AMG Weekly Market Update

3rd May, 2010

Risk aversion jumps on sovereign debt problem

After all the turmoil and struggle, Greece finally resorted to EU-IMF loans facility to avoid default on its own debt. The last straw to break its plan to keep away from international financial aids was the deterioration in investors' confidence. As investors flocked away from Greek government debt, the market cost of borrowing shot up. The yield on 2 years bonds once jumped to 27%, it was just infeasible to re-finance in the market.

Thus, Greece request EU and IMF for access to financial aids. While contagion risk was seemingly rising, EU and IMF expanded the rescue package to EUR 110 billion and extended the length to 3 years.

Still, it did not help much in restoring investors' confidence. Their focus has now turned to other high debt, high deficit Euro zone members such as Portugal and Spain. Portugese and Spainish CDS and sovereign bond yield were elevated and Euro fell sharply on investor's worries. Moreover, U.S., UK and German government bonds surged in value. It seems that investors are herding to traditional safe heaven assets again.

While if we check out about the financial status of Portugal and Spain, their sovereign debt amounts to around 60-80% of their GDP. Obviously, it is not a low level. But, on the other hand, it is not a back breaking burden either. And they have put in place a plan to control budget deficit. The problem now is that time is needed for the effect to show, it is not timely enough to sooth market sentiment. If European institutions e.g. ECB, European Commission remain silent and just wait for members to call for help, it would be very difficult to turn the sentiment around and investment market shall remain volatile for some time.

As for investments, we do not see stock market in an overheat state even before Greek crisis. And signs of economic recovery were seen in large group of countries such as U.S., Asia, some resources exporters like Australia and Brazil and even in Germany. Improvements in economic conditions and stock market being fairly valued are fundamental factor which would lend support to the stock markets in the long run. While for the near future, market sentiment shall remain the dominant factor. A major wild card for the fundamentals conditions would be the conditions of Spain and Portugal and we think investors should focus on that. For now, investors better check if their investment holding are supported by strong fundamental factors and stay calm. Even if certain assets seem undervalued, they should mind their own risk tolerance and not be tempted to over trade.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
HK	Imports	Yoy change	Mar 2010	39.8%	22.4%

Important Note & Disclaimer:

HK	Exports	Yoy change	Mar 2010	32.1%	28.5%
US	Real GDP	Qoq change (Annualized)	Q1 2010	3.2%	5.6%
US	University of Michigan consumer sentiment index		Mar 2010	72.7	71.0
Germany	CPI	Yoy change	Mar 2010	1.0%	1.1%
Japan	Unemployment rate	%	Mar 2010	5.0%	4.9%
Japan	Industrial production	Yoy change	Mar 2010	30.7%	31.3%
Australia	CPI	Yoy change	Mar 2010	2.9%	2.1%
South Korea	Real GDP	Yoy change	Q1 2010	7.8%	6.0%
Singapore	Unemployment rate	%	Mar 2010	2.2%	2.1%
Singapore	Industrial production	Yoy change	Mar 2010	43.0%	17.9%

* All figures and information are collected from Census and Statistics Department of Hong Kong, www.bloomberg.com, Federal Statistics Office of Germany, Statistics Bureau of Japan, Ministry of Economy, Trade and Industry of Japan, Australian Bureau of Statistics, Bank of Korea , Statistics Singapore.

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