Weekly Review

Week ending 11th November 2011

Silvio Berlusconi resigned as Italian prime minister on Saturday evening, after Italy's parliament successfully passed large parts of the reforms package demanded by the international community. Earlier in the week Mr. Berlusconi had bowed to pressure from both inside and outside of the country by announcing his intention to step down, after losing his parliamentary majority in a vote to close the 2010 budget. Global equities rallied towards the end of the week, to finish 0.3% higher in US dollar terms. Emerging markets declined by 1.9% over the period.

Italy's mounting cost of borrowing eventually undid Mr. Berlusconi's hold on power, with speculation circulating about the European Central Bank's political agenda, following reports that it had reduced its purchases of Italian government bonds on Monday. Mario Monti, former European Commissioner, has been appointed by President Napolitano to form a new government, tasked with leading the country out of its debt crisis. Italian government bond yields reached 7.23% on Wednesday, as LCH Clearnet increased the margin rate on the country's debt to 11.65% from 6.65% previously.

Officials have declared that Greece will only receive the next EUR 8 billion tranche of its bailout package if the country's two main political parties reaffirm their commitment to the terms of last month's rescue package in writing. An agreement to nominate Filippos Petsalnikos, parliamentary speaker, as the head of a new unity government fell through at the last minute. Lucas Papademos, a former vice-president of the ECB, duly received the nomination. Mr. Papademos was in charge of Greece's central bank when the country joined the eurozone. Commentators have subsequently accused Greece of misrepresenting aspects of its application for membership.

A report by Reuters last week suggested that France and Germany had discussed the idea of a smaller eurozone. French prime minister François Fillon unveiled a new five year plan on Monday, aimed at increasing the government's revenues by EUR 65 billion through a combination of spending cuts and increased taxes.

Earlier Germany had announced a EUR 6 billion tax cut for the coming fiscal year. This was the second austerity plan unveiled by French officials in three months, with August's plan targeting EUR 49.4 billion in net savings.

Global government bonds returned 0.3% last week in US dollar terms, whilst corporate debt sold off in the US and the UK. Meanwhile, an email from Standard and Poors' appeared to show that the agency had downgraded France's credit rating. Standard & Poors' blamed the misleading statement on a "technical error".

Economic data in Europe remains weak. German industrial production contracted by 2.7% month-on-month in September, whilst underperforming forecasters' expectations elsewhere in the EU. Italian production fell by 4.8% month-on-month versus forecasts for a 3.0% decline, whilst in France industrial production contracted by 1.7% versus -0.7% expected. More positive signs emerged from the other side of the Atlantic, however, as US initial jobless claims fell by more than expected, with total claims of 397 thousand in October versus 400 thousand forecasted. The euro fell by 0.2% versus the US dollar last week. The single currency has been resilient, despite negative news from the euro area. Fan Jianping, chief economist of China's State Information Centre, a think-tank within the state planning bureau, has urged officials in Beijing to allow the renminbi to depreciate, following capital outflows in recent months. China's foreign exchange reserves fell by USD 61 billion to USD 3.2 trillion in September. Other emerging market currencies have depreciated substantially post similar outflows.

The Rogers Broad Commodities index gained 0.3%, in line with equity markets, with oil adding 2.8%. Despite falls in current demand, underinvestment in new oil production, twinned with renewed unrest in parts of the Middle East and Africa, may lead to bottlenecks in the years to come, according to the International Energy Agency.

Source: Momentum Global Investment Management / Lipper Hindsight. November 2011.

Returns to 11 November 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 11 Nov 2011	Currency returns: Month to date	Currency returns: YTD 2011
Equities					
United States	S&P 500 NR	**USD**	0.9	0.9	1.7
United Kingdom	FTSE All Share TR	**GBP**	0.3	0.1	-3.8
Continental Europe	MSCI Europe ex UK NR	**EUR**	0.5	-2.1	-13.4
Japan	Topix TR	**JPY**	-3.0	-4.6	-17.0
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	**USD**	-2.6	-3.4	-11.3
Global	MSCI World NR	**USD**	0.3	-0.8	-3.9
Global emerging markets	MSCI World Emerging Markets TR	**USD**	-1.9	-2.4	-13.7
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	0.0	0.6	8.8
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.3	1.2	14.3
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.9	-0.5	7.4
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-0.8	-1.0	3.5
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	0.4	1.3	13.5
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	**GBP**	-0.2	0.1	6.6
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-1.0	-1.0	0.9
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-0.6	-0.6	1.5
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	**EUR**	-0.8	-1.9	-2.0
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	0.2	0.5	2.1
Australian Government	JP Morgan Australia GBI TR	**AUD**	1.1	1.9	11.7
Global Government bonds	JP Morgan Global GBI	**USD**	0.3	0.2	7.5
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.0	-0.3	6.6
Global Convertible bonds	UBS Global Convertible Bond	**USD**	-0.2	-0.9	-4.0
Emerging Market Bonds	JP Morgan EMBI +	**USD**	-0.3	0.5	8.9

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Returns to 11 November 2011

Asset Class/Region	Index	Currency	Currency returns: Week ending 11 Nov 2011	Month to date	YTD 2011
Property					
US Property securities	MSCI US REIT TR	USD	-0.6	-1.6	5.3
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.1	-0.6	-1.4
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.0	-3.4	-9.6
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	1.9	2.1	0.2
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	EUR	-3.1	-4.4	-15.2
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-1.5	-2.8	-4.0
Currencies					
Euro		USD	-0.2	-1.5	2.4
UK Pound Sterling		USD	0.3	-0.4	2.7
Japanese Yen		USD	1.4	1.2	5.2
Australian Dollar		USD	-1.0	-3.3	0.1
South African Rand		USD	0.1	0.3	-16.0
Swiss Franc		USD	-1.2	-3.1	3.7
New Zealand Dollar		USD	-1.1	-3.5	0.4
Commodities					
Commodities	RICI TR	USD	0.3	0.5	-3.6
Agricultural Commodities	RICI Agriculture TR	USD	-2.5	-2.6	-14.1
Oil	Brent Crude Index (ICE) CR	USD	2.8	2.5	21.3
Gold	Gold index	USD	0.4	2.0	24.4

Source: Momentum Global Investment Management / Lipper Hindsight. November 2011.

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