

2:00 Notes

Stan Shipley	212 446 9474	sshipley@isigrp.com
Austin Litvak	212 446 9412	alitvak@isigrp.com

1 of 4

2:00 ECONOMIC/FINANCIAL NOTES
Capital Markets

Macro stories, which had dominated the financial markets over the last two years, are taking a back seat today. Instead the market is assessing whether swine flu is another headwind on the global economy and can a U.S. auto industry restructure and succeed.

- On the weak front, **airlines and hotel stocks retreated on fears that the Swine Flu epidemic will cause travel to stop. The stock prices for meat producers were burnt on fears that the Swine Flu will cause demand to recede. However, drug stocks are doing well. We suppose the sicker we are the better it is for health care stocks in the short run. The focus upon the auto sector just will not diminish.** The prospects improved for Chrysler as it appears they have successfully completed negotiations with the UAW. However, the prospects for GM to avoid bankruptcy have fallen. Though GM has started to exchange bond holders' claims for equity, news reports suggest that the current exchange ratio will not be enough to satisfy the Treasury (probably around 90% of bond debt).
- **The Fed's purchase of \$7 billion of Treasuries and heightened prospects of more global headwinds from the Swine Flu pushed yields are down modestly from Friday's close.** They probably would have climbed today in anticipation of the \$101 billion in 2, 5, and 7 year Treasuries to be auctioned this week. The 2-year auction, which occurred today, was very successful.
- It is likely that until the results of the "stress tests" are released on May 4, banks will refrain from issuing more debt. The corporate calendar is very still however. Sheila Bair, head of the FDIC, stated in New York that unsound banks need to be shutdown quicker than before.
- **The dollar moved little on the news of the Swine Flu.** The Mexican peso and Brazil's real both fell on these stories. The yen rallied on a flight to safety. Most Asian currencies did poorly on those fears, though China's yuan posted good gains as their economic data continues to be better than expected.
- **Ag commodity prices fell on the news of swine flu. China and Indonesia has already banned pork from Mexico and precious metals' decline is consistent with weak global growth.** Crude oil, copper and other industrial commodity prices fell sharply as well.

What We Learned From Today's Economic Releases

No significant releases today, but here are some interesting headlines:

1. Bair Urges Limits on Bank Size, Seeks New Resolution Authority

How would the government put this into practice?

2. Airlines Tumble on Concern Swine Flu Will Damp Travel

Hotels are off sharply today too.

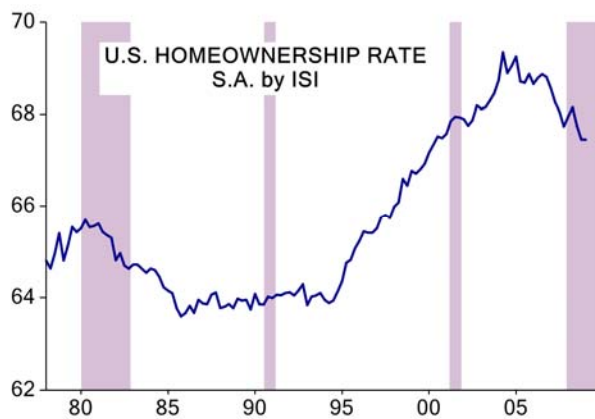
3. Poland 'Probably Won't' Join ERM in First Half

How far back have the euro adoption plans of eastern European been pushed by the recession?

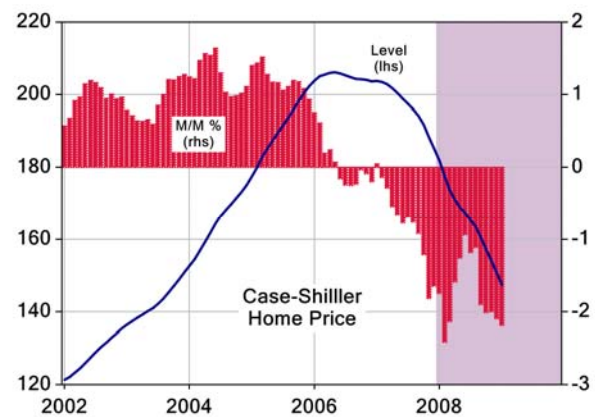
4. Supertanker Rates to Jump on Losing Single-Hull Ships

Will the additional costs from these new regulations be a significant drag on the global recovery?

Can the Stabilization in the Homeownership Rate (Released Today) Last?



Will This Trend Change With Tomorrow's Data?



What Will Be Key From Tomorrow's Economic Releases

- 1. The Case-Shiller house price index was probably flat m/m in Feb.** Given the firming of house price data in the existing and new home sales releases last week, as well as the FHFA home price index, we now believe Case-Shiller will show a similar trend in Feb.
- 2. The preliminary reading on Germany's CPI for April will probably be flat m/m.** This estimate compares favorably to the modest m/m declines in Mar and suggests that consumer prices in Germany remain slightly positive y/y.
- 3. The consensus estimates that Lithuania real GDP fell -8.8% y/y (NSA) in 1Q.** Seasonally adjusted, this translates into a -21.1% decline at a q/q annual rate and represents a significant acceleration from the -15.5% q/q annual rate decline posted in 4Q. Despite signs of moderating declines in other parts of the world, eastern Europe generally remains a disaster.

3 of 4

Top Stories

Enter Keyword(s)	All	95) Set Alert	96) Options	Top Bloomberg News(Apr 27)
Worldwide	1) News Search	2) Summaries	3) Scrolling TOP	4) Most Read
5) B	General Motors Bondholders Say Debt-Equity Exchange Is Unlikely to Succeed			
6) B	Bair Urges Limits on Bank Size, Seeks Authority to Dismantle Institutions			
7) B	Goldman Sachs Increases Risk-Taking at Fastest Pace in Wall Street Trading			
8) B	Bernanke Credit Warning Prompts Record Company Debt With Libor-OIS Retreat			
9) B	Auction of Defaulted Whistlejacket Capital SIV Assets Said to Start Today			
10)	Hogs, Pork Bellies Plunge on Concern Swine Flu Will Cut Meat Consumption			
11) B	CVS, Walgreen Prepare for Possible Rush on Hygiene Products as Flu Spreads			
12)	McDonald's Drops Coca-Cola's Pibb Xtra Soda for Rival Dr Pepper Beverage			
13) B	Goodyear, Cooper `Solidarity' Cushions Tiremakers in Slump: Chart of Day			
14)	Bank of America Burnishes Mortgage Image as Countrywide Brand Jettisoned			
15) B	London Bankers Look for Way Out After `Last Straw' Increase in Tax to 50%			
16) ✓	Wall Street Boomer Bows Out in Banking Shakeout That Brought Vermont Beard			
17) Worldwide Stories	18) Headlines	19) Swine Flu	20) Video	
21) B	WHO Says Swine Flu Spreading, Alert Status Under Review by Emergency Panel			
22)	Military `Photo Mission' Over Hudson River Sends a Chill Down Wall Street			
23)	Obama Says Spread of Swine Flu in U.S. a Concern, `Not a Cause for Alarm'			

This will likely be resolved at the last minute. The Treasury has insisted on a 90% exchange of debt for equity.

That is the easy part. Is she going to get the resources for monitoring banks better? And what will the rules be for those that are too big to fail?

The "Cola" wars are fun to watch.

Will they keep any of the brand names they bought? If not, then why did they pay such a premium?

Prior health scares, even if temporary, boosted health care stocks by over 20% more than the market over the ensuing three months.

Sector Movers

Markets Pricing in Swine Flu Concerns

April 27, 2009 1:31 PM	Daily % Change	Year to Date % Change	YTD Rank	% Change From Mar 9	
S&P 500	-0.76	-4.8		27.1	
Utilities	1.27	-12.0	9	14.3	
Health Care	1.13	-9.6	6	10.5	Swine Flu boosts health care
Consumer Staples	0.34	-9.8	7	11.3	
Telecom	-0.32	-7.3	4	17.6	
Technology	-0.54	14.9	1	33.4	
Industrials	-1.35	-9.9	8	40.5	
Energy	-1.88	-9.0	5	13.1	Oil down over \$1.50 today
Consumer Discretionary	-1.96	4.2	3	40.4	Swine Flu hurts airlines & hotels
Financials	-2.41	-14.9	10	71.5	Stress Test result concerns
Materials	-2.46	6.5	2	34.7	Commodities broadly weaker

4 of 4

Daily % Change Top and Bottom Industry Performers

Rank	April 27, 2009 1:31 PM	Daily % Change	Year to Date % Change	Rank
1	Advertising	3.69	19.0	21
2	Education Services	2.91	-17.9	110
3	Household Appliances	2.38	-0.7	57
4	Health Care Service	2.15	1.2	53
5	Biotechnology	2.02	-13.1	99
6	Health Care Supplies	2.00	-2.4	64
7	Health Care Distribution	1.86	-1.8	61
8	Auto Retail	1.76	28.9	13
9	Electric Utilities	1.65	-14.3	101
10	Automobile Mfg	1.63	78.6	2
11	Agriculture Products	1.39	-16.4	105
12	Multi Utility	1.30	-8.8	79

Top Industries

**S&P 500
-0.76%**

121	Motorcycle	-5.77	13.5	33
122	Office Electronics	-5.87	-29.7	129
123	Consumer Finance	-6.39	-4.8	68
124	Paper Products	-6.58	-2.0	62
125	Diversified REITS	-6.95	-23.9	122
126	Casino and Gaming	-7.38	-11.2	89
127	Office REITS	-8.14	-16.8	107
128	Residents REITS	-8.90	-23.2	121
129	Retail REITS	-8.93	-20.2	118
130	Airlines	-9.22	-20.1	117
131	Industrial REITS	-9.66	-45.9	133
132	Hotels	-10.05	6.4	44

Bottom Industries

Treasuries Sell Off Modestly During the Auction

