



Global Markets Weekly

Goldman news casts a pall, but positive data brings some recovery.

Global equity markets started the week down after the news of charges against Goldman Sachs by US regulators on the previous Friday. However, while equities, commodities and other risk assets all experienced further weak days, they finished the week off their lows, helped by continuing positive news on the economy and profits. Defensive assets, such as sovereign bonds of the leading economies, rallied modestly while the US dollar and Japanese yen received a fillip.

Economic data remained positive, though this may be increasingly discounted by investors.

The IMF again upgraded its forecast for global economic growth this year, from 3.9% published in January, to 4.2%. The economic surveys and leading indicators continue to improve, with gains in the German Ifo survey, euro-zone composite Purchasing Managers' Index and leading indicators in the US and Canada. The UK recorded another quarter of modest growth with GDP up 0.2%, despite an unusually cold winter. Even the US housing market improved, with new starts, sales and prices all up in March, triggering another surge in lumber prices which are now some 40% up this year. First-quarter US corporate results have also been strong, with some 80% of companies reporting so far having exceeded consensus profit forecasts. Perhaps more importantly, 65% beat revenue expectations.

Investor concerns centred on political risks.

Political uncertainty is a particular sensitivity for investors, as these risks cannot be assessed or hedged in the same way as economic or market volatility. With many markets at new highs, they appeared vulnerable to any reduction in investor risk appetite. Goldman Sachs was the first headline, but there was also US President Obama's speech pushing for the passage of new financial regulation (though more moderate than many feared). Greece also dominated, with yields on its two-year bonds hitting 10% on Friday ahead of the formal activation of IMF and EU agreements. There was also continuing turmoil in Thailand, while South Korea moved closer to announcing a formal conclusion of its investigation of the sinking of a frigate with the loss of 46 lives. By contrast, the UK general election has ebbed from market concerns as investors become more familiar with the possible outcomes.

The euro takes the strain as the Greek crisis continues.

The euro was a major casualty of the continuing Greek crisis, hitting 11-month lows against the dollar. This does not just reflect short-term concerns over the outcome for Greek debt, but also more strategic concerns about the nature of the currency union. As our chart overleaf shows there is a clear connection between periods of sharp divergence in the yields on sovereign bonds of member states and the value of the euro. We have a strategic negative view on the euro to reflect these concerns.

Tightening in other emerging markets puts more pressure on China.

Monetary policy was tightened further in India to curb domestic and commodity-related inflationary pressures. Measures by emerging economies to cool their booming economies have also led to more pressure on China to revalue the yuan. The head of the Central Bank of Brazil said that a stronger Chinese currency was "absolutely critical for the equilibrium of the world economy," comments that were echoed by the Governor of the Reserve Bank of India. Concerns over tightening continue to hang over Chinese equities, while in Brazil and India, where rates have already been raised, stocks have rallied.

Carl Astorri
+ 44 20 7753 1612

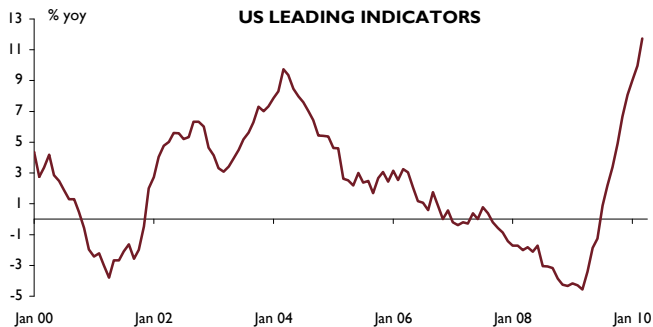
Jean-Maurice Ladure
+44 20 7753 1469

Henry Lancaster
+44 20 7957 2426

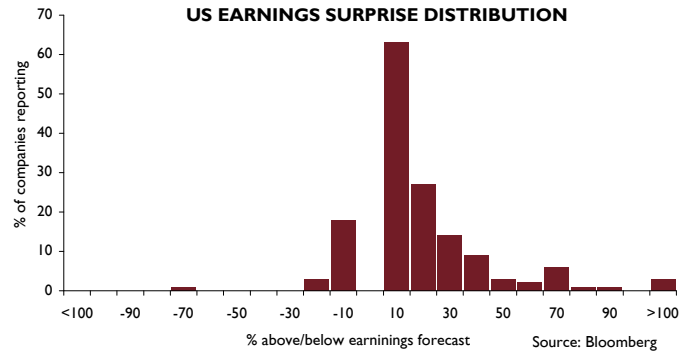
Georgios Tsapouris
+44 20 7753 1888

Charts of the Week

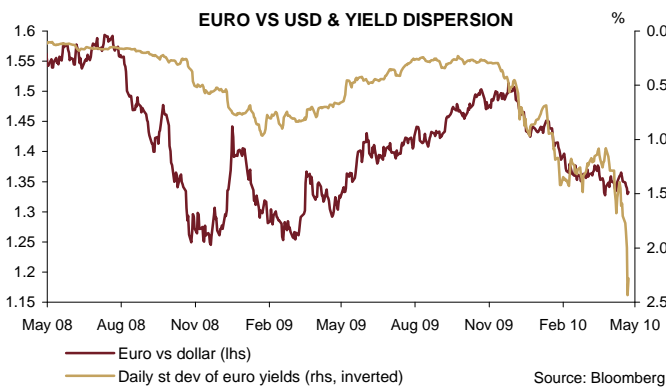
Leading indicators are continuing to improve in the US



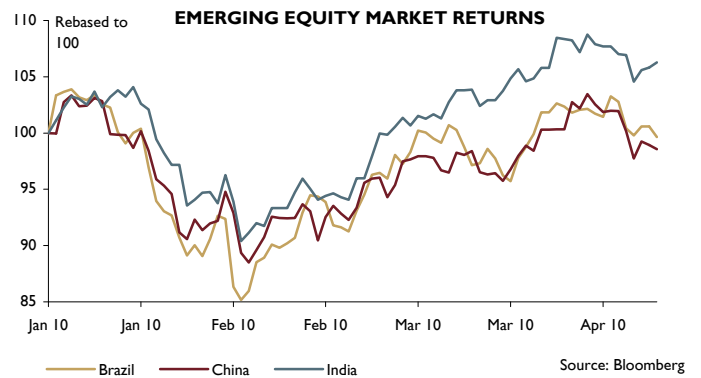
US earnings are also clearly surprising on the upside in the first quarter



Economic divergence feeds concern over euro-zone and weighs on its currency



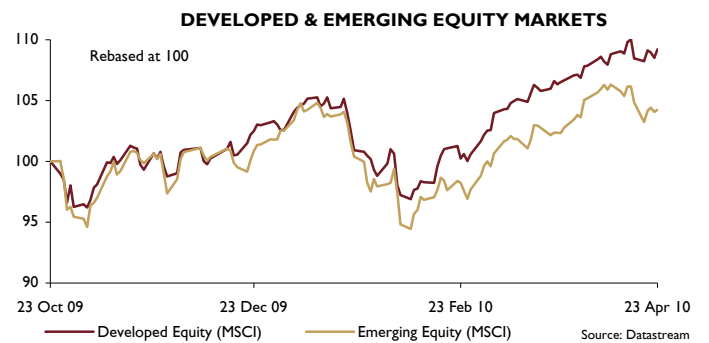
Brazilian and Indian equities have outperformed China



Market Performance

Equity Markets As of: 23-Apr-10	Performance (% local)					
	Current	-1W	-1M	-3M	YTD	09
Developed Equity (MSCI)	886	0.7	2.5	8.2	6.5	22.8
FTSE All Share	2,946	-0.1	1.5	8.6	6.7	25.0
FTSE 100	5,724	-0.4	0.9	7.9	5.7	22.1
S&P 500	1,217	2.1	3.7	11.5	9.2	23.5
Nasdaq Composite	2,530	2.0	4.8	14.7	11.5	43.9
DJ EuroStoxx	278	-0.6	1.0	4.3	1.2	23.4
Nikkei 225	10,914	-1.7	1.3	3.1	3.5	19.0
Hang Seng	21,244	-2.8	1.2	2.5	-2.9	52.0
Emerging Equity (MSCI)	43,851	-0.6	1.8	3.8	1.7	58.6
BRIC (MSCI)	536	-1.0	1.3	3.4	0.4	68.0

Source: Datastream



10-Year Bond Yields As of: 23-Apr-10	Change (basis points)					
	Current	-1W	-1M	-3M	YTD	09
US Treasuries	3.8	4	12	21	-2	158
UK Gilts	4.0	6	13	3	-7	102
Euro Bonds	3.1	-2	1	-14	-32	44
Japanese Bonds	1.4	-3	-3	0	3	11

Source: Datastream

Commodity Markets As of: 23-Apr-10	Performance (%)					
	Current	-1W	-1M	-3M	YTD	09
Commodities (TR)	273	0.7	3.2	0.9	-2.2	18.9
WTI Oil Price (Spot)	85	2.4	4.3	15.2	7.3	102.4
Gold Bullion (Spot)	1156	1.8	4.4	5.9	5.5	27.1
Industrial Metals (TR)	375	-1.2	6.5	9.0	7.2	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)	2.3	0.25	0.25	0.75	28-Apr
United Kingdom	(Base Rate)	3.4	0.50	0.50	0.50	10-May
euro-zone	(Repo Rate)	1.4	1.00	1.00	1.00	06-May
Japan	(Call Rate)	-1.1	0.10	0.10	0.10	30-Apr

Source: Courts, RBS, Datastream

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