

HEDGEYE

RISK MANAGEMENT

BEST IDEAS PRODUCT LAUNCH: PART 2

FEBRUARY 27, 2013

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***“IN A TIME OF TURBULENCE AND CHANGE, IT IS MORE TRUE
THAN EVER THAT KNOWLEDGE IS POWER.”***

-JOHN F. KENNEDY



FINANCIALS



JOSH STEINER

Part of the #1 ranked Institutional Investor and Greenwich Survey team at Lehman Brothers. Buy-side analyst at Amaranth Group & Millennium Partners.



LONG NSM

NSM: OVERVIEW

ONE OF THE HIGHEST-GROWTH, LOWEST-MULTIPLE STOCKS IN FINANCIALS

- Core Business: Servicing delinquent mortgage loans and originating agency mortgages for sale
- Secular Trend: Banks are selling their specialty servicing due to changes in regulation, legal and headline risks
- Cottage Oligopoly: Only three companies can buy this servicing (NSM, OCN, WAC)
- Originations: Re-freezing the melting ice cube through recapture and gain-on-sale

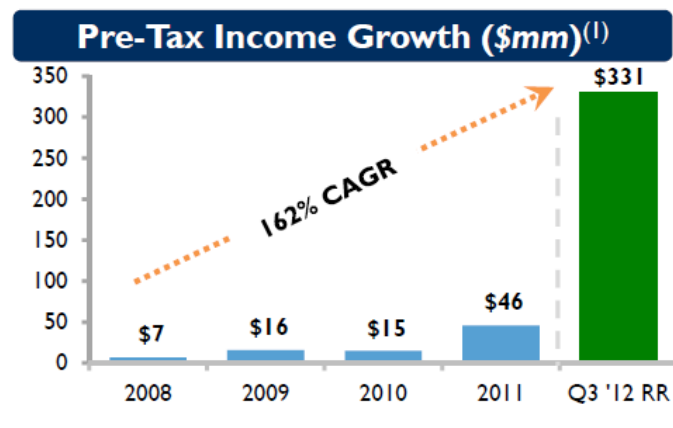
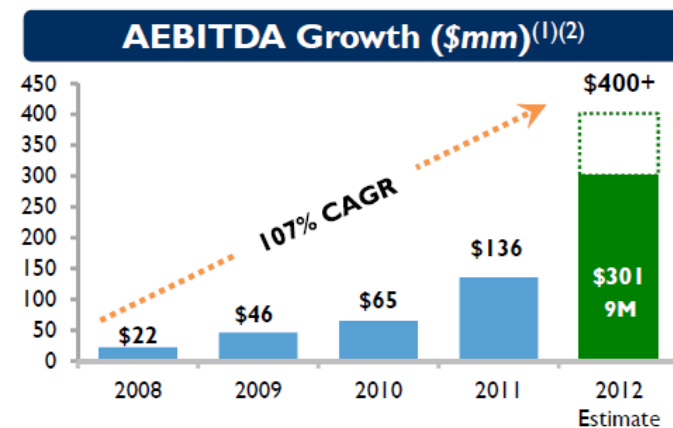
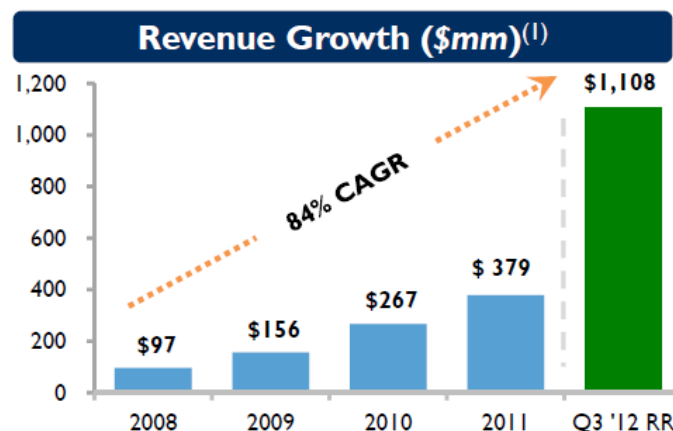
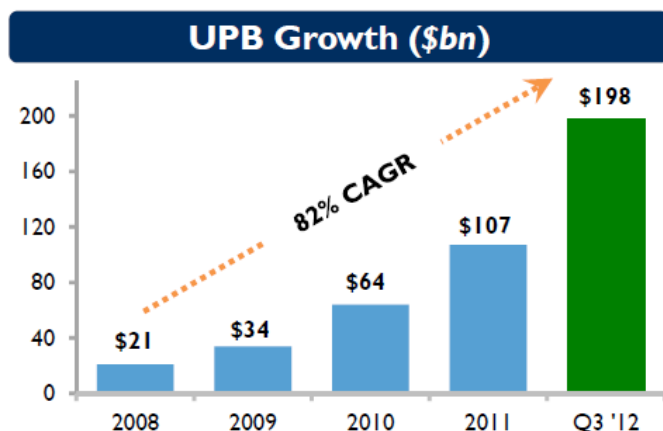
LONG THESIS

A HIGH GROWTH, LOW-MULTIPLE PLAY WITH CATALYSTS

- Street remains too conservative for 2013/2014
- We think NSM can earn \$9-10 in 2014/2015 vs. consensus of \$5.84 in 2014
- The origination platform materially offsets runoff in the servicing business
- Spin-off of Solutionstar can unlock \$5-6 in additional value

GROWTH PROFILE

NSM HAS BEEN GROWING RAPIDLY SINCE 2008



Margin (%) 22% 30% 24% 36%

7% 11% 6% 12% 30%

1) Revenue, AEBITDA and pre-tax income from operating segments

2) Please see Endnotes for information on AEBITDA and reconciliations on page 17

GROWTH OUTLOOK

- ACCRETIVE SERVICING ACQUISITIONS HAVE FUELED THE RAPID GROWTH
- NSM HAS ANOTHER \$300BN OF SERVICING ACQUISITIONS IN PIPELINE

Pipeline of opportunities remains elevated for the foreseeable future

- Macro-thesis of secular shift remains intact; legal, regulatory and headline risk for banks persists
- Growth of customer base presents opportunity for expansion of Solutionstar

Servicing

Originations

Bulk Servicing⁽²⁾

Flow Servicing

Solutionstar

Channel Development

- MSRs and subservicing

- Multiple lenders
- Already executed agreements ~ \$10B for '13

- 2.5 million customers in servicing portfolio⁽³⁾
- Multiple fee-based opportunities

- KB Home/Builder
- Wholesale
- Correspondent

Potential Opportunity Size:

\$300 billion+

\$25-50 billion annually

\$425 billion portfolio⁽³⁾

COMPELLING VALUATION

- NSM IS CURRENTLY TRADING AT 6.3x 2014 CONSENSUS ESTIMATES OF \$5.84
- THE COMPANY SHOULD BE ABLE TO EARN \$9-10 IN 2014/2015
- THE MARKET SHOULD VALUE THOSE EARNINGS AT 7-9x
- FAIR VALUE IS \$63-90 VS. \$36 TODAY (UPSIDE: 75-150%)

SPECIALTY SERVICER RELATIVE VALUATION TABLE

Fee-Based Service Providers	Ticker	Price	Consensus EPS 2012	Consensus EPS 2013	Consensus EPS 2014	P/E 2012	P/E 2013	P/E 2014	2013 YoY Growth	2012:2014 CAGR	2014 P/E:G
Fidelity National Financial	FNF	\$25.07	\$2.03	\$1.97	\$2.20	12.4x	12.7x	11.4x	-3%	4%	2.7x
First American Financial	FAF	\$23.95	\$2.07	\$2.01	\$1.98	11.6x	11.9x	12.1x	-3%	-2%	nmf
Lender Processing Services	LPS	\$24.78	\$2.63	\$2.69	\$2.84	9.4x	9.2x	8.7x	2%	4%	2.2x
CoreLogic, Inc.	CLGX	\$24.52	\$1.73	\$1.85	\$2.43	14.2x	13.2x	10.1x	7%	19%	0.5x
Average						11.9x	11.8x	10.6x	1%	6%	1.8x
Median						12.0x	12.3x	10.7x	0%	4%	2.2x
Specialty Servicers											
Ocwen Financial	OCN	\$36.28	\$1.35	\$4.46	\$5.10	27.0x	8.1x	7.1x	231%	95%	0.1x
Walter Investment Management	WAC	\$45.10	\$2.74	\$6.06	\$6.40	16.5x	7.4x	7.0x	121%	53%	0.1x
Average						19.6x	8.5x	6.8x	137%	68%	0.1x
Nationstar Mortgage	NSM	\$36.63	\$2.37	\$3.73	\$5.84	15.5x	9.8x	6.3x	57%	57%	0.1x

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Fair Value Calculation					Comments:
Scenario	Multiple	Fair Value	% Change		
NSM Bear Case	6x 2014	\$35.06	-4%		1-turn discount to current peer group 2014 multiple.
NSM Base Case	8x 2014	\$46.74	28%		
NSM Bull Case	10x 2014	\$58.43	60%		10x would be in line with the fee-based service multiple.
Earning \$9.50 in 2014	8x 2014	\$76.00	107%		Pipeline suggests \$9-10 in 2014

Bank of America.



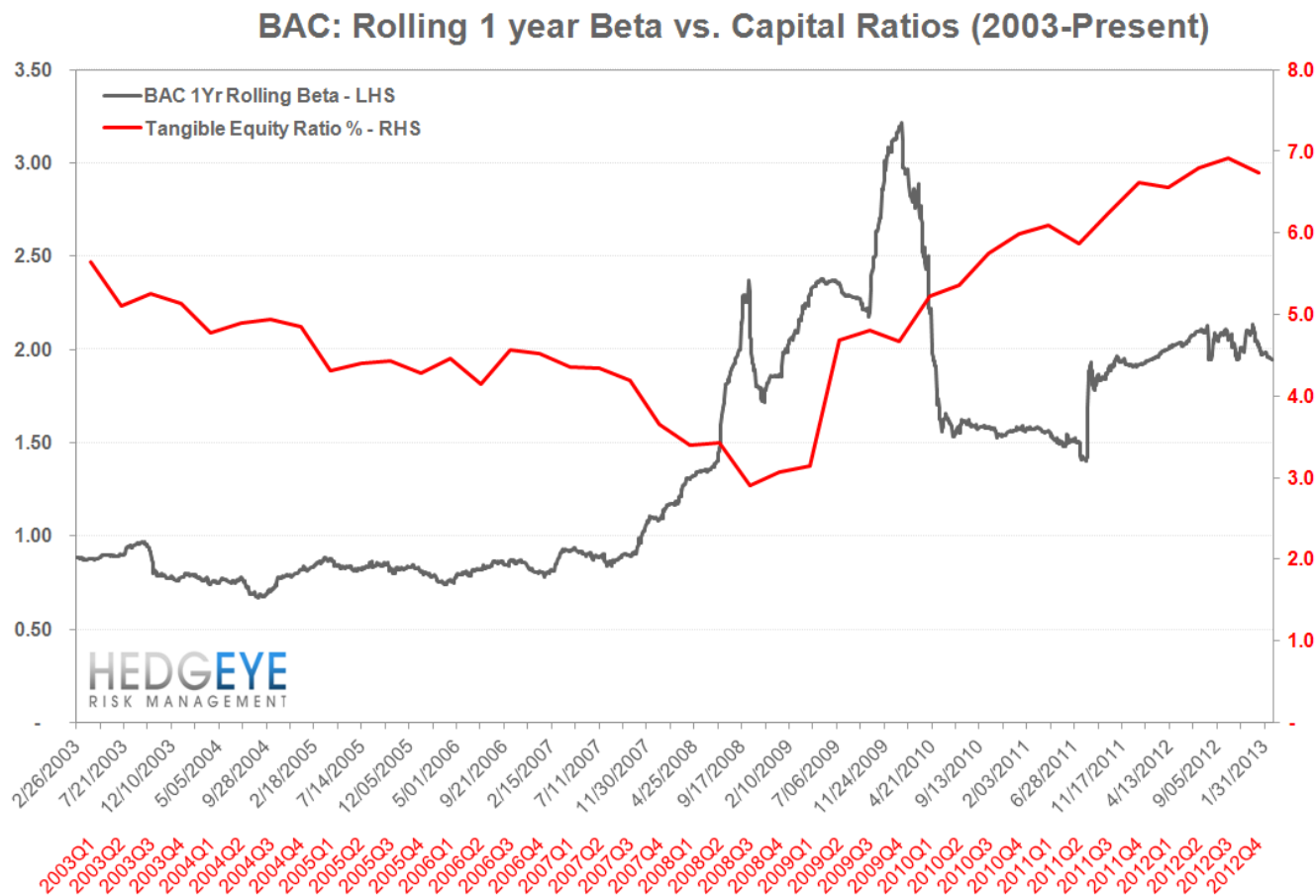
LONG BAC

LONG THESIS

- Still a compelling value stock
- Fair value is between 137-150% of TBVPS (vs. 83% today)
- Cost of capital tailwinds
- Credit/Housing tailwinds
- Margin stabilization tailwinds
- QE tailwinds

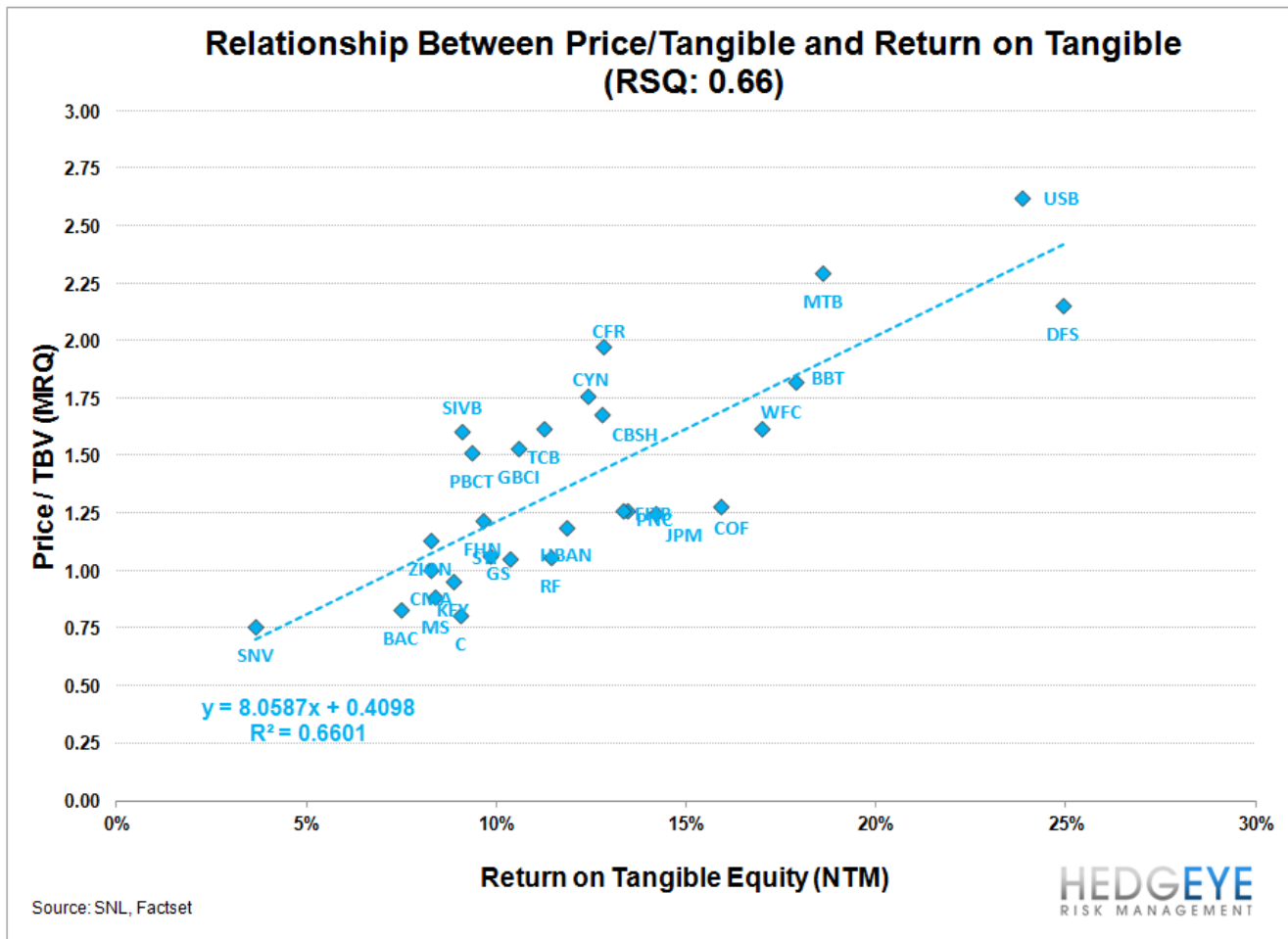
ELEVATED VOLATILITY

NORMALIZED VOLATILITY FOR BAC IS ROUGHLY HALF ITS CURRENT LEVEL



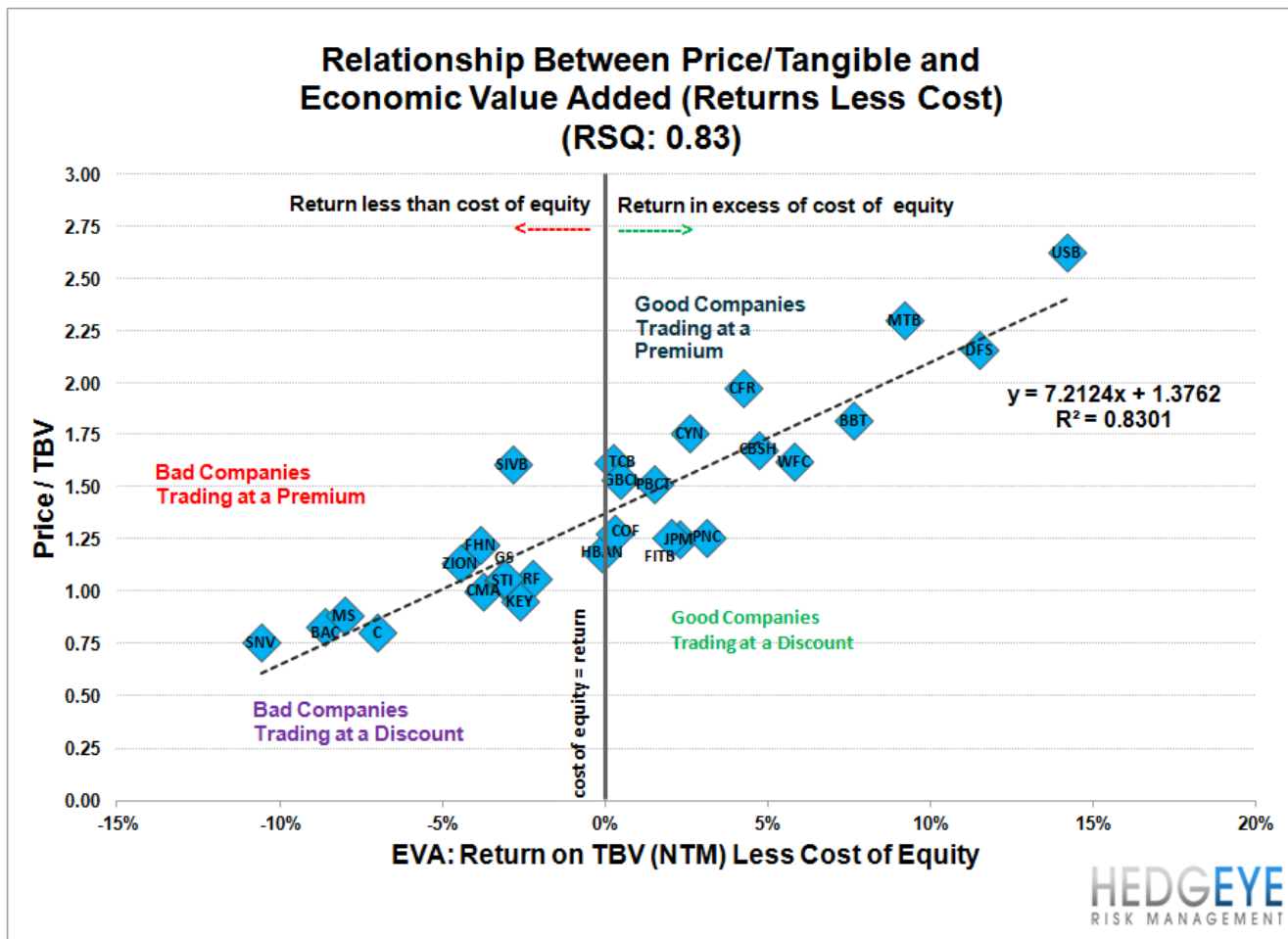
WHY VOLATILITY MATTERS

MOST INVESTORS LOOK AT BANK VALUATIONS THIS WAY



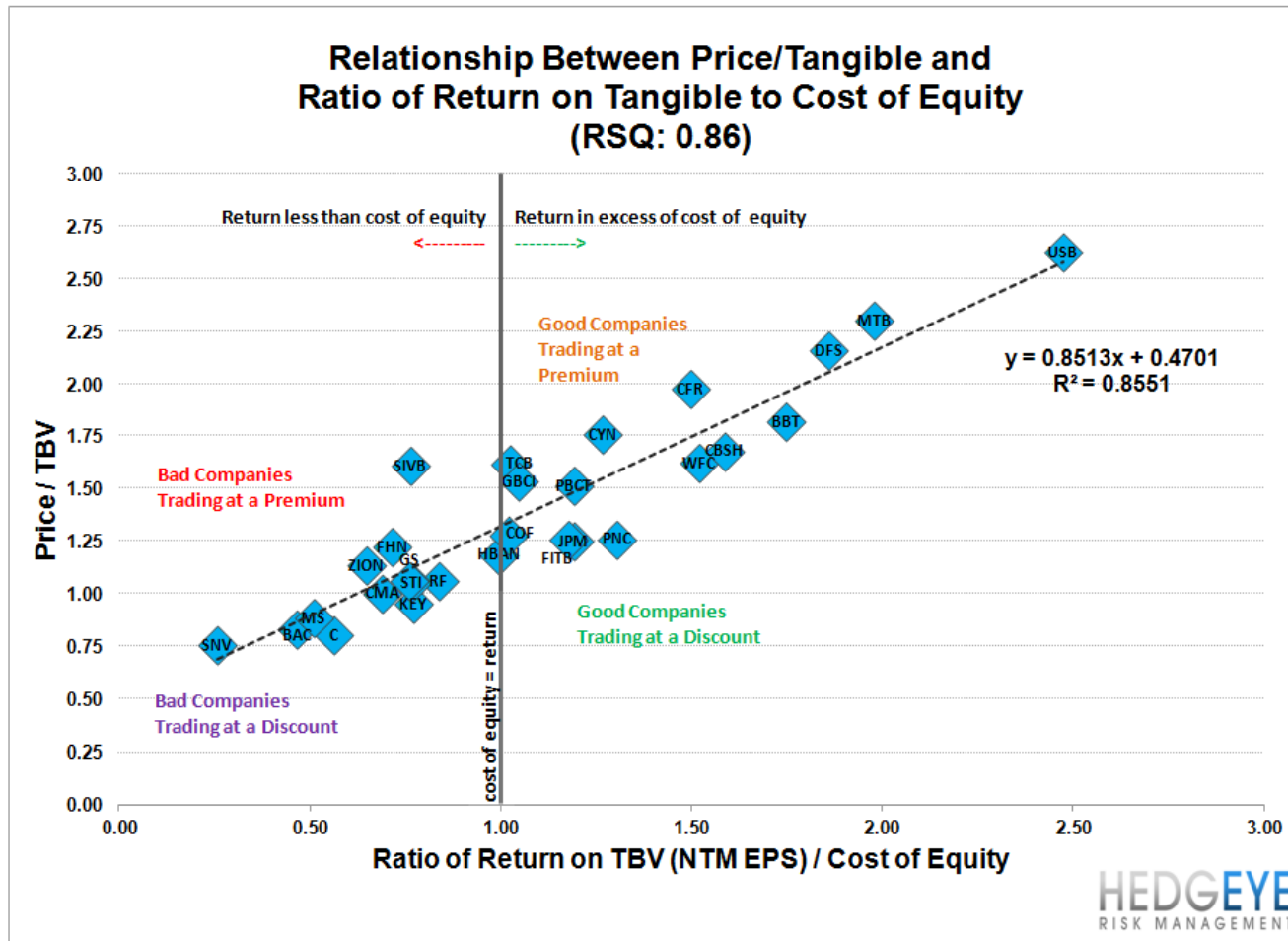
ECONOMIC VALUE ADDED

EVA EXPLAINS THE VARIABILITY IN VALUATION FAR BETTER

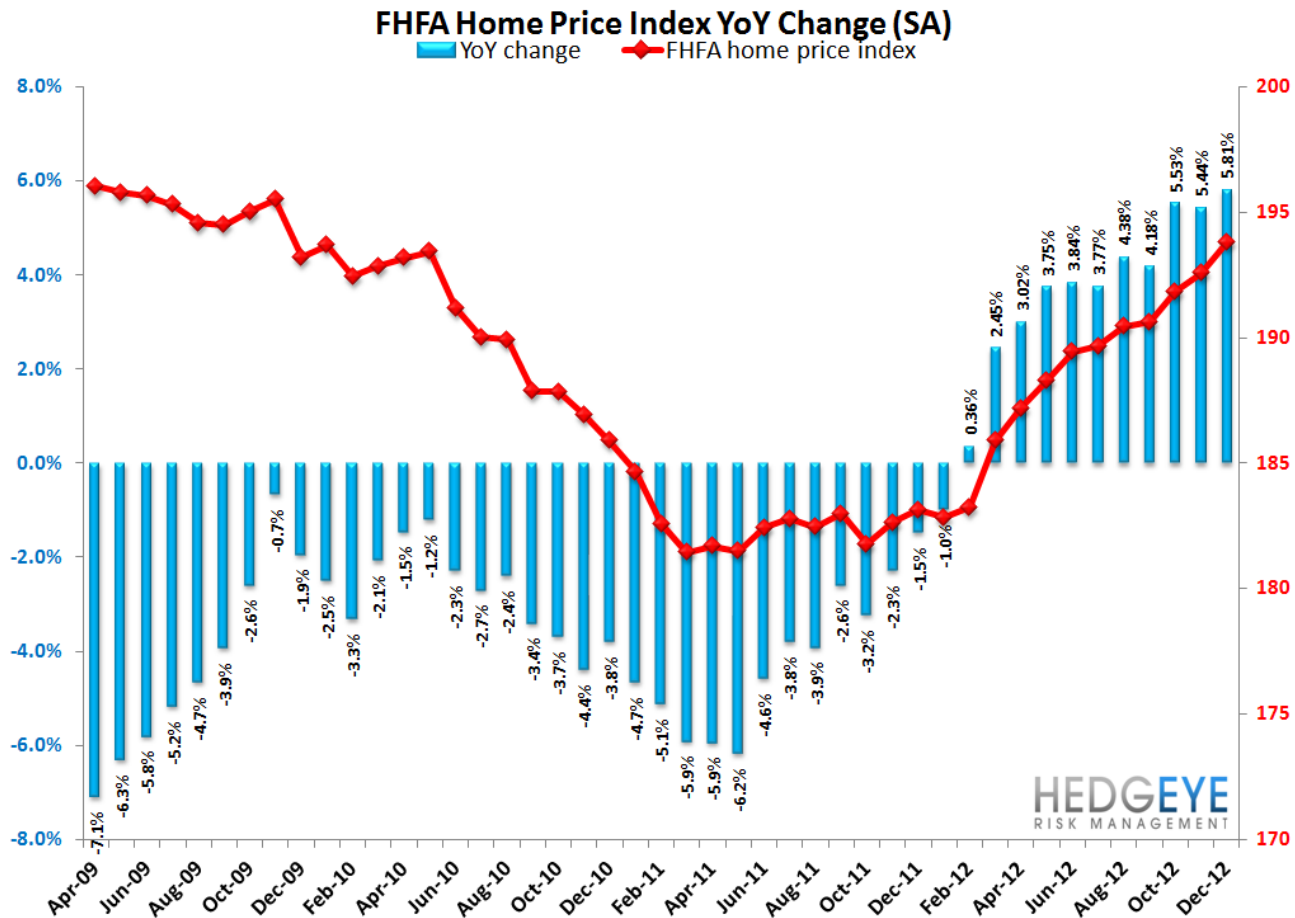


ANOTHER TAKE

ANOTHER WAY OF LOOKING AT VOLATILITY

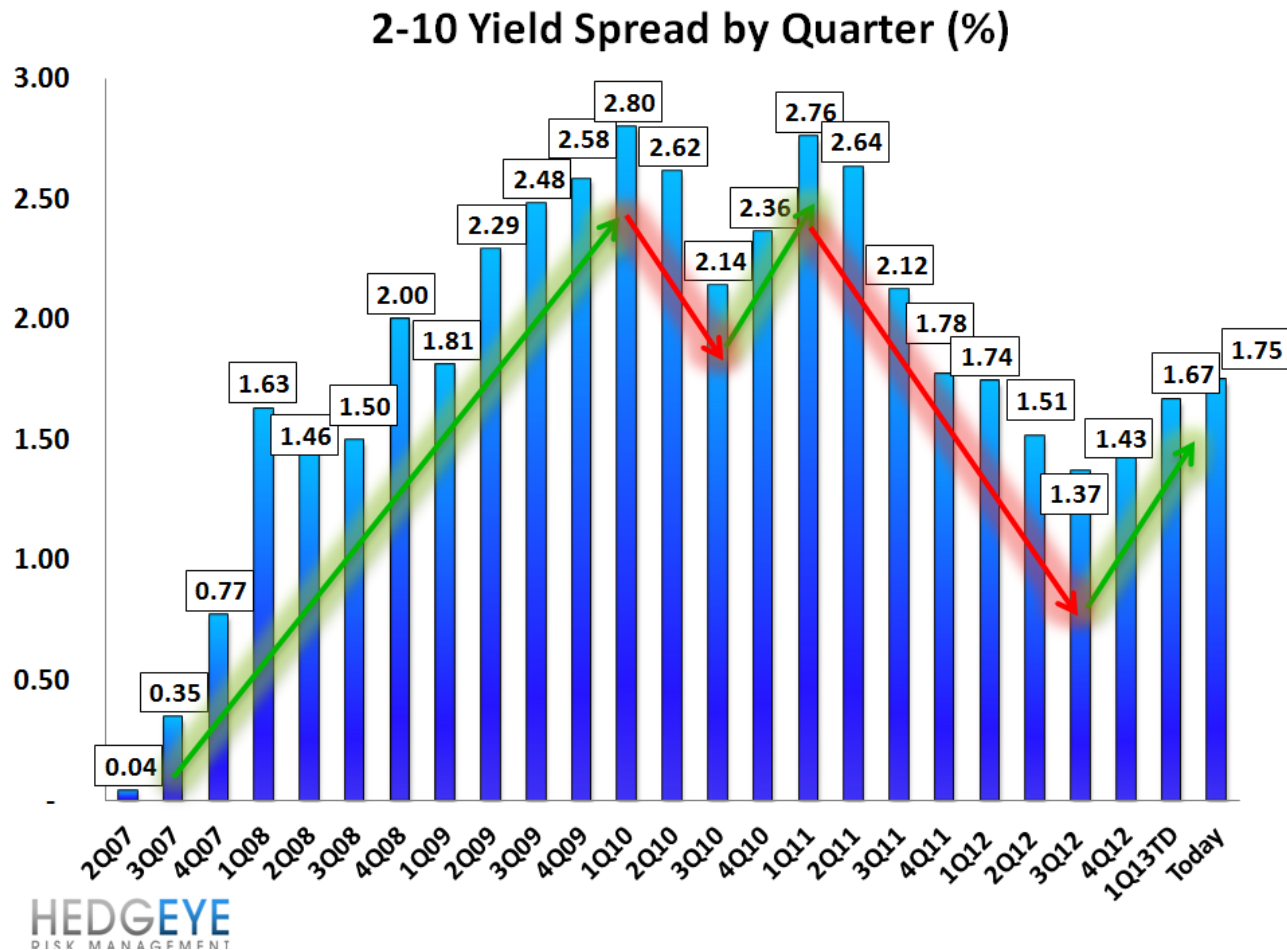


HOUSING RECOVERY FLOWS DIRECTLY TO BAC'S BOTTOM LINE



MARGIN STABILIZATION

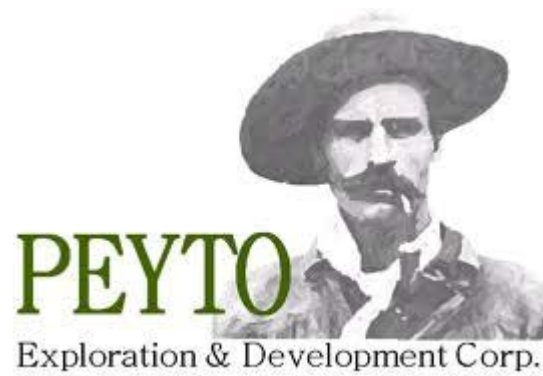
PRESSURE IS FINALLY ABATING, PAVING THE WAY FOR REVENUE GROWTH





KEVIN KAISER

Covers the oil & gas sector with a focus on fundamental research on E&Ps, oilfield services, MLPs and refiners. Princeton hockey alumnus.



LONG PEY.CN



NOT YOUR TYPICAL E&P

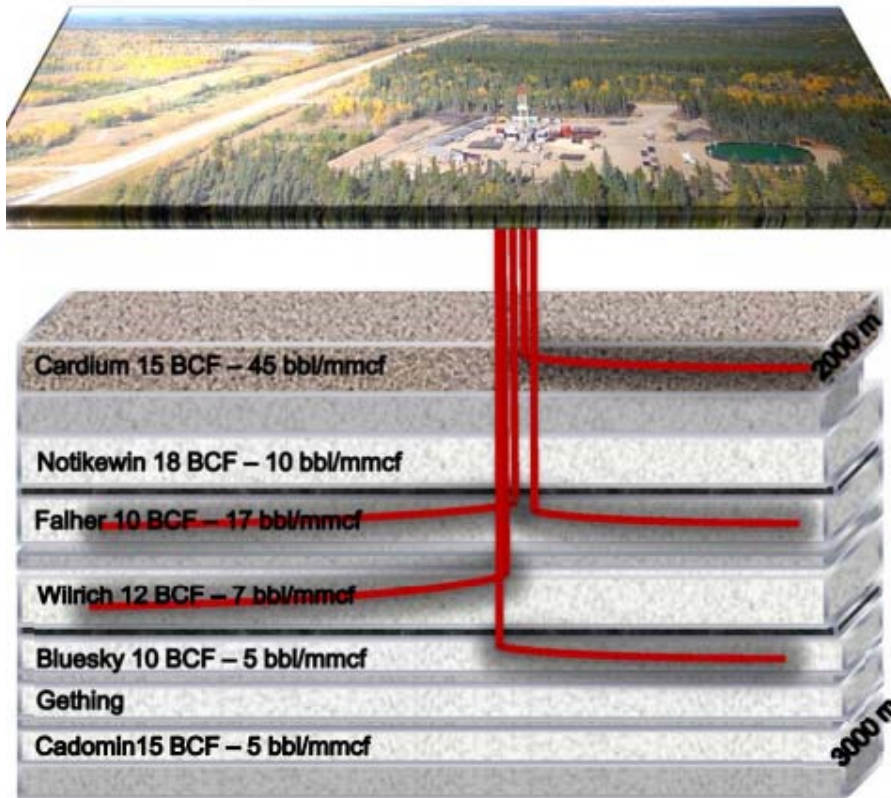
GROWING NATURAL GAS RESERVES AND PRODUCTION EFFICIENTLY...

- Low cost producer: Peyto is the lowest cost NG producer in Canada, and one of the lowest cost E&Ps in North America, with a full-cycle cost ~\$3.00/Mcfe.
- Counter-cyclical investor: Invests heavily during periods of weak natural gas prices, pulls back on capital expenditures as prices and costs rise. Built new production for \$17,600/boe/d in 2012.
- Production per share growth: We estimate that Peyto will grow production per share ~30% in 2013, while improving credit metrics.
- CF per share growth: Projecting 52% CFPS growth to \$3.36/share in 2013.
- Organically funded: CFFO > Capex in 2013.

<u>2012 Operational Stats</u>				
Cost per Mcfe	Peyto*		SWN	COG
DD&A (Cost to Replace Production)	\$ 1.74	\$	1.43	\$ 1.71
Production Taxes	\$ 0.33	\$	0.10	\$ 0.18
LOE	\$ 0.35	\$	0.80	\$ 0.44
Transportation	\$ 0.11	\$	-	\$ 0.54
G&A Expense	\$ 0.05	\$	0.26	\$ 0.45
Interest Expense	\$ 0.23	\$	0.17	\$ 0.26
Full-Cycle Cost per Mcfe	\$ 2.81	\$	2.76	\$ 3.58
<i>*4Q12 estimated</i>				

INVENTORY UNDERSTATED

INVESTORS MISUNDERSTAND THE DEEP BASIN'S STACKED FORMATIONS...

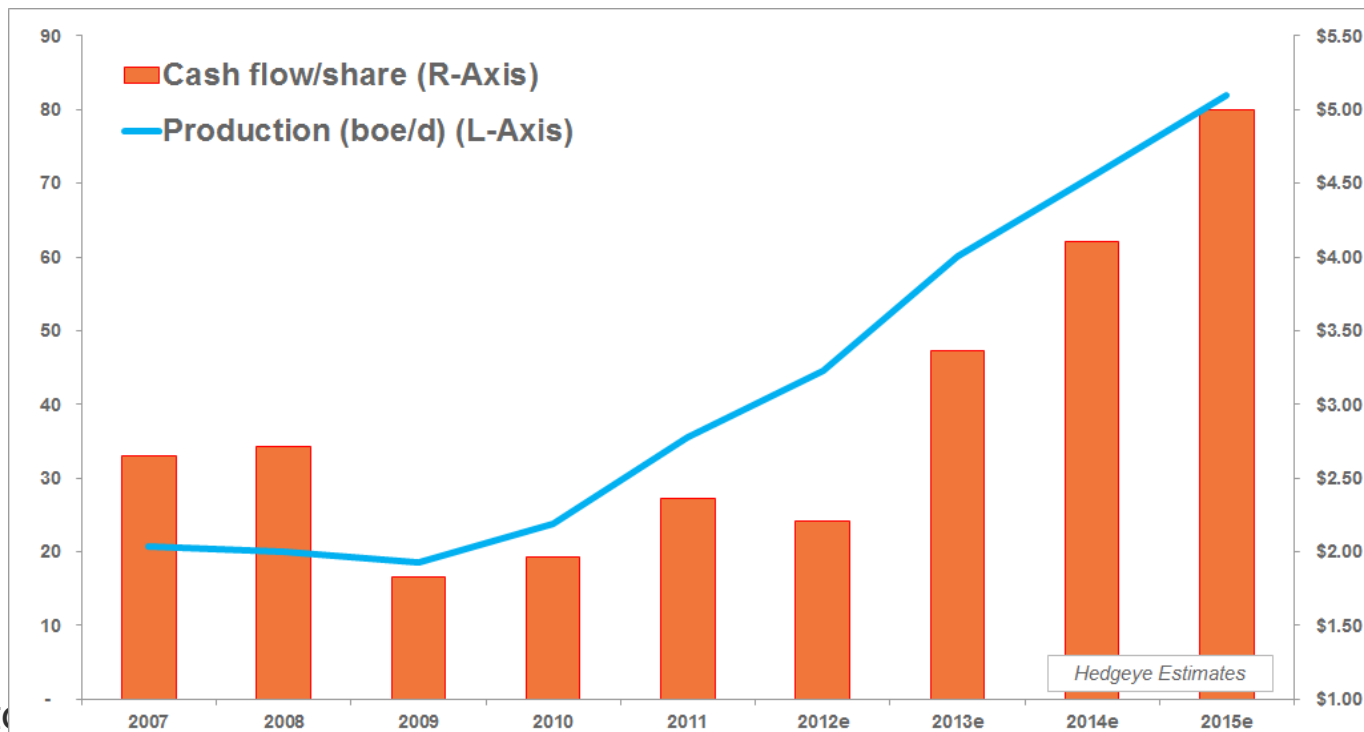


- 624 net sections of surface land (400,000 net acres)
- 2,182 net sections of stacked formations (1.4MM net acres): Cardium, Notikewin, Falher, Wilrich, etc.
- Only 113 net sections (5%) captured in the 2011 reserve report as developed
- 1,100 IDENTIFIED locations (+10 years of drilling inventory)

PAY FOR CFPS GROWTH

FEW CAN PROFITABLY AND SUSTAINABLY GROW TODAY... PEY CAN AND WILL

- We think that Peyto will generate ~\$5.00 of CFPS in 2015 (assuming strip pricing).



- Peyto



SHORT GPOR

GPOR'S UTICA OVERHYPED?

INSIDERS' ACTIONS SPEAK LOUDER THAN THEIR WORDS...

- Gulfport Energy (GPOR) has released Utica Shale well results that may not accurately reflect the true potential or value of the play, in our view. In fact, former majority shareholder of GPOR, Wexford Capital, seems to agree, as it recently sold substantially all of its equity in GPOR, as well as its working interest in undeveloped Utica acreage to GPOR.
- We expect GPOR's Utica well economics, its ability to grow cash flow, and its ability to fund an aggressive development plan organically to disappoint high expectations in 2013 and 2014.
- We estimate fair value for GPOR between \$15 – 23/share.

GPOR'S CORPORATE GOVERNANCE IS QUESTIONABLE...

- Long history of complex related party transactions with hedge fund Wexford Capital, including recent Utica Shale deals.
- We estimate that GPOR has paid Wexford-controlled companies more than \$800MM in cash since inception, funded primarily by raising new equity.
- We do not consider GPOR's BoD's to be experienced oil & gas professionals or "independent," as the Company claims.
- Wexford Capital has sold substantially all of its GPOR equity position over the last 3 years.
- Insiders own 1.5% of the Company, and have not bought one share on the open market since 2010.


KEY POINTS

- We value GPOR's Utica Shale acreage using the recent GPOR/Wexford deal price (\$10,000/acre) as our mark
- We value GPOR's stake in Grizzly Oil Sands by comparing the asset to other publicly traded oil sands companies
- The current share price implies that investors value GPOR's Utica Shale position ~\$18,000/acre

Gulfport Energy (GPOR)			Diluted Shares (MM) (1)		78	
Pro Forma Net Asset Valuation			Current Price		\$ 37.00	
Proven Reserves (2)	1P MM boe	% Oil	\$/boe	SMM	\$/share	
West Coast Blanche Bay Field	4.0	91%	\$ 33.00	\$ 131	\$ 1.68	
Hackberry Field	1.9	92%	\$ 33.00	\$ 63	\$ 0.81	
Niobrara and Other	0.6	95%	\$ 15.00	\$ 9	\$ 0.12	
TOTAL Proven Reserves	6.5	91%	\$ 31.32	\$ 203	\$ 2.61	
Probable Reserves				SMM	\$/share	
Louisiana probable reserves (3)	10.6	91%	\$ 10.00	\$ 106	\$ 1.36	
Other probable reserves	0.4	91%	\$ 5.00	\$ 2	\$ 0.02	
TOTAL Probable Reserves	11.0	91%	\$ 9.81	\$ 108	\$ 1.39	
Development Properties	Net acres	% Liquids	\$/acre	SMM	\$/share	
Utica Shale (4)	128,000	???	\$ 10,000	\$ 1,280	\$ 16.44	
TOTAL Development Properties				\$ 1,280	\$ 16.44	
Other Assets				SMM	\$/share	
Market Value of Diamondback Energy (FANG) (5)				\$ 158	\$ 2.03	
Other equity investments at cost (6)				\$ 42	\$ 0.54	
24.99% equity stake in Grizzly Oil Sands (7)				\$ 171	\$ 2.20	
TOTAL Other Assets				\$ 371	\$ 4.76	
Working capital ex cash				\$ (77)	\$ (0.98)	
Long-term debt				\$ (300)	\$ (3.85)	
Cash				\$ 297	\$ 3.81	
Total NAV				\$ 1,959	\$ 24.17	
Total NAV ex Utica Shale				\$ 679	\$ 7.73	
	Net acres	% Liquids	\$/acre	SMM	\$/share	
Implied Utica Shale value at current price	128,000	???	\$ 17,802	\$ 2,279	\$ 29.27	

Notes

1. Assumes latest equity raise was 12.65MM shares at \$38.00/share
2. Adjusted using SEC Standardized Measure (after-tax PV-10) at \$96 oil and \$4 gas
3. 30% of proven reserve value
4. Valued at Wexford/GPOR deal price of \$10,000/acre
5. GPOR owns 7.9MM shares of FANG
6. Equity investments in various Wexford-controlled E&P, service, and midstream companies
7. 28.5MM boe of 2P and 775MM boe of best contingent reserves. See our Grizzly valuation for more details

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HOW THIS PLAYS OUT

WATCH THE GAAP...

- We expect GPOR to continue to release impressive headline Utica well results
- We expect GPOR to continue to *guide* to Utica “development mode” well costs
- **Keep an eye on the CF statement...**
 - Over the coming quarters we expect GPOR’s CFFO (before changes in WC) to come in lower-than-expected as Utica flow rates, liquids’ cuts, and infrastructure delays surprise investors to the downside
 - Over the coming quarters we expect GPOR’s capital expenditures to come in higher-than-expected as Utica well costs, infrastructure costs, and leasehold spending surprise investors to the upside
 - We expect GPOR to have large “funding gaps” in both 2013 and 2014, and will likely need to raise additional capital in 2014



INDUSTRIALS



JAY VAN SCIVER, CFA

Co-Founder/Partner at Bishop & Carroll Capital Partners. 12 years as a financial analyst with buy-side coverage of the Industrials Sector.



LONG FDX

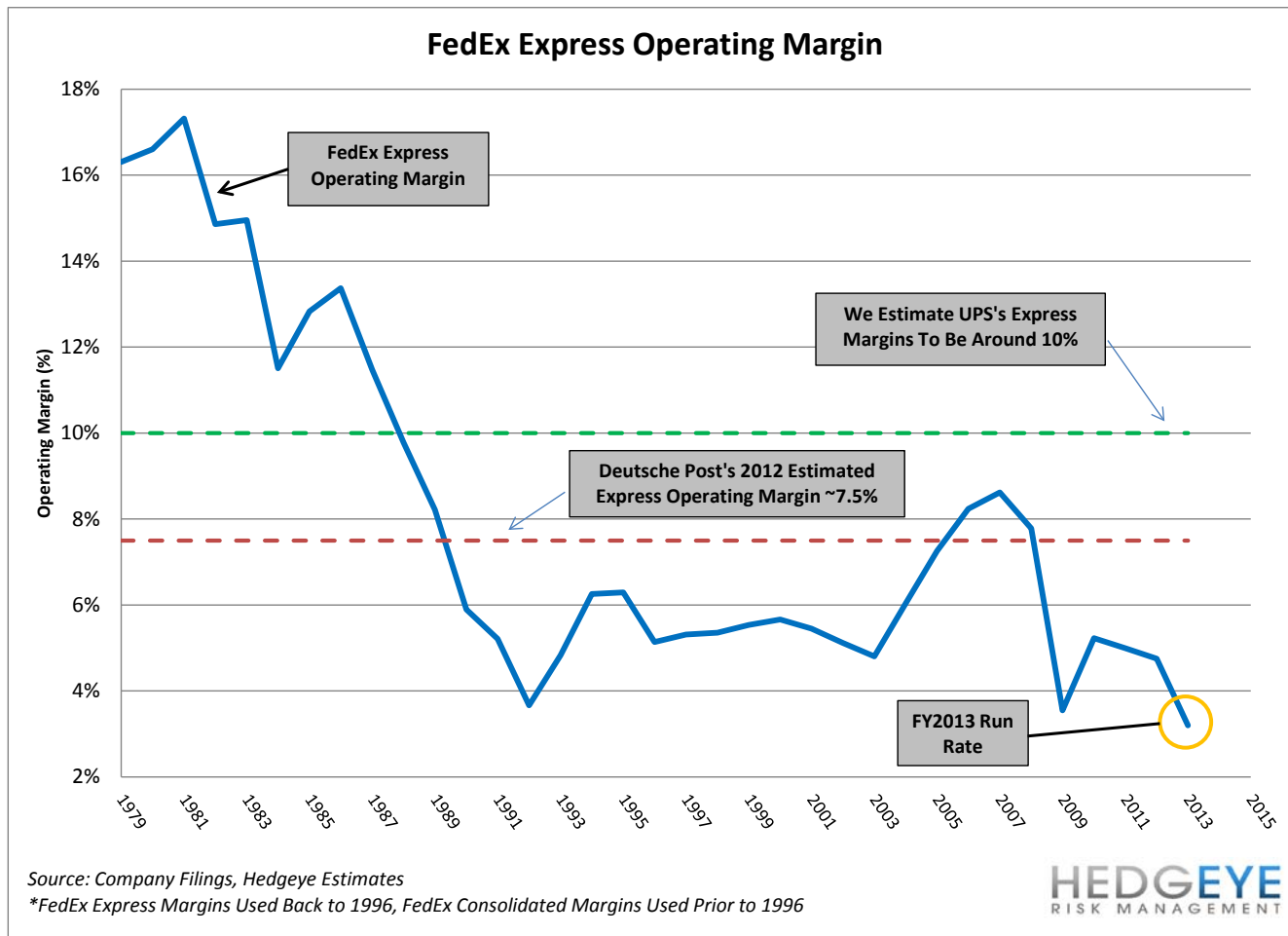
EXPRESS OPPORTUNITY, GROUND WINNING

LONG POSITION OVERVIEW

- **Focus on Express:** FedEx redirecting capital spending to improving margins in Express Segment, where \$26 billion in revenue generates little net income
- **Ground Winning:** FedEx Ground is steadily taking domestic ground market share due to its sustainable cost advantage in an e-commerce growth driven market
- **TNT Express:** The failure of the TNT transaction may present FedEx's International Express operations to better balance its network
- **Inventory Cycle:** We believe many investors are mistaking macroeconomic inventory trends for a lack of growth in express volumes
- **Valuation Opportunity:** Currently, we believe the market is ascribing little value to Express division at FedEx, even though it competes in a well-structured industry

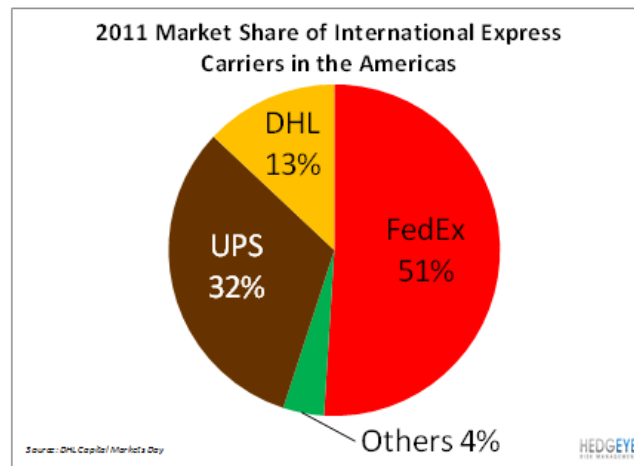
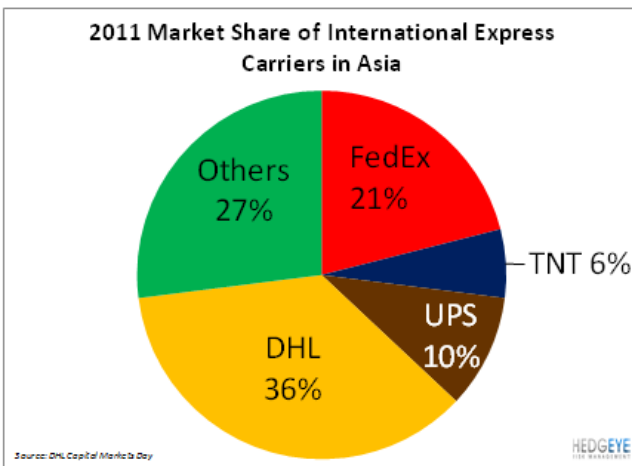
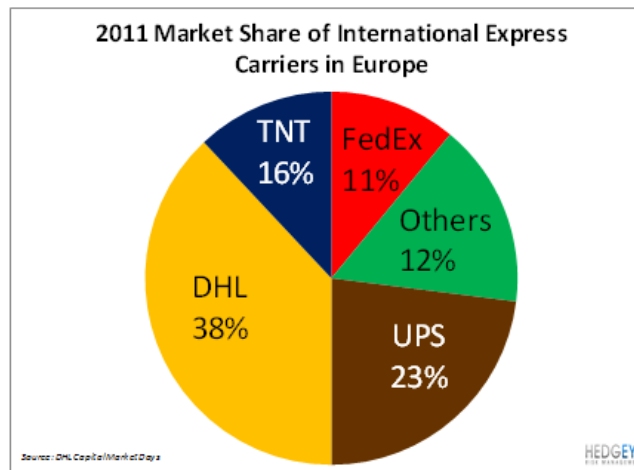
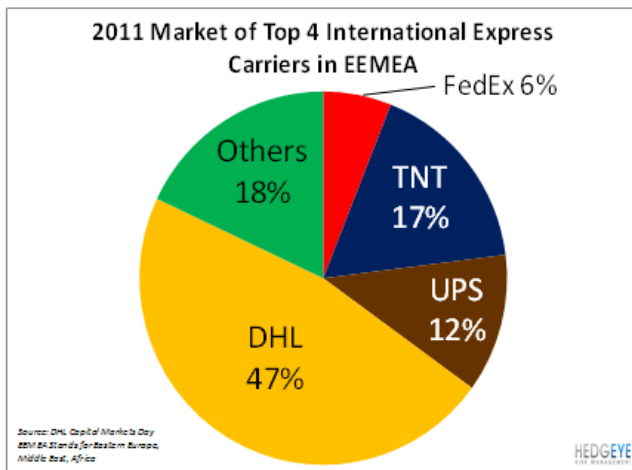
BUY TROUGH IN EXPRESS MARGINS

LACK OF COST FOCUS HAS LEFT FDX EXPRESS BEHIND PEERS



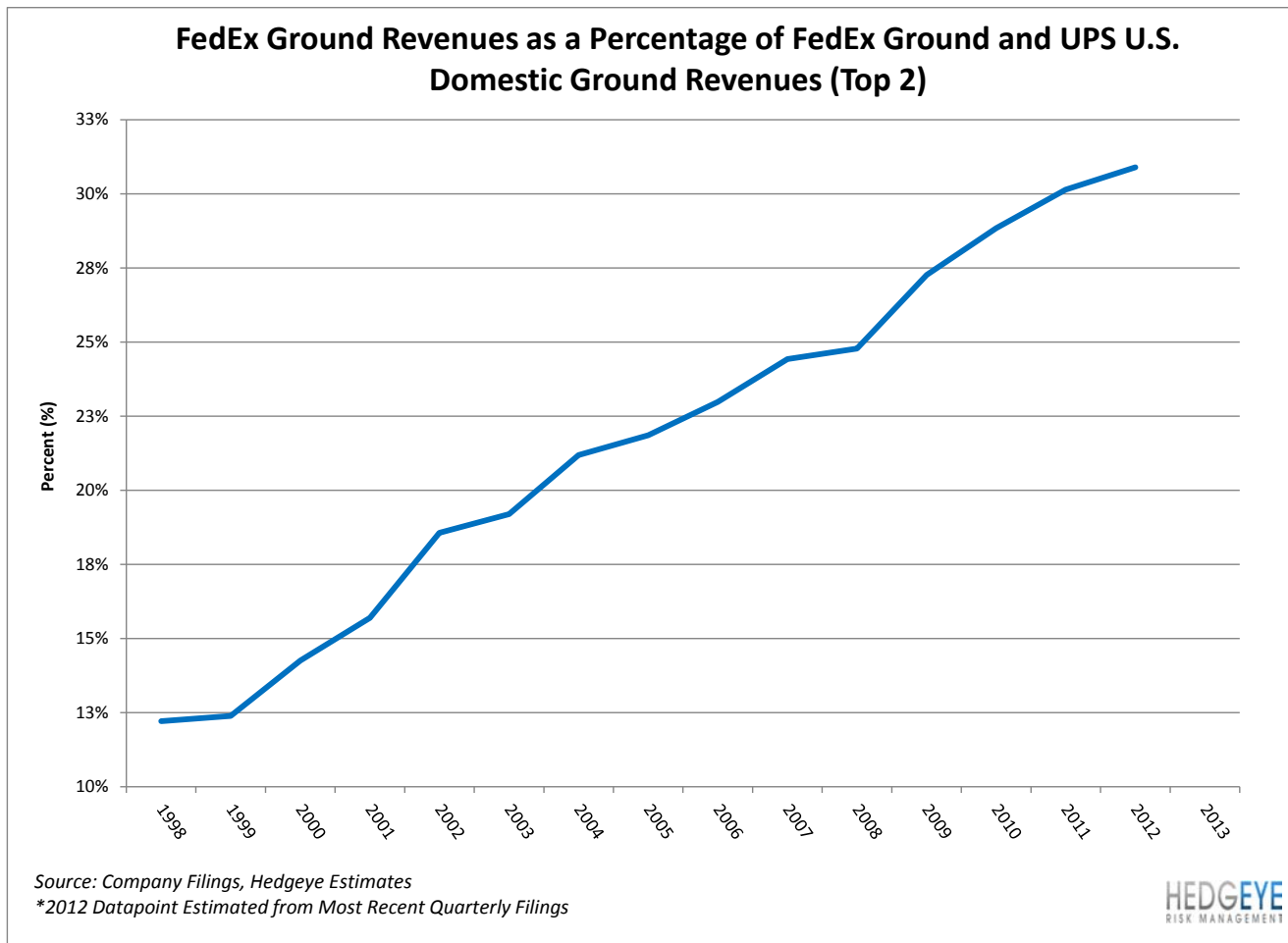
INDUSTRY STRUCTURE SOUND, IMPROVING

SOLID MARKET POSITION IN ASIA WAS EXPENSIVE



FEDEX RELENTLESS ON U.S. GROUND PACKAGE

FDX GROUND WINNING BECAUSE OF COST ADVANTAGES



SUSTAINABLE COMPETITIVE COST ADVANTAGE

LABOR COST ADVANTAGE IS SIGNIFICANT AND LABOR IS LARGEST COST

**Average Hourly Wages
For a Full-Time Driver** + **Average 2010 Benefits Per Hour
(Health & Welfare, Pension) = TOTAL**

UPS Package Driver	\$29.74	+	\$15.01	=	\$44.75
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FedEx Express Driver	\$21.54	+	\$5.33	=	\$26.87
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\$17.88 = The difference between the average hourly total wages and benefits between a UPS package car driver and FedEx Express driver

**Average Hourly Wages
For a F/T Driver** + **Average 2010 Benefits Per Hour
(Health & Welfare, Pension) = TOTAL**

UPS Feeder Driver	\$30.13	+	\$15.01	=	\$45.14
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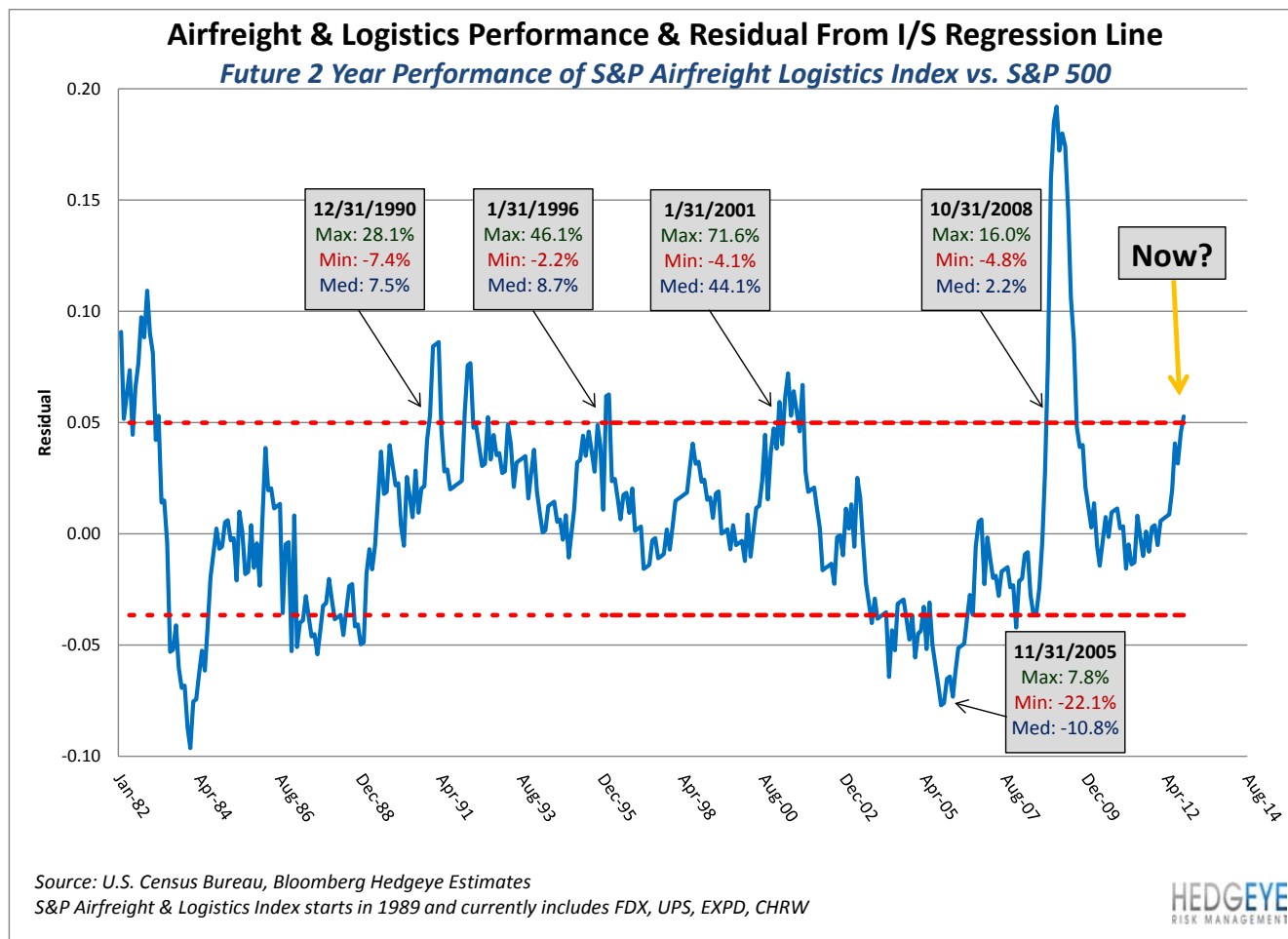
FedEx Express Feeder Driver	\$24.16	+	\$5.33	=	\$29.49
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\$15.65 = The difference between the average hourly total wages and benefits between a UPS feeder driver and FedEx Express counterpart

Source: <http://www.teamsters492.org/docs/UPS%20vs.%20FedEx.pdf>

INVENTORY HEADWIND MISUNDERSTOOD

RESIDUAL FROM THE LONG-TERM INVENTORY TO SALES REGRESSION – HIGH INVENTORIES CUT EXPRESS VOLUMES



FEDEX VALUATION & LONG POSITION SUMMARY

FDX LONG MEETS OUR INVESTMENT PROCESS

- **EV/S:** FedEx vs. UPS: One simplistic way to consider the margin improvement benefit to FDX shares is to compare EV/Sale ratios:
EV/Sale: UPS = 1.56 vs. FDX = 0.74
- **Reversed?:** When the positive competitive dynamics are considered, one might even expect that to be reversed.
- **DCF Model:** On a standalone DCF, we believe FDX shares could be revalued to \$120-\$150 range on our base case model.
- **Strategy:** We believe FDX will make steady progress in coming years on its Express cost reductions as it refocuses capital spending and management attention on Express segment margins. This should provide a catalyst for revaluation of the shares. We would swap from UPS into FDX, recognizing the valuation difference and likely US Ground market share shift.



LONG BGG



HOUSING, IDIOSYNCRATIC LONG EXPOSURE

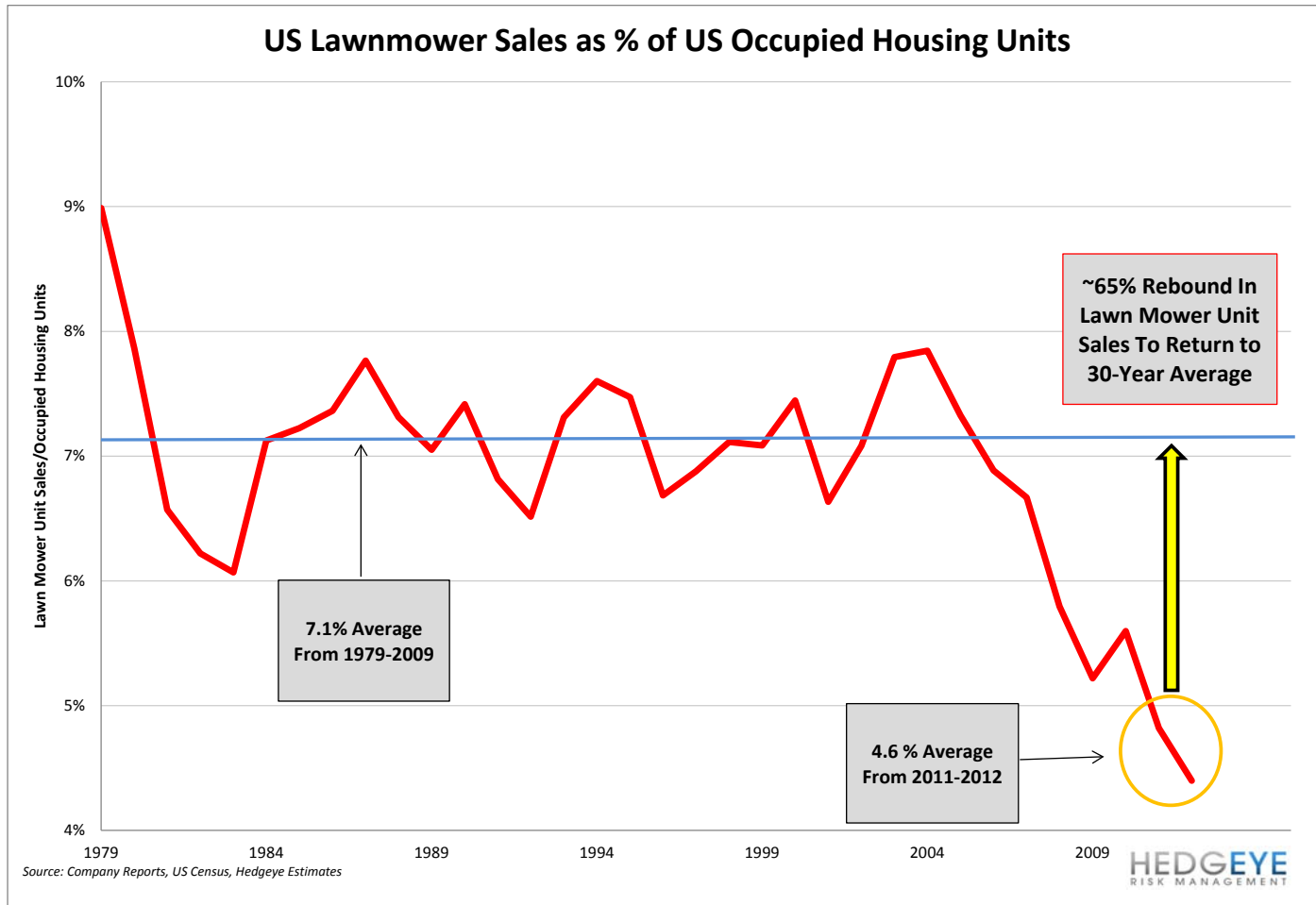
HIGH MARKET SHARE, SCALE PRODUCER OF OUTDOOR POWER EQUIPMENT (OPE) ENGINES

- **Missing Mowers:** The housing downturn and broad drought have left outdoor power equipment (OPE) sales at multi-decade lows
- **Aging Equipment:** The lack of sales of outdoor power equipment, particularly lawnmowers, have resulted in what we believe is a potential replacement cycle
- **Cost Reductions:** BGG management has already made significant progress in reducing costs and we suspect a market rebound would drive higher volumes over a leaner manufacturing base
- **Favorable Industry Position:** Briggs & Stratton currently has about 70% share in engines for the top 4 OPE markets (Ride Lawnmowers, Walk Lawnmowers, Portable Generators, Power Washers) and has had a dominant market share (>60%) for decades
- **Significant Valuation Upside:** Our valuation range of \$35-\$55 suggests meaningful upside, especially relative to other opportunities in the Industrials sector



HOUSING & DROUGHT DEMOLISH MOWER SALES

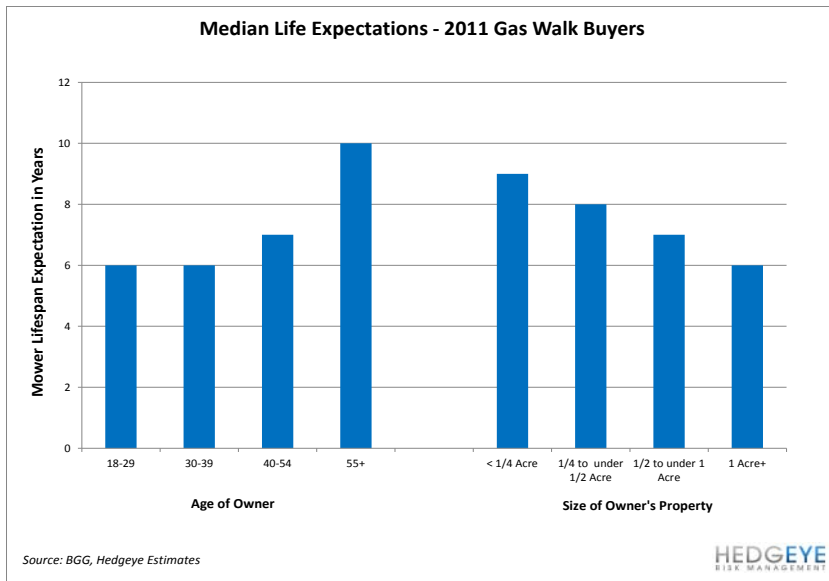
LAWNMOWER SALES HAVE HUGE REBOUND POTENTIAL JUST TO HIT HISTORICAL AVERAGES, LET ALONE A REPLACEMENT CYCLE





LAWNMOWERS MATTER AND THEY ARE OLD

LAWNMOWER ENGINES ARE THE LARGEST OUTDOOR POWER EQUIPMENT END-MARKET, WITH A ROUGH 9 YEAR AVERAGE LIFE

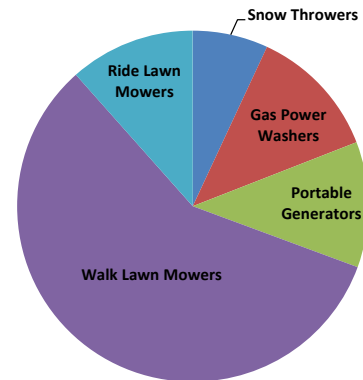


~9 years ago, lawnmower sales were peaking

Power Washer and Snow Thrower sales have been weak, too



Estimated U.S. Lawn & Garden Engine Units By Market
(2013E, Markets Relevant to BGG)



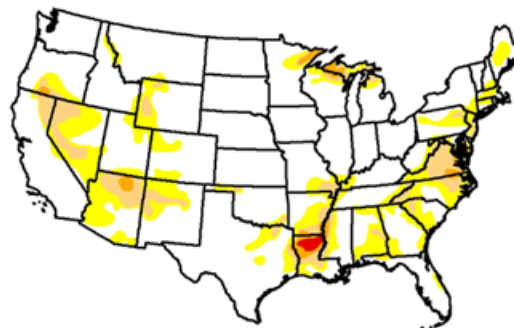
Source: Company Filings, Company Reports, Hedgeye Estimates

HEDGEYE RISK MANAGEMENT

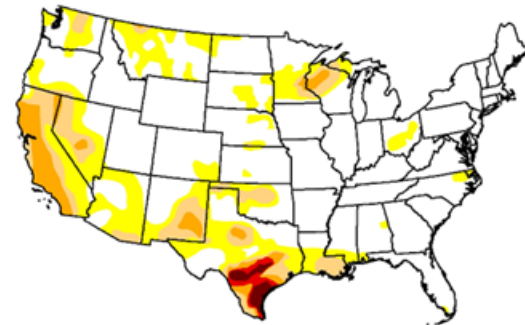


SALES DRIVEN BY REPLACEMENT

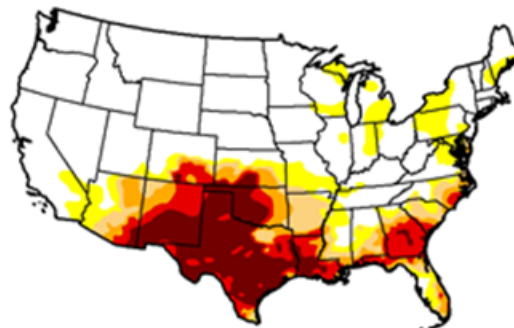
IF THE GRASS DOESN'T GROW, THEN NO ONE STARTS THEIR LAWNMOWER



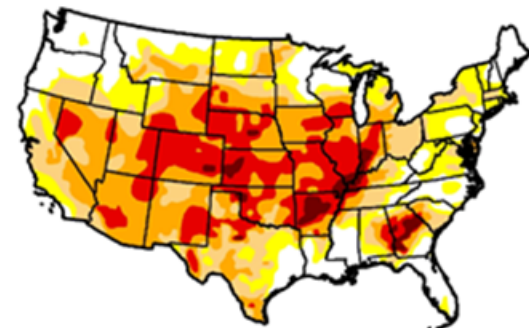
2010



2009



2011



2012

Yellow D0 - Abnormally Dry
Orange D1 Drought - Moderate

Red D2 Drought - Severe
Dark Red D3 Drought - Extreme

Dark Red D4 Drought - Exceptional

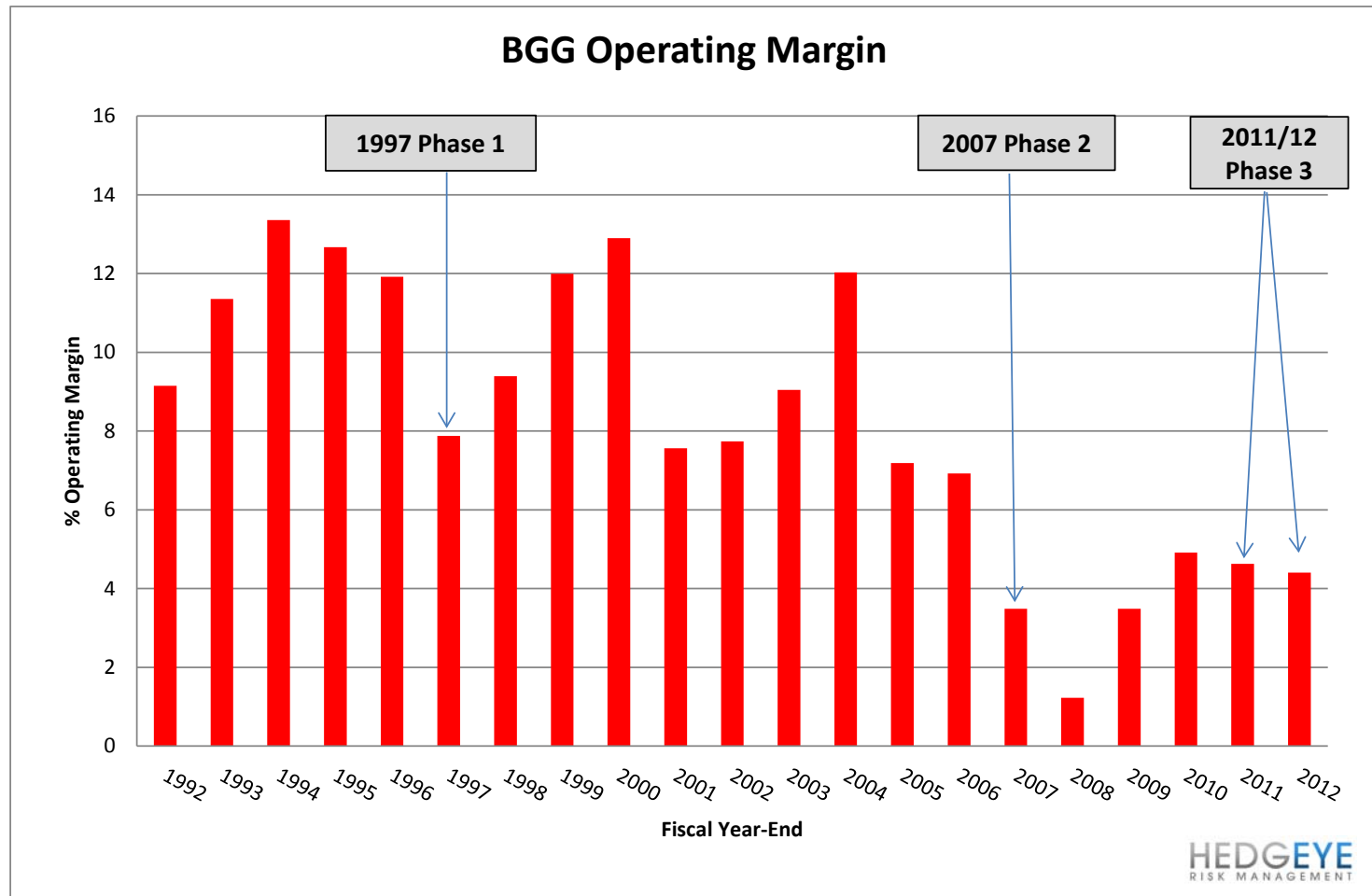
Source: <http://droughtmonitor.unl.edu/archive.html>.

Note: Maps are for near the end of July in each year, typically near the seasonal end for lawn equipment orders.



BGG HAD BETTER MARGINS THAN CMI

WEAK MARKET CONDITIONS AND PHASE 2 AND 3 EMISSION STANDARDS HAVE DEPRESSED BGG'S MARGINS





COST CUTS, VALUATION & STRATEGY

LARGE POTENTIAL UPSIDE FROM COST REDUCTIONS AND MARKET REBOUND

- **Cost Cuts:** Briggs & Stratton has been rationalizing production, reducing capacity, exiting low margin markets, increasing factory automation and curtailing certain post-retirement benefits. The benefits of these restructuring actions are already visible in results over the past two quarters.

Benefits of Restructuring Just Hitting P&L		
	FY 1Q 2013	FY 2Q 2013
Engines Segment Restructuring Gross Margin Benefit YoY	1.7%	4.2%
Products Segment Restructuring Gross Margin Benefit YoY	2.4%	2.2%

Source: Company Filings, Note: Calculation Excludes Charges

- **Valuation:** Our base discounted cash flow valuation range is \$35-\$55, with much of the variation resulting from end-market rebound assumptions.
- **Strategy:** Briggs & Stratton appears to offer the most upside in the OPE industry. BGG has an enviable market position and perhaps one that allowed for less operational focus in the more “normal” market of the 1990s and early 2000s. With renewed operational focus and an improving market, it is positioned to be a top industrial performer, in our view.. In addition to BGG, would look to potentially diversify our long exposure with other OPE names, such as Husqvarna.



DARIUS DALE

Senior Analyst covering Asia and Latin America on the Macro Team. Yale BA.

Morgan Stanley

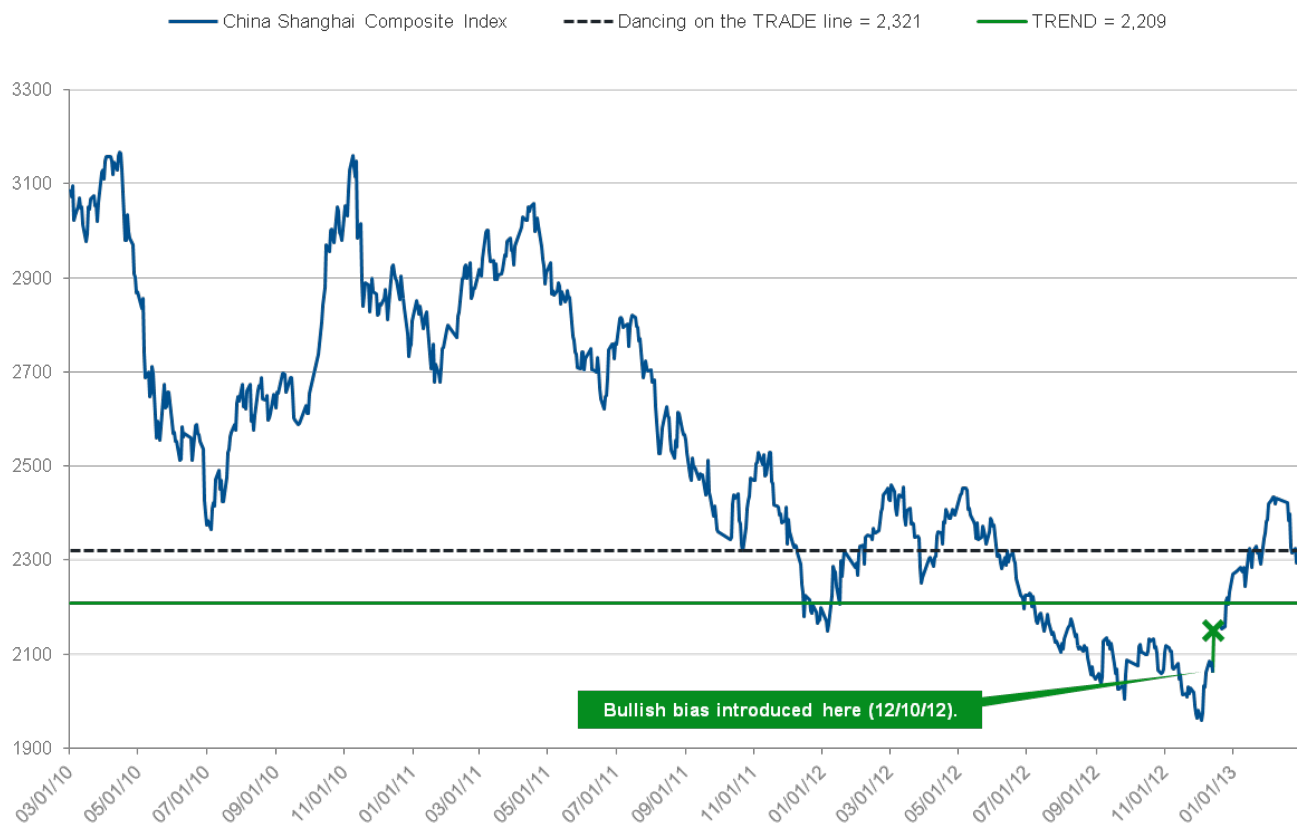
CAF

LONG CAF

QUANT SIGNALS: CHECK

CRAWLING OUT OF A 3YR HOLE, CHINA'S STOCK MARKET IS NOW BULLISH FROM AN INTERMEDIATE-TERM TREND AND LONG-TERM TAIL PERSPECTIVE.

HEDGEYE QUANTITATIVE SETUP: CHINESE EQUITIES

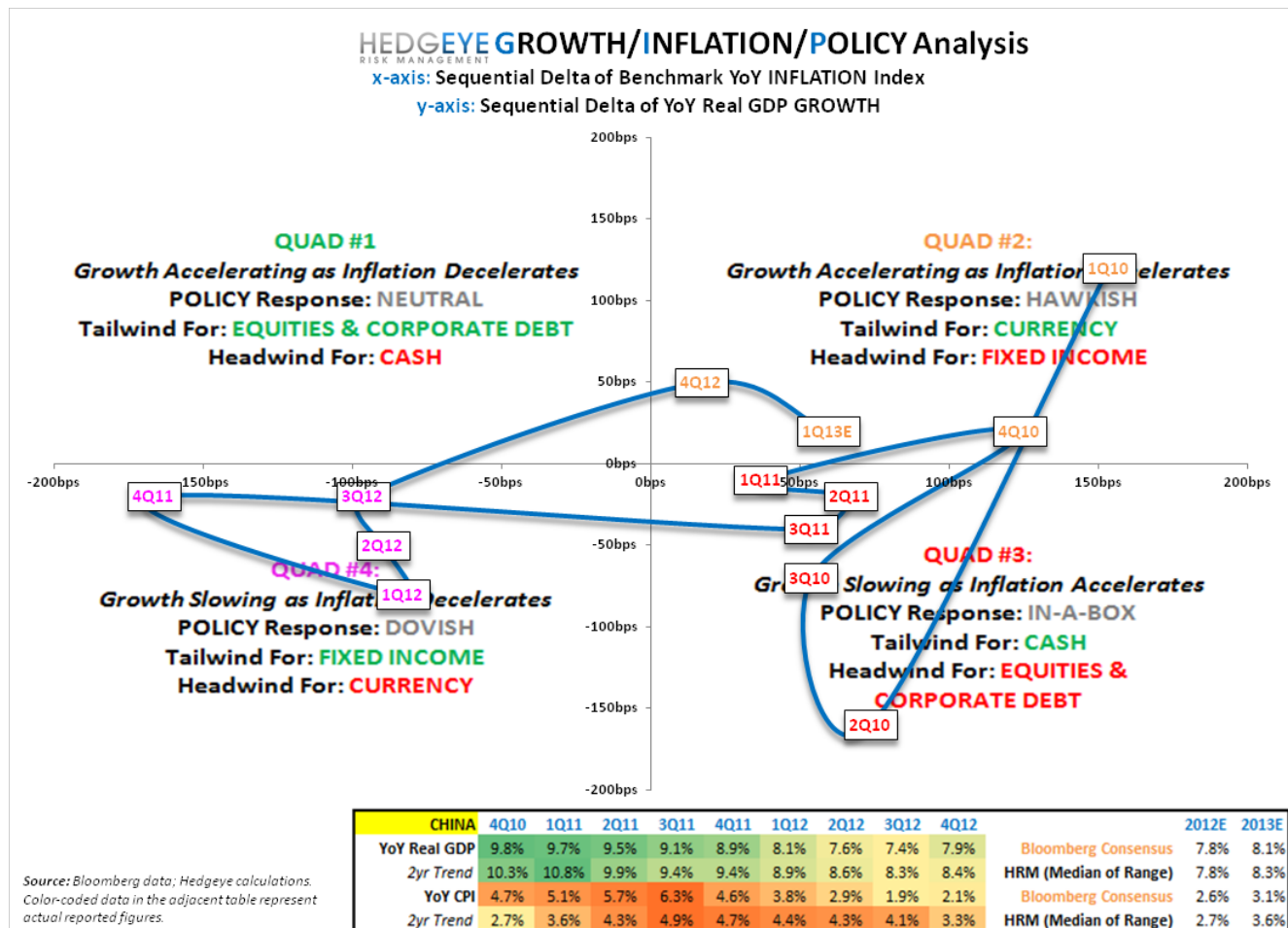


DATA SOURCE: BLOOMBERG

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FUNDAMENTAL SIGNALS: CHECK

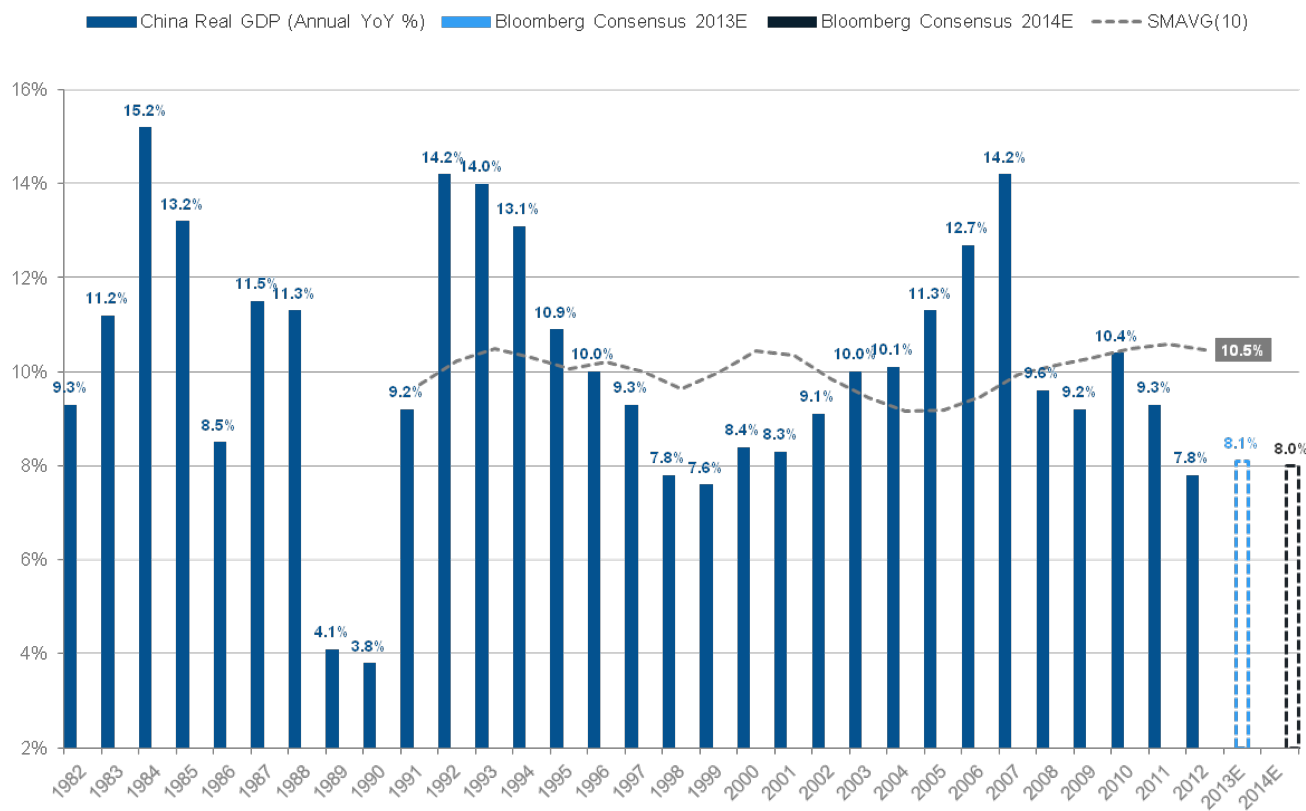
THAT 'HOLE' WAS PERPETUATED BY A STRUCTURAL DOWNSHIFT IN CHINESE GROWTH THAT LASTED FOR 3YRS... GROWTH SLOWED *SEQUENTIALLY* FOR 9 OF THE PAST 12 QUARTERS!



SENTIMENT: CHECK

NOW CONSENSUS IS *FINALLY* IN LINE WITH OUR STRUCTURAL EXPECTATIONS OF +7-8% GROWTH PER ANNUM FOR THE FORESEEABLE FUTURE.

THE NEW CHINA



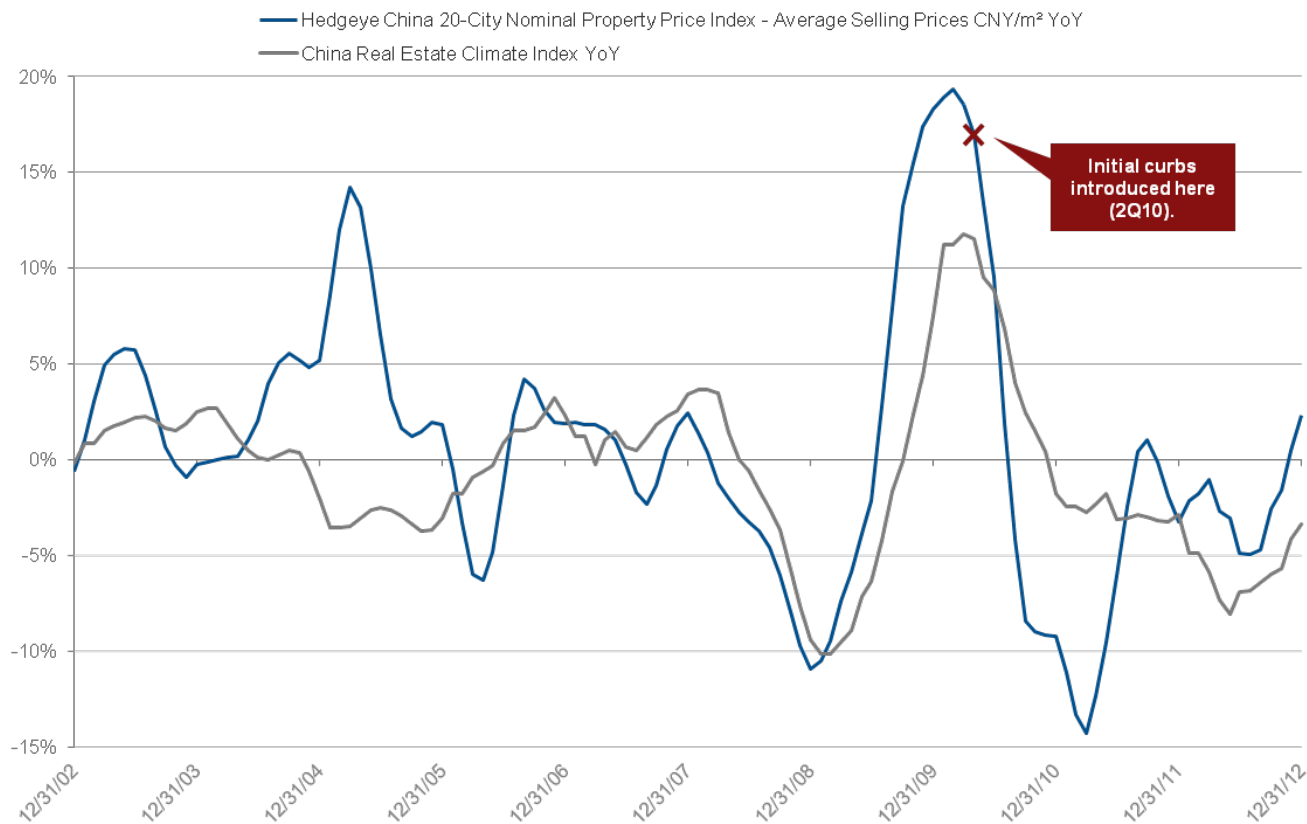
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KEY CONCERN

ANOTHER ROUND OF TIGHTENING IN THE PROPERTY MARKET STANDS TO REVERBERATE ACROSS THE CHINESE ECONOMY... AGGRESSIVE MEASURES ARE AN UNLIKELY EVENT IN THE NEAR-TERM, HOWEVER.

TOO SOON TO TIGHTEN AGGRESSIVELY?



DATA SOURCE: BLOOMBERG

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POLICY ROADMAP

12TH NATIONAL PEOPLE'S CONGRESS

First plenary session: March 5, 2013

The seven new Politburo Standing Committee members will be "elected" to their official roles in the Chinese state government.

All eyes will be focused on the transition of power from outgoing President Hu Jintao to new PSC #1 Xi Jinping and from outgoing Premier Wen Jiabao to new PSC #2 Li Keqiang.

POTENTIAL POLITICAL REFORMS

Hukou/urbanization reform

Land ownership and property registration reform

Increased intra-party democracy

Public disclosure of officials' wealth and assets

Increased foreign policy aggression and assertion of territorial dominance (Japan)

POTENTIAL ECONOMIC REFORMS

Interest rate liberalization

Capital account liberalization

Expanding the existing VAT trial to new industries and regions

Personal income tax reform (redistribution)

Social security expenditure reform

Energy tariff reform

Reduced reliance on SOEs in favor of SMEs

MEET CHINA'S NEW LEADERSHIP



Future President Xi Jinping (left) and Future Premier Li Keqiang (right)

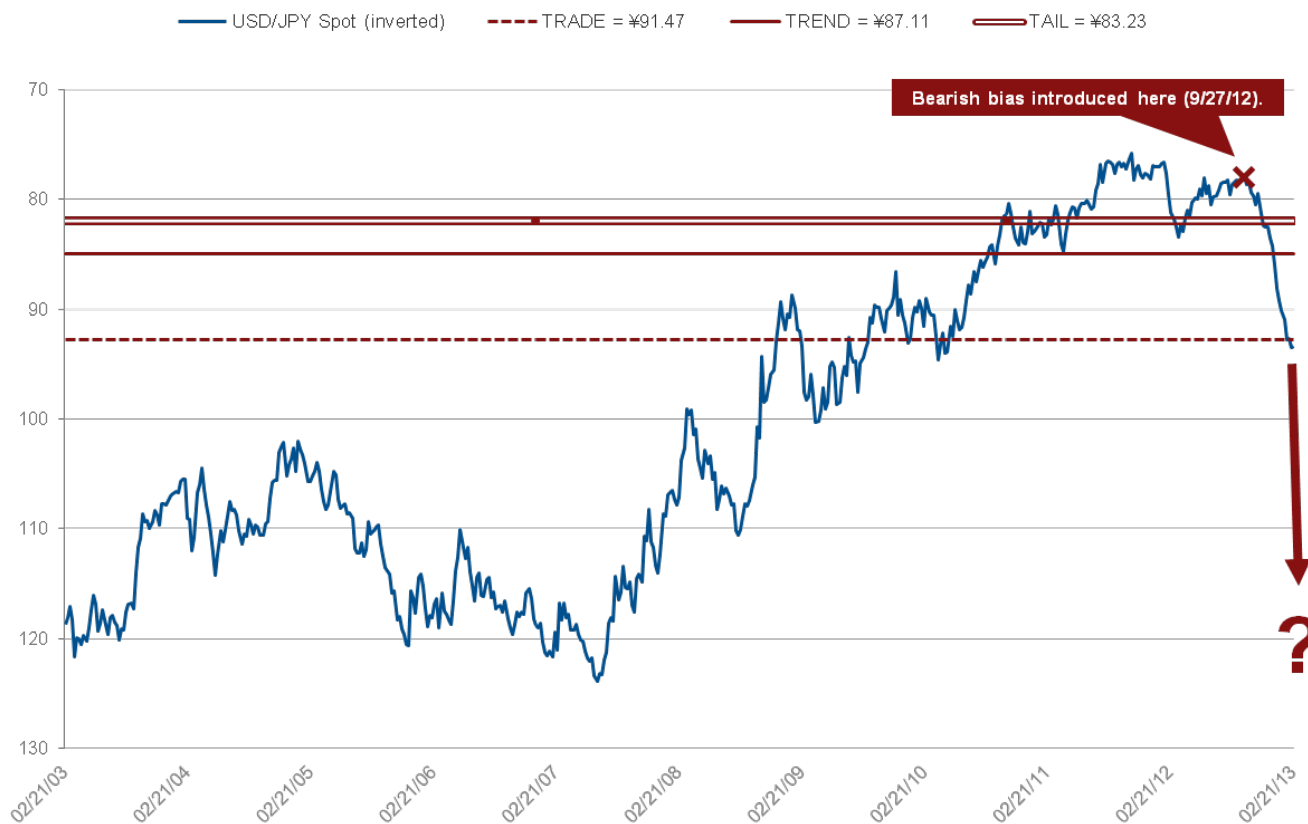


SHORT FXYS

QUANT SIGNALS: CHECK

IS THE JPY POISED TO RETURN TO ¥100+ PER USD? WE OBVIOUSLY THINK SO.

HEDGEYE QUANTITATIVE SETUP: JAPANESE YEN



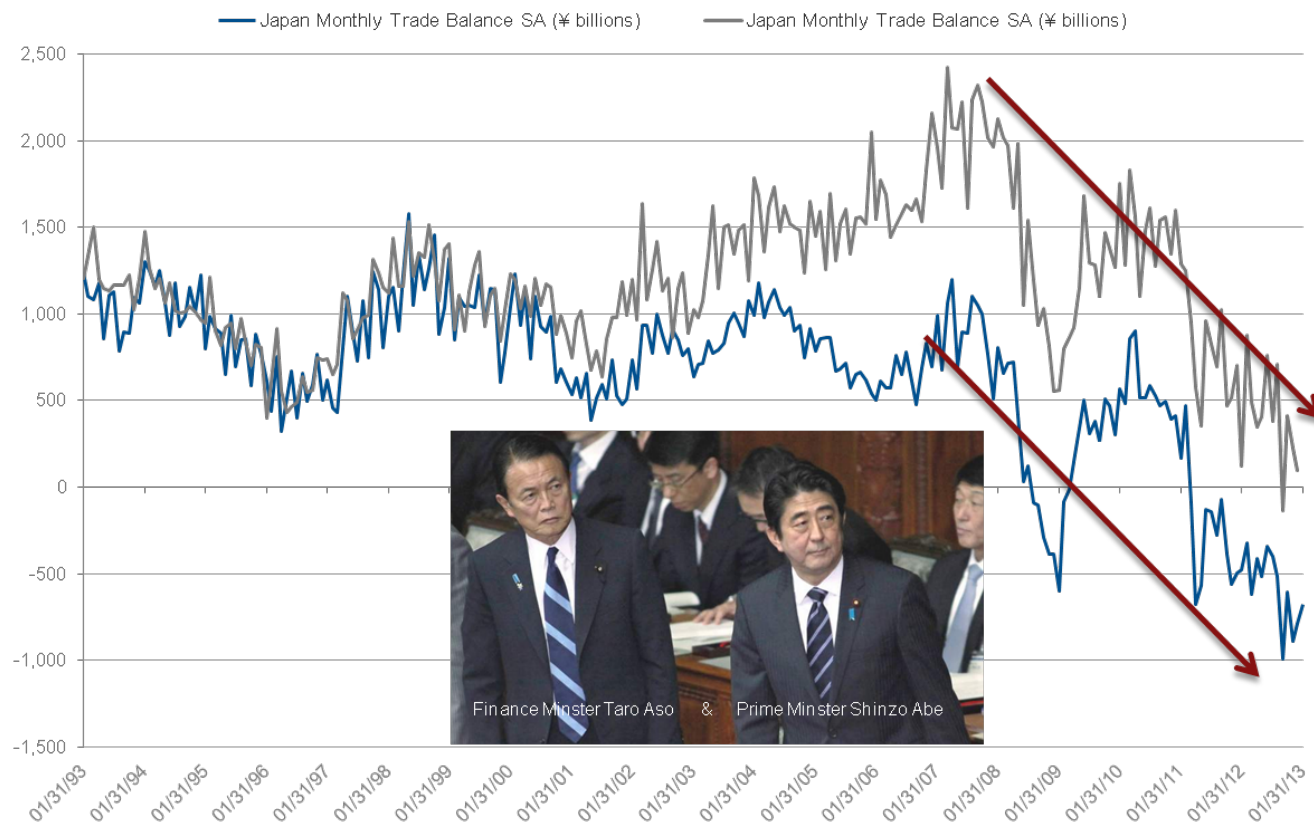
DATA SOURCE: BLOOMBERG

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FUNDAMENTAL SIGNALS: CHECK

THE YEN'S +55% SURGE IN THE FIVE YEARS TO ITS POST-WAR CLOSING HIGH OF ¥75.82 HAS OBLITERATED JAPAN'S TRADE COMPETITIVENESS. THE NEW CABINET OFFICE LEADERSHIP WANTS TO REVERSE THAT.

OUCH.



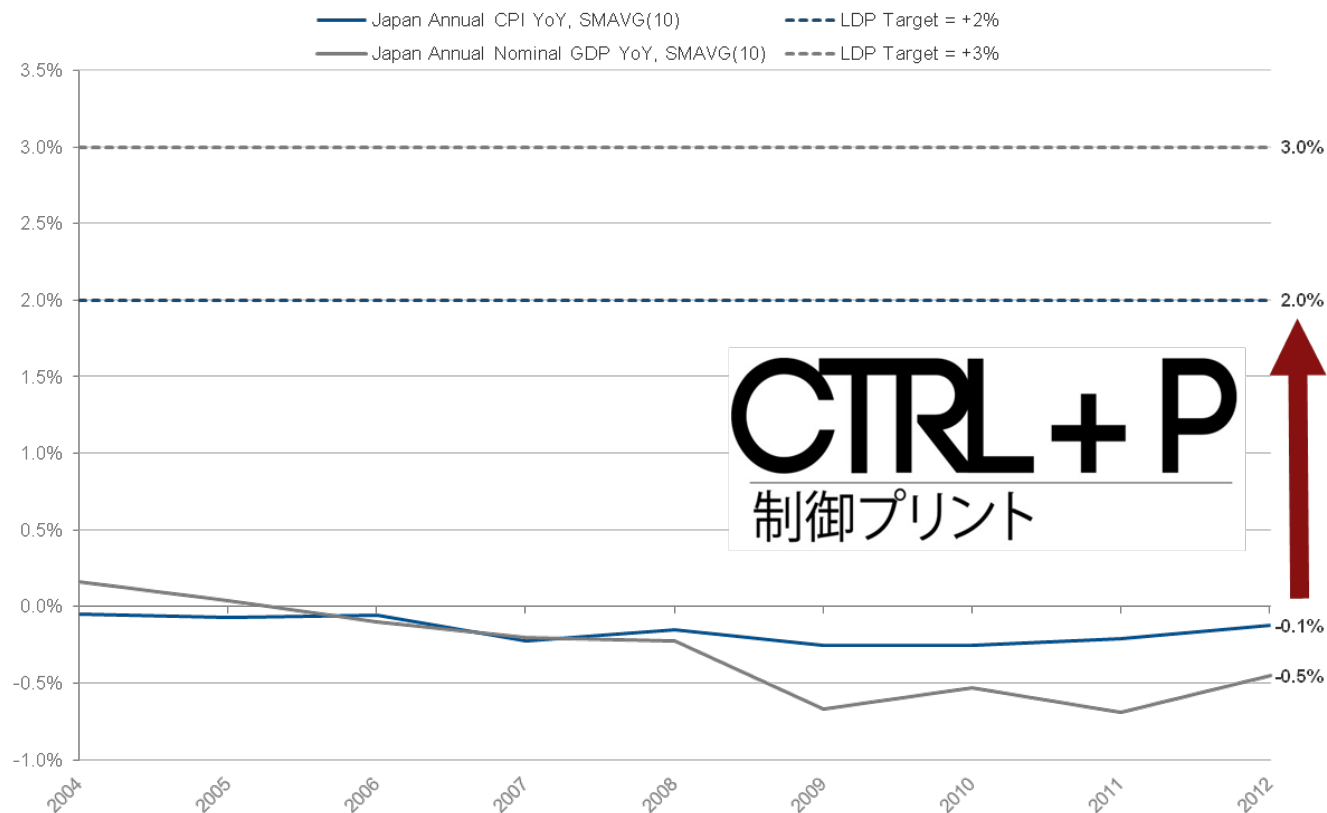
DATA SOURCE: BLOOMBERG

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"DISCOUNT DOUBLE-CHECK"

PREPARE THE ANCHOR FOR MORE *POLICIES TO INFLATE!*

FIRE UP THE PRINTING PRESSES!



DATA SOURCE: BLOOMBERG

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CURRENCY WAR: IT'S JAPAN'S TURN

BY BEING LESS WILLING TO PRINT ON A RELATIVE BASIS, THE BOJ HAS CAUSED JAPAN TO BE THE BIGGEST LOSER IN THE G3 CURRENCY WAR TO-DATE.

While on the Surface the BOJ Appears Aggressive,
Abe Is Quite Correct In His Claim That the BOJ Hasn't Done Nearly Enough To Overcome Deflation

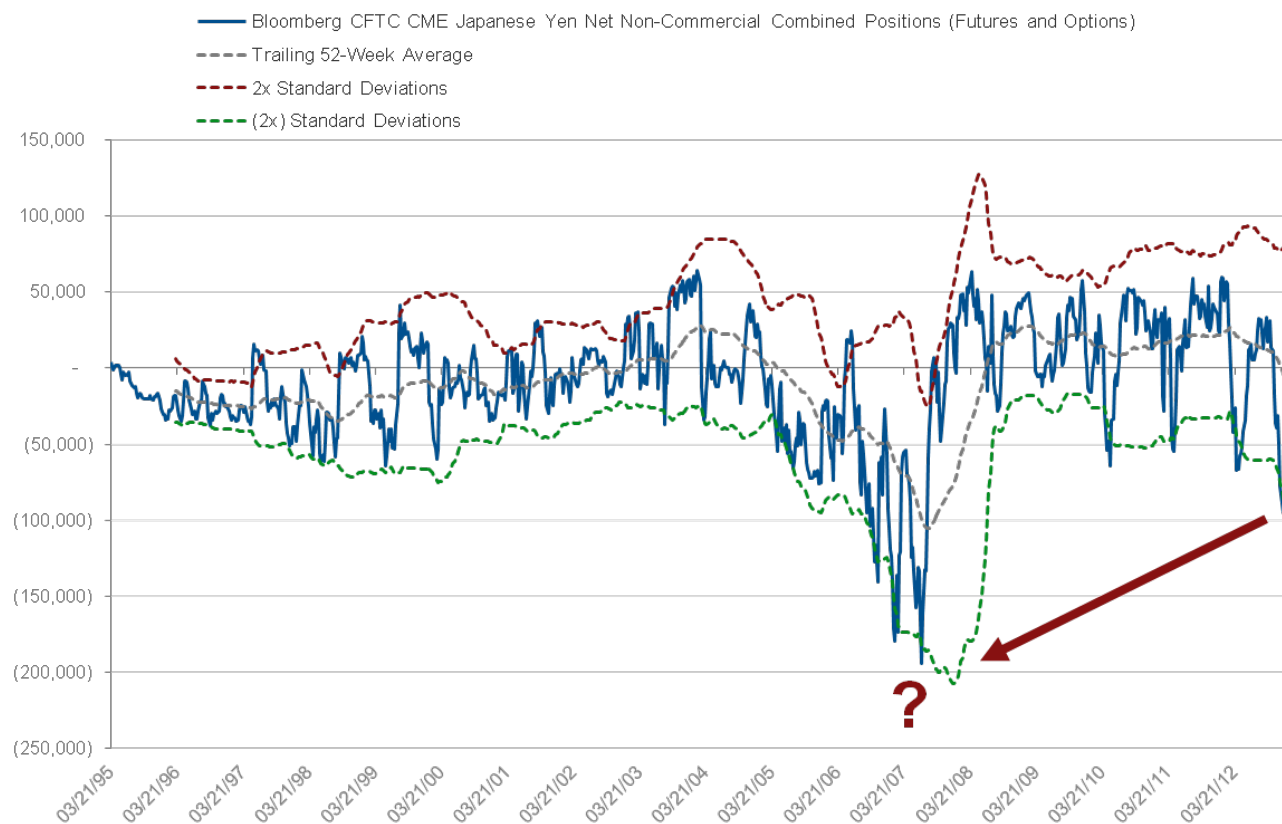
Central Bank	Nominal Balance Sheet, Total				Nominal Monetary Base				5yr Trade-Weighted			
	Balance Sheet/GDP (5yrs ago, %)	Balance Sheet/GDP (latest, %)	Delta	Assets (5yrs ago, trillions)	Nominal Balance Sheet, Total Assets (latest, trillions)	Delta (trillions)	CAGR	Nominal Monetary Base (5yrs ago, trillions)	Nominal Monetary Base (latest, trillions)	Delta (trillions)	CAGR	Currency Return
BOJ	22.1%	34.1%	1200bps	¥114.2	¥160.6	¥46.3	7.0%	¥88.0	¥131.9	¥43.9	8.4%	16.5%
Fed	6.2%	19.6%	1336bps	\$ 0.9	\$ 3.1	\$ 2.2	27.5%	\$ 0.8	\$ 2.8	\$ 2.0	28.2%	-35.4%
ECB	15.1%	28.9%	1379bps	€ 1.3	€ 2.7	€ 1.4	15.5%	€ 0.9	€ 1.6	€ 0.8	13.8%	-21.4%
BOJ vs. Fed, ECB Average			-157bps	BOJ vs. Fed, ECB Average			-1444bps	BOJ vs. Fed, ECB Average			-1255bps	4493bps

Source: Bloomberg data; Hedgeye calculations.

BUY-SIDE SENTIMENT

THE NET-SHORT POSITION COULD MORE THAN DOUBLE FROM THE CURRENT LEVEL AND STILL BE WITHIN THE HISTORICAL RANGE.

NOT BEARISH ENOUGH



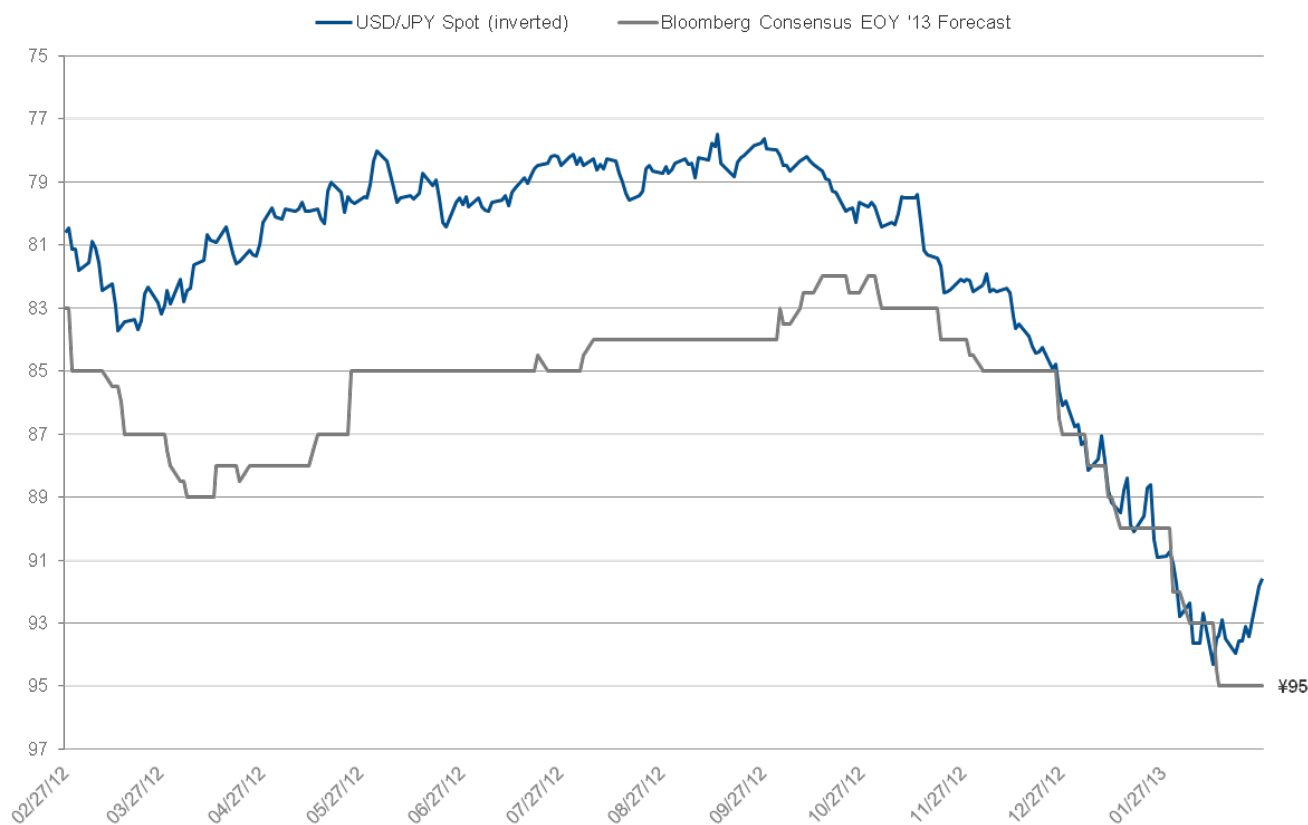
DATA SOURCE: BLOOMBERG

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SELL-SIDE SENTIMENT

AFTER YEARS OF INEFFECTIVE POLICY, THE BIG BANKS AND JAPANESE CORPORATIONS (BY EXTENSION) AREN'T YET CONVINCED THE YEN IS HEADED A LOT LOWER FROM HERE.

NOT BEARISH ENOUGH



DATA SOURCE: BLOOMBERG

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POLICY ROADMAP

A SUMMARY OF KEY CATALYSTS:

- **MONETARY:** An de facto erosion of BOJ independence, with the BOJ governorship and two deputy governorships eventually assumed by politicized puppets (late-MAR);
- **MONETARY:** Ultra-aggressive monetary policy to counter consensus speculation that the +2% inflation target won't be met (next few quarters);
- **FISCAL:** The LDP will likely win a slight majority in the Upper House, paving the way for a full-fledged assault on Japan's public finances and central bank independence (late-JUL); and
- **FISCAL:** A likely VAT hike delay (discussions to flare up in late 2013).

H. Kuroda in; M. Shirakawa out?

Members of the Policy Board



Governor
Masaaki Shirakawa
Exits MAR 19, 2013



Deputy Governor
Hirohide Yamaguchi
Exits MAR 19, 2013



Deputy Governor
Kiyohiko G. Nishimura
Exits MAR 19, 2013

= ?



Member of the Policy Board
Ryuzo Miyao



Member of the Policy Board
Yoshihisa Morimoto



Member of the Policy Board
Sayuri Shirai



Member of the Policy Board
Koji Ishida



Member of the Policy Board
Takehiro Sato



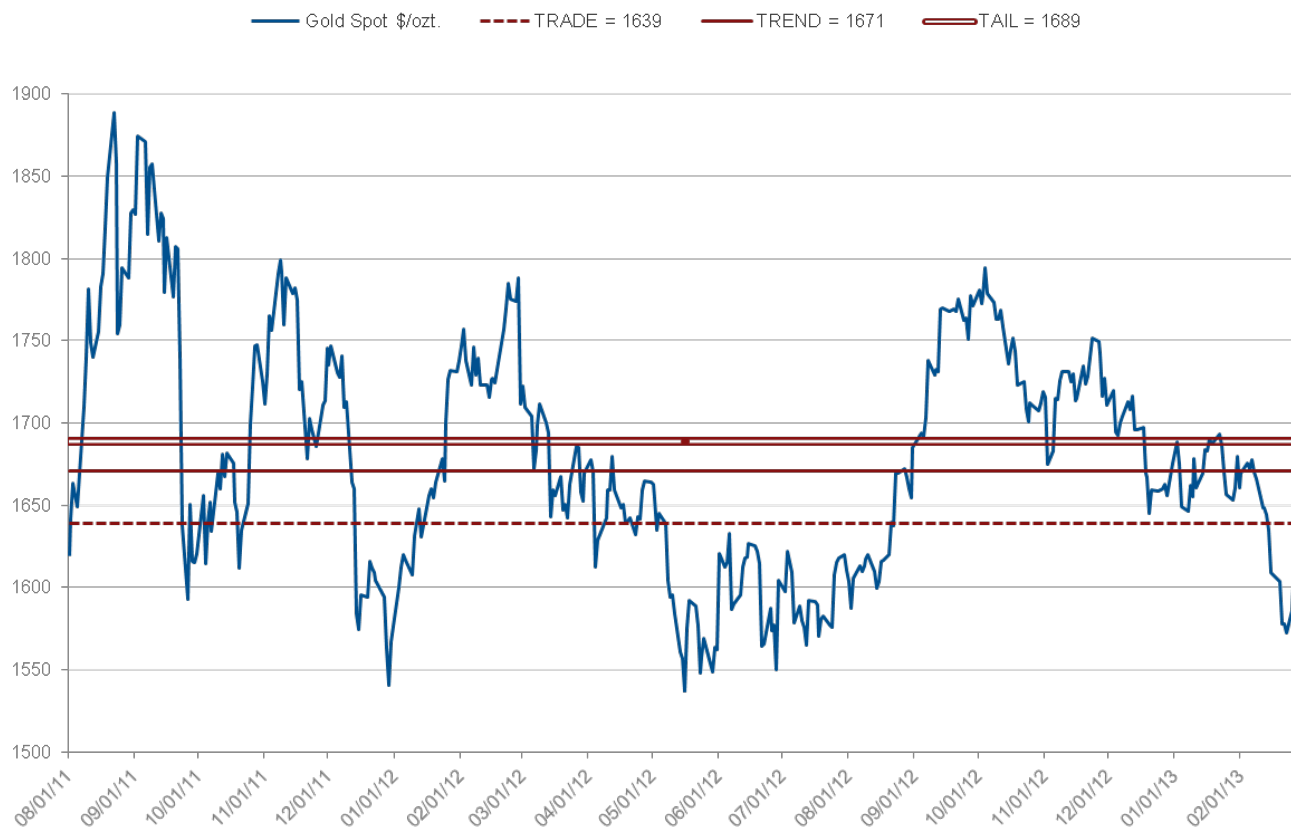
Member of the Policy Board
Takahide Kiuchi

Source: Bank of Japan; Hedgeye illustrations.

WEAK YEN ANYWAY?

A FEDERAL RESERVE BOARD SUBDUED BY DOMESTIC LABOR AND HOUSING MARKET IMPROVEMENT + TIGHTER DOMESTIC FISCAL POLICY = AN OUTLOOK FOR CONTINUED USD STRENGTH.

WE'VE BEEN RIGHT ON GOLD FOR THESE VERY SAME REASONS



DATA SOURCE: BLOOMBERG

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THANK YOU

For more information and a complete listing of research please
visit: www.hedgeye.com
or email: sales@hedgeye.com

This presentation was prepared by:
[The HEDGEYE Research Team](#)

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