



INVESTMENT STRATEGY

15 September 2010

September
10

ASSET ALLOCATION	2
ECONOMIC OUTLOOK.....	3
Viewpoint	3
Developed economies	4
Emerging economies	5
BOND MARKETS.....	6
Government bonds.....	6
IG and HY credit.....	7
CURRENCY MARKET	8
EQUITY MARKETS.....	9
Developed markets.....	9
Emerging markets	11
ALTERNATIVE STRATEGIES.....	13
Commodities	13
DISCLAIMER.....	14

Vacation is over and risk has returned

The living was easy for most asset classes this summer, with equities, bonds and commodities all posting gains. We doubt however that conditions will remain favourable for all assets for very long.

In August, we reduced our exposure to developed equity markets and now recommend a portfolio that will be able to withstand high risk aversion (see page 2). Indeed, we have not changed our economic scenario and still think that the advanced economies will continue to slow over the next few months, putting downward pressure on equities. Furthermore, we believe the upward trend in macro and microeconomic forecast revisions will reverse. The consensus forecasts of US economic growth for next year are still too optimistic, as are financial analyst forecasts of listed company earnings. Lastly, it is a bit disturbing to note that the recent widening of sovereign bonds spreads in the eurozone still seems to be having no effect on the other asset classes.

What are markets "pricing in"?

The trickiest question now is to understand what type of scenario investors are expecting. They are clearly not very optimistic about GDP growth, judging from the long-term bond yields of the major economies and from the valuation multiples of equities. However, we doubt that developed economy equity markets can now withstand slower growth without some pain. Although they are not expensive, they will have to absorb the shock of lower consensus forecasts, something they have not had to do in over a year and a half. In addition, the relatively low level of volatility (VIX is near 20) shows that investors are a bit too complacent about the risks of an economic slowdown. Lastly, the still rather steep yield curve suggests that robust growth is expected. However, the curve's slope may not be a reliable indicator since this is attributable to extremely low short-term interest rates.

Near-term supporting factors, such as corporate earnings announcements and EU bank stress tests, are now behind us and **we see no more near-term market drivers.** However, there is now a greater risk that economic conditions and structural weaknesses (mainly high public debt and household deleveraging) may trigger a market correction, although it is hard to say when. Given this uncomfortable combination of factors, we have decided to adopt a small underweight in equities. We remain neutral in sovereign bonds and slightly overweight in high-yield corporate bonds. As for commodities, we continue to prefer gold.



ECONOMIC OUTLOOK

Viewpoint Losing steam

US employment
continues to lag

Restoring business
and consumer
confidence

The eurozone leads the
G3...

... but probably not for
long

Disappointment in the United States. The main impression this summer was that the US economy slowed (to an annualised GDP growth rate of 1.6% in Q2) while the eurozone surged ahead at 4%. This impression is however no doubt a bit exaggerated, since the "weak" US data in August and early September simply indicate a slowing of economic activity after the rebound in manufacturing driven by the recovery of global trade in 2009 and the subsequent need to rebuild inventories. Employment has yet to recover and this new "jobless recovery" brings with it a substantial increase in the average length of unemployment. This situation mainly shows that companies are reluctant to hire after their massive layoffs of 2008 and 2009. It could feed a vicious cycle where households would continue to rebuild their savings well above the current saving rate of about 6% and therefore stop consuming and jeopardize growth and employment. Such an eventuality could result in the much feared "double-dip" recession. Although we do not expect this, recent statements by Ben Bernanke and Barack Obama show that employment continues to be the main concern of US authorities. Mr Obama has announced new measures to promote "growth and jobs" and to encourage companies to "create jobs in America" by lowering taxes for small businesses and making it easier to borrow. The objective is to restore business and consumer confidence as the jobless rate remains high over the next few months, while leaving some scope for wage growth. The fragile state of the economy is being closely monitored.

Some pleasant surprises for the eurozone. While the US and Japanese economies showed signs of slowing in the second quarter, the eurozone's economy grew 1%, on the back of a 1.8% increase in investment and resilient consumer spending, which grew 0.5%. Germany's economy performed very impressively, with 2.2% GDP growth driven by investment (capital goods and construction) and by net exports. Although survey indicators are still generally positive and continue to reflect economic expansion, senior executives and purchasing managers are beginning to show less confidence in the economic outlook, reflecting rising uncertainty over the coming quarters. Even though domestic demand has strengthened in the European economies (despite large disparities however) they are not likely to escape the global slowdown. Rather than a "decoupling", what we are seeing is the normal lag between the US and European economies. The most likely scenario is for moderate growth in most of the developed countries, given the structurally weak environment where private deleveraging will depress spending, while public deficits pose a longer term threat.

Consensus Forecasts: Growth & Inflation

	GDP y.o.y %								Inflation y.o.y %									
	2009	2010				2011				2009	2010				2011			
		M	H	L	-1M	M	H	L	-1M		M	H	L	-1M	M	H	L	-1M
M= Mean; H= High; L=Low																		
Developed Economies																		
USA	-2.6	2.9	3.2	2.6	[3.1]	2.8	4.0	1.8	[3.0]	-0.3	1.6	1.9	1.3	[1.7]	1.4	2.7	0.2	[1.5]
Canada	-2.5	3.4	3.6	3.0	[3.5]	2.7	3.5	2.1	[2.8]	0.3	1.8	2.2	1.5	[1.9]	2.2	2.7	1.8	[2.2]
Euro zone	-4.1	1.2	1.5	0.8	[1.1]	1.4	2.1	0.6	[1.4]	0.3	1.5	1.7	1.3	[1.5]	1.6	2.1	1.0	[1.5]
UK	-4.9	1.5	1.9	0.9	[1.3]	2.0	2.9	1.0	[2.1]	2.2	3.0	3.4	2.7	[3.0]	2.6	3.9	1.5	[2.3]
Switzerland	-1.5	2.1	2.5	1.6	[2.0]	1.8	2.5	1.2	[1.8]	-0.5	0.8	1.1	0.3	[0.8]	0.9	1.5	0.5	[1.0]
Japan	-5.3	3.2	3.6	2.7	[3.2]	1.5	2.6	0.3	[1.6]	-1.4	-1.0	-0.7	-1.3	[-1.0]	-0.2	0.4	-0.6	[-0.2]
Australia	1.3	3.0	3.8	2.7	[3.0]	3.4	4.1	2.6	[3.3]	1.8	3.0	3.2	2.8	[3.2]	3.0	3.6	2.6	[3.1]

Source: Consensus Forecasts as of 09/08/2010



BNP PARIBAS
INVESTMENT PARTNERS

FOR PROFESSIONAL INVESTORS ONLY

ECONOMIC OUTLOOK

Developed economies Economic policy still counts

Central banks still wary about the economy

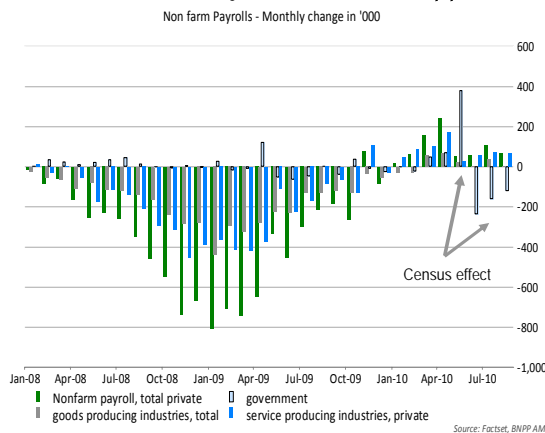
Unconventional monetary policy measures are not being challenged; much to the contrary

Would you like a bit more stimulus?

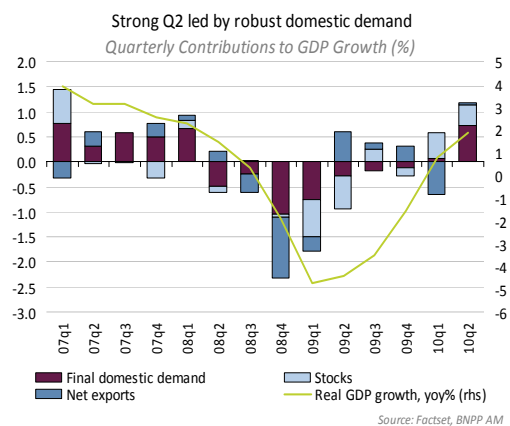
Central banks are not taking it easy. After repeatedly emphasising their exit strategies from unconventional monetary policies, central bankers adopted a radically different tone in August by deciding to extend or even accentuate their exceptional measures. The US Federal Reserve got the ball rolling when it announced in August that it was going to reinvest principal payments on agency debt and agency mortgage-backed securities in long-term Treasury securities. The Fed's objective is to keep constant the total amount of securities it holds (USD 2.05 trillion as of 4 August) to avoid "passive tightening". Although the amounts involved are relatively modest (USD 400 billion until end-2011), Ben Bernanke implied that additional purchases could be considered and would not be limited to T-notes, which would mean more quantitative easing. Although the Fed is divided on this, it could be an option if economic conditions get any worse. At the end of August, the Bank of Japan increased its fixed-rate lending to banks, to facilitate the financing of economic activity. The European Central Bank confirmed that its exceptional and unlimited fixed-rate refinancing operations would be extended until at least early 2011. Lastly, the Bank of England seems willing to resume its purchases of public debt securities as UK output growth starts to slow. Even in major developed economies that have already begun to tighten monetary policy (e.g., Australia, Norway and Canada), the pace of tightening is likely to be adjusted to the global economic environment. Policy interest rates are likely to remain low for a long time, which will provide strong support.

Moderate fiscal adjustments. The IMF points out that premature tightening of fiscal policy could stifle the nascent recovery, but that there must be no further stimulus. Except in those countries being closely watched by financial markets, such as Greece and Portugal, governments seem determined to postpone fiscal austerity measures. Japan and the United States have announced new stimulus plans to support domestic demand and employment that are already largely funded, although the amounts involved are relatively modest. The developed economies do not yet seem ready to withstand a brutal return to "normal" economic policy, i.e., raise short-term interest rates and reduce deficits. There is even a good chance that if the risk of a slip back into recession increases, additional stimulus measures will be decided, with the support of international organisations.

United States – job creation disappoints



Euro area – growth is well balanced



ECONOMIC OUTLOOK

Emerging economies

A sharp cyclical slowdown, with stabilisation in China

Cyclical slowdown continues in emerging economies

Strong domestic demand and abundant liquidity

India's economy continues to show good strength and resilience

China's economy stops slowing

Property market continues to overheat, but without systemic risk

The cyclical deceleration in economic activity continues, as leading indicators have been implying over the past two quarters. We expect output in the emerging economies to continue to slow for a few months, as suggested by the sharp drop in the new orders component of the US ISM survey. Signs of a slowdown may be seen in Korea and Taiwan, where exports have been shrinking month to month, due in part to weaker global demand and the down cycle in the computer industry. The winding down of surplus inventories will accentuate the drop-off.

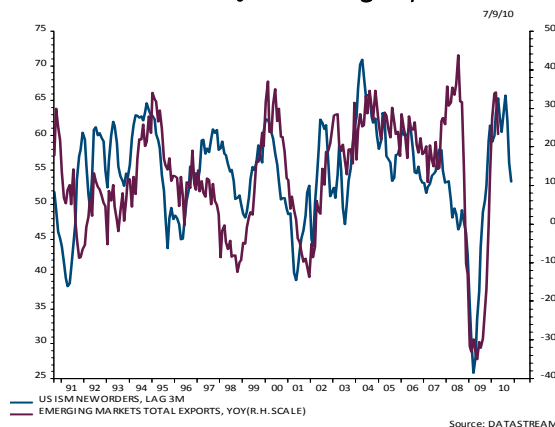
Domestic demand is still quite robust but is not likely to improve given the ongoing monetary tightening and the high level of confidence, which is already near historic peaks. The postponing of monetary tightening in the developed economies reduces pressure on the emerging central banks, which will be able to maintain the abundant liquidity so beneficial for domestic demand. We do not expect growth in the emerging economies to be affected in 2010 and expect only 0.2% less growth in 2011, bringing the average growth rate to 5.8%.

Brazil's economy has clearly past peak growth. It has been supported by robust inventory restocking that is likely to disappear over the coming quarters, thus giving Brazil much slower growth in 2011.

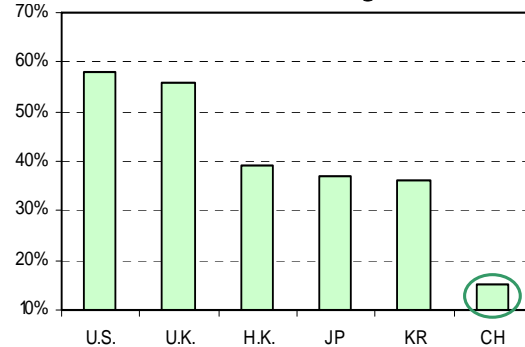
Economic activity remains quite robust in India, with second-quarter growth exceeding 8.8%. This growth, which was well above expectations, was driven by manufacturing, services and abundant harvests.

China's economy seems to be making a soft landing, as domestic demand plays an increasingly large and more balanced role. Indeed, the PMI, industrial output and retail sales are all heading upward. What is even more encouraging is the apparent recovery in bank lending. Although headline inflation is rising this is mainly attributable to higher food prices caused by recent flooding. The core inflation rate continues to decline. We expect Chinese authorities to keep putting pressure on the country's property market, since they are anxious to avoid a bubble in house prices that could destabilise the banking system and create social unrest. Systemic risk is limited however by the low level of household debt and the moderate exposure that banks have to the property market.

Watch out for slowing exports



Property loans relative to total domestic lending



Source: BCA/PBoC



BOND MARKETS

Government Bonds

Pessimism or realism?

As is often the case, the recent decline in yield may be attributed to various factors. Although the line between "normal" fluctuations and overreaction is a thin one, investors in government bonds seem more jittery than their counterparts in equity and credit markets.

Fears of a double dip recession intensify

Starting with the economic factors, the release of disappointing figures in the United States has confirmed the slower growth that we were expecting. Statistics, and the very low level of home sales in particular, also indicate that the US property market is still quite vulnerable. These weaknesses, combined with a sluggish labour market, had been feeding renewed concerns about the possibility of a relapse into recession. Although we do not foresee this scenario and believe that growth will remain positive albeit low, we do believe a double-dip recession is now more likely.

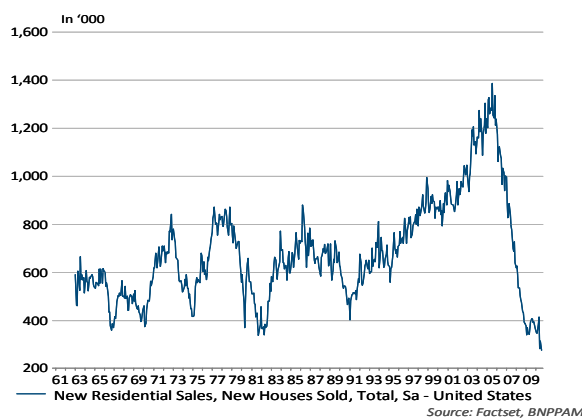
As far as inflation goes, the situation is still not reassuring. Although prices continue to rise, the low inflation that may be expected over the foreseeable future will keep the interest rate premium down. It will also allow central banks more scope for further monetary easing if necessary, either by purchasing additional debt securities, like the Fed or the BoE, or through longer-term refinancing operations, like the ECB. Until such actions are taken, downward pressure on yields is likely to continue.

Positive momentum and high valuations

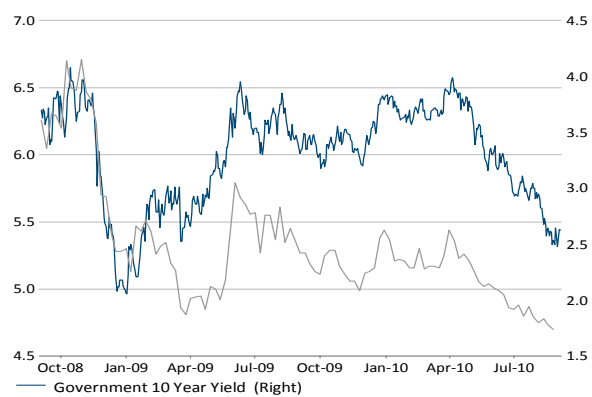
In conclusion, fears of another recession and deflation, the possibility that central bankers will implement additional quantitative measures and the strains resulting from the European sovereign debt crisis will continue to depress government bond yields. Although we feel these fears are exaggerated, government bonds are still somewhat overvalued and are therefore exposed to correction if economic data are better than expected.

We believe the general environment for government bonds will continue to be relatively favourable over the near term and that their rather high prices reflect an economic scenario that is a bit too pessimistic. We are therefore maintaining a neutral position in our portfolio and prefer US and UK bonds over German bunds.

US housing market still in the dumps



Yields are low even without additional measures



BOND MARKETS

IG and HY credit

Yields will stay low for some time, but what about volatility?

Corporate bonds have done fairly well as the economic outlook has weakened and core inflation rates plumb new depths, two conditions that paradoxically should be unfavourable for firms.

Economic uncertainty and sovereign debt risk may still weigh on markets

Many observers, including ourselves, have mused about the ideal environment for credit markets, and it is true that deleveraging, weak growth and low interest rates do provide propitious conditions for IG and HY credit. However, there are now other factors that make the medium-term outlook more uncertain.

First of all, the economic outlook is becoming increasingly cloudy. Although we do not expect a slip back into recession and there are no signs that this is happening, this prospect continues to haunt financial markets and is still a major threat.

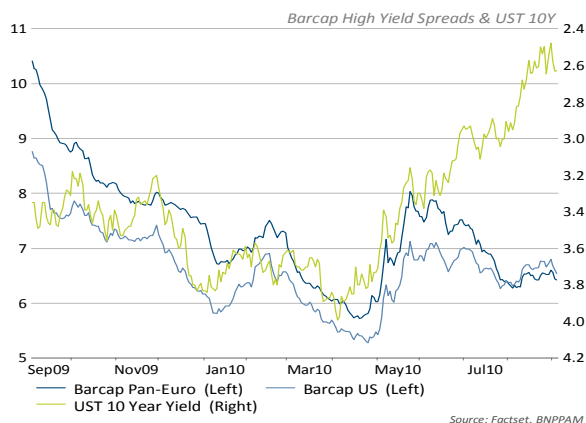
Secondly, it is crucial that we take into account how sovereign debt risk in Europe may affect credit spreads. A closer look at the market has revealed a substantial difference between the credit-default swaps of both financial and non-financial issuers in the core EU countries and in the peripheral ones. This risk is another disruptive factor that may add to market volatility.

In conclusion, although the current environment is still relatively favourable for credit, there are significant near-term risks. Over the medium term, and barring a relapse into recession, we believe that credit spreads could still decline.

HY overweight is trimmed

Given these risks, we have decided to trim our overweight in high-yield a bit for the time being.

Interest rates and spreads diverge



Difference between CDS indices in the core and peripheral countries



CURRENCY MARKET

"Safe-haven" currencies are still much in demand

Currency prices are mainly governed by concerns about the US economy

Euro will be stable over the near term, but bias is still bearish

Yen is likely to remain strong over the near term...

... and the Swiss franc, too

Dollar regains ground. In early August, the euro had reached its highest level against the US dollar in three months, at 1.33. However, the release of a disappointing US jobs report then triggered the dollar's recovery, which was sustained by other lacklustre US economic data. Furthermore, not only did the dollar suffer only a temporary set-back from the FOMC's decision on August 10 to maintain the size of its balance sheet by purchasing Treasury securities, it has been strengthened by the Fed's more cautious economic outlook and the dollar's status as a "safe-haven" currency. During this time, more encouraging news about Europe's economy failed to strengthen the euro. The dominant theme that explains much of the recent behaviour of currency markets is therefore clearly not the growth gap but the return of "risk aversion". Since we believe this situation is likely to continue for the time being, we expect EUR/USD to move in response to economic news within the range observed since mid-August, i.e., from 1.25 to 1.30. Over the longer term, the eurozone's structural problems (high debt, disparities between the economies of its members and limited growth potential) will probably weigh more heavily on the euro.

The yen and the Swiss franc made the strongest gains among the G10 currencies in August. The USD/JPY rate now seems to have stabilised below the symbolic threshold of 85, at levels not seen in 15 years. Japanese authorities are once again vigorously criticising the yen's excessively high level, but with no apparent success. No doubt that the impact of their statements has been diminished by their hesitation over the summer, the modest measures the Bank of Japan ultimately announced, and the country's confusing political situation. Barring a further and sharp increase in the yen, there seems little chance of direct intervention in currency markets, particularly since Japan has yet to receive any support for intervention from its trading partners.

The Swiss franc reached a new record high against the euro in late August, when the EUR/CHF rate fell below 1.30 on the 25th, the day after a credit rating agency lowered Ireland's rating and rekindled concerns about the sovereign debt crisis. In early September, the rate momentarily dipped below 1.28. In June, the SNB had removed any reference to opposing an "excessive appreciation of the franc against the euro" from its monetary policy report and has stopped its currency market interventions, which had proven to be ineffective, given the Swiss economy's strength. Like the BoJ, the SNB is having to deal with this problem alone.

FX Rate Forecast Summary (Major Currencies)

End of Period		2009	09-Sep-10	3Q 2010		4Q 2010		1Q 2011		2Q 2011	
				Min	Max	Min	Max	Min	Max	Min	Max
USD Block	EUR / USD	1.43	1.2745	1.20	1.30	1.20	1.25	1.15	1.20	1.10	1.15
	USD / JPY	93	83.92	85	90	87	95	90	100	100	105
	USD / CAD	1.05	1.0369	0.95	1.05	0.95	1.05	0.95	1.05	1.00	1.10
	AUD / USD	0.90	0.9187	0.82	0.87	0.82	0.87	0.85	0.90	0.85	0.90
	GBP / USD	1.61	1.5485	1.47	1.56	1.44	1.53	1.38	1.47	1.37	1.46
	USD / CHF	1.03	1.0097	1.06	1.10	1.07	1.11	1.11	1.15	1.16	1.21
EUR Block	EUR / JPY	134	106.95	106	113	107	116	106	118	113	118
	EUR / GBP	0.89	0.8231	0.80	0.85	0.80	0.85	0.80	0.85	0.77	0.82
	EUR / CHF	1.48	1.2868	1.30	1.35	1.28	1.33	1.30	1.35	1.32	1.37

Source: BNPP AM as of 9/9/2010



EQUITY MARKETS

Developed markets

Slight underweight given downside risks

Low growth expected, but no return to recession, ...

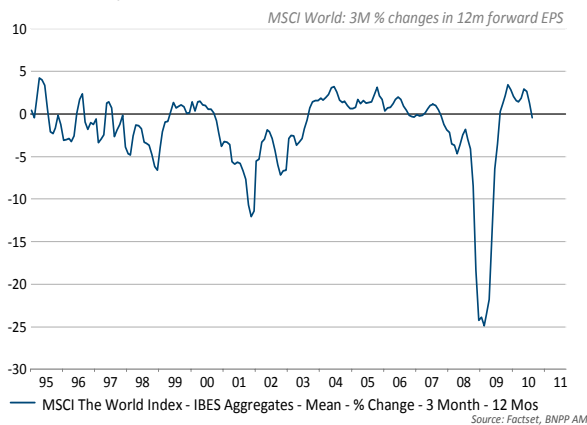
... as central bankers adopt a new tone

After much disappointing news on the economic front in early August, figures over the past few weeks have given investors some reassurance as to the nature of the current slowdown. Various factors—such as the rebound in manufacturing indicators in August (the ISM index in the United States and the PMI in China), the slight pick-up in the US labour market and the surge in eurozone GDP in the second quarter—show that **fears of a double-dip recession seem to be excessive**. Yet economies will have to face considerable downside risks and most importantly years of household debt reduction and of fiscal discipline to bring public debt under control. We are therefore **maintaining our scenario of positive but much slower growth in the second half of 2010** and beyond.

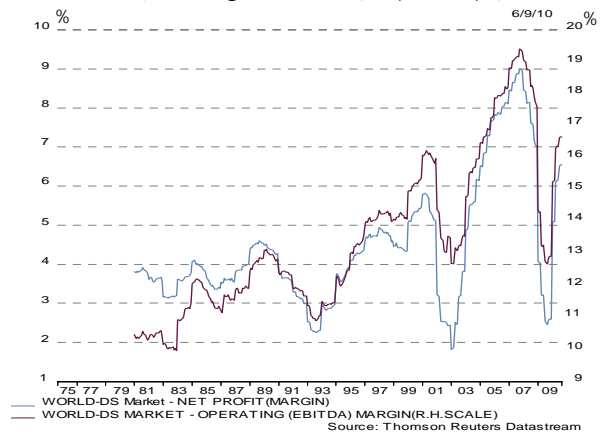
Given the economy's weakness and the threat of deflation, central banks in the major advanced countries have adopted a more cautious tone this summer, while those that have begun to normalise their monetary policy (such as the RBA) prefer to wait and see how the global slowdown might affect their economy. Strategies to wind down the exceptional measures to boost liquidity are no longer on the agenda (particularly at the Federal Reserve and the ECB) and we believe that the Fed could even launch a new quantitative easing programme, probably by the end of this year.

Given the uncertainty as to how long this slow growth will last and how monetary authorities in the developed countries will respond (now that they have almost no further scope for fiscal stimulus) we are expecting a period of significant market volatility and have adopted an **underweight position in developed equity markets at the end of August**¹. Since there is no catalyst in sight likely to boost equity indices over the medium term—other than reassuring announcements about the new Basel 3 regulations—the balance of risks does indeed seem tipped to the downside.

EPS forecast revisions head downward



Profit margins already up sharply



¹ "Reducing our allocation's risk" Flash, August 25, 2010



EQUITY MARKETS

Developed markets

Lower earnings forecasts over the coming months

Equity markets are also likely to feel the weight of increasingly weak earnings reports, after the very strong 2nd-quarter earnings season.

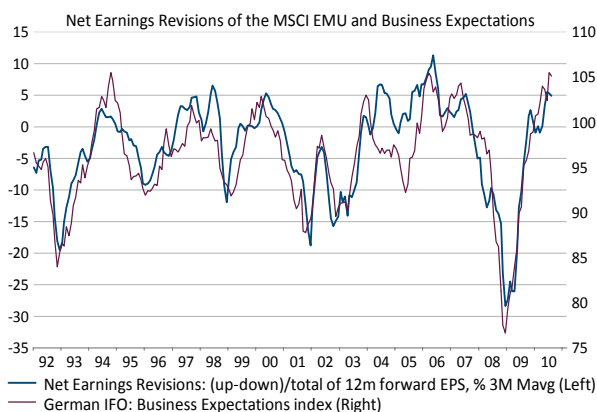
As we have pointed out over the past few months, corporate sales growth is likely to decline as economic activity slows and the scope for further profit margin expansion diminishes. Although firms may improve their EPS through mergers and acquisitions (which enable synergy gains) and by buying back shares (which reduces the number of shares outstanding), this will not be enough to make up for declining earnings growth. We expect analysts to continue to lower their earnings forecasts over the next few quarters. Indeed, the 6% EPS growth they expect for the MSCI World index in 2011 (after 37% growth in 2010) seems too optimistic in the current low growth environment.

Geographic allocation – smaller bets and a preference for the eurozone

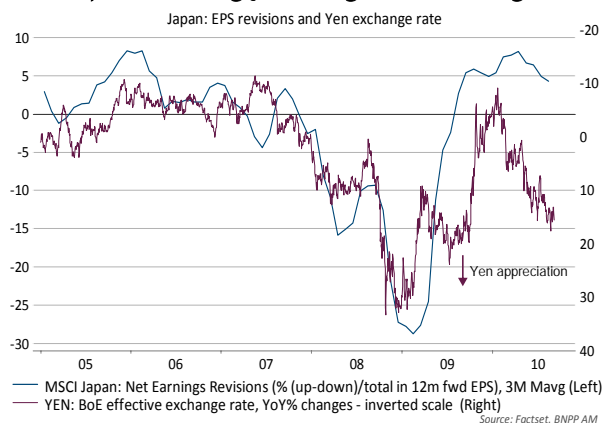
Since we expect more volatility ahead, we are **making smaller geographic bets and are temporarily increasing our exposure to the eurozone**, given its relatively weak currency, its lag with the US business cycle and the easing of sovereign debt risk in the EU peripheral countries. Nonetheless, the global economic slowdown and the area's structural challenges will limit this geographic shift in our portfolio to just a few months at most. We also favour the UK market over the near term, in light of its low valuations and still accommodative monetary policy and despite the considerable structural headwinds the UK economy must face. We are also significantly trimming our overweight position in the US market in response to slowing growth in the United States and despite the country's particularly favourable monetary and fiscal policies. We are maintaining our underweight in Australia since valuations are still high and the future direction of economic policy is uncertain.

Lastly, **we have returned to an underweight position in the Japanese market**, which is handicapped by the yen's strength and an uncertain economic policy in a still deflationary environment.

EMU – near-term EPS trend is positive



Japan – strong yen weighs on earnings



EQUITY MARKETS

Emerging markets

Defensive sectors and small markets outperform

Leading indicators point to flat performance and more volatility

We expect emerging markets to continue to consolidate, moving sideways with increasing volatility. This situation is likely to continue for a few months, judging from leading economic indicators (LEI), which continue to head downward but are rapidly approaching bottom. We do not expect the "lead LEI", our trend reversal indicator, to change direction before the end of the year. Furthermore, earnings revision indicators seem to be heading downward at last, reflecting more caution on the part of firms and a slower business cycle, which does not augur well for emerging equity markets.

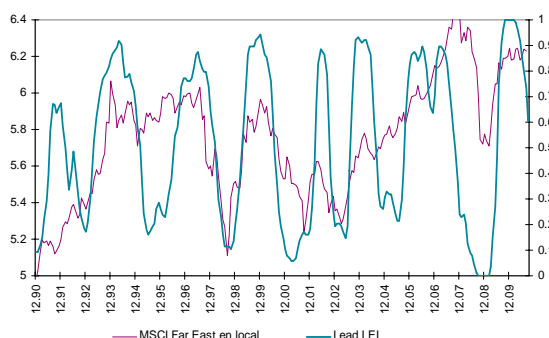
This is clearly apparent in highly cyclical markets, such as Taiwan and Korea, where earnings growth forecasts for 2011 are down sharply from 2010, due to base effects and weakening demand for technology products.

Strong outperformance in defensive and domestic sectors and in small markets

The substantial outperformance of emerging markets since May is surprising given the monetary tightening underway in emerging economies. Only the Chinese market has behaved according to theory, dropping sharply and in close correlation with tighter monetary measures. It is interesting to note that the defensive and domestic sectors have been the most resilient in the emerging markets, whereas the cyclical sectors (technology, materials and manufacturing) have performed in line with their counterparts in the developed markets. The smaller emerging markets, which offer relatively little public float and liquidity, enjoyed sharp gains from a massive influx of investment from international funds attracted by the highly domestic nature of these markets. In contrast, the largest markets, such as China and Brazil, have performed modestly or negatively so far this year.

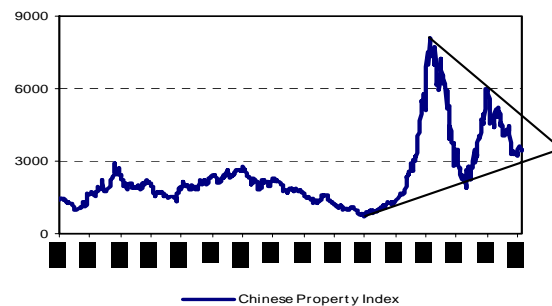
We have reduced our exposure to emerging markets to neutral to lower our portfolio's overall risk exposure. Even though fundamentals in these markets have improved and are showing good cyclical resilience to the global economy, they cannot buck the trend forever. The correlation coefficient between the emerging and the developed equity markets has even increased, to 0.9. This may be explained by the substantial influence of passive GEM funds and ETFs, the preferred vehicles for adjusting tactical risk in equity portfolios.

Lead LEI – no cyclical support for equities



Source: BNPP AM

Chinese property – which way now?



Source: Datastream



EQUITY MARKETS

Emerging markets

We are still optimistic about emerging markets over the medium term. Indeed, they still have potential for GDP and earnings growth, and the reversal of inflation will enable central banks to ease monetary policy. Structural factors are also positive. Consumer, corporate and government debt levels are low, banking systems are sound and current-account surpluses should boost currencies.

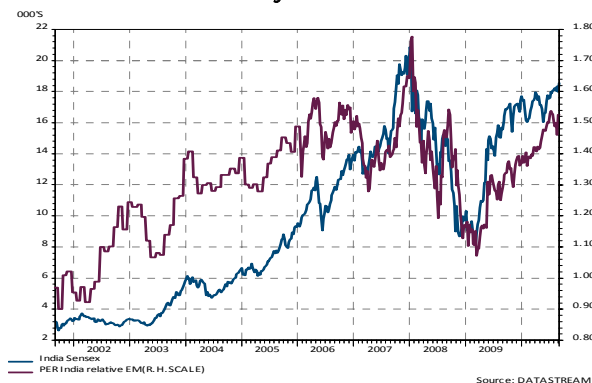
Small overweight in China maintained, while waiting for leading indicators to turn

We are maintaining our slight overweight in China, even though we do not expect to see any real catalysts for market recovery (i.e., the M2 money supply and leading indicators) until the end of the year. We believe the country's economy is heading for a soft landing, as suggested by the August rebound in the PMI index and the recovery in bank lending, which augurs well for both monetary policy and equity prices. From a technical analysis perspective, Chinese H-shares are testing a major resistance level. Furthermore, valuations are reasonable and most funds are underweight in China.

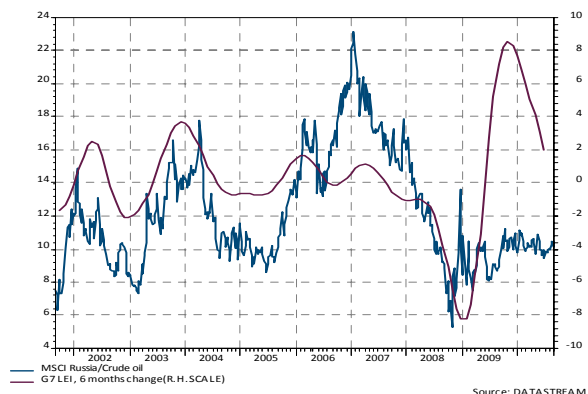
India is expensive but offers a large domestic economy and defensive equities

We are trimming our exposure to Russia. Although its economy is showing signs of growth, inflation is still very high. Russian equities are still extremely inexpensive compared to the other emerging markets and are trading at a 40% discount. However, this market is highly exposed to crude oil, on which we currently have a neutral position. As for **India**, the latest figures show that its economy is booming, whereas most other emerging countries are experiencing a cyclical slowdown. India's domestic demand offers high growth potential and is relatively immune from global economic weakness. We are therefore increasing our exposure to neutral. However, valuations are unattractive and the outlook for commodities and interest rates casts a cloud on earnings prospects. **Brazil's** economic recovery continues with impressive GDP growth in the second quarter, although a slowdown is expected over the next three to four quarters as firms reduce inventories. Furthermore, consumer confidence is at a record high and therefore offers little upside potential. The fact that inflation has stabilised at a satisfactory level should encourage the country's central bank to adopt less restrictive monetary measures. We are increasing our allocation to neutral.

India – equities are expensive but economy is resilient



Russia – exposed to oil and to G7



ALTERNATIVE STRATEGIES

Commodities

We remain cautious on commodities and maintain our preference to gold

Oil stocks are at record levels, despite growing demand

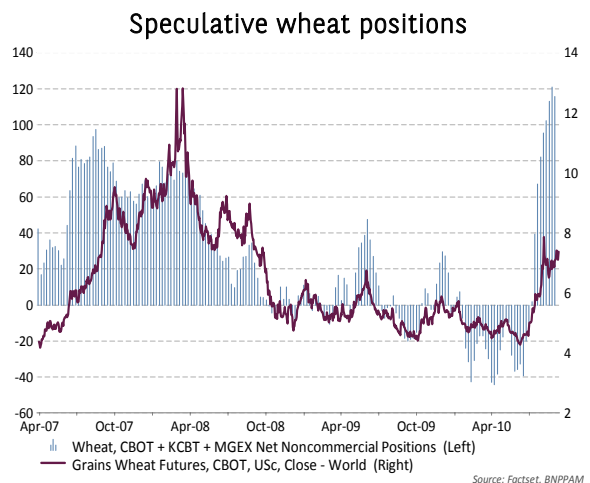
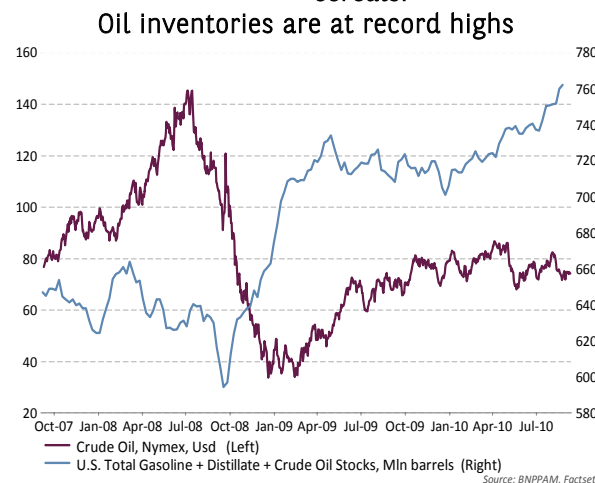
The patch of weaker economic data from the US has weighed heavily on **crude oil** prices, while concerns about the size of US oil inventories resurfaced as the sum of crude and product inventories stands at record highs. Yet this news seems to have obscured the strengthening of demand, which has been solid for both fuel and industrial products. If this trend continues, oil prices could recover. Nonetheless, there are many near-term uncertainties about the economic outlook and **we are maintaining neutral exposure**.

Despite the decline in demand (albeit normal for the season) and weaker economic conditions, **base metals** have held up well. One reason for this is the confidence investors have in the health of the emerging economies, which account for most of the demand for metals. Yet the macroeconomic environment is still uncertain and concerns about the health of China's construction sector could weigh on prices. **We are therefore staying neutral on base metals**.

Investment demand should continue to support the price of gold

In a weaker economic environment, **gold** continued to be very popular with investors. This investment demand is crucial for the precious metal since its high price is weighing on the "traditional" demand from the jewellery sector. Yet despite its high price, we expect the very uncertain economic outlook and favourable monetary conditions over the coming months to continue to support investment demand for gold and are **remaining overweight**.

Grain prices surged when Russia lost part of its wheat crop to drought and fires, thus rekindling fears of a global shortage. However, two years of record crops have sharply increased global inventories and barring a second weather catastrophe prices should stabilise. The volume of speculative positions also calls for caution, since we may see some profit-taking. **We are neutral in cereals**.



CONTACTS AND DISCLAIMER

The Strategy team:

Vincent Treulet

Nathalie Benatia
Antonio Bertone
Charles Cresteil
Jenna Dessart
Sophie Fournier
Guillaume Hollier-Larousse
Dong-Sinh Ngo
Dominique Schulthess

Investment Specialist

Joost van Leenders

This material is issued and has been prepared by BNP Paribas Asset Management S.A.S. ("BNPP AM")* a member of BNP Paribas Investment Partners (BNPP IP)**.

This material is produced for information purposes only and does not constitute:

1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. any investment advice.

Opinions included in this material constitute the judgment of BNPP AM at the time specified and may be subject to change without notice. BNPP AM is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the Financial Instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for a client or prospective client's investment portfolio.

Given the economic and market risks, there can be no assurance that any investment strategy or strategies mentioned herein will achieve its/their investment objectives. Returns may be affected by, amongst other things, investment strategies or objectives of the Financial Instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the Financial Instruments may have a significant effect on the results portrayed in this material. The value of an investment account may decline as well as rise. Investors may not get back the amount they originally invested.

The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

*BNPP AM is an investment manager registered with the "Autorité des marchés financiers" in France under number 96-02, a simplified joint stock company with a capital of 64,931,168 euros with its registered office at 1, boulevard Haussmann 75009 Paris, France, RCS Paris 319 378 832. www.bnpparibas-am.com.]

** "BNP Paribas Investment Partners" is the global brand name of the BNP Paribas group's asset management services. The individual asset management entities within BNP Paribas Investment Partners if specified herein, are specified for information only and do not necessarily carry on business in your jurisdiction. For further information, please contact your locally licensed Investment Partner.

