FINANCIAL PARTNERS

Weekly Digest

Week ending **20 March 2016**

Interesting Rates

Negative interest rates are gradually becoming a mainstream monetary policy tool. Different central banks have introduced negative policy rates for different reasons. As the Bank for International Settlements (BIS) notes in a paper published on 6 March: "In some cases the central banks' declared objective was to counter a subdued inflation outlook, while in others they focused on currency appreciation pressures…"

As negative interest rates on cash and other low risk assets becomes more prevalent, philosophically investors will need to decide whether paying a negative interest rate on a portion of the assets held in the portfolio is an acceptable 'insurance premium' or whether to move up the risk curve into slightly lower quality assets that continue to pay a small premium. Bloomberg analysis suggests that in February "more than USD 7 trillion of government bonds worldwide offered yields below zero". The scale of this figure suggests that investors are already becoming accustomed to having less paid back on an investment in a 'safe' vehicle.

The BIS notes that "The experience so far suggests that modestly negative policy rates are transmitted to money market rates". However, savers are presently benefitting from the fact that these negative rates are not being passed on to them: "The key exception in terms of transmission has been banks' reluctance to pass negative rates through to retail depositors". The rationale for this is that customers would baulk at the prospect of outright paying for an account. Were this to happen, it is expected that there would be widespread withdrawals and hoarding of cash under the proverbial mattress. Clearly there are risks associated with hoarding physical cash and as a result an individual may come to view the negative interest rate as a reasonable holding cost, which perhaps makes it more palatable. The issue for banks is that depositor cash forms an important part of their liquidity underpinning their lending operations and so they are reluctant to test this thesis.

The experience to date and indeed the expectation for these tools are that they are a relatively short lived means to boost economic activity or devalue a currency. Our experience post financial crisis, however, is that many a temporary measure, such as quantitative easing, becomes a semi-permanent state as the global economy fails to gain traction. The longer term impacts of widespread negative interest rates are unknown today. Politically they may prove to be difficult; governments are in some ways giving their public a mixed signal with their extraordinary monetary policy. On the one hand governments want to encourage long-term saving to reduce the likely state burden of the under-saved decades from now. On the other hand, however, negative interest rates are in essence designed to reduce the attractiveness of savings and to encourage the bringing forward of consumption. Unintended consequences are always a risk; for example, because banks are reluctant to pass on the cost of negative interest rates to depositors they find their profitability squeezed which could actually make them less willing to lend, which would, in turn, significantly undermine the policy. Indeed, the BIS confirm that there is some evidence of this taking place, with mortgage rates actually increasing in Switzerland as banks look to offset the cost of their deposits.

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

The **Marketplace**

- Bank of Japan maintains course
- Euro area manufacturing surprises on upside
- UK growth revised down
- Federal Reserve revises hike expectations
- US retail sales revised down

Market **Focus**

Global

- Global equities added 1.2% last week, as emerging markets continued to rally, rising by 3.3%. Global government bonds added 1.8%, while emerging market debt rose by 1.4%.
- The Bank of Japan elected to leave monetary policy unchanged last week, with officials keeping the benchmark interest rate at -0.1% and its yearly asset purchases at YEN 80 trillion.
- In the euro area, industrial production grew by more than expected, printing 2.1% month-on-month versus consensus forecasts of 1.7%.

UK

- In the UK, George Osborne, Chancellor of the Exchequer, stated in his budget speech that the Office for Budget Responsibility has reduced its growth forecasts for the UK economy in 2016 from 2.4% to 2.0%, and reduced the 2017 number to 2.2%.

USA

- At its latest meeting last week, the US Federal Reserve indicated that it now expects a mere two modest rate hikes this year, halving its previous guidance of four rate rises in 2016. The dovish tone on the back of recent volatility calmed markets, as all but one committee member agreed to the downward revision in expectations.
- US retail sales had seemed relatively strong year-to-date, and the February prints surprised on the upside (-0.1% month-on-month, versus -0.2% expected). Market sentiment was dented, however, by downgrades to the January numbers, creating uncertainty around a critical component of US GDP.

Commodities

- The price of oil gyrated once again last week, as Iran's oil minister suggested that output would have to increase by a third before a production freeze would be considered. The price of oil rebounded, however, following the announcement by other OPEC nations that Iran's stance would not change their views on an output cap. Brent crude ended the week having added 2.0%.

James Klempster & Scott Gordon

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

FP FINANCIAL PARTNERS

Weekly Digest — Week ending **20 March 2016**

Asset Class/Region	Currency	Currency returns			
		Week ending 18 Mar. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	1.4%	6.2%	0.6%	-0.9%
United Kingdom	GBP	0.9%	1.9%	0.4%	-7.8%
Continental Europe	EUR	-0.4%	2.8%	-6.4%	-12.2%
Japan	JPY	-1.0%	3.6%	-13.0%	-13.4%
Asia Pacific (ex Japan)	USD	2.6%	10.8%	1.2%	-10.7%
Australia	AUD	0.4%	6.7%	-0.9%	-7.1%
Global	USD	1.2%	6.5%	-0.6%	-4.3%
Emerging Market Equities					
Emerging Europe	USD	4.8%	15.0%	13.2%	-1.5%
Emerging Asia	USD	2.9%	10.0%	0.6%	-12.5%
Emerging Latin America	USD	3.4%	19.3%	18.1%	-8.6%
BRICs	USD	3.0%	13.7%	0.3%	-14.2%
MENA countries	USD	0.4%	4.3%	-2.3%	-17.6%
South Africa	USD	5.7%	15.0%	11.0%	-16.2%
India	USD	2.3%	12.0%	-4.3%	-16.4%
Global emerging markets	USD	3.3%	11.8%	4.4%	-11.5%
Bonds					
US Treasuries	USD	0.7%	-0.4%	2.8%	2.0%
US Treasuries (inflation protected)	USD	1.5%	0.8%	3.6%	0.4%
US Corporate (investment grade)	USD	1.3%	1.8%	3.0%	0.2%
US High Yield	USD	1.0%	4.8%	3.7%	-2.5%
UK Gilts	GBP	0.9%	-0.4%	5.0%	3.9%
UK Corporate (investment grade)	GBP	1.2%	1.6%	2.5%	0.3%
Euro Government Bonds	EUR	0.5%	0.0%	2.9%	0.5%
Euro Corporate (investment grade)	EUR	0.2%	1.0%	2.0%	0.1%
Euro High Yield	EUR	0.0%	3.5%	1.7%	-0.1%
Japanese Government	JPY	1.8%	1.8%	5.3%	7.0%
Australian Government	AUD	0.7%	-0.9%	2.0%	2.0%
Global Government Bonds	USD	1.8%	2.0%	6.5%	6.3%
Global Bonds	USD	1.5%	2.1%	5.3%	4.9%
Global Convertible Bonds	USD	1.3%	4.3%	-0.4%	-0.8%
Emerging Market Bonds	USD	1.4%	3.2%	5.9%	8.2%

Source: Bloomberg

FP FINANCIAL PARTNERS

Asset Class/Region	Currency	Currency returns			
		Week ending 18 Mar. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	2.1%	8.0%	3.8%	0.4%
Australian Property Securities	AUD	-0.3%	1.2%	4.3%	5.0%
Asia Property Securities	USD	2.7%	8.1%	0.8%	0.0%
Global Property Securities	USD	2.5%	8.4%	3.8%	0.8%
Currencies					
Euro	USD	1.1%	3.7%	3.8%	3.7%
UK Pound Sterling	USD	0.6%	4.0%	-1.8%	-3.4%
Japanese Yen	USD	2.1%	1.0%	7.8%	7.7%
Australian Dollar	USD	0.6%	6.6%	4.4%	-2.2%
South African Rand	USD	-0.2%	4.1%	1.5%	-20.7%
Swiss Franc	USD	1.4%	3.0%	3.4%	0.9%
Chinese Yuan	USD	0.4%	1.3%	0.3%	-3.7%
Commodities & Alternatives					
Commodities	USD	1.2%	7.7%	1.6%	-18.8%
Agricultural Commodities	USD	0.9%	4.4%	-0.3%	-7.6%
Oil	USD	2.0%	14.5%	10.5%	-26.3%
Gold	USD	0.4%	1.3%	18.3%	7.5%
Hedge funds	USD	-0.1%	0.8%	-2.5%	-7.8%

* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk

Important notes

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.