

Market Weekly Review

Week ending 11 October 2013

As the US government approaches its debt ceiling deadline this Thursday, the inability of policymakers to reach an agreement on the budget continues to weigh on investor sentiment, with S&P 500 futures in negative territory as at the time of writing. Discussions in the Senate collapsed over the weekend after the Republicans failed to support a 'clean bill' to raise the debt limit. At the same time, Democratic Majority Leader, Harry Reid, refused to accept the Republican's "six-point fiscal plan", which called for changes to 'Obamacare', a delay to the medical devices tax and a cut to federal spending in return for a six month extension to the debt ceiling.

Away from budgetary affairs, President Barack Obama officially nominated Vice Chair Janet Yellen as the next leader of the Federal Reserve (Fed); a position which – if confirmed by the US Senate – would see her replace Chairman Ben Bernanke who is stepping down after eight years at the helm.

Finance ministers and central bankers from around the world met for the annual International Monetary Fund (IMF) and World Bank Summit on Thursday. Global leaders were keen to stress the severe impact a US default would have on markets, with head of the IMF, Christine Lagarde, warning of "massive disruption" which "would be at risk of tipping [the world] yet again into recession".

The IMF chose last week to release its latest World Economic Outlook report, which cut estimates for global growth to 2.9% (down 0.3%) and 3.6% (down 0.2%) for this year and next. Growth projections for the UK, on the other hand, were revised upwards to 1.4% for this year; 0.9% higher than earlier forecasts made in July. Other data from the UK was less positive, with industrial production and construction figures released by the Office for National Statistics (ONS) falling by 1.1% and 0.1% in August respectively. The fall in industrial production, which represented the biggest monthly drop in nearly a year, was largely fuelled by a reduction in manufacturing output, which itself fell by 1.2% over the month. Later in the day, the nine-members of the

Monetary Policy Committee voted to keep monetary policy in the UK on hold, in line with market expectations.

In Europe, German exports rose by 1.0% in August, whilst nonetheless behind market expectations for a rise of 1.5%. Imports rose by only 0.4%, leading to an increase in Germany's trade surplus to EUR 15.6 billion versus EUR 15.0 billion in July.

In Asia, trade data from China on Saturday disappointed investors, after export numbers for September fell by 0.3% year-on-year, against expectations for a 5.5% rise. Imports however beat expectations, up 7.4% over the year against 7.0% expected. Data from the Energy Information Administration (EIA) showed China overtaking the US as the biggest net importer of oil in September. Oil consumption exceeded production by 6.3 million barrels a day in China, compared to 6.1 million barrels in the US.

In Japan, minutes from the Bank of Japan's (BoJ) monetary policy meeting on the 4th and 5th September, revealed a unanimous vote by members to keep interest rates unchanged and the growth of the monetary base on hold at its current rate of JPY 60-70 trillion per annum.

Developed equity markets reversed some of their earlier losses to end the week up by 0.7% in US dollar terms. Emerging markets generally outperformed their developed counterparts, with Emerging Europe (+2.3%) and India (+3.8%) providing some of the strongest returns over the week.

Despite seeing yields move significantly over the week, US treasuries ended the week flat, outperforming global government bonds, which returned -0.5% in US dollar terms due, largely, to a stronger US dollar. Finally, global property securities returned 2.2% whilst commodities were flat, following mixed returns from gold (-2.9%) and oil (1.1%).

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 11 Oct 2013	Month to date	YTD 2013	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	0.8%	1.3%	20.8%	22.5%
United Kingdom	FTSE All Share TR	GBP	0.6%	0.4%	13.3%	16.2%
Continental Europe	MSCI Europe ex UK NR	EUR	0.8%	1.1%	16.3%	21.8%
Japan	Topix TR	JPY	2.9%	0.3%	41.8%*	64.4%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	0.6%	1.5%	6.9%	11.4%
Australia	S&P / ASX 200 TR	AUD	0.4%	0.2%	16.5%	21.0%
Global	MSCI World NR	USD	0.7%	0.9%	18.4%	22.2%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	2.3%	4.1%	1.1%	8.0%
Emerging Asia	MSCI EM Asia NR	USD	1.5%	3.8%	2.1%	8.6%
Emerging Latin America	MSCI EM Latin America NR	USD	1.6%	3.4%	-8.3%	-4.0%
BRICs	MSCI BRIC NR	USD	1.8%	3.9%	-1.4%	4.2%
MENA countries	Dow Jones MENA TR	USD	0.2%	0.9%	18.1%	18.2%
South Africa	FTSE JSE All Share TR	USD	1.8%	4.0%	-19.5%	-10.1%
India	Nifty Fifty TR	USD	3.8%	9.2%	-6.3%	-3.1%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.6%	3.7%	-0.8%	5.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.0%	-0.2%	-2.6%	-2.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.2%	-0.2%	-7.4%	-7.6%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.2%	0.3%	-2.4%	-2.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.3%	0.8%	4.5%	7.0%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.0%	-0.1%	-2.8%	-2.5%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.2%	0.3%	1.2%	2.6%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.0%	0.2%	1.2%	3.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.1%	1.5%	3.4%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	0.3%	1.2%	10.0%	16.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.1%	0.3%	2.3%	2.3%
Australian Government	JP Morgan Australia GBI TR	AUD	-0.4%	-1.1%	-0.7%	-1.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.5%	0.0%	-3.3%	-4.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.5%	0.0%	-3.3%	-4.5%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-0.1%	0.5%	13.4%	16.7%
Emerging Market Bonds	JP Morgan EMBI +	USD	1.0%	1.3%	-7.7%	-5.3%

* Estimate

Source: Bloomberg, October 2013

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Property						
US Property Securities	MSCI US REIT NR	USD	2.9%	2.7%	5.1%	8.3%
Australian Property Securities	S&P/ASX 200 Australia TR	AUD	0.4%	1.5%	6.1%	6.1%
Asia Property Securities	S&P Asia Property NR USD	USD	2.3%	1.1%	9.7%	20.9%
Global Property Securities	S&P Global Property TR USD	USD	2.2%	1.8%	6.5%	12.5%
Currencies						
Euro		USD	-0.1%	0.1%	2.7%	4.5%
UK Pound Sterling		USD	-0.3%	-1.4%	-1.8%	-1.1%
Japanese Yen		USD	-1.1%	-0.4%	-12.0%	-19.1%
Australian Dollar		USD	0.3%	1.6%	-8.9%	-8.8%
South African Rand		USD	0.9%	1.4%	-14.4%	-12.3%
Swiss Franc		USD	-0.5%	-0.8%	0.4%	2.2%
Chinese Yuan		USD	0.0%	0.0%	1.8%	1.9%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.0%	0.4%	-2.8%	-1.9%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	-0.1%	-8.2%	-11.7%
Oil	ICE Crude Oil CR	USD	1.1%	1.5%	0.0%	1.1%
Gold	Gold Spot	USD	-2.9%	-4.3%	-24.1%	-26.1%
Hedge Funds	HFRX Global Hedge Fund	USD	-0.1%*	0.2%*	4.5%*	5.9%*

* Estimate

Source: Bloomberg, October 2013

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