Weekly Review

Week ending 6th July 2012

The show of unity by Eurozone leaders at the end of June continued to underpin modest gains for major bourses last week, as stocks in the UK, Europe and Asia all advanced. Friday's payroll disappointment (80,000 versus 100,000 expected) weighed on US equities, however, whilst treasuries were the beneficiaries of investor flows alongside other core global government bonds.

Markets remained in a confident mood in the build up to Thursday's meeting of European Central Bank (ECB) officials, shrugging off the disappointing ISM manufacturing reading which confirmed the recent slowdown in the US economy. US manufacturing contracted for the first time in almost three years last month, as the Institute for Supply Management's index fell to 49.7 alongside a generally weak set of reports from manufacturers globally.

In the event, the ECB disappointed a portion of investors by abstaining from any additional measures over and above the widely anticipated cut in interest rates. The ECB cut its main refinancing rate by 25 basis points to a record low of 0.75%, whilst at the same time reducing the interest rate on overnight deposits to 0%. The outcome of these moves is to reduce the loan repayment burden on banks, and further disincentive lenders from parking excess cash at the central bank rather than channelling it to the real economy. ECB Chairman Mario Draghi was downbeat in his assessment of the Eurozone economy, telling reporters that risks remain "on the downside" and that heightened uncertainty is hurting confidence. He also stated that the cut in interest rates was expected to have a limited impact on the euro area, due to a general lack of demand for credit.

The failure by bank officials to introduce new measures for capping yields on Spanish and Italian debt saw yields spike upwards at the end of last week. Finland and Holland have both come out in opposition to purchases of government debt by Europe's new permanent bailout fund – the European Stability Mechanism – suggesting that such action is likely to be counterproductive. Finland is determined to receive collateral in return for its share of the loans to Spain's government, similar to those it negotiated for contributions made to Greece's second bailout.

Euro area manufacturing contracted for the eleventh consecutive month in June, as the index of purchasing managers fell to 45.1 (readings below 50 indicate a decline in activity). There is a way out for heavily indebted Eurozone governments, especially given the willingness of fellow members to share the burdens in the short term. Ireland, a country that has been seen to 'take its medicine' in terms of a tough course of austerity, returned to the debt markets for the first time in almost two years on Thursday, after the country's National Treasury Management Agency sold EUR 500 million of three month bills. Unsurprisingly, the issue was priced at a significant discount to equivalent German paper.

The Bank of England is set to resume its bond buying programme over the next four months, after raising the target level for asset purchases by GBP 50 billion to GBP 375 billion. The news came as part of a two-pronged effort alongside a new credit boosting programme from the central bank, aimed at pulling the UK economy out of recession. China also acted to ease monetary conditions last week, cutting its key interest rate for the second time in a month. The timing of the decision has led to speculation over the strength of China's second quarter growth, with a report due out on Friday.

Global property securities added 1.3% last week in US dollar terms, whilst commodities rose by 1.1%. Oil closed above USD 100 a barrel for the first time in three weeks on Tuesday, after reports suggested that the latest European and US sanctions on Iran's oil exports are likely to reduce the country's sales by a further 400 thousand barrels a day, on top of the 600 to 800 thousand barrels disrupted by earlier measures.

Finally looking forward, the week ahead brings with it the start of second quarter earnings season in the US, whilst all eyes will be on the two day meeting of European Finance Ministers which kicks off today in Brussels.

Source: Momentum Global Investment Management / Bloomberg, July 2012.

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Returns to 6 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 6 July 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	**USD**	-0.5%	-0.5%	8.6%
United Kingdom	FTSE All Share TR	**GBP**	1.6%	1.6%	5.0%
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.1%	0.1%	4.3%
Japan	Topix TR	**JPY**	0.2%	0.2%	7.3%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	**USD**	2.0%	2.0%	8.0%
Global	MSCI World NR	**USD**	-0.5%	-0.5%	5.4%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	**USD**	-0.5%	-0.5%	6.1%
Emerging Asia	MSCI EM Asia NR	**USD**	1.5%	1.5%	6.5%
Emerging Latin America	MSCI EM Latin America NR	**USD**	0.6%	0.6%	0.1%
BRICs	MSCI BRIC NR	**USD**	1.4%	1.4%	1.8%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	1.0%	1.0%	5.0%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.6%	0.6%	2.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	0.9%	0.9%	5.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	0.9%	0.9%	5.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.6%	0.6%	7.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.7%	0.7%	2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	1.1%	1.1%	6.2%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.7%	0.7%	4.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	1.3%	1.3%	7.1%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	**EUR**	1.2%	1.2%	13.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2%	0.2%	1.6%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.1%	0.1%	5.4%
Global Government Bonds	JP Morgan Global GBI	**USD**	-0.2%	-0.2%	0.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-0.3%	-0.3%	1.0%
Global Convertible Bonds	UBS Global Convertible Bond	**USD**	-0.3%	-0.3%	4.7%
Emerging Market Bonds	JP Morgan EMBI +	**USD**	1.2%	1.2%	8.2%

Source: Momentum Global Investment Management / Lipper Hindsight. July 2012.

Returns to 6 July 2012

Asset Class/Region	Index	Currency	Currency returns: Week ending 6 July 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	**USD**	1.2%	1.2%	15.7%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	**GBP**	2.3%	2.3%	16.9%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	**EUR**	2.3%	2.3%	13.3%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	**AUD**	0.1%	0.1%	16.7%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	**USD**	2.1%	2.1%	20.7%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	**USD**	1.3%	1.3%	16.8%
Currencies					
Euro		**USD**	-3.0%	-3.0%	-5.2%
UK Pound Sterling		**USD**	-1.1%	-1.1%	-0.2%
Japanese Yen		**USD**	0.3%	0.3%	-3.3%
Australian Dollar		**USD**	-0.3%	-0.3%	-0.3%
South African Rand		**USD**	-1.0%	-1.0%	-2.3%
Swiss Franc		**USD**	-3.0%	-3.0%	-4.2%
Chinese Yuan		**USD**	-0.2%	-0.2%	-1.1%
Commodities					
Commodities	RICI TR	**USD**	1.1%	1.1%	-4.1%
Agricultural Commodities	RICI Agriculture TR	**USD**	4.4%	4.4%	4.2%
Oil	ICE Crude Oil CR	**USD**	9.5%	9.5%	-5.8%
Gold	Gold Index	**USD**	-0.7%	-0.7%	3.7%
Hedge Funds	HFRX Global Hedge Fund	**USD**	0.4%	0.4%	1.6%

Source: Momentum Global Investment Management / Lipper Hindsight. July 2012.

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