Weekly Digest

Week ending **7 June 2015**

Last week, having confirmed that the European Central Bank's (ECB) Quantitative Easing (QE) programme will run its course, Mario Draghi sparked Europe's recent bond market jitters by stating that debt markets should "get used" to volatility in an era of low interest rates. Mario appeared to be attempting to prepare the bond markets for a world where the central bank's role is far less prominent than it is today.

For the foreseeable future, however, Mario Draghi will continue to walk a tightrope between allowing borrowing costs to fluctuate but being ready to restrain interest rates should they pose a threat to growth. The steep increase in bond yields of late is a form of policy tightening and as a result the ECB will be watching these moves carefully. The spike up in German 10-year yields to circa 0.88% from their 0.08% lows of 20 April means that they are now eleven times higher than they only were weeks ago. This is a remarkable move and rather than being a symptom of high yields today, it serves to underline just how stretched valuations were in April. While a move of the same order of magnitude is conceivable from here, the chances of it happening seem low.

Nevertheless the yields available on sovereign bonds such as these remain thoroughly unattractive in all but an awful economic environment. It is clear that the euro area remains committed to its extraordinary monetary policy but Mario Draghi did surprise the market while making a statement which, on the face of it, is self-evident. The market is, perhaps, getting too accustomed to the official sector becalming markets almost on demand when jitters take hold. This is another reason why it is important to look for assets that are cheap relative to their intrinsic value, rather than relying on technical factors such as QE flows to swim against the tide of fundamentals.

The **Marketplace**

- Bond markets remain volatile
- OPEC keeps output at current levels
- Greece delays debt repayment to end of June
- Inflation returns to Europe
- US sees steady jobs growth

Market Focus & Data overleaf

Market **Focus**

UK

- Global equities fell by 1.0% last week, as yields in Government bond markets continued to spike. UK equities lost 2.5% in sterling terms, while Europe lost 2.2% in euro terms, and equities in the US declined by 0.7%.
- US Treasuries fell by 1.5% and European government bonds lost 2.2% in euro terms. Emerging market bonds were down by 1.6% over the week. Investment grade bonds also fell, with US corporates falling by 1.8%, their European counterparts falling by 1.3% in euro terms, and UK corporate bonds falling by 1.9% in sterling terms.
- The euro rallied against the US dollar (+1.2%) following the rise in German Bund yields, while the yen continued to fall against the greenback (-1.2%) to reach a 13-year low.

US

- On Friday, the latest non-farm payrolls number showed a continuation of steady job growth in the US. The print came in at 280,000 above expectations of 226,000, and resulted in a further rise in Treasury yields.
- The International Monetary Fund (IMF) suggested the US Federal Reserve should not hike rates until mid-2016 last week, while many expect a (small) hike by the end of this year. The IMF suggested that the US central bank should hold off until the US saw a more pronounced uptick in price and wage inflation.

Europe

- As expected, Greece opted to bundle its June debt repayments into one collective settlement at the end of the month. The Greek government invoked an obscure clause in its agreement with the International Monetary Fund (IMF), not used since Zambia bundled its debts in the mid-1980s. Meanwhile, disagreements on reforms continue, with Greek Prime Minister Alexis Tsipras describing the latest European proposal as "absurd".
- The flash estimate of the European Consumer Price Index (CPI) rose by 0.3% year-on-year in May (versus expectations of +0.2%) indicating a move away from the deflationary environment seen over the past few months.

China

- In China, exports fell by 2.8% year-on-year in May, ahead of expectations of -4.0% but marking the third consecutive month of negative numbers. Imports declined significantly below expectations, printing -18.1% year-on-year versus -9.6% expected.

Commodities

- The price of Brent crude fell by 3.4% over a volatile week for oil prices, as OPEC decided not to adjust output levels at their semi-annual meeting in Vienna.

James Klempster, CFA & Scott Gordon

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

Asset Class/Region	Currency	Currency returns			
		Week ending 5 June 2015	Month to date	YTD 2015	12 months
Developed Market Equities					
United States	USD	-0.7%	-0.7%	2.3%	9.4%
United Kingdom	GBP	-2.5%	-2.5%	5.4%	3.1%
Continental Europe	EUR	-2.2%	-2.2%	16.3%	15.1%
Japan	JPY	-0.3%	-0.3%	19.5%	37.9%
Asia Pacific (ex Japan)	USD	-2.5%	-2.5%	4.9%	2.1%
Australia	AUD	-4.8%	-4.8%	3.6%	5.7%
Global	USD	-1.0%	-1.0%	4.0%	3.9%
Emerging Market Equities					
Emerging Europe	USD	-3.8%	-3.8%	4.9%	-26.6%
Emerging Asia	USD	-2.1%	-2.1%	7.2%	7.1%
Emerging Latin America	USD	-0.5%	-0.5%	-7.8%	-21.7%
BRICs	USD	-1.2%	-1.2%	10.2%	5.4%
MENA countries	USD	0.5%	0.5%	7.7%	-6.2%
South Africa	USD	-4.3%	-4.3%	-4.7%	-5.3%
India	USD	-4.2%	-4.2%	-2.8%	1.3%
Global emerging markets	USD	-2.1%	-2.1%	3.5%	-2.8%
Bonds					
US Treasuries	USD	-1.5%	-1.5%	-0.6%	2.5%
US Treasuries (inflation protected)	USD	-1.9%	-1.9%	-0.7%	-1.0%
US Corporate (investment grade)	USD	-1.8%	-1.8%	-0.8%	1.6%
US High Yield	USD	-0.7%	-0.7%	3.3%	1.1%
UK Gilts	GBP	-2.2%	-2.2%	-1.1%	9.2%
UK Corporate (investment grade)	GBP	-1.9%	-1.9%	-0.2%	7.5%
Euro Government Bonds	EUR	-2.2%	-2.2%	-1.0%	5.9%
Euro Corporate (investment grade)	EUR	-1.3%	-1.3%	-0.9%	3.1%
Euro High Yield	EUR	-0.6%	-0.6%	2.7%	3.4%
Japanese Government	JPY	-0.6%	-0.6%	-1.3%	2.3%
Australian Government	AUD	-1.7%	-1.7%	-0.1%	7.3%
Global Government Bonds	USD	-1.5%	-1.5%	-4.5%	-7.4%
Global Bonds	USD	-1.2%	-1.2%	-4.1%	-6.7%
Global Convertible Bonds	USD	-0.5%	-0.5%	2.6%	-3.3%
Emerging Market Bonds	USD	-1.6%	-1.6%	1.2%	-0.9%

* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 5 June 2015	Month to date	YTD 2015	12 months
Property					
US Property Securities	USD	-2.5%	-2.5%	-4.5%	3.9%
Australian Property Securities	AUD	-4.5%	-4.5%	5.5%	16.5%
Asia Property Securities	USD	-0.7%	-0.7%	12.4%	10.1%
Global Property Securities	USD	-2.4%	-2.4%	0.9%	3.3%
Currencies					
Euro	USD	1.2%	1.2%	-8.1%	-18.3%
UK Pound Sterling	USD	-0.1%	-0.1%	-2.0%	-8.8%
Japanese Yen	USD	-1.2%	-1.2%	-4.7%	-17.9%
Australian Dollar	USD	-0.3%	-0.3%	-6.8%	-17.9%
South African Rand	USD	-3.4%	-3.4%	-8.0%	-14.5%
Swiss Franc	USD	0.1%	0.1%	5.9%	-4.5%
Chinese Yuan	USD	0.0%	0.0%	0.1%	1.0%
Commodities & Alternatives					
Commodities	USD	-0.4%	-0.4%	-2.9%	-27.3%
Agricultural Commodities	USD	2.9%	2.9%	-7.7%	-18.4%
Oil	USD	-3.4%	-3.4%	10.4%	-41.8%
Gold	USD	-1.6%	-1.6%	-1.1%	-5.8%
Hedge funds	USD	-0.2%	-0.2%	2.4%	0.5%

* 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

This communication is issued by Financial Partners Limited 泛柏資產管理有限公司 and/or a Financial Partners' related company (collectively, and individually "FP") solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of FP. Opinions or views of any FP company expressed in this communication may differ from those of other departments or companies within FP, including any opinions or views expressed in any research issued by FP. FP may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. FP has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advice to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by FP.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or returns (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by FP are not the only ones that might reasonably have been selected and therefore FP does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of FP, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. FP therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communications carried within the FP system may be monitored.