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Summer lull

Sparse economic data and not much news from the main central banks set the tone for a quiet week in financial markets. But what the Dutch call *komkommer tijd* (cucumber time) may be interrupted next week, when important US macro data will be released, monetary policy decisions are expected from the Fed, ECB and Bank of England and the earnings season shifts into high gear.

Bond market update

Bond markets continued their quiet after-shock trading this week. Having digested the prospects of tapering, a topic that rattled markets in May and June, volatility is back at the levels seen in the first half of the year. Financial markets are discounting a tapering of the Fed's asset purchases in September, and seem to have understood the message from the major central banks that low policy rates are here to stay for the foreseeable future.

As the macroeconomic picture for the US looks set to further improve in the second half of this year and moving into 2014, growing momentum could lead to the long end of the yield curve edging higher towards levels that more realistically correspond with the long-term US GDP growth rate. However, this normalisation process could take a while, as the Fed, even after a complete stop of additional purchases, continues to distort the markets through its balance sheet, by holding huge amounts of US Treasuries until maturity.

Decoupling of US and Europe

Treasuries and Bunds look set to further decouple on the back of the Fed tapering and the increasing deviation of macro fundamentals. In contrast to the US, Europe is still struggling to exit its recession, while the region is lagging in the process of shoring up the banking sector in the aftermath of the burst of the credit bubble.

The latest Bank Lending Survey showed that eurozone lending to corporates and households dropped at a record pace in June, underscoring that the monetary union is still in the midst of a tough deleveraging process. Against this bleak backdrop, the ECB is expected to keep policy rates low and to consider further rate cuts in the future. On the bright side,

Equity index performance in local currencies

	Value	One week (%)	Year-to-date(%)
MSCI ACWI	375.28	0.4	10.5
S&P 500	1690.25	0.1	18.5
EuroStoxx 50	2740.29	1.5	4.6
DAX	8298.98	0.1	9.6
Nikkei 225	14129.98	-3.2	35.9
Hang Seng Index	21960.81	2.8	-3.1

Important rating changes

Company	From	To
Mobistar	Buy	Hold
Bayerische Motoren Werke	Buy	Hold
Vestas Wind Systems	Hold	Sell
Easyjet	Hold	Sell
Facebook	Buy	Hold

Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.323	1.8	10.60
German Bunds 2-year	0.156	8.2	21.70
Japan 2-year	0.130	-0.2	2.80
US Treasuries 10-year	2.572	4.3	117.40
German Bunds 10-year	1.671	15.2	40.90
Japan 10-year	0.807	-0.2	8.00

Spreads

Index	Spread (bp)	One week (bp)	One year
CDX NA IG	76.37	2.35	-39.06
iTraxx Euro 5-year	103.47	1.22	-75.58
JPM EMBI+	317.80	11.98	39.00

Performance data is as of 12:00 pm Friday, 26 July

Source: Bloomberg

In this issue

Bond market update	1
Equities update	2
Stock to watch: Qualcomm	2
Macro view: eurozone flash PMI turns to growth	3
Asset allocation	3
Currency outlook	3
New publications	3
Next week's calendar	3

business confidence in Germany improved by more than expected in July. Other positive eurozone news came from this week's eurozone flash PMI report. ABN AMRO Group Economics believes it further supports their view that the worst is over. (For more information, read the Macro View on page 3.)

Environment favourable for credits

Credit markets continued to benefit both from improved risk sentiment and stabilising government bond yields. Credit spreads have recently moved back to start-of-year levels, both for credit default swap and cash bond markets. Corporate fundamentals remain strong and default rates are low. New issuance is traditionally very limited during the summer holiday season, which further supports credits. Institutional investors also appear to have benefited from the market correction in May and June by adding to their strategic positioning.

Sentiment toward eurozone periphery improving

Risk sentiment towards the periphery countries has continued to improve, despite S&P's recent downgrade of Italy. Moreover, Greece's difficulty of meeting the requirements of its aid programme did not raise any substantial concerns in financial markets. The ECB's outright monetary transactions safety net continues to be successful in squashing market perception of systemic risks.

Equities update

While equity markets around the world were largely unchanged over the week, the Dow Jones Index and the S&P 500 Index nevertheless managed to set new all-time-highs early on. The US economy seems to be gaining further ground, as indicated by various companies raising their guidances. This includes Boeing, Ford, United Technologies, Lockheed and Northrop Grumman.

European and Asian indices also hovered around the closing levels of last week. European stocks remain below their peak levels of May. In fact, the broader STOXX Europe 600 Index is some 5% below its highest level for the last 12 months, which it reached on 22 May.

Positive surprises dominate earnings season so far

The earnings season is in full swing now with dozens of companies reporting over the last week. Most companies have so far surprised positively with their results. Internet companies, in particular, Facebook and Baidu, gained 25% and 17% respectively after their results releases.

Baidu, the "Google" of China, fits well in our latest theme of The New Retailer, which focuses on the opportunities created from the rise of online shopping. The world's largest e-retailer, Amazon, also reported its second-quarter results this week. Profits came in lower than expected, as the company continues to invest heavily in growth (warehouses, cloud computing, and digital media). We believe that such investments will enable Amazon to stay ahead of the competition and to increase its operating margins in due course.

Mobistar was a nasty exception on the earnings front. The Belgian telecom operator's share dropped by some 30% after reporting bad Q2 results and lowering its guidance for the year. STMicroelectronics also scared investors with weak Q2 earnings and a sluggish Q3 outlook. Finally, Siemens shares suffered, after the company dropped its 2014 margin target of 12% because of difficult market circumstances.

Next week will be dominated by company results, with many major European companies reporting, as well as the US health care giants, Merck and Pfizer.

Reporting calendar

Company	Date
Ryanair, TNT Express, Intertek, Reckitt Benckiser, Danone, Hartford Financial	29 July
Merck, Amgen Inc, Barclays, Linde, GEA Group, Deut. Bank, BP, UBS, Fresenius, Infineon, Saipem, Santander, Bucher, Pfizer, US Steel, EDF, Alcatel-Lucent	30 July
Southern, Nintendo, BNP, Panasonic, Solvay, EDS, Mizuho Financial, BBVA, Inbev, Arcadis, Bayer, Volkswagen, Peugeot, Wolters Kluwer, Schneider, Centrica, CBS, Exelon Corp, Comcast	31 July
Siemens, Generali, AMB Generali, ArcelorMittal, ConocoPhillips, Barrick Gold, Exxon Mobil, Eni, Sanofi-Aventis, Continental, Wereldhave, Enel, Soc Generale, Lloyds TSB, DBS, Shell, Kellogg, BMW, Teva Pharma., P&G, Neste Oil, BAE, Sony	1 August
Chevron, RBS, Toyota Motor, Intesa Sanpaolo, Allianz, Viacom, Lufthansa, Southwestern, AXA, Man	2 August

Stock to watch: Qualcomm

Qualcomm (USD 61.40 - Buy) reported strong third-quarter results this week, buoyed by smartphone demand in emerging markets. We believe that Qualcomm's prospects are good. As a key chip supplier for all iPhones, it will benefit from the release of new Apple iPhone products. There has been some concern that demand for higher-end smartphones was waning, but Apple's Q2 results showed that iPhones are still in great demand, with sales 20% higher than expected.

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Qualcomm captures a 3 to 5% royalty on the sale of every handset that includes even a sliver of 3G technology. In addition, Qualcomm appears poised to profit from 4G technologies as well. It has already signed 4G royalty deals with Nokia, Samsung and LG, even though 4G technology adoption is in its infancy. Qualcomm's valuation is also attractive. It is trading at a price/earnings ratio of 13.6x for 2013, which is below the IT sector's average of 16.1x.

Macro view: eurozone flash PMI turns to growth

The eurozone flash PMIs suggest that a slow economic recovery is in the cards. The composite flash PMI rose to 50.4 in July, up from 48.7 in June, beating the consensus forecast of 49.1. It was the first time since January 2012 that this index stood above the 50-mark, which separates growth from contraction.

New orders in the manufacturing sector also rose, mainly driven by a rise in new export orders. This bodes well for production in coming months. The services sector also continued to improve, as its PMI increased to 49.6 in July, up from 48.3 in June, nearing the boom-bust mark.

The PMI report also showed that conditions in the labour market are becoming less difficult, as the job component rose for the third consecutive month. Overall, the composite PMI is a relatively accurate tracker of GDP growth, and, at its current level, it is consistent with GDP roughly stabilising at the start of the third quarter.

The latest PMI report supports our view that the eurozone economy has seen the worst of the recession. We expect a modest economic recovery in the second half of this year. Exports should benefit from the global economy gaining momentum and the pace of fiscal austerity should slow considerably.

Asset allocation

The asset allocation remains unchanged. The Global Investment Committee continues to call for an 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 the latest issue of the GIC Update, published on 18 July 2013.

Currency outlook

Since the start of this week, ten-year US and German yields have again risen, with German yields increasing faster than US yields, resulting in support for the euro versus the US dollar. An article in the Wall Street Journal this week saying that the Fed may adjust its forward guidance put the US dol-

lar under pressure across the board. The US dollar versus the Japanese yen dropped below 99 while the euro versus the US dollar moved closer to 1.33.

Most emerging market currencies were down for the week, on the back of higher yields in the US and eurozone. The weakness of the US dollar, however, resulted in some scaling back of the underperformance of these currencies. The Indian rupee, South Korean won and South African rand were among the few currencies moving higher versus the US dollar. Measures taken by authorities in India to halt the fall of the rupee seem to be working for now. Economic data from South Korea surprised positively and, in China, authorities have been able to ease some investor fears about a hard landing of the economy.

Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3225	1.25	1.20
GBP/USD	1.5317	1.49	1.45
USD/JPY	99.7	106	110

Source: ABN AMRO Group Economics

New publications

Real Estate Monthly: Positive Fundamentals

Property (neutral) suffered from a sell-off in May/June, as investors worried about its sensitivity to rising interest rates. But the current environment is not all negative. Property is also closely linked to economic recovery. We favour quality property companies in the US and developed Asia.

Next week's calendar

Important dates next week

		Date
Pending home sales	US	29 July
Case Shiller Home price	US	30 July
Consumer confidence	US	30 July
GDP	US	31 July
Policy rate	US	31 July
PMI manufacturing	CN	01 August
Policy rate	GB	01 August
Policy rate	EC	01 August
ISM manufacturing	US	02 August
Employment	US	03 August
Consumer spending	US	03 August

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