

Weekly Review

Week ending 14th December 2012

At the end of last week Eurozone finance ministers stepped up efforts to implement a banking union by appointing the European Central Bank (ECB) as the “single supervisory mechanism” (SSM). Agreement was only reached after concessions were granted to both Germany and France, who are keen to keep their national banks separate from direct European ‘federal’ supervision. The next step is likely to be more difficult, as members seek to agree on a common authority to manage the orderly winding down of today’s insolvent lenders. Mario Draghi, the ECB President, claimed the ECB would be ready to take up its new supervisory responsibilities by early 2014. Not long after the agreement, Eurozone ministers also approved Greece’s EUR 49.1 billion loans package, prompting Greek Prime Minister, Antonis Samaras, to assert that “Grexit is dead”. The payments are due to be delivered in two tranches: the first EUR 34.3 billion is set to be released in the next few days, with the remaining portion becoming available in the first quarter of 2013.

On the other side of the Atlantic, policymakers were equally busy, with Federal Reserve Governor, Ben Bernanke, introducing a new USD 45 billion monthly asset purchase programme to replace ‘Operation Twist’, which is due to expire at the end of this year. The programme will buy longer-dated Treasuries with similar average durations to those purchased under Operation Twist. The central bank chose to keep the federal funds rate on hold, whilst advising that rates will remain low as long as unemployment is above 6.5%, marking a significant policy change by officials, and as long as inflation remains below 2.5%. Uncertainty over the fiscal cliff remains a concern for investors. Following a brief meeting between House Speaker John Boehner and President Barack Obama, it was announced that no new action points had been addressed. US economic data was broadly positive last week, with core retail sales printing above market consensus at 0.7% (versus 0.4% expected).

Ratings agency Standard & Poor’s (S&P) moved to update its guidance for the UK’s credit rating in line with Moody’s and Fitch. The UK is now rated AAA, outlook negative, by all three major rating agencies. Concerns over the weak economic recovery and limited progress on improving the government’s budget deficit were key points behind S&P’s decision, with the agency forecasting a one-in-three chance of a downgrade in the next two years unless steps can be taken to improve the country’s fiscal and economic performance. The agency currently expects the UK’s debt-to-GDP ratio to peak in 2015.

In Asia, tensions between North and South Korea continue to rise, after North Korea launched a long range rocket in violation of UN conventions, one week before elections in South Korea. In Japan, the elections yesterday saw the Liberal Democratic Party clinch an easy victory over the Democratic Party (DPJ), winning 294 seats out of 480 seats in the Diet’s lower house. Japanese equities ended the week up by 1.4% in yen terms on Friday.

In commodity markets, figures show that Saudi Arabia cut its production of crude oil to 9.5 million barrels a day in November, down from a thirty year high in June. The move saw overall OPEC (Organization of the Petroleum Exporting Countries) production fall to 30.8 million barrels a day, its lowest level in almost a year. Crude oil ended the week up 0.8%.

Global equities, led by strong performance in Asia, ended the week up by 0.4% in US dollar terms. Global government bonds fell modestly over the week by 0.2%, whilst commodities and global property securities experienced gains of 0.4% and 0.2% respectively.

Returns to 14 December 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 14 December 2012	Month to date	YTD 2012
Developed Market Equities					
United States	S&P 500 NR	USD	-0.3%	-0.1%	14.1%
United Kingdom	FTSE All Share TR	GBP	0.2%	1.1%	12.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.5%	1.6%	19.1%
Japan	Topix TR	JPY	1.4%	2.5%	12.5%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	1.3%	2.6%	24.9%
Global	MSCI World NR	USD	0.4%	0.8%	14.6%
Emerging Market Equities					
Emerging Europe	MSCI EM Europe NR	USD	2.2%	4.5%	22.0%
Emerging Asia	MSCI EM Asia NR	USD	1.7%	2.9%	20.2%
Emerging Latin America	MSCI EM Latin America NR	USD	2.2%	4.5%	6.6%
BRICs	MSCI BRIC NR	USD	1.8%	3.5%	12.9%
South Africa	FTSE JSE All Share TR	USD	1.7%	5.1%	17.0%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	1.8%	3.6%	16.7%
Bonds					
US Treasuries	JP Morgan United States Government Bond Index TR	USD	-0.3%	-0.4%	2.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	-0.6%	-0.1%	7.9%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	-0.2%	-0.2%	9.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.5%	1.4%	15.5%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.7%	-1.1%	2.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.5%	-0.6%	12.5%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.1%	0.3%	10.1%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	-0.1%	0.5%	13.0%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	2.0%	2.3%	27.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	-0.3%	0.0%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-1.1%	-0.9%	5.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.2%	-0.2%	2.1%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.0%	0.1%	4.4%
Global Convertible Bonds	UBS Global Convertible Bond	USD	0.6%	1.0%	12.3%
Emerging Market Bonds	JP Morgan EMBI +	USD	0.2%	0.6%	17.7%

Source: Lipper Hindsight, December 2012

Returns to 14 December 2012

Asset Class/Region	Index	Currency	Currency returns		
			Week ending 14 December 2012	Month to date	YTD 2012
Property					
US Property Securities	MSCI US REIT NR	USD	-0.9%	0.6%	13.2%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	0.5%	2.2%	29.8%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	0.2%	-0.3%	25.0%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	-0.1%	1.2%	30.7%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.0%	2.3%	42.5%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	0.2%	1.5%	25.8%
Currencies					
Euro		USD	1.8%	1.4%	1.6%
UK Pound Sterling		USD	0.8%	1.0%	4.0%
Japanese Yen		USD	-1.2%	-1.2%	-7.9%
Australian Dollar		USD	0.7%	1.3%	3.5%
South African Rand		USD	0.4%	3.4%	-6.2%
Swiss Franc		USD	1.8%	1.1%	2.3%
Chinese Yuan		USD	-0.3%	-0.3%	0.9%
Commodities & Alternatives					
Commodities	RICI TR	USD	0.4%	-1.2%	1.7%
Agricultural Commodities	RICI Agriculture TR	USD	-0.6%	-0.5%	4.5%
Oil	ICE Crude Oil CR	USD	0.8%	-1.8%	1.2%
Gold	Gold Index	USD	-0.5%	-1.1%	8.5%
Hedge Funds	HFRX Global Hedge Fund	USD	0.2%*	0.4%*	3.0%*

* Estimate

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