



MARKET ANALYSIS

September 2009

An east/west divide was evident in August as equity markets in Asia stumbled, whilst the US and Europe witnessed 2009 highs. Chinese equities dragged Asia down as the benchmark Shanghai Index plummeted more than 15% over fears state intervention could slow the progress of recovery. Meanwhile, markets in Europe responded to the unexpected but welcome news that Germany and France have emerged from recession, both posting growth of 0.3% in the 2nd quarter of 2009.

The UK remains in recession though figures for 2nd quarter GDP were revised upwards slightly to -0.7%. The FTSE 100 finished the month up over 6% and touched a 2009 high of 4916 at close on 25 August, its highest level for almost 18 months.

Sterling finished the month down against the US Dollar, despite early month highs of over \$1.70, whilst the Euro remained level against the US Dollar.

Oil ended the month marginally up despite briefly recording a 2009 high of \$74.15 per barrel. Medium to long term demand for Oil remains strong, whilst short term demand is improving as economies around the world slowly resume growth.

Optimists have pointed to the first real signs of a global economic recovery a view supported by the latest GDP results from Europe and Japan which reveal a move to growth. GDP results from Australia confirm it never actually entered recession. Amongst all the optimism there has still been plenty of scope for the pessimists with the US and UK remaining in recession and fresh concerns regarding the reliability of data from China.

Looking forward to September we expect to see the traditional increase in trading volumes across the global markets as investors return from their August holidays. Equities in the US and Europe will be looking to consolidate recent gains, whilst markets in Asia will be aiming to bounce back from recent falls. There is increasing speculation that the major economies may look to increase interest rates in the near term in order to pre-empt the potential rampant inflation that may result from quantitative easing. It is difficult to see a rise in interest rates in the

Key Data

	31--Aug	31-Jul	+/(-%)
FTSE 100	4908.90	4608.36	6.13%
Dow Jones	9496.28	9171.61	3.42%
EuroStoxx50	2775.17	2638.13	4.94%
Nikkei 225	10492.53	10356.83	1.30%
Hang Seng	19724.189	20573.33	- 4.3%
MSCI EM	839.46	844.02	- 0.5%
Crude Oil	\$69.97	\$69.45	0.75%
£ = \$	1.6700		
€ = \$	1.4300		
£ = €	1.1400		

Interest Rates

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

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US and UK at this stage, but the results of their monthly meetings may allow us an insight into the thinking of central bankers.

UK A recovery in corporate earnings and encouraging economic data helped the FTSE100 to rebound 42 percent since the trough in March, with the index up 6.5 percent in August. Such good news was almost overshadowed when the head of the FSA, Lord Adair Turner (himself a former City banker), attacked the 'bloated' financial sector and recommended a tax on financial transactions. Concerns that the UK economy is too dependent on the financial sector are very real but Lord Turner was reluctant to suggest other areas of the economy that could take the lead. In other news, house prices rose at their fastest pace for 2 ½ years, increasing by 1.6% through August; prices remain down over 14% from their peak in October 2008.

Europe Data from Europe was almost universally positive throughout August. On top of the growth in the second quarter reported by France and Germany, investor sentiment across the continent improved and equity markets finished the month higher. Whilst the Eurozone as a whole is widely expected to officially pull out of recession in the 3rd quarter, analysts note that medium and long term prospects for the economy remain subdued. Problems with rising unemployment, volatile commodity prices and the constraints of a universal interest rate are all likely to hamper any substantial growth.

US Macroeconomic news was mixed. U.S. tax rebates for first-time home buyers and the "cash-for-clunkers" program fuelled a US consumer spending rise. Meanwhile, U.S. consumer confidence fell to its lowest level in four months on worries over high unemployment and dismal personal finances. On balance data released in August appeared to support the generally accepted view that the US will see a gradual recovery from the recession, with retail sales up 1% over the month and new home sales up almost 10% in July. Initial jobless claims continued to drop and overall unemployment has remained relatively stable for 3 months now. President Obama was obviously pleased with all the positive news and brought forward the re-nomination of Ben Bernanke as Chairman of the Federal Reserve. An unwelcome reminder of the difficulties in the financial sector was provided by the collapse of Colonial Bank (Florida) – the first Bank to collapse in the US since September 2008.

Asia Pacific China's lending spree in the first half of 2009 resulted in the country's fastest expansion in manufacturing in nearly a year and a half, reported on the last day of August. However, questions about the government's continued willingness to pump up the economy with liberal lending haunted the markets, leaving China with steep losses of over 20% for the month. This had a knock on effect on the performance of many of the regions markets, including the Hong Kong based companies listed on the Hang Seng, who are increasing reliant on Chinese support. In Japan, equities started the month well but lost most of their early gains in the face of uncertainty over the General Election which took place on 30 August 2009. The election has returned a substantial majority for the opposition Democratic Party of Japan, the first time in over 50 years that the Liberal Democratic Party will not be in power.

Emerging Markets Summary Emerging Markets were unable to make much progress in August, faced with static commodity prices and political uncertainty in Asia. Eastern Europe was the best performing sector (Budapest up 10%), with markets in Asia suffering as the Shanghai index plummeted. Indian manufacturing activity showed the slowest pace in over five months, but its stock market was able to climb back from deep losses in the middle of the month to near

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break even. Russian equities, as measured by the benchmark RTS Index, had an uneventful month closing flat to their opening levels. Brazilian stocks traded with a slight positive bias throughout out the month, but ended flat and with no major news from Latin America, Brazil is tracking the price of oil fairly strongly.

Credit UK Gilts were affected by uncertainty following the news that Mervyn King was outvoted in this attempt to increase the quantitative easing programme by a further £175 billion, instead having to settle for an additional £50 billion.

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