

MARKET ANALYSIS

January 2010

As usual December was a relatively quiet month as investors, politicians and financiers wound down for the Christmas and New Year break in Europe and the US. Most major markets around the world finished the month in positive territory, largely as a result of growth in the second half of the month as trading volume decreased. The Nikkei 225 led the way with impressive growth of nearly 12% on the back of news that Japan is expected to exit recession in the 4th quarter of 2009.

The FTSE 100 finished the month up over 4% on the back of widely held opinion that the UK has exited recession in the 4th quarter. Investor sentiment appears to be improving despite unemployment news continuing to disappoint and poor retail sales figures in November. The FTSE 100 closed the month at a level not seen since before the collapse of the US bank Lehman Brothers in October 2008. The failure of the then fourth biggest bank on Wall St is now generally regarded as the catalyst for the recent recession.

The UK Government's pre-Budget report was delivered on 9 December with a politically aware Chancellor hitting Bankers with a 50% tax on bonuses, whilst National Insurance contributions are set to rise from 2011. Unfortunately, there was little in the way of any serious attempt to tackle the country's growing national debt and the main political parties soon descended into a point scoring contest.

The US Dollar rallied in December following months of weakening against the Euro and Yen. Investors were buoyed by the Federal Open Market Committee's (FOMC) statement in the middle of December which seemed to indicate a brighter than expected 2010. With the European economy not improving as well as some had predicted, traders now expect the interest rate gap between the US and the Eurozone to remain tight. The increase in the Dollar did however appear to affect demand for equities, with the Dow Jones posting modest growth of below 1% for December.

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Key Data			
	31-Dec	30-Nov	+/(-)%
FTSE 100	5412.33	5190.68	4.3%
Dow Jones	10428.05	10344.84	0.8%
EuroStoxx50	2964.96	2797.25	6.0%
Nikkei 225	10546.44	9345.55	11.4%
Hang Seng	21872.50	21821.50	0.2%
MSCI EM	989.47	953.13	3.7%
Crude Oil	\$79.62	\$77.28	2.9%
£ = \$	1.6170		
€ = \$	1.4326		
£ = €	1.1287		

Interest Rates	
Bank of England	0.5%
European Central Bank	1.0%
US Treasury Reserve	0.25%



Increased demand for oil, largely as a result of the cold snap that affected the US and Europe in the last couple of weeks of December, helped to push the price of oil back to near \$80 per barrel. With global demand set to increase as the economy recovers, many experts predict the \$100 per barrel mark will be breached in the first few months of 2010.

January promises to reveal much about the sustainability of the present economic recovery. Equity markets will look to continue with the almost uninterrupted growth since the lows of March 2009. Commentators will look for an improvement in macro-economic data, especially unemployment and consumer spending, to sustain the next stage of the recovery.

UK

A closer look at the retail sales figures for November, reveal that sales volumes were down 0.3% for November, following steady increases in September and October. Commentators had predicted that retail sales would be high in the last couple of months of 2009, as consumers looked to make big ticket purchases before VAT was increased to 17.5% on 1st January 2010. This does not appear to have transpired in November and hopes are high that the December figures will be an improvement.

EUROPE

The possibility of sovereign capital debt default raised its head again as both Standard & Poor's and Fitch downgraded Greece's credit rating to B+. Economists have pointed out that it would be in Europe's interest and indeed relatively cheap to rescue the Greek economy should it default, but this has only served to highlight the difference between the rich and poor nations within the Eurozone.

US

Despite only modest growth in equity markets in December, most economic news from the US was encouraging. Retail spending was up 3.6% from last year in the period between Thanksgiving and Christmas Eve. Initial unemployment claims rose by a modest 7,000 per week in December which was markedly better than some analysts had feared.

ASIA/PACIFIC

Encouraging macro-economic data from Australia and Japan, with investor sentiment improving in both countries, was countered by discouraging news from China where suspicions of increasing government intervention in the economy, especially regarding property prices, hampered growth.

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EMERGING MARKETS

The best performing area for Emerging Markets in December was East Asia, with South Korea and Taiwan both enjoying gains of over 7% on their respective stock exchanges. Equities in Eastern Europe were generally down over the month on fears that support from Western Europe may decrease on the back of failed property ventures in the East.

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