



Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

EU budgetary reforms

The European Parliament on Tuesday approved with overwhelming majority the "two pack" economic governance legislation that will do more to deliver growth and lays down clear procedure for countries seeking EU financial help.

For the first time the EU's multi-year budget is to be cut by 3.3%. The EU was obliged to pay EUR 217bn (US\$283bn) because of contracts already agreed under the current multi-year budget. The EU is preparing for a tough new round of negotiations on its multi-year budget, despite a deal reached by government leaders last month.

The European Parliament is expected to adopt a resolution urging the governments to settle outstanding budget bills, to avoid a shortfall. The MEPs also want a flexible 2014-2020 budget, so that money not spent in one area can be used in another if needed. The EU treaty says the 27-nation bloc's budget must always balance, so it cannot accumulate debts, unlike national governments.

The EU still had an outstanding EUR 16.2bn to pay for last year's commitments to projects in Europe's least developed regions. The parliament argues that such debts must be settled as soon as possible, so as not to jeopardize important long-term research programs and innovation projects, which are priority areas for the EU in the current economic crisis.

If there's a smaller budget they have to be able to use the available money in the best possible way. If you lack payments for a research contract you cannot sign the tender, but if there is money left over from rural development then that should be used for more urgent issues.

The biggest political groups in the parliament have agreed on the resolution, which will be the negotiating mandate for MEPs when they try to finalize the budget with the EU governments, who are collectively called the Council.

A vote on the resolution will take place today in the Strasbourg parliament session. The budget, officially called the Multi-annual Financial Framework (MFF), has to be agreed by the end of this year, otherwise various EU programs will face the serious risk of a funding shortfall.

The MEPs are also calling for a mid-term review of the budget, to give newly elected MEPs and the next European Commission a say after the European elections next year. The resolution says parliament rejects the Council's conclusions on the MFF and believes the Council has ignored parliament's new powers in budgetary policy, acquired under the Lisbon Treaty.

However, the resolution does not explicitly reject the budget figures agreed by the Council at its marathon Brussels summit last month.

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Global Macro Events

EURO Economies

The UK Office for National Statistics said industrial production fell 1.2% month on month in January while manufacturing output dropped 1.5%, confounding expectations of a 0.1% increase in both measures.

US Economy

US Business optimism appeared to be growing, according to data published by the National Federation of Independent Business' Small Business Optimism Index although set in the wider context, the recording measured remained at the lower end of the scale. The Index advanced by 1.9 points in February to 90.8 representing a rise on several previous readings but low by historical levels.

The **number of job openings on the last business day of January was virtually unchanged from one month earlier**, the US's Bureau of Labor showed, with rises in some business sectors being offset by reductions in job openings elsewhere. Professional and business services saw growth in the number of job openings while healthcare and social assistance saw reductions.

US Retailers enjoyed solid gains in weekly results in the week to March 9th, according to fresh data published by the International Council of Shopping Centers. The trade association reported that weekly sales rose by 0.7% for retailers. On a year-on-year basis, the pace of retail sales remained steady at 1.8%. The mixed performance was tied to uneven underlying demand and another bout of adverse weather in the Midwest.

Global Markets Commentary

We continue to see promising signs that equity markets may well continue to rise. US home prices have been rising and new-home activity has been improving.

The run-up in the Euro in the second half of 2012 has helped, too, bolstering US corporate earnings. That's because multinational companies with substantial overseas operations are able to translate non-US earnings back into US\$ at a more favorable rate.

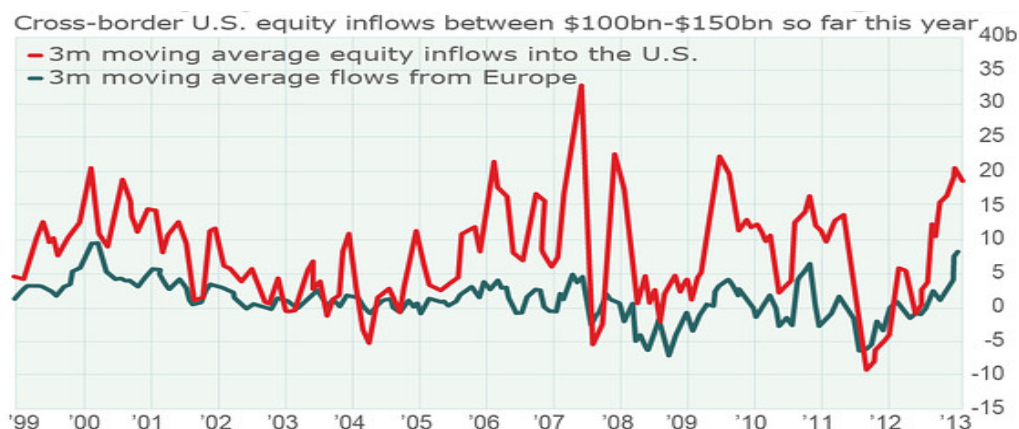
Dividends, in terms of total US\$ paid out, are also at an all-time high, and look to be growing faster than earnings. The dividend yield on stocks is still higher than that of treasury bonds. US equity valuations still look like a good deal, even after an impressive four-year rally. As of late February, as seen in the display below, the S&P 500 was trading at a P/E ratio of about 14 times. Compare that with the yield of about 2% on the 10-year Treasury bond, which works out to an "earnings" multiple of roughly 50 times.

We think investors will increasingly see this as evidence of a good opportunity to return to equities. There have been signs of money in motion: In January 2013, investors put more than US\$ 20 bn into US stock funds.

We believe that going forward, at least until the FED will discontinue the QE-infinity, the huge outflows from equities into bonds from previous years, might be offset, as more institutions could feel the need to up their equity allocations after cutting them to well under 50% over the past decade.

Equity inflows to the US over the past three to six months have increased, with leading indicators for January and February confirming sizeable inflows seen in official data during the fourth quarter.

Much of the movement has been driven by flows from the Euro zone, followed by the UK



The outlook for the UK economy dimmed further on Tuesday after a government report showed industrial production logged a 1.2% monthly fall in January, and manufacturing output dropped 1.5%. We concur with the National Institute of Economic and Social Research, which estimated a contraction in UK output in February.

US stocks have climbed this year, bringing the Dow Jones Industrial Average DJIA +0.02% to new record highs, and the S&P 500 index SPX -0.24% closer to its all-time high.

The US\$, which tends to weaken when risk appetite grows, has strengthened since early January, and its gains have come in the backdrop of ongoing and aggressive monetary policy easing by the Federal Reserve. The different impact on commodity and gold markets and bottoming of real rates in the US TIPS market indicate the impact of the Fed's third program of asset purchases has been different in this round of easing.

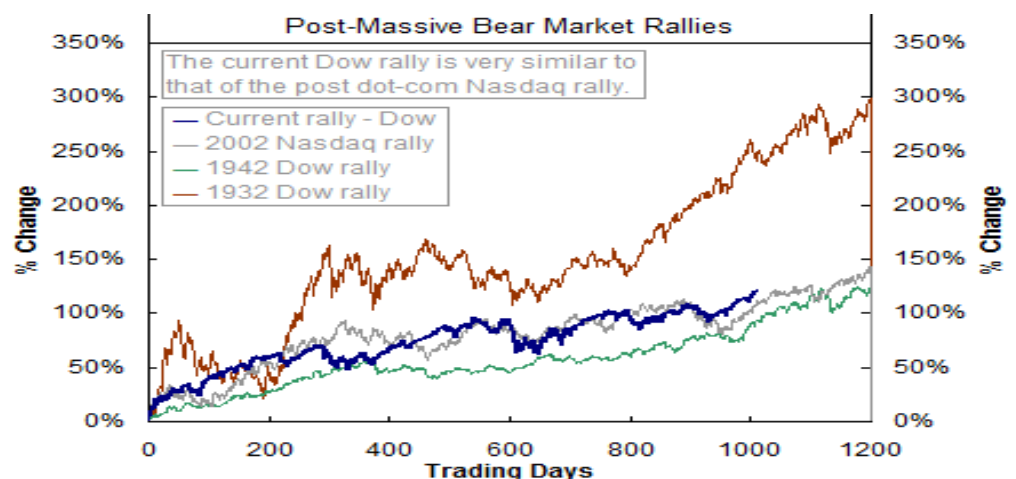
US Markets & Charts

The Volatility Index has dipped to the lowest level since 2007, before the recession and volatile market action took equity benchmarks down to the lowest levels in a decade.



The most recent Dow rally has followed the post dot-com bust rally of the Nasdaq that began back in 2002 fairly closely and held to a general post-massive bear market rally pattern rally during the first 300 trading days, trade in a relatively flat choppy manner up until around 600 trading days and then re-embark on the second leg of the rally.

From a long-term perspective, the Dow declined more than 50% only 3 times in the past 125 years (early 1930s, late 1930s until early 1940s, and during the recent financial crisis).





The Nasdaq 100 however looks like in the midst of a head & shoulder formation.

If this will be confirmed, the downside would be of a possible - 200 points.



As we had warned over the past three weeks, the RUT as entered a period of seasonal weakness, until the end of the summer, and we are advising to reduce weightings into Russell 2000 and its constituents until late summer.

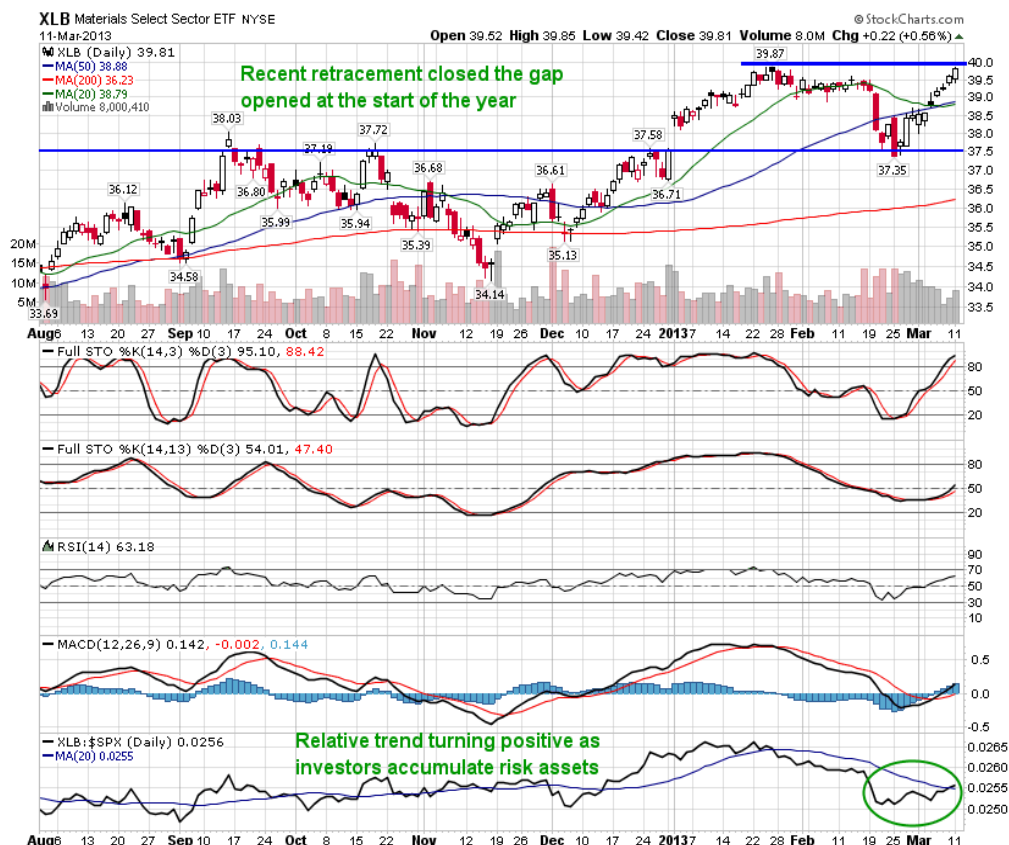


Top performing sectors over the past couple of weeks have been Financials, Consumer Discretionary, and Materials, while defense sectors, such as Consumer Staples, show signs of lag relative to the S&P 500.

Cyclical sectors are starting to re-emerge as market outperformers following a brief "risk-off" period at the end of February.

Outperformance in cyclical assets is a positive in general for equity markets as it is indicative of strong risk sentiment.

Materials, Discretionary, and Financials remain in a period of seasonal strength through to at least the middle of April.



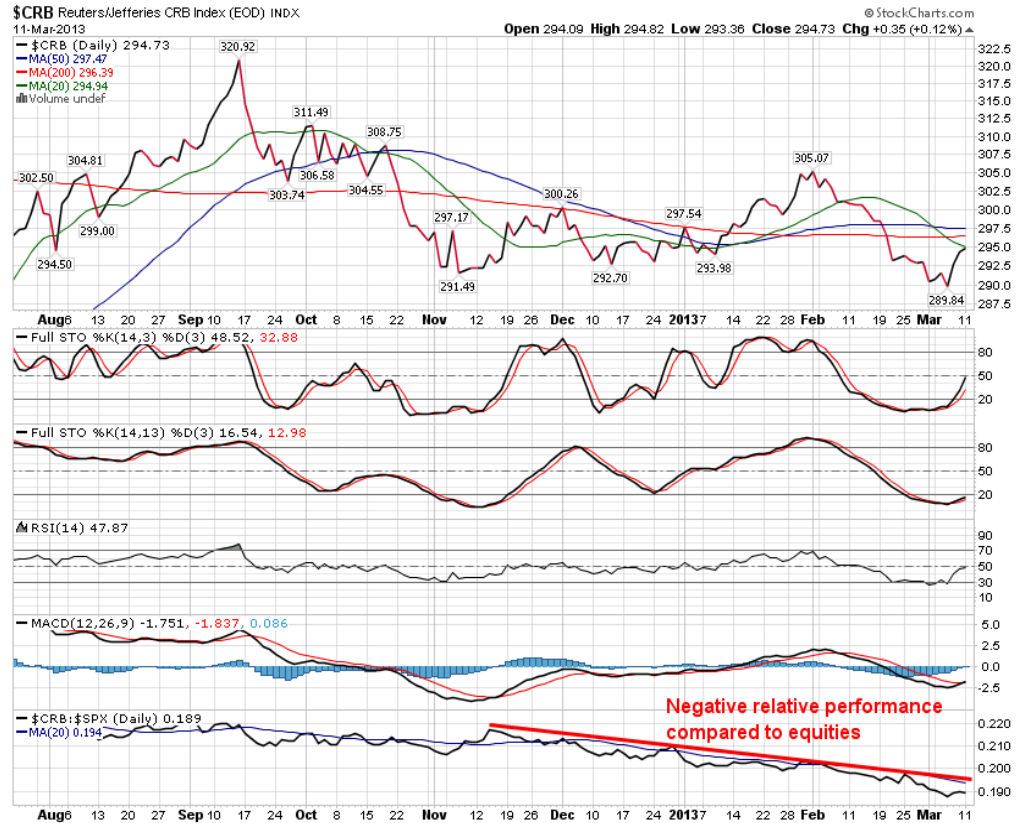


Commodities & Charts

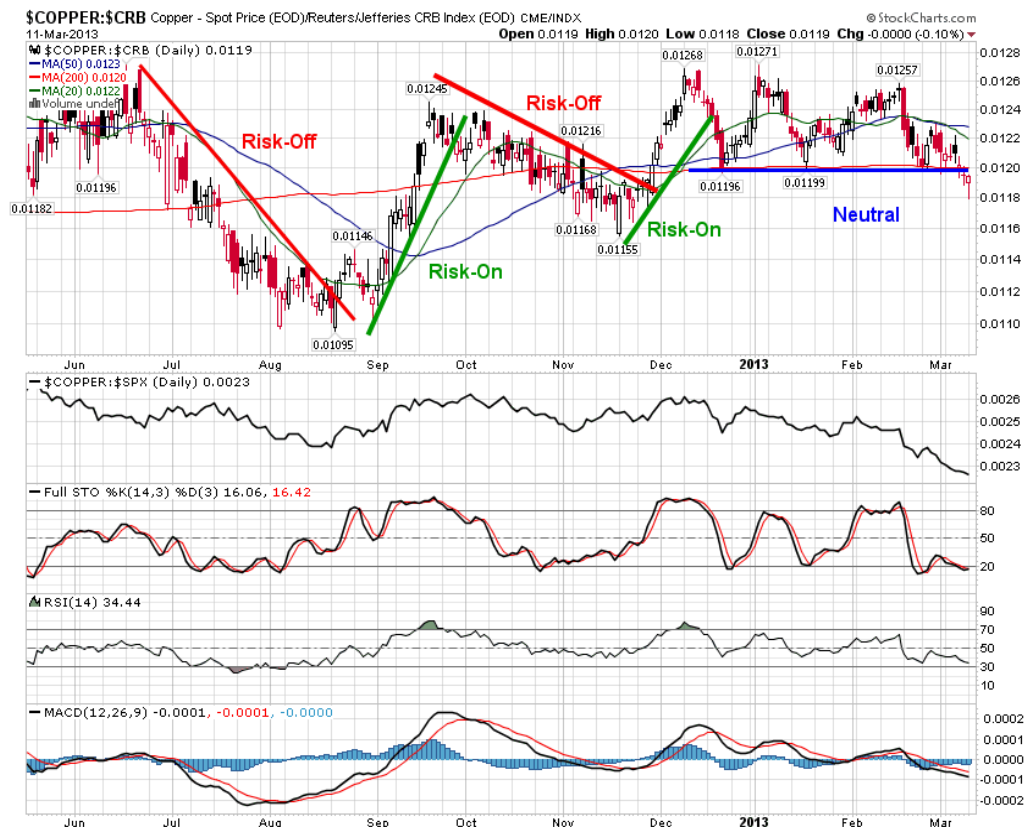
The lackluster performance in the commodity market is indicative of weak industrial demand, which has implications as to the strength of the economy in general.

Typically manufacturing and industrial production seasonally pick up in the months of March and April. The activity in the commodity market will have significant implications as to the strength in the Materials and Energy sectors as they progress into the "sweet spot" of the seasonal trends that peak out in May.

Momentum indicators for the CRB Index are curling positive, suggesting that some type of rebound may be on the horizon.



Even the ratio of Copper relative to the CRB index is showing signs of a flat (or neutral) trend, although even that has shown signs of cracking over recent sessions.



Oil, Gas & Energy & Charts

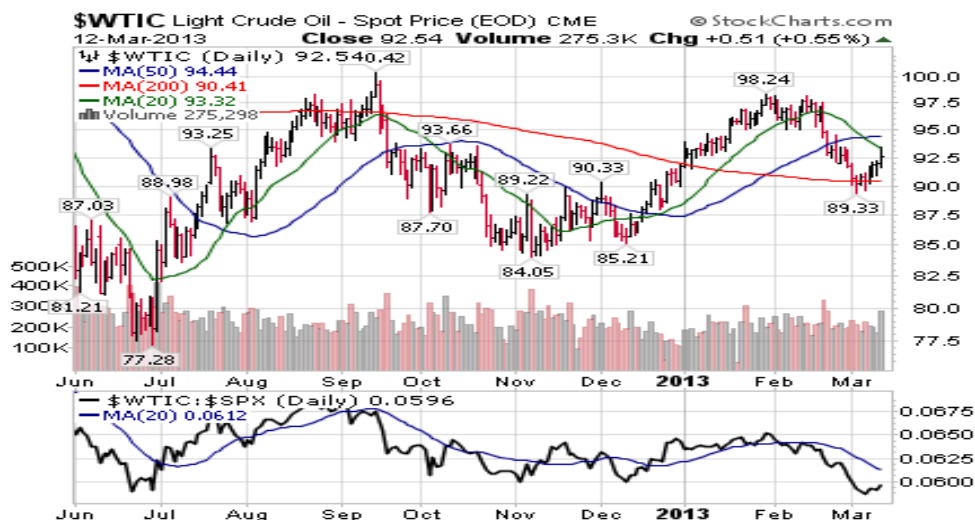
Crude oil futures logged a fourth consecutive gain and rose to the highest level in two weeks ahead of government inventory data on Wednesday.

Crude oil is showing early technical signs of reaching a seasonal bottom. Nice bounce from near its 200-day moving average.

Strength relative to the S&P 500 Index is turning positive.

Data from the EIA is expected to show US crude oil stockpiles rose by 2.4m barrels. Gasoline stocks are expected to fall by 1.2m barrels while distillates, which is used in diesel and heating oil, are expected to fall by 1.9m barrels.

Late Tuesday the American Petroleum Institute said crude oil stocks dropped 1.4m barrels. Gasoline stocks declined 3.1m barrels while distillates, used in diesel and heating oil, dropped by 2.2m barrels. Optimism about increased oil demand, following upbeat US economic data, also boosted interest in oil. Crude for April delivery rose 48 cents to \$92.54 a barrel on the New York Mercantile Exchange.



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