



# AMG Weekly Market Update

2<sup>nd</sup> August, 2010

## USD softens as low interest rate expected to stay longer

The tone of Fed Chairman Ben Bernanke on U.S. economy changed in his public appearance recently. Again and again, he talked about the unusual uncertainty that U.S. is facing. Besides, he told the Senate that policy measures to deal with an obvious downturn in U.S. economy are already in place. Very clearly, assessment on U.S. economic prospect by the Fed is now more conservative than before. So, expectation timing of interest rate hike is being pushed backward. The implied probability for rate hike to come before mid 2011 is now lower than 30% base on interest rate futures pricing. Also, yield on 2 and 3 years Treasuries issues dropped further and went below 1% now. In other words, both interest rate futures and Treasuries yield curve are showing that U.S. interest rate will remain close to current level for quarters. Weaker economic prospect and lower chance for interest rate hike weighs on USD. And a weaker dollar does not only help driving up commodities prices and high yield currencies, more importantly, it makes USD a more attractive source of funding for carry trade. And thus, help pushing up risky assets prices.

And for the coming week, the U.S. is going to announce the job figures for July 2010. Market focus remains with the private payroll number, which is expected to show an addition of 100,000 jobs. More buoyant hiring is what we would be happy to see and good for the economic recovery. Still, strong payroll figure could on the other hand lead to strengthening of USD and cause volatility in the financial markets.

### Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
China	PMI		Jul 2010	51.2	52.1
Hong Kong	Exports	Yoy change	Jun 2010	26.7%	24.4%
Hong Kong	Imports	Yoy change	Jun 2010	31.0%	29.7%
US	University of Michigan consumer sentiment index		Jul 2010	67.8	66.5
US	Durable goods order	Mom change	Jun 2010	-1.0%	-1.1%
US	Durable goods order (excl. transportation)	Mom change	Jun 2010	-0.6%	-0.9%
US	New home sales	Annualized rate	Jun 2010	330K	300K
US	Real GDP	Qoq change (Annualized)	Q2 2010	2.4%	2.7%
Germany	CPI	Yoy change	Jul 2010	1.1%	0.8%



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Germany	Unemployment rate	%	Jul 2010	7.6%	7.7%
Japan	Unemployment rate	%	Jun 2010	5.3%	5.2%
Australia	CPI	Yoy change	Q2 2010	3.1%	2.9%

\* All figures and information are collected from The China Federation of Logistics and Purchasing, Census and Statistics Department of Hong Kong, www.bloomberg.com, Federal Statistics Office of Germany, Ministry of Internal Affairs and Communications and Australian Bureau of Statistics.

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