

Bedrock Friday September 30th Newsletter

It is Friday again and we are closing yet another interesting week. We end Q3 2016 today and enjoy gorgeous day outside. Blue skies outside are shadowed by some heavy clouds inside, on our screens.

The 'biggest and baddest cloud' on our screens is clearly the collapse in the stock price of Deutsche Bank; the largest German bank has lost about 60% of its market value since January after being fined \$14 billion by the US regulators for mortgage related misbehaviour. The fall in this one bank valuation has dragged down the German DAX index, has spilled-over to the entire European banking sector and across the globe. The question the market is asking here is whether or not DB is the Bear Sterns of 2007? Almost ten years later and we wonder if we are facing a ground-hog day... Will DB be forcibly merged into another German bank? Taken-over by the state? Will we get contagion across the industry? Who will be the new Lehman Brothers? Worrisome indeed! But then, the industry is better capitalized now than a decade ago.

The Other Event of the week was definitively the first Hillary-Trump debate on Monday night. 90 minutes of two people bashing each other on everything from their looks, health, language, history and even a little bit about their thoughts regarding the economy, security and other boring if pertinent bits of the eventual president's job. The markets gave Hillary the win on points, no knock-out here... This is our interpretation of Tuesday's post-debate "action"; Markets like stability and predictability. Hillary represents an understandable future, full of more-of-the-same. We know what we will get. The Donald is not understood, unreasonable in his unconventionality and therefore a risk. As the Dollar rose together with stock futures after the debate, clearly the market added to the odds of "more of the same" albeit wearing a dress. But there are some forty days ahead of us until election day. Much can change in the short eternity...

Talking about Presidential Dresses brings our attention to "Fashion Week" which is doing the ritual of showing next year's dress-code. In our un-professional, if trained eyes it would seem as though hemlines have been raised and quite substantially! As we are believers in the predictive powers of the "Hemline Theory", and from what we have observed on the catwalks of New York and Europe, we can comfortably predict rising markets into the spring of 2017! The problem though is that some of these hemlines have become so high that here is little if any scope for the next season to go any shorter... implying that the second half of 2017 is likely to stagnate or lengthen... Live now, pay later we say; enjoy the rally to come and the sights to observe ☺

For those of you who wonder about this "model of models", the theory here is that the creators of fashion are attuned to the mood of the public. When they sense a positive mood, they go short. In support of this line of thought we bring forth the funniest data-point this week was Tuesday's Consumer Confidence number which surged from the previous month and defied expectations of a decline. Of course, this number completely busts any narrative about how U.S. Presidential politics might be making people nervous, and you just know that had the number gone in the other direction, then there would've been many stories about how the race was already damaging the economy. Within the guts of the actual report, however, one data-point that really stood out was the percentage of consumers who plan to buy a washing machine. That hit its highest level since the financial crisis at 7.7%. Appliance purchases are a nice proxy for the economy, since they're associated with housing and consumer willingness to spend on expensive items in general. Also, you have to wonder whether there's an element here relating to babies. Once you have kids, you have to do a lot more laundry and going to a laundromat is prohibitively inconvenient (even going into a basement, communal laundry area is tough). So for all kinds of reasons, that washing machine number could be a good sign. So we prefer to look through the DB cloud and focus our sights on this statistic and especially on those delightfully short skirts... Another comforting thought seeps-up into our thinking relates to inflation. In spite of central banks' easy-money stance and 2% target level for inflation it isn't happening. Prices of most things are steady or falling. We believe that the underlying reason for this phenomenon lies in the general disintermediation and price discovery enabled caused by the internet and e-commerce. It is what has hurt DB profitability; it pushed Amazon into global eminence and will surely continue to push down margins and general pricing. We used to say "never fight the Fed". Now we say "don't fight the Net". If our thoughts here are indeed the 'truth of the moment', prices will continue to fall across the board for everything, the economies will reallocate resources out of intermediation activities and improve their growth rates through efficiencies. We like what we see! International Monetary Fund Managing Director Christine Lagarde told CNBC on Wednesday "more vigorous" growth policies need to be pursued by the world's largest economic powers. She may well find it happening "naturally"...

We leave you for today wishing you all a "Shana Tova" into a great start into Q4 on Monday! We give you a reminder that Gambling is the sure way of getting nothing for something ☺

Market Weekly Highlights:

- The dollar is almost unchanged for the week, with the USD Index (DXY) trading at around 95.49 or +0.02% WTD, bringing the YTD performance to -3.18%. The dollar is now trading at about \$1.1210 against the EUR and at 0.9662 against the Swiss Franc. The GBP is currently trading at 1.2964 against the USD, stable for the week. The Yen gained 0.13% over the week and is trading at 100.89 at the time we write. The Russian Ruble moved higher by 1.19% against the USD at 63.32, following the oil rally. The Brazilian Real is down for the week to trade at around 3.26. Gold declined by 0.96% this week to 1'324.68. Oil prices rallied above the \$47 level after an unexpected OPEC deal that outlines a production cut for the first time in eight years. WTI crude is now trading at \$47.25, a five day rise of 6.23%, and the Brent is trading at \$48.70/Bbl.
- Big swings in the Bond markets as well, with most of the benchmark yield down for the week. The US 10 year yield moved lower by 7.7Bp to stabilize at the 1.54% mark. The yield on 10-year JGBs moved 3.5Bp lower to currently offer negative 0.09%. The German Bund lost an additional 6.4Bp over the week, currently offering -0.15%. The Swiss 10 year bond yield continues to trade deeply into negative territories at -0.55%. The Italian 10Yr and the Spanish 10Yr yields +0.2Bp and -4.6Bp to offer 1.22% and 0.92% respectively. Finally, the 10Yr UK Gilt yield moved 0.8Bp stable at 0.72%.
- Amid mounting concerns about Deutsche Bank AG's ability to withstand its pending legal penalties, global financials have suffered this week, pushing global equity markets down. All three major US indices are down this week, with the DOW declining 0.65%, the S&P500 -0.63% and the NASDAQ -0.69%. Futures are pointing south for today's session as well. European markets suffered even more, the Eurostoxx 50 lost 3.37% for the week, the CAC -3.04% and the DAX -4.10% at the time we write. In Asia, the Shanghai Composite is also down for the week, declining -0.96% while the Hang Seng closed down -1.80% and the Nikkei +-1.82%.

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Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

29/09/2016

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	2,151.13	-0.93	-1.20	-0.91	-0.91	2.49	4.44	5.24	12.04	27.93	17.73
DOW JONES INDUS. AVG	USD	18,143.45	-1.07	-1.35	-1.40	-1.40	1.19	2.59	4.12	11.41	19.92	17.05
NASDAQ COMPOSITE INDEX	USD	5,269.15	-0.93	-1.32	1.07	1.07	8.81	8.20	5.23	14.05	39.71	19.38
RUSSELL 2000 INDEX	USD	1,237.75	-1.42	-2.03	-0.17	-0.17	7.45	11.11	8.97	12.45	15.27	17.93
EURO STOXX 50	EUR	2,991.58	0.02	-3.49	-3.20	-3.20	2.15	-2.61	-10.44	-5.62	1.15	14.18
EURO STOXX 600	EUR	342.72	0.05	-2.38	-1.87	-1.87	2.19	-0.12	-7.84	-3.06	8.59	15.79
CAC 40 INDEX	EUR	4,443.84	0.26	-3.15	-2.05	-2.05	2.59	-0.87	-6.25	-2.43	4.91	14.34
DAX INDEX	EUR	10,405.54	-0.31	-3.89	-3.58	-3.58	5.51	2.49	-4.93	5.72	18.84	13.23
FTSE 100 INDEX	GBP	6,919.42	1.03	-1.39	0.47	0.47	4.76	10.34	9.15	12.41	5.44	17.24
SWISS MARKET INDEX	CHF	8,164.20	-0.68	-2.95	-2.11	-2.11	0.11	2.83	-8.95	-5.69	0.08	17.52
NIKKEI 225	JPY	16,693.71	1.39	-1.82	-2.59	-2.59	5.61	-1.84	-13.58	-5.40	13.79	16.08
HANG SENG INDEX	HKD	23,739.47	0.51	-1.88	1.15	1.15	11.76	11.86	6.05	11.49	1.67	12.43
SHANGHAI SE COMPOSITE	CNY	2,998.48	0.36	-0.96	-2.62	-2.62	2.56	0.03	-15.10	-1.57	38.17	13.77
S&P BSE SENSEX INDEX	INR	27,827.53	-1.64	-3.21	-2.48	-2.48	2.77	9.49	6.24	6.09	43.18	17.29
RUSSIAN RTS INDEX \$	USD	998.17	2.34	-0.84	3.72	3.72	5.89	12.48	30.19	24.80	-30.71	7.00
BRAZIL IBOVESPA INDEX	BRL	58,350.57	-1.69	-1.09	0.78	0.78	13.24	16.57	34.60	29.50	11.49	14.45
MSCI WORLD	USD	1,719.77	-0.34	-0.57	0.01	0.01	4.02	4.35	3.43	8.71	11.41	16.90
MSCI WORLD HEDGED	USD	748.13	-0.37	-0.93	-0.09	-0.23	5.79	6.12	3.98	12.78	25.09	-
MSCI WORLD LOCAL	-	1,302.70	-0.37	-0.57	-0.30	-0.30	3.95	4.55	1.95	7.90	18.82	-
MSCI AC WORLD	USD	417.66	-0.29	-0.56	0.25	0.25	4.60	4.87	4.58	9.44	9.32	16.41
MSCI EM	USD	913.39	0.15	-0.45	2.21	2.21	9.51	9.15	15.02	15.32	-7.50	13.33
MSCI AC ASIA x JAPAN	USD	557.44	0.23	-0.29	2.61	2.61	10.68	9.82	11.50	15.36	4.38	13.89
MSCI EM LATIN AMERICA	USD	2,400.89	-0.48	-1.15	-0.03	-0.03	5.80	10.72	31.21	26.73	-27.31	16.10
MSCI EM Eur, ME & Africa	USD	243.52	0.55	-0.87	3.45	3.45	5.55	3.34	15.85	5.87	-26.00	11.10

EQUITY MARKET INDICES - BY SECTOR

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	P/E
MSCI ENERGY	USD	204.00	1.66	3.18	2.02	2.02	0.03	9.75	14.39	12.75	-21.32	31.00
MSCI MATERIALS	USD	216.19	0.68	0.73	1.79	1.79	9.26	12.74	17.07	21.81	-6.16	19.25
MSCI INDUSTRIALS	USD	207.76	-0.24	-0.35	-0.07	-0.07	5.34	5.24	8.32	15.24	12.02	17.27
MSCI CONS DISCRETIONARY	USD	192.48	-0.38	-0.71	-0.42	-0.42	5.36	0.57	-0.59	4.39	14.33	16.54
MSCI CONS STAPLES	USD	219.70	-0.47	-0.70	-0.59	-0.59	-1.54	1.31	5.42	11.48	21.79	21.35
MSCI HEALTH CARE	USD	203.21	-1.56	-2.21	-0.76	-0.76	-0.75	4.40	-3.33	3.18	28.47	16.47
MSCI FINANCIALS	USD	92.64	-0.35	-1.57	-1.84	-1.84	5.78	2.57	-4.51	-0.92	-2.46	12.04
MSCI INFO TECH	USD	160.51	-0.38	0.23	1.99	1.99	12.16	8.92	9.65	19.06	45.36	18.64
MSCI TELECOMS	USD	71.56	0.11	-0.75	0.06	0.06	-2.57	-0.87	5.34	11.24	8.16	14.56
MSCI UTILITY	USD	120.36	-0.52	-1.46	1.46	1.46	-3.38	-0.19	7.78	8.52	10.91	16.72
MSCI WORLD REAL ESTATE	USD	203.86	-0.83	-0.93	-0.69	-0.69	0.23	3.04	7.39	11.81	14.68	23.48

HEDGE FUND INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
HFEX GLOBAL HEDGE FUND	USD	1,189.07	0.17	0.37	0.50	0.49	3.14	3.60	1.28	0.81	-0.83
HFEX EQUAL WEIGHTED	USD	1,202.52	0.10	0.27	0.40	0.44	3.04	4.22	2.53	2.03	2.19
HFEX GLOBAL EUR	EUR	1,075.96	0.16	0.35	0.35	0.33	2.68	2.71	0.07	-0.66	-3.23

MARKET INDICES PERFORMANCE

29/09/2016

INDEX NAME	CCY	Last Price	PRICE CHANGE IN % (unless indicated)								
			1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y

FIXED INCOME INDICES - YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)											
US 3 MONTH	USD	0.24	-1.01	7.61	-8.63	-8.12	-1.52	5.02	8.08	26.38	-
US 2 YEAR	USD	0.72	-1.59	-3.57	-8.70	-7.90	13.66	-3.84	-32.94	8.94	-
US 10 YEAR	USD	1.54	-2.40	-8.25	-4.41	-3.04	6.62	-28.69	-73.35	-50.09	-

FIXED INCOME INDICES - BY TYPE OF ISSUER

Yield to Worst

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
GLOBAL AGG TR HEDGED	USD	512.17	0.04	0.30	0.15	0.15	0.70	3.23	6.61	6.72	16.12	1.11
US GOVERNMENT TR	USD	2,203.04	-0.05	0.28	0.08	0.08	-0.05	1.99	5.17	4.21	10.51	1.11
US CORPORATE TR	USD	2,812.18	-0.05	0.27	-0.03	-0.03	1.63	5.25	9.43	8.80	18.10	2.80
US HIGH YIELD TR	USD	1,776.65	0.17	0.06	0.33	0.33	5.20	11.01	14.73	12.36	16.31	6.21
EU GOVERNMENT TR	EUR	257.44	-0.23	0.17	0.16	0.16	0.68	2.75	6.07	6.56	22.36	0.14
EU CORPORATE TR	USD	262.41	-0.12	0.11	0.12	0.12	2.28	4.19	7.08	8.61	16.94	0.65
EU HIGH YIELD TR	EUR	290.88	0.09	-0.03	-0.46	-0.46	3.39	5.06	7.16	8.70	19.05	4.00
BARCLAYS GLOBAL CONVERT.	USD	219.62	-0.28	-0.65	0.01	-0.21	4.60	4.89	3.18	5.64	9.04	-
GLOBAL EM TR (HEDGED)	USD	364.93	0.11	0.03	0.31	0.31	3.34	7.93	12.53	13.73	21.23	4.12
S&P/LSTA U.S. LEV LOAN	USD	92.28	0.01	0.08	-0.20	-0.20	1.67	3.62	5.21	1.25	-5.28	5.20

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	2,278.41	0.86	1.24	3.82	0.66	-6.04	7.39	4.97	-12.33	-53.27
GSCI ENERGY TR	USD	397.34	1.61	3.03	5.38	0.59	-5.97	15.61	7.89	-18.94	-64.49
GSCI INDUSTRIAL METALS TR	USD	1,055.20	0.53	1.28	4.38	3.79	3.52	8.89	10.52	5.91	-22.96
GSCI PRECIOUS METALS TR	USD	1,632.58	0.20	-1.77	1.31	0.16	-0.06	8.37	25.69	18.27	-4.01
GSCI AGRICULTURE TR	USD	442.38	-0.77	-1.72	4.33	2.37	-8.69	-2.96	-1.71	-4.57	-32.67
GENERIC 1ST 'CL' FUTURE	USD	47.83	-1.17	6.27	4.33	4.33	-5.67	9.09	-0.17	-19.50	-59.34
GOLD SPOT \$/OZ	USD	1,320.36	0.29	-1.00	1.17	1.17	0.15	7.43	24.76	18.76	-0.35

CURRENCIES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
DOLLAR INDEX SPOT	USD	95.54	0.24	0.30	-0.27	-0.27	-0.39	1.25	-2.90	-0.61	19.38
Euro Spot	EUR	1.12	-0.42	-0.45	0.15	0.15	0.62	-1.80	2.88	-0.02	-17.39
Japanese Yen Spot	JPY	101.03	0.16	0.15	2.54	2.54	2.31	11.60	19.18	18.85	-2.58
British Pound Spot	GBP	1.30	-0.08	-0.06	-1.37	-1.37	-2.65	-9.76	-12.07	-14.34	-19.94
Swiss Franc Spot	CHF	0.97	-0.23	0.21	1.60	1.60	0.78	-0.68	3.48	0.51	-6.56
Brazilian Real Spot	BRL	3.26	-1.32	-1.20	-1.01	-0.89	-1.20	11.63	21.51	24.61	-30.90
China Renminbi Spot	CNY	6.67	-0.05	-0.01	0.13	0.13	-0.33	-3.25	-2.65	-4.71	-8.24
Singapore Dollar Spot	SGD	1.36	-0.12	-0.50	-0.26	-0.26	-1.37	-1.28	3.85	4.13	-8.06
Norwegian Krone Spot	NOK	8.05	-0.53	0.27	2.93	2.93	3.37	2.19	9.29	5.25	-25.67

VOLATILITY / LIQUIDITY INDICES

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y
CBOE SPX VOLATILITY INDX	USD	14.02	13.16	23.11	12.74	12.74	-3.20	8.46	-16.91	-38.24	-8.86
USD SWAP SPREAD SEMI 2YR	USD	25.52	-	2.05	8.24	8.24	75.48	121.19	122.31	126.31	87.84
TED SPREAD	-	-	-	-12.65	17.00	17.19	55.42	47.90	33.80	79.36	152.66

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