

Europe: European leaders are buying time!



Last week, European leaders put the International Monetary Fund (IMF) on standby to help aid debt-stricken Greece, shrugging off the European Central Bank's plea that Europe solved the crisis on its own. The Greek government is counting on wage cuts and tax increases to shave the deficit to 8.7% of gross domestic product this year from 12.7% in 2009, the highest in the euro's 11-year history. Greek bond advanced on Thursday, pushing the 10-year yield down 8 basis points to 6.28%, 313 basis points above comparable German debt. That extra borrowing cost has risen from 273 basis points on Feb. 11 when the EU vowed determined and coordinated action to stanch the crisis. According to Bloomberg, leaders of the 16-nation euro region endorsed a Franco-German proposal for a mix of IMF and bilateral loans at market interest rates, while voicing confidence that Greece won't need outside help to cut

Europe's biggest budget deficit. Although it may involve a mixed mechanism, Europe was still playing the dominant role. In fact, European leaders sought to bury concerns that divisions over aiding Greece would escalate the debt crisis and further undermine the euro after it sank to a 10-month low against the dollar. As mentioned in our 85th issue, Merkel pushed for the IMF to be brought in amid mounting opposition in Germany to putting taxpayers' funds at risk. Counterparts, including Sarkozy, said Europe should show its credibility by fixing the crisis on its own with loans to Greece. Under the accord brokered by German Chancellor Angela Merkel and French President Nicolas Sarkozy, each euro-region country would provide non-subsidized loans to Greece based on its stake in the ECB, according to Bloomberg. Therefore,

Europe would provide more than half the loans and the IMF the rest, which would only be triggered if Greece runs out of fund-raising options. On the other hand, the objective of this mechanism will not be to provide financing at average euro-area interest rates, but to set incentives to return to market financing as soon as possible. The contingency plan, is in no doubt, is a stopgap plan. It really only meets Greek expectations halfway. It'll help get bond yields down, but won't be enough to satisfy the markets. Greece needs to sell about 10 billion euros of bonds in coming weeks. About 8.2 billion euros of debt matures April 20 and 8.5 billion euros on May 19, with about 3.9 billion euros of bills maturing in April. In fact, Greece is only very small country and there's also Spain, Italy or even UK.



Microscope

Some investors have doubts over the short-term outlook for Europe, even as Greece's woes were addressed last week. However, sovereign-debt concerns may ease once the euro-region recovery is gaining strength. Europe's service and manufacturing industries expanded at the fastest pace in 2 1/2 years in March as reviving global demand prompted companies to step up output. A composite index based on a survey of euro-area purchasing managers in both industries rose to 55.5 from 53.7 in February, according to London-based Markit Economics. That's the fastest pace since August 2007. Economists forecast a gain to 53.8, according to the median of 15 estimates in a Bloomberg News survey. A reading above 50 indicates expansion. As it is widely expected that manufacturers are boosting production to meet export demand. Bloomberg quoted Markit as saying that an index of services, which accounts for about 60% of the region's gross domestic product, rose to 53.7 in March from 51.8 in the previous month. That's the fastest pace of expansion since November 2007. A gauge of manufacturing increased to 56.3 from 54.2. 

MARKET BRIEFING


YTD % (local curr)

US DJ	10,850 (4.0%)
Nasdaq	2,395 (5.6%)
Euro Stoxx 50	2,940 (-0.9%)
HSI	21,053 (-3.7%)
Japan NK225	10,996 (4.3%)
China Shanghai Composite	3,059 (-6.6%)
Singapore	2,906 (0.3%)
India BSE30	17,644 (1.0%)
Brazil BOVESPA	68,682 (0.1%)
Aus All Ord	4,905 (0.5%)
US-10yr Bond	Yield 3.85%
As at 26/03/10	

Insight:


"Investment Risk Management"

Investment risk management is usually important because you may have concern with any investment which may lose the money you invest. First of all, we should realize different kinds of risk. For example, if the assets you invest in are held in another currency there is a risk that currency movements alone may affect the value. This is referred to as currency risk. In addition, many forms of investment may not be readily saleable on the open market (e.g. property) or the market has a small capacity and may therefore take time to sell. Assets that are easily sold are termed liquid; therefore this type of risk is termed liquidity

risk. Moreover, the risk that there may be a disruption in the internal financial affairs of the investment, thereby causing a loss of value, is called financial risk. The leading example for such risk is those of the "dot-com" stocks that really never did have a profitable financial footing. Perhaps the most familiar one in our daily investment portfolio is market risk. In a highly liquid market like the collective stock exchanges in the developed world, the price of securities is set by the forces of supply and demand. Some forms of investment risk can be insured against. For example, the risk that the custodian of your stock investments might go out of business. Most of the forms of risk that we concern ourselves with, financial risk, market risk, and even inflation risk, can at least partially be moderated by forms of diversification. 

Financial "In & Out"

IN: Yields for government bonds in PIIGS countries may drop after the debt financing plan was announcement with regard to Greece refinancing arrangement.

OUT: On the other hand, German bond would face profit-taking pressure since funds have been flowing into the country for safe-haven for a while. 



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