

Bedrock Newsletter Friday, June 12th 2015

Another week has flowed by us all. Much data, much action in all markets and as we close the week, we wonder why we even bothered to get-up last Monday, as nothing much happened- we are where we were... The DJIA is a hair above 18'000 just about where we started the month, Gold at \$1'179 is flat, WTI oil at \$60 is also unchanged and even the US 10 year note which has bounced in an unusually broad band is now at a 2.39% just slightly up from 2.20% at the start of the month. Well, volatility is up you say, well, not really, as the dreaded VIX is now at a subdued 12.85, actually down for the month... But then there is Greece you say... Strangely, even the scary Euro at \$1.115 is exactly where it was June first... Basically, every measure we observe is within a 1% distance from where it had been as June began. Indeed, everything is settling into the summer doldrums. Where to from here? Probably more of the same for the weeks to come, the heat to be outside, not in our books...

ECB President Mario Draghi himself admitted that there's going to be a lot more volatility; "Volatility is certainly translating itself into the FX world, but it could also come back across the Atlantic and hit the US hard as well." Well, indeed bonds and FX rates bounced quite violently but it would seem that it all reverts to a steady, base equilibrium around where we are today. We now show you some of the week's noises;

U.S. retail sales surged in May as households boosted purchases of automobiles and a range of other goods even as they paid a bit more for gasoline, the latest sign economic growth is finally gathering steam. The Commerce Department said on Thursday retail sales increased 1.2% last month after an upwardly revised 0.2% gain in April. Solid retail sales data added to robust job growth in May and stabilizing manufacturing activity in suggesting the economy was finding momentum after getting off to a slow start in the second quarter. That likely keeps the Federal Reserve on track to raise interest rates this year. The government's most recent growth estimate showed gross domestic product contracted at a 0.7% annual pace in the first quarter, but data on healthcare spending on Wednesday, together with revisions to construction spending, trade and wholesale inventory reports suggested output probably shrank at only a 0.1% rate. Well, next week we have the FOMC meeting, the outcome of which likely to affect global bond markets. Will they start raising rates? Not so fast we have been advocating, supported last week by the IMF which urged Janet to go slow. Well, this week the World Bank has become the latest global organization to urge the U.S. Federal Reserve to delay raising interest rates until 2016, amid growing expectations that the central bank could hike as early as September. The IMF had said that until there are signs of a pickup in wages and inflation, the conditions were not right to raise rates, which could have major consequences for the rest of the world. They all must have been reading Bedrock's Newsletter... ☺

The supply of oil from the Organization of Petroleum-Exporting Countries (OPEC) reached its the highest level since August 2012 in May, according to the latest oil market report from the International Energy Agency (IEA). OPEC supply in May edged up to 31.33 million barrels a day (mb/d), according to the IEA, with Saudi Arabia, Iraq and the United Arab Emirates pumping at record monthly rates to keep output 1 mb/d above OPEC's official supply target for a third month running. OPEC oil ministers decided last week to maintain their official production ceiling of 30 mb/d, saying that the global economic recovery and growing oil demand justified maintaining high production levels.

These days the world is consuming 94 mb/d of the oily stuff, up from about 80 mb/d just ten years ago, having added windmills, garbage burning furnaces, solar panels, and more efficient motors in cars, boats and airplanes. Yes, the USA are fracking their way to a hoped-for energy independence, but overall, there are more of us (people) and we each want more comforts. Looking at the decline in oil prices from around \$114/bbl to about \$65 these days, we have our misgivings about the current prices and remain sceptical as to the possibility of renewed declines, Tesla cars notwithstanding.

One more comment- China, broadly expected to be slowing down and entering a phase of decelerating growth, produced some encouraging data this week- retail sales rose 10.1% from a year earlier, industrial output figures for May also rose 6.1% from a year earlier. China's economic growth slowed to 7.0% in Q1, but let's not forget that it is now a huge economy! We think that these data offer some indication the worst of the mainland's economic slowdown may be over.

James Paulsen, chief investment strategist at Wells Capital Management said this week that the Citigroup economic surprise index, widely watched by traders, continues to show signs of bottoming. The index tracks whether data is beating or missing Wall Street expectations, and it has begun to beat. We would interpret this with our optimistic eyes- We are normalizing, at last! We reiterate our long-standing view that short-date interest rates will not be rising quite as soon as many expect, that the rattled bond markets will settle at around current levels, i.e., 10 year US under 2.50%, 10 year German Bund below 1%, Oil around \$60 and the Euro, with or without Greece at around \$1.11 Calm for our summer holidays!

Well, we leave you before the next data on the US Producer Price Index is published, which is expected to show 0.4% month on month which would still be negative 1.1% year on year. Isn't this exciting or what? And another thought about the growth in energy consumption; what will happen if all the billions of Indians and Chinese will stop watching TV by candlelight (and use Edison's lightbulbs)... ☐

This Week's Highlights:

- This week USD has continued to lose some ground against most of the currencies. After the May short term strengthening, the DXY (US Dollar Index) dropped to 94.33 yesterday and trading as we write at 95.45. EURUSD moved higher throughout the week from 1.11 to hit 1.1386 testing last week's highs, but now we are back to 1.1163. The Pound has broken last weeks' range 1.52 – 1.54 to hit 1.5554 and now trading at 1.5480. The CHF is catching up to its level of 0.94 against the USD after touching 0.9244 during the week and quite unchanged against EUR; EURCHF gently moving lower from 1.0550 to 1.0450 towards where it opened the week. The JPY after the sharp move on Wednesday, strengthening against the USD from 124.50 to 122.50 is now trading around 123.65. In the emerging markets, the RUB has gained some ground against the USD moving down from 56.38 on Monday to 53.55 yesterday, this morning is trading down some at 55.08. In Brazil, the Real has managed to sustain a small rally and the pair moved from 3.18 to hit 3.06 to close yesterday at 3.09 The Chinese Yuan was almost unchanged on the week at around 6.20 to the USD.
- The US 10Yr Treasury yields have continued their hectic movements going up during this week from 2.36% to hit almost 2.50% yesterday, only to go back down again to 2.38% as we write. The German 10Yr Bund followed suit and its yield marched higher from 0.82% on Monday to peak on Wednesday at almost 1.06%, and we are now trading again at about 0.90%. The Spanish 10Yr yield oscillated around 2.22% during the week hitting 2.10% and now trading at 2.19%. Italian 10Yr followed a similar trajectory, and now trading at the same level as Spanish Yields at 2.19%. In the UK, the yields are no longer marching to the beat of their own drum and followed the markets, seeing the Gilts yields bounce from 2.0% to hit 2.16%, only drop back to 2.04% now. Swiss 10Yr yields have moved higher hitting 0.28% and are now yielding +0.18%.
- In general the equity markets are higher on the week. Both the Dow and the S&P500 closed last night at +0.75% and +0.62% respectively, and the NASDAQ being +0.46%; with the futures indicating a lower Friday open across all the US indices, into the May PPI report. Europe sees the DAX at +1.25%, CAC40 at +0.92% and the UK FTSE at +0.26%. With the Shanghai up +2.85% but the Nikkei was down 0.25%.

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Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

11/06/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2108.86	0.20	0.62	0.07	0.46	2.08	5.32	2.43	9.26	59.26	17.60
DOW JONES INDUS. AVG	USD	18039.37	0.28	0.75	0.16	-0.16	0.81	4.39	1.21	7.80	43.47	16.08
NASDAQ COMPOSITE INDEX	USD	5082.509	0.12	0.46	0.25	2.14	3.87	9.22	7.32	18.28	78.77	19.31
RUSSELL 2000 INDEX	USD	1289.92	0.18	1.41	1.80	2.90	2.61	10.11	5.33	9.45	68.63	19.08
EURO STOXX 50	EUR	3551.91	0.72	-0.13	-0.53	-0.59	-2.48	15.80	12.89	8.15	65.72	15.35
EURO STOXX 600	EUR	393	0.61	0.09	-1.72	-0.78	-0.60	18.90	14.73	12.99	61.44	16.63
CAC 40 INDEX	EUR	4971.37	0.74	-0.32	-0.73	-0.07	-0.32	20.99	16.35	9.16	63.16	16.10
DAX INDEX	EUR	11332.78	0.60	-0.07	-0.71	-1.22	-3.95	18.11	15.58	14.03	83.94	14.25
FTSE 100 INDEX	GBP	6846.74	0.38	-0.18	-1.97	-1.26	1.27	8.67	4.27	0.05	25.08	16.45
SWISS MARKET INDEX	CHF	9146.3	0.48	-0.95	-0.99	1.12	0.29	2.82	1.81	5.48	54.60	17.91
NIKKEI 225	JPY	20382.97	1.68	-0.26	-0.76	3.99	7.46	17.47	16.94	36.29	139.05	19.35
HANG SENG INDEX	HKD	29907.85	0.85	-0.79	-1.39	-1.32	13.64	16.32	14.57	16.70	43.30	12.97
SHANGHAI SE COMPOSITE	CNY	5121.593	0.32	2.70	11.86	17.21	54.02	75.58	59.49	151.43	125.29	20.50
S&P BSE SENSEX INDEX	INR	26370.98	-1.75	-1.12	-4.89	-1.52	-9.51	-3.22	-3.75	3.49	58.97	15.18
RUSSIAN RTS INDEX \$	USD	950.38	-0.83	3.01	-1.90	-11.20	10.60	18.92	20.19	-30.88	-25.90	6.09
BRAZIL IBOVESPA INDEX	BRL	53688.52	-0.35	0.31	1.76	-5.46	9.84	11.85	7.36	-2.57	-2.47	12.04
MSCI WORLD	USD	1779.45	0.18	1.08	0.01	-0.31	2.94	6.23	4.08	3.13	49.29	17.22
MSCI WORLD HEDGED	USD	752.347	0.41	0.14	-0.53	0.05	3.25	7.97	6.86	11.24	70.12	-
MSCI WORLD LOCAL	-	1347.788	0.38	0.10	-0.59	-0.17	2.56	6.87	5.65	9.33	60.83	-
MSCI AC WORLD	USD	433.28	0.15	0.91	-0.28	-0.82	2.94	6.00	3.87	1.95	43.75	16.54
MSCI EM	USD	976.78	-0.10	-0.55	-2.73	-5.08	2.98	4.09	2.14	-7.39	6.99	12.33
MSCI AC ASIA x JAPAN	USD	563.2	0.20	-1.53	-3.40	-3.80	3.82	6.37	5.23	2.76	26.44	12.83
MSCI EM LATIN AMERICA	USD	2523.63	-1.22	0.26	1.09	-8.62	4.57	-3.33	-7.48	-26.14	-25.58	14.35
MSCI EM Eur, ME & Africa	USD	272.37	-0.08	2.00	-1.56	-7.16	2.09	1.96	0.59	-19.74	-10.03	11.10
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	230.91	-0.38	0.82	-0.52	-4.34	4.61	4.68	-2.90	-23.61	5.32	22.53
MSCI MATERIALS	USD	231.44	0.01	1.27	-0.53	-2.56	1.58	6.75	3.76	-6.54	11.74	17.71
MSCI INDUSTRIALS	USD	206.51	0.17	0.94	0.63	-0.03	1.91	6.49	3.81	0.21	50.43	17.19
MSCI CONS DISCRETIONARY	USD	200.31	0.31	0.87	0.31	0.35	2.17	10.06	7.57	11.85	73.44	18.15
MSCI CONS STAPLES	USD	203.69	0.14	1.91	-0.75	-1.34	0.65	3.38	1.89	2.72	37.32	20.32
MSCI HEALTH CARE	USD	221.34	0.46	1.30	0.31	1.87	4.65	9.97	10.73	19.70	94.11	19.11
MSCI FINANCIALS	USD	106.29	0.29	1.53	1.02	0.13	3.83	5.07	3.44	1.77	59.87	13.90
MSCI INFO TECH	USD	147.62	-0.01	0.08	-0.79	0.83	3.23	6.57	4.49	14.37	58.85	17.58
MSCI TELECOMS	USD	71.02	0.22	1.10	-0.46	-1.66	2.81	4.63	3.89	-1.93	30.26	16.36
MSCI UTILITY	USD	115.13	0.33	0.68	-2.89	-2.38	1.09	-4.69	-6.44	-4.87	16.53	15.72
MSCI WORLD REAL ESTATE	USD	192.6	0.60	0.72	-2.21	-3.03	-2.59	-0.15	-0.95	2.09	27.88	24.85
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1245.8	0.21	-0.49	-0.29	0.01	1.04	3.24	2.25	0.02	10.91	-
HFRX EQUAL WEIGHTED	USD	1217.87	0.14	-0.31	-0.18	0.00	1.10	2.96	2.24	-0.04	9.65	-
HFRX GLOBAL EUR	EUR	1146.21	0.21	-0.48	-0.32	-0.06	0.86	2.89	1.93	-0.58	9.45	-

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0051	-0.01	-0.01	0.01	-0.01	-0.02	-0.01	-0.03	-0.03	-	-
US 2 YEAR	USD	0.7095	0.00	0.00	0.10	0.11	0.05	0.17	0.05	0.27	-	-
US 10 YEAR	USD	2.372	-0.01	-0.04	0.25	0.12	0.26	0.29	0.20	-0.22	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	472.67	0.35	-0.39	-1.45	-0.98	-1.74	-0.10	-0.61	3.34	9.88	1.79
US GOVERNMENT TR	USD	2070.79	0.41	-0.34	-1.22	-0.38	-0.84	-0.16	-0.30	2.47	2.27	1.79
US CORPORATE TR	USD	2566.75	0.63	-0.51	-1.72	-0.83	-2.10	-0.50	-0.80	1.80	10.59	3.34
US HIGH YIELD TR	USD	1672.87	0.17	-0.39	-0.84	-0.65	0.92	4.27	3.20	0.64	24.99	6.24
EU GOVERNMENT TR	EUR	236.28	0.65	-0.55	-2.32	-2.16	-5.15	-0.28	-1.18	4.83	20.47	0.96
EU CORPORATE TR	USD	242.7	0.37	-0.41	-1.68	-1.55	-2.82	-0.70	-1.17	2.61	17.88	1.36
EU HIGH YIELD TR	EUR	275.01	0.17	-0.45	-0.97	-0.78	-0.92	2.30	2.32	2.61	37.84	4.19
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	328.027	0.13	-0.80	-1.63	-1.40	1.11	2.52	2.40	0.86	16.18	4.95
S&P/LSTA U.S. LEV LOAN	USD	95.83878	-0.02	-0.28	-0.57	-0.79	-0.67	0.91	0.52	-3.03	3.77	4.91
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	3242.41	-1.06	2.81	0.39	-0.54	6.65	-7.67	0.30	-35.32	-26.14	-
GSCI ENERGY TR	USD	667.33	-0.97	5.06	0.50	0.61	11.00	-6.06	5.93	-42.63	-29.54	-
GSCI INDUSTRIAL METALS TR	USD	1179.805	-1.77	-0.35	-1.16	-7.75	1.02	-10.22	-6.74	-11.76	-20.80	-
GSCI PRECIOUS METALS TR	USD	1456.243	-0.47	0.30	-1.20	-0.51	2.54	-4.28	-0.31	-8.12	-29.76	-
GSCI AGRICULTURE TR	USD	472.968	-1.45	-2.46	1.87	-1.49	-4.63	-14.08	-12.65	-25.75	-27.72	-
GENERIC 1ST 'CL' FUTURE	USD	60.77	-0.76	2.00	0.02	-1.90	20.67	-2.67	6.27	-42.47	-29.29	-
GOLD SPOT \$/OZ	USD	1181.96	0.11	0.96	-0.61	-0.89	2.56	-3.21	-0.14	-7.08	-26.50	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	94.97601	0.26	-1.12	-1.73	0.73	-4.23	7.77	5.49	18.18	15.53	-
Euro Spot	EUR	1.1258	-0.32	0.97	2.15	0.08	5.52	-9.95	-7.24	-17.19	-10.25	-
Japanese Yen Spot	JPY	123.42	-0.09	1.70	0.50	-2.96	-1.81	-3.87	-3.04	-17.67	-35.62	-
British Pound Spot	GBP	1.5517	-0.03	1.58	1.45	-1.01	4.23	-1.30	-0.42	-8.37	-0.37	-
Brazilian Real Spot	BRL	3.09	0.91	1.41	2.87	-0.90	1.18	-14.17	-13.99	-27.71	-33.19	-
China Renminbi Spot	CNY	6.2087	-0.01	-0.07	-0.15	0.03	0.89	-0.30	-0.03	0.19	2.83	-
Singapore Dollar Spot	SGD	1.3447	-0.24	0.73	-0.01	-0.97	2.51	-2.52	-1.66	-7.39	-4.91	-
Norwegian Krone Spot	NOK	7.8432	-0.45	0.90	-1.38	-4.97	2.84	-6.69	-5.41	-23.94	-23.75	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDEX	USD	12.85	-2.80	-12.64	-7.15	-7.29	-16.67	-39.04	-33.07	2.31	-41.83	-
USD SWAP SPREAD SEMI 2YR	USD	26.31	1.22	6.52	10.96	0.15	-2.74	12.70	16.09	77.77	-11.85	-
TED SPREAD	USD	27.57	1.14	2.61	-2.85	1.55	8.24	25.15	25.26	41.89	-29.63	-

All data is compiled from Bloomberg

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