BCT 銀聯集團

BCT Market Outlook

September 2014

US Equities

Latest Fed meeting minutes showed that the removal of accommodative monetary policy may come sooner if the FOMC's objectives occurred quicker than expected. The unemployment rate in July was slightly up to 6.2% from June's 6.1% but it was mainly due to the increase in the number of people joining the workforce. Besides, the ISM Manufacturing Index in July rose to 57.1 from June's 55.3 and housing starts surged 15.7% in July despite it recorded a 9.3% decrease in June from the previous month, while the core personal consumption expenditure in June rose 1.5% from the previous year.

The Fed's minutes sparked the concern on the earlier-than-expected rate hike and monetary policy normalisation. Apart from that, the inflation was kept under control, whereas the housing market saw continuous improvement, suggesting that the US economy is on track of recovery. However, the labour market was still slack (with a considerable amount of part-time jobs, plus a weak wage growth and a large percentage of long-term unemployment), supporting the Fed to keep its monetary policy accommodative in the near term. Besides, corporate earning generally delivered satisfactory results. We maintain SLIGHTLY POSITIVE on the US.

European Equities

Eurozone's advance 2Q GDP was up by 0.7% from the previous year, which slowed down from 0.9% in 1Q. On the other hand, the unemployment rate slightly dropped to 11.5% in June from May's 11.6%. However, the credit condition did not see improvement after the ECB interest rate cut. Moreover, being the largest economy in the region, Germany recorded a year-on-year drop in both factory orders and industrial production in June, while Italy technically entered recession.

The overall economy of Europe shows signs of worsening. With respect to the sluggish credit condition, ECB might further act on the both monetary and fiscal policies, and it has already announced to buy asset-backed securities (ABS) besides further rate cut. Also, investors have to be cautious about the effect on energy supply and economy that may be brought by the sanctions to Russia. Nevertheless, further weakening of the euro might be beneficial to exports. Together with ECB's stance and policy anticipation to maintain growth, we are still SLIGHTLY POSITIVE on Europe.

Japanese Equities

The CPI in June recorded a 3.6% growth from the previous year, staying at a relatively high level in recent years. Nonetheless, the preliminary 2Q annualized GDP was down by 6.8% from the previous quarter against 1Q's growth of 6.1%. Moreover, the GDP consumer spending dropped 5.2% from the previous quarter while 1Q recorded a 2.1% growth. In addition, July's nationwide department store sales was down by 2.5% from the previous year, narrowed from the 4.6% decrease in June but still in the negative territory, indicating the lack of sentiment in consumer spending.

The high inflation will hurt the real return (adjusted for inflation) of JPY government bonds. It will negatively impact the real wealth of local institutions and individuals who hold a majority of the bonds, possibly detracting spending and the overall economy. Abe suggested increasing the equity portion of pension fund but whether it can be implemented with success is in doubt. Yen movement is sensitive to geo-political environment, casting potential uncertainty to exports and the equity market. We keep a NEUTRAL stance on Japan.

Asia ex-Japan ex-Hong Kong Equities

From the perspective of estimated earnings, MSCI Asia Pacific ex-Japan Index was traded at 13.4 times only, there was still a significant discount compared to the US S&P's 500 Index of 16.6 times. Encouraging economic figures such as Malaysia's and Thailand's 2Q GDP supported the sentiment in the region. Apart from that, the positive corporate earnings and policy anticipation of certain countries such as India fueled the market rally.

As long as the valuation discount exists, it is believed that the region is still attractive to capital inflow. However, the sooner-than-expected rate hike from the US may divert money back to the US and negatively affect the asset prices in Asia. On the other hand, there are risks of rapid potential hike in volatility due to escalation of political tensions, sentiment reversals and money outflows. On the basis of valuation, we are still SLIGHTLY POSITIVE on the region.

China & Hong Kong Equities

Chinese economic figures in July were discouraging. Although the CPI maintained at 2.3% on a year-on-year basis, the annual growth of retail sales, industrial production and fixed asset investment all slightly slowed down from June. What's more was that aggregate financing recorded RMB 273.1 bil only in July, which was much further behind from June's RMB 1,967.8 bil. Moreover, the sales of residential building in China fell 17.8% from the previous year, the decline was deepened from June's 5.4%.

July's credit and major economic figures slowed down and the extended concerns of property market cooled down, spurred anticipation of further easing of monetary and housing policies. Moreover, the weakness in demand of steel, coal and shipping suggested that economic recovery was still at risk. It is believed that the sector-oriented easing policies will be implemented to keep the growth target of 7.5%. Nevertheless, it is worth being cautious about sentiment reversals if the easing is not realised or under-expected. Overall outlook for the region maintains NEUTRAL.

Global Bonds

The yield of EUR bonds dropped on the back of deteriorating Eurozone's economy and in expectation of further actions by the ECB. Besides, USD strengthened in anticipation of earlier-than-expected rate hike of the US, which was detrimental to currency returns of various non-US denominated bonds. Apart from that, the geo-political risk remained at a potential positive catalyst to bond performance, especially to major government bonds. Moreover, RMB saw trend of strengthening again, favouring the return of RMB denominated bonds to recover its year-to-date performance.

We prefer emerging market bonds to developed market bonds and corporate bonds to government bonds due to positive earnings. However, with respect to the abundant liquidity and accommodative monetary policies by major central banks and global economic recovery, the outlook of bonds should be less attractive than equities. We maintain SLIGHTLY NEGATIVE on bonds in general, but slightly positive to RMB bonds based on the expectation of the currency's continuous strengthening.

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