



Global Markets Weekly

Investors strike a more optimistic note

Headlines over the past week were all about market reaction to 'good' economic news, but equities had already started rallying before the unexpected rise in the US ISM manufacturing survey. Our own assessment of investor optimism was indicating that equities were oversold, as investors increasingly discounted a 'double-dip' recession, and a failure of the economic data to support an increasingly negative picture was sufficient to trigger a rally. Major developed equity markets all made strong gains, while industrial metals led commodities higher. Bonds sold off across the board, and other safe havens such as gold and the yen came under pressure. We foresee growth continuing, albeit weak, and believe equities can continue to rally as valuations are not stretched. Bonds may weaken more in the near-term, which we would see as a buying opportunity given our forecast for deflation in the US next year.

News from the US remains weak, but still well short of signalling a double-dip

The economic news from the US remained mixed. While the rise in the ISM index to 56.3 from 55.5 contradicted consensus forecasts for a fall to 52.8, the components of the index showed a fall in new orders and growing inventories, suggesting growth will continue to moderate. US companies added 67,000 new jobs in August, more than expected, but the low level of job creation and a still-high 472,000 in jobless claims for the week remain consistent with below-trend consumer and economic growth. Our statistical model of recent US data shows an increased, but still low, 30% chance of a return to recession in the next six months.

Europe grows, but led by German exports not consumers

The euro-zone economy grew 1.0% in the second quarter and the first quarter's performance was revised up to 0.3%, leaving GDP up by 1.9% over the 12 months to the end of June. However, the outlook was dampened by the news that German retail sales had fallen for the second successive month in July, despite a strong economy and rising employment. The ECB raised its GDP forecasts for both this year and next, and while we see a recovery in German exports boosting growth this year, we see little growth for the euro-zone in 2011 as fiscal consolidation bites.

Emerging equity markets rise 2.5%, putting them ahead for the year

Emerging equities slightly lagged the rally in developed markets, but advanced into positive territory for the year to date, over which time they have outperformed by 5 percentage points. This was driven by good economic news, with China's PMI unexpectedly stronger after three months of declines. While a single data point is not decisive, it comes as the government relaxes some of the measures enacted to cool the economy and may signal that growth is regaining momentum. With India reporting 8.8% annual GDP growth, we retain a positive stance on emerging equities on the basis of economic outperformance.

UK house buyers go on holiday in August

The Nationwide index of UK house prices fell 0.9% in August, registering two consecutive months of decline for the first time since February 2009. August is a time when many would-be buyers are out of the country on holiday, but interestingly the reason given for the fall was a rising number of houses coming onto the market. Perhaps sellers are more likely to have been having a 'staycation'. Mortgages are affordable, given very low interest rates, but high deposit requirements are a barrier for first-time buyers. This is reflected in the below-trend level of mortgage approvals, while the increasing level of supply points to further price falls.

Carl Astorri
Head of Economics & Asset Strategy

James Butterfill
Equity Strategist
firstname.lastname@coutts.com

Alan Higgins
Head of Investment Strategy UK

Henry Lancaster
Senior Investment Analyst

Jean-Maurice Ladure
Head of Investment Strategy Europe

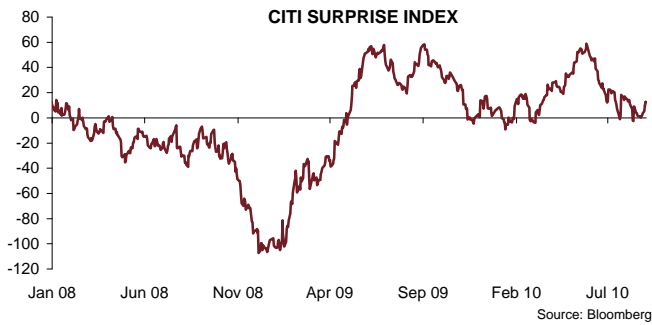
Julien Seetharamdoo
Bond Strategist

Norman Villamin
Head of Investment Strategy Asia

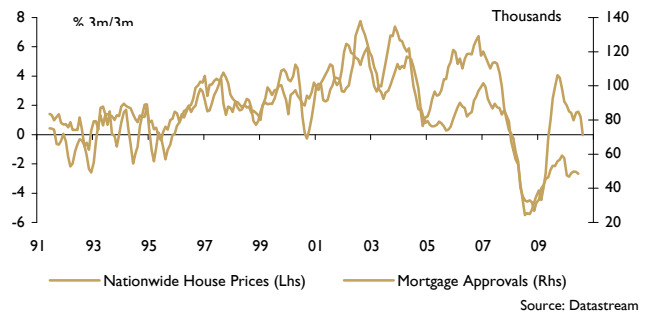
Georgios Tsapouris
Investment Strategist

Charts of the Week

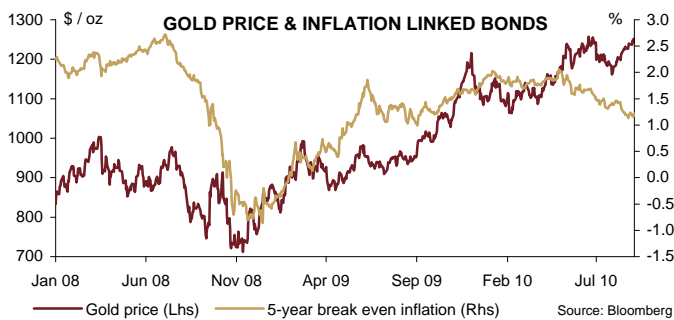
After recent weaker data, lowered expectations boost the likelihood of further positive surprises in the near term



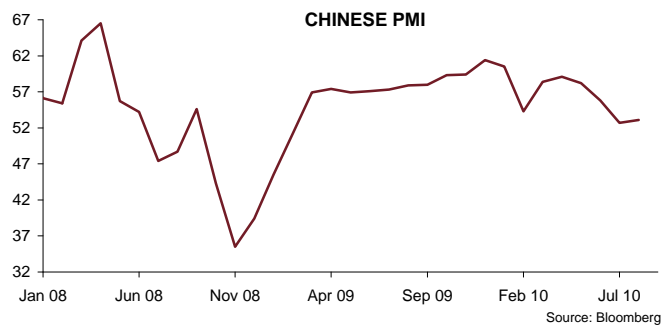
UK house prices appear to be rolling over, as mortgage approvals remain stubbornly low



Gold has continued to rise as inflation expectations fall, suggesting gold is in demand as the ultimate currency



Chinese PMI ticked up after three months of declines, fuelling hopes that a relaxation of tightening measures will boost growth

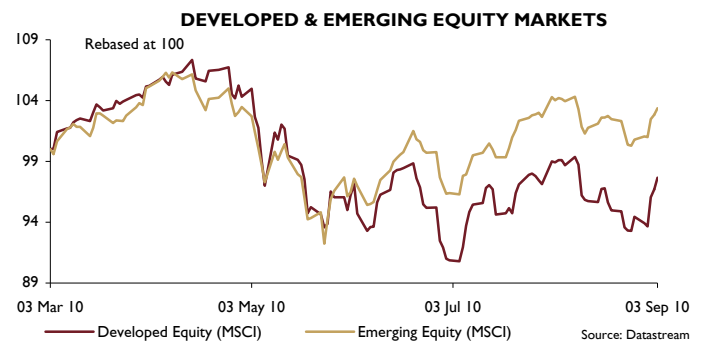


All charts as at 03/09/2010

Market Performance

Equity Markets As of: 3-Sep-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	812	3.4	-1.3	0.5	-2.4	22.8
FTSE All Share	2,800	4.3	0.6	4.1	1.4	25.0
FTSE 100	5,428	4.4	0.6	4.2	0.3	22.1
S&P 500	1,105	3.8	-1.4	0.2	-1.0	23.5
Nasdaq Composite	2,234	3.7	-2.2	-3.0	-1.6	43.9
DJ EuroStoxx	262	4.1	-2.5	3.8	-4.6	23.4
Nikkei 225	9,114	1.4	-6.0	-8.1	-13.6	19.0
Hang Seng	20,972	1.8	-2.3	6.0	-4.1	52.0
Emerging Equity (MSCI)	43,486	2.5	-0.7	5.9	0.8	58.6
BRIC (MSCI)	519	2.5	-1.5	5.1	-2.7	68.0

Source: Datastream



10-Year Bond Yields As of: 3-Sep-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	2.7	5	-21	-67	-114	158
UK Gilts	3.1	12	-26	-42	-101	102
Euro Bonds	2.3	17	-31	-37	-107	44
Japanese Bonds	1.4	10	6	-14	-19	11

Source: Datastream

Commodity Markets As of: 3-Sep-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	271	2.6	-0.2	8.3	-2.9	18.9
WTI Oil Price (Spot)	74	-1.1	-9.8	0.0	-6.1	102.4
Gold Bullion (Spot)	1247	0.5	5.0	2.4	13.8	27.1
Industrial Metals (TR)	341	3.4	0.8	14.8	-2.5	80.0

Source: Datastream

Interest Rates & Inflation

Inflation & Interest Rates		Current Inflation (%)	RBS Interest Rates Forecast (%)			Rate Announcement Next Date
			Current	Dec'10 (F)	Mar'11 (F)	
United States	(Fed Funds)	1.2	0.25	0.25	0.25	21-Sep
United Kingdom	(Base Rate)	3.1	0.50	0.50	0.50	09-Sep
Euro-zone	(Repo Rate)	1.6	1.00	1.00	1.25	07-Oct
Japan	(Call Rate)	-0.9	0.10	0.10	0.10	07-Sep

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.