



Global weekly

ECB on hold and staying there

Research & Strategy
8 March 2013

Asset allocation	I			II		
	Saa	Taa	•	Saa	Taa	•
Money	5	18	13	5	4	-1
Bonds	90	74	-16	70	58	-12
Equities	0	0		15	23	8
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	44	-11	35	23	-12
Equities	30	44	14	50	65	15
Alternatives	10	12	2	10	12	2
Hedge funds	5	5	0	5	5	0
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	84	14	85	95	10
Alternatives	10	5	-5	10	5	-5
Hedge funds	5	0	-5	5	0	-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

The ECB left its key policy rates on hold at the March meeting. At the press conference following the decision, President Mario Draghi suggested that the central bank is unlikely to cut interest rates, despite further downward revisions to the ECB's growth forecasts. When asked why the ECB did not cut rates, Draghi played down the revisions to the central bank's growth forecasts, saying they mainly reflected an overhang from a weaker-than-expected Q4 GDP outcome. The central bank sees the economy stabilising in the first half of this year, followed by a gradual recovery, on the back of strengthening global demand, accommodative monetary policy and an easing pace of fiscal consolidation. In addition, Draghi asserted that the inflation outlook remains consistent with price stability, even though the institution's inflation forecast for next year stands at a midpoint of 1.3%. This does not seem close to 2% to us, but Draghi seemed to justify the central bank's judgment by pointing to well-anchored inflation expectations. Draghi took his strongest stance yet against taking the deposit rate – the key driver of interbank rates – into negative territory by saying that the unintended adverse consequences of such an action could be serious. In addition, the central bank did not have anything concrete to say about more targeted measures to improve the transmission mechanism in the eurozone periphery. He simply noted that the situation was improving, pointing to reduced dispersion in bank funding costs and, to a lesser extent, company lending rates across the eurozone.

US data signal private sector resilience

The ISM non-manufacturing index was strong in February, rising to 56 from 55.2 in January and beating the consensus forecast of 55. The rise is encouraging. It suggests that the private sector is relatively resilient in the face of tax hikes. The ADP private employment report underlined this message. Employment rose by 198,000 in February, which was better than the consensus forecast of 170,000. January data was also revised upwards. This underlines our view that US economic growth should strengthen later in the year, when cyclical tailwinds start to overcome fiscal headwinds.

Global Investment Committee (GIC) decisions

The Global Investment Committee decided to increase the overweight position in equities further. This increase is made at the expense of cash (profile #2), bonds and hedge funds (profiles #3 and #4); and hedge funds only (profiles #5 and #6). Profile #1 is not affected by the decision. The changes result in a strong overweight in equities and an underweight in bonds. Hedge funds are overweight in profiles 1 and 2, neutral in profiles 3 and 4, and underweight in profiles 5 and 6. We are overweight in property and neutral in commodities. Cash is overweight in profile 1 and underweight in all other profiles. (See the individual asset allocation portfolio profiles on the left.)

In our equity sector allocation we reduced energy from overweight to neutral and increased consumer staples from underweight to neutral.

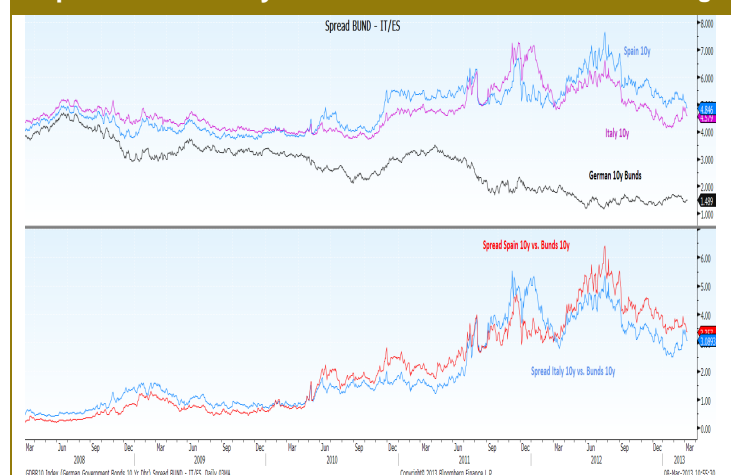
Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr(%)
US Treasuries	175	0.25	2.00
German Bunds	141	0.08	1.49
Gilts	178	0.23	2.01
JGB	64	0.03	0.67
EMBI+	270	-----	-----
iTraxx Euro 5-yr	106	-----	-----

Central banks watch

	Current	Date	Expectation
ECB	0.75	04 April 2013	No change
Fed	0.0-0.25	20 March 2013	No change

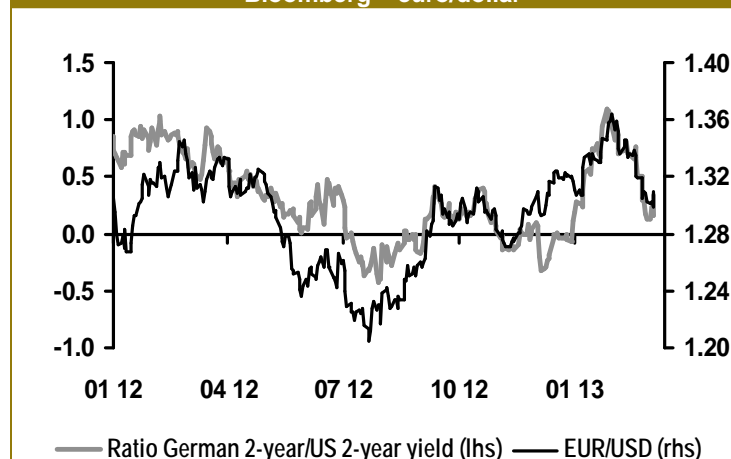
Spanish & Italian yields vs. German Bund - Bloomberg



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	90	90	92	95

Bloomberg – euro/dollar



Bonds

Last week's highlights (4 - 8 March)

Bond yields in the US and Europe rose during the week. This was based on a variety of factors, including positive US labour market data and the European Central Bank and the Bank of England keeping their rates and stimulus measures unchanged. Sentiment towards the European periphery improved last week, following the temporary spike in Italian yields following the election outcome. Spain successfully auctioned new debt at higher bid-to-cover ratios. In addition, S&P changed its outlook for Portugal's government debt from negative to stable.

This week's focus (11 - 15 March)

European leaders will discuss the growth strategy to be incorporated in the Stability and Growth Programme. Structural reforms will also be an important agenda point at the EU summit that will be held on Thursday and Friday. Later this week, the second review of the Greek aid program is to be finalised.

Topic of the week: Central banks on hold

Bond markets have scrutinised all central bank communication for any sign of change in their current accommodative stance. Last week's decision of the Bank of England to keep rates and stimulus unchanged ended market speculation on additional asset purchases by the BoE for now. The likelihood of the ECB cutting rates further has decreased, as ECB President Draghi seems content with the combination of a slow recovery and low inflation. The central bank further lowered its outlook for growth and inflation in the eurozone this year.

Foreign exchange

Last week's focus (4 - 8 March)

The BoE's decision to leave interest rates unchanged supported the sterling against the euro as some probability of further monetary easing was priced in for this meeting. However, the recovery of sterling versus the euro was short-lived because the euro took off after the ECB decided to remain on hold and ECB-President Draghi's press conference. The ECB sounded less dovish than expected, and this resulted in markets pricing out their expectations of lower interest rates somewhat. The euro rallied, while German government bond yields increased.

Riksbank Governor Stefan Ingves indicated that he is unconcerned about the strength of the Swedish kroner. As a result, the kroner strengthened versus the euro yesterday. The Japanese yen came under heavy pressure across the board, driven by expectations of more monetary easing by the new leadership of the Bank of Japan. Improved sentiment on the global economy also played a role.

The stronger-than-expected US employment report supported the dollar.

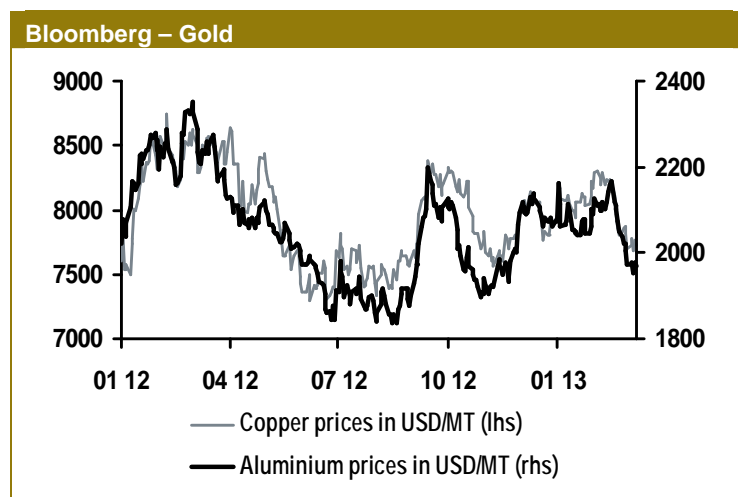
This week's focus (11 - 15 March)

The US dollar has become more cyclically driven. As a result, the US dollar should react positively to better-than-expected US data. US retail sales, industrial production and the Empire Manufacturing index are on the agenda this week. The central banks of New Zealand, Norway, South Korea and Switzerland decide on interest rates. We do not expect any changes in official rates for any of them.

Sector indices				
Index	Level	P/E '13	Div (%)	%YTD
S&P 500	1544.3	12.5	2.1	8.3
Euro Stoxx	2710.7	10.1	4.4	2.8
Nikkei 225	12283.6	18.5	1.7	18.2
FTSE100	6475.0	10.8	3.6	9.8
AEX	350.1	10.5	4.5	2.2

Important rating changes		
Company	From	To
Westpac Banking Corp	Buy	Hold
Sino Land	Buy/RL	Hold
Keppel Land	Buy	Hold
Sanofi-Aventis	Buy	Buy/RL
Amgen	Buy/RL	Hold
Gilead Sciences	Buy/RL	Hold

Corporate earnings calendar	
3/11/13	GEA Group,
3/12/13	Intesa Sanpaolo, Geberit,
3/13/13	CSM, Cathay Pacific, Adecco, Prudential, E.ON, Enel,
3/14/13	Imtech, SGL Carbon, Bucher, Boskalis W., Lufthansa, Heidelbergcement, Generali, AMB Generali, China Mobile,
3/15/13	Dufry Group,



Commodity prices - Bloomberg		
	7 March	28 February
Gold	1578	1579
Brent	111.15	111.38
Copper	7765	7815
Wheat	695	707

Equities

Last week's highlights (4 - 8 March)

Stricter enforcement of property tightening measures in China and the start of sequestration (automatic spending cuts) in the US were neglected, as a strong rebound in the Shanghai Composite supported global risk sentiment. Equities across the globe finished the week higher in fairly uneventful trading. There is no clear trend yet between cyclical and defensive sectors. The consumer discretionary and telecom sectors were the big gainers. Materials and energy underperformed.

This week's focus (11 - 15 March)

After strong gains year-to-date and the earnings season coming to an end, equity investors increasingly evaluate short-term risks versus long-term opportunities. Short-term risks, such as more volatile macro data, developments in Italy, etc, face an equity positioning that is still modestly underweight. We believe any attempt at a sell-off will be followed by a rebound rather than a sustained pull-back.

Topic of the week – Positive long-term view US

We maintain our positive long-term stance on equities. We expect that companies will become more active, taking advantage of their solid balance sheets and currently cheap funding. This is especially true in the aftermath of the credit and financial crisis, as the economy is expected to grow slowly relative to previous recoveries, and it is becoming more difficult for companies to significantly grow earnings. We therefore expect corporate America to accelerate investments to achieve reasonable earnings growth in the coming quarters. (For the full US Monthly Report, please contact your local Investment Advisor).

Commodities

Base metals

2013 started on a promising note for base metal prices. From January until mid February, the prices of all base metals increased considerably. In this period, aluminium and copper both gained 4%, while nickel and zinc increased by 10% and 7%, respectively. In the second half of February, these impressive gains soon vanished, however, as prices started to decrease quickly. All base metals are now below their price level of January 1st. Aluminium dropped the most strongly, followed by zinc. Both copper and nickel lost 3% since the start of 2013. Sentiment turned negative on the Chinese markets, and metal buyers and stakeholders became very cautious in buying material at volatile prices and in uncertain economic circumstances. Uncertainty about the outcome of the US budget discussions, the election outcome in Italy, disappointing PMI numbers in China and Europe also hurt. LME warehousing inventories increased steadily, which indicates that underlying real demand is still weak.

Precious metals

After weeks of steep decline, the gold price finally stabilised somewhat. We believe that more near-term downside in precious metals can be expected. The crucial support level for gold prices is 1,525. Our price forecasts for gold are: USD 1,400 for the end of 2013, USD 1,200 and USD 1,000 for the end of 2014 and 2015, respectively. After near-term weakness, we expect precious metals, with the exception of gold, to rally again.

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