Friday, November 2nd 2012

Yesterday was the first day of November and it was a good day for equities. Historically, November has been the best month in an election year for the DJIA and S&P 500.

We entered this week under the threat of Hurricane Sandy and watched its destructive wrath on the Atlantic North East. New York's Mayor Bloomberg closed the subway and bridges and the stock markets were closed for two days, a first ever for weather reasons. The damage appeared extensive and we are seeing estimates of $50Bn in costs of which $20Bn in damages and $30Bn in lost business. The stock market stepped over this amount without any significant penalties to the insurance sector.

Sandy clearly made October 2012 a month to remember… We did enter the month with apprehension, as in the past it had often been a month with damages. Well, the damages were not in the markets, albeit that it was a down-month for many indices.

The USD started the month on an uptick, Gold on a downtick and oil falters some more trading now at $86.30 per barrel of WTI. Interest rates are steady with a downwards bias at the longer end, ten year bunds trading t 1.45% and US Notes at 1.75% Overall, quite pleasing stability across most markets.

Sandy's noise overshadowed all other world events; even the Presidential elections were displaced from the headlines as we watched waves batter Atlantic City and gushes of sea-waters spilling into the NY Subway tunnels.

In Syria the promised cease fire didn't hold for an hour, the massacres continue in silence.
Israel and Iran are still barking at each other but even the oil prices seem to turn a deaf-ear to these ramblings. A significant if strangely silent event did happen- A Sudanese missile and armament factory was blown-up. It is said to have been built and operated by Iran, producing bad stuff which they then gave to Hezbollah and Hamas. Rumor has it that Israeli jets with heavy bombs did this, as a practice-run for an eventual strike in Iran. No one talks of this; No Sudanese complains to the UN, no Iranian denials of involvement, no Israeli claims of responsibility. And oil prices sink a little further.

There are just a few more days until the US elections. Polls are showing a dead heat between the two candidates with an Electoral College advantage to the incumbent. The good news here is that headline space will be freed for other subjects. Some say that a Romney win will be good for equities; others say that Obama is better for the economy. Our worry is centered on Romney's intent to replace Bernanke if he is elected. That could cause much disruption in the fixed income markets and introduce new uncertainties' into a world which is clearly struggling to find a clear horizon.

We go into the weekend thinking that in the end, everything will be all right. If everything will not be all right, rejoice, it therefore isn't the end...

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Currencies

- EURUSD remained in a tight range of 1.2850 - 1.3020 during the week. The pair saw weakness at the start of the week as the EUR slipped on concerns over whether Greece can agree to a deal on austerity, as well as no sign of when Spain might request aid. The EUR later regained some strength and tested the week's highs against the USD on the back of a strong Italian debt auction and the Spanish economy contracting less than expected. The Euro finally resumed its downturn (1.2850 currently) as a Greek court deemed the country's pension reform unconstitutional, and the USD rallied on the back of strong employment figures.
- EURCHF maintained its tight range of 1.2055 - 1.2096, seeing some gradual weakness throughout the week. USDCHF therefore mirrored the EURUSD moves, ranging 0.9280 – 0.9380. The SNB released on Wednesday its foreign-exchange holdings showing the EURCHF ceiling is likely to hold. The central bank's EUR holding was reduced to 48% from 60% during Q3 following worries of market participants of the amount of EURs the bank has been accumulating.
- The Yen weakened for the week, starting the week at 79.62 against the USD and falling to 80.65. The USDJPY pair recovered an earlier weakness caused by the BoJ announcement of an extension of its asset purchase program to 66tn Yen, which the market found disappointing and therefore drove the pair to the weekly lows of 79.28. The pair gradually strengthened following a joint statement by the Central bank and the government, stressing their commitment to reducing deflation.
- AUD is set to end the week with modest gains, after falling to 1.0327 on growth concerns. The pair has since strengthened to as high as 1.0417 on better than expected building approvals, as well as reports of Chinese manufacturing PMI showing signs of expansion.
- Cable is set to end the week where it has started (1.6100) after falling to 1.6014 on bets that the BoE will boost policy measures. The pair pared its earlier losses on the back of UK retail sales rising to a 4 month high. The GBP gained further ground as an industry report showed that UK house prices increased in October, adding to signs that the economy is improving.
- USDCNY remained flat for the week, remaining at around 1.2415. The Yuan weakened to 1.2480 on Tuesday following the PBoC injecting a single day record of Rmb395bn into the banking system. The CNY later made a new all time high of 6.2405, which analysts interpret as the Chinese allowing the currency to appreciate to defuse US criticism that the currency is undervalued, ahead of next week's elections.
- The BRL was little changed this week, starting off at the lows of 2.0290 against the USD, rising to as high as 2.0340, just to give back some gains to 2.0310, as of yesterday's close. Trade minister stated this week that Brazil is comfortable with the 2.00 rate against the USD, and will try to maintain the level should the currency come under attack.

Fixed Income

- The US bond market experienced a short trading week as Hurricane Sandy forced a closure of cash-bond market, only to resume trading on Wednesday. US treasuries rallied for the week as demand increased due to fears the massive storm will trim economic growth. Treasuries gave back some of the gains following US employment and manufacturing reports showing signs of economic expansion. The 2yr yields fell to 0.2816 from 0.2971, the 10yr yield to 1.7210 from 1.7450, and the 30yr remained flat at 2.9040.

- Spanish bonds lost ground at the start of the week as Spain's Rajoy ruled out a request for help, driving the Spanish 10 year to as high as 5.653%. The 10 year maintained its weakness further on reports of Spanish GDP contracting 0.3% in Q3. The bonds later reversed their losses as Spain posted its biggest current-account surplus since the Euro was introduced, driving yields to as low as 5.553%.
- Italian bonds as well were weaker at the start of the week with yields rising above 5%. The 10 year then gained strength due to a successful debt auction, where the country met its maximum target and sold €7bn of 5 and 10 year debt driving yields to as low as 4.9%.
- The best performers of the week were EU high yields, EU sovereigns and US high yields, rising 0.14%, 0.12% and 0.12% respectively. The worst performers were US corporate and sovereigns falling 0.24% and 0.14% respectively.

Equities

- Equity markets rose this week, with the MSCI World up 1% (as of yesterday's close), lifted by encouraging data from the US despite Frankenstorm Sandy's devastating sweep through the US Northeast.
- European stocks were up 1.30% this week, with the EuroStoxx 50 firming up on Thursday as the US jobs report reassured investors on the health of the world's biggest economy, giving key European indexes the momentum to test two-week highs.
- In the US, equity markets reopened on Wednesday after Hurricane Sandy caused the longest weather-related shutdown since 1888. On Thursday, the S&P 500 scored its best day in seven weeks as bullish consumer confidence and jobs data gave investors reason to cheer following a devastating week in the US, ending up 1% for the week.
- Japanese stocks rose by 1.32% this week, with the Nikkei climbing to a one-week high on Friday as global cyclical shares rose on improved US economic data and as a weaker Yen boosted the appeal of Japanese exporters.
- In terms of sectors, Consumer Staples and Healthcare were the least performing sectors (-0.03% each), while Materials and Industrials stocks did quite well (1.60% and 1.58% respectively).

Emerging Markets

- Emerging Markets rose by 0.90% this week (as of yesterday's close), as measured by the MSCI EM, where EM Europe and EM Latin America were the weakest contributors to the gauge (0.28% and 0.36% respectively), while EM Asia fared much better (+1.18%).
- The Shanghai Composite surged by 2.46% this week, capping the benchmark's biggest weekly rally in more than a month, as speculation grew that economic growth is rebounding. The Shanghai gauge rose 1.7% yesterday after a purchasing managers index indicated the manufacturing industry grew for the first time in three months in October.
- The Brazilian Bovespa jumped by 1.93% for the week (as of yesterday's close). The index gained 2% on Thursday, as positive data in the United States and China boosted investor confidence in a recovery of the world's largest economies.

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Commodities

- Commodities were about flat this week as of yesterday's close, as measured by the S&P GSCI broad commodity index. Industrial Metals, Agriculture and Precious Metals were positive (1.02%, 0.40% and 0.27% respectively) while Energy was the only sector to display losses (-0.21%).
- Agricultural commodities advanced during the week, getting some traction from a rally on Corn, lifted by positive technical signals and concerns about delayed crop plantings in South America due to heavy rainfall.
- Meanwhile, Gold was slightly negative this week now trading around $1'709 per troy ounce. Gold oscillated between gains and losses as reports on US employment, manufacturing and consumer confidence signalled improvement in the world's largest economy, boosting the dollar and hurting demand for bullion. The yellow metal has fallen about 5% since hitting a high above $1'795 an ounce in early October, after the excitement ignited by the US Federal Reserve's latest monetary easing programme quieted down.
- Crude Oil slightly fell this week, currently trading around $86.35 a barrel. Expectations that demand for crude would likely be subdued in the aftermath of the massive storm that slammed into the US East Coast earlier this week caused oil prices to sag on Friday. Despite ongoing disruptions at refineries and supply terminals in the Northeast, the US remains stocked with sufficient supplies. Also, crude oil demand appeared to be lower than anticipated for the past few weeks.
