

## Key points

- After a very unsettled May, markets were supported in the week by rising Chinese export volumes, broadly positive comments around US growth prospects from Fed Chairman Ben Bernanke, and increasing faith in the ECB's commitment to support both eurozone governments and their enfeebled banking sectors. Even weaker than expected US consumer data on Friday, showing retail sales down 1.2 per cent in May, didn't dent market rallies. Investor appetite for riskier assets picked-up and yields on better-rated government debt rose slightly.
- G20 finance ministers returned from Busan without agreement on a global levy on banks, but France's Nicolas Sarkozy and Germany's Angela Merkel jointly called for faster and tougher EU financial reform. Germany also announced spending cuts of around €80bn to 2014.
- In the US, belligerent political responses both to China's surging exports and to BP's handling of the Gulf of Mexico oil leak rattled investors. Nonetheless, key markets all closed up on the week: the S&P 500 was up and the FTSE 100 was 0.7 per cent stronger on the back of a rebound in BP's share price on Friday. Gold briefly traded as high as \$1,250 an ounce – up 14.5 per cent since January 2010. Other commodities also fared better in the week, including oil, which breached \$75 a barrel – and copper, seen as a bellwether for the future health of the global economy, which rose over 5 per cent. Have briefly traded as low as \$1.188, the euro bounced back at the end of the week against the greenback, closing at around \$1.21.
- Following the near collapse of the Irish Banking system due to excessive and reckless lending practices, a report by two banking experts outlined the failings of the Irish Financial Regulator and the Irish Government. This report condemned the Governments fiscal policy as a major contributor to the prolonged vulnerability of the Irish economy and the Irish Regulator's light touch approach to lending practices at the domestic banks.

## Equities

- It was another torrid week for BP. The share price briefly fell to £3.65 before rallying to close Friday at

£3.91 – nonetheless; it seems highly likely that US political pressure could lead to a dividend cut until the full cost of the clean-up is quantified. UK chipmakers ARM and Imagination bounced more than 10 per cent on speculation that Apple would bid for the former – a rumour denied by the US tech giant.

- In one of the largest ever orders for commercial aircraft, Emirates announced that it would buy an extra 32 Airbus A380 super-jumbos, for a total of \$11.5bn, from European aerospace conglomerate EADS. Providing another bullish signal, IATA (the International Air Transport Association) forecast that the world's airlines would turn an industry-wide profit of \$2.5bn in 2010, a significant upward revision to its March forecast of a global loss of \$2.8bn.
- Terry Leahy, 14 year CEO at Tesco, announced he would depart in 2011, surprising markets and sending Tesco shares down 2.5 per cent. The company also announced a £1bn debt reduction program. Long time bid target Chloride surged 19 per cent to £3.45 after Swiss-Swedish industrial giant ABB agreed to buy the UK's largest maker of backup power generating equipment for £864m.

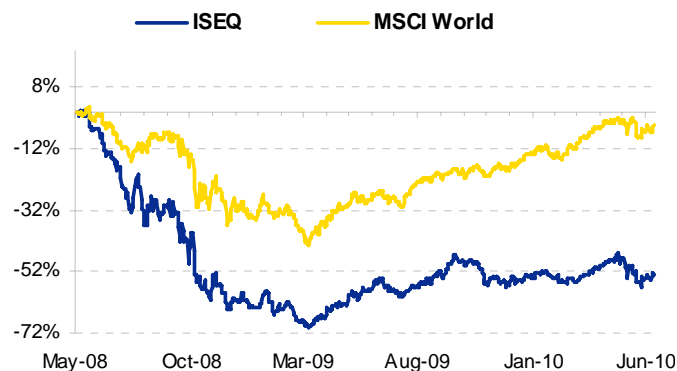
## Bonds

- Despite concern that eurozone 'contagion' might spread to a 'third-circle' of countries such as Austria and the Netherlands, markets for perceived weaker European debt steadied in the week. Italy saw yields on its 10-year debt fall to 4 per cent, down from 4.32 per cent last Monday; and Spanish bond yields fell too – on the 10-year bond by 10 basis points to 4.47 per cent, with the spread over bunds narrowing to under 200 basis points. Credit Default Swap (CDS) rates fell too overall – the key Markit iTraxx SovX index, which tracks CDS spreads on representative European sovereign debt – fell to 137 basis points Friday, down from 166 basis Monday.
- Yields on 10-year bunds trended up on Friday, closing at 2.56 per cent, having briefly touched as low as 2.5 per cent in the week. Nonetheless, their attraction to nervy investors remains clear – yields have fallen around 90 basis points since January 2010, as have yields on 10-year treasuries, by 80 basis points.

Source of market data: Bloomberg & Factset

Region	Index	Index Level at 11 June	Index Level at 4 June	Index Level at 31 <sup>st</sup> December 2009	Change last week	Year to date return
Ireland	ISEQ	3048	2983	2975	2.2%	2.5%
Eurozone	Dow Jones Euro Stoxx	253	246	275	3.1%	-7.8%
Europe	Dow Jones Europe Stoxx	249	245	254	2.0%	-1.7%
UK	FTSE	5164	5126	5413	0.7%	-4.6%
US	S&P 500	1092	1065	1115	2.5%	-2.1%
US (primarily technology)*	NASDAQ	2244	2219	2269	1.1%	-1.1%
Japan	Topix	866	890	908	-2.7%	-4.6%
Asia (Pacific Basin ex Japan)	FT Pacific Basin (Ex Japan)	331	330	354	0.5%	-6.5%
World	MSCI World	117	115	105	1.5%	11.3%
	€uro - Dollar Exchange Rate	\$1.211	\$1.197	\$1.441	1.2%	-15.4%
	Sterling - Euro Exchange Rate	£0.832	£0.828	£0.892	0.5%	-6.1%
	Oil (Price per barrel)	\$74.40	\$71.23	\$77.20	4.5%	-3.6%

ISEQ versus MSCI World



Euro-Dollar Exchange Rate (LHS)  
Euro-Sterling Exchange Rate (RHS)



Merrill Lynch Euro Govt >5 Year Bond Index



Source of market data: Bloomberg