FP FINANCIAL PARTNERS

momentum

Weekly Digest

Week ending **31 May 2015**

The Shanghai market may have experienced a stumble last week (falling by 6.5% on Thursday and ending the week -0.9%) but it has gained 133.4% over the past 12 months in renminbi terms. While it is fair to say that China's market had gone nowhere for five years and was arguably due a period of catching up, this does not explain the recent explosion of stock prices. There are a number of likely causes, but the key one is liquidity.

Firstly the authorities are addressing the recent soft economic data. There appears to be a clear slowdown in the Chinese economy with a raft of data, including weak housing and construction, falling exports and weaker price data all pointing to a structural slowdown in growth. The Chinese authorities have reacted by loosening monetary policy, with a further 25 bps cut to interest rates following an easing of reserve requirements, while the government has made funds available for infrastructure spending. So, as we have seen in other markets through this cycle, bad news on the economy is good news for markets as governments pump prime and try to stimulate activity. A second major source of liquidity is the gradual reduction of capital controls and the opening up of the domestic market through measures such as the Shanghai-Hong Kong Stock Connect. Finally there has been a slew of retail buying reflected in a huge number of new broker accounts opened and massive expansion of margin buying. This bears the hallmarks of a speculative frenzy, driving share prices up to levels ahead of fundamentals and inevitably giving rise to fears of a major correction to come.

As China has progressively grown in importance both as an economy and stock market, the impact of these moves is felt more widely-China now represents close to 20% of the Global EM index.

The Marketplace

- Repayment deadline for Greece weighs on sentiment
- China equities volatile after record drop
- The dollar rallies; yen tumbles against the greenback
- US economic data prints disappoint
- Oil rallies on Friday as rigs are shut down

Market Focus & Data overleaf

Market Focus

UK

- Global equities fell by 1.3% last week, with the UK losing 0.7% in sterling terms and the US index falling by 0.9%. Emerging markets fared worse, declining by 3.2%.
- US treasuries added 0.8%, while UK gilts added 1.1% in sterling terms. Australian government bonds also did well adding 1.1% in local currency terms.

US

- In the US, the keenly watched Chicago Purchasing Manager Index (PMI) fell to 46.2 (versus expectations of 53.0) as dollar strength continues to weigh on exports. The measure is down from 52.3 in April.

Europe

- In Europe, all eyes are focused on Greece. The next loan repayment to the IMF is due on June 5 and totals €310 million.
- Reports have suggested that the IMF may grant some leniency, allowing Greece to move the deadline for all of the June repayments to the end of the month. Greece owes the IMF €1.5 billion in June alone (and owes creditors €1.6 billion in total for the month).
- Brinkmanship continues, however, with Prime Minister Alexis Tsipras publishing a defiant article in the French broadsheet Le Monde last week, while Greeks withdraw record amounts of cash from domestic banks. The euro fell by 0.3% against the dollar last week, and European equities fell by 2.0% in euro terms.

China

- In China, equities fell by 6.5% in renminbi terms on Thursday as authorities tightened margin requirements at brokerages, days after the Shanghai Composite index reached a seven-year high. Stocks rebounded somewhat on Friday, however, and are rallying at time of writing, as turnover on the Shanghai stock exchange hits record highs. Worries continue that China is increasingly seeing an equity bubble form.

Commodities

- Commodities fell by 1.1% with the value of gold declining by 1.3%.
- The price of Brent crude oil rose by 0.3% over the week, after a sharp rally on Friday reversed the declines seen earlier in the week. The latest Baker Hughes oil-rig count showed a continued decline in operating rigs, and an acceleration of rigs coming offline compared to the week before.

James Klempster, CFA & Scott Gordon

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 29 May 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-0.9%	1.2%	3.0%	11.3%
United Kingdom	GBP	-0.7%	0.6%	8.1%	4.9%
Continental Europe	EUR	-2.0%	1.1%	18.9%	18.1%
Japan	JPY	1.6%	5.1%	19.9%	42.0%
Asia Pacific (ex Japan)	USD	-1.8%	-2.7%	7.6%	4.7%
Australia	AUD	2.0%	0.4%	8.9%	9.4%
Global	USD	-1.3%	0.3%	5.1%	5.8%
Emerging Market Equities					
Emerging Europe	USD	-5.8%	-4.7%	9.0%	-23.1%
Emerging Asia	USD	-2.2%	-2.7%	9.5%	9.9%
Emerging Latin America	USD	-4.4%	-7.1%	-7.3%	-22.8%
BRICs	USD	-3.5%	-4.4%	11.5%	6.8%
MENA countries	USD	-1.3%	-1.8%	7.2%	-7.2%
South Africa	USD	-6.3%	-8.3%	-0.3%	-3.9%
India	USD	-0.6%	3.1%	1.4%	9.1%
Global emerging markets	USD	-3.2%	-4.0%	5.7%	-1.1%
Bonds					
US Treasuries	USD	0.8%	-0.2%	0.9%	3.4%
US Treasuries (inflation protected)	USD	0.7%	-0.9%	1.2%	-0.5%
US Corporate (investment grade)	USD	0.9%	-0.7%	0.9%	2.7%
US High Yield	USD	0.2%	0.3%	4.1%	2.1%
UK Gilts	GBP	1.1%	0.5%	1.1%	10.6%
UK Corporate (investment grade)	GBP	0.8%	0.4%	1.8%	8.7%
Euro Government Bonds	EUR	0.4%	-1.5%	1.3%	8.2%
Euro Corporate (investment grade)	EUR	0.2%	-0.5%	0.4%	4.4%
Euro High Yield	EUR	0.0%	-0.1%	3.3%	4.3%
Japanese Government	JPY	0.2%	-0.6%	-0.7%	2.7%
Australian Government	AUD	1.1%	-0.1%	1.6%	8.6%
Global Government Bonds	USD	-0.2%	-2.1%	-3.1%	-6.5%
Global Bonds	USD	-0.4%	-2.1%	-3.2%	-6.2%
Global Convertible Bonds	USD	-0.8%	-0.8%	3.1%	-2.7%
Emerging Market Bonds	USD	-0.5%	-0.5%	2.9%	0.4%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 29 May 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	-1.1%	-0.3%	-2.0%	9.5%
Australian Property Securities	AUD	1.4%	2.9%	10.4%	22.5%
Asia Property Securities	USD	-0.2%	-0.1%	13.2%	11.6%
Global Property Securities	USD	-1.8%	-1.6%	3.3%	7.4%
Currencies					
Euro	USD	-0.3%	-2.1%	-9.2%	-19.2%
UK Pound Sterling	USD	-1.3%	-0.4%	-1.8%	-8.5%
Japanese Yen	USD	-2.1%	-3.8%	-3.6%	-17.8%
Australian Dollar	USD	-2.3%	-3.3%	-6.5%	-17.9%
South African Rand	USD	-2.0%	-1.9%	-4.8%	-14.3%
Swiss Franc	USD	-0.1%	-0.8%	5.7%	-4.5%
Chinese Yuan	USD	0.0%	0.1%	0.1%	0.6%
Commodities & Alternatives					
Commodities	USD	-1.1%	-2.4%	-2.5%	-27.8%
Agricultural Commodities	USD	-1.2%	-1.9%	-10.3%	-22.3%
Oil	USD	0.3%	-1.8%	14.4%	-40.4%
Gold	USD	-1.3%	0.5%	0.5%	-5.2%
Hedge funds	USD	0.0%	0.3%	2.7%	1.2%

* Estimate

Source: Bloomberg

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Important notes