# Weekly Digest

Week ending **21 June 2015**

Greece continues to dominate headlines at the moment. At 18.00hrs GMT today the emergency summit will begin which will likely decide Greece's fate vis-à-vis the European Union. The situation remains tense and extremely fluid. Increasingly we see attention now turning to an outcome that had been, until recently, regarded as highly unlikely; namely a Greek default of its debt and the potential for a subsequent expulsion from the euro area and even, potentially, the EU itself.

Viewers of various European wrangling over the past few years may be unsurprised to see another episode of political jousting going to the wire and, perhaps still anticipate that the various parties will fall into line in an eleventh hour deal. The problem with the Greek debacle, however, is that it is difficult to discern how much is clever management and grandstanding on the part of the Syriza party and how much is what Philip Stephens described in Friday's FT as nothing more than "a toxic mix of arrogance, amateurism and blatant venality".

Greece's economy is small even in the context of the European Union. According to the IMF's World Economic Outlook (Oct 2014) Greece's economic output equates to 1.3% of Europe's GDP. Any impact on broader markets is likely to be based more on sentiment in the short term than anything else since the European financial system also has limited exposure to Greece with most of the debt being held by the Troika (representing the IMF, ECB and European Commission), therefore limiting the genuine contagion risks.

It is clear, therefore, that the depth of the concerns surrounding Greece is not a consequence of the primary risk caused by any potential Greek default, but in fact reflects concerns surrounding secondary impacts. There are a wide range of potential political consequences which are, in varying degrees, unattractive to Europeans. These include the much reported 'contagion effect'. Should Greece default on its debt then attention would turn to the next weakest European debtor, the rationale being that if one member of the EU can become bankrupt, then any of them could. But more worrying for Europe is the prospect of Greece turning to Russia for financial assistance. Mr Putin is already fostering discontent and promoting instability in the Balkan region and a Greek 'defection' would provide a propaganda coup for the Kremlin whilst weakening Europe's presence substantially (both physically and politically) in the region.

As it stands, therefore the stakes remain high for both Athens and Brussels and the potential long term repercussions of Grexit are arguably more formidable than the likely short term market volatility that would result. The need for a mutually acceptable solution and the import of the decision is surely why the negotiations are becoming so protracted, but we must at least take some comfort from the fact that they are still on going as that at least suggests the political players appreciate the gravity of the decision they face

## The **Marketplace**

- Greek crisis continues to weigh on markets
- EU leaders summit seen as 'make-or-break' for Greece
- UK out of deflation
- US Fed Chair dovish, proposing "gradual" rate rises
- Bank of Japan leaves QE programme unchanged

*Market Focus & Data overleaf*

## Market **Focus**

### Global

- Global equities had a muted week, as uncertainty in the euro area depressed returns.
- Developed markets added 0.3% while emerging markets declined by 0.4%.
- UK equities fell by 1.2% in sterling terms, as Europe declined by 1.5% in euro terms. The US posted a gain of 0.8%.
- Global government bonds added 0.8% as investors sought the 'safe-haven' status of German bunds and US Treasuries.

### US

- In the US, markets briefly rallied after dovish comments from Federal Reserve Chair, Janet Yellen, at the Federal Open Market Committee press conference. Ms Yellen emphasised that US interest rates would rise at a "gradual" pace, soothing investor fears ahead of a likely first rate rise in the autumn.
- US inflation numbers were broadly in line with expectations, with the Consumer Price Index (CPI) printing +0.4% month-on-month at the headline level (versus consensus of 0.5%) and the core number reading +0.1% month-on-month versus 0.2% expected.

### Europe

- Attention is firmly focused on Greece this week, as Greek government officials present their latest reform proposal to European leaders, ahead of an EU Leaders Summit on Monday evening.
- There is an acute need for Greece to access further rescue funds as deadlines for debt repayments to its international creditors are fast approaching.
- The European Central Bank (ECB) raised the amount available to troubled Greek banks as part of its Emergency Lending Assistance (ELA) from EUR 84.1 billion to EUR 85.9 billion on Friday, and at time of writing the Financial Times is reporting that the ECB has increased this by a further, unknown amount.
- The German ZEW market confidence survey fell from 65.7 to 62.9 (slightly below consensus forecasts of 63.0).
- In the UK, the headline inflation print read +0.1% year-on-year indicating something of a bounce back from the deflationary print last month.

### Japan

- The Bank of Japan announced no change to its current quantitative easing programme that consists of annual purchases worth JPY 80 trillion (USD 650 billion). In their press release they described a "moderately recovering economy" citing an increase in exports, and noted that "inflation expectations appear to be rising on the whole from a somewhat longer-term perspective".

### Commodities

- Gold added 1.6% while Brent crude oil fell by 1.3%.

*James Klempster, CFA & Scott Gordon*

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

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 19 June 2015 | Month to date | YTD 2015 | 12 months |
| **Developed Market Equities** | | | | | |
| United States | USD | 0.8% | 0.2% | 3.2% | 9.2% |
| United Kingdom | GBP | -1.2% | -3.8% | 4.0% | 1.7% |
| Continental Europe | EUR | -1.5% | -3.7% | 14.5% | 12.3% |
| Japan | JPY | -1.2% | -2.5% | 16.9% | 30.9% |
| Asia Pacific (ex Japan) | USD | -0.5% | -3.2% | 4.2% | 0.6% |
| Australia | AUD | 0.9% | -3.1% | 5.5% | 7.0% |
| Global | USD | 0.3% | -0.2% | 4.9% | 3.4% |
| **Emerging Market Equities** | | | | | |
| Emerging Europe | USD | 0.9% | -2.0% | 6.9% | -26.3% |
| Emerging Asia | USD | -1.2% | -4.3% | 4.8% | 4.1% |
| Emerging Latin America | USD | 1.2% | 2.7% | -4.8% | -23.3% |
| BRICs | USD | -1.2% | -2.4% | 8.8% | 0.8% |
| MENA countries | USD | -0.1% | -0.7% | 6.5% | -4.0% |
| South Africa | USD | 2.3% | 0.2% | -0.2% | -4.5% |
| India | USD | 4.1% | -1.8% | -0.4% | 4.6% |
| Global emerging markets | USD | -0.4% | -2.7% | 2.8% | -5.1% |
| **Bonds** | | | | | |
| US Treasuries | USD | 0.6% | -0.8% | 0.1% | 3.5% |
| US Treasuries (inflation protected) | USD | 1.1% | -0.8% | 0.4% | -0.3% |
| US Corporate (investment grade) | USD | 0.4% | -1.3% | -0.4% | 2.0% |
| US High Yield | USD | 0.1% | -0.9% | 3.2% | 0.3% |
| UK Gilts | GBP | -0.5% | -2.0% | -0.9% | 9.7% |
| UK Corporate (investment grade) | GBP | -0.6% | -2.0% | -0.2% | 7.5% |
| Euro Government Bonds | EUR | 0.2% | -2.4% | -1.2% | 5.0% |
| Euro Corporate (investment grade) | EUR | -0.3% | -1.8% | -1.4% | 2.0% |
| Euro High Yield | EUR | -0.9% | -2.0% | 1.2% | 1.2% |
| Japanese Government | JPY | 0.6% | 0.1% | -0.7% | 2.8% |
| Australian Government | AUD | 0.9% | -0.5% | 1.0% | 7.8% |
| Global Government Bonds | USD | 0.8% | 0.3% | -2.8% | -6.1% |
| Global Bonds | USD | 0.7% | 0.3% | -2.7% | -5.7% |
| Global Convertible Bonds | USD | 0.2% | -0.2% | 2.9% | -3.3% |
| Emerging Market Bonds | USD | 0.5% | -1.6% | 1.3% | -1.0% |

* Estimate

*Source: Bloomberg*

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 19 June 2015 | Month to date | YTD 2015 | 12 months |
| **Property** | | | | | |
| US Property Securities | USD | 1.7% | -0.6% | -2.6% | 7.4% |
| Australian Property Securities | AUD | 0.6% | -3.3% | 6.8% | 17.7% |
| Asia Property Securities | USD | -1.0% | -1.6% | 11.4% | 8.5% |
| Global Property Securities | USD | 0.3% | -1.6% | 1.7% | 4.4% |
| **Currencies** | | | | | |
| Euro | USD | 0.8% | 3.3% | -6.2% | -16.5% |
| UK Pound Sterling | USD | 2.0% | 3.9% | 1.9% | -6.5% |
| Japanese Yen | USD | 0.6% | 1.2% | -2.4% | -16.8% |
| Australian Dollar | USD | 0.5% | 1.7% | -4.9% | -17.3% |
| South African Rand | USD | 1.8% | -0.1% | -4.8% | -12.3% |
| Swiss Franc | USD | 1.2% | 2.4% | 8.3% | -2.6% |
| Chinese Yuan | USD | 0.0% | -0.2% | 0.0% | 0.3% |
| **Commodities & Alternatives** | | | | | |
| Commodities | USD | -0.9% | -1.0% | -3.5% | -29.8% |
| Agricultural Commodities | USD | -0.3% | 1.4% | -9.1% | -20.6% |
| Oil | USD | -1.3% | -3.9% | 9.9% | -45.2% |
| Gold | USD | 1.6% | 0.8% | 1.3% | -6.1% |
| Hedge funds | USD | -0.1% | -0.3% | 2.3% | -0.1% |

* Estimate

*Source: Bloomberg*

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## Important notes