FP FINANCIAL PARTNERS

momentum

Market Weekly Review

Week ending **18 January 2015**

- Brent crude continues to tumble
- Swiss Central Bank abandons euro peg
- ECB expected to announce QE on Thursday
- US data prints stronger than expected
- Chinese regulators clamp down on margin trading

Global equities fell by 1.9% in a turbulent week for markets. In the US, stocks fell by 3.4% and in Europe equities were up by 2.0% in euro terms. Uncertainties around global growth remain, with the price of oil – a barometer for the global economy – falling once again (-6.5% last week). Despite a modest rally on Friday which brought Brent crude back up above USD 50 a barrel, the asset class is down 16.8% this year alone. Perceived safe havens such as gold (+4.5%) and US Treasuries (+1.4%) benefitted from the uncertainty. UK gilts returned 1.4% in sterling terms, as the 30-year UK government bond yield hit record lows.

In Europe, the Swiss Central Bank (SNB) surprised markets by removing its currency peg versus the euro on Thursday, even though last month it had committed to maintaining the link between the two currencies with “utmost determination”. The Swiss franc rose aggressively on the news, appreciating by 29.1% against the euro, before falling back to end the day at CHF 0.975 – a 19% appreciation against the single European currency. Against the US dollar, the Swiss franc appreciated by 21.4% last week. The SNB had implemented a peg of CHF 1.20 against the euro during the euro currency crisis of 2012, in an effort to protect Swiss exporters against a rapidly appreciating franc. As expectations heighten for full scale Quantitative Easing (QE) in the euro area, however, the Bank judged that it would not be viable to maintain the currency link going forward. The SNB also lowered its deposit rate by 0.50% to take it further into negative territory at -0.75%. The 10-year Swiss government bond yield fell into negative territory for the first time following the announcements.

Speculation that the European Central Bank (ECB) will announce a full-scale government bond buying programme at its meeting on Thursday had already intensified before the SNB’s announcement last week. In a landmark ruling, the European Court of Justice declared that QE, in principle, is legal and does not exceed the ECB’s mandate of maintaining price stability. Reports over the weekend in Der Spiegel and the Financial Times suggest that the bank will announce QE this week but with some significant concessions to Germany. In particular, it looks likely that member state central banks will have to underwrite their own country’s debt, rather than the ECB bearing a collective risk.

The US continued to see positive data prints last week. The December NFIB Small Business Optimism Survey printed 100.4 versus consensus expectations of 98.5, while the January IBD/TIPP Economic Optimism Survey read 51.5 (versus a forecast of 48.7). The JOLTS Job Openings posted its highest reading since January 2001 (4.97mln versus expectations of 4.85mln). Finally, the University of Michigan’s Consumer Sentiment Survey printed 98.2 versus forecasts of 94.1, and up from December’s reading of 93.6. US month-on-month Consumer Price Index (CPI) data printed broadly in line with expectations, with the core inflation number (which excludes food and energy) flat versus an expectation of +0.1%; the headline CPI figure for December read -0.4% as expected.

In China, the Trade Export print surprised on the upside reading +9.7% year-on-year, versus expectations of 6.0%. Chinese equities rallied last week, but at the time of writing, the index has fallen 7.7% to record its biggest one day loss in over five years. The fall comes after Chinese regulators announced an investigation into margin lending by brokerages, the practice of borrowing money to invest in equities.

Source: Bloomberg. Returns in US dollars unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 16 Jan. 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-3.4%	-3.2%	-3.2%	9.4%
United Kingdom	GBP	-1.0%	-0.9%	-0.9%	-1.4%
Continental Europe	EUR	2.0%	2.2%	2.2%	6.4%
Japan	JPY	-0.1%	-2.2%	-2.2%	8.5%
Asia Pacific (ex Japan)	USD	1.3%	0.9%	0.9%	6.1%
Australia	AUD	-0.9%	-1.5%	-1.5%	6.2%
Global	USD	-1.9%	-2.7%	-2.7%	2.1%
Emerging Market Equities					
Emerging Europe	USD	-3.9%	-0.1%	-0.1%	-28.8%
Emerging Asia	USD	1.3%	1.5%	1.5%	9.0%
Emerging Latin America	USD	-2.1%	-3.4%	-3.4%	-13.0%
BRICs	USD	0.6%	2.4%	2.4%	2.2%
MENA countries	USD	1.8%	0.8%	0.8%	1.2%
South Africa	USD	-1.3%	0.0%	0.0%	9.5%
India	USD	4.2%	4.8%	4.8%	35.3%
Global emerging markets	USD	0.1%	0.4%	0.4%	0.7%
Bonds					
US Treasuries	USD	1.4%	2.3%	2.3%	7.9%
US Treasuries (inflation protected)	USD	1.3%	2.1%	2.1%	5.3%
US Corporate (investment grade)	USD	1.2%	2.2%	2.2%	8.8%
US High Yield	USD	-0.1%	0.0%	0.0%	1.6%
UK Gilts	GBP	1.4%	3.3%	3.3%	16.7%
UK Corporate (investment grade)	GBP	1.2%	2.3%	2.3%	13.0%
Euro Government Bonds	EUR	0.7%	1.0%	1.0%	13.3%
Euro Corporate (investment grade)	EUR	0.2%	0.4%	0.4%	8.2%
Euro High Yield	EUR	0.2%	0.4%	0.4%	5.2%
Japanese Government	JPY	0.1%	0.8%	0.8%	5.1%
Australian Government	AUD	0.1%	0.6%	0.6%	11.8%
Global Government Bonds	USD	1.0%	0.8%	0.8%	1.1%
Global Bonds	USD	0.5%	0.1%	0.1%	0.7%
Global Convertible Bonds	USD	-0.8%	-1.5%	-1.5%	-3.3%
Emerging Market Bonds	USD	0.0%	-0.2%	-0.2%	5.3%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 16 Jan. 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	1.8%	6.8%	6.8%	33.6%
Australian Property Securities	AUD	-0.8%	2.6%	2.6%	21.2%
Asia Property Securities	USD	3.4%	2.6%	2.6%	4.2%
Global Property Securities	USD	1.9%	4.1%	4.1%	17.7%
Currencies					
Euro	USD	-1.4%	-3.8%	-3.8%	-14.5%
UK Pound Sterling	USD	0.6%	-2.5%	-2.5%	-7.3%
Japanese Yen	USD	3.6%	3.6%	3.6%	-10.4%
Australian Dollar	USD	1.1%	0.6%	0.6%	-7.8%
South African Rand	USD	0.1%	0.0%	0.0%	-6.0%
Swiss Franc	USD	21.4%	18.6%	18.6%	8.4%
Chinese Yuan	USD	0.4%	0.3%	0.3%	-2.3%
Commodities & Alternatives					
Commodities	USD	-2.8%	-5.8%	-5.8%	-25.4%
Agricultural Commodities	USD	-2.9%	-3.2%	-3.2%	-9.0%
Oil	USD	-6.5%	-16.8%	-16.8%	-55.5%
Gold	USD	4.5%	6.6%	6.6%	1.7%
Hedge funds	USD	-0.6%	-0.6%	-0.6%	-1.6%

* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.
泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
client.services@f-p.hk
www.f-p.hk
A Member of Wealthnet

Important notes