



# Market Outlook



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# US Economic Indicators

## \* **Optimistic indicators from various fronts**

- **Manufacturing**
  - May ISM PMI rose from 49.0 to 50.9
  - Auto sales for June reported as the strongest month since Great Depression (BT)
- **Housing**
  - Pending Home sales index jumped 6.7% to 112.3 in May 2013, highest since December 2006
  - Median Selling Price surged 15.4%, highest month-to-month since 2005
  - Rental and capital values are both rising (Bloomberg)
- **Employment**
  - Non Farm Payroll increased by 195K in June, beating estimates of 165K
  - Employment gains for April and May revised upwards by 70K
  - Weekly hourly earnings also rose by the most in 3 years

# US Economic Pulse

## \* What do the numbers tell?

- 1) Numbers are reinforcing the notion that outlook for the US economy is **positive**.
- 2) Tough to tell if Mr. Bernanke will taper off QE this year though.
- 3) Dominant mentality is still “bad news is good news”
  - Treasuries advanced after retail sales only gain 0.4% vs estimates of 0.8%.

# Federal Reserve (Monetary Policy)

## \* Quantitative Easing likely to continue

- Remarks from Mr. Bernanke
  - “Highly accommodative monetary policy for the foreseeable future is what’s needed in the U.S. economy,”
  - No automatic increase in rates once US unemployment reaches 6.5%
  - Any decision to reduce the QE will depend on how the economy performs
  - “US economy is getting a lift from the recovering housing market and steady hiring, But it is held back by domestic spending cuts and slower growth abroad.”
- Investors believe that the Fed will hold off on any policy change in September as there will not be enough data to show that economic growth has strengthened.
  - US 10yrs treasury note advanced to 2.49% from 2.55%
- About ½ of the 19 participants in Federal Reserve Committee wants to halt QE. Remaining wants it to continue till more signs of improvement are seen

# Japan Outlook

## \* Quantitative Easing

- Reiteration by Mr. Kuroda of BOJ's commitment to ultra-easy monetary policy till 2% inflation target is achieved in a stable manner

## ❖ Encouraging economy data in May 2013

- Industrial Production jumped 2% in May, beating expectations of 0.2%. Labour demand, retail sales and manufacturing activity all rose. Core consumer prices stopped falling in May, for 1<sup>st</sup> time since Nov 2012.

## ❖ Improved confidence in economy

- 1/4 "Takan" survey by BOJ showed index is +4 from -8 in March, positive for 1<sup>st</sup> time since March 2011.

# Japan Outlook

## ❖ Likely end to divided parliament

- Abe likely to win Upper House Elections, end of an era of a divided parliament
  - A recent poll by the influential Asahi Shimbun daily found that only 7 per cent of voters would pick the DPJ in the Upper House election, compared to 44 per cent for the LDP.
  - Abe enjoys ratings in 60% region

# China Headlines

- ❖ **Consistently weak manufacturing numbers**
  - HSBC Flash PMI drop from 49.2 to 48.2
- ❖ **GDP in line with expectations, but other data points to lower GDP growth as new normal**
  - Q2 GDP growth y-o-y 7.5%
  - Exports fell 3.1% in June VS forecasts 4% rise
  - Imports dipped 0.7% versus an expected 8% rise
  - Outlook for July to September is grim
- ❖ **Case for further legitimacy of slower GDP growth**

# China Risk

## \* **Shadow Banking in China**

- Valued at US\$6 trillion, 69% of China GDP
- Chinese banks actively soliciting cash from wealthy, selling wealth management products at 6%, vs. 3.3% deposit rates
- Lent to developers and local governments financing vehicles

## \* **Local government debt**

- 2010 audit showed local government deb is \$2.2 trillion. Since then, nobody is aware of the precise amount
- Local governments have borrowed from private companies at high cost to speculate in real estate
  - Chinese banks have reported 9.54 trillion yuan loans

# China Risk

## \* **Real estate prices defy government curbs**

- Prices surged 7.4% in June and sales have been consistent
- Heated demand for land and properties

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# China Headlines

## ❖ Premier Li Keqiang

- Growth in the world's second-biggest economy remained within reasonable range in the first half of the year and the government should concentrate on reforms.
- Focus on changing the economic model when economic operations stay within a reasonable range and adjust (economic) structures
- Urged caution about rushing to change economic policy to revive sputtering growth, but signaled action will be taken if the economy slips too far.

## ▪ Structural Adjustments

- Setting up of a pilot zone in Shanghai to test some of the government's financial overhauls,
- In May, a State Council meeting said that, by the end of the year, the government would outline a plan for full convertibility of the yuan
- Approval granted to allow foreign banks to directly set up wholly-owned subsidiaries in Shanghai's new free trade zone in a move

# China Outlook

## \* **Structural Adjustment in Economy and lower growth numbers**

- Chinese government will harness its financial sector to restructure the economy rather than providing liquidity for growth.
- President Xi has come out legitimize the case for slower GDP growth
- Finance minister Lou quoted, “Please don’t forget that our expected GDP growth rate this year is 7 percent,” and media reports have not been disputed
- Goldman Sachs, Barclays and HSBC has cut their estimates to 7.4 percent.

# Eurozone Headlines

## ❖ **Portugal political crisis**

- Foreign and finance minister resigned due to austerity issues. Mass protests and strikes.
- 10-year yields at 7.39%, vs. 5.23% in may. Have even reached 8.2% level. Major Eurozone indexes fell at least 1.5% on news.

## ❖ **BoE, ECB issue unprecedented forward guidance on rates**

- Interest rates will remain at present or lower for extended periods
- Expectations that inflation will be subdued amidst broad-based weakness in euro-area.

# Eurozone Headlines

## ❖ Overall negative picture in Europe

- Moderating contraction in Eurozone manufacturing
- Markit PMI for Eurozone rose from 47.7 to 48.9 in June
- Worrying unemployment numbers
  - Jobless rate rise from 11.3% to 12.2% In Eurozone
  - Youth unemployment in excess of 50% in Spain and Greece

## Outlook

## ❖ Eurozone still long way to recovery

- Eurozone is still a long way to recovery but should not be the cause of major swings in the medium term

# Piecing it altogether

## \* **Accumulate dividend-stocks with growth potential**

- A case may be made for dividend-yielding stocks that are in cyclical sectors and has exposure to US markets.
- The search for yield will continue, fueled by quantitative easing from Japan and US.
- Pullbacks creates attractive valuation multiples and provide be an opportunity for long term investors to participate
- In short term, there still would be high volatility as markets react to Fed's comments but we can still take calculated risk and get rewarded for it





**Thank You !**