

- ▼ Growth: Solid global outlook
- ▼ Euro support: SNB runs out of steam
- ▼ Promising: Buy Syngenta

part

partners' view

+ + + + + + + + + + - - - - -

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



Politics and business

Nicolas Sarkozy in the line of fire. EU interest taxation fires third stage. Euro supports the economy.

France's president Nicolas Sarkozy and his minister of labor Eric Woerth have come into the line of fire of public prosecutors. Illegal election campaign donations financed with undeclared monies are serious allegations aimed at the self-declared hunters of tax evaders. These accusations, which Sarkozy is dismissing as lies and libel are indeed very inopportune. He just introduced 150 measures designed to relieve the public budget by about ten billion euro in the coming years, among others the elimination of 100,000 jobs. Savings measures of this kind call for everyone involved to make sacrifices, and they call for a strong government.

EU interest taxation – third round

The third stage of EU interest taxation comes into force on July 1, 2011. From this point in time, Switzerland will withhold 35 percent of interest earned (time deposits, bonds, and other interest-bearing paper) by all EU citizens and send the money anonymously to the client's domicile country. In the past, the rate has been 15 and 25 percent, respectively. But as a result of the source tax on capital gains (Abgeltungssteuer) introduced by Germany within the scope of the corporate tax reform effective January 1, 2009, every taxpayer officially owes the internal revenue service only 25 percent, regardless of his income (roughly 28 percent including the solidarity contribution and church tax). This leads to the peculiar

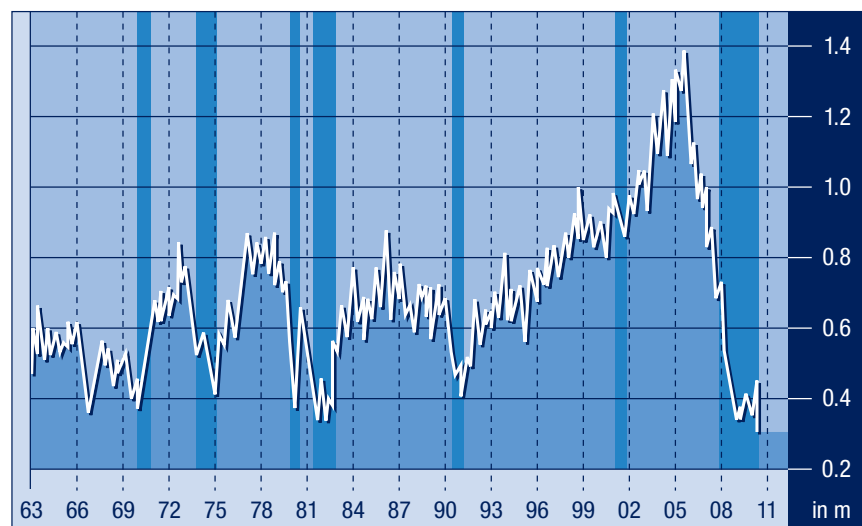
situation that Switzerland collects and delivers about 25 percent more in taxes on behalf of Germany than would officially be due. However, the EU interest tax does not include the taxation of capital gains. Nonetheless, with this scenario, Switzerland is likely to have found a solution in the tax dispute with the EU that should be acceptable to all parties.

Weak currency helps

The world is in good condition – at least, that's what the growth projections of the International Monetary Fund (IMF) suggest. According to the IMF, the global economy should grow by 4.6 percent this year and by 4.3 percent in 2011. However, the world consists of heterogeneous regions that present themselves very disparately. The undisputed engines of the

world economy are China (10.5 percent) and India (9.4 percent) with the EU zone heading up the rear. But a look at the two years 2010 and 2011 is surprising: Europe is the only region that can post advances versus the prior year. This is comprehensible for two reasons. First, the baseline is considerably lower than that of the booming regions in Asia. Second, the euro zone is benefiting from the weakness of the euro. Exports, predominantly from Germany, are experiencing a genuine boost. The American housing market has still not found its way out of the crisis. New home sales in May collapsed dramatically by 32 percent – a dismal record low since 1963 (see graph).

New home sales



Currencies and interest rates

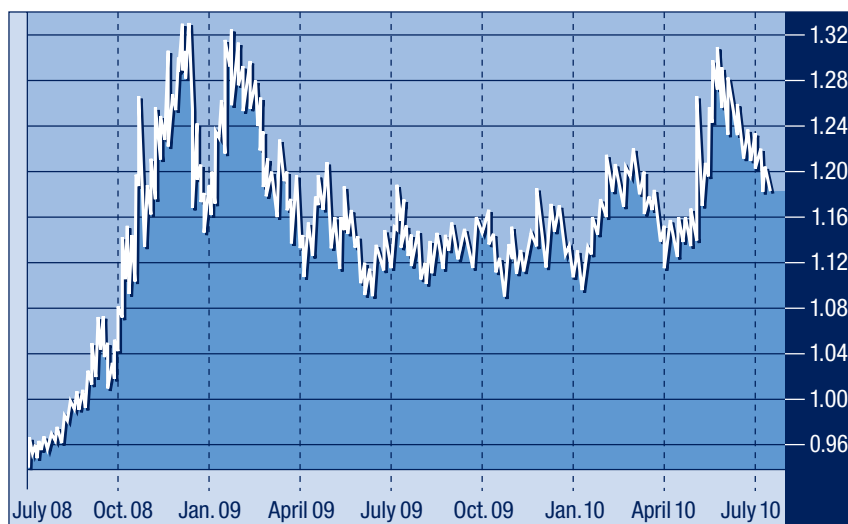
Swiss exporters lament. High volatility in the Japanese yen. China is pragmatic as it appreciates the yuan.

Since the European Central Bank (ECB) still expects no more than a modest economic upswing and pressure on prices (inflation) appears to be very moderate, the ECB has again left lending rates unchanged.

The weak-currency dream

The weakness of the euro is dominating headlines in the financial press, very much to the glee of the European export sector. Swiss colleagues can only dream of a weak currency. The strong Swiss franc is becoming an ever greater problem. With currency reserves in the magnitude of some 200 billion (mostly in euro), accrued by support interventions, the Swiss National Bank (SNB) is running out of means to intervene in the forex market. The complaints of exporters, mainly of the mechanical engineering industry, are understandable. Still, the domestic labor market is in excellent condition. Seasonally adjusted, only 3.7 percent of the overall workforce do not have a job. This is the most important prerequisite for consumption, the key pillar of an economic recovery. In reality, the collapse of the euro in late June was a firming of the Swiss franc caused by the market abstinence of the SNB. The strength of the franc also manifests itself in the parities versus the Norwegian and Swedish crowns, which both softened by up to 10 percent. The Japanese yen is also enormously volatile: in one month, it advanced by nearly 20 percent and gave back 12 percent (see graph).

JPY/CHF: upwardly volatile



Chinese pragmatism

The Chinese monetary authorities acted in wise foresight. Shortly before the G-20 summit in Toronto, they signaled their willingness to appreciate the country's renminbi, thus easing some of the international pressure that had accumulated. For years, the major industrialized countries, especially the USA, have been demanding an appreciation of the yuan to partially offset the imbalances in the trade flows and the trade advantages leveraged by China. So far, China's domestic currency has been pegged to the US dollar. This circumstance allowed China to prevent a massive appreciation triggered by the enormous balance-of-trade surpluses. The consequence is that the Chinese Central Bank has amassed dollar reserves in the order of 1000 billion.

The surprising concession is a pragmatic move as evidenced by the statement of the central bank spokesperson: "There will be no appreciation on a big scale." But this is exactly what the USA wants. It sees the Chinese currency as being undervalued by as much as 40 percent. Accordingly, the forex market showed hardly any reaction to China's half-hearted concession. The yuan failed to gain even a percentage point versus the US dollar.

Financial markets

European export stocks benefit from euro weakness. China's half-year performance poor. BP becomes takeover candidate.

The earnings season (semi-annual reports) traditionally began with Alcoa and kicked off with a profit surprise. The aluminum producer was able to upward revise its expectations for the current year and was rewarded by the market with a vigorous gain. Among European corporations, the euro weakness has had a positive impact. Cosmetics giant L'Oréal, for instance, benefited from the positive currency effect by about 3.6 percent. Germany's auto-maker BMW also expects a surge in revenues.

Buy China

In the first half of 2010, the Chinese stock market experienced a painful setback with the Shanghai SE Composite (SSE) posting a loss of 25 percent. But wild volatilities are not rare in emerging market regions: in 2008, the SSE tumbled by 65 percent, only to rebound

again by 80 percent in 2009. But the absolute figures paint a clearer picture: after a top of just over 6000 points in 2007, the SSE currently stands at less than 2500. In the near future, the yuan will be under pressure to appreciate, and strict government regulation will lead to more restrictive lending. Nonetheless, the current price weakness offers good entry-level opportunities.

BP as a takeover candidate?

Rumors that the battered oil company might be taken over are driving BP's stock price up. So even the largest real-life disaster eventually leads to a counter-reaction on the financial markets at some point in time. Once the hole is plugged, it must be hoped that the environment damage will also soon be remedied, and that would be positive for all parties involved (BP, Transocean, Anadarko). Still, shareholders and bond owners will have to exercise considerable patience and stand the test of nerves.

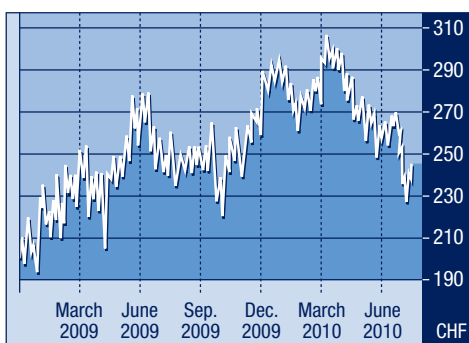
Apart from alternative energy sources, water and food are also themes on which investors will focus in the long term. Syngenta is excellently positioned in pest control in the agricultural sector as well as in seeds and crop protection. After a year-over-year decline in performance of almost 20 percent, it offers a good starting point (see graph).

Last but not least

"If someone like me can bring a currency regime to its knees, the system is out of whack."

George Soros

Syngenta



Peter Ahluwalia
Marthe Ballet
Yves Baumann
Jörg O. Blickensdorfer
Johan Buckert
Christ Johann Collenberg
Chantal Cvorovic-Laupner
Ute Dütscher
Martin P. Egli
Peter L. Einstein
Ben Euving
Chantal Gehri
Olaf Gierhake
Mauro Golinelli
Narciso Grilli
Patrick Huurdemann
Urs Jäggi
Claude R. Jenni
Beatrice Kern
Daniel Kössler
Thomas Kostkiewicz
Markus Linke
René Meyer
Rainer H. Moser
Jos Raafs
Christian Rockstroh
Mark Rüegger
Manuela Schlegel
Bernhard Schürmann
Richard Smith
Dominique J. Spillmann
Barbara Stacey
Carsten Tillner
Kurt E. Vogelsang
Bettina Wälti
Ralph Weidenmann
Markus Wintsch
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