will evolve to meet the upstream development challenges - Trends to support: **PetroChina and Sinopec** - Pure-plays: **HBP, Tong Oil Tools** - Future growth: **Schlumberger, Haliburton, CGG Veritas** and **China Oilfield** (...)
- **GALP (Buy) - Defining moments ahead** - Several upcoming events, have potential to redefine both its NAV and the discount to that the market applies - Changes in ownership structure should ultimately see a re-rating - Material drilling newsflow coming and Sines commissioning ongoing - Target set at a ~20% discount to NAV of **€19.02/sh** (...)

What got sold

- European markets had mixed returns through last week. The IBEX finished higher amid optimism that Spain could soon request a bailout package. The impact of QE3 on the markets remained muted in general as the majority of markets finished down on the week. We saw net covering 4 out of 5 days.
 - The main new shorting flows were across Materials, Financials and Industrials. Industrials followed by Financials remain the largest two sectors on our book.
 - In Materials, some names of focus were Salzgitter (**SZG GR**) and Nyrstar (**NYR BB**) while Lonmin remained in prominence despite resolving some of the ongoing worker disputes.
 - Financials flow included Axa SA (**CS FP**) and Swiss Life Holding (**SLHN VX**). Industrials flow continued to feature Atlas Copco AB (**ATCOA SS**).
 - We also saw interest in NCC AB (**NCCB SS**) and SKF AB (**SKFB SS**).
 - In the event space we saw continued focus on Glencore / Xstrata (**GLEN LN / XTA LN**) with the pending deadline of 24th Sept. This was pushed back late on Friday by one week.
 - The EADS / BAE Systems (**EAD FP / BA LN**) tie up dominated the press with reports of discussions between Merkel and Hollande. Evidence of returns but still have a significant borrow.
 - Sberbank of Russia (**SBER RU / SBER LI**) was one of the most in demand names of the week from event funds (spread between locals and DRs).
- Contribution of Jack Forrester-Fellowes, Stock Lending

Something for dessert

- **China Equity Strategy** - When will the Chinese inventory drag ease? - Data suggests we are a considerable way through the inventory drag - Inventory cycle is well advanced and: a) Industrial production could get a modest boost into Q4, b) Positive view on A shares, c) Regional strategy overweight on China (...)
- **Global Profit Picture: September 2012** - Earnings estimates were slashed this summer - The pace of downgrades has slowed - Europe & GEM, Resources & Tech have seen deepest downgrades - All the while, multiples are expanding (...)
- **UK retail: Food for thought** - Retail sales disappointed in August - Employment and policy easing to provide some support - UK household cash flow improvement to offer some support - Preference food over general retailers (...)
- **European Equity Strategy Thematic** - Temperature bullish: but are we near a turning point? - International Defensives back in favour: Cyclical down 2.0% - 2013E profits need to fall by about half - But no crash expected (...)
- **Does QE matter?** - Views differ on the effectiveness, impact and manner in which QE is transmitted to the economy and asset prices - Economic benefits are modest and diminishing - Primary transmission mechanism is via asset prices and portfolio shifts, not the change in money supply - Initial effects positive for risk assets, but not be very long lasting (...)

Bon appetit ...

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(...) - Research Piece Available