



Global Summary

- ▶ Overall, equities in developed markets decreased 0.17% over the week, while emerging markets fell 0.31%.
- ▶ Confidence took a knock as data revealed that Chinese growth had slowed. Cautious comments from the US Federal Reserve and a series of disappointing data releases added to the bearishness tone.
- ▶ In fixed-income markets, global government bonds ended the week in positive territory as a result of concern over the slowing pace of the economic recovery.

Economic Developments (12 – 16 July 2010)

Market activity was initially positive this week, as a promising start to the US earnings season and positive auctions of debt across eurozone countries provided a boost to investor sentiment. However, investor confidence took a knock as data revealed that Chinese growth had slowed. Concern over the impact this could have on weak growth in developed nations was thrown into sharper focus on the back of cautious comments from the US Federal Reserve and a series of disappointing macroeconomic releases from the US, including a sharp drop in consumer confidence. Overall, equities in developed markets decreased 0.17% over the week, while equities in emerging markets fell 0.31%. In the rates market, fears over the sustainability of the economic rebound were evident as US short-term Treasury yields hit record lows.

Early in the week, markets were focused on the start of US earnings season. Alcoa's second-quarter results came in better than expected, while in the financial sector, JP Morgan also announced strong figures. However, most of the upside for the bank was driven by a larger-than-expected loan loss reserve release and lower one-off charges. In a reminder of the deteriorating momentum in economic activity, JP Morgan's CEO, Jamie Dimon, remained prudent in his comments regarding credit trends. Of further note in the financial sector, the Senate finally passed a landmark financial reform bill, ushering in a raft of restrictions on banks. The next stage will now involve the US Treasury and regulatory agencies, which will decide which companies will face higher standards of capital and supervision.

Turning to the eurozone fiscal situation, Greece provided a boost to market sentiment in a successful auction of its six-month Treasury bills at a yield of 4.65%, below the 5% payable on its emergency loan from the EU and the International Monetary Fund. In a busy week of European sovereign bond auctions, Spain, Portugal, Italy and Germany also saw solid demand for their government paper. However, in a reminder of the potential impact of domestic economic issues facing individual countries, Moody's downgraded Portugal's sovereign debt rating, citing the country's poor economic growth outlook and deteriorating financial strength.

In economic news, data in developed nations continued to disappoint. In the eurozone, the ZEW indicator for economic sentiment fell to 10.7 in June, below expectations, while in the UK the unemployment rate in the three months between March and May remained elevated, at 7.8%. Meanwhile, in the US, the University of Michigan Consumer Sentiment Index slumped to 66.5 in July from 76 in June, its lowest level since August 2009. In a further sign of consumer weakness, US retail sales declined for the second month running in June, falling 0.5% month-over-month in June, while the trade deficit grew by 4.8% in May to \$42.3 billion, the highest it has been since November 2008. In labour markets, although weekly jobless

claims declined to 429,000 in the week up to July 10, unemployment failed to improve and continued to hinder consumer spending. Given the slowdown in momentum, the Federal Reserve cut its 2010 growth forecast for the US, and some committee members signalled that further monetary stimulus may be appropriate if the outlook worsens appreciably. Reflecting investors' increasing concern about the US economic data, the US dollar depreciated notably against the euro and other major currencies over the course of the week.

In emerging markets, the news flow was dominated by China. Although economic fundamentals continued to display a far better picture than in developed economies, China released softer economic data for the second quarter and June. Real gross domestic product (GDP) growth came in at 10.3% year-over-year in the second quarter, down from 11.9% in the first quarter and below consensus estimates. Industrial production gained 13.7% year-over-year in June, but missed market expectations, while retail sales rose 18.3% year-over-year, after increasing 18.7% in the previous month. On a more positive note, inflation surprised on the downside, as consumer price inflation fell from 3.1% year-over-year in May to 2.9% in June, largely as a result of a gradual decline in the cost of food. Elsewhere, India's industrial production growth slowed, coming in at 11.5% year-over-year in May, after gaining a revised 17.6% in the previous month.

In fixed income markets, global government bonds ended the week in positive territory as a result of concern over the slowing pace of the economic recovery. In other parts of the fixed income market, global investment grade bonds and global high yield debt continued to offer resilient performance, posting gains of 0.5% and 0.95%, respectively.

Weekly Economic Calendar (19 July 2010)

	United States	Europe	Japan	Asia ex Japan
Sun				
Mon	National Association of Home Builders Housing Market Index, July	UK Rightmove House Price Index, July Eurozone Current Account, June		
Tue	Housing starts, June	UK Preliminary Mortgage Approvals, June UK Public Sector Net Borrowing, June		Hong Kong Unemployment Rate, June
Wed		UK Monetary Policy Meeting Minutes, July 7-8 Confederation of British Industry Industrial Order Expectations, July	Bank of Japan Monetary Policy Meeting Minutes	
Thu	Existing Home Sales, June Leading Indicators, June	Eurozone Manufacturing Purchasing Managers' Index, flash July Eurozone Services Purchasing Managers' Index, flash July UK Retail Sales, June Eurozone Industrial New Orders, May Eurozone Consumer Confidence, June		Hong Kong CPI – Composite Index, June
Fri		UK Gross Domestic Product, preliminary Q2	All Industry Activity, May	Singapore CPI, June Taiwan Industrial Production
Sat				

Source: Bloomberg

Investment involves risk and past performance is not indicative of future performance. Emerging markets can be significantly more volatile than developed markets, so that the value of investments may be subject to larger fluctuations. Currency movement and market condition may affect the value of investments. The document has not been reviewed by SFC.

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