



# Market Weekly Review

Week ending 8 June 2014

- ECB introduces negative interest rates
- European government bond yields continue to fall
- Encouraging data on US payrolls
- Low volatility and steady uptick in US markets
- Japanese equities continue to rally

Last week featured two significant events to keep investors occupied. Firstly, the European Central Bank (ECB) held its monetary policy meeting and - as expected - lowered its main refinancing rate to 0.15%. The ECB also decided to charge 0.10% to commercial banks who want to deposit excess reserves at the central bank, lowering its deposit rate into negative territory from 0.0 to -0.10%. Although this was an historic move, it remains to be seen whether it will have a substantial effect on markets. The bank also introduced 'Targeted Long Term Refinancing Operations' (TLTROs), allowing euro area banks to borrow up to EUR 400 billion on favourable terms, to lend out to non-financial companies in the euro area. Finally, it was interesting to note that Mr Draghi left the door open to the prospect of quantitative easing (QE) in the future, something German officials (among others) have been keen to avoid.

Following the ECB meeting, European government bond yields continued to fall. According to Deutsche Bank, French and Spanish 10-year government bond yields hit their lowest levels since 1749 and 1789 respectively. Euro area government bonds added 0.6% in euro terms last week. Continental European equities also rallied (1.1% in euro terms), as equity investors responded positively to the ECB's decision. If European businesses were hoping for a fall in the euro, however, they were left disappointed. The euro initially dropped to a four month low following the ECB's announcement, but ultimately ended the week +0.1% against the US dollar. Gold has also experienced a volatile week, falling to USD 1,240 an ounce (a four month low) before the ECB meeting, and then rallying thereafter to end the week up by 0.3%.

The second big announcement of the week was US non-farm payrolls which were released on Friday, showing US employers adding 217,000 jobs to the economy (broadly in line with expectations). This was the fourth consecutive monthly number above 200,000, and keeps the US jobless rate at a six-year low of 6.3% (versus an expected rise to 6.4%).

News on payrolls helped push the S&P 500 index (already buoyed by the ECB meeting) up, to end the week +1.4% amid low volatility. According to Bloomberg, a modest 1.8 billion shares a day were traded in S&P 500 companies last month, the lowest levels since 2008, and the index has not closed up or down more than 1% for 35 days. The Chicago Board Operations Exchange Volatility Index (VIX) fell 5.9% last week to 10.73, its lowest level since February 2007.

In Japan, the Topix index continued to rally, ending the week up by 2.9% in yen terms, with Japan's currency depreciating by 0.7% over the week, boosting export prospects. In China, HSBC's manufacturing Purchasing Managers' Index (PMI) rose to 49.4, up 1.3 points from April and reaching a 4-month high, following a similar trend in the official manufacturing PMI data released last week. The HSBC Chinese services PMI, however, fell from 51.4 to 50.7, a four-month low.

Asian equities ex Japan added 0.6% in US dollar terms last week, indicating broad confidence in the region, but also some profit taking midweek (before the ECB meeting and US payrolls announcement, both seen as significant risk events by investors). Emerging markets (EM) generally enjoyed a strong week: emerging Europe added +3.7%, Latin America +3.2%, and the MSCI global EM index was up by +1.7%, all in US dollar terms. The numbers continue to reflect the increasing search for yield, which is turning away from the low-volatility, low-interest rate developed markets.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 6 June 2014	Month to date	YTD 2014	12 months
<b>Developed Market Equities</b>						
United States	S&P 500 NR	USD	1.4%	1.4%	6.1%	23.1%
United Kingdom	MSCI UK NR	GBP	0.2%	0.2%	3.4%	13.9%
Continental Europe	MSCI Europe ex UK NR	EUR	1.1%	1.1%	8.4%	26.4%
Japan	Topix TR	JPY	2.9%	2.9%	-4.2%*	11.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.6%	0.6%	5.9%	16.3%
Australia	S&P/ASX 200 TR	AUD	-0.5%	-0.5%	4.1%	18.6%
Global	MSCI World NR	USD	1.2%	1.2%	5.5%	23.3%
<b>Emerging Market Equities</b>						
Emerging Europe	MSCI EM Europe NR	USD	3.7%	3.7%	1.9%	10.0%
Emerging Asia	MSCI EM Asia NR	USD	1.1%	1.1%	5.1%	14.7%
Emerging Latin America	MSCI EM Latin America NR	USD	3.2%	3.2%	6.2%	8.0%
BRICs	MSCI BRIC NR	USD	2.5%	2.5%	3.0%	13.7%
MENA countries	Dow Jones MENA TR	USD	-0.7%	-0.7%	18.7%	36.3%
South Africa	MSCI EM South Africa NR USD	USD	1.7%	1.7%	7.5%	12.5%
India	Nifty Fifty TR	USD	5.7%	5.7%	26.9%	32.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.7%	1.7%	5.2%	13.3%
<b>Bonds</b>						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.7%	-0.7%	2.7%	1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-1.2%	-1.2%	4.8%	3.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.7%	-0.7%	4.9%	6.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	0.3%	4.8%	11.1%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.6%	-0.6%	3.5%	2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.3%	-0.3%	4.5%	6.8%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.6%	0.6%	6.5%	8.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.2%	4.5%	6.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.6%	0.6%	4.3%	19.2%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.0%	0.0%	1.3%	2.8%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4%	-0.4%	3.5%	3.9%
Global Government Bonds	JP Morgan Global GBI	USD	-0.3%	-0.3%	4.0%	5.4%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	-0.2%	3.8%	6.4%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	0.5%	0.5%	5.4%	15.5%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.7%	0.7%	9.4%	10.7%

\* Estimate

Source: Bloomberg

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<b>Property</b>						
US Property Securities	MSCI US REIT NR	USD	1.9%	1.9%	18.0%	12.9%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.2%	1.2%	9.2%	4.5%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.2%	0.2%	1.4%	7.7%
Global Property Securities	S&P Global Property USD TR	USD	1.4%	1.4%	11.2%	12.9%
<b>Currencies</b>						
Euro		USD	0.1%	0.1%	-0.7%	4.9%
UK Pound Sterling		USD	0.3%	0.3%	1.5%	10.5%
Japanese Yen		USD	-0.7%	-0.7%	2.7%	-3.3%
Australian Dollar		USD	0.3%	0.3%	4.7%	2.1%
South African Rand		USD	-0.2%	-0.2%	-0.8%	-6.7%
Swiss Franc		USD	0.2%	0.2%	-0.1%	5.8%
Chinese Yuan		USD	0.0%	0.0%	-3.1%	-1.8%
<b>Commodities &amp; Alternatives</b>						
Commodities	RICI TR	USD	0.0%	0.0%	4.3%	7.3%
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	-0.6%	6.3%	2.6%
Oil	ICE Crude Oil CR	USD	-1.8%	-1.8%	-2.8%	5.7%
Gold	Gold Spot	USD	0.3%	0.3%	3.9%	1.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.4%*	0.4%*	1.3%*	4.8%*

\* Estimate

Source: Bloomberg

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