



Global Securities Market Bulletin

September 2, 2011

Issue No.119

Courtesy: Global Securities Research

Tel: (604) 689-5400 Website: www.globalsec.com

Fax: (604) 647-2160 E-mail: analysts@globalsec.com

COMMENTARY – US employment numbers disappoint yet again

Despite being flush with cash and in great financial shape, companies are still not hiring
Elvis Picardo, CFA

The US payroll numbers disappointed yet again, as job creation failed to take off for the fourth straight month (Figure 1). Nonfarm payrolls were flat in August, below expectations for a modest increase of 68k, while the jobless rate was unchanged at 9.1%.

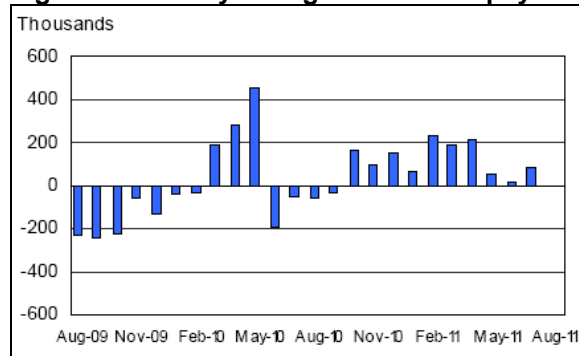
July's payroll expansion of 117k was revised lower to 85k, although the jobs number for the private sector was actually revised marginally higher to 156k. The private sector added only 17k positions in August, the weakest performance since it shed jobs in February 2010. It is apparent that job creation in the US private sector is nowhere close to its full potential, a performance that is in sharp contrast to the hot streak between February and April when it added 760k jobs. Despite solid balance sheets, hefty cash balances and low financing costs, companies still appear unwilling to add aggressively to payrolls.

Note that the August job numbers were impacted by a strike at Verizon Communications by 45k workers, which resulted in the IT sector showing a decline of 48k jobs in the month. The striking workers returned to work on August 22, which will be reflected in next month's jobs report. Other service industries such as professional/business services and education/health services provided the only glimmers of hope for jobseekers in an otherwise dismal month, adding 28k and 34k positions respectively.

Other data points in the report deteriorated marginally. The broad U-6 measure – or the under-employment rate – rose to 16.2% from 16.1% in July. The average workweek for all employees edged lower by 0.1 hour to 34.2 hours, while average hourly earnings decreased by 3 cents to \$23.09.

Bottom-line: After another lacklustre jobs report, there may be a greater sense of urgency among US decision-makers to boost job creation. Speculation about QE3 in some shape or form is again making the rounds, while President Obama is scheduled to speak next week on measures to create jobs. Reportedly, steps being considered by President Obama include more infrastructure spending, tax incentives to boost hiring, a reduction in the employer portion of the payroll tax and changes to unemployment insurance that could subsidize retraining of workers. At the end of the day, however, it remains to be seen whether any of these measures will be attractive enough to persuade corporate America to finally expand payrolls.

Figure 1: Monthly change in nonfarm payrolls



Source: BLS, US Dept. of Labor

(Trade Update) Yamana Gold – Reiterate Hold: Take profits on half of long positions on downside breach of \$16 (in lieu of previous stop at \$14)

Yamana Gold (TSX: YRI, \$16.42) traded at a three-year high of 16.73 today. The stock is up 10% since our previous update on August 10, bringing its YTD gains to 28%, the second-best performance on the TSX-60.

Yamana announced yesterday that it had reached a definitive agreement with Xstrata and Goldcorp that provides Minera Alumbrrera the exclusive option to acquire Yamana's 100% interest in the Agua Rica project. Agua Rica is a feasibility-stage project that is about 35 kms from the currently operating Alumbrrera mine, which is operated by the Minera Alumbrrera joint venture. Xstrata Copper has a 50% stake in Minera Alumbrrera, while Goldcorp has 37.5% and Yamana has 12.5%.

If Xstrata and Goldcorp exercise their four-year option to have Alumbrrera acquire Agua Rica, upon integration of the projects, Xstrata, Goldcorp and Yamana would own stakes similar to their current interests (50%, 37.5% and 12.5% respectively). Yamana will receive initial option payments totalling US\$110 million and additional milestone payments totalling US\$200 million, in addition to a share of the revenue stream from the project's gold sales (65% of payable gold production to a maximum of 2.3 million ounces).

Yamana has received US\$20 million from Xstrata and Goldcorp upon signing of the definitive agreement, in addition to US\$10 million received earlier; the balance of the remaining option payments is now US\$80 million.

Minera Alumbrrera can elect to exercise its option at any time during the four-year period. The break-up of the milestone payments to Yamana is as follows – US\$150 million upon approval to proceed and a further US\$50 million on commencement of commercial production. Xstrata, the manager of Minera Alumbrrera, has retained Fluor Canada to conduct the independent feasibility study, which is expected to be completed in early 2013.

With gold continuing to surge, our preference is to let Yamana run as it benefits from renewed investor interest. However, with prudence dictating that we keep a stop in place to protect profits, we are moving our previous stop at \$14 up to \$16. We suggest investors take profits on half of long positions on a downside breach of \$16. Yamana remains a Hold at present levels.

Market Snapshot at 12:45

S&P TSX	12606.67	-94.07	Commodities				Yields (%)	Can.	US
TSX Venture	1806.01	-6.46	Canadian \$	1.0168	-0.0069	90 Day T-Bill	0.77	0.01	
DJIA	11257.74	-235.83	Gold (Spot)-US\$	1880.32	+54.18	2-Year Bond	0.95	0.20	
S&P 500	1176.30	-28.12	Oil (WTI-Oct.)	86.59	-2.34	10-Yr. Bond	2.30	2.00	
NASDAQ	2484.37	-61.67	CRB Index	338.06	-2.59	30-Yr. Bond	2.96	3.31	

Thought for the Day

"Retired: First tired of working. Then tired of not." – Richard Armour

This publication is not, nor is it to be construed as, a solicitation or recommendation to investors to purchase, sell or hold any of the securities referred to herein. Investors should consult their own broker(s) to determine the suitability of any securities referred to herein as these securities and the trading strategies incorporated into any trading recommendations will not be suitable to all investors. Further information concerning this publication, including information respecting Global's research dissemination procedures, recommendation rating system, recommendation follow-up matters, suspension or discontinuance of coverage and related matters may be found at the research page on Global's website, the address for which is www.globalsec.com, under the caption "Research". Unless noted otherwise, none of the material operations of the issuers referred to herein have been viewed by the report writer(s). The contents hereof may not be reproduced in whole or in part without the prior written consent of Global Securities Corporation ("Global") Copyright 2011; All rights reserved.