

Wednesday January 6, 2010

Structured Products

Current year	Previous year
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ALL U.S. STRUCTURED PRODUCTS

Year to Date:

\$1.035 billion in 5 deals	\$0.004 billion in 2 deals
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Quarter to Date:

\$1.035 billion in 5 deals	\$0.004 billion in 2 deals
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Month to Date:

\$1.035 billion in 5 deals	\$0.004 billion in 2 deals
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Week to Date:

\$1.035 billion in 5 deals	
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BREAKDOWN OF YEAR TO DATE DEALS

ALL U.S. STOCK AND EQUITY INDEX DEALS

\$0.004 billion in 1 deal	\$0.004 billion in 2 deals
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SINGLE STOCK U.S. STRUCTURED PRODUCTS

\$0.004 billion in 1 deal	\$0.000 billion in 0 deals
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STOCK INDEX U.S. STRUCTURED PRODUCTS

\$0.000 billion in 0 deals	\$0.004 billion in 2 deals
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BASKET OF STOCKS U.S. STRUCTURED PRODUCTS

\$0.000 billion in 0 deals	\$0.000 billion in 0 deals
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FX U.S. STRUCTURED PRODUCTS

\$0.027 billion in 1 deal	\$0.000 billion in 0 deals
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COMMODITY U.S. STRUCTURED PRODUCTS

\$0.000 billion in 0 deals	\$0.000 billion in 0 deals
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INTEREST RATE STRUCTURED PRODUCTS

\$0.004 billion in 2 deals	\$0.000 billion in 0 deals
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Prospect News

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Dow Jones-UBS-linked CDs from new issuer Union Bank offer commodity exposure, inflation hedge

By Emma Trincal

New York, Jan. 5 – **Union Bank, NA**'s planned quarterly capped return certificates of deposit linked to the Dow Jones – UBS Commodity index mark the bank's debut in the CD market. The quarterly capped return structure represents a good fit for investors who want to be exposed to commodities as an inflation hedge but who do not foresee extreme volatility for this asset class, a market participant said.

"This is for investors who feel that commodity is the best choice but who also want some form of safety in the form of principal protection," this market participant said.

The zero-coupon principal-protected market-linked CDs will be due July 29, 2013, according to a term sheet.

The payout at maturity will be par plus the sum of the index's returns in each of the 14 quarters making up the life of the CDs, subject to a minimum return of 3.5%, which is a 0.99% annual percentage yield.

The return in each quarter will be capped at 5% to 7%, with the exact cap to be set at pricing.

New kid in town

"Union Bank is a new CD issuer," the market participant said. "They've done CDs internally before, but they finally

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UBS to price 40-year E-Tracs linked to S&P 500 Gold Hedged index

By Angela McDaniels

Tacoma, Wash., Jan. 5 – **UBS AG** plans to price 0% exchange-traded access securities due Jan. 30, 2040 linked to the S&P 500 Gold Hedged index, according to a 424B2 filing with the Securities and Exchange Commission.

The index seeks to simulate the combined returns of an investment of equal dollar amounts in the S&P 500 Total Return index and long positions in near-term exchange-traded Comex gold futures contracts.

The notes have a principal amount of \$25 each and will sell for 101% of par.

The notes will be putable at any time, subject to a minimum of 50,000 notes.

They will be callable beginning Jan. 31, 2011.

The payout upon redemption or at maturity will be par plus the index return minus a fee amount. The notes are not principal protected.

The fee amount is initial zero. It will increase each day by an amount equal to 0.85% per year multiplied by par plus the index return on that day.

The notes will price Jan. 27 and settle Jan. 29.

The issuer said the notes have been approved for listing on NYSE Arca under the symbol "SPGH."

UBS Investment Bank is the underwriter.

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Dow Jones–UBS-linked CDs from new issuer Union Bank offer commodity exposure, inflation hedge

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began doing their external distribution last month.”

Incapital LLC launched Union Capital’s first three CD deals last month and is now distributing another series of three this month, including this one, according to several term sheets.

Cliquet chic

The market participant said that the quarterly capped return is an important aspect of the structure for this deal as it explains the relatively high cap level of the return.

Rather than observing the performance of the underlying index from the initial value to the maturity date, as it is commonly done, he said, the issuer in this so-called “cliquet” structure adds up all the quarterly performances of the index during the term in order to determine the final payout.

“This cliquet method represents more risk but much higher potential return than what you would get with a point-to-point deal,” this source said.

Investors may earn at maturity a maximum return of between 70% and 98%. It represents the sum of the quarterly returns subject to the 5% to 7% cap. This would translate into an annual percentage yield of 16.35% to 21.52%, depending on the level at which the cap is set at pricing, according to the term sheet.

“What you get here is a much higher cap. And that’s because there is more risk to see your final payment reduced to the minimum coupon if you have a series of negative quarters. It’s a risk that is proportional to the volatility of the underlying index, and it could happen even if you had a positive return over the term from beginning to end,” this market participant said.

He explained that the cliquet breaks

down the term into “smaller periods,” which make investors more vulnerable to volatility moves in the underlying index. “Having a positive quarter can only help you so much because you have the cap. What you really want is to limit the number of negative quarters,” he said.

Low volatility expectations

“So what you’re really hoping for is for the index to steadily rise without being too volatile. Your biggest risk is that the commodity index would go up but with a lot of volatility. You get a higher cap for taking on this risk,” he said.

On the other hand, investors who anticipate the underlying commodity benchmark to exhibit a high level of volatility would be better off with a point-to-point structure, he said.

Inflation hedge

“A lot of commodity investors think that right now, they need to hedge against inflation risk. The question for them is: Do I want to be in a bullet CD earning 2.5% per year for the next three-and-a-half years knowing that the Fed is printing money like a counterfeit expert? Or would I rather be in real assets, in commodities? Their view is that the Fed is going to be behind inflation,” he said.

“This investment is for people who want commodity exposure and principal protection. But more importantly, it’s a take on inflation. Profiles of potential buyers could be investors who are neutral on commodities on a real basis but extremely bullish on commodities on a nominal basis,” he said.

Volatile indexes

Brad Zigler, research analyst at Hard Assets Investor, said that one problem with the structure is the assumption that the

volatility of commodities will be subdued over the three-and-a-half-year period.

“You can never say commodity markets won’t be too volatile. They can be as volatile as they want to be and usually are,” Zigler said.

He said that the potential for high volatility is high with most commodity indexes, especially with the one used as the underlying for the CDs.

“Most all of the commodity indexes, with the notable exception of the Continuous Commodity index [now owned by Thomson Reuters], are heavily weighted in the energy sector. True, the DJ-UBS benchmark is capped, but as much as a third of the portfolio can still be given over to energy,” Zigler said. He added that energy is “very volatile,” as illustrated by the fact that the government excludes it for the calculation of core inflation.

A collar equivalent

If the assumption of a low underlying volatility is correct, Zigler said that the product may appeal to investors willing to cap their potential return for less risk.

“The payoff for the CD customer is maximized when commodities rise modestly over the term. In essence, the customer’s overlaying the equivalent of a ‘collar’ – or the combined purchase of a call and a put – on a deposit certificate,” Zigler said. “The CD’s structure cuts off volatility at both ends.”

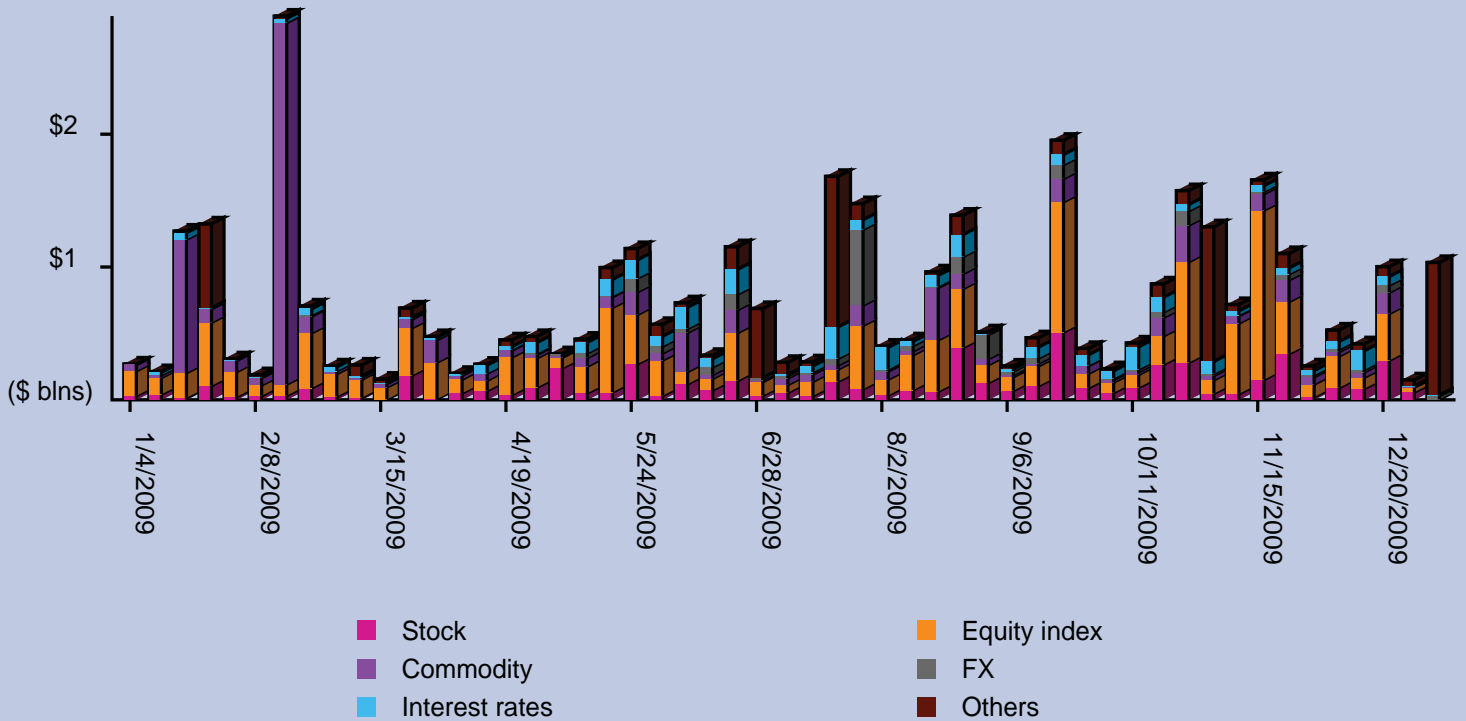
Beginning Dec. 15, 2010, the CDs will be putable on March 15, June 15, Sept. 15 and Dec. 15 of each year. The redemption amount will be calculated differently than the payout at maturity and may be less than par.

The CDs will price Jan. 25 and settle Jan. 27.

UnionBanc Investment Services, LLC is the agent. Incapital is the distributor.

Market Data

Structured Products New Issue Volume by Week



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