



Global weekly

More stimulus & guidance

Research & Strategy
14 December 2012

Asset allocation	I			II		
	Saa	Taa	•	Saa	Taa	•
Money	5	18	13	5	7	2
Bonds	90	74	-16	70	58	-12
Equities	0	0		15	20	5
Alternatives	5	8	3	10	15	5
Hedge funds	5	8	3	5	8	3
Real estate	0	0		3	5	2
Commodities	0	0		2	2	

Macro

The Fed decided to convert its Operation Twist programme, which will expire at the end of the year, by an outright Treasury programme, as we and most other economists had expected. Although the Fed will continue to monitor whether it needs to adjust the pace of purchases, it made no changes in its agency MBS programme, while it will start to buy Treasuries at a pace of USD 45bn a month. This means that the Fed will continue to buy USD 85bn of longer-term assets per month. We expect the Fed to continue these purchases until the end of next year. Meanwhile, in a surprise move, the Fed introduced economic thresholds to guide markets when it planned to raise policy rates. The Fed anticipates that rates should remain on hold at least as long as the unemployment rate remains above 6.5%, inflation forecasts for the coming one to two years do not rise above 2.5%, and longer-term inflation expectations remain well anchored. Although these thresholds are consistent with FOMC members earlier date-based forward guidance that stated that rates would be on hold at least until the middle of 2015, this conditional policy rate guidance has the benefit that it will work as an automatic stabiliser to the economy and improve the transparency of the Fed's decision making.

Meanwhile, on the other side of the Atlantic, both the manufacturing PMI and the services PMI rose for the second month in a row in December, adding to evidence that the economy is improving. Still, both PMIs remained below the boom-bust mark, in line with our view that we will see another contraction in output in Q4, before the economy should stabilise in the first half of 2013.

Asset allocation	III			IV		
	Saa	Taa	•	Saa	Taa	•
Money markets	5	0	-5	5	0	-5
Bonds	55	46	-9	35	25	-10
Equities	30	39	9	50	60	10
Alternatives	10	15	5	10	15	5
Hedge funds	5	8	3	5	8	3
Real estate	3	5	2	3	5	2
Commodities	2	2		2	2	

Asset allocation	V			VI		
	Saa	Taa	•	Saa	Taa	•
Money	5	0	-5	5	0	-5
Bonds	15	11	-4	0	0	
Equities	70	79	9	85	90	5
Alternatives	10	10		10	10	
Hedge funds	5	5		5	5	
Real estate	3	3		3	3	
Commodities	2	2		2	2	

Saa = Strategic asset allocation Taa = Tactical asset allocation • = Deviation

Global Investment Committee decisions

The Global Investment Committee is comfortable with the asset allocation it put into place at the meeting two weeks ago. Through the 'Overweight' in Equity and Property, together with the 'Underweight' in Cash and Fixed Income, the tactical asset allocation is positioned to benefit from the upcoming cyclical recovery. The 'Overweight' position in Hedge Funds is intended as an alternative for Fixed Income, and also counterbalances some of the market volatility's impact on portfolios.

The next Global Investment Committee will be on January 10, 2013. In the meantime, markets and economies will be closely monitored and appropriate action taken if required.

Macro forecasts for 2013 (%)				
	Real GDP Growth		Inflation	
	ABN AMRO	Market	ABN AMRO	Market
US	2.0	2.1	1.7	2.0
Eurozone	0.3	0.3	1.4	1.7
UK	1.3	1.4	1.8	1.9
Japan	1.4	1.4	0.1	0.0
Other countries*	2.5	2.3	1.9	1.8
EM Asia	6.9	7.0	5.3	4.4
Latin America	4.3	3.8	6.1	6.5
EEMEA**	3.1	3.3	4.9	5.9
World	3.5	3.5	3.8	3.4

All Forecasts are annual averages of quarterly year-on-year changes.

*Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland **EEMEA: Eastern Europe, Middle East and Africa.

Source: ABN AMRO Group Economics, Consensus Economics, EIU

Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr (%)
UST	148	0.24	1.72
German Bund	140	-0.07	1.34
Gilts	156	0.31	1.87
JGB	64	0.09	0.72
EMBI+	253	-----	-----
iTraxx Euro 5-yr	115	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	10 January 2013	No change
Fed	0.0-0.25	30 January 2013	No change

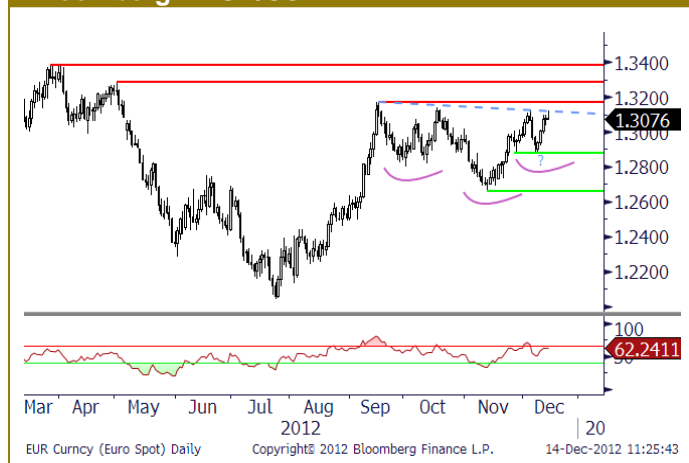
German 10-year Bund - Bloomberg



Currency forecasts

	Dec. 12	Mar. 13	Jun. 13	Sep. 13
EUR/USD	1.30	1.25	1.25	1.20
GBP/USD	1.63	1.56	1.56	1.52
USD/JPY	80	82	82	85

Bloomberg – EUR/USD



Bonds

Last week's highlights (10 - 14 December)

Financial markets focused on the Fed's announcement about the prolonging of its quantitative easing into the new year by converting its 'Operation Twist' programme into an outright buying of Treasuries alongside the MBS buying program. Surprisingly, the Fed has now explicitly linked its policy rate decisions to economic data, in order to create more transparency. Treasury markets responded negatively, driven in part by higher inflation expectations. Core bond markets in Europe also traded slightly lower this week, partially offsetting last week's rally. Peripheral countries regained some ground after successful auctions.

This week's focus (17 - 21 December)

At year-end, some core-country banks are expected to redeem the funds that they borrowed under the LTRO schemes, potentially putting some upward pressure on money markets if they need to refund their activities through the markets. Next to that, the US treasury will auction 5-year TIPS on Thursday, while France is scheduled to tap the markets on Monday for EUR 6.3bln, selling 84-, 147-, and 357-day bills.

Topic of the week

The EU finance ministers' agreement prior to the EU summit in Brussels on a single supervisory mechanism (SSM) was positively received, and is seen as an important step towards a European banking union. Some details however, still need to be worked out; the implementation of the supervisory body will take time. The ECB will start executing its supervisory tasks in March 2014.

Foreign exchange

Last week's highlights (10 - 14 December)

The EUR/USD had a positive week last week, driven by some improvement in eurozone economic data, the agreement on an SSM, as well as Spain and Italy's successful bond auctions. The Fed monetary policy meeting's outcome temporarily hurt the US dollar. The fact that the EU summit was a non-event was largely ignored. EUR/USD has moved to the top of the 1.29-1.31 range. More improvement in eurozone data such as the German Ifo results should help the EUR. But developments on the US fiscal cliff could hurt sentiment, and help the US dollar. We continue to expect the EUR/USD to move back to our year-end target of 1.30.

This week's focus (17 - 21 December)

For next year, we are negative on the EUR against the USD. Loose monetary policy by the Fed has been priced in, while the ECB still needs to take action. As both the EUR and the USD have record-low interest rates, both currencies could be used as funding currencies when investor sentiment picks up. We expect this pick-up in sentiment to not be USD negative, as US growth will improve in the second half of 2013.

Sector indices

Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1'414	12.3x	2.3%	15.4
Euro Stoxx	2'623	10.4x	4.1%	19.1
Nikkei 225	9'737	15.1x	2.1%	17.4
FTSE100	5'915	10.7x	3.9%	11.2
AEX	344	10.7x	3.4%	14.4

Important rating changes

Company	From	To
Petrochina	Hold	Buy
Danone	Hold	Buy
DuPont	Hold	Buy
Bank of America	Sell	Hold
Heijmans	Buy	Hold
Ballast Nedam	Hold	Sell
Capitaland	Hold	Buy

Equities

Last week's highlights (10 - 14 December)

Overall, equity market closed the week mixed. Uncertainty surrounding the fiscal cliff remained in play last week and investors shifted between hope and fear. While Europe finally agreed on the aid for Greece, Italy's Prime Minister Monti's decision to step down once the budget is approved shocked the community. Consequently, better-than-expected economic data from China came at the right time. As a result, Materials was among the stand-outs whereas Consumer Staples and Consumer Discretionary limped behind after strong advances in the previous weeks.

This week's focus (17 - 21 December)

Less than 16 days left to the fiscal cliff. While politicians are flirting with recession, trading volume may wane as the year end near. We expect volatility to increase.

Topic of the week

Automation is the focus of capital investment in the developing, but also in the developed economies, as global industrialization is moving to the next phase. GDP growth in the emerging countries is slowing, as investments in much needed infrastructure and basic industries are declining. Moreover, the advantage of low labour costs -which fuelled an export boom- is fading. Replacing low skilled, but increasingly expensive labour with robots, and implementing new systems and processes may from here on significantly increase productivity in both Asian and Latin American countries.

Commodities

Last week's highlights (10 - 14 December)

Soft commodities declined after the USDA signaled higher stocks for wheat and greater demand for corn. Oil prices stayed under pressure despite a drop in Saudi Arabian oil production after the OPEC warned about 2013 demand. China's output of refined copper increased strongly in November given greater demand for copper concentrate from expanding Chinese smelters. Metals particularly liked the stronger-than-expected industrial production numbers out of China. In line with our expectations, palladium prices reached our year-end target of 700 USD/ounce.

This week's focus (17 - 21 December)

The Baltic Dry Index continued its slide, hitting 900 points; as a result, it is currently almost 20% lower since the prices started declining on 28 November (1'104 points). This is the fourth time this year that the index has failed to break higher. The index – reflecting the prices of the 25 busiest shipping lines – is seen as an important benchmark of global economic development. The recent decline indicates that global shipping orders are under pressure; this is not a good sign of the current state of the global economy. In both January and mid-September, the index dropped to a low of around 650 points, suggesting that more downside pressure is possible.

Bloomberg – CRB Index



Commodity prices - Bloomberg

	13 December	6 December
Gold	1697	1699
Brent	108	108
Copper	8074	8000
Wheat	808	862

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