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Weekly Report

What can be expected from the upcoming reporting season ?

Company results will increasingly depend on the economic backdrop as cost-cutting initiatives have largely run their course. During 1Q, final demand from consumers and businesses have improved in the US, which should result in GDP rising by approximately 3.5 %. While this would be significantly below the 5.6 % reported in 4Q 09, the composition of growth is anticipated to be much more balanced. In the previous quarter, inventories contributed 4 percentage points to GDP. But not only from the top-down, but also bottom-up perspective a fine quarter seems shaping up. Upward revisions have been pronounced in the information technology and consumer discretionary companies, while some downward adjustments occurred in certain energy, health care, food & staples retailing as well as household & personal products firms. With the economic environment improving, it is feasible to overweight companies with a cyclical bias, which would also include the financial industry. Defensive sectors seemingly offer a loophole in phases of market uncertainty, triggered potentially by a change in the language of the Fed statement, an eventual rise in Chinese interest rates or political uncertainties. We would like to highlight, however, that downward earnings revisions have so far failed to impact stock prices, offering some uncomforting gap in some of the so-called “defensive” names. In Europe, the economic recovery is less pronounced, particularly in light of still weak consumer spending. The most recent reporting season showed that improving results, also on the revenue line, cannot prevent some short-term corrections, though.

Foreign Exchange

The initial spike in EUR could not be sustained. While the rescue package to Greece will certainly continue offering support to the EUR, the sluggish economic recovery in the Eurozone and the subsequent low interest rate environment in relative terms will limit any surge in this currency. We expect the EURUSD to remain within a bandwidth of 1.33-1.37 short-term. Speculation on an imminent revaluation of the Yuan has taken the center stage in the FX market as Chinese officials have privately suggested that such a proposal has been submitted to the cabinet for approval. The Chinese foreign ministry stated that China will adhere to three principles: Any change must be controlled, it must be Beijing’s own initiative and any shift must be gradual. As such, adjustments of 3-4 % p.a. seem feasible. The resumption of three-year bill sales also points to a shift in the currency policy as it allows China to drain liquidity should an appreciation attract more “hot money”. Indeed, speculation has already led to inflows of an estimated $20-35 billion of hot money in March alone.

	Short-term trend	Last
EURUSD	→	1.3600
USDCHF	→	1.0580
USDJPY	↑	93.315
GBPUSD	↑	1.5393

Fixed Income

Greece, which usually helps to relax stressed holidaymakers, has had the quite opposite effects to investors’ nerves over recent months. Prior attempts by Europeans to support Greece rhetorically failed completely. Instead, market participants claimed to obtain details of an eventual rescue. Meanwhile credit default swaps have been driven dangerously close to record levels last reached in January. The quick spreading of panic with associated fears in the currency markets caused European governments to finally act in a more distinct way. Over the weekend, a rescue package worth as much as EUR 45 billion has been arranged. Eurozone finance ministers pledged to EUR 30 billion in three-year loans at around 5 %, with Germany apparently abandoning its earlier demand for Greece to pay market rates. An additional EUR 15 billion would be contributed by the IMF. At this point it is still unclear if the Greek government will take up the rescue package or go ahead with the plan to sell its debt. Either way, investors got a clear message that Greece will not be abandoned neither by Europeans nor by the IMF.

	Forecast end 10	Last
US 10y T %	4.80	3.88
Fed funds	2.00	0-0.25
Bund 10y %	4.00	3.18
ECB rates	1.25	1.00

Stocks

Monsanto (MON) reported F2Q results in line with expectations but changed a central part of its business strategy by decreasing its medium term targets. The management now expects the company to emerge from 2010 in a position to generate annual EPS growth in the mid-teens. This equates to approximately $ 4.24, which is sensibly below the consensus expectation. More importantly, it abandoned its goal of doubling 2007 gross profit by 2012. Monsanto repeatedly disappointed markets mainly due to Roundup, its former key product, which has been off-patent for several years and is subject to low-cost generic competitors. Now that the management has finally adopted more realistic targets, we seem to have reached the final phase in downward revisions. After all, Monsanto is still the market leader with an impressive pipeline. The global adoption of biotech traits is all the same rising. MON is anticipated to gain market share in corn. The stock dropped to the low end of its trading range that started in autumn of 2008. Considering all these facts, we think that the recent pullback in the stock offers an interesting entry point.

	Forecast end 10	Last
S&P 500	1230	1198
NASDAQ	2450	2358
DJ STOXX 600	270	270
SMI	7000	6915