



## NEWS AND RUMORS

**At least 5 of the 6 Greek banks being stress-tested** will pass, according to the WSJ.

**Bernanke** said on Thurs that in short term, should maintain a reasonable degree of fiscal stimulus; longer term need to take steps on controlling deficits. Labor market situation 'unsatisfactory.' Repeats options for Fed going forward would include reducing interest on reserves, buying more securities if conditions warrant. Said our baseline scenario is as effects of financial crisis pass, moderate growth in economy will be seen. Adds European situation is improving, confidence coming back. Although some US data has been disappointing, Fed has no basis to radically change its outlook.

Fed Chairman **Bernanke says unemployment** is the most important problem right now. Most modeling exercises suggest fiscal policies created 1-3 million jobs. Hears often from businesses about uncertainty delaying investment but can't quantify it. Fed could reintroduce some special lending programs in unlikely case of spillover from Europe debt crisis. 'Unusually uncertain' comment was based on latest Fed survey of its members, majority of whom said conditions were more uncertain than normal

The US House voted in favor of restoring **emergency unemployment benefits** for 2.5mln unemployed, sending the measure to President Obama.

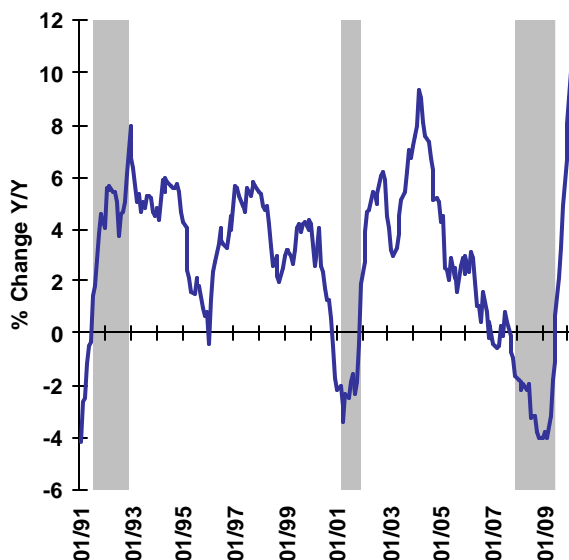
**US June Conference Board leading economic indicators report** revealed an overall decrease of -0.2% m/m, versus the revised +0.5 m/m reading seen in May (prev. +0.4% m/m), above market expectations for a -0.3% m/m decrease. Despite this decrease gains were posted in 5 of 10 measured categories. Overall, the greatest sources of weakness came via average workweek, pace of deliveries, stock prices and initial jobless claims. Meanwhile, improved readings were seen from interest rate spread, money supply, consumer expectations, building permits and consumer goods orders, alongside an unchanged reading from capital goods orders. IDEA: Alongside the decrease seen in the headline measure, we continue to expect further GDP gains in 2Q10, though likely to see some deceleration to around 2.8% following the broader sense of weakness seen in recent data.

**US Initial jobless claims** for the week ending 17 July increased +37k to 464k, versus the revised 427k reading seen in the week prior (prev. 429k), above market expectations for an increase to 445k. The 4-week av-

*continued...page 3*

## LEI:

**DESPITE NEAR-TERM CONCERNS, MAINTAINED GAINS IN Y/Y MEASURE ILLUSTRATE THE MAGNITUDE OF THE ONGOING RECOVERY**



## JUNE LEI AND IDEAGLOBAL GDP OUTLOOK UPDATE

The June Conference Board leading economic indicators report revealed an overall decrease of -0.2% m/m, versus the revised +0.5 m/m reading seen in May (prev. +0.4% m/m), above market expectations for a -0.3% m/m decrease. Despite this decrease gains were posted in 5 of 10 measured categories. Overall, the greatest sources of weakness came via average workweek, pace of deliveries, stock prices and initial jobless claims. Meanwhile, stronger readings were seen from interest rate spread, money supply, consumer expectations, building permits and consumer goods orders, alongside an unchanged reading from capital goods orders. Alongside the decrease seen in the headline measure, we continue to expect further GDP gains in 2Q10, though likely to see some weakness around +2.8% following the broader sense of weakness seen in recent data.

The headline measure was weighed down by declines posted in 4 of 10 measured areas, with greater downward pressure being seen in the June release. Alongside the

decrease seen in the headline reading, a number of critical metrics revealed downward pressure in June, increasing prospects of further gains in the near-term. Overall, negative contributions were seen from average workweek (-0.33%), pace of deliveries (-0.26%), stock prices (-0.14%) and initial jobless claims (-0.05%). Meanwhile, positive contributions were seen from interest rate spread (+0.32%), money supply (+0.14%), consumer expectations (+0.03%), building permits (+0.05%) and consumer goods orders (+0.01%), alongside an unchanged reading from capital goods orders.

As mentioned previously, despite the weaker data seen recently, conditions remain little changed from what was seen to finish off 1Q10. At present, we anticipate further traction will be seen in the coming quarters as conditions improve further (given the prospects for further improvement seen in non-farm payrolls and ISM manufacturing/non-manufacturing readings in the coming months, coupled with gains in consumer activity). However, recent weakness, coupled with weaker conditions among many critical components portrays an economy improving in the face of headwinds. On balance, we anticipate growth to see modest further improvement to finishing off 2Q10, increasing +2.8%, likely to see some deceleration in 2H10 (+2.1% in 3Q10, +2.7% in 4Q10), before posting further gains in 2011 (+3.0-3.5% in 1H11, quarterly averages).

## U.S. CORPORATE CREDIT SPREADS JULY 22

Corporate credit spreads edged tighter in the aggregate after more than 4 in 5 earnings reporters posted better than expected bottom line numbers Thursday, and with several key reporters offering extremely constructive cash flow, leverage, and fiscal trends (see below). But the range bias holds in advance of whatever constitutes a confirmation of recovery dynamic in the current glum sentiment environment – the latest 109.5bp level for the CDX S14 IG 5y was 1.5bp tighter on the day but still shy of a test of the narrow end of a 107.5-116bp range in place now for 16 sessions. The latest 194.8bp level for the (high- to low-beta) IDEA non-bank broad 5y CDS index remains part of a 193-197bp range over the last 10 sessions, and is little changed net of the last week and month. The latest 147.9bp level for the IDEA Bank index is part of a more volatile 142-155bp range over the last 12 sessions, but a solid 13% tighter net of the last month.

*continued...page 3*

## TREASURY MARKET STRATEGY

As another string of strong company earnings/forecasts came out and as market confidence was boosted by some constructive data in Europe, stocks rebounded sharply. This sapped Treasuries of the gains they accrued on Wednesday and with some moderate steepening of the curve. Jobless claims rebounded a bit more than expected and Existing Home Sales fell a bit less than consensus forecast, but continuing claims dropped and m/m home prices rose. The Treasury announced sizes of 2yrs, 5yrs and 7yrs to be auctioned next week at levels still very near record low yields and with the Street very uncertain about whether the pickup in risk appetite can sustain or not. With no economic releases scheduled on Friday, focus is squarely on the market reaction to the stress tests in Europe and earnings including McDonalds, Ford, McGraw Hill and Verizon. The House voted for extension of jobless benefits through November, including retroactive payments to 2.5mn jobless whose benefits had run out, injecting a noteworthy \$34bn over the next six months into consumers who are highly likely to spend the money as it is received. Given the “unusual uncertainty” Bernanke has told congress he has about the outlook, given the polls showing voters feel job creation trumps deficit reduction and given the general climate of caution and hesitation to invest and hire in the business community (especially small business), the current conditions could be more conducive to getting some additional fiscal action such as on the proposed \$30bn legislation to boost small business hiring. The technical picture on Sept 10yrs is showing loss of momentum, still allowing room for spike to 12327 then 12409 but then sees a likely stall and reversal. Below 12229/12227 should test 12216 and break here aims for 12114.

In Sept '11 Euro\$, focus on 9918/9920. That said, should struggle, but above will aim for 9925. Below 9914 can see dip to 9911/9907 even toward 9899 but look for snap-back. Below 9899 however can turn tide for 9892/9884 as initial objective.



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**NEWS AND RUMORS continued...**

erage was reported at 456.0k, versus the revised 454.8k seen in the previous week (prev. 455.3k).

**US June NAR existing home sales** report revealed an overall decrease of -5.1% m/m (to a SAAR of 5.37mln), versus the unrevised -2.2% m/m decrease (SAAR of 5.66mln) seen in May. This comes in above market expectations for a decrease to SAAR 5.10mln (-9.9% m/m). Meanwhile, inventories increased +2.5% to 3.992mln (8.9 months' supply), while the median price managed to post a +5.2% m/m increase to \$183.7k (+2.7% y/y).

**Housing price index** for May rose 0.5% vs. expectation of -0.3%. April was revised higher to 0.9% from 0.8%.

**NY Fed Pres Dudley(voter)** says road to US economic recovery "a bit bumpy" as relatively weak consumer spending, ongoing financial market problems weighing on recovery. Economic growth "far less robust" than Fed would like. Sees only "slight risk" of a double-dip recession and US economic growth may be a bit less in Q3 than in 1H'10. Improving domestic, foreign demand should continue to drive us manufacturing output. Adds June payroll numbers tell story of sluggish jobs recovery.

The Treasury has announced the sale of **2Yr notes (\$38.0bln)** on Tuesday, 27 July), 5Yr notes (\$37.0bln on Wednesday, 28 July) and 7Yr notes (\$29.0bln on Thursday 29 July) with settlement on Monday, 2 August. These estimates are roughly in line with expectations with the 5Yr coming in around \$1.0bln more than some estimates.

**Canada's Monetary Policy Report:** BOC worried about European debt crisis and uneven global recovery making outlook highly uncertain. It revised its GDP forecasts lower for the next few quarters: Q2 to 3% from 3.8%; Q3 to 2.8% from 3.5%; Q4 to 3.2% from 3.5%; Q1 2011 to 3% from 3.3%; and the rest of quarters will be higher than previously forecasted. Inflation will remain mild and BOC expects the loonie to weaken; thus, helping its export growth in 2010 and 2011.

**BOC Carney** says he doesn't expect Canadian households to increase savings; believes in the quality of Statistics Canada, despite the changes it is making, but will look at the integrity of the proposed changes; doesn't believe in double dip for the US; BOC is not preordained in interest rate moves.

**Canadian retail sales** down -0.2% in May m/m vs. expectation of +0.4%. April was revised lower to -2.2% from -2%. Less autos, sales declined -0.1% m/m. compared to expectation of +0.5%. April was revised lower to -1.4% from -1.2%. The big decline came from building material and garden equipment and supplies dealers, which fell 4.1%. Gasoline stations sales were down 2.3%, as

prices fell at the pump. Sales at motor vehicle and parts dealers decreased 0.5% in May. The largest percentage increase came from clothing and clothing accessories stores (+2.6%).

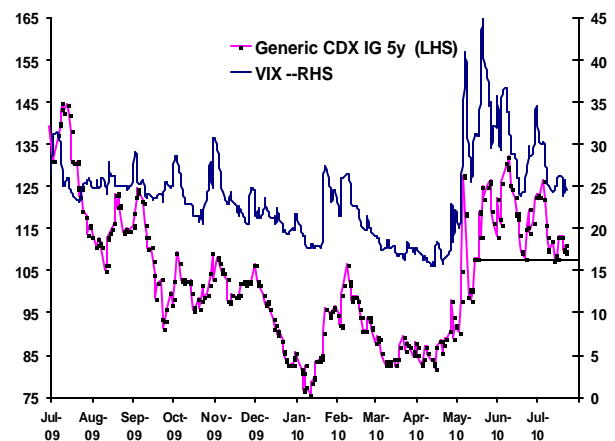
**EIA report revealed U.S. weekly natgas** stocks up 51 bcf, versus forecast of 53 bcf build. Natgas producing region up 6 bcf in latest week while consuming region east up 41 bcf, west up 4 bcf.

**Crude** closed the day up \$2.74 that is 3.58% higher to settle at \$79.30 a barrel as some of the upbeat corporate earnings reports brought optimism to the investors on higher demand for crude.

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Commercial paper levels edged up a marginal \$2.4bn or 0.2% over the latest week ended July 21, a second straight small increase but still leaving the latest \$1,099.7bn in total CP outstanding just 3.4% above the 12-year low established at the start of June. Financial CP rose 0.3%, Non-Financial CP rose 0.9%, and ABCP declined 0.2%. The only notable development in the latest week was Non-Financial CP topping \$150bn for the first time since mid-June 2009, up from an interim low of \$103bn at the end of 2009.

CDX IG and Vols Still Equivocal Near Test of Mid-May Tights



**Caterpillar: Leveraging Orders Boom, Deleveraging Debt**

Caterpillar (CAT) is back to investing heavily in inventories as machinery orders swell and engine demand starts to play catch-up – the sequential revenue rise in the second quarter was "one of the most significant quarter-to-quarter increases in our history," CAT said. This has some negative implications for cash flow over the coming quarters, but the company's ability to leverage demand upticks is impressive since realigning its production chain and greatly reducing costs. The latest 17.5% SG&A margin compares with 20%+ margins through 2009, lifting the operating profit margin to 9.4% for best performance since just ahead of the Lehman collapse. This is still shy of the 10%+ margins



from 2005-2007, but a marked improvement from the sub-2% for 2009.

We certainly see scope for 5y CDS (84.5bp last) to see a rapid retracement to the low 60bp levels in April ahead of the spike in sovereign debt concerns and resulting downgrades of global growth prospects. Company commentary certainly suggests that CAT is comfortable with a slow/no growth outlook for Europe given dramatic offsets in LatAm and Asia/Pacific markets and solid profitability in N.A. despite expectations of only a modest increase in expected housing starts over the back half of the year (CAT expects 675K starts for the full year vs a 610K pace over the first half of the year, but with the full year expectation still reflecting the second worst level since 1945 after the 2009 nadir).

Caterpillar Inc raised its top line forecast for the full year (to \$40.5bn at the mid from \$40bn prior, adding distance from the street consensus for \$38.9bn), after posting a stunning 26% sequential rise in revenues (+31% year-to-year). CAT is ramping production to keep up with the swell of demand as orders outpace shipments, primarily from developing markets – while N.A. revs were up a very solid 24% year-to-year, the most dramatic gains remain the +83% for LatAm (including a 116% explosion in machinery sales) and the 45% rise in Asia/Pacific revenues. Europe continues to lag at +8% (including a 15% contraction in engine sales, offset by a 36% rise in machinery sales) and is not expected to break out of its slow/no growth progression over the medium-term.

Overall, machinery drove the growth with engine revenues up just 3%. But we note that the company entered the quarter with lower inventories and months supply of engines year-to-year, and the segment was solidly profitable with

\$462m in operating profit for the quarter (-17% year-to-year), not far from the \$477m from the machinery segment despite machinery accounting for nearly two-thirds of consolidated revenue.

Aggressive inventory investment led to a \$2.6bn negative variance in that line item in the cash flow tables year-to-year over the first half of 2010 (operating cash flow down 38% to \$1.7bn), but the company still generated nearly \$900m in free cash over the first six months of the year (vs \$1.9bn over the same period last year) while also reducing equipment level debt by 20% year-to-year and 8% sequentially. Equipment level debt/LTM EBITDA declined to 1.24X through the latest quarter, down from 2.19X at the end of 2009 and 1.76X at the end of June 2009.

### Xerox Continues to Impress Through ACS Honey-moon

Xerox (XRX) continues to impress since acquiring services company ACS in February, showcasing its ability to leverage modest economic improvements while pursuing growth in developing markets and from increasing demand from small and mid-sized businesses for higher capacity entry-level products. This is bolstering resources for the planned winnowing of debt from the business over the next 18mos: the company plans a “significant” debt repurchase by the end of the year and ongoing debt reduction in 2011, targeting a 9.5% reduction in debt by the end of 2009 (to \$8.7bn from \$9.6bn at the end of June) and a further 8% reduction over the first nine months of 2011 to \$8bn.

On a pro-forma basis in the second quarter 2010:

\*\*Consolidated revenues rose 2% (+3% constant currency), including technology sales up 3% (+4% constant currency), install activity for Xerox equipment up 45% (including +56% for “entry-level” printers and multifunction devices), and services revenues up 1% (along with 12% growth in signings)

\*\*Operating margin of 10.1% up 90bp year-to-year amid sharply lower SG&A margin.

The company materially increased adjusted EPS guidance to \$0.88 to \$0.92 vs prior \$0.75 to \$0.85 guidance, bringing the low end of the new range above the \$0.87 street consensus. The company continues to expect \$2.6bn in full year operating cash flow, auguring a back half ramp after \$1.05bn generated in the first half.

Free cash flow continues in record territory, offering solid prospects for deleverage (total debt is up 20% year-to-year post-M&A). Free cash flow of \$919m for the first six months of the year lifted the LTM free cash total to

| Caterpillar Inc (CAT)           |  |        |        |        |        |        |        |
|---------------------------------|--|--------|--------|--------|--------|--------|--------|
|                                 | Moody's A2, Stable<br>S&P A, Stable<br>Fitch A, Stable |        |        |        |        |        |        |
|                                 | 2Q   | 1Q     | 4Q     | 3Q     | 2Q     | YoY%   | QoQ%   |
|                                 | Jun-10   | Mar-10 | Dec-09 | Sep-09 | Jun-09 | Change | Change |
| (in millions)                   |  |        |        |        |        |        |        |
| Total Revenue                   | 10,409   | 8,238  | 7,898  | 7,298  | 7,975  | 31     | 26     |
| Cost of revenues                | 7,606  | 6,127  | 6,090  | 5,511  | 6,024  | 26     | 24     |
| Gross profit                    | 2,803  | 2,111  | 1,808  | 1,787  | 1,951  | 44     | 33     |
| Gross profit margin             | 26.9%  | 25.6%  | 22.9%  | 24.5%  | 24.5%  |        |        |
| SG&A                            | 1,826  | 1,603  | 1,680  | 1,510  | 1,604  | 14     | 14     |
| SG&A as a percentage of revenue | 17.5%  | 19.5%  | 21.3%  | 20.7%  | 20.1%  |        |        |
| EBIT                            | 977  | 508    | 128    | 277    | 347    | 182    | 92     |
| EBIT margin                     | 9.4%   | 6.2%   | 1.6%   | 3.8%   | 4.4%   |        |        |
| D&A                             | 703  | 554    | 703    | 561    | 538    | 31     | 27     |
| EBITDA                          | 1,680  | 1,062  | 831    | 838    | 885    | 90     | 58     |
| EBITDA margin                   | 16.1%  | 12.9%  | 10.5%  | 11.5%  | 11.1%  |        |        |
| Interest Expense                | 81   | 102    | 88     | 91     | 109    | (26)   | (21)   |
| Free Cash Flow                  | 712  | 175    | 1,007  | 1,101  | 1,469  | (52)   | 307    |
| Trailing 12mo Free Cash Flow    | 2,995  | 3,752  | 4,027  | 2,970  | 2,313  | 29     | (20)   |
| Total Debt                      | 29,171   | 30,170 | 31,631 | 32,116 | 33,296 | (12)   | (3)    |
| Net Debt                        | 25,574   | 26,632 | 26,764 | 27,928 | 29,305 | (13)   | (4)    |
| Equipment-Only Debt             | 5,479  | 5,967  | 6,387  | 6,456  | 6,851  | (20)   | (8)    |
| EBITDA/Interest Expense         | 20.74X   | 10.41X | 9.44X  | 9.21X  | 8.12X  |        |        |
| Equipment-Only Debt/LTM EBITDA  | 1.24X  | 1.65X  | 2.19X  | 2.11X  | 1.76X  |        |        |
| Total Debt/LTM EBITDA           | 6.61X  | 8.34X  | 10.86X | 10.47X | 8.53X  |        |        |



\$2.45bn, holding at a record level for a second straight quarter and up 166% from the LTM total through June 2009.

Operating traction is already blunting the impact of higher total and net debt, with total debt/LTM EBITDA down to 4.14X through the latest quarter from 5.34X at the end of 2009 and 4.34X a year ago (if still above the 3.44X at the time of the Lehman collapse).

### Immediate Benefits from ACS Merger

Xerox (XRX) remains on strong footing since consolidating with ACS on 2/5/10, bolstered by the initial stirrings of corporate spending – as we frequently note, capex reached the lowest levels on record as a percentage of corporate internal funds in 2009, providing plenty of scope for an aggressive ramp as business confidence improves. Xerox is well positioned to leverage that scenario: the ACS business is a very nice fit for Xerox in terms of immediate diversification, with ACS' business process outsourcing (BPO) targeting mainly mid-sized clients vs Xerox's focus on the larger enterprise customers. And better than three quarters of all revenue will be recurring after the merger (83% in both the first and second quarters), offering pleasant annuity-like characteristics to the business. Management chemistry issues will likely be manageable with ACS continuing to operate independently and with the ACS CEO remaining on board to run all of the BPO activities (including those added to ACS from Xerox's more limited BPO presence).

The merger did necessitate a 26% year-to-year increase in total debt and 22% jump in net debt (including a \$2bn in 5-, 10- and 30-year bonds sold 12/1/09, with some proceeds directed to pay down ACS' sr credit facility), but company guidance suggests solid debt service metrics through the synergy-building next few years. Free cash flow (ex-dividends) is tracking for \$2bn in FY2010, not far from the record \$2.1bn in FY2009 and leaving enough cushion to address \$1.8bn in debt payments and \$300m in dividend payments without leaning heavily on cash balances. Better still, the debt maturity schedule eases in FY2011 to \$800m against \$2.1bn in estimated free cash flow, which should leave some \$1bn in discretionary cash after dividend payments.

That would typically trigger a rote warning on potential fiscal landmines down the road (share buybacks, more aggressive dividend policy), but we take Xerox at its word when it pledged back in September to hold off on share repurchase activity until incurred new debt is paid down. At the time, Moody's appeared to tip that management was dedicated to shelving share repurchases even after a return to pre-acquisition levels to focus free cash on debt reduction and niche acquisitions.

On September 28, 2009 we wrote: "Upside [credit spread] progressions will likely be grinding at best for a few quarters given the slated lurch in financial leverage at a time when a top-line turnaround is anything but assured in 201. Consolidated revenues for Xerox and ACS were down 12% year-to-year in the second quarter of 2009. But this was offset by very effective cost containment with consolidated COGs down 15% (albeit with SG&A down just 6%). And the other major concern with the merger – the heavy concentration of ACS business in the U.S with nearly two-thirds of consolidated revenue post-merger to occur in the U.S. – is not an intractable issue as the company stands already poised to attack market share internationally. That effort will be greatly enhanced with Xerox as explicit/effective partner. For those with longer target horizons, Xerox appears to be a solid credit for new exposure predicated on the assumption that post-merger credit metrics will improve incrementally at a steady pace into the next decade."

5y CDS was 166bp at the time of that recommendation and indeed spreads drifted wider over the first two months of 4Q09. But spreads tightened significantly after the successful \$2bn bond sale on December 1, to 140bp a week later and 122bp by Jan 7, 2010. But the latest 153bp level reflects the vicissitudes of global growth prognostication in subsequent months through the sovereign debt panic and softening of U.S. economic data into the summer months – we see this as an excellent entry point for higher credit exposure. The new 5y 4.25% 2/15/15 bonds trade almost exactly in line with 5y CDS (bond Z-spread of 151bp), while the less liquid 10-year 5.625% bonds traded about 10bp wide of 10y CDS (181bp) just after results.

Bottom line, XRX is back to offering at least a modest value proposition at current levels, with the balance of risks clearly favors incremental tightening into 2011 as the company steadily delevers. We target 125bp for 5y exposures over the next 3mos and a test of the 100bp level by the end of 1Q11.

| Xerox Corp (XRX) -- GAAP        |                      |        |        |        |        |        |        |
|---------------------------------|----------------------|--------|--------|--------|--------|--------|--------|
|                                 | Moody's Baa2, Stable |        |        |        |        |        |        |
|                                 | S&P BBB-, Stable     |        |        |        |        |        |        |
|                                 | Fitch BBB, Negative  |        |        |        |        |        |        |
|                                 | 2Q                   | 1Q     | 4Q     | 3Q     | 2Q     | YoY%   | QoQ%   |
|                                 | Jun-10               | Mar-10 | Dec-09 | Sep-09 | Jun-09 | Change | Change |
| (in millions)                   |                      |        |        |        |        |        |        |
| Total Revenue                   | 5,508                | 4,721  | 4,219  | 3,675  | 3,731  | 48     | 17     |
| Cost of revenues                | 3,592                | 3,017  | 2,537  | 2,211  | 2,233  | 61     | 19     |
| Gross profit                    | 1,916                | 1,704  | 1,682  | 1,464  | 1,498  | 28     | 12     |
| Gross profit margin             | 34.8%                | 36.1%  | 39.9%  | 39.8%  | 40.2%  |        |        |
| SG&A                            | 1,357                | 1,361  | 1,350  | 1,216  | 1,215  | 12     | (0)    |
| SG&A as a percentage of revenue | 24.6%                | 28.8%  | 32.0%  | 33.1%  | 32.6%  |        |        |
| EBIT                            | 559                  | 343    | 332    | 248    | 283    | 98     | 63     |
| EBIT margin                     | 10.1%                | 7.3%   | 7.9%   | 6.7%   | 7.6%   |        |        |
| D&A                             | 241                  | 241    | 185    | 176    | 168    | 43     | -      |
| EBITDA                          | 800                  | 584    | 517    | 424    | 451    | 77     | 37     |
| EBITDA margin                   | 14.5%                | 12.4%  | 12.3%  | 11.5%  | 12.1%  |        |        |
| Free Cash Flow                  | 595                  | 324    | 941    | 589    | 598    | (1)    | 84     |
| Trailing LTM Free Cash Flow     | 2,449                | 2,452  | 2,113  | 1,293  | 921    | 166    | (0)    |
| Total Debt                      | 9,617                | 9,964  | 9,264  | 7,446  | 8,037  | 20     | (3)    |
| Net Debt                        | 8,535                | 8,954  | 5,465  | 6,287  | 6,816  | 25     | (5)    |
| Total Debt/LTM EBITDA           | 4.14X                | 5.04X  | 5.34X  | 4.30X  | 4.39X  |        |        |

### 3M Flirts With Peak Operational Metrics

3M (MMM) posted strong 2Q results, including operating margin of 23.7% that is not only up 290bp vs a weak year ago comp but rivals the best performance in the company's history. Leverage (total debt/LTM EBITDA) at 0.81X at the end of June is back to the lowest levels since the early days of the crisis in 4Q07, down from 1.12X a year earlier – this comes with total debt down 7% year-to-year but with net debt down 76% to a highly constructive \$746m. That level of net debt pales in comparison with more than \$4bn in LTM free cash generation in each of the last three quarters, by far the strongest in the company's history. There appears to be no immediate risk to that progression: The company expects \$1bn in capex for the full year, up from \$903m in a cautious 2009 but still below the \$1.35bn average over the previous three years.

MMM's potent liquidity position obviously raises the risk of an M&A binge over the coming quarters and also a return to aggressive direct shareholder fiscal returns. But the company's near-peak operational metrics and extremely low leverage provide ample lead time for credit red flags to be identified – we are neutral on the name in the credit markets given rich valuations (4.375% 8/15/13 bullet structure valued below 10bp on a Z-spread basis, less than half the 3y CDS level) but would certainly see limited scope for profit in a short credit/long CDS position.

| 3M Corp (MMM)                   |        |        |        |        |        |        |        |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Moody's Aa2; Stable             |        |        |        |        |        |        |        |
| S&P AA-, Stable                 |        |        |        |        |        |        |        |
|                                 | 2Q     | 1Q     | 4Q     | 3Q     | 2Q     | YoY%   | QoQ%   |
|                                 | Jun-10 | Mar-10 | Dec-09 | Sep-09 | Jun-09 | Change | Change |
| (in millions)                   |        |        |        |        |        |        |        |
| Total Revenue                   | 6,731  | 6,348  | 6,122  | 6,193  | 5,719  | 18     | 6      |
| Cost of revenues                | 3,435  | 3,238  | 3,189  | 3,171  | 2,977  | 15     | 6      |
| Gross profit                    | 3,296  | 3,110  | 2,933  | 3,022  | 2,742  | 20     | 6      |
| Gross profit margin             | 49.0%  | 49.0%  | 47.9%  | 48.8%  | 47.9%  |        |        |
| SG&A                            | 1,700  | 1,665  | 1,591  | 1,544  | 1,551  | 10     | 2      |
| SG&A as a percentage of revenue | 25.3%  | 26.2%  | 26.0%  | 24.9%  | 27.1%  |        |        |
| EBIT                            | 1,596  | 1,445  | 1,342  | 1,478  | 1,191  | 34     | 10     |
| EBIT margin                     | 23.7%  | 22.8%  | 21.9%  | 23.9%  | 20.8%  |        |        |
| D&A                             | 287    | 287    | 298    | 290    | 298    | (4)    | -      |
| EBITDA                          | 1,883  | 1,732  | 1,640  | 1,768  | 1,489  | 26     | 9      |
| EBITDA margin                   | 28.0%  | 27.3%  | 26.8%  | 28.5%  | 26.0%  |        |        |
| Interest Expense                | 52     | 48     | 54     | 55     | 55     | (5)    | 8      |
| Free Cash Flow                  | 958    | 925    | 770    | 1,561  | 1,256  | (24)   | 4      |
| Trailing 12mo Free Cash Flow    | 4,214  | 4,512  | 4,038  | 3,930  | 3,161  | 33     | (7)    |
| Total Debt                      | 5,677  | 5,778  | 5,710  | 6,125  | 6,080  | (7)    | (2)    |
| Net Debt                        | 746    | 1,171  | 1,926  | 2,189  | 3,106  | (76)   | (36)   |
| EBITDA/Interest Expense         | 36.21X | 36.08X | 30.37X | 32.15X | 27.07X |        |        |
| Total Debt/LTM EBITDA           | 0.81X  | 0.87X  | 0.96X  | 1.14X  | 1.12X  |        |        |

### Royal Caribbean CDS Near Widens Despite Leading Edge of Strong FCF

Royal Caribbean (RCL), which saw its 5y CDS explode to 550bp in July from 315bp in April ahead of the sovereign debt panic, is certainly singing out for increased long credit exposure as it prepares to transition into a period of strong free cash generation and attendant deleverage potential. With the company indicating that it is comfortable with its current lineup after a huge spending program over the last five years (culminating in the massive new Allure of the Seas

and Oasis of the Seas flagships), Royal Caribbean now has the opportunity to optimize costs such that it could actually generate free cash for the first time in five years in 2010 with significant free cash prospects in 2011 and 2012 as capex plunges from an expected \$2.2bn in 2010 to \$1bn each in 2011 and 2012 (with attendant declines in capacity growth from 11.5% in 2010 to 7.1% in 2011 and 2% in 2012).

As articulated in the first quarter report, the company has no plans to tap the capital markets for the foreseeable future "outside of possible opportunistic actions." That should make the record \$8.4bn in total RCL debt and nearly 8X total debt/LTM EBITDA metric at the end of 2009 the peak levels for at least the next several years, with total debt and net debt already down 4% over the first half of 2010 and operating debt leverage down to 6.57X (if still up year-to-year from 5.78X).

The cash flow prospects are certainly enticing with operating profits poised to expand and capex decline – the company has not generated annual free cash flow since the \$681m in FY 2005 when capex was just \$430m. Capex would then ramp sharply from there over four straight years, culminating in the record \$2.5bn in FY 2009 capex and a record usage of free cash of -\$1.6bn.

Company capex guidance was affirmed Thursday, pointing to an ebb to \$2.2bn in FY 2010 and a steep decline to \$1bn in both FY 2011 and FY 2012. Even with a big expected jump in EBITDA, it would be a feat – but not impossible amid rising bookings -- for the company to throw off FCF in 2010 given that the prior peak for operating cash flow was \$1.3bn in 2007. Free cash flow was positive net of the first 6mos of 2010 at +\$164m, but with capex YTD accounting for just 38.5% of the expected full-year total (the Allure flagship is scheduled for delivery later this year).

But we certainly see scope for material free cash flow in 2011 and 2012, lowering the liquidity pressures ahead of a sharp ramp in debt maturities (from a total of \$750m over FY 2010 and FY 2011, to \$900m in FY 2013 and a peak of \$1.3bn in FY 2014).

Bottom line, RCL continues to sound pleasantly fiscally conservative for the time being, which may just be enough to allow a once dubious proposition in the credit markets to safely skirt the looming "refinancing cliff." Underlying yields and market conditions in the years to come will have a lot to do with how economical those refinancing conditions will prove to be (not to mention the trajectory of discretionary consumer spending power), but there is at least now a clear path to deleverage with capex in the rear view. (see next page)



| Royal Caribbean Cruises Ltd (RCL)      |         |         |         |         |        |        |        |
|--|---------|---------|---------|---------|--------|--------|--------|
| Moody's Ba2, Stable<br>S&P BB-, Stable |         |         |         |         |        |        |        |
|  | 2Q      | 1Q      | 4Q      | 3Q      | 2Q     | YoY%   | QoQ%   |
|  | Jun-10  | Mar-10  | Dec-09  | Sep-09  | Jun-09 | Change | Change |
| (in millions)                          |         |         |         |         |        |        |        |
| Total Revenue                          | 1,602   | 1,486   | 1,452   | 1,764   | 1,349  | 19     | 8      |
| Cost of revenues                       | 653     | 608     | 619     | 691     | 563    | 16     | 7      |
| Gross profit                           | 949     | 878     | 833     | 1,073   | 786    | 21     | 8      |
| Gross profit margin                    | 59.2%   | 59.1%   | 57.4%   | 60.8%   | 58.3%  |        |        |
| SG&A                                   | 805     | 787     | 750     | 765     | 731    | 10     | 2      |
| SG&A as a percentage of revenue        | 50.2%   | 53.0%   | 51.7%   | 43.4%   | 54.2%  |        |        |
| EBIT                                   | 144     | 91      | 83      | 308     | 55     | 162    | 58     |
| EBIT margin                            | 9.0%    | 6.1%    | 5.7%    | 17.5%   | 4.1%   |        |        |
| D&A                                    | 160     | 158     | 146     | 144     | 138    | 16     | 1      |
| EBITDA                                 | 304     | 249     | 229     | 452     | 193    | 58     | 22     |
| EBITDA margin                          | 19.0%   | 16.8%   | 15.8%   | 25.6%   | 14.3%  |        |        |
| Interest Expense                       | 84      | 84      | 78      | 74      | 68     | 24     | -      |
| Free Cash Flow                         | (83)    | 247     | (1,143) | (509)   | 125    |        |        |
| Trailing 12mo Free Cash Flow           | (1,489) | (1,281) | (1,633) | (1,273) | (581)  |        |        |
| Total Debt                             | 8,110   | 8,104   | 8,420   | 7,296   | 6,769  | 20     | 0      |
| Net Debt                               | 7,792   | 7,826   | 8,135   | 7,010   | 6,459  | 21     | (0)    |
| EBITDA/Interest Expense                | 3.62X   | 2.96X   | 2.94X   | 6.11X   | 2.84X  |        |        |
| Total Debt/LTM EBITDA                  | 6.57X   | 7.22X   | 7.95X   | 7.10X   | 5.78X  |        |        |



| US Sector Basket (5y CDS) | 7/22/10 |        | Day Bp | Day %  | WoW Bp | WoW %  | MoM Bp | MoM %  | YoY Bp  | YoY %  | 3mo Avg | % Diff vs 3mo avg |
|---------------------------|---------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|-------------------|
|                           | 7/21/10 | Change | Change | Change | Change | Change | Change | Change | Change  | Change |         |                   |
| 125-Name Sample Average   | 194.8   | 195.9  | (1.1)  | -0.6%  | 0.5    | 0.3%   | 1.2    | 0.6%   | (68.7)  | -26.1% | 189.3   | 2.9%              |
| Aero/Defense              | 105.0   | 108.1  | (3.1)  | -2.9%  | (3.4)  | -3.1%  | (3.0)  | -2.8%  | (137.0) | -56.6% | 105.7   | -0.7%             |
| Agri/Food                 | 405.0   | 406.1  | (1.1)  | -0.3%  | (5.8)  | -1.4%  | (4.8)  | -1.2%  | 28.6    | 7.6%   | 394.7   | 2.6%              |
| Autos/Parts               | 538.8   | 543.9  | (5.1)  | -0.9%  | (4.1)  | -0.8%  | (24.8) | -4.4%  | (576.9) | -51.7% | 562.7   | -4.3%             |
| Chemicals                 | 99.0    | 99.0   | 0.0    | 0.0%   | 2.5    | 2.6%   | 2.2    | 2.2%   | (18.5)  | -15.7% | 101.8   | -2.7%             |
| Consumer Products         | 72.3    | 72.7   | (0.4)  | -0.6%  | (0.4)  | -0.6%  | (4.6)  | -6.0%  | 23.5    | 48.0%  | 74.7    | -3.2%             |
| Homebuilding              | 383.4   | 385.1  | (1.7)  | -0.4%  | (0.9)  | -0.2%  | 30.8   | 8.7%   | (173.9) | -31.2% | 343.7   | 11.6%             |
| Industrial                | 140.9   | 141.4  | (0.6)  | -0.4%  | 1.6    | 1.1%   | 9.1    | 6.9%   | (108.9) | -43.6% | 131.1   | 7.4%              |
| Insurance                 | 184.3   | 184.3  | 0.0    | 0.0%   | 2.4    | 1.3%   | 2.8    | 1.5%   | (52.1)  | -22.0% | 174.7   | 5.5%              |
| Leisure                   | 282.0   | 286.3  | (4.3)  | -1.5%  | (5.3)  | -1.9%  | 21.0   | 8.0%   | (145.7) | -34.1% | 256.0   | 10.2%             |
| Media                     | 285.8   | 291.0  | (5.2)  | -1.8%  | (1.3)  | -0.5%  | 6.3    | 2.3%   | (346.5) | -54.8% | 285.0   | 0.3%              |
| Metals/Mining             | 216.9   | 216.8  | 0.1    | 0.0%   | 5.6    | 2.7%   | 6.5    | 3.1%   | (21.9)  | -9.2%  | 205.4   | 5.6%              |
| OG&E                      | 137.3   | 139.5  | (2.2)  | -1.6%  | 0.8    | 0.6%   | (19.0) | -12.2% | 8.9     | 6.9%   | 135.9   | 1.0%              |
| Paper                     | 168.1   | 169.3  | (1.2)  | -0.7%  | 4.5    | 2.8%   | (5.6)  | -3.2%  | (91.7)  | -35.3% | 174.2   | -3.5%             |
| Pharmaceutical/Medical    | 58.4    | 58.9   | (0.5)  | -0.8%  | (1.1)  | -1.8%  | (5.7)  | -8.9%  | 13.5    | 30.1%  | 62.4    | -6.5%             |
| REIT                      | 162.7   | 163.0  | (0.3)  | -0.2%  | 0.3    | 0.2%   | (11.5) | -6.6%  | (128.8) | -44.2% | 162.6   | 0.0%              |
| Retail                    | 177.3   | 177.3  | 0.1    | 0.0%   | 1.3    | 0.8%   | 19.6   | 12.4%  | (40.8)  | -18.7% | 160.1   | 10.8%             |
| TMT/CME                   | 194.3   | 195.0  | (0.7)  | -0.4%  | 1.6    | 0.8%   | 0.5    | 0.2%   | (60.4)  | -23.7% | 196.6   | -1.2%             |
| Utility                   | 93.0    | 93.2   | (0.2)  | -0.2%  | (3.7)  | -3.8%  | (15.8) | -14.5% | 14.8    | 19.0%  | 94.9    | -2.0%             |

| US Bank Entity (5y CDS)  | 7/22/10 |        | Day Bp | Day %  | WoW Bp | WoW %  | MoM Bp | MoM %  | YoY Bp  | YoY %  | 3mo Avg | % Diff vs 3mo avg |
|--------------------------|---------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|-------------------|
|                          | 7/21/10 | Change | Change | Change | Change | Change | Change | Change | Change  | Change |         |                   |
| American Express (AXP)   | 100.0   | 100.0  | 0.0    | 0.0%   | 4.0    | 4.2%   | (17.0) | -14.5% | (65.7)  | -39.7% | 115.4   | -13.3%            |
| Bank of America (BAC)    | 148.0   | 148.0  | 0.0    | 0.0%   | 7.5    | 5.3%   | (15.5) | -9.5%  | (5.0)   | -3.2%  | 153.9   | -3.8%             |
| Citigroup ( C )          | 174.0   | 175.0  | (1.0)  | -0.6%  | 1.0    | 0.6%   | (23.0) | -11.7% | (196.2) | -53.0% | 186.5   | -6.7%             |
| Goldman Sachs (GS)       | 162.5   | 163.0  | (0.5)  | -0.3%  | (12.5) | -7.1%  | (30.5) | -15.8% | 31.9    | 24.4%  | 181.2   | -10.3%            |
| JPMorgan Chase (JPM)     | 99.0    | 100.0  | (1.0)  | -1.0%  | 3.0    | 3.1%   | (18.5) | -15.7% | 21.0    | 26.9%  | 107.1   | -7.6%             |
| Merrill Lynch            | 177.5   | 177.5  | 0.0    | 0.0%   | 4.5    | 2.6%   | (16.0) | -8.3%  | 1.4     | 0.8%   | 191.4   | -7.3%             |
| Morgan Stanley           | 220.0   | 220.0  | 0.0    | 0.0%   | (12.0) | -5.2%  | (40.0) | -15.4% | 17.0    | 8.4%   | 230.7   | -4.6%             |
| Wells Fargo              | 102.0   | 104.0  | (2.0)  | -1.9%  | 0.0    | 0.0%   | (16.5) | -13.9% | (9.2)   | -8.3%  | 107.8   | -5.4%             |
| IDEA Bank Index (5y CDS) | 147.9   | 148.4  | (0.6)  | -0.4%  | (0.6)  | -0.4%  | (22.1) | -13.0% | (25.6)  | -14.8% | 159.2   | -7.1%             |



| US Reference Entity (5y CDS) | 7/22/10 | 7/21/10 | Day Bp Change | Day % Change | WoW Bp Change | WoW % Change | MoM Bp Change | MoM % Change | YoY Bp Change | YoY % Change | 3mo Avg | % Diff vs 3mo avg |
|------------------------------|---------|---------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------|-------------------|
| 3M (MMM)                     | 34.5    | 35      | (0.5)         | -1.4%        | (1.0)         | -2.8%        | (2.0)         | -5.5%        | (13.5)        | -28.1%       | 37.2    | -7.2%             |
| Aetna Inc (AET)              | 79.5    | 78.5    | 1.0           | 1.3%         | (0.5)         | -0.6%        | (7.0)         | -8.1%        | 14.5          | 22.3%        | 90.2    | -11.8%            |
| Alcatel-Lucent (ALU)         | 775     | 778     | (3.0)         | -0.4%        | 20.0          | 2.6%         | 65.0          | 9.2%         | 27.0          | 3.6%         | 712.0   | 8.9%              |
| Alcoa Inc (AA)               | 358     | 358.5   | (0.5)         | -0.1%        | 7.0           | 2.0%         | (5.0)         | -1.4%        | (43.7)        | -10.9%       | 333.4   | 7.4%              |
| Allstate (ALL)               | 119     | 118     | 1.0           | 0.8%         | 19.0          | 19.0%        | 30.0          | 33.7%        | 11.0          | 10.2%        | 95.0    | 25.3%             |
| Altria (MO)                  | 134     | 134.5   | (0.5)         | -0.4%        | 0.5           | 0.4%         | (61.0)        | -31.3%       | 56.5          | 72.9%        | 169.6   | -21.0%            |
| Anheuser-Busch InBev (ABIBR) | 57      | 57      | 0.0           | 0.0%         | (1.0)         | -1.7%        | (2.0)         | -3.4%        | (16.0)        | -21.9%       | 52.6    | 8.4%              |
| Archer Daniels Midland (ADM) | 60.5    | 60.5    | 0.0           | 0.0%         | 0.5           | 0.8%         | 1.0           | 1.7%         | (9.5)         | -13.6%       | 59.1    | 2.3%              |
| ArvinMeritor (ARM)           | 703     | 706.5   | (3.5)         | -0.5%        | (3.0)         | -0.4%        | (22.0)        | -3.0%        | (755.0)       | -51.8%       | 714.3   | -1.6%             |
| AT&T Inc (T)                 | 90      | 89      | 1.0           | 1.1%         | 1.0           | 1.1%         | (2.0)         | -2.2%        | 0.0           | 0.0%         | 93.6    | -3.8%             |
| AutoZone (AZO)               | 67      | 66      | 1.0           | 1.5%         | 1.0           | 1.5%         | (1.5)         | -2.2%        | 19.5          | 41.1%        | 81.4    | -17.7%            |
| Baker Hughes (BHI)           | 82.5    | 90      | (7.5)         | -8.3%        | (12.5)        | -13.2%       | (25.5)        | -23.6%       | 31.0          | 60.2%        | 89.0    | -7.3%             |
| Barrick Gold (ABX)           | 74      | 73      | 1.0           | 1.4%         | 4.0           | 5.7%         | (1.0)         | -1.3%        | (22.0)        | -22.9%       | 80.9    | -8.5%             |
| Beazer Homes (BZH)           | 796.5   | 799     | (2.5)         | -0.3%        | (27.5)        | -3.3%        | 86.5          | 12.2%        | (977.5)       | -55.1%       | 700.5   | 13.7%             |
| BHP Billiton (BHP)           | 85      | 81      | 4.0           | 4.9%         | (0.5)         | -0.6%        | (2.0)         | -2.3%        | 5.0           | 6.3%         | 83.9    | 1.4%              |
| Black & Decker (BDK)         | 30.5    | 31      | (0.5)         | -1.6%        | (0.5)         | -1.6%        | (0.5)         | -1.6%        | (117.0)       | -79.3%       | 32.8    | -7.1%             |
| Boeing Co (BA)               | 66.5    | 66.5    | 0.0           | 0.0%         | (2.0)         | -2.9%        | (1.5)         | -2.2%        | (46.5)        | -41.2%       | 71.2    | -6.6%             |
| Boston Properties (BXP)      | 147     | 147     | 0.0           | 0.0%         | 0.0           | 0.0%         | (12.5)        | -7.8%        | (118.0)       | -44.5%       | 149.0   | -1.3%             |
| Boston Scientific (BSX)      | 161.5   | 161.5   | 0.0           | 0.0%         | (0.5)         | -0.3%        | (37.5)        | -18.8%       | 71.5          | 79.4%        | 174.5   | -7.5%             |
| Bristol-Myers Squibb (BMY)   | 37      | 37.5    | (0.5)         | -1.3%        | (0.5)         | -1.3%        | (8.0)         | -17.8%       | 14.0          | 60.9%        | 47.8    | -22.6%            |
| Brunswick (BC)               | 561     | 562     | (1.0)         | -0.2%        | 12.0          | 2.2%         | 71.0          | 14.5%        | (504.0)       | -47.3%       | 476.0   | 17.9%             |
| Centex Corp (CTX)            | 168     | 170     | (2.0)         | -1.2%        | 0.5           | 0.3%         | 9.0           | 5.7%         | 19.5          | 13.1%        | 149.2   | 12.6%             |
| Chevron (CVX)                | 62      | 63      | (1.0)         | -1.6%        | (2.0)         | -3.1%        | 3.5           | 6.0%         | 3.0           | 5.1%         | 51.6    | 20.2%             |
| Chubb (CB)                   | 89.5    | 90      | (0.5)         | -0.6%        | 2.5           | 2.9%         | 14.5          | 19.3%        | 39.0          | 77.2%        | 77.2    | 16.0%             |
| Clorox (CLX)                 | 73.5    | 72.5    | 1.0           | 1.4%         | (0.5)         | -0.7%        | (1.5)         | -2.0%        | 37.5          | 104.2%       | 74.1    | -0.8%             |
| Coca-Cola Co (KO)            | 42      | 42      | 0.0           | 0.0%         | 0.0           | 0.0%         | 0.0           | 0.0%         | 1.5           | 3.7%         | 43.2    | -2.8%             |
| Colgate-Palmolive (CL)       | 50      | 51      | (1.0)         | -2.0%        | (0.5)         | -1.0%        | (0.5)         | -1.0%        | 14.0          | 38.9%        | 49.7    | 0.5%              |
| Comcast Corp (CMCSA)         | 114     | 113.5   | 0.5           | 0.4%         | 0.5           | 0.4%         | (3.0)         | -2.6%        | (2.5)         | -2.1%        | 119.6   | -4.7%             |
| Computer Sciences Corp (CSC) | 101     | 103.5   | (2.5)         | -2.4%        | (3.0)         | -2.9%        | (6.0)         | -5.6%        | 58.0          | 134.9%       | 114.5   | -11.8%            |
| ConocoPhillips (COP)         | 61      | 62.5    | (1.5)         | -2.4%        | (3.0)         | -4.7%        | (6.0)         | -9.0%        | 12.5          | 25.8%        | 63.3    | -3.7%             |
| Cooper Tire & Rubber (CTB)   | 378.5   | 381     | (2.5)         | -0.7%        | 4.5           | 1.2%         | (6.5)         | -1.7%        | (207.0)       | -35.4%       | 413.4   | -8.4%             |
| D.R. Horton (DHI)            | 283.5   | 285     | (1.5)         | -0.5%        | 6.5           | 2.3%         | 26.5          | 10.3%        | 18.5          | 7.0%         | 248.1   | 14.3%             |
| Dean Foods (DF)              | 724     | 724     | 0.0           | 0.0%         | (10.0)        | -1.4%        | 8.0           | 1.1%         | 358.0         | 97.8%        | 682.0   | 6.2%              |
| Deere & Co (DE)              | 62      | 63      | (1.0)         | -1.6%        | (1.0)         | -1.6%        | (4.0)         | -6.1%        | (28.5)        | -31.5%       | 69.7    | -11.0%            |
| Dell Inc (DELL)              | 112     | 111.5   | 0.5           | 0.4%         | 1.0           | 0.9%         | 8.0           | 7.7%         | 38.0          | 51.4%        | 102.3   | 9.5%              |
| Devon Energy (DVN)           | 74      | 74      | 0.0           | 0.0%         | (4.0)         | -5.1%        | (14.0)        | -15.9%       | 17.0          | 29.8%        | 82.9    | -10.8%            |
| Dominion Resources (D)       | 49.5    | 50      | (0.5)         | -1.0%        | (1.0)         | -2.0%        | (10.0)        | -16.8%       | 4.0           | 8.8%         | 61.2    | -19.2%            |
| Domtar Corp (UFS)            | 216     | 213     | 3.0           | 1.4%         | 12.0          | 5.9%         | (44.0)        | -16.9%       | (392.0)       | -64.5%       | 239.7   | -9.9%             |
| Dow Chemical (DOW)           | 162.5   | 162.5   | 0.0           | 0.0%         | 6.0           | 3.8%         | 4.0           | 2.5%         | (62.5)        | -27.8%       | 154.3   | 5.3%              |
| Duke Energy (DUK)            | 58      | 58.5    | (0.5)         | -0.9%        | (0.5)         | -0.9%        | (8.5)         | -12.8%       | 15.5          | 36.5%        | 69.4    | -16.4%            |
| Duke Realty (DRE)            | 202     | 203     | (1.0)         | -0.5%        | 0.0           | 0.0%         | (7.0)         | -3.3%        | (208.5)       | -50.8%       | 194.1   | 4.1%              |
| DuPont (DD)                  | 57.5    | 57.5    | 0.0           | 0.0%         | 0.5           | 0.9%         | (6.5)         | -10.2%       | 0.0           | 0.0%         | 71.5    | -19.5%            |
| Eastman Chemical (EMN)       | 77      | 77      | 0.0           | 0.0%         | 1.0           | 1.3%         | 9.0           | 13.2%        | 7.0           | 10.0%        | 79.6    | -3.2%             |
| Eastman Kodak (EK)           | 944     | 948     | (4.0)         | -0.4%        | 14.5          | 1.6%         | 2.0           | 0.2%         | (725.0)       | -43.4%       | 920.1   | 2.6%              |
| EI Paso Corp (EP)            | 314.5   | 335     | (20.5)        | -6.1%        | (19.5)        | -5.8%        | (50.5)        | -13.8%       | (328.5)       | -51.1%       | 356.5   | -11.8%            |
| Eli Lilly (LLY)              | 47      | 47      | 0.0           | 0.0%         | 0.5           | 1.1%         | (4.0)         | -7.8%        | 16.5          | 54.1%        | 55.1    | -14.6%            |
| ExxonMobil (XOM)             | 52      | 54.5    | (2.5)         | -4.6%        | 1.0           | 2.0%         | 19.0          | 57.6%        | 13.0          | 33.3%        | 33.1    | 56.9%             |
| Ford Motor Co (F)            | 641     | 646     | (5.0)         | -0.8%        | (6.0)         | -0.9%        | (17.0)        | -2.6%        | (955.0)       | -59.8%       | 644.6   | -0.6%             |
| Ford Motor Credit Co (F)     | 432.5   | 442     | (9.5)         | -2.1%        | (12.0)        | -2.7%        | (53.5)        | -11.0%       | (390.5)       | -47.4%       | 478.6   | -9.6%             |
| Gannett (GCI)                | 345     | 350     | (5.0)         | -1.4%        | (1.5)         | -0.4%        | 16.0          | 4.9%         | (546.0)       | -61.3%       | 348.4   | -1.0%             |
| Gap Inc (GPS)                | 61      | 61      | 0.0           | 0.0%         | 0.5           | 0.8%         | 3.5           | 6.1%         | 25.5          | 71.8%        | 63.6    | -4.0%             |
| GlaxoSmithKline (GSK)        | 65      | 66      | (1.0)         | -1.5%        | 1.0           | 1.6%         | 20.0          | 44.4%        | 16.0          | 32.7%        | 49.6    | 31.1%             |
| H.J. Heinz (HNZ)             | 67.5    | 68      | (0.5)         | -0.7%        | (0.5)         | -0.7%        | 1.0           | 1.5%         | 34.0          | 101.5%       | 69.1    | -2.3%             |
| Hartford Financial (HIG)     | 297.5   | 297     | 0.5           | 0.2%         | (1.5)         | -0.5%        | (6.0)         | -2.0%        | (261.5)       | -46.8%       | 285.0   | 4.4%              |
| Hess Corp (HES)              | 110     | 110     | 0.0           | 0.0%         | 0.5           | 0.5%         | (7.0)         | -6.0%        | (18.5)        | -14.4%       | 108.6   | 1.3%              |
| Hewlett-Packard (HPQ)        | 40      | 40      | 0.0           | 0.0%         | 0.0           | 0.0%         | (2.0)         | -4.8%        | 1.0           | 2.6%         | 42.8    | -6.4%             |
| Home Depot (HD)              | 76.5    | 76      | 0.5           | 0.7%         | 0.0           | 0.0%         | 14.5          | 23.4%        | (1.0)         | -1.3%        | 68.2    | 12.2%             |
| Honeywell (HON)              | 44.5    | 44.5    | 0.0           | 0.0%         | (3.0)         | -6.3%        | (6.0)         | -11.9%       | (6.5)         | -12.7%       | 52.1    | -14.5%            |
| Humana (HUM)                 | 160     | 160.5   | (0.5)         | -0.3%        | (1.0)         | -0.6%        | (9.0)         | -5.3%        | (136.0)       | -45.9%       | 173.1   | -7.6%             |
| Ingersoll-Rand (IR)          | 39      | 39      | 0.0           | 0.0%         | 0.5           | 1.3%         | (1.5)         | -3.7%        | (34.5)        | -46.9%       | 45.7    | -14.6%            |
| International Paper (IP)     | 151     | 152.5   | (1.5)         | -1.0%        | 3.0           | 2.0%         | (11.5)        | -7.1%        | (68.5)        | -31.2%       | 159.9   | -5.6%             |
| Interpublic Group (IPG)      | 285.5   | 292     | (6.5)         | -2.2%        | (12.5)        | -4.2%        | (7.0)         | -2.4%        | (257.5)       | -47.4%       | 277.1   | 3.0%              |



| US Reference Entity (5y CDS)  | 7/22/10 | 7/21/10 | Day Bp Change | Day % Change | WoW Bp Change | WoW % Change | MoM Bp Change | MoM % Change | YoY Bp Change | YoY % Change | 3mo Avg | % Diff vs 3mo avg |
|-------------------------------|---------|---------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------|-------------------|
| JCPenney (JCP)                | 213     | 212     | 1.0           | 0.5%         | 6.0           | 2.9%         | 45.0          | 26.8%        | 14.0          | 7.0%         | 171.3   | 24.4%             |
| Jones Apparel (JNY)           | 202     | 200     | 2.0           | 1.0%         | 11.0          | 5.8%         | 32.0          | 18.8%        | (173.5)       | -46.2%       | 171.1   | 18.1%             |
| Kellogg Co (K)                | 55.5    | 56.5    | (1.0)         | -1.8%        | (1.0)         | -1.8%        | 0.5           | 0.9%         | 17.5          | 46.1%        | 56.3    | -1.3%             |
| Kohl's (KSS)                  | 95      | 96      | (1.0)         | -1.0%        | (2.0)         | -2.1%        | 4.5           | 5.0%         | 8.0           | 9.2%         | 90.4    | 5.0%              |
| Kraft Foods (KFT)             | 64      | 64      | 0.0           | 0.0%         | 0.5           | 0.8%         | (1.5)         | -2.3%        | 24.0          | 60.0%        | 66.0    | -3.0%             |
| Level 3 Communications (LVLT) | 1354    | 1360    | (6.0)         | -0.4%        | 6.5           | 0.5%         | 31.0          | 2.3%         | 118.0         | 9.5%         | 1252.3  | 8.1%              |
| Limited Brands (LTD)          | 232     | 230     | 2.0           | 0.9%         | 5.0           | 2.2%         | 40.0          | 20.8%        | (71.0)        | -23.4%       | 198.4   | 16.9%             |
| Loews (L)                     | 125     | 125     | 0.0           | 0.0%         | 1.0           | 0.8%         | 2.0           | 1.6%         | 74.0          | 145.1%       | 107.6   | 16.2%             |
| Macy's (M)                    | 213     | 212     | 1.0           | 0.5%         | 3.0           | 1.4%         | 26.0          | 13.9%        | (151.5)       | -41.6%       | 186.2   | 14.4%             |
| Marriott International (MAR)  | 128     | 130.5   | (2.5)         | -1.9%        | (4.0)         | -3.0%        | (7.0)         | -5.2%        | (61.5)        | -32.5%       | 132.3   | -3.3%             |
| Mattel (MAT)                  | 158     | 160     | (2.0)         | -1.3%        | (2.0)         | -1.3%        | 15.0          | 10.5%        | 108.0         | 216.0%       | 146.6   | 7.8%              |
| MeadWestvaco (MWV)            | 150.5   | 153     | (2.5)         | -1.6%        | 0.5           | 0.3%         | 20.5          | 15.8%        | 62.0          | 70.1%        | 136.9   | 9.9%              |
| Merck (MRK)                   | 31      | 31      | 0.0           | 0.0%         | 0.0           | 0.0%         | (3.5)         | -10.1%       | (3.0)         | -8.8%        | 34.9    | -11.2%            |
| MetLife (MET)                 | 302.5   | 303     | (0.5)         | -0.2%        | (1.5)         | -0.5%        | (15.5)        | -4.9%        | (138.5)       | -31.4%       | 296.2   | 2.1%              |
| Motorola (MOT)                | 76      | 76      | 0.0           | 0.0%         | 0.5           | 0.7%         | (9.0)         | -10.6%       | (150.0)       | -66.4%       | 107.6   | -29.4%            |
| New York Times (NYT)          | 227     | 231     | (4.0)         | -1.7%        | 10.0          | 4.6%         | 10.0          | 4.6%         | (236.0)       | -51.0%       | 229.7   | -1.2%             |
| Newmont Mining (NEM)          | 80      | 79      | 1.0           | 1.3%         | 1.0           | 1.3%         | (1.0)         | -1.2%        | (32.0)        | -28.6%       | 86.6    | -7.7%             |
| Nordstrom (JWN)               | 121     | 121     | 0.0           | 0.0%         | 2.5           | 2.1%         | 8.5           | 7.6%         | (78.0)        | -39.2%       | 113.0   | 7.1%              |
| Norfolk Southern (NSC)        | 43.5    | 44      | (0.5)         | -1.1%        | 1.5           | 3.6%         | (3.5)         | -7.4%        | (0.5)         | -1.1%        | 51.2    | -15.1%            |
| Northrop Grumman (NOC)        | 64      | 64      | 0.0           | 0.0%         | 1.0           | 1.6%         | (3.0)         | -4.5%        | 23.0          | 56.1%        | 69.1    | -7.4%             |
| Occidental Petroleum (OXY)    | 59      | 59      | 0.0           | 0.0%         | (1.0)         | -1.7%        | (7.0)         | -10.6%       | 9.0           | 18.0%        | 59.5    | -0.9%             |
| Pacific Gas & Electric (PCG)  | 139     | 139     | 0.0           | 0.0%         | (5.0)         | -3.5%        | (33.0)        | -19.2%       | 7.0           | 5.3%         | 136.8   | 1.6%              |
| PepsiCo (PEP)                 | 44.5    | 45      | (0.5)         | -1.1%        | (0.5)         | -1.1%        | 0.5           | 1.1%         | 0.0           | 0.0%         | 43.5    | 2.2%              |
| Procter & Gamble (PG)         | 49      | 49      | 0.0           | 0.0%         | 0.5           | 1.0%         | (1.5)         | -3.0%        | (19.0)        | -27.9%       | 50.9    | -3.7%             |
| Prudential Financial (PRU)    | 255     | 257     | (2.0)         | -0.8%        | (0.5)         | -0.2%        | 3.0           | 1.2%         | (186.5)       | -42.2%       | 242.0   | 5.4%              |
| Pulte Homes (PHM)             | 300.5   | 301.5   | (1.0)         | -0.3%        | 13.5          | 4.7%         | 44.5          | 17.4%        | 76.5          | 34.2%        | 250.2   | 20.1%             |
| Qwest Corp (Q)                | 114     | 114     | 0.0           | 0.0%         | 0.0           | 0.0%         | 0.0           | 0.0%         | (230.0)       | -66.9%       | 114.0   | 0.0%              |
| RadioShack Corp (RSH)         | 347     | 351.5   | (4.5)         | -1.3%        | (21.0)        | -5.7%        | 50.0          | 16.8%        | 197.0         | 131.3%       | 273.2   | 27.0%             |
| Raytheon (RTN)                | 60      | 60      | 0.0           | 0.0%         | 1.0           | 1.7%         | (4.0)         | -6.3%        | 19.0          | 46.3%        | 66.2    | -9.4%             |
| Royal Caribbean (RCL)         | 528     | 536.5   | (8.5)         | -1.6%        | (9.0)         | -1.7%        | 61.0          | 13.1%        | (193.5)       | -26.8%       | 451.1   | 17.0%             |
| Safeway Inc (SWY)             | 89      | 88.5    | 0.5           | 0.6%         | 0.0           | 0.0%         | 3.0           | 3.5%         | 16.5          | 22.8%        | 90.0    | -1.2%             |
| Saks Inc (SKS)                | 658     | 661     | (3.0)         | -0.5%        | 9.0           | 1.4%         | 41.0          | 6.6%         | (380.0)       | -36.6%       | 630.8   | 4.3%              |
| Schering-Plough (SGP)         | 48      | 50      | (2.0)         | -4.0%        | (8.0)         | -14.3%       | (6.0)         | -11.1%       | (10.0)        | -17.2%       | 55.4    | -13.4%            |
| Simon Property (SPG)          | 139     | 139     | 0.0           | 0.0%         | 1.0           | 0.7%         | (15.0)        | -9.7%        | (60.0)        | -30.2%       | 144.8   | -4.0%             |
| Smithfield Foods Inc (SFD)    | 647.5   | 651     | (3.5)         | -0.5%        | (16.5)        | -2.5%        | (27.5)        | -4.1%        | (223.0)       | -25.6%       | 649.4   | -0.3%             |
| Southern Co (SO)              | 82      | 82      | 0.0           | 0.0%         | (5.5)         | -6.3%        | (6.0)         | -6.8%        | 22.0          | 36.7%        | 78.6    | 4.3%              |
| Sprint Nextel (S)             | 389     | 392     | (3.0)         | -0.8%        | (5.0)         | -1.3%        | (22.0)        | -5.4%        | 37.0          | 10.5%        | 427.3   | -9.0%             |
| Standard Pacific (SPF)        | 560     | 562     | (2.0)         | -0.4%        | (1.5)         | -0.3%        | 14.0          | 2.6%         | (241.5)       | -30.1%       | 524.6   | 6.7%              |
| Starwood Hotels (HOT)         | 190     | 192     | (2.0)         | -1.0%        | (3.0)         | -1.6%        | 9.0           | 5.0%         | (182.0)       | -48.9%       | 184.5   | 3.0%              |
| Sun Microsystems (JAVA)       | 26.5    | 27      | (0.5)         | -1.9%        | (1.0)         | -3.6%        | (0.5)         | -1.9%        | (20.5)        | -43.6%       | 27.1    | -2.4%             |
| Target Corp (TGT)             | 60      | 58.5    | 1.5           | 2.6%         | 2.0           | 3.4%         | 5.0           | 9.1%         | (1.0)         | -1.6%        | 55.6    | 7.8%              |
| Temple-Inland (TIN)           | 148     | 151     | (3.0)         | -2.0%        | 6.0           | 4.2%         | (1.0)         | -0.7%        | (70.5)        | -32.3%       | 158.8   | -6.8%             |
| Tenet Healthcare (THC)        | 585.5   | 584     | 1.5           | 0.3%         | 7.0           | 1.2%         | 4.0           | 0.7%         | (172.5)       | -22.8%       | 590.5   | -0.8%             |
| Textron Financial (TXT)       | 229.5   | 242     | (12.5)        | -5.2%        | (13.5)        | -5.6%        | (3.5)         | -1.5%        | (543.5)       | -70.3%       | 216.4   | 6.1%              |
| Time Warner (TWX)             | 55.5    | 56      | (0.5)         | -0.9%        | 0.0           | 0.0%         | (8.0)         | -12.6%       | (7.5)         | -11.9%       | 67.2    | -17.4%            |
| Toll Brothers (TOL)           | 192     | 193     | (1.0)         | -0.5%        | 3.0           | 1.6%         | 4.0           | 2.1%         | 61.0          | 46.6%        | 189.2   | 1.5%              |
| Transocean Inc (RIG)          | 470     | 461     | 9.0           | 2.0%         | 57.0          | 13.8%        | (61.0)        | -11.5%       | 387.0         | 466.3%       | 381.6   | 23.2%             |
| Travelers Cos (TRV)           | 106     | 106     | 0.0           | 0.0%         | 7.5           | 7.6%         | 18.5          | 21.1%        | 19.0          | 21.8%        | 88.0    | 20.5%             |
| Tyson Foods Inc (TSN)         | 188     | 189     | (1.0)         | -0.5%        | 3.0           | 1.6%         | (0.5)         | -0.3%        | (11.0)        | -5.5%        | 188.2   | -0.1%             |
| United States Steel           | 487.5   | 492.5   | (5.0)         | -1.0%        | 16.5          | 3.5%         | 41.5          | 9.3%         | (17.0)        | -3.4%        | 442.3   | 10.2%             |
| Unum Group (UNM)              | 309     | 308     | 1.0           | 0.3%         | (1.0)         | -0.3%        | (2.5)         | -0.8%        | 44.0          | 16.6%        | 293.1   | 5.4%              |
| Valero Energy (VLO)           | 194     | 195     | (1.0)         | -0.5%        | 2.0           | 1.0%         | (42.0)        | -17.8%       | (24.0)        | -11.0%       | 218.9   | -11.4%            |
| Verizon Comms (VZ)            | 89.5    | 89.5    | 0.0           | 0.0%         | (1.0)         | -1.1%        | (8.5)         | -8.7%        | 32.0          | 55.7%        | 102.2   | -12.5%            |
| Viacom (VIA)                  | 86.5    | 86      | 0.5           | 0.6%         | 0.5           | 0.6%         | 0.5           | 0.6%         | (18.5)        | -17.6%       | 88.0    | -1.7%             |
| Wal-Mart Stores (WMT)         | 48      | 48      | 0.0           | 0.0%         | 1.5           | 3.2%         | 3.0           | 6.7%         | 4.0           | 9.1%         | 47.8    | 0.4%              |
| Walt Disney (DIS)             | 51      | 51      | 0.0           | 0.0%         | 1.0           | 2.0%         | (1.0)         | -1.9%        | 1.0           | 2.0%         | 54.9    | -7.1%             |
| Waste Management (WMI)        | 134.5   | 135     | (0.5)         | -0.4%        | (0.5)         | -0.4%        | (1.5)         | -1.1%        | 55.5          | 70.3%        | 132.5   | 1.5%              |
| Wells Fargo (WFC)             | 102     | 104     | (2.0)         | -1.9%        | 0.0           | 0.0%         | (16.5)        | -13.9%       | (10.0)        | -8.9%        | 107.7   | -5.3%             |
| Weyerhaeuser (WY)             | 175     | 177     | (2.0)         | -1.1%        | 1.0           | 0.6%         | 8.0           | 4.8%         | 10.5          | 6.4%         | 175.9   | -0.5%             |
| Whirlpool (WHR)               | 124.5   | 125     | (0.5)         | -0.4%        | 1.5           | 1.2%         | 2.5           | 2.0%         | (120.5)       | -49.2%       | 124.0   | 0.4%              |
| Williams Cos (WMB)            | 119     | 120     | (1.0)         | -0.8%        | (8.0)         | -6.3%        | (28.0)        | -19.0%       | 1.5           | 1.3%         | 124.9   | -4.7%             |
| Wyeth (WYE)                   | 19      | 19      | 0.0           | 0.0%         | 0.0           | 0.0%         | (1.0)         | -5.0%        | (10.5)        | -35.6%       | 19.5    | -2.7%             |



### FINANCING STRATEGY

**Overnight GC** averaged 0.22% Thursday, trading as high as 0.23% before rallying late in the session to a 0.20/0.18% range. A 0.21/0.19% opening is expected for the weekend, with early funding of positions likely.

**Current 2yr (6/12):** Overnights averaged 0.19% Thursday on steady \$10Bn in volume. Despite mild bid side support, after good selling of 8/2 and 9/30 term dates by issue longs last week and limited term volumes this week, we are not likely to see any big plays leading into the WI 2yr auction next week. We would use any auction-induced overnight play to exit spec longs. (Earlier, the possibility of a play going into the auction had argued for buying recent backup in month-end date to 0.16%, eyeing re-test of recent 0.10/0.09% cycle low range.)

**Old 3yr (6/13):** Overnights for this issue averaged 0.18% Thursday, having lost some of its recent support. Limited success by issue longs in pushing the issue and rolls into the preferable current 3yr issue has resulted in easier financing this week.

**Current 3yr (7/13):** Overnights averaged 0.20% Thursday, better offered on steady, modest volume. Given active trading seen in the 8/16 date during the WI period, negligible amount available from the Fed for lending and some foreign retail interest seen in the issue at auction time, we liked buying the 8/16 date for a spec long at 0.16% level or better as a play on increased volatility heading into the August auction date. The 8/16 date saw good buying again at 0.14% Thursday, unchanged on the day.

**Double old 5yr (4/15):** Overnights averaged 0.13% again Thursday, holding to a recent 8-10bp spread through GC. Although the issue cheapens late in the day, suggesting increased supply, short-covering has been seen in the 0.13/0.12% range with longs still in control of the issue.

**Current (6/15) 5yr:** Overnights averaged 0.09% Thursday on lower \$10Bn in volume. Financing in a wide 0.17/0.03% range, the 8/2 date was back to 0.10% after trading as low as 0.05% Wednesday. There has been good buying of month-end date this week to cover weekend carry trades, but given back-to-back richer overnight levels, overseas supply likely came out in front of the weekend. We had looked to exit spec longs in the month-end date on an uptick this week, with an eye on re-setting longs on a weekend backup towards last week's 0.13% support level.

**Current 10yr (5/20):** Overnights averaged 0.17% again Thursday, financing at a bit wider spread to overnight GC in front of the weekend. Indicated to open 0.17/0.16% for Friday, could see spreads widen out a bit further in approach to 8/16 settlement date. The 8/16 date has firmed slightly to 0.15/0.14%, while bids for outside term dates are still unchanged in the wake of settlement of re-opened supply. The potential for spreads to GC to widen in approach to the mid-August settlement date and a large short base have both provided an underlying 10yr term bid for this issue.

### WORLD FUNDAMENTALS

| GMT   | FRI 23 JUL 10       | FOR | IDEA  | MKT   | RANGE       | LAST  |
|-------|---------------------|-----|-------|-------|-------------|-------|
| 06:45 | FR CONS MAN GDS M/M | JUN | 1.2   | 0.2   | -1.8/1.2    | 0.7%  |
| 08:00 | DEIFO               | JUL | 102.0 | 101.6 | 100.5/102.5 | 101.8 |
| 08:30 | UK GDP Q/Q 1ST      | Q2  | 0.6   | 0.6   | 0.1/0.8     | 0.3%  |
| 08:30 | UK GDP Y/Y 1ST      | Q2  | 1.1   | 1.1   | 0.6/1.3     | -0.2% |
| 11:00 | CA CPI M/M          | JUN | -0.1  | -0.2  | -0.2/0.1    | 0.3%  |
| 11:00 | CA CPI Y/Y          | JUN | 0.9   | 0.9   | 0.8/1.1     | 1.4%  |
| 11:00 | CA CPI CORE M/M     | JUN | 0.1   | 0.1   | -0.2/0.2    | 0.3%  |
| 11:00 | CA CPI CORE Y/Y     | JUN | 1.9   | 1.9   | 1.6/1.9     | 1.8%  |

**EVENTS:**

- 01:30 AU IMPORT & EXPORT PRICE INDEX, Q2
- 06:45 FR INSEE QUARTERLY INDUSTRY SURVEY PUBLISHED, Q2
- 08:30 UK BBA PUBLISHES MAJOR BANKS' MORTGAGE APPROVALS DATA, JUN
- 08:30 UK ONS INDEX OF SERVICES PUBLISHED, MAY
- 10:00 EU ECB'S TUMPEL-GUGERELL SPEAKS @ EUROPEAN ECON & FIN CENTRE
- 13:00 BE BELGIAN LEADING INDICATOR PUBLISHED, JUL
- EU EU BANK STRESS TESTS SET FOR RELEASE
- EU ECB'S GONZALEZ-PARAMO SPEAKS ON LESSONS FROM THE CRISIS



## TECHNICAL SNAPSHOT

### US DAILY TECHNICAL SUMMARY

| FORECAST          | 10-YR YIELD | CRUDE OIL SEP | GOLD AUG | SP500 CASH |
|-------------------|-------------|---------------|----------|------------|
| HIGH              | 2.98%       | 8050          | 120000   | 1110       |
| LOW               | 2.91%       | 7850          | 118500   | 1090       |
| PREV CL           | 2.93%       | 7926          | 119500   | 1095*      |
| 1WK BIAS          | UP          | UP            | DOWN     | UP         |
| 4WK BIAS          | NTRL        | NTRL          | DOWN     | NTRL       |
| <b>RESISTANCE</b> |             |               |          |            |
| 3RD               | 3.06%       | 8150          | 121800   | 1114       |
| 2ND               | 3.03%       | 8080          | 121100   | 1106       |
| 1ST               | 2.97%       | 8000          | 120400   | 1100       |
| <b>SUPPORT</b>    |             |               |          |            |
| 1ST               | 2.88%       | 7750          | 118000   | 1084       |
| 2ND               | 2.84%       | 7580          | 117500   | 1066       |
| 3RD               | 2.79%       | 7400          | 116800   | 1055       |

\*1900 GMT

**[SEP 2-YEAR T-NOTES]** 10917 [OVERVIEW] Advance can press 10920/10924. Conviction weak, but above 10924 can aim for 11000, but Notes vulnerable to reversal or vicious range trade given limited upside. Close below 10913/10909 should confirm bear-turn for 10902/ 10830 before snap-back. Below here however can threaten 10826 then 10818.

[JUL 23 N.A. SESSION] May churn with 10918/10920 tough barrier. Above however opens way toward 10924. On dips 10915/10913 should hold for snap-back. Break can threaten 10909 and below here implies deep sell-off to 10905 initially. SUP 10915 10913 10909 RES 10918 10920 10924

**[SEP 10-YEAR T-NOTES]** 12308 [OVERVIEW] Advance aiming for 12327/12409 then 12500+ (yield down toward at least 2.79% as major obj). That said, weak conviction and see risk of topping and reversal or rangy swings taking hold. Can attempt to hold 12228/12216. Break however should sell-off to 12114/12107 (below here implies deep bear).

[JUL 23 N.A. SESSION] Laboring and appears to have failed shy of 12327/12409. Thus, look for test of 12228 even dip toward 12216 where must bounce. Below 12216 however will imply deep sell-off to 12130 then 12114/12107. SUP 12228 12216 12130 RES 12327 12409 12416 (see graph 1, next page)

**[NYM SEP CRUDE OIL]** - 7926 – The Crude Oil rally is gathering momentum and now look for a challenge of key resistance in the 8000/8150 area. This barrier should be tough to overwhelm, and Crude risks stalling out here as a range is maintained. A close above here however should confirm a renewed bullish phase that will refocus on 8450 then 9000/9218 in due course. Failure just over 8000 should threaten a return to 7600/7400 support. Below here will imply a renewed bear turn that will refocus on the 6960/6700 area even 6100/5700 further out. (see graph 2, next page)

[see next page](#)



## TECHNICAL SNAPSHOT

