

Swedbank Market overview

January 4 – 10, 2010

The new year has started with solid gains on equity markets but prices of shorter term government bonds also increased as economic data had something inducing for investors in both asset class. Commodities were higher on strong global activity indicators and crude was also supported by cold weather. Economic data weighed on dollar, which in turn also boosted commodity prices.

The equity markets were supported by signs of strong recovery in the US manufacturing as factory orders and ISM manufacturing index surprised positively. Vehicle sales increased and jobless claims continued to shrink, showing that consumption may recover along with broader economy. On Friday the week's most waited dataset still showed that the economy is losing jobs. Even though it weighs on consumption outlook, no negative reaction was seen on equity markets. The market participants want to see the economy recovering but are afraid of the tightening policies it may bring along. Weak employment data eased some fears over higher interest rates that would weigh on equities. The lowering of the interest rate expectations supported also short end government bonds as bond yields declined.

The US employment report showed that non-farm payrolls decreased by 85,000 in December whereas almost no change was expected. Positively, last month's payrolls were revised to growth of 4,000, first growth in almost 2 years. Unemployment rate was unchanged at 10% level (Figure 1). The losses were quite broad with bigger losses in construction, leisure and hospitality and government jobs. The report says that the US government continues to face pressure to create jobs as companies do not feel confident enough to do that. The improvement in labour market is still forecast, but it is likely to be gradual.

Euro area unemployment rate reached 10% in November, although the pace of increase continues to slow. Eurozone PMI indices have been solid, but recovery seems to have lost some strength as retail sales fell 1.2% in November and factory orders in October tumbled. Even though euro ended the weekly slightly higher against US dollar, the currency weakened in the middle of the week on Greece debt concern as Juergen Stark, member of ECB's executive board said that EU may not bail out Greece.

The Japanese yen strengthened against US dollar on weak US pending home sales and employment data, but the resignation of Finance Minister Hirohisa Fujii, an advocate of a stronger yen, supported some yen weakening. New finance minister already called for a weaker yen.

The week brought several important news and developments from China. First, China's government approved the use of short sales (investor gains when the value of shares decline) and index futures (an obligation to buy or sell stock index at some point in the future). That may result in significant increase in trading volume in the mainland China's stock exchanges and make the securities markets more efficient. Therefore the change may also reduce the persistent valuation differential between the shares traded in mainland China and Hong-Kong (Figure 2). The Hang Seng China Enterprises Index, which tracks the Chinese companies traded in Hong Kong is valued at 21 times reported 12-months earnings, whereas CSI 300, an index of 300 largest Chinese companies, traded in Shanghai and Shenzhen stock exchanges is trading at P/E of 38.

Secondly, China said that its exports climbed 17.7% from a year earlier period in December (a first rise in 14 months) and imports surged by a staggering 55.9%. China has passed Germany as the world's largest exporter. It sent \$957 billion worth of goods around the world in the first 10 months of 2009, compared with \$917 billion in German exports, according to Geneva-based Global Trade Information Services. Germany is strong in precision machinery and industrial tools, whereas China tends to produce low-cost goods. As a result, China's exports recovered faster than Germany's in 2009 as capital goods sector tends to lag in the economic cycle.

Monthly manufacturing surveys were published in the CEE region. Poland continues to lead its CE-3 peers in terms of economic activity. Its PMI manufacturing index was unchanged over the previous month at 52.4. Czech PMI posted a modest 0.3 points gain to 50.9, whereas in Hungary the index stands at 48.5. In Russia, recovery momentum in the manufacturing sector has somewhat stalled as the PMI decreased for the third month in a row, printing 48.8.

Figure 1. US Non-farm payrolls and unemployment rate

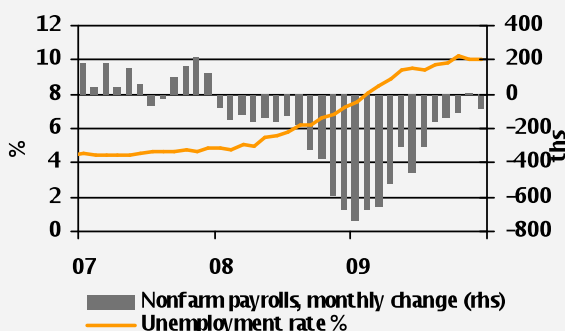


Figure 2. P/E ratios for Chinese shares differ by trading location



Figure 3. Equity markets last week

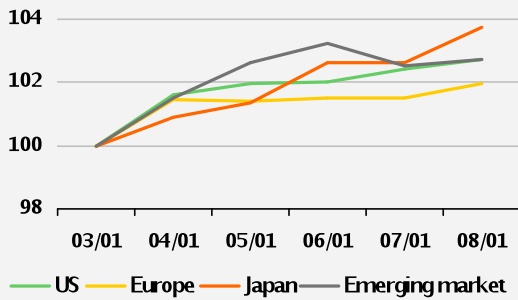


Figure 4. Equity markets last 12 months

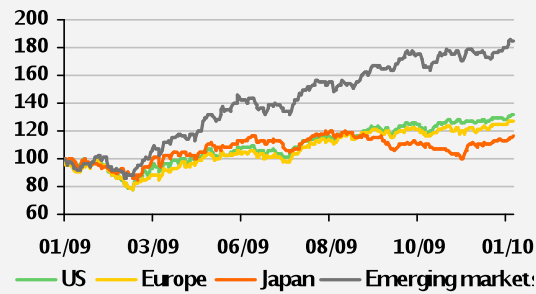


Figure 5. Equity markets performance¹

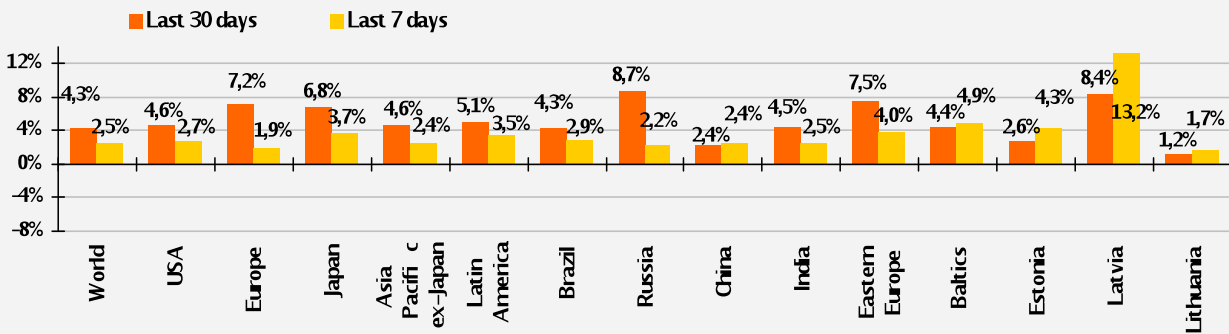


Figure 6. German government bond yields

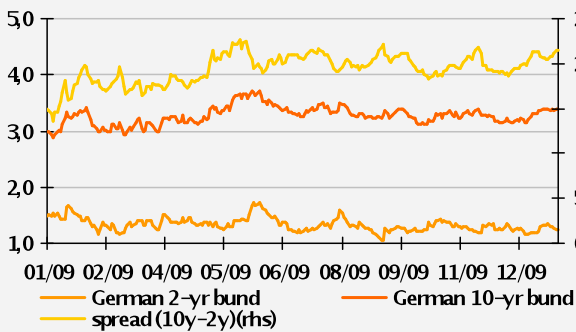


Figure 7. EURIBOR rates last 12 months

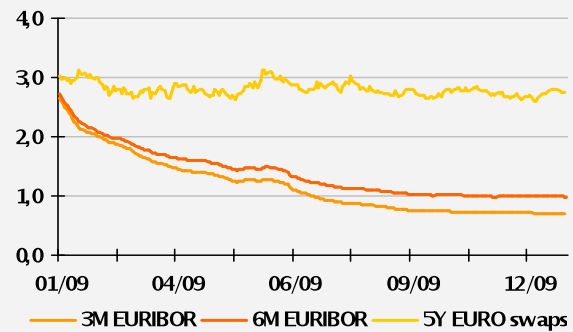


Figure 8. EUR against selected currencies

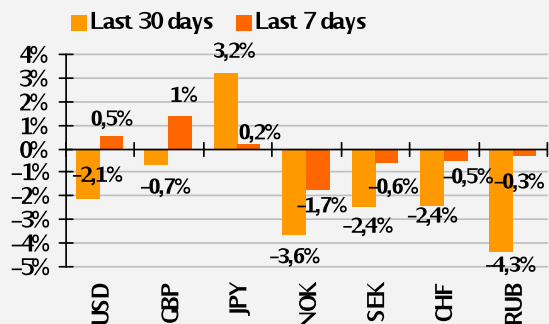
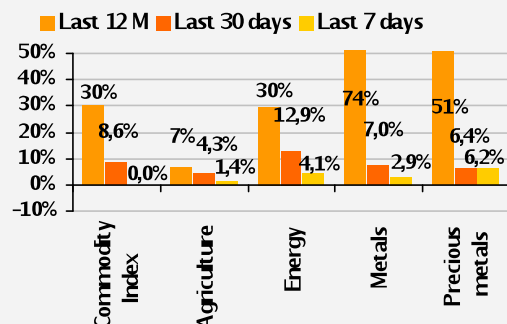


Figure 9. Performance of commodities



Source for figures: Bloomberg if not specified otherwise

Note. All returns are expressed in respective index currencies, if not specified otherwise.

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¹ Chart depicts the performance of respective MSCI regional equity index in USD, except for Eastern Europe (DJ Stoxx EU Enlarged) and Baltic equities (OMX indices).