

Well, say what you want, but we definitively are living in interesting times! Just as we got our mind around the horrible terrorist acts in France of last week, we are now confronted with another black swan event - a Swiss one! Yesterday, the Swiss National Bank ("SNB") announced the removal of the 1.20 ceiling on the Swiss Franc, sending FX markets into chaos and sharply taxing equities (SMI down 11%). This, coming just ten days after reaffirming the bank's intention to maintain this activity. If we can no longer believe Central Banks, in what can we trust? Even Christine Lagarde (Chair of the IMF!) said she was surprised and hoped that the SNB had advised other central banks ahead of their act. Oh yes, besides removing this cap, the SNB also cut interest rates to negative 0.75%. Havoc ensued, with the CHF popping up 40% vs. Euro, SMI off 11%... Will we ever believe them again?

Dennis Gartman told CNBC that the Swiss decision on Thursday to abandon a key part of its monetary policy is the worst central bank move he's ever seen. "This really is, I think, a silly decision on their part and it has inflicted enormous losses across the world to a great number of people," "They gave you no indication that this was going to happen. They had been spending enormous amounts of money, enormous amounts of Swiss francs, which they could create as a central bank out of the thinnest of air," Gartman said. "They promised that they would be doing that on a consistent basis. Intervention to defend your currency is very difficult, but intervention to send your currency lower or keep it lower is easily accomplished."

Kathy Lien, forex strategist with BK Asset Management said that "...with the Swiss central bank out of the market for euros, the dollar could reach parity with the euro as it continues to slide. Now that the euro has touched the 1.15 handle, there is a very good possibility it could dip as low as 1.10 in the near term." The Swiss National Bank's decision essentially telegraphs that the ECB will take action next week, Lien said, noting that the Bank likely conferred with ECB President Mario Draghi before dropping the cap.

This action by the SNB will cause switching from CHF funding to EUR funding. The market has VERY large positions in USD/CHF part of which will now have to be converted into short EUR/USD. This is clearly a negative for the Euro and likely to be reflected in EUR/CHF selling as well. The most important impact from "The Move" is on risk appetite- (i) Central Bank credibility has taken a huge hit. (ii) Negative for growth in CE3 - particularly Poland where short CHF exposures are high and (iii) A massive spike in VaR/position losses from investors. So overall, this is negative for risk appetite. Granted, it does lead one to the natural conclusion that the SNB expects the ECB to act next week, arguably a consensus anyway.

With all of this going on, the Federal Reserve officials are reporting concerns over the impact that falling oil prices will have on an improving economy, according to the central bank's latest "Beige Book" report. The economic review, which the Fed releases eight times a year, reflected hopes for better growth but noted several problem areas. Oil prices were seen as a boon to consumers but a problem for energy companies; with the Dallas Fed reporting that Texas energy firms were projecting hiring freezes and layoffs to accompany a 15% to 40% decline in demand. At the Atlanta Fed, there were reports of high oil inventory levels across the Gulf Coast. Bank of America Merrill Lynch just cut their 2015-16 oil price forecasts by circa 30% to \$52/bbl and \$58/bbl for Brent—roughly in-line with current forward curves. The reason they are more bearish is because the contango is causing inventory to build at a very fast rate, they forecast that by the end of 2Q15, onshore storage capacity will be full. That means prices will have to drop even further to stimulate fresh demand. The team is calling for Brent to touch \$31/bbl...Punchy!

Then, retail sales fell last month in a broad-based retreat that will probably prompt economists to cut growth forecasts. U.S. retail sales dropped 0.9% in December, the biggest slide since January 2014, following a 0.4% gain in November that was smaller than previously estimated, according to the Commerce Department. Commodity prices are tumbling as a supply glut collides with waning demand, reducing earnings prospects for producers and increasing the appeal of bonds as inflation slows. The World Bank cut its global growth outlook, citing weak expansions in Europe and China.

Europe edged closer to deflation in December, as consumer prices across the European Union's 28 members fell for the first time since records began in 1997. The bloc's statistics agency on Friday confirmed that consumer prices in the 18 countries that share the euro were 0.2% lower than in the same month of 2013. But new figures showed that prices also fell in the EU as a whole, by 0.1%.

Bonds are rallying around the world. The US 30 Year Treasury bonds (the "Long Bond") has rallied to reach an all-time low yield of 2.36% as the ten year Note raced up to yield 1.71%. The million Dollar question is "*Where is all this leading to?*" What with the Swiss reducing rates to NEGATIVE 0.75% and the German bond yield-curve under zero percent up to 5 year maturities? If we apply our long-standing view of reading the markets of today to anticipate the future news, we can see a headline written by the bond market saying "Deflation is upon us". We see early confirmation that it already is so in commodity prices and various CPI/PPI data published by governments!

And as all this is going on, we direct your attention to the general news which tells us of a further escalation in the Ukrainian conflict, a broadening Terrorist threat, new Boko Haram horrors in Africa and the ongoing ISIS activity in Iraq and Syria.

May your weekend be away from the news and remember that a wide screen only makes a bad film appear twice as bad...

This Week's Highlights:

- Our main focus has been the USD for the past 6 months; however, after yesterday's news our short term preoccupation is with the CHF and the SNB's actions. With the removal of the CHF cap in the market, the CHF massively appreciated against nearly all of its major currency trading partners. EURCHF collapsed from 1.20 to touch 0.85, only to settle this morning at around 1.01. The USDCHF moved from 1.02 to touch 0.74 and now is settling in at around 0.8770. These drops of 30% in the EUR and the USD have also seen the EURUSD pair move lower on the week. EURUSD moved from 1.1850 to 1.1550 and is now trading at 1.16. GBPCHF moved from 1.55 to 1.17 and is now at 1.33, with Cable actually benefitting from this move and now trading at 1.5210 having been below 1.51 on Tuesday. USDJPY dropped throughout the week as the JPY gained a little ground as the pair dropped from 119.30 to 115.86 this morning. As the Russians came back from holiday their currency weakened further against the Dollar moving to as low as 66.70 on Wednesday (now 65.25).
- The US 10Yr Treasury saw yields drop again from 1.97% to hit 1.70% as the SNB news drove the market into a panic search for safe-havens. The German 10 Yr Bund is trading at 0.45%; however, it did put in a new low in terms of yield on Wednesday at 0.42% prior to the SNB announcement. The periphery in Europe saw their yields drop this week, narrowing the spread over the Bund. Italy's 10 Yr fell to 1.68% (123Bps over the Bund) and with Spain falling to 1.54% (108Bps over the Bund). Japanese 10Yr yields moved lower yet again and saw them fall to 0.23% hitting new lows again for their 10 year debt – the lowest even through the 25 years of stagflation! In fact their 30Yr Bonds are trading at 1.07% and are fast approaching their all-time lows of 0.994% from 2003. The UK has fully reversed its course from prior to Christmas where the BOE briefly sent the 10yr Gilt yields to 1.90%, we are now seeing yields as low as 1.46%. With the Swiss 10Yr yielding NEGATIVE 0.01% and the 5Yr dropping from -0.12% to -0.47%!!
- Equities are a little mixed this year. The large cap US markets are -3.00% on average, with Europe extremely mixed ranging from -10.4% for Switzerland, to +2.60% for the German DAX. Spain is still languishing from the downward pressure of the stock slump in Santander. Clearly the Swiss market will need to take some time to digest the effects of the Central Bank policy but for now the shares are down 10.4% for the year. In Asia, China and Japan had mixed performances, with China +2.11% and Japan -3.36%. Russia has received some respite on the MICEX, seeing the shares rally 4.75% on the week so far, but the RTS Index is still struggling and is down another 2% this week. Brazil is now down 1% on the week.

Bedrock Newsletter

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

15/01/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								P/E
			1D	5D	MTD	1M	3M	6M	1Y	YTD	
EQUITY MARKET INDICES - BY REGION											
MSCI WORLD	USD	1,662.44	-0.17	-1.27	-2.76	0.42	4.39	-5.09	0.19	-2.76	15.55
MSCI WORLD HEDGED	USD	688.47	-0.40	-2.30	-2.39	1.46	7.48	1.36	6.63	-2.39	-
MSCI WORLD LOCAL	-	1,245.05	-0.37	-2.29	-2.41	1.40	7.17	0.67	4.89	-2.41	-
MSCI AC WORLD	USD	406.95	-0.10	-1.15	-2.44	0.93	3.78	-5.63	0.00	-2.44	14.85
MSCI EM	USD	959.97	0.44	-0.15	0.38	5.49	-1.10	-10.02	-1.51	0.38	10.78
S&P 500 INDEX	USD	1,992.67	-0.92	-3.37	-3.22	1.01	6.97	0.56	7.95	-3.22	16.28
DOW JONES INDUS. AVG	USD	17,320.71	-0.58	-3.28	-2.82	1.48	7.47	1.06	5.50	-2.82	15.47
NASDAQ COMPOSITE INDEX	USD	4,570.82	-1.48	-3.49	-3.49	0.51	8.38	3.27	8.35	-3.49	17.45
RUSSELL 2000 INDEX	USD	1,154.71	-1.90	-3.46	-4.15	1.35	6.34	0.27	-1.57	-4.15	17.26
EURO STOXX 50	EUR	3,157.36	2.19	3.73	0.32	3.49	9.80	-1.45	0.20	0.32	13.33
CAC 40 INDEX	EUR	4,323.20	2.37	3.42	1.16	5.59	10.30	-1.07	0.07	1.16	13.73
DAX INDEX	EUR	10,032.61	2.20	3.80	2.14	4.72	16.69	1.58	3.06	2.14	12.92
FTSE 100 INDEX	GBP	6,498.78	1.79	-0.46	-1.45	2.20	4.44	-4.62	-5.05	-1.45	13.83
SWISS MARKET INDEX	CHF	8,400.61	-8.67	-11.22	-10.01	-8.09	0.33	-6.19	-4.34	-10.01	14.85
NIKKEI 225	JPY	17,108.70	1.86	-1.76	-3.36	0.65	14.42	9.65	7.09	-3.36	17.76
HANG SENG INDEX	HKD	24,350.91	0.99	0.77	2.11	6.32	5.25	2.47	4.86	2.11	10.93
SHANGHAI SE COMPOSITE	CNY	3,336.46	3.54	2.72	4.38	11.75	43.28	63.33	66.85	4.38	12.74
S&P BSE SENSEX INDEX	INR	28,075.55	2.66	2.50	2.35	5.10	8.26	10.16	32.36	2.35	17.76
RUSSIAN RTS INDEX \$	USD	762.39	2.60	-3.78	-4.76	19.69	-27.95	-44.24	-46.10	-4.76	4.74
BRAZIL IBOVESPA INDEX	BRL	48,026.31	0.80	-3.84	-3.96	2.17	-11.55	-13.80	-3.36	-3.96	10.27
MSCI AC ASIA x JAPAN	USD	572.12	0.74	0.99	1.49	4.52	4.12	-2.43	5.97	1.49	12.03
MSCI EM LATIN AMERICA	USD	2,632.34	0.12	-2.09	-3.50	5.41	-14.75	-24.28	-14.15	-3.50	12.49
MSCI EM Eur, ME & Africa	USD	270.15	-0.28	-1.55	-0.23	8.69	-6.62	-19.94	-15.00	-0.23	7.75
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	219.19	-0.30	-3.64	-7.83	-1.02	-12.36	-28.92	-18.88	-7.83	16.74
MSCI MATERIALS	USD	215.89	0.56	-2.20	-3.21	0.80	-1.64	-15.66	-9.75	-3.21	14.73
MSCI INDUSTRIALS	USD	193.24	0.14	-0.77	-3.05	-0.17	4.70	-6.37	-4.17	-3.05	15.44
MSCI CONS DISCRETIONARY	USD	179.95	-0.56	-1.48	-3.36	0.59	8.40	-1.48	0.14	-3.36	16.38
MSCI CONS STAPLES	USD	201.72	1.00	1.16	0.90	3.27	8.36	1.02	7.66	0.90	19.48
MSCI HEALTH CARE	USD	203.24	-0.27	-0.30	1.68	2.71	12.18	7.71	15.44	1.68	17.63
MSCI FINANCIALS	USD	97.72	-0.30	-1.83	-4.90	-2.04	1.69	-6.54	-4.55	-4.90	12.45
MSCI INFO TECH	USD	136.41	-1.22	-2.77	-3.45	0.43	8.28	1.75	9.97	-3.45	16.11
MSCI TELECOMS	USD	68.23	0.35	1.22	-0.19	0.90	3.87	-6.79	-4.39	-0.19	15.67
MSCI UTILITY	USD	121.93	0.69	0.74	-0.92	1.79	5.87	-0.62	11.49	-0.92	16.30
MSCI WORLD REAL ESTATE	USD	202.50	0.42	1.54	4.14	6.71	10.56	4.71	15.19	4.14	25.34

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HEDGE FUND INDICES											
HFRX GLOBAL HEDGE FUND	USD	1,212.46	-0.27	0.10	-0.49	0.94	0.54	-2.48	-1.26	-0.49	-
HFRX EQUAL WEIGHTED	USD	1,186.87	-0.19	0.06	-0.36	0.72	-0.04	-2.55	-1.06	-0.36	-
HFRX GLOBAL EUR	EUR	1,118.19	-0.29	0.27	-0.57	0.84	0.35	-2.81	-1.72	-0.57	-
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.03	0.00	0.01	-0.01	-0.01	0.00	0.01	-0.01	-0.01	-
US 2 YEAR	USD	0.43	0.01	-0.13	-0.24	-0.13	0.08	-0.06	0.04	-0.24	-
US 10 YEAR	USD	1.72	0.01	-0.22	-0.45	-0.34	-0.43	-0.80	-1.12	-0.45	-
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	481.63	0.12	0.71	1.28	1.62	2.22	4.66	8.27	1.28	1.46
US GOVERNMENT TR	USD	2,118.86	0.30	1.21	2.01	1.87	1.86	4.43	6.55	2.01	1.46
US CORPORATE TR	USD	2,643.19	0.35	1.19	2.15	2.29	1.53	4.01	8.82	2.15	2.85
US HIGH YIELD TR	USD	1,621.07	0.09	-0.10	0.00	2.15	0.07	-2.67	1.55	0.00	6.59
EU GOVERNMENT TR	EUR	241.24	-0.03	0.64	0.90	1.53	2.92	6.18	12.49	0.90	0.71
EU CORPORATE TR	USD	246.53	0.05	0.24	0.39	0.77	1.55	3.74	8.20	0.39	0.99
EU HIGH YIELD TR	EUR	269.73	0.02	0.25	0.36	0.59	2.01	1.25	5.38	0.36	4.23
JACI GLOBAL	USD	251.85	0.22	-0.42	-0.14	0.78	-2.33	-4.49	1.36	-0.59	-
GLOBAL EM TR (HEDGED)	USD	320.22	0.22	0.23	-0.04	1.47	-1.93	-2.33	4.33	-0.04	5.31
S&P/LSTA U.S. LEV LOAN	USD	95.53	0.04	0.16	0.19	1.80	-0.17	-3.41	-3.37	0.19	5.06
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	2,937.02	-1.61	-4.21	-9.15	-13.96	-29.31	-39.85	-37.42	-9.15	-
GSCI ENERGY TR	USD	550.36	-2.86	-4.79	-12.64	-18.87	-40.32	-51.37	-49.17	-12.64	-
GSCI INDUSTRIAL METALS TR	USD	1,178.72	1.15	-5.27	-6.83	-9.46	-11.07	-16.81	-13.77	-6.83	-
GSCI PRECIOUS METALS TR	USD	1,564.60	2.26	4.63	7.11	4.57	1.10	-4.67	-0.39	7.11	-
GSCI AGRICULTURE TR	USD	522.11	-0.40	-3.49	-3.58	-6.66	-0.58	-8.49	-12.64	-3.58	-
GENERIC 1ST 'CL' FUTURE	USD	46.25	1.17	-3.25	-12.16	-17.24	-43.80	-51.49	-46.57	-12.16	-
GOLD SPOT \$/OZ	USD	1,262.73	-0.48	2.80	6.06	4.99	1.44	-3.27	1.15	6.06	-
CURRENCIES											
DOLLAR INDEX SPOT	USD	92.35	-0.16	0.29	2.15	4.63	8.54	14.46	13.96	2.15	-
Euro Spot	EUR	1.16	-0.02	-1.78	-3.86	-7.03	-9.20	-14.00	-14.60	-3.86	-
Japanese Yen Spot	JPY	116.17	-0.30	1.70	2.80	-0.09	-8.75	-12.74	-10.44	2.80	-
British Pound Spot	GBP	1.52	0.13	0.28	-2.40	-3.47	-5.50	-11.29	-7.04	-2.40	-
Brazilian Real Spot	BRL	2.64	-0.97	0.78	0.59	2.04	-6.98	-16.01	-10.70	0.59	-
China Renminbi Spot	CNY	6.19	-0.31	0.01	-0.04	-0.28	-1.36	-0.05	-2.45	-0.04	-
Singapore Dollar Spot	SGD	1.33	0.20	0.74	0.14	-1.56	-3.73	-6.13	-3.94	0.14	-
Norwegian Krone Spot	NOK	7.58	-0.93	0.05	-2.59	-2.93	-14.45	-18.99	-19.22	-2.59	-

All data is compiled from Bloomberg

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