



## Global Markets Weekly

**Volatility came back with a vengeance on Greek doubts and US technical problems.**

Volatility surged on both sides of the Atlantic this week, as investors remained unconvinced by a rescue plan for Greece. A US technical glitch worsened the jitters, sending the Dow Jones tumbling 1000 points for a brief moment on Thursday, its largest one-day point drop ever, though it subsequently recovered most of the decline. The VIX Index of implied volatility in the S&P 500 Index rose 60% in one day as a result. By Thursday's close, the S&P 500 had trimmed its gain for the year to 1%.

**Greek bond yields reach for the sky and take other euro-zone bonds with them.**

Greek bond yields moved higher once again this week, reflecting doubts that the joint euro-zone/IMF package to help Greece will prevent an eventual default/restructuring. Greek two-year bond yields rose around 600 basis points (bp) by Friday to 18.5%, dragging other euro-zone periphery bond markets along for the ride. Portuguese 2-year yields were up around 200 bp and Irish and Spanish 2-year yields up 140 bp and 100 bp respectively. Investors fled to safe havens such as German bunds and US Treasuries. German two-year yields dropped 35 basis points (bp) during the week, and 10-year US treasury yields hit their lowest levels this year. Gold also fulfilled its traditional function as a safe haven, rising past the \$1,200 per ounce mark for the first time this year and within sight of the record \$1,216 level reached in the final month of 2009.

**A bad year for euro-zone and some emerging equities just got worse.**

The Euro Stoxx index of 50 blue-chip eurozone stocks was down around 9% on the week, and is down around 15% year-to-date. Emerging markets were not immune to contagion either, with the Shanghai Composite Index down around 7% on the week and down 18% year to date. Last weekend's move by the People's Bank of China to raise bank reserve requirements also weighed on Chinese stocks during the week. In currency markets, the euro's rout continued, hitting its lowest level against the dollar since last March on Thursday. Sterling fell below \$1.50 on the back of electoral uncertainty.

**UK electoral uncertainty weighs on sterling.**

A hung parliament following the UK general election suggests more uncertainty. Several more days of political horse-trading will probably weigh on sterling, especially against the dollar, until a government can be formed. Bond investors and rating agencies will be focused on what policies are announced to cut the deficit once a government is eventually formed, and the example of Greece means the pressure will be on to act quickly.

**Market jitters distracted attention from good economic data.**

Market volatility overshadowed a week of positive macro-economic data. German manufacturing orders surged in March, rounding off a very strong quarter. April surveys of UK manufacturing and service-sector activity suggested strong growth in the second quarter, while the US April employment report showed a second month of solid gains. However, the danger is that renewed volatility will eventually affect business confidence, especially willingness to keep hiring and investing.

**Time is running out for central bankers to restore confidence.**

There is still time for policymakers to get ahead of the curve by announcing more liquidity measures. However, the window of opportunity is rapidly diminishing. The Bank of Japan announced extra liquidity measures for its banking system on Friday, but investors appeared disappointed on Thursday that ECB President Jean-Claude Trichet said the governing council had not discussed what is now being commonly referred to as the 'nuclear option' of outright purchases of euro-zone government bonds. If contagion and financial market volatility increase, the ECB may have to change its principled position.

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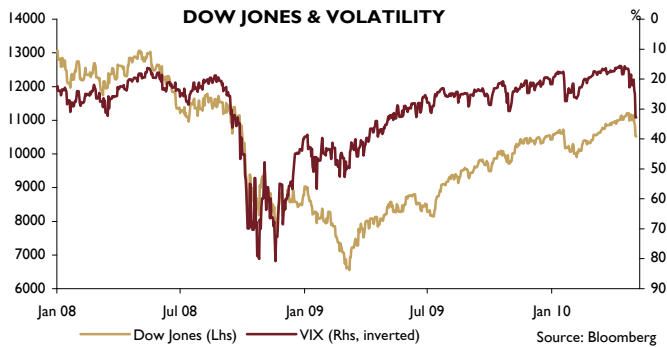
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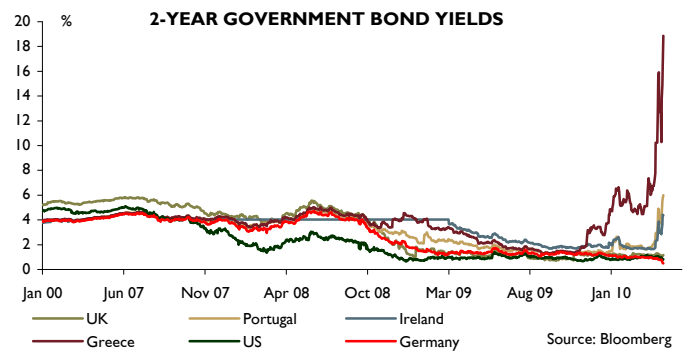
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# Charts of the Week

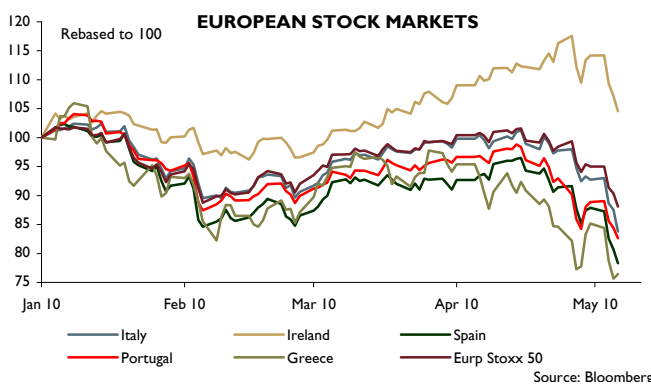
Volatility returns as equity markets take a hit on Greek doubts and a US technical glitch



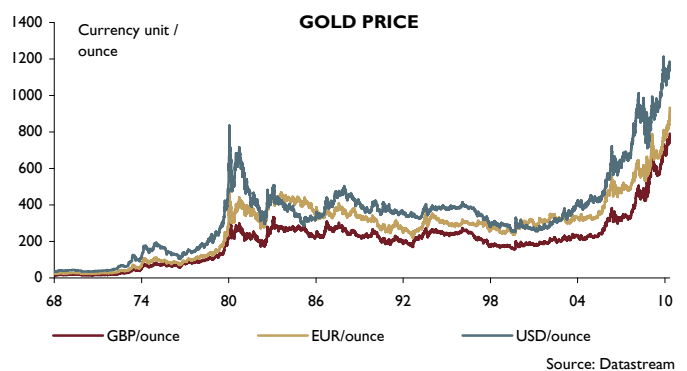
Contagion to other peripheral euro-zone bond markets continues, while German and US bonds are viewed as safe havens



Euro-zone equity markets fall further on contagion from sovereign debt concerns



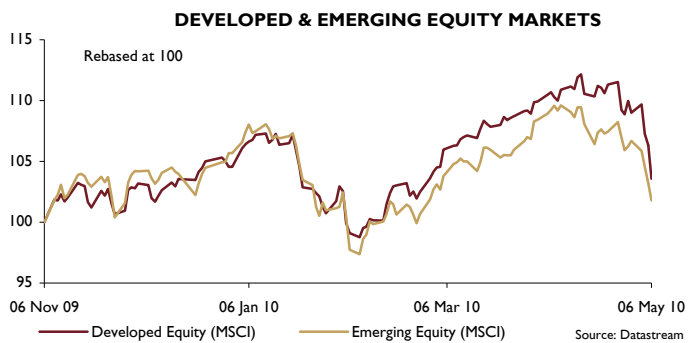
Flight to safety benefits gold as market jitters intensify



# Market Performance

| Equity Markets<br>As of: 6-May-10 | Performance (% local) |             |             |            |             |             |
|-----------------------------------|-----------------------|-------------|-------------|------------|-------------|-------------|
|                                   | Current               | -1W         | -1M         | -3M        | YTD         | 09          |
| <b>Developed Equity (MSCI)</b>    | <b>825</b>            | <b>-5.8</b> | <b>-6.4</b> | <b>4.5</b> | <b>-1.0</b> | <b>22.8</b> |
| FTSE All Share                    | 2,717                 | -6.1        | -8.3        | 4.6        | -1.6        | 25.0        |
| FTSE 100                          | 5,261                 | -6.4        | -9.0        | 4.0        | -2.8        | 22.1        |
| S&P 500                           | 1,128                 | -6.5        | -5.2        | 5.8        | 1.2         | 23.5        |
| Nasdaq Composite                  | 2,320                 | -7.7        | -4.8        | 8.3        | 2.2         | 43.9        |
| DJ EuroStoxx                      | 251                   | -7.2        | -11.3       | 0.5        | -8.8        | 23.4        |
| Nikkei 225                        | 10,696                | -2.1        | -5.2        | 6.4        | 1.4         | 19.0        |
| Hang Seng                         | 20,133                | -3.1        | -6.5        | 2.4        | -8.0        | 52.0        |
| <b>Emerging Equity (MSCI)</b>     | <b>41,538</b>         | <b>-4.2</b> | <b>-6.8</b> | <b>4.1</b> | <b>-3.7</b> | <b>58.6</b> |
| BRIC (MSCI)                       | 499                   | -5.2        | -9.0        | 2.1        | -6.6        | 68.0        |

Source: Datastream



| 10-Year Bond Yields<br>As of: 6-May-10 | Change (basis points) |     |     |     |     |     |
|--|-----------------------|-----|-----|-----|-----|-----|
|  | Current               | -1W | -1M | -3M | YTD | 09  |
| US Treasuries                          | 3.4                   | -33 | -56 | -18 | -44 | 158 |
| UK Gilts                               | 3.7                   | -20 | -26 | -24 | -37 | 102 |
| Euro Bonds                             | 2.8                   | -25 | -39 | -36 | -63 | 44  |
| Japanese Bonds                         | 1.4                   | -1  | -12 | -8  | -1  | 11  |

Source: Datastream

| Commodity Markets<br>As of: 6-May-10 | Performance (%) |       |       |      |      |       |
|--------------------------------------|-----------------|-------|-------|------|------|-------|
|                                      | Current         | -1W   | -1M   | -3M  | YTD  | 09    |
| Commodities (TR)                     | 258             | -3.9  | -5.0  | 1.4  | -7.8 | 18.9  |
| WTI Oil Price (Spot)                 | 76              | -10.4 | -12.0 | 6.5  | -3.7 | 102.4 |
| Gold Bullion (Spot)                  | 1185            | 3.1   | 4.2   | 12.2 | 8.2  | 27.1  |
| Industrial Metals (TR)               | 328             | -7.3  | -13.0 | 9.8  | -6.2 | 80.0  |

Source: Datastream

# Interest Rates & Inflation

| Inflation & Interest Rates |             | 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-Jun |
| euro-zone                  | (Repo Rate) | 1.5                             | 1.00    | 1.00    | 1.00                        | 10-Jun |
| Japan                      | (Call Rate) | -1.1                            | 0.10    | 0.10    | 0.10                        | 21-May |

Source: Courts, RBS, Datastream

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