



# BREWIN DOLPHIN

## MARKET STRATEGY

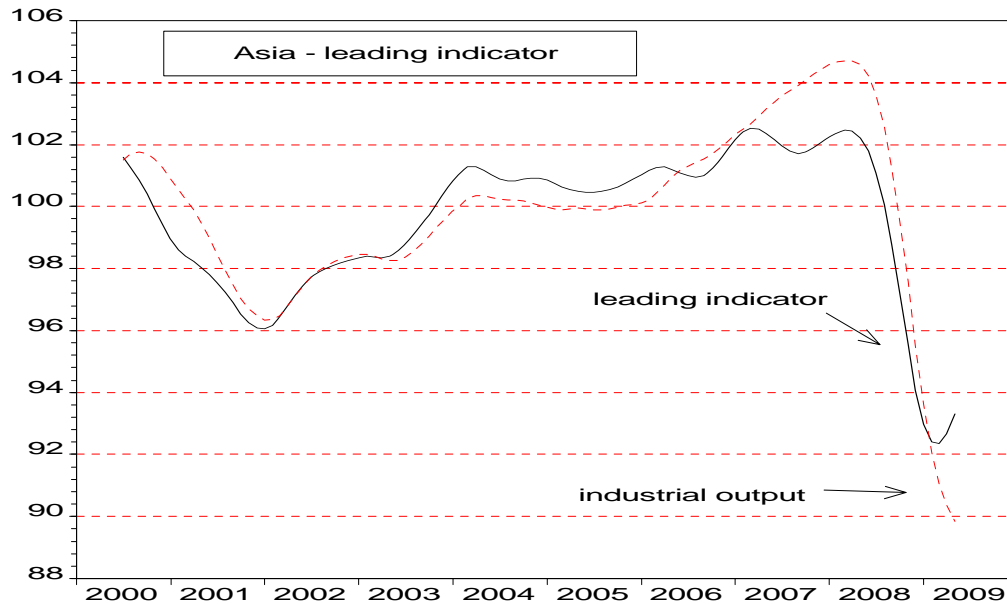
INVESTMENT RESEARCH

17 June 2009

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### ***A consensus on the turn.***



Source: DATASTREAM

One truly welcome piece of news over the past weeks has been the upgrading of expectations for growth in the Asia-Pacific region. Among the more notable upward revisions in May's consensus forecasts for GDP growth for this year (as published by Consensus Economics Inc) were those for China and South Korea, but there were also modest upward adjustments in the forecasts for a few other regional economies.

That was last month. This month, consensus forecasts for India were revised up along with those for Australia, Singapore and also once again for both Indonesia and South Korea. There were downgrades to consensus forecasts too, notably for Hong Kong. Importantly though, the numbers have started to improve for the region as a whole and, as the chart shows, the OECD's leading economic indicator for Asia has turned upward.

At least two positives come out of this. First, starting with Asia, the process of revising 'back up' the forecasts for growth is likely to continue and extend to the developed economies. In the US and the UK, a number of forecasters have already taken up their numbers for this year - including a few who have been especially negative - with the result that the consensus forecasts for 2009 have edged up ever so slightly. It's a start!

The upgrading of expectations for Asia is also a big plus for the FTSE 100. The three largest sectors of this index - Oil & Gas, Banks and Mining - are beneficiaries of this change in expectations. The resources sector benefits because the developing world is where the growth in oil and metals consumption is at. With China being the biggest contributor to growth of the lot, a start to the upgrading in the economic outlook for Asia is positive for the sector. Our recommendation is to be overweight. In the Oil & Gas sector, BP, BG Group and Tullow Oil are the Buys. In Mining, BHP, Rio Tinto and Xstrata are Buys. So buy one or the other or several!

As for the banks, HSBC and Standard Chartered now represent some 75 percent of the sector. More than half of HSBC's profitability derives from Asia. In the case of Standard Chartered, we're talking about nearly 80 percent. The upgrading in the economic outlook for Asia is clearly beneficial for the sector. HSBC is a Buy. So buy it.

Much of this good news is already in the market but, as we keep on saying, once the upgrades start, they tend to be followed by more of the same. On this view, the Banks and the Resource sectors need not give up a whole lot of ground. Given that Oil & Gas, Banks and Mining comprise nearly half of the FTSE 100, the same might apply to the FTSE 100.

As always Wall Street is critical in this and so are rising long term interest rates. One among several reasons for the latter is likely to be the end of the cycle of downgrading in the outlook for economic growth. The flip side of this though is the end to the cycle of downgrading in the outlook for earnings and this should offer fundamental support for equity markets.

When we cautioned on the progress made by equity markets a short while ago ([see A heads up. 8 May 2009](#)) the comment was based on their very rapid move - from the March lows - into an extreme overbought condition. We spoke of a correction at that stage but also noted that 'the rebound in equity markets is for real - even if a correction is coming'.

We've not really seen a correction, at least not yet. We will know we had had one when the markets come back by some 10 percent. They may be in the mood for some profit-taking but all we've had thus far is a consolidation phase of sideways trading and even then global equity markets have still managed to reach new highs for the year. Looking at the FTSE World Index, they did so only last week.

The action in equity markets since their March lows has been all about lower risk premiums and better prospects for earnings associated with a turn in the cycle and consensus forecasts are beginning to endorse the sentiment. The markets signalled it; the global economy is now likely to deliver it - the recovery that lies ahead.

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