Bedrock Friday September 9th Newsletter

September started and everyone seems back from summer vacations. However, in the markets, calm continues to reign although there was no shortage of news last week.

First, there was the G20 summit in Shanghai where Theresa May, the new British Prime Minister, received a bit of a cold shower from her counterparts. While on the plane on her way there, she said: ”I'm going out there to seek the best possible deal”. However, upon her arrival, while on her first one-on-one with Obama, the US President told her he stood by his warning earlier that a trade deal with the UK wasn't high on his agenda. He then continued on to say that the US was focused on its Trans-Pacific and Trans-Atlantic trade deals, and that it would not make sense to put those efforts aside. So much for her high hopes! And to make matters worse for her, Japan, who usually treads carefully with international relations, published a 15 page document through its Ministry of Foreign affairs, setting out the concerns businesses in that country have about Brexit, and warning that the head offices of Japanese firms in the UK could be shifted to the Continent if EU regulations no longer applied…

In other news, The Fed Beige Book (the monthly report by Fed regions on the level of the economy) was released, and indeed it was…beige… the report stated that “the economy expanded at a “modest” pace through late August and that “moderate” economic growth was expected in coming months as well as “modest” wage growth. This news, coupled with a lower ISM (manufacturing Index) for August did little to change the odds of roughly 40% of a Fed hike at the next meeting of the Fed, at the end of September. However, some Fed members keep on repeating that a rate hike is coming, so watch out…

In Europe, the ECB met yesterday and kept interest rates where they were, i.e. at 0. However, they did surprise the market by failing to extend the QE deadline, which normally ends in March 2017. Expectations were running high that the Central Bank would extend the period by at least 6 months.
But despite ultra low or even negative rates, the Euro Zone's economic growth and inflation rate remain stubbornly low. The ECB even cut its growth forecast for 2017 and 2018 to 1.6% from 1.7%, and inflation rate from 1.3% to 1.2%. We at Bedrock believe that even these forecasts could prove too optimistic when we watch the debates surrounding the coming elections or consultations in Italy, Spain and France. We have seen this past week how populism is growing and how even Chancellor Merkel suffered a crushing defeat in regional elections in Germany.
JP Morgan seems to agree as they also see negative rates staying low for another 5 years (!). “QE reduces lending rates to negative and we are going to expect negative lending rates till 2021” Kian Abouhossein, head of European banks equity research at JP Morgan told CNBC.

As for Japan, it is widely expected that the BOJ will, at its end of September meeting, expand its monetary stimulus, in order to ensure that Abenomics will not fail. Japan's Central bank has continued to buy equities and Japanese Reits in the past few months, along their massive buying of JGB's , the Japanese government bonds.
Even the Swiss National Bank, usually very conservative in its investments, has confirmed that it just bought CHF 1 billion worth of investments in the precious metals universe. This is certainly outside the original approach of buying investments in the top 1'000 companies in the world due to market cap considerations.

So, what to make of all this? First, interest rates in the Developed economies are set to remain low for a very, very long time. Even in the US, a rate hike of another 0.25% will not change the situation as rates will remain at multi generation lows. Second, intervention by Central Banks will remain elevated, be it in the Bond Market, or in equities, thereby ensuring that big buyers will emerge every time there will be a dip, or a market scare. The problem with all this is that asset classes do not necessarily reflect the current economic conditions and create bigger distortions.
Until when is the big question, and no one has an answer.

Volatility will certainly come back soon as we are now sitting at the lowest level in decades for the VIX. Soon, heated exchanges between Trump and Clinton will gather steam and take centre stage for the markets. We have also 2 very big Central Banks meetings in 10 days (FED and BOJ), as well as European elections and Brexit discussions.
We hope you enjoyed the Summer sunny doldrums as we might be in soon for a cloudy Autumn!
In the meantime, have a restful and sunny week end!

Market Weekly Highlights:

- Dollar is slightly down this week with the USD Index (DXY) trading at round 94.9590 or -0.92% WTD, bringing the YTD performance to -3.72%. The USD is now trading at about $1.1271 against the EUR and at 0.9727 against the Swiss Franc. The GBP is currently trading above the 1.30 level at 1.3306 against the USD, posting a mere 0.09% weekly gain. The Yen strengthened 1.73% over the week and is trading at 102.15 at the time we write. The Russian Ruble strengthened almost 1.5% against the USD this week, at 65.75. The Brazilian Real is slightly up for the week to trade at around 3.21. Gold is higher this week at $1'336.25 per ounce. Oil was strongly up from the latest news on major producer to control the output in order to push inventories lower. WTI is up almost 9% WTD to currently trade at $47.04/barrel and the Brent is currently back just below the $50 mark at $49.30 a barrel.

- In the Bond markets - Over the week, the US 10 year yield continues to trade in a upward range since one month hiking form 1.45% back in July to 1.61% as we write. The yield on 10-year JGBs yield moved slightly higher to currently offer negative 0.041%. The German Bund continues to navigate negative territories at -0.039%. The Swiss 10 year bond yield is finishing the week almost where it started, remaining deeply negative, and trading at -0.459%. The Italian 10Yr also moved sideways reaching 1.05% yesterday to finally finish where they started at 1.17%. The Spanish 10Yr yield followed a similar path trading at their lowest at 0.90% during yesterday session to finally reach 1.03 % this morning. In the UK, the 10Yr Gilts yields jumped by more than 15 Bps from the lowest to offer 0.80%.

- Most equity markets started the week on a negative stance with the US ISM Non-Manufacturing data which implies a softer than expected U.S. economic rebound to finally move higher on potential longer accommodative monetary policies in major Developed Countries. Over the week, Global Equity markets as measured by the MSCI World index closed slightly higher, +0.57%. European markets measured by Eurostoxx50 are flat with mixed results: DAX is down -0.30%, the SMI up 0.25% and the CAC down -0.20% and UK FTSE 100 down -0.61%. Despite Tuesday's disappointing ISM Non-Manufacturing data, main US markets are slightly up for the week as of yesterday's closing figures with the exception of DOW which is down 0.07%. The NASDAQ is up 0.18% and the S&P500 up 0.06% for the week however the futures are pointing south. In Asia, the Shanghai Composite is up 0.38% for the week while Hang Seng gained 3.58% and the Nikkei up +0.24%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE 08/09/2016

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	2181.3	**-0.22**	0.48	0.48	-0.02	3.11	9.65	6.72	12.32	30.48	17.93
DOW JONES INDUS. AVG	USD	18479.91	**-0.25**	0.43	0.43	-0.29	2.75	8.70	6.05	13.70	22.68	17.46
NASDAQ COMPOSITE INDEX	USD	5259.482	**-0.46**	0.89	0.89	0.65	6.07	12.52	5.03	10.57	41.91	19.41
RUSSELL 2000 INDEX	USD	1258.359	**-0.20**	1.49	1.49	2.16	6.53	17.30	10.78	9.59	20.29	18.23
EURO STOXX 50	EUR	3083.54	**-0.26**	-0.14	1.73	1.52	2.89	1.96	-5.88	-5.95	9.90	14.47
EURO STOXX 600	EUR	349.32	**-0.31**	-0.62	1.37	1.04	2.05	2.69	-4.80	-4.27	13.87	16.30
CAC 40 INDEX	EUR	4542.2	**-0.34**	-0.22	2.12	1.43	2.87	2.41	-2.26	-2.84	12.17	15.00
DAX INDEX	EUR	10675.29	**-0.72**	-0.40	0.46	-0.48	5.48	9.44	-0.95	3.28	28.58	13.81
FTSE 100 INDEX	GBP	6858.7	**0.21**	-0.75	0.91	-0.12	9.81	11.34	9.63	9.86	4.78	17.53
SWISS MARKET INDEX	CHF	8315.2	**-0.07**	0.13	1.25	0.92	2.83	4.13	-5.82	-6.39	4.65	18.05
NIKKEI 225	JPY	16958.77	**-0.32**	0.24	0.46	1.20	1.78	1.94	-10.86	-9.61	19.43	16.56
HANG SENG INDEX	HKD	23919.34	**0.78**	3.88	5.19	7.58	13.48	20.86	10.29	9.20	6.23	12.93
SHANGHAI SE COMPOSITE	CNY	3095.954	**0.13**	0.38	-0.22	1.76	5.18	7.56	-13.01	-5.06	39.16	14.13
S&P BSE SENSEX INDEX	INR	29045.28	**0.45**	1.38	1.28	2.60	7.67	16.22	10.33	12.04	49.54	18.08
RUSSIAN RTS INDEX $	USD	1013.11	**0.73**	2.96	5.08	4.67	5.01	19.49	31.90	25.33	-27.66	7.41
BRAZIL IBOVESPA INDEX	BRL	60231.66	**0.17**	4.03	4.03	4.41	17.83	23.77	38.94	29.09	11.02	14.88
MSCI WORLD	USD	1744.44	**-0.17**	0.57	1.45	0.92	3.30	9.13	4.91	7.14	15.08	17.13
MSCI WORLD HEDGED	USD	755.344	**-0.19**	0.86	0.88	1.06	3.59	9.88	4.98	8.81	29.64	-
MSCI WORLD LOCAL	-	1317.389	**-0.20**	0.08	0.83	0.42	3.56	8.04	3.10	6.13	21.23	-
MSCI AC WORLD	USD	423.7	**-0.13**	0.84	1.70	1.16	4.08	10.02	6.09	7.94	12.88	16.65
MSCI EM	USD	927.29	**0.15**	3.08	3.76	3.06	10.78	17.72	16.77	14.55	-4.78	13.57
MSCI AC ASIA x JAPAN	USD	562.22	**0.24**	3.23	3.49	4.03	10.67	17.19	12.46	13.38	6.74	13.96
MSCI EM LATIN AMERICA	USD	2504.59	**0.04**	4.28	4.28	1.34	14.63	23.22	36.88	25.82	-23.65	16.58
MSCI EM Eur, ME & Africa	USD	247.8	**0.31**	3.28	5.27	-0.68	5.76	12.37	17.88	6.43	-21.94	11.66
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	208.56	**1.39**	3.13	4.30	3.83	2.88	14.60	16.95	11.11	-19.44	32.05
MSCI MATERIALS	USD	216.3	**-0.69**	0.57	1.85	0.91	6.07	16.42	17.13	12.21	-4.75	19.53
MSCI INDUSTRIALS	USD	210.6	**-0.18**	0.54	1.29	1.69	4.20	11.03	9.80	12.36	16.97	17.47
MSCI CONS DISCRETIONARY	USD	195.41	**-0.58**	0.27	1.09	0.56	2.91	6.43	0.92	3.39	19.88	16.69
MSCI CONS STAPLES	USD	223.14	**-0.56**	-0.59	0.97	0.41	1.17	5.39	7.07	14.54	25.73	21.63
MSCI HEALTH CARE	USD	206.74	**0.06**	0.75	0.96	-2.40	0.26	7.02	-1.65	-0.59	32.54	16.77
MSCI FINANCIALS	USD	95.61	**0.25**	0.37	1.30	2.72	3.52	8.14	-1.45	-0.77	2.09	12.40
MSCI INFO TECH	USD	158.68	**-0.75**	0.06	0.83	0.94	7.63	13.69	8.40	16.79	45.35	18.45
MSCI TELECOMS	USD	73.11	**-0.01**	1.30	2.22	-0.92	1.63	3.95	7.63	6.37	14.74	14.84
MSCI UTILITY	USD	122.16	**0.18**	1.58	2.98	0.10	-0.20	5.57	9.39	12.20	15.97	16.97
MSCI WORLD REAL ESTATE	USD	208.67	**-0.46**	1.11	1.65	-0.60	4.09	11.33	9.92	16.71	19.97	24.08
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1190.17	**0.17**	0.59	0.59	0.61	1.70	3.74	1.37	-0.91	-0.08	
HFRX EQUAL WEIGHTED	USD	1202.49	**0.11**	0.40	0.40	0.59	2.09	4.56	2.53	0.85	2.71	
HFRX GLOBAL EUR	EUR	1077.52	**0.16**	0.50	0.50	0.42	1.25	2.83	0.21	-2.34	-2.46	

MARKET INDICES PERFORMANCE 08/09/2016

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.3409	**0.00**	2.13	1.11	6.11	9.23	4.08	17.82	31.56	-	
US 2 YEAR	USD	0.774	**0.41**	-1.18	-3.13	6.40	0.70	-11.61	-27.37	3.31	-	
US 10 YEAR	USD	1.6077	**0.87**	0.53	2.77	6.07	-7.90	-26.83	-66.17	-59.29	-	
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	510.3573	**-0.38**	0.06	-0.20	-0.11	1.49	3.92	6.24	6.70	17.17	1.16
US GOVERNMENT TR	USD	2195.11	**-0.46**	-0.28	-0.28	-0.38	0.78	2.44	4.79	4.60	11.48	1.16
US CORPORATE TR	USD	2798.66	**-0.59**	-0.49	-0.51	-0.03	2.15	7.31	8.91	8.52	19.35	2.85
US HIGH YIELD TR	USD	1777.67	**0.07**	0.43	0.39	1.52	5.02	13.05	14.79	8.77	17.41	6.07
EU GOVERNMENT TR	EUR	256.8692	**-0.51**	0.25	-0.06	-0.31	1.77	3.56	5.84	7.11	23.52	0.17
EU CORPORATE TR	USD	262.4126	**-0.22**	0.22	0.12	0.31	2.68	5.73	7.08	7.62	18.09	0.62
EU HIGH YIELD TR	EUR	292.9861	**-0.03**	0.23	0.26	1.21	2.80	8.07	7.94	6.97	20.88	3.77
BARCLAYS GLOBAL CONVERT.	USD	221.42	**0.10**	0.73	0.83	0.99	2.55	7.30	4.03	1.66	12.35	-
GLOBAL EM TR (HEDGED)	USD	365.4213	**-0.09**	0.56	0.45	1.20	4.82	10.02	12.68	12.35	24.07	4.08
S&P/LSTA U.S. LEV LOAN	USD	92.59614	**0.07**	0.15	0.15	0.16	1.53	5.46	5.57	-0.13	-5.25	5.19
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2278.908	**2.66**	5.76	3.84	3.70	-8.74	7.73	4.99	-14.79	-55.06	
GSCI ENERGY TR	USD	397.562	**4.48**	9.09	5.44	8.59	-8.43	15.49	7.95	-22.20	-66.36	
GSCI INDUSTRIAL METALS TR	USD	1014.227	**0.12**	-0.13	0.33	-1.98	3.11	2.64	6.23	-3.96	-25.31	
GSCI PRECIOUS METALS TR	USD	1654.115	**-0.60**	2.10	2.65	-0.10	6.79	7.63	27.35	20.23	-6.73	
GSCI AGRICULTURE TR	USD	442.8864	**0.52**	3.22	4.45	-2.24	-15.54	0.45	-1.60	-1.32	-32.22	
GENERIC 1ST 'CL' FUTURE	USD	47.62	**-1.05**	9.18	5.41	9.25	-10.64	6.41	0.81	-18.34	-61.67	
GOLD SPOT $/OZ	USD	1338.2	**-0.18**	0.81	2.05	-0.37	5.20	6.59	25.85	20.57	-3.70	
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.02701	**-0.09**	-0.95	-1.13	-1.29	1.05	-2.30	-3.74	-1.12	16.07	
Euro Spot	EUR	1.126	**0.12**	1.06	1.04	1.41	-0.37	2.50	3.79	0.60	-14.95	
Japanese Yen Spot	JPY	102.49	**0.30**	1.70	1.22	-0.29	4.82	10.93	17.66	17.93	-2.54	
British Pound Spot	GBP	1.3295	**0.02**	0.03	1.22	2.27	-8.02	-6.46	-9.76	-13.47	-15.28	
Swiss Franc Spot	CHF	0.9726	**-0.03**	0.82	1.13	0.86	-0.85	2.51	3.00	0.27	-4.16	
Brazilian Real Spot	BRL	3.2143	**-0.56**	1.34	0.39	-1.29	4.60	16.82	23.22	18.87	-28.24	
China Renminbi Spot	CNY	6.6669	**-0.18**	0.02	0.00	-0.35	-1.75	-2.49	-2.78	-4.51	-8.36	
Singapore Dollar Spot	SGD	1.3517	**-0.13**	0.50	0.66	-0.69	-0.05	2.14	4.80	4.68	-6.25	
Norwegian Krone Spot	NOK	8.1883	**-0.13**	1.50	1.57	2.53	-0.52	3.91	7.85	0.24	-26.70	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	12.51	**4.77**	-6.90	-6.48	7.63	-14.28	-31.57	-31.08	-52.15	-19.71	
USD SWAP SPREAD SEMI 2YR	USD	25.76	-	0.64	3.44	-10.59	81.06	413.01	112.46	113.36	60.25	
TED SPREAD		-	-	-1.27	**-1.96**	-4.21	18.79	50.55	12.11	64.55	109.16	

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