

The Weekly Review
Monday 17th October to Friday 21st October 2011

HEADLINES

Asia:

GLOBAL WEALTH HEALTHIER THAN EVER

COVER

Japan:

CENTRAL BANK STICKS TO ESTIMATE OF MODERATE RECOVERY

P-2

China:

ECONOMIC EXPANSION SLOWS AMID FEARS OF CONTAGION

P-3

Brazil:

CENTRAL BANK CUTS KEY RATE DESPITE INFLATION ISSUES

P-3

Spain:

MOODY'S DOWNGRADES GOVERNMENT BONDS

P-4

France:

MOODY'S ISSUES WARNING ON TOP CREDIT RATING

P-4

Commodities:

SILVER SET TO SHINE

P-4

SPOTLIGHT ON: THE INVESTMENT LANDSCAPE ACCORDING TO BANK OF AMERICA MERRILL LYNCH

Signs of improvement in the US and some other major economies continue to make equities seem good value, according to Merrill Lynch's Bill O'Neill, although this sentiment does not extend to the eurozone.

In his latest weekly outlook, O'Neill, the chief investment officer (CIO) for Europe, the Middle East and Africa at Merrill Lynch Wealth Management, gives US, UK and Japanese equities positive ratings, while he is neutral towards emerging markets.

He highlights recent better than expected US data, such as September's retail sales posting "well ahead" of analysts' forecasts, as suggesting that private consumption in the world's largest economy could expand in the third quarter of the year and avert recession at the moment.



(Story continues page 2)

ASIA: GLOBAL WEALTH HEALTHIER THAN EVER

The growing rich in emerging nations propelled global wealth in 2011 to \$231tn from \$195tn in 2010, Swiss banking giant Credit Suisse said on Wednesday.

In five years' time, total global wealth is expected to soar further, by 50% to \$345tn, with China surpassing Japan to become the second richest nation as the country's total household wealth rises by \$18tn to \$39tn.

Despite the financial and economic crises, the US remains the world's richest nation by far and is projected to report total wealth of \$81tn by 2016, added the Global Wealth Report.

After all, just over a third (34%) of the world's millionaires come from the US

Japan had the next biggest population of millionaires, with 11%, followed by France with 9%.

GLOBAL MARKETS MOVEMENTS

(17/10, 6:50AM GMT TO 21/10 17:00 PM GMT)

- FTSE 100: UP 23 points at 5489
- S&P 500: UP 11 at 1236
- Eurofirst 300: UP 2 at 978
- Nikkei 225: DOWN 219 at 8679
- Shanghai Comp: DOWN 98 at 2317
- DOW JONES: UP 224 at 11763

SPOTLIGHT ON: THE INVESTMENT LANDSCAPE ACCORDING TO BANK OF AMERICA MERRILL LYNCH

(From cover)

Valuations for US stocks are still supportive, according to the CIO. He notes that the market is currently discounting a negative economic outlook but earnings for the country's companies are starting to be downgraded.

Looking to the UK, O'Neill says the move by the Bank of England to expand its quantitative easing programme by £75bn supports the investment case for UK equities, despite the cyclical nature of the country's market remaining a risk.

Japanese equity market fundamentals remain intact, the commentator adds, while the appreciation of the yen from current levels is unlikely given the conditions in the market.

O'Neill also draws attention to "glimmers of light" in emerging markets, mainly citing the actions of central banks. Chinese authorities recently made a much-noticed move to bolster the share price of some of its major lenders, while the Bank of Indonesia announced a surprise cut in interest rates.

However, the CIO is less optimistic on the outlook for European equities and gives them a negative rating, as the risk created by the eurozone debt crisis is offsetting how attractive the "very favourable" valuations of some companies are to investors.

Despite a recent rebound in European markets, policymakers need to be seen doing more to bring the bloc's sovereign debt problems to an end.

"Measures to end the systemic threat in Europe would be a basis for the bull market that started in March 2009 to continue..."

MSCI Asia Pacific Index



"Measures to end the systemic threat in Europe would be a basis for the bull market that started in March 2009 to continue beyond the current trading bounce," O'Neill writes.

As well as European equities, O'Neill gives a negative outlook to government bonds and commodities. He says government bonds "only offer value in a double-dip environment", while the commodities sector is becoming increasingly dominated by liquidity flows and the US dollar call.

JAPAN: CENTRAL BANK STICKS TO ESTIMATE OF MODERATE RECOVERY

Bank of Japan (BOJ) Governor Masaaki Shirakawa said on Thursday that solid growth in emerging markets will continue to underpin Japan's economy, suggesting the central bank will stick to its forecast of a moderate recovery when its board meets next week.

But he reiterated that the BOJ will "act appropriately" by scrutinising the economic and price outlook, a sign the central bank is ready to ease monetary policy further if risks from abroad threaten to stall the upturn.

One concern for the Japanese authorities is that the yen's persistent strength, driven by investors' flight to the safety of liquid, low-risk assets, will choke off one vital source of economic growth, exports.



CHINA: ECONOMIC EXPANSION SLOWS AMID FEARS OF CONTAGION

China's economic expansion slowed during the third quarter of the year as government measures to control inflation hurt growth.

China's economy grew by 9.1% in the three months to the end of September from a year earlier, down from 9.5% in the previous quarter.

The data comes amid fears that a slowdown in the US and Europe's debt crisis may also hurt China's growth.

"The national economy generally carried good development state and kept moving towards the expected direction of macroeconomic control," the National Bureau of Statistics said.

China has reduced its holdings of US debt to their lowest level in a year, following the US's credit rating downgrade by S&P.

China sold \$36.5bn in US Treasuries to cut its holding to \$1,137bn in August, latest data by the US Treasury department showed.

In August, S&P cut the US's credit rating to double A+ from triple A over concerns about budget deficits. China is the largest foreign buyer of US government debt.

Other countries in the region such as Hong Kong, Taiwan and Singapore also reduced their holdings of US Treasuries in August.

"These players are sitting on large dollar-denominated assets already, so they can afford to take a longer view," said Michael Woolfolk of BNY Mellon. "They would have been the ones most concerned about a downgrade on their current holdings," he added.

BRAZIL: CENTRAL BANK CUTS KEY RATES DESPITE INFLATION ISSUES

Brazil's central bank has cut the country's key interest rate to 11.5% from 12%, citing the continuing slowdown in the global economy.

The bank cut rates at the end of August, after raising them five times this year to combat rising prices.

Despite the inflation rate rising to 7.3% in September, all seven members of the bank's rate-setting committee voted for the latest cut.

Last month, the bank cut its economic growth forecast for 2011 to 3.5%. This is less than half the 7.5% growth recorded last year.

The bank said that a "moderate adjustment to the base rate" was needed in order "to mitigate the effects coming from a more restrictive global environment".

"The statement gives some tranquillity with respect to the pace of adjustments," said Ricardo Denadai, an economist with Santander Asset Management. "But inflation rates are not yet pleasing (the market). The latest inflation number was still bad and expectations for 2012 are getting worse."

Analysts said the latest move showed the bank was more concerned with stimulating the economy than with rising prices.

Brazil's economic slowdown is more likely linked to a recent rate tightening cycle than problems abroad, economists have said. The bank started to raise rates in 2010 as the economy rebounded from the global financial crisis, surging 7.5%.

This year the bank has forecast expansion of 3.5% while many economists expect it closer to 3%.



"The latest inflation number was still bad and expectations for 2012 are getting worse."

Ricardo Denadai
Santander AM

SPAIN: MOODY'S DOWNGRADES GOVERNMENT BONDS

Whilst most European eyes are focused on France, Moody's has also downgraded the rating of Spain's government bonds.

The ratings agency cut Spain two notches, two days after Standard & Poor's (S&P) took the same decision.

Moody's said it had cut the rating because there had been no credible resolution to the eurozone debt crisis.

It also said that the debt crisis and difficulties faced by Spanish banks wanting to borrow money meant it had further scaled back its growth forecast for the country.

"Moody's is maintaining a negative outlook on Spain's rating to reflect the downside risks from a potential further escalation of the euro area crisis," the agency said in a statement.

"Moody's is maintaining a negative outlook on Spain's rating to reflect the downside risks from a potential further escalation of the euro area crisis,"
Moody's

FRANCE: MOODY'S ISSUES WARNING ON TOP CREDIT RATING

France has been given a warning over its top AAA credit rating by Moody's, one of the main rating agencies.

Moody's warned that it may change its "stable" outlook on the rating to "negative" in the coming months, saying that the government's financial strength "has weakened".

France's finance minister said the government would do "everything in our power not to be downgraded, we will be there to preserve our triple-A rating."

The warning from Moody's came with only five days to go before a crucial summit of European leaders in Brussels that will seek to address the eurozone sovereign debt crisis, which is threatening to drag the global economy back into recession.

But as the German Chancellor, Angela Merkel told reporters in Berlin late on Tuesday "this debt has been accumulated over years and that is why this cannot be resolved during one summit".



COMMODITIES: SILVER SET TO SHINE?

Silver, the best performing and most volatile precious metal of the past year, may rebound from a bear market as investors bet on growth in developing nations and an extended European debt crisis.

The metal may average \$38 an ounce this quarter and rise to a record \$42 by the final three months of 2012, according to a Bloomberg survey.

China, the biggest emerging-market user, is expanding at more than five times the speed of the US, driving consumption of the precious metal most used in industry. Demand is also coming from investors looking for an alternative to cash and gold, which costs about 50 times more than silver.

"Prices now look relatively cheap to where they have been recently," said David Wilson, an analyst at Societe Generale SA. "The backdrop is still very supportive for gold and we think that silver will leverage off the back of that. Emerging markets are going to be important for demand for sure."



**IMPERIUS ASSET
MANAGEMENT LTD**

www.imperiusam.com

For an appointment throughout the

EU please contact us at:

office@imperiusam.com

COMPANY UPDATES:

- This weekend, Imperius AM will be at the Expatica fair in Amsterdam, stand 52, Jason O'Connell and Richard Veal will be representing us, so please come along for a quick chat!
- If you are in Spain then your opportunity to meet us is coming up too, on the 26th and 27th of November Imperius will be present at the Over 50's show in Estepona (Marbella area), this will be the ideal time to come along and speak with one of our ever expanding team in Spain! Having recently opened our second office in Spain in Marbella, as known as the "California of Europe"!



Imperius Asset Management is an independent organisation consisting of experienced and successful professionals who take pride in looking beyond investment to provide a truly unique service designed especially for expatriate clients. One that is open, straightforward, proven and delivers real added value. Our financial experts take your wealth aspirations personally, treating your assets as our own and giving impartial advice on all aspects of investment and protection to help you create, grow, preserve, and pass on your wealth.

This newsletter has been compiled to give you an overview of the financial headlines from the week. It should not be relied upon as a source of investment advice.

We gratefully acknowledge the work of all our partners and sources in helping to provide content for this newsletter.

If you wish to be removed from our mailing list, please e-mail "NOT FOR ME" to office@imperiusam.com