

MORNING NEWS CALL

REUTERS

U.S. Edition

Wednesday, September 11, 2013

INSIGHTS YOU CAN ACT ON.
CHARTS YOU CAN REACT TO
ALPHANOW

LEARN MORE >

APPLE LAUNCHES NEW IPHONES

Apple Inc unveiled on Tuesday an iPhone with a fingerprint scanner to help it stand out in a crowded field of similar smartphones, plus a cheaper plastic model for emerging markets that proved pricier than expected. For the full coverage, [click here](#)

TOP NEWS

• UK's jobless rate dips, prompting more bets on earlier rate rises

Britain's unemployment rate dropped in July to its lowest since late last year, adding to speculation that the Bank of England may raise interest rates earlier than it has predicted.

• Syria vows to give up chemical weapons, Obama cautious about deal

Syria accepted a Russian proposal on Tuesday to give up chemical weapons but U.S. President Barack Obama said it was too early to tell if the initiative would succeed and he vowed to keep military forces at the ready to strike if diplomacy fails.

• EU's Barroso urges Europe to complete banking union

European Commission President Jose Manuel Barroso declared that economic recovery was within sight after nearly four years of Europe's debt crisis and urged governments to move faster to complete a stalled banking union.

• Canada, Ontario sell part of GM stake for about \$1.1 bln

The Canadian and Ontario governments said on Tuesday they would sell nearly a quarter of their common shares in General Motors Corp, part of a longer-term plan to shed the stock they acquired in 2009 when they helped the U.S. government bail out the automaker.

BEFORE THE BELL

Wall Street looked set to open flat as investors remained cautious and watched the diplomatic solution to the Syrian issue. The **yen** languished at seven-week lows against the **dollar** and looked set to fall to multi-month lows against the **euro**. **European markets** traded mixed with ARM Holdings leading gains and **Asian markets** closed higher. **Brent crude** was up after plummeting more than four percent in the last two days, while **gold** inched lower.

STOCKS TO WATCH

Deals

• **AT&T Inc** (T). The company said in a regulatory filing on Tuesday that it acquired spectrum from **Verizon Wireless** (VZ) for \$1.9 billion in cash. The spectrum, in the 700 MHz band, covers 42 million people throughout the United States.

Results

• **Texas Instruments Inc** (TXN). The chipmaker narrowed its third-quarter forecast. It now estimates earnings of 51 to 55 cents per share on revenue of \$3.15 billion to \$3.29 billion for the quarter ending Sept. 30. It had previously estimated earnings per share of 49 to 57 cents on revenue of \$3.09 billion to \$3.35 billion.

INSIGHT

Changing China set to shake world economy, again

Long after concerns about tightening U.S. monetary policy have faded, a more profound issue will still dog global policy-makers: how to handle the second stage of China's economic revolution.

The first phase, industrialisation, shook the world. Commodity-producing countries boomed as they fed China's endless appetite for natural resources. Six of the 10 fastest-growing economies last decade were in Africa.

China's flood of keenly priced manufactured goods hollowed out jobs in advanced and emerging nations alike but also helped cap inflation and made an array of consumer goods affordable for tens of millions of people for the first time.

The second stage of China's development promises to be no less momentous.

Consumption will take over the growth baton from investment. Services will grow as a share of the economy, while industry shrinks. Commodity-intensive mass manufacturing based on cheap labour will give way to greener, cleaner ways of making things.

More of the value added by a better-educated, more productive workforce harnessing new technologies will stay in China instead of going to multinational companies.

That's the plan, anyway.

China will remain the most powerful engine of global growth for the next couple of decades, but it will no longer be just processing imported raw materials and components for re-export, said Li Jian with the Chinese Academy of International Trade and Economic Cooperation, the Commerce Ministry's think tank.

"China has realised that it cannot blindly rely on investment and exports as the main drivers of growth. So China's demand will be more balanced," Li said.

HIGH STAKES

To show it is serious about more sustainable growth, China deliberately engineered the first-half slowdown that unnerved markets in order to address these longer-term structural priorities, according to President Xi Jinping.

Xi and the other new leaders of China's Communist Party are expected to ap-



In Other News

- **American International Group Inc (AIG)**. The insurer has decided to stop signing new reinsurance contracts with Warren Buffett's **Berkshire Hathaway Inc (BRKa)** due to competitive reasons, Bloomberg News reported, citing an unidentified person familiar with the decision. The decision comes after Berkshire hired away senior AIG executives and Buffett said he planned to expand his company's commercial insurance operations that compete with AIG.
- **BlackBerry (BBRY)**. The struggling smartphone maker cut several dozen jobs from its U.S. sales team on Monday, WSJ reported, citing people familiar with the matter. The layoffs are part of rolling job cuts that have been ongoing for several weeks, the people told the paper.
- **Continental Resources Inc (CLR)**. The company, which produced the most oil and natural gas in North Dakota's Bakken shale fields during the second quarter, expects 2014 production across its vast portfolio to rise at least 26 percent. Production likely will increase 26 to 32 percent, with average daily production rising to a range of 170,000 to 180,000 barrels of oil equivalent per day, the company said.
- **General Motors Corp (GM)**. The Canadian and Ontario governments said on Tuesday they would sell nearly a quarter of their common shares in General Motors, part of a longer-term plan to shed the stock they acquired in 2009 when they helped the U.S. government bail out the automaker. The two governments will sell 30 million common shares in a block trade to **Bank of America Merrill Lynch (BAC)** and RBC Capital Markets, a unit of Royal Bank of Canada.
- **Google Inc (GOOG)**. Motorola is shipping 100,000 of its new Moto X phones weekly from a manufacturing facility near Dallas, a modest start for a made-in-the-USA phone that marks the most significant effort to revive the iconic company after Google bought it last year.
- **International Paper Co (IP)**. The company boosted its dividend 17 percent on Tuesday and announced a \$1.5 billion stock buyback plan. The quarterly dividend is being raised to 35 cents from 30 cents and plans to buy back stock over the next two to three years.
- **Netflix Inc (NFLX)**. The company launched its video streaming service in The Netherlands, offering movies and TV shows from Hollywood and local producers as it expands its reach into Europe.
- **Royal Dutch Shell Plc (RDSA)**. The plans for a \$13 billion refinery and petrochemical complex in east China have stalled over finding a suitable site for the plant, which could face long-term delays, industry and government officials said. The PetroChina-led project, in partnership with Royal Dutch Shell and Qatar Petroleum, also faces competition from petrochemicals using U.S. gas as feedstock, a change of strategy from PetroChina and opposition from locals.
- **US Airways Group (LCC)**. The airline company defended its proposed merger with American Airlines on Tuesday, arguing that the deal would create \$500 million in savings to consumers annually by building a stronger competitor to **Delta Air Lines Inc (DAL)** and **United Continental (UAL)**. It argued that the deal was lawful and should be allowed to go forward.
- **Vodafone Plc (VOD)**. The British telecommunication company has secured close to 20 percent of shares in Kabel Deutschland, meaning it needs another 55 percent to be tendered for its 7.7 billion-euro offer for Germany's largest cable company to succeed. Its 84.50 euro per share offer for Kabel Deutschland runs out at midnight, but it will lapse if holders of less than three-quarters of the German company's shares agree to sell.

ANALYSTS' RECOMMENDATIONS

- **ARM Holdings (ARMH)**. Canaccord Genuity raises target price to \$57 from \$52, says the company is well-positioned to exceed consensus estimates for 2013/14 driven by an expanding royalty rate in its key smartphone and tablet markets
- **Continental Resources (CLR)**. Stifel raises price target to \$115 from \$100

prove a blueprint for reform at a plenum in November. Overcoming vested interests opposed to the new economic model will be a stern test of their credibility.

A lot is at stake for the global economy too.

Philip Schellekens, an economist with the World Bank in Washington, said the importance of the reforms Beijing intends to make cannot be overstated. As China changes, so will the rest of the world. "The structural transformations that we think are going to happen in China over the next two decades will matter far more than the near-term vulnerabilities," he said.

On balance, commodity-exporting developing economies stand to be affected more than rich nations – an obvious exception being Australia, where the end of a China-driven mining boom was a big issue in Saturday's election. China buys a third of Australia's exports.

Commodity demand should stay strong, especially as China's capital stock per head is only 10 percent that of America's and urbanisation has a long way to go. But rebalancing will favour commodities more closely tied to consumption than to investment.

Economists fret that too many emerging markets spent their windfalls from surging raw material prices instead of ploughing them into infrastructure and other investment. As a result, growth is slowing now that China's demand is softening.

China's appetite for agricultural commodities and energy should hold up well but Capital Economics, a London consultancy, said it was concerned about large metals exporters that have not saved their extra income and so are running current account deficits.

It singled out South Africa, Zambia, Chile and Peru as being particularly vulnerable.

WINNERS AND LOSERS

Of course, lower raw material prices should boost growth and lower inflation for commodity importers – including China.

Take iron ore. With no other country coming close to being able to absorb the slack left by China, which imports about two-thirds of the world's ore, prices risk years of decline as a major oversupply swamps demand, with some forecasting prices to be cut in half by 2015. (Full Story)

Another bonus is that big emerging markets such as India and Indonesia will have a chance to move into basic manufacturing sectors that China is vacating. Bangladesh has quickly become the world's second-biggest textile exporter.



after the company introduced its 2014 guidance and revised its 2013 operating cost guidance with numbers in-line

- **Jarden Corp** (JAH). Oppenheimer raises target price to \$56 from \$50 to reflect the pending acquisition of Yankee Candle, which continue to be both strategically and financially attractive for the company
- **Texas Instruments** (TXN). JP Morgan raises target to \$45 from \$40 as it provided an update on its business conditions for the third quarter of FY2013
- **Workday Inc** (WDAY). Canaccord Genuity raises target price by \$5 to \$90, believes the company is building a valuable, sustainable, defensible business that should be able to deliver revenue growth in excess of 20 percent annually for the next decade or more

ECONOMIC EVENTS

10:00 Wholesale Inventories for Jul: Expected 0.3 pct Prior -0.2 pct

10:00 Wholesale Sales for Jul: Expected 0.4 pct Prior 0.4 pct

COMPANIES REPORTING RESULTS

- **Men's Wearhouse Inc** (MW). Expected Q2 earnings of \$1.14 a share

CORPORATE EVENTS

16:30 Vera Bradley Inc (VRA). Q2 earnings conference call

EXDIVIDENDS

(Amount rounded off to two decimal places)

- **Automatic Data Processing Inc** (ADP). Amount \$0.44
- **Albemarle Corp** (ALB). Amount \$0.24
- **Airgas Inc** (ARG). Amount \$0.48
- **BRE Properties Inc** (BRE). Amount \$0.40
- **Berry Petroleum Co** (BRY). Amount \$0.08
- **BancorpSouth Inc** (BXS). Amount \$0.05
- **Corporate Executive Board Co** (CEB). Amount \$0.23
- **Comerica Inc** (CMA). Amount \$0.17
- **CapitalSource Inc** (CSE). Amount \$0.01
- **Digital Realty Trust Inc** (DLR). Amount \$0.78
- **Domino's Pizza Inc** (DPZ). Amount \$0.20
- **Devon Energy Corp** (DVN). Amount \$0.22
- **El Paso Electric Co** (EE). Amount \$0.27
- **Eastman Chemical Co** (EMN). Amount \$0.30
- **EnerSys** (ENS). Amount \$0.13
- **Eaton Vance Limited Duration Income Fund** (EVV). Amount \$0.10
- **Family Dollar Stores Inc** (FDO). Amount \$0.26
- **FBL Financial Group Inc** (FFG). Amount \$0.15
- **First Horizon National Corp** (FHN). Amount \$0.05
- **GATX Corp** (GMT). Amount \$0.31
- **GNC Holdings Inc** (GNC). Amount \$0.15
- **Ingersoll-Rand PLC** (IR). Amount \$0.21
- **KBR Inc** (KBR). Amount \$0.08
- **Leggett & Platt Inc** (LEG). Amount \$0.30
- **Macy's Inc** (M). Amount \$0.25
- **MB Financial Inc** (MBFI). Amount \$0.12
- **Motorola Solutions Inc** (MSI). Amount \$0.31
- **NASDAQ OMX Group Inc** (NDAQ). Amount \$0.13
- **National Oilwell Varco Inc** (NOV). Amount \$0.26
- **NorthWestern Corp** (NWE). Amount \$0.38
- **OneBeacon Insurance Group Ltd** (OB). Amount \$0.21
- **Packaging Corp of America** (PKG). Amount \$0.40
- **PolyOne Corp** (POL). Amount \$0.06

Brazil stands out as an example of a country that has already been under intense pressure from China in low-skill industries such as footwear and will increasingly be going head to head with China in higher-value markets too. Policies to boost competitiveness thus become more imperative than ever. After largely missing the chance to reform during the boom, Brazil also risks squandering the opportunities thrown up by China's transition slip unless it improves its infrastructure, cuts red tape and overhauls its tax system, economists say.

"Some of the underlying structural shortcomings of the economy were covered up during the bonanza. It's only as the commodity boom has slowed that the supply side constraints have become more visible," said Jens Arnold, who tracks Brazil for the Organisation for Economic Cooperation and Development in Paris.

In the case of advanced economies, China's transition is a double-edged sword, according to He Yifeng, an analyst at Hongyuan Securities in Beijing. "For the United States and Europe, China's rebalancing could create more competition for them. But they can take the initiative by focusing on the higher end of the value chain, relying on knowledge and technology exports," he said.

SERVICES BONANZA

Already a lucrative market for European purveyors of luxury goods, China will increasingly present opportunities for foreign firms as incomes rise and consumers grow more discriminating. Safety-conscious parents' choice of foreign-made baby milk formula is a case in point, said Haibin Zhu, chief China economist for JP Morgan in Hong Kong. "We will probably see a shift in the consumption basket," Zhu said. "The increased focus on product quality is positive news for many international exporters, particularly from advanced economies."

Another rich seam for advanced economies is services, which account for just 43 percent of Chinese GDP, the smallest share of any major economy.

James Emmett, global head of trade finance at HSBC in London, said urbanisation and the rise of China's middle class offered openings to firms in Britain and beyond in sectors such as health, education and tourism.

"We are seeing a change in the nature of China," he said.

As services blossom, foreign companies could reap a windfall of up to \$6 trillion by 2025 in everything from retail trade and transport to hotels and finance, said Yale University's Stephen Roach, a for-

- **Public Storage (PSA)**. Amount \$1.25
- **PS Business Parks Inc (PSB)**. Amount \$0.44
- **Quality Systems Inc (QSII)**. Amount \$0.18
- **Regions Financial Corp (RF)**. Amount \$0.03
- **Renaissance Holdings Ltd (RNR)**. Amount \$0.28
- **Redwood Trust Inc (RWT)**. Amount \$0.28
- **Sonic Automotive Inc (SAH)**. Amount \$0.03
- **Service Corporation International (SCI)**. Amount \$0.07
- **Hanover Insurance Group Inc (THG)**. Amount \$0.33
- **T. Rowe Price Group Inc (TROW)**. Amount \$0.38
- **Textron Inc (TXT)**. Amount \$0.02
- **United Bankshares Inc (UBSI)**. Amount \$0.31
- **UnitedHealth Group Inc (UNH)**. Amount \$0.28
- **URS Corp (URS)**. Amount \$0.21
- **United Stationers Inc (USTR)**. Amount \$0.14
- **Viacom Inc (VIAB)**. Amount \$0.30
- **Valley National Bancorp (VLY)**. Amount \$0.16
- **Ventas Inc (VTR)**. Amount \$0.67
- **Williams Companies Inc (WMB)**. Amount \$0.37
- **Worthington Industries Inc (WOR)**. Amount \$0.15

(All analysts' estimates are according to Thomson Reuters I/B/E/S)

mer chairman of Morgan Stanley Asia. Zhu at JP Morgan expects investment to drop from 48 percent of GDP to 35 percent by 2018-2020 as consumption (household and government) rises to 60-65 percent from 50 percent.

At the same time, GDP growth is likely to slow toward 6.5 percent a year by 2016-2020 from 7.7 percent in 2012 and 10 percent a year on average since the late 1970s.

Yet market worries about the transition need to be kept in perspective. Even if growth slows to 5 percent a year by 2030, Schellekens with the World Bank said China will still be adding output every year equal to the size of the South Korean economy.

"Even though China is facing quite a transformation, the long-term future is still a very positive one," he said.

--- Kevin Yao and Alan Wheatley

(Compiled by Ayesha Sruti, Benny Thomas and Samarendra Sahoo in Bangalore)

For questions or comments about this report, contact:

morning.newscall@thomsonreuters.com

or Call us at: +91 80 4135 5929

To launch a Co-branded Morning News Call from your firm, contact:

morning.newscall@thomsonreuters.com

For more information about our products:

thomsonreuters.com/products_services

Or send us a sales enquiry at:

thomsonreuters.com/products_services/financial/contactus/

or call us on North America: +1 800 758 5555

NEWS ACCESS MADE EASY

Reuters Top News page displays a range of market and sector-specific subjects including: US, Europe and Asian companies, fixed income, credit, the global economy, emerging markets, corporate finance and industry sectors.

To access Reuters Top News

-- Thomson ONE: Click News tab, Select Front Page from top right, Click Top News.

-- 3000 Xtra: Click Top News tab from the menu bar.

© 2013 Thomson Reuters. All rights reserved. This content is the intellectual property of Thomson Reuters and its affiliates. Any copying, distribution or redistribution of this content is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters shall not be liable for any errors or delays in content, or for any actions taken in reliance thereon. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

