

Weekly Report

Greece - victim of speculators or even German elections ?

In a crisis, the determination of a scapegoat seems vital. Greece followed this deeply rooted behavior pattern by quickly asserting its relative innocence and incriminating speculators instead. But as it now turns out, ill-fated Greece additionally choose a most sub-optimal timing for its bail-out: it coincides with German elections. That is particularly troublesome as Germans are supposed to bear the brunt of the payments to Greece. Even worse, after years of so-called "solidarity" payments to East Germany, the German public does no longer intend to serve as paying agent, less than ever to a nation that has the reputation to constantly live over its means. The perspective to loose out on anticipated tax reductions just because of a Greek bail-out seems simply not right. In this context, the harsh words from German finance minister are understandable. But what are the options? Greece will never leave the EMU, as stated by George Papaconstantinou. And even if it did, plenty of other "fiscally challenged" countries would remain. Strictly from a credibility standpoint, a solution has to be found. Otherwise, EU member states should think of bid farewell to the EUR and finally to the EU-concept all together. It seems just fair to put the maximum pressure on Greece in order to find a credible, long-lasting solution. But for the sake of the European Union, Greece now needs indeed solidarity. A joint European Union-International Monetary Fund rescue package would serve this purpose. An alternative would consist of trying to obtain support in subsequent steps - first from the IMF and EU countries that are willing to show solidarity.

Foreign Exchange

The Greek situation continues to pressure the EUR. The statement by the German finance minister that no decision has yet been taken in respect to the EUR 30 billion Eurozone loan package, adding that an eventual resolution could be positive or negative, has created uncertainty. Nervousness is particularly elevated given the May 19th maturity in Greek debt of EUR 8.5 billion. Negative sentiment on the GBP seems slowly to diminish as all three major political parties promised to tackle the fiscal deficit should they win the election. 1Q UK GDP of 0.2 % q-q was slightly disappointing. On the positive side, a much feared, renewed drop into recession could be avoided. Additionally, some extra factors weighed on economic growth, such as the harshest winter in 30 years and the increase in the value added tax to 17.5 %. The growth in the manufacturing sector of 0.7 % was highly welcome news. It could also indicate that the weaker currency finally has some positive impact. We remain positive for the GBP against virtually all major currencies.

	Short-term trend	Last
EURUSD	→	1.3341
USDCHF	→	1.0746
USDJPY	↑	94.045
GBPUSD	↑	1.5484

Fixed Income

US Economic reports continue to show robustness in crucial economic segments. After surprising strength in retail sales last week, an important indicator for future capital spending also showed astonishing vitality. Core capital equipment good orders rose 12.5% on a y-y basis, representing the seventh month of consecutive improvement and the fourth month in growth territory. New home sales rose stronger than expected with upward revisions to previous months. Since the homebuyer tax credit will expire at the end of April, some of the strength in the current data can certainly be attributed to favorable tax treatment. We would like to point however to the fact, that the tax credit was already meant to disappear towards the end of last year. The housing data has remained quite stable since then, nevertheless. Importantly, inventories seem to have reached the bottom, oscillating around the 230k level since end 2009. Solid economic data, upcoming modest asset sales and reserve draining operations will all contribute to higher interest rates. Additionally, real interest rates are moving up. These events are not supportive to bond markets.

	Forecast end 10	Last
US 10y T %	4.80	3.79
Fed funds	2.00	0-0.25
Bund 10y %	4.00	3.04
ECB rates	1.25	1.00

Stocks

After recent drops, we have been re-establishing positions in Autonomy (AU/ LN), ABB (ABBN VX) and Xstrata (XTA LN). Autonomy, a global leader in infrastructure software showed strong organic revenue expansion of 17 %. We expect a further acceleration in growth rates as more discretionary spending seems available, closure rates improve and planning for larger projects has resumed. ABB continues to report somewhat erratic quarterly reports, this time missing on the EBIT line. Orders, however, surprised positively. Growth of base orders suggest that ABB has seen the bottom of its short-cycle businesses in most regions. We like also to emphasize that the company is more exposed to late-cycle businesses than some of its competitors. New and upgraded power infrastructure is needed, including renewables and smart grids. Increasing energy and commodity prices are driving demand for automation solutions, which lower operating costs. Xstrata should generate strong volume growth. At the same time, it has the potential to cut costs further, which leads to a margin recovery.

	Forecast end 10	Last
S&P 500	1230	1218
NASDAQ	2450	2531
DJ STOXX 600	270	270
SMI	7000	6804