BCT 銀聯集團

BCT Market Outlook

May 2014

US

Recent economic data indicates that the US economy has been recovering at a slower pace, with the GDP figure from the first quarter of 2014 up only by 0.1% comparing to the last quarter of 2013 (impacted by bad weather). The good news is that growth momentum for both housing and employment still exists. Also, the Federal Reserve's guidance on quantitative easing ("QE") is still very clear and will continue, with rate hike expectation being managed well. Growth & corporate earnings are likely to remain strong due to continuing corporate restructuring. However, there is cautiousness on high valuation of the stock markets, especially in the technology and bio-technology sectors.

Europe

Eurozone's CPI rose by 0.7% in April from the same time last year, which showed improvement from March's increase of 0.5%. As Europe's recovery is less solid than that of the US, further easing action from the European Central Bank is likely. One important set of data is the European unemployment rates which are still at high levels (overall 11.8% as of March 2014, with Germany at 5.1% and Spain at 25.3%). High sovereign debt level is another worry, but concerns have been easing to a certain extent, and developments in Ukraine together with the still weak job market (especially peripheral countries) remain a concern. To conclude, the overall picture for Europe is still positive due to expected policy support.

Japan

Massive QE led to the depreciation of the Japanese Yen (contrasted by an increase in the Japanese equity market). The currency depreciation spurred export, corporate earnings, and the economy; which have led to improvement in corporate sentiment. However, Japan's GDP was up only by 0.7% in the fourth quarter of 2013 comparing to a year ago, prompting recent criticism on Abenomics. The rise of the consumption tax in April from 5% to 8% has slightly hurt consumption sentiment, which led to sentiment divergence between Japanese consumers and corporates. With many corporates refusing to increase wages as requested by the government, inflation outlook has turned negative. To help improve sentiment further, the consensus is expected to have further monetary stimuli from the Bank of Japan this summer.

Asia ex Japan ex HK

US QE tapering caused outflow of money which led to the depreciation of most Asian currencies. Investors also worried about economic slowdown especially in China. However, MSCI Asia Pacific Index was trading at 12.6 times estimated earnings only, which was much lower than the Standard & Poor's 500 Index's 16 times estimate. Returns within the region diverged widely, with countries in Southeast Asia and the Indian sub-continent performed much better than the Northeast Asian countries. Political risk such as elections in India and Indonesia is a point of concern. There is risk of further currency depreciation if the US economy picks up further, plus US QE tapering is also expected to affect asset prices negatively. However, the balance sheets of the Asian countries and corporates are now stronger than 1997, and the repetition of a large-scale crisis is unlikely.

China & Hong Kong

Financial and economic reforms in China may lead to short-term pain but long-term gain. With China's manufacturing Purchasing Manager Index ("PMI") slightly expanded to 50.4 in April, we expect monetary policy from China would continue to be tight. Due to the liquidity shortage in the Mainland, Chinese builders have turned to the offshore RMB (CNH) market for capital replenishment and have issued close to US$10 billion in offshore yuan or dollar bonds in the first 4 months of 2014. With debt default cases actually being recorded, concerns on local government debts and potential shadow banking problem deepened. On the back of an economic slowdown, the Chinese government may have to come up with a new round of fiscal policies to spur the economy. Also, China's new share listings (IPO) have resumed and could drain market liquidity and put short-term pressure on the Chinese equity markets. With respect to the Shanghai-Hong Kong Stock Connect (互聯互通), the premiums/discounts on the A/H shares are expected to narrow much closer to par.

Bond

In the US, the Central Bank's tapering boosted bond yields. Divergence of monetary policies between the US and Europe offered different outlook to their bonds respectively, with European bonds having better prospect. The RMB reform continues with offshore RMB bonds remain attractive in the long run. Economic recovery usually does not favour bond returns (especially lower-yielding government bonds), and corporate bonds are likely to continue to outperform. In Europe, bond yields from the PIIGS countries have dropped, which is a sign that investment confidence has recovered. Finally, although RMB volatility has increased on the back of the Chinese reforms, the currency is still expected to maintain its long-term appreciation.