

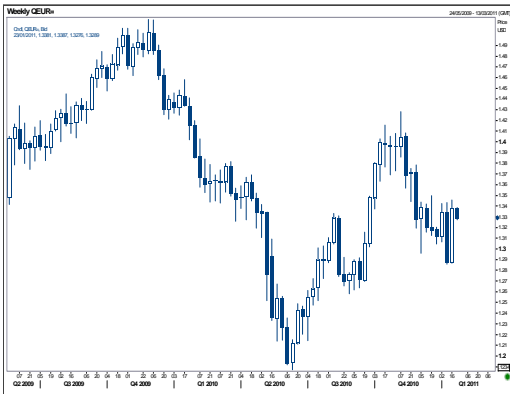


Economic and Market Trends

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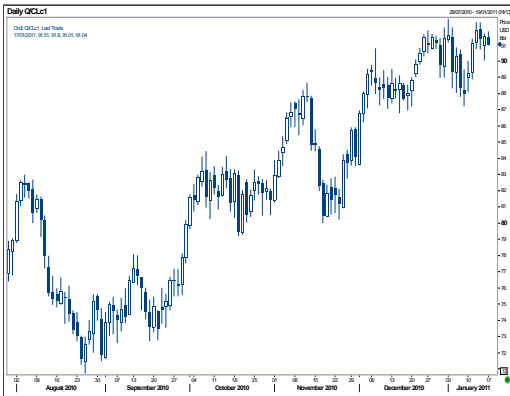
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CHART 1: EURO GAINED +3.5% LAST WEEK



Source: Thomson Reuters

CHART 2: OIL ROSE NEARLY +4%



Source: Thomson Reuters

- U.S. equity markets outperformed Asian and Emerging markets last week and we expect this trend to continue this week on the back of U.S. Q4 earnings season
- U.S. markets are closed this Monday for Martin Luther King day.
- President Obama to meet Chinese Premier Hu Jintao in Washington this Wednesday
- European finance ministers meeting Monday and Tuesday to discuss expanding their bail-out funds and other measures to contain the European sovereign debt crisis

The promise week, Europe's debt concern was impacting the markets negatively at first but sentiment improved after both Spain and Portugal had successful bond auctions. Comment from European Central Bank President Jean Claude Trichet that the ECB will be vigilant about inflation boosted the Euro and the common single currency rose +3.5% to 1.3375, its best weekly gain since May 2009 (Chart 1).

One concern overhanging financial market is the fear of Central Banks in Emerging markets monetary tightening. In many countries real interest rates are negative and need to be normalized. The market in particular is worried that China will overreach in efforts to slow its growth and snuff the global recovery.

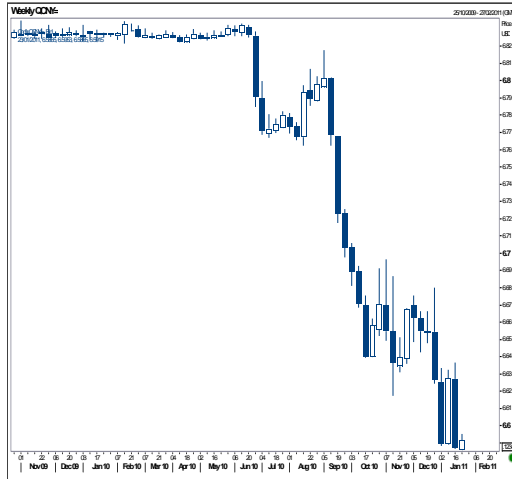
On Friday, China moved to tighten bank reserves to cool inflation, sending many commodities lower. Gold fell nearly -2 % Friday, and was down just over a half % for the week at \$1360.40 per troy ounce.

Other commodities were also volatile. Oil rose nearly +4 %, with crude ending the week at \$91.54 (Chart 2). Agricultural commodities also were big gainers, after a USDA crop report showed less supply than expected. Corn jumped +9 % on the week, and soy beans were up +4.2 %.

Chinese president Hu to visit Washington

President Obama is welcoming Chinese Premier Hu Jintao in Washington this Wednesday. China last week announced that its FX reserves have reached over \$2.68 trillion dollar. U.S. officials complain that China gets an unfair trade advantage by keeping its currency pegged to the U.S. dollar.

CHART 3: CNY TO STRENGTHEN FURTHER



Source: Thomson Reuters

China is trying to restrain inflation, and that is a good argument for the Chinese Leadership to allow the CNY (Chinese yuan) to strengthen further (Chart 3). As U.S. officials continue to criticize China for constraining appreciation of its currency, the yuan is trading at its recent high and is up about 1 % since the start of the year. Standard Chartered Global Research expects the CNY to trade around 6.20 by year-end 2011, implying a potential upside of +6%.

We expect more RRR hikes and more interest rate rises as the year unfolds. The announcement of an experimental property tax in Shanghai is another sign that the Chinese are determined to slow down inflation. However, China's inflation and over investment in property sector problems will not truly be addressed until Beijing begins to address the cost of capital. Everything else remains tinkering around the edges.

Trade, North Korea, climate change next inflation and the Chinese currency are all topics expected to be discussed during the Washington summit Wednesday.

Major economic releases this week

There are just a few items on the U.S. economic calendar in the week ahead. The highlights include U.S. housing data. The National Association of Home Builders survey is reported Tuesday, housing starts are Wednesday and existing home sales for December are Thursday.

Weekly jobless claims will also be carefully watched after a surprising jump in the past week. There is a possibility that seasonality was a factor in the surprise numbers last week. This week we look for about 425,000 claims.


Weather may be a factor in the January employment picture and the weather could potentially impact the January jobs data. U.S. retail sales are expected to have slackened a bit in January.

The Empire State survey is released Tuesday and the Philadelphia Fed survey is issued Thursday. The Treasury releases data on international capital flows Tuesday.

Euro to dominate financial markets

In terms of the financial markets, the currency market in particular, main focus this week again could remain in the euro. European finance ministers might take action on the bailout fund at their meetings this week.

The market is looking to Europe for further momentum in terms of coming up with a longer term solution to the European sovereign debt crisis. Germany is still opposed to any common euro bonds so that makes the only solution



they're likely to come up with is an enlargement of the stability fund. That is going to have to be quite sizeable. The idea of a euro bond is fundamentally flawed since it breaks the Maastricht treaty as well as the German constitution. The possibility for Germany to foot the largest part of the stability fund bill, is highly unpopular with German tax payers who believe they should not be made to pay for other countries imprudent overspending and fiddling with accounts.

Global Equities

This will have many earnings releases. S&P500 this week is expected to test the psychologically important 1,300 level . Last week S&P 500 rose to 1,293, gaining +1.7% for the week, its best weekly close since August 2008

Energy stocks were the best performing of the major S&P sectors for the past week, gaining 3.3 %. Energy next to Technology and Health Care are our preferred sectors among U.S. Stocks.

Earnings releases calendar

Citigroup reports Tuesday morning, as does Forest Labs and Ameritrade. Apple and IBM report after Tuesday's market close. Goldman Sachs, Wells Fargo, Bank of New York Mellon, State Street, US Bancorp, Northern Trust and Comerica report Wednesday morning. eBay, Sallie May, Seagate, F5 and Xilinx report after Wednesday's closing bell.

Thursday's reports include Morgan Stanley, Freeport McMoran, Huntington Bancshares, PNC, United Health, PPG industries, Rockwell and Union Pacific. After the bell reports are expected from Google, Capital One and Advanced Micro. Bank of America, Schlumberger and General Electric report Friday morning.

Economic & Market Calendar

18 January 2011

This Week: Jan 17 - Jan 21					This Week: Jan 10 - Jan 14				
	Event	Period	Expected	Prior		Event	Period	Actual	Prior
MON	JN Consumer Confidence	DEC	--	40.6	FR Industrial Production (MoM)	NOV	2.30%	-0.80%	
	CA Int'l Securities Transactions	NOV	--	9.507B	FR Manufacturing Production (MoM)	NOV	2.20%	-0.90%	
	UK Nationwide Consumer Confidence	DEC	--	45	IT Deficit to GDP (year to date)	3Q	5.10%	6.00%	
	UK RICS House Price Balance	DEC	-44%	-44%	EC Sentix Investor Confidence	JAN	10.6	9.7	
	JN Industrial Production (MoM)	NOV F	--	1.00%	CA Building Permits MoM	NOV	1.00%	-6.50%	
	JN Industrial Production YOY%	NOV F	--	5.80%	CA Business Outlook Future Sales	4Q	22	--	
	JN Capacity Utilization (MoM)	NOV F	--	-2.30%	CA BoC Senior Loan Officer Survey	4Q	-36.4	--	
				JN Official Reserve Assets	DEC	\$1096.2B	\$1101.0B		
				UK BRC December Retail Sales Monitor	Jan/10	--	--		
TUE	JN Machine Tool Orders (YoY)	DEC F	--	--	JN Coincident Index CI	NOV P	102.2	100.8	
	UK CPI (MoM)	DEC	--	0.40%	JN Leading Index CI	NOV P	100.9	97.7	
	UK Core CPI YOY	DEC	--	2.70%	US NFIB Small Business Optimism	DEC	92.6	93.2	
	EC ZEW Survey (Econ. Sentiment)	JAN	--	15.5	US IBD/TIPP Economic Optimism	JAN	46.9	45.8	
	GE ZEW Survey (Econ. Sentiment)	JAN	--	4.3	US JOLTs Job Openings	NOV	3248	3362	
	US Empire Manufacturing	JAN	12	10.57	US Wholesale Inventories	NOV	1.00%	1.90%	
	CA Bank of Canada Rate	Jan-18	1.00%	1.00%	US ABC Consumer Confidence	Jan/09	-40	-45	
	US Total Net TIC Flows	NOV	--	\$7.5B	JN Japan Money Stock M3 YoY	DEC	2.00%	2.00%	
	US NAHB Housing Market Index	JAN	17	16	JN Bank Lending Banks Adjust YoY	DEC	-1.80%	-1.90%	
	US ABC Consumer Confidence	Jan-16	--	-40	JN Current Account Total	NOV	¥972.5B	¥1436.2B	
WED	EC ECB Euro-Zone Current Account	NOV	--	-9.8B	GE GDP (Annual Growth Rate)	Dec/31	3.60%	-4.70%	
	UK Average Weekly Earnings 3M/YoY	NOV	--	2.20%	IT Industrial Production sa (MoM)	NOV	1.10%	-0.10%	
	UK Weekly Earnings exBonus 3M/YoY	NOV	--	2.30%	UK Total Trade Balance (GBP/Mln)	NOV	-£3800	-£3946	
	UK Jobless Claims Change	DEC	--	-1.2K	EC Euro-Zone Ind. Prod. sa (MoM)	NOV	0.50%	0.60%	
	UK Claimant Count Rate	DEC	--	4.50%	US MBA Mortgage Applications	Jan/07	2.20%	2.30%	
	US MBA Mortgage Applications	Jan-14	--	2.20%	CA New Housing Price Index MoM	NOV	0.10%	0.10%	
	CA Manufacturing Sales MoM	NOV	--	1.70%	US Import Price Index (MoM)	DEC	1.20%	1.30%	
	US Housing Starts MOM%	DEC	-0.90%	3.90%	US Fed's Beige Book	Apr/23	--	--	
	US Building Permits MOM%	DEC	1.60%	-1.40%	US Monthly Budget Statement	DEC	-\$84.0B	-\$91.4B	
	CA Monetary Policy Report	Jan-19			JN Machine Orders (MoM)	NOV	2.00%	-1.40%	
THUR	JN Coincident Index CI	NOV F	--	102.1	FR Consumer Price Index (MoM)	DEC	0.50%	0.10%	
	JN Leading Index CI	NOV F	--	101	UK Industrial Production (MoM)	NOV	0.50%	-0.20%	
	GE Producer Prices (MoM)	DEC	--	0.20%	UK Manufacturing Production (MoM)	NOV	0.40%	0.60%	
	IT Industrial Orders s.a. (MoM)	NOV	--	0.00%	UK Halifax House Prices sa (MoM)	DEC	-0.40%	-0.10%	
	CA Leading Indicators MoM	DEC	--	0.30%	UK BOE announces rates	Jan/13	0.50%	0.50%	
	US Initial Jobless Claims	Jan-15	--	--	EC ECB Announces Interest Rates	Jan/13	1.00%	1.00%	
	US Continuing Claims	Jan-08	--	--	CA Int'l Merchandise Trade	NOV	-2.1B	-1.7B	
	US Existing Home Sales MoM	DEC	3.60%	5.60%	US Initial Jobless Claims	Jan/08	405K	409K	
	US Leading Indicators	DEC	0.60%	1.10%	US Producer Price Index (MoM)	DEC	0.80%	0.80%	
	US Philadelphia Fed.	JAN	21.5	--	US Trade Balance	NOV	-\$40.9B	-\$38.7B	
FRI	FR PMI Manufacturing	JAN P	--	57.2	GE Consumer Price Index (MoM)	DEC F	0.01	1.00%	
	FR PMI Services	JAN P	--	54.9	IT Trade Balance (Total) (Euros)	NOV	-3382M	-2007M	
	GE IFO - Business Climate	JAN	--	109.9	EC Euro-Zone CPI (MoM)	DEC	0.006	0.10%	
	GE IFO - Expectations	JAN	--	106.9	EC Euro-Zone Trade Balance	NOV	-0.4B	5.2B	
	UK Retail Sales Ex Auto Fuel(MoM)	DEC	--	0.30%	US Consumer Price Index (MoM)	DEC	0.005	0.10%	
	UK Retail Sales w/Auto Fuel (MoM)	DEC	--	0.30%	US Advance Retail Sales	DEC	0.006	0.80%	
	CA Retail Sales MoM	NOV	--	0.80%	US Industrial Production	DEC	0.008	0.003	
					US Capacity Utilization	DEC	76.00%	75.40%	
					US U. of Michigan Confidence	JAN P	72.7	74.5	
				US Business Inventories	NOV	0.002	0.008		
Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated p- preliminary data, f- final data, sa - seasonally adjusted YoY - year on year, MoM - month-on-month					Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated p- preliminary data, f- final data, sa - seasonally adjusted YoY - year on year, MoM - month-on-month				

Economic & Market Calendar

18 January 2011

12 Month Outlook

<i>FX Outlook</i>	Spot (170110)	End Q1 2011f	End Q2 2011f	End Q3 2011f	End Q4 2011f
USD 3-mth rates (%)	0.3	0.3	0.3	0.3	0.3
EUR 3-mth rates (%)	0.94	1.15	1.30	1.50	2.20
GBP 3-mth rates (%)	0.77	0.75	0.80	0.85	0.90
USD 10-yr bond yield (%)	3.33	3.40	4.25	3.65	3.75
EUR/USD	1.33	1.28	1.20	1.26	1.30
USD/JPY	82.9	87.0	90.0	92.0	94.0
EUR/JPY	107	111	108	116	122
GBP/USD	1.59	1.53	1.45	1.48	1.52
EUR/GBP	0.81	0.84	0.83	0.85	0.86
USD/CHF	1.04	1.02	1.10	1.08	1.07
AUD/USD	.99	0.94	0.92	0.90	0.88
USD/INR	45.5	44.00	45.80	44.20	43.00
Oil Price (ICE Brent)	98.68	88.00*	90.00*	93.00*	94.00*
Gold (US\$/oz)	1365	1300*	1375*	1475*	1450*
Silver (US\$/oz)	28.49	24.00	26.00	27.00	26.50
Palladium (US\$/oz)	798	700	600	625	675.
Platinum (US\$/oz)	1820	1700	1800	1900	2000

* Period Averages for each quarter, ** annual average for 2011. Forecasts from SCB Global Research.

Analyst;
Michael Preiss

Forecasts as of 14 January 2011

Disclosure Appendix

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