



Global weekly

Modest recovery continues

Research & Strategy
1 February 2013

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 US economy unexpectedly shrank by 0.1% in Q4 2012, following a 3.1% gain in Q3. The weakness, however, was mostly due to an unexpectedly sharp fall in defence spending, which contracted at the fastest pace since 1972. Moreover, hurricane Sandy is the most likely explanation as to why companies added to their inventories at a much slower pace than in the previous quarter, while net trade also made a negative contribution to growth.

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	

In contrast, both consumption and investment in durable equipment grew at a stronger rate in Q4 than in Q3, while residential investment also surged. To us, this suggests that a modest recovery is continuing. Looking forward, we continue to think that the recovery will gradually strengthen in the second half of the year, after a tax-induced weakness in H1.

There was better news from the global manufacturing cycle. The final estimate of the eurozone's manufacturing Purchasing Managers Index (PMI) edged up further to 47.9, keeping it on an upward trend. This business survey is going in the right direction and, despite still being consistent with a moderate contraction of the eurozone economy, it is in line with our scenario that the eurozone's recession will end in the first half of this year.

There was also positive news from China. Granted, the official PMI edged down modestly in January, but HSBC's manufacturing PMI rose strongly, suggesting that China's rebound remains on track. All in all, nothing in this week's data made us change our view that the world economy will gain some traction during the course of the year.

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 Investment Committee has not changed its asset allocation. The overall allocation, consisting of an overweight position in Equity, Property and Hedge Funds, a neutral position in Commodities, and underweight positions in Fixed Income and Cash, is set to benefit from the cyclical recovery.

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	174	0.26	2.00
German Bund	143	0.26	1.69
Gilts	173	0.38	2.11
JGB	71	0.07	0.76
EMBI+	253	-----	-----
iTraxx Euro 5-yr	103	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	07 February 2013	No change
Fed	0.0-0.25	20 March 2013	No change

German Bund - Bloomberg



Currency forecasts

	Mar. 13	Jun. 13	Sep. 13	Dec. 13
EUR/USD	1.30	1.30	1.25	1.20
GBP/USD	1.59	1.59	1.54	1.50
USD/JPY	88	90	92	95

Bloomberg – euro/dollar



Bonds

Last week's highlights (28 January - 1 February)

Bond yields in core markets moved higher last week, prolonging their upward direction since the start of the year. Credit markets took a hit from higher yield levels and widening credit spreads for both investment-grade and high-yield credits.

This week's focus (4 - 8 February)

Markets will be closely watching the central banks' actions with respect to the timing of the eventual exit of their quantitative easing programmes. In last week's statement, the US Federal Reserve confirmed its continuation of the bond purchasing programme at its current pace for the time being, but markets have started pricing in the possibility of an earlier exit.

Topic of the week – test case bailout

Bond markets and rating agencies have been closely watching the 'test case' bailout process of Dutch bank and insurer SNS Reaal NV. Although the company will be nationalised by the Dutch government, senior bond holders have been exempt from burden sharing, with holders of the company's subordinated debt and equity taking the losses. As could be derived from earlier statements, the European Committee's stance is much more strict. Newly appointed Chairman Dijsselbloem argues that senior debt holders should also take part of the losses after a bailout. This will be enforced in the new bail-in regulation that will be effective from 2015. Markets appear to be considering the possibility of the EC setting an example by implementing this provision in advance for the SNS bailout.

Foreign exchange

Rise in the euro likely to trigger a 'Draghi moment'

The euro has risen significantly in recent weeks. Since the ECB's last meeting, it rose by around 4.5% in trade-weighted terms. As a rule of thumb, a 10% rise in the effective exchange rate reduces GDP growth by a cumulative 0.9 percentage points after a year. So the rise in the euro – if sustained – will reduce GDP growth by around 0.4 percentage points, particularly impacting the export-oriented manufacturers. This kind of drag would be no small thing for an economy that is likely to be flattish in the first half of this year, before returning to sluggish growth in the second half. A sustained upswing in the euro would leave the single-currency area's economy looking stagnant this year. The question is what, if anything, the authorities will do about it. Until now, problems in the eurozone have triggered a 'Draghi moment'. Indeed, with the euro having been driven upward by an - in our view - unreasonable expectation about a sharp rise in EONIA rates, there has been an unwelcome tightening of financial conditions. We therefore think that at the ECB press conference next week, Draghi is likely to attempt some verbal intervention, in order to rein in rate expectations and the euro itself.

Sector indices

Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1'498	13.6x	2.3%	5.2%
Euro Stoxx	2'703	11.0x	4.3%	2.9%
Nikkei 225	11'191	21.3x	1.8%	7.2%
FTSE100	6'300	11.7x	3.9%	6.5%
AEX	355.1	11.5x	3.2%	3.4%

Important rating changes

Company	From	To
Wolters Kluwer	Buy	Hold
L'Oreal	Buy	Hold
Valero Energy	Buy	Hold
TomTom	Buy	Hold
TNT Express	Hold	Buy

Corporate earnings calendar

04.02.2013	Aperam, Givaudan, Julius Baer, BinckBank, Humana, Hartford, Simon Property, Mitsubishi Estate, Mitsui, Anadarko, Gilead
05.02.2013	ARM Hold, Neste Oil, Stora Enso, Imtech, Munich Re, UBS, KPN, BG Group, Vinci, BP, Allergan, Kellogg, Tokyo Elec., Toyota, ADM, Estee Lauder, Emerson Electric, Becton Dickinson, Disney,
06.02.2013	GEA, ArcelorMittal, Douglas, Syngenta, Mobistar, Vesta Wind, News Corp., CVS, Glaxo, Suncor
07.02.2013	Sprint, Teva, Sanofi, Statoil, Alcatel, Swisscom, Daimler, CS, HeidelbergCement, Nutreco, Umicore, Philip Morris, Excelon Singapore Airlines, Kraft Foods Nuance
08.02.2013	Eurocommercial, MAN, Telecom Italia,

Bloomberg – Brent oil



Commodity prices - Bloomberg

	31 January	24 January
Gold	1667	1672
Brent	114.68	112,68
Copper	8230	8080
Wheat	783	766

Equities

Last week's highlights (28 January – 1 February)

Global equities lost momentum after better-than-expected corporate profits, accelerating growth in China and signs of a recovery in Europe led to the strongest January performance since 1997. While US equities outperformed the rest of the world, investor attention shifted to Asia last week, with the MSCI Asia Pacific Index outperforming US and Europe. The strong January performance of US stocks calls for the old adage "as goes January, so goes the rest of the year for stocks." Historically, when the Dow finishes January with a gain, US equities finish the year higher, 82% of the time.

This week's focus (4 - 8 February)

The Chinese New Year is in about 10 days. While it appears that tons of cash continues to sit on the sidelines, some profit-taking in China (and other markets) ahead of Chinese New Year may emerge, as markets are closed for a week's time during the holiday.

Topic of the week – US monthly

Recent advances in US equity markets reversed the oversold situation in November into an overbought situation. In fact, some experts suggest 75% of all S&P 500 Index constituents are already trading in overbought territory. A technical correction (or more like a consolidation/sideways move) may therefore be imminent. The bullish sentiment indicator and valuation above the long-term mean support such an assumption

Commodities

Last week's focus (28 January – 1 February)

At the beginning of January, gold prices took out the peak just above USD 1,690 per ounce, but prices failed to stay above this level. Interest from investors was the main driver, but the move ran out of steam. Some analysts say that gold prices lost momentum because of the reduced need for safe-haven assets. We believe that gold prices are losing momentum because gold is becoming a less attractive asset to invest in.

This week's focus (4 - 8 February)

During the past two weeks, oil prices found support from positive sentiment based on hopes of economic recovery. This positive sentiment was not only reflected in oil prices, but also in equity markets, support for the euro against almost all crosses and even some higher yields. ABN AMRO expects oil prices to be capped for several reasons. Global demand is expected to pick up only modestly, while supply is ample. It is almost certain that Saudi Arabia will step in if oil prices appreciate too fast too soon. In order to prevent volatility rising, Saudi Arabia will most likely increase its output if prices start to threaten the global economic recovery, as it is the only swing producer. In the longer run, oil production is set to rise anyhow, meaning pressure on oil prices is set to increase. This impact will most likely be even larger, if geopolitical tensions ease, which would automatically lead to a lower Brent/WTI spread.

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