

Global Markets Weekly

Renewed investor concerns weighed on Greek debt and the euro, although worries were well contained.

Renewed concerns over Greek debt sent the euro close to its lowest level against the dollar in ten months. But indicators of growth globally continue to be encouraging, and contagion to the rest of the financial markets was limited. Commodity prices were firm, the S&P500 is still close to year-to-date highs and the VIX measure of expected equity market volatility remained at its lowest levels in 21 months. Over the weekend, euro-zone finance ministers agreed the detail of a plan to support Greece. This will involve member states contributing to a 30 bn euro loan fund, with an additional 15 bn euro being made available by the IMF. If implemented, these would cover Greece's funding requirements for the rest of this year.

This time the slide in Greek stocks and bonds didn't drag other markets with it.

Greek bond yield spreads over German bunds reached their highest levels since the single currency was introduced last week. However, it is important to put Greece's problems into context. It represents less than 3% of total euro-zone GDP, and crucially there was little evidence of weakness in Greek bond and equity markets spilling over into other euro-zone periphery markets or global equity markets, as was the case in January and February, the last time Greek bond yields spiked higher.

Increasing evidence of a firming global recovery was a key factor in limiting contagion from Greece.

Part of the reason for the lack of contagion is the increasing evidence that the global economic recovery is firming. Further confirmation over the past week included the US non-manufacturing ISM survey reaching its highest level in almost four years. The gauge of new orders, an important leading indicator within the survey, rose from 55 in the prior month to 62.3 in March, the highest since August 2005. The strong data was reflected across the Atlantic too, with encouraging PMI confidence surveys from the euro-zone services sector, at least for the region's largest economies Germany, France and Italy ('the big three'), which collectively account for almost two-thirds of euro-zone GDP.

UK industrial production figures played catch up with more buoyant UK survey evidence.

In the UK, industrial production staged a stronger-than-expected rebound in February following weather-related disruption in January, providing clearer evidence from the official statistics to back up the more buoyant survey data. Even if the level of industrial production is flat in March, the sector, which accounts for 17% of the economy as a whole, will grow by 0.6% quarter-on-quarter in the first quarter (Q1), reducing the chances of a 'double-dip' in growth back into negative territory when the preliminary Q1 GDP estimate is released on 23 April. The Bank of England kept interest rates on hold at its meeting on Thursday, as widely expected.

US officials were in no hurry to raise rates - not so Australia.

The minutes of the US Federal Reserve's March rate-setting meeting suggest that US policymakers are in no rush to raise rates either, citing weak labour market conditions and tight credit. In contrast, last week Australia's central bank raised its policy rate by 25 basis points (bp) for the second time this year, to 4.25%, citing strong growth in Asia that is putting pressure on commodity prices and a tightening domestic labour market.

China and the US may be reaching a deal on exchange rates, a positive for risk assets.

Finally, a deal between the US and China over the Chinese currency peg against the dollar appears to be brewing. The US recently delayed its announcement - originally due on 15 April - over whether it would brand China a 'currency manipulator.' This week Tim Geithner, US Treasury Secretary met Chinese Vice-Premier Wang Qishan for hastily scheduled talks. If China does re-peg its currency soon, this should be a positive for risk assets such as equities and commodities, as it increases the purchasing power of China in global markets and reduces the chances of damaging trade disputes between the US and China.

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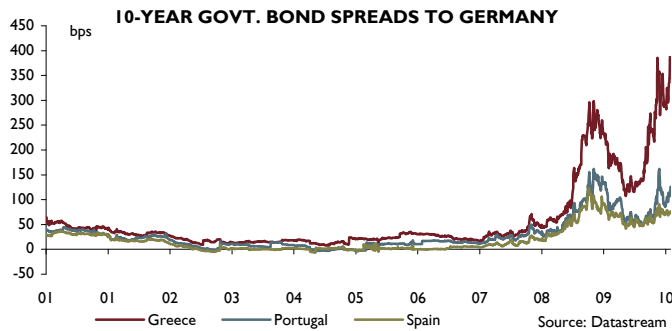
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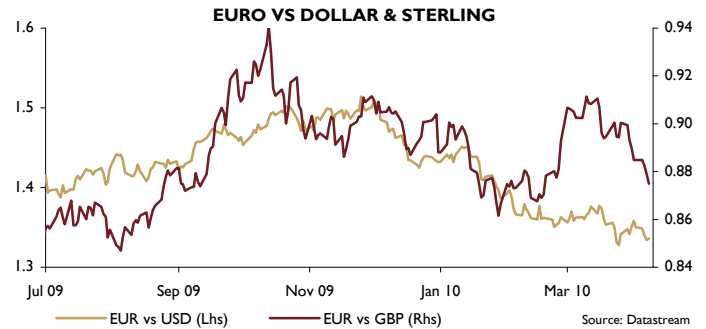
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Charts of the Week

Greek yield spreads hit new record high, but other countries less affected this time



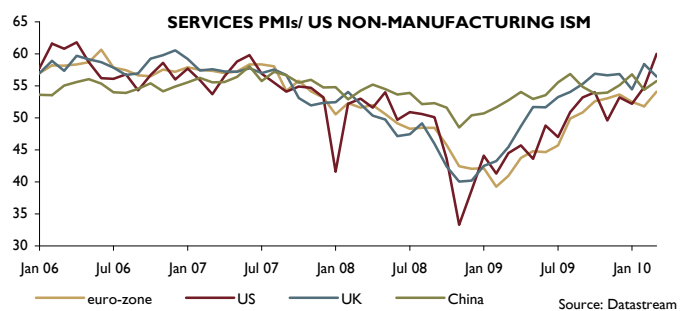
Euro weakens against dollar and sterling on renewed concerns over Greece



Investors remain calm, with VIX index of expected volatility levels reaching 21-month lows



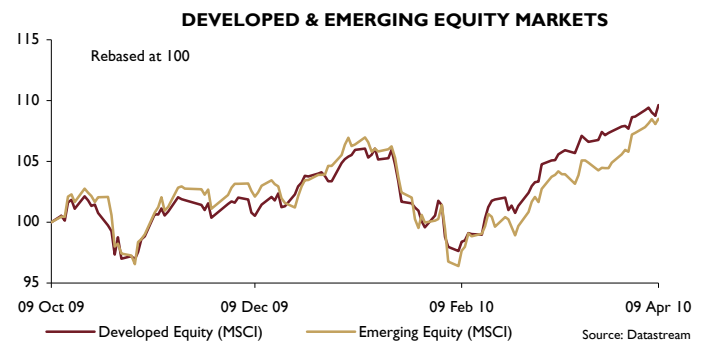
Services indices climb further as global activity and confidence continue to improve



Market Performance

Equity Markets As of: 9-Apr-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	883	0.9	4.3	3.5	6.1	22.8
FTSE All Share	2,962	0.6	3.5	4.7	7.3	25.0
FTSE 100	5,771	0.5	3.0	4.3	6.6	22.1
S&P 500	1,194	1.4	4.7	4.3	7.1	23.5
Nasdaq Composite	2,454	2.1	4.8	5.9	8.2	43.9
DJ EuroStoxx	283	0.6	4.5	0.6	3.0	23.4
Nikkei 225	11,204	-0.7	6.0	3.8	6.2	19.0
Hang Seng	22,209	3.1	4.7	-0.4	1.5	52.0
Emerging Equity (MSCI)	44,730	1.1	4.5	2.0	3.7	58.6
BRIC (MSCI)	555	1.6	4.5	1.9	3.9	68.0

Source: Datastream



10-Year Bond Yields As of: 9-Apr-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	3.9	1	18	5	5	158
UK Gilts	4.0	11	-1	-12	-7	102
Euro Bonds	3.2	6	2	-23	-23	44
Japanese Bonds	1.4	3	8	4	10	11

Source: Datastream

Commodity Markets As of: 9-Apr-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	270	0.7	0.6	-5.4	-3.2	18.9
WTI Oil Price (Spot)	85	-0.2	4.4	2.4	7.0	102.4
Gold Bullion (Spot)	1159	3.0	3.8	2.4	5.7	27.1
Industrial Metals (TR)	377	0.8	6.0	7.3	8.0	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	10-May
euro-zone	(Repo Rate)	1.5	1.00	1.00	1.00	06-May
Japan	(Call Rate)	-1.1	0.10	0.10	0.10	30-Apr

Source: Coutts, RBS, Datastream

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