

Week in View

Market Review

Wall Street ended the week higher, despite some continuation of the volatility witnessed since the squeeze in credit and money markets began in mid-summer. With the Dow Jones up 2.5% and the broader S&P 500 index gaining 2.1%, improved performance comes ahead of this week's US Federal Reserve Bank (Fed) meeting, where investors are anticipating an easing of monetary policy in order to calm financial market stress. The week's positive performance leaves the S&P just more than 4.0% below its record close, achieved in mid-July.

Market Movements

Markets	14 Sep 2007	% Change
S&P 500	1484.25	2.11
NASDAQ	2602.18	1.42
TSE 1 st Section	1544.71	-0.79
FTSE/S&P World Europe	426.91	1.23
FTSE All-Share	3238.76	1.09
DAX	7497.74	0.82
Hang Seng	24898.11	3.82
Citi World Govt Bond Index		
All Mats	499.28	-0.07
Bonds*	14 Sep 2007	7 Sep 2007
US	4.46	4.36
Japan	1.55	1.59
Germany	4.16	4.12
UK	4.86	4.94
Currencies	14 Sep 2007	7 Sep 2007
USD/Euro	1.39	1.38
GBP/Euro	0.69	0.68
JPY/USD	115.07	113.46
USD/GBP	2.01	2.03
JPY/GBP	231.46	233.81
Commodities	14 Sep 2007	% Change
Oil (Brent Crude)	77.85	3.66
Commodity Futures (CRB) Index	428.54	2.39
Gold	714.70	1.62

Japanese shares ended the week flat, as the impact of political uncertainty was countered by a boost for export-focused sectors, attributable to Friday's weakening of the yen. Overall, the stockmarket seemed relatively unmoved by the resignation of prime minister Shinzo Abe, who unexpectedly stepped down on Wednesday.

Europe's main markets ended the week higher, aided by upbeat corporate news and speculation that the Fed could lower US interest rates later this week. Gains were tempered on Friday however, when UK mortgage lender, Northern Rock gave up more than 25% of its value, as it applied to the Bank of England for emergency cash support.

Despite the problems at Northern Rock spreading to the wider banking sector and sparking heavy selling of other stocks, the **UK market managed to put in positive performance** over the week. The FTSE All-Share gained by 1.1%, while the large-cap FTSE 100 ended 1.6% higher.

The **Asia-Pacific region saw mixed results**, although most markets were fairly range bound. The exception was Hong Kong, which pushed ahead to record fresh highs as a result of hopes for lower US interest rates.

Latin American markets also saw limited movement, with Brazil's Bovespa up 0.2%, Argentina's Merval up 0.4%, and Mexico's Bolsa falling 0.5%. In emerging Europe, **Russia gained by 2.4%**, on stronger oil prices.

As **negative employment data saw downside risks to US growth become much more apparent**, US Treasuries rallied sharply into the start of last week. However, the market got slightly ahead of itself and yields battled back to end the week higher. Meanwhile, In Japan, the resignation PM Abe spurred political uncertainty and saw **10-year JGB yields trading lower**, with expectations high that the "new" government will pressure on the Bank of Japan to keep interest rates unchanged.

Crude oil gained despite OPEC's decision to increase output, with the move regarded as "too little, too late" following estimates that global production shrunk by 650,000 barrels per day in the third quarter. Meanwhile, **gold bullion saw strong performance** ahead of this week's vital Fed decision on US interest rates, which is expected to provide directional impetus for both precious and base metals.

The nature of credit problems is becoming better known, enabling us to move on to resolution

The current crisis can be divided into three stages. The first stage highlighted that there were problems emerging, but it was not clear what these problems were. We now find ourselves at the second stage, where the nature of these problems is becoming better known, which is important if we are to move on to resolution. The final stage will then see a sensible repricing of credit markets and some normalisation of market conditions, although we may be some weeks away from this.

Of interest this week, the Fed will likely cut US interest rates by 0.5%, and also further reduce the discount rate, although, as this is the consensus view, the accompanying comments will be of more significance in dictating market reaction.

As the dust begins to settle, the asset classes that were liked a couple of months ago remain in favour, with the house model showing preference for equities over bonds, albeit with the caveat for lower equity returns and higher ongoing volatility

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