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Market Weekly Review

Week ending **8 March 2015**

- US payrolls strong
- ECB starts Quantitative Easing
- Growth in Japan revised down
- China lowers target growth rate
- Commodity prices fall

The US non-farm payrolls number surprised significantly on the upside last week, printing +295,000 versus expectations of +235,000 to take unemployment in the US down to 5.5%. This compares to expectations of a fall from 5.7% in January to 5.6% in February. The news reverberated across asset classes and regions as the world contemplates the first interest rate hike by the US central bank since the financial crisis. Asset classes across the world have come to rely on the Federal Reserve (Fed) and other central banks printing money and keeping interest rates at all-time lows. As economic data improves at a surprising rate in the US, many now expect a change in policy (to a restrictive stance) by the summer. So, while the jobs data is positive for the economy, it was greeted cautiously because of its likely impact on interest rate policy. It is worth noting, however, that average hourly earnings – a metric keenly watched by Fed Chair Janet Yellen – disappointed, rising by a mere 0.1% to take the year-on-year increase to 2.0% (down from 2.2%). US treasuries fell by 1.2% and gilts followed suit with a return of -2.0% in sterling terms. Global bonds returned -2.0% last week. The US dollar hit a near 12-year high against a basket of major currencies.

Equity markets were also affected: the S&P 500 slipped back from all-time highs to end the week down by 1.5% while Asia Pacific stocks lost 0.7%. Global equities returned -1.7% and their emerging market counterparts fell by 1.9%. European equities, on the other hand, added 0.7% in euro terms last week to take their year-to-date returns to 16.0%. Today marks the official start of the European Central Bank's (ECB's) sovereign bond buying programme, or Quantitative Easing (QE), and recent events illustrate how dominant central banks continue to be. The euro fell by 3.2% against the greenback to hit a fresh 11 year low.

Japan's equity index rose by 1.1% in yen terms last week as the Bank of Japan (BoJ) continues to pump money into the economy. Last week saw a downward revision to fourth quarter GDP growth (from 2.2% to 1.5% on an annualised basis), which illustrates how the Japanese economy still faces significant headwinds in the near-term despite Prime Minster Abe's radical reform agenda, often termed 'Abenomics'. Corporate investment in Japan was revised down, taking it from an initial reading of +0.4% to -0.3%, but domestic consumption rose by more than initially estimated: 2.0% (versus initial reading of 1.1%). Despite this, the weakness of the yen has helped equities. Last year's move by the Japanese Government Pension Investment Fund (GPIF) and the BoJ to increase their allocation to domestic equities has also provided a fillip for equities. Year-to-date Japanese equities have returned 9.5% in yen terms.

In China, Premier Li Keqiang lowered China's expected growth rate from 7.5% to "around 7.0%" last week amid signs of a slowing economy. Trade figures disappointed over the weekend as imports fell by 20.5% year-on-year (versus consensus forecasts of -10.0%). Part of this fall was explained by the fall in commodity prices, and therefore the aggregate price of imports, but as Deutsche Bank notes, total volume of imports also fell. Exports, on the other hand, increased by a spectacular 48.3% year-on-year versus forecasts of +14.0%, as demand from the US continues to grow.

The price of iron ore fell below $60 a tonne for the first time since 2009 last week, as the Chinese authorities look to tackle oversupply in the steelmaking industry and the crippling levels of pollution caused by steel mills. Miners such a Rio Tinto and BHP Billiton suffered as a result, falling by 6.2% in and 4.1% in sterling terms, respectively. Gold fell by 3.8% last week while Brent crude gave back some recent gains falling by 4.6%. The broad RICI commodity index fell by 2.5% last week.

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 6 Mar. 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-1.5%	-1.5%	0.9%	11.9%
United Kingdom	GBP	-0.3%	-0.3%	5.9%	5.3%
Continental Europe	EUR	0.7%	0.7%	16.0%	19.5%
Japan	JPY	1.1%	1.1%	9.5%	28.0%
Asia Pacific (ex Japan)	USD	-0.7%	-0.7%	4.0%	6.7%
Australia	AUD	-0.3%	-0.3%	10.1%	13.0%
Global	USD	-1.7%	-1.7%	2.2%	5.3%
Emerging Market Equities					
Emerging Europe	USD	-3.0%	-3.0%	2.5%	-19.1%
Emerging Asia	USD	-0.4%	-0.4%	4.5%	10.9%
Emerging Latin America	USD	-7.1%	-7.1%	-9.2%	-15.1%
BRICs	USD	-3.1%	-3.1%	2.3%	6.1%
MENA countries	USD	0.6%	0.6%	6.5%	1.0%
South Africa	USD	-3.2%	-3.2%	1.9%	5.4%
India	USD	0.0%	0.0%	9.5%	37.9%
Global emerging markets	USD	-1.9%	-1.9%	1.8%	2.6%
Bonds					
US Treasuries	USD	-1.2%	-1.2%	-0.2%	4.3%
US Treasuries (inflation protected)	USD	-1.9%	-1.9%	0.0%	2.1%
US Corporate (investment grade)	USD	-1.4%	-1.4%	0.6%	5.6%
US High Yield	USD	-0.5%	-0.5%	2.6%	2.4%
UK Gilts	GBP	-2.0%	-2.0%	-1.2%	10.4%
UK Corporate (investment grade)	GBP	-1.3%	-1.3%	0.6%	10.3%
Euro Government Bonds	EUR	-0.1%	-0.1%	2.9%	13.2%
Euro Corporate (investment grade)	EUR	-0.2%	-0.2%	1.3%	7.7%
Euro High Yield	EUR	0.2%	0.2%	3.4%	6.4%
Japanese Government	JPY	-0.1%	-0.1%	-0.8%	2.9%
Australian Government	AUD	-0.7%	-0.7%	1.6%	11.8%
Global Government Bonds	USD	-2.1%	-2.1%	-3.1%	-4.9%
Global Bonds	USD	-2.0%	-2.0%	-3.2%	-4.6%
Global Convertible Bonds	USD	-1.4%	-1.4%	0.2%	-5.1%
Emerging Market Bonds	USD	-0.9%	-0.9%	0.4%	4.4%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 6 Mar. 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	-3.7%	-3.7%	-0.9%	16.2%
Australian Property Securities	AUD	1.3%	1.3%	12.2%	29.7%
Asia Property Securities	USD	-1.5%	-1.5%	2.8%	8.3%
Global Property Securities	USD	-3.0%	-3.0%	1.4%	10.9%
Currencies					
Euro	USD	-3.2%	-3.2%	-10.4%	-21.8%
UK Pound Sterling	USD	-2.6%	-2.6%	-3.5%	-10.2%
Japanese Yen	USD	-1.2%	-1.2%	-1.2%	-15.5%
Australian Dollar	USD	-1.2%	-1.2%	-5.6%	-15.1%
South African Rand	USD	-3.2%	-3.2%	-3.9%	-12.0%
Swiss Franc	USD	-3.2%	-3.2%	0.9%	-10.7%
Chinese Yuan	USD	0.1%	0.1%	-0.9%	-2.3%
Commodities & Alternatives					
Commodities	USD	-2.5%	-2.5%	-4.3%	-29.6%
Agricultural Commodities	USD	-3.2%	-3.2%	-7.4%	-22.2%
Oil	USD	-4.6%	-4.6%	4.2%	-44.7%
Gold	USD	-3.8%	-3.8%	-1.5%	-13.6%
Hedge funds	USD	0.2%	0.2%	1.8%	-0.4%

* Estimate

Source: Bloomberg

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