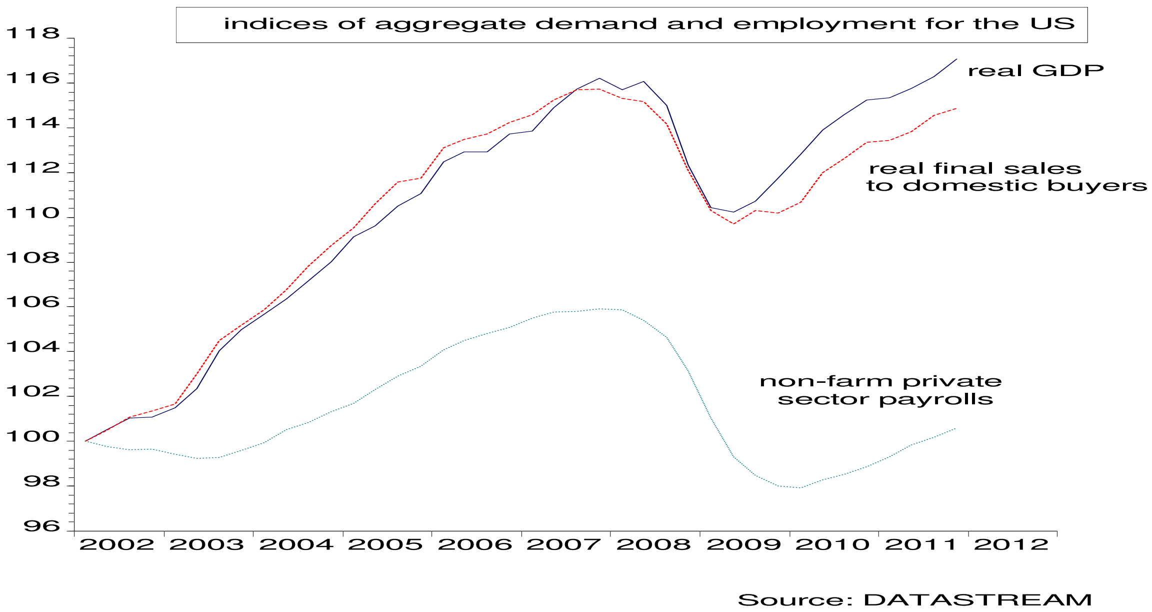
BREWIN DOLPHIN

Market Strategy

Mike Lenhoff – Chief Strategist
Tel: 0845 213 3360; e-mail: mike.lenhoff@brewin.co.uk

INVESTMENT RESEARCH
30 January 2012

A week that might be action packed – for markets!



After last Friday's GDP figures, this week's economic news for the US will focus minds on one question: having regained momentum in recent months is the economy now starting to lose it?

It was not just the modest growth in final sales to domestic buyers (i.e., GDP less net trade less inventories) that disappointed. It was also the prospect that the inventory accumulation that contributed much to fourth quarter GDP growth might have been largely unintended. Then again, the drop in government spending did not help. As the chart shows, US GDP has overtaken its previous cyclical peak. However, final sales have yet to match their previous cycle high and the non-farm private sector payrolls have some way to go to make up the lost ground.

It all makes this Friday's Non-Farm Payrolls, the first big number for 2012, of more interest than usual. Along with various purchasing managers' surveys out this week, including the two ISM surveys from the US, the markets should get a good indication of whether the US economy's momentum is stalling or not.

For Europe the week is action packed beginning with bond auctions, notably the 8 billion euros of 5 and 10-year debt for Italy later today. Italy's banks participated big time at the ECB's recent Long-Term Refinancing Operation and so should be ... well ... big buyers.

Greece's Finance Minister said at the end of last week that a deal on the debt swap is but one step away. In that case, this week should be deal week!

While Greece's private creditors, as represented by the Institute of International Finance, have now ceded to demands for a lower coupon, it remains for the Greek government to agree on various structural reforms that form part of the terms attached to securing a second bailout.

Saturday's Financial Times ran with the story that Germany is proposing a 'budget commissioner' to oversee Greece's budgetary policy to ensure compliance with the terms of a second bailout. The commissioner would be able to veto '… budget decisions taken by the Greek government if they were not in line with targets set by international lenders'.

A similar idea put forward last year by the Dutch Prime Minister and his Finance Minister was intended to apply to the eurozone as a whole. The present focus on Greece makes it unlikely the proposal will see the light of day. Greece will not submit to it and the European Commission has acknowledged that the prescription is inappropriate. As the spokesman said, '… executive tasks must remain the full responsibility of the Greek Government, which is accountable before its citizens and institutions. That responsibility lies on their shoulders and it must remain so.'

European Union leaders also convene in Brussels today to review a 'final' draft of the fiscal compact. The discussion is to pave the way for the signing on 1st March of the Intergovernmental Treaty that will bind eurozone members into a framework with an enforcement mechanism that sets out the fiscal discipline behind the eventual path to sovereign debt sustainability. Tabled for today's agenda is also a review of the statutes for the European Stability Mechanism – which is to come into being this July – and some discussion on the steps that might be taken to boost growth and employment in the EU.

There is much for the markets in this week's developments. Greece might get its second bailout and EU leaders might indicate their readiness to sign up to a fiscal compact. Anything that takes the eurozone closer to resolving its crisis will boost risk assets. In America, this Friday's Non-Farm payrolls may confirm that the momentum behind the economy is still gathering steam. We expect it will. And in the developing world central bank policy is re-focusing on growth.

It's not all on the downside for the equity markets though that said, Wall Street is technically overbought (on its 14-day Relative Strength Indicator) and a bout of profit-taking is probably due. However, as noted recently ***(Bad news - have equity markets had their fill of it? 19 January 2012)***, the S&P 500 has the look of an index intent on taking out last year's high. It just needs more positive news flow to do the trick. This week could bring some of it. And with money for next to nothing – nearly everywhere in the major economies – you have to ask; what isn't a carry trade?

Source: DATASTREAM

IMPORTANT NOTES

The information contained in this report represents an impartial assessment of the value or prospects of the subject matter. Graphs, performance data etc are as at the close of business on the day preceding the date of the note. The information contained in this report has been taken from sources disclosed in this presentation and is believed to be reliable and accurate but, without further investigation, cannot be warranted as to accuracy or completeness. The opinions expressed in this document are not the views held throughout Brewin Dolphin Ltd. No Director, representative or employee of Brewin Dolphin Ltd. accepts liability for any direct or consequential loss arising from the use of this document or its contents. We or a our website at www.brewindolphin.co.uk. The value of your investment or any income from it may fall and you may get back less than you invested. Past performance is not a guide to future performance. If you are in any doubt concerning the suitability of these investments for your portfolio you should seek the advice of a qualified investment adviser. Brewin Dolphin Ltd, a member of the London Stock Exchange, authorised and regulated by the Financial Services Authority. Registered office: 12 Smithfield Street London EC1A 9BD. Registered in England and Wales no 2135876.