- California: The USA's Greece
- SNB: Waking up from hibernation
- Oil: Rising to new highs

partners' view

January	February	March	April	May	June	July	August	September	October	November	December
1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10	10/10	11/10	12/10

swisspartners

Politics and business

Fiscal environment is key to business recovery. US labor market achieves the long-awaited trend reversal.

If at all, the debt problems of the nations in the west can only be overcome with healthy business growth. And it must be self-sustaining, without any government crutches. For starters, it will take a solid footing both for private consumption and corporate spending. Job-loss fears or fiscal avarice would be poison. Even if debt in the USA (and in Europe as well) seems to be an insurmountable problem, America is most likely to establish the best baseline conditions for the economy.

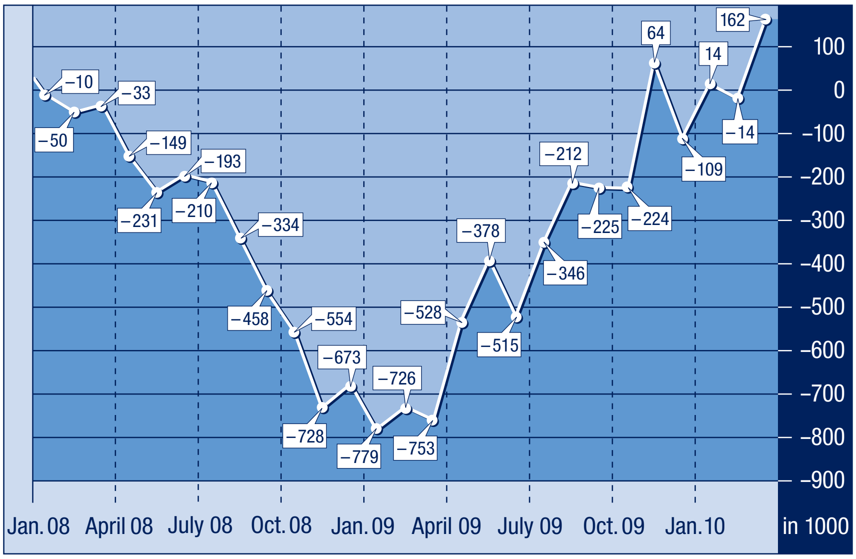
Is this the turnaround point?

As already mentioned in the previous issue of partners' view, very encouraging numbers are again coming from the US labor market. With 162,000 new jobs outside agriculture (non-farm payrolls), it appears as if the impatiently awaited trend reversal may have been initiated now (see graph). This highest gain since May 2007 nurtures hopes for a continued rebound. The next months will show how sustainable this growth trend actually is. Currently standing at 9.7 percent, the unemployment rate will gradually recede in the coming months. For the first time, the housing market is also justifying optimism. With a surprisingly strong surge of 8.2 percent, pending home sales are now finally showing resilience.

Compulsory timeouts

Greece's financial problems are still burdening the euro, mostly versus the US dollar. But at the same time, this is surprising because the USA's largest and most important state, California, went bankrupt long ago. Governor Arnold Schwarzenegger already declared a financial emergency last year. A hole in the budget estimated at USD 40 billion continues to call for immediate remedial action in 2010. Among other measures, the state's 238,000 civil servants were forced to take a vacation, without pay, of course. In 2008, California also had to ask the Treasury Secretary for an emergency loan because the banks flatly refused to lend any money to the Golden State. California has 3.5 times as many inhabitants as Greece, and if it were an independent nation, it would be the world's eighth-largest economic power. Its gross domestic product of some USD 2.0 trillion is a multiple of Greece's GDP (roughly 360 billion). Athen's contribution to the total GDP of the eurozone is about 2.6 percent; California accounts for 13.5 of America's GDP. Thus, California's financial problems weigh much more heavily on the dollar than Greece's predicament on the euro. Nonethless, UBS recently upward-revised its projections for the US dollar by more than 20 percent. So if the forex experts at UBS are right, the dollar would continue to appreciate while the euro would lose even more ground.

Non-farm payrolls: Employment growth



Currencies and interest rates

Australia rocks the interest front. The SNB intervenes in the currency market. The euro reacts to the European financial aid package.

The meanwhile fifth interest-rate hike in Australia since October 2009 lifted the Australian dollar to par level with the Swiss franc. The last time a franc had to be paid for the Aussie dollar was in July 2008. Subsequently, these new highs resulted in profit taking – not surprising given a gain of over 40 percent since late 2008. As regards their fiscal policy, the European Central Bank (ECB) and the Bank of England are still exercising caution. As expected, both banks left interest rates at their current record lows. A comparison of the interest-rate policies of the central banks of Australia, Europe, and England shows why the currencies have evolved so disparately. Extreme lows in the pound and the euro versus the highs of the Australian dollar illustrate the reason for the demand: the lending rate spread. The upcoming parliamentary elections on May 6 in the UK are imposing a burden on the British pound.

Interventions

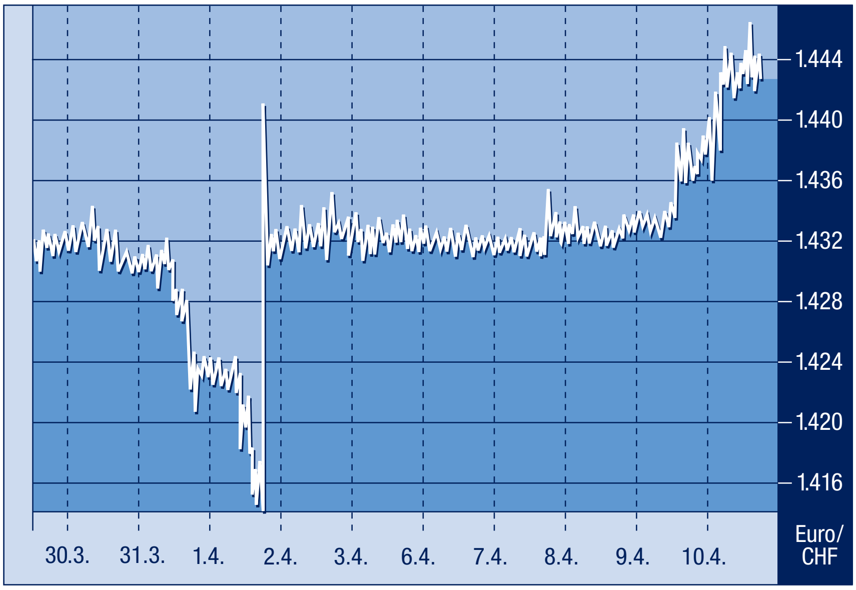
Late on April 1st, the Swiss National Bank (SNB) successfully launched an intervention in favor of the euro after the single currency had suffered a massive loss. The markets immediately realized that this was not an April Fool's Day joke and immediately settled their euro shorts. Then, within just a few minutes, the euro rose by 2.5 rappen, nearly 2 percent (see graph). The long wait for the SNB was finally over!

Restricted by further SNB interventions, the currency pair dwelled at the new level of about 1.432 versus the Swiss franc for about one and a half weeks. Only with the announcement of an EU- and IMF-sponsored financial aid package worth 45 billion euros for Greece did the single currency start to budge again, this time mainly versus the US dollar. In just a short time, the euro advanced by nearly 3 percent.

Interpretations

The interpretation of a graph always depends on the viewer's perspective: a large Swiss asset management bank recently mentioned the record-low interest rates in the USA and to illustrate its rate-increase scenario plotted a graph showing the yields for 10-year US government bonds across the past 90 years. Under a magnifying glass, the same graph shows that yields nearly doubled since early 2009! This is a clear sign that the financial markets are not waiting for a reaction on the part of the US central bank but instead are introducing the necessary steps (interest-rate hikes) beforehand. This is proof of the often-quoted efficiency of the markets. Nonetheless, rising inflation, a perceptible depreciation of the US dollar, or a loss of confidence in the United States as a borrower will inevitably result in higher interest rates. Thus, bond durations in all currencies should be kept in the short- to medium-maturity ranges.

The euro versus the Swiss franc

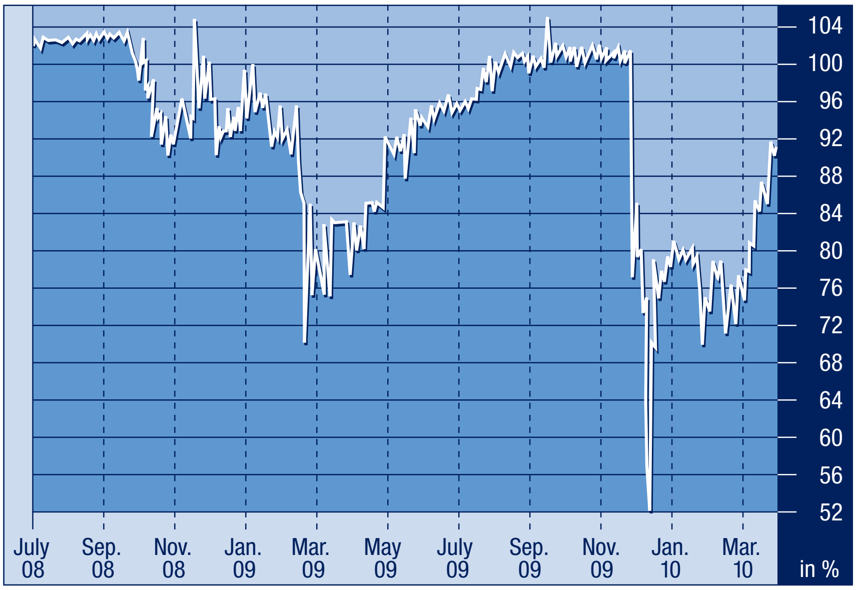


Financial markets

The earnings season has started. Dubai supports Dubai. Obama's decision positive for Swiss oil corporation.

The month of April is earnings season for first-quarter metrics. US companies in particular present their quarterly figures as early as mid-April. Traditionally, Alcoa has come out first. Now, the issue in the corporate sector is to confirm the premature good cheer of the financial markets with solid numbers. This should not be a problem because depleted inventories will lead to a surge in orders if sentiment keeps brightening and stocks have to be replenished. Consequently, reported earnings are important, but so are published order backlogs that indicate future capacity utilization. May is upon us and that's when the adage "Sell in May and go away" comes into play. If investors had heeded this piece of wisdom last year, they would have sold the SMI at 5200, some 30 percent lower.

Swiss franc 5.25% Dubai Holding



One problem less

A financial market problem that surfaced last year has virtually taken care of itself: Dubai. The emirate's government wants to support the highly indebted Dubai World conglomerate with 9.5 billion US dollars in cash. In addition to this financial bailout, the more than 10 billion in debt incurred by Dubai World and its subsidiary Nakheel will be converted into common stock. Thus, the Emirate of Dubai has committed a total of 20 billion US dollars to save Dubai World, the bankrupt real estate company. The price of the 5.25 percent Dubai Holding bond, traded in Swiss francs, rose to 90 percent. During the crisis, the paper had changed hands at 54 percent (see graph). This turn of events is also good news for the financial institutions that invested in the desert nation.

Presidential support

Transocean, recommended in the last issue of partners' view, is still making headlines. The world's largest deep-sea drilling company moved its headquarters to Switzerland in late 2008. On April 20, 2010, it was also admitted to the Swiss stock exchange. There's more: quite probably, it will be decided in June whether the heavyweight (capitalization USD 27.5 billion) should be included in the Swiss Market Index (SMI). Transocean is also receiving direct support from President Obama. According to a recent energy policy revision, oil and gas exploration will be approved in previously banned coastal regions. And drilling rigs are Transocean's business. Even the recent rise of the price of oil to 85 dollars a barrel – the highest since October 2008 – is good news, since oil giants Shell and Exxon Mobile rank among Transocean's customers. It is on their behalf that Transocean drills, develops wells, and pumps black gold to the surface.

Business indicators

Listed below are the strengths, weaknesses, and definitions of several indicators. The following indicators represent only a small selection from a broad spectrum of indices, but they may prove useful to readers from time to time.

Labor market

- **Non-Farm payrolls:**
  The number of newly created jobs in more than 500 occupations in the USA, except in agriculture. It is probably the single most significant report among economic indicators. It is published monthly, concurrently with revised figures for the preceding two months.
- **Initial jobless claims:**
  First applications for unemployment benefits. Shows the number of people who for the first time file claims for support. An important indicator for the state of the labor market.

Housing market

- **Existing home sales:**
  Indicates how many existing homes were sold. The sales figures are reported monthly and annualized, i.e. extrapolated to one year. Two-family or multi-family dwellings are not included in the count.
- **New home sales:**
  Indicates how many newly built homes were sold. The report also provides average home prices and how long the homes were on the market.
- **Pending home sales:**
  This is a leading indicator for the sale of existing homes.
- **S&P Case-Shiller Home Price Index:**
  The leading index in the USA for price trends in the housing market.

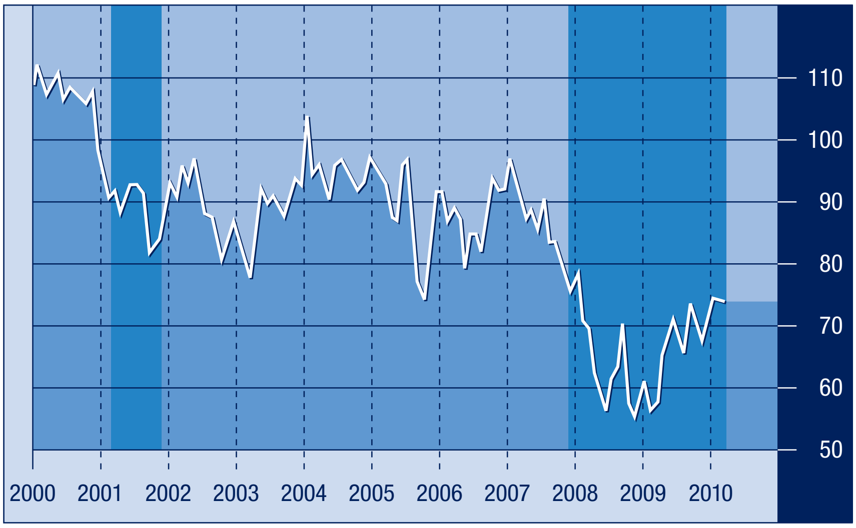
Consumers

- **Consumer confidence:**
  This curve reflects sentiment among consumers, and it is considered to be a leading indicator. It is derived from a monthly survey of 5,000 households.
- **Consumer price index (CPI):**
  Consumer prices (inflation). The published core inflation rate does not include changes in food and energy prices.

Producers

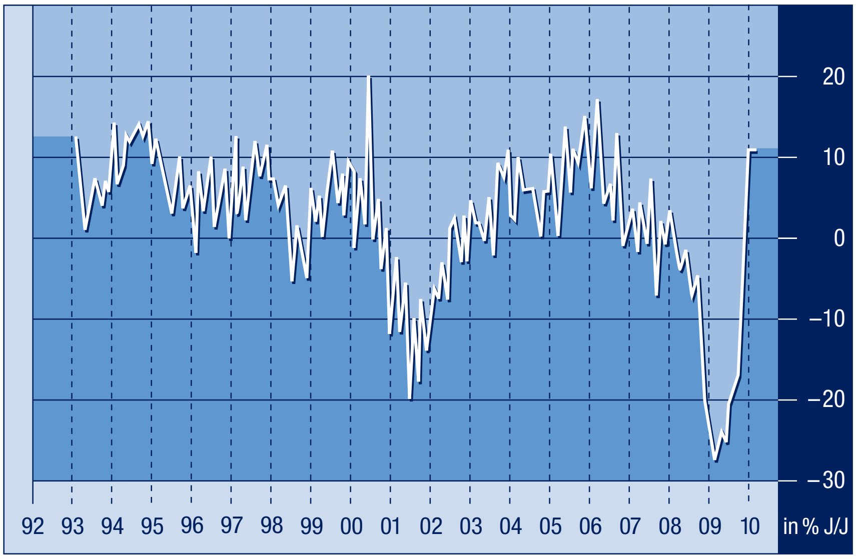
- **Business Inventories (Manufacturing and Trade Inventories and Sales, MTIS):**
  Indicates stocks held by retailers, wholesalers, and manufacturers. Indicator for future new orders.
- **Durable goods orders:**
  Orders received for goods with long service lives. Is deemed one of the first leading indicators and is very volatile.
- **ISM (Institute for Supply Management, formerly NAPM):**
  Purchasing managers' index in the services industry (NMI – Non-manufacturing index). More than 370 purchasing managers in the non-manufacturing industries participate

University of Michigan Consumer Sentiment Index



Source: University of Michigan

Durable goods orders



Source: Bureau of the Census

in this monthly survey. The sentiment indicator suggests economic growth when the index exceeds 50 points.

Economy

- **Leading indicators:**
  An index composed of ten key indicators (such as building permits, market indices and consumer confidence). The index is used to predict a recession. Rule of thumb: three consecutive months with declining values are signs of a recession.

- **Beige book:**
  A summary of Fed comments on the current economic situation, published eight times a year. Does not contain any numbers or data, it only describes the regional status quo in the twelve Fed districts.

Last but not least

"A good suit and a tailored shirt
can turn even a broker into a gentleman."
Oscar Wilde

Peter Ahluwalia
Marthe Ballet
Yves Baumann
Jörg O. Blickensdorfer
Johan Buckert
Christ Johann Collenberg
Chantal Cvorovic-Lauper
Ute Dürtscher
Martin P. Egli
Peter L. Einstein
Ben Euving
Chantal Gehri
Olaf Gierhake
Mauro Golinelli
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Rainer E. Hansen
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Dominique J. Spillmann
Barbara Stacey
Carsten Tillner
Kurt E. Vogelsang
Bettina Wälti
Ralph Weidenmann
Markus Wintsch
Bruno Zemp
Louis D. Zuckerbraun
Christian zu Pappenheim

swisspartners Investment Network AG
Am Schanzengraben 23
P.O. Box
CH-8022 Zürich
Phone +41 58 200 0 000
Fax +41 58 200 0 100

swisspartners Investment Network AG
Steinengraben 18/22
P.O. Box
CH-4002 Basel
Phone +41 58 200 0 500
Fax +41 58 200 0 595

swisspartners Investment Network SA
rue Neuve-du-Molard 24
P.O. Box
CH-1211 Genève 3
Phone +41 58 200 0 200
Fax +41 58 200 0 210

swisspartners Wealth Management AG
Am Schanzengraben 23
P.O. Box
CH-8022 Zürich
Phone +41 58 200 0 400
Fax +41 58 200 0 490

swisspartners (Liechtenstein) AG
Feldstrasse 16
FL-9490 Vaduz
Phone +423 239 79 70
Fax +423 239 79 80

www.swisspartners.com
info@swisspartners.com

swisspartners