



Global Markets Weekly

No respite for the euro from Greece's woes and concerns about weak growth.

The euro continued to drift lower over the past week amid ongoing uncertainty about how Greece's fiscal problems will be resolved and a weak report on eurozone GDP growth. Sterling also lost ground against the dollar as the Bank of England indicated it was in no rush to raise interest rates. However, the S&P 500 and key commodity prices have so far held their 150-day moving averages, an important technical support level.

A crisis in the markets has forced a political response.

On Thursday, the European Commission (EC) issued a statement saying that the eurozone member states were prepared to take "determined and coordinated action," if needed, to maintain financial stability "in the euro area as a whole." Although lacking specific measures, the statement was enough to reassure markets that Greece would not be left to go bankrupt. By Thursday, 10-year Greek bond yields had fallen a full percentage point compared to levels earlier in the week. A meeting of EU finance ministers on 15-16 February should provide more detail of the EC's proposals, with leaks suggesting plans to establish an emergency lending facility available to all eurozone countries, financed in large part by Germany. This has led some to comment that the "PIGS" (Portugal, Italy, Greece and Spain) are lining up at the trough of the German taxpayer. It also comes at a time when the eurozone recovery is already fragile. GDP grew by only 0.1% quarter-on-quarter in the final three months of 2009.

The Bank of England's February Inflation Report was relatively dovish...

The Bank of England's (BoE) inflation report showed that it expected UK inflation to undershoot the bank's 2% target in two years' time, begging the question of why it is not continuing with its quantitative easing program. Indeed, BoE Governor Mervyn King left the door open to a resumption of asset purchases, saying that it was "too soon" to conclude that no more would be needed.

...while the Fed initiated discussions on how to eventually remove its emergency stimulus.

In contrast, US Federal Reserve Chairman Ben Bernanke was already discussing how to withdraw the extra liquidity provided to support the financial system during the credit crisis. Bernanke was attempting to walk a tightrope, pointing out that discussion of options did not mean that monetary policy would be tightened anytime soon. At the same time, he also wanted to demonstrate to the 'bond market vigilantes' - those concerned about higher inflation down the line - that the bank does have tools to withdraw liquidity and will use them at the appropriate time.

Inflation in China came in lower than expected, but is still on an upward trend.

Finally, China's CPI inflation was 1.5% in January, down from 1.9% in December, as food costs rose more slowly than anticipated. However, reprieve on the inflation front may be short lived. Food prices can be volatile from month to month, and inflation remains in an upward trend. In addition, bank lending continues to support rising asset prices. Chinese banks lent out 1.39 trillion yuan (around \$200bn) in January, amounting to 19% of the 7.5 trillion yuan target set by the banking regulator for this year. China's central bank announced another 50 basis point hike in its required reserve ratio, with effect from 25 February. The hike came earlier than expected and underscores the authorities' concerns about excessive credit growth.

Carl Astorri
+ 44 20 7753 1612

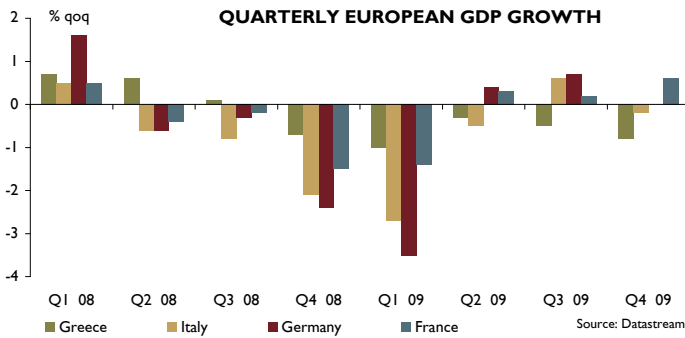
Jean-Maurice Ladure
+44 20 7753 1469

Henry Lancaster
+44 20 7957 2426

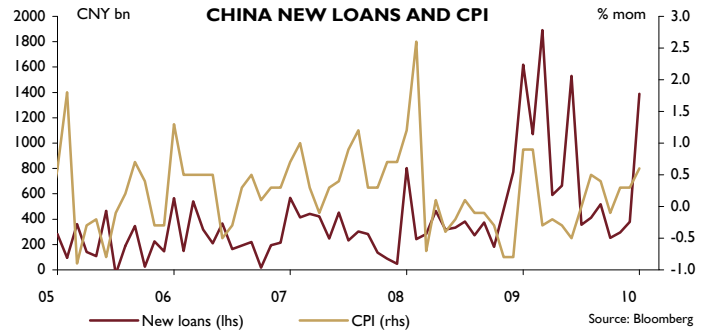
Georgios Tsapouris
+44 20 7753 1888

Charts of the Week

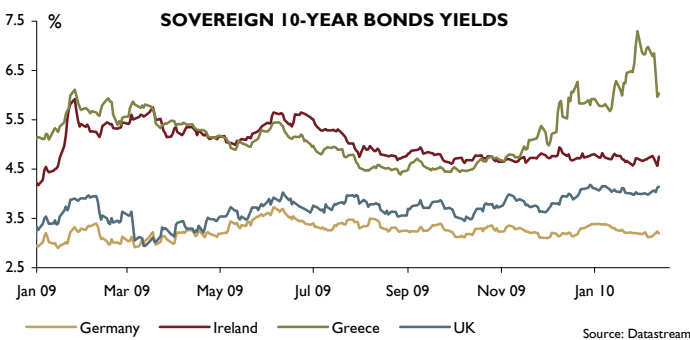
Eurozone growth disappoints in fourth quarter



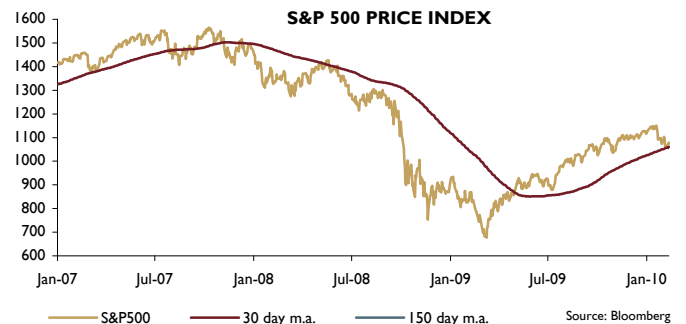
Bank lending in China still growing quickly. Inflation remains in an upward trend



Yield spreads fall as Greece gets verbal support from the European Commission



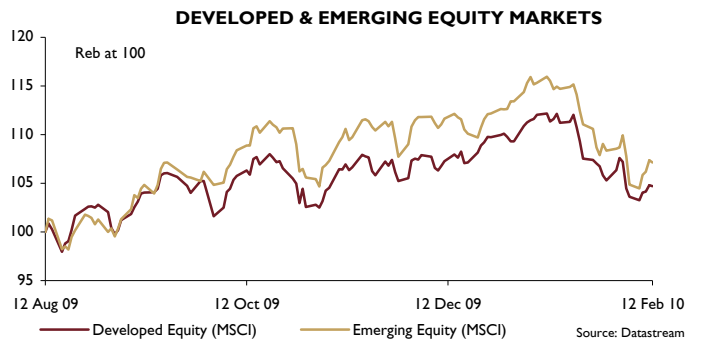
S&P 500 so far holding a key technical support level



Market Performance

Equity Markets As of: 12-Feb-10	Current	Performance (% local)				
		-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	798	1.1	-6.0	-1.5	-4.2	22.8
FTSE All Share	2,633	1.4	-6.3	-2.5	-4.6	25.0
FTSE 100	5,142	1.6	-6.5	-2.5	-5.0	22.1
S&P 500	1,076	0.9	-5.3	-1.1	-3.6	23.5
Nasdaq Composite	2,184	2.0	-4.3	1.6	-3.8	43.9
DJ EuroStoxx	252	1.1	-9.1	-6.1	-8.2	23.4
Nikkei 225	10,092	0.4	-7.2	2.9	-4.3	19.0
Hang Seng	20,269	3.1	-9.2	-9.5	-7.3	52.0
Emerging Equity (MSCI)	40,741	2.1	-7.3	-2.1	-5.5	58.6
BRIC (MSCI)	502	2.8	-8.2	-3.8	-6.0	68.0

Source: Datastream



10-Year Bond Yields As of: 12-Feb-10	Current	Change (basis points)				
		-1W	-1M	-3M	YTD	09
US Treasuries	3.7	12	-2	25	-14	158
UK Gilts	4.1	16	11	27	3	102
Euro Bonds	3.2	8	-12	-10	-19	44
Japanese Bonds	1.4	-3	-2	-4	5	11

Source: Datastream

Commodity Markets As of: 12-Feb-10	Current	Performance (%)				
		-1W	-1M	-3M	YTD	09
Commodities (TR)	263	3.5	-5.9	-0.3	-5.9	18.9
WTI Oil Price (Spot)	74	3.4	-8.2	-3.4	-6.5	102.4
Gold Bullion (Spot)	1087	2.8	-5.3	-2.8	-0.8	27.1
Industrial Metals (TR)	320	7.3	-7.8	4.5	-8.3	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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