

Weekly Market Commentary

26 June 2009

Website: <http://www.mizuho-cb.co.uk/> Bloomberg: MIZH

15:00 BST

Overview Some financial instruments broke out of recent ranges leading to breathless excitement in media circles. Several stock indices dipped below the lowest point of the previous six weeks, FTSE 100 to 4213. Russia's RTS lost 31% this month as the Deputy PM decides whether to instigate a far-reaching bank bailout (though the Central Bank head says the chance of a second wave of banking crisis is negligible). Istanbul's most watched index rallied again, to its best level since September. Fixed income yields are lower, money market futures trading close to record highs, as investors re-think prospects for H2 2009. Two-year JGB's now yield just 0.305%, their lowest in over three years, as Japanese inflation excluding fresh food is a record negative -1.1% in the year to May. Currencies remained largely unchanged though the Canadian dollar and Swiss franc weakened, the latter because the Swiss National Bank intervened to push EUR/CHF from 1.5010 to 1.5380. Against the Euro Scandinavian currencies are close to this year's weakest point, the Czech koruna its strongest at 25.845, gaining significantly against its Eastern European peers. Commodities have held up well with perennial rumours that China is stockpiling, ICE October Sugar 17.73 cents per pound not far off last year's high at 19.73. Baltic Tanker rates are recovering from their lowest levels in at least a decade.

Political and Economic Developments The ECB's generosity knows no bounds - literally. It offered unlimited amounts of one-year Euros to any bank which needed them. No less than 1,121 different ones applied for a total €442B at 1.00%, the central bank hinting at a floor to interest rates. Maybe, maybe not, but the point is that these banks can then go and buy Eurozone Treasury paper which yields more, restoring battered balance sheets in the process: a DIY version of 'quantitative easing' and not a murmur about inflation or an 'exit strategy'. Classy! German Import Prices dropped -10.4% Y/Y, not far off the record set in 1986 at -18.2%. Germany's June EU harmonised CPI at +0% again, and the lowest on record with some fretting it might turn negative, might touch a raw nerve at the inflation-obsessed Bundesbank.

Underlying Themes Employees have no pricing power and they are being asked to give up ever more of their time and benefits just to hang on to their jobs. In the three months to May UK private sector pay rose 0.9%, its lowest ever since the Industrial Relations Services started collecting data in 1971. In contrast public sector pay managed a 2.5% increase making the average +1.3% Y/Y - also a record low. British Airways, having axed 2,500 jobs over the year, has managed to convince another 4,000 to take unpaid leave, 1,400 to switch to working part-time and 800 to work for up to a month with no pay. The chief exec has kindly agreed to do the same: he is now £61,000 the lighter. The CBI has hailed these innovations as the way forward in limiting unemployment. MP's, some of the few still on final salary pensions, narrowly missed voting yet more taxpayers' money to guarantee their gold-plated scheme. The massive differences between public and private sector working conditions is becoming too glaring to avoid. Once financial industry reforms are implemented this one needs tackling next.

What to watch for next week A general election in Albania on Sunday and a presidential one in Guinea-Bissau. Monday Japan May Industrial Production, Retail Trade, Vehicle Production, UK Net Consumer Credit, Mortgage Approvals, and Chicago Fed Activity Index; also UK June Hometrack Survey due from this day and Eurozone Confidence. Tuesday Japanese May Jobless, Labour Cash Earnings, Household Spending, Housing Starts, Construction Orders, German Retail Sales and UK June GfK Consumer Confidence. Then German June Unemployed, EZ16 CPI, May Money Supply, UK final Q1 GDP, US April CaseShiller House Prices, June Consumer Confidence and Chicago Purchasing Managers. Wednesday 1st July Japan Q2 Tankan Survey, US May Pending Home Sales, June Challenger Job Cuts, ADP Employment Change, Manufacturing ISM and Vehicle Sales while Sweden's Riksbank starts a two-day rate-setting meeting (expected unchanged at 0.50%). Thursday Eurozone May PPI and Unemployment, US Factory Orders, June UK Construction PMI, US Non-farm Payrolls, Unemployment and Average Earnings, and the ECB is expected to hold rates at 1.00%. Friday, a US holiday, EZ16 May Retail Sales, UK June Services PMI, Official Reserves and Bank of England Q1 Housing Equity Withdrawal. Sunday 5th a parliamentary election in Bulgaria.

Positioning and Technical Analysis Investors and fund managers will be wondering where to allocate assets as we enter Q3 and H2 2009. Because of Friday's US holiday, so US Non-farm Payrolls are released Thursday, and a numbers-packed week might trigger some sharp moves over the next fortnight. We still feel that top-quality long-dated fixed income real yields are generous and might have a lot further to drop over the long term, flattening yield curves. Stock markets are likely to drift slowly. Generalised US dollar weakness will continue led by AUD and GBP, possibly with a big spurt at the start of the month. Commodities will follow. Have a nice weekend!