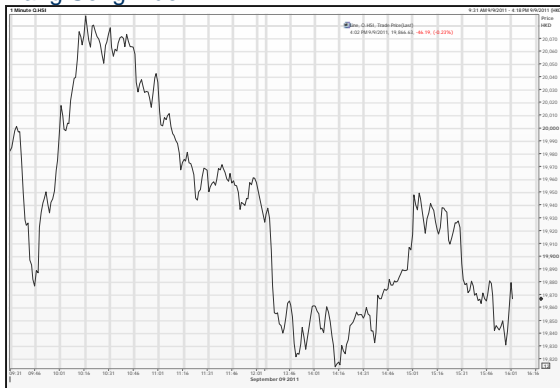


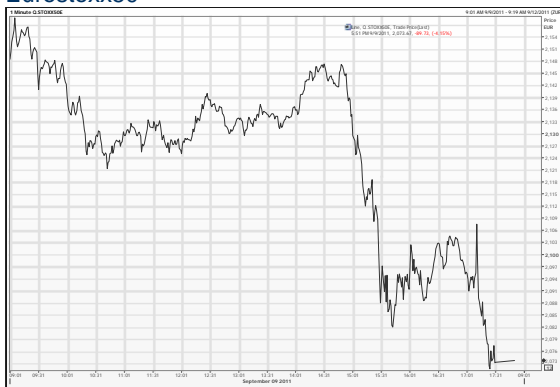
Market Watch

12 September 2011

Market performance on Friday 9th September Hang Seng Index



Eurostoxx50



S&P500



Source: ThomsonReuters, Standard Chartered

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Europe: Coming to a head

- Last Friday proved again that equity markets remain vulnerable to negative news out of Europe and on the growth front with QE3 likely to be some months away
- USD-JPY bounced slightly in the run up to the G7 meeting, but a lack of new emphasis on FX, despite Switzerland's move last week to weaken the CHF, may encourage market participants to test the recent lows once again.

EUROPE

- Equity markets sold-off once again last Friday on developments in Europe
- Speculation was rife that Germany is preparing for a Greek default as German Finance Minister Schauble indicated the next loan installment may be withheld unless Greece closes its fiscal gap
- In response, the Greek government passed a property tax aimed at placating lenders and achieving an EUR 2bn deficit cut
- Chief Economist Stark resigned from the ECB, a move that highlights the tensions over the ECB's decision to buy Spanish and Italian debt
- Key will be details of Greece's bond swap (market expectations are for around a 70% take up versus a targeted 90%) and whether the next EU-IMF loan installment will be released.
- From a market perspective, anything that reduces uncertainty and avoids a "run on the banks" should ultimately be positive for market sentiment, even if it involves a Greek default.

ECONOMIC GROWTH

- The initial Republican response to Obama's job plan appears to be reasonably supportive, although details over how the stimulus will be funded is critical to garner bipartisan support
- The G7 communiqué on Friday failed to provide new direction, simply reiterating the need for 1) fiscal consolidation to be 'growth-friendly' and 2) the G7 to cooperate in FX markets as appropriate

Disclosure Appendix

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