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銀聯集團

BCT Market Outlook

August 2015

US Equities

The Fed held interest rate to be unchanged, while addressing improvement in household spending, housing and job markets, with inflation remained below target. Towards rate hike, the Fed will take a balanced mean to achieve maximum employment and 2% inflation target. Besides, June's unemployment rate further slipped from 5.5% in May to 5.3% and non-farm payroll added 223K, down from May's revised 254K. Meanwhile, ISM Manufacturing in June was at 53.5, rose from May's 52.8, which was a sign of acceleration of manufacturing expansion. Moreover, June's housing starts and building permit both jumped from May, recording 9.8% and 7.4% increment respectively, while CPI only rose 0.1% from previous year, with ex food and energy was up by 1.8%.

The Fed shifted market focus from the timing to the pace of rate hike, however, the first rate hike is indicative of policy normalisation and path of rate hike. Considering the progress made in housing, labour market and manufacturing, the decision of rate rise will most likely be related to inflation and the potential threats to the US export by dollar strength. At this stage, core inflation is close to the Fed's 2% target but sluggish oil prices provide room for the Fed to fine tune the timing of rate hike. We hold the view that the Fed will rise rate in September's meeting, and with modest path. On the other hand, although rate hike is indicative of recovery, due to overvaluation, we maintain NETURAL stance to US markets.

European Equities

Greece passed legislations on new austerity measures proposed by the creditors, including tax hike and pension reform. And ECB rose the emergency liquidity assistance (ELA) to Greek banks saving Greece from credit default. In addition, the ECB maintained interest rate unchanged and would make use of all available instruments when the economy worsened. However, July's ZEW Survey expectations of Eurozone dropped from 53.7 in June to 42.7, while that of Germany declined from 31.5 to 29.7, reflecting a deteriorating outlook. Also, credit of Eurozone has retreated from a temporarily rebound but remained weak.

A possible Grexit is yet to be resolved as there were still outstanding debts due for the rest of 2015 which will continue to be a source of volatility. However, the contagion risk should be limited due to the size of Greece's debt burden and insignificant GDP portion in Eurozone. On the other hand, fundamentals in Eurozone are still worrisome. Whether the commitment of ECB's QE programme can trigger recovery is in doubt, as observed by listless inflation and the lack of credit activities. Lastly, total equity return could be confined by further depreciation of euro under the QE programme. We are NEUTRAL in doubt of the QE programme to improve fundamentals.

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Japanese Equities

Acting as a leading indicator of CPI, the PPI in June tumbled by 2.4% year-on-year, slightly enlarged from May's revised -2.2%. On the other hand, June's consumer confidence index was up slightly to 41.7% from May's 41.4, with the finalised June's Nikkei Japan manufacturing PMI recorded 50.1, same as May's revised, indicating lack of momentum in manufacturing growth. In addition, May's industrial production toppled 3.9% from previous year, while June's household spending loss 2% year-on-year compared with 4.8% gain in May.

Advance in household spending is essential to the recovery and markets movement, but more confirmation should be revealed in areas like inflation, consumer confidence and private spending before turning positive. On the currency side, movement of yen is crucial to total equity returns, unless there are outbreaks of unexpected crisis like MERS and Greexit, yen is likely to further depreciate under JCB's QE commitment and US rate rise expectation, dragging total equities returns, but favouring exports at the same time. Our stance to Japanese markets remains NEUTRAL for more encouraging figures to come.

Asia ex Japan ex Hong Kong Equities

The concerns on Greexit, worries on growth triggered by the plunged of Chinese markets and continued disappointing trade figures in the regions sparked significant decline and currencies to be broadly depreciated. By countries, Central Banks of Indonesia, and Malaysia and Korea all hold interest rate unchanged, while Thailand suffered from the most serious drought in decades and triggered worries on outlook. In Taiwan, June's export recorded the greatest year-on-year slump in export since February 2013 and technology-related stocks were hit by unsatisfactory earnings result of Apple. On the contrary, India benefited from further drop in oil prices as an oil-importing countries, anticipation of monsoon and easing of food prices.

Plummeted commodity prices generally unfavours trade and economy in the regions. Besides, US dollar strength and US rate hike schedule are highly correlated, the closer the rate hike to take place, the more fuel to US dollar rally and suppresses commodity prices. With commodity prices slippage and Asian growth under concerns, depreciation of Asian currencies are likely to be worsened, further dragging total equity returns. At the same time, it needs to be cautious on country-specific risk like corporates earning prospects and weather impact. We hold NEUTRAL on concerns of the liquidity drag from the regions by US rate hike expectation.

China & Hong Kong Equities

Markets plunged sharply in July on the back of continued deleveraging of margin financing and the concerns of Greexit. To tackle market decline, the authority launched a series of measures like suspending IPO, restricting the selling of major shareholders, urging state-owned enterprises to increase self-holdings and filing investigations against "malicious short selling" activities, but with short-lasting effects. Moreover, the trading band of RMB was to be widened, according to document from the State Council. On the economic front, the year-on-year growth of retail sales and industrial production in June accelerated, with the average prices of China 70 Cities newly built residential building rose 0.2% from previous month, speeded up from May's 0.1%.

The series of protective measures should stabilise the market somewhat, but as deleveraging is on its way, it might post ceiling on the upside. With decreasing marginal effect of further easing like cut in RRR (required reserve rate) and interest rate, the necessities in enhancing monetary easing in the short-term is limited. However, there may be more measures to support the markets like further stamp tax cut in case of further market decline. Besides, the retreatment of stock markets might reduce the 'wealth effect' and affect the property market, consumption and the whole economy negatively. However, as the stock market still record a sound gain on a year-to-date basis, the impact should be limited. We are still SLIGHLTY POSITIVE, driven by policy anticipation.

Global Bonds

US Treasury yield swung up on calm down of Greexit concerns and anticipation of interest rate hike. Meanwhile, offshore RMB depreciated with State Council's opinion to expand the trading band, though no schedule was given. On the other hand, Asian currencies generally depreciated, with Korea won and Thailand baht dropped with a greater extent, with the backdrop of poor trade data, worries on growth and US interest rate hike concerns. Besides, both yen and euro depreciated against US dollar under the maintenance of the BoJ and ECB stance respectively on their QE programme, and calm down of Greece's debt issue lowered the demand for safe heaven assets and pushed down yen.

Offshore RMB is likely to depreciate with anticipation of trading band widening and Chinese growth concerns, but we hold the view of long-term appreciation of RMB due the expectation of relatively sound growth rate in the long-term. Meanwhile, one should eye on potential decline of Asian trade figures and US rate hike on further currencies depreciation. In conclusion, we see the upward trend of US rate and global recovery affecting the bond performances, thus hold the "SLIGHTLY NEGATIVE" view towards overall bonds, but SLIGHTLY POSITIVE for RMB bonds.