We have had a “noisy” week… On the back of the previous week’s Fed rate decision and the Dutch election, we now have a firm date for the UK to file “Article 50” to trigger Brexit on the 29th of March. Then a terror attack on Westminster and the health-care cage-rattling in D.C. to be voted on tonight. Each of these topics generated pages upon pages of descriptive and analysis. Too much to read and so little time and patience...

We choose to read our own ‘Readers’ Digest’- The markets, to get a concise and money weighted understanding of what it all means; “There is no truth. There is only perception.” Gustave Flaubert Case in point- Yesterday’s news be as they may, we read the markets and note that the yields on the Benchmark US Treasury ten year note have eased and the ‘interest rates curve’ has flattened. The US Dollar has retreated and equity markets have been shaken with their first significant (over 1%) single day decline since Trump took the reins of the world. Oil retreated somewhat in contradiction of the decline of the greenback, but gold played ball and rose as one would expect. Truly a mixed bag of observations…
The dollar swung between gains and losses as a slump in stock markets spurred haven demand for the yen, while investors reduced their exposure. Risk aversion was evident in both the spot and options markets: dollar-yen was lower a seventh day, set for its longest losing streak in two months, while bearish sentiment as expressed through risk reversals touched its strongest level in six weeks. Aussie-yen, a common risk barometer, was lower by the most in three months on a two-day basis. Haven demand helped give the Swiss franc a bid; USD/CHF dropped to 0.9912, its lowest level since Feb. 7. Four months after the dawn of the Trump trade, currency investors are capitulating. That’s the signal from Bank of America Corp.’s flow data, which blends positioning and sentiment surveys conducted with its hedge fund and real-money clients, and publicly available futures data. The bank’s takeaway is that bullish dollar positions put on after the election have completely disappeared. That also means the U.S. currency, which has almost retraced the 7% rally since Donald Trump’s election victory, will be stuck in a range barring any concrete fiscal policy.
We believe that the FX market is back to its base and looking forward it should be driven by the fundamentals of interest rate differentials- With no assurances for a strong rally in the Dollar, we are comforted that the “carry on the USD” will prevent a further drop. The bet is skewed toward a firm Dollar. Some more comfort can be found in the Fed’s actions- While solicitously "guiding" the markets to its "earth-shaking" 0.25% interest rate increase last Wednesday, the Fed has been expanding its balance sheet – big time -- by buying a huge amount of assets in exchange for cash to reassure equity and bond traders. Only during the two weeks preceding the push of the federal funds rate to the 0.75-1.0 percent range, a total of $115.5 billion of new liquidity has been created. If that was meant to confuse the gallery it is mission accomplished. Just look at weird headlines wondering how the markets could rally in reaction to "credit tightening," and muddled up commentaries about preferred maturities and asset classes as the Fed continues to wind down the long celebration of abundant and cheap credit. The Fed is telling it all in its "forward market guidance" but their words are very much at odds with what the Fed is doing. For example, these $267 billion the Fed added to its balance sheet since mid-January represent one-third of its last "normal" average monthly balance sheet of $820 billion before the onset of the financial crisis in 2008. That huge liquidity creation over the last two months has now brought the Fed's monetary base to $3.9 trillion – very close to record-high levels observed in August 2014.
Yes, since raising the Fed Funds rate by 0.25% and the adjacent promise of more to come, the longer end of the curve has rallied, creating a flatter curve. What kind of normalization process is that? These numbers look more like a colossal new round of quantitative easing (QE) totally "missed" – but greatly enjoyed – by financial markets. The market reacted to the reality, not to the words. The Fed is also slipping by another feat of extraordinary economic management: It is increasing the supply of money while raising its price. It looks like the price of money is no longer determined by its demand and supply. But the Fed is doing it: It pushed up last week the effective rate banks charge each other for overnight loans from 0.66% to 0.90%, even though excess reserves of the banking sector increased since the beginning of this month by $115 billion to an incredibly high level of $2.2 trillion. It's like the Groucho's number: “Who ya gonna believe, me or your own eyes?”

So bonds are rallying again. Equities should as well, down-blip aside, as effectively the Fed is easing even if we “see” a tightening hike in rates. Read the market, not the newspapers (which amazingly have seen a large increase in their circulation!). Stay invested in equities. Analysis done by UBS says “for every 5% cut in the corporate tax rate a 4% increase in earnings per share growth”. They then reminded us that Trump promise a cut from 35% to 15%... do the math, buy equities. The CBOE volatility index (or VIX) is rising on Tuesday, but has remained at notably low levels all year. This indicates that options traders remain confident that the S&P will not move too much. And remember that “People everywhere confuse what they read in newspapers with news.” A. J. Liebling

Market Weekly Highlights:

- The greenback has marked a pause since last year's strong rebound against all currencies. The DXY had reached 103.80 and has lost some ground so far this year to trade now at 99.65, losing almost 2% this week. The USD is trading around 1.08 against the EUR and slightly below parity against the CHF. The Pound has strengthened against the USD trading this week at roughly $1.2484 above its starting level of this year. The Japanese Yen is trading a higher for the week against the USD at 111.04, remaining up strongly vs the Dollar YTD.
  The Russian Ruble is trading up against the USD at 57.20. The Brazilian Real is now trading at 3.14, down for the week. Crude oil WTI reached $55.24 a barrel on the first day of trading on January 1st and is now trading below, at about $47.96. Brent is trading slightly up at 50.77.

- The yield on 10Y U.S. Treasuries are slightly lower than the year-end levels, having bounced in a rather tight range and now are trading to yield 2.43%. The Japanese 10 year JGB is trading lower for the week and continues to offer POSITIVE returns trading at 0.065%.
  In Europe, since the start of the year we saw the German Bund trading higher in yield for a while and reaching almost 0.50% and then dropping back to 0.18% to then bounce back to 0.42% as we write. The French 10Y Yield crossed the 1% level, reaching the high spread-levels of 2014 against the German Bund, reflecting investors' worries on French Presidential election in May this year; now trades at 1.018%
  The Swiss 10 year bond yield traded for the first time in positive territory since 2015 and this for several days, to only slide down at -0.023% after the status quo announced last week by the SNB now it is trading up again at -0.004%.
  In Peripheral Europe Italian 10Y yields crossed the 2% level having started the year at 1.71% and are currently at 2.27% while the Spanish 10Y yields trade 50bps lower having started the year at 1.30% and currently trading at 1.69%.

- All markets are down globally this week marking the long awaited "correction" since the upward trend started in November last year.
  In the USA, all the major indices have marked new all-time highs this month with DJIA trading just below 21'000. However, for the week NASDAQ, Dow Jones and S&P 500 have all posted negative performance of roughly -1.4%.
  In Europe stocks have had mixed results with Eurostoxx50 negative 0.40% for the week together with CAC40 down 0.47% and UK FTSE down 1.30% while and Spanish IBEX 35 and Italian MIB up respectively at 0.43% and 0.11% for the week. Nikkei is also down at 1.67% for the week
  In Latam Bovespa is down 3.42% for the week being among the worst performers while the Mexican MEXIPC is up 2.54%. In Asia the Hang Seng is up at 0.20% together with the Shanghai Composite up at 0.99%.

Highlighted items are interesting data points for the week

All data is compiled from Bloomberg

MARKET INDICES PERFORMANCE

23/03/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
EQUITY MARKET INDICES - BY REGION												P/E
S&P 500 INDEX	USD	2,345.96	-0.10	-1.49	-0.75	-0.90	3.63	8.37	4.79	15.23	26.30	18.06
DOW JONES INDUS. AVG	USD	20,656.58	-0.02	-1.33	-0.75	-0.79	3.63	13.12	4.52	17.93	26.91	17.23
NASDAQ COMPOSITE INDEX	USD	5,817.69	-0.07	-1.41	-0.13	-0.47	6.50	9.65	8.07	21.87	37.65	19.78
RUSSELL 2000 INDEX	USD	1,353.43	0.60	-2.35	-2.40	-2.95	-1.32	7.88	-0.27	25.37	14.87	19.00
EURO STOXX 50	EUR	3,452.18	0.92	-0.24	3.63	4.12	5.08	13.45	4.55	15.18	12.69	14.78
EURO STOXX 600	EUR	377.20	0.86	-0.57	1.60	1.66	4.50	8.93	4.08	12.26	15.96	15.51
CAC 40 INDEX	EUR	5,032.76	0.76	-0.34	3.16	3.44	3.56	11.66	3.08	15.76	17.21	14.87
DAX INDEX	EUR	12,039.68	1.14	-0.60	1.59	1.86	5.01	13.14	4.72	22.04	30.84	13.91
FTSE 100 INDEX	GBP	7,340.71	0.22	-1.20	1.00	1.27	3.79	6.17	2.70	20.13	12.51	14.89
SWISS MARKET INDEX	CHF	8,628.64	0.75	-1.01	0.76	1.00	4.60	4.09	4.76	10.74	5.04	17.50
NIKKEI 225	JPY	19,085.31	0.23	-1.67	0.75	-0.11	-0.85	14.97	0.78	14.03	33.07	17.53
HANG SENG INDEX	HKD	24,327.70	0.03	0.20	2.60	1.64	12.90	2.84	10.72	19.72	11.50	12.16
SHANGHAI SE COMPOSITE	CNY	3,248.55	0.10	0.99	0.85	0.49	5.12	7.76	5.34	10.42	58.23	13.66
S&P BSE SENSEX INDEX	INR	29,332.16	0.56	-0.54	2.59	2.06	13.24	2.86	10.75	16.38	33.70	20.59
RUSSIAN RTS INDEX $	USD	1,124.35	0.11	0.78	1.92	-0.75	0.24	12.74	-2.76	32.26	-0.97	6.31
BRAZIL IBOVESPA INDEX	BRL	63,530.79	0.01	-3.42	-4.70	-4.70	9.65	8.24	5.49	27.94	32.37	11.88
MSCI WORLD	USD	1,844.97	0.13	-0.97	0.34	0.23	4.88	6.66	5.35	13.73	12.09	16.98
MSCI WORLD HEDGED	USD	824.34	0.14	-1.27	0.23	-0.10	4.02	9.67	4.73	17.31	28.38	-
MSCI WORLD LOCAL	-	1,421.86	0.14	-1.23	0.05	-0.11	3.45	8.52	4.22	15.19	21.24	-
MSCI AC WORLD	USD	447.48	0.13	-0.84	0.67	0.48	5.91	6.54	6.08	14.30	11.00	16.37
MSCI EM	USD	967.92	0.11	0.24	3.37	2.59	15.01	5.50	12.25	18.97	1.47	12.73
MSCI AC ASIA x JAPAN	USD	584.56	0.26	0.25	3.58	3.17	15.60	4.56	13.65	17.62	10.15	13.36
MSCI EM LATIN AMERICA	USD	2,591.50	-0.52	-1.26	-0.33	-1.02	14.41	7.98	10.72	24.56	-13.82	13.93
MSCI EM Eur, ME & Africa	USD	261.63	0.28	0.85	4.67	2.33	11.21	6.50	6.89	16.65	-13.09	10.98
EQUITY MARKET INDICES - BY SECTOR												P/E
MSCI ENERGY	USD	203.93	-0.08	-0.94	-1.39	-1.01	-7.24	3.14	-6.88	10.80	-24.79	21.70
MSCI MATERIALS	USD	236.10	0.34	-0.90	0.58	0.20	7.09	10.01	6.41	25.37	-0.45	16.46
MSCI INDUSTRIALS	USD	225.22	0.28	-0.70	0.67	0.91	5.24	8.03	6.00	15.71	14.65	18.12
MSCI CONS DISCRETIONARY	USD	207.28	0.34	-1.01	0.85	0.48	4.63	6.93	5.52	10.74	18.13	16.98
MSCI CONS STAPLES	USD	222.03	-0.02	-0.07	1.06	0.87	7.13	0.36	6.98	4.28	19.26	20.66
MSCI HEALTH CARE	USD	207.75	-0.01	-0.91	-0.10	0.16	7.59	-0.03	7.74	7.71	17.09	16.33
MSCI FINANCIALS	USD	110.06	0.34	-2.35	-0.72	-0.83	2.93	16.94	3.66	23.61	9.49	13.11
MSCI INFO TECH	USD	178.67	-0.26	-0.90	1.43	0.96	9.51	11.57	10.82	23.62	43.67	18.78
MSCI TELECOMS	USD	70.45	0.16	-1.12	1.12	0.08	1.16	-2.29	1.32	-1.20	0.73	14.63
MSCI UTILITY	USD	121.62	0.12	1.18	1.36	1.83	5.96	-0.43	5.79	2.90	4.78	16.66
MSCI WORLD REAL ESTATE	USD	196.40	0.62	0.49	-1.11	-1.21	4.44	-4.55	3.32	1.89	12.93	25.15
HEDGE FUND INDICES												
HFRX GLOBAL HEDGE FUND	USD	1,217.96	-0.18	-0.47	-0.42	-0.57	1.11	2.58	1.20	5.82	-1.52	
HFRX EQUAL WEIGHTED	USD	1,230.85	-0.17	-0.30	-0.32	-0.41	1.08	2.42	1.13	6.65	1.69	
HFRX GLOBAL EUR	EUR	1,090.78	-0.19	-0.48	-0.54	-0.71	0.58	1.50	0.74	3.82	-4.76	

MARKET INDICES PERFORMANCE

23/03/2017

INDEX NAME	CCY	Last Price	1D	5D	MTD	1M	3M	6M	YTD	1Y	3Y	
			PRICE CHANGE IN % (unless indicated)									
LIBOR RATES AND YIELD ON US GOVERNMENT BONDS (Yield in %, Change in bps)												
US 3 MONTH	USD	0.76	0.00	3.56	15.76	25.93	25.42	59.44	26.44	48.20	-	
US 2 YEAR	USD	1.27	1.91	-4.35	1.10	12.83	6.95	51.71	8.28	40.22	-	
US 10 YEAR	USD	2.43	1.46	-6.65	4.41	12.23	-10.33	81.56	-1.03	53.40	-	
US LIBOR 3M	USD	1.16	0.06	0.86	9.28	10.28	15.97	30.01	15.89	52.84	-	
EUR LIBOR 3M	EUR	-0.36	0.00	-0.14	-0.29	-0.36	-2.07	-3.33	-1.93	-10.63	-	
GBP LIBOR 3M	GBP	0.34	-0.03	-0.10	-1.36	-1.14	-2.05	-3.37	-2.38	-24.53	-	
CHF LIBOR 3M	CHF	-0.73	0.00	0.20	-0.18	0.02	0.42	1.78	0.12	0.52		
FIXED INCOME INDICES - BY TYPE OF ISSUER												Yield to Worst
GLOBAL AGG TR HEDGED	USD	500.38	-0.07	0.36	-0.28	-0.29	0.60	-2.01	0.20	1.22	11.10	1.66
GLOBAL HY TR	USD	1,217.42	0.09	-0.02	-0.46	-0.25	3.08	2.73	2.64	13.60	11.35	5.72
US GOVERNMENT TR	USD	2,128.27	-0.07	0.51	-0.17	-0.40	1.08	-3.12	0.54	-0.86	6.26	1.66
US CORPORATE TR	USD	2,754.36	-0.10	0.58	-0.44	-0.55	1.75	-1.79	1.01	3.88	11.43	3.35
US HIGH YIELD TR	USD	1,843.69	0.11	-0.37	-1.25	-1.06	1.88	3.84	1.65	15.59	13.44	6.11
EU GOVERNMENT TR	EUR	245.68	-0.02	0.40	-1.03	-0.82	-1.87	-4.40	-1.84	-1.61	11.96	0.66
EU CORPORATE TR	USD	260.96	-0.06	0.07	-0.66	-0.72	0.37	-0.45	0.20	3.85	12.72	0.96
EU HIGH YIELD TR	EUR	300.98	0.04	0.00	-0.20	-0.11	1.75	3.44	1.61	8.88	15.14	3.69
BARCLAYS GLOBAL CONVERT.	USD	227.71	0.08	-0.79	-0.64	-0.94	2.28	3.22	2.31	9.16	6.75	-
GLOBAL EM TR (HEDGED)	USD	365.65	0.08	0.37	0.02	0.04	3.23	0.23	2.80	8.96	17.89	4.36
S&P/LSTA U.S. LEV LOAN	USD	98.61	-0.02	-0.36	-0.43	-0.30	0.13	7.00	0.00	10.85	0.20	4.61
COMMODITY INDICES - BY TYPE OF ISSUER												
GSCI INDEX TOTAL RETURN	USD	2,231.05	-0.21	-1.25	-6.60	-6.94	-6.21	1.21	-7.71	3.52	-54.58	
GSCI ENERGY TR	USD	372.63	-0.31	-1.82	-9.88	-10.60	-12.77	-0.24	-14.30	5.28	-66.70	
GSCI INDUSTRIAL METALS TR	USD	1,222.69	0.12	0.27	-1.22	1.05	8.40	17.55	8.93	24.88	-3.51	
GSCI PRECIOUS METALS TR	USD	1,525.09	-0.18	1.62	-1.04	-0.67	10.02	-7.89	8.30	2.10	-9.19	
GSCI AGRICULTURE TR	USD	425.97	-0.25	-2.23	-4.27	-5.36	1.28	-4.55	-1.17	-6.24	-37.67	
GENERIC 1ST 'CL' FUTURE	USD	47.87	0.36	-3.64	-12.82	-12.79	-12.95	-1.24	-14.04	-1.18	-59.07	
GOLD SPOT $/OZ	USD	1,242.80	-0.20	1.10	-0.44	-1.14	9.60	-7.09	7.86	2.14	-5.04	
CURRENCIES												
DOLLAR INDEX SPOT	USD	99.76	0.06	-0.48	-1.29	-1.26	-3.10	4.54	-2.34	3.82	24.87	
Euro Spot	EUR	1.08	0.16	0.58	2.12	2.24	3.30	-4.03	2.69	-3.35	-21.96	
Japanese Yen Spot	JPY	110.94	-0.26	1.32	1.38	0.80	5.28	-9.80	5.15	1.50	-8.08	
British Pound Spot	GBP	1.25	-0.22	0.78	0.91	0.25	1.72	-3.71	1.24	-11.73	-24.28	
Swiss Franc Spot	CHF	0.99	0.14	0.63	1.39	1.56	3.55	-2.30	2.72	-1.64	-11.21	
Brazilian Real Spot	BRL	3.14	-1.68	-0.69	-0.96	-2.47	4.13	3.29	3.65	17.33	-25.97	
China Renminbi Spot	CNY	6.89	-0.01	0.24	-0.29	-0.26	0.90	-3.16	0.85	-5.40	-10.05	
Singapore Dollar Spot	SGD	1.40	-0.04	0.14	0.23	0.36	3.39	-2.83	3.34	-2.17	-9.21	
Russian Ruble Spot	RUB	57.35	-0.05	-0.35	1.74	1.77	6.27	11.47	7.24	19.48	-37.05	
Norwegian Krone Spot	NOK	8.49	-0.03	-0.18	-1.16	-1.36	2.38	-4.52	1.74	-0.08	-29.13	
VOLATILITY / LIQUIDITY INDICES												
CBOE SPX VOLATILITY INDX	USD	13.12	2.42	14.36	-0.15	12.47	12.76	4.96	-8.12	-12.48	-14.51	
USD SWAP SPREAD SEMI 2YR	USD	36.69	-	5.51	1.84	-4.55	18.17	37.56	39.02	222.27	148.77	
TED SPREAD		39.11	-	-6.99	-13.01	-28.20	-20.10	-42.95	-21.86	18.52	108.81	

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