



# Global weekly

## eurozone recession not over yet

Research & Strategy  
22 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

Against a background of ongoing negotiations for the bailout of Cyprus, the eurozone composite Purchasing Managers Index (PMI) unexpectedly fell from 47.9 to 46.5 in March, as both the manufacturing and services PMIs declined. With weakness spotted in the details. The more forward-looking new orders index of the manufacturing PMI, for example, declined to 45.1 from 47.9. There was also a drop in the orders-to-inventories ratio.

All in all, the composite PMI is a relatively accurate tracker of GDP-growth and at its current level it is consistent with the economy contracting by 0.1% to 0.2% on a quarterly basis. This suggests that the risks to our forecast of a roughly stable economy in the first quarter of this year are to the downside, although any decline should be significantly less than the 0.6% quarter-on-quarter drop that was recorded in the fourth quarter last year.

We remain convinced that the eurozone economy will pick up in the second half of 2013, helped by stronger exports on the back of firmer world trade growth.

In this respect, it is positive that India's central bank cut its main policy rate by 25 basis points to support the Indian economy. China's flash PMI rebounded to 51.7 in March, from 50.4 the month before. This suggests that the weakness in February's PMI was due to the timing of the Chinese Lunar New Year, supporting our view that growth will pick up moderately this year.

Data from the US were also positive. Housing market reports suggest that the sector continues to do well, as prices continue to move higher. And this week's initial jobless claims report consolidated the improvement in claims that we have seen over the past month, suggesting that the official labour market report for March will show another firm gain in payrolls.

### Global Investment Committee (GIC) decisions

There were no changes in the asset allocation. We are strongly overweight in equities and have 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. For more information, see the individual asset allocation portfolio profiles on the left.

### Government bond yields

	10-2yr (bp)	2-yr (%)	10-yr(%)
US Treasuries	169	0.25	1.94
German Bunds	116	0.21	1.37
Gilts	165	0.20	1.85
JGB	52	0.05	0.57
EMBI+	287	-----	-----
iTraxx Euro 5-yr	119	-----	-----

### Central banks watch

	Current	Date	Expectation
ECB	0.75	04 April 2013	No change
Fed	0.0-0.25	01 May 2013	No change

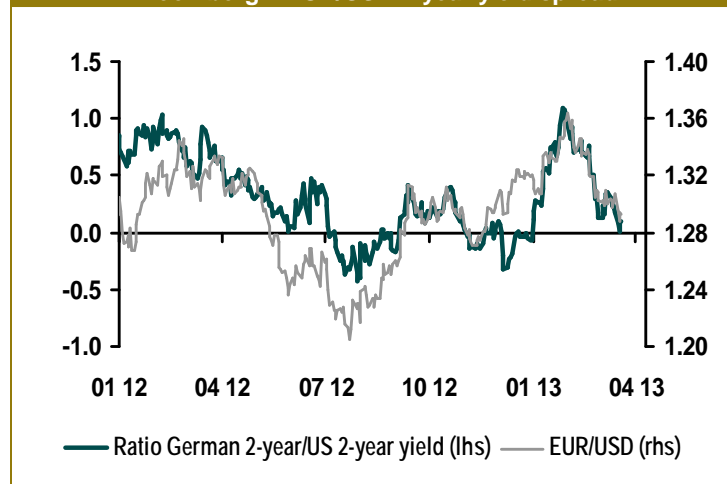
### Two-year US Treasuries - Bloomberg



### Currency forecasts

	Jun. 13	Sep. 13	Dec. 13	Dec.14
EUR/USD	1.30	1.25	1.20	1.10
GBP/USD	1.49	1.45	1.41	1.38
USD/JPY	90	92	95	105

### Bloomberg – EUR/USD 2-year yield spread



### Bonds

#### Last week's highlights (18 - 22 March)

Until recently, a depositor haircut in the eurozone and political stalemate in the periphery would have caused a meaningful sell-off in credit spreads, especially for peripherals. But not now, it seems. Peripherals have held their ground well of late, and Spanish issuers seem to have benefitted from Italy's woes. We think the resilience of peripherals speaks volumes about how chronic the need for yield in credit has become.

We expect excess returns for peripheral credits to end the year higher than those of higher quality corporate credits (excluding financials), albeit with some volatility in the near-term thanks to developments in Cyprus. Federal Reserve Chairman Bernanke offered little additional guidance on when the Fed might end its quantitative easing. However, inspired by his December statement, US Treasury yields are trending higher.

#### This week's focus (25 - 29 March)

The US economy picking up speed has been a source of a current bout of global optimism. This has caused rates to rise as well. The impact of rising US Treasury yields on emerging markets and high-yielding assets remains an important topic of discussion with clients. However, we continue to expect the normalisation of US rates to be a slow process rather than an abrupt move higher. In our view, a steadily rising rate is not necessarily negative for emerging markets and high-yielding assets. Improving economic growth expectations benefit capital flows and will reduce default risk and improve quality rating outlooks. Furthermore, we are watching the Cyprus situation closely and will comment if necessary.

### Foreign exchange

#### The euro

The news around Cyprus led to a sharp decline in the euro in the early morning trading on Monday, resulting in a drop in EUR/USD from above 1.3050 to below 1.2900. In the course of the day, however, investor sentiment improved. As a result, the euro recovered somewhat, with EUR/USD moving up above 1.29 again, where it remained for the rest of the week.

The weaker-than-expected eurozone PMIs pushed EUR/USD temporarily below 1.29 again. But the market was not able to accelerate the move or to keep it below 1.29. For now, the downside in EUR/USD seems well protected and we expect that in the coming week EUR/USD will remain around current levels.

#### The sterling

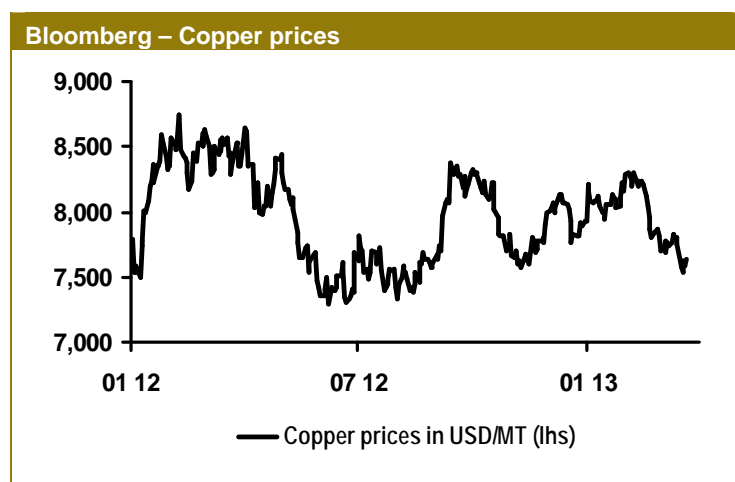
Until recently, the sterling was under heavy pressure. Last week, however, it recovered somewhat. The Bank of England's minutes proved to be less dovish than expected, and the UK budget did not surprise in a negative way. UK retail sales even surprised on the upside, providing the sterling much needed support. In the near term, low growth, high inflation, expectations of more monetary stimulus, as well as rising inflation expectations remain negative factors for the sterling.

We expect the currency to strengthen versus the euro later this year and next year. A sustained economic recovery is likely to fuel expectations that the BoE will start looking for an exit strategy. In addition, inflation should come down, helping to ease concerns, although it will likely remain above 2%.

Sector indices				
Index	Level	P/E '13	Div (%)	%YTD
<b>S&amp;P 500</b>	1545.8	12.5	2.1	8.4
<b>Euro Stoxx</b>	2670.8	10.0	4.4	1.3
<b>Nikkei 225</b>	12338.5	18.6	1.6	18.7
<b>FTSE100</b>	6381.7	10.7	3.7	8.2
<b>AEX</b>	350.2	10.3	4.5	2.2

Important rating changes		
Company	From	To
Adidas	Hold	Sell
Amgen	Hold	Buy/RL
General Electric	Buy	Buy/RL
Hyundai Motor	Buy	Buy/RL

Corporate earnings calendar	
3/25/13	
3/26/13	Celesio, Hutchison Whampoa, Bank of China
3/27/13	
3/28/13	
3/29/13	



Commodity prices - Bloomberg		
	21 March	14 March
<b>Gold</b>	1615	1590
<b>Brent</b>	108.10	109.42
<b>Copper</b>	7597	7800
<b>Wheat</b>	731	724

## Equities

### Last week's highlights (18 - 22 March)

Last week started with a tremendous shock for global equity investors: the announcement of the bail-out program for Cyprus. This led to a sharp decrease on the global stock markets. And even though most markets regained somewhat of the initial losses, the general trend for the week was clearly downward.

### This week's focus (25 - 29 March)

The focus will remain on Cyprus and the solution that is going to be reached. And, more importantly, on the possible knock-on effects that any solution will have on the confidence in other countries.

### Topic of the week – Equity Outlook Q2 2013

Our message is clear and unequivocal: to navigate effectively towards return, investors should re-enter equities during the second quarter and benefit from the broader economic momentum on the horizon. Economic conditions are improving in the US and the emerging markets. Even Europe shows small, promising signs.

A reliable route to return for investors this quarter is therefore a well-timed departure from the expensive safe haven of fixed-income assets – which could see higher yields (and thus a capital loss) sooner rather than later – into equities. Equities, selected with care and precision, can position investors to gain from broader economic improvements expected later this year. For the full report, please contact your local Investment Advisor.

## Commodities

### Gold

During the early Monday morning trade, the Cyprus news led to a sharp decline in equity markets, the euro and UK/US/German government bond yields (safe haven demand), while gold prices moved higher. Gold rose to above 1,610 USD per ounce on the uncertainty surrounding Cyprus. Apart from this, some commentators have pointed to fears of higher inflation as a justification for higher gold prices. However, inflation fears derived from Treasury securities remain well contained and the rise in gold prices seems to be built on sand. The bottom line is that the bounce in gold prices will likely prove to be short-lived. We remain of the view that gold prices will fall sharply in the coming months, and, indeed, years.

### Copper

Copper prices are still under pressure, driven by expectations of an oversupply. Copper inventories on the London Metal Exchange have risen to their highest level since 2003. The international copper study group reported that the copper surplus in December 2012 was the highest since December 2006. Moreover, Chinese imports of refined copper declined in February to their lowest level in 19 months. The higher US dollar also hurt. The better-than-expected US data failed to improve the sentiment.

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