UBS Wealth Management

UBS Wealth Management Research

Friday, 24 July 2009

UBS daily guide Europe

Today's comment

To the great pleasure of everyone involved, the expedition has been a great success and first sightings are already giving reason to celebrate. It is not without some pride that I am able to report that the treasure has a global reach, from real estate assets in Asia all the way to European conglomerates. Tangible book value is proving to be a reliable compass for seeking the treasure out. It helps us identify grossly undervalued companies and discover high upside potential. The updated publication, **"Stocks trading around tangible book value" presents specific investment opportunities in Asia, Europe, and the US**. You can find out more in this newsletter under "Don't miss…" Important: A value investing approach takes patience. It's just the right strategy for those who have a long investment horizon!

In addition to this compass for stock selection, we have also just received the "**Global equity market monitor**" – hot off the press. The publication goes well with today's publication of the IFO business climate index, and gives a report on **which markets and sectors take above-average benefits from a recovery in sentiment indicators**. We continue to expect that the stabilization in fundamental data will be reflected in a prettier sentiment picture. Read more below under "Don't miss…"

In our day-to-day business, the reporting season continues to keep us occupied. Credit Suisse and Roche also beat expectations yesterday and their positive outlooks gave the markets further support. Companies releasing figures today include **Syngenta** and **Calida**. Calida's profits are expected to be roughly 75% below the previous year's earnings, and this is already being priced into valuations. Syngenta, on the other hand, looks set to deliver a profit commensurate with the previous year's level.

Oliver Dettmann, Stratege, UBS AG

Yesterday

- **Economics:** In the US, 4.89 million existing homes were sold in the US. This was about 3.6% more than the 4.72 million units sold in May. There are more and more signs that the US real estate market has bottomed out – but with no prospect of marked improvement for the time being. Prices are also continuing to stay at low levels.
- **Equities:** The Dow Jones Stoxx 600 crossed above the crititical 215-216 level. Better-than-expected results lift markets higher. Basic materials and financials were the

Major Stock Indices

	Spot	1D%	YTD %
SMI	5765.51	2.28	4.17
DAX	5247.28	2.45	9.09
DJ EURO STOXX 50	2585.79	2.25	5.65
FTSE 100	4559.80	1.47	2.83
DJIA	9069.29	2.12	3.34
S&P 500	976.29	2.33	8.09
NASDAQ	1973.60	2.45	25.15
NIKKEI 225	9942.42	1.53	12.22

Source: UBS WMR, Bloomberg 24-Jul-09, 04:44 am CET

Commodities

	Spot	1D%	YTD%	Fcst 9-12 m
Gold (USD/oz)	948.91	-0.44	9.61	1100.00
Oil (USD/bl)	66.74	-0.63	18.54	85.00

Source: UBS WMR, Bloomberg 24-Jul-09, 04:44 am CET

Foreign Exchange

	Actual	Forecast	
		3m	6m
EURCHF	1.52	1.52	1.52
USDCHF	1.07	1.11	1.05
GBPCHF	1.77	1.79	1.75
JPYCHF	1.13	1.08	1.00
EURUSD	1.42	1.37	1.45
EURGBP	0.86	0.85	0.87
GBPUSD	1.65	1.61	1.67

Source: UBS WMR, Bloomberg 24-Jul-09, 04:44 am CET

Interest Rates

	Short rates (3m)		Bond yields (10y)	
	Current	Fcst 12m	Current	Fcst 12m
Switzerland	0.36	0.30	2.17	2.80
EMU	0.90	1.00	3.46	4.00
UK	0.93	0.60	3.97	4.30
USA	0.50	0.30	3.64	4.25
Japan	0.42	0.30	1.38	1.80

Source: UBS WMR, Bloomberg 24-Jul-09, 04:44 am CET strongest sectors. Making a new high is bullish for the market. We expect the market to trade towards the 230 level.

- **Fixed income:** The rally out of government bonds continued yesterday. With exisitng home sales in the US beating expectations, optimism is returning to markets. As a response, yields on government bonds rose strongly.
- **Commodities:** Natural gas inventories came in as expected by markets. However, this was not enough to keep prices supported. We think natural gas prices are in the process of bottoming out. Long positions in gas are only suitable for risk seeking investors, who know how to deal with a steeply upward sloped forward curve.
- **FX:** Risk-seeking investors set the tone again on Thursday and put pressure on CHF, USD, and JPY. A number of interesting thresholds were exceeded, e.g. EURCHF 1.5230 or USDJPY 94.50.

Policy Events Expected Today

Time	Country	Events
12:00	Eurozone	ECB's Gonzalez-Paramo speaks in Spain

Source: UBS WMR, Bloomberg
EMU refers to European Monetary Union

24-Jul-09, 04:44 am CET

Past performance and forecasts provided is no indication of future performance. The market prices provided are closing prices on the respective principle stock exchange. The returns on investments in foreign currencies can increase or decrease as a result of currency fluctuations. This applies to all performance charts and tables in this publication.

Economic Indicators Expected Today

Time	Country	Indicator	Unit	Month / Quarter	Freq.	UBS	Cons.	Prev.
10:00	Germany	IFO - Business Climate	level	Jul	m	87.0	86.5	85.9
10:30	Britain	Gross Domestic Product	% q/q	2Q	q	-2.4	-0.3	-2.4
16:00	United States	University of Michigan Consumer Confidence Survey	level	Jul	m	65.5	65.0	64.6

Source: UBS WMR, Bloomberg
EMU refers to European Monetary Union

q/q=quarter on quarter / m/m=month on month / y/y=year on year / lev.=level / sa=seasonally adjusted

24-Jul-09, 04:44 am CET

Don't miss…

Update 3: Stocks trading near tangible book value
(complete report in English - can be ordered via your client advisor)

Our target was to identify an extreme floor for stock prices. For companies with good business prospects, compelling expected profitability and sound balance sheet fundamentals, in our view that floor should be represented by their tangible book value. Across regions and sectors, we identified stocks trading close to their tangible book values and with an attractive investment case (we only selected Buy/sector Outperform WMR rated stocks).

Global equity market monitor
(complete report in English - can be ordered via your client advisor)

- Business sentiment indicators have started to recover in all regions. As we expect this trend to persist and data to finally show a modest expansion, the economic environment should benefit more business-sensitive equity markets and sectors.
- The analysis supports our medium-term preference for emerging market and EMU large-cap stocks.
- Though the US economy might be one of the first to leave the recession, US stocks are probably not the main beneficiaries from the economic improvement.

Natural Gas : Mind the forward curve
(complete report in English - can be ordered via your client advisor)

- Natural gas prices show signs of price support at around USD 3.25/mmbtu
- With lower supply and stabilization in industrial demand, excess inventory build ups should retreat and bring prices to USD 5.2.
- The sharp upwardly sloped forward curve limits investment options in natural gas.

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