



Weekly Review

Week ending 24th June 2011

The Greek government survived its no confidence vote but it is yet to face a potentially sterner test: Wednesday will see Greece's parliamentary vote on its EUR 28 billion five year austerity plan. Given the recent public outcry in the face of suggested initiatives there is a risk that the austerity measures are not successfully implemented. Greece's Credit Default Swap (CDS), which is a measure of the cost of insuring against default, spiked further towards the end of the week suggesting increased investor anxiety. The market has now largely come to the conclusion that a default of some sort is inevitable for Greece. The substance and timing of this still provides much potential for debate, however. It is interesting to note that the market's attention shifted away from Greece on Friday as Moody's placed 16 Italian banks on review for downgrade.

China provided mixed news last week. The Shanghai three month interbank rate rose to its highest level in five years at 7.2%. This is likely to have been caused by the Chinese government's increase in the reserve requirements for banks earlier in the week in what appears to be an attempt to keep money supply in check. This move reduced liquidity in the system and the reduction of willing interbank lenders likely pushed up the interbank rate. Premier Wen Jiabao had an article printed in the Thursday's Financial Times suggesting that the answer to whether China can control inflation is "an emphatic yes" and that he is "confident price rises will be firmly under control this year". President Wen suggests that China has "pursued flexible and prudent economic policies" that have rendered the country "fully capable of sustaining steady and fast economic growth". The article provided an interesting prologue to President Wen's visit to Europe this week.

Meanwhile, the Federal Open Market Committee (FOMC) kept US interest rates on hold with the accompanying statement suggesting that the FOMC expects growth to "pick up in the coming quarters". The Fed also released weaker economic forecasts for 2011 and 2012 with lower real GDP forecasts. The expectation for 2011 real GDP has been revised to 2.8% from 3.2% and has changed to 3.5% from 3.9% for 2012.

The price of oil experienced a sharp sell off last week as the International Energy Agency (IEA) released a significant amount of its oil reserves into the market. The members of the IEA intend to release 60 million barrels into the market over the next month. This release is aimed at reducing the impact of the loss of Libya's 1.5 million barrels per day due to the ongoing unrest and NATO bombardment. This release comes soon after OPEC's decision to keep production levels steady despite the high price of oil. As we head into the US driving season it will be interesting to observe how the price of petrol impacts miles driven.

Despite a reasonably strong start, global equities returned -0.4% last week as the indices were buffeted by the various data prints and pronouncements. Within the developed markets Japan's local currency return of 3.5% is noteworthy as the other majors posted negative returns. The global emerging markets outperformed their developed counterparts over the course of the week, with a gain of 1.1% in US dollar terms. Month to date, despite a negative return, GEM equities are also ahead of the developed markets with a return of -4.3% compared to -5.7%. Global government bonds and global aggregate bonds both returned -0.3% last week, but this was largely due to muted bond returns combined with a strengthening US dollar reporting currency. Global property securities held up slightly better than the broad equity index with a fall of 0.2%. Commodities returned -2.9%, with oil falling by 4.1%.

**Returns to 24 June 2011**

Asset Class/Region	Index	Currency	Week ending 24 June 2011	MTD June 2011	YTD 2011
Equities					
United States	S&P 500 NR	USD	-0.2	-5.6	1.5
United Kingdom	FTSE All Share TR	GBP	-0.4	-4.5	-1.2
Continental Europe	MSCI Europe ex UK NR	EUR	-1.4	-5.9	-1.2
Japan	Topix TR	JPY	3.5	-0.6	-6.2
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	1.6	-4.6	0.5
Global	MSCI World NR	USD	-0.4	-5.7	0.9
Global emerging markets	MSCI World Emerging Markets TR	USD	1.1	-4.3	-1.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.3	0.9	3.6
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.1	1.5	6.5
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2	0.4	4.4
US High yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.1	-1.6	4.4
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4	0.9	3.3
UK Corporate (investment grade)	Merrill Lynch Sterling Non Gilts TR	GBP	0.3	0.3	4.3
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.1	-0.2	0.2
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3	0.1	2.1
Euro High yield	Merrill Lynch Euro High Yield 3% constrained TR	EUR	-0.2	-1.8	4.6
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1	0.4	0.7
Australian Government	JP Morgan Australia GBI TR	AUD	0.3	1.1	4.9
Global Government bonds	JP Morgan Global GBI	USD	-0.3	0.3	4.0
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.3	0.0	4.2
Global Convertible bonds	UBS Global Convertible Bond	USD	-0.1	-3.5	2.3
Emerging Market Bonds	JP Morgan EMBI +	USD	0.3	0.5	4.2

Source: Lipper Hindsight June 2011.

**Returns to 24 June 2011**

Asset Class/Region	Index	Currency	Week ending 24 June 2011	MTD June 2011	YTD 2011
Property					
US Property securities	MSCI US REIT TR	USD	-0.5	-5.9	7.0
UK Property securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-1.2	-2.8	12.0
Europe ex UK Property securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.4	-4.7	4.2
Australian property securities	FTSE EPRA/NAREIT Australia TR	AUD	2.0	0.4	4.1
Asia Property securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.6	-3.8	-4.8
Global Property securities	FTSE EPRA/NAREIT Developed CR	USD	-0.2	-5.3	1.4
Currencies					
Euro		USD	-1.0	-1.5	5.6
Sterling		USD	-1.2	-3.0	2.0
Yen		USD	-0.4	1.0	0.8
Australian Dollar		USD	-1.0	-1.4	2.5
Rand		USD	-1.7	-1.0	-4.1
Commodities					
Commodities	RICI TR	USD	-2.9	-8.0	-1.4
Agricultural Commodities	RICI Agriculture TR	USD	-2.1	-6.9	-5.4
Oil	Brent Crude Index (ICE) CR	USD	-4.1	-4.6	17.1
Gold	Gold index	USD	-1.5	-1.4	7.3



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