



AMG Weekly Market Update

14th Sept, 2009

Time to lock-in profit for high yield bonds

As investors' risk appetite return and capital flowed back to risky assets, high yield bonds have rewarded the investors handsomely this year. The return for Euro high yield bond was in the range of 50-60%, and 30-40% for the USD counterpart. Now, it is time to lock-in the profit.

High yield bond holders are facing uncertainties from 2 fronts. Firstly, interest rate trend. And secondly, exchange rate movement for holders of non-USD bonds.

First of all, interest rate may come back up from extreme low level. The most difficult time for global financial system is past and we are starting to see "green shoots" in nearly every economy. The governments are becoming more aware about the risk of inflation. Even though U.S. and Europe may be too weak to add to their interest rates, chances are Australia and New Zealand to act soon. When Australia and New Zealand starts to lift their interest rate, it could bring about turbulence in bond market. High yield bonds will definitely feel the impact when it happens.

As for the exchange rate, USD is just above the lowest level in the last 12 months. Holders of non-USD assets are in good position to take profit on currency gains. Moreover, USD may rebound on government exit strategy. U.S. government is revealing more actions to take back extra liquidity provided to the market, e.g. the financial institutions are going to repay US government in next 18 months and Treasury Department to sell shares obtained in prior rescue actions. Having the capital come back can help to ease the pressure for bond issuance. And in fact, the extra bond issuance program is going to expire in October. The above measures are expected to lend support to the greenback. And in turn, it could hurt Euro high yield bonds investors.

So, it is about time to take profit and enjoy the fruit from investing in high yield bonds.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
China	CPI	Yoy change	Jul 2009	-1.8%	-1.7%
China	Urban FAI	Yoy change	Jul 2009	32.9%	33.6%
China	Private consumption	Yoy change	Jun 2009	15.2%	15.0%
China	Industrial value-added	Yoy change	Jul 2009	10.8%	10.7%
US	University of Michigan Consumer Sentiment		Sep 2009	70.2	65.7



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US	Imports	Mom change	Jul 2009	4.7%	2.5%
US	Exports	Mom change	Jul 2009	2.2%	2.1%
US	Consumer credit	Mom change	Jul 2009	-USD 21.6B	-USD 10.3B
France	Industrial production	Mom change	Jul 2009	0.6%	0.2%
UK	Industrial production	Rolling 3 mths change	May –Jul 2009	0.0%	-0.5%
Japan	Private machinery orders	Mom change	Jul 2009	-9.3%	9.7%
Taiwan	Exports	Yoy change	Aug 2009	-24.6%	-24.4%
Taiwan	Imports	Yoy change	Aug 2009	-32.3%	-34.1%
Malaysia	Exports	Yoy change	Jul 2009	-22.8%	-22.6%
Malaysia	Imports	Yoy change	Jul 2009	-16.0%	-20.8%

* All figures and information are collected from National Bureau of Statistics of China, www.bloomberg.com, National Institute of Statistics and Economic Studies of France, UK National Statistics, Cabinet Office of Japan, National Statistics, R.O.C. (Taiwan), Department of Statistics Malaysia.

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