



AMG Weekly Market Update

24th May, 2010

Euro, uncertainties are still looming around it

Financial markets are still clouded by the sovereign debt crisis. Euro was beaten down to 1.214 against USD, the lowest level in the last 4 years. And poor sentiment weighed on risky assets prices also. While contagion of the sovereign debt problem remains a clear threat, rising concerns about the impact of harsh budget cuts and feasibility of the common currency made the situation added to the pressure on Euro.

Without any doubt, budget cut is needed to rein in mounting sovereign debt for most European nations. However, the economic recovery in Euro area is still very fragile, it has just barely grew 0.2% in Q1 2010. Severe cuts on government spending and lifting taxes at this stage will definitely hurt the economic recovery in coming quarters. And the ECB will have no choice but to hold down the interest rate longer. Poor growth prospect and slim chance for interest rate hike shall make Euro more unattractive to investors.

On the feasibility of Euro, we see no instant risk of Euro zone breakdown as member nations showed their intention to help stabilizing the common currency. Many of them have agreed to contribute to the EU-IMF rescue plan and rein in the sovereign debt problem with budget cuts. But, it does not mean that we can take the stability of Euro for granted. The member nations need to address the structural problems of the common currency. Firstly, financial discipline must be upheld and a mechanism to punish members who violate the rules must be put in place. Secondly, adopt of the common currency means that differences in competitiveness of member nations cannot be realigned with exchange rate movements. Uncompetitive members could find themselves trapped in slow economic growth. And their fiscal strength slowly tore down by low tax income and escalated spending on social welfare.

Obviously, uncertainties are looming around the Euro. But a positive note here is the valuation. The fair value forecast stands at 1.27 for year-end 2010 according to GSDEER by Goldman Sachs and the estimates by Danske Research is 1.20 bases on purchasing power parity. Standing at around 1.2-1.25 to the dollar, the Euro is now very close to fair value.

In short, the Euro is close to its fair value. In a sense, it could stabilize at the current level. While uncertainties about contagion of the sovereign debt risk, its economic prospect and long-term feasibility could lead to more volatility in Euro.

Weekly economic indicator update

Country / Region	Economic Indicator	Time period	Latest	Last
US	Leading indicator	Mom change	Apr 2010	-0.1% / 1.4%



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US	CPI	Mom change	Apr 2010	-0.1%	0.1%
US	CPI	Yoy change	Apr 2010	2.2%	2.4%
US	CPI (excl food and energy)	Mom change	Apr 2010	0.0%	0.0%
US	CPI (excl food and energy)	Yoy change	Apr 2010	1.0%	1.2%
US	New homes starts	Annualized Rate	Apr 2010	672K	626K
Euro zone	CPI	Yoy change	Apr 2010	1.5%	1.5%
Japan	Real GDP	Qoq change	Q1 2010	4.9%	4.2%
Japan	Industrial production	Yoy change	Apr 2010	31.8%	31.3%
Singapore	Real GDP	Yoy change	Q1 2010	15.5%	13.1%

* All figures and information are collected from www.bloomberg.com, Eurostat, Ministry of Economy, Trade and Industry of Japan, Cabinet Office of Japan, Statistics Singapore.

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