



Global Summary

- ▶ Global market volatility refused to cool off, in a clear sign that investors continue to be concerned about the eurozone debt crisis and the global manufacturing slowdown
- ▶ However, there has been a clear differentiation of performance in regional index performance, suggesting that investors are no longer indiscriminately selling risk assets
- ▶ Global growth has moderated and a recession of some form cannot be ruled out, but a more likely path is one of modest growth, which remains our central view

Economic and market developments (5 – 9 Sep 2011)

As investors try to put the tough month of August behind them, global market volatility refuses to cool off. This is a clear sign that concerns such as the eurozone debt crisis, global manufacturing slowdown and burgeoning US debt have been carried forward through to this month.

However, markets did receive some respite last week with better-than-expected US service sector data and Australian gross domestic product (GDP) data. Global developed-market equities increased by 0.35%, driven by increases in the US (+1.1%), although these were tempered by the drop in eurozone equities (-1.8%). In emerging markets, performance varied across regions, as Southeast Asian (Indonesia, Malaysia, Singapore, etc.) and Latin American equities both went up by 0.7% while Chinese equities dropped by 1.6% over the week.

This contrast in regional equity index performance could be perceived as a positive indicator of a reduction in equity market correlations from recent historical highs, suggesting investors are no longer indiscriminately selling “risk assets” but are looking to identify pockets of value at these lower levels. Meanwhile, the Chicago Board Options Exchange SPX Volatility Index, an indicator of market volatility known as the VIX, continues to hover at elevated levels despite a big drop last week.

Within fixed income, global corporate bonds and global high-yield bonds fell by 0.3% and 0.5%, respectively, as the markets continue to be wary of the impact on corporate balance sheets of a severe economic slowdown. In currency markets, the Swiss franc had a sharp fall over the week against the US dollar, dropping by 7.8%, courtesy of the intervention from the Swiss National Bank to contain the appreciating currency.

In policy news, President Obama announced a US\$447-billion jobs plan (3% of GDP), combining tax cuts and infrastructure spending to spur economic growth and improve the poor employment situation. This package, US\$150 billion more than expected, is a direct response to the high unemployment rate, which has been more than 9% for two years.

However, the announcement received a lukewarm response — not helped by a vague speech delivered by Ben Bernanke, chairman of the US Federal Reserve, who refused to give any new guidance about which monetary tools might be discussed at the extended monetary policy meeting later this month. Bernanke did reiterate the Fed's commitment to help restore high rates of growth and employment while giving a note of caution about the difficulties faced by the policymakers. In the euro zone, within two months of raising rates, European Central Bank President Jean-Claude Trichet took a dovish stance (no rate rise) at the ECB press conference, which was accompanied by a downward revision in the ECB forecast for eurozone GDP growth in 2011 to 1.6% (from 1.9% earlier).

In economic news, better-than-expected US and Australian data was tempered by disappointing figures in Europe and Asia that kept the market guessing about the direction of global economic movement. The US Institute for Supply Management (ISM) non-manufacturing index edged up to 53.3 (versus consensus expectations for 51.0) in August, up from 52.7 in July. The key metrics of the report were close to unchanged, showing modest growth coming from new orders while businesses remain uncertain about future conditions. Australia reported a 1.2% quarter-over-quarter increase in GDP growth in the second quarter of 2011, from -1.2% in the first quarter 2011.

However, in the eurozone, the Purchasing Managers' Index (PMI) for services, at 51.5 in August, pointed to stagnant growth. With disappointing results in both the services and manufacturing PMI in August, the eurozone PMI composite was revised down to 50.7 for August from the flash estimate of 51.1. In more encouraging news, industrial production numbers for July beat expectations. In Germany, industrial production increased by 4.0% month-over-month, while in France it rose by 1.5%. In the UK, the PMI for services (a key sector of the British economy) fell from 55.4 to 51.1 in August, the sharpest decline since April 2001, dropping to its lowest level in the year.

However, these declines were exaggerated by temporary disruptions caused by the August riots, possibly accounting for almost half of the 4.3 point drop. Meanwhile, growth in eurozone retail sales dropped to 0.2% month-over-month in July from a revised 0.7% in the previous month.

In emerging markets, economic data points to a slowdown as the result of some retraction in business activity. For example, in the service sector, the HSBC PMI for services in China, India and Russia all reported a drop in August to 50.6, 53.8 and 53.2 from 53.5, 58.2 and 56.9, respectively. These drops mostly reflect the effect of credit tightening, although as consumer spending remains resilient we are likely to see more of a moderation than a meltdown.

Also, the effect of monetary tightening can now be seen firsthand, as inflation is coming off its peak. China's headline Consumer Price Index (CPI) eased to 6.2% year-over-year in August, in line with consensus estimates, after hitting a three-year high of 6.5% in July. Russia also reported a drop in CPI to 8.2% year-over-year in August from 9.0% in the previous month. We expect that with a softening in global commodity prices, inflation should ease very gradually in the coming months. Moreover, in China, both ends of the product cycle moderated slightly but remain strong in August: industrial production grew by 13.5% year-over-year (from 14.0% in the July) and retail sales grew by 17.0% (from 17.2%).

With a slowdown in services and manufacturing sectors, global growth has certainly moderated. A recession of some form cannot be ruled out, but a more likely path is one of modest growth, which remains our central view. The underlying problems behind the downturn are evident but, with a coordinated political and monetary stance, can be resolved, albeit slowly. With cash and government bond returns offering very low yields, our preferred tactical tilts are to overweight corporate bonds and equities at the expense of developed-market government bonds.

Valuations in developed and emerging equity markets continue to look attractive, both in absolute terms and relative to government bonds, and should prove rewarding to investors in the medium term. Heightened uncertainty around growth and the adjustments to government fiscal balances are likely to persist and fuel volatility in the markets. Our key recommendation continues to be to remain well diversified.

Weekly Economic Calendar (12 Sep 2011)

	United States	Europe	Japan	Asia ex Japan
Mon		(tentative) UK Nationwide Consumer Confidence, Aug	Bank of Japan Manufacturing Index, Q3 Bank of Japan Monetary Policy Meeting Minutes Tertiary Industry Activity, July	India Industrial Production, Jul China Actual FDI, Aug (tentatively in 10-15 Sep)
Tue		UK Consumer Price Index, Aug UK Retail Price Index, Aug UK Trade Balance, Jul		
Wed	Producer Price Index, Aug Retail Sales, Aug	(tentative) Bank of England Inflation Report Hearings UK Jobless Claims, Aug Industrial Production, Jul		India Monthly Wholesale Prices, Aug
Thu	Consumer Price Index, Aug Industrial Production, Aug	European Central Bank Monthly Bulletin UK Retail Sales, Aug Eurozone Consumer Price Index, Aug		Singapore Unemployment Rate, 2Q Singapore Retail Sales, Jul
Fri	Consumer Sentiment, Sep	Eurozone Current Account, Jul		South Korea Export and Import Price Index, Aug Singapore Non-oil Domestic Exports, Aug Indian Central Bank announces interest rates

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.

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