
SIERRA
HOPE
SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

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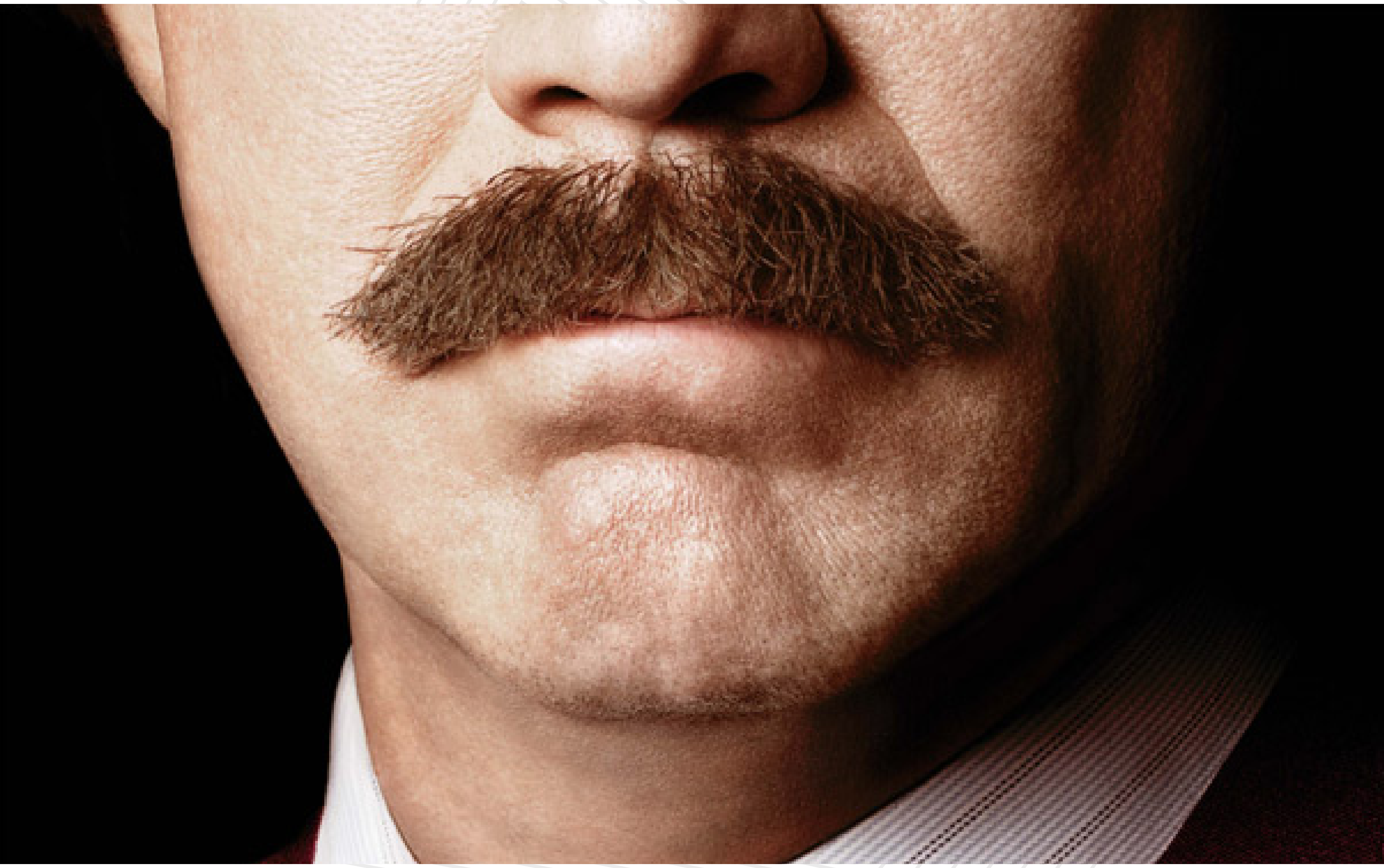
SPECIAL ANNOUNCEMENT



Movember is an annual month-long charity where men are growing moustaches and raising money for prostate cancer awareness. Shard-Fund is participating in this charity. If you wish to join/donate/follow our progress, click the moustache on the right.

USA

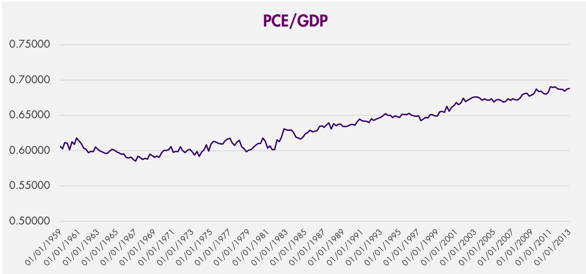
Surprise, surprise!

It has been an absolutely crazy week for markets. Surprises came from both the US and Europe, which made the macro environment kind of complicated. US 3Q GDP beat expectations significantly and expanded by 2.8%. On the other hand, the nonfarm payrolls number crushed every analyst that tried to predict it. In the month of the shutdown, the US economy created 204,000 jobs, the biggest jump since February. The S&P 500 closed the week up by 0.51%, but the Dow Jones Industrial Average was once again the best performing index, indicating a general slowdown in the market. Also, the yield on the 10 year treasuries jumped by 15 basis points to 2.75%, as better than expected data suggested that the 'QE party' might be

Materials	1.18%
Financials	1.17%
Industrials	0.84%
Technology	0.78%
Energy	0.55%
Consumer Staples	0.38%
Healthcare	0.08%
Consumer Discretionary	-0.28%
Utilities	-0.36%

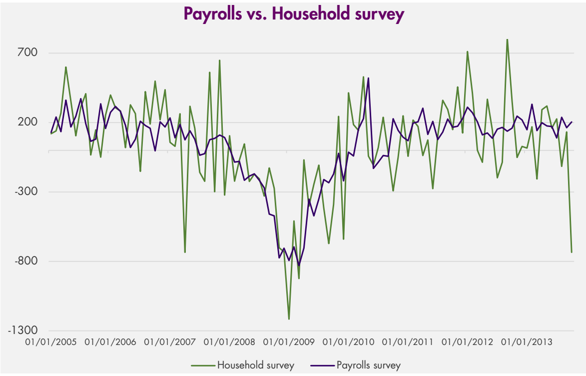
coming to an end. Or is it?!

Looking at the GDP figure and composition, there are a lot of conclusions that could be made. Overall, 2.8% is a strong number that posts the third consecutive faster QoQ increase in GDP. It also came as a big surprise to investors, who thought immediately if that would affect QE. The frustration on Thursday, created by the GDP print and the cut in rates by ECB, was clear and markets sold off rapidly. But if we look closer at the increase in gross domestic product, it is clear that the situation isn't so rosy.



In past decades, personal consumption has become the main driver of US GDP (currently, close to 70%). Therefore, it is kind of disappointing to see from the 2.8% increase in gross domestic product, only 1% attributable to personal consumption. That is the second consecutive decline in the figure, which clearly shows the vulnerability of the recent prints. Looking even closer, we see that the reason for that slower increase is the barely changed services consumption, while durable and nondurable goods increase in a faster pace than the previous quarter. This comes as a surprise, because the services sector has experienced significant strength in recent months that started exactly at the beginning of Q3. So without strong personal consumption, Q3 GDP was boosted by inventories. This could be seen as a good and a bad thing. First of all, inventory is generally something that doesn't increase forever, so if it is very strong in the current quarter, it would probably be weaker in next quarters. Stripping inventory contribution, GDP grew only 2.0%, which was 0.1% less than the same number in Q2. On the other hand, inventories have increased in the past 3 quarters, which might be taken as a proxy for current expectations of businesses. Inventories usually grow, when more demand is expected. Thus, interpreting the report is not so straightforward but the most important thing is that it represents the past. Consumer sentiment has decreased even further since the summer, which might slow down personal consumption more. Our opinion changes based on the trend of economic activity, so looking at the data released for October, currently we believe that Q4 will be slower and consequently GDP will increase not more than 2%.

The other surprise came from the strong increase in nonfarm payrolls. We saw it as a very controversial report, because there were a lot of inconsistencies that the head number didn't show. Most notably, why the difference between the household and payroll surveys was that big?



The nonfarm payrolls increased by 204,000, while according to the household data (adjusted to capture the same employment as the payroll survey) employment for the month decreased by 800,000. The last time there was such a gap was in 2007.

Also, there were 932,000 people that exited the labour force, which is quite big even considering the big fundamental trends that we talked about last week (available here). Also, the U-6 rate that calculates total unemployed, plus all marginally attached workers plus total employed part time for economic reasons, went up (to 13.8% from 13.6%) for the first time in 4 months. So we are really looking forward to the revision in the nonfarm payrolls next month, because currently this report isn't very reliable to us. We believe that the FOMC would also be a bit confused by the reports from this week, as they don't look only at the main number, when assessing an indicator. We might see some indication about the future policy in the speech of Janet Yellen next week, when she is being confirmed as a chairwoman of the Federal Reserve.

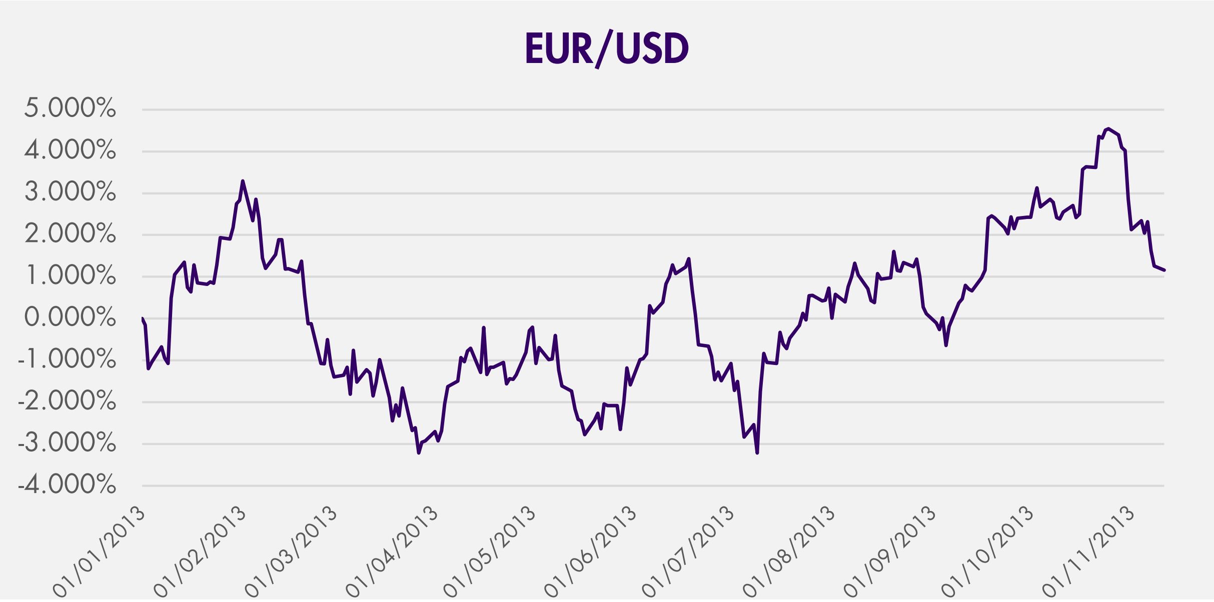
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United States	ISM Non-Manufacturing Index	55.4	54.0	54.4
Thursday		Initial Jobless Claims	336K	335K	345K
		Continuing Jobless Claims	2,868K	2,875K	2,864K
		GDP (QoQ)	2.8%	2.0%	2.5%
Friday		Nonfarm Payrolls	204K	125K	163K
		Unemployment rate	7.3%	7.3%	7.2%
		Michigan Consumer Sentiment	72.0	74.5	73.2

EUROPE

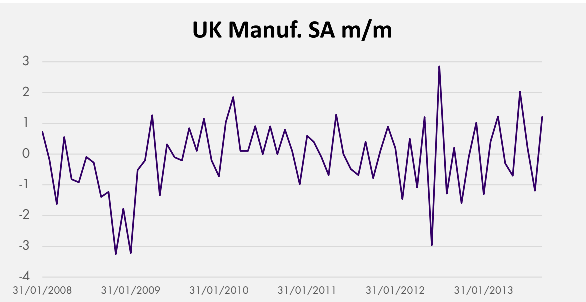
Super Mario

After last week, market participants anticipated the ECB conference, which was meant to give answers to many questions, particularly if there would be a cut in interest rates. Only three economists out of 70 in a Bloomberg survey anticipated a rate cut . But, yet again investors were caught off-guard. The European Central Bank cut its main refinancing rate to a record-low 0.25 % to try to boost growth in the 17-members currency region. The ECB expects interest rates to remain at the current level or lower for an extended period of time, President Mario Draghi said at a press conference after the announcement. Of course, markets went crazy on the news, but later on Thursday the uptrend reversed after the higher than expected US GDP, which pushed US and global markets into a sell off (Yes, the reasoning is missing). However, market volatility was short-lived, as on Friday everything went back to normal and most EU indices closed a fifth consecutive week positively, although S&P lowered

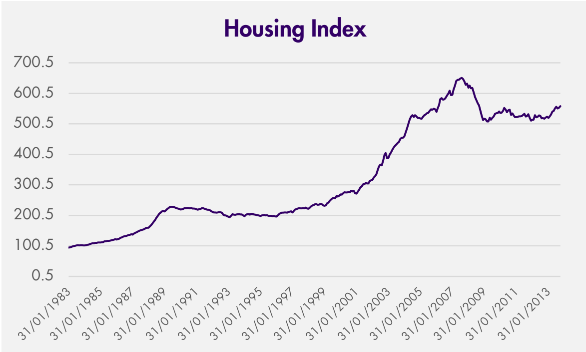
We believe that until the Fed starts tapering, the EUR won't go a lot lower than that, unless there are other fundamental reasons.



France's credit rating to AA (from AA+). Germany's DAX added 0.8% and the Swiss Market Index rose 0.2%. The U.K.'s FTSE 100 slid 0.4% and France's CAC 40 dropped 0.3%. Also, Stoxx Europe 600 climbed 0.4%.
This quick move by the ECB tells us two things. First, European officials are determined to do whatever it takes to tackle weaknesses in the economy immediately when they appear. It takes a strong government to do that. Also, the move will bring additional liquidity on the market, both from the region and the rest of the world, which should elevate indices further and also hold the EUR from big movements to the downside. Thus, we believe that until the Fed starts tapering, the EUR won't go a lot lower than that, unless there are other fundamental reasons.



Thus, it is a great moment to start researching EU companies with big exposure outside of Europe that would benefit from even a little bit weaker Euro. In future issues we will look at some companies that are a match to this description.



Meanwhile, the Bank of England held its key interest rate at 0.5% and its asset-purchase target at GBP 375 billion. The situation in the country is getting better and better, and data from the past week supports that trend. Industrial and manufacturing production increased by 0.9% and 1.2% from the previous month, respectively. Also, house prices increased for a ninth-consecutive month in October and rose by 0.7%. We believe that this positive trend will continue and considering the stimulus packages in EU and the US, we believe that the GBP has more room to appreciate in the mid-term (assuming there is no tapering of US QE in December).

Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	Final Manufacturing PMI	51.3	51.3	51.3
		Final Manufacturing PMI	9.3	6.6	6.1
	United Knigdom	Construction PMI	59.4	58.9	58.9
Tuesday	Spain	Spanish Unemployment Change	87.0K	31.3K	25.6K
	United Knigdom	Services PMI	62.5	60.4	60.3
Wednesday	EU	Final Services PMI	51.6	50.9	50.9
		Retail Sales m/m	-0.60%	-0.30%	0.50%
	United Knigdom	Manufacturing Production m/m	1.20%	1.20%	-1.20%
Thursday	EU	Minimum Bid Rate	0.25%	0.50%	0.50%
Friday	Germany	Trade Balance	18.8B	17.2B	15.8B
	French	Industrial Production m/m	-0.50%	0.40%	0.70%
	United Knigdom	Trade Balance	-9.8B	-9.1B	-9.6B

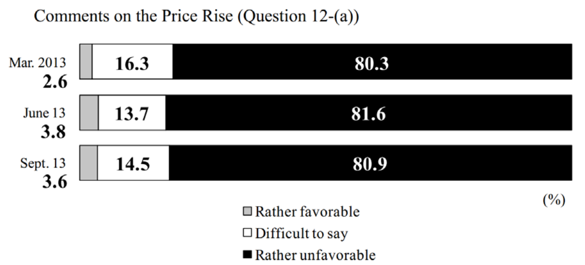
ASIA & OCEANIA

Waiting for more…

JAPAN

It was a busy week indeed on the BoJ's website. Like most times however, the Monetary Policy Statement along with Kuroda's speech did not note anything rather different from prior releases.

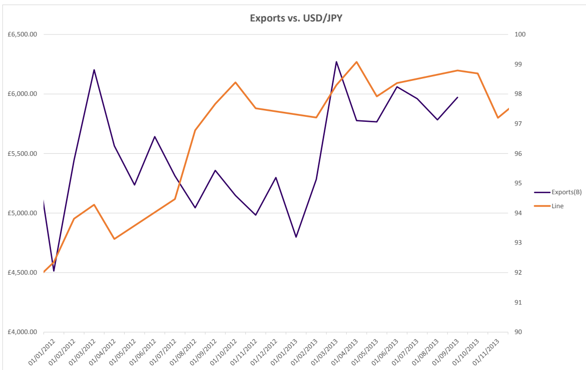
The General Public's Views and Behaviour survey was published this week showing how people are viewing the current economic condition and how have their views changed over the past year. For example, from the cart below we observe that most people find the price increase "Rather unfavourable" (full survey).



Next week is the preliminary Q3 GDP. Let's look at the major economic indicators and their development in the past year, so that we can get a better picture for the expectations:

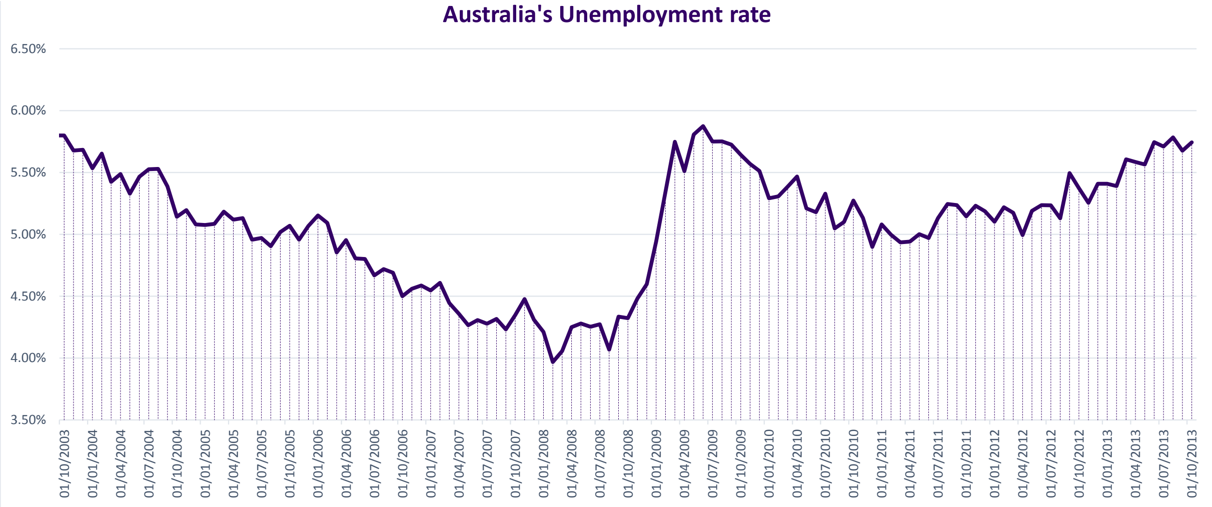
- Exports rose to an average of 12.8%, almost doubling the pace of the second quarter and an improvement from Q3 2012
- USD/JPY gained by 25% (hence the explanation why exports rose)
- Strong global economy has improved manufacturing PMI

On the chart below we visualise the past two year performance of Exports vs. USD/JPY and clearly the USD/JPY is the lead of the export figure. As the pair have been rather flat in the past couple of quarters the exports growth has been sluggish as well. We still hold



AUSTRALIA

The RBA decided to leave the cash rate unchanged at 2.5%. Another disappointing Monetary Policy decision from our view, as we are looking forward toward the day when the rate would decrease by another 25-50 basis points.



This week the RBA also released its Statement on Monetary Policy. The main outlines on it economic outlook were:

- Continuation of below trend growth due to the substantial fall in mining investment
- Stronger non-mining investment is expected to elevate GDP growth for 2015
- Stronger household consumption growth as a result of low interest rates (2.5% cash rate)

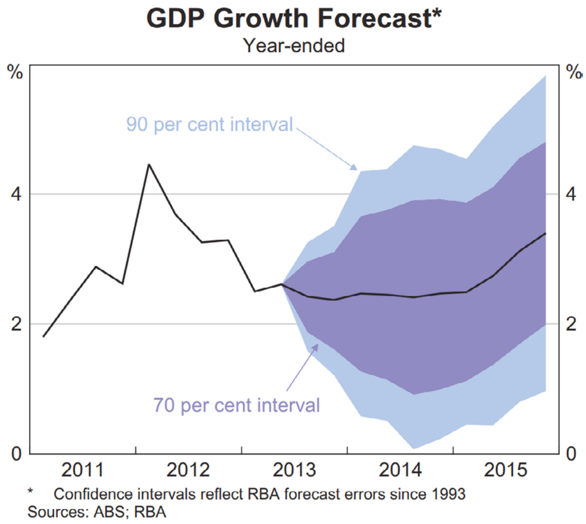
The main risk with their forecasts are obviously based on the assumption made by the RBA, which are that:

- Non-mining investment will pick up
- Japan will have a similar economic growth like the one in this past year
- Housing condition will boost spending
- Non-mining sector would not deliver substantial surprises

The research around those uncertainties is to be done in the economies surrounding Australia, therefore for us following Japan and China, would be very indicative for the mining and non-mining sector development in Australia.

In the short-term we view an upward pressure on Australia's unemployment figure, as a result of the below trend growth which is projected to go intro 2014 and the high level of the AUD. Also we do not see a strong continuation in the increasing Chinese growth, so if this were the case, it would certainly affect the Australian economy.

Inflation is another factor we closely follow, because as our outlook is for further decrease



of the cash rate, with inflation at 2.2%, it will be harder to do.

CHINA

The past week has been quite strong in regards to Chinese economic data. The non-manufacturing PMI rose to 56.3 in October from 55.4 in September. Also, exports rebounded last month and the trade surplus increased to the biggest in a year - $31.1 billion. All this data put more and more confidence in investors that China is indeed on a stronger recovery. However the good data from the US along with the anticipated upcoming reforms, most people are holding their bets at the moment. Next week, we will be discussing the reform talk taking place this weekend.

<table>
<tr><th>Day</th><th>Country</th><th>Indicator</th><th>Actual</th><th>Forecast</th><th>Previous</th></tr>
<tr><td>Saturday</td><td>China</td><td>Non-Manufacturing PMI</td><td>56.3</td><td></td><td>55.4</td></tr>
<tr><td>Sunday</td><td rowspan="2">Australia</td><td>Retail Sales m/m</td><td>0.80%</td><td>0.50%</td><td>0.50%</td></tr>
<tr><td>Monday</td><td>Cash Rate</td><td>2.5%</td><td>2.5%</td><td>2.5%</td></tr>
<tr><td rowspan="2">Tuesday</td><td>New Zealand</td><td>Unemployment Rate</td><td>6.2%</td><td>6.2%</td><td>6.4%</td></tr>
<tr><td rowspan="2">Australia</td><td>Trade Balance</td><td>-0.28B</td><td>-0.51B</td><td>-0.69B</td></tr>
<tr><td>Wednesday</td><td>Unemployment Rate</td><td>5.7%</td><td>5.7%</td><td>5.7%</td></tr>
<tr><td>Thursday</td><td rowspan="2">China</td><td>Trade Balance</td><td>31.1B</td><td>23.5B</td><td>15.2B</td></tr>
<tr><td>Friday</td><td>CPI y/y</td><td>3.20%</td><td>3.30%</td><td>3.10%</td></tr>
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FOREX

Pair	Open	Close	Weekly %	Mothly %	YTD
EUR/USD	1.3487	1.3361	-0.93%	-1.21%	2.28%
USD/JPY	98.68	99.07	0.40%	0.88%	12.38%
USD/CHF	0.912	0.9211	1.00%	1.81%	-0.37%
USD/CAD	1.0421	1.0476	0.53%	1.65%	6.16%
AUD/USD	0.9435	0.9382	-0.56%	0.72%	-10.51%
NZD/USD	0.8252	0.8241	-0.13%	-0.66%	-0.89%
USD/CNY	6.0903	6.0905	0.00%	-0.51%	-1.49%
GBP/USD	1.5921	1.6013	0.58%	-1.06%	-0.29%

USD

The strength in the USD came at the end of the week after better than expected data scared investors that tapering might begin next month, when FOMC meets for the last time this year. The interest rate cut implemented by ECB didn't help and pushed the EUR further down against the dollar. EUR/USD finished the week at 1.3361, or 0.93% lower than the previous week. The British pound was the only major currency that didn't appreciate against the dollar, after stronger economic data supported the revival of the region. GBP/USD closed 1.6013, or 0.58% higher compared to previous week.

JPY

Finally the trend is forming for us. The USD/JPY broke a 6 week high, reaching 99.41. This was due to the strong economic data, a sooner-than-expected tapering has started to price in the markets. Therefore, in an over simplified version this means less dollars and more yens. Something we have been talking about for a while. Unless a disaster happens (which history has proven to be more likely than expected event), we are keeping and increasing our long USD/JPY position.

AUD

"The Australian dollar, while below its level earlier in the year, is still uncomfortably high. A lower level of the exchange rate is likely to be needed in order to achieve balanced growth in the economy." Glenn Stevens, Governor of the RBA.

EVENTS

USA

- Confirmation of J.Yellen as Fed Chairman

EUROPE

- UK Retail sales
- UK & German CPI
- EU Q3 GDP

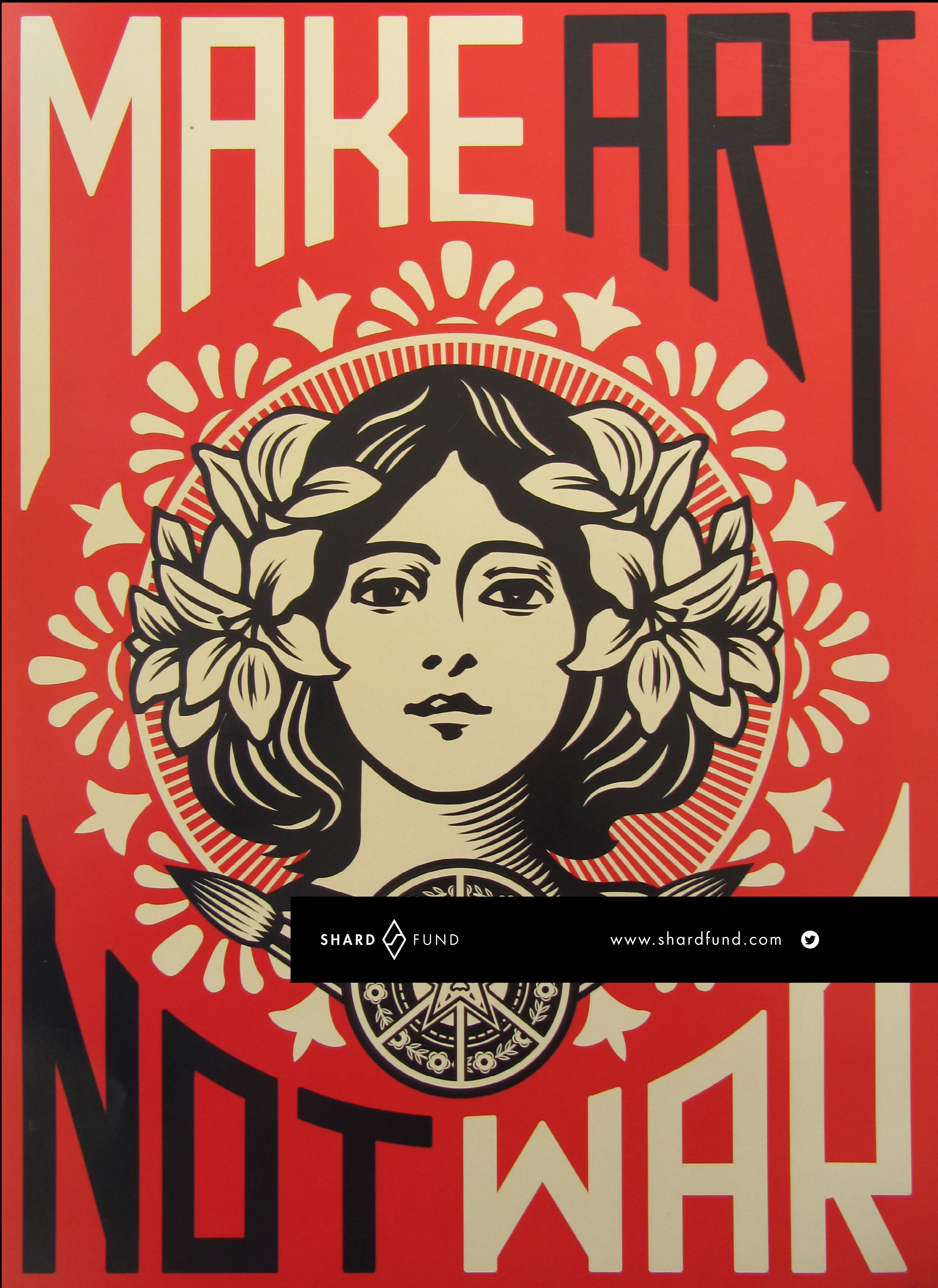
ASIA & OCEANIA

- Chinese industrial production
- Australian NAB Confidence Index
- Japanese preliminary GDP
- Chinese Plenary Session outcome

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, National Bureau of Statistics, China Federation of Logistics and Purchasing

DISCLAIMER


MAKE ART
NOT WAR