



Global weekly

Eurozone reality check

Research & Strategy
15 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	

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	2.0	1.7	1.9
Eurozone	-0.2	-0.1	1.5	1.9
UK	0.8	1.0	2.2	2.6
Japan	2.3	0.7	0.3	-0.2
Other countries*	2.0	2.1	1.8	1.5
EM Asia	6.6	6.8	4.6	4.3
Latin America	3.8	3.5	6.4	6.4
EEMEA**	2.6	2.8	5.0	5.9
World	3.3	3.2	3.7	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

Eurozone GDP fell by 0.6% in Q4, following a 0.1% decline in Q3. The outcome was weaker than the consensus forecast (-0.4%). The weakness in the fourth quarter emphasises the challenges the economy faces, but should partly be viewed in the context of quarterly volatility, given that the third quarter was more resilient than suggested by evidence from business surveys. Business surveys have improved in recent months, but remain consistent with moderate contraction in the economy. The country breakdown shows more significant weakness among the usual suspects (Portugal: -1.8%, Italy: -0.9%, Spain: -0.7%, Greece: -1.1%) and somewhat more moderate contraction in the core (Belgium: -0.1%, Austria: -0.2%, France: -0.3% and the Netherlands: -0.2%). The big outlier in terms of the north-south divide was Germany, which saw GDP shrink by 0.6%. However, the weakness was partly down to one-off factors (construction was particularly weak in Q4) and volatility. We expect Germany to be among the fastest growing eurozone economies in the coming quarters. In particular, the German government is one of the few that does not need to put in place significant fiscal consolidation this year, while fundamentals for private sector domestic demand are relatively favourable.

We think that the decline in uncertainty about the future of the single-currency area and easing financial conditions have sowed the seeds for an economic recovery. Ongoing severe budget cuts, rising unemployment and bank deleveraging, however, suggest that the recovery will be excruciatingly slow. In particular, budget cuts worth around 1.5% of GDP are planned for this year, which is similar to what we saw last year. The strength of the euro – if sustained – is a threat to even this rather modest outlook. As such, we maintain our view that the ECB will attempt to counter this strength. Verbal intervention has already begun, but if that does not work, interest rate cuts will come back on the table.

Global Investment Committee (GIC) decisions

The GIC has decided to close the active equity trade of underweighting the US and overweighting Europe, which was opened in September 2012. Both regions will move to neutral. The trade has performed positively in two directions. European equities outperformed the MSCI All Country World Index by 1.6%, while US equities underperformed by 2.8%. European equity markets have digested the falling tail risks and are anticipating a gradual recovery of growth in 2013. Near-term risks have resurfaced: Italian elections, budget deficits in France and austerity impacts in Spain could flare up eurozone market concerns. In addition, the traction of the gradual economic recovery on company earnings could be postponed or weakened by sustained euro strength.

The overall allocation consisting of an overweight position in equity, property and hedge funds, a neutral position in commodities and an underweight position in fixed income and cash remains unchanged and is set to benefit from the cyclical recovery.

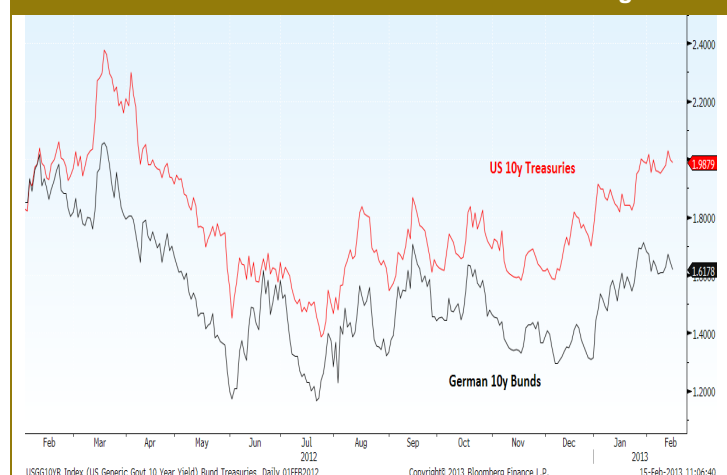
Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr(%)
US Treasuries	172	0.26	1.98
German Bunds	135	0.25	1.60
Gilts	187	0.29	2.16
JGB	72	0.02	0.74
EMBI+	261	-----	-----
iTraxx Euro 5-yr	111	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	07 March 2013	No change
Fed	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
EUR/USD	1.30	1.30	1.25	1.20
GBP/USD	1.59	1.59	1.54	1.50
USD/JPY	90	90	92	95

Bloomberg – euro/dollar



Bonds

Last week's highlights (11 - 15 February)

Over the course of February, a number of pro-risk trends have shown signs of exhaustion: The German Bund sell-off and peripheral rally has stalled. The euro is down by more than 2%, and the yen sell-off seems to have lost steam. Two things have changed over the last two weeks: the policy backdrop has become more clouded, and data have raised some questions regarding the economic recovery.

This week's focus (18 - 22 February)

Most of the time, bond investors are looking forward, therefore we could see a continuation of last week's trend with very interesting reflection points from data and politicians and other authorities.

Topic of the week – Talking the euro down

Europe will release the preliminary Purchasing Managers Index data, which will hold clues to the recovery of the eurozone economy. ECB speakers may try to talk the euro down with the ECB Governing Council meeting on Thursday. On Friday, the EU will release its Winter Economic Forecasts, focusing on the structural deficits of Spain and France. Mariano Rajoy, the Spanish prime minister, will discuss the Spanish economy and budget before the parliament on Wednesday.

Foreign exchange

Global policymakers rightly relaxed about 'currency war'

The possibility of a currency war dominates the discussion on FX markets. Global policymakers, however, do not seem overly concerned. For currency movements to have a large impact on the economy and on monetary policy, they need to be sizeable in trade-weighted terms. However, currencies have not risen strongly in trade-weighted terms – with the exception of the euro - while there has also not been much policy action aimed specifically at weakening currencies. In the recent G7 statement, global policymakers have given a green light for countries to follow domestic policy objectives aggressively.

Muted impact of yen weakness on other Asian economies

The impact of the weakened yen on other economies is likely to be relatively muted. Japan's role in Asian trade should not be exaggerated. China remains the key destination for Asian economies' exports and hence the cross-exchange rate movements with the Chinese yuan (CNY) are more important. We have not seen any big moves in trade-weighted terms. Asian central banks may well implement measures to curb volatility and hot capital flows, but we do not expect major measures to stem the appreciation of their currencies, as long as the impact on exports remains limited and domestic economic fundamentals improve. Strengthening global economic conditions will also make Asian authorities more comfortable with stronger currencies.

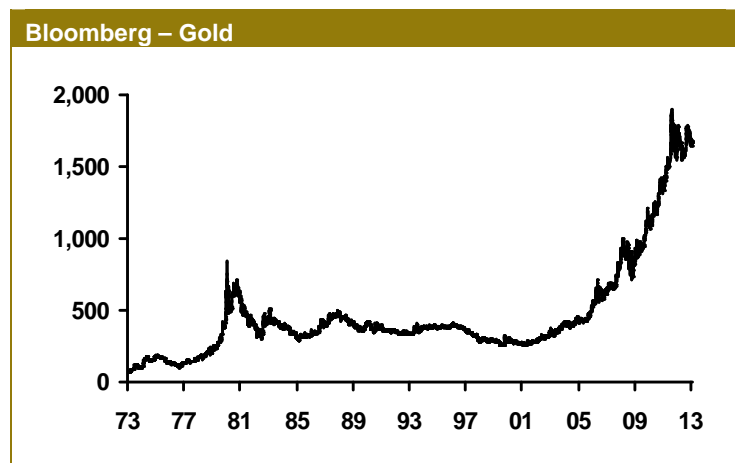
Euro strength unlikely to continue

The euro has risen significantly in trade-weighted terms and – if sustained – this would hurt an economy that is already very weak. It was therefore no surprise that ECB President Draghi subtly talked down the euro by underlining that it poses downside risks to inflation and hinting that a rate cut may follow if the euro appreciates further. Since then, the euro has fallen back. We think that the recent euro correction is just the beginning of what will likely be a significant decline. With the market again sensitive to negative eurozone news, soft economic data will further weigh on sentiment. We maintain our end-of-March EUR/USD target at 1.30.

Sector indices				
Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1521.4	12.3	2.1	6.7
Euro Stoxx	2631.3	9.7	4.5	-0.2
Nikkei 225	11173.8	17.5	1.8	7.5
FTSE100	6319.8	10.7	3.7	7.2
AEX	345.1	10.2	4.6	0.7

Important rating changes		
Company	From	To
Mobistar	Hold	Buy
Philips	Hold	Buy
Cheung Kong Holdings	Buy	Buy/RL

Corporate earnings calendar	
2/18/13	TNT Express
2/19/13	Dell, Deere & Co, Coca-Cola Am, Medtronic, Deutsche Boerse, Gas Natural, Danone
2/20/13	DSM, AA Real, Unit 4, BHP, Credit Agricole, Akzo, Devon Energy Corporation, Exact, Saint Gobain, Lafarge, Wolters Kluwer, France Telecom
2/21/13	AXA, Allianz, Dexia, OMV, Wal-Mart, HP, Qantas, Technip, Southwestern, Newmont, BAE, Schneider, Casino Guichard
2/22/13	A/P Moeller-Maersk, Wessanen, Air France-KLM, Agrium, Accell



Commodity prices - Bloomberg		
	14 February	7 February
Gold	1646	1671
Brent	117.62	117.24
Copper	8239	8200
Wheat	734	758

Equities

Last week's highlights (11 – 15 February)

After the strong start of the year, there was not much movement in most equity markets last week. Most global indices were flat to 1% higher.

This week's focus (18 - 22 February)

The focus for now will stay on results. So far, the quarterly earnings have beaten expectations, both in the US and Europe. But expectations in Europe were clearly more downbeat than in the US, and the underlying trend in the US still looks considerably stronger.

Topic of the week – Europe down; US up to neutral

We closed the overweight position in Europe after the region outperformed since inception of this active bet in Q3 2012. At the time, we upgraded on the back of diminishing tail risks and a gradual growth recovery in 2013. We feel that this has partly played out, and valuation has moved back from distressed levels towards historic averages. We see near-term risks emerging to this gradual growth recovery, due to the strengthening of the euro. This might postpone or weaken the earnings traction we expect later in the year.

On the other hand, the US market has better (long-term) growth fundamentals versus Europe, which we believe justifies a premium valuation. Since Q3 2012 the premium valuation of the US has narrowed somewhat after the relative under-performance versus Europe and emerging markets.

Our positive view on the US dollar could in the longer term be a burden for the competitive position of US companies, but it supports equity investors in the US market.

Commodities

Last week's focus (11 – 15 February)

At the start of the week, we received some questions on the effects of a possible currency war on gold prices. After all, in case of currency wars, countries would engage in competitive devaluation by printing money. This would trigger inflation fears and general distrust in paper money. As gold is often seen as an inflation hedge, the fear of currency wars could result in a rally in gold prices. Although central banks in emerging markets turned to net buying from the second half of 2009, they have been buying gold for the purpose of reserve diversification and not out of fear of currency wars. Gold prices did not react to currency war headlines and even remained under pressure.

This week's focus (18 - 22 February)

We continue to expect that gold prices will move to 1,600 USD per ounce at the end of March, as other assets will benefit more from a slowly improving global economy. The rally in Brent oil prices since mid-January came to an end after eurozone GDP and adjusted International Energy Agency (lower) demand expectations. We expect a further correction in Brent oil.

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