MARKET COMMENT

July 2010

After the last two hectic summers, we are finally having a calmer summer in the markets. However, the thin liquidity in the markets is causing drastic fluctuations in the equity markets, commodity prices and FX rates from time to time. The fact is that the bulls and bears have been haggling over the direction of the markets since the beginning of the year, and still no victor has been declared. It seems that this debate will not resolve until mid-September. The equity markets that soared over 8% in the beginning of the year started to fall thereafter and were slightly negative year to date as at the end of July.

The markets had some difficulty in maintaining the positive atmosphere mainly because of the debt crisis in Europe, concerns on China's slowing growth, and the threat of a double-dip recession. The US data such as continuing high unemployment, worrying consumer confidence, and a weak housing market were not helpful either. However, the markets in July, initiated another upward move as the company earnings were better than the expectations.

The situation in credit markets is getting stronger compared to the beginning of the year and the situation in equity markets, as the confidence in credit markets is building up, especially in EM. The EMBI+ index, a benchmark for EM bonds, jumped to 540.94 from 518.23 in July, indicating a 4.4% increase. As the confidence in EM debt gets stronger, the liquidity in corporate bonds continue to increase and companies tend to issue more and more debt, both new and to roll over their existing debts.

New bond issues kept on coming in July. Because of the high interest and demand in many of those issues, the allocations were limited. In the term ahead, longer duration papers seem to be more attractive than the short ones considering the downside trend in the US treasury yields, especially the long-end of the yield curve.

Regardless of the negative macroeconomic news globally, the markets seem to be holding well at the current levels. If we start receiving better macroeconomic data in the following months, the optimistic tone in the markets can get stronger in the last quarter. Nevertheless, we should keep an eye on European debt problems, the growth pace of Chinese economy, and the uncertain US economic outlook.