

It is Friday again. We are well into the "Sell in May and go away" season... And indeed, the markets took heed of this old adage... But not quite as the fear mongers expected! It has not been a wash-out in equities as the adage implies - Equities have indeed returned some of their gains to their maker, but in truth, not by much - The S&P 500 is down 1.80% off its all-time intra-day high (still at 307% of its low of 666 in March 2009). What has changed in May is the huge US Dollar rally and then, the 30 year-long bond rally! The bond markets appear to have suddenly realised what the impossible threshold of zero yields actually means, and rather brutally reversed course in a semblance of reason. German 10 year bunds had rallied to yield the irrational level of 0.049% and the realisation of idiocy struck - They have fallen in price and now yield an arguably more reasonable 0.58% in the face of the ongoing ECB buying program and close to zero inflation rates. The US benchmark 10 year Treasury Note yield had fallen to 1.64% in late January, now it has risen to 2.15% - which isn't quite as unreasonable with the Fed poised to consider tightening in the visible future. Perhaps the interest-rate environment is normalising at last? Clearly, if there is a bubble somewhere, the elephant in the room is a bond! For perspective, the S&P 500 is trading at a P/E 17.5X which is "normal" in historical terms, but the P/E equivalent of a 10 year Treasury is at about 50X which is not normal! In Finance 101 we learned that the secret for returns is to sell the expensive asset and buy the cheap one!

The "other" big May movement was in the King US Dollar! It had rallied 31% against the Euro from January 2014 to March 2015, 15% against the Yen, 13% against the Sterling not to mention its 111% rise against the Ruble and 38% against the Brazilian Real. Clearly, a bull-Dollar trend! But six weeks ago the trend-line turned. The Dollar Index or the "DXY" which had been at 80 in January 2014, having risen to 100.33 on March 13th, is now at 94.50. Clearly, a break in the run! The break surprised us all, arriving as the US trade deficit was growing without anyone noticing - We got confirmation this week: The U.S. trade deficit surged to its highest level in nearly 6-1/2 years in March as imports rebounded strongly after being held down by a labour dispute at key West Coast ports, suggesting the economy contracted in the first quarter. The Commerce Department said on Tuesday the deficit on the trade balance jumped 43.1% to \$51.4 billion, the largest since October 2008. The percentage rise also was the biggest since December 1996. In March, imports jumped 7.7%, the largest increase on record, to \$239.2 billion. Hard to comprehend as the US is making more and more of its own energy and the oily stuff they do import has fallen dramatically in price. Go figure. Imports are a drag on growth. A trade deficit is funded by the sale of the importer's currency...

It is arguably the most important question for markets around the world right now: is the historic dollar rally over and done? The short answer: not likely. Many pros say the dollar's recent selloff is only a correction in its steady and strong march higher. Many drivers behind the great dollar run-up appear intact. The U.S. economy is outperforming other global economies and the Fed is leaning toward tightening policy just as Europe and Japan are doing the reverse - implementing monetary stimulus to fight weak growth. That powerful divergence is why some strategists say the dollar has much further room to run. "The peak in the last two big dollar cycles in 1985 and 2002 occurred respectively six months and 13 months AFTER the funds rate had peaked AND rates started coming down," writes Alan Ruskin, head of G10 FX Strategy for Deutsche Bank. "This highlights what an aggressive call it would be to suggest the U.S. dollar has peaked even before U.S. rates have started going up!" And when the Fed eventually does raise interest rates, the dollar will become all the more appealing.

We maintain our view that the dollar should remain over-weighted in investor's portfolios and remain neutral on the fixed-income exposures - little to gain; but after this month's moves, little downside to be expected in the short run as the central banks are still buying (even the Fed isn't selling, just rolling over its existing portfolios). As the US currency was being sold, oil has been rising. As we write, WTI is trading at \$58.90 and Brent oil at 65.60, having risen about 40% from their lows on January 14th. Oil stocks have risen in tandem, the XLE ETF has risen 10% in the same interval. Maybe the turn in the US\$ tide is affecting our favourite black slush? Crude hit new highs for 2015 on Wednesday before paring gains as investors and traders took profits. Some analysts fear that the oil prices can fall fast back to the mid-to-low \$50s. The U.S. Energy Information Administration said crude stockpiles fell by 3.88 million barrels last week. However, noted-investor Dennis Gartman said while that report appeared to be bullish, a closer look at things like gasoline supplies showed that "the actual aggregated total inventory was actually not as bullish as the number would have indicated." Because of that, the editor and publisher of The Gartman Letter said he ended the day short "a little bit of crude."

It looks like we may have found stability in the markets; well... at least until the Employment data is released! Elsewhere, the free market has spoken! The UK elections came and it appears that the Conservatives won. As Margaret Thatcher once said, "The problem with socialism is that you eventually run out of other people's money."

This Week's Highlights:

- This week's movement was again dominated by the USD which continued to trend downwards; with the DXY (US Dollar Index) dropping 0.6% so far, sliding from above 95.50 to touch 94.00. EURUSD has remained unchanged, although briefly jumping from 1.1066 to hit 1.1390 only to drop back this morning to 1.1220. With the UK election putting the Conservatives in a commanding position, the Pound has surged from 1.52 to breach 1.55. The CHF rallied again this week, with the USD dropping from 0.94 to hit 0.9070 yesterday, EURCHF losing the ground it had made, gently sliding from 1.0450 to touch 1.03 yesterday. In fact the JPY seems to be one of the few currencies bucking the trend with USDJPY almost unchanged on the week at 120.00. In the emerging markets, the RUB has risen steadily, sending the USDRUB to 50.50 with oil prices moving higher. Moving to Brazil, any strength that had appeared in the currency seems to have been short lived with the Real closing yesterday above 3.02 – perhaps an equilibrium point for the short term? The Chinese Yuan was almost unchanged on the week at a shade above 6.20.
- US 10Yr Treasury had a bumpy week, the yields temporarily soared from 2.10% to hit 2.31%, however, this has since rectified itself and the yields are now back to a more reasonable level of 2.15%. The German 10Yr Bund likewise had a tough week, dropping in price and sending the yields flying from 0.36% to hit 0.78% - we have subsequently moved lower in yields dropping back to 0.57%. The Spanish 10Yr yield moved higher to hit 2.0% but slipped back to 1.75%. Italian 10Yr followed the same line as Spain, moving back down from 2.0% to be at 1.75% now. In the UK, the yields are almost unchanged on the Gilts at 1.85% - it would appear the Tory investors voted with their wallets as well as at the polls. Swiss 10Yr yields have turned positive this week, with the bonds selling off in sympathy to the rest of the world's government bonds, sending the yield from 0.01% to a "stratospheric" 0.29%.
- In general the US equity markets are lower on the week as Biotechs and the USD weigh on the markets. Both the Dow and the S&P500 were around -0.5% this week as at yesterday's close, with the NASDAQ being -1.2%; it is looking likely that they will all move slightly higher on the open today – having said that, we are only 1.8% away from the all times for the S&P, so it is all relative. Europe saw the DAX at +0.10%, CAC40 at -0.9% and the UK FTSE at +0.4%; with the election result adding 3.3% from yesterday's lows to today's open. In the Emerging Markets the Bovespa was up by 1.25%, Russian stocks are up by 1.0% on the MICEX again and in China the Shanghai Composite was decimated this week by -7.5%!

Highlighted items are interesting data points for the week

MARKET INDICES PERFORMANCE

07/05/2015

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	
EQUITY MARKET INDICES - BY REGION											
S&P 500 INDEX	USD	2,088.00	0.40	0.12	0.12	0.29	1.58	2.76	1.41	11.32	17.47
DOW JONES INDUS. AVG	USD	17,924.08	0.48	0.47	0.47	0.12	0.56	1.99	0.57	8.30	16.07
NASDAQ COMPOSITE INDEX	USD	4,945.54	0.57	0.08	0.08	-0.11	4.24	6.76	4.42	22.07	19.13
RUSSELL 2000 INDEX	USD	1,225.54	0.51	0.44	0.44	-2.94	1.87	4.45	1.73	11.67	18.92
EURO STOXX 50	EUR	3,556.21	0.13	-1.25	-1.25	-4.60	5.07	16.50	13.48	11.43	15.51
EURO STOXX 800	EUR	388.98	0.18	0.35	0.06	-2.13	6.09	18.13	15.62	16.63	16.88
CAC 40 INDEX	EUR	4,967.22	-0.20	-1.13	-1.13	-2.87	6.36	19.08	16.77	10.69	16.22
DAX INDEX	EUR	11,407.97	0.51	0.04	0.04	-4.79	5.65	23.32	16.86	19.27	14.56
FTSE 100 INDEX	GBP	6,886.95	-0.56	0.67	0.67	1.00	2.24	6.70	6.71	2.45	16.72
SWISS MARKET INDEX	CHF	8,873.55	-0.17	-1.38	-1.38	-3.20	4.24	1.53	-0.35	5.74	17.84
NIKKEI 225	JPY	19,291.99	-1.23	-3.02	-3.02	-2.07	9.81	14.80	11.05	36.82	18.52
HANG SENG INDEX	HKD	27,289.97	-1.27	-1.84	-1.84	5.26	11.90	17.26	16.99	26.46	13.29
SHANGHAI SE COMPOSITE	CNY	4,112.21	-2.76	-5.31	-5.31	5.28	36.74	73.93	30.03	108.70	17.08
S&P BSE SENSEX INDEX	INR	26,599.11	-0.44	0.35	0.35	-5.58	-5.62	-2.74	-1.43	21.31	15.32
RUSSIAN RTS INDEX \$	USD	1,080.73	-0.51	2.22	2.46	6.72	27.62	4.66	33.38	-14.45	6.60
BRAZIL IBOVESPA INDEX	BRL	56,921.39	-0.32	2.88	1.23	6.08	16.66	6.95	13.83	6.55	13.98
MSCI WORLD	USD	1,769.25	-0.16	-1.02	-0.51	0.16	2.83	3.65	3.48	4.89	17.08
MSCI WORLD HEDGED	USD	743.23	0.11	-0.49	-0.49	-0.61	3.45	6.98	5.37	14.01	-
MSCI WORLD LOCAL	-	1,335.05	0.08	-0.58	-0.58	-0.83	2.80	6.06	4.65	12.01	-
MSCI AC WORLD	USD	433.26	-0.30	-1.12	-0.70	0.18	3.03	3.66	3.87	4.53	16.47
MSCI EM	USD	1,024.91	-1.48	-2.02	-2.18	0.38	4.74	3.77	7.17	1.59	12.69
MSCI AC ASIA x JAPAN	USD	614.91	-1.53	-2.64	-2.65	0.19	5.57	8.94	9.08	12.20	13.07
MSCI EM LATIN AMERICA	USD	2,692.21	-0.90	-0.03	-0.03	3.05	2.79	-11.09	-1.30	-19.68	15.50
MSCI EM Eur, ME & Africa	USD	292.24	-1.32	-0.88	-1.37	1.15	3.43	-0.91	7.93	-10.83	11.45
EQUITY MARKET INDICES - BY SECTOR											
MSCI ENERGY	USD	239.80	-1.68	-2.63	-2.66	2.97	0.53	-9.02	0.84	-19.08	23.86
MSCI MATERIALS	USD	234.22	-0.64	-0.89	-0.63	1.94	2.23	3.26	5.01	-5.00	17.78
MSCI INDUSTRIALS	USD	204.85	-0.30	-0.94	-0.43	-0.01	2.36	2.57	2.77	1.66	16.90
MSCI CONS DISCRETIONARY	USD	198.10	0.04	-0.78	-0.08	-0.64	4.62	11.82	6.39	13.85	18.01
MSCI CONS STAPLES	USD	205.09	-0.15	-0.51	-0.09	-1.20	0.44	3.47	2.59	4.49	20.34
MSCI HEALTH CARE	USD	214.96	-0.11	-0.94	-0.05	-1.17	4.69	8.72	7.54	19.40	18.61
MSCI FINANCIALS	USD	105.05	-0.01	-0.54	-0.42	0.37	3.64	2.40	2.23	2.80	13.69
MSCI INFO TECH	USD	145.46	0.61	-1.46	-0.42	0.55	4.01	5.64	2.96	18.39	17.25
MSCI TELECOMS	USD	71.62	-0.60	-1.21	-1.51	2.07	0.67	2.71	4.77	-1.84	16.26
MSCI UTILITY	USD	118.70	0.11	-1.29	-1.28	-0.77	-3.60	-4.89	-5.17	-3.55	15.89
MSCI WORLD REAL ESTATE	USD	197.21	-0.04	-1.39	-1.36	-3.71	-3.22	2.51	1.42	6.31	24.96

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HEDGE FUND INDICES											
HRFX GLOBAL HEDGE FUND	USD	1,241.20	-0.27	-0.84	-0.40	-0.39	1.41	1.58	1.87	0.97	
HRFX EQUAL WEIGHTED	USD	1,214.18	-0.15	-0.36	-0.20	-0.09	1.56	1.60	1.93	0.50	
HRFX GLOBAL EUR	EUR	1,143.03	-0.26	-0.65	-0.41	-0.45	1.27	1.28	1.64	0.45	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)											
US 3 MONTH	USD	0.01	0.00	0.01	0.01	-0.02	-0.01	-0.02	-0.03	-0.02	
US 2 YEAR	USD	0.62	-0.01	0.02	0.05	0.09	-0.02	0.12	-0.04	0.23	
US 10 YEAR	USD	2.15	-0.03	0.04	0.12	0.25	0.19	-0.15	-0.02	-0.46	
FIXED INCOME INDICES - BY TYPE OF ISSUER											
GLOBAL AGG TR HEDGED	USD	477.60	0.12	-0.83	-0.83	-1.53	-0.72	1.81	0.43	4.90	1.62
US GOVERNMENT TR	USD	2,086.13	0.25	-0.65	-0.65	-1.34	-0.68	1.23	0.44	3.21	1.62
US CORPORATE TR	USD	2,803.42	0.35	-0.97	-0.97	-2.14	-1.06	1.36	0.62	3.37	3.12
US HIGH YIELD TR	USD	1,679.53	-0.08	-0.14	-0.14	0.50	1.93	1.51	3.61	2.20	6.05
EU GOVERNMENT TR	EUR	241.28	0.35	-1.64	-1.64	-2.92	-1.08	3.28	0.92	8.36	0.74
EU CORPORATE TR	USD	246.13	-0.04	-0.69	-0.69	-1.27	-0.71	1.10	0.22	5.04	1.13
EU HIGH YIELD TR	EUR	276.24	-0.24	-0.64	-0.64	-0.54	1.26	3.14	2.78	4.29	4.02
JACI GLOBAL	USD	251.85	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	-
GLOBAL EM TR (HEDGED)	USD	332.11	-0.09	-0.40	-0.40	0.39	2.75	1.41	3.67	4.28	4.76
S&P/LSTA U.S. LEV LOAN	USD	96.62	-0.03	-0.02	-0.02	0.20	0.86	-0.60	1.33	-1.94	4.76
COMMODITY INDICES - BY TYPE OF ISSUER											
GSCI INDEX TOTAL RETURN	USD	3,263.93	-2.13	-0.95	-0.95	4.42	3.95	-21.47	0.96	-34.77	
GSCI ENERGY TR	USD	866.84	-2.96	-1.26	-1.26	7.52	7.23	-27.65	5.70	-41.50	
GSCI INDUSTRIAL METALS TR	USD	1,289.87	-0.52	-0.45	-0.45	6.54	6.52	-5.31	1.96	-1.55	
GSCI PRECIOUS METALS TR	USD	1,462.88	-0.75	0.08	0.08	-2.47	-4.17	1.05	0.14	-9.57	
GSCI AGRICULTURE TR	USD	475.62	-0.76	-1.13	-1.13	-5.26	-7.80	-10.17	-12.16	-33.41	
GENERIC 1ST 'CL' FUTURE	USD	58.94	-0.15	-0.51	-1.31	13.68	6.26	-28.48	5.05	-39.78	
GOLD SPOT \$/OZ	USD	1,184.50	0.28	0.79	0.30	-1.22	-3.73	0.84	0.25	-7.87	
CURRENCIES											
DOLLAR INDEX SPOT	USD	94.64	0.12	-0.57	0.16	-3.26	0.05	8.11	4.96	19.39	
Euro Spot	EUR	1.13	-0.44	0.16	-0.06	4.04	-0.95	-9.89	-7.28	-18.95	
Japanese Yen Spot	JPY	119.74	-0.22	0.13	-0.62	0.11	-1.13	-4.28	-0.18	-16.28	
British Pound Spot	GBP	1.52	1.58	2.23	0.88	4.17	1.78	-2.25	-0.68	-8.54	
Brazilian Real Spot	BRL	3.03	0.29	-0.37	-0.37	3.44	-8.42	-15.44	-12.17	-26.74	
China Renminbi Spot	CNY	6.21	-0.04	-0.09	-0.09	-0.10	0.62	-1.44	-0.06	0.30	
Singapore Dollar Spot	SGD	1.33	0.20	0.02	-0.47	2.01	1.78	-2.92	-0.34	-6.20	
Norwegian Krone Spot	NOK	7.45	-0.30	1.76	0.82	7.81	1.93	-8.84	-0.27	-21.04	
VOLATILITY / LIQUIDITY INDICES											
CBOE SPX VOLATILITY INDX	USD	15.13	-0.13	3.99	3.99	8.23	-12.49	15.32	-21.20	12.66	
USD SWAP SPREAD SEMI 2YR		27.04	-1.29	2.65	5.45	7.27	0.95	24.84	18.35	105.31	
TED SPREAD		27.38	1.07	-1.79	-1.79	5.88	13.89	28.97	24.40	37.80	

All data is compiled from Bloomberg

Bedrock Newsletter

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