



Global weekly

ECB to keep rates on hold

Research & Strategy
30 November 2012

Asset allocation	I			II		
	Saa	Taa	•	Saa	Taa	•
Money	5	18	13	5	9	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	

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

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 European Commission's Economic Sentiment Indicator unexpectedly rose - mostly in the industrial sector, encouragingly enough, confirming earlier world-wide survey results that signalled a turn in the global industrial cycle. This will stimulate eurozone export growth and is expected to compensate for further declines in domestic demand. As a result, we expect GDP to stabilise in the first half of 2013. That said, sentiment remains well below its long-term average of around 100; at its current level, it is consistent with economic contraction. Indeed, we expect eurozone GDP to fall more markedly in Q4 than the Q3 0.1% decline. Meanwhile, eurozone HICP inflation fell to 2.2% in November, from 2.5% in October. We expect inflation to drop significantly in 2013, as the rise in energy and other commodity prices should peter out, while significant economic slack will reduce the core rate. Despite November's fall in inflation, we do not expect the ECB to cut interest rates next week. The economy is certainly weak enough to justify additional stimulus, although the bar from further action is relatively high, since cutting the deposit rate sets the floor for interbank rates and would in turn involve taking it into negative territory - an unprecedented step.

On the other side of the Atlantic, US Q3 GDP growth was revised upwards to 2.7% from the originally estimated 2.0 percent due to better net exports and inventories. However, while the report was better in quantitative terms, the composition thereof deteriorated as consumption growth was reduced from 2% to 1.4 percent. More worryingly, investment in durable equipment declined by 2.7% (after it was initially estimated to have been flat). This is the first drop in investment since the Great Recession, suggesting that the uncertain fiscal environment has dealt an even bigger blow to company appetite for investment than initially thought. Indeed, shipment data shows that we are on track for another quarter of flat - or modestly declining - investment in durable equipment.

Global Investment Committee decisions

The GIC has increased the 'Overweight' in Equities at the expense of the remaining Cash in profiles 2 to 5 (no change in risk profile 6, of which the cash position had already been depleted). It is 'Underweight' in Bonds. In Alternatives, we are positive about Hedge Funds ('Overweight' in profiles 1 to 4 and 'Neutral' in profiles 5 and 6), positive about Property ('Overweight' in profiles 2 to 4 and 'Neutral' in profiles 5 and 6) and 'Neutral' in Commodities.

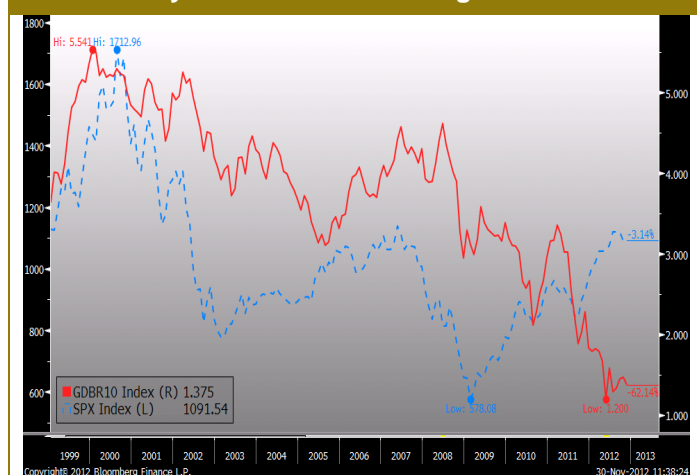
Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr (%)
UST	136	0.25	1.62
German Bund	137	0	1.37
Gilts	147	0.28	1.75
JGB	60	0.09	0.70
EMBI+	267	-----	-----
iTraxx Euro 5-yr	122	-----	-----

Central banks watch

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

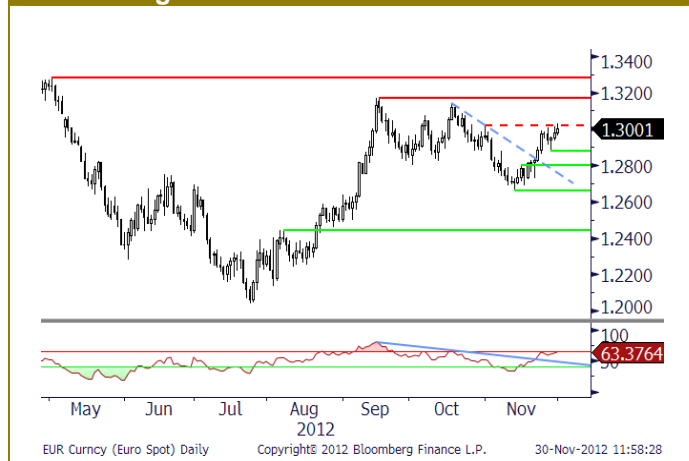
German 10-year Bund - Bloomberg



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 (23 - 30 November)

Core-country bond markets continued their range-bound trading last week; on balance, though, bond yields moved lower. Financial markets focused on the Eurogroup's temporary solution for Greece, and continuing concerns about the US fiscal cliff. Spreads on peripheral debt moved lower over the week, after successful Spanish and Italian Treasury auctions.

This week's focus (3 - 7 December)

Financial markets will focus on the Eurogroup and Ecofin meetings on Monday and Tuesday. Spain will issue 3-, 7- and 10-year bonds on Wednesday which are expected to be greeted by healthy investor demand, after Spain having made constructive steps towards the needed austerity and reforms, thus making a formal request for aid less likely in the near term. On Thursday, the BOE and the ECB will meet and announce their respective interest rate decisions.

Topic of the week

Despite the higher risk appetite in financial markets, government bonds are proving to be quite resilient. Although distorted by the ultra-accommodative central bank policies, government bond markets still seem to be pricing in a much more tempered economic outlook than their riskier counterparts. Riskier sub-asset classes such as high-yield and emerging market debt are trading more in line with the equity markets. It will be interesting to monitor if the divergence between the equity and bond markets reverses over time, when one or the other proves to be wrong.

Foreign exchange

Last week's highlights (23 - 30 November)

Overall, EUR/USD sentiment has improved. On day-to-day basis, however, it has somewhat erratic for a number of reasons. Overall, the market has a constructive view on the euro zone debt crisis and the US fiscal cliff; that said, headlines have resulted in intraday volatility. In addition, slightly better economic data has supported overall sentiment, resulting in the easing of US dollar safe-haven flows.

This week's focus (3 - 7 December)

Next week, US data such as employment and the ISM, as well as central bank rate decisions (ECB, BoE, RBA, RBNZ, and the BoC) will be in the spotlight. Stronger US data should support the US dollar in an environment of fiscal cliff uncertainty as the outlook for the US economy further improves compared to the euro zone. Options market volatility has dropped further on expectations that everything will ultimately be just fine (US fiscal cliff, euro zone debt crisis). But complacency is dangerous: the lower liquidity could result in large, purposeless and erratic movements. We are maintaining our year-end forecast at 1.30 for EUR/USD.

Corporate earnings calendar

Sector indices

Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1416.0	12.3	2.2	12.6
Euro Stoxx	2583.8	10.2	4.6	11.5
Nikkei 225	9446.0	14.6	2.1	11.7
FTSE100	5875.9	10.6	3.9	5.4
AEX	338.5	10.5	4.7	8.3

Important rating changes

Company	From	To
Ahold	Hold	Buy
Baxter International	Hold	Buy
MRT Corp	Buy	Hold

Bloomberg – CRB Index



Commodity prices - Bloomberg

	29 November	22 November
Gold	1725	1730
Brent	111	110
Copper	7900	7715
Wheat	869	845

Equities

Last week's highlights (26 - 30 November)

Markets benefited from the EU leaders' agreement on Greece. At the same time, in the US, concerns about the fiscal cliff abated, given the stronger likelihood of Democrats and Republicans reaching an agreement. Combined with improved sentiment in Asia (especially China), this boosted global Equity markets well.

This week's focus (3 - 7 December)

The focus will remain on macro/political issues. Any progress in discussions on the US on fiscal tightening will certainly be closely watched.

Topic of the week

We are further increasing our 'Overweight' on Equities. With a new agreement on Greece and positive talks in the US on the fiscal cliff situation, the tail-end risks for global equities seem to have been reduced further. Compared to other asset classes in particular (Bonds and Cash), the risk/return ratio for Equities looks attractive. We have increased our 'Overweight' on Emerging Markets at the cost of Developed Markets. In China, a pick-up in the pace of structural reforms - coupled with economic improvement and M2 growth - should support Equities. In general, Emerging Markets will benefit from a global economic recovery and offer – together with still very modest valuation levels - good upside potential.

Commodities

Last week's highlights (23 - 30 November)

Better investor sentiment has supported commodities in general. Expectations on the US fiscal cliff continue to drive precious metals. Since the beginning of this year, ABN AMRO has been forecasting an average Brent oil price of USD 110 – even despite large volatility moves seen over the past few months. With only one month to go until year-end, the average price is USD 111.92.

This week's focus (3 - 7 December)

We expect Brent prices to ease towards USD 100 in the coming weeks, given higher production levels combined with weak demand and a possible decline of the risk premium.

We expect WTI prices to stabilise around current levels in December, resulting in an average 2012 price of slightly below our forecasted USD 95. In 2013, both conventional and non-conventional production levels will continue to increase, while global demand will only increase moderately. Easing geopolitical tensions and ample supply will result in a narrowing of Brent/WTI spreads. We expect average oil prices of USD 105 for Brent and USD 95 for WTI in 2013.

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