

Global Markets Weekly

Equity investors waited for the all-important US jobs report, which confirmed that the labour market is healing.

Equity markets were steady early in the week while waiting for Good Friday and the release of the all-important US payrolls report. This report confirmed that conditions in the US labour market are improving, giving risk assets a boost, especially after Thursday also saw encouraging data from the manufacturing sector. **Evidence that the global recovery is firming helped pushed up commodity prices in particular**, with copper reaching a 19-month high. The S&P 500 is up 5% in the first quarter.

Pent up demand from US consumers is starting to be unleashed, but the corporate sector is the main driver of recovery this time.

US non-farm payrolls rose by 162,000 in March, the most in three years, with private payrolls expanding by 123,000. Indeed, the private sector has now added jobs in four of the last five months. Separate data released last week also showed that US consumer spending has increased in inflation-adjusted terms by either 0.2% or 0.3% for five straight months (i.e. at a better than 3% annualised pace). A sharp pullback in consumption during the recession generated a significant degree of pent-up demand, which is now being gradually unwound. However, **in contrast to most recoveries in the US, this one is being driven more by the corporate sector than the consumer**. The US manufacturing ISM survey confirmed the strength of the recovery, increasing to 59.6 from 56.5, with the new orders index rising to 61.5, well above the 50 expansion/contraction mark.

UK manufacturing has also been surprisingly strong...

The UK March manufacturing PMI rose to its highest reading in over 15 years. GDP growth in the final quarter of 2009 was also revised up to 0.4% quarter-on-quarter (q/q) from a previous estimate of 0.3% and a first estimate of only 0.1%. The revisions bring the official data further in line with the survey evidence. The surveys are pointing to a further pickup in growth in Q1 2010, though the official GDP outturn may be dampened by the VAT increase and bad weather early in the year.

...and Japan's large manufacturers have recouped their lost confidence too.

In Japan, **the quarterly Tankan survey of business confidence showed that confidence among large manufacturing companies has regained nearly its entire decline since late 2008**. The same report showed that large companies still plan to cut capital spending by 0.4% y/y, but this is the lowest anticipated decline in five quarters. In a separate development, the Japanese Prime Minister Yukio Hatoyama confirmed plans to double the amount that retail customers can deposit with the Japan Post Bank, which holds more than one quarter of all Japanese government bonds. While the government will tap these deposits to finance its budget deficit, the move could drain deposits away from the rest of the banking sector and reduce bank lending. Deposits with the Japan Post Bank are attractive to savers because of favourable tax treatment and an implicit government guarantee.

In the euro-zone business sentiment and inflation were both strong, reinforcing the growth story.

Not only was euro-zone business sentiment encouraging, especially for Germany, but inflation also showed a much higher reading than expected in March. It accelerated to 1.5% from 0.9% in February, the highest since December 2008 and well-above market expectations of 1.1%. A lot of the increase appeared to be due to volatile components such as food and energy, and inflation remains well below the ECB's 2% ceiling. It is also likely to fall back sharply in the coming months due to base effects. Nevertheless, **the surprise highlights the fact that stronger than expected growth in the world's advanced economies should eventually lead to higher inflation too.**

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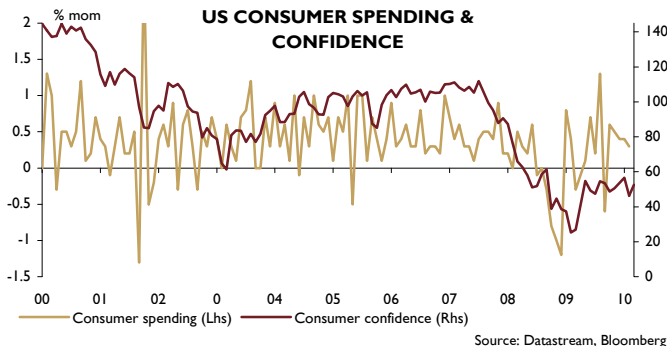
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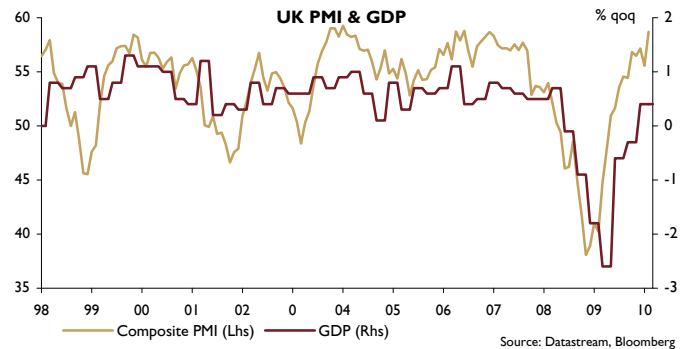
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Charts of the Week

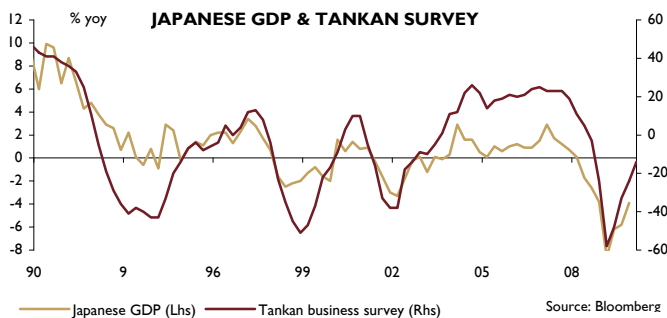
US consumer spending picks-up, though consumer confidence remains weak



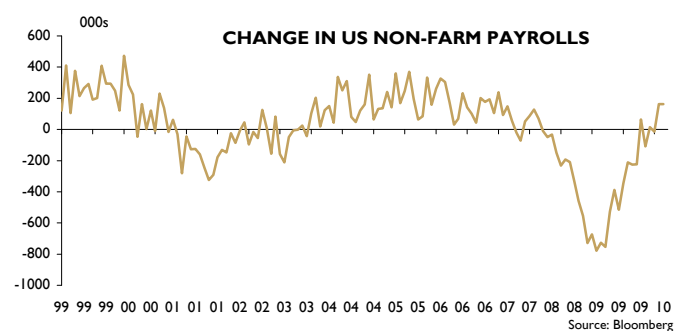
UK PMI business surveys point to stronger growth. GDP revised up again, and could catch up further with PMI



Japanese business confidence also suggests recovery is intact, although spending plans are still muted



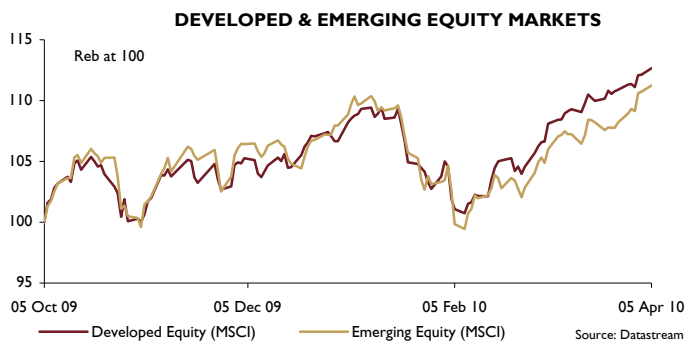
US employment report confirms that conditions in labour market are improving



Market Performance

Equity Markets As of: 5-Apr-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	879	1.2	4.2	3.8	5.6	22.8
FTSE All Share	2,944	0.6	2.9	4.5	6.6	25.0
FTSE 100	5,745	0.6	2.6	4.0	6.1	22.1
S&P 500	1,187	1.2	4.3	4.5	6.5	23.5
Nasdaq Composite	2,430	1.1	4.4	5.2	7.1	43.9
DJ EuroStoxx	281	0.9	3.8	0.4	2.4	23.4
Nikkei 225	11,339	3.2	9.4	6.2	7.5	19.0
Hang Seng	21,537	1.4	3.6	-3.3	-1.5	52.0
Emerging Equity (MSCI)	44,445	2.1	4.9	1.4	3.0	58.6
BRIC (MSCI)	548	2.4	4.5	0.5	2.7	68.0

Source: Datastream



10-Year Bond Yields As of: 5-Apr-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	4.0	12	31	23	15	158
UK Gilts	3.9	-5	-13	-18	-19	102
Euro Bonds	3.1	-5	-7	-29	-29	44
Japanese Bonds	1.4	-2	7	6	10	11

Source: Datastream

Commodity Markets As of: 5-Apr-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	272	2.6	0.6	-4.7	-2.7	18.9
WTI Oil Price (Spot)	85	3.3	4.1	3.9	7.3	102.4
Gold Bullion (Spot)	1125	1.0	-1.3	0.3	2.7	27.1
Industrial Metals (TR)	376	3.1	6.1	5.6	7.7	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)	2.1	0.25	0.25	0.75	28-Apr
United Kingdom	(Base Rate)	3.0	0.50	0.50	0.50	08-Apr
Eurozone	(Repo Rate)	1.5	1.00	1.00	1.00	08-Apr
Japan	(Call Rate)	-1.1	0.10	0.10	0.10	07-Apr

Source: Courts, RBS, Datastream

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