BCT銀聯集團

BCT Market Outlook

October 2014

US Equities

Tapering by the US Fed continued, with the total monthly bond purchase further reduced from USD 25 bil to USD 15 bil. Besides, the latest US Fed minutes did not change any wording regarding the timing of interest rate hike. On the economic figures, the ISM Manufacturing Index rose to 59 in August from 57.1 in July, favouring the economic growth. However, the change in non-farm payroll unexpectedly reduced from 209K in July to 142K in August, with the year-on-year CPI growth fell from 2% in July to 1.7% in August.

The market is now focusing on the hints on rate hike from the Fed. Apart from that, the overall economic prospects of the US remain positive. The housing market showed improvement but still undergoes fluctuation, the inflation fell under Fed's target and the labour market also awaits to be improved. These support the on-going Fed's accommodative policy in the short-term. Moreover, the tapering is expected to end in October and consensus believes that the first rate hike will come in mid-2015, with the pace and magnitude depending on the recovery of the labour market. Considering the policy stance and economic momentum, we maintain SLIGHTLY POSITIVE for the US.

European Equities

The ECB's further cut on interest rate enhanced its negative rate policy. It also announced its bond purchase plan to be implemented in October. The action is targeted to bolster the balance sheet of the ECB back to the 2012 level, implying about the purchase program will reach EUR 1 trillion, hoping to spur the credit market and inflation. Also, Eurozone's 2Q preliminary GDP showed 0% quarter growth. The CPI only grew by 0.4% in August from the previous year, which was distant from the ECB's target of just below 2%. Besides, the Eurozone Manufacturing PMI recorded 50.7 in August, which was still above the expansion level but lower than July's 51.8, indicating a slower manufacturing growth.

Eurozone's economy and credit market are still worrying and the effect of rate cuts is to be observed. Moreover, the purchase of asset-backed securities (ABS) raised opposition from some of the larger member countries such as Germany, together with the concerns on the type and risk level of assets to be bought. The ECB needs to make balance between stimuli effect and moral hazard. However, the Euro further weakened, favouring the exports and inflation of the Eurozone. We downgrade Europe from SLIGHTLY POSITIVE to NEUTRAL due to the weakening economic condition and awaited policy effects.

Japanese Equities

The further increase in consumption tax from 8% to 10% scheduled next year may be delayed as Abe declared a neutral stance on the issue, and final decision will depend on the economic condition. Besides, the government cut the overall economic assessment and consumption prospects. Moreover, the economic figures were not encouraging, with year-on-year growth of company profits in 2Q plunged from 20.2% in 1Q to 4.5%. Also, nationwide department store sales in August dropped 0.3% from the previous year, narrowed from 2.5% in July, but still under a negative territory.

The uncertainty of the further rise in consumption tax boosted the market sentiment. Apart from that, Yen has resumed downtrend, favouring the equity market. Nevertheless, the market should be cautious on the strength of Yen if geo-politics is back in focus. On the other hand, Japan's spending motivation is still weak, in addition to the slowing corporate profits growth, it may cast obstacles to wage increment and further weight on consumption. We maintain NEUTRAL stance in Japan.

Asia ex-Japan ex-Hong Kong Equities

The US Fed's Zero-interest Rate Policy (ZIRP), together with the ECB and BoJ's accommodative monetary stance favours the global liquidity. Besides, the MSCI Asia Pacific ex-Japan Index traded at 13.1 times estimated earnings only, which was much lower than the 16.8 times for the US S&P's 500 Index. However, the fears of the earlier-than-expected rate hikes from the US Fed and retrenched economic figures in Asian countries have resulted in outflows of capital and triggered market consolidation.

Sufficient liquidity provided by major central banks favours money inflows to equity markets. However, investors should be cautious on the US's rate hike schedule if the labour market and economy improves at a quicker pace, which in-turn will further benefit the US dollar and deters money flows to Asia. Once the market sentiment is reversed, large-scale money outflows might lead to significant drops in both equities and currencies. In views of continued undervaluation relative to developed economies and deterioration of economic figures is expected to be temporary, we maintain SLIGHTLY POSITIVE.

China & Hong Kong Equities

PBoC provided RMB 500 bil SLF (standard lending facility) with a 3-month maturity, equivalent to 0.5% in RRR decrement. August's aggregate financing continued to fall short of estimates, recorded RMB 957.4 bil, though rebounded from July's RMB 273.1 bil. Moreover, CPI in August fell to 2% from the previous year, forming a downtrend. Besides, the year-on-year growth of the industrial production in August slowed to 6.9%, which was a 5-year low. Also, slump in property market continued, with August's sales of residential buildings dropped 13.8% from the previous year, which is a 6 consecutive month decline.

Chinese credit condition worsened, affected by the hesitation from banks to lend due to potential deterioration in asset quality, which was highly correlated to property market consolidation. On the other hand, the slowdown in inflation reflects the worsening consumption sentiment. We expect large and full-scale of monetary and fiscal easing are unlikely in order to avoid asset bubble and the risk from shadow banking, but targeted RRR cut, direct rate cuts and easing on down payment of first-time homebuyers may be on schedule to boost economy. We maintain at NEUTRAL.

Global Bonds

Liquidity was still abundant on the back of the sustained low-rate policy from the US Fed, as well as the accommodative monetary policy stance by the BoJ. Also, the ECB announced bond purchase plan after further rate cut, supporting the performance of bonds. Besides, dollar strengthened in expectation of rate hike, with yields of US Treasury went up. Euro weakened with economic worries and strengthened policies by the ECB. The yields of peripherals dropped and outperformed core countries.

Abundant liquidity urges capital to strive for returns, and it is expected that "search for yields" will continue. Strengthening of the USD implies the weakness in other currencies, hurting the returns of non-USD dominated bonds. On the other hand, although Chinese economy exists uncertainties, it continued to record trade surpluses. Together with the RMB internationalization in progress, RMB is still in favuor. As bond usually underperform equity during recovery periods, we maintain SLIGHTLY NEGATIVE for overall bond market but SLIGHTLY POSITIVE on RMB bonds.

"BCT" – BCT Financial Limited (Plan Sponsor)
– Bank Consortium Trust Company Limited (Trustee & Administrator)
Issued by BCT Financial Limited