



global weekly

Investment
Communication

19 April 2013

Weak data hits markets

With business surveys moving in the wrong direction, we now expect the ECB will cut the refinancing rate in May. Given the recent weak data and the rise in the euro against the yen, we adjusted our 2013 eurozone GDP forecast from -0.2% to -0.5%. In addition, the declines in commodity prices remove one potential source of inflationary pressure. It looks likely that inflation will be stuck well below 2% in the coming quarters.

ECB to cut rates as soon as May

While a cut in the refinancing rate will not have a big impact on interbank rates, it will provide cheaper funding for peripheral country banks. It also signals that the central bank will keep its policy accommodative for even longer.

European equities decline

After hitting a two-year high last week, European equities had to cope with a number of negative headlines this week. Economic sentiment in Germany was weaker than expected, as the ZEW indicator retreated to its January level. We believe the decline was mainly influenced by doubts about the strength of the global economy, after a string of disappointing data from the US and China.

The IMF also cut its forecast for global growth, and there was market talk of sovereign downgrades in Europe. All of these factors pushed European equities sharply down in a broad sell-off. Meanwhile, European earnings reports have so far been unexceptional.

European government bonds unchanged

Spreads on peripheral government bonds were broadly unchanged. Spain was in the news, after successfully issuing EUR 4.71 bln of debt, above its target of EUR 4.5 bln.

In credit markets, the focus next week will be mainly on the Q1 earnings season. Corporate bond investors will look for any sign of deteriorating profitability, on the back of the slowing macroeconomic momentum. Most market drivers for corporate bonds, however, remain supportive.

Global bond markets have shown an increasing divergence

Equity index performance in EUR (Thursday close)

	Value	One week	Year-to-date
MSCI ACWI	353.88	-2.8%	4.2
S&P 500	1541.61	-3.2%	8.1
EuroStoxx 50	2555.5	-2.5%	-2.6
DAX	7473.73	-3.0%	-1.4
Nikkei 225*	13316.48	-1.3%	+28.1
Hang Seng Index*	21982.24	-0.5%	-3.0

* Wednesday close

Important rating changes

Company	From	To
Facebook	Hold	Buy
ABB	Hold	Buy
BNP Paribas	Hold	Buy
Carrefour	Hold	Buy
Nokia	Buy	Hold

Government bond yields

	Yield	One week	One year
US Treasuries 2-year	0.22%	-0.6bp	-4.0bp
German Bunds 2-year	0.01%	-1.8bp	-12.4bp
Japan 2-year	0.13%	+1.1bp	+2.3bp
US Treasuries 10-year	1.70%	-9.4bp	-28.0bp
German Bunds 10-year	1.22%	-7.6bp	-49.4bp
Japan 10-year	0.58%	+4.0bp	-35.5bp

Spreads

Index	Spread	One week	One year
CDX NA IG	84.13bp	+2.2 bp	-15.3 bp
iTraxx Euro 5-year	114.18bp	+3.2 bp	-28.5 bp
JPM EMBI+	283.31bp	+14.1 bp	-50.2 bp

Performance data is as of 12:00 pm Friday, 19 April

Source: Bloomberg

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over recent months. This is reflected in the government bond markets, where there is a growing spread of US treasury yields over German Bund yields.

And it is evident in credit markets too. While US credits behave differently from their European peers, the most striking separation is the widening gap between core- and peripheral credit risk. It is a striking difference, far more dramatic than the variation between the different government's bonds or between financial and non-financial credits.

Weaker US data hits markets

The mini inventory cycle in the US is over. This was confirmed by March data. Even though industrial production rose by 0.4%, it was mainly due to a gain in the volatile utilities component, most likely influenced by the cold winter weather. Manufacturing production, which excludes utilities and mining, dropped by 0.1%, after a 0.9% gain in February. The fall in output corresponds with the drop in the ISM manufacturing index, the slower pace of hiring, and the decrease in retail sales, which all suggest that the US economy has lost steam.

Other worries hit bond markets

Bond markets extended their rally on the back of global quantitative easing, bomb explosions at the Boston marathon and concerns over the global economic recovery. The Fed's eventual slow-down and the ending of its asset-purchasing program is still hanging over the markets. Although the March FOMC minutes revealed an increasing caution among the committee members, we expect the Fed to not slow its purchases before 2014.

US equity markets decline

US stocks fell in a broad market decline, but still managed to outperform European equities. The weak data, a sharp sell-off in gold and disappointing earnings, led to profit-taking. Cyclical stocks, with exposure to growth-leveraged commodities, such as oil and copper, underperformed the market the most. Technology was also under severe pressure after heavy-weight Apple fell at one point to below the USD 400 mark, based on a disappointing growth forecast from a supplier.

Asian update

China economic data was weaker than expected. The Chinese economy was reported to have grown by 7.7% in Q1, down from 7.4% in Q4. The news, with its implication for a slower global growth outlook, weighed on global equity markets. In particular the news was hard on base metals, oil, equities and commodity currencies.

Other less-than-positive news from China included data showing that home prices continued to rise in March, by

3.3%, on average, in about 70 major Chinese cities, after jumping 1.9% in February and 0.7% in January. This increase fuels fears of more property cooling measures.

As a result, the MSCI China Index was the second worst performer (-3.05%), after Australia (-3.33%), for the week. We nevertheless maintain our view that the Chinese economy is likely to continue to grow at healthy rates.

Over the week, MSCI Asia Pacific outperformed MSCI World, but underperformed MSCI Emerging Asia, with MSCI India (+5.02%), Indonesia (+2.22%), Thailand (+1.12%), Malaysia (+0.71%) and Singapore (+0.16%) all posting positive performance.

As you can read in the Asset Allocation section below, our current tactical asset allocation continues to call for an overweight in equities, and, in particular, an overweight in emerging markets equities.

Asset allocation

There were no changes made to the overall tactical asset allocation at the meeting of the Global Investment Committee (GIC) on 18 April 2013.

The recommended tactical asset allocation continues to call for overweights in equity and property, an underweight in bonds, a neutral position in commodities and a hedge fund allocation that varies relative to the risk profile of the portfolio. The GIC confirmed its overweight in equities, based on modest relative valuation levels and anticipation of gradually improving global growth. For more information, read the Global Investment Committee Update, published today.

Earnings season update

This week, the earnings season is in full throttle, with companies reporting across the board. Among the big US names are Apple, Halliburton, Caterpillar and DuPont.

According to Bloomberg, 61 companies in the S&P 500 Index have posted results so far. A full 70% have beat profit estimates and 51% have topped revenue projections. As a result, S&P 500 earnings are now expected to rise by 1.7% in Q1, up from 1.5% at the beginning of the month.

The earnings season in Europe is slowly accelerating, with high-profile names, such as Unilever, Bayer, BASF and Philips, soon to be reporting. And, in Asia, the earnings season is just beginning. Only 5.8% of total market cap have reported so far, but the huge misses from GS Engineering & Construction and Infosys could imply an ugly reporting season ahead.

For the Chinese property segment, developers have locked

in 58% of consensus-estimated fiscal year top-line growth, but margin compression, higher construction costs and rising interest expenses may continue to eat into 2013's profitability. Nevertheless, it is still too early to predict an outcome, as industry fundamentals could have changed.

Currency outlook

Softer-than-expected US data continued to hurt the US dollar, but weaker corporate earnings resulted in some US dollar safe-haven demand. US economic data continues to drive the currency.

The euro continued to benefit from the weakness of the Japanese yen and softer US data, but dovish comments from Bundesbank Weidmann resulted in expectations of a rate cut.

The aggressive sell-off in the Japanese yen has come to a halt, but we believe this is a pause and not the start of a turnaround. We have adjusted our forecasts to reflect an even weaker Japanese yen, especially versus the US dollar. Our new end-of-year forecasts for the USD/JPY is 110 for 2013 and 120 for 2014.

Currency forecasts

	Today	Q2 2013	Year-end 2013
EUR/USD	1.3083	1.30	1.20
GBP/USD	1.5298	1.49	1.41
USD/JPY	98.29	104	110

Source: ABN AMRO Group Economics

New publications from Research & Strategy

Global Investment Committee Update

The GIC committee made no changes to the overall tactical asset allocation, when it met on 18 april 2013. It did, however, implement a hedge on Japanese equity exposure for USD-based investors, as further weakness of the yen versus the dollar is expected.

Closing the productivity gap: equities thematic note

The industrialization of the emerging markets is moving to the next stage: wealth levels are rising rapidly, as more people move into the middle-class income bracket, local industries start to make more complex products and preparation for local products to compete on the global market is on its way. The shift in consumer demand and the rise of wages are changing the manufacturing landscape. Adjusted business models include automation and the use of robotics that can increase both productivity and profitability. Companies providing IT and automation solutions to manufacturers will benefit from this trend as well.

enefit from this trend as well.

- This calls for a radical change of the manufacturing landscape as robotics and automation are replacing increasingly costly manual labor and a much needed improvement in productivity levels can be achieved.
- Technological innovation is key to the transition.
- Both hardware (machinery, robots, PCs) and software (systems, process technologies, communication links) have to be put in place.

What's coming

		Date
Existing home sales	US	22 April
Consumer confidence	EU	22 April
PMI manufacturing	CN	23 April
PMI manufacturing	EU	23 April
FHFA house price index	US	23 April
New homes sold	US	23 April
Ifo business climate	GE	24 April
CPI	JP	26 April
GDP	US	26 April
UMI consumer confidence	US	26 April

Contributors

Equity Research & Strategy Team

Thomas Helfer - thomas.helfer@nl.abnamro.com

Ralph Wessels - ralph.wessels@nl.abnamro.com

Bond Research & Strategy Team

Jeroen van Herwaarden - jeroen.van.herwaarden@nl.abnamro.com

Martin Strohmeier - martin.strohmeier@nl.abnamro.com

Group Economics

Georgette Boele - georgette.boele@nl.abnamro.com

Peter de Bruin - peter.de.bruin@nl.abnamro.com

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