



# Global weekly

## Draghi's subtlety

Research & Strategy  
8 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

ECB President Mario Draghi subtly talked down expectations of higher interest rates and the euro in the press statement following the central bank's decision to keep interest rates on hold. He said that inflationary pressures would remain contained and that this would allow the monetary policy stance to remain accommodative. He sounded a little more optimistic on inflation, saying that it would drop below 2% in 'coming months' compared to 'this year' in the previous statement.

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	

For the first time, the strength of the euro was mentioned as posing a downside risk to the inflation outlook. When asked about the strength of the euro explicitly, Draghi noted that its rise reflected an increase in confidence in the single currency area, the trade-weighted exchange rate was not high from a historical perspective and the central bank did not have an exchange rate policy. He went on to note, however, that the ECB would need to see how the euro's strength impacted the growth and inflation outlook. In addition, he pointed out that continued strength in the euro could impact the balance of risks to inflation. This hints that euro strength – if sustained – could eventually trigger a rate cut.

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	

Economic data has been mixed, although it remains broadly supportive of our scenario of a gradual economic recovery. Although the global manufacturing Purchasing Managers Index (PMI) rose in January, the services PMI declined. This left the whole-economy output index inching lower. Deceleration in US service-sector growth is behind this decline, as consumer demand may be feeling the effects of tax hikes. This should dampen growth momentum in the first half of this year. Underlying cyclical tailwinds, however, are strengthening, and we expect the US economy to accelerate again in the second half of 2013.

Eurozone composite PMI rose further last month. , and was even a little stronger compared to the previously released flash estimate. Finally, China's exports rose strongly in January, adding to evidence of a turn in the industrial cycle.

### 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.

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

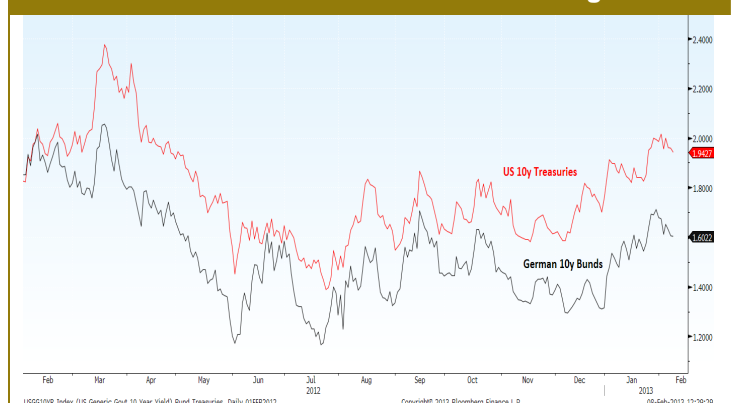
## Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr(%)
<b>US Treasuries</b>	170	0.24	1.94
<b>German Bunds</b>	142	0.17	1.59
<b>Gilts</b>	178	0.31	2.09
<b>JGB</b>	73	0.02	0.75
<b>EMBI+</b>	253	-----	-----
<b>iTraxx Euro 5-yr</b>	103	-----	-----

## Central banks watch

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

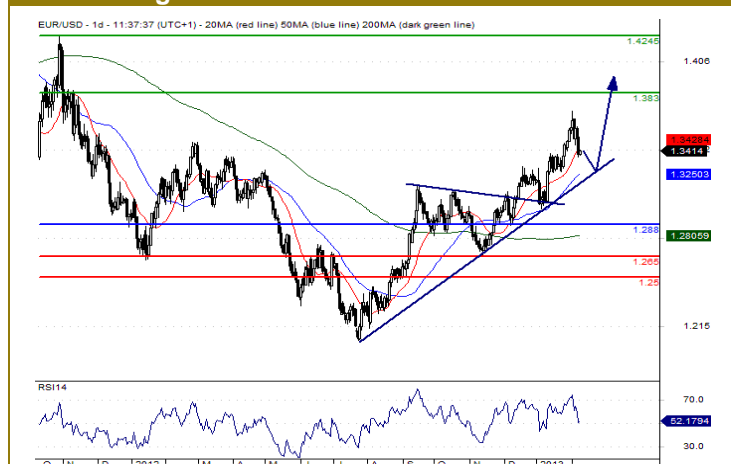
## German Bund vs. US Treasuries - Bloomberg



## Currency forecasts

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

## Bloomberg – euro/dollar



## Bonds

### Last week's highlights (4 - 8 February)

The tone of the ECB is considered to have turned more cautious on the economic and inflation outlook. Therefore core government bond yields did not move higher and stabilized. Ireland (liquidation of Anglo Irish loan book) and Portugal are preparing to issue new debt.

### This week's focus (11 - 15 February)

Eurozone government markets will likely be in the hands of politicians again, with the G20 meeting in Russia, upcoming Italian elections and turmoil in Spain. These events will lead to lower yields for core government bonds and higher yields for peripheral bonds. We see this period of uncertainty as an opportunity to accumulate peripheral risk. Looking at the bond sub-index performance for January 2013, core government bonds and high-quality bonds (including hard currency EM) are more at risk for negative performance than risky leveraged corporates and government bonds with lower quality ratings.

### Topic of the week – Netherlands on negative outlook

Rating agency Fitch closed the gap with Moody's and S&P, by placing the Netherlands on negative outlook. The agencies said the outlook change reflects their view that the leveraged Dutch economy has suffered a number of shocks, including a sharper-than-expected housing market correction, which weighs heavily on Dutch household consumption and consumer confidence; some persistent banking system problems; and a public debt level, which is higher than most AAA peers and expected to peak at 77% of GDP.

## Foreign exchange

### Last week's highlights (4 - 8 February)

On February 1, market sentiment towards the euro started to change, reflecting the market's nervousness ahead of the ECB monetary policy decision and political developments in Spain and Italy. This change in perception made the market more receptive to negative news about the eurozone. Ahead of the ECB meeting, the euro recovered on increased optimism that the ECB would not sound different than at its meeting in January. In line with our expectations, Draghi sounded more dovish, which resulted in a large profit-taking wave on long euro positions.

### This week's focus (11 - 15 February)

On Friday, the euro stabilized, but we believe this is just a start. The market is sensitive to negative eurozone news. Political developments and weaker data will further hurt euro sentiment and result in more euro weakness. Our target of 1.30 for EUR/USD by the end of March is within reach. In addition, UK data will also start to matter again for currency markets. This week inflation data and the Bank of England inflation report will be released. If data come in a touch higher and the BoE inflation report less dovish, EUR/GBP will also head lower.

## Sector indices

Index	Level	P/E '13	Div (%)	%YTD
<b>S&amp;P 500</b>	1509.4	12.2	2.2	5.8
<b>Euro Stoxx</b>	2613.8	9.6	4.5	-0.8
<b>Nikkei 225</b>	11153.2	17.4	1.8	7.3
<b>FTSE100</b>	6265.7	10.6	3.7	6.2
<b>AEX</b>	344.9	10.2	4.6	0.6

## Important rating changes

Company	From	To
SNS REAAL	Hold	Not rated
Bristol-Myers Squibb	Buy	Hold
LVMH	Buy/RL	Hold
Saipem	Not	Hold
Wereldhave	Hold	Buy

## Corporate earnings calendar

2/11/13	Bilfinger Berger, L'Oreal, Wereldhave,
2/12/13	ThyssenKrupp, Coca-Cola, Yara, Avon, TomTom, Barclays,
2/13/13	Corio, Crucell, ING, TUI, Cisco, Heineken, Saipem, OPG, Total, Comcast, Duke Energy, Kraft Foods, SocGen, Reckitt Benckiser, Peugeot,
2/14/13	KBC, Rio Tinto, Nestle, Zurich Fin, SBM Offshore, Ordina, BNP Paribas, Pernod-Richard, Pepsico, Actelion, Iberdrola, Randstad, Puma, Solvay, Barrick Gold, Renault, CBS, Apache, GM, Suez, EDF
2/15/13	Aegon, Eni, Imtech, PPR, Anglo American,

## Bloomberg – Brent oil



## Commodity prices - Bloomberg

	31 January	24 January
<b>Gold</b>	1671	1667
<b>Brent</b>	117.24	114.68
<b>Copper</b>	8200	8230
<b>Wheat</b>	758	783

## Equities

### Last week's highlights (4 – 8 February)

The year started strongly. US Q4 earnings were mostly better than expected and, with most European companies still to report on Q4, profit-taking has set in. Efforts by the major currency blocks, the US and Japan, to keep their exchange rates competitive has led to a too strong euro according to export-oriented European companies.

### This week's focus (11 - 15 February)

The forthcoming results for most European firms could disappoint, as the region's weak demand environment continues to weigh on results and the strong euro hurts large international firms.

### Topic of the week – Corporate cash

As corporate balance sheets remain, in general, very strong and free cash flows are often at high levels, it is time for many firms to make big decisions on what to do with these now very low-yielding cash positions. Last week, Apple, with a cash holding of some USD 100 bln, was pressured by a hedge fund to issue high-yielding preferred shares, which Apple may consider doing. Other companies could decide to raise their common stock dividends or buy back shares. But for growth-oriented firms, a strong balance sheet should be used to either invest in their business or to acquire other companies to expand their regional, product or know-how franchise.

After being dramatically slowed by the very uncertain outlook that prevailed for the past four years, there is now a revival of M&A activity. There are also strong rallies in possible targets. Lanxess, Henkel, DaVita, Symrise, Mead Johnson and Qiagen NV are all on our Buy list and appear to be attractive takeover targets as well.

## Commodities

### Last week's focus (4 – 8 February)

After 13 working days in a row of appreciating prices, Brent oil eased on Monday. It came on the back of worries regarding the eurozone and based on some profit-taking on recent moves. However, on Tuesday, sentiment picked up again, and Brent touched a 20-week high, on stronger-than-expected data releases, which triggered higher demand expectations. Currently, Brent oil is trading above USD 116.

### This week's focus (11 - 15 February)

Higher Brent prices are a normal pattern during the first quarter of the year. Nevertheless, we believe that the upside is limited: 1) USD 120 is seen as a psychological cap, as higher prices would hit the economy too hard. 2) Supply is ample and new production is coming to market. 3) A new date for negotiations between Iran and several major countries is set, which could potentially ease tensions. 4) The economic recovery is expected to be gradual. After stronger-than-expected data during the past week, it is possible that disappointing data will follow.

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