



Global Markets Weekly

Markets grind higher as investors become more convinced of sustained upturn.

Equity markets continued to grind higher last week, with the S&P 500 eking out a new high for the year, as investors' worries about the sustainability of the global recovery gradually dissipated. The VIX index, a measure of expected volatility, also known as the investor 'fear gauge,' hit its lowest level since May 2008, although some would see this as a sign of investor complacency rather than optimism. Oil remained above the \$80 per barrel mark.

Chinese data reflects strong growth in the region, with inflation also accelerating.

A raft of data from China underscored the strength of the recovery in the region. Chinese exports rose 46% year-on-year in February. Base effects were part of the reason, with February 2009 being the low point of the crisis. The figures may have also been distorted by the late timing of the Chinese New Year holiday, which meant manufacturers rushed to meet orders before halting production. But even taking these factors into consideration, the figures were robust. Consumer inflation rose to 2.7% in February, from 1.5% in January, while producer price inflation also accelerated.

Slowdown in Chinese bank lending is on target, but more policy tightening is likely.

Data from China on new bank credit showed a decline to 700 bn yuan in February, from January's 1,400 bn yuan, roughly in line with expectations. New loans during the first two months of the year typically account for 20-25% of the annual total, suggesting new lending is on track to reach the 7,500bn yuan official target in 2010, compared to last year's 9,500bn yuan of lending. Nonetheless, officials will likely remain cautious about the potential for lending to surge again. Overall, the data suggests further gradual policy tightening in the months ahead by the Chinese authorities. This is likely to take the form of higher bank reserve requirement ratios, increased interest rates and, eventually, appreciation of China's currency. Markets have already priced in an appreciation of about 3% in the yuan against the dollar over the next 12 months.

Data in some advanced economies was disappointing, although still consistent with modest growth.

In the advanced economies, industrial production in the UK and Germany was weaker than expected in January. The UK trade deficit also widened unexpectedly to an 18-month high, with extreme winter weather possibly having played a part. Nevertheless, the weaker-than-expected UK data so far this year has increased the chance of disappointing first-quarter GDP growth when the Office for National Statistics releases its first estimate on the 23rd April. This is likely to be just before the general election.

The UK housing market continues to recover, but the pace appears to have slowed.

The UK housing recovery may also be losing a little steam. The Royal Institution of Chartered Surveyors (RICS) survey showed that the percentage balance of real-estate agents and surveyors saying prices rose exceeded those reporting declines by 17 percentage points in February, down from 31 percentage points in January. However, this is still consistent with modest house-price appreciation.

US retail sales were robust, despite blizzards.

In the US, retail sales rose at a healthy clip in February, despite harsh snowstorms in a number of regions that many economists thought would keep shoppers at home. Although auto sales fell 2.0% month-on-month (m/m), core components of the report rose, with general merchandise gaining 1.0% m/m and home electronics sales surging 3.7% m/m.

Carl Astorri
+ 44 20 7753 1612

Jean-Maurice Ladure
+44 20 7753 1469

Henry Lancaster
+44 20 7957 2426

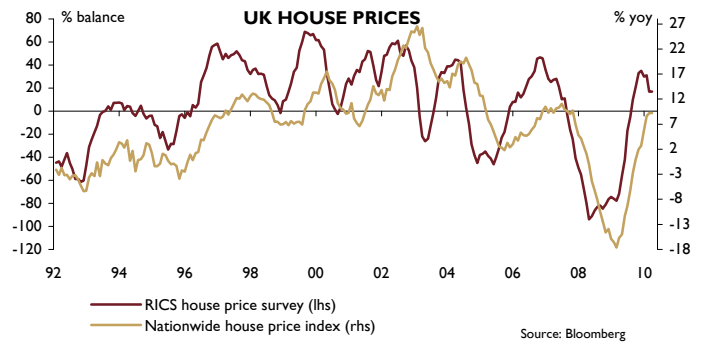
Georgios Tsapouris
+44 20 7753 1888

Charts of the Week

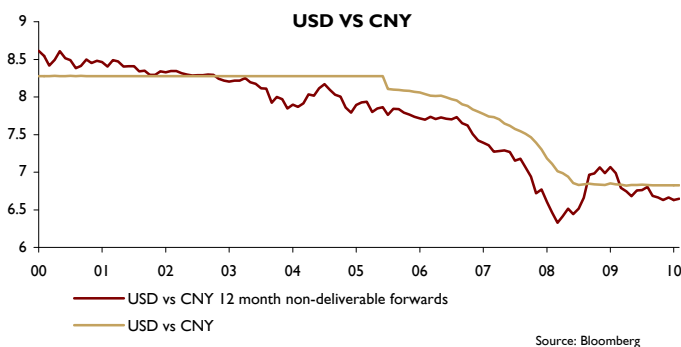
VIX Index of "investor fear" drops to its lowest level since May 2008



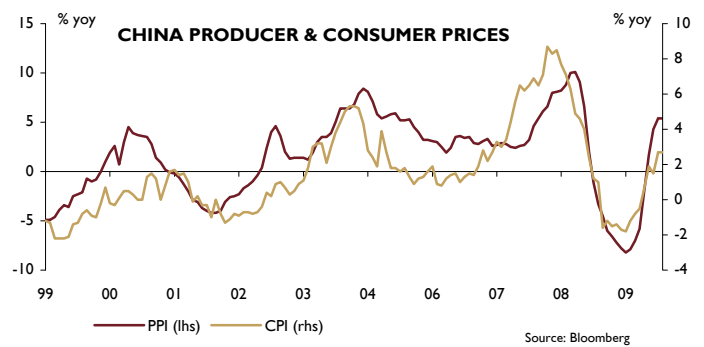
UK house prices are still in recovery mode, but the pace softened in February



Forward rates show expectations that China's currency will appreciate by about 3% in the next 12 months



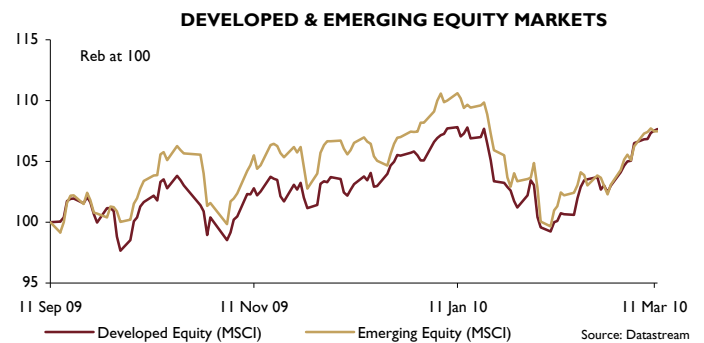
Chinese inflation accelerates against the backdrop of moves to rein in bank lending



Market Performance

| Equity Markets As of: 12-Mar-10 | Current | Performance (% local) | | | | |
|------------------------------------|---------------|-----------------------|------------|------------|-------------|-------------|
| | | -1W | -1M | -3M | YTD | 09 |
| Developed Equity (MSCI) | 853 | 1.1 | 7.0 | 4.4 | 2.5 | 22.8 |
| FTSE All Share | 2,879 | 0.6 | 9.3 | 7.3 | 4.3 | 25.0 |
| FTSE 100 | 5,626 | 0.5 | 9.4 | 6.9 | 3.9 | 22.1 |
| S&P 500 | 1,150 | 1.0 | 6.9 | 3.9 | 3.1 | 23.5 |
| Nasdaq Composite | 2,368 | 1.8 | 8.4 | 8.1 | 4.3 | 43.9 |
| DJ EuroStoxx | 273 | 0.9 | 8.3 | 2.6 | -0.6 | 23.4 |
| Nikkei 225 | 10,751 | 3.7 | 6.5 | 6.4 | 1.9 | 19.0 |
| Hang Seng | 21,210 | 2.0 | 4.6 | -3.2 | -3.0 | 52.0 |
| Emerging Equity (MSCI) | 42,847 | 1.2 | 5.2 | 0.9 | -0.7 | 58.6 |
| BRIC (MSCI) | 532 | 1.3 | 5.9 | 0.0 | -0.4 | 68.0 |

Source: Datastream



| 10-Year Bond Yields As of: 12-Mar-10 | Current | Change (basis points) | | | | |
|---|---------|-----------------------|-----|-----|-----|-----|
| | | -1W | -1M | -3M | YTD | 09 |
| US Treasuries | 3.7 | 2 | 1 | 16 | -13 | 158 |
| UK Gilts | 4.1 | 5 | -5 | 14 | -1 | 102 |
| Euro Bonds | 3.2 | 1 | -2 | -4 | -22 | 44 |
| Japanese Bonds | 1.4 | 3 | 1 | 6 | 6 | 11 |

Source: Datastream

| Commodity Markets As of: 12-Mar-10 | Current | Performance (%) | | | | |
|---------------------------------------|------------|-----------------|------------|-------------|-------------|-------------|
| | | -1W | -1M | -3M | YTD | 09 |
| Commodities (TR) | 266 | -1.7 | 1.1 | -0.5 | -4.8 | 18.9 |
| WTI Oil Price (Spot) | 81 | -0.7 | 9.5 | 16.4 | 2.4 | 102.4 |
| Gold Bullion (Spot) | 1109 | -2.7 | 2.1 | -0.4 | 1.2 | 27.1 |
| Industrial Metals (TR) | 353 | -0.6 | 10.0 | 6.3 | 0.9 | 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) | 2.6 | 0.25 | 1.00 | 2.00 | 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

Issued by Coutts & Co, which is authorised and regulated by the Financial Services Authority. Coutts & Co is registered in England No. 36695. Registered office: 440 Strand, London WC2R 0QS.

The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance should not be taken as a guide to future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment or banking product, nor does it constitute a personal recommendation. The information is believed to be correct but cannot be guaranteed. Any opinion or forecast constitutes our judgement as at the date of issue and is subject to change without notice. Any Coutts company, or a connected company, its clients and officers may have a position or engage in transactions in any of the securities mentioned.

The analysis contained in this document has been procured, and may have been acted upon, by Coutts & Co and connected companies for their own purposes, and the results are being made available to you on this understanding. To the extent permitted by law and without being inconsistent with any applicable regulation, neither Coutts & Co nor any connected company accepts responsibility for any direct or indirect or consequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon such analysis.

Not all products and services offered by the individual Coutts companies are available in all jurisdictions, and some products and services may be available only through particular Coutts companies.

None of the overseas Coutts companies or offices is an Authorised Person subject to the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors and depositors, and compensation under the Financial Services Compensation Scheme will not be available in respect of business transacted with them.