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momentum



Weekly Review

Week ending 9th December 2011

The outcomes from last week's EU summit were broadly consistent with the drip feed of information received by the press in the lead up to the event. As such, Europe took steps towards greater fiscal integration to complement its existing monetary union, with a new Stability and Growth Pact set to be enshrined at the heart of the Union. Commentators were left to reflect on how times have changed: in 2002, both Germany and France ran up budget deficits in excess of the fiscal rules. When the European Commission (EC) recommended sanctions be imposed on the pair, they duly voted against punitive action in the Ecofin Council, with the effect that the qualified majority – required to uphold the EC's decision – was not met.

The bulk of the changes agreed by European officials appear to have more to do with avoiding a future crisis than dealing with the current one. With respect to the funding needs of EU governments, politicians continue to look to the European Central Bank (ECB) for assistance. The ECB's stance on this matter, however, remains unclear. In the build up to the talks, ECB president Mario Draghi hinted that greater fiscal integration, of the type agreed by attendees, may help the Bank to do more by way of aggressive purchases of sovereign debt. During the summit, however, Mr. Draghi appeared to rule out an enlarged purchase program, stating that it was not in the ECB's remit to finance sovereigns. The ECB may view rising borrowing costs as its most effective policy weapon to force greater fiscal prudence and austerity by governments in the region. The institution may also be staying its hand in the belief that conditions could yet get worse, with a large amount of debt set to roll over at the start of 2012.

On Monday, Standard and Poor's placed 15 EU countries on review for possible downgrade, stating that an accelerated decision would be made following the EU summit. France's AAA rating, at the core of the region's overall creditworthiness, is at risk of a double notch downgrade. Despite the news, European sovereigns advanced in anticipation of the summit, before retracing their steps post Mr. Draghi's comments.

Whilst disappointing some market participants in respect of sovereign debt purchases, the ECB offered significant support to the banking sector. The Bank introduced unlimited three year repurchase agreements, whilst relaxing the rules over collateral eligible for such deals and halving banks' reserve ratios. The UK struck out as the 'lonely man' of Europe by vetoing the treaty changes. The 17 EU countries and nine others intend to go ahead. Mr. Cameron chose to use Britain's veto after failing to gain the concessions for London that he sought.

Global equities rallied in the build up to the summit, before slipping back as news of discussions emerged. A late rally on Friday saw the MSCI World index end the week flat, whilst emerging market equities declined by 2.8%. Global government bonds added 0.2% over the period, with high yield debt in the US and Europe posting gains.

Following recent positive surprises in the US, the ISM non-manufacturing index disappointed forecasters, with a reading of 52.0 versus 53.9 expected. The US economic surprise index, which aggregates both the size and direction of deviations of actual economic releases from economists' forecasts, has turned sharply positive in the fourth quarter. Elsewhere, Japanese machine orders contracted by 6.9% in October, versus expectations for growth of 0.5%. In credit, there were 10 Moody's rated corporate defaults in November, eight in the US versus two in Europe, despite business conditions appearing to favour companies in the former. Chinese CPI fell to 4.2% year on year in November, versus 4.5% expected and down from 5.5% in October.

Global property securities declined by 0.7% over the week, with indirect property in the UK down 3.9%. The yen appreciated by 0.4% against the US dollar, whilst other major currencies generally lost ground. Commodities were also marked down over the period, with gold falling by 2.2%.

Returns to 9 December 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 9 Dec 2011	Month to date	YTD 2011
Equities					
United States	S&P 500 NR	USD	0.9	0.7	1.2
United Kingdom	FTSE All Share TR	GBP	-0.6	0.2	-4.1
Continental Europe	MSCI Europe ex UK NR	EUR	-0.1	0.2	-13.3
Japan	Topix TR	JPY	-0.8	1.3	-16.0
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	-3.2	1.4	-14.2
Global	MSCI World NR	USD	0.0	0.3	-5.2
Global Emerging Markets	MSCI World Emerging Markets NR	USD	-2.8	0.6	-16.9
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.0	0.1	9.0
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.8	-0.6	13.3
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.1	0.8	6.7
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.8	1.6	3.9
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.7	0.0	14.6
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.1	0.7	5.7
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4	1.9	1.3
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.5	1.2	0.2
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.3	2.2	-3.2
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.3	0.5	2.0
Australian Government	JP Morgan Australia GBI TR	AUD	1.2	0.4	13.9
Global Government Bonds	JP Morgan Global GBI	USD	0.2	0.4	6.6
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.2	0.4	5.4
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.0	0.2	-6.2
Emerging Market Bonds	JP Morgan EMBI +	USD	0.3	0.8	8.7

Source: Momentum Global Investment Management / Lipper Hindsight. December 2011.

Returns to 9 December 2011

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 9 Dec 2011	Month to date	YTD 2011
Property					
US Property Securities	MSCI US REIT TR	USD	1.6	0.6	3.4
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	-3.9	-3.9	-6.8
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	-1.7	-2.1	-13.9
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-2.1	-0.8	-0.1
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	-3.0	-0.2	-18.2
Global Property Securities	FTSE EPRA/NAREIT Developed CR	USD	-0.7	-0.3	-7.0
Currencies					
Euro		USD	-0.5	-0.7	-0.4
UK Pound Sterling		USD	0.0	-0.7	-0.2
Japanese Yen		USD	0.4	0.0	4.5
Australian Dollar		USD	-0.9	-1.0	-0.8
South African Rand		USD	-1.4	-0.4	-18.6
Swiss Franc		USD	-0.5	-1.5	0.9
New Zealand Dollar		USD	-1.0	-0.7	-1.2
Commodities					
Commodities	RICI TR	USD	-1.7	-1.6	-6.7
Agricultural Commodities	RICI Agriculture TR	USD	-2.0	-2.1	-19.3
Oil	Brent Crude Index (ICE) CR	USD	-0.3	-1.1	16.8
Gold	Gold Index	USD	-2.2	-2.1	21.1

Please note that the weekly review will return on 9th of January, following the year end. We wish you and your loved ones a peaceful and safe festive season.



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