BCT
銀聯集團

BCT Market Outlook

May 2015

US Equities

Latest Fed minutes showed that US recovery has lost momentum and the pace of hiring has moderated. Acknowledging a weakening in the economy has prompted the markets to push back expectations of interest rate rises. However, the Fed addressed that despite the weakening in output and employment growth, it expected activity to expand at “a moderate pace”. Meanwhile, the ISM manufacturing in March recorded 51.5 from February’s 52.9 and was the 5^{th} consecutive month of slowdown in the pace of manufacturing expansion, and was the slowest since January 2014. However, durable goods orders in March rose 4% from previous month, better than February’s -1.4%.

The dependents on the timing of the first rate hike include inflation, employment, housing, dollar strength and economic momentum, among which inflation is more crucial. Also, rate hikes should be at a modest pace unless economic figures show rapid improvement. Besides, oil and copper prices showed stabilisation but lumber was still testing bottom, implying threat to the sustainability of US recovery. With respect to the mixed fundamentals and the relative overvaluation, as seen by the price-to-earnings ratio of the S&P 500 Index which exceeded its 10-year average, we hold the NEUTRAL stance towards the US.

European Equities

Negotiation for a Greek rescue plan continues, and a compromise between Greece’s left-wing government and the EU has not been reached. The deadline for releasing the rescue money of EUR 7.2 billion has been extended from end of April to May. On the other hand, the ECB maintained interest rate unchanged, addressed that the QE programme would last either until September 2016 or until the inflation reached target level in a sustainable manner. In addition, the March Eurozone CPI declined 0.1% year-on-year while the core CPI rose 0.6%.

Greece remains a threat to the financial stability in the Eurozone besides the risk of deflation, high unemployment rate and sluggish credit condition. Moreover, the recovery of the Eurozone and whether further easing is required will depend on the activeness of credit lending, in which significant improvement is yet to realise. Meanwhile, the QE programme may favour the rally of risky asset. However, the fundamentals of the Eurozone remained weak as seen in the inflation and high level of unemployment, and it should note that asset prices should reflect fundamentals in the long term, we thus maintain our NEUTRAL view.

Japanese Equities

The BoJ delayed the time to reach the inflation target of 2%, which was originally targeted at the fiscal year 2015 but now changed to around first half of the fiscal year 2016. It also lowered the forecast for both real GDP growth and core CPI while maintained the QE scale unchanged. On the other hand, the consumer confidence in March rose from 40.9 in February to 41.7, which was the 4th consecutive month of uptrend. Besides, the year-on-year labour cash earnings in February rose 0.5%, slightly down from January's revised 0.6%.

The risk of disinflation in Japan does not fade out and will depend on the willingness of the household to spend, which is also the key to recovery and consumption. Further QE is still possible for continuous weak inflation. Moreover, the Yen fluctuated on the mixed result of recovery and QE programme. Unless the BoJ further enhanced its QE scale, it is likely that the recovery effect on the overall equity return could outpace the currency depreciation by the QE as the currency market has factored in the QE. However, as we are still in doubt on the recovery of Japan, we maintain NEUTRAL to the market.

Asia ex-Japan ex-Hong Kong Equities

The estimated price to earnings ratio of the MSCI Asia Pacific ex Japan Index still enjoyed discount over the developed market, with the former being 14.1 times, compared with the 18 times of the US's S&P 500 Index. With the oil prices stabilised, the inflation outlook and prospect of oil-importing countries were favourable. For individual countries, Korea maintained its interest rate unchanged. The preliminary GDP in 1Q rose 2.4% year-on-year which was better than estimate, and the market surged on the back of rallies of cosmetics and petroleum-related firms. Besides, Singapore's advanced GDP in 1Q rose 2.1% year-on-year, outpaced estimates, and drove market upwards.

The USD and oil prices have somewhat stabilised and is expected to continue. Those countries suffering from currency weaknesses and energy-related income, such as Malaysia, may lead the gains in the regions while others may undergo consolidation and depend on potential policy enhancement and economic performances. In addition, currency risk persists given rate hike expectation of the US, especially for those in easing cycle, but the sound fundamentals should support the overall equity returns. We are still SLIGHTLY POSITIVE on the regions given their valuation attractiveness, policy anticipation and favourable fundamentals.

China & Hong Kong Equities

The China Securities Regulatory Commission had announced measures that were seen as curbing margin financing and encouraged short-selling, but the authority clarified that it aimed at balanced market development. The PBoC lowered the reserve requirement ratio (RRR) from 19.5% to 18.5% for major banks to release liquidity. The 1Q 2015 GDP rose by 7% year-on-year, slowed from last 4Q's 7.3%, and the rise was the lowest since 2009. Meanwhile, the aggregate financing in March recorded RMB 1,180 billion, down from February's RMB 1,357.4 billion and fell short of estimate, implying slowdown in credit.

Recent cut in RRR may lower the chance of rate cut in the short term. Although the easing policies are reflective of economic weaknesses as showed by retrenchment in GDP growth and aggregate financing, the sufficient capacity on further policy enhancement is favourable to both the market sentiment and economic prospect. For the Hong Kong market, the strength of HK Dollar may serve as an indicator of money inflows which is a positive sign to the market, but the earning season may cause stock-specific volatility. Our SLIGHTLY POSITIVE view towards the region remains unchanged based on considerable room for policy act.

Global Bonds

Major Central Banks includes the Fed, ECB and BoJ were still holding their easing stance, which was beneficial to bond performances, but expectation on global recovery strained on the return. The US Dollar weakened on lowered rate hike expectation and the Euro and Japanese Yen fluctuated. On the other hand, China's export in March declined by 15% year-on-year while February gained 48.3% and trade balance retreated to USD 3.1 billion from February's USD 60.6 billion, but the economic and easing anticipation of China gave support to Renminbi.

As Greece's negotiation with the EU worsened, it may ignite a new round of Euro depreciation, offsetting the overall return of Euro bond. For USD-denominated bonds, if the US rate hike timing and the pace are more aggressive than estimated, the increase in yield may overshadow the currency gain from the USD strength, given yields have been compressed at low level. With regard to the global recovery expectation, we are holding a SLIGHTLY NEGATIVE stance towards overall bonds, but still slightly positive to RMB bonds mainly due to the good growth prospect of China.

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