

On Wednesday evening Mr Cunha, Brazil's Speaker of Congress, broke the news that they would start the impeachment process of Brazil's President, Dilma Rousseff. Brazil is currently in its second year of recession with GDP 4.5% lower than this time last year – the longest downturn for the country since 1930's, inflation is currently above 10% with interest rates at 14.15%, unemployment creeping higher and their budget deficit is over 10% of GDP. Dilma is accused of failing to fund the state-owned banks that were doling out the welfare payments and using their funds to finance the administration. Perhaps this is nothing new, but 2014 was the first time that the Brazilian accounts audit was not signed off. The country has been wracked with scandal since the Carwash case has seen senior management at Petrobras arrested for bribery and corruption. Now, the CEO of BTG bank was arrested and Mr Cunha's name has appeared in statements (again); there seems to be some political positioning going on around the timing of the impeachment proceedings! We cannot help but feel that the political class have subjected the economy to further problems by burying their heads rather than dealing with the issues at hand. The senior management of the largest companies are in jail, the leaders of the political parties might be going to jail, the Central Bank's policies may have little effect in the face of such political furore and the corporate machine has no direction. They need a new figurehead that both the outside world and the domestic people are able to believe in... Henrique Meirelles? Perhaps... Who knows, but for now there is no captain at the helm.

Moving away from the Emerging Markets to those markets that are wholly developed (?) which should be perfectly comprehensible in theory...

The ECB rattled the market quite severely with their rate cut to negative 0.30% (disappointing the markets which were expecting 0.40%) and then Mario announced a lengthening of the ECB's bond buying, but no immediate increase in the monthly amount. These acts should have resulted in a further fall in the Euro against its major currency trading partners and a confirmation rally in European equities. That is in theory... In practice, the Euro bounced UP by 4.3% (!!!) and the EuroStoxx fell by 3.80%. In theory, the expansion of the QE program and the extension of the timeline that the ECB will openly buy assets should have sent the markets into rally mode; with the confirmed flood of capital that should allow further economic expansion and force low yielding assets into the equity markets in search of returns. In practice we didn't see any of this, even sending the US stock markets into a tailspin for their worst single day drop since the end of September.

Go figure... As Yogi Berra said, "In theory there is no difference between theory and practice. In practice there is."

It is clear that direction is not the only factor that is important for the markets; size, timeframes and expectation are some of the variables that the investor universe need to, and do, consider. The media has mooted the fact that yesterday's rally in the Euro was driven by short covering and that the ECB release was less than the market had been expecting. Therefore, those that had already bet on the Euro depreciation closed their bets as the scale of the intervention was not as large as they hoped. This seems reasonable and it is one behavioural explanation for the downdraft in the US Dollar (covering a "Short Euro" position generates a sale of the offset, usually the US\$). Arguably both Gold and Oil responded "as they should have", with the US Dollar weakening, Gold and oil rallied (as did many other US\$ priced commodities).

Separately, Oil has seen a large increase in volatility as the Iranian, Iraqi and Saudi oil ministries have been on the tapes with various versions of the OPEC's forward looking stance on where oil production will be for 2016. For now the cash market stands at around \$41.50/Bbl. of WTI oil but the contango in the forward curve shows a large premium of \$7.11 for 1 year. That is a phenomenal 17% "price" for one year's storage!

Much like the markets, we at Bedrock are looking forward to the US Federal Reserve's actions next week. Yellen said yesterday that she believes the ECB and FOMC policy divergence is largely built into the US Dollar already. Without wanting to signal with an outright admission that the FOMC have agreed that a rate rise of 25Bps will be coming, she has yet again indirectly supported that notion with her statement. Although we appreciate the sentiment that she wishes to direct the markets away from surprises, we find it hard to believe that she is able to define what is and what is not priced by the market (see the mispricing ahead of the ECB!). In theory, the USD should rally on the expected rate rise and the equity markets could see a boost from the expanded QE package that is also expected. Let's see what practice will do... Yesterday on Capitol Hill Yellen was asked to opine on Citigroup's research which placed a 65% chance of recession in 2016. Well, with the Fed's estimates of GDP growth for 2016 at 2.3%, she responded with, "I absolutely wouldn't see it as anything approaching 65%".

To quote Charlie Brown "Some day we will all die, Snoopy!".... "True, but on all the other days we will not" responded Snoopy.

Market Weekly Highlights:

- The US Dollar index (DXY) remained above 100 for only a few days, hitting 97.60 yesterday; currently trading at 98.00. The US\$ is at about \$1.0920 against the EUR and also 1.00 against the Swiss Franc. The Pound is almost unchanged against the USD this week and is trading at 1.5090. We maintain our belief in the fundamental strength of the US\$ in the longer term. This view is driven by the outlook for interest rates to hold or rise in the US and hold or decline elsewhere. The Japanese Yen is also unchanged on the week at 123.20. Gold is trading higher on the week at \$1,073. WTI also has dropped like a stone on the OPEC news that they would like the cap on production sending the price below \$40.00, whilst Brent is now trading at \$43.25/Bbl. or about -3% for the week. The Russian Ruble slipped heavily; it would appear the Russia/Turkey problems are hurting their currency, sending the currency pair to 68.25. The Brazilian Real gained some ground against the USD and is now trading at 3.75.
- The US 10Yr Treasury yield has moved lower this week as the market adjusts to the higher probability of a rate rise in December and is trading around 2.30% with the US 5 year yield surging to 1.78% briefly today. The German 10Yr Bund has plummeted sending the yield skyrocketing from 0.45% to 0.73% in two trading sessions – this might seem like a small move, but that is a truly enormous move in one of the largest markets in the world. The Spanish 10Yr yield has followed the move and is trading around 1.75% having been 1.45% yesterday morning. Italian 10Yr yield followed suit and is currently at 1.64% having been at 1.36% yesterday. In the UK, the yield of Gilts had drifted lower during the week to hit 1.72% only to soar to hit 1.98% this morning! Even the Swiss 10Yr yield followed with a similar move with the slides rising from -0.40% to -0.24%.
- Equity Markets in the US and Europe tumbled this week. The S&P500 is now -1.10% for the week. The Dow Jones moved a little lower at -0.80% for the week. The DAX is currently trading at -5.00% for the week; the CAC40 is -4.70%, SMI -2.25%, the UK FTSE trading -2.10% and the EuroStoxx 50 at -4.90%. In Asia, the Nikkei has closed the week at -1.91% whilst the Shanghai composite and the Hang Seng Index were up respectively +2.58% and +0.76%.

Bedrock Friday December 4th Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

03/12/2015

INDEX NAME	CCY	PRICE CHANGE IN % (unless indicated)										P/E
		Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2049.62	-1.43	-1.88	-1.48	-2.51	6.68	-2.21	-0.45	-1.08	45.67	17.02
DOW JONES INDUS. AVG	USD	17477.67	-1.42	-1.88	-1.37	-2.18	8.54	-2.39	-1.94	-2.36	34.94	15.85
NASDAQ COMPOSITE INDEX	USD	5037.527	-1.67	-1.54	-1.39	-2.04	7.55	-0.43	6.37	5.62	68.10	19.00
RUSSELL 2000 INDEX	USD	1170.566	-1.77	-2.29	-2.30	-1.66	3.03	-6.45	-2.83	-0.21	42.38	18.32
EURO STOXX 50	EUR	3343.34	-3.61	-4.18	-4.86	-2.79	5.12	-6.00	6.25	4.76	29.04	14.55
EURO STOXX 600	EUR	372.11	-3.13	-3.16	-3.61	-2.30	5.22	-5.38	8.46	7.74	34.50	15.96
CAC 40 INDEX	EUR	4730.21	-3.58	-3.90	-4.43	-4.25	4.75	-5.00	10.88	9.57	32.32	15.28
DAX INDEX	EUR	10789.24	-3.58	-4.38	-5.13	-0.43	7.58	-4.78	10.13	9.62	45.24	13.26
FTSE 100 INDEX	GBP	6275	-2.26	-1.94	-1.65	-2.52	3.45	-8.86	-4.80	-6.41	6.51	15.69
SWISS MARKET INDEX	CHF	8652.14	-1.82	-2.18	-2.07	-1.62	1.79	-4.62	-1.96	-3.41	28.51	17.13
NIKKEI 225	JPY	19939.9	0.01	-1.91	-1.23	3.05	9.62	-4.80	11.77	9.04	106.78	18.78
HANG SENG INDEX	HKD	22417.01	-0.28	0.76	1.09	-3.55	6.70	-19.29	-5.80	-6.70	2.00	11.17
SHANGHAI SE COMPOSITE	CNY	3584.824	1.35	2.58	2.31	1.89	11.54	-28.75	8.98	21.57	78.47	14.36
S&P BSE SENSEX INDEX	INR	25886.62	-0.89	-1.44	-1.51	-3.02	2.18	-3.96	-6.35	-9.84	33.10	17.32
RUSSIAN RTS INDEX \$	USD	826.96	-0.84	-2.84	-1.79	-6.14	4.83	-9.83	5.22	-9.44	-42.38	6.05
BRAZIL IBOVESPA INDEX	BRL	46393.26	3.29	-1.60	2.82	-2.76	-0.22	-13.32	-7.23	-9.79	-19.40	10.40
MSCI WORLD	USD	1678.23	-1.06	-1.30	-0.95	-2.08	5.17	-5.48	-1.84	-3.36	27.72	16.56
MSCI WORLD HEDGED	USD	725.101	-1.54	-1.75	-1.38	-1.61	4.54	-4.24	2.80	1.71	48.22	-
MSCI WORLD LOCAL	-	1289.075	-1.54	-1.78	-1.40	-1.79	4.07	-5.01	1.04	-0.13	40.16	-
MSCI AC WORLD	USD	403.93	-0.98	-1.25	-0.80	-2.42	5.06	-6.70	-3.16	-4.82	21.54	15.96
MSCI EM	USD	819.25	-0.31	-0.86	0.61	-5.63	3.89	-17.08	-14.33	-16.99	-18.67	11.89
MSCI AC ASIA x JAPAN	USD	508.52	-0.48	0.06	1.00	-4.59	6.65	-15.95	-9.79	-11.07	-3.90	12.33
MSCI EM LATIN AMERICA	USD	1964.37	2.02	-3.01	2.35	-5.13	-0.98	-21.96	-27.98	-31.17	-45.18	13.87
MSCI EM Eur, ME & Africa	USD	223.24	-0.89	-2.77	-1.55	-9.47	-3.84	-17.16	-17.55	-23.70	-33.30	10.45
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	190.6	-1.83	-3.18	-3.51	-8.37	2.05	-16.67	-19.85	-21.81	-19.21	19.27
MSCI MATERIALS	USD	189.42	-0.74	-1.47	-1.69	-4.18	1.49	-18.15	-15.08	-17.89	-16.26	17.09
MSCI INDUSTRIALS	USD	194.53	-0.78	-1.61	-1.27	-0.99	6.18	-5.61	-2.40	-3.55	28.79	17.00
MSCI CONS DISCRETIONARY	USD	196.77	-1.06	-1.17	-0.77	-1.53	6.63	-1.84	5.67	5.46	52.82	17.83
MSCI CONS STAPLES	USD	206.16	-0.60	-1.17	-0.30	-1.04	7.24	1.38	3.12	2.00	26.51	21.15
MSCI HEALTH CARE	USD	205.2	-1.72	-1.99	-0.98	-2.24	0.15	-6.72	2.66	-0.37	59.65	17.45
MSCI FINANCIALS	USD	98.43	-0.93	-0.74	-0.47	-0.92	4.94	-6.73	-4.21	-5.33	25.02	13.20
MSCI INFO TECH	USD	148.93	-1.14	-0.57	-0.63	-1.41	11.40	0.56	5.41	3.92	54.70	17.77
MSCI TELECOMS	USD	67.55	-0.66	-1.27	-1.04	-1.80	0.94	-5.72	-1.18	-4.58	18.47	15.34
MSCI UTILITY	USD	109.24	-0.50	-1.18	-0.88	-4.86	2.32	-6.04	-11.23	-11.46	9.89	14.61
MSCI WORLD REAL ESTATE	USD	187.71	-0.92	-1.44	-0.71	-2.41	6.65	-3.22	-3.47	-4.01	10.51	23.53
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1191.97	-0.05	0.15	0.17	-0.82	-0.80	-4.74	-2.17	-2.34	4.75	-
HFRX EQUAL WEIGHTED	USD	1186.12	0.03	0.13	0.15	-0.84	-0.47	-2.85	-0.42	-0.53	6.19	-
HFRX GLOBAL EUR	EUR	1092.44	-0.05	0.10	0.14	-0.91	-1.02	-5.10	-2.86	-3.05	3.18	-

MARKET INDICES PERFORMANCE

03/12/2015

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FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.2034	0.00	0.04	0.04	0.17	0.18	0.19	0.17	0.19	-	-
US 2 YEAR	USD	0.9588	0.01	0.04	0.03	0.15	0.25	0.30	0.29	0.42	-	-
US 10 YEAR	USD	2.2923	-0.02	0.07	0.09	0.07	0.17	-0.01	0.12	0.06	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	479.45	-0.67	-0.43	-0.47	-0.18	0.37	1.17	0.82	1.59	8.46	1.78
US GOVERNMENT TR	USD	2089.14	-0.72	-0.41	-0.44	-0.40	-0.68	0.54	0.58	0.99	2.34	1.78
US CORPORATE TR	USD	2574.15	-1.01	-0.55	-0.61	-0.49	-0.25	-0.22	-0.51	0.04	5.05	3.58
US HIGH YIELD TR	USD	1588.66	-0.36	0.17	0.00	-2.53	-2.30	-5.41	-2.00	-2.57	9.25	7.99
EU GOVERNMENT TR	EUR	242.3817	-1.20	-1.25	-1.10	-0.19	0.96	2.02	1.38	2.58	17.10	0.71
EU CORPORATE TR	USD	245.25	-0.77	-0.63	-0.66	0.05	0.71	0.65	-0.13	0.51	12.16	1.39
EU HIGH YIELD TR	EUR	276.65	-0.19	0.00	-0.08	0.20	1.27	-0.02	2.93	2.65	22.52	4.55
BARCLAYS GLOBAL CONVERT.	USD	214.96	-0.76	-0.96	-0.92	-1.56	-1.08	-5.90	0.14	0.21	22.54	-
GLOBAL EM TR (HEDGED)	USD	327.0992	-0.41	-0.71	-0.55	-1.08	0.73	-1.24	2.11	0.48	4.78	5.39
S&P/LSTA U.S. LEV LOAN	USD	89.12448	-0.03	-0.09	0.02	-1.42	-3.79	-7.27	-6.52	-7.76	-6.78	6.30
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2356.508	1.56	-2.99	-0.81	-10.86	-12.65	-26.55	-27.11	-36.77	-52.17	-
GSCI ENERGY TR	USD	426.914	2.37	-5.10	-1.85	-14.79	-18.12	-34.63	-32.23	-45.34	-59.90	-
GSCI INDUSTRIAL METALS TR	USD	924.395	-0.64	0.07	0.00	-7.27	-11.83	-22.82	-26.93	-29.92	-41.84	-
GSCI PRECIOUS METALS TR	USD	1302.417	0.68	-0.78	-0.35	-5.15	-5.56	-11.18	-10.84	-12.93	-42.20	-
GSCI AGRICULTURE TR	USD	463.7837	1.72	1.08	1.82	-2.24	4.70	-3.06	-14.35	-14.09	-41.10	-
GENERIC 1ST 'CU' FUTURE	USD	41.08	0.12	-1.39	-1.25	-14.01	-15.77	-33.83	-32.47	-45.20	-56.11	-
GOLD SPOT \$/OZ	USD	1062.18	-0.23	0.22	-0.47	-4.34	-5.67	-9.94	-10.56	-12.07	-37.57	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	97.621	0.69	-1.72	-1.87	0.36	2.15	2.97	8.90	10.82	23.42	-
Euro Spot	EUR	1.094	-0.61	2.64	2.92	0.06	-2.48	-3.25	-10.13	-12.17	-16.96	-
Japanese Yen Spot	JPY	122.61	-0.12	0.03	0.29	-0.97	-3.07	1.30	-2.43	-2.43	-33.28	-
British Pound Spot	GBP	1.5144	-0.25	0.47	0.33	-1.82	-0.42	-1.68	-3.02	-3.62	-6.18	-
Swiss Franc Spot	CHF	0.9933	-0.46	3.24	3.12	-0.45	-2.66	-6.44	-0.36	-2.67	-7.17	-
Brazilian Real Spot	BRL	3.7591	2.08	-0.42	2.88	0.27	-0.50	-16.64	-29.30	-32.08	-43.51	-
China Renminbi Spot	CNY	6.398	-0.07	-0.13	-0.07	-1.03	-0.73	-3.16	-3.08	-3.87	-2.76	-
Singapore Dollar Spot	SGD	1.3949	-0.14	1.20	1.01	0.44	1.98	-3.54	-5.10	-6.06	-12.82	-
Norwegian Krone Spot	NOK	8.4834	-0.37	2.24	2.14	1.34	-2.43	-8.91	-12.49	-17.14	-33.99	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	18.11	13.83	19.22	12.28	16.76	-34.86	23.11	-5.68	46.28	5.78	-
USD SWAP SPREAD SEMI 2YR		8.01	-3.50	23.68	28.62	-15.05	-40.81	-68.69	-66.30	-63.19	-35.04	-
TED SPREAD		24.86	6.88	4.10	0.08	-12.12	-21.87	-7.58	12.95	8.18	6.06	-

All data is compiled from Bloomberg

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