



## global weekly

Investment  
Communication

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**Central banks sing from the same hymn sheet**

Markets continued to stabilise this week. Bond markets rebounded and equity markets rose. The central banks appear to have successfully (and collectively) eased fear of global rate hikes.

Markets had been worrying about reduced liquidity once the Federal Reserve begins slowing its pace of asset purchases and (eventually) interest rates start rising. But central bankers, including the Fed, ECB, Bank of England and People's Bank of China, all squashed rate hike expectations this week. They took turns leading markets to expect continued liquidity and no change soon. Both ECB and BoE even kept the door open to lower rates at their meetings yesterday.

We continue to expect the global economy, led by the US, to improve in the second half of the year and to reach above-trend growth in 2014. US non-farm payrolls rose by 195,000 in June, which was better than the consensus of 175,000. The US unemployment rate held steady at 7.6%, as the gain in household employment was matched by an almost equal inflow into the labour force. We think that, on balance, today's report further increases the chance that the Fed will start to taper its asset purchasing programmes in September. Indeed, after the release of the jobs report, yields rose strongly, while the dollar strengthened.

**Bond markets are getting used to the idea of tapering**

Bond market volatility came down considerably last week, and most risky bond asset classes rebounded strongly after the recent sell-off. We had not witnessed this kind of volatility in bond markets since late 2012. US bond funds alone had an outflow of USD 60 bln after the Fed signalled its tapering plans in May, while emerging market debt funds recorded their worst two-months performance since the outbreak of the financial crisis in 2008. Markets appear to have stabilised after the broad risk re-pricing, as fund managers appear keen to benefit from lower valuations, reconfirming their strategic conviction.

In our view, the recent market volatility is due to investors positioning for lower amounts of cheap central bank liquidity, which is expected to result from both the Fed's tapering plans

**Equity index performance in local currencies**

	Value	One week	Year-to-date
MSCI ACWI	358.26	0,7%	5,4%
S&P 500	1615.41	0,8%	13,3%
EuroStoxx 50	2646.54	1,8%	0,5%
DAX	7829.32	0,8%	5,4%
Nikkei 225	14309.97	4,6%	37,7%
Hang Seng Index	20759.7	1,6%	-8,4%

**Important rating changes**

Company	From	To
Hennes & Mauritz	Buy	Hold
Qiagen	Buy	Hold
Vodafone	Buy/RL	Hold
Agricultural Bank of China	Hold	Buy
20th Century Fox	Buy	Hold

**Government bond yields**

	Yield	One week	One year
US Treasuries 2-year	0,36%	0,4 bp	5,4 bp
German Bunds 2-year	0,11%	-7,1 bp	4,2 bp
Japan 2-year	0,13%	-0,1 bp	3,0 bp
US Treasuries 10-year	2,54%	7,5 bp	91,8 bp
German Bunds 10-year	1,66%	-6,1 bp	21,2 bp
Japan 10-year	0,85%	2,1 bp	4,1 bp

**Spreads**

Index	Spread	One week	One year
CDX NA IG	83.19	-2,7 bp	-23,3 bp
iTraxx Euro 5-year	112.22	-5,0 bp	-46,5 bp
JPM EMBI+	336.17	-11,8 bp	-16,6 bp

Performance data is as of 12:00 pm Friday, 5 July

Source: Bloomberg

**In this issue**

Bond markets are getting used to the idea of tapering	1
Quiet anticipation on the equity markets	2
Currency outlook	2
Asset allocation	3
Next week's calendar	3
New publications	3

and the Bank of China's adoption of a more conservative monetary policy. The riskier segments of the bond markets are expected to stabilise once market participants complete their repositioning. Judging by the current rebound, which has been accompanied by a sharp decrease in market volatility, it looks as if this process may be almost over.

Bond markets have started discounting rising interest rates on the back of improving macroeconomic data, especially in the US. The acceleration of economic growth that we expect to take place in the next few quarters would indeed justify a less accommodative stance of the Fed. However, in order to safeguard the carefully shaped economic recovery, the Fed must balance the risks of moving too fast versus holding on too long and providing too much liquidity. It is reasonable to assume that higher bond yields are here to stay, based on the Fed's eventual course to tighter monetary policy. Still, we expect the Fed to wait a relatively long time before actually hiking its policy rates, which will likely occur after it has ended its bond purchasing programme.

The ECB kept interest rates unchanged this week. The main refinancing rate remained 0.50% after being reduced by 0.25% in May. The ECB also maintained the deposit rate at zero and the marginal lending rate at 1.00%. More importantly, President Mario Draghi said that the ECB will keep an accommodative policy stance for as long as needed, as the risks to eurozone growth remain on the downside. He also kept the door open to further easing by stating that the ECB will keep interest rates "at present or lower levels for an extended period of time."

### **Quiet anticipation on the equity markets**

Equity markets were up this week. Asia recovered and European markets were supported by the ECB keeping rates on hold. US equity markets also rose, but volumes were low due to the July 4 holiday.

Company news was scant, in the lead up to the second-quarter earnings season, which starts next week. Alcoa, always the first, will report its results on Monday. Although the market expects a profit, expectations have declined over the past weeks, as aluminium prices remain under pressure.

At the end of the week the first US banks will report and expectations are that investment banking has done well. This week US regulators published the final Basel 3 rules for US banks. They were in line with market expectations regarding large banks and even slightly more positive regarding smaller banks. The leverage ratio, however, is still being discussed and will probably double to 6%.

China's regulators have started an investigation into the manipulation of prices of milk powder used for infants. Mead

Johnson's share price plunged, as did Abbot Labs, Danone and Nestle shares. These companies are also part of the probe.

In the health care sector, Fresenius and DaVita were hit by the announcement from the US Medicare authorities that price cuts of more than 9% are being considered for dialysis treatments in 2014. Although we think this large a cut is unlikely, a reduction in the reimbursement amount is almost certain.

### **Stock to watch: FedEx**

FedEx, the world's largest express delivery company, is one of the selected stocks in our New Retailer theme. The company is the market leader in the US and also has a big international network. Postal services companies had suffered from declining volumes as a result of e-mail and other options. The strong increase in online retail deliveries is therefore very positive for them. Moreover, parcels generate higher margins than regular mail. Last month, FedEx reported better-than-expected fourth-quarter profits, with a conservative outlook for 2014.

### **Currency outlook**

The US dollar continued to move higher, but the rally was more broad-based. Central banks calmed interest rate markets and this helped sentiment. Going forward, the cocktail of favourable central bank communication and stronger economic data should support investor risk appetite. It should also provide a strong tailwind to the US dollar versus the euro.

The dollar has been strongly correlated to equity markets and growth expectations in recent months. We expect the dollar to outperform other major currencies and precious metals, but it may give back its gains versus emerging market currencies over the next few months. The stronger than expected US payroll report today further supported the dollar.

The Bank of England and the ECB sounded more dovish than expected in their rate decision comments. As a result, the British pound and the euro have come under pressure across the board. The EUR/GBP rallied sharply directly after the BoE decision, only to partly give back its gains after Mario Draghi's dovish press conference the same day.

We have modestly downgraded our emerging market currency forecasts. In the near term we still expect a recovery in EM currencies, on the back of a US-led strengthening of the global economy and improving investor sentiment.

### Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.29	1.25	1.20
GBP/USD	1.5067	1.49	1.45
USD/JPY	99.9	106	110

Source: ABN AMRO Group Economics

### Asset allocation

The Global Investment Committee did not make any changes in the asset allocation this week. The overall tactical asset allocation therefore remains overweight in equity, neutral in property and commodities and with a strong underweight in bonds. Hedge funds are part of the portfolio only in the defensive (overweight) and more balanced (neutral) profiles.

### Next week's calendar

#### Important dates next week

		Date
Current account	JP	8 July
Economy Watchers Survey	JP	8 July
Industrial production	GE	8 July
Fed consumer credit	US	8 July
CPI	CN	9 July
NFIB small business optimism	US	9 July
Trade balance	CN	10 July
Fed June meeting minutes	US	10 July
Policy rate	JP	11 July
Industrial production	JP	12 July
Industrial production	GE	12 July
Producer prices	US	12 July
UoM consumer confidence	US	12 July

### New publications

#### A solid basis for future earnings: Equity Strategy Monthly

The Equity Strategy Monthly is a new publication from Research & Strategy. The goal is to communicate the team's latest strategic and thematic views. It replaces the regional and sector monthlies and the Quarterly Equity Outlook.

This issue of the monthly updates readers on the regional and sector allocations and also takes a look at thematic recommendations, including the latest theme: the New Retailer.

In the midst of a market correction, where global equities tumbled by some 8% in the past few weeks, the Research & Strategy Equities team remain positive on the outlook for stocks. They are bullish about the mid- to long-term equity outlook, despite current market volatility, which is mainly caused by uncertainty about the US Federal Reserve's exit from its accommodative monetary policies.

#### Shifting expectations: Bond Markets Monthly

Financial markets continued to reposition for higher interest rates in June. Bond yields extended their surge and risk sentiment further deteriorated, before stabilising during the last few trading days of the month. It seems that the Fed has successfully shifted market expectations by moving from a stance proclaiming an extended period of easy money to one of gradual tightening of monetary policy. Meanwhile, markets will stay focused on any signals of an earlier or faster-than-expected exit from central bank stimulus.

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