

## Weekly Report

### UK: positive loan data

Most investors continue to treat the UK as a "hot potato". In fact, the UK was the only major economy to remain in negative territory in 3Q. Rather encouraging loan data are therefore of particular interest. While Bank of England statistics showed already consistently rising UK Mortgage approvals since December 2008, additional positive data recently emerged also from the corporate field. Loan approvals for large private non-financial companies showed positive value for the third consecutive month in December. The major part of the credit uptick stemmed however from borrowing through capital market issuance, also by some lower-rated issuers. The question remains to what extent smaller companies are currently able to access this source of capital. The minutes of the last BoE monetary policy committee meeting highlighted this concern specifically. Some weakness can also be observed in consumer credit, which seems however to stabilize at low levels. On an encouraging note, however, year-on-year net mortgage lending as a percentage of GDP shows a positive development. This is particularly significant as it represents a valuable leading indicator for house prices, but also household consumption. The latter usually follows with a one-year lag, though. These data point to a recovery of the UK economy. Several institutes have recently raised their growth outlook for 2010. In this environment, it seems plausible that the BoE will soon pause with its bond repurchase plan. As such, interest rates could trend higher, particularly given the fact that various inflation statistics rose sooner and less moderate than expected.

### Foreign Exchange

Currency markets were shaken by surprisingly vigorous trade data from China. Exports jumped 17.7 % y-y, which surpassed the 5 % consensus by far. The figures have been somewhat inflated by the low base of data end of last year. It nevertheless reflects the continued improvement in global trade. Imports jumped 55.9% y-y, which were boosted by the rebound in intermediate components designed for exports and surging domestic demand. Yet the persistence of an undervalued currency has over the year effectively subsidized exports. Furthermore, the availability of large foreign exchange reserves has helped to protect domestic markets from the global contagion. In this sense, the data led to speculation that China will be under increased pressure to let the renminbi gradually appreciate. Additionally, the import data also could raise concerns about potential inflationary pressures. Interestingly, the Chinese government emphasized that there would be no near-term tightening in fiscal or monetary policies. An appreciation of the Chinese currency seem unavoidable.

	Short-term trend	Last
EURUSD	→	1.4516
USDCHF	→	1.0163
USDJPY	→	92.050
GBPUSD	→	1.6118

### Fixed Income

A 10 % unemployment rate has been reached both in the US and Europe. Yet the two regions are unlikely to march in lockstep in future months. In the US, several factors hint to further improvement of the labor market despite the somewhat disappointing headline figures in December. The fifth straight gain in temporary jobs and the average weekly hours worked point in that direction. Importantly, the Census Bureau will hire 1.15 million temporary workers in 1H10 to conduct the population count that occurs every ten years. In Europe however, employment is expected to deteriorate further. Survey of euro area firms reveal hiring intentions that remain well below their long-run averages. Youth unemployment is particularly severe with the jobless rate of the under 25-yr segment reaching 21.0 %, up from 14.5 % in 1Q08. The already hard hit Spanish market will probably experience further deterioration as some government schemes expire. These data underpin our opinion that euro-bonds seem relatively more attractive. Recent diverging trends between the 10-yr Treasury and the Bund point also in that direction.

	Forecast end 10	Last
US 10y T %	4.80	3.81
Fed funds	2.25	0-0.25
Bund 10y %	4.00	3.35
ECB rates	1.50	1.00

### Stocks

We have been recently selling positions in Reckitt Benckiser (RB/ LN), Michael Page (MPI LN) and BG Group (BG/ LN) as our price targets have been reached. In return, we have been investing the proceeds into Autonomy (AU/ LN) and ABB (ABBN VX). Autonomy operates a software development company. The group provides infrastructure technologies that automate the management, processing and delivery of information across the Internet and WAP-enabled products. The management pre-announced revenues implying organic growth ex FX of 18 %. Since the company focuses on the compliance market, results have been much more stable than with competitors. The company should benefit from a recovery in IT spending and new products. Price target £ 17.50. ABB provides power and automation technologies. It holds number 1 or 2 positions worldwide in almost all its businesses. The company is exposed in some of the most attractive growth markets in the sector and has a large exposure to emerging markets. Order backlog and revenue visibility should increase in 2010. Price target CHF 22.50.

	Forecast end 10	Last
S&P 500	1230	1143
NASDAQ	2450	2305
DJ STOXX 600	270	259
SMI	7000	6592