

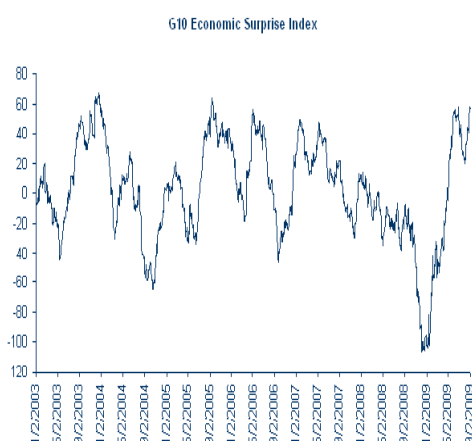
Weekly Market View

7 September 2009

Contents

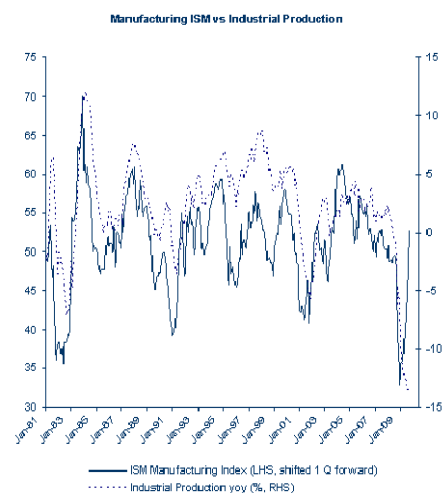
Economic & Market Trends	Pg 01-02
Economic & Market Calendar	Pg 03
3-12 month Markets Outlook	Pg 04

CHART 1: ECONOMIC SURPRISE INDEX – STILL RESILIENT AND SURPRISING ON THE UPSIDE



Source: Bloomberg

CHART 2: US MANUFACTURING – FIRST SIGN OF EXPANSION IN 19 MONTHS



Source: Bloomberg

Economic & Market Trends

Risky asset markets continue to struggle at resistances. Global equities continue to struggle at technical resistances, caught between generally upbeat economic data, confirming continuing economic recovery, and overbought conditions. (Chart 1) Given flush liquidity conditions and sharp inventory restocking, the rally in risky asset markets is probably not over. But the consolidation/correction in stock markets around the world is likely to continue over coming weeks as the markets await further signals on the economy, corporate earnings and government monetary and fiscal policy intentions.

Economic data have been generally resilient throughout the world. In the US, more evidence emerged of a bottoming process in the housing market, with pending home sales rising 3.2% m/m in July, cementing the 3.6% rise recorded in June. The ISM manufacturing and non-manufacturing readings surged in August – with the manufacturing gauge rising from 48.9 in July to 52.9 in August. This was the first expansion (that is, a reading above 50) in 19 months. (Chart 2) The non-manufacturing index rose from 46.4 in July to 48.4 in August, the highest reading in 11 months. And factory orders expanded 1.3% m/m in August, from 0.9% the previous month.

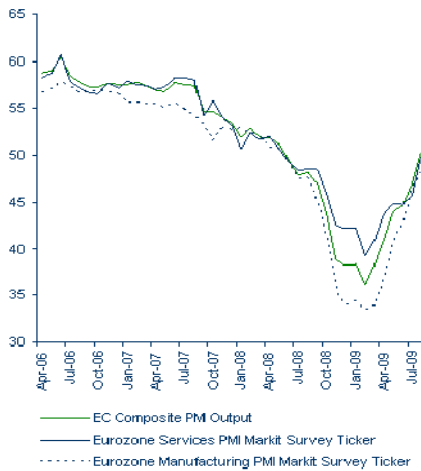
In a similar vein, the Euro zone manufacturing PMI rose to 48.2 in August from 46.3 in July. This is the highest reading in 14 months. The services PMI came in at 49.9 compared to 45.7 in July. (Chart 3)

Meanwhile, in the east, the Chinese PMI continues to stay in expansionary territory, for the sixth consecutive month now, keeping industrial production in growth. In Singapore, the PMI reading rose to 54.4 in August from 51.5 in July. This is the highest reading since November 2006.

What will drive risky asset markets higher? The three biggest potential “spoilers” are premature exit from monetary stimulus, a “no show” by earnings growth, and hints of a double dip recession. Given the comments made by central bankers and policy makers in recent weeks – from Jackson Hole, Wyoming to the G-20 in London – the risks of an early exit from stimulus appear low. In any event, history suggests the Federal Reserve is unlikely to raise its policy rate until the decline in unemployment is entrenched. Indeed, in recent cycles, there have been lags of around a year between a decline in unemployment and rising Fed funds target rates. And in

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CHART 3: EURO ZONE PMI - CONTINUES TO IMPROVE



Source: Bloomberg

CHART 4: CHINA – WILL MONEY SUPPLY GROWTH LEAD EARNINGS BACK UP?



Source: Bloomberg

China, the government is unlikely to start a cyclical pull back in money supply growth until exports return to growth. And they have been in 15-20% contraction y/y over recent months.

Meanwhile, a 10-year minus the 3-month UST spread – which had in the past dipped into negative territory ahead of recessions – is still running sharply positive, suggesting a double dip recession is unlikely.

But the greater uncertainty is earnings growth. Until earnings return, there will continue to be serious concerns over equity valuations, limiting the sustainability of the recent rally. In the case of Chinese equities, there is an expectation that aggressive money supply growth will eventually lead corporate earnings higher. This has happened in past cycles and the expectation is that it will repeat itself again. (Chart 4) Return of earnings growth will refocus the market back onto price to earnings multiples and returns on equity, which may then ease concerns over the high price to book valuation multiples.

Commodities likely to continue in correction/consolidation mode until equities take off again. The Reuters/Jefferies CRB Index has been range bound over recent weeks, with a slight downward bias. Meanwhile, WTI crude oil has been trading sideways capped below the \$73/barrel resistance. These are different elements of the correlated “risk trade”. They are marking time, awaiting the return of risk appetites.

Economic & Market Calendar

Prepared on 7 September 2009

		This Week: Sep 7 th – Sep 11 th		Last Week: Aug 31 st – Sep 4 th				
		Expected	Previous	Actual	Previous			
Mon	Euro zone	Sentix Investor Confidence (Sep)	-13.7	-17	US	Chicago Purchsing Mngr (Aug)	50	43.4
	UK	Halifax House Prices sa (MoM) (Aug)	1.0%	1.1%	Canada	Dallas Fed Manf. Activity (Aug)	-9.1%	-23.4%
	Germany	Factory Orders MoM (sa) (Jul)	2.0%	4.5%		GDP MoM (Jun)	0.1%	-0.5%
	Australia	AiG Perf of Construction Index (Aug)	--	39.5	Euro zone	Quartrly GDP annualized (Q2)	-3.4%	-6.1%
		ANZ Job Advertisements (MoM) (Aug)	--	-1.7%	Japan	CPI Estimate (YoY) (Aug)	-0.2%	-0.7%
Tues	US	Consumer Credit (Jul)	-\$4.0B	-\$10.3B	US	ISM Manufacturing (Aug)	52.9	48.9
	Canada	Building Permits MoM (Jul)	0.4%	1.0%		Constructn Spend. MoM (Jul)	-0.2%	0.1%
	Japan	Adjusted Current Account (Jul)	¥1380.7B	¥1798.8B		Pending Home Sales m/m (Jul)	3.2%	3.6%
		Trade Balance - BOP (Jul)	¥490.2B	¥602.2B		Total Vehicle Sales (Aug)	14.1M	11.3M
		Eco Watchers: Current (Aug)	43	42.4	Euro zone	PMI Manufacturing (Aug)	48.2	47.9
		Eco Watchers: Outlook (Aug)	44	44.9		Unemployment Rate (Jul)	9.5%	9.4%
	Germany	Industrial Prodtm m/m sa (Jul)	1.6%	-0.1%	Germany	PMI Manufacturing (Aug)	49.2	49
		Trade Balance (Jul)	11.3B	12.2B		Unemplymt Chge (000's) (Aug)	-1K	-5K
		Current Account (EURO) (Jul)	10.0B	13.3B		Unemplymt Rate (s.a) (Aug)	8.3%	8.3%
	UK	RICS House Price Blnce (Aug)	0.0%	-8.1%		Retail Sales (MoM) (Jul)	0.7%	-1.3%
		Industrial Productn (MoM) (Jul)	0.2%	0.5%	Australia	Current Account Balance (Q2)	-13347M	-6346M
Wed	US	MBA Mortgage Appli. (Sep-04)	--	-2.2%	US	ADP Employment Change (Aug)	-298K	-360K
	Canada	Housing Starts (Aug)	140.0K	132.1K		Nonfarm Productivity (Q2 F)	6.6%	6.4%
	Japan	Leading Index CI (Jul P)	81.9	79.9		Factory Orders (Jul)	1.3%	0.9%
		Coincident Index CI (Jul P)	89	88		Minutes of Aug. 12 FOMC Meeting		
		Machine Tool Ordrr y/y (Aug P)	--	-72.3%	Euro zone	GDP s.a. q/q (Q2 P)	-0.1%	-0.1%
	Germany	CPI (YoY) (Aug F)	0.0%	0.0%		GDP s.a. y/y (Q2 P)	-4.7%	-4.6%
	UK	CPI - EU Harmon. YoY (Aug F)	0.0%	0.0%		PPI (YoY) (Jul)	-8.5%	-6.5%
		Nationwide Consumer Confidence (Aug)	62	60	UK	PMI Construction (Aug)	47.7	47
		Visible Trade Blnc £/Mn (Jul)	-£6250	-£6451	Australia	GDP q/q (Q2)	0.6%	0.4%
		RBNZ Official Cash Rate	2.5%	2.5%		GDP y/y (Q2)	0.6%	0.3%
	Thurs	US	Initial Jobless Claims (Sep-5)	560K	570K	US	Initial Jobless Claims (Aug-29)	570K
		Continuing Claims (Aug-29)	6200K	6234K		Continuing Claims (Aug-22)	6234K	6142K
		Trade Balance (Jul)	-\$27.4B	-\$27.0B	Euro zone	ISM Non-Manf. (Aug)	48.4	46.4
Canada		Bank of Canada Rate	0.25%	0.25%		Retail Sales (MoM) (Jul)	-0.2%	0.0%
Japan		Machine Orders (MoM) (Jul)	-3.5%	9.7%		ECB Announces Interest Rates	1.0%	1.0%
		Domestic CGPI (MoM) (Aug)	0.2%	0.4%		PMI Composite (Aug F)	50.4	50
UK		BOE ANNOUNCES RATES	0.5%	0.5%		PMI Services (Aug F)	49.9	49.5
Australia		Employment Change (Aug)	-15.0K	32.2K	Germany	PMI Services (Aug F)	53.8	54.1
		Unemployment Rate (Aug)	5.9%	5.8%	Australia	Trade Balance (Jul)	-1556M	-538M
		Consumer Inflatn Expect (Sep)	--	3.5%	New Zealand	ANZ Commodity Price (Aug)	4.3%	1.0%
		Food Prices (MoM) (Aug)	--	0.6%				
Fri	US	U. of Michigan Confidence (Sep P)	67.5	65.7	US	Chng in Nonfarm Payrolls (Aug)	-216K	-276K
		Monthly Budget Statmnt (Aug)	-\$159.1B	-\$111.9B		Unemployment Rate (Aug)	9.7%	9.4%
		Import Price Index (YoY) (Aug)	-15.9%	-19.3%	Canada	Ivey PMI (Aug)	55.7	51.8
	Canada	New Housing Price MoM (Jul)	-0.1%	-0.2%		Unemployment Rate (Aug)	8.7%	8.6%
	Japan	GDP q/q (Q2 F)	0.9%	0.9%		Net Change in Employment (Aug)	27.1K	-44.5K
		Consumer Confidence (Aug)	40.2	39.7	Japan	Capital Spending (Q2)	-21.7%	-25.3%
	Germany	WPI (YoY) (Aug)	--	-10.6%		Capital Spending excl Sftwre (Q2)	-22.2%	-25.4%
UK	PPI Output n.s.a. (YoY) (Aug)	-0.5%	-1.3%					

Previous data are for the preceding period unless otherwise indicated
 Data are % change on previous period unless otherwise indicated
 p – preliminary data, f – final data, saar – seasonally adjusted annualised rate, y/y – year on year
 GMT – Greenwich Mean Time / Universal Standard Time

Date of next meeting of...
 Fed Board 23 Sep/4 Nov
 BoE MPC 10 Sep/8 Oct
 ECB Council 8 Oct/5 Nov

12 Month Outlook

<i>FX Outlook</i>	Spot (7/09)	End Q4 2009f	End Q1 2010f	End Q3 2010f
USD 3-mth rates (%)	0.3	0.4	0.4	0.4
EUR 3-mth rates (%)	0.8	0.9	0.9	1.0
GBP 3-mth rates (%)	0.7	0.9	1.0	1.1
USD 10-yr bond yield (%)	3.4	3.65	3.5	3.75
EUR/USD	1.43	1.55	1.50	--
USD/JPY	93.1	88	95	--
EUR/JPY	134	136	143	--
GBP/USD	1.64	1.70	1.68	--
EUR/GBP	0.87	0.91	0.89	--
USD/CHF	1.06	1.00	1.05	--
AUD/USD	0.85	0.92	0.90	--
USD/INR	48.7	45.5	45.0	--
Oil Price (ICE Brent)	72.2	74*	79*	81*
Gold (US\$/oz)	954	1050*	1000*	1100*

* Period Averages for each quarter, ** annual average for 2010. Forecasts from SCB Global Research.

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