ARMYTAGE

PROSPERITY THROUGH PRUDENCE AND PRESCIENCE

# Global View- Equities

June 2011

| Market | Macro | Interest Rates | Technicals | View |
|---|---|---|---|---|
| US | Consumer confidence at 7 mth low, spending weakest in 12 mths, housing prices down 4% y/y, but peak in oil prices is a positive | Current = 0.25, rates to stay low until year end at least | **Bullish**: Held above 200 day moving average during the correction | **Bullish:** Monetary policy trumps most other factors & sharp rebound suggests a move to new highs YTD is possible |
| UK | PMI fallen to a 2 yr low as economy continues to back slide, B of E warning of 3 more yrs of pain before things improve! | Current = 0.50, rates to remain on hold despite inflation & another round of QE possible | **Bullish**: Above 200 day moving average, high correlation to US | **Neutral:** Testing high for the year & move higher supported by the US trend looks possible but fundamentals are poor, prefer US |
| EURO | Debt crisis has been delayed but not resolved & will remain a negative, inflation @ 2.7% still above 2% target, some evidence of growth easing as German retails sales have biggest drop in 4 yrs | Current = 1.25, ECB certain to tighten by another 25bp | **Bullish**: Above 200 day moving average, high correlation to US | **Neutral** : Increasing rates a negative, unlikely to be best performing equity market despite the trend being up, prefer US |
| China | Inflation still rising but moderating, until it peaks it remains the key negative for markets | Current = 6.5, RRR increased again but close to peak in monetary policy | **Neutral**: 200 day MA flat & still in 18 mth range | **Neutral :** Still in an 18 mth range & while monetary policy tightening remains in place this will continue, but a change in policy will open the door to rally |
| Australia | Consumer sentiment @ 2 yr low, weak retail sales & housing data delays or even removes any need for further interest rate rises, savings rate at 25 yr high | Current = 4.75, some increases likely but not before Q4 | **Bearish/Neutral**: Below 200 day moving average | **Neutral :** New lows for the year & sentiment surprisingly bearish, if i/r are on hold then monetary policy goes from bearish to neutral but heavily linked to China's direction |
| India | Inflation tops 9% forcing RBI to increase rates for the 10th time, peak in oil & food should take some pressure off | Current = 7.50, rates increased again & more to come | **Negative**: below 200 day MA & negative YTD | **Neutral :** Held above YTD lows which suggests downside is limited but inflation & rising i/r will make gains difficult for now |
| Sth Korea | Household debt is higher than US during GFC & is strangling domestic comsumption, CB taking measures to correct this, exports still booming | Current = 3.25, some modest increases later in year | **Bullish**: Held above 200 day moving average during the short term correction | **Bullish:** Trend is still upwards despite rising interest rates |
| Indonesia | Growth still robust & inflation eased slightly, higher IDR reducing need for higher i/r, foreign inflows continue | Current = 6.75, currency appreciation doing most of the work but some increases still likely | **Bullish**: Above 200 day moving average | **Bullish:** New highs again at the end of the month leading global equity markets along with Malaysia |
| Brazil | Brazilian Real at a 12 yr high against USD attracted, capital inflows attracted by higher interest rates but inflating asset prices | Current = 12%, further increases still likely | **Bearish**: below 200 day MA, down YTD & below 2010 levels | **Neutral :** High interest rates remains a major negative |



**Australian Office:** Level 16, 90 Collins Street, Melbourne, Victoria, 3000, Australia. Tel +613 9661 0408
**Cayman Office**: Caledonian House, 69 Dr Roy's Drive, Gr. Grand Cayman, Cayman Islands, British West Indies.
**Malaysian Office:** PO Box 10209, 50706 Kuala Lumpur, Malaysia.
**Tel:** +603 2284 0170 **Fax:** +603 2284 0170 **Email:** info@absolute-am.com **Website:** www.armytage.com.au

# Global View– Commodities, Bonds June 2011

| Market | Macro | Technicals | View |
|---|---|---|---|
| Oil | Release of strategic reverses a game changer but questionable given price had already peaked, flow through effect of lower oil to inflation a BIG positive for equities | **Neutral**: just below 200 day moving average | **Neutral**: Upward trend has been broken & May high will not be seen again for a while, this is a positive for global growth & markets |
| Gold | China is doubling production of Panda coins to meet demand, investors are buying hard assets for wealth preservation | **Bullish**: short term consolidation but above 200 day MA & trend still up | **Bullish**: Didn't rally during the Greek debt crisis which is a warning that demand has peaked for the short term but long term trend is still up |
| Grains | Corn falls most in 15 yrs, wheat @ 6 mth low as corn plantings rise to 2nd highest since WWII, price fall will ease inflation pressures which is positive for equities | **Bearish**: Corn & wheat now below 200 day moving average | **Neutral**: Short term bearish given seasonal factor & latest data, long term shortages will be more common |
| Base Metals & bulk comm | China IP is still a negative as it continues to fall, but some evidence of demand pick up over the past week, stocks being drawndown | **Bullish**: Copper above 200 day moving average & trend still up | **Bullish**: a key barometer of global & China growth, there is some evidence that the correction of the past few months may be near an end |

| Market | Macro | Technicals | View |
|---|---|---|---|
| US Bonds | Yields fell to new lows YTD & below 3% as Greek debt crisis dominated sentiment , flight to quality into US debt hard to comprehend given US debt levels | **Neutral**: Yields back above 200 day moving average but no trend | **Neutral/Bearish**: Bonds & equities diverge, bonds point to deflation, equities growth - which is correct? We suspect bonds are wrong |
| UK Gilts | Yields fell to new lows YTD driven by stalled economy & increased chance of QE by the B of E | **Neutral/Bullish**: Yields below 200 day moving average but no trend | **Neutral/Bearish**: Yields are below inflation rate & factoring another recession, that is unlikely & therefore yields should be much higher |
| Corp Bonds | High grade & high yield spreads have increased marginally, but record investor inflows is a negative for contrarians | **Neutral/Bullish**: Trend on spreads still down but flattening out | **Neutral/Bearish**: Spreads look way too low & higher dividend yielding equities are better value. |



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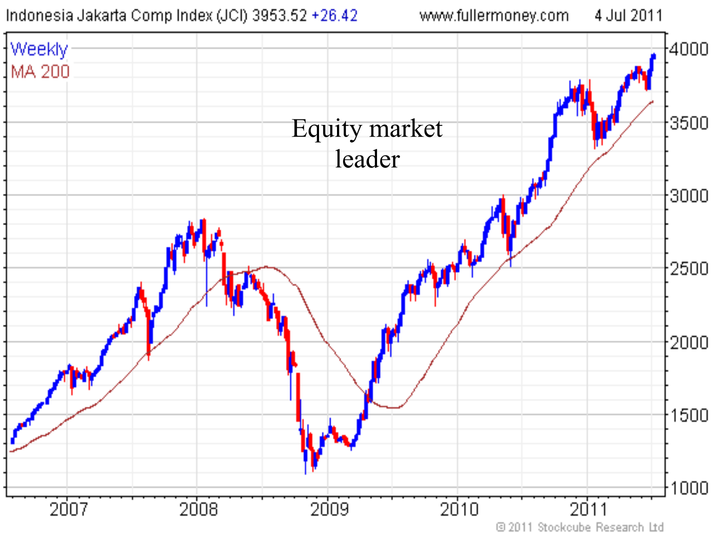
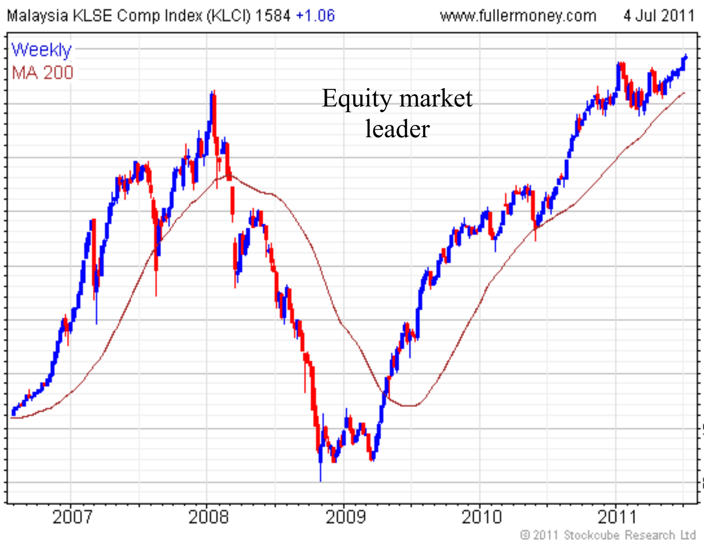
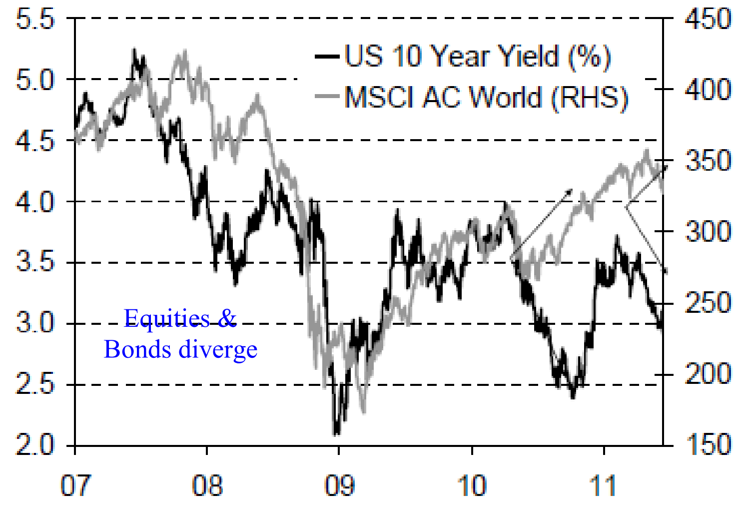
# Global View– Data

June 2011

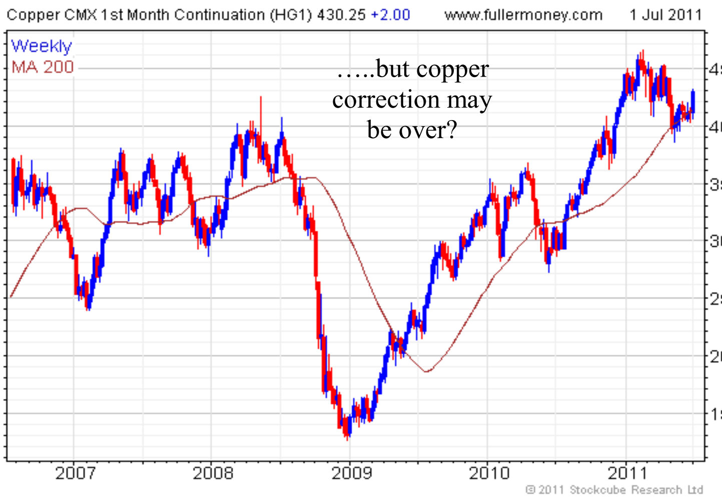







Source: CIRA, Datastream Citi

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