



## global weekly

Investment  
Communication  
8 November 2013

### Timing the big surprise with ECB rate cut

The noteworthy event this week was the ECB's cut in the refinancing rate. The surprise, however, was in terms of timing, not the actual decision to move rates lower. In the US, data continues to be mixed, although we remain convinced that the US economy will begin to gain speed not too long from now.

The ECB surprised markets with a 25 basis point (bp) cut in the refinancing rate this week. Although the timing of the move was a surprise, we believe the case for a rate reduction was overwhelming, given the outlook for uncomfortably low inflation. In fact, we expect eurozone headline inflation to fall further in the coming months, and it is likely to significantly undershoot the ECB's price stability goal over the next two years. This reflects that the economy is recovering, but only slowly and following a long period of weakness.

The ECB has left the door open for further easing, which we expect is likely. We therefore believe that there is room for a further correction in short-term rate expectations. This would largely benefit five-year government bond yields.

In the US, the ISM non-manufacturing index unexpectedly rose in October. And, amidst the details, there was a solid rise in the employment index. That said, the more forward-looking new-orders index declined, although it remains at elevated levels. Overall, the increase in both the ISM manufacturing and non-manufacturing indexes suggests that the US economy weathered the consequences of the government shutdown relatively well. While Q3 GDP, released this week, beat expectations, and accelerated to 2.8% in Q3 from 2.5% in Q2, domestic demand growth was lacklustre. There is evidence that the US economy has not been doing as well as it appeared. We remain convinced, however, of the US economy's positive fundamentals and expect it to accelerate sharply in the coming months.

### Bond market update

Bond yields moved broadly sideways this week. The better-than-forecast non-manufacturing ISM data initially pushed long-term Treasury yields higher, slightly steepening the US-dollar benchmark yield curve. German Bunds followed at a

### Equity index performance in local currencies

	Value	One week (%)	Year-to-date (%)
MSCI ACWI	392.9	-0.7	15.6
S&P 500	1747.15	-0.5	22.5
EuroStoxx 50	3042.98	-0.8	14.8
DAX	9081.03	0.2	18.6
Nikkei 225	14086.8	-1.7	35.5
Hang Seng Index	22744.39	-2.2	0.4

### Important rating changes

Company	From	To
Expedia	Buy	Hold
Allergan	Hold	Buy
Boskalis Westminster	Hold	Sell

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.284	-2.3	2.4
German Bunds 2-year	0.097	-1.8	13.0
Japan 2-year	0.094	-0.4	-0.6
US Treasuries 10-year	2.611	5.6	99.5
German Bunds 10-year	1.696	2.2	33.2
Japan 10-year	0.594	-0.1	-15.6

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	73.68	0.70	-30.94
iTraxx Euro 5-year	82.10	-1.16	-48.97
JPM EMBI+	344.99	17.04	68.73

Performance data is as of 12:00 pm Friday, 8 November

Source: Bloomberg

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distance, as eurozone macroeconomic fundamentals were less favourable and deflation risks in the eurozone further increased.

The ECB's surprise cut in the refi rate resulted in lower benchmark yields. Most market participants had anticipated a rate cut but not until the December meeting. The central bank kept the deposit rate at zero, and cut the marginal lending rate to 0.75% from 1%.

Although financial markets reacted positively to the central bank's policy decision, with risk assets extending rallies and Bund yields falling some 7 bp, it remains to be seen if a lower refi rate will sufficiently fuel the eurozone economy to avoid an outright deflationary scenario. Excess liquidity in the European banking system is still abundant, despite last week's three-year LTRO repayment being the biggest since April. Hence, a lower refinancing rate is unlikely to have a substantial effect on interbank rates, hampering a smooth transmission of the looser monetary policy to credit growth. As a result, households and smaller companies are unlikely to benefit from the rate cut through lower interest rates. Meanwhile, the strong euro, record high unemployment and shrinking bank lending are a further drag on the eurozone economy.

Credit markets continue to perform well, benefiting from stable benchmark yields and credit spreads, both in the investment-grade and high-yield segments. New issuance has picked up slightly, after the wait-and-see mode that followed the decision to not trim asset purchases in September. A number of companies tapped the markets, wanting to lock-in low borrowing costs. For the coming weeks, we expect market activity to gradually slow, as we approach year-end. We expect spreads to perform well, based on tight supply, strong demand, healthy corporate fundamentals and prudent financial policies. With a shrinking investment-grade market and a lack of supply in the high-yield segment, coupled with continued central bank liquidity, we expect some further spread tightening in the near future.

### Equity update: profit-taking after strong rallies

With US and European markets having gained some 5% on average over the past four weeks, and with emerging markets and Japan continuing to lag, the time was ripe for some profit-taking this week. This resulted in a weekly loss of some 1 to 2% for most stock exchanges.

Any excuse would have done, but this time it was good rather than bad news that led investors to move to the sidelines. The lowering of the benchmark interest rate by the ECB on Thursday and positive US economic data led to fear: of an end to monetary stimulus in the US and of disinflation taking a hold in Europe.

Rallies have been strong recently. Investors may have become a bit too fearless, which is not advisable in such a risky asset class as equities. Nevertheless, the earnings season was upbeat, although enthusiasm has declined as the reporting period nears its end. In general, disappointments were few and the outlook is slowly turning more positive, in particular, for European growth.

### Earnings season winners: new economy players

While the 'new economy' was a too-often heard phrase during the internet bubble that burst in 2000, it is now being heard again to indicate that the web and other innovations are now firmly on track to change the lives and lifestyles of the global population. And, for web-based services, this time around there is more clarity on who the winners and the losers will be.

We believe that real profits will be made by the suppliers of both infrastructure for internet-based businesses and for the shops now active on the web. The successful Twitter IPO this week is a clear indication that social media is becoming a dominant part of both our private and business lives. Advertising and shopping revenues are no longer focused on brick-and-mortar shops, clunky PCs and piles of paper in the form of newspapers and magazines. Instead, the web and the cloud are taking over.

This was apparent during the earnings season, as new economy companies posted higher profitability. The results from Amazon, Priceline, eBay, Facebook, LinkedIn and Twitter cheered investors, as did the numbers from platform providers, Google and Baidu. The results for old-style providers, such as IBM, Oracle, and even Qualcomm, however, were less convincing, with visible declines in revenues. Our favourites include eBay (Buy), Amazon.com (Hold), Google (Hold) and Baidu (Hold).

### Reporting calendar

Company	Date
News Corp.	11 Nov
Deutsche Post, Singapore Airlines, Bilfinger Berger, AA Real, Henkel, Infineon, Vodafone, Sumitomo Mitsui	12 Nov
A/P Moeller - Maersk, PSP Property, E.ON, Hochtief, Celesio, Cisco, Stada Arzneimittel, Intesa Sanpaolo, Sainsbury	13 Nov
IKB bank, Ahold, Vivendi, Unit. Internet, RWE, MLP, Salzgitter, Wal-Mart, Zurich Financial, Merck, KBC, Unicredit, Tyco Int'l, EDS, Mitsubishi Financial, Mizuho Financial, Samsung, Viacom	14 Nov
Boskalis Westminster, Dexia	15 Nov

### Currency outlook

There were a few major developments this week in currency markets. For starters, there was the surprise ECB rate cut, which resulted in an aggressive sell-off of the euro across the

board. Another major development was that most emerging-market currencies moved lower versus the US dollar, despite the improvement in overall investor sentiment, which was reflected in lower equity prices and currency volatility. The modest move higher in US yields and the weaker US domestic data were mainly responsible. The US dollar had a mixed performance versus other major currencies, which was surprising given the better US economic data, including the above-consensus employment report. This was partly because Fed officials continued to sound dovish. The US dollar mainly gained versus the Swiss franc, Canadian dollar and the Australian dollar. The Japanese yen moved slightly higher versus the dollar, based on dollar weakness and the Bank of Japan's reluctance to ease monetary policy further.

#### Currency forecasts

	Today	Q4 2013	Year-end 2014
EUR/USD	1.335	1.35	1.20
GBP/USD	1.6032	1.63	1.50
USD/JPY	99.25	100	110

Source: ABN AMRO Group Economics

#### Asset allocation

No change to the overall asset allocation was made this week. The asset allocation continues to reflect a strong overweight in equities, a strong underweight in bonds, neutral allocations to property and commodities and a hedge fund allocation only in the defensive (overweight) and the more balanced (neutral) profiles. Within equities, all regions are neutral, except for an overweight in European equities and an underweight in North America.

#### New publications

##### Bond Markets Monthly: Abundant liquidity maintained

Bond yields continued their downward trend in October, that was initiated with the Federal Reserve's decision in September not to start tapering monetary stimulus measures. Focus temporarily shifted to the partial shutdown of the US federal government and the risk of a sovereign debt default, lifting short-term bond yields. After US Congress agreed on a temporary deal, market attention returned to the macroeconomic fundamentals and their expected implications for monetary policy.

##### Real Estate Update: fundamentals strong

Despite a sell-off over the summer, we remain positive on real estate sector fundamentals, with a preference for US real-estate investment trusts.

#### Hedge Funds Monthly: Favourable backdrop

Hedge funds benefited from the market rebound in September, after the US Federal Reserve decided not to taper its bond purchases. Towards the end of the month, however, volatility increased as investors prepared for a US government shutdown over the budget bill impasse. The HFRX Global Hedge Fund Index closed the month with a return of +1%, bringing the year-to-date performance to 4%, with volatility of only 3.4%.

#### Next week's calendar

##### Important dates next week

		Date
Industrial production	CN	9 Nov
Retail sales	CN	9 Nov
Economy Watchers Survey	JP	11 Nov
CPI	DE	12 Nov
NFIB small business optimism	US	12 Nov
Industrial production	EC	13 Nov
GDP	JP	14 Nov
Industrial production	JP	14 Nov
GDP	EC	14 Nov
Trade balance	US	14 Nov
Core inflation	EC	15 Nov
Empire State PMI	US	15 Nov
Industrial production	US	15 Nov

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