

Global Markets Weekly

Euro zone rescue package triggers rebound across asset markets.

The dramatic Sunday night agreement by EU ministers to a huge €750bn rescue package drove a sharp rebound in asset markets from the opening last Monday. Practically every asset class in every market was up as markets breathed a huge sigh of relief. European equities were the prime beneficiary, but the action to avert a building market crisis benefited most risk assets. This rally put most developed markets back in positive territory for the year, although some of these gains have subsequently been surrendered. Emerging markets and commodities were also still lagging. Similarly, while oil and other industrial commodities rebounded, they had been on the slide since before the Greece crisis came to a head, reflecting more fundamental concerns over China's policy response to rising inflation.

European policymakers get ahead of the curve.

After months of disappointing markets with their slow response European policymakers got 'ahead of the curve' last weekend. However, the medium- to long-term implications are less encouraging, at least for the euro-zone. The substantial fiscal consolidation now implied across the euro-zone increases deflationary risks for the region, as exemplified by Spain's slip into negative inflation in April. In addition, the new policy transfers credit risk from peripheral to core euro-zone nations. Despite a sharp rally in the euro early Monday, the prospect of weak growth, low interest rates and an erosion of ECB independence all suggest the euro will be a less attractive currency going forward. The potential flood of new euros drove a new high for gold and, while gold may fall back from its new high in the short term, huge issuance of fiat currencies can only increase gold's longer-term attractions as a hedge against devaluation and/or inflation.

New UK government formed by coalition of Conservative and Liberal Democrats.

The new UK coalition, covering 363 of the 650 MPs in the House of Commons, is potentially more stable than the alternatives following the indecisive election. A stable government is important for the UK because of the need for tough-to-swallow government spending cuts and tax increases in order to reduce the deficit. It will also reassure investors, who are being called upon to fund the deficits for years to come. The new government plans a budget by the end of June, which will be followed by a comprehensive spending review covering the rest of the five-year parliament term.

The economic news continued to be positive – recovery has been stronger so far than we dared hope at the start of the year.

Despite the Greek crisis, the euro-zone managed to grow by 0.2% in the first quarter of 2010, for a gain of 0.5% over the previous year. Spain emerged from recession after almost two years of contraction, and the euro-zone as a whole overcame the drag from the 0.8% contraction of the Greek economy. Growth in Germany is showing signs of acceleration, after a better-than-expected GDP figure and a 4% surge in industrial production for March. This is likely to reflect the recent weakness of the euro and the continued strength of export demand to Asian economies. Indonesia reported a 5.7% growth rate in the first quarter, but was outstripped by Malaysia's 10.1% pace. China also reported strong growth in trade, but also a further acceleration in inflation to 2.8% that reinforces investor concerns over a sharp tightening in monetary policy to fight rising prices. To complete the positive picture, US retail sales rose 0.4% and industrial production by 0.8% in April, while the UK saw a 2% jump in industrial production in March, indicating GDP growth was likely stronger than the initial 0.2% estimate and is accelerating.

Carl Astorri
+ 44 20 7753 1612

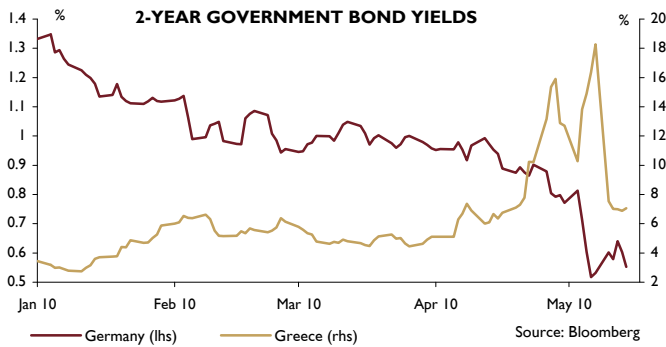
Jean-Maurice Ladure
+44 20 7753 1469

Henry Lancaster
+44 20 7957 2426

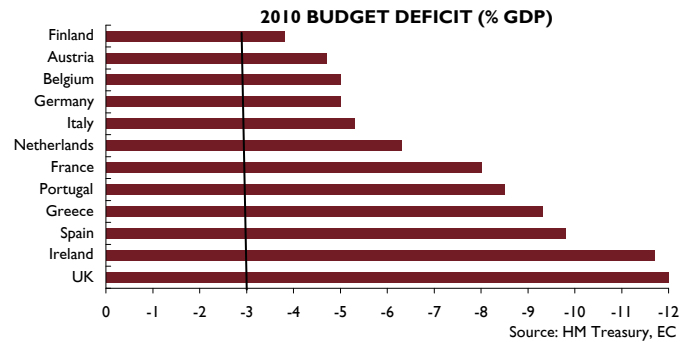
Georgios Tsapouris
+44 20 7753 1888

Charts of the Week

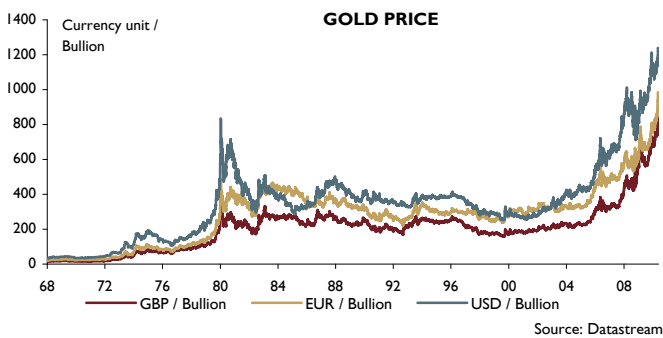
Threat of EU intervention pushes Greek yields back to pre-crisis levels; demand for safety pushes bund yields below ECB rate



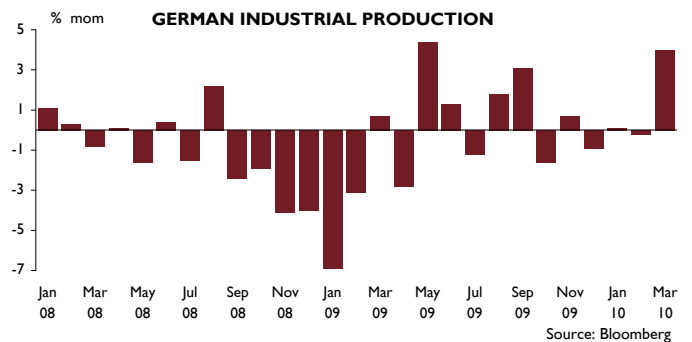
UK 2010 deficit forecast by Eurostat to be highest in EU – but UK just one of many to slash deficits (and demand)



Large-scale EU intervention and potential ECB quantitative easing keep gold attractive versus devaluing fiat currencies



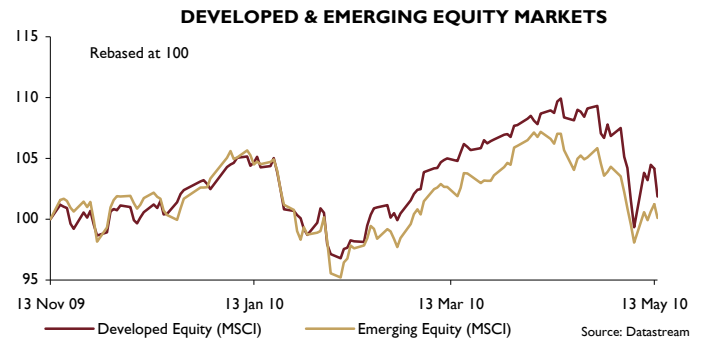
German industrial production benefiting from global, especially emerging, growth; a lower euro will be helping as well



Market Performance

Equity Markets As of: 14-May-10	Current	Performance (% local)				
		-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	828	2.6	-7.1	3.8	-0.6	22.8
FTSE All Share	2,722	3.1	-8.5	3.4	-1.4	25.0
FTSE 100	5,263	2.7	-9.2	2.3	-2.8	22.1
S&P 500	1,136	2.2	-6.2	5.6	1.9	23.5
Nasdaq Composite	2,347	3.6	-6.3	7.5	3.4	43.9
DJ EuroStoxx	253	5.2	-11.0	0.4	-7.9	23.4
Nikkei 225	10,463	0.9	-6.6	3.7	-0.8	19.0
Hang Seng	20,145	1.1	-8.9	-0.6	-7.9	52.0
Emerging Equity (MSCI)	41,784	2.1	-6.4	2.6	-3.1	58.6
BRIC (MSCI)	501	1.8	-9.2	-0.2	-6.2	68.0

Source: Datastream



10-Year Bond Yields As of: 14-May-10	Current	Change (basis points)				
		-1W	-1M	-3M	YTD	09
US Treasuries	3.5	2	-41	-24	-39	158
UK Gilts	3.7	-8	-33	-45	-42	102
Euro Bonds	2.8	10	-33	-38	-58	44
Japanese Bonds	1.4	1	-7	-4	1	11

Source: Datastream

Commodity Markets As of: 14-May-10	Current	Performance (%)				
		-1W	-1M	-3M	YTD	09
Commodities (TR)	257	-0.6	-6.4	-2.4	-8.1	18.9
WTI Oil Price (Spot)	72	-4.7	-16.6	-3.4	-9.7	102.4
Gold Bullion (Spot)	1222	2.3	5.6	12.5	11.5	27.1
Industrial Metals (TR)	326	-0.8	-15.3	1.6	-6.8	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-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

Issued by Coutts & Co, which is authorised and regulated by the Financial Services Authority. Coutts & Co is registered in England No. 36695. Registered office: 440 Strand, London WC2R 0QS.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment or banking product, nor does it constitute a personal recommendation. The information is believed to be correct but cannot be guaranteed. Any opinion or forecast constitutes our judgement as at the date of issue and is subject to change without notice. Any Coutts company, or a connected company, its clients and officers may have a position or engage in transactions in any of the securities mentioned.

The analysis contained in this document has been procured, and may have been acted upon, by Coutts & Co and connected companies for their own purposes, and the results are being made available to you on this understanding. To the extent permitted by law and without being inconsistent with any applicable regulation, neither Coutts & Co nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon such analysis.

Not all products and services offered by the individual Coutts companies are available in all jurisdictions, and some products and services may be available only through particular Coutts companies.

None of the overseas Coutts companies or offices is an Authorised Person subject to the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors and depositors, and compensation under the Financial Services Compensation Scheme will not be available in respect of business transacted with them.