Friday, December 14th 2012

The Fiscal cliff is creeping closer… We are hearing blah blah blah from both sides of the aisle, talks are advancing, it is positive, the President reiterating that he will not rescind his tax increases, especially those on the so-called rich, Boehner advanced further to say this would not pass the House whilst the cost-cuts must be big, to which the Obama responds with amazing stamina that the tax on the rich is a Rubicon. But rest assured, the blah blah is progressing…
We would like to remind President Obama of Max Lucado's thought "A man who wants to lead the orchestra must turn his back on the crowd". If Obama would listen, he may drop his populist tax rise…
On Wednesday Bernanke at his press conference urged the parties to conclude their said blah blah as the uncertainty of the blah is hurting the economy and the employment. Then we got what arguably is QE4, as the Fed will now add $45 billion is monthly purchases of US Treasuries to the already running $40 billion of monthly mortgage backed securities. This is a whopping $85Bn per month… What are they thinking? Are they purposely squeezing-out bond investors? Trying to drive them towards riskier assets such as equities? Bernanke told us that the Fed has now changed its targeting of interest rates from dates to unemployment rate?!? It no longer will be low interest rates until 2015 or longer, but for so long as unemployment remains above 6.50% which will probably (Bernanke's words) last through 2015. What a change… nothing much happened in the markets excepting perhaps a slight rise in Treasury yields- the Ten Year Note now trading at 1.72%.
We were further graced with words from the previous Chairman when Greenspan spoke on CNBC. He told his audience that the US housing market has turned and is "rising naturally", driven by pure economic drivers. He also commented that he sees in the markets a view that the fiscal cliff will be resolved.
We have a logical conundrum here… Being advocates of letting the markets resolve economic problems, being against government interventions, we wonder how come these same markets and those who believe as we do that markets should be left to their wares, keep requesting Fed interventions and support… The Fed is after all, Government…

Well, Germany now expects to reach a balanced budget in 2013... How bad can it be there and in Europe then?

We read Goldman Sachs 2013 predictions- which we summarize herewith;

1. *Global growth: A 'hump' to get over, then a clear road ahead*
2. *Housing stabilization and private-sector healing in the US*
3. *Stable China growth, but not like the old days*
4. *Widening gap between the euro core area and the periphery*
5. *….while the euro area will become less important as a driver of global risk*
6. *More growth in emerging markets*
7. *But problems will remain with emerging markets*
8. *G4 unconventional easing will continue*
9. *Search for yield continues, but risk-reward deteriorates*
10. *Constraints on commodities will loosen*

We leave you to your weekend thinking that what you do today can improve all your tomorrows…

Currencies

- The EUR rallied for the week, rising more than 2 figures from 1.2880 to an 8 month high of 1.3120 against the USD, and by so recovering all of last week's losses. Several factors contributed to the rally, with Tuesday's announcement of German investor optimism rising more than expected in December. On Wednesday, the USD slipped as the Fed unveiled a fresh $45bn bond buying program of longer term treasuries, with the guidance shifting from being calendar-based to outcome based, which target is a substantial reduction of unemployment rate. In addition, the EUR saw strength as Euro zone finance ministers agreed for a common bank regulator, in the first step towards a banking union. EURUSD proves to be trading in a multi-month range of 1.28-1.31, and with continued concern from Europe, where no country has still requested an official bailout, and the Fed announcing easing measures which should support the USD in the medium-long run, we are bearish on the pair at these levels.

- Following Credit Suisse's steps, UBS announced on Monday that they will apply negative rates on CHF credit balances for their institutional clients. The news immediately caused a selloff in the Franc, causing EURCHF to rise to a 3 month high of 1.2130 and USDCHF to 0.9370. The CHF has since recovered its losses (1.2085 and 0.9240 respectively), proving that global uncertainties cannot deter demand for the currency. On Thursday the SNB maintained the EURCHF floor at 1.20 with "utmost determination" as well as kept its benchmark interest rate at zero. In addition, when asked about the possibility of negative rates, SNB's Jordan confirmed they would not exclude any measure to combat the strengthening of the Franc.

- The Japanese Yen weakened to a 9 month low of 83.96 against the USD, as polls indicate that the opposition's Abe is at the lead. The prospects of implementation of further monetary easing by the LDP following the elections this weekend have deemed news such as weaker than expected GDP (-0.9%), Factory orders (+2.6% vs. +3% exp.) and Tankan Manufacturing index (-12 vs. -10 exp.) insignificant for the downtrend of the Yen. We strongly continue to believe in the downtrend of the JPY:

- The AUD strengthened for the week, rising from the weekly lows of 1.0455 against the USD to as high as 1.0580. Increasing evidence that growth is picking up in China proves supportive for the AUD due to the prospects of Australia largest trading partner increasing demand for Australian output and by so purchasing large amounts of its currency. The market seems to give such positive developments a higher weighting than the deterioration of the Australian economy internally, where this week we witnessed weak Home loan figures (+0.1% vs. +3.0% exp.), and a slump in Business confidence to levels not seen since the global financial crisis… we believe that the AUD will weaken over time, especially given the fact that the Reserve Bank of Australia will continue to lower interest rates in order to combat a high A$.

- Cable gained for the week rising from 1.6020 at the beginning of the week, to as high as 1.6170, then slightly consolidating to 1.6110 currently. The pound rallied following reports full-time hiring rose to a 19 month high. GBP later gave back some its gains as UK factory orders fell and the S&P lowered the UK's outlook to negative, in line with the rest of the European countries.

- The BRL traded in a tight range against the USD during the week (2.0700-2.0860). The Real weakened on Thursday as the Brazilian central bank reaffirmed plans to hold off on further cuts in borrowing costs.

Bedrock Newsletter

Fixed Income

- US treasuries rallied across the board, with yields on the 2 year rising from 0.238% to 0.242%, the 10 year rising from 1.62% to 1.73% and the 30 year from 2.81% to 2.9%. Treasuries dropped as positive US economic data dampened auction demand, as well as the Fed announcing a new bond buying program spurring appetite for risk assets.
- Spain 10yr rallied for an additional week pushing the Spanish 10 year yields down from 5.55% to 5.35% as the country sold more treasury bills than planned at lower borrowing costs. However, such positive auctions dampen any prospects of a bailout request.
- Italian 10 year started off the week on a negative foot (yield spiking from 4.365% to 4.88%) on fears that Mario Monti will resign early next year. The treasuries then regained their strength with yields dropping to 4.57% on further successful Italian auctions.
- This week, the best performers were Convertibles and US high yields, rising 0.78% and 0.63% respectively. The worst performers were US corporate and US sovereigns, falling 0.62% and 0.51% respectively.

Equities

- The penultimate full trading week of the year is ending with a flurry of potential catalysts and contrasting fortunes as China's stock market surges but US fiscal cliff concerns leave many equity benchmarks struggling to revisit recent multi-month highs. As a result the MSCI World advanced by a mere 0.52% over the week.
- European stocks rose by 1.10% over the week, as significantly better than expected German business confidence figures helped to lift sentiment across European markets and gave a strong impulsion to the EuroStoxx 50 on Tuesday.
- US shares advanced by 0.10% for the week, as of yesterday's close. The S&P 500 rose until Wednesday, before ending a six-day winning streak on Thursday, retreating as worries intensified that Washington's "fiscal cliff" negotiations were dragging on with little progress.
- Japanese stocks rallied by 2.21% over the week, as measured by the Nikkei 225 index. Japanese equities continued their uptrend as the Yen remained weak, boosting exporters' overseas earnings and increasing their competitiveness, particularly against South Korean and Chinese rivals.
- In terms of sectors, Materials and Telecom stocks led the gains (+1.70% and +1.26% respectively), while Consumer Staples and Consumer Discretionary lagged (-0.19% and +0.19% respectively).

Emerging Markets

- Emerging Market equities rose by 1.81% for the week, as of yesterday's close. In terms of regions, Emerging Europe was the best performer (+2.30%), while Latin America and Asia closely followed (+1.72% and 1.78% respectively).
- The Shanghai Composite surged by 4.31% for the week, jumping the most since October 2009 on speculation state-backed institutions were buying shares as a manufacturing survey added to optimism the world's second-largest economy will rebound.

- The Brazilian Bovespa advanced by 1.42% over the week, rising to a seven-week high as Vale led raw-material producers higher on optimism that a global economic recovery will boost demand for Brazil's commodity exports.

Commodities

- Commodities dropped 0.33% this week, as of yesterday's close, as measured by the S&P GSCI broad commodity index. This week saw a sharp drop in Agriculture (-3%), as well as a retreat on Precious Metals (-0.77%) while Energy and Industrial Metals fared better (+0.06% and +1.21% respectively).
- Agriculture slid this week as Wheat declined to the lowest level in five months (-4.56%) on concern that India, the world's second-largest grower, may ship more of the grain from government stockpiles, intensifying competition among exporters.
- Gold fell 0.33% for the week, and is currently trading at $1'697 per troy ounce. Gold price has dropped for the third week running as investors head into equity markets in the hope the world economy will improve next year. Gold struggled to rise above $1'700 an ounce on Friday after an almost 1% decline on Thursday. The move was driven by brighter news out of Asia, which investors hope will drive a global recovery next year.
- Oil fluctuated between gains and losses over the week, rising by 1.14% on Wednesday and losing 1.01% on Thursday. Then, Crude oil advanced on Friday as sentiment was buoyed after a private survey showed an increase in China's manufacturing activity in December. As a result, Oil futures rose by 0.78% for the week and are currently trading at $86.70 per barrel.
