



# AMG Weekly Market Update

21<sup>st</sup> Sept, 2009

## Low interest rate and weak USD fuels capital flow

Starting from late 2008, central banks around the world slashed the policy rates to historical lows. As confidence recovered, the extremely low interest rate becomes a catalyst for capital flow to seek for higher return. Investment capital flew to stocks, high yield bonds, real estate, commodities and high yield currencies. Riding on the strong capital flow, prices of the risky assets bounce back fiercely. And the weakness of USD added to the fund flow to emerging markets, commodities and high yield currencies.

Changes in interest rate environment and strength of USD would unavoidably affect the fund flow and in turn become important risk factors for investment markets. And both of them could trigger some adjustment in investment market in the last quarter of 2009.

First of all, the budget deficit and massive borrowing needs of U.S. government weighed on USD. But, the Fed is going to conclude its plan to buy Treasury Bonds in October. It marked the end of extra borrowing for U.S. government also. By then, investors may re-think about the value of USD. It could bring about fluctuations in USD and in turn stock markets.

Secondly, Australia and New Zealand economy recovered well with the help from higher commodities prices. They will probably start to lift interest rate within this year. It may lead to changes in interest rate expectation and disrupt investors' rush for return.

### Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
US	Home starts		Aug 2009	598K	581K
US	Industrial production	Mom change	Aug 2009	0.8%	0.5%
US	CPI	Mom change	Aug 2009	0.4%	0.1%
US	CPI (excl food and energy)	Mom change	Aug 2009	0.1%	0.1%
US	Retail sales	Mom change	Aug 2009	2.7%	-0.1%
Germany	ZEW economic sentiment index		Sep 2009	57.7	56.1
UK	Unemployment rate	Rolling 3 mths change	May –Jul 2009	7.9%	7.2%
Japan	Industrial production	Mom change	Jul 2009	1.9%	2.4%



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Singapore	Non-oil domestic exports	Yoy change	Aug 2009	-7.1%	-8.7%
Singapore	Retail sales	Yoy change	Jul 2009	-9.8%	-8.4%

\* All figures and information are collected from [www.bloomberg.com](http://www.bloomberg.com), ZEW Centre for European Economic Research , UK National Statistics, Ministry of Economy, Trade and Industry of Japan, Statistics Singapore.

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