



## Global Markets Weekly

**Risk aversion is back, and focused on peripheral Europe's debt problems.**

Problems in the eurozone spread from Greece to Portugal and Spain as credit default swaps on their government debt (the cost of insuring against default) rose sharply over the past week. The Dow Jones Euro Stoxx index of 50 leading eurozone companies fell by about 4%, while the Greek stockmarket was down by around 8% on the week. With increasing investor concern about the whole single currency project, the euro fell sharply against the dollar and yen too. This led to an unwinding of commodity positions which had been built up on the back of a weaker dollar in 2009. Gold was down 4% on Thursday alone.

**The EU Commission supported Greece's debt reduction plans, but nervous investors wanted immediate concrete action.**

Greece gained the support of the EU Commission last week, with extra measures to combat the deficit, but this was not enough to satisfy investors who were impatient for action. Unions also wasted no time in announcing general strikes for February, and markets moved quickly to enforce an endgame. Some sort of bailout will likely be needed for Greece and possibly Portugal, involving the EU institutions, the European Central Bank and possibly even the IMF. These countries represent only around 3% of the GDP of the eurozone, so a bailout is affordable. However, if Spain or Italy needed help, the costs to the rest of the eurozone, especially France and Germany, would be considerable and harder to sell to their domestic audiences.

**Deficit cutting and fiscal woes were also dominant "over here" and "over there."**

Deficit cutting was high on the agenda in the UK too. The well-respected independent Institute for Fiscal Studies' (IFS) annual appraisal of UK public finances highlighted the enormous fiscal consolidation needed to get public finances back on a sustainable path. In the event of weaker-than-forecast growth, the IFS estimated that the national debt would approach 90% of GDP by 2015, close to levels that would threaten the UK's AAA sovereign rating. On a brighter note, the IFS estimated that tax receipts could be a little stronger than Treasury forecasts in the near term. Meanwhile, the Bank of England announced it had reached an end to its current quantitative easing programme, as expected, while leaving the door open to future bond purchases if circumstances warranted it.

**A busy week of economic data ended with a mixed US payrolls report.**

As part of its 2011 budget proposal, the Obama administration projected an enormous US budget deficit of 10.6% of GDP in 2010 (\$1.6 trillion) and only a slightly smaller deficit of 8.3% of GDP (\$1.3 trillion) in 2011. What's more, despite also announcing numerous measures to cut the deficit to 3.9% by 2015, the White House admitted that current proposals will not be enough to stop national debt from continuing to rise as a proportion of the economy. Moody's issued a warning shot later in the week, saying a slower-than-expected pace of growth in the US could put its AAA credit rating under threat.

Across the advanced economies, news from the manufacturing sector was generally better than expected. However, the larger services sector disappointed. Finally, markets were bracing themselves for a weak US employment report on Friday, following three weeks of disappointing weekly jobless claims data. In the end the report was mixed. Payrolls were soft, with a 20,000 decline in January and revisions to previous months showing greater job losses than first estimated. However, the unemployment rate declined to below 10% and increases in hours worked and temporary hiring suggested US companies may be slowly adding capacity in response to firmer demand.

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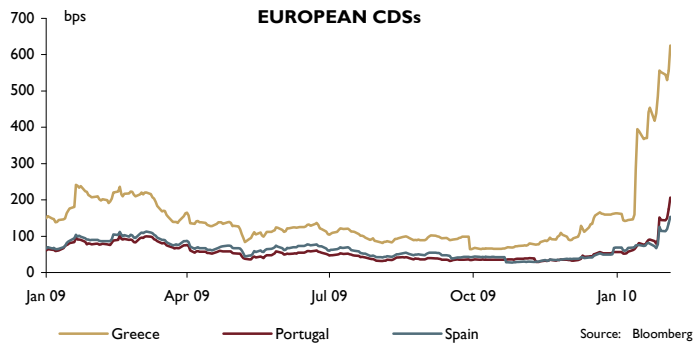
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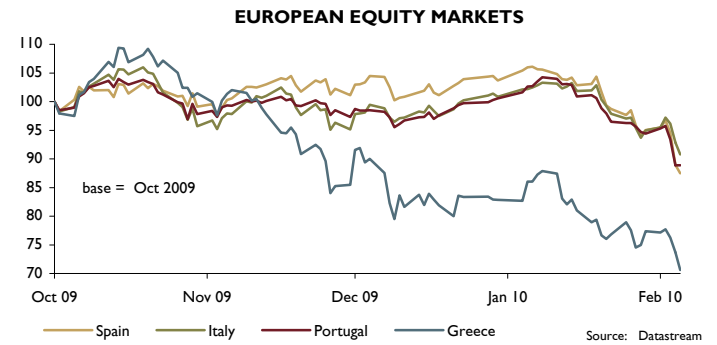
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# Charts of the Week

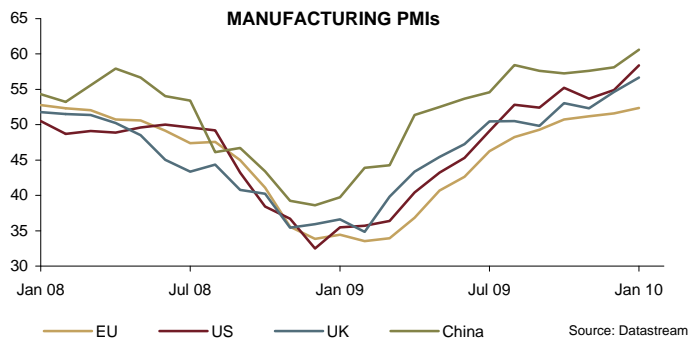
CDS rose sharply for eurozone 'periphery' countries



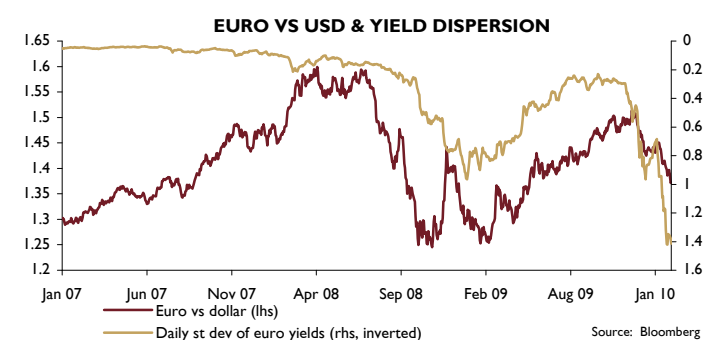
Equity markets also extended last month's losses



Manufacturing sector confidence was buoyant in January, although not matched by the services sector



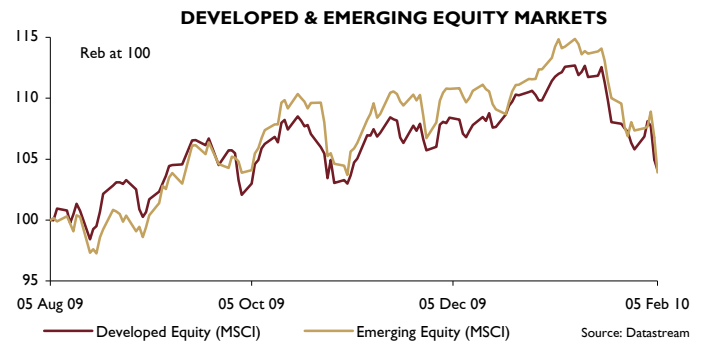
Sovereign credit-quality concerns weighed on euro



# Market Performance

Equity Markets As of: 5-Feb-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
<b>Developed Equity (MSCI)</b>	<b>789</b>	<b>-1.6</b>	<b>-6.9</b>	<b>-0.6</b>	<b>-5.2</b>	<b>22.8</b>
FTSE All Share	2,597	-2.4	-7.9	-1.1	-5.9	25.0
FTSE 100	5,061	-2.5	-8.4	-1.3	-6.5	22.1
S&P 500	1,066	-0.7	-6.2	0.0	-4.4	23.5
Nasdaq Composite	2,141	-0.3	-7.3	1.7	-5.6	43.9
DJ EuroStoxx	249	-4.8	-11.0	-4.7	-9.2	23.4
Nikkei 225	10,057	-1.4	-5.9	3.5	-4.6	19.0
Hang Seng	19,665	-2.3	-11.7	-8.5	-10.1	52.0
<b>Emerging Equity (MSCI)</b>	<b>39,885</b>	<b>-3.2</b>	<b>-9.0</b>	<b>-1.9</b>	<b>-7.5</b>	<b>58.6</b>
BRIC (MSCI)	489	-3.4	-10.5	-4.2	-8.5	68.0

Source: Datastream



10-Year Bond Yields As of: 5-Feb-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	3.6	-2	-19	5	-26	158
UK Gilts	4.0	-2	-12	2	-13	102
Euro Bonds	3.1	-8	-26	-23	-27	44
Japanese Bonds	1.4	5	4	-7	7	11

Source: Datastream

Commodity Markets As of: 5-Feb-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
<b>Commodities (TR)</b>	<b>254</b>	<b>-1.9</b>	<b>-10.9</b>	<b>-5.3</b>	<b>-9.1</b>	<b>18.9</b>
WTI Oil Price (Spot)	72	-1.5	-12.5	-10.2	-9.6	102.4
Gold Bullion (Spot)	1057	-2.0	-5.8	-3.3	-3.6	27.1
Industrial Metals (TR)	299	-6.4	-16.2	-4.2	-14.6	80.0

Source: Datastream

# Interest Rates & Inflation

Inflation & Interest Rates		Current Inflation (%)	RBS Interest Rates Forecast (%)			Rate Announcement Next Date
			Current	Mar'10	Jun'10	
United States	(Fed Funds)	2.7	0.25	0.25	1.00	16-Mar
United Kingdom	(Base Rate)	2.9	0.50	0.50	0.50	04-Mar
Eurozone	(Repo Rate)	0.9	1.00	1.00	1.00	04-Mar
Japan	(Call Rate)	-1.7	0.10	0.10	0.10	18-Feb

Source: Coutts, RBS, Datastream

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