Friday, August 30th 2013

We are closing August with the Syrian issue on the headlines. The week started with the news that someone used gas against civilians in Damascus. Who did it? Well, it is being investigated… Some think that the perpetrator was Assad, clearly crossing Obama's red-line. The USA, France, the UK, Qatar and the Arab union are considering an attack on Syria. Who will shoot at what? At whom? We really can't say who are the "bad guys" here. We spotted a reader's letter in the FT which may help to understand the subtleties of the situation across the middle east and we share it here verbatim:
From K-N Al-Sabah, posted in the FT: "Sir, Iran is backing Assad. Gulf States are against Assad! Assad is against Muslim Brotherhood. Muslim Brotherhood and Obama are against General Sisi. But Gulf States are pro Sisi! Which means they are against Muslim Brotherhood! Iran is pro Hamas, but Hamas is backing Muslim Brotherhood! Obama is backing Muslim Brotherhood, yet Hamas is against the US! Gulf States are pro US. But Turkey is with Gulf States against Assad; yet Turkey is pro Muslim Brotherhood against General Sisi. And General Sisi is being backed by the Gulf States!
Welcome to the Middle-East and have a nice day."
Russia warned against "extremely dangerous" consequences if the U.S. and its allies intervene militarily in Syria after allegations of chemical arms use by President Bashar al-Assad's government.
David Cameron failed to get Parliament's support for the UK joining with the US in some form or another of an attack against Syria. Against whom, would be our question. If against Assad, who would they be supporting? Perhaps Putin has the high "moral Ground" here (for once)…

Tuesday's statistic was Confidence among U.S. consumers unexpectedly increased in August as Americans grew more optimistic about the prospects for the world's largest economy. The Conference Board's index of sentiment advanced to 81.5 from a revised 81 the prior month that was stronger than initially estimated, ahead of expectations. Then, the U.S. economy expanded at a faster pace in the second quarter as a smaller trade deficit and gains in inventories overshadowed the effects of federal budget cutbacks. Gross domestic product rose at a 2.5 percent annualized rate, up from an initial estimate of 1.7 percent. The median forecast of 79 economists surveyed by Bloomberg projected a 2.2 percent gain. The improvement is consistent with projections that the U.S. is weathering the fallout of government budget cuts and higher taxes and is poised to pick up once those restraints fade. Gains in employment and home prices that are shoring up confidence signal households will sustain spending, the biggest part of the economy.

The good economic news out of the US shadowed the bad news elsewhere- The Indian Rupee slumped to a fresh record low, economist Stephen Roach warned that the global economy is in the early stages of another crisis, as taper talk spurs severe stock market corrections, interest rate hikes and currency deflation around the world. Currencies are plunging and stocks are under pressure in emerging markets including India, Indonesia, Brazil, South Africa and Turkey. All those countries have sizable deficits that have benefited from capital inflows attributable to quantitative easing. And then, even the US is facing trouble- A debt ceiling fight is looming big, on the near time-horizon: Whilst we know for certain that it will be raised as needed by Congress, we will suffer with the markets as brinkmanship will be compounded by news networks to appear like a looming Armageddon.
In the "Real World" we found a pleasant ray of warm light, coming from Vogue magazine: The 121-year-old fashion title announced last week that it sold 665 ad pages in its September issue- the second highest ever! Highest was September 2007 at 727 and the lowest was 447 in September 2009. This may be considered an indicator for the future economy…

Where to next? Well, the currency world is troubled with the falls in emerging monies, the US$ had a rebound and gold feels confused as the Syrian quagmire is on hold. Oil which gained $10 of risk-premium has slipped back a little. Tighten your seat-belt ahead of the normally volatile month of September… Have a good end of summer!

Bedrock

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Currencies

- EURUSD was relatively stable for the first half of the week moving from 1.34 to 1.3350 and back. On Wednesday we saw EUR weaken from 1.34 to drop to as low as 1.3320 on the back of US data and German unemployment increasing (marginally… a number that in the US would be a rounding difference!). We seem to be trading at the lows of the week for now at 1.3240 and with the fear of Syrian war on the horizon we fear as the horizon drops away… so will the EUR.
- EURCHF was slightly weaker on the week having moved from a high of 1.2350 on Monday to 1.2280 on Wednesday as the Syrian situation escalated. As fears subsided over night the CHF safe haven dropped and the EUR regained the lost ground to trade back to 1.2330. USDCHF moved much higher on the back of the EURUSD weakness. The USD moved from 0.9180 to 0.9320 coming into the Friday morning session.
- USDJPY started at 98.75 but slipped to 97.00, only to see USD buying with the Syrian story causing a bounce to 98.50. EURJPY dropped heavily on the week though to see the pair move from 132.31 to 129.61 this morning.
- AUD had a poor trading week and saw the Aussie drop throughout the week from 0.9070 to 0.8893 and is settling at the lows around 0.8925. The weakness in the Chinese and Aussie data supports a weaker AUD and we believe this weakness will continue.
- The Pound dropped from 1.5612 to 1.5450 before the BOE meeting only to jump back to 1.5550 on the BOE newswires. With little to no information new this week the Pond is back to 1.55, although the weakness does look like it will continue.
- INR continued its dramatic collapse – there really is no other phrase for it! The USD jumped from 63.65 to 68.84 on Wednesday, that is an 8% appreciation in three days… 17% in three weeks… 28% in 4 months… 57% in 2 years.

Fixed Income

- US Treasury yields followed the newswires on Syria… War equals yields lower… no war equals yields bouncing. Hence the oscillation between 2.82% and 2.71% on the week. We have settled in the middle of the range at 2.76% on the 10Yr.
- The German 10-year Bund yields moved lower over the week dropping from 1.94% to 1.82% on the Syrian fears. Bouncing to 1.90% yesterday only to drop back to 1.83% this morning. A mixture of news flows, poor German employment data and the summer liquidity makes the movements erratic but understandable.
- Spanish debt has had the first week in a while where it has risen steadily. Perhaps in light of Syria a movement away from the periphery forced the yields higher, if only marginally from 4.46% to 4.55% this morning. We feel this is the right direction and the yields should continue upward.
- The Italian 10 Year had a poor start to the week moving from 4.33% to 4.48% (almost the same level as the Spanish 10 year). Only to recover some of its lost ground and to maintain a premium of the Spanish debt and looks to be trading at 4.40% as we come into the end of the week.

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Equities

- Developed equities dropped 1.82% for the week (as of yesterday's close) as measured by the MSCI World index. Shares lost on the back of increased worries that the US will lead military actions against Syria, as well as the continued anticipation that the Fed might start scaling back its asset purchases.
- The EuroStoxx lost 2.98% for the week. European stocks lost over 2.5% on Tuesday as concerns grew for a prospective US military action against Syria. Equities remained depressed as the geopolitical tensions remained for the remainder of the week, overshadowing positive German IFO and employment data. The index is set to conclude the month of August down 0.88%.
- The S&P lost 1.53%, as of yesterday's close. In spite of the Geopolitical worries, US stocks relatively outperformed at the start of the week as weaker than expected Durable goods orders and Dallas Manufacturing figures eased worries that the Fed might start tapering. However, on Thursday, Jobless claims reached further lows and US Q2 GDP figures were revised to 2.5% from 2.2%, bringing tapering prospects back to the table. The Treasury Secretary announced this week that the fed's borrowing will reach its limit by mid-October. As a result, the debt ceiling fight is likely to receive much market attention for the upcoming weeks. The S&P is set to end the month of August down 2.83%.
- The Nikkei shed 2% for the week, and lost 2.05% for the month. Japanese shares lost as tapering and geopolitical worries triggered a rally in the Yen, causing some profit taking in equities.
- In terms of sectors, Materials and Financials were the main losers (losing 2.65% and 2.62% respectively), while Energy gained 0.27%.

Emerging Markets

- Emerging Market equities lost 1.28% for the week, as of yesterday's close, as measured by the MSCI EM index. Latin American and EM European stocks lost the most (-3.52% and -2.95% respectively), while Asian shares were relatively flat (-0.06%).
- The Shanghai Composite gained 1.98% for the week and 5.24% for August. Chinese shares gained following last week's strong manufacturing and export data, signalling that the economy is strengthening following a 2 quarter slowdown.
- The Bovespa lost as much as 4.36%, as of yesterday's close. Brazilian equities lost as state run oil company Petroleo Brasileiro fell as government officials downplayed prospects for higher domestic fuel prices, causing a selloff in the sector domestically. In addition, homebuilders fell in anticipation of further interest increases which was affirmed this week with the Central Bank increasing rates by 0.5% to 9%.

Commodities

- Commodities rallied 2.17% for the week, as measured by the S&P GSCI Total Return index. Energy and Agriculture were the main contributors to the gains (rising 2.84% and 1.50% respectively), while Industrial metals lost 2.86%.

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- Gold lost 0.36% for the week and is currently trading at $1'394 per troy ounce. The metal rose around 1.5% at the first half of the week as Syria worried shook the markets, causing investors to return to gold. In addition, headlines this week suggested a pick up on gold purchases by Central banks. Gold gave back its weekly gains on the back of Dollar strength, as well as India increased margins on gold futures as gold made new all-time highs against the Rupee.
- Oil rose 1.37% for the week and is currently trading at $107.90 a barrel. WTI crude futures traded above $110 by mid-week as worries over potential actions against Syria intensified. Oil gave back much of the gains as prospects were reduced, and eased concerns of disruption to Middle East exports.
