



## Global Markets Weekly

**Reassuring statements from the Fed and ECB give investors confidence to focus on still-positive economic news.**

After hitting new lows at the start of the week, equity markets staged a rally and ended the week in positive territory. Emerging markets regained their leading position on the back of good economic data. This was also reflected in the rally in commodity prices, with oil hitting \$75 per barrel. With risk assets rallying and the VIX index of volatility falling back, sovereign bonds should have been under pressure, but they were underpinned by dovish statements from both the European Central Bank (ECB) and Federal Reserve (Fed), implying that interest rates would remain low for longer.

**Good economic news out of Asia supports our positive stance.**

The market rally was on the back of encouraging economic news, mainly from Asia. Chinese exports were up by 48.5% in the year to May, well ahead of expectations. Interestingly, exports to Europe were up more than the average pace. This was confirmed by strong export figures from Taiwan and by falling unemployment in Australia and South Korea. Japanese GDP growth in the first quarter of the year was revised up to 1.2%, an annualised pace of 5.0%. Elsewhere Brazil raised its benchmark Selic rate by 0.75% to 10.25% after the first quarter annualised growth rate hit 9.0%. This underpins our view that equities will deliver positive returns this year and that emerging Asian equities will reverse their weakness to outperform in the second half of the year.

**Policy makers provide some reassurance that euro-zone risks can be contained...**

News from the euro-zone was also more encouraging. At present, even signs of stabilisation are sufficient to provide relief from fears that the euro-zone's woes will overshadow more positive news from Asia and emerging economies. Hence the focus on Portugal and Spain's successful bond issues and the ECB announcement of extensions of credit lines for banks and refusal to set limits on its new acquisitions of bonds from troubled member states. By comparison, better industrial production in Italy and Germany attracted less attention. This is in line with our analysis which suggests a limited impact on earnings outside domestic equity markets from the likelihood that some of the peripheral euro-zone countries will dip back into recession.

**...but we would still avoid the euro, which must take the brunt of further re-balancing.**

The euro saw a bounce against the dollar, but this is likely to reflect some cutting of investors' short positions. Our euro forecasts, based on weak growth and continuing financial problems, are for further declines to a target of \$1.06 next year. Failure of Spanish government negotiations with unions over employment reforms and the French and German statements on banning short-selling highlight the continuing political risks undermining the euro. It is worth noting that German bunds continued to rally this week, with the ten-year yield briefly hitting a new low of 2.5%.

**Economic data out of the US is mixed and the Fed remains on watch over recovery.**

We would also take comfort from reiterated statements from Fed chairman Bernanke supporting a positive, if sluggish, growth outlook and suggesting that the Fed will keep interest rates at low levels for longer. This allowed investors to shrug off unexciting economic news from the US, with new unemployment claims remaining high, although the survey of confidence from the National Federation of Independent Businesses continued its belated recovery. The US may not be the sole engine of global growth, but neither does it appear to be a drag and policy-makers seem focused on supporting growth rather than pre-emptive fiscal consolidation.

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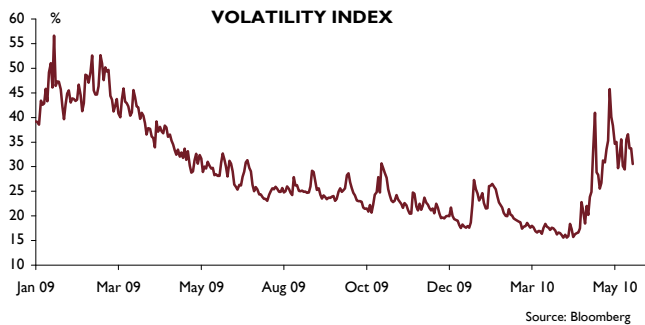
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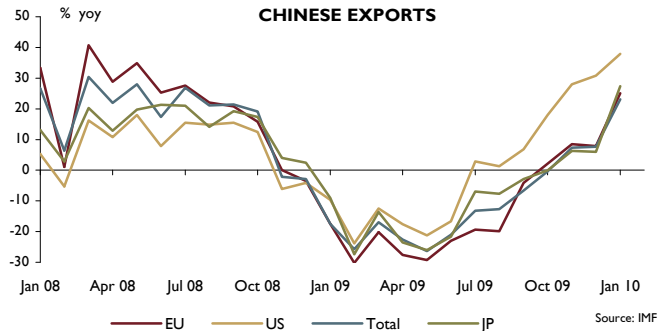
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# Charts of the Week

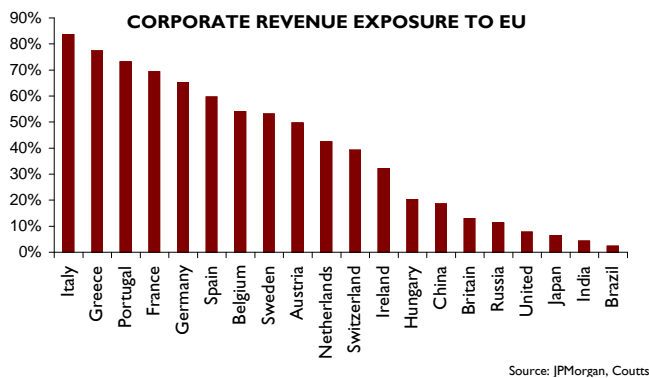
Risk and volatility appear to be stabilising as policy-makers take action



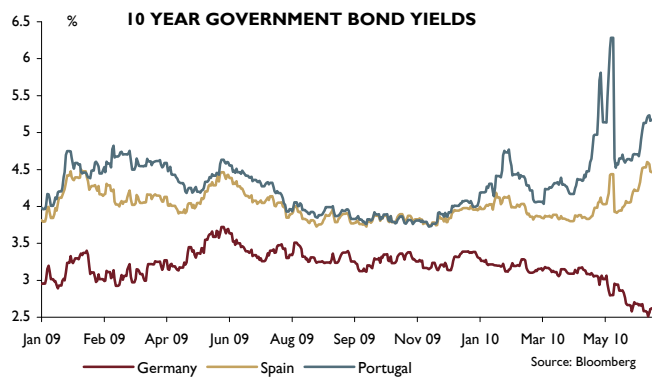
Calmer capital markets allow investors to focus on the continuing good news out of Asian and emerging economies



Our analysis suggests a limited impact on earnings outside domestic equity markets from euro-zone slowdown



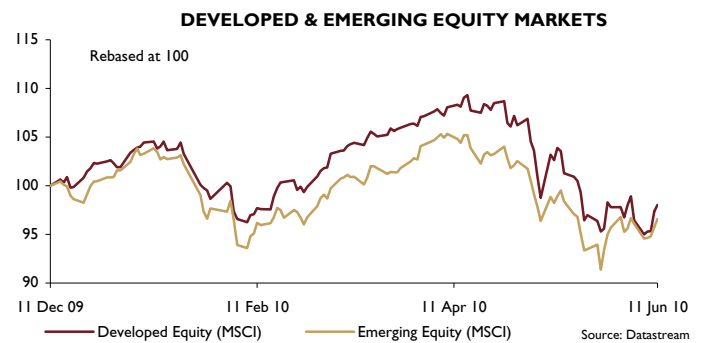
Risks remain in the euro-zone, with bunds continuing to outperform - we remain negative on the euro



# Market Performance

Equity Markets As of: 11-Jun-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
<b>Developed Equity (MSCI)</b>	<b>801</b>	<b>1.6</b>	<b>-4.5</b>	<b>-6.0</b>	<b>-3.8</b>	<b>22.8</b>
FTSE All Share	2,663	0.7	-3.2	-7.3	-3.5	25.0
FTSE 100	5,164	0.7	-3.2	-8.1	-4.6	22.1
S&P 500	1,092	2.5	-5.6	-5.1	-2.1	23.5
Nasdaq Composite	2,244	1.1	-5.5	-5.3	-1.1	43.9
DJ EuroStoxx	253	3.1	-2.7	-7.1	-7.8	23.4
Nikkei 225	9,705	-2.0	-6.8	-9.0	-8.0	19.0
Hang Seng	19,872	0.5	-1.4	-6.4	-9.1	52.0
<b>Emerging Equity (MSCI)</b>	<b>41,015</b>	<b>0.5</b>	<b>-1.7</b>	<b>-4.3</b>	<b>-4.9</b>	<b>58.6</b>
BRIC (MSCI)	494	0.7	-1.7	-7.2	-7.4	68.0

Source: Datastream



10-Year Bond Yields As of: 11-Jun-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	3.2	3	-29	-50	-60	158
UK Gilts	3.4	-3	-42	-72	-70	102
Euro Bonds	2.6	-1	-29	-60	-81	44
Japanese Bonds	1.4	0	-8	-9	-5	11

Source: Datastream

Commodity Markets As of: 11-Jun-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	251	2.5	-4.0	-5.7	-10.1	18.9
WTI Oil Price (Spot)	74	4.2	-2.4	-9.9	-6.6	102.4
Gold Bullion (Spot)	1226	1.8	0.5	11.0	11.9	27.1
Industrial Metals (TR)	296	4.4	-10.7	-15.4	-15.2	80.0

Source: Datastream

# Interest Rates & Inflation

Inflation & Interest Rates		Current Inflation (%)	RBS Interest Rates Forecast (%)			Rate Announcement Next Date
			Current	Sep '10	Dec '10	
United States	(Fed Funds)	2.2	0.25	0.25	0.25	23-Jun
United Kingdom	(Base Rate)	3.7	0.50	0.50	1.00	08-Jul
euro-zone	(Repo Rate)	1.6	1.00	1.00	1.00	08-Jul
Japan	(Call Rate)	-1.2	0.10	0.10	0.10	15-Jun

Source: Courts, RBS, Datastream

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