

Market Weekly Review

Week ending 15 June 2014

- ISIS militants seize cities in Northern Iraq
- Geopolitical risk weighs on global equities
- UK interest rates likely to rise at the end of 2014
- China reduces reserve requirement ratios for select banks
- Japan's Abe announces corporation tax cuts

Global equity markets fell by 0.4% in US dollar terms last week, following news that the al-Qaeda linked Islamic State in Iraq and the Levant (ISIS) group had captured cities in the north of Iraq. The Islamist group's violent progress towards Iraq's capital Baghdad loomed large over markets last week, with US equities declining by 0.6%, UK equities down 1.0% in sterling terms, and the MSCI Europe index losing 0.2% in euro terms. The speed of ISIS's advance, its reported ties to Syrian militant groups and the prospect of Iran's involvement, risks destabilising the region. US President Barack Obama has sent a warship to the region, with reports over the weekend suggesting that the US is considering airstrikes against ISIS targets. Concerns about control of Iraq's oil supply pushed the price of crude oil up by 3.3% over the week.

In the UK, Mark Carney, the Bank of England Governor, surprised markets last week by warning that interest rates could rise earlier than expected. Following his speech on Thursday evening, short term sterling futures are now pricing in a rate hike at the end of this year, rather than the first quarter of 2015. The pound appreciated by 1.0% against the US dollar last week and UK gilts declined by 0.5% in sterling terms. In contrast, the euro continued to weaken against the backdrop of more accommodative monetary policy from the European Central Bank.

Following Mr Carney's shock announcement, all eyes will be on Janet Yellen, Chair of the Federal Reserve, as she convenes the Federal Open Market Committee (FOMC) this week. Investors are keen to see whether she will follow in Mr Carney's footsteps, with the majority of economic data from the US continuing to surprise to the upside. The NFIB Small Business Optimism Index

came in at 96.6, 0.8 points higher than consensus. The US Bureau of Labor Statistics released data showing that there was also an increase in job openings in the US during April. Retail sales bucked the trend, growing by 0.3% compared to consensus expectations of +0.6%, although last month's retail sales were revised up +0.4%. US Treasuries were flat over the week, ahead of the FOMC's meeting on 18 June, although short term yields rose after Mr Carney's speech.

In China, the People's Bank of China took steps to try and boost growth by announcing a targeted cut of 0.50% to the reserve requirement ratio for a number of regional and agricultural banks. Deutsche Bank suggest that this could release as much as RMB 100 billion of liquidity into the Chinese financial sector. On the data front, inflation was in line to slightly above expectations at 2.5% (versus 2.4% expected), and PPI deflation eased to -1.4% from -2.0% in May (versus -1.5% expected). Chinese stock markets rose over the week, with the Shanghai Stock Exchange up by 2.0% in renminbi terms, and the Hang Seng index up 1.1% in Hong Kong dollar terms. Emerging Asian equities posted gains of 0.6% in US dollar terms, while the global emerging markets index added 0.5%.

Japan's Prime Minister, Shinzo Abe, confirmed his decision to lower the corporate tax rate, as expected. He indicated a gradual reduction in the tax of between 20% and 45% over "several years". Although Mr Abe kept the announcement brief, business leaders welcomed the news, which they hope will make Japanese products more competitive and encourage corporate investment going forward. Despite this, the Topix index ended the week up by only 0.8%, also weighed down by the geopolitical risk emanating from Iraq.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 13 June 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	-0.6%	0.7%	5.5%	22.3%
United Kingdom	MSCI UK NR	GBP	-1.0%	-0.8%	2.3%	12.8%
Continental Europe	MSCI Europe ex UK NR	EUR	-0.2%	0.9%	8.1%	26.2%
Japan	Topix TR	JPY	0.8%	3.6%	-3.5%*	11.8%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.3%	0.9%	6.3%	16.6%
Australia	S&P/ASX 200 TR	AUD	-11.0%	-1.6%	3.0%	17.3%
Global	MSCI World NR	USD	-0.4%	0.8%	5.1%	22.8%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-0.9%	2.8%	1.1%	9.1%
Emerging Asia	MSCI EM Asia NR	USD	0.6%	1.7%	5.7%	15.4%
Emerging Latin America	MSCI EM Latin America NR	USD	1.5%	4.7%	7.8%	9.6%
BRICs	MSCI BRIC NR	USD	2.0%	4.6%	5.1%	16.0%
MENA countries	Dow Jones MENA TR	USD	-1.0%	-1.7%	17.5%	34.9%
South Africa	MSCI EM South Africa NR USD	USD	-0.8%	0.8%	6.6%	11.6%
India	Nifty Fifty TR	USD	-1.8%	3.8%	24.6%	30.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.5%	2.3%	5.7%	13.9%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.0%	-0.7%	2.7%	1.8%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.0%	-1.2%	4.8%	3.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.1%	-0.6%	5.0%	7.0%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.2%	0.5%	5.1%	11.3%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	-0.5%	-1.1%	2.9%	1.9%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	-0.4%	-0.8%	4.1%	6.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	-0.1%	0.5%	6.3%	8.6%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	0.3%	4.5%	6.9%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.6%	-0.1%	3.6%	18.4%
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	0.0%	-0.4%	3.5%	3.9%
Global Government Bonds	JP Morgan Global GBI	USD	-0.1%	-0.5%	3.8%	5.3%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	-0.2%	-0.4%	3.6%	6.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	-0.6%	-0.2%	4.7%	14.8%
Emerging Market Bonds	JP Morgan EMBI+	USD	-0.7%	0.1%	8.7%	9.9%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	-2.2%	-0.4%	15.3%	10.4%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-0.7%	0.5%	8.5%	3.8%
Asia Property Securities	S&P Asia Property 40 NR	USD	0.1%	0.3%	1.5%	7.8%
Global Property Securities	S&P Global Property USD TR	USD	-1.2%	0.2%	9.9%	11.5%
Currencies						
Euro		USD	-0.7%	-0.6%	-1.4%	4.1%
UK Pound Sterling		USD	1.0%	1.3%	2.5%	11.6%
Japanese Yen		USD	0.4%	-0.3%	3.2%	-2.9%
Australian Dollar		USD	0.7%	1.0%	5.4%	2.9%
South African Rand		USD	-0.8%	-1.0%	-1.6%	-7.5%
Swiss Franc		USD	-0.7%	-0.5%	-0.8%	5.0%
Chinese Yuan		USD	0.7%	0.6%	-2.5%	-1.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	1.3%	1.3%	5.7%	8.7%
Agricultural Commodities	RICI Agriculture TR	USD	-0.5%	-1.0%	5.8%	2.2%
Oil	ICE Crude Oil CR	USD	3.3%	1.5%	0.4%	9.2%
Gold	Gold Spot	USD	1.9%	2.2%	5.9%	3.4%
Hedge funds	HFRX Global Hedge Fund	USD	-0.1%*	0.6%*	1.4%*	4.9%*

* Estimate

Source: Bloomberg

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