Market Weekly Review

Week ending **1 March 2015**

- Janet Yellen delivers careful testimony before Congress
- Europe sees modest improvement in economic data
- China cuts interest rates further
- Australian inflation at October 2009 lows
- Record monthly gain for Brent crude

US equities fell by 0.2% last week as Chair of the Federal Reserve, Janet Yellen, gave neither a hawkish nor particularly dovish testimony to Congress. Her careful remarks were interpreted as moving away from the central bank's 'forward guidance' approach, with a focus on flexibility and the importance of economic data going forward. The US dollar rose to an 11-year high against a basket of major currencies, as expectations of an interest rate hike in June increased in some quarters. On the other hand, US Treasuries added 0.8% over the week as yields declined. Besides Yellen's testimony, inflation in the US surprised on the upside, with the Consumer Price Index (CPI) excluding food and energy prices rising by 0.2% in January (versus expectations of 0.1%). GDP data from the fourth quarter of 2014 was revised down 0.4 percentage points to 2.2% but remained above analysts' expectations.

In Europe, sentiment is improving slightly with full-scale Quantitative Easing (QE) on the horizon. Economic data out of the common currency bloc surprised on the upside last week, with German inflation numbers printing +0.1% year-on-year (versus -0.3% expected), while month-on-month the number read +0.9% (versus +0.6% expected). Deutsche Bank notes that although the recent increase in energy prices helped this number, core inflationary factors were the main contributor to the rise. Deutsche Bank adds that inflation is likely to remain around zero for the coming months.

Ahead of QE, bond yields across the common currency bloc fell last week, with euro government bonds adding 0.9% in euro terms. The euro fell by 1.6% against the greenback.

Over the weekend, the People's Bank of China (PBoC) announced a quarter point cut to its benchmark deposit rate to take it to 2.5% and cut its one-year lending rate by 0.25 percentage points to take it to 5.35%. The PBoC had cut rates significantly in November last year, but weak growth and falling inflation continue to worry the authorities. The Chinese Purchasing Manager Index (PMI) for manufacturers surprised on the upside last week, but is still disappointingly low. It printed 49.9 versus expectations of 49.7, but remains below the 50 mark and thus continues to suggest contraction in economic activity. Stocks rose across the Asia-Pacific region following the announcement, with the Australian equity bourse benefitting in particular.

The Australian dollar declined by 0.4% last week on disappointing inflation news, with consumer price inflation falling to its lowest level since October 2009. The CPI registered +1.3% year-on-year in February. The Reserve Bank of Australia is set to meet this week, and given its inflation target of 2-3%, many expect that the central bank will ease policy for a second time in two months. Last week, Australian equities returned 1.2% in Australian dollar terms.

Brent crude added another 3.9% last week to take its returns for the month to 18.1%. This represents oil's largest one month price increase since May 2009, as Baker Hughes reported a further cut in working oil rigs (43 rigs were closed down last month, to take the total number of operating rigs to 1,267).

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

Asset Class/Region	Currency	Currency returns			
		Week ending 27 Feb. 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-0.2%	5.7%	2.5%	15.1%
United Kingdom	GBP	0.4%	3.3%	6.1%	5.4%
Continental Europe	EUR	2.7%	6.9%	15.2%	19.2%
Japan	JPY	1.6%	7.7%	8.3%	27.7%
Asia Pacific (ex Japan)	USD	0.8%	3.2%	4.7%	8.7%
Australia	AUD	1.2%	6.9%	10.4%	14.4%
Global	USD	0.3%	5.9%	3.9%	8.3%
Emerging Market Equities					
Emerging Europe	USD	-1.4%	9.6%	5.7%	-19.2%
Emerging Asia	USD	0.9%	2.4%	4.9%	12.2%
Emerging Latin America	USD	1.0%	4.2%	-2.2%	-7.1%
BRICs	USD	0.8%	4.4%	5.6%	8.7%
MENA countries	USD	-0.1%	3.8%	5.9%	0.8%
South Africa	USD	-0.8%	0.7%	5.2%	13.0%
India	USD	1.0%	1.1%	9.5%	44.3%
Global emerging markets	USD	0.6%	3.1%	3.7%	5.4%
Bonds					
US Treasuries	USD	0.8%	-1.8%	1.1%	5.1%
US Treasuries (inflation protected)	USD	1.6%	-1.3%	2.0%	3.8%
US Corporate (investment grade)	USD	0.9%	-1.0%	2.0%	6.5%
US High Yield	USD	0.8%	2.4%	3.1%	2.9%
UK Gilts	GBP	-0.1%	-4.4%	0.8%	12.1%
UK Corporate (investment grade)	GBP	0.1%	-2.7%	1.9%	11.3%
Euro Government Bonds	EUR	0.9%	0.7%	3.0%	13.1%
Euro Corporate (investment grade)	EUR	0.3%	0.6%	1.5%	7.7%
Euro High Yield	EUR	0.9%	2.1%	3.1%	6.5%
Japanese Government	JPY	0.4%	-0.7%	-0.7%	3.0%
Australian Government	AUD	0.6%	0.2%	2.3%	12.4%
Global Government Bonds	USD	0.2%	-1.3%	-1.0%	-2.9%
Global Bonds	USD	0.1%	-0.8%	-1.2%	-2.6%
Global Convertible Bonds	USD	0.1%	2.5%	1.5%	-3.0%
Emerging Market Bonds	USD	0.7%	0.7%	1.3%	5.8%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 27 Feb. 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	-1.4%	-3.6%	2.8%	22.2%
Australian Property Securities	AUD	1.1%	2.9%	10.8%	28.8%
Asia Property Securities	USD	-0.4%	2.3%	4.3%	11.6%
Global Property Securities	USD	-0.3%	0.3%	4.5%	16.1%
Currencies					
Euro	USD	-1.6%	-0.8%	-7.5%	-18.3%
UK Pound Sterling	USD	0.3%	2.5%	-0.9%	-7.5%
Japanese Yen	USD	-1.2%	-2.4%	0.0%	-15.3%
Australian Dollar	USD	-0.4%	0.6%	-4.4%	-12.9%
South African Rand	USD	-0.3%	-0.1%	-0.8%	-8.2%
Swiss Franc	USD	-1.6%	-3.7%	4.2%	-6.9%
Chinese Yuan	USD	-0.2%	-0.2%	-1.0%	-2.3%
Commodities & Alternatives					
Commodities	USD	0.5%	3.8%	-1.8%	-26.3%
Agricultural Commodities	USD	0.4%	2.5%	-4.3%	-15.5%
Oil	USD	3.9%	18.1%	9.2%	-42.6%
Gold	USD	0.9%	-5.5%	2.4%	-8.9%
Hedge funds	USD	0.5%	1.8%	1.6%	-0.2%

* Estimate

Source: Bloomberg

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