

Global

Rate of GDP change steady in the OECD

The average Gross Domestic Product (GDP) of Organisation for Economic Cooperation and development (OECD) members grew by 0.7percent on average in Q2 of this year, says the OECD. Overall, the average rate for the OECD area was the same as in the previous quarter, boosted by the U.K. and Germany, but slowed by the U.S. and Japan. Real GDP grew by 1percent in both the eurozone and the European Union, driven by record growth of 2.2percent in Germany and 1.1percent in Britain, up from 0.3percent in the previous quarter. France's economy grew by 0.6percent, up from 0.2percent and Italy's by 0.4percent, unchanged from the previous quarter. In contrast, America's growth rate fell to 0.6percent and Japan's to 0.1percent, from 0.9percent and 1.1percent respectively.

US

July's home sales put pressure on the S&P

Sales of existing American homes fell by twice as much as forecast in July, prompting a large fall in the S&P 500 index during early trading. According to the National Association of Realtors (NAR), purchases of existing homes fell 27.2percent in July compared with the level in June, which is the lowest level in a decade. The NAR says while home prices continued to gain, the expiration of the home buyer tax credit meant purchases fell to an annual rate of 3.89m units in July. Meanwhile, demand for single family houses hit a 15-year low, coming in at their lowest level since May 1995.

BRIC

SA bids to join BRIC

South Africa wants to be considered among the leaders of the developing world along with Brazil, Russia, India and China, its president said on Wednesday, pushing for membership of a grouping that has growing global influence. President Jacob Zuma told reporters during a state visit to China that South Africa has discussed its interest in joining the informal grouping of the four major developing nations, known as BRIC, with each member government. The four nations work to boost trade with each other and have called for developing countries to have bigger role in major global financial decisions, primarily within institutions such as the International Monetary Fund. Some analysts expect the combined economies of Brazil, Russia, India and China to be larger than the Group of Seven developed economies that include the U.S. within 25 years if not sooner, making them the dominant global force in everything from trade to finance.

Singapore

Economy may be world's fastest growing in 2010

Singapore bond sales are accelerating as companies exploit the lowest funding costs in at least two decades to finance expansion. "Singapore is going through an outstanding period of economic growth with most sectors performing well," Aaron Russell-Davison, head of Asia debt syndicate at Standard Chartered Plc said. "In this context it makes sense that companies are looking to borrow longer-dated money at historically attractive levels." The economy of Singapore, Asia's second-smallest country after the Maldives, may be the world's fastest-growing in 2010 after ballooning demand for goods and services prompted the government to raise forecasts three times since January. GDP increased 17.9percent in the first half, ahead of the trade and industry ministry's full-year prediction of between 13percent and 15percent and surpassing India's expectations of 8.5percent growth and China's of 9.5percent.

Gold

Indian festivals and fretting investors push prices higher

Gold hit eight-week highs near USD1,240 an ounce on Wednesday as the dollar fell versus the euro and as equities slipped on concerns over economic growth, lifting interest in the metal as a safe store of value. Gold priced in euros and sterling also hit multi-week highs. The precious metal benefited from demand for a haven from volatility in assets seen as higher risk, such as stocks and industrial commodities. "We could definitely see further price rises if the economy proves not to be that robust," said Commerzbank analyst Daniel Briesemann. He said rising demand for gold as an investment product, as outlined in a World Gold Council report released on Wednesday, suggested further support for prices. "The seasonally stronger demand period is going to start now," he said. "In India, for example, we should see rising imports in gold until the end of the year due to the festival season which started yesterday. That should help gold." The WGC said in its quarterly demand trends report on Wednesday that India and China were likely to provide the main thrust to demand growth this year, and predicted investment demand will stay strong.

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Spotlight on 'Emerging Market –v- Developed Market' debt funds

Recent research released by EPFR Global has revealed that collective outflows from equity funds hit a six week high during the seven days ending August 18, with U.S. equity funds seeing the biggest redemptions, experiencing outflows of over USD7bn. The only sector that proved to buck the trend was that of 'Emerging Market Debt'. Originally featured in 'Spotlight' in December 2009, Emerging Market Debt funds ('EMD', also referred to as 'Emerging Market Bond')) attracted USD4.2bn of investment over the same period, extending a run of 12 straight weeks of rising inflows. The popularity of the sector is nothing new, with year-to-date inflows now in excess of USD32bn, over three times more than the previous full year record-inflow of USD9.7bn, achieved in 2005.

There are many reasons why investors are looking to EMD funds, not least their performance; according to JP Morgan's Emerging Market Bond Index, EMD funds have returned their investors with an average yield of 5.8percent, year-to-date. The main reason for the surge in popularity, however, points towards the future, and the gap between emerging market and developed market growth becoming wider than ever.

In-particular, troubles in the eurozone relating to sovereign debt remain a concern, in addition to the less than positive news that continues to emerge from the world's largest economy - the U.S., thus suggestions of a 'double dip' recession look likely to continue to hang over the more conventional asset classes for some time to come.

Many commentators would suggest that the threat of a double dip is very much a worst case scenario, with the most likely outcome being a drawn out period of slow growth. Emerging markets, on the other hand, look likely to experience much healthier economic expansion as they are less burdened by the excesses of bailing out large financial sectors and making government spending cuts.

Analysing the debt-to-GDP ratios of the emerging market members of the G20 shows that their ratios are set to remain steady over the next five years at relatively low levels, whereas developed market members are following an unsustainable fiscal policy over this period and their debt ratios continue to grow from an already higher base level. This, many argue, makes a compelling case then to avoid developed market debt and allocate to emerging market debt instead.

The fact that emerging economies currently account for around one-fifth of the global bond market suggests such economies form an integral part of future global asset allocation. PK Basu, Chief Economist, Daiwa Capital Markets, recently commented "The yields are a lot better in the emerging countries, and increasingly funds will flow into the emerging economies given the fact that interest rates are likely to stay at rock bottom levels in the U.S., Europe and Japan for the foreseeable future".

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