



Global weekly

Turn in industrial cycle

Research & Strategy
23 November 2012

Asset allocation	I			II		
	Saa	Taa	Δ	Saa	Taa	Δ
Money	5	18	13	5	9	4
Bonds	90	74	-16	70	58	-12
Equities	0	0		15	18	3
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	

Asset allocation	III			IV		
	Saa	Taa	Δ	Saa	Taa	Δ
Money markets	5	4	-1	5	4	-1
Bonds	55	46	-9	35	25	-10
Equities	30	35	5	50	56	6
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	Δ	Saa	Taa	Δ
Money	5	2	-3	5	0	-5
Bonds	15	11	-4	0	0	
Equities	70	77	7	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 Δ= Deviation

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

Macro

The early estimates of a number of the PMIs – key manufacturing barometers – rose across the globe in November. China's manufacturing PMI rose to 50.4 from 49.5 in October, marking the third successive rise in the indicator and taking it to its highest level since October 2011. The manufacturing PMI also increased in the eurozone (46.2 from 45.4) and the US, according to the Markit flash estimate (52.4 from 51.0).

These surveys clearly point to a turn in the industrial cycle; this tends to be good news for risky assets. Risk sentiment could receive further impetus in the coming weeks from a deal on the fiscal cliff and - albeit to a lesser extent - an agreement on Greece's revised second adjustment programme. Other reports emphasised the weakness of eurozone domestic demand.

The eurozone services PMI edged down a bit further in November (to 45.7 from 46), while the European Commission's consumer confidence indicator dipped to -26.9 from -25.7 over the same period. Severe fiscal consolidation, tight bank lending conditions, rising unemployment, and residual uncertainty related to the euro crisis will continue to drag domestic demand down.

However, easier financing conditions following the announcement of the ECB's bond purchasing programme should work in the other direction, while the improvement in global demand should help eurozone exports.

As such, we expect eurozone GDP to flatten out over the next few months, rather than falling deeper into recession. Given the recent data though, a significant contraction does look likely in Q4.

Global Investment Committee decisions

ABN AMRO's Global Investment Committee (GIC) met on 22 November for its weekly review and decided to maintain its current asset allocation. Economic data continue to support the bank's views. On 29 November, the GIC will discuss and validate all active strategies in its quarterly scenario review.

Our current asset allocation:

- Equities: 'Overweight'
- Bonds: 'Underweight'
- Alternative investments: 'Neutral'

Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr (%)
UST	141	0.27	1.68
German Bund	141	0.02	1.43
Gilts	155	0.30	1.85
JGB	64	0.08	0.72
EMBI+	274	-----	-----
iTraxx Euro 5-yr	123	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	6 Dec 2012	No change
Fed	0.0-0.25	12 Dec 2012	No change

German 10-year Bund - Bloomberg



Bonds

Last week's highlights (18 - 23 November)

US and German government bond yields continued to move within the trend line. The aftermath of the US elections has been very subdued in sovereign debt markets. After Moody's downgrade from Aaa to Aa1, France's 10-year government bond yields only moved up gradually to last week's level.

This week's focus (26 - 30 November)

Global discussions on budget discipline – the US fiscal cliff and debt ceiling, the 2014-2018 budget debate, and the Japanese fiscal cliff and elections - could lead to increased volatility. The market does not currently see that politicians are ready to make bold and structural changes for the longer term. It will also face a year-end with reduced market liquidity from now on which could lead to the market not clearly presenting current and upcoming drivers.

Topic of the week

Fitch raised Ireland's (BBB+) outlook to 'stable' from 'negative'. Moody's downgraded France from Aaa to Aa1; France will drop out of the bank's AAA bond index after the downgrade. This could also negatively affect the EFSF, ESM and other sub-sovereign ratings. Following the ban on naked sovereign CDS positions (January 2013), volumes have dropped considerably. In the eurozone, CDS moves stayed very small. In Argentina, spreads moved up from 1.000 to over 3.000 as the battle between the "holdouts" and the Argentinean government continues (we do not cover Argentina and are maintaining our 'avoid' position on the credit).

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



Foreign exchange

Last week's highlights (18 - 23 November)

Despite the political headlines, the euro recovered as sentiment improved. Ongoing political discussions are being seen as positive. Euro-area ministers meet today to decide on Greece, an issue that the market seems to believe will ultimately be resolved. Last Friday's better-than-expected German Ifo boosted sentiment. In the options market, the bias is close to the October 2010 high, when EUR/USD was above 1.3800, although both subsequently dropped, possibly indicating limited near-term upside in EUR/USD unless another driver takes over and both disconnect.

This week's focus (26 - 30 November)

This week, US data such as durable orders, consumer confidence, GDP, housing, personal income, and spending data are due. Stronger figures could hurt the USD in the near-term as safe-haven demand eases. Should sentiment deteriorate again, the USD could benefit from stronger US data. We are maintaining the year-end EUR/USD target at 1.30. While sentiment on the JPY may remain negative, some correction of the quick JPY sell-off is on the cards in the near future. Our year-end forecast is 80 for USD/JPY..

Corporate earnings calendar	
11/26/12	
11/27/12	
11/28/12	Tiffany
11/29/12	Colruyt

Sector indices				
Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1'391	12.1x	2.3	12.8
Euro Stoxx	2'539	10.0x	4.2	14.9
Nikkei 225	9'366	14.4x	2.2	12.9
FTSE100	5'792	10.4x	4.0	8.5
AEX	328.4	10.1x	3.5	9.0

Important rating changes		
Company	From	To
St. Jude Medical	Hold	Sell
BG Group	Sell	Hold
ARM Holding	Hold	Sell
Imtech	Buy	Sell
LG Chem	Hold	NR



Commodity prices - Bloomberg		
	22 November	15 November
Gold	1730	1716
Brent	110	111
Copper	7715	7640
Wheat	845	845

Equities

Last week's highlights (18 - 23 November)

Rising hopes on an agreement to avert the fiscal cliff ended a two-week decline. Neither growing disappointment over the Troika's inability to finalise a Greek financial deal, nor Bernanke's concern that the central banks are lacking the tools to offset the fiscal cliff could harm stocks. Materials and Consumer Discretionary were among the standouts. The utilities sector extended its recent underperformance given concerns over higher dividend tax rates.

This week's focus (26 - 30 November)

There are less than 40 days left until the fiscal cliff. While consumers are keeping the US economy running, it boils down to one thing: Washington. President Obama's re-election speaks volumes as Americans seek a bi-partisan compromise. Politicians are well advised to avoid the fiscal cliff by finding common ground on important issues.

Topic of the week

Black Friday is one of the busiest shopping days in the US, with half of all American consumers shopping on this holiday weekend and about one-third hitting the stores on Black Friday alone. To put consumers in a spending mood, retailers are opening earlier than ever and are discounting heavily. Holiday sales are expected to rise 4.1% this year (5.6% in 2011). While concerns over the fiscal cliff and possible tax increases may spoil the party, heavy discounting may hurt retailer profitability.

Commodities

Last week's highlights (18 - 23 November)

Commodity markets lacked a clear direction as different drivers appear to be offsetting each other. Fed Chairman Bernanke warned that not resolving a budget crisis could lead to recession in the world's biggest oil consumer; this capped oil's upside. The Gaza truce did not lead to correction in oil prices. A bigger US stock withdrawal (-1.5 million barrels) and stronger-than-expected Chinese PMI flash kept Brent at USD 110.

This week's focus (26 - 30 November)

Gold prices have struggled to stay above 1,735 USD/per ounce. Gold bulls may start worrying about why gold prices are not really taking off in an environment of low global real yields, loose monetary policy, large fiscal deficits, renewed tensions in the Middle East, and the conflict between China and Japan.

The most important reason for this is that most of the news has already been priced in. Gold has also behaved like a risky asset, rather than acting 'as it always has': reliably. For now investors in ETF positions are in a holding pattern, while speculative investors have started buying again after some liquidation seen in October. Our year-end forecast of 1'700 USD/ounce remains in place.

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