15 March 2010

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

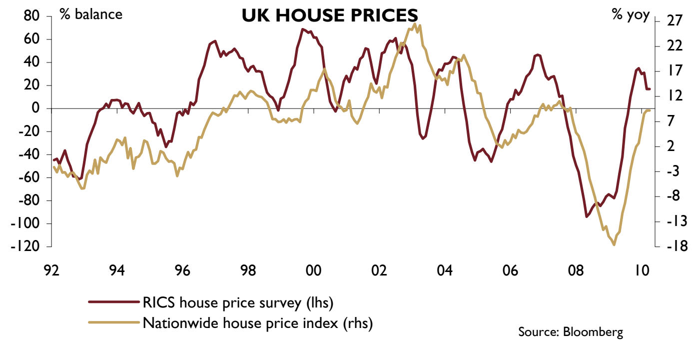
Georgios Tsapouris
+44 20 7753 1888

Charts of the Week

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

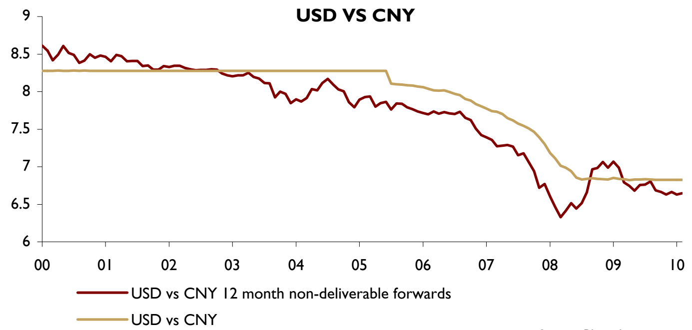
Source: Bloomberg

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



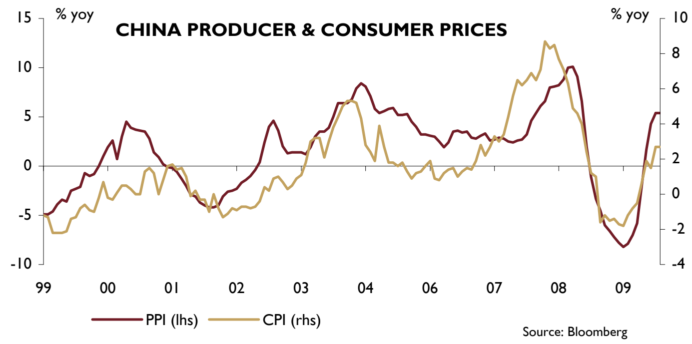
Source: Bloomberg

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



Source: Bloomberg

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

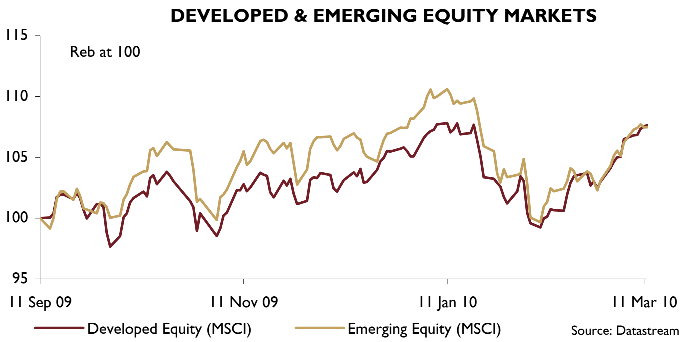


Source: Bloomberg

Market Performance

Equity Markets As of: 12-Mar-10	Current	-1W	-1M	-3M	YTD	09
		Performance (%, local)				
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



Source: Datastream

10-Year Bond Yields As of: 12-Mar-10	Current	-1W	-1M	-3M	YTD	09
		Change (basis points)				
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	-1W	-1M	-3M	YTD	09
		Performance (%)				
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 (%) Current	Jun '10	Sep '10	Rate Announcement Next Date
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