



## global weekly

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Communication  
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## A breath of fresh air from the US

Encouraging newsflow from the US, a better-than-expected earnings season and positive sentiment in credit markets is lifting investor morale. Even China's trade data was more upbeat than expected, signalling that its economy could be stabilising. This week, the Global Investment Committee returned to a strong overweight in equities.

### Macro update

The upbeat economic reports out of the US continue to roll. Even job growth appears to be accelerating. That was the message from this week's initial jobless claims data. While claims edged up slightly after a sharp decline last week, the less-volatile four-week moving average declined to 335,500, a low not seen since November 2007 and before the last recession.

With household balance sheets rapidly gaining strength, the labour market recovery gaining pace and credit conditions improving, it would not be a big surprise to see US consumers feeling good about the future. All this makes a strong case for US demand to continue to accelerate in the coming months, which should help to lift global economic growth, world trade and investor sentiment.

### Domestic demand picking up

Another positive sign regarding domestic demand was detected in the service sector Purchasing Manager's Index (PMI) indicators for advanced economies that were released this week. Service sector PMIs rose significantly in the US, UK and eurozone, suggesting that domestic demand is picking up steam. Emerging markets, however, appear to be still losing momentum, perhaps with the exception of China. The acceleration in advanced economies' demand should, however, over time lift emerging market exports and overall global growth and trade.

China's July trade data was robust, signalling that the economy could be stabilising. The US trade deficit fell sharply in June (to USD 34.2 bn from USD 44.1 bn) taking it to the lowest level since October 2009. The immediate implication is that US Q2 GDP growth will be revised upwards by up to 0.75%, while the bigger picture is that underlying trends in US trade are improving because of the direct and indirect effects of the shale energy revolution.

### Equity index performance in local currencies

	Value	One week (%)	Year-to-date (%)
MSCI ACWI	376.82	-0.5	10.9
S&P 500	1697.48	0.3	18.6
EuroStoxx 50	2816.88	0.1	6.7
DAX	8318.32	-1.1	9.3
Nikkei 225	13615.19	-5.9	31.0
Hang Seng Index	21807.56	-1.7	-3.7

### Important rating changes

Company	From	To
Fedex	Buy	Hold
BMW	Hold	Buy
Marks & Spencer	Sell	Hold
Commerzbank	Buy	Hold
China Shipping	Hold	Buy

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.30	-32.4	-27.1
German Bunds 2-year	0.16	-15.2	5.4
Japan 2-year	0.11	-12.2	-8.7
US Treasuries 10-year	2.59	-268.1	-162.4
German Bunds 10-year	1.69	-165.0	-140.4
Japan 10-year	0.76	-79.1	-79.5

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	75.25	0.88	-27.54
iTraxx Euro 5-year	95.65	-0.92	-53.41
JPM EMBI+	338.12	8.82	37.70

Performance data is as of 12:00 pm Friday, 9 August

Source: Bloomberg

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## Bond market update

US Treasuries and German Bunds moved sideways this week. US macro data confirmed that the country's economic recovery remains on track and the eurozone's PMI figures indicate that the region's delicate economic recovery is ongoing.

The Bank of England (BoE) followed the Federal Reserve in giving an explicit forward guidance to keep rates low for a prolonged period. The Monetary Policy Committee (MPC) of the BoE is not considering scaling back its asset purchases or reducing the interest rate until the unemployment rate reaches 7%, which it does not expect to occur until the end of 2016. We expect that the ECB will follow suit in communicating a more explicit forward guidance. This is necessary, as the ECB needs to give credibility to its previously communicated forward guidance. ECB chief Mario Draghi reiterated that interest rates will remain at present or lower levels for an extended time period and added that the current expectations for rate hikes in money markets are 'unwarranted.'

The sentiment in credit markets remained positive, both in the investment-grade and high-yield segments. Investors are continuing to add risk in a prudent manner, as the supply of corporate bonds remains light. This caused credit spreads to gradually tighten. Furthermore, solid corporate earnings over the second quarter have so far been constructive for both credit and equity markets. We expect this trend to continue, with credit markets supported by a benign supply outlook of new corporate bonds for the remainder of the year. In particular, new issuance from the financials sector will be significantly less than the amount of redemptions. This is because banks are reducing their balance sheets and have been attracting deposits in order to become less dependent on funding from capital markets.

In high yield, we expect to see more activity in the new issuance market, as these issuers are increasingly refinancing their loans in the public market, because banks are less willing to lend to them under the new regulatory framework.

## Equities update

US and European markets took a breather this week after US markets climbed to new all-time highs last week. Despite better-than-expected macroeconomic data from China, Asian markets were lower, which could be due to profit-taking. Overall, volumes were low.

The earnings season continues in Europe, while in the US it is nearing the end, with 448 companies of the S&P 500 Index having reported. More than two-thirds (67%) beat earnings expect-

tations. In Europe, a number of financials reported this week. HSBC, Munich RE and Aegon disappointed, while Standard Chartered, ING and Credit Agricole surprised positively. All in all we continue to be more positive on US financials.

In terms of sectors, Nestle, the world's largest food & beverage company, reported mixed results, but its revenue growth lagged behind peers in the consumer staples sector, such as Unilever and Danone. In the energy sector, US Chevron reported weak results, which were in line with expectations, while most of its competitors disappointed. Of the major integrated oil companies, we prefer Chevron, but, in general, we are not enthusiastic about the subsector, owing to high costs and low margins.

This week also saw fireworks within the chemicals industry, which remains our preferred subsector within materials. Lanxess, the leader in synthetic rubber for the tyre market, was a dud when it cut its full-year outlook. On the other hand DSM, an integrated industrial company, delivered solid, high-quality results, driven by its nutrition segment. Symrise, the leading fragrances and flavours maker, had excellent results with demand remaining strong. Finally, Agrium, a large agricultural retailer, reported its highest quarterly earnings ever, beating all expectations. Next week Wal-Mart reports second-quarter earnings. Over the year, the stock has lagged its US peers, as the company lost its competitive pricing edge. A change in strategy, focusing on aggressive pricing should bring the company back on track.

## Reporting calendar

Company	Date
Bilfinger Berger, Prudential	12 August
AA Real, E.ON, OMV, Geberit, Van Lanschot, Thyssenkrupp	13 August
IKB Bank, Unit. Internet, Hochtief, Celesio, Vastned Retail, RWE, MLP, Salzgitter, Cathay Pacific, Swiss Life Holding, Cisco Systems	14 August
China Mobile, Holcim, Wal-Mart, Zurich Financial, Estee Lauder, Boskalis, Aalberts	15 August
A/P Moeller - Maersk, PSP Property	16 August

A more detailed description of our strategic equity views will be available in the next issue of the Equities Strategy Monthly, due next week.

## Asset allocation

The Global Investment Committee (GIC) on 8 August decided to increase the allocation to equities, moving to a strong overweight at the expense of cash. In addition, the underweight in European equities was closed, with the allocation moved to

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neutral. The increase to European equities was at the expense of emerging markets equities, and, in particular, emerging markets Asia. As a result, the allocation to emerging markets equities was reduced from overweight to neutral.

The committee also reaffirmed its overall asset allocation, consisting of a now strong overweight in equities, an 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. For more information, read today's issue of the GIC Update.

### Currency outlook

The euro came under some pressure after ECB chief economist Peter Praet said that further rate cuts remain an option. However, better-than-expected German data and some weaker US data releases pushed the euro versus the US dollar above 1.33. The British pound rose to 1.55 as the market remains skeptical that rates will remain low until Q3 2016, given the recent improving economic outlook and elevated inflation.

The Japanese yen strengthened as interest rate differentials between the US and Japan narrowed. Market expectations that the Bank of Japan will hold back on further monetary easing measures in the coming months also supported the yen. Better trade data from China also supported risk sentiment in the yuan and Asian currencies.

#### Currency forecasts

	Today	Q3 2013	Year-end 2013
EUR/USD	1,338	1.25	1.20
GBP/USD	1,554	1.49	1.45
USD/JPY	96.65	106	110

Source: ABN AMRO Group Economics

### New publications

**GIC Update: Overweight in equities increased; European equities moved from underweight to neutral**

For more information, see Asset allocation on page 2.

### Next week's calendar

#### Important dates next week

		Date
GDP	JP	12 August
ZEW Index	GE	13 August
Industrial production	EU	13 August
NFIB small business optimism	US	13 August
Retail sales	US	13 August
GDP	EU	14 August
Producer prices	US	14 August
Empire State PMI	US	15 August
CPI	US	15 August
Industrial production	US	15 August
NAHB home builders confidence	US	15 August
Philadelphia Fed business confidence	US	15 August
Housing starts	US	16 August

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