



### Global Summary

- ▶ The global, broad-based improvement in manufacturing activity has provided the basis for the recovery of markets
- ▶ The US jobs report indicated a significantly better employment situation and positive drivers for future growth
- ▶ A surge in corporate news included Facebook filing for the biggest ever tech IPO and the proposed merger of Glencore and Xstrata
- ▶ Despite their recent strong run in performance, equities continue to trade at attractive forward price/earnings (PE) ratios, and we maintain our moderate overweight position

### Economic and market developments (30 Jan – 3 Feb 2012)

Risky assets continued to rally during the week amid positive macroeconomic news and expectations of further accommodation by global monetary authorities. Negotiations over the Greek private sector involvement (PSI) — getting banks, insurers and other investors to take losses on their sovereign Greek bonds — continued during the week; some news indicated that creditors would be prepared to accept lower yields on the new bonds with perhaps a potential sweetener dependent on Greek gross domestic product (GDP) growth. Global developed-market equities were up 2.4%, driven by gains in eurozone equities (+3.5%). Emerging-market equities were also up 3.2%, with a rally in Russian (+4.2%) and Taiwanese (+6.1%) equities. Within fixed income, global government bonds were up 0.1%, while global high-yield and global investment-grade bonds also both rose. Furthermore, Italian 10-year sovereign bond yields narrowed 21 basis points to 5.68% as investor confidence grew in the ability of the government to tackle refinancing efforts over the next few months. In the commodities market, base metal prices were softer early on in the week because of a few downward surprises in US economic indicators, breaking the strong rally in January.

The January 2012 euro area Bank Lending Survey showed the net tightening of credit standards by euro area banks surged in the fourth quarter of 2011. Although the European Central Bank's Long Term Refinancing Operations (LTRO) in December significantly eased liquidity concerns within the euro area, a risk to watch for is whether credit from EU banks to emerging regions has similarly benefited. If not, this may dampen growth in emerging countries, which are the major engine of global growth at present.

In economic news, the global, broad-based improvement in manufacturing activity has provided the basis for the recovery of markets. In the US, the January Institute for Supply Management (ISM) manufacturing index rose for January to 54.1 (vs. consensus expectations of 54.5) from 53.1 in December. US manufacturing activity has stabilized, driven by improvements in the new orders and inventory components of the report. Similar to the US, the eurozone Purchasing Managers' Indices (PMIs) have also displayed stability, driven by an improved situation in peripheral eurozone countries. The overall eurozone manufacturing PMI rose to 48.8 in January from 46.9 in December, with German activity moving into expansionary territory (that is, above 50). PMI manufacturing data also improved for the UK (52.1 in January vs. 49.7 in December) and Japan (50.7 in January vs. 50.2 in December). In the UK, this was the second consecutive month of consensus-beating manufacturing PMI and suggests positive momentum in manufacturing. However, consumer data continues to disappoint in both in the US and the eurozone. In the US, the Consumer Confidence Index fell to 61.1 in January against expectations of 68.0. Also, overall retail

sales indicated a deeper decline in the eurozone on a year-over-year basis (-1.6% vs. -1.3% in expectations). In Friday's US labour market report, employment rose by more than expected in January and unemployment fell to a two-year low of 8.3%. The increase of 243,000 in non-farm payrolls was the highest since last April and indicates US labour hiring is catching up to other positive US economic data.

In emerging markets, yet again manufacturing activity was encouraging. This data was especially important given concerns about credit conditions in emerging markets due to the spillover effects of the eurozone's stressed credit markets. China's official manufacturing PMI rose to 50.5 (vs. consensus expectations of 49.6) in January from 50.3 in December, defying the seasonal decline in the month of Chinese New Year. This further reflects the positive impact of targeted monetary and fiscal policies being followed by the national authorities. PMI manufacturing data in Brazil (50.6 in January vs. 49.1 in December) and India (57.5 in January vs. 54.2 in December) also indicated a pick-up in the momentum for recovery. However, in India, the situation is more complicated, as the inflation picture has not improved and inflation control could prove more difficult if growth continues to recover at the current pace. This may require the Reserve Bank of India to refocus on inflationary problems rather than downside growth risks. In Russia, GDP growth came out slightly higher than expected, at 4.3% year-over-year for 2011 against expectations of 4.1%. However, the breakdown reveals the growth was largely driven by domestic demand and one-off factors.

Corporate news headlines have been largely dominated by the proposed merger of Glencore and Xstrata and by Facebook's IPO filing. The proposed Glencore-Xstrata entity would be one of the most significant developments since the merger of BHP and Billiton a decade ago, which created the world's largest mining company. This new merger is expected to create a new breed of mining company, boasting one of the longest vertical integration chains in the industry. Facebook filed for an initial public offering last week, which is expected to result in the company being valued at about \$80 billion to \$100 billion, the biggest-ever tech IPO, prompting expectations of further technology IPOs ahead.

In the past couple of months, the global economic situation has improved and tail risks have decreased. The encouraging manufacturing and labour data and the positive political developments in the eurozone have gone a long way to reassure investors that financial assets are attractive and that the risks of a significant "double dip" recession in the developed world have abated. However, the trends in data are still in early stages, and there is a risk of overinflating expectations. In addition, uncertainty over the final framework of political decision-making and adjustments to government fiscal balances are likely to persist, fuelling volatility in the markets. Low government bond yields in developed countries persist and continue to reflect a weak economic environment and low interest rates. Given the prospects of negative real returns, it is hard to envisage value in developed-market government bonds over the medium term, except as a portfolio stabilizer and moderator of risk. However, the same is not true for corporate issuers, particularly at the higher-yielding end of the spectrum, and so we continue to favour these over government bonds. Despite their recent strong run in performance, equities continue to trade at attractive forward price/earnings (PE) ratios, and we maintain our moderate overweight position. Our key recommendation continues to be to remain well diversified.

**Weekly Economic Calendar (6-10 Feb 2012)**

	<b>United States</b>	<b>Europe</b>	<b>Japan</b>	<b>Asia ex Japan</b>
<b>Mon</b>				Taiwan, CPI, Jan Indonesia, GDP, 4Q
<b>Tue</b>	Consumer Credit, Dec		Leading Indicators, Dec	Philippines, CPI, Jan Taiwan, Trade Balance, Jan HK, Foreign currency reserves, Jan
<b>Wed</b>			Core Machinery Orders, Dec	
<b>Thu</b>	Wholesale Trade, Dec	UK Manufacturing Production, Dec UK Trade Balance, Dec Bank of England Interest Rate Announcement European Central Bank Interest Rate Announcement	Corporate Goods Price Index, Jan	China, PPI, Jan China, CPI, Jan South Korea, PPI, Jan Malaysia, Trade Balance, Dec Malaysia, Industrial Production, Dec
<b>Fri</b>	International Trade, Dec Consumer Sentiment, Feb Treasury Budget, Jan	UK Producer Price Index, Jan		Thailand, Consumer Confidence, Jan India, Industrial Production, Dec China, Trade Balance, Jan

Source: Bloomberg.

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