Market Weekly Review

Week ending **7 December 2014**

- American payrolls exceed expectations
- ECB toughens language on balance sheet expansion
- Japan's GDP decline revised lower
- China equities rise as investors expect further stimulus
- Australian GDP data disappoints

Global equities were flat last week, while emerging market equities fell by 1.9% and US Treasuries returned -0.6%. Investors reacted strongly to the latest US payrolls data that was released on Friday, and are increasingly expecting the US Federal Reserve to start raising interest rates in the middle of next year. The payroll numbers printed +314,000, well above expectations of a 225,000 increase. Earlier estimates were also revised up. Average hourly earnings also exceeded expectations, reading +0.4% month-on-month, versus consensus forecasts of +0.2%. Reacting to the news, the yield on the two-year Treasury bond rose by 0.1% to reach its highest level since 2011. The S&P 500 once again reached a new all-time high of 2,075.4 on Friday, but the return for the week of 0.4% was muted, given the prospect of rising interest rates.

In Europe, the European Central Bank (ECB) made no policy shifts at their Governing Council Meeting, although commentators did note a slight toughening in the language used by the ECB President, Mario Draghi, as he reiterated the ECB's ambition to expand its balance sheet. The ECB revised down its 2014 inflation forecasts to 0.5% (from 0.6% previously), and took its 2015 and 2016 forecasts down to 0.7% and 1.3%, respectively. The German central bank, the Bundesbank, also downgraded the forecasts for GDP growth in Europe's largest economy, but German factory orders surprised on the upside, reading +2.5% month-on-month versus expectations of a 0.5% increase. The euro fell by 1.4% against the US dollar last week to reach levels not seen since the summer of 2012.

Australia's third quarter GDP figures also disappointed last week, as economic output expanded by 0.3% month-on-month (versus consensus forecasts of a 0.7% increase). The recent drop in commodity prices has weighed on the Australian economy, which relies significantly on its iron ore and coal exports. Year-on-year GDP growth read +2.7% versus expectations of a 3.1% increase, and second quarter GDP numbers were revised down from +3.1% to +2.7%. Australia's terms of trade data also disappointed, declining 3.5% in the third quarter. The Australian dollar fell 2.2% versus the US dollar. Equities added 0.4% in Australian dollar terms.

The Japanese yen also depreciated last week, falling by 2.4% versus the strengthening greenback, as Japan's third quarter annualised GDP print was revised down from -1.6% to -1.9%. The underlying data revealed that quarterly business spending fell by 0.4%, rather than the 0.2% fall stated in the initial reading. Prime Minister Shinzo Abe continues to lead in the polls, however, and his Liberal Democratic Party is now expected to gain an outright majority at the upcoming lower house elections, scheduled for the 14th December.

In China, import and export numbers disappointed, as the trade surplus hit a new record of USD 54.5 billion. Imports fell by 6.7% year-on-year, versus expectations of a 3.8% increase, while exports rose a mere 4.7% versus forecasts of +8.2%. On the back of this, expectations heightened for increased stimulus measures by the Chinese authorities, helping equities continue their recent rally. The Shanghai Shenzhen CSI 300 Index added 11.3% in yuan terms last week.

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

Asset Class/Region	Currency	Currency returns			
		Week ending 5 Dec. 2014	Month to date	YTD 2014	12 months
Developed Market Equities					
United States	USD	0.4%	0.4%	13.8%	17.9%
United Kingdom	GBP	0.3%	0.3%	3.1%	7.1%
Continental Europe	EUR	0.9%	0.9%	9.8%	14.7%
Japan	JPY	2.5%	2.5%	13.1%	20.0%
Asia Pacific (ex Japan)	USD	-1.0%	-1.0%	4.0%	4.3%
Australia	AUD	0.4%	0.4%	3.9%	7.2%
Global	USD	0.0%	0.0%	6.6%	10.9%
Emerging Market Equities					
Emerging Europe	USD	-3.6%	-3.6%	-19.9%	-19.0%
Emerging Asia	USD	-0.5%	-0.5%	6.4%	6.0%
Emerging Latin America	USD	-5.0%	-5.0%	-8.3%	-7.3%
BRICs	USD	-1.7%	-1.7%	0.8%	0.4%
MENA countries	USD	-2.1%	-2.1%	9.4%	12.9%
South Africa	USD	-4.0%	-4.0%	5.0%	10.9%
India	USD	0.0%	0.0%	36.8%	37.5%
Global emerging markets	USD	-1.9%	-1.9%	0.6%	1.1%
Bonds					
US Treasuries	USD	-0.6%	-0.6%	5.2%	4.6%
US Treasuries (inflation protected)	USD	-1.1%	-1.1%	4.4%	4.0%
US Corporate (investment grade)	USD	-0.7%	-0.7%	6.6%	7.0%
US High Yield	USD	-1.0%	-1.0%	3.0%	3.5%
UK Gilts	GBP	-0.7%	-0.7%	11.8%	11.4%
UK Corporate (investment grade)	GBP	-0.4%	-0.4%	10.5%	10.2%
Euro Government Bonds	EUR	0.0%	0.0%	11.9%	12.1%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	7.7%	7.8%
Euro High Yield	EUR	-1.1%	-1.1%	-5.4%	-3.9%
Japanese Government	JPY	0.1%	0.1%	3.6%	3.1%
Australian Government	AUD	0.1%	0.1%	9.4%	10.5%
Global Government Bonds	USD	-1.2%	-1.2%	-0.2%	-0.9%
Global Bonds	USD	-1.1%	-1.1%	0.4%	0.2%
Global Convertible Bonds	USD	-0.5%	-0.5%	0.1%	2.0%
Emerging Market Bonds	USD	-1.0%	-1.0%	7.7%	9.1%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 5 Dec. 2014	Month to date	YTD 2014	12 months
Property					
US Property Securities	USD	0.0%	0.0%	26.6%	26.8%
Australian Property Securities	AUD	2.3%	2.3%	19.7%	18.8%
Asia Property Securities	USD	-1.0%	-1.0%	0.4%	2.1%
Global Property Securities	USD	-0.7%	-0.7%	13.3%	14.4%
Currencies					
Euro	USD	-1.4%	-1.4%	-10.6%	-10.1%
UK Pound Sterling	USD	-0.4%	-0.4%	-5.9%	-4.6%
Japanese Yen	USD	-2.4%	-2.4%	-13.7%	-16.3%
Australian Dollar	USD	-2.2%	-2.2%	-6.8%	-8.3%
South African Rand	USD	-2.5%	-2.5%	-7.6%	-7.9%
Swiss Franc	USD	-1.3%	-1.3%	-8.7%	-8.3%
Chinese Yuan	USD	-0.2%	-0.2%	-1.6%	-1.0%
Commodities & Alternatives					
Commodities	USD	-0.4%	-0.4%	-15.2%	-14.8%
Agricultural Commodities	USD	0.2%	0.2%	-6.3%	-7.3%
Oil	USD	-6.5%	-6.5%	-37.7%	-38.0%
Gold	USD	2.2%	2.2%	-1.1%	-2.7%
Hedge funds	USD	-0.6%	-0.6%	-0.4%	0.7%

* 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
A Member of Wealthnet

Important notes