



## AMG Weekly Market Update

24<sup>th</sup> August, 2009

### Surprises from economic data and government bond yield rising

Europe and U.S. equities market rose further to reach new high in last 10 months. Better-than-expected economic data was the catalyst for their moves. Service sector and manufacturing improved in Germany and France. To the surprise of investors, German service sector activity index and French manufacturing purchasing manager index went back to positive growth. Good news came from The United States also. Existing home sales had a 7.2% month on month increase in July 2009. Besides, Fed Chairman Ben Bernanke made a positive note on U.S. economy. He said the U.S. was emerging from recession. Mostly positive news flow fueled the optimism among investors and helped stock market performance.

Chinese A-share market made a dramatic turnaround last week. Shanghai Composite Index plummeted 8.6% in the first three trading days, and then it made a “U turn” and shot up in the following couple of trading days. Eventually, the index recovered most of the early losses and finished the week with 2.8% drop. Hong Kong stocks tracked the movement of A-shares. Hang Seng Index broke below 20,000 point briefly, but it also climbed back. Both China and Hong Kong stock market found decent support. Moreover, capital flow for A-share reversed in the week. Net inflow was reported late in the week.

In the bond market, long term Treasury bond yields rose recently. Interest rate futures also showed that the probability for the Fed to lift interest rate in the next FOMC meeting increased to over 30%. But in fact, it is unlikely that the Fed will act before October. It is because the Fed needs to keep interest rate low to facilitate extra bond issuance which will last till October. Expectations for interest rate to go up will deter investors from Treasury issues. It may even result in higher borrowing cost. So, it is believed that the Fed would not raise rate in near future. Better time to act will be in or after October. Thus, the possibility of interest rate rise and in turn the pressure on bond prices will increase as time passes in the next 2 months. Investors who are holding high yield bonds may offload their holdings and reallocate to equity related investment gradually.

Equities market was very sensitive to economic data in the last 2 weeks. And this week, upcoming data includes the Conference Board Consumer Confidence Index, the University of Michigan Consumer Sentiment Index, the first revision of 2Q2009 U.S. GDP figure and new home sales. Expectations are optimistic for all of them. And the market focus shall fall upon new homes sales.



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## Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
US	Housing starts	Annualized Rate	Jul 2009	581K	582K
US	PPI	Mom change	Jul 2009	-0.9%	1.8%
US	PPI (excl. food and energy)	Mom change	Jul 2009	-0.1%	0.5%
US	Leading Indicator	Mom change	Jul 2009	0.6%	-0.7%
US	Existing homes sales	Annualized Rate	Jul 2009	5.24M	48.1
Germany	ZEW Indicator of Economic Sentiment		Aug 2009	56.1	39.5
Germany	Markit Flash Germany Services Activity Index		Aug 2009	54.1	45.7
Germany	Markit Flash Germany Manufacturing PMI		Aug 2009	49	45.7
France	Markit Flash France Services Activity Index		Aug 2009	48.9	45.5
France	Markit Flash France Manufacturing PMI		Aug 2009	50.2	48.1
Japan	Real GDP	Qoq change	Q2 2009	0.9%	-3.1%
Singapore	Exports (excl oil products)	Yoy change	Jul 2009	-8.5%	-11%
Taiwan	Real GDP	Qoq change	Q2 2009	4.8%	-2.6%

\* All figures and information are collected from [www.bloomberg.com](http://www.bloomberg.com), [www.markiteconomics.com](http://www.markiteconomics.com), Cabinet Office of Japan, Singapore Department of Statistics, National Statistics, R.O.C (Taiwan).

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