AMG Market Commentary

November 2009

US yet to withdraw support

The call for governments to prepare for taking back the economic stimulation policies got louder and louder as stock markets, commodities and property prices in certain areas rallied on capital flow.

Countries that are recovering rapidly like Australia, China and India has already started to rein in the policy stimulus with interest rate hike or restrictions on loan growth.

But, for the United States, it is too early to call for withdrawal of the policy support. Unemployment rate rose to 10.2% in Oct 2009. For the first time in 26 years, U.S. unemployment topped 10%. Now, unemployment becomes a key issue for government policy.

The Fed made it clear in the latest FOMC statement that employment became a consideration for interest rate policy. Unless inflation or the public perception for inflation turns up, they will probably keep interest rate low to help the job market. Moreover, U.S. President Barrack Obama is going to hold an employment summit with business leaders and politicians to look ways to create more jobs. Unfortunately, unemployment is not expected to peak till mid-2010. Obviously, it will keep the U.S. government from reducing the efforts on economic stimulus for coming months.

Extended period of low interest rate means that the cost of borrowing and return of cash shall stay very low. And more government support is going to pressure on USD. Under the current circumstances, it is plain clear that investors will be inclined to risk their money for extra return. As a result, stock markets, commodities and other risky assets prices could go up further.

US : Positive

Corporate results brought no surprise to the market. Cost cutting helped earnings, while sales was still sluggish. Poor sales showed that consumption was weak, it made investors doubt about the sustainability of the improvement in corporate earnings. However, as said above, the market is now capital driven. It could go higher while poor fundamental remain a risk.

Europe : Positive

Europe is in a similar position as the U.S.. GDP growth turned positive in Germany and France in recent quarters. But, unemployment is also a headache. It kept ECB and BOE from adding to the interest rate. Together with the Fed and Bank of Japan, all major central banks are holding the interest rate at historical low.

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China : Positive
Economic figures for October showed that Chinese economy marched on. Domestic consumptions and fixed asset investment were still reliable engines for growth. They grew 30% and 16% compared to 12 months ago respectively.
GEM board started in Shenzhen, the fears about capital drain from the main board did not realized. To the contrary, the stock market was very active thanked to strong investor's interest. It showed that the risk appetite is more important for market liquidity than change in stock supply.

Emerging Markets : Pan Asia, Russia : Positive
Contraction in exports eased for Asian countries. For South Korea, Taiwan and Indonesia the decline diminished significantly in recent months. For coming quarters, the re-stocking cycle for companies in U.S. and Europe shall help to keep Asian countries exports to improve further.
Russian central bank started to trim interest rate. It lowered the policy rate by 0.5% to 9.5% in October. Since the Ruble exchange rate has stabilized, it now has more room to stimulate the economy. That's a positive for Russia.

Commodities : Positive
Shiny gold returns to spotlight again. Gold price rose in expense of U.S. dollar. It has broken the previous record at USD 1,040/ounce and now stand above USD 1,200/ounce. As the USD remains weak, gold is still in the uptrend.
Crude oil took a rest as worries about economic recovery arose. Crude oil prices fell back to USD 80/barrel. Still, weakening USD shall lend support to oil prices. USD 65-70/barrel is a strong technical support for oil price.

Hedge Fund : Neutral
Return of risk appetite and liquidity dominated hedge fund performance in the year. The best performing strategies are those that invest in less liquid assets, namely convertible arbitrage and distressed securities. Barclays convertible arbitrage index made 48.37% in the year and Barclays distressed securities index gained 24.13% YTD.

Government Bonds : Negative
The major central banks shall keep interest rate at current level in the next 1-2 quarters. Thus, prices of high grade government bond could stay high for some time. However, the need for further rate cut has subsided as the financial system stabilized. They are just waiting for signs of genuine economic recovery and improvements in employment market to lift interest rate.

Things to Look Forward :
Capital flow to seek for higher return shall keep going as U.S. government refrain from withdrawing policy support. It shall drive asset prices up further.

* All figures and information are collected from Bloomberg.com & Barclay Hedge.

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