

THE DAY AHEAD

REUTERS NEWS

North American Edition

Compiled on Thursday, May 10, 2012

FRIDAY'S KEY ECONOMICS EVENTS

	ET/GMT	REUTERS POLL	PRIOR	SOURCE
Producer Prices mm for April	0830/1230	0 pct	0 pct	Department of Labor
-- Producer Prices yy		2.1 pct	2.8 pct	
-- Ex-Food/Energy mm		0.2 pct	0.3 pct	
-- Ex-Food/Energy yy		2.8 pct	2.9 pct	
Reuters/UMich Sentiment for May-P	0955/1355	76.2	76.4	Reuters/University of Michigan
-- Current Conditions		83.0	82.9	
-- Expectations		72.5	72.3	
ECRI Weekly Index for w/e 05/04	1030/1430	--	124.7	Economic Cycle Research Institute

RECAP: THURSDAY'S MARKETS

Tech bellwether Cisco's poor results weighed on **stocks**. **Treasuries** fell on strong U.S. job data. The **euro** recovered as stress in Spanish debt markets eased. **Oil** ended mixed on Chinese trade data and higher OPEC production. **Gold** edged higher.

STOCKS	Close	Change	% Chng	Yr-high	Yr-low
DJIA	12854.81	19.75	0.15	13338.66	10404.49
Nasdaq	2933.64	-1.07	-0.04	3134.17	2298.89
S&P 500	1357.97	3.39	0.25	1422.38	1074.77
Toronto	11736.17	61.16	0.52	13901.56	10848.19
Russell	791.77	2.85	0.36	860.37	601.71
FTSE	5543.95	13.90	0.25	5989.07	5464.41
Eurofirst	1019.05	4.59	0.45	1109.18	1001.30
Nikkei	9009.65	-35.41	-0.39	10255.15	8349.33
Hang Seng	20227.28	-103.36	-0.51	21760.34	18302.84

TREASURIES	Yield	Price	FOREX	Today	Prior
10-year	1.8860	-89/32	Euro/Dollar	1.2943	1.2932
2-year	0.2659	0/32	Dollar/Yen	79.94	79.65
5-year	0.7739	-2/32	Sterling/Dollar	1.6149	1.6129
30-year	3.0550	-17/32	Dollar/CAD	1.0015	1.0023

COMMODITIES	Price	\$ change	% change
March crude \$	96.76	-0.05	-0.05
Spot gold (NY/oz) \$	1594.90	4.45	0.28
Copper U.S. (front month/lb) \$	3.6815	0.0120	0.33
Reuters/Jefferies CRB Index	294.59	-0.24	-0.08

BIG MOVERS	Price	\$ change	% change
Dynegy(Delaware)	0.44	0.06	15.78
Cell Therapeutics	1.16	0.15	14.85
Zale	2.72	0.32	13.33
Aeroflex Holding	7.17	-2.44	-25.39
Cisco Systems	16.81	-1.97	-10.49
Windstream	10.09	-1.17	-10.39

WHAT TO WATCH ON FRIDAY

- Does Wall Street think the **Fed**, in an effort to preserve political neutrality in an election year, might hold off on QE3 even if the economy continues to have sub-par growth and unemployment remains high? If the economy faced a major disaster, such as full-blown euro-debt crisis again, the Fed would probably jump in. But, would politics keep the Fed on the sidelines, or tip the balance in its decision making, in less drastic circumstances? **Reuters polls primary dealers** for their views, and compares these with historical information on Fed actions in past presidential election years.

- The **Thomson Reuters/University of Michigan** survey of consumer sentiment is expected to show morale among households ebbed a bit in early May on sluggish job growth, even though gasoline prices retreated from their recent lofty levels. The index probably dipped to 76.2 from 76.4 in April, according to the median of a Reuters poll. Data on Friday is also expected to show that weak energy costs held down wholesale prices in April for a second month in a row.



- Quarterly results from chipmaker **Nvidia** are expected to have benefited from slightly better-than-expected personal computer sales following an upbeat report from Intel last month. But that upside will almost certainly have been muted by supply constraints on new graphics chips as foundry partner TSMC struggles to ramp up its new 28-nanometer production.

- Panasonic** will likely forecast a rebound in operating profit in the year begun April 1 as cost-cutting bolstered profitability and trimmed losses in its TV unit. The market, however, remains concerned that it will fail to eliminate loss this year as demand weakens, particularly for its large plasma screens, forcing the conglomerate to begin another round of restructuring. In the meantime, the company is relying on sales of home appliances, solar panels and batteries to help boost profits.

- Nissan**, Japan's No.2 automaker, is expected to report results and paint a continuing growth story driven by aggressive model launches and additional factories. Sales and profit growth will look more tame compared to rivals **Toyota** and **Honda** because Nissan was affected less by the natural disasters in Japan and Thailand. Expect its focus to be on the pace of projected sales growth and profit margin improvement.

• For The Day Ahead - Canada, click here



WHAT TO WATCH ON THURSDAY (continued)

- Federal Reserve Bank of Dallas President **Richard Fisher** speaks in Fort Worth on Texas banking conditions 0915/1315 at the Texas Bankers Association Annual Convention. Separately, U.S. Securities and Exchange Commission Chairman **Mary Schapiro** is expected to speak at Investment Company Institute General Membership Meeting in Washington
- **Spain** is set to announce more measures to strengthen ailing banks after reforms introduced in February proved insufficient. Hoping to put an end to a four-year banking crisis, the Spanish government effectively took over Bankia SA, one of the country's biggest banks, late on Wednesday. The promise of more reform spurred a rebound on the Madrid stock exchange.
- The April minutes from **Mexico's central bank** are due at 1000/1400. These should help clarify policy for investors, many of whom had bet on a 25 basis point cut, following a

comment in the March minutes that the majority of members on the five-member board would support a cut if inflation continued to trend down. Inflation fell this month closer to the central bank's 3 percent benchmark, but a slump in the peso may have put them off cutting. It's also possible governor Agustin Carstens did not want to push through a cut with less than unanimous support, and many are speculating that April was a split vote.

- Brazil's central bank chief, **Alexandre Tombini**, attends an event in Rio. Markets are increasingly expecting rates to be cut to new record lows after reforms to the savings accounts.
- **Colombia's central bank** releases the minutes of its last board meeting. While the vote was unanimous, if more members argued against holding the benchmark lending rate steady at 5.25 percent markets may start pricing in a shift.

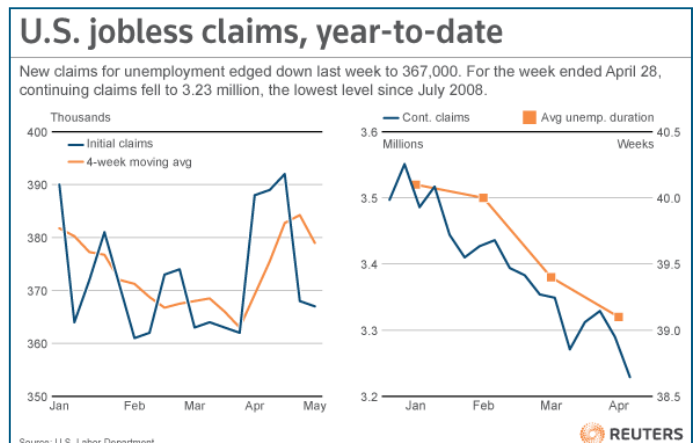
MARKET MONITOR

The **Dow** and the **S&P 500** eked out a slim gain as investors dipped back into the market after a weak stretch, but a disappointing outlook from tech bellwether **Cisco Systems** and caution about Europe limited gains. Cisco Systems dropped 10.49 percent to \$16.81, its biggest percentage drop since February 2011, making it the biggest drag on the market. The network equipment maker forecast profits below Wall Street's estimates. On the plus side, **News Corp** climbed 4.85 percent. The **Dow** rose 0.15 percent, the **S&P 500 index** added 0.25 percent and the **Nasdaq** fell 0.04 percent.

Treasury debt prices fell as stronger-than-expected jobs data and a pause in the steady stream of worrisome news from Europe helped erode appetite for safe-haven government debt. The sale of \$16 billion in 30-year bonds fetched a high yield of 3.090 percent and bid-to-cover ratio of 2.73. With last auction of the week treasury completed the \$72 billion of debt sales this week under the Treasury's quarterly refunding. The yield on the new **benchmark 10-year note** last traded at 1.8860 percent versus the high yield of 1.855 percent at yesterday's auction.

The **euro** gained against the **dollar**, snapping eight straight sessions of declines and bouncing from its recent 3-1/2-month low as stress in Spanish debt markets eased and Greece secured funds to repay its bondholders. The euro closed trading at \$1.2942, up 0.08 percent. Traders said the next possible support for the euro was around \$1.2819, the 76.4 percent Fibonacci retracement of its 2012 rally, with the year's low around \$1.2623. Against the **yen**, the euro was up 0.47 percent at 103.47 yen. The dollar rose 0.35 percent at 79.93 yen .

Click on the chart for full-size image



Oil prices ended mixed in choppy trading as weaker-than-expected Chinese trade data, higher OPEC production and evidence of a strengthening U.S. jobs market muddled the oil demand outlook. **June crude** fell 6 cents, or 0.06 percent, to settle at \$96.75 a barrel.

Gold rose, ending a three-day losing streak, as bargain hunters waded into the market after prices fell sharply this week on worries about a worsening European debt crisis. Fading hopes for more U.S. monetary easing after a strong run of economic data has prompted investors to unwind bullish bets in gold. **Spot gold** was up 0.2 percent at \$1,593.60 an ounce.

TOP NEWS

Drop in jobless claims eases labor market fears

The number of Americans submitting new applications for **jobless benefits** edged down last week, easing concerns the labor market was deteriorating after surprisingly weak employment growth in April. Another report showed the U.S. **trade deficit** widened in March, with exports surging to a record high and a rise in imports highlighting the economy's firming underlying demand. New claims for state unemployment benefits slipped 1,000 last week to a seasonally adjusted 367,000, the **Labor Department** said. Economists who had expected claims to rise to 369,000 said the decline suggested seasonal distortions that had led to a spike in applications last month was probably over. The four-week moving average for new claims fell 5,250 to 379,000. Separately, the trade gap widened 14.1 percent to \$51.8 billion in March, the biggest jump in nearly a year, as a surge in imports swamped a rise in exports, which hit a record high. Imports grew 5.2 percent, the biggest gain since January. That jump was consistent with a rise in consumer spending seen during the first quarter. Exports had another good month, rising 2.9 percent, suggesting the global economy had not slowed as much as people had feared.

Spain takes over Bankia to steady ailing sector

Hoping to put an end to a four-year banking crisis, the Spanish government effectively took over Bankia, one of the country's biggest banks, late on Wednesday after days of market anxiety over the lender's viability. The centre-right government of Prime Minister **Mariano Rajoy** told Spaniards the banking sector was safe and said more measures to strengthen ailing banks would be announced on Friday after reforms introduced in February proved insufficient. The pledges to reform the banks pulled Spanish stocks off the nine-year low they hit a day earlier, with the blue-chip index rebounding 3.66 percent amid heavy trade in top banks **BBVA** and **Santander**. The sector has been through three major overhauls since a building and property market crash in 2008, which has left lenders with about 184 billion euros in toxic assets including repossessed housing complexes that stand empty.

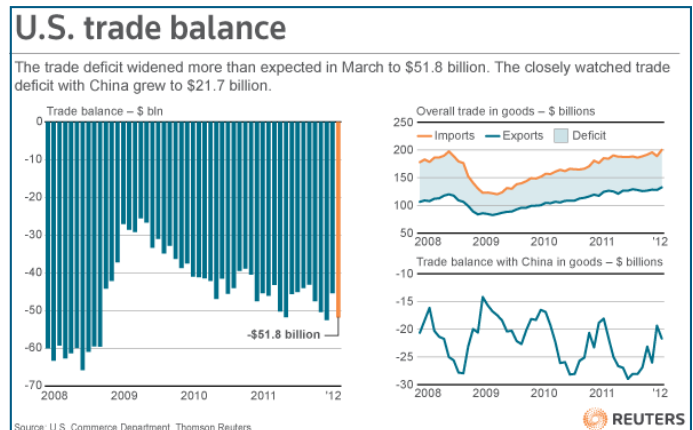
Greek parties in last-gasp bid to avert elections

Greek political parties were engaged in a last-gasp attempt to form a government and avoid new elections after voters rejected an international bailout and plunged the debt-ridden country into crisis. **Socialist PASOK** party leader **Evangelos Venizelos** is the third and last political leader to try to form a government after Sunday's election, which left pro- and anti-bailout forces balanced almost equally. Last hopes to form a government were pinned on Democratic Left leader **Fotis Kouvelis**, a moderate leftist who emerged from a meeting with Venizelos proposing an all-party government that would keep Greece in the euro while detaching it from the bailout deal. Sources said his party was divided on joining a coalition without the **SYRIZA** leftists, who have flatly rejected such proposals and whose popularity soared after the election. Boosted by polls showing the party coming first if elections were held again, SYRIZA has little reason to soften its stance. The first opinion poll to be published since the election showed SYRIZA would win with 27.7 percent of the vote, almost 11 points up on their election result.

Coty raises Avon bid with Buffett's blessing

Coty raised its bid for **Avon Products** with the backing of **Warren Buffett's Berkshire Hathaway**, but the fragrance maker said it would walk away if Avon does not start talks by the end of business on Monday. Coty, maker of Stetson aftershave and

Click on the chart for full-size image



Beyoncé fragrances, raised its unsolicited offer to \$24.75 per share, or \$10.65 billion, according to a letter Avon made public. This time, Avon's board did not reject the offer outright and said it would consider it "in due course." In the letter, Coty Chairman **Bart Becht** said equity financing sources include Coty's main shareholder, **Joh. A. Benckiser, BDT Capital Partners** and some of its limited partners, and Berkshire Hathaway. Coty said **JPMorgan Securities** would provide its debt financing.

Bernanke: Even worthy borrowers can't get mortgages

Banks have become so restrictive in making mortgages that many worthy homebuyers are being frozen out of the U.S. housing market, and lending practices are not likely to loosen any time soon, Federal Reserve Chairman **Ben Bernanke** said. Speaking via satellite to a banking conference in Chicago, Bernanke highlighted ongoing problems in mortgage finance availability, even though banks are much healthier now as the 2007-2009 financial crisis has receded. "To be sure, a return to pre-crisis lending standards wouldn't be appropriate," Bernanke said. "However, current standards may be limiting or preventing lending to many creditworthy borrowers." Bernanke implied the backlash by banks against criticism of their lending practices, which now are far tighter, might be overdone and will be extremely hard to reverse. Overall, Bernanke said, **home mortgage** credit outstanding at banks has contracted about 13 percent from its peak.

Chesapeake delay contributed to well blowout

Chesapeake Energy's delayed response to warning signs at a natural gas well contributed to a blowout in Wyoming in April, which led to a leak and the evacuation of dozens of nearby residents, state regulators said. Chesapeake's "delay in observation of and response to a gain in drilling mud in the pits during the running of the production casing prior to the incident," was a contributing factor in the eventual loss of control at the well, according to a **Wyoming Oil and Gas Conservation Commission** report. It said that "improper engagement of wellhead lockdown pins" also contributed to the blowout, which was eventually triggered by a mechanical failure at the surface of the well.

Micron in talks to acquire Elpida, companies say

Micron Technology is in talks to acquire **Elpida Memory's** business, the companies said, as the Japanese chipmaker tries to restructure after tough market conditions and stiff global competition drove it into bankruptcy protection. An acquisition would give Micron a 25 percent share of the global market for dynamic

TOP NEWS (continued)

random access memory chips, moving it to second place behind **Samsung Electronics**. It will also give the company access to Elpida's technology in chips for smartphones and tablets. Micron said Elpida had selected it to negotiate a deal following a bidding process, confirming what a source with direct knowledge of the deal told Reuters early this week. The source had also said Micron offered more than 200 billion yen for Elpida.

Apple, Foxconn to share costs to improve factories

Apple and its key supplier **Foxconn Technology Group** will share the initial costs of improving labour conditions at the Chinese factories that assemble iPhones and iPads, Foxconn's top executive said. Foxconn chief Terry Gou did not give a figure for the costs, but the group has been spending heavily to fight a perception its vast plants in China are sweatshops with poor conditions for its million-strong labor force. It regards the criticism as unfair. "We've discovered that this (improving factory conditions) is not a cost. It is a competitive strength," Gou told reporters after the ground-breaking ceremony for a new China headquarters in Shanghai. It was unclear if the split would be 50/50 or in some other ratio.

Kohl's profit, margins slip on price cuts

Mid-tier department store chain **Kohl's** reported a 23 percent drop in first-quarter profit as its gross margin was hit by price cuts designed to lure back cost-conscious shoppers. The retailer also forecast another quarter of tepid sales growth, projecting same-store sales would be flat to up 1 percent in the current quarter. That would follow a 0.2 percent rise in the first quarter. Gross margin, which gauges how profitable sales are, fell 2.2 percentage points to 35.9 percent of sales. Kohl's projected second-quarter earnings of 96 cents to \$1.02 per share, below the \$1.13 Wall Street analysts had been expecting. It posted first-quarter profit of \$154 million, or 63 cents per share, down from \$201 million, or 69 cents per share, a year earlier. That was 2 cents better than analysts expected, due to cost-cutting.

Warburg tops \$5 billion mark for fund

Warburg Pincus has raised more than \$5 billion in just over seven months for its 11th global private equity fund, a major step on the way toward its \$12 billion target, people familiar with the matter said. Warburg Pincus Private Equity XI is the second-largest buyout fund globally by capital targeted that is currently tapping investors for money, behind **Blackstone Real Estate Partners VII**, which is targeting \$13 billion. About 50 investors, both existing and new, participated in the first fundraising close, which marked the securing of the commitments and took place in early May, the sources said. They included public and corporate pension funds, endowments and sovereign wealth funds from. The firm has identified opportunities to put some of the capital to work immediately, they added. Warburg Pincus declined to comment.

GSK starts \$2.6 billion tender offer for Human Genome

GlaxoSmithKline launched its promised \$2.6 billion tender for shares in long-time partner **Human Genome Sciences**, setting

PIC OF THE DAY



Indonesian soldiers, part of a rescue team, take a break as they search for the wreckage of a Russian Sukhoi aircraft near Bogor, Indonesia.

out an initial timetable of just under a month to win control. The offer to buy all the outstanding shares in the biotechnology company will expire at 12:00 midnight New York time on June 7, unless it is extended, GSK said in a brief statement. Since GSK's interest was made public three weeks ago, more than 207 million shares in Human Genome have traded, representing 104 percent of the shares, Reuters data shows. As a result, an estimated 25 to 30 percent of the stock is now owned by arbitrageurs hoping to cash in on the pending deal, according to one person familiar with the situation.

Deutsche Bank to pay \$202 million mortgage settlement

A **Deutsche Bank** mortgage unit has agreed to pay \$202.3 million to settle a civil fraud case brought by the U.S. Justice Department, one of the biggest government lawsuits over risky mortgage practices. The bank's MortgageIT unit admitted it certified to the U.S. Department of Housing and Urban Development that loans it issued were eligible for federal mortgage insurance when they were not, the U.S. attorney's office in Manhattan said. It said Deutsche Bank and MortgageIT did not conform to federal regulations and as a consequence, HUD incurred losses when some of the loans defaulted. Manhattan U.S. Attorney **Preet Bharara** said the damages to be paid by the bank would help compensate HUD.

Drugmaker Mylan raises full-year profit view

Generic drugmaker **Mylan** raised its full-year profit outlook, saying it expects 2012 to be the best year in the company's history. Mylan, which reported higher-than-expected earnings last month, now expects an adjusted profit of \$2.45 to \$2.55 per share, compared with its previous estimate of \$2.30 to \$2.50. It said all other financial forecasts were unchanged. The company, which has a market value of about \$8.8 billion, also said it would buy back up to \$500 million of its common stock.

WHAT TO WATCH ON FRIDAY

- The **jobs data** is expected to show hiring in Canada slowed sharply in April from March, with the economy adding just 7,000 net new jobs.
- **TMX Group** is expected to report first quarter earnings. Analysts on an average expect a profit of C\$0.88 per share, compared with C\$0.97 a share, in the same quarter, a year-ago.
- The gold miner **Iamgold** is scheduled to report first quarter earnings that are expected to benefit from the surge in bullion prices over the last year. Analysts on an average expect a profit of \$0.27 per share, compared with \$0.36 a share, in the year-ago quarter.
- The manufacturer and distributor of children's products and bicycles, **Dorel Industries**, is due to report first quarter earnings. Analysts on an average expect a profit of \$1.08 per share, compared with \$1.12 a share, in the same quarter, a year-ago.



MARKET MONITOR

Stocks rose for the first time in more than a week as encouraging U.S. jobs data and slightly more positive conditions in Europe coaxed investors to buy back shares of beaten down energy and financial firms. The **Toronto Stock Exchange's S&P/TSX composite index** finished up 0.5 percent. It snapped a string of six straight losing sessions that saw the TSX fall more than 5 percent. Nearly all of the **TSX's 10 main sectors** were higher on the day, led by the **energy group**, which rose 0.8 percent as oil traded higher. The sector's most influential gainers included **Suncor Energy**, up 0.79 percent, **Canadian Natural Resources**, up 1.53 percent, and **Nexen**, which gained 2.62 percent.

The **Canadian dollar** was little changed at \$0.9987, as the market looked ahead to a key domestic jobs report for more signs on the state of the economic recovery.

BIG MOVERS	Price	\$	% change
Bombardier	3.96	0.27	7.32
Medivation	78.97	2.83	3.72
First Uranium	0.08	-0.02	-16.67

TOP NEWS

Canada trade surplus rises despite oil-price dip

The value of **Canada's imports and exports** both dipped in March on weaker energy prices, but analysts said growing export volumes meant the outlook for trade was brighter than it looked. **Statistics Canada** said the trade surplus rose to C\$351 million from \$273 million in February as imports declined at a faster rate than exports. Exports fell by 0.4 percent, the third consecutive monthly decline, as energy shipments decreased by 8.9 percent on an 8.0 percent drop in prices. Imports were down 0.6 percent, also on weaker energy prices. Separately, **Statscan** said the prices of new homes in Canada rose by 0.3 percent in March from February, the 12th consecutive monthly increase.

Sun Life profit rises 56 pct as markets strengthen

Sun Life Financial's profit rose by a stronger-than-expected 56 percent in the first quarter, helped by stronger stock markets and rising bond yields, the company said. Sun Life earned C\$686 million, or C\$1.15 a share, compared with a year-earlier profit of C\$438 million, or 73 Canadian cents. On an operating basis, which excludes certain items but includes the impact of markets, the company earned C\$1.22 a share. That was well ahead of analysts' expectations of a profit of 75 Canadian cent. Separately, Sun Life sees a fit with the Asian assets of big Dutch financial services firm **ING Groep NV**, and would be willing to issue stock to finance a large acquisition, the Canadian life insurer's CEO, **Dean Connor** said.

Crescent Point loss narrows on higher output

Canada's No.5 independent oil producer **Crescent Point Energy** reported a smaller quarterly loss on higher production and increased selling prices. First-quarter loss was C\$3.9 million, or 1 Canadian cent per share, compared with a year-earlier loss of C\$102.2 million, or 38 Canadian cents per share. Average daily production rose to 90,285 barrels of oil equivalent per day from 75,574 boe/d, a year earlier.

Bombardier sales, profit sink on fewer plane deliveries

Bombardier reported a sharp drop in quarterly sales and profit as aircraft deliveries declined and the company completed some big train orders. Revenue fell 25 percent as it introduced new aircraft and ramped up deliveries on complex new train orders. First-quarter profit fell 14 percent to \$190 million, or 10 cents a share, from \$220 million, or 12 cents a share, a year earlier. While profit matched analysts' expectations, revenue fell far short of the consensus estimate of \$4.52 billion

Magna boosts sales forecast as profit rises

Magna International reported a jump in quarterly profit and boosted its sales forecast. The company raised its total sales outlook for 2012 to between \$29.0 billion and \$30.5 billion. Net income rose to \$343 million, or \$1.46 a share, in the first quarter, up from \$322 million, or \$1.30 a share, a year earlier. Revenue increased 6.6 percent to \$7.67 billion. Analysts, on average, had forecast earnings of \$1.30 a share and revenue of \$7.5 billion.

Pacific Rubiales posts 1st-qtr profit

Pacific Rubiales Energy swung to a first-quarter profit as a recent acquisition in Peru boosted production, it said. First-quarter net income was \$258.3 million, or 85 cents per share, compared with a net loss of \$69.6 million, or 26 cents per share, a year ago. On an adjusted basis, the company earned 97 cents per share. Production, net of royalties, rose 17 percent to 93,573 barrels of oil equivalent per day, which includes 1,703 barrels per day from the recent acquisition in Peru.

Baytex Energy profit rises on higher prices; CEO leaves

Baytex Energy's first-quarter profit jumped on higher production and strong oil prices. The company also said its CEO **Anthony Marino** had resigned and Executive Chairman **Raymond Chan** would take over as the interim CEO. Net income rose to C\$43.0 million, or 36 Canadian cents per share, from C\$950,000, or 1 Canadian cent per share, a year earlier. Petroleum and natural gas sales rose 18 percent to C\$343.4 million.



ANALYSIS AND INSIGHT

BREAKINGVIEWS

Boardroom botches call for checklist fix

By Jeffrey Goldfarb

If checklists can save lives, surely they can help shareholders. The scandals at **Yahoo**, **Green Mountain Coffee**, **Chesapeake Energy** and other U.S. companies suggest boards of directors could do with some simple reminders to prevent them from making stupid mistakes. Breakingviews has drawn up a starter set.

The pressure on companies to find competent leadership has grown in tandem with their complexity. And in their quest for chief executives and directors who can deliver on a range of diversified financial and strategic initiatives, the basics are too often being forgotten and leading to avoidable failings. Just as surgeon **Atul Gawande** showed, in his recent bestseller "The Checklist Manifesto," how a 90-second checklist reduced deaths in the complicated world of intensive care, boards could preserve shareholder value with a Post-it note of sorts.

- College, degree, work history and military service confirmed?

At Yahoo, a straightforward bit of due diligence, like the kind conducted by activist investor **Dan Loeb**, would have uncovered Chief Executive **Scott Thompson's** misrepresented scholastic credentials.

- Doing any moonlighting we should know about?

Among his many undisclosed and still-unexplained activities, Chesapeake boss **Aubrey McClendon** was running a hedge fund on the side.

- Do you have a close personal relationship with any of the senior management here?

The designated stewards of **Rupert Murdoch's** media empire are limited in their ability to restrain the mogul and his whims. But having the godfather to one of his grandchildren - whose father is also a director - officially designated as an independent should be a stark reminder to others.

- Are you borrowing against your shares in the company?

The margin calls that led Green Mountain's chairman and lead director to offload shares in the coffee maker during a restricted period ought to prompt the widespread asking of that question.

- Can we count on you to keep these confidential discussions to yourself?

The insider trading allegations against **Rajat Gupta** reinforced a lesson for **Goldman Sachs**, **Procter & Gamble** and **American Airlines**, where the former McKinsey managing partner held board seats.

- Fancy a cup of coffee?

At the hapless **Hewlett-Packard**, most of the directors neglected even to meet **Leo Apotheker** before hiring him to run the company - and firing him not long thereafter. There's no way to stop a company boss or director, whether candidate or incumbent, from lying. But forcing them to look someone in the eye is a good way to detect red flags - especially if that someone is actually willing to ask questions.

Green Mountain Coffee Roasters said on May 8 that the board had removed its founder and chairman, Robert Stiller, and lead director William Davis from their positions after the two men sold stock in the company during a restricted period.

Yahoo's board appointed a special committee on May 7 to investigate the background of Chief Executive Scott Thompson, after it was disclosed that he embellished his educational record. Chesapeake Energy said on May 1 it would name a non-executive chairman to replace Chairman Aubrey McClendon, who is also the company's founder and CEO. Chesapeake has

been under pressure since Reuters revealed on April 18 that McClendon had failed to disclose \$1.1 billion of personal borrowing against his stakes in thousands of wells. Subsequent reporting by Reuters found that McClendon ran a \$200 million hedge fund that traded in the same commodities Chesapeake produced.

BREAKINGVIEWS

Euro faces slide on break-up risks

By Ian Campbell

It's euro strength rather than weakness that is remarkable. But a swift slide in its value is now probable. A possible Greek exit from the zone in the coming months is the big near-term risk. But there is also a broader threat. As the crisis persists France and Germany are growing further apart. More growth? Less austerity? A zone torn by discordant voices is vulnerable to a split and the euro to a slide.

Euro strength has perplexed. Even after unsettling elections the euro is still well above the \$1.17 level at which it launched. The solidity may reflect Germany's annual trade surplus of around 220 billion euros, the balanced trade position of the zone, and the **European Central Bank's** 1 percent interest rate - higher than in United States, Japan and UK where outright quantitative easing have provoked currency weakness.

But the ground is shifting. While the United States seems to have finished money printing as its economy grows, the euro zone has returned to a recession which is deep in the periphery. And European political uncertainty is worsening.

Greece may end by electing a government that will not stick to the austere terms of the country's second bail-out. Markets ought perhaps to be ready for a long-foretold Greek euro exit. But if Greece can exit the zone, why not Spain or Portugal?

Contagion risks are heightened by differences at the core. **François Hollande**, the new French president, is opposed to austerity in France and ill-placed to impose it in the periphery. Hollande's preference may be for supportive fiscal spending and a far more expansive ECB. Germany won't agree and the ECB will want its independence respected. Conflicting voices present the periphery with a temptation: why not call for monetary and fiscal rescue rather than implement tough reforms?

The uncertainty is weighing on global markets. Amid a general lurch away from risk assets, the euro seems likely to make a sharp downward run towards \$1.20. Against the pound, the euro has already dropped to its lowest since 2008. A fall towards 75 pence in coming months is now possible. And the euro will probably sink back soon to its sub-100 yen lows of a few months ago. A schizophrenic zone still has a remarkably strong currency. Not for much longer, perhaps.

The euro traded close to three-month lows against the U.S. dollar at \$1.296 on May 10 following weekend elections in France and Greece that added to political uncertainty on the euro zone's future.

Against the pound the euro traded at around 80.4 British pence on May 10, close to its weakest level against the British currency since November 2008.

The euro fell to 103.3 yen as the Japanese currency rose to a two-and-a-half month high versus the dollar.

(The authors are Reuters Breakingviews columnists. The opinions expressed are their own.)



FRIDAY: KEY RESULTS vs. THOMSON REUTERS I/B/E/S ESTIMATES

Company Name	Quarter	ET**	EPS Estimates	Year Ago	Rev Estimates (mln)
Nvidia	Q1	1620	\$0.10	\$0.22	\$916

**Estimates may be updated or revised; release times based on company guidance or past practice.

ON THE RADAR

ECON INDICATOR	ET/GMT	REUTERS POLL	PRIOR	SOURCE
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No major economic indicators are scheduled.

(The Day Ahead is compiled by Harjinder Singh Bassi, Karan Raj Khemani and Samarendra Sahoo in Bangalore; Christopher Kaufman and Franklin Paul in New York)

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