



Market Weekly Review

Week ending 2 February 2014

- Bond markets continue to rally
- Federal Reserve reduces asset purchases for second consecutive month
- Central banks raise rates in Turkey, South Africa and India
- China Credit Trust default averted
- Mixed signals for US housing
- Earnings season continues

January drew to a close last week amidst continued turbulence in markets, driven by further negative developments in emerging markets and softer than expected economic data. Against this backdrop government bonds rallied further with the US Treasury index gaining 0.3% compared to a 1.2% decline for developed market equities, in US dollar terms. Meanwhile, emerging market assets continued to underperform, driven by the prospect of reduced liquidity globally: emerging market equities and bonds fell by 1.3% and 0.6% respectively last week bringing their January declines to 6.5% and 1.6% respectively. In comparison developed market equities fell 3.7% over the month while US Treasuries gained 1.6%, the biggest monthly gain for the latter since May 2012 as 10 year yields ended the week seven basis points lower at 2.64%.

As was expected at Ben Bernanke's last meeting as chairman on Wednesday, the Federal Reserve made its second cut of USD 10 billion from its monthly asset purchase programme, bringing the monthly rate to USD 65 billion. The Fed's 'tapering' decision, first indicated last May and started in December, has been a key catalyst for the sharp falls across emerging market asset prices. Emerging market currencies have suffered most, particularly across the so-called 'fragile five' countries of Turkey, India, Indonesia, Brazil and South Africa, which have seen their currencies fall by up to 20% since early May 2013.

Turkey's Central Bank responded to these sharp falls with a strong message to the market last week - at an emergency meeting the bank decided to more than double its benchmark one-week repo rate from 4.5% to 10%. Meanwhile, the central banks of South Africa and India also responded with rate hikes of 0.5% and 0.25% respectively.

Elsewhere in emerging markets the final Chinese HSBC manufacturing PMI reading came in at 49.5 on Thursday, the first sub-50 reading in seven months. However, there was positive news relating to a troubled USD 500 million wealth management product which had been issued by China Credit Trust. With an unnamed third party coming forward to buy a stake in the underlying venture, investors suffered only a small loss, avoiding a disruptive default ahead of Chinese New Year, which sees large parts of Asia closed this week.

Economic data has been underwhelming at the start of the New Year, with the Bloomberg US Economic Surprise index dipping into negative territory for the first time since November. New home sales in the US fell by 7.0% month-on-month in December, versus expectations for a more modest decline of 1.9%. While figures may be influenced by the weather, downward revisions were also announced for the previous two months data. However, US homebuilder D.R. Horton Inc helped bolster sentiment, after stating that their weekly home sales pace has accelerated in January. Later in the week US pending home sales and initial jobless claims also disappointed, while fourth quarter GDP was in line with expectations at 3.2% year-on-year. In the UK economic growth for 2013 was estimated to have reached 1.9%, the fastest pace since 2007.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 31 Jan 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-0.4%	-3.5%	-3.5%	20.8%
United Kingdom	MSCI UK NR	GBP	-2.4%	-3.6%	-3.6%	7.3%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.5%	-1.6%	-1.6%	15.8%
Japan	Topix TR	JPY	-3.5%	-6.3%*	-6.3%*	32.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.2%	-5.1%	-5.1%	-4.4%
Australia	S&P/ASX 200 TR	AUD	-1.0%	-3.0%	-3.0%	11.1%
Global	MSCI World NR	USD	-1.2%	-3.7%	-3.7%	16.1%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-3.1%	-9.1%	-9.1%	-16.3%
Emerging Asia	MSCI EM Asia NR	USD	-1.0%	-4.8%	-4.8%	-3.9%
Emerging Latin America	MSCI EM Latin America NR	USD	-0.8%	-9.5%	-9.5%	-24.4%
BRICs	MSCI BRIC NR	USD	-1.6%	-7.7%	-7.7%	-14.6%
MENA countries	Dow Jones MENA TR	USD	-0.3%	4.0%	4.0%	26.2%
South Africa	MSCI EM South Africa NR USD	USD	-3.9%	-15.0%	-15.0%	-28.1%
India	Nifty Fifty TR	USD	-2.6%	-4.5%	-4.5%	-12.9%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-1.3%	-6.5%	-6.5%	-10.2%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.3%	1.6%	1.6%	-0.9%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.3%	2.2%	2.2%	-6.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.4%	1.8%	1.8%	1.2%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.0%	0.7%	0.7%	6.8%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.4%	2.2%	2.2%	-0.1%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	2.3%	2.3%	4.1%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.8%	2.2%	2.2%	5.0%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.3%	1.4%	1.4%	5.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-1.6%	-1.5%	-1.5%	9.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.8%	0.8%	2.8%
Australian Government	JP Morgan Australia GBI TR	AUD	0.2%	1.2%	1.2%	1.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.0%	1.6%	1.6%	-1.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.1%	1.1%	1.1%	-0.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.3%	-0.2%	-0.2%	10.2%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.6%	-1.6%	-1.6%	-7.9%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.7%	4.2%	4.2%	1.8%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-0.3%	0.4%	0.4%	-2.6%
Asia Property Securities	S&P Asia Property 40 NR	USD	-3.4%	-6.5%	-6.5%	-3.3%
Global Property Securities	S&P Global Property USD TR	USD	-0.6%	-0.9%	-0.9%	-0.7%
Currencies						
Euro		USD	-1.4%	-1.9%	-1.9%	-0.7%
UK Pound Sterling		USD	-0.3%	-0.7%	-0.7%	3.7%
Japanese Yen		USD	0.2%	3.2%	3.2%	-10.1%
Australian Dollar		USD	0.8%	-1.9%	-1.9%	-16.0%
South African Rand		USD	-0.4%	-5.5%	-5.5%	-19.5%
Swiss Franc		USD	-1.3%	-1.5%	-1.5%	0.4%
Chinese Yuan		USD	-0.2%	-0.1%	-0.1%	2.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	-0.5%	-1.3%	-1.3%	-9.3%
Agricultural Commodities	RICI Agriculture TR	USD	0.2%	-0.8%	-0.8%	-14.3%
Oil	ICE Crude Oil CR	USD	0.1%	-3.1%	-3.1%	-5.9%
Gold	Gold Spot	USD	-2.0%	3.2%	3.2%	-25.2%
Hedge funds	HFRX Global Hedge Fund	USD	0.1%*	-0.1%*	-0.1%*	4.5%*

* Estimate

Source: Bloomberg

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