FINANCIAL PARTNERS

Weekly Digest

Week ending **17 April 2016**

Crude strategy keeps Iran pumped

Following today's (the 18th April 2016) substantial sell off in crude oil prices, seemingly the only certainty of the oil market at the moment is volatility. While there is downward pressure on the price of oil today, this comes on the back of a reasonable rebound following January's lows. Today's sell off is a result of the weekend's oil producers' meeting in Doha which resulted in disappointment for oil bulls. Although the meeting was not a formal Organization of the Petroleum Exporting Countries (OPEC) occasion, most OPEC members were present and as a result it had been signposted as an opportunity for the Organisation to curb their collective output so as to support a higher oil price. In the end, Saudi Arabia refused to accept the proposals because not all members of OPEC were willing to agree; the most notable being Iran. In fact Iran failed to attend the meeting. Saudi Arabia, the world's largest oil producer, had been prepared to freeze output at January levels if all OPEC members had agreed, but Iran looks set to continue to increase output following the lifting of export sanctions. Oil producers are inevitably under pressure with oil at these lowly levels. This is illustrated starkly by Saudi Arabia's contemplation of selling a stake in Aramco, the parent of its state-owned oil company, as well as a number of its subsidiaries as low oil prices impact government revenues. While Saudi Arabia retains reasonable financial buffers surely this action suggests the kingdom expects a protracted oil price slump? Iran, however, is just entering a post sanction era and exporting oil in large volumes for the first time since an aggressive tightening of restrictions by President Obama in 2012. As a result a 'cheap' export is still probably considered a boon for Iran and as a result it is understandable that Iran would be happy to continue to pump at today's levels, even if the rest of OPEC find the price difficult to live with.

Saudi Arabia's Deputy Crown Prince Mohammed bin Salman said that Saudi would not curb production without commitments from other major producers in the bloc. This is understood to be because the kingdom does not want to lose market share to other oil producers. The meeting was attended by 16 states that represent approximately half of the world's oil output; OPEC has 13 members and accounts for 40% of the world's production, and the majority of the world's proven reserves. Tensions between Saudi Arabia and Iran have been blamed for the impasse, as Reuters notes "The Sunni Muslim kingdom of Saudi Arabia and Shia Islamic republic of Iran compete for influence in the Middle East, where they are currently fighting proxy wars in Syria and Yemen". The inability to reach a decision may have far reaching repercussions as it does call into question the efficacy of the Organisation. The meeting's failure to finalise a deal to freeze output leaves, if anything, an increased prospect of further supply hikes as Saudi Arabia has threatened it could increase supply following the failed deal.

While oil remains under pressure today a number of recently published reports actually point to a materially higher oil price, both in the shorter term and the much longer term. According to Bloomberg, analysis by Sanford C. Bernstein suggests that Emerging Market demand for oil could lead to a further oil super cycle between 2030-35. While a multi-decade forecasting period is notoriously difficult to get right, Goldman Sachs Group Inc highlight gradually declining non-OPEC production combined with planned maintenance and with the resilient oil demand in the first quarter of this year could be supportive of prices in the shorter term.

Source: Bloomberg. Returns in US dollars unless otherwise stated.

The **Marketplace**

- Doha oil meeting disappoints
- European equities have a strong week
- Italian bank bailout fund announced
- US PPI inflation negative
- Improving data out of China

Market **Focus**

Europe

- European equities rallied during the week, with the Stoxx 600 index rising 3.3% in euro terms. Wednesday's (the 13th April 2016) gains of 2.5% was the largest daily gain for over a month, while the string of five consecutive daily gains was broken on Friday with a marginal fall.
- At the start of the week, the Italian Prime Minister, Matteo Renzi, announced the creation of a domestic bank bailout fund, which will see the strongest financial institutions in the country contributing around EUR 5 billion in order to support the smaller, poor-performing, lenders. In return the government agreed to reform their out-of-date bankruptcy laws. In response, the MSCI Italy Banks index rallied 31.2% on Tuesday (the 12th April 2016), in euro terms.

USA

- The US inflation figures disappointed last week, with the month-on-month headline Producer Price Index (PPI) coming in at -0.1%, lower than the expected 0.2%. This moved the year-on-year figure to -0.1% back into negative territory after the previous month's brief break at 0.0%.
- Other data out of the US included the industrial production growth for March, with a fall of 0.6%, versus an expected 0.1% fall.

China

- China's export growth rose back to 11.5% year-on-year in US dollar terms, beating expectations, after reading substantially negative last month. Imports also surprised to the upside, declining 7.6% while a fall of 10.1% was expected, once again slowing the decline.
- The initial GDP reading for the first quarter saw a 6.7% year-on-year rise, comfortably in-line with the government's target of 6.5-7.0% growth in 2016.
- This data, along with further positive news, led to China's CSI 300 index rallying 2.7% over the week.

Commodities

- The much anticipated meeting in Doha over the weekend yielded no decision on a production freeze. Expectations of such inaction gradually built themselves into the oil price as the week progressed, with a 6.6% rise in Brent crude over Monday and Tuesday (the 11th and 12th April 2016 respectively) being pared down to a 2.8% gain for the week. The commodity started the current week 6.7% below Friday's closing price, at USD 40.20 per barrel.

James Klempster & Jonathan Adamson

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Asset Class/Region	Currency	Currency returns			
		Week ending 15 Apr. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	1.6%	1.1%	2.3%	0.3%
United Kingdom	GBP	2.4%	2.9%	3.1%	-7.7%
Continental Europe	EUR	3.5%	1.9%	-5.4%	-15.1%
Japan	JPY	5.7%	1.1%	-11.1%	-12.5%
Asia Pacific (ex Japan)	USD	4.0%	1.3%	3.2%	-14.7%
Australia	AUD	4.5%	1.5%	-1.3%	-8.5%
Global	USD	2.4%	1.5%	1.1%	-4.5%
Emerging Market Equities					
Emerging Europe	USD	2.1%	0.8%	15.2%	-11.9%
Emerging Asia	USD	3.3%	1.0%	2.9%	-17.1%
Emerging Latin America	USD	5.9%	2.6%	22.2%	-13.3%
BRICs	USD	4.9%	3.1%	4.5%	-22.5%
MENA countries	USD	3.0%	3.5%	0.5%	-17.2%
South Africa	USD	5.0%	1.8%	15.9%	-18.5%
India	USD	4.3%	0.9%	-1.4%	-15.0%
Global emerging markets	USD	3.7%	1.3%	7.0%	-16.3%
Bonds					
US Treasuries	USD	-0.1%	0.3%	3.7%	2.6%
US Treasuries (inflation protected)	USD	-0.4%	-0.3%	4.3%	0.1%
US Corporate (investment grade)	USD	0.5%	0.9%	4.9%	1.3%
US High Yield	USD	1.8%	2.0%	5.4%	-2.8%
UK Gilts	GBP	-0.3%	0.1%	5.3%	3.2%
UK Corporate (investment grade)	GBP	-0.1%	0.4%	3.5%	0.7%
Euro Government Bonds	EUR	-0.2%	-0.2%	3.3%	0.3%
Euro Corporate (investment grade)	EUR	-0.1%	0.3%	2.8%	0.4%
Euro High Yield	EUR	1.0%	1.3%	3.3%	0.6%
Japanese Government	JPY	0.2%	1.1%	5.7%	7.2%
Australian Government	AUD	-0.9%	-0.3%	2.1%	1.0%
Global Government Bonds	USD	-0.4%	0.7%	7.5%	6.6%
Global Bonds	USD	-0.3%	0.5%	6.3%	5.1%
Global Convertible Bonds	USD	1.0%	0.8%	0.6%	-2.2%
Emerging Market Bonds	USD	1.5%	1.4%	7.4%	5.4%

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 15 Apr. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	0.2%	-0.5%	5.3%	5.1%
Australian Property Securities	AUD	1.3%	0.8%	6.3%	5.2%
Asia Property Securities	USD	3.4%	2.8%	3.7%	-5.2%
Global Property Securities	USD	1.0%	0.8%	5.7%	-0.2%
Currencies					
Euro	USD	-1.0%	-0.9%	3.9%	5.6%
UK Pound Sterling	USD	0.5%	-1.1%	-3.6%	-4.3%
Japanese Yen	USD	-0.6%	3.5%	10.6%	10.8%
Australian Dollar	USD	2.3%	0.9%	6.0%	0.6%
South African Rand	USD	2.8%	1.4%	6.3%	-17.1%
Swiss Franc	USD	-1.5%	-0.6%	3.5%	-0.4%
Chinese Yuan	USD	-0.2%	-0.4%	0.2%	-4.2%
Commodities & Alternatives					
Commodities	USD	1.7%	2.4%	1.5%	-23.0%
Agricultural Commodities	USD	1.4%	1.3%	1.1%	-5.6%
Oil	USD	2.8%	8.8%	15.6%	-28.5%
Gold	USD	-0.4%	0.1%	16.3%	2.6%
Hedge funds	USD	0.5%	0.2%	-1.8%	-8.3%

* Estimate

Source: Bloomberg

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