



Global Markets Weekly

Greek contagion spread rapidly early in the week, but stabilised later on hopes for a bigger rescue package.

Greece's problems, which were having little impact on other euro-zone bond and equity markets early in April, spread rapidly over the past week as S&P downgraded Greek bonds to 'junk' status on Tuesday. Portuguese 10-year yields rose by almost 100 bp and there was substantial volatility in equities across the euro-zone, especially in the banking sector. Greek two-year bond yields reached 18% at one point, effectively pricing in a default/restructuring, though they fell back to 'only' 12% by Friday's close. In the US, the S&P 500 fell more than 2% on Tuesday, back below the 1200 mark, though it recovered later in the week. Over the weekend, the IMF and EU announced a €110 bn package of assistance to Greece, larger than originally envisaged, in return for further substantial austerity measures. The ECB also announced it would accept Greek government bonds as collateral regardless of their credit rating. However, the aid package still needs to be agreed by some euro-zone members' national parliaments and there is strong public opposition in Greece to the extra austerity measures.

The pressure is on for other highly indebted governments not to be like Greece.

The Greek experience is likely to prompt faster fiscal consolidation in other countries with large deficits, including the UK. Last week, two well-respected research institutions, the IFS and NIESR, warned about the scale of the UK adjustment needed. The IFS said that the main political parties' plans only covered at most a quarter of the cuts needed, and that tax increases and welfare cuts would likely play a larger role than had previously been suggested.

Encouraging data was eclipsed by surging bond yields in the euro-zone's periphery.

Economic data over the week was encouraging, but took second place to surging euro-zone bond yields. The Conference Board's measure of US consumer confidence jumped by nearly six points in April, to 57.9, the highest since September '08, bringing it closer in line with more-robust consumer spending data (watch what they do, not what they say). The first estimate of first-quarter US GDP growth, at a 3.2% annualised pace, showed that recovery remains on track, and is better than the weak recovery that had been expected up until a few months ago. Gains of 3.6% in consumption and 13.4% in business investment supported hopes for a self-sustaining recovery, though inventory re-building also made a substantial contribution.

UK private-sector hiring intentions improve, in contrast with the public sector.

The latest UK quarterly Labour Market Outlook by the Chartered Institute of Personnel and Development (CIPD) showed the balance between employers expecting to recruit and those expecting to cut staff is now positive for the first time in six quarters. However, this is due to a sharp rebound in private sector employment intentions. In contrast, the public sector net balance was the most negative since the survey began in 2004. Separately, the Nationwide's house-price index rose 1% month-on-month, for an annual gain of over 10%.

The Fed and BoJ pledge continued support for economic recovery.

Finally, both the US Federal Reserve (Fed) and Bank of Japan (BoJ) kept their respective policy rates at all-time lows, with the Fed repeating its pledge to keep interest rates 'exceptionally low' for an 'extended period.' The BoJ said that it wanted 'to make new efforts' to strengthen Japan's recovery. It was not clear what measures would be used, but they could involve a more direct effort to get banks to lend more, especially to small- and medium-sized businesses. They may also involve a resumption of government bond purchases with newly created money (i.e. quantitative easing). Japanese consumer confidence climbed to its highest levels in more than two years in March and retail sales were strong, but deflation remains entrenched.

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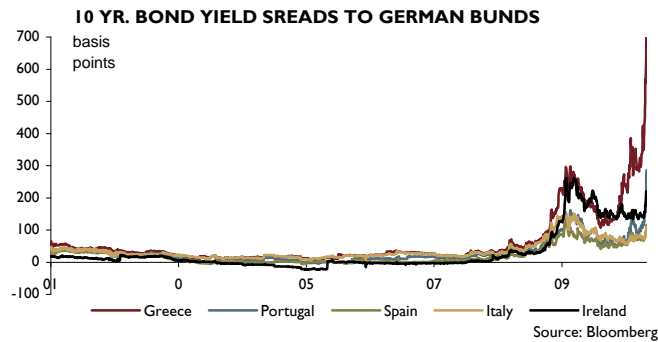
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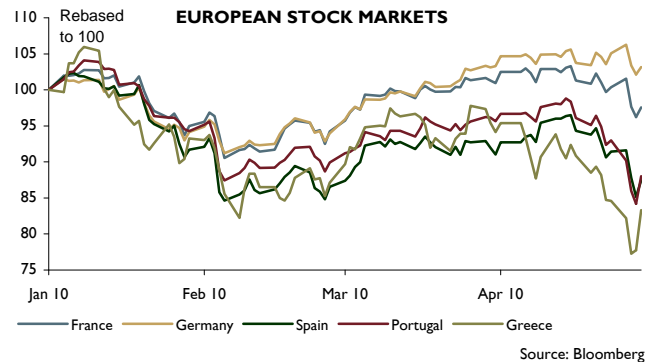
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Charts of the Week

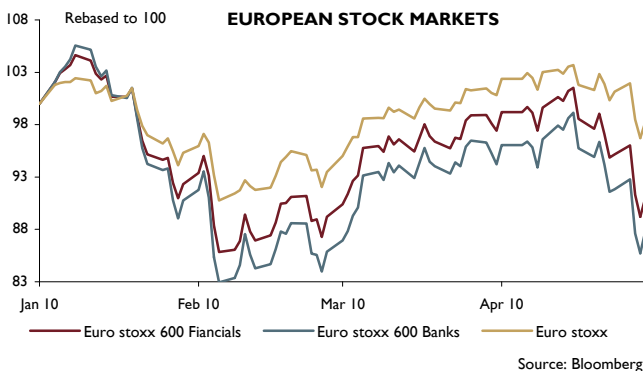
Dramatic widening in Greek bond yield spreads leads to contagion



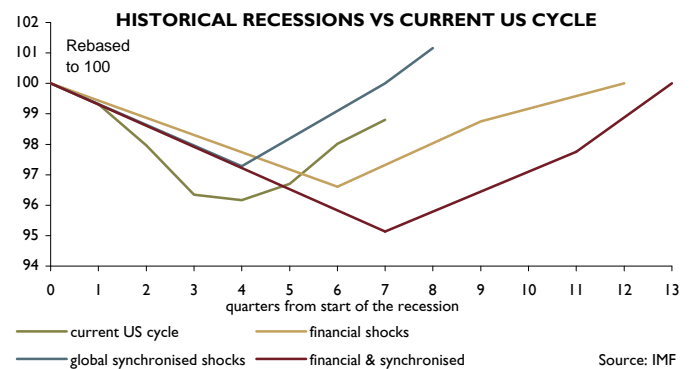
Divergence in equity performance between euro-zone core and periphery



European banks underperform the wider market on Greek contagion



US recovers from financial recession more quickly than expected



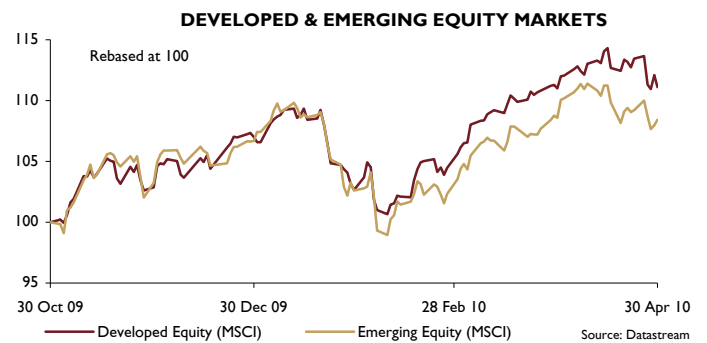
Market Performance

Equity Markets As of: 30-Apr-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	868	-2.1	0.1	8.2	4.2	22.8
FTSE All Share	2,863	-2.8	-1.6	7.6	3.7	25.0
FTSE 100	5,553	-3.0	-2.2	7.0	2.6	22.1
S&P 500	1,187	-2.5	1.5	10.5	6.4	23.5
Nasdaq Composite	2,461	-2.7	2.6	14.6	8.5	43.9
DJ EuroStoxx	269	-3.1	-2.8	2.9	-2.0	23.4
Nikkei 225	11,057	1.3	-0.3	8.4	4.8	19.0
Hang Seng	21,109	-0.6	-0.6	4.9	-3.5	52.0
Emerging Equity (MSCI)	43,538	-0.7	-0.1	5.7	0.9	58.6
BRIC (MSCI)	529	-1.4	-1.8	4.5	-1.0	68.0

Source: Datastream

10-Year Bond Yields As of: 30-Apr-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	3.7	-16	-17	7	-18	158
UK Gilts	3.9	-18	-8	-15	-26	102
Euro Bonds	3.0	-9	-12	-22	-41	44
Japanese Bonds	1.4	-3	-10	-3	0	11

Source: Datastream



Commodity Markets As of: 30-Apr-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	270	-1.0	1.9	4.4	-3.2	18.9
WTI Oil Price (Spot)	86	1.2	3.1	18.3	8.6	102.4
Gold Bullion (Spot)	1180	2.0	6.0	9.5	7.7	27.1
Industrial Metals (TR)	359	-4.2	-3.2	12.6	2.7	80.0

Source: Datastream

Interest Rates & Inflation

Inflation & Interest Rates		Current Inflation (%)	RBS Interest Rates Forecast (%)			Rate Announcement Next Date
			Current	Jun '10	Sep '10	
United States	(Fed Funds)	2.3	0.25	0.25	0.75	23-Jun
United Kingdom	(Base Rate)	3.4	0.50	0.50	0.50	10-May
euro-zone	(Repo Rate)	1.5	1.00	1.00	1.00	06-May
Japan	(Call Rate)	-1.1	0.10	0.10	0.10	21-May

Source: Courts, RBS, Datastream

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