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## MORNING NEWS CALL

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### TUESDAY, DECEMBER 22, 2009, U.S. EDITION

#### TOP STORIES

- OPEC keeps oil supply restrictions unchanged
- Intesa sells securities services to State Street
- AIG pauses plan for Chartis IPO - report
- UK clears Ticketmaster/Live Nation deal
- FBI probes cyber attack on Citigroup - report

#### BEFORE THE BELL

U.S. stock index futures point to a higher open on Tuesday ahead of final reading on third-quarter economic growth and existing home sales data. GDP for the third-quarter is expected to have risen by 2.8 percent and existing homes sales for November is seen at 6.25 million, according to Reuters polls. European shares rose, hovering near a 14-month high, as energy and drug stocks pushed up the leading index in thin trade ahead of the Christmas holiday season. Asian shares rose across the board as technology stocks tracked a rally in their peers on Wall Street and Tokyo stock market closed at a 3 month high. Oil slipped towards \$73 per barrel after OPEC agreed to roll over its production targets and ahead of data expected to show a fall in crude and distillate inventories in the U.S. Gold fell slightly to trade around \$1093 an ounce.

#### COMPANIES REPORTING RESULTS

- **Cintas Corp.** (CTAS). Expected to report Q2 earnings of 43 cents a share, according to Thomson Reuters I/B/E/S
- **Commercial Metals Co.** (CMC). Expected to report Q1 loss of 4 cents a share
- **Micron Technology Inc.** (MU). Expected to report Q1 earnings of 7 cents a share
- **Red Hat Inc.** (RHT). Expected to report Q3 earnings of 16 cents a share
- **TIBCO Software Inc.** (TIBX). Expected to report Q4 earnings of 20 cents a share

#### INSIGHT

COLUMN - Anything but oil

As OPEC ministers meet in Angola this week, they can congratulate themselves on a brilliant piece of market management. Quick decision-making and aggressive output cuts over the last 18 months have stabilised prices at their highest level in real terms since the early 1980s. And this despite the deepest recession since World War Two.

The cartel has had plenty of help. Cheap liquidity from central banks has helped finance inventories, while continued enthusiasm from the investment community has encouraged the market to look past weak short term fundamentals and concentrate on the possibility of renewed price increases in future. Ministers, led by Saudi Arabia's Ali Naimi, can claim a large share of the credit: delivering timely and reasonably effective output cuts, limiting the stock build, and giving investors a reason to remain bullish. But the body faces bigger

## STOCKS TO WATCH THIS MORNING

- **Agilent Technologies Inc.** (A). EU regulators have extended their review of the electronics company's plan to buy **Varian Inc** (VARI) after Agilent offered remedies to tackle competition concerns.
- **American International Group Inc.** (AIG). The insurer has paused its plan for an initial public offering of Chartis Inc, its global property-casualty division, Bloomberg reported. The company CEO, Robert Benmosche, told employees he considered the unit a core holding, the news agency said on Tuesday, citing two people familiar with the matter.
- **Amkor Technology Inc.** (AMKR). The microchip packaging and testing company on Monday raised its fourth-quarter revenue outlook citing better-than-expected customer demand across product lines.
- **Apple Inc.** (AAPL). The iPod maker's plan of offering television subscription via the Internet might receive a boost with U.S. media companies **CBS** (CBS) and **Walt Disney's** (DIS) probable participation in the venture, the WSJ reported on Tuesday.
- **BHP Billiton Ltd/Plc** (BHP). The miner has pulled out of a \$2 billion nickel project in the southern Philippines after selling its 40 percent stake to a local partner.
- **Boeing Co.** (BA). The aircraft maker said on Tuesday it acquired Aliena North America's interest in Global Aeronautica, through a wholly owned subsidiary of Boeing. The company did not disclose financial terms of the deal. The company said it believes integration of the site will increase productivity for the its 787 Dreamliner program.
- **Brink's Co.** (BCO). The cash logistics and other security-related service provider is expecting to take a \$23 million cash charge because of the costs of moving its own cash out of Venezuela, the company said on Monday.
- **Bristol-Myers Squibb Co.** (BMY). The company on Monday raised its quarterly dividend by 3.2 percent to 32 cents a share.
- **Canon Inc.** (CAJ). The Japanese copier and digital camera maker headed for a second straight year of profit declines, has managed to lay the foundation to return to growth and is aiming for higher profits next year, the president of the company said on Tuesday.
- **Cephalon Inc.** (CEPH). U.S. health regulators have delayed a decision on whether to approve the company's sleep disorder drug Nuvigil to treat sleepiness caused by jet lag by three months, the company said on Monday.
- **Citigroup Inc.** (C). The U.S. Federal Bureau of Investigation is investigating a hacking that targeted the diversified financial services holding company and resulted in the theft of tens of million of dollars, the WSJ said on Tuesday, citing U.S. government officials.
- **Clariant Inc.** (CLRT). The pathology services provider on Monday acquired privately held Applied Genomics Inc for up to \$17.6 million in an all-stock deal.
- **Forest Oil Corp.** (FST). The company said on Monday it closed the sale of its Permian Basin properties in West Texas and New Mexico and used the net proceeds to repay debt and redeem its senior notes due 2014 worth \$150 million.
- **Hayes Lemmerz International Inc.** (HAYZQ). The auto parts maker emerged from Chapter 11 bankruptcy on Monday after slashing its debt and costs to better match the recent decline in auto output.
- **International Business Machines Corp.** (IBM). The PC maker on Tuesday said it had signed a 10-year outsourcing deal with Indian cable and broadband distribution firm Digicable, which will make an initial payment of \$83 million.
- **Jabil Circuit Inc.** (JBL). The technology distributor on Monday posted

problems as an "anything but oil" agenda swells with developed countries pursuing green agendas and seeking to insulate themselves from volatile markets.

Fears about the availability and environmental costs of combusting refined products have forged an unlikely alliance between the national-security right and environmental left around that agenda. It prioritises the use of other fuels (gas, coal, electricity, nuclear, renewables and biofuels) and new technologies (solar, liquefaction, carbon capture and storage) in preference to oil.

## CARTELS SOMETIMES WORK

OPEC has proved cartels sometimes work, holding prices above the level that would prevail in a purely competitive market and speeding adjustment to shocks. But ministers need to recognise the challenges facing the organisation over the next two years will be at least as demanding as those since the financial crisis broke.

The biggest will be proving that the cartel's oil can provide a competitive and reliable energy source in the decades ahead. If not, their share of the global energy market will be whittled away by conservation and substitution policies, as well as a growing share for cheaper and cleaner burning fuels such as natural gas aimed at limited carbon dioxide emissions, and perhaps even coal (assuming carbon capture and storage can be deployed on a significant scale).

In the last five years oil has proved an expensive and unreliable energy source. Prices have gyrated wildly in response to instability in the Middle East, Nigeria and

a first-quarter profit, compared with a loss in the year-ago quarter, which was hurt by a goodwill impairment charge.

- **Jones Soda Co.** (JSDA). The company, which is exploring strategic alternatives, said on Monday privately held beverage company Big Red Holdings Corp offered to buy it for 30 cents per share, a 55 percent discount to the stock's Monday close.
- **JPMorgan Chase** (JPM). The company on Monday sold \$4 billion of extendable securities with a final maturity date of Dec. 1, 2015 in a self-led deal, said IFR, a Thomson Reuters service.
- **Live Nation Inc.** (LYV) and **Ticketmaster Inc** (TKTM). The proposed merger of the two live music giants was given a huge boost on Tuesday when a British regulatory body dropped its objections and approved the deal.
- **MoneyGram International Inc.** (MGI). The payment services company said on Monday its CFO Jeffrey Woods is leaving the company for personal reasons, effective Jan. 15.
- **Mylan Inc.** (MYL). The company said on Tuesday it has been sued by Schering Corp and MSP Singapore Co on a patent challenge relating to Vytorin cholesterol medication.
- **Navistar International Corp.** (NAV). The truck and engine-maker reported a stronger-than-expected profit in fourth-quarter on Monday as share gains in the commercial vehicle market and strong parts sales helped the company during what it characterized as the industry's worst downturn in 47 years. It also forecast 2010 research and development spending to be flat and forecast military revenue of at least \$2 billion.
- **Park Electrochemical Corp.** (PKE). The electronic circuitry products maker on Tuesday reported a third-quarter EPS of 35 cents, on sales of \$46.09 million.
- **Progress Software Corp.** (PRGS). The business software maker on Tuesday reported fourth-quarter EPS of 61 cents, before items, on revenue of \$136.9 million, which fell 4 percent and forecast first-quarter earnings in range of 44 cents to 46 cents a share, before items.
- **Sohu** (SOHU). The Chinese Internet portal firm and video sharing firm Ku6 said on Tuesday they will set up a fund to buy licences to show Hollywood movies and television shows on their websites, catering to increasing user demand for Western media.
- **State Street** (STT). Italy's largest retail bank, Intesa Sanpaolo said on Tuesday it is selling its securities services activities to the bank for about 1.75 billion euros to boost capital ratios.
- **Take-Two Interactive Software Inc.** (TTWO). The video game publisher will sell its Jack of All Games distribution business to **Synnex Corp** (SNX) for \$43.3 million, and slashed its forecasts for fiscal 2010 as a result.
- **YRC Worldwide** (YRCW). The trucking giant said on Monday that it had received the needed approvals from lenders and pension funds to allow it to proceed with a critical debt-for-equity exchange offer that could keep the company out of bankruptcy.
- **ZymoGenetics Inc** (ZGEN). The company said on Monday it regained all commercial rights to its synthetic blood-clotting enzyme Recothrom, except Canada, from partner Bayer Schering Pharma AG, the drugmaker arm of Germany's Bayer AG.

## ECONOMIC CALENDAR

**07:45** ICSC/GS report ww for w/e Dec 19: Prior 0.4%

**08:30** Real GDP qq SAAR for Q3-F: Prior 2.8% Expected 2.8%

**08:30** Implicit deflator: Prior 0.5% Expected 0.5%

**08:30** Final sales: Prior 1.9% Expected 1.9%

**08:30** Core PCE Prices: Prior 1.3% Expected 1.3%

Venezuela; the producing countries' apparent inability to bring on new capacity in a timely manner; and stalemate with the international oil companies over access to reserves. All of which have been amplified by the animal spirits of investors and speculators. Consumers have been given an enormous incentive to switch as much of their energy use as possible into other fuels to insulate themselves from oil capricious vagaries.

## PREMIUM FUEL NO PROTECTION

Not everyone has a choice. Refined products from crude oil (especially gasoline and diesel) remain premium fuels. High energy density makes them extremely efficient carriers of energy and the only realistic option for many transport applications. But even in the transport sector, surging and unpredictable prices have resulted in demand destruction, especially in the advanced industrial economies, where the full impact of rising international oil prices has been passed on to consumers. In the United States, the biggest energy user of all, the total volume of refined petroleum products supplied to domestic customers peaked in the summer of 2007, well before the financial crisis, and has been on a downtrend for two years. Gasoline demand weakened noticeably from mid-2007 onwards as customers cut discretionary driving and switched from sport utility vehicles in favour of smaller and more fuel-efficient cars. Following previous episodes of demand destruction, the cartel faced steep losses in consumption and was forced to buy back demand through a

**08:30** PCE price index: Prior 2.7% Expected 2.7%  
**08:30** Corporate profits Q3-R: Prior 13.4% Expected 13.4%  
**10:00** Existing home sales for Nov: Prior 6.10 mIn Expected 6.25 mIn  
**10:00** FHFA Home price mm for Oct: Prior 0.0%  
**10:00** Richmond fed manufacturing for Dec: Prior 1  
**17:00** ABC CCI for w/e Dec 20: Prior -45

### **CORPORATE EVENTS**

**10:00** Navistar International Corp.(NAV). Q4 earnings conference call  
**11:00** Park Electrochemical Corp.(PKE). Q3 earnings conference call  
**16:30** Micron Technology Inc.(MU). Q1 earnings conference call

### **ANALYST RECOMMENDATION**

- **Amkor Technology Inc.** (AMKR) price target raised to \$8 from \$7; rating equal-weight at Barclays
- **AOL Inc.** (AOL) started with equal weight rating; price target \$30 at Barclays
- **NStar** (NST) price target raised to \$36 from \$34; rating equal-weight at Barclays
- **Trina Solar Ltd.** (TSL) price target raised to \$56 from \$45; rating equal-weight at Barclays

### **EXDIVIDEND**

(Amounts rounded off to two decimal places)

- **Advance Auto Parts Inc.** (AAP). Amount \$0.06
- **DuPont Fabros Technology Inc.** (DFT). Amount \$0.08
- **Equity Lifestyle Properties Inc.** (ELS). Amount \$0.30
- **Financial Federal Corp.** (FIF). Amount \$0.15

prolonged period of low prices in real terms. But this time much of the demand that has been lost has probably gone forever.

The combination of fuel efficiency measures and the ethanol mandate (passed in response to concerns about high and rising oil prices) have ensured that gasoline demand and petroleum consumption has probably peaked in the United States.

#### **A LEGISLATIVE PARIAH**

Much of that "anything but oil" agenda is now being firmly embedded in legislation. It will not be particularly easy to reverse, even if real oil prices stabilise or fall in future.

Failure to agree emissions reductions in Copenhagen and the uncertain prospect of the U.S. Congress approving a cap-and-trade programme next year provide a respite. But conservation measures, including vehicle fuel economy standards and the U.S. Environmental Protection Agency's threat to regulate tailpipe emissions of greenhouse gases, are still forging ahead.

Meanwhile the competitive and legislative playing field is being tilted in favour of cleaner, greener fuels that are more abundant in the advanced economies, such as natural gas (including shale), bitumen sands, renewables, nuclear and coal.

The advanced economies have almost unlimited energy sources (including premium liquid transport fuels from Fischer-Tropsch liquefaction) at real oil prices well under \$100 per barrel. Only a periodic collapse in oil prices has prevented these technologies being exploited more fully in the past. Oil's decline can be tracked in

the recent editions of the International Energy Agency (IEA)'s World Energy Outlook (WEO).

In WEO 2004, the IEA projected OECD energy consumption would grow to 6,953 million tonnes of oil equivalent (mtoe) a year by 2030, of which around 40 percent would come from crude, 26 percent from gas and 17 percent from coal.

By WEO 2009, projected consumption had been cut as much as 17 percent to 5,811 mtoe (owing to a combination of the 2008 recession and the rising cost of all forms of energy). Forecast oil consumption had fallen even further, down by a massive 32 percent.

Oil is now expected to provide only 32 percent of primary energy consumption in the OECD in 2030, while the share from coal is up two percentage points and the proportion from nuclear, hydro and renewables is up almost 7 points.

#### OIL IS FOR POOR PEOPLE

OPEC's customer base is increasingly concentrated in emerging markets, where economic growth, rising incomes and still-growing populations are boosting demand, and an extensive system of price controls and fuel subsidies has largely insulated consumers from the pressure to be more efficient. Emerging markets show less enthusiasm for the climate change and anything-but-oil priorities of the advanced economies. Raising living standards for the rural poor and creating jobs for the growing number of over-educated and under-employed graduates in their urban centres is a more pressing priority than the remote risk of global warming in 50 years.

But if the advanced economies become more efficient and shift to cheaper and more reliable fuels emerging markets will come under pressure to follow suit or lose their competitive advantage. Intense oil use will be a handicap in coming decades.

Already most emerging markets have liberalised their price controls somewhat and scaled back subsidies that mostly benefit the middle class rather than the poor, when the doubling of oil prices in H1 2008 made existing systems unaffordable. China is now showing strong interest in coal liquefaction, gas from Central Asia, and greener solar power to cut oil imports. Others will follow.

If there is another spike in prices, demand destruction will not be restricted to the developed world. More volatility, especially on the upside, will only strengthen the determination of policymakers to reduce oil's share in the energy balance.

OPEC has often called for "security of demand" to help it invest, matching the consumer nations' call for security of supply. But unless the cartel can find a way to avert future spikes, demand security will remain an illusion, as consumer countries continue weaning themselves off an expensive and out of favour fuel.

--- *John Kemp, a Reuters columnist. The views expressed are his own*

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