

Market Weekly Review

Week ending 13 July 2014

- Portuguese bank delays payments on debt
- France and Germany release disappointing economic data
- Federal Reserve announces October as end date for QE
- Oil prices continue to fall following June spike
- Indonesian election ends in stalemate

Developed equity markets fell last week as Espirito Santo International (ESI), parent company of Portugal's second largest bank, Banco Espirito Santo (BES), announced it would be delaying repayments on short-term debt "to a few clients" of its private bank. BES's share price plummeted 36% as concerns about Europe's periphery and its financial system returned to markets. The yield on Portugal's 10-year bonds rose 40 basis points from 3.6% to a peak of 4.0% before recovering somewhat before the weekend, and European equities lost 3.2% in euro terms over the week. As ESI suspended trading in its shares and that of BES on Thursday, Deutsche Bank highlighted that the situation would likely be an isolated one, with a low risk of contagion across Europe's periphery. The unusual ownership structure of the group and ESI reporting that a recent audit had uncovered "accounting irregularities" both point to an idiosyncratic situation. Furthermore, Portugal and Europe as a whole are now in a stronger position to deal with a failing bank compared to at the height of the global financial crisis. Equities recovered some of their losses on Friday as the initial concern subsided, but global equities ended the week -1.5% in US dollar terms.

The fall in European equities was compounded by disappointing data out of the core European economies of France and Germany and growing investor concern that a recovery in these important markets may be stalling. German exports fell by more than expected in May (-1.1% versus consensus of -0.4%), and May was the third month this year that export numbers have been negative. Europe's leading economy also saw its industrial output fall 1.8% month-on-month in May, versus a consensus that the numbers would stay flat. In France, the INSEE broad industrial production measure fell unexpectedly by 1.7% in May, versus economists' expectations of a modest 0.2% increase month-on-month. In part, this was due to French workers taking extra days off around three public holidays, but it continues the trend of disappointing data coming

out of France. The French equities fell 2.0% in euro terms, and Frankfurt's Xetra Dax 30 was marked down 2.4% over the week.

European government bonds ended the week +0.1% in euro terms, as the spike in yields for the periphery governments was balanced out by investors seeking safety in German bunds. US treasuries added 0.7% over the week, and US Treasury Inflation-Protected Securities (TIPS) gained 1.2%, bringing their year-to-date returns to +6.6%. Emerging market bonds added 0.8% in US dollar terms over the week.

Last week also saw the US Federal Reserve (Fed) releasing the minutes of June's Federal Open Market Committee (FOMC) meeting. There was some clarification about its asset purchasing programme, which were largely anticipated by the market. The Fed will end quantitative easing (QE) in October if the economic landscape remains stable, which is consistent with consensus expectations.

The price of crude oil declined again this week (-2.4%), as concern around Iraq's oil supplies continue to dampen and amid reports that Libya is increasing oil production and preparing to resume exports. A fully fledged return to the oil industry for the North African country remains in doubt however.

A lot will depend on whether the government is able to control the powerful militias which have succeeded in disrupting vital ports and production facilities since the fall of Muammar Gaddafi in 2011. Gold demand increased as a consequence of its status as a safe haven asset, resulting in a gain of 1.4% in US dollar terms over the week.

Indonesia, the world's third largest democracy, held elections last week. Joko Widodo, the reformist and foreign investment friendly governor of Jakarta, is widely seen as the front runner to become president, and the Indonesian rupiah and stock market had been rising in the days preceding the vote. Conflicting exit polls have created some uncertainty, however, as Mr Widodo and his rival Prabowo Subianto both claimed victory. The resulting stalemate will probably last until official results are released in a month's time.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 11 July 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-0.9%	0.4%	7.3%	18.4%
United Kingdom	MSCI UK NR	GBP	-2.5%	-0.7%	1.2%	4.5%
Continental Europe	MSCI Europe ex UK NR	EUR	-3.2%	-2.0%	4.2%	15.3%
Japan	Topix TR	JPY	-2.3%	-0.6%	-2.5%	13.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.7%	0.9%	8.0%	16.2%
Australia	S&P/ASX 200 TR	AUD	-0.7%	1.7%	4.8%	13.5%
Global	MSCI World NR	USD	-1.5%	-0.4%	5.8%	17.4%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	0.9%	0.4%	0.7%	6.1%
Emerging Asia	MSCI EM Asia NR	USD	-0.9%	0.7%	7.6%	16.0%
Emerging Latin America	MSCI EM Latin America NR	USD	0.6%	1.9%	9.3%	12.3%
BRICs	MSCI BRIC NR	USD	-0.5%	1.3%	6.0%	15.4%
MENA countries	Dow Jones MENA TR	USD	1.8%	4.8%	16.3%	26.2%
South Africa	MSCI EM South Africa NR USD	USD	0.0%	0.0%	9.5%	18.9%
India	Nifty Fifty TR	USD	-3.7%	-1.9%	19.2%	31.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-0.3%	1.0%	7.2%	14.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.7%	0.0%	3.2%	2.5%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	1.2%	0.3%	6.6%	4.3%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.8%	0.0%	5.7%	6.9%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	-0.2%	-0.1%	5.3%	9.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	1.0%	0.5%	4.1%	2.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.8%	0.3%	5.0%	5.2%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	0.1%	7.1%	8.6%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.1%	0.1%	5.0%	6.5%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.3%	-1.0%	3.6%	13.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1%	0.1%	1.7%	3.0%
Australian Government	JP Morgan Australia GBI TR	AUD	0.7%	0.8%	5.8%	5.4%
Global Government Bonds	JP Morgan Global GBI	USD	0.6%	-0.1%	4.9%	5.2%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.5%	-0.2%	4.6%	5.9%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-1.2%	-1.0%	4.3%	11.0%
Emerging Market Bonds	JP Morgan EMBI+	USD	0.8%	0.7%	10.2%	10.8%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.1%	0.8%	18.0%	12.1%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	1.9%	2.0%	10.8%	6.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	-0.6%	0.7%	2.6%	8.1%
Global Property Securities	S&P Global Property USD TR	USD	0.3%	0.6%	11.9%	12.5%
Currencies						
Euro		USD	0.0%	-0.6%	-1.0%	2.3%
UK Pound Sterling		USD	-0.3%	0.1%	3.4%	12.6%
Japanese Yen		USD	1.0%	-1.0%	3.2%	-3.9%
Australian Dollar		USD	0.3%	-0.4%	5.3%	4.6%
South African Rand		USD	0.4%	-0.6%	-2.0%	-7.7%
Swiss Franc		USD	-2.5%	-0.7%	1.2%	4.5%
Chinese Yuan		USD	0.0%	-0.1%	-2.5%	-1.3%
Commodities & Alternatives						
Commodities	RICI TR	USD	-3.0%	-3.3%	2.1%	1.6%
Agricultural Commodities	RICI Agriculture TR	USD	-5.2%	-5.7%	-2.4%	-5.0%
Oil	ICE Crude Oil CR	USD	-2.4%	-4.9%	-3.2%	0.7%
Gold	Gold Spot	USD	1.4%	0.8%	11.0%	1.0%

* Estimate

Source: Bloomberg

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