MARKET ANALYSIS

December 2009

The major story for November was the decision by the state-owned Dubai World to ask for a deferment on its debt liabilities. Out came the doomsayers once again, with predictions of financial Armageddon back in fashion for a couple of days at least. International equity markets dropped following the news, but soon rallied as investors realised that the debt would probably still be repaid, albeit only later than anticipated. Capitalism had been saved for the second time in 2009.

Equity markets in the west recovered somewhat from a stagnant October, driven by improving investor confidence and a slowing down in the unemployment rate. Markets in Asia were largely down or level over the month, with the Nikkei 225 particularly badly hit down nearly 7% as fears of deflation returned to haunt the Japanese economy.

The much maligned British Banks came in for fresh scrutiny in October, partly as a result of their exposure to Dubai World debt. The Bank of England also announced that it lent £60 billion to HBOS and RBS at the height of the financial crisis last October. These were of course short term loans and the Bank of England acted secretly to avert customers panicking.

The price of Oil finished the month where it started, with early gains lost to the uncertainty surrounding the Dubai debt issue. Commentators have noted that the price of oil is currently more influenced by the US Dollar than traditional global supply and demand. However, predicted increased demand from China, India and other emerging markets is likely to lead to an increase in the oil price over the medium term.

Elsewhere in November, President Obama visited China in a landmark visit. The economic situation dominated proceedings, perhaps unsurprisingly given that China is the largest holder of US Treasury Bills and holds a substantial amount of dollar reserves.

Key Data

	30-Nov	31-Oct	+/(-)%
FTSE 100	5190.68	5044.55	2.8%
Dow Jones	10344.84	9712.73	6.1%
EuroStoxx50	2797.25	2743.50	2.9%
Nikkei 225	9345.55	10034.74	- 6.9%
Hang Seng	21821.50	21752.87	0.3%
MSCI EM	953.13	914.26	4.1%
Crude Oil	$77.28	$77.00	0.0%
£ = $	1.6442		
€ = $	1.5008		
£ = €	1.0955		

Interest Rates

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

The recent downturn has strengthened China's position relative to the US and for the first time the meeting between the respective country's leaders was played out on an acknowledged equal footing.

The Organisation of Economic Cooperation and Development (OECD) revised its global growth predictions for 2010, with the economies of its 30 members expected to grow by a combined 1.9% in 2010, up 1.2% on initial estimates. The report accompanying the predictions has highlighted the role of consumer spending in driving the recovery, but warned that there are many difficult days ahead.

Equity markets worldwide will be affected by Christmas and New Year celebrations in December, with trading closed for the best part of a week at the end of the month. Economic news, especially in the western countries, will be sparse though the pre-budget report in the UK, due on 9 December will attract much attention as Alistair Darling attempts to balance the need for cutbacks and increased taxation with blatant electioneering.

UK

Mervyn King, the Governor of the Bank of England, has warned that inflation is set to 'spike sharply' over the coming months, prompted in part by the return of VAT to the higher rate of 17.5% in January. King also stated however that interest rates are likely to remain low well into 2010, with inflation expected to return to target levels (just below 2%) before the end of 2010.

EUROPE

The European Central Bank raised its economic outlook for 2010, forecasting growth of 0.8% up from the 0.2% originally projected in 2010. Initial estimates predict growth of 1.2% in 2011. Inflation in the Eurozone in 2010 – 2011 is expected to be approximately 1.3 – 1.4% annually. There are also concerns that the increasing strength of the Euro versus the Dollar is beginning to hurt exporters in the EU.

US

Unemployment remains a sharply felt problem in the US at the moment, with the percentage of the workforce out of a job currently in double figures for the first time since the Great Depression. On closer inspection, the headline figure is only just in double figures at 10% and new jobless claims fell in November, but employment has perhaps not picked up as well as many commentators had predicted.

ASIA/PACIFIC

The Nikkei 225 suffered a substantial drop of nearly 7% in November as investor confidence dropped in response to worries that Japan is once again trapped in deflation. Wider global economic concerns continue to affect the performance of equity markets in the region, with macro-economic data from the US and global investor confidence the major influential factors.

EMERGING MARKETS

Confidence in Emerging Markets was tested following the Dubai crisis, indeed shares in the United Arab Emirates finished the month down 10%. However, most Emerging Markets were up throughout November, with Brazil one of the leading performers up nearly 9%. India also recovered losses made in October to finish the month up 7%.