BlackRock Merrill Lynch
INVESTMENT MANAGERS

Week in View

Market Review

After a strong start to 2007, **Wall Street endured a choppy week**, with technology shares surrendering year-to-date gains as earnings failed to vindicate recent market performance and lower guidance was offered on the outlook for the current quarter. Against this background, the tech-heavy Nasdaq index fell 2.1%, although the broader S&P 500 remained flat. At the macro level, better-than-expected economic reports lowered the odds of an interest rate cut.

Market Movements

Markets	19 Jan 2007	% Change
S&P 500	1430.50	-0.02
NASDAQ	2451.31	-2.06
TSE 1st Section	1714.21	1.72
FTSE/S&P World Europe	424.37	0.47
FTSE All-Share	3229.02	0.05
DAX	6747.17	0.63
Hang Seng	20327.72	3.64
Citi World Govt Bond Index All Mats	487.92	0.24
Bonds*	**19 Jan 2007**	**12 Jan 2007**
US	4.78	4.77
Japan	1.66	1.73
Germany	4.05	4.06
UK	4.90	4.90
Currencies	**19 Jan 2007**	**12 Jan 2007**
USD/Euro	1.29	1.29
GBP/Euro	0.66	0.66
JPY/USD	121.36	120.35
USD/GBP	1.97	1.96
JPY/GBP	239.59	235.88
Commodities	**19 Jan 2007**	**% Change**
Oil (Brent Crude)	52.35	3.54
Commodity Futures (CRB) Index	387.47	0.22
Gold	633.50	2.44

Despite profit taking at the end of the week, **Japanese shares ended higher** as the Central Bank kept interest rates on hold at 0.25%. The nine policy setters at the Bank of Japan voted 6-3 to keep rates unchanged; a move generally expected by the market. However, the split suggests potential for a rate rise in February.

UK stockmarkets ended the week fairly flat, although concerns over High Street conditions were tempered as the first official data covering the period showed retail sales had their strongest December in three years.

Eurozone bourses were mixed, with the German Dax index ending 0.6% higher and the French CAC 40 0.1% lower. Economic news saw the annual rate of inflation steady in December, versus the previous month's 1.9%. The European Central Bank wants to keep inflation at just below 2.0% and is expected to increase rates to 3.75% in February or March to ensure current levels remain.

It was a **mixed week for Asian equities**, with Hong Kong's Hang Seng index soaring to 3.6% gains, Taiwanese stocks registering a more-modest 1.0% rise, and the Korean SE composite down 2.0%. In economic news, Hong Kong's unemployment rate in the three months to December came in at 4.4%, unchanged from the September and November levels.

US Treasury yields rose over the week in response to some firm economic data. Figures showed industrial production has risen more than expected, while headline inflation also ticked higher in December and oil prices continued to trend lower. Meanwhile, the **sell-off in the eurozone bond market** seemed set to continue, as 10-year yields rose above 4.0%.

The main story in currencies was the **continued weakness in the Japanese yen** following the decision to keep rates unchanged; the yen falling by around 1.0% against the US dollar and euro. The **US dollar and sterling continued to firm** amid strong data and interest rate expectations, while falling oil prices put the Canadian dollar and Norwegian krone under some pressure.

Having sunk to around US$50 a barrel, as mild weather weakened demand and led to an increase in storage levels in the US, crude oil prices came back on Friday in response to short positions being covered ahead of the weekend. Analysts warned, however, that **oil could again trend lower** this week.

Comment

Tough week for technology shares

Recent US data releases (particularly data relating to the US consumer) have largely proved better-than expected and investor risk appetite remains robust as we enter the Q4 earnings season. Investors appear to be expecting yet another good quarter, although emphasis - as always - will be on future guidance. Disappointing outlooks from Apple, IBM and Intel, for example, weighed on the tech sector last week. Corporate earnings releases again look likely to dominate trading this week, with Texas Instruments, Pfizer, Yahoo and E-bay among many others reporting.