BCT 銀聯集團

# BCT Market Outlook

November 2014

## US Equities

The Fed ended the bond purchase programme in October, but will maintain at a low interest rate for a considerable period. The US economy continued to see recovery. Although the ISM Manufacturing Index retreated from 59 in August to 56.6 in September, it still indicated a relatively quick pace in manufacturing expansion. Industrial production was up by 1% from the previous month, recorded the quickest pace of increment since November 2012. However, the retail sales was disappointed with the advance figure for September recorded -0.3% on a monthly basis from 0.6% in August.

The concerns on global slowdown were detrimental to the sentiment, and the fall of oil price may constitute a drag to the expectation on inflation. However, given the US economy is consumption based, the recent rally of the US dollar is likely to benefit the US consumption and recovery rather than hurting the corporate earnings on the export side. Also, it is too early to conclude that retail sales is forming a downtrend. Given the positive manufacturing and industrial figures that reflect the economic momentum in the US, we maintain SLIGHTLY POSITIVE outlook.

## European Equities

Eurozone's CPI in September only grew by 0.3% from the previous year, with the risk of disinflation remained. Besides, the year-on-year retail sales added 1.9% in August, rebounded from July's 0.5%. However, industrial production fell from 1.6% to -1.9%. Moreover, the Eurozone Manufacturing PMI stood at 50.3 in September, lower than August's 50.7, indicating a slowdown in manufacturing expansion. Worse still, Germany's factory orders and industrial production both fell to negative territory in August, adding to the fear of recession in the Eurozone.

The credit market of Eurozone yet to be improved, and the market is concerned about the exact details and effectiveness of the bond purchases programme. If the effectiveness of the easing policy comes below expectation, further decline of Eurozone's equity and bond markets may occur. However, under the accommodative policy stance, Euro is expected to maintain weak, favouring exports and inflation. We maintain NEUTRAL for Europe.

## Japanese Equities

The BoJ unexpectedly expanded the QE programme, with the annual monetary base target increased from 60-70 trillion yen to 80 trillion yen, and tripled the scale of ETFs and Japanese real estate trusts purchases. Besides, the consumer confidence index in September declined to 39.9 from 41.2 in August. Moreover, the nationwide department store sales dropped 0.7% from the previous year, in which the decline deepened from August's -0.3%, but retail sales jumped 2.7% from 1.9% on a month-on-month basis.

The expansion of quantitative easing programme is beneficial to the short-term performance. However, liquidity may not stay in local markets, and long-term performance still rely on fundamentals, while the policy increases chance of consumption tax hike next year. If concerns on global recovery resulted in risk adverse sentiment, or spread of Ebola worsens, Yen could be seen as a safe-haven currency with an increase in demand, while outlook on equity market could be negative. Moreover, consumer confidence has weakened, with corporate profit being uncertain, reflecting the fundamentals are in doubt. We reiterate the NEUTRAL stance for the market.

## Asia ex-Japan ex-Hong Kong Equities

On a valuation perspective, the MSCI Asia Pacific ex Japan Index was traded at 12.8 times estimated earnings, which is much less expensive than the 16.4 times of the US S&P's 500 Index. However, the US dollar strengthened and negatively affected the currencies in the region, motivating money outflows. For specific countries, policy anticipation from the new Indonesian government supporting sentiment, while Korea have cut the interest rate to record low since 2010 hoping to spur the inflation and the economy.

Relative valuation of the region becomes more attractive after correction, and some of the countries have taken measures to tackle risk of slowdown or to undergo policy reform, which are beneficial to the market outlook. Nevertheless, the strengthening of the US dollar is unfavourable to the relative return of other currencies, which may result in a continuous money outflow. It is worth to note that the US dollar is likely to maintain an uptrend on the back of rate hike expectation in the US. However, we still see the region to be SLIGHTLY POSITIVE due to attractive valuation.

## China & Hong Kong Equities

The aggregate financing rebounded from 957.7 billion in August to 1.05 trillion in September. Besides, it is reported that PBoC injected liquidity through PSL (pledged supplementary lending), which was a sign of loosening in monetary policy. Moreover, September's industrial production grew to 8% from the previous year, rebounded from August's 6.9%. However, the CPI in September fell to 1.6% on a year-on-year basis from 2% in August. The year-on-year GDP growth in 3Q recorded 7.3%, slowed from 2Q's 7.5%. Moreover, September's sales of residential buildings dropped 10.3% from the previous year and was the 7th consecutive month of decline.

Although measures have been taken to ease property market, the effectiveness is limited as the market is expecting further price decline, while banks are still cautious on lending due to asset quality concern. Also, the GDP's growth slowdown and further drop in inflation also pressured the authority to enhance easing policies, with targeted RRR/interest rate cut and short-term liquidity injection as possible further actions. On the other hand, consensus of restructuring will be the main driving force of growth, and policy enhancement should be quite limited. We are keeping the NEUTRAL stance.

## Global Bonds

Plummeted oil prices posted detraction to global inflation outlook, which favoured the bond performance in general. However, the US dollar rallied on global recovery concerns, and the yields of Treasury moved down. Besides, the performance of Eurozone's peripherals bonds went to the upside with economic uncertainty, while the RMB continued to rebound, which was beneficial to RMB bond.

Concerns on global economic slowdown become the market's focus, which is beneficial to the role of major government bond as safe haven. Besides, if the monetary stance of the Fed remains unchanged, the US dollar is likely to maintain an upside, hurting currency return of non-USD-denominated bonds. On the other hand, the RMB is expected to appreciate under the persisting Chinese trade surplus, and the fact that appreciation of RMB will favour imports and helped pushing domestic demands, which coincides with the goal of the authority. We maintain SLIGHTLY NEGATIVE for overall bonds but slightly positive for RMB bonds.



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