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# Weekly Digest

Week ending **28 February 2016**

## G20 doesn't leap into action

Despite being hosted in Shanghai, the weekend's G20 meeting did little to buoy confidence surrounding the Chinese economy; as a result the Shanghai market fell 2.9% lower. This resulted in the bourse finishing February with a return of -1.8%, which comes hot on the heels of January's 23% drop. The Chinese currency also continues to weaken with today (the 29th February) representing the seventh consecutive day of falls. China and their contemporaries in the Emerging Markets index have come under pressure as a result of three key factors, falling commodity prices, insipid corporate profits and a relentlessly strengthening US dollar. The consensus is not totally negative on these markets, however. While the emerging equity market is under pressure, falling close to 5% in local currency terms over six months, the local bond markets have produced single digit returns over the same period, indicating a rotation from local equity to safer haven assets such as government debt. Other safe havens such as Japanese yen and gold have done well year to date. Furthermore, Bloomberg reports that while the Chinese stock market is under pressure, investors are finding other outlets for their capital. For example, despite negative headlines relating to ghost towns as a consequence of over construction, house prices in the richest cities continue to prosper: those in Shenzhen jumped 4% in January "taking gains over the past 12 months to 52 percent", while prices in Shanghai are up over 18% over the same period. Meanwhile the Chinese yuan continues to take the strain as China lowers the reference exchange rate to reduce the impact of a strengthening of the US dollar on China's exports.

Turning to the G20 meeting, most commentators seem to be of the view that the meeting disappointed: it failed to deliver the concerted effort deemed necessary to lift the emerging markets out of their current fug. This is despite the fact that over the weekend the group issued a communique which was open to the prospect of structural reforms necessary to strengthen the global economy; "The global recovery continues, but it remains uneven and falls short of our ambition for strong, sustainable and balance growth…Monetary policies will continue to support economic activity and ensure price stability, consistent with central banks' mandates, but monetary policy alone cannot lead to balanced growth." The final sentence is an interesting admission that the sole use of central bank policy tools is unlikely to be sufficient, which is confirmed: "We will use all policy tools – monetary, fiscal and structural – individually and collectively to achieve these goals…faster progress on structural reforms should bolster potential growth in the medium term and make our economies more innovative, flexible and resilient.". The difficulty when it comes to implementing reforms of this sort on such a wide scale is the multitude of slightly different and often competing interests of the various involved parties. So while the G20 meeting may have been short on action it was not short of vision, but it would take a monumental effort to create a consensus amongst such disparate economies and would likely require all concerned finding their economies under extreme duress.

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

## The **Marketplace**

- Mixed economic data out of the US
- Sterling slumps to 7-year low
- Euro area deflation returns
- Chinese stocks fall 6.1% on Thursday
- PBoC: monetary policy not yet exhausted

## Market **Focus**

### US

- On Tuesday (the 23rd February), the US consumer confidence index for February fell by 5.6 points (a 5.7% decline on the January reading), while a drop of just 0.6 points was expected. In contrast, the Personal Consumption Expenditure (PCE) deflator – the Federal Reserve's target measure for inflation – was released on Friday (the 26th February), returning to positive territory in January after turning negative in December: 0.1% month-on-month, versus 0.0% expected.

### UK

- The pound fell below US$1.40 on Wednesday (the 24th February) for the first time since early 2009. This recent weakness was initiated by uncertainty surrounding the upcoming, and now confirmed, EU referendum. Sterling finished the week just below US$1.39.

### Europe

- Inflation data out of Germany and France failed to meet expectations, with the Harmonised Index of Consumer Prices (HICP) – the European Central Bank's standardised measure of inflation – falling 0.2% and 0.1% year-on-year respectively, while analysts were predicting modest price increases. Today (the 29th February) the reading for the euro area as a whole was announced, it too falling 0.2% in January.

### China

- The CSI 300 stock index fell 6.1% on Thursday (the 25th February) as growth concerns continued to worry markets. The index retreated 2.3% during February, adding to January's substantial loss to be down 22.9% year to date.
- The Governor of the Peoples Bank of China (PBoC) , Zhou Xiaochuan, reacted to these falls and announced that there was still "some monetary policy space and multiple policy instruments" available were further risks to the economy to emerge. This boosted Chinese and wider Asian stocks marginally but was insufficient to prevent the Chinese market falling for the second consecutive month.

*James Klempster, CFA & Jonathan Adamson*

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

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| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 26 Feb. 2016 | Month to date | YTD 2016 | 12 months |
| **Developed Market Equities** | | | | | |
| United States | USD | 1.6% | 0.6% | -4.4% | -6.3% |
| United Kingdom | GBP | 2.6% | 0.8% | -1.5% | -9.4% |
| Continental Europe | EUR | 1.9% | -3.1% | -9.4% | -12.5% |
| Japan | JPY | 1.5% | -8.4% | -15.2% | -12.2% |
| Asia Pacific (ex Japan) | USD | -0.2% | -0.4% | -8.2% | -20.7% |
| Australia | AUD | -1.3% | -1.9% | -7.3% | -13.5% |
| Global | USD | 1.1% | -0.3% | -6.3% | -10.6% |
| **Emerging Market Equities** | | | | | |
| Emerging Europe | USD | 2.6% | 0.3% | -2.6% | -22.3% |
| Emerging Asia | USD | -0.3% | -0.8% | -8.0% | -21.0% |
| Emerging Latin America | USD | 1.5% | 2.2% | -2.5% | -31.0% |
| BRICs | USD | -0.1% | -1.7% | -11.5% | -27.4% |
| MENA countries | USD | 0.9% | 4.1% | -7.7% | -25.3% |
| South Africa | USD | -3.3% | -1.8% | -5.4% | -34.3% |
| India | USD | -3.0% | -8.4% | -14.9% | -26.6% |
| Global emerging markets | USD | -0.1% | -0.2% | -6.7% | -23.7% |
| **Bonds** | | | | | |
| US Treasuries | USD | -0.2% | 0.9% | 3.1% | 3.0% |
| US Treasuries (inflation protected) | USD | 0.9% | 0.8% | 2.3% | -0.9% |
| US Corporate (investment grade) | USD | 0.3% | 0.6% | 0.9% | -1.7% |
| US High Yield | USD | 1.6% | 0.0% | -1.6% | -8.7% |
| UK Gilts | GBP | -0.3% | 0.7% | 4.6% | 4.4% |
| UK Corporate (investment grade) | GBP | 0.0% | -0.7% | 0.5% | -1.1% |
| Euro Government Bonds | EUR | 0.5% | 0.6% | 2.6% | 1.1% |
| Euro Corporate (investment grade) | EUR | 0.4% | 0.3% | 0.9% | -1.2% |
| Euro High Yield | EUR | 0.8% | -0.7% | -1.9% | -3.8% |
| Japanese Government | JPY | 1.1% | 1.9% | 3.4% | 5.5% |
| Australian Government | AUD | 0.3% | 1.5% | 3.0% | 3.0% |
| Global Government Bonds | USD | -0.5% | 2.6% | 4.1% | 2.4% |
| Global Bonds | USD | -0.5% | 1.8% | 2.9% | 0.8% |
| Global Convertible Bonds | USD | 0.4% | 0.3% | -4.2% | -5.9% |
| Emerging Market Bonds | USD | 0.8% | 1.6% | 2.3% | 2.8% |

*Source: Bloomberg*

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 26 Feb. 2016 | Month to date | YTD 2016 | 12 months |
| **Property** | | | | | |
| US Property Securities | USD | 2.0% | -0.2% | -3.5% | -4.2% |
| Australian Property Securities | AUD | 0.6% | 2.5% | 3.5% | 2.6% |
| Asia Property Securities | USD | 0.8% | 2.2% | -6.3% | -9.7% |
| Global Property Securities | USD | 0.9% | 1.1% | -4.1% | -7.9% |
| **Currencies** | | | | | |
| Euro | USD | -1.8% | 0.9% | 0.7% | -2.4% |
| UK Pound Sterling | USD | -3.7% | -2.6% | -5.8% | -9.9% |
| Japanese Yen | USD | -1.2% | 6.3% | 5.5% | 4.8% |
| Australian Dollar | USD | -0.4% | 0.6% | -2.2% | -8.6% |
| South African Rand | USD | -4.7% | -1.7% | -4.2% | -28.6% |
| Swiss Franc | USD | -0.8% | 2.6% | 0.5% | -4.5% |
| Chinese Yuan | USD | -0.3% | 0.5% | -0.7% | -4.3% |
| **Commodities & Alternatives** | | | | | |
| Commodities | USD | 0.6% | -2.8% | -6.6% | -28.5% |
| Agricultural Commodities | USD | -1.5% | -2.9% | -4.5% | -13.9% |
| Oil | USD | 6.3% | 1.0% | -5.8% | -41.5% |
| Gold | USD | -0.3% | 9.3% | 15.2% | 1.1% |
| Hedge funds | USD | 0.6% | -0.5% | -3.4% | -8.2% |

* 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

## Important notes