



# global weekly

Investment  
Communication  
11 December 2015

## ECB meeting: the aftermath

Equity markets retreated this week, as investors were still digesting the ECB's recent decision not to increase the size of its monthly asset purchases and to only moderately lower the deposit rate. Bond markets initially fell in response to the ECB's statement, before recovering a bit this week.

### Equity markets update

Equity markets headed lower this week, mainly driven by the slump in commodity prices and the aftermath of the ECB statement. By raising oil production from 30 million to 31.5 million barrels per day, the Organisation of Petroleum Exporting Countries (OPEC) increased the pressure on US exploration & production companies. As a result, stock prices of Anadarko Petroleum and Marathon Oil declined by double digits. On Tuesday, pipeline and energy storage company Kinder Morgan announced a dividend cut of 75%, to avoid a downgrade by credit rating agencies from investment-grade to junk status. Following this news, we decided to remove Kinder Morgan from our recommended list.

This week, we saw confirmation that our investment theme 'Unlocking shareholder value' is indeed a current topic. Dow Chemical and DuPont are planning to merge, according to the Wall Street Journal. The two companies would have a combined value of USD 120 billion. After completion of the merger, the newly formed company would be split into three parts: agrochemicals & seeds, plastics and specialty chemicals. Internet and media company Yahoo!, in turn, announced a reverse spin-off where its internet and media activities will be transferred to a newly formed entity, while its stake in Alibaba remains with the current company.

### Bond markets update

The ECB clearly under-delivered at its meeting on 3 December. Disappointed bond investors sent interest rates higher across the curve. Risky assets, including the riskier segments of fixed income markets, quickly retreated. However, global yields – moving inversely to bond prices – declined a bit this

### Equity index performance

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	399.4	-1.9	-4.4
S&P 500	2052.2	0.1	-0.3
AEX Index	435.2	-3.3	2.6
EuroStoxx 50	3256.0	-2.3	3.6
DAX Index	10557.3	-1.8	7.9
Nikkei 225	19230.5	-1.4	10.2
Hang Seng Index	22754.7	1.6	-9.1

### Important rating changes (RL=Recommended List; NR=not rated)

Company	From	To
Kinder Morgan	Buy/RL	NR
Carrefour	Hold	Buy
Praxair Inc	Hold	Buy
BP Plc	Hold	Buy
Fedex Corp	Hold	Buy

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.945	0.5	34.3
German Bunds 2-year	-0.346	-3.9	-30.8
Japan 2-year	-0.029	-0.6	-2.7
US Treasuries 10-year	2.208	-6.2	4.6
German Bunds 10-year	0.563	-11.5	-11.3
Japan 10-year	0.316	-2.0	-8.9

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	88.49	6.32	21.35
iTraxx Euro 5-year	79.13	6.45	19.40
JPM EMBI+	399.05	7.18	2.81

Performance data as of Friday, 11 December

### In this issue

Equity markets update	1
Bond markets update	1
Macro update	2
Currency outlook	2
Published this week	2

week, after the market had digested the reality of an ECB that is less eager to further ease monetary conditions. Since the ECB meeting, most of our fixed income positions have given up about a third of their fourth-quarter gains. Peripheral and corporate spreads were wider, but most of the disappointment was reflected in inflation linkers and global high-yield bonds, that also suffered from lower oil prices after the recent OPEC meeting failed to make a difference.

In January 2016, prices in Europe will likely be up by more than 1% compared with early 2015, when oil prices and the EUR/USD exchange rate were at their lows. Higher headline inflation and resilient growth are expected to sideline the ECB, leaving the Fed in the driving seat to decide on the level of divergence in monetary policy across the Atlantic. Financial markets will be holding their breath next week, when we will most likely be able to finally assess the impact of the first US rate hike since 2006. The path of Fed rate hikes next year will be a major driver of the euro versus the US dollar and of interest rates in Europe as well. We see no reason to worry too much, as we are convinced the Fed will act carefully and in line with economic developments. With very limited room for any return on core government bonds, where yields are still negative up to five years maturity, cash is a better alternative to stabilise portfolios and provide protection and diversification. The only bond categories that may be able to beat cash in 2016 are peripheral government bonds (including inflation linkers) and corporate bonds, both investment-grade and high-yield.

### Macro update

In its December Staff Macroeconomic Projections, the ECB lowered its inflation forecast for 2016 from 1.1% to 1.0% and that for 2017 from 1.7% to 1.6%, which seems below its target level of close-to-but-below 2%. In its forecasts the central bank has assumed that the euro will remain stable versus the US dollar at a level of 1.09 throughout its forecasting horizon and that the oil price will be USD 52.2 per barrel in 2016 and USD 57.5 in 2017. Given that financial conditions have tightened since the ECB's meeting and oil prices are well below the level assumed by the ECB, the risks are skewed towards a new round of monetary stimulus. The impact of the Fed rate hike expectations on the euro versus the dollar, the evolution of oil prices and the incoming eurozone's economic activity data will be crucial factors. The ECB's next forecast update in March 2016 could be the moment of truth.

### Currency outlook

We would have expected that the US dollar would have rallied strongly after the strong US employment report last Friday. In

fact, this was not the case. To begin with, investors appear to have taken a more cautious stance towards central bank events after the ECB under-delivered compared with market expectations. As a result, the US dollar has not been able to fully profit from the strong US employment report.

Second, it is likely that investors have started to close main positions this year. In general, investors have been short euro, long US dollar, short emerging market currencies, short metals and short oil. The perception that we may have seen the move for the year could have triggered the closing of some of these positions in currency and commodity markets. However, the drop in oil prices below the previous lows appears to have halted or even reversed this process, at least until the upcoming Fed meeting. For 2016, monetary policy divergence will remain a dominant topic, in our view. Therefore, we expect a higher US dollar especially versus the euro, yen, sterling and Australian and New Zealand dollars.

Brent oil prices dropped below USD 40 per barrel, which is the lowest level in more than six years. Last Friday, the OPEC decided not to cut oil production as some had hoped, but to raise the production ceiling instead. As a result of the drop in oil prices, currencies of oil-exporting countries fell around 1.5% versus the US dollar.

### Published this week

#### Bond Markets Monthly November – ready, set, December!

December will be an interesting month for investors. Not so much because it is the last month of the year, but in anticipation of actions by the US Federal Reserve. Markets believe the Fed will most likely increase its policy rate this month.

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