



Global Markets Weekly

Risk assets were helped by data confirming gradual US recovery and new Greek austerity measures.

Risk assets had a good week amid data that supported the view of a gradual recovery in the US, still the world's largest economy, and new measures from Greece to tackle its budget deficit. Equity and commodity markets were firmer, with oil hitting the \$80 per barrel mark and copper futures reaching \$7,500 per tonne. Greece's increased austerity helped shave more than a full percentage point off of two-year government bond yields. However, sterling remains under pressure, having dropped briefly below \$1.50 on electoral uncertainty.

US surveys and payroll report boosted hopes for an improving jobs market. The UK services survey was also strong.

On Monday the US ISM manufacturing index for February fell to 56.5 from a five-year high of 58.4 reached in January. Nevertheless, the survey remains consistent with strong output growth. Service sector reports later in the week were also upbeat for the US and UK. Particularly encouraging for the US was a substantial pickup in hiring intentions in both manufacturing and non-manufacturing surveys, supporting hopes that rising company profits will feed through to employment. Indeed, US payroll data Friday showed only a small 36,000 decline in jobs in February, vastly improved from a 726,000 drop in February 2009. Improvement in company hiring intentions also suggests employment growth will soon turn positive.

Eurozone business surveys were less upbeat, but consistent with continued growth.

Business confidence surveys in the eurozone were less upbeat, but still consistent with growth for the region as a whole. Still, there is increasing divergence between core and periphery nations' performance. The extra austerity measures announced by the Greek government this past week, with the intention of saving €4.8bn, or 2% of GDP, were a case in point. While the announcement helped the Greek government sell €5 bn of debt, it needs to sell around another €45 bn this year.

Political uncertainty weighed on sterling, but even a hung parliament wouldn't preclude needed deficit cuts.

Sterling came under further pressure after an opinion poll suggested a hung parliament was the most likely outcome in the general election, due by June. Sterling fell sharply on Monday, hitting \$1.48, before recovering the \$1.50 level by the end of the week. The \$35 bn cash element of Prudential's announced acquisition of AIG's Asian assets may also have contributed to Monday's drop. Electoral uncertainty could continue to weigh on sterling into the election, although even a hung parliament would not preclude deficit cutting measures, given all the main political parties agree on the need for them. Sterling could even rally after the election, once the uncertainty is resolved.

Japanese data was mixed, but stocks jumped on Friday amid stimulus rumours.

In Japan, the unemployment rate fell to 4.9% in January from 5.2% in December. This good news was offset somewhat by the fact that Japanese businesses cut capital investment for an eleventh consecutive quarter in the final three months of 2009. However, Japanese stocks jumped 2% on Friday on rumours that the Bank of Japan would soon extend its liquidity injections to overcome deflation.

Australian interest rates were raised again as export-led growth continued.

Elsewhere, the Reserve Bank of Australia raised interest rates again by 25bp to 4%, to bring rates closer to 'average levels' amid continued recovery in the economy. This highlighted the difference between two Anglo-Saxon free-market economies – the UK and Australia – one suffering from a serious structural deficit and output gap created by a severe recession, the other having only experienced a mild downturn and benefiting from strong emerging market growth.

Carl Astorri, Coutts & Co

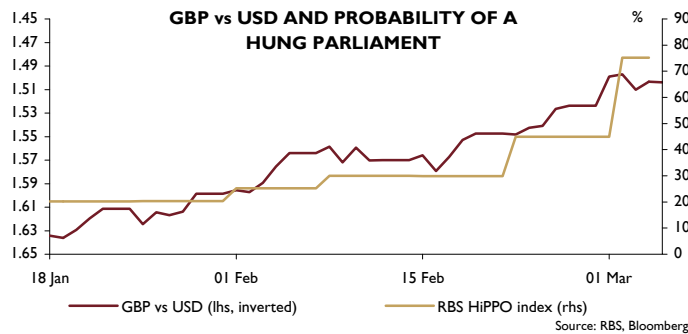
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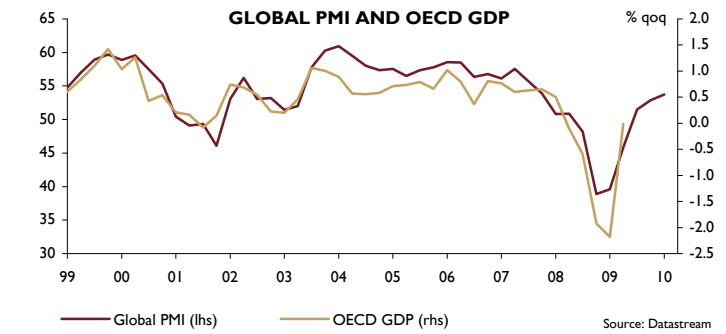
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Charts of the Week

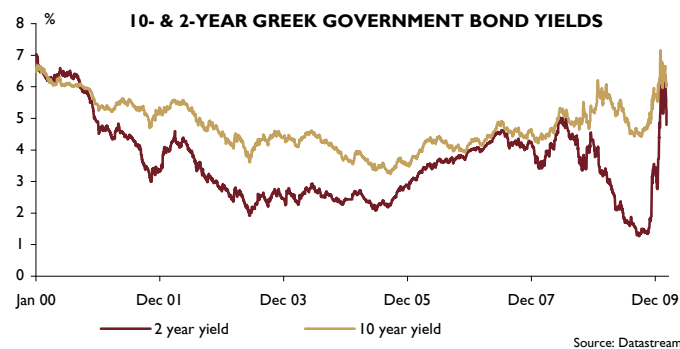
Mounting risk of a hung parliament after UK election weighs on sterling



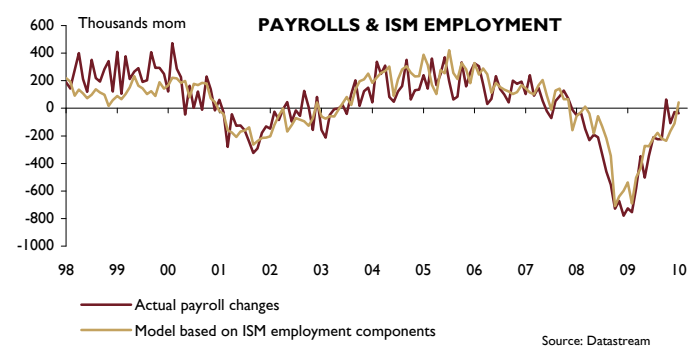
Purchasing managers' indices (PMIs) are consistent with gradual improvement in global growth



New austerity measures announced by Greece helped send government bond yields sharply lower



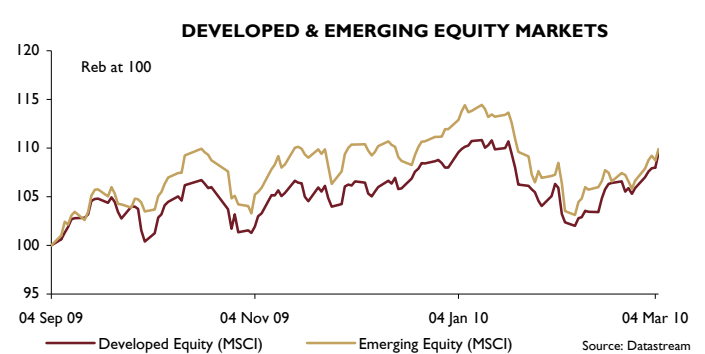
Employment component of US ISM surveys suggest US job growth will soon turn positive



Market Performance

Equity Markets As of: 5-Mar-10	Current	Performance (% local)				
		-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	844	3.4	6.9	2.7	1.4	22.8
FTSE All Share	2,861	4.5	10.2	5.3	3.6	25.0
FTSE 100	5,600	4.6	10.7	5.2	3.5	22.1
S&P 500	1,139	3.1	6.8	3.0	2.1	23.5
Nasdaq Composite	2,326	3.9	8.7	6.0	2.5	43.9
DJ EuroStoxx	271	5.5	8.6	0.0	-1.4	23.4
Nikkei 225	10,369	2.4	3.1	3.5	-1.7	19.0
Hang Seng	20,788	0.9	5.7	-7.6	-5.0	52.0
Emerging Equity (MSCI)	42,351	3.1	6.2	-0.4	-1.8	58.6
BRIC (MSCI)	525	3.4	7.4	-2.1	-1.7	68.0

Source: Datastream



10-Year Bond Yields As of: 5-Mar-10	Current	Change (basis points)				
		-1W	-1M	-3M	YTD	09
US Treasuries	3.7	7	11	20	-15	158
UK Gilts	4.1	2	7	24	-6	102
Euro Bonds	3.2	5	4	-5	-23	44
Japanese Bonds	1.4	1	-5	3	2	11

Source: Datastream

Commodity Markets As of: 5-Mar-10	Current	Performance (%)				
		-1W	-1M	-3M	YTD	09
Commodities (TR)	270	0.6	6.4	-0.1	-3.2	18.9
WTI Oil Price (Spot)	82	2.6	14.1	8.2	3.1	102.4
Gold Bullion (Spot)	1140	3.1	7.9	-5.6	4.0	27.1
Industrial Metals (TR)	355	4.8	18.8	6.9	1.5	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)	2.6	0.25	0.25	1.00	16-Mar
United Kingdom	(Base Rate)	3.5	0.50	0.50	0.50	08-Apr
Eurozone	(Repo Rate)	1.0	1.00	1.00	1.00	08-Apr
Japan	(Call Rate)	-1.3	0.10	0.10	0.10	17-Mar

Source: Coutts, RBS, Datastream

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