

Weekly Report

US consumption - representing a driving force again?

Consumer credit surprisingly rose by \$ 5 billion in January. In fact, a string of consumer-related statistics have turned into positive territory or shown improving trends in recent months. But a rise in credit seems particular significant as it touches several of the most disputed and critical questions. The consensus argued that consumption has to decline sharply as indebted households face a job-less recovery - and thereby less income - forcing them to increase the savings rate. The savings rate jumped indeed from 0.8 % in spring 2008 to 6.4 % in May 2009. Since then it steadily declined and currently stands at 3.3 %. Consumers probably reacted to rising disposable income which bottomed exactly in May of last year. Rising stock prices led to a clear turnaround in net worth of households. Besides, investors immediately started to accumulate debit balances in margin accounts from March on. As the losses in employment sharply improved from April 09 on, consumer confidence immediately recovered. But retail sales only improved from August on as consumers probably needed some confirmation of stabilization before spending. Skeptics love to point to the fact that the recovery so far uniquely lies on stimulus measures and correction in the inventory situation. All the above mentioned consumer-related statistics lead us however to a totally different conclusion: the economy seems already self-sustained. This would have a significant impact on monetary policy and interest rates. At the same time, it supports sectors such as consumer discretionary, consumer-linked credit as well as consumer sensitive technology.

Foreign Exchange

The Swedish Krona weakened considerably against USD reflecting disappointing GDP data. Instead of growing by 0.5 %, as anticipated by the Swedish central bank, GDP shrank by 0.6 % q-q on a seasonally adjusted basis. Even worse, previous quarters experienced downward revision resulting in a slight decline of 0.1 % in 3Q and no change in 2Q. It is now debatable if Sweden re-plunged into recession or if it never emerged from it. Exports, which represent more than half of the Swedish economy, have been the main source of unexpected weakness. Sweden was widely expected to be one of the first central banks in Europe to start rising benchmark rates. The Riksbank indicated such a tightening move for this summer or early autumn. The SEKUSD 7.00-level (currently 7.1073) might however represent a buying opportunity: The Purchasing Manager Index at 61.5 is clearly signaling future growth. Importantly, new orders at 67.5 and exports orders at 62.7 point to rebounding and strong activity. Retail sales have also grown impressively.

	Short-term trend	Last
EURUSD	→	1.3629
USDCHF	→	1.0735
USDJPY	→	90.401
GBPUSD	→	1.5074

Fixed Income

The Greek story created a most interesting situation: bankers are ordered to exclude hedge funds and bodies that might serve as a proxy for them from bond offerings in an effort to punish the speculators it blames for destabilizing its debt markets. The fact that Greek bonds were widely oversubscribed in the offering last week is incredibly important: It shows that investors are still willing to invest, particularly if the price is attractive. Less strain in Europe and better than expected data from the US triggered a sharp turnaround in bond yields. While there was quite some arguing to what extent weather influences recent macroeconomic statistics, temporary payrolls for the first time in nearly three years are showing year-on-year growth and the unemployment rate remained stable despite an increase in the labor force. People working part time for economic reasons also shows a probable peak. We expect a further improvement in the labor market based on the solid trends of various indicators and the anticipated jump in census hiring. The macroeconomic environment and the phasing out of programs should lead to higher rates.

	Forecast end 10	Last
US 10y T %	4.80	3.70
Fed funds	2.25	0-0.25
Bund 10y %	4.00	3.16
ECB rates	1.50	1.00

Stocks

Adecco (ADEN VX), the world's largest supplier of temporary workers, is one of our holdings, which we expect to benefit from the improving trends in the labor market. In fact, the head of the North America division confirmed that temporary hiring trends in the US have improved and business leaders overall were showing more confidence in hiring. Also in France, trading conditions continued to ameliorate. Most other geographies reported positive momentum. Results were approximately in line with expectations. Given an increased exposure to professional staffing thanks to a recent acquisition and structural improvements in the cost base Adecco is currently our favored choice in the sector. Master Card (MA) looks attractive after the recent weakness in the stock price. While processed transactions showed some slowdown in y-y growth, organic growth stayed strong with an estimated rate of 11 %. The company is expected to continue to grow strongly, i.e. over 20 % for the foreseeable future. At a P/E of 15.3 x estimated 2011 earnings the company's valuation seems undemanding.

	Forecast end 10	Last
S&P 500	1230	1115
NASDAQ	2450	2272
DJ STOXX 600	270	249
SMI	7000	6791