

Bedrock Friday 01 September 2017 Newsletter

Summer vacations are over. Its the first Friday of the rest of our lives... The U.S. economy grew faster than initially thought in the second quarter, notching its quickest pace in more than two years, and there are signs that the momentum was sustained at the start of the third quarter. Gross domestic product increased at a 3.0% annual rate in the April-June period, the Commerce Department said in its second estimate on Wednesday. The upward revision from the 2.6% pace reported last month reflected robust consumer spending as well as strong business investment. With GDP quickening in the second quarter, the economy grew 2.1% in the first half of 2017. While that was up from the 1.9% reported last month, economists said it was unlikely growth this year would breach Republican President Donald Trump's ambitious 3.0% target.

Private payrolls increased by 237,000 in August, according to the ADP Research Institute, beating the forecast of 185,000 in a Bloomberg survey. better-than-expected U.S. economic data fueled speculation the Federal Reserve has more reasons to raise interest rates again. Or will they? The US 10 year Treasury notes yield is now at 2.12%, basically where it was when Trump was elected. Clearly, inflation-expectations are not supportive of the Fed's intentions... We can all thank Amazon and the other Web-based cost cuttings, which we believe are pulling down costs for all on just about everything.

Billionaire investor Warren Buffett told CNBC on Wednesday that U.S. economic growth does not feel like 3%. "I would guess we're in a 2% growth economy now," Buffett said on Wednesday. We wonder if Warren's senses are more credible than the algebra of a government office... Independently of the US, the Euro zone seems to be firing on most of its cylinders, the Euro had risen reaching \$1.20 for a moment, only to fall back as words from the ECB that they are worried about the currency strength damped beliefs that the ECB will reduce its QE. The DXY was flat overnight into September and ended August in negative territory, its 6th consecutive month of declines and longest losing streak in 14 years.

President Trump hit the road to campaign for a tax overhaul. But there's a lack of specifics, and plenty of opposition in Congress. But he did put forth a 15% target for federal corporate tax rate. The Trump administration and top congressional Republicans intend to release a more detailed tax plan in the next few weeks, Treasury Secretary Steven Mnuchin said in an interview with The Wall Street Journal on Thursday. Although congressional committees will write the tax bill, Mr. Mnuchin indicated that the administration intends to stay engaged in the debate and stick to its goal of overhauling the tax code this year. "In no way are we just turning this over to Congress," he said, pushing back on published reports that the administration was ceding the next phase of work to legislators. There is some high-octane fuel for a continuing equity-market rally ahead! And lets not forget Hurricane Harvey. Moody's Analytics is putting the cost of Harvey at somewhere between \$51 and \$75 billion. A huge number in itself but hardly significant in the American economy as a whole. The rebuilding may add a decimal figure to the activities in the near future.

China's official manufacturing PMI rose to 51.7 in August, beating the 51.3 forecast in a Reuters poll. Meanwhile, the official services PMI for China dropped to 53.4 in August, compared with 54.5 a month earlier. Shuang Ding, Head of Greater China Economic Research at Standard Chartered, says non-manufacturing accounts for about 60% of the Chinese GDP. "So if we put both indexes (manufacturing and services) together, actually I see a weakening of the real economy". he is still forecasting 6.8% growth for China in 2017, but there will be a slight slowdown in the second half of the year. China's markets sizzled this summer, but experts say numerous risks loom — so keep the champagne on ice. The Shanghai Composite rose 3% in August, extending July's rise and pushing the benchmark index's gains to more than 8% in 2017. Similarly, China's yuan recorded its strongest month in 2017, appreciating 2% against the U.S. dollar as the currency accelerated to 5% year-to-date. Maybe the over-cautious analysts will stop scaring us with their doomsday warnings on China?

One of the most basic concepts in economics is that price is a function of supply and demand. Yet, oddly, equity investors tend not to think much about shifts in the quantity of the stuff they're buying and selling. Factors that affect intrinsic value (earnings) are endlessly debated, as are the impact of central bank asset purchases on stock prices. But rare is the market report that begins: "The price of equities rose today because there weren't as many good ones to buy." Joking aside, the shrinking supply of equities -- a trend known as "de-equitization" -- deserves attention, not least because it might help explain why stock prices keep touching record highs. Remarkably, the number of U.S. public companies has fallen by almost half over the past two decades, even though the U.S. economy and population grew. But that's not all. Since 2009, U.S. public companies have spent about \$3 trillion buying back stock. That constrained the supply of stock, and the price went up in part because buybacks increase earnings per share. The upshot is that net equity issuance by non-financial companies has been negative by almost \$6 trillion over the past two decades, according to data compiled by the Federal Reserve Board. (That's equivalent to about a fifth of the current value of the U.S. market). Are you worried about the record equity price levels? It is simply normal supply and demand... a lack of supply looks to be the market's secret sauce.

Late at night, a drunk is on his knees under a lamppost in the street, feeling around with his hands. A policeman passes and asks him what is wrong. The drunk says that he is looking for his lost keys. The policeman asks "did you lose them here?" to which the drunk answers I don't think so... "So why are you looking for them here?" "Well, here there is light..." We say that the light shines on equities now...

Market Weekly Highlights:

- The DXY is trading at 92.73 losing almost 9.50% YTD. The USD is trading at just below 1.19 against the EUR and at 0.9628 against the CHF as we write. The Pound is lower this week at almost 1.2927 after hitting 1.3267 early this month while the Japanese Yen is almost unchanged for the week at 110.10
The Russian Ruble has traded sideways against the USD at about 58 following the oil-price pattern. The Brazilian Real is almost unchanged against the USD for the week at just below 3.15
Crude oil WTI trades at almost \$47 a barrel while Brent is trading at just above \$52.44.
- The yield on 10Y U.S. Treasuries stands at 2.12% down some 10Bp for the week. The Japanese 10 year JGB is up in price for the week and turned into NEGATIVE territory offering returns at -0.001%. In Europe, we see the German Bund at 0.36% down some 4bp for the week. The French 10Y Yield which hit 1.10% before the elections is at 0.66%. The Swiss 10 year bond yield started August in POSITIVE territory at 0.04% only to drop back -0.17% and now trading back slightly up at -0.13%. In Peripheral Europe Italian 10Y yields had crossed the 2% level having started the year at 1.73% and are currently at almost the same level 1.75% whilst the Spanish 10Y yields trade 18bps lower than Italy, having started the year at 1.30% and currently trading higher at 1.57%.
Across the board, fixed income is steady with a slight upwards price tilt, i.e., a slight decline in yields.
- Equity markets are up this week in the USA; the DJIA is at 21'950, off some points from its all-time high but up for the week, the S&P500 at just above 2'470 up 1.34% or so for the week and Nasdaq at about 6'428 at yesterday close, also up some 2.51%. In reality, we are basically still at or near the all time highs, or within a couple of percentage points thereof.
In Europe Eurostoxx50 is also up for this week 0.18%, as is the FTSE and the CAC40, respectively at +0.52% and 0.45%. The DAX remains still down for the week despite today's positive retruns at -0.40% as we watch.
The Swiss market gained 0.24% and the Nikkei traded up 0.23% and remains positive 3.02% for the year. In Asia Hang Seng is positive for the week +0.38% adding more to the yearly returns which are at a very strong +27.06% YTD

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

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MARKET INDICES PERFORMANCE

31/08/2017

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									Fwd P/E	T12m P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
EQUITY MARKET INDICES - BY REGION													
S&P 500 INDEX	USD	2,471.65	0.58	1.34	0.00	-0.19	1.71	3.16	10.40	13.86	23.37	18.92	21.16
DOW JONES INDUS. AVG	USD	21,948.10	0.26	0.76	0.00	-0.07	3.80	3.94	11.06	19.16	28.36	18.00	18.77
NASDAQ COMPOSITE INDEX	USD	6,428.66	0.95	2.51	0.00	1.03	2.91	8.89	19.42	22.98	40.36	24.15	39.50
RUSSELL 2000 INDEX	USD	1,405.28	1.01	2.29	0.00	-1.61	0.66	-0.59	3.55	13.35	19.66	30.33	47.56
EURO STOXX 50	EUR	3,421.47	0.52	-0.01	0.49	-1.13	-3.61	1.42	4.49	13.94	8.29	14.64	17.60
EURO STOXX 600	EUR	373.88	0.78	0.28	0.33	-1.35	-4.22	-0.15	3.79	9.15	9.41	15.72	20.82
CAC 40 INDEX	EUR	5,085.59	0.58	0.23	0.60	-0.21	-3.81	3.13	5.22	15.24	16.82	15.12	18.22
DAX INDEX	EUR	12,055.84	0.44	-0.65	0.27	-1.33	-4.55	0.18	5.29	14.76	27.53	13.29	16.84
FTSE 100 INDEX	GBP	7,430.62	0.90	0.45	0.14	0.23	-1.37	0.78	4.17	10.30	9.02	15.21	25.18
SWISS MARKET INDEX	CHF	8,925.45	0.84	0.33	0.11	-1.32	-0.99	3.48	8.70	9.73	2.15	17.85	23.91
NIKKEI 225	JPY	19,646.24	0.72	1.23	0.23	-1.47	-0.85	1.54	3.02	16.33	27.23	17.04	17.79
HANG SENG INDEX	HKD	27,970.30	-0.11	0.39	-0.05	1.51	8.32	17.58	27.07	20.70	12.94	12.92	14.06
SHANGHAI SE COMPOSITE	CNY	3,360.81	-0.08	1.07	0.19	2.26	8.52	3.70	8.49	9.92	50.62	14.87	17.73
S&P BSE SENSEX INDEX	INR	31,730.49	0.27	0.84	0.42	-2.19	2.33	9.93	19.67	12.10	18.59	20.63	23.46
RUSSIAN RTS INDEX S	USD	1,095.84	1.05	3.51	0.17	8.23	4.98	-1.06	-4.74	16.16	-6.79	6.89	7.56
BRAZIL IBOVESPA INDEX	BRL	70,835.05	-0.07	-0.42	0.00	6.49	13.72	5.74	17.61	21.63	15.85	13.71	21.74
MSCI WORLD	USD	1,959.74	0.64	0.78	0.00	-0.54	1.91	5.57	11.91	13.70	12.09	17.35	20.62
MSCI WORLD HEDGED	USD	868.71	0.64	0.97	0.20	0.20	1.76	5.62	10.37	16.02	25.83	-	-
MSCI WORLD LOCAL	-	1,479.56	0.64	0.84	0.00	-0.46	0.49	2.74	8.45	13.22	17.87	17.35	20.62
MSCI AC WORLD	USD	478.41	0.57	0.71	0.00	-0.28	2.57	6.69	13.41	14.63	10.85	16.81	19.90
MSCI EM	USD	1,087.70	0.06	0.21	0.00	1.75	7.86	15.90	26.14	22.07	-0.26	13.63	15.75
MSCI AC ASIA x JAPAN	USD	662.77	0.03	0.37	0.00	0.77	6.79	17.38	28.86	22.23	9.88	14.11	15.25
MSCI EM LATIN AMERICA	USD	2,873.10	0.22	-0.58	0.00	3.30	13.00	9.83	22.75	19.62	-21.46	15.47	21.39
MSCI EM Eur, ME & Africa	USD	277.77	0.53	0.82	0.00	4.44	6.76	9.72	13.48	18.47	-14.63	11.83	13.13
EQUITY MARKET INDICES - BY SECTOR											P/E	P/E	
MSCI ENERGY	USD	194.11	0.54	0.01	0.00	-4.30	-2.55	-7.47	-11.36	-2.69	-35.79	25.37	38.74
MSCI MATERIALS	USD	256.34	0.78	0.87	0.00	1.38	7.39	7.93	15.53	20.09	2.56	16.91	18.64
MSCI INDUSTRIALS	USD	240.58	0.63	0.98	0.00	-0.01	1.50	6.41	13.22	15.41	18.76	17.46	20.39
MSCI CONS DISCRETIONARY	USD	218.46	0.49	0.69	0.00	-1.58	-0.90	5.45	11.21	12.34	20.53	16.97	18.97
MSCI CONS STAPLES	USD	228.27	0.19	0.12	0.00	-0.72	-2.78	3.70	9.99	2.95	15.73	20.47	22.82
MSCI HEALTH CARE	USD	223.43	1.54	2.30	0.00	0.97	2.58	6.69	15.87	9.40	15.05	17.46	23.53
MSCI FINANCIALS	USD	116.39	0.37	-0.51	0.00	-3.14	4.98	3.11	9.62	23.01	11.02	13.23	15.71
MSCI INFO TECH	USD	202.11	0.77	2.05	0.00	2.37	4.14	13.35	25.35	27.85	47.41	20.05	24.78
MSCI TELECOMS	USD	69.96	0.15	-0.45	0.00	-2.54	-1.44	0.26	0.62	-2.47	-2.05	14.62	19.54
MSCI UTILITY	USD	131.87	0.17	-0.10	0.00	2.01	1.65	10.76	14.71	11.27	8.45	16.86	20.11
MSCI WORLD REAL ESTATE	USD	207.52	0.68	0.75	0.00	0.24	2.33	4.86	9.17	0.91	6.03	24.70	18.46
HEDGE FUND INDICES													
HFRI GLOBAL HEDGE FUND	USD	1,245.44	0.13	0.09	-0.02	0.01	1.21	1.83	3.49	5.15	-0.33	-	-
HFRI EQUAL WEIGHTED	USD	1,254.37	0.11	0.08	-0.03	0.02	1.07	1.59	3.06	4.65	2.72	-	-
HFRI GLOBAL EUR	EUR	1,103.63	0.12	0.07	-0.21	-0.19	0.58	0.63	1.93	2.82	-4.52	-	-
MARKET INDICES PERFORMANCE													
31/08/2017													
INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)										
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y		
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)													
US 3 MONTH	USD	0.99	-0.02	-1.28	-0.02	-7.66	2.02	37.14	49.34	66.61	-	-	-
US 2 YEAR	USD	1.33	0.03	-0.56	0.03	-1.52	3.61	4.17	13.76	54.43	-	-	-
US 10 YEAR	USD	2.12	0.68	-4.21	0.68	-12.94	-8.76	-32.88	-32.05	55.57	-	-	-
US LIBOR 3M	USD	1.32	-0.08	-0.11	0.56	0.56	11.43	25.21	31.82	47.40	-	-	-
EUR LIBOR 3M	EUR	-0.37	0.00	0.14	0.47	0.47	-0.33	-1.97	-3.61	-5.01	-	-	-
GBP LIBOR 3M	GBP	0.28	-0.09	-0.25	-0.87	-0.84	-1.91	-7.91	-8.92	-11.26	-	-	-
CHF LIBOR 3M	CHF	-0.73	0.06	-0.02	-0.08	-0.08	0.32	-0.02	0.28	1.02	-	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER													
											Yield to Worst		
GLOBAL AGG TR HEDGED	USD	512.80	0.07	0.19	0.07	0.70	1.04	2.58	2.69	0.36	9.90	1.50	-
GLOBAL HY TR	USD	1,289.78	0.13	0.34	0.13	0.54	2.25	5.46	8.74	9.33	14.93	5.19	-
US GOVERNMENT TR	USD	2,182.73	0.12	0.24	0.00	0.82	1.16	3.01	3.12	-0.84	6.49	1.50	-
US CORPORATE TR	USD	2,873.15	0.17	0.29	0.00	0.47	1.91	4.48	5.37	2.16	11.37	3.07	-
US HIGH YIELD TR	USD	1,923.60	0.15	0.33	0.00	-0.11	1.10	2.79	6.05	8.68	15.02	5.61	-
EU GOVERNMENT TR	EUR	250.60	0.06	0.20	0.00	0.43	0.64	1.33	0.12	-2.31	7.68	0.49	-
EU CORPORATE TR	USD	268.81	-0.05	0.05	0.00	0.46	1.36	2.66	3.22	2.58	11.34	0.73	-
EU HIGH YIELD TR	EUR	312.41	0.05	0.08	0.00	0.10	1.49	3.52	5.47	6.90	16.49	3.03	-
BARCLAYS GLOBAL CONVERT.	USD	235.36	0.49	0.70	-0.99	-0.99	1.22	2.70	5.75	7.18	8.04	-	-
GLOBAL EM TR (HEDGED)	USD	381.17	0.20	0.37	0.20	1.20	1.96	4.51	7.16	4.94	15.76	4.07	-
S&P/LSTA U.S. LEV LOAN	USD	98.31	0.02	-0.01	0.00	-0.55	-0.60	-0.83	-0.31	6.31	0.04	4.77	-
COMMODITY INDICES - BY TYPE OF ISSUER													
GSCI INDEX TOTAL RETURN	USD	2,251.67	2.70	1.87	-0.78	-0.78	1.78	-5.74	-6.85	2.60	-52.65	-	-
GSCI ENERGY TR	USD	380.46	3.84	2.80	-0.28	-0.28	3.07	-7.96	-12.50	0.90	-65.40	-	-
GSCI INDUSTRIAL METALS TR	USD	1,363.60	0.96	1.02	8.63	8.63	15.99	10.17	21.48	34.89	-4.78	-	-
GSCI PRECIOUS METALS TR	USD	1,594.70	0.60	2.44	3.96	3.96	2.99	3.48	13.24	-1.04	-1.23	-	-
GSCI AGRICULTURE TR	USD	386.81	2.00	0.69	-7.43	-7.43	-5.20	-13.07	-10.26	-8.77	-30.74	-	-
GENERIC 1ST 'CL' FUTURE	USD	46.76	-1.00	-2.32	-1.00	-5.25	-4.49	-16.75	-18.15	-4.96	-61.14	-	-
GOLD SPOT \$/OZ	USD	1,318.81	-0.20	2.12	-0.20	3.94	4.18	5.55	14.45	0.37	2.55	-	-
CURRENCIES													
DOLLAR INDEX SPOT	USD	92.67	0.10	0.02	0.10	-0.30	-4.56	-8.86	-9.24	-3.02	12.10	-	-
Euro Spot	EUR	1.19	-0.20	-0.32	-0.20	0.71	6.00	12.70	13.02	6.15	-9.46	-	-
Japanese Yen Spot	JPY	109.98	-0.19	-0.75	-0.19	0.15	1.07	3.21	6.14	-6.32	-5.30	-	-
British Pound Spot	GBP	1.29	-0.12	0.25	-0.12	-2.19	0.25	5.05	4.65	-2.67	-22.24	-	-
Swiss Franc Spot	CHF	0.96	-0.25	-0.43	-0.25	0.48	1.08	4.97	6.02	1.98	-4.32	-	-
Brazilian Real Spot	BRL	3.15	0.33	-0.03	0.00	-0.75	2.47	-1.23	3.37	2.46	-29.00	-	-
China Renminbi Spot	CNY	6.59	0.21	1.06	0.21	2.15	3.52	4.64	5.60	1.50	-6.59	-	-
Singapore Dollar Spot	SGD	1.36	-0.07	-0.08	-0.07	0.07	2.18	3.84	6.63	0.20	-7.90	-	-
Russian Ruble Spot	RUB	58.04	-0.11	0.86	-0.11	3.87	-2.91	0.38	5.92	13.64	-35.81	-	-
Norwegian Krone Spot	NOK	7.76	-0.39	-0.50	-0.39	1.76	8.50	7.94	10.90	6.98	-20.53	-	-
VOLATILITY / LIQUIDITY INDICES													
CBOE SPX VOLATILITY INDX	USD	10.59	-5.61	-8.24	-2.27	2.58	4.65	-17.46	-26.28	-23.22	-13.61	-	-
USD SWAP SPREAD SEMI 2YR	USD	20.70	-	-8.52	1.11	-12.75	-10.39	-38.11	-17.94	-16.71	-5.96	-	-
TED SPREAD	USD	33.07	-	6.37	36.03	36.03	39.95	-26.45	-33.93	-35.74	55.04	-	-

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