BCT 銀聯集團

BCT Market Outlook

July 2014

US Equities

The Federal Reserve ("Fed") further tapered on Qualitative Easing. The amount of bond purchases was reduced from USD 45B to USD 35B per month with the emphasis on sustaining low-rate policy. Moreover, the CPI in May rose by 2.1% from previous year, while unemployment rate stayed at 6.3%, which showed positive signs of recovery. On the other hand, the annualised GDP in 1Q of 2014 contracted by 1% from the previous quarter but the figure was impacted by weather and is expected to rebound in 2Q. Overall, growth momentum of US recovery still exists.

It is worth noting that the labour participating rate stayed at 62.8% in May, which was at a historical low level, implying that the labour market has not fully recovered. The accommodative monetary policy by the Fed may need to be extended, which will benefit market liquidity and sentiment. We maintain a SLIGHTLY POSITIVE view on the US market.

European Equities

The CPI in Eurozone only rose by 0.5% in May from last year, which was far from the 2% target set by the European Central Bank ("ECB"). In its last meeting, the ECB cut interest rate to -0.1% to tackle deflation risk. Besides, high unemployment rate is still a problem, with the unemployment rate at 11.7% in April. Recent data also suggested that the economies in the region may be slowing down. However, Manufacturing PMI was at 52.2 in May, indicating expansion.

Going forward, the effectiveness of the ECB's recent action will depend on whether the credit market in the region can be activated further. The next expected course-of-action by the ECB is to purchase asset-back securities ("ABS") but any further actions beyond ABS would seem unlikely in the short-term. Moreover, Euro weakened under the recent policy act may help Eurozone in boosting exports and corporate earnings. We maintain a POSITIVE view on Europe.

Japanese Equities

Japan's CPI in April recorded a 3.4% increment from the previous year, which was the highest level for over 23 years and is expected to stay at high level. On the other hand, 1Q annualised GDP was up by 6.7% from previous quarter, reflecting strength in the economy. However, April's preliminary industrial production fell by 2.5% from previous month, contradicting with March's 0.7% increment. Also, April's retail sales dropped 13.7%, which was much more than March's figures of up 6.3%.

The strong data in 1Q due to front-running of purchases before consumption tax hike in April. Besides, April's data showed obvious retrenchment, casting doubts on a sustainable recovery, which was at the same time hindering Bank of Japan's decision on whether to act further on monetary and fiscal policies. With such uncertainty, we maintain a NEUTRAL outlook on the Japan.

Asia ex Japan ex Hong Kong Equities

US Fed's emphasis on low rate policy and the ECB's rate cut together supported market liquidity and sentiment of the region. Positive election results and encouraging trade figures drove-up most markets in the ASEAN and the Indian sub-continent. On the other hand, continuous demand from technology related products drove-up the Taiwan and Korea markets. At the end of May, MSCI Asia Pacific Index was only trading at 13 times estimated earnings and was much less expensive than the 16.3 times for the US S&P's 500 Index.

Recent market uptrend was mainly due to the attractiveness in valuation relative to developed markets. Although the gap in valuation is still obvious, the sustainability of the rally is questionable. On the political side, the risk of China's relationship with surrounding Asian countries could be a headwind in the region. However, on the basis of attractive valuation, we are still SLIGHTLY POSITIVE on the region.

China & Hong Kong Equities

The People's Bank of China recently lowered the Reserve Requirement Ratio ("RRR") for selected financial institutions, targeted to help small enterprises and the agriculture sector. This fuelled market's positive sentiment. Moreover, the CPI in May rose 2.5% from previous year, faster than the 1.8% increase in April. However, the May figure was still below the upper limit of 3.5%, implying that there is still room for further stimuli policies. On the negative side, the Chinese property markets saw signs of price adjustment and the weak demands for coal and steel, both threatening economic growth.

Although there is room for China to further release stimuli policies, the action should be sector-orientated. It is expected that large and full-scale of monetary and fiscal easing is unlikely so to avoid deterioration of asset bubble and shadow banking. On the other hand, property sector is expected to continue undergoing pricing adjustment and industry consolidation. The prospects of the region still depend on the direction and strength of policy enhancement. We maintain a NEUTRAL outlook on China and Hong Kong.

Global Bonds

Bond yields for most regions lowered in June on the back of the Fed's emphasis on low-rate policy, the ECB's further action on monetary policy and political instability globally. Furthermore, "search for yield" supported performances of emerging market bonds. On the other hand, it is expected that divergence in monetary policies between US and Europe may bring Euro bonds better prospects, based on the more accommodative stance from the ECB.

We reiterate that corporate bonds are likely to continue to outperform government bonds, while emerging market debts are more likely to attract capital than developed market debts. Moreover, as RMB reforms continue, in addition to China's continuous trade surplus, the outlook for offshore RMB bonds will continue to be attractive. Nevertheless, as economic recovery is generally not favourable to bond returns, we maintain a SLIGHTLY NEGATIVE outlook for bonds overall.

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