



AMG Market Commentary

February 2010

Lots of news, but growth prospect is still the key

In February, global markets were still very volatile. Worries about the deficit and debt problem of Greece came into market spotlight and governments exit continued to cloud the market.

The fears for government exit waned quickly. In fact, it was very much in line with expectation for gradual policy exit in 2010. The Fed lifted the discount rate and shortened the lending terms of discount window in Feb 2010. Some linked it with tightening of monetary condition and lift in Fed fund target rate. But, it is actually a necessary step to normalize the policy environment. The discount window was set up to provide emergency funding to banks, but it was expanded to provide day to day liquidity to banks in the last 2 years. As implied by the interest rate futures, the real tightening of interest rate is still in the later half of 2010.

The European Commission assured that they will provide support to Greece if needed after a meeting among the finance ministers of member nations. With the help of EC, the worst outcome is expected to be a bail out with harsh terms for Greece. Chances for another round of widespread crisis remain limited. So, investment market rebound. But, it will take years of disciplined public finance to solve the problem. The problem may come back to spotlight and cause fluctuations in market.

Overall, uncertainties are still out there. The debt problem in Europe still need more time to handle and the time will come for the governments to remove the stimulus. So, there could be more volatility to come in the year. But, all in all, the direction of the stock market will depend on the economy. Thereby, we continue to favour emerging markets which showed strong domestic growth such as China, Brazil and Asian markets.

US : Positive

U.S. took another step to normalize the policy environment. Fed lifted discount rate by 0.25% to 0.75% in unanimous decision and shorten the duration of discount window lending from 28 days to overnight. The aim was to turn the banks back to interbank market for funding and bring the market environment back to normal step by step.

Europe : Positive

Concerns about high and surging national debt of Greece caused adjustment in stock markets. Still, the European nations committed to help when there is a need. It helped to contain the problem and the risk of another round of widespread crisis declined. But for Greece, the economy and stock market shall suffer from tightening government budget.



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China : Positive

Chinese government continued with the curb on bank loans growth. The PBOC lifted required reserve ratio by another 50bps for large banks in February. Fortunately, the impact was much lesser than the first addition. It seems that the market has already priced in gradual policy exit by the Chinese government.

Emerging Market : Korea : Positive

Industrial production continued to drive Korean recovery. The industrial production rose 34% in Dec 2009 and industrial electricity sales were up 24% in Jan 2010. Still, unemployment jumped to 4.8% in Jan 2010. It could slow down domestic consumption growth.

Commodities : Positive

Commodities prices strengthened again as Euro sank. It seems that investors are making them a hedge against weak currencies. Thereby, gold price stayed above the support at USD 1,030. While crude oil rose towards USD 80/barrel again as weather conditions in North America fluctuates.

Hedge Fund : Neutral

Choppy market and lack of consistent trend continued to hurt CTA as a strategy. Barclay hedge CTA index dropped by 1.67% in Jan 2010.

Government Bonds : Negative

U.S. Treasuries prices were rather stable despite risky assets fell on debt problem of Greece. The worries about mounting national debt and possibility that it will be monetized kept investors wary about sovereign debt of developed nations. And again, we remain negative on government bonds as the risk of inflation is rising.

Things to Look Forward :

Market sentiment improved as European Union pledged to help, stock markets seems to have found strong support. As the worries wane, it could pick up again in coming months.

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

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