Bedrock Newsletter Friday, June 19th 2015

It is Friday and we wish Ramadan Karim to all our friends who observe this religious month. Another week flowed-by under the Greek cloud. The never-ending story which is a real quagmire! In short, that which is required by the IMF and the EU is unpalatable to the leaders of Greece, as it isn't compatible with their elections' platform; and then, that which is offered by Greece is unacceptable to the lenders. Game Theory is in overdrive here. Concerns about the solvency of Greek banks became more serious Thursday, after European Central Bank executive board member Benoit Coeure was reported to have told Eurozone finance ministers that by Monday, Greek banks may have a hard time opening for business. Reuters reported that €2Bn were pulled from Greek banks between Monday and Wednesday. Greek Finance Minister Yanis Varoufakis said the Eurozone was dangerously close to an "accident" after European finance ministers failed to reach a deal with Greece in Luxembourg. Well, it is an issue, the Greek debacle. Mainly for Greece and the Greeks though, exemplified by Greece's two-year yield hitting the highest level of the year Thursday, reaching 30%! The outcome is Binary - Either Greece is "salvaged" or it isn't. Both outcomes bode miserably for the Greek people, whilst neither outcome represents any major issue to the rest of the world. Markets may take the tensions around Greece's debt talks more seriously Friday, ahead of a weekend that could end with the country in an even more perilous state. Traders on Thursday shrugged off the bombardment of headlines on Greece's dealings, responding instead to the idea that the Fed delivered a dovish message to markets on Wednesday. That sent stocks sharply higher, and the NASDAQ soared to a new high, surpassing its tech bubble intraday peak of 5,132 for the first time. The Russell 2000 also hit a new high.

Arguably, Wall Street's buoyant tone in the face of a potential Greek debt cataclysm could be an indication that a comprehensive deal is on the way or, that indeed it is deemed a minor cloud in an otherwise blue sky dominated by a bright, shiny Federal Reserve! Yes it was a "dovish" Fed on Wednesday. The Fed on Wednesday left rates unchanged after its two-day meeting, but it did provide a statement and forecasts that suggest it could raise rates once, if not twice, this year should it see improvement in economic data - including inflation. The central bank's chair, Janet Yellen, in a post-meeting briefing, said the economy and specifically inflation have not met the conditions required for a rate hike. But she said most Fed officials see a rate increase this year and they expect the data to improve. The US Dollar took a bashing and US bonds jumped upwards as yields fell along the curve, except for the 30 year bond which ignored the event. Clearly the Fed is now focussed on inflation. Equities joined the optimism and rose. Thursday we saw that the U.S. consumer prices in May recorded their largest increase in more than two years as gasoline prices surged, suggesting an energy-driven disinflationary trend has probably run its course. The Labour Department said on Thursday its Consumer Price Index rose 0.4% last month after gaining 0.1% in April. That was the largest increase since February 2013, and left the CPI unchanged in the 12 months through May after a 0.2% yearly decline in April. Indeed, the graph of inflation has changed course, now pointing upwards, but it is still way below where the Fed would like it to stabilize. Of course, there are a few interpretations of what may be occurring, as is the case with any sudden market movement. But, increasingly, it appears that global yields are telling us that the threat of deflation is receding, and receding more rapidly than many, ourselves included, would have expected.

Let's be cynical for a moment here and ponder why Janet Yellen said what she said on Wednesday - Generally, rising rates cause a given currency to climb as well, given that it makes holding that currency more profitable. That is, if risk-free rates in the U.S. become much higher than risk-free rates in Europe, holding Dollars is then that much more attractive than holding Euros. Well, a reduced expectation on the magnitude of US rate rises pulls-back some of the perceived Dollar advantage and it falls… Just ahead of the closing of Q2 books and the resulting earnings to be shown in July. As a rising currency had been blamed as the cause for slowing earnings of US corporations, maybe, just maybe… there was an interest in boosting Q2 with a lower Dollar? We still believe in the Greenback and consider this pullback to be an opportunity to reload some long Dollar positions. A CNBC Fed Survey continues to look for the Fed's first rate increase to arrive in September. While 92% see a Fed rate rise this year, up from 84% in the April survey, the central bank is seen hiking only modestly this year. The fed funds rate is forecast to end the year at just 53 basis points, or two quarter-point hikes. For 2016, respondents forecast a funds rate of 1.56%. That could mean four quarter-point increases, or a rate hike just every other meeting. Most of the 39 respondents, who include economists, fund managers and analysts, believe rate hikes are already baked into the bond and stock markets. That could explain why equities are still seen edging higher this year and next, despite calls for a rise in the yield on the 10-year government bond. We read this as a reaffirmation for our long-standing neutral attitude to bonds, our preference for equities and a continuing strength in the US$. Behind the scenes and behind the Greek headlines, we can hear Russia's President announcing the addition of 40 intercontinental ballistic missiles which, he said, were able to overcome "even the most technically advanced anti-missile defence systems." John Kerry, the US Secretary of State said that "… this statement could herald a return to the international hostility of the Cold War…" This language sounds like the rumblings of a storm brewing beyond our horizon…
Let's all go and enjoy a sunny June weekend and wish that Putin and Kerry recall Bertrand Russell's quip "War does not determine who is right - only who is left."

This Week's Highlights:

- This week the USD has continued to lose ground against most other major currencies. The DXY (US Dollar Index) dropped to 93.56 yesterday but has bounced back this morning to 94.25. EURUSD moved higher throughout the week from 1.12 to hit 1.1436 on the FOMC implied-dovishness, but now we are back to 1.1325. The Pound has moved higher again, jumping on dollar weakness and sending the pair to as high as 1.5930. The CHF strengthened marginally this week with the USD slipping to 0.9150 but rebounding to 0.9250 this morning. EURCHF is unchanged on the week at 1.0450. The JPY briefly dropped like a stone sending the USD as high as 124.50, only to see it strengthening against the USD to 122.50 and is now trading around 123.00. In the emerging markets, the RUB has gained some ground against the USD moving down from 55.58 on Monday to 54.00 as we write. In Brazil, the Real has managed to sustain its rally, seeing the pair move from 3.14 to hit 3.04 yesterday. The Chinese Yuan was almost unchanged on the week at around 6.21.
- The US 10Yr Treasury yields have had a very hectic week with daily moves of 12bps up AND down; seeing it move from 2.39% to then oscillate between 2.26% and 2.40%... volatility is back in the Fixed Income world! The German 10Yr Bund has followed suit and its yield marched as high as 0.85% on Monday and then as low as 0.72% with the market currently at 0.77%. The Spanish 10Yr yield had two very big movements on Monday and Tuesday, jumping as high as 2.54% but then trading in a 5Bps range around 2.30% for the rest of the week – volatile markets look to be a global norm for the moment in Fixed Income. Italian 10Yr notes followed a similar trajectory, hitting 2.46% and finally settling lower at 2.29%. In the UK, the yields remain anchored at 2.01%. Swiss 10Yr yields remained stable even after the SNB spoke yesterday at 0.13%.
- In general the US equity markets are higher on the week. Both the Dow and the S&P500 closed last night respectively at +1.2% and +1.3% for the week; and the NASDAQ being +1.46% - with the futures indicating a marginally higher open on Friday across the three indices. Europe really has had a mixed week with the DAX flat, CAC40 at -1.2%, IBEX -0.4% and the UK FTSE at -1.00%. With the Shanghai dropping heavily by 13.3% but the Nikkei was down "only" 1.15%. The Greek stock exchange is currently down 11.2% for the week.

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

18/06/2015

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2121.24	1.00	0.59	0.66	-0.31	1.53	2.44	3.03	8.26	56.21	17.72
DOW JONES INDUS. AVG	USD	18115.84	1.01	0.42	0.58	-1.07	0.87	1.75	1.64	7.06	41.12	16.15
NASDAQ COMPOSITE INDEX	USD	5132.949	1.34	0.99	1.24	1.24	2.82	7.71	8.38	17.75	75.20	19.46
RUSSELL 2000 INDEX	USD	1284.676	1.29	1.24	3.06	2.31	2.38	7.42	6.64	8.50	63.36	19.34
EURO STOXX 50	EUR	3450.45	0.65	-0.72	-2.61	-5.26	-5.26	10.71	10.52	4.91	58.22	15.03
EURO STOXX 600	EUR	384.22	0.14	-0.60	-3.20	-4.38	-3.44	13.74	13.00	11.18	55.90	16.35
CAC 40 INDEX	EUR	4803.48	0.27	-1.29	-3.40	-5.46	-3.96	14.05	13.22	6.02	55.16	15.69
DAX INDEX	EUR	11100.3	1.11	-0.10	-2.00	-5.64	-6.00	14.29	14.07	11.81	75.78	14.04
FTSE 100 INDEX	GBP	6707.88	0.42	-0.93	-3.76	-3.90	-3.45	2.70	2.37	-1.27	20.33	16.31
SWISS MARKET INDEX	CHF	8880.29	-0.30	-1.01	-3.27	-3.87	-4.21	-0.45	-0.53	3.01	48.09	17.52
NIKKEI 225	JPY	19990.82	-1.13	-1.14	-1.89	0.74	3.58	14.49	15.61	31.33	133.07	19.09
HANG SENG INDEX	HKD	26694.66	-0.18	-1.91	-2.42	-3.37	9.37	15.76	13.37	15.51	37.82	12.89
SHANGHAI SE COMPOSITE	CNY	4785.356	-3.67	-13.32	-2.89	1.38	25.01	44.06	38.45	121.29	94.64	17.68
S&P BSE SENSEX INDEX	INR	27115.83	1.06	3.34	-1.87	-1.22	-4.08	-0.24	-0.70	8.35	61.97	15.76
RUSSIAN RTS INDEX $	USD	981.82	1.67	2.01	0.07	-8.33	14.33	26.23	22.61	-29.31	-28.19	6.15
BRAZIL IBOVESPA INDEX	BRL	54238.59	1.86	1.02	2.80	-2.27	6.45	9.24	8.46	-1.75	-5.17	12.24
MSCI WORLD	USD	1780.62	1.06	0.59	0.07	-1.28	1.67	3.71	4.15	1.84	45.13	17.19
MSCI WORLD HEDGED	USD	748.346	0.52	-0.53	-1.06	-1.27	0.19	6.69	6.10	10.31	65.83	-
MSCI WORLD LOCAL	-	1340.816	0.53	-0.52	-1.11	-1.38	-0.46	5.64	5.10	8.45	56.67	-
MSCI AC WORLD	USD	433.57	1.04	0.51	-0.22	-1.80	1.63	3.68	3.94	0.88	39.67	16.52
MSCI EM	USD	977.61	0.86	-0.19	-2.65	-6.08	1.31	3.49	2.23	-6.89	3.62	12.33
MSCI AC ASIA x JAPAN	USD	590.5	0.28	-1.03	-3.84	-5.74	0.91	6.45	4.75	2.97	22.93	12.79
MSCI EM LATIN AMERICA	USD	2595.33	2.44	2.84	3.96	-2.86	8.13	-4.24	-4.85	-24.28	-26.79	14.70
MSCI EM Eur, ME & Africa	USD	274.89	1.92	1.60	-0.65	-7.40	2.77	1.94	1.52	-18.70	-13.55	11.14
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	228.95	0.37	0.41	-1.37	-3.26	2.31	-5.00	-3.73	-26.13	0.98	22.28
MSCI MATERIALS	USD	231.5	1.44	0.53	-0.51	-2.26	2.42	3.82	3.79	-8.31	7.57	17.69
MSCI INDUSTRIALS	USD	205.08	0.96	-0.31	-0.07	-1.76	0.07	2.84	2.89	-1.42	46.12	17.09
MSCI CONS DISCRETIONARY	USD	200.98	1.09	0.62	0.65	-0.70	1.61	8.97	7.93	10.82	69.72	18.15
MSCI CONS STAPLES	USD	205.54	1.17	1.37	0.15	-1.67	1.05	2.49	2.81	2.16	36.17	20.42
MSCI HEALTH CARE	USD	222.25	1.54	1.35	0.72	0.00	1.60	8.53	11.19	18.78	88.22	19.08
MSCI FINANCIALS	USD	106.12	0.95	0.08	0.86	-1.04	2.96	3.37	3.27	0.93	53.46	13.86
MSCI INFO TECH	USD	147.73	0.79	0.68	-0.71	-1.05	1.14	3.87	4.57	12.88	54.95	17.62
MSCI TELECOMS	USD	71.27	1.25	0.51	-0.11	-1.06	2.52	3.24	4.26	-2.48	27.50	16.37
MSCI UTILITY	USD	116.14	1.65	1.65	-2.04	-2.70	0.02	-5.45	-5.62	-7.01	15.33	15.80
MSCI WORLD REAL ESTATE	USD	194.08	1.07	0.81	-1.46	-3.50	-3.76	-0.12	-0.19	2.06	25.25	24.96
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1244.46	0.03	-0.11	-0.40	-0.17	0.31	3.99	2.14	0.18	11.10	
HFRX EQUAL WEIGHTED	USD	1217.29	0.00	-0.05	-0.23	-0.11	0.55	3.65	2.20	0.12	9.86	
HFRX GLOBAL EUR	EUR	1144.93	0.04	-0.11	-0.43	-0.25	0.10	3.67	1.81	-0.42	9.61	

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			PRICE CHANGE IN % (unless indicated)									
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0	0.00	-0.01	0.00	-0.01	-0.01	-0.03	-0.04	-0.01	-	
US 2 YEAR	USD	0.629	0.00	-0.10	0.02	0.02	0.02	-0.01	-0.04	0.18	-	
US 10 YEAR	USD	2.3059	-0.03	-0.09	0.18	0.02	0.34	0.14	0.13	-0.31	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	473.27	-0.01	0.13	-1.32	-0.85	-2.09	-0.06	-0.48	3.40	10.10	1.76
US GOVERNMENT TR	USD	2074.6	-0.18	0.18	-1.04	-0.40	-1.53	0.12	-0.12	2.60	2.34	1.76
US CORPORATE TR	USD	2563.47	-0.33	-0.13	-1.84	-1.28	-2.93	-0.39	-0.93	1.42	10.22	3.34
US HIGH YIELD TR	USD	1670.11	0.11	-0.16	-1.00	-0.83	1.35	3.95	3.03	0.31	24.21	6.31
EU GOVERNMENT TR	EUR	236.05	0.13	-0.10	-2.41	-1.68	-4.82	-0.77	-1.27	4.85	21.23	0.99
EU CORPORATE TR	USD	241.68	-0.27	-0.42	-2.09	-1.81	-2.90	-1.26	-1.59	2.15	17.55	1.45
EU HIGH YIELD TR	EUR	271.77	-0.23	-1.18	-2.14	-1.99	-1.59	1.40	1.12	1.37	36.06	4.53
JACI GLOBAL	USD	251.853	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	25.72	-
GLOBAL EM TR (HEDGED)	USD	328.3968	0.23	0.11	-1.52	-1.51	1.55	3.58	2.51	1.32	15.21	4.95
S&P/LSTA U.S. LEV LOAN	USD	95.46007	0.01	-0.40	-0.96	-1.07	-0.69	0.39	0.12	-3.43	3.12	4.98
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	3202.511	0.24	-1.23	-0.84	-2.97	8.14	-4.37	-0.94	-37.73	-27.15	
GSCI ENERGY TR	USD	659.303	0.41	-1.20	-0.71	-1.97	14.14	0.17	4.66	-45.23	-30.53	
GSCI INDUSTRIAL METALS TR	USD	1148.513	-0.04	-2.65	-3.78	-8.80	-0.99	-10.27	-9.21	-14.50	-22.45	
GSCI PRECIOUS METALS TR	USD	1481.864	2.05	1.76	0.54	-2.94	4.19	0.41	1.45	-7.59	-29.69	
GSCI AGRICULTURE TR	USD	470.4214	-0.19	-0.54	1.33	-4.28	-4.30	-17.41	-13.12	-26.13	-28.30	
GENERIC 1ST 'CL' FUTURE	USD	60.45	-0.12	0.70	0.13	4.12	28.77	-0.38	6.40	-42.35	-29.79	
GOLD SPOT $/OZ	USD	1201.92	-0.23	1.49	0.73	-0.71	2.40	0.24	1.21	-9.18	-25.91	
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.03	0.37	-0.63	-2.61	-0.94	-4.92	5.33	4.55	17.50	15.97	
Euro Spot	EUR	1.1359	-0.39	0.43	2.99	1.48	6.14	-7.47	-6.47	-16.85	-10.80	
Japanese Yen Spot	JPY	122.96	-0.14	0.21	0.83	-1.98	-1.91	-2.95	-2.72	-17.21	-35.88	
British Pound Spot	GBP	1.588	-0.11	1.93	3.73	2.25	7.52	1.51	1.83	-6.91	0.87	
Brazilian Real Spot	BRL	3.0602	-0.12	0.97	3.87	-1.78	4.92	-12.99	-13.16	-27.21	-32.72	
China Renminbi Spot	CNY	6.2081	-0.02	-0.02	-0.19	-0.04	-0.22	0.19	-0.06	0.32	2.34	
Singapore Dollar Spot	SGD	1.3342	-0.29	0.43	0.72	-0.15	3.68	-1.73	-0.94	-6.60	-5.33	
Norwegian Krone Spot	NOK	7.7959	0.00	-0.50	-0.31	-3.39	3.76	-5.54	-4.41	-21.50	-23.77	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.19	-9.03	2.65	-4.70	2.65	-6.25	-20.01	-31.30	24.20	-28.24	
USD SWAP SPREAD SEMI 2YR		26.5	-2.34	-2.82	7.83	1.73	-0.96	12.52	12.82	67.18	5.08	
TED SPREAD		28.08	-1.72	1.85	-1.06	3.65	14.61	32.70	27.58	30.12	-28.33	

All data is compiled from Bloomberg

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