FINANCIAL PARTNERS

Weekly Digest

Week ending **21 February 2016**

Boris baulks boss and backs Brexit

The headlines over the weekend were dominated with the deal for Britain that David Cameron secured with Brussels and the divisions that the deal is causing, not only within his own party, but even within the cabinet. The Prime Minister believes he has secured a "special status" for Britain within the 28 country bloc and as a consequence he believes that Britain should vote to remain in the EU when faced with an in-out referendum on Thursday 23 June. Boris Johnson caused a stir as he has come out in favour of a British exit (Brexit) from the Union. He is arguably the biggest political name to do so and seemingly has one eye on replacing David Cameron as PM should the UK vote to leave the EU.

The market's response has been mixed. At the time of writing, sterling has weakened the most in a year versus USD, which seems to suggest the market has become more anxious about the prospect of Brexit, but the UK ten-year gilt has barely moved. Conversely the UK stock market is up in line with other major markets, which suggests that the market is still reasonably sanguine about the news. This is understandable given there are still four months until the referendum and, truth be told, there is little more known on the matter this week than last. Over the coming months expect the market to continue to be buffeted by pro or anti EU sentiment as it ebbs and flows in opinion polls.

The still unanswered question is what Brexit means in reality because the longer term implications for business are still unknown. Were Britain to exit then it would need to negotiate effective trading relationships with the continent to ensure Britain's competitiveness in the region.

The problem with a vote for Brexit is these sorts of issues are, by definition, unknown until the decision is made and implemented. Voting in favour of an unknown when the status quo is acceptable is therefore emotionally difficult. Swing factors such as the prevailing economic winds and the tone of news flow relating to immigration are going to be extraordinarily important in the build up to the referendum. Interestingly, in Monday's Telegraph column dated the 22nd February 2016 Boris seems to imply that if we voted 'no' that he would use that as a platform to return to the EU for further negotiation with a view to a second referendum rather than an immediate severing of ties. If that were to be the case, the flip flopping would be extremely destabilising for Europe generally. The European Commission is in an undoubtedly difficult position. It would prefer the UK to stay as an exit raises the prospect of other abdications, but at the same time the more concessions offered to Britain the greater the EU's status becomes undermined: as Boris noted "this is the key point – the EU acquires supremacy in any field that it touches".

While the politics of Brexit is compelling, investors must remain alert during periods of uncertainty such as this for valuation opportunities that often emerge. Given the recent pressure on global stocks, any further nervousness should provide a very attractive entry point for long-term investors.

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

The **Marketplace**

- UK's In/Out EU referendum set for 23 June
- Chinese yuan appreciates most since 2005
- Draghi states that ECB "will not hesitate to act"
- Oil price remains volatile
- Record daily gain for Japan equities

Market **Focus**

Global

- On the back of weak economic data from Q4 2015, the TOPIX experienced its largest daily gain since 2008, up 8.0% on Monday. Despite some movement in the subsequent days, Japanese equities finished the week still up 8.0%: the first weekly gain this month.

UK

- David Cameron negotiated with EU leaders over the UK's membership of the European Union last week, aiming to secure concessions ahead of a planned In/Out referendum. The details of the negotiations were announced to MPs on Monday afternoon the 22nd February 2016, with the public heading to the polls on 23 June.
- Mayor of London, Boris Johnson, announced over the weekend his intention to campaign for Britain's exit, and in doing so becoming the biggest name in UK politics so far to pit himself against Cameron's "stay" campaign. The UK market opened up 0.9% on Monday morning the 22nd February 2016, seemingly unaffected by the announcements, while sterling has fallen significantly against the US dollar.

Europe

- President of the European Central Bank, Mario Draghi, spoke of the need to closely monitor the banking sector following the recent turmoil, and to be cognisant of continued declines in energy prices and the effect this has on inflation expectations. In his words, "if either of these two factors entails downward risks to price stability, we will not hesitate to act." On the back of this, the Euro Stoxx 600 finished Monday up 3.0%, before adding 4.5% over the week.

China

- The Chinese authorities set the renminbi fix 0.3% higher at the start of the week, suggesting that recent volatility in global markets has led to a divergence from the People's Bank of China's longer-term goal of a free-floating yuan. The currency finished the day 1.1% stronger against the US dollar, the greatest strengthening since July 2005.
- The currency movements came after China's exports and imports both fell during January, 11.2% and 18.8% year-on-year respectively in US dollar terms. As a consequence the trade surplus improved by 5.3%.

Commodities

- Oil had another volatile week. Talks in Doha between Saudi Arabia, Russia, Qatar and Venezuela resulted in an agreement to freeze production; a combination of the limited number of nations involved, and prior hopes for a cut to production, saw oil fall. Iran's endorsement of this deal drove the price up however, before a higher than expected US inventories number depressed it once more. Oil ended the week down just 1.0%.

James Klempster, CFA & Scott Gordon

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

Asset Class/Region	Currency	Currency returns			
		Week ending 19 Feb. 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	2.9%	-1.0%	-5.9%	-7.2%
United Kingdom	GBP	4.5%	-1.7%	-4.0%	-10.8%
Continental Europe	EUR	4.5%	-4.9%	-11.0%	-12.0%
Japan	JPY	8.0%	-9.8%	-16.5%	-11.9%
Asia Pacific (ex Japan)	USD	4.3%	-0.2%	-8.0%	-19.8%
Australia	AUD	4.3%	-0.6%	-6.1%	-12.0%
Global	USD	3.5%	-1.4%	-7.3%	-10.9%
Emerging Market Equities					
Emerging Europe	USD	3.9%	-2.2%	-5.0%	-24.6%
Emerging Asia	USD	4.3%	-0.4%	-7.7%	-19.9%
Emerging Latin America	USD	4.0%	0.7%	-3.9%	-31.8%
BRICs	USD	5.7%	-1.6%	-11.4%	-27.0%
MENA countries	USD	3.1%	3.2%	-8.5%	-26.0%
South Africa	USD	4.3%	1.6%	-2.2%	-30.8%
India	USD	2.7%	-5.5%	-12.3%	-25.6%
Global emerging markets	USD	4.2%	-0.1%	-6.6%	-23.0%
Bonds					
US Treasuries	USD	-0.1%	1.0%	3.3%	3.7%
US Treasuries (inflation protected)	USD	-0.2%	-0.1%	1.5%	-0.7%
US Corporate (investment grade)	USD	0.5%	0.2%	0.6%	-1.2%
US High Yield	USD	1.5%	-1.6%	-3.1%	-9.4%
UK Gilts	GBP	-0.2%	1.1%	5.0%	5.8%
UK Corporate (investment grade)	GBP	0.0%	-0.7%	0.4%	-0.2%
Euro Government Bonds	EUR	0.5%	0.2%	2.1%	1.7%
Euro Corporate (investment grade)	EUR	0.6%	-0.1%	0.5%	-1.3%
Euro High Yield	EUR	1.4%	-1.4%	-2.6%	-3.7%
Japanese Government	JPY	0.7%	0.8%	2.3%	4.6%
Australian Government	AUD	0.0%	1.2%	2.6%	3.2%
Global Government Bonds	USD	-0.2%	3.1%	4.7%	3.1%
Global Bonds	USD	-0.1%	2.3%	3.4%	1.3%
Global Convertible Bonds	USD	1.6%	-0.1%	-4.6%	-6.1%
Emerging Market Bonds	USD	1.4%	0.8%	1.5%	2.5%

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 19 Feb. 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	4.3%	-2.2%	-5.5%	-7.3%
Australian Property Securities	AUD	2.8%	1.9%	2.9%	2.1%
Asia Property Securities	USD	7.7%	1.4%	-7.1%	-9.8%
Global Property Securities	USD	5.0%	0.1%	-5.0%	-8.9%
Currencies					
Euro	USD	-1.1%	2.8%	2.5%	-2.1%
UK Pound Sterling	USD	-0.7%	1.1%	-2.2%	-6.5%
Japanese Yen	USD	0.6%	7.6%	6.8%	5.6%
Australian Dollar	USD	0.6%	1.0%	-1.8%	-8.2%
South African Rand	USD	3.1%	3.2%	0.5%	-24.2%
Swiss Franc	USD	-1.2%	3.3%	1.3%	-4.0%
Chinese Yuan	USD	0.8%	0.8%	-0.4%	-4.0%
Commodities & Alternatives					
Commodities	USD	-0.5%	-3.4%	-7.2%	-30.2%
Agricultural Commodities	USD	0.7%	-1.4%	-3.0%	-13.8%
Oil	USD	-1.0%	-5.0%	-11.5%	-45.2%
Gold	USD	-0.9%	9.7%	15.5%	1.6%
Hedge funds	USD	1.1%	-1.0%	-3.9%	-8.3%

Source: Bloomberg

FP FINANCIAL PARTNERS

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

Important notes