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WEEKLY INVESTOR RESEARCH W2 2013

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Summary

Markets consolidated the current levels after the sparkle of the first week of the year. S&P500 is flat at 1,460 levels, 10yr UST inched up to 1.88%, Euro is flat at 1.31. Emerging Markets retraced a little from last week with Local Currency down -0.3%, Local Currency Bonds down -0.4% and External Debt down -0.3%, however, Corporate Bonds remained strong, up +0.5% over the last 5 days.

Global

Markets were range-bound last week as asset prices edged close to their highs. There is a good debate between market participants about whether the current recovery in the global economy is just one more cyclical movement, or if this time it will rebound.

The debate starts with the United States, still the largest economy in the world. Some participants are confident we are at the beginning of a virtuous cycle where the housing market recovery will lead to more housing starts, which will boost employment and house prices, improving the quality of the banking sector balance sheet and increasing consumption. That might finally trigger higher levels of Capex by companies which have accumulated huge levels of cash on their balance sheet. A positive supply shock could come from energy with the exploration of shale gas providing the USA with the resources to recover the lost space in the industry. This may be the case, but it may be not, if a premature strong fiscal consolidation chokes-off the economy recovery at inception. The fear is that the increase in taxes having already contracted about 1.5% GDP would be topped up by a large cut in government expenditures, harnessing key sectors like Defence and Healthcare. The gridlock in the US political system might well fail to reach an agreement to avert the sequestration on expenditures, and even worse, fail to raise the debt ceiling in which case payments of the US Debt would be threatened. Volatility is likely to rise over the course of the following weeks as the new 1st March deadline for a deal approaches. Meanwhile, it will be important to monitor economic data in order to access the impact of the political uncertainties over the economy. Last Friday Nonfarm Payrolls came at $155k in line with expectations and the unemployment rate inched up to 7.8%.

There is a pretty strong sentiment that equities will trend up if the fiscal cliff is averted. In that scenario we believe Emerging Market Equities are likely to outperform the Developed World, continuing the catch-up movement that was started in the second half of 2012. EM Equities outperformance is expected to be fuelled by earnings growth as Emerging Market economies are rebounding with very little inflationary pressure.

The Chinese economy continues to recover with record high export numbers and credit acceleration fuelling the house market and infrastructure. Iron Ore had an impressive week, gaining +9.4%. In spite of US oil imports that are set to fall to their lowest levels in 25 years, Brent remained steady within the $111 - $113 range pressured by political uncertainties emanating from the Middle East and global economic growth. Nevertheless, commodities were down 1.2% pressured by metal and agriculture.

Regulators have agreed to loosen the liquidity rules of Basel III and to postpone the implementation of the new regulation. The change benefited large global banks with big retail deposit bases, most of them in Europe. On the one hand this is good news for the global economy as it will give more time for banks to deleverage and increase liquidity. On the other hand, it may postpone future hard adjustments that need to be made today.

In Europe, the two most important Central Banks will announce the results of their respective monetary committee meetings today. The Bank of England is expected to keep rates at 0.5% and keep its Quantitative Easing program at £375bn. The European Central Bank is expected to keep rates at 0.75%.

Continued overleaf

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Latin America

Venezuela: The Supreme Court of Venezuela approved a resolution allowing the re-elected President Chavez to postpone the date to be sworn in for a new mandate for as long as required for his recovery. The largest risk for the country would be to pass through a period of political instability. .

Chile: CPI declined from 4.4% in 2011 to 1.5% in 2012.

Mexico: Consumer confidence reached a 5-year high while inflation closed 2012 at 3.6% (core 2.9%).

Colombia: FDI was 8.3% higher year on year, accumulating U$16.2bn.

Brazil: December CPI was a bit higher than expected at 0.79%, accumulating 5.84% in 2012 (vs. 6.5% in 2011).

Asia

China: Trade numbers hit a new record in December, with exports achieving U$199bn (up 14.1% yoy) and imports U$168bn (up 6.0% yoy).

Malaysia: Trade data from November were stronger than expected, with exports up 3.3% yoy and imports +4.3% yoy.

Thailand: The Bank of Thailand maintained its base rate at 2.75%, as expected.

South Korea: Unemployment remained at 3.0%

Eastern Europe, Africa, and Middle East

Russia: Inflation remained stable at 6.6% in December with core inflation at 5.7%.

Czech Republic: Inflation moderated to 2.4% in December (from 2.7% a month ago).

Poland: The Monetary Policy Council of Poland cut rates by 25bps to 4.00% in line with expectations.

Turkey: Tapped the market issuing U$1.5bn on 10yr bonds at 3.47%.

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