

Bedrock Friday June 10th Newsletter

It is Friday again... We completed yet another uneventful even boring week, and in a way, it is nice to be bored... We did see Hillary win enough delegates to become the Democrats' candidate for the November elections. We could see this from Geneva, and we can only wonder how Bernie missed this? He is still running... We find it quite sad that the choices for the next US President are now officially set at Hillary or Donald. So be it, we will live with whatever be the outcome and through our apprehension we presume that the effects of either will be quite similar on the general state of the world. So perhaps it is time to put this circus aside and focus on the 'other stuff' happening around us?

Last Friday we received the US Non-Farm Payroll data (NFP), which came in at a hugely disappointing level. As we all know that the Fed's decisions are data-dependent, the prevailing consensus for an imminent rate rise was squashed in minutes. The US Treasury debt flattened with a band, the benchmark ten year note falling in yield to as low as 1.67% from 1.80% or so, the US Dollar which had been in rally mode gapped down against everybody. Indeed, the currencies have normalized to trade on expected interest rate differentials. Suddenly, the baked-in assumption for a widening of spreads on the US Dollar where withdrawn. The US\$ to Euro fell from 1.115 to 1.14 (now relaxed some to 1.13)

If Fed policy was a fairy tale, the title might be "The Central Bank That Cried Wolf." Investors have watched in bemusement as Fed officials throughout the past several years have warned that policy would change, only to back down at the slightest sign of turbulence. It now appears the market is no longer taking the Fed's threats seriously. A June rate hike, thought to be on the table only a few weeks ago, now has just a 2 percent chance, according to the CME's Fed tracker. July has a slightly better chance, with odds increasing through the year. Looking at the current fed fund futures contracts, a full hike isn't priced in until April 2017, with a second hike not until July 2018. Let's not forget the old adage "Money talks and B-S walks". The futures are a money-weighted predictor as opposed to analysts' words... Underlying it all is a fading level of credibility in which the market increasingly disbelieves the central bank's professed resolve to normalize policy and start raising rates again.

Federal Reserve officials looked like fools after Friday's weak jobs report, but Janet Yellen did not because she is truly and repeatedly saying that she is data dependent. We continue to argue from our ever so small pedestal that the Fed ought to leave the rates unchanged until too much (whatever that may be) growth is attained and the 'proper' inflation settles in (seen as 2%). We know that they know how to slow the economy and inflation. Why are we all so concerned now? Really, why is everyone concerned about how the Fed will be fixing a problem than few if any actually see?

We applauded the fall in the unemployment rate which fell to 4.7%, its lowest since November 2007, BUT!!! That was largely due to an exodus from the workforce. A more encompassing number that includes discouraged workers and those working part time for economic reasons held steady at 9.7% Don't you just love statistics? You can say anything you want to prove... Never forget the professor of statistics who drowned in a pool with an average depth of two inches....

Here is a pure economic thought. When rates are at zero or thereabouts, most all business projects show a positive "NPV", or a positive incentive to do them. Indeed, zero rate causes distortions in valuations. Mathematically, negative discounting factors generate positive returns from any sequence of cash flows. Where are all the projects then? Yes, interest rates as we see them these days make "Looking Through the Looking Glass" seem rational. At least Gold has been behaving rationally- Rising as the US Dollar fell, falling back some as the Dollar found its base. We saw \$1'303 on May 2nd, then \$1'208 exactly a month later. Now, 1'267. It is truly the reciprocal of the Dollar... after-all, it is priced in it and then, sprinkled with shiny emotions...Oil has crossed its \$50/Bbl hurdle and has been trading somewhat above it in both WTI and Brent forms. Perhaps stability is back?

As always, we like to look at our world of business and investing with different eyes than most- The "lipstick index" is back, and this time it's gone upmarket. The term was coined by Leonard Lauder -- then-chairman of Estee Lauder -- during the 2001 recession. He noted that in the autumn of that year lipstick sales rose, indicating that women facing an uncertain environment turn to beauty products as an affordable indulgence while they cut back on more-expensive items. The thesis has recently taken on a high-end twist. Consumers may be thinking twice about buying a Louis Vuitton handbag, but they are happy to snap up Christian Dior cosmetics. Hermes could do worse than expanding on its success with its perfumes business, which accounted for 5 percent of sales in the first quarter. Leonard Lauder was right: when times get tough, reach for lipstick. As this shift is being quantified, are we to view it as a precursor of economic slowdown?

Another thought for your weekend- We are getting closer to the BREXIT vote in the UK. A complicated subject to get our minds around! But then, just as we start to evolve a thought, talk of a FREXIT is emerging from Marine Le Pen...

Market Weekly Highlights:

- The Dollar is down on the week, with the USD Index (DXY) trading at 93.80 down 4.8% YTD. The US\$ is now trading at about \$1.1300 against the EUR and at 0.9640 against the Swiss Franc. The Pound has slipped somewhat as the risk of Brexit appear to fade and now trades at 1.4425. We maintain our belief in the fundamental relative strength of the US\$ with a risk of some further short term declines - this view is driven by the outlook for short-dated interest rates to hold or rise further in the US and hold or decline elsewhere. The Japanese Yen is stronger at 107.00 on the general decline of the US\$. Gold is up some \$50 up for the week, now trading at \$1'268 on the back of the \$ fall. We note that WTI Oil has risen steadily to trade now at just above \$50/Bbl of WTI whilst Brent is trading at about \$51.50/Bbl. The Russian Rubble is somewhat stronger at 64.65 per USD. The Brazilian Real rallied strongly this week and is trading at or around 3.40 for the US\$. The geopolitical risk and economic outlook in Brazil does not give us comfort in the rapid strengthening of Real; however we are closely monitoring the events which might trigger a more confident view towards this currency.
- The view whereby the Federal Reserve is poised to take the step and raise rates sometime in the next couple of months has been attenuated with a very bad employment report for May. The markets took it quite seriously and we saw the long-end of the US Treasury curve rally and yields fall. The Dollar responding with a steep fall. We note that the yield on the benchmark US 10 year note is at 1.67% (down some 0.15% on the week), with the Japanese 10 year JGB at NEGATIVE 12Bps, the German Bund at +0.04% and the Swiss at NEGATIVE 0.44%. Whilst the Spanish 10Yr yield is slightly down at 1.45%. The Italian 10Yr yield has started the week with a gap at 1.50 to only close it down during the week and trading at around 1.4%. In the UK, the Gilts' yields continued to move lower on the week from 1.28% to 1.24% as we write.
- This week was another mixed one for equities globally. The S&P500 is up 0.49% for the week so far. The Dow Jones up by 0.82% while NASDAQ at -0.26% with all markets looking to open down. The DAX is trading -1.55% for the week, the CAC40 is now -1.53%, with the SMI at -1.65%, the UK FTSE trading at -0.61% and EuroStoxx50 at -1.63% as we write. In Asia, the Nikkei has closed the week at -0.25%, whilst the Shanghai Composite and the Hang Seng Index closed up 0.47% and up 0.88% respectively.

Highlighted items are interesting data points for the week

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MARKET INDICES PERFORMANCE

09/06/2016

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	2115.48	-0.17	0.49	0.88	1.49	6.33	3.08	3.50	0.49	28.77	17.27
DOW JONES INDUS. AVG	USD	17985.19	-0.11	0.82	1.11	0.32	5.83	2.34	3.21	-0.08	18.02	16.72
NASDAQ COMPOSITE INDEX	USD	4958.616	-0.32	-0.26	0.21	3.09	6.36	-1.72	-0.97	-2.33	42.74	18.63
RUSSELL 2000 INDEX	USD	1181.202	-0.65	0.91	2.29	4.64	11.02	2.80	3.99	-6.77	18.99	18.21
EURO STOXX 50	EUR	2989.03	-0.97	-1.22	-3.35	-0.80	-0.33	-9.45	-9.38	-16.04	8.88	13.72
EURO STOXX 600	EUR	341.25	-0.90	-0.78	-2.82	0.73	1.55	-6.75	-7.42	-13.33	14.72	15.58
CAC 40 INDEX	EUR	4405.61	-0.97	-1.19	-3.03	0.71	0.43	-5.74	-5.78	-11.47	13.08	14.65
DAX INDEX	EUR	10088.87	-1.25	-1.13	-2.67	-0.56	5.17	-5.75	-7.02	-11.33	20.24	12.54
FTSE 100 INDEX	GBP	6231.89	-0.95	-0.30	-0.63	0.56	2.56	1.70	-0.82	-9.35	-3.27	16.63
SWISS MARKET INDEX	CHF	8076.35	-0.83	-1.53	-2.34	1.12	1.65	-7.05	-9.01	-11.85	2.99	17.04
NIKKEI 225	JPY	18688.41	-0.97	-0.25	-3.68	0.22	-1.49	-12.84	-12.78	-17.19	22.84	16.35
HANG SENG INDEX	HKD	21297.88	-0.03	1.04	1.26	4.58	5.40	-3.34	-3.82	-21.91	-2.31	11.27
SHANGHAI SE COMPOSITE	CNY	2627.159	-0.23	0.47	0.38	3.36	2.26	-15.70	-17.29	-42.78	32.40	13.01
S&P BSE SENSEX INDEX	INR	26763.46	-0.83	-0.16	0.50	3.99	8.85	6.13	2.62	-0.15	37.86	17.21
RUSSIAN RTS INDEX \$	USD	950.86	-1.49	3.87	3.67	4.51	12.38	18.26	23.84	-2.24	-27.91	7.24
BRAZIL IBOVESPA INDEX	BRL	51118.46	-0.99	2.47	5.46	-3.88	3.12	12.03	17.92	-5.12	-0.39	12.83
MSCI WORLD	USD	1688.66	-0.61	0.60	0.84	1.59	5.73	1.49	1.56	-4.96	14.63	16.52
MSCI WORLD HEDGED	USD	725.812	-0.47	0.26	0.07	2.84	5.23	1.20	0.87	-2.11	28.37	-
MSCI WORLD LOCAL	-	1272.045	-0.48	0.45	0.01	1.33	4.58	-0.19	-0.44	-5.26	20.48	-
MSCI AC WORLD	USD	407.1	-0.61	0.80	1.13	1.81	5.78	1.94	1.94	-5.92	11.25	15.99
MSCI EM	USD	837.03	-0.62	2.55	3.66	3.73	5.85	6.08	5.40	-14.40	-13.96	12.48
MSCI AC ASIA x JAPAN	USD	508	-0.26	2.25	2.77	4.53	5.48	2.83	1.61	-14.20	-3.41	12.74
MSCI EM LATIN AMERICA	USD	2184.91	-1.14	5.92	7.20	-1.24	6.54	14.12	19.41	-14.48	-35.01	15.26
MSCI EM Eur, ME & Africa	USD	234.3	-1.78	2.11	4.64	3.71	6.59	13.16	11.46	-14.06	-23.35	11.14

EQUITY MARKET INDICES - BY SECTOR												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
MSCI ENERGY	USD	202.73	-0.79	3.58	3.52	4.52	12.13	10.99	13.68	-12.55	-19.66	27.88
MSCI MATERIALS	USD	203.92	-1.23	1.51	2.88	3.13	10.00	9.32	10.42	-11.90	-7.73	19.20
MSCI INDUSTRIALS	USD	202.12	-0.60	1.09	1.38	1.39	6.81	5.23	5.38	-1.96	17.68	16.75
MSCI CONS DISCRETIONARY	USD	189.88	-0.67	-0.05	0.03	-0.89	3.32	-2.79	-1.93	-4.92	22.85	15.85
MSCI CONS STAPLES	USD	220.56	-0.31	0.53	1.92	0.44	4.31	6.86	5.83	8.35	22.74	21.59
MSCI HEALTH CARE	USD	206.21	-0.49	0.08	1.43	2.39	6.71	-0.24	-1.90	-6.44	35.95	16.74
MSCI FINANCIALS	USD	92.36	-1.05	-0.21	-0.97	0.74	4.49	-4.57	-4.80	-12.86	1.80	12.77
MSCI INFO TECH	USD	147.43	-0.17	0.69	0.10	3.89	5.70	-0.97	0.72	-0.14	39.60	17.59
MSCI TELECOMS	USD	71.94	-0.65	0.15	0.36	-0.07	2.30	7.36	5.90	1.20	15.81	15.41
MSCI UTILITY	USD	122.4	0.24	1.60	2.63	1.90	5.71	12.49	9.61	6.66	15.58	16.89
MSCI WORLD REAL ESTATE	USD	200.47	-0.01	0.87	1.80	-0.43	7.09	7.57	5.61	4.67	13.30	23.08

HEDGE FUND INDICES												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
HFRX GLOBAL HEDGE FUND	USD	1172.35	0.18	0.81	0.88	1.94	2.70	-0.61	-0.15	-5.83	-1.81	-
HFRX EQUAL WEIGHTED	USD	1179.6	0.14	0.57	0.65	1.53	2.80	0.18	0.58	-3.06	0.83	-
HFRX GLOBAL EUR	EUR	1066.16	0.18	0.78	0.80	1.79	2.25	-1.37	-0.85	-6.92	-3.84	-

MARKET INDICES PERFORMANCE

09/06/2016

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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	0.2536	2.01	-0.03	-0.03	0.01	-0.06	0.02	0.09	0.24	-	-
US 2 YEAR	USD	0.7626	-0.57	-0.01	-0.11	0.04	-0.16	-0.18	-0.29	0.04	-	-
US 10 YEAR	USD	1.673	-0.01	-0.03	-0.17	-0.09	-0.26	-0.56	-0.60	-0.81	-	-

FIXED INCOME INDICES - BY TYPE OF ISSUER												
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	Yield to Worst
GLOBAL AGG TR HEDGED	USD	502.8566	0.14	0.28	0.75	0.71	2.53	4.54	4.68	6.76	13.87	1.29
US GOVERNMENT TR	USD	2178.21	0.17	0.19	0.94	0.51	1.83	3.79	3.98	5.62	8.51	1.29
US CORPORATE TR	USD	2739.69	0.22	0.44	1.23	1.07	5.03	5.99	6.01	7.41	13.85	3.00
US HIGH YIELD TR	USD	1692.72	-0.01	1.12	1.15	2.52	7.29	8.19	9.31	1.36	11.31	7.04
EU GOVERNMENT TR	EUR	252.4053	0.18	0.39	0.80	1.00	2.11	3.53	4.00	7.51	20.14	0.34
EU CORPORATE TR	USD	255.5733	0.11	0.34	0.69	0.73	3.05	4.07	4.29	5.70	14.37	0.95
EU HIGH YIELD TR	EUR	285.0077	0.10	0.56	0.70	1.51	4.52	3.73	5.00	3.82	19.48	4.19
BARCLAYS GLOBAL CONVERT.	USD	215.27	-0.30	0.33	0.59	2.57	4.01	1.28	1.14	-4.82	12.54	-
GLOBAL EM TR (HEDGED)	USD	348.6092	-0.04	0.72	1.33	1.39	4.89	7.02	7.50	6.41	14.23	4.67
S&P/LSTA U.S. LEV LOAN	USD	91.20215	0.07	0.24	0.24	0.59	3.66	3.45	3.98	-4.86	-8.86	5.67

COMMODITY INDICES - BY TYPE OF ISSUER											
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
GSCI INDEX TOTAL RETURN	USD	2480.284	-0.68	3.09	4.09	12.16	14.68	10.94	14.27	-23.57	-47.66
GSCI ENERGY TR	USD	431.196	-0.69	3.08	3.59	16.33	20.67	10.37	17.08	-34.89	-59.32
GSCI INDUSTRIAL METALS TR	USD	971.028	-1.28	0.66	0.18	0.13	-3.08	4.36	1.70	-18.89	-31.42
GSCI PRECIOUS METALS TR	USD	1563.199	0.92	5.27	4.91	0.40	2.13	18.39	20.35	7.57	-10.78
GSCI AGRICULTURE TR	USD	519.587	-0.91	4.46	7.98	13.78	17.84	12.40	15.44	6.49	-26.91
GENERIC 1ST 'CL' FUTURE	USD	50.56	-1.01	2.94	1.93	10.44	20.14	10.34	12.30	-32.54	-53.19
GOLD SPOT \$/OZ	USD	1269.74	-0.08	1.97	4.39	0.23	-0.28	18.40	19.53	6.95	-8.49

CURRENCIES											
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
DOLLAR INDEX SPOT	USD	93.953	0.12	0.04	-1.90	-0.23	-2.09	-3.95	-4.62	-9.61	15.22
Euro Spot	EUR	1.1316	0.03	-0.42	1.68	-0.47	1.27	3.45	4.21	-0.04	-14.62
Japanese Yen Spot	JPY	107.1	0.30	-0.23	3.70	2.33	6.00	13.84	12.59	14.89	-7.51
British Pound Spot	GBP	1.4458	-0.09	-0.50	-0.26	0.02	1.15	-4.72	-1.97	-8.99	-7.24
Swiss Franc Spot	CHF	0.9646	0.23	1.40	3.27	1.41	2.35	2.63	4.13	-3.21	-2.98
Brazilian Real Spot	BRL	3.4002	-1.12	5.89	6.22	3.42	8.52	10.36	16.49	-8.92	-37.30
China Renminbi Spot	CNY	6.5624	0.14	0.27	0.35	-0.69	-0.88	-2.20	-1.05	-5.43	-6.54
Singapore Dollar Spot	SGD	1.3528	-0.19	0.14	1.65	0.99	1.85	3.61	4.66	-1.02	-7.22
Norwegian Krone Spot	NOK	8.1566	-0.27	-0.07	2.45	0.46	4.12	5.68	8.12	-5.08	-29.56

VOLATILITY / LIQUIDITY INDICES											
INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
CBOE SPX VOLATILITY INDX	USD	14.64	3.98	10.91	5.29	9.61	-17.23	-22.75	-17.96	13.01	-3.24
USD SWAP SPREAD SEMI 2YR	USD	13.94	-	-6.69	-8.65	1.31	174.41	28.01	17.34	-46.33	-22.98
TED SPREAD	-	40.75	-	0.32	1.65	-2.04	21.82	67.83	-9.44	48.02	73.70

All data is compiled from Bloomberg

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