

Market Watch

Our market views

A return to the country factor

Between March 2009 and late 2009, risky financial assets (equities, credit, etc.) grew significantly, regardless of the geographical area. 2010 is set to mark a major change and history will repeat itself, with Europe lagging the US once again.

For a number of weeks, the Greek crisis has upstaged substantial positive economic and financial newsflow. Firstly, most countries exited the recession. Secondly, the pace of the different countries varied considerably in light of their respective strengths and weaknesses.

Decoupling has occurred between emerging and advanced economies. The Asian recovery especially reflects the emergence of a rise in domestic demand thanks to extremely expansionist stimulus measures. In the spring of 2009, industrial output returned to pre-crisis levels, and this occurred before the improvement in world trade, and is still at an upbeat level of around 20% per annum. One new event: emerging economies set their own pace in 2009. Through their imports, emerging economies are driving the upswing in world trade, which has started to benefit major export countries (Japan, Germany, US, etc.).

Another sign of the times: China could start to see a trade deficit. Such a situation is of course temporary; China still needs to export, but could herald the next global economic challenge: China will no longer simply be the world's workshop but represent the most important market opportunity.

History is repeating itself. The US is once again in leading position over Europe. A number of countries, including Italy, Ireland and Greece were still in a

recession in late 2009. In the Euro area, companies are still generating productivity gains to rebuild margins, which could spell out further job losses in 2010. Conversely, the US has already kick-started job creation, after companies recorded a stellar turnaround in margins. In a nutshell, fast-growing profits, investment and employment are following the recovery in the US economy. Within the Euro area, differences are likely to widen and deepen because some countries have already started to rein in their budgets.

“ *Emerging markets set their own pace in 2009* ”

Against this backdrop, where the global recovery is gaining strength, investors should maintain reasonable exposure to risky assets. They should also keep in mind the geographical differences that will come into play again in 2010 and beyond. These differences have been partly factored in by markets, but uncertainty still prevails, namely on the timeframe of monetary tightening, which will no doubt lead to significant performance differences.

• Michel MARTINEZ

Strategy and economic research

April 2010






Amundi Strategist

3-Month Outlook

(at 6 April 2010)

> Fixed Income

Bond markets focused on employment

-  • Europe
-  • United States
-  • Japan



> Equities

Which sectors are likely to profit most from the recovery?

-  • Energy
-  • Industrials
-  • Utilities
-  • Telecom Services

> Commodities

Are oil markets moving towards greater transparency?

-  • Gold
-  • Oil
-  • Copper

> Currencies

When a weak Pound recovers its strength...

-  • EUR/USD
-  • EUR/GBP
-  • USD/JPY

Opinion Scale

-  Positive
-  Very Positive
-  Negative
-  Very Negative
-  Neutral

Fixed Income

Bond markets focused on employment

Central bankers are keeping a close eye on the labour market in preparation for monetary policy normalisation.

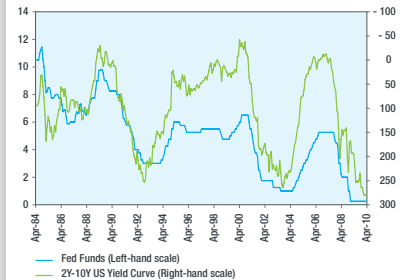
Bond markets were fairly agitated in March, particularly the US Treasury market, for several reasons. First, the high volume of Treasury issuance (\$118 billion in the week of 22-26 March alone) did not go quite as well as expected, and this drove up US long yields. Exceptionally high government deficits are beginning to generate concern about developed countries' ability to obtain financing without overburdening capital markets. Here we can see, at least in part, a spillover from the Greek debt crisis. Investors will thus need to keep an eye on bond issuance conditions over the coming months, and possibly years.

In addition, the slope of the US yield curve remains historically high at around 280 basis points, a situation that is unlikely to last for long. On average the yield curve historically begins to flatten eight to nine months before an initial Fed rate hike. That being the case, markets are looking for a change in the US central bank's communications confirming that a return to a normal monetary policy is approaching. In this, Ben Bernanke is very pragmatic and notably highly attuned to the state of the labour market. The US Labor

Department reported that 162,000 new jobs were created in March 2010 (of which 123,000 in the private sector), the highest number since March 2007. The unemployment rate was flat at 9.7%. These good numbers strengthened the case for recovery and helped push US short and long yields higher. But Treasury Secretary Timothy Geithner said that unemployment would remain "unacceptably high" for a long time. Even though we expect a rate hike this autumn, we think that macroeconomic figures should be kept under close surveillance.

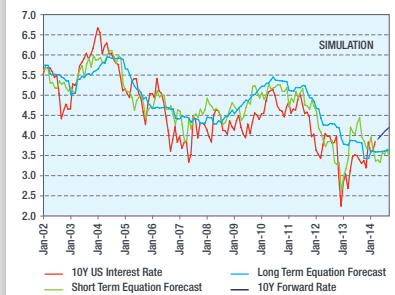
• Bastien DRUT

Fed Funds vs 2Y-10Y Yield Curves



Source: Datastream, Amundi Strategy

10Y US Interest rate Forecast Model



Source: Datastream, Amundi Strategy

Central bank forecasts (%)

	6 April 2010	3-mth	6-mth	1-yr
United States	0 - 0.25	0 - 0.25	0 - 0.25	1.25
Eurozone	1.00	1.00	1.00	1.50

Source: Amundi Strategy

Interest rates (in %)

	At	Change in	
	6 April 2010	1 month	1 year
Eurozone			
Eonia	0.32	0.00	-0.47
3-mth Euribor	0.64	-0.02	-0.83
10-yr OAT	3.47	0.02	-0.20
United States			
3-mth	0.29	0.04	-0.86
10-yr	3.96	0.27	1.02
United Kingdom			
3 mth	0.56	-0.06	-0.98
10-yr	4.00	-0.05	0.56

Source: Datastream, Amundi Strategy

“ Good employment figures helped push yields higher ”

Equities

Which sectors are likely to profit most from the recovery?

Growth is likely to be an increasingly differentiating factor. Accordingly a comparison between each sector's potential for renewed sales growth and its operating leverage shows a gap of between 1 and 4 between the five best-placed and worst-placed sectors.

Following a deep recession, the major Western countries are currently enjoying a recovery. But public and private debt woes are likely to be a lasting issue, and their growth is thus likely to remain below potential once fiscal and monetary support measures are dismantled. Amid this sluggish recovery, growth is likely to be an increasingly sought-after distinguishing characteristic.

For European companies, whose sales fell 11% in 2009, average sales growth excluding currency effects is expected to be around 5% annually over the period 2010-12. This figure is higher than the underlying GDP growth forecast for the region, 3.2% (of which 1.2% in real terms and 2.0% of inflation). But it is still credible given these companies' strong presence outside of Europe. European companies generate around 35% of revenues in regions where growth and inflation are stronger, such as emerging markets (17%) and the USA (18%).

The rising tide will not lift all sectors equally:

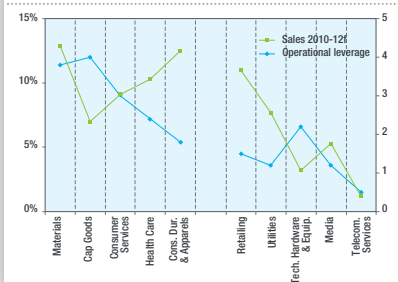
- given year-on-year comparison effects, elasticity, a more or less domestic focus and pricing power, this 5% average growth figure will vary considerably from one sector to the next,
- furthermore, similar revenue increases will generate different impacts on operating profit from one sector to the next.

To simplify matters, we have assumed that future operating leverage will be the same as during the previous cycle. Unlike companies considered individually, sectors' operating leverages are determined largely by underlying trends, such as rate of value added and capital intensity.

By combining growth prospects and operating leverage, the sectors that come out on top, with around 30% average annual growth, are Materials, Capital Goods, Consumer Services, Medical Equipment and Services and Durable Consumer Goods. Conversely, with average growth of 1-9%, Telecoms, Media, Tech Hardware and Utilities will be left far behind.

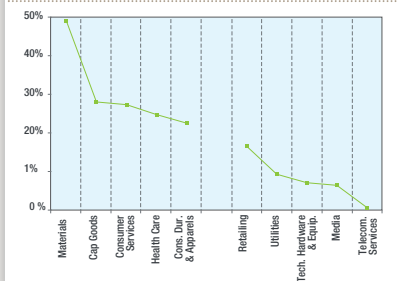
• Ibra WANE

Sales' Growth and Operational Leverage by Sector



Source: Datastream, Amundi Strategy

Operating Result Average Growth 2010-12f



Source: Datastream, Amundi Strategy

Equity Sector Performances* at 6 April 2010

	At 1 month	At 1 year
Energy	5.77	31.73
Materials	7.27	64.10
Industrial	7.69	54.72
Consumer Discretionary	7.52	47.89
Consumer Staples	3.16	36.10
Health Care	1.46	33.04
Financials	7.21	60.52
Technology	7.12	47.70
Telecom Services	3.81	14.76
Utilities	3.04	19.41
MSCI World Index	5.81	43.79

* Performance in euro
Source: Datastream, Amundi Strategy

Equity market indices

	At 6 April 2010	Performance in euro (in %)	
		1 month	1 year
Europe			
DJ Euro Stoxx	283	4.39	39.74
Cac 40	4 054	3.67	38.37
FTSE 100	5 780	5.65	48.94
United States			
Dow Jones	10 970	5.56	37.77
S&P 500	1 189	6.21	42.60
Nasdaq	2 437	6.50	51.92
Asia			
Nikkei	11 282	6.62	36.86
MSCI Asia Pac. (ex Japan)	435	8.24	62.36
MSCI World	881	5.81	43.79

Source: Datastream, Amundi Strategy

In a sluggish recovery, growth is likely to become a differentiating factor

Commodities

Are oil markets moving towards greater transparency?

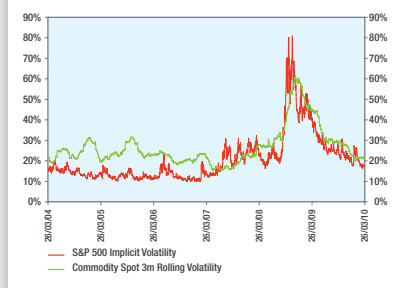
Producers, consumers and investors would all benefit

The recent flow of microeconomic news from the commodities markets has been significant. A recent position taken by the Organisation of Petroleum Exporting Countries (OPEC) and the International Energy Forum (IEF) is worth underlining. OPEC and the IEF have presented a plan, the details of which are still fuzzy, but which offers the advantage of proposing a systematic information exchange between consumers and producers. The root trauma shared by the two parties is the violent commodity price correction in the second half of 2008. This initiative is all the more interesting because it is unrelated to a drive for price regulation, unlike the initiative proposed in the USA seeking to limit futures trading.

Much is at stake. Excess price volatility would curtail investments in a highly capital intensive industry. The long-term risk is that chronic underinvestment could in turn generate undesirable market volatility. By 2013, underinvestment in real terms could range from \$70 billion to \$170 billion according to OPEC. Since 2007 spot price volatility has become comparable to equity volatility, whereas before it was 10 points higher on average. More grounded long-term volatility expectations are likely to support commodity stocks by reducing the perception of the “structural” risk inherent in this type of investment vehicle.

• *Marc-Ali BEN ABDALLAH*

Volatility: Equity & Commodities



Source: Datastream, Amundi Strategy

Currencies

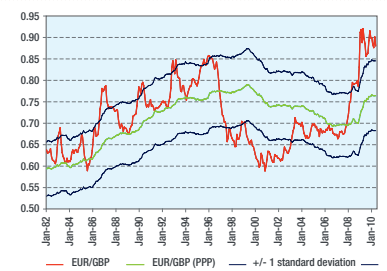
When a weak Pound recovers its strength...

The UK felt the full force of the financial crisis and its currency was the first variable to undergo adjustment, with a significant depreciation against both the US dollar and the euro. The pound is currently undervalued by more than 20% versus the single currency according to most valuation models. The calculation of purchasing power parities (PPP) based on producer prices gives a weaker misalignment for the Pound but does not change the diagnosis (cf. graph). The fact is that, in recent weeks, the UK's economy has been showing very encouraging signs and inflation is rising more significantly across the Channel than in the Eurozone.

The Bank of England is therefore likely to start raising its key interest rates before the ECB and UK long-term bond yields look set to increase slightly faster than Eurozone rates. The combination of conditions is positive, and the pound appreciation trend that began in mid-March should logically continue in the coming months. The pound may not return to its equilibrium rate any time soon, however. Indeed, with the crisis, the actual GDP growth potential of the UK economy decreased. Against this backdrop, the UK probably needs to keep its currency undervalued in the foreseeable future, but within reason.

• *Didier BOROWSKI*

EUR/GBP: Spot vs. PPP Exchange rate



Source: calculations based on PPI for manufactured goods, Strategy and Economic Research, Amundi

Exchange rates

Exchange Rate Parities	6 April	% Change	
		1 month	1 year
EUR/USD	1.34	-1.4	-0.7
EUR/GBP	0.88	-2.2	-2.5
USD/JPY	94	+5.2	-6.6

Source: BCE, closing prices
Datastream

amundi.com

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