

A rough week in the bond markets... Heavy selling in government bonds hit full swing early on Thursday, as yields rose with a speed and ferocity that was once considered rare for a safe-haven market. Markets have changed from talking about deflation at the end of 2014 into the first quarter of 2015, and it is why we should be mindful of these market jitters. Government bond yields started to rise in April as investors' perceptions about inflation started to change. After stabilizing for a while, the selloff started again this week, with inflation data on Tuesday showing consumer prices in the euro zone rising a higher-than-expected 0.3% in May. In response, on Wednesday the ECB upped its inflation forecasts for this year. A gruelling bond market rout, led by the German bund, drove interest rates to eight-month highs and yields could now trade at a new and higher range. While rates could continue to rise more gradually this rapid jump may have topped out temporarily, but a higher level of volatility is here to stay. The 10-year Treasury Note reached a high of 2.42% Thursday before slipping back to 2.33%; The selling appeared to reverse when the German 10-year yield hit 1% earlier Thursday. Buyers also came in when the International Monetary Fund said that the U.S. should delay Fed interest rate hikes until next year.

David Ader, chief Treasury strategist at CRT Capital said it appears yields are topping out for now and he expects the 10-year to trade in a range of 2 to 2.5% over the course of the summer. Traders say the rapid move in the U.S. market shows a detachment from fundamentals and the move in Treasury bonds could take on a life of its own. European yields shot up Wednesday, in part on an improving economy but also because ECB President Mario Draghi in comments Wednesday made no commitment to tame European rates. Strategists said the bund yield could be getting close to a top on a technical basis, as were U.S. 10-year note yields. Ader said the U.S. 10-year yield could move erratically before falling back to a range between 1.96% and 2.16%. If investors thought that quantitative easing would drive bond yields ever lower (particularly in bunds because the German government supply was falling far short of ECB purchases) they might have missed what happened during the first two rounds QE in the U.S.; There, Treasury yields rose sharply on Federal Reserve bond purchases as investors anticipated monetary policy would quickly lead to rising growth and inflation. It's taken a little longer in the Eurozone, but now the same sequence seems to be following. And as long as the ECB's policymakers see that credit is continuing to flow to the private sector and the money supply is growing, they won't care too much about what happens to bund yields.

The IMF said in its annual assessment of the economy on Thursday that the U.S. Federal Reserve should delay a rate hike until the first half of 2016, until there are signs of a pickup in wages and inflation. The fund's report comes amid signs that some rate setters at the U.S. central bank are also pushing for rate hikes to be delayed until there are clearer signs of a sustained recovery. U.S. data has been mixed and the economy shrank 0.7% in the first quarter. "Based on the mission's macroeconomic forecast, and barring upside surprises to growth and inflation, this would put lift-off into the first half of 2016," the fund said. The fund forecast that the Fed's favoured measure of inflation, the personal consumption expenditures (PCE) reading, would hit the central bank's 2% target only in mid-2017.

With little evidence the U.S. economy is rebounding after a very weak first quarter, the Federal Reserve is in no position to start raising interest rates for the first time since 2006, a top Fed official said on Monday. "The conditions for beginning the tightening of monetary policy have not yet been met," Boston Fed President Eric Rosengren said in remarks prepared for delivery in Hartford, Conn.

Clearly, the fixed-income world is being rattled. With no "VIX" equivalent for bonds we don't have a clear measure of volatility for this asset class. But believe us when we say that this normally secure and stoic investment has become very volatile. This said we remain calm here, as we believe that volatility aside, interest rates will stabilize here or even fall-back some.

Should our assessment of the bonds be proven correct, we would expect to see equity markets stabilize and probably resume their ascent as the volatility of the discounting factors abates.

Strangely, just as the US trade deficit was announced at \$40bn vs \$44Bn expected, the US\$ dropped, instead of rising!? - We view this data as a further support for our positive outlook on the Greenback and retain our recommendation to be overweight US Dollars.

Then, a possible hint at resumed US growth came from the U.S. auto industry which remained on track for the best sales year in almost a decade as consumers bought cars and trucks at the fastest monthly pace since early 2006.

The monthly Reuters survey of 44 fund managers and chief investment officers in the United States, Europe, Japan and Britain found the average recommended allocation to cash in global balanced portfolios rose one percentage point in May to 6.4% That is the highest since last November and a whisker below mid-2012 levels when the euro crisis was at its peak. Well, this may be a driver for renewed market rises?

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This could be further reinforced by China's factory activity picked up its pace- The official purchasing managers' index (PMI), which surveys large companies, rose to 50.2 from 50.1 in April, in line with the forecast from a Reuters poll, and above the 50-mark separating expansion from contraction.

The race for a devalued currency is set for a new set of twists and turns this summer as analysts contemplate how the U.S. Federal Reserve will deal with a dollar that is far stronger than its global counterparts. According to Societe Generale's Albert Edwards, the spark for this new round of "currency wars" – whereby countries manipulate foreign exchange to gain a global advantage -- is the Japanese yen, which fell to its weakest against the greenback since 2002 on Tuesday. There have been discussions in the last few years that countries are purposefully debasing their own currencies -- a concern that was termed "currency wars" by Brazil's Finance Minister Guido Mantega in September 2010. "The U.S. and euro zone remain a hair's breadth from outright deflation. A weak yen could push them over the edge into deflation proper as China is forced to finally join the global currency wars," Edwards also warns in his note. The greenback reached its highest since 2003 this year, against a basket of currencies, with the Fed seemingly the only central bank looking to dial back on its monetary stimulus. However, economists argue that it could be dragged back into the "devaluation game" this year. Economist Nouriel Roubini stated last month that the dollar had entered the currency wars. In a comment piece on the Project Syndicate website he said that "exchange-rate jitters" from U.S. officials had become increasingly pronounced. Societe Generale's Edwards adds that worrisome deflation is already being imported into the U.S., especially from Japan. It might not be long before we see the next stage in this latest episode of currency devaluations and, for Edwards; it's the yen that we should keep an eye on. "A new round of currency turmoil begins" he said in his note this week...

We apologize for clearly exceeding our "One-Page-Newsletter" rule. We feel that the markets' turmoil justifies a few extra lines and leave you into the US employment report and the ensuing weekend with the lyrics of Neil Sedaka singing "Breaking-up is hard to do..." as the Greek debacle just doesn't want to end...

This Week's Highlights:

- This week's movement was again dominated by the USD which has lost some ground after the recent short term strength; with the DXY (US Dollar Index) dropping to 95.40 today. EURUSD moved higher throughout the week from 1.09 to hit 1.1380 but we are back to 1.1270. The Pound has finally given up its relief rally after the conservatives win and is trading in line with economics, having stabilised at about 1.5310. The CHF is slightly up against the USD at 0.93 and down against the EUR; EURCHF gently moving higher from 1.03 to 1.0550. The JPY has continued its weakening against the USD, moving to another 12 year low on Tuesday of 125.05. In the emerging markets, the RUB seems to be feeling the oil pain trade again and has slipped yet further, sending the USD up from 52.50 on Monday to 57.00 this morning. In Brazil, the Real had managed to sustain a small rallying and saw the USD drop at the end of Wednesday's trading session, seeing the pair move from 3.21 to hit 3.11 – however yesterday was closed so we look to see how the markets react after their Corpus Christi bank-holiday. The Chinese Yuan was almost unchanged on the week at around 6.20.
- The US 10Yr Treasury has resumed its price slide, with the yields bouncing up from 2.10% to hit 2.35% this morning having been as high as 2.42%. The German 10Yr Bund has followed suit and its yield marched higher from 0.49% on Monday to peak yesterday at 0.996%, and we are now trading at about 0.90%. The Spanish 10Yr yield moved higher on the week from 1.85% to 2.20% now. Italian 10Yr followed a similar trajectory, moving from 1.85% to 2.22%. In the UK, the yields are no longer marching to the beat of their own drum and followed the markets higher in yields, seeing the Gilts slide and the yields bounce from 1.80% to hit 2.17% and only dropping now to 2.05%. Swiss 10Yr yields have moved in the same direction as the markets but with a lower magnitude, with the bonds now yielding +0.11%.
- In general the US equity markets are marginally lower on the week. Both the Dow and the S&P500 closed last night at -0.58% and -0.55% respectively, and the NASDAQ being -0.22%; with the futures indicating a flat Friday open across the three indices, into the May non-farm payroll report. Europe sees the DAX at -1.7%, CAC40 at -1.4% and the UK FTSE at -2.65%. With the Shanghai up a whopping 8.92% but the Nikkei was down 0.5%.

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Highlighted items are interesting data points for the week

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INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)									P/E
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
EQUITY MARKET INDICES - BY REGION												
S&P 500 INDEX	USD	2095.84	-0.86	-1.18	-0.55	0.31	-0.25	0.99	1.79	8.01	63.04	17.48
DOW JONES INDUS. AVG	USD	17905.58	-0.94	-1.22	-0.58	-0.13	-1.27	-0.30	0.46	6.35	47.84	15.96
NASDAQ COMPOSITE INDEX	USD	5059.125	-0.79	-0.76	-0.22	2.43	1.53	5.82	6.82	17.78	82.11	19.45
RUSSELL 2000 INDEX	USD	1251.288	-1.05	-0.14	0.38	2.95	1.38	5.82	3.87	8.44	67.71	19.15
EURO STOXX 50	EUR	3558.38	-0.77	-1.59	-1.59	-0.92	-2.88	7.22	11.88	7.56	68.35	15.17
EURO STOXX 600	EUR	392.65	-0.80	-2.84	-2.84	-0.83	-1.33	10.70	13.43	12.62	65.62	16.43
CAC 40 INDEX	EUR	4987.13	-0.93	-1.69	-1.69	-1.02	-0.81	11.40	15.23	8.24	64.88	15.93
DAX INDEX	EUR	11340.6	-0.89	-1.67	-1.67	-0.92	-2.44	11.26	14.45	12.82	88.01	14.09
FTSE 100 INDEX	GBP	6859.24	-1.22	-2.65	-2.65	-1.85	-2.33	0.84	3.55	-0.21	29.26	16.26
SWISS MARKET INDEX	CHF	9233.85	-0.21	-1.25	-1.25	1.09	0.97	-0.98	1.55	5.54	59.83	17.89
NIKKEI 225	JPY	20488.19	0.07	-0.50	-0.50	4.76	9.11	14.18	17.25	35.69	144.11	19.45
HANG SENG INDEX	HKD	27551.89	-0.18	-0.60	-0.60	-1.78	12.88	13.57	15.48	17.96	49.30	12.88
SHANGHAI SE COMPOSITE	CNY	4947.102	0.76	8.32	8.92	16.85	54.63	70.99	55.29	148.12	117.27	19.98
S&P BSE SENSEX INDEX	INR	28813.42	0.04	-3.21	-3.21	-1.84	-8.54	-5.35	-2.05	7.66	68.13	15.40
RUSSIAN RTS INDEX 3	USD	922.63	-2.54	-4.89	-4.89	-14.12	0.99	1.39	16.53	-30.92	-26.07	5.83
BRAZIL IBOVESPA INDEX	BRL	53522.91	-1.32	-1.32	1.45	-6.88	6.05	4.08	7.03	3.26	0.20	12.00
MSCI WORLD	USD	1775.44	-0.80	-0.22	-0.22	0.11	0.66	2.12	3.85	2.89	53.28	17.20
MSCI WORLD HEDGED	USD	751.281	-0.78	-1.39	-0.67	-0.36	1.52	5.71	6.51	11.95	74.81	-
MSCI WORLD LOCAL	-	1346.434	-0.78	-1.42	-0.69	-0.65	0.80	4.64	5.54	10.03	64.84	-
MSCI AC WORLD	USD	432.92	-0.79	-0.37	-0.37	-0.53	0.73	1.92	3.79	2.07	47.81	16.53
MSCI EM	USD	988.05	-0.72	-1.61	-1.61	-5.71	1.38	0.24	3.32	-4.53	11.47	12.40
MSCI AC ASIA x JAPAN	USD	805.02	-0.52	-1.47	-1.47	-3.85	3.79	5.65	7.32	5.60	33.26	13.03
MSCI EM LATIN AMERICA	USD	2517.15	-0.81	-0.61	0.83	-7.88	-0.46	-11.93	-7.72	-22.59	-24.15	14.29
MSCI EM Eur, ME & Africa	USD	269.49	-1.48	-2.60	-2.60	-9.18	-3.71	-6.91	-0.47	-19.16	-8.38	10.83
EQUITY MARKET INDICES - BY SECTOR												
MSCI ENERGY	USD	228.72	-1.51	-1.46	-1.46	-6.50	-1.46	-5.08	-3.82	-23.04	7.81	22.43
MSCI MATERIALS	USD	231.42	-1.39	-0.54	-0.54	-1.67	-1.53	1.00	3.75	-6.78	15.08	17.62
MSCI INDUSTRIALS	USD	206.1	-0.86	0.43	0.43	0.54	0.38	2.12	3.40	-0.31	55.35	17.16
MSCI CONS DISCRETIONARY	USD	200.46	-0.55	0.39	0.39	1.15	1.20	7.28	7.85	11.11	78.11	18.19
MSCI CONS STAPLES	USD	203.35	-0.74	-0.92	-0.92	-0.63	-2.55	0.48	1.72	2.34	40.55	20.28
MSCI HEALTH CARE	USD	219.99	-0.65	-0.30	-0.30	2.13	2.81	6.28	10.06	18.65	97.32	19.00
MSCI FINANCIALS	USD	105.53	-0.88	0.29	0.29	0.32	2.21	0.86	2.70	1.35	64.02	13.85
MSCI INFO TECH	USD	148.1	-0.79	-0.46	-0.46	1.80	0.78	3.48	4.83	14.56	63.59	17.65
MSCI TELECOMS	USD	71.65	-0.51	0.42	0.42	-0.26	0.63	0.97	4.81	-1.47	34.96	16.51
MSCI UTILITY	USD	118.26	-0.90	-1.94	-1.94	-0.20	-1.19	-5.63	-5.53	-4.91	19.89	15.87
MSCI WORLD REAL ESTATE	USD	193.95	-0.55	-1.52	-1.52	-2.13	-3.68	-0.33	-0.26	1.45	32.31	25.20
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1251.99	0.05	0.00	0.20	0.34	0.90	2.42	2.76	1.28	11.80	-
HFRX EQUAL WEIGHTED	USD	1221.62	0.05	0.04	0.13	0.31	0.96	2.30	2.56	0.91	10.03	-
HFRX GLOBAL EUR	EUR	1151.79	0.05	-0.05	0.16	0.23	0.68	2.07	2.42	0.66	10.11	-

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			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Change in bps)												
US 3 MONTH	USD	0.0102	0.00	0.01	0.01	0.01	0.01	0.00	-0.03	-0.02	-	-
US 2 YEAR	USD	0.6728	0.01	0.07	0.07	0.05	0.03	0.03	0.01	0.29	-	-
US 10 YEAR	USD	2.3447	0.04	0.22	0.22	0.16	0.23	0.04	0.17	-0.24	-	-
FIXED INCOME INDICES - BY TYPE OF ISSUER												
GLOBAL AGG TR HEDGED	USD	474.51	0.13	-0.89	-1.07	-1.24	-1.02	0.52	-0.22	3.90	9.97	1.73
US GOVERNMENT TR	USD	2077.91	0.29	-0.69	-0.88	-0.62	-0.41	0.45	0.04	2.67	2.22	1.73
US CORPORATE TR	USD	2579.93	0.48	-1.04	-1.21	-1.21	-1.56	0.26	-0.29	2.31	11.12	3.26
US HIGH YIELD TR	USD	1679.45	-0.18	-0.40	-0.45	-0.27	0.74	3.00	3.81	1.48	26.81	6.09
EU GOVERNMENT TR	EUR	237.59	0.08	-1.59	-1.77	-3.15	-3.00	0.55	-0.83	6.18	19.92	0.90
EU CORPORATE TR	USD	243.7	0.02	-1.18	-1.27	-1.88	-2.07	-0.07	-0.77	3.48	18.38	1.30
EU HIGH YIELD TR	EUR	276.25	-0.16	-0.51	-0.53	-0.65	-0.41	2.42	2.78	3.76	39.92	4.03
JACI GLOBAL	USD	251.853	0.22	-0.42	-0.14	0.78	-2.33	-4.49	-0.59	1.36	25.72	-
GLOBAL EM TR (HEDGED)	USD	330.8858	-0.15	-0.82	-0.83	-0.88	1.37	1.59	3.23	2.20	18.75	4.81
S&P/LSTA U.S. LEV LOAN	USD	96.10671	-0.07	-0.31	-0.29	-0.54	-0.58	-0.48	0.80	-2.70	4.69	4.87
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	3153.758	-1.70	-0.09	-2.35	-3.96	-0.03	-15.03	-2.45	-36.57	-28.15	-
GSCI ENERGY TR	USD	635.198	-2.74	-0.34	-4.34	-5.47	0.34	-17.84	0.83	-44.61	-33.59	-
GSCI INDUSTRIAL METALS TR	USD	1183.974	-1.14	-2.51	-0.81	-8.62	-0.67	-11.49	-6.41	-11.95	-19.88	-
GSCI PRECIOUS METALS TR	USD	1451.945	-0.98	-1.40	-1.49	-1.17	-2.12	-2.97	-0.60	-7.07	-30.41	-
GSCI AGRICULTURE TR	USD	484.9089	1.36	3.81	4.45	2.18	-2.78	-10.93	-10.45	-25.72	-23.03	-
GENERIC 1ST 'CU' FUTURE	USD	58	-0.83	-4.61	-4.61	-5.91	7.13	-17.75	1.36	-42.93	-33.32	-
GOLD SPOT \$/OZ	USD	1178.79	-0.13	-1.28	-1.28	-1.51	-1.93	-1.45	-0.81	-6.26	-27.32	-
CURRENCIES												
DOLLAR INDEX SPOT	USD	95.46101	-0.03	-1.52	-1.52	0.37	-0.98	6.82	5.72	18.74	15.22	-
Euro Spot	EUR	1.1238	0.19	2.49	2.49	0.66	2.08	-8.34	-8.94	-17.58	-9.58	-
Japanese Yen Spot	JPY	124.36	-0.35	-0.52	-0.52	-3.96	-3.74	-2.88	-4.02	-17.94	-36.90	-
British Pound Spot	GBP	1.5364	-0.31	0.17	0.17	0.89	0.51	-1.69	-1.87	-8.94	-0.43	-
Brazilian Real Spot	BRL	3.1336	-0.04	0.19	1.44	-1.50	-6.45	-18.52	-15.19	-27.22	-34.90	-
China Renminbi Spot	CNY	6.2005	-0.04	-0.08	-0.08	0.05	1.02	-0.81	0.04	0.83	2.65	-
Singapore Dollar Spot	SGD	1.3474	-0.08	-0.05	-0.05	-1.21	1.67	-1.91	-1.71	-7.13	-4.61	-
Norwegian Krone Spot	NOK	7.7568	-0.98	-0.79	-0.79	-3.26	-1.41	-8.64	-4.87	-23.59	-22.01	-
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	14.71	7.69	10.52	6.29	2.80	4.77	24.45	-23.39	25.94	-40.40	-
USD SWAP SPREAD SEMI 2YR	USD	24.69	-1.26	1.58	1.58	-4.39	-4.39	15.38	6.28	73.40	-31.69	-
TED SPREAD	USD	26.87	-0.11	-4.99	-5.32	-3.97	3.95	22.03	22.08	34.96	-33.16	-

All data is compiled from Bloomberg

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