Friday, November 9th 2012

Ooops… Clearly the Investing-public is not the voting-public…

On Monday, ahead of the US Presidential election, US equity markets rose nicely. The next day with Obama smiling in victory, markets fell rather brutally- According to CNBC, the US equity markets lost over $300 billion in value only to fall further on Thursday.

Oil fell below $85/Bbl and 10 year Treasury Notes traded to 1.60% yield, both price-movements suggesting an expected slowing of economic activity.

The East Coast of the US also suffered the impact of Sandy, the largest Atlantic hurricane ever to slam into the American coast. Some estimates have the damage to be around $30 billion (as per NY Governor Cuomo); Arguably Obama's re-election is ten times worse for the economy…

Apple, the largest company in the world when measured by market capitalization has lost over 20% of its value in the past few weeks, whilst still remaining larger than Exxon. Perhaps this fall accounts for much of the overall market drop as it is so heavy in the indices?

Whilst the Apple and Obama effects are clearly substantial, the real issue at hand is (again) the US fiscal cliff, now less than two months away. The markets are concerned that a resolution isn't in sight. Uncertainty looms large here- Some companies have announced bringing-up their dividend payments into December as tax rates will increase, others are holding back on capex and hiring into the unknown of the imminent tax hikes and budgetary cuts.

Marc Faber, publisher of the Gloom Boom, & Doom Report, told Bloomberg Television's Trish Regan and Adam Johnson on Street Smart Wednesday that 'Mr. Obama is a disaster for business and a disaster for the United States', and that he 'thought that the market on his re-election should be down at least 50%'.

Well, Marc Faber is wired with bearish genes… We like to think that reason will prevail, even in the US Houses of Congress.

Elsewhere in the world not much has risen into headlines- Yes, China has shown some promising signs of new-found growth into their own political season, Europe's quagmire is now firmly hostage to the German elections of 2013 and a public opinion poll in the UK found that fully 49% of Britons would rather quit the European Union (terrible, or is it good as 51% want to stay?)… We see that the Euro currency is not sure either, going up and down, but then, oscillating in a narrow trading band.

Well, through all the noises of the week we see the Chinese currency trading in all-time highs', possibly with the Romney threat gone, the Chinese can let it rise naturally without appearing to bow to American threats. We stay long CNY here…

Gold fell from near $1'800 in mid-October to an Election Day low of $1'672 only to rebound into the post-electoral risk-off mood, settling into the weekend at around $1'735.

We go into the weekend thinking of Helen Keller who said "Keep your face to the sunshine and you cannot see a shadow"...

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Currencies

- EURUSD has continued its downward trend, starting the week at 1.2820 and currently trading at 1.2715. However, Obama's re-election did cause the currency pair to jump on the announcement from 1.2770 to 1.2880. This euphoria was short lived unfortunately due to German Industrial Production which came in much weaker than expected and backed up by Draghi and his very dovish comments that the Debt Crisis is starting to hurt the German Economy… now we know why he is Head of the ECB.
- EURCHF is slipping again. As we stated before, the need for a large move higher in the EURUSD pair is needed for EURCHF to rally heavily. In the absence of a strong EUR the EURCHF pair has slid from 1.2090 to 1.2055. USDCHF has rallied in line with EUR weakness seeing the pair move from 0.9400 to as high as 0.9480.
- The Yen strength is back with vengeance. The pair has dropped from 80.50 on Monday to 79.20, where we are now at the low of the week. Coincidentally the same level was the low last week, oh and the week before… We believe in this up move as a change in the dynamics, and therefore see this as a short term set back in the upward trend.
- AUD was particularly resilient this week especially in a week that really could be categorized as a Risk Off week. The RBA surprised the markets this week by not cutting rates however; they did reduce their forecasts even in light of the improving employment situation. The AUDUSD moved from 1.0340 to as high as 1.0480 on the Obama re-election but has subsequently traded back to 1.0390. The main move though was the RBA decision to hold rates that cause a 65 point move from 1.0370 to 1.0435.
- Cable had a mixed week, weakening on Monday from 1.6040 to 1.5960, only to jump straight back on Wednesday with Obama to 1.6040, to drop again to 1.5960 on the US data. We are currently trading at 1.5960 having rallied back to 1.6020 this morning. A very mixed week, but at the moment the Pound is holding its ground although we are not sure for how long, as the better of two bad currencies would appear to be the US Dollar.
- CNY had a very quiet week, in part due to the Chinese change of power. The once in a decade change of rulers seems to have had little to no impact on the currency but we do remain at the highs for the CNY, trading to 6.2340 this morning.
- The BRL this week was range bound again, moving from 2.0320 to 2.04. For now there seems to be little news globally that can affect the levels of the USDBRL pair. At the moment, it is the Central Bank who controls the exchange rate in a very tight range, so there is no room for volatility.

Fixed Income

- This week saw short term rates on the 2-year open at 0.28% but spiked to 0.30% prior to the Obama announcement only to rally very quickly to 0.26%. Treasury yields on the 10-year moved from 1.72% to as high as 1.75% on Tuesday night only to drop after the Obama news to the lows of the week at 1.60%. The 30-year traded in a similar fashion moving from 2.92% up to 2.95% only to print lower as we are writing at 2.74%. Generally the long end 30-year got bought better than the 10-year after the news.
- The German 10-year Bund seems to have been the star performer in the European markets this week relative to its other country counterparts, seeing the yields drop from 1.45% to as low as 1.33% as we write.

- Spanish yields moved quite dramatically on Thursday with the issuance of large tranches of debt. The week started at 5.67% but on the issue it moved from 5.70% to 5.85%. Although this might seem horrendous in terms of the additional funding costs; Spain still managed to issue huge amounts of debt at well below the average yield of the last three months and the level is in line with April yields… we may see further delays before the ask for a bailout from the OMT, as the markets (for now) are willing to lend to Spain.
- Italy started the week at 4.95% on their 10 year debt and with the generally positive mood, the yields drop to as low as 4.85%. However, as the markets entered risk off mode the bonds have sold off and the yield has risen steadily to as high as 5.06%, but settling at 5.01% at the moment.
- A view that has been slowly creeping to the forefront is the foreign reserves held by China as an example… they have reduced their holdings of the US Treasuries and with the quiet visit of Spain's Rajoy to China, perhaps there is room in there for the Spanish and Italians now?! Maybe there will even be a Chinese Bunga Bunga party, like the G20 to make the decision?
- This week European Corporates were the best performers at +0.57% followed closely by US Government at +0.54% and the largest loser were the US Leverage Loans, possibly the Fiscal Cliff is now in view, front and centre.

Equities

- Global equity markets were sharply down for the week, with the MSCI World down 2.22% (as of yesterday's close). A combination of weak Macroeconomic reports, as well as concerns over the upcoming fiscal cliff drove stocks to new 3 month lows.
- European stocks fell, with the Eurostoxx down as much as 3.06% for the week. The catalyst of the sharp move occurred on Wednesday following reports of German Industrial Production dropping 1.8% in September (-0.7% expected). Mario Draghi commented soon after, stating that debt crisis has started to hurt the largest European economy, and so the ECB cut the 2013 German growth forecast to 0.8% from 1.7%. However, some positive news did come out of Europe, with the Greek parliament passing the austerity vote, and so paving the way for the much needed €31.5bn Troika payment, but Eurozone finance ministers will await a full compliance report from Greece before taking any action.
- US shares lost 2.59% for the week, as of yesterday's close, as measured by the S&P 500. Full attention was given to the US presidential election, with President Barack Obama being re-elected. Investor focus immediately shifted to the Fiscal Cliff at the end of the year, where $600bn in tax increasing and spending cuts are currently on the table, threatening to slow US growth.
- Japanese stocks dropped 3.24% for the week as measured by the Nikkei 225. Japanese Q3 corporate earnings continued to disappoint and Japanese Machinery orders fell 4.3% in September (-2.1% expected). All eyes are on next week's Japanese GDP figures where analysts expect an annualised contraction rate of 3.4%.
- In terms of sectors, Utilities, Energy and Info-Tech stocks were the worst performers (-3.16%, -2.85% and -2.83% respectively). Consumer Staples and Material stocks fared better (-1.20% and -1.21% respectively).

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Emerging Markets

- Emerging Market equities performed better than their developed counterparts, falling just 0.93% for the week (as of yesterday’s close) as measured by the MSCI EM index. Outperformance arose from Emerging Asia, falling just 0.70% for the week on the back of positive Chinese figures. EM Europe and Latin America performed worse falling 1.59% and 2.01% respectively.
- The Shanghai Composite fell 2.27% for the week. Macroeconomic figures were quite positive for the week with Chinese Industrial Production rising more than expected (9.6% vs. 9.4%) and HSBC Services PMI showed the growth rate of the sector fell to a more moderate pace (53.5 vs. 54.3 previously).
- The Brazilian Bovespa fell 1.47% for the week (as of yesterday’s close). Brazilian shares suffered due to headwinds from fiscal cliff worries in the US and growth fears in Europe. Internally, electric utilities underperformed on concerns that the Brazilian government will put pressure to lower electricity rates which will hurt sales for the sector.

Commodities

- Commodities rose by 0.68% this week as of yesterday’s close, as measured by the S&P GSCI broad commodity index. Energy, Industrial Metals and Agriculture were all slightly positive (0.62%, 0.43% and 0.39% respectively) while Precious Metals jumped by 3.24%.
- Agricultural commodities slightly advanced during the week, as the traction gained from a rally on Wheat was offset by a sharp fall on Soybean prices.
- Gold surged by over 3% during the week – now trading around $1’733 per troy ounce – as investors' focus shifted from President Barack Obama's re-election to US fiscal woes and the Eurozone debt crisis, which pressured the euro to a two-month low against the dollar. Worries about the fiscal cliff are supportive of safe-haven gold, but a strong dollar offset upward pressure on prices by making it more expensive for buyers holding other currencies.
- Crude Oil ended about flat this week, currently trading around $85 a barrel. Oil oscillated between gains and losses this week, rising by 3.57% on Tuesday, but plunging by 4.8% on Wednesday following a report from the Energy Information Administration that said oil and gasoline stockpiles rose sharply last week as Hurricane Sandy squelched fuel demand. On Thursday, Crude regained some ground from a government report indicating a modest improvement in the US labor market.

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