

The mood is getting better

The markets are showing signs of increasing activity. **Sachin Patki** thinks the siege mentality is over, and people are keener to explore, an indication that recovery has begun.

What a difference a few weeks can make. The year 2009 began with bearish views of the global economy with markets around the world continuing to wither under the barrage of news from corporations and releases of government statistics. However, a few good corporate quarterly results, some sporadic signs of resilience from consumers, and some strong measures by the US President on the economy have made all the difference. We have seen some rallies in the emerging markets, renewed interest in fund manager contribution to equities and convertibles, aside from lower interest rates and signs of banks lending again, though not in the same quantum as earlier.

The US dollar and gold have received the safe haven funds amidst the global uncertainty and as this fear begins to wane, funds are being relocated to risk products yet again. Globally, funds that were sitting in cash, largely in US dollars are now coming back into local currencies, local instruments and especially into local equities. The spring rally may not necessarily be the recovery rally globally, but at least it has played an important role in shifting the mindset of retail investors from a siege mentality to that of exploration, a key shift needed for the recovery to be sustained.

Also, we have spots of economic figures in the US that indicate consumers are feeling comfortable with the measures taken by President Obama and his team along with the Fed chairman. They, probably, feel that recovery will be faster now.

Unemployment continues to rise as the industrial capacity utilisation has enough slack to absorb any uptake in demand; the situation is expected to continue to worsen, though it may not rise above the 10 per cent mark. We are also getting into the summer period which may see more consumer spending and short term employment prospects for laid off workers, reducing the amount of people applying for unemployment benefits.

The measures of stress testing balance sheets of financial institutions has also given confidence to the financial sector, where counterparty credit risk was hampering trade volumes in FX and money market. We may see some more surprises in the Euro-zone corporate results, given that the latest rate cut by the European Central Bank will take time to impact the markets. The printing of money by various central banks to shore up budget deficits and to jump start economies will have a long-term inflationary impact, which will be reflected in the need to raise interest rates, or to have the yield on long term bonds rise to control it.

The Euro has been rising higher from its base in the 1.3010 region and it needs to stay above this level to break the next barrier in the 1.3740, 1.3860, 1.4230 & 1.4600 levels. The Euro/Yen cross remains below its critical break out level of 143.40 on a weekly closing basis and unless this is broken, we may see the

126.50-135.00 range hold it, with a risk on the downside towards 120.10.

UK economic conditions continue to be indifferent to a firm economic recovery and any rallies will be pulled lower with uncertainty over the timing of the recovery. The sterling has recovered to the early 1.5150 levels, but it needs to clearly break the 1.5340 level on a weekly close basis for this rally to



be confirmed. Any reversal from this region would indicate that the base has yet to form for a clear upward trajectory towards 1.5870 & 1.6430; failure to close above 1.5340 would see the Stg come lower towards 1.4970, 1.4470, & 1.4010. GBP/Euro cross has formed a floor near the 1.1020 levels and the rally towards 1.1500 has been met with resistance, and the recent range trading in the 1.10-1.1370 range indicates the upside only possible with a break above 1.1830; otherwise, the GBP/Euro will remain in a tighter range.

The recovery in some of the commodity prices has raised the value of some of the currencies like AUD and CAD which are linked to the value of their exports. The CAD has recovered from the lows near 1.3000 towards the 1.1600 level and any reversal of this trend above the 1.1825 on a weekly closing would imply the currency does not have further steam to strengthen. The AUD has also rallied from the low of 0.6000 towards the 0.7550 area and we need to have this rally stay clearly above the 0.7340, and 0.7250 levels to continue. A correction below these would imply that it has more sideways trading to go before the rally can resume. Supports remain at 0.6750 & 0.6255 & 0.6030. HW

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Views expressed are the author's and not necessarily those of Mashreq. Data and comments are as of May 14, 2009.