

# Market Weekly Review

Week ending **10 May 2015**

- European government bond yields spike
- Conservative party wins majority in UK election
- US sees rebound in jobs numbers
- China cuts interest rates for third time in six months
- Oil prices fall after hitting year-to-date highs

European government bonds continued to see startlingly large moves in their yields last week, posting a loss of -1.4% in euro terms. According to Deutsche Bank, the lack of liquidity may be behind some of the swings as regulators have clamped down on Investment Banks' proprietary trading post the financial crisis. The German bank added that fundamentally little had changed in the euro area to warrant such extreme moves. German 10-year bunds had been trading at record lows of 0.05% three weeks ago; last week the benchmark bonds traded at 0.8% intra-day. European equities also had a turbulent week, with markets falling by circa three percent mid-week, but recovering and posting a 1.1% return in euro terms by Friday. Anxiety about Greece continues to affect sentiment, with the Eurogroup of finance ministers set to meet this Monday afternoon.

In the UK, the general election produced a clear winner last week, as David Cameron's Conservative party secured a majority in the House of Commons, confounding many pollsters. Polls had predicted a hung parliament, with the Labour and Conservative parties polling neck and neck for months. Ultimately the Labour party was not able to convince the electorate in England, and a surge in support for the Scottish National Party (SNP) resulted in Labour losing all but one of the 41 seats it had won north of the border in 2010. The pound rallied on the news and ended the week +2.0% against the US dollar. UK equities added 0.9% in sterling terms.

Across the Atlantic, the latest US jobs report showed a solid increase in non-farm payrolls (223,000 in April and broadly in line with expectations of 228,000) following a disappointing first quarter for job growth. The unemployment rate fell to 5.4% in April from 5.5% in March. The strong data dampened expectations that the US Federal Reserve might postpone its first interest rate rise even further, despite the strong dollar starting to hamper exports. The greenback was down by 0.5% versus a basket of major currencies last week, but has risen 17.9% over the past 12 months.

Over the weekend, the People's Bank of China cut interest rates for the third time in six months, reducing both the lending and deposit rates by 0.25 percentage points. The bank also increased its deposit rate ratio from 1.3x to 1.5x, allowing banks to pay out more interest to savers. This slight interest rate liberalisation was welcomed by markets. Recent interest rate reductions have fuelled the domestic equity market, but according to the Wall Street Journal loan costs still remain elevated which is putting pressure on indebted companies and local governments. Demand for new loans also remains weak. Inflation data disappointed slightly over the weekend, printing +1.5% year-on-year versus expectations of +1.6%. China's Producer Price Index (PPI) also remains low, and printed -4.6% versus expectations of -4.5%.

Last week saw the price of Brent crude fall by -1.6%, with the price declining from intraday highs of \$69.60 a barrel on Wednesday (a year-to-date high) to lows of \$64.20 on Friday. At the time of writing, the price of a barrel of Brent Crude is \$65 per barrel, significantly up from the lows of January when a barrel was priced at \$45.20. US crude oil inventories fell for the first time since January last week, according the Energy Information Administration (EIA) helping the price to rally. Recent dollar weakness has also aided the price of oil.

Asset Class/Region	Currency	Currency returns			
		Week ending 8 May 2015	Month to date	YTD 2015	12 months
<b>Developed Market Equities</b>					
United States	USD	0.4%	1.5%	3.3%	14.4%
United Kingdom	GBP	0.9%	1.2%	8.8%	6.5%
Continental Europe	EUR	1.1%	1.1%	18.9%	20.6%
Japan	JPY	0.1%	-0.3%	13.7%	39.4%
Asia Pacific (ex Japan)	USD	-2.0%	-2.0%	8.3%	8.9%
Australia	AUD	-2.9%	-2.5%	5.7%	7.7%
Global	USD	0.5%	1.0%	5.8%	8.4%
<b>Emerging Market Equities</b>					
Emerging Europe	USD	2.1%	1.7%	16.3%	-14.1%
Emerging Asia	USD	-2.0%	-2.0%	10.3%	15.6%
Emerging Latin America	USD	2.7%	2.1%	1.8%	-16.0%
BRICs	USD	-0.9%	-1.0%	15.4%	15.1%
MENA countries	USD	-0.9%	-0.9%	8.2%	-5.2%
South Africa	USD	-2.2%	-2.8%	5.6%	2.8%
India	USD	0.0%	0.0%	-1.6%	17.1%
Global emerging markets	USD	-1.0%	-1.2%	8.8%	5.0%
<b>Bonds</b>					
US Treasuries	USD	-0.2%	-0.6%	0.6%	3.9%
US Treasuries (inflation protected)	USD	-0.7%	-1.1%	1.0%	1.0%
US Corporate (investment grade)	USD	-0.3%	-0.8%	0.8%	3.5%
US High Yield	USD	0.1%	0.1%	3.9%	2.4%
UK Gilts	GBP	0.2%	0.2%	0.8%	11.3%
UK Corporate (investment grade)	GBP	0.0%	0.1%	1.4%	9.5%
Euro Government Bonds	EUR	-1.4%	-1.3%	1.4%	9.0%
Euro Corporate (investment grade)	EUR	-0.4%	-0.4%	0.4%	5.0%
Euro High Yield	EUR	-0.4%	-0.4%	3.0%	4.3%
Japanese Government	JPY	-0.4%	-0.7%	-0.8%	2.8%
Australian Government	AUD	-0.9%	-0.9%	0.7%	8.9%
Global Government Bonds	USD	-0.3%	-0.7%	-1.7%	-5.2%
Global Bonds	USD	-0.3%	-0.5%	-1.7%	-4.8%
Global Convertible Bonds	USD	-0.1%	-0.1%	3.9%	-1.5%
Emerging Market Bonds	USD	0.4%	0.2%	3.6%	2.4%

\* Estimate

Source: Bloomberg

Asset Class/Region	Currency	Currency returns			
		Week ending 8 May 2015	Month to date	YTD 2015	12 months
<b>Property</b>					
US Property Securities	USD	0.6%	1.4%	-0.3%	11.6%
Australian Property Securities	AUD	-0.7%	-0.4%	6.8%	19.6%
Asia Property Securities	USD	-1.3%	-1.9%	11.1%	16.6%
Global Property Securities	USD	0.0%	0.0%	5.0%	10.9%
<b>Currencies</b>					
Euro	USD	0.0%	-0.2%	-7.4%	-19.1%
UK Pound Sterling	USD	2.0%	0.7%	-0.8%	-8.7%
Japanese Yen	USD	0.0%	0.0%	0.0%	-15.3%
Australian Dollar	USD	1.0%	0.3%	-3.0%	-15.4%
South African Rand	USD	1.1%	-0.1%	-3.0%	-13.4%
Swiss Franc	USD	0.1%	0.1%	6.7%	-5.5%
Chinese Yuan	USD	0.1%	-0.1%	0.0%	0.3%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	0.2%	-0.2%	-0.3%	-26.6%
Agricultural Commodities	USD	0.7%	0.1%	-8.6%	-25.0%
Oil	USD	-1.6%	-2.1%	14.1%	-39.5%
Gold	USD	0.8%	0.3%	0.3%	-7.8%
Hedge funds	USD	-0.4%	-0.4%	1.9%	1.2%

\* Estimate

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