SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

November 23rd - November 29th, 2013 | Issue 48

TEAM:

Stelian Nenkov
Georgi Stanoev
Petar Tsachev

CONTRIBUTORS: David Twomey; Editor Harry Collins; Commodities

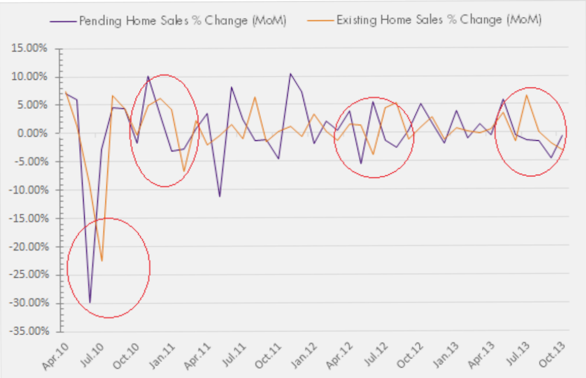
USA

The week before the storm.

To begin with, happy Thanksgiving to our American readers. We hope you have had a great time with your families, away from the market. And also, hello December! The past week put an end to yet another positive month for US indices. The DJIA extended its positive streak to eight consecutive weeks and rose by 3.48% in November. The S&P 500 and NASDAQ Composite increased by 2.58% and 3.58% respectively. It was a fairly quiet week, major indices stayed relatively flat, except the NASDAQ Composite, which realised half of its monthly performance. Overall the week looked insignificant, perhaps everyone was looking forward to a peaceful Thanksgiving with the family.

Technology	1.55%
Consumer Discretionary	1.16%
Industrials	0.10%
Healthcare	0.02%
Financials	-0.05%
Consumer Staples	-0.35%
Materials	-0.89%
Utilities	-1.63%
Energy	-2.03%

We haven't talked about housing for a long time, so let's leave the taper-talk aside (for once) and focus on this wealth–creating sector. Since June, when treasury yields and mortgage rates started rising, pending home sales have been decreasing. So far, that makes a five consecutive month streak. Back then we spotted the divergence between pending and existing home sales and stated that the latter would inevitably fall, as the former tends to be a good leading indicator. Existing home sales have now fallen for two consecutive months by a cumulative 5.0%. The graph below clearly shows why this shouldn't have come as

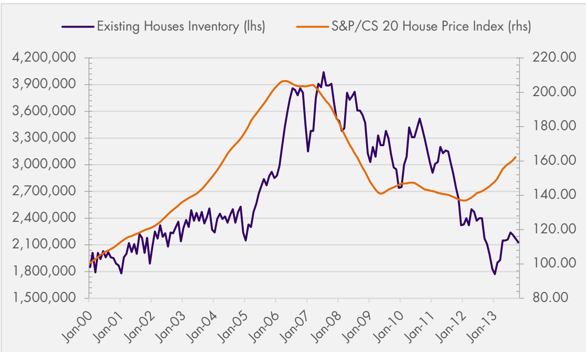


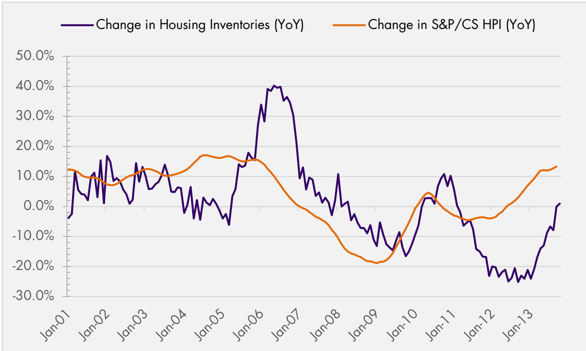
So, it follows that lack of supply must be pushing prices up

a surprise. Pending home sales are measured as the number of sales of existing houses, initiated in a given month. On the other hand, existing home sales measure the number of houses actually sold (finished process) in a given month. Bear in mind that it takes 4-8 weeks (on average) for an initiated sale to become closed. In other words, it is quite logical that Pending home sales lead existing home sales by 1-2 months (on average) and we have circled in red that dependence.
Alongside this slowdown in sales, we have witnessed continuously increasing prices, as

measured by the S&P/Case-Shiller 20 City House Price Index. But if we assume demand has fallen, this should lead to a fall in prices (assuming lack of demand is outpacing lack of supply). So, it follows that lack of supply must be pushing prices up. In fact, a quick look at the data paints that story exactly. House prices have been rising since June 2012 (year-on-year), while inventories have been lagging significantly (month-on-month). In fact, inventories bottomed at the beginning of this year, when they reached a 12 year low. Since then the trend reversed due to the acceleration in the economy and the confirmed trend in rising prices. However, rising yields and lost confidence throughout the summer have eroded the willingness of people to supply houses. After all, it takes some investment to prepare your house for sale and list it with a realtor.

Looking ahead, we should see the sector on the upside. Continuously rising prices should eventually persuade people to list their houses on the market, as prices surpass the outstanding amount of a mortgage. Moreover, we see a deceleration in the decrease of pending home sales (month-on-month), as well as an increase in inventories (compared to the previous year), even though current momentum is negative. In fact, year-on-year inventories turned positive in October for the first time since early 2011. Also, despite the recent rise in mortgage rates, historically speaking they are still quite depressed. However, that upside potential might not be realised immediately, considering the decreasing consumer confidence, the upcoming uncertainty in Congress and the 'taper-saga'.





Next week will probably be the busiest we see in recent weeks, so you better have your game faces on. Reports from the Institute of Supply Management will tell us about the manufacturing and services sectors, while we will also take a look at the Q3 GDP revision and New Home sales. Finally, to finish the week in style, the Bureau of Labour statistics will bring joy with its monthly employment report. All that comes 10 days before the final FOMC meeting for 2013 – oh joy!

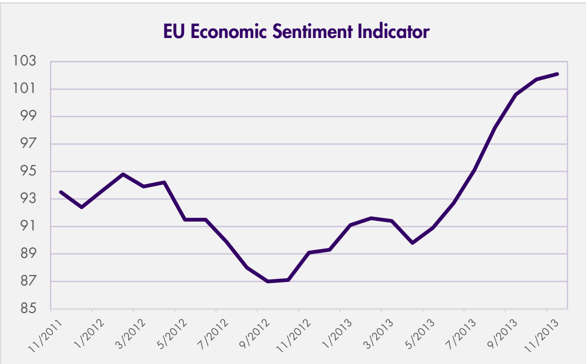
Day	Country	Indicator	Actual	Forecast	Previous
Monday	United States	Pending Home Sales	-0.6%	1.3%	-4.6%
Tuesday		Building Permits	1.03M	0.94M	0.97M
		S&P/CS HPI - 20 (YoY)	13.3%	13.0%	12.8%
		CB Consumer Confidence	70.4	72.9	72.4
Wednesday		Initial Jobless Claims	316K	330K	326K
		Core Durable Goods Orders (MoM)	-0.1%	0.5%	0.2%
		Durable Goods Orders (MoM)	-2.0%	-1.9%	4.1%
		Michigan Consimer Sentiment	75.1	73.5	72.0

EUROPE

Who's gonna take the weight?

The last week was an extremely interesting one within Europe. Extremely important as well: full of macro news, Central bank decisions and market volatility (a real financial experience!). This time, unlike many other times, the main drivers of events came directly from the Continent. At the end of the five trading days, the macro figures boosted the DAX and Euro Stoxx 50 to new highs in weekly gains, while BoE decision of cutting the mortgage incentive program pushed the FTSE 100 to a 2.02% decline.

On Thursday, the European economic sentiment and credit condition, were published. Thus, the economic development was boosted by the sentiment indicator, because it rose from 97.7 in October to 98.5 in November, the highest level since the euro crisis started in earnest in August 2011. The good news was broadly based. Following a correction in October, some of the peripheral countries, such as Spain, Italy and Portugal, recorded strong gains in November. Looking at the core, German sentiment rose, while France fell back from 96.1 to 95.2.



These positive numbers were taking place due to the significant gains in sentiment for industry and services, although there is a small drop in consumer confidence. Industry recorded a major rise in orders in November, with exports orders advancing even more strongly than overall orders. The strength in the US and the UK as well as the ongoing stabilisation in emerging markets is giving the Eurozone a lift. But the serious surge in sentiment for the more domestically-oriented services sector from a diffusion index of -3.7 in October to -0.8 in November shows that the gradually improving domestic situation is the real driver of the Eurozone recovery.

The strength in the US and the UK as well as the ongoing stabilisation in emerging markets is giving the Eurozone a lift

On the flip side, while the sentiment is moving up strongly, credit conditions are showing serious contractions. The ECB reported a further drop in M3 money supply growth from 2.0% YoY in September to 1.4% in October, the weakest rate of expansion in two years. Fortunately, the growth of narrow money M1 stayed robust at 6.6% YoY, down only marginally on 6.7% in September. However, M1 growth is still sufficient to fund a solid economic recovery. The situation speaks that companies and households are strengthening their liquid ability and cash balance, but they are not borrowing, at all. Taking into account that the M1 indicator is a leading economic indicator, whereas credit to companies is a lagging indicator, the situation supports our opinion about the recovery in the Europe.

The bottom line is, despite the credit crunch providing some headwind to European economic progress, the improved sentiment is stabilizing the situation. Thus the economy looks as if it is going the right way regarding proper recovery.

INCENTIVES DOWN: PART 1

The first step was taken! The long-expected action of cutting the subsidies specifically aimed at mortgage lending was introduced on Thursday, by the BoE Governor Mark Carney: "This will help keep the housing market on a sustainable path and ensure the broader economy continues to receive the stimulus it needs, for as long as it needs, to sustain the recovery... By acting now in a graduated fashion, authorities are reducing the likelihood that larger interventions will be needed later."

The fact that the BoE has taken action on housing should not surprise anybody, although it did manage to. We believe that the current action is good news. Because the exceptional stimulus given to the housing market risked starting a damaging boom-bust cycle, the cutting was rather expected. Credit availability has improved substantially, so the extra boost from government and BoE schemes was no longer necessary. Furthermore, the most interesting part relating to that issue, is the detailed research of the changes in The Funding for Lending (FLS) scheme, which provides cheap BoE funding to banks. After the cutting of the incentives for mortgage lending, banks will be able to build up an entitlement to cheap funding only via lending to businesses, and especially SMEs (the other FLS scheme). Every £1 of new lending to an SME will entitle banks to draw £5 of cheap funding from the BoE. £1 of new mortgage lending will entitle banks to nothing from the BoE. Thus, BoE has taken the first of several steps (over next year or two) to cool the housing market, .

Related to the equity performance of the UK property market, investors were somewhat shocked by Thursday's utterance of Mark Carney, which pushed the FTSE 350 Household Goods & Home Construction Index 1.1 % down. However, our expectations are that we will see a strong sustainable growth in the market, thus seeing potential new stock market picks in the short medium/ run.

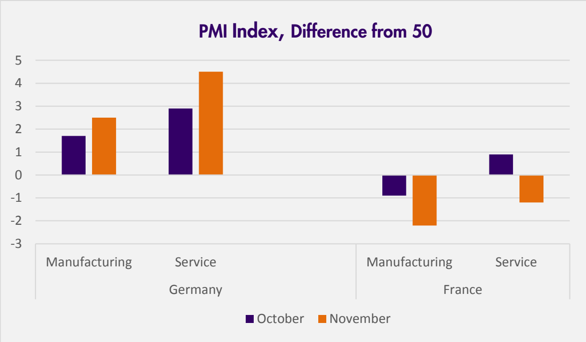
THE FIGURES SPEAK

During the previous week the flash estimates of the Eurozone PMIs for November were published. At first glance the figures for the countries on the Continent were boring, continuing to perform at the same direction: showing no clear improvement and hovering just above the neutral 50 level. But after more detailed examination of the numbers, the divergence between Germany and France stands out.

As long as the development of Germany continues its slow rally, the French economy will appear to take a relative turn for the worse. Both the manufacturing and services surveys were disappointing, coming in at 47.8 and 48.8 respectively, potentially foreshadowing a slowdown in the economy.

To date, French assets, both stocks and bonds, have held up relatively well. However, if the data follows its recent negative run then France might soon be seen as a less attractive investment than many of its neighbors.

France faces major issues going forward.



Unemployment continues to rise, undermining both domestic demand and the prospects for investment. The economic sentiment is falling. The competitiveness in France disappoints, while its neighboring countries manage to improve their figures, partly aided by the deflation run. French exports are barely above per-crisis levels, while those of Germany and Spain are up 10%. In Q3, exports dropped by 1.5% on a quarterly basis while imports increased by 1.0% leading to a net exports contribution of -0.7%.

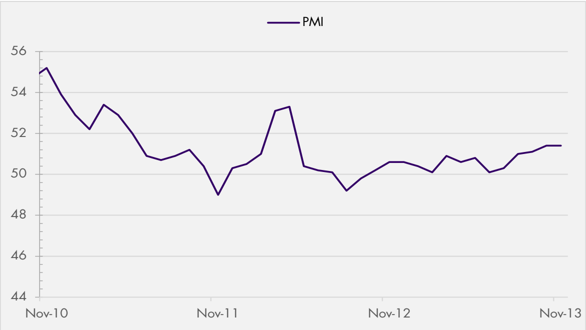
Day	Country	Indicator	Actual	Forecast	Previous
Wednesday	Germany	GfK German Consumer Climate	7.4	7.1	7.1
	United Kingdom	Second Estimate GDP q/q	0.8%	0.8%	0.8%
	United Kingdom	Prelim Business Investment q/q	1.4%	2.3%	-2.7%
Thursday	Germany	Unemployment Change	10K	0K	3K
	EU	M3 Money Supply y/y	1.4%	1.8%	2.0%
		Private Loans y/y	-2.1%	-1.9%	-2.0%
Friday	United Kingdom	GfK Consumer Confidence	-12	-8	-11
		M4 Money Supply m/m	0.1%	1.1%	0.5%
		Mortgage Approvals	68K	68K	67K
	EU	Unemployment Rate	12.1%	12.2%	12.2%
		CPI Flash Estimate y/y	0.9%	0.8%	0.7%

ASIA & OCEANIA

Grey was my color.

CHINA

Chinese officials are focusing their efforts on improving regulation and liberalizing markets, as the government after their National Congress, is now working on shrinking the famously large 'grey' economy (especially in the financial sector). New rules, targeting shadow banking, are being constructed which will prevent lending limit evasion and reporting-standard issues. In the past month, markets reacted with a spike of 7-day-repurchase-rates to an average of 4.54 compared to 3.57 in October. This could be a burden on companies' borrowing costs. We evaluate the situation with short term focus, as financial sector regulations will most likely be beneficial in the long term, additionally resulting in increased confidence and transparency in the market.



The Chinese securities regulator is on track to change its stance regarding IPOs. IPOs were frozen for more than one year and now 50 companies are positioned to get approval by the end of January 2014. We are seeing numerous opportunities in the IPO market boom in the forthcoming year, which will be discussed in detail in further reports.

The PMI recorded a reading of 51.4 for the second month in a row, led by large cap companies, which post an average reading of 52.4. In contrast, small enterprises are decreasing output, with a PMI reading of 48.3. In our opinion this discrepancy is largely due to structural issues .The overall positive November figures, an 18-month high,

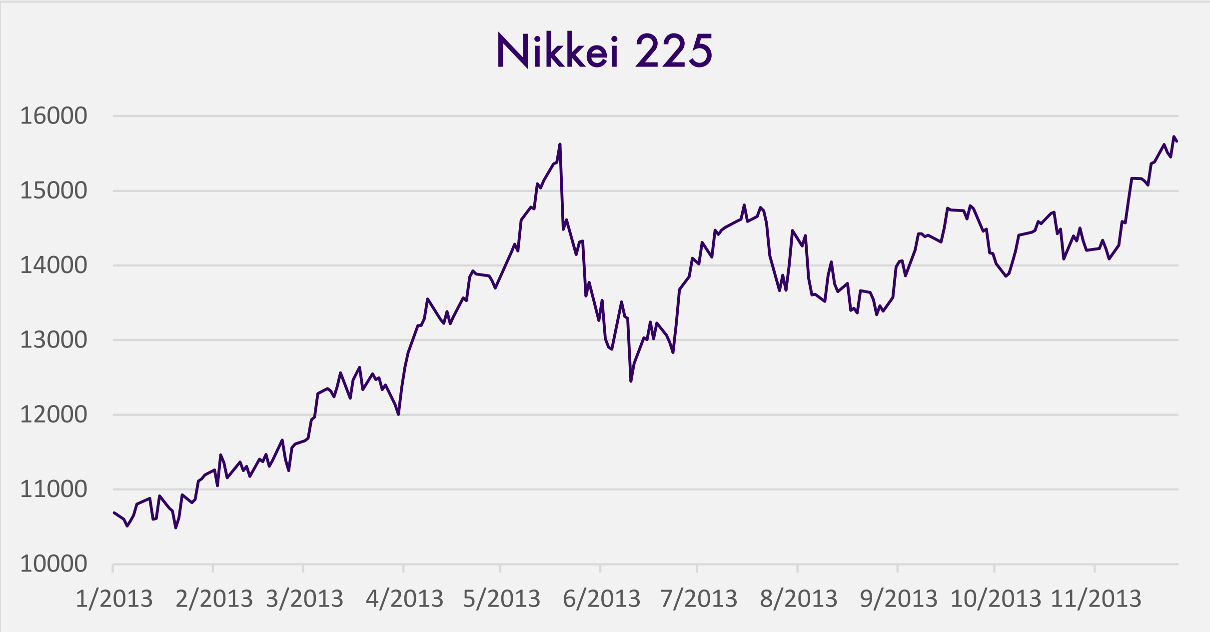
We see numerous opportunities in the IPO market boom in the forthcoming year

suggest strong output, which further improve sentiment over the suggested Chinese slowdown. The Shanghai Composite Index rose 3.7% in November as confidence from the National Congress reform looms.

JAPAN

Japanese prices rose by a 15 year record, posting a 0.3% increase in October YoY (excluding energy and food). Abenomics, Japan's "extreme" monetary policy, seems to be gaining traction regarding the international currency and debt inflation "war". Exports are performing strongly and the stock market is acting accordingly. The Nikkei is up 45% (or 25% when yen depreciation is taken into account). The depreciating yen creates incentives for companies to buy back shares which puts further upward pressure on stock prices.

In contrast, industrial production increased by only 0.5% in October, versus 1.3% in September, well below estimates. Small business confidence increased to 51.1 in October compared to 50.8 in September.



Day	Country	Indicator	Actual	Forecast	Previous
Monday	Australia	RBA Deputy Gov Lowe Speaks	-	-	-
	Japan	Monetary Policy Meeting Minutes	-	-	-
Tuesday	New Zealand	Trade Balance	-168M	-345M	-216M
Wednesday	Japan	Retail Sales y/y	2.3%	2.2%	3.0%
	Australia	Private Capital Expenditure q/q	-	-	-
Thursday	Japan	Unemployment Rate	4.0%	3.9%	4.0%
		National Core CPI y/y	0.9%	0.9%	0.7%

COMMODITIES

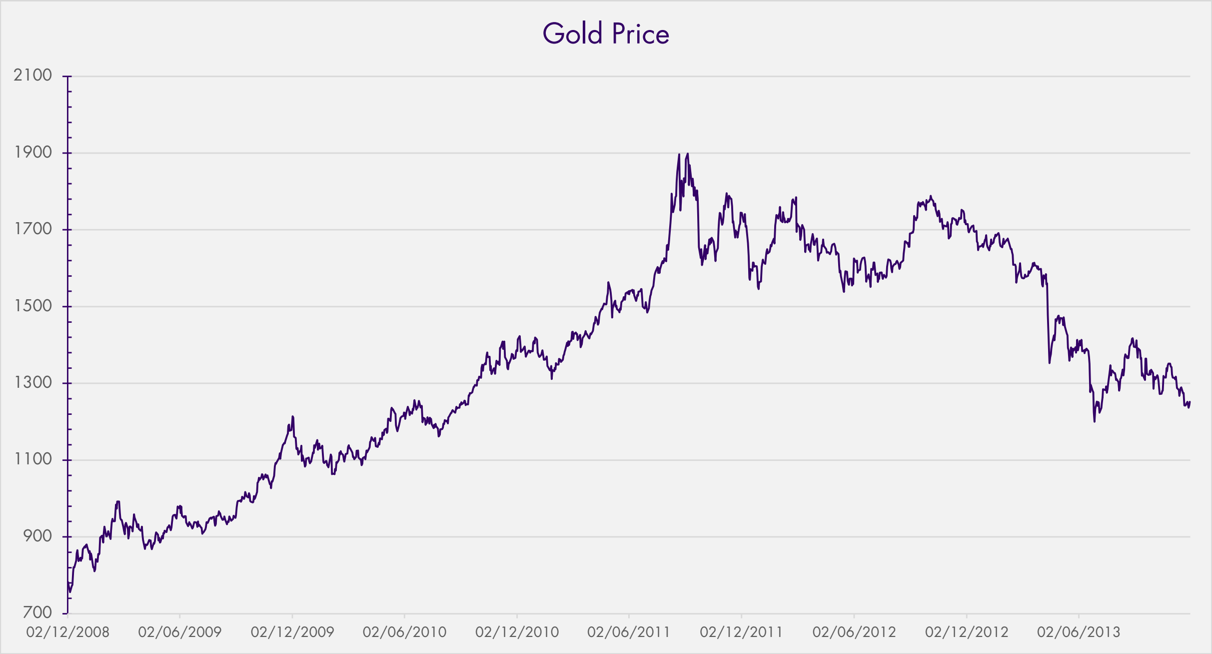
Mobilising the ships!

METAL

Although gold futures rose in November due to an increase in demand for bars, jewelery and coins from China, gold spot prices still slid 5.2% bringing it within 6.3% of its 33-month low of $1,180.40 an ounce set in July.
Silver ended a four week slump this week rising by 0.7%. Similarly silver futures for March gained 1.8% to $20.033 on the COMEX; however like gold, November was the worst month for the metal since June, declining 8.4%.

Some of the smaller moves that occurred were as follows:

- Platinum futures for January climbed 1.2% to $1,368.80 an ounce.
- Palladium futures for March rose 0.5% to $719.65 an ounce.
- Copper futures for March increased 0.45% to $320.50 on the COMEX.



ENERGY

The WTI rose for the first time in five days at the start of the week, because of U.S. equities advances amid gains by online retailers due to Black Market sales, and also Libya's drop in oil production. Oil workers, civil servants and private sector staff went on strike in the Libyan port of Benghazi. The protesting was due to decreased security after clashes between the army and Islamist militants. This walkout is the latest sign of growing anger against militias who helped oust Gaddafi two years ago, but have kept their weapons and regularly challenge the new fragile government. There is particular concern in Benghazi and the surrounding Eastern region as it's the site of around 60% of oil production. The unrest in Libya is causing supply fears just as winter demand for oil is starting to rise, whilst higher than expected crude stocks in the USA has capped gains on Brent crude futures. Libya's oil being off the market is going to directly affect the supply chain and help keep prices elevated.

Following the recent deal between Iran and the other world powers, implied volatility within the U.S. crude oil market fell by almost 18%, the lowest level in eight months. Despite this however, Iran is quietly mobilising more ships to store and transport oil, as it's aiming to keep its fields working in order to mitigate losses of several billion dollars a month from sanctions, which since February have prevented Iran from repatriating cash earned from its oil exports. Crushing its economy and crippling its largest revenue stream. Furthermore the biggest buyers China, India, South Korea and Japan have all cut back on purchases. Despite Iran's attempts to mobilise ships it won't be able to ramp up its oil exports quickly, according to experts.

Implied volatility within the crude oil market fell by almost 18%

AGRICULTURAL

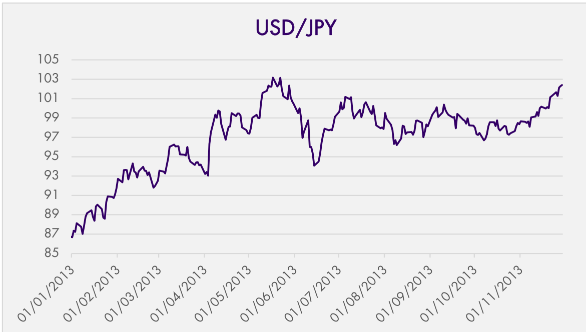
The department of agriculture is predicting global production will reach new records for soybeans, corn and wheat. Soybean futures have dropped 5.5% this year, whilst corn and wheat have dropped 40% and 14% respectively. Cattle futures have headed for the longest rally in two months due to US beef demand improving. As a result, meat-packers have bought more animals for slaughter. According to the US department of agriculture the number of animals slaughtered is up 2.8% from last year.

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3553	1.3586	0.24%	0.46%	4.00%
USD/JPY	101.25	102.4	1.14%	4.27%	16.15%
USD/CHF	0.9066	0.906	-0.07%	0.14%	-2.00%
USD/CAD	1.0515	1.0611	0.91%	2.96%	7.53%
AUD/USD	0.9165	0.9107	-0.63%	-2.23%	-13.13%
NZD/USD	0.8185	0.812	-0.79%	-2.12%	-2.35%
USD/CNY	6.0936	6.0932	-0.01%	-0.46%	-1.49%
GBP/USD	1.6219	1.6362	0.88%	1.10%	1.88%

JPY

More people start to visualise the fundamentals behind the USDJPY rally. Prime brokerages have started reporting that Hedge Funds have initiated opening long USDJPY positions...again. In regards to news, the week was quiet, however momentum and mass hype will do the job of exposing sentiment.



GBP

The pound has enjoyed strong gains this week at the expense of the dollar, but the rally has taken a pause on Friday after some weak domestic data being published. GfK Consumer Confidence continues to look weak, coming in at -12 points, short of the estimate of -8 points. Net Lending to Individuals and retail sales also failed to hit the estimates. Despite that, the GBP/USD has climbed to its highest levels since January following an upbeat Financial Stability report from the BOE on Wednesday. The Bank stated that risks to financial stability had lessened as economic growth appeared to be improving. At the same time, the BOE warned that a sharp rise in interest rates could threaten financial stability. However, we believe that the positive rally of GBP is not over yet, so we expect so new highs in a short/ medium term horizon.

PORTFOLIOS

MAVERICK

security	L/S	date
Volkswagen AG	Long	03/09/2013
Starbucks Corp	Long	03/09/2013
Roche Holding AG	Long	03/09/2013
Datang International Power Generation Co. Ltd	Long	03/09/2013
ENN Energy Holdings Ltd	Long	03/09/2013
China Longyuan Power Group Corp. Ltd	Long	03/09/2013
Tracker Fund of Hong Kong	Short	03/09/2013
Microsoft Corporation	Long	15/10/2013

security	L/S	date
Nike Inc	Long	15/10/2013
SPDR Financials Sector	Short	28/10/2013
Corning Inc.	Long	23/10/2013
INR/USD	Long	04/11/2013
CNY/USD	Long	04/11/2013
BMW	Long	07/11/2013
ProShares UltraShort Lehman 20+ Yr(ETF)	Long	04/11/2013

CORTEZ

security	L/S	date
Pandora A/S	Long	03/09/2013
Aviva PLC	Long	03/09/2013
Valeo SA	Long	03/09/2013
Furmanite Corp	Long	03/09/2013
Aspen Technology Inc	Long	03/09/2013
China Suntien Green Energy Corp Ltd	Long	03/09/2013
Beijing Enterprises Water Group Ltd	Short	03/09/2013
Prudential Plc	Long	30/09/2013
USD/JPY	Long	07/10/2013
Dixons Retail Plc	Long	15/10/2013
Standard Chartered	Short	15/10/2013
Lloyds Banking Group	Long	15/10/2013
Chico FAS	Long	15/10/2013
OZ Minerals	Long	15/10/2013
Aeropostale Inc	Long	15/10/2013

security	L/S	date
H&M	Long	15/10/2013
Restoration Hardware	Long	23/10/2013
Greenhill and Co. Inc.	Long	20/10/2013
Crest Nicholson Holdings plc	Long	20/10/2013
Foxtons Group plc	Long	20/10/2013
Countrywide plc	Long	20/10/2013
Bellway plc	Long	20/10/2013
Easyjet plc	Long	20/10/2013
Chuy's Holdings Inc	Short	28/10/2013
magicJack VocalTec Ltd	Short	28/10/2013
Claymore/AlphaShares China Real Est ETF	Short	04/11/2013
GBP/USD	Long	04/11/2013
PDR Barclays High Yield Bond ETF	Short	18/11/2013
Distribuidora Internacional de Alimentacion SA	Long	19/11/2013

EVENTS

USA

- ISM Manufacturing PMI
- ISM Services PMI
- New Home Sales
- Q3 GDP (revision)
- Employment Report

EUROPE

- Spanish Unemployment Change
- ECB Press Conference
- BoE MPC Rate Statement

ASIA & OCEANIA

- Japan: BoJ Gov. Kuroda Speech
- Japan: Monetary Base
- Japan: Leading Indicators
- China: Non-Manufacturing

REFERENCES

NBS, Federal Reserve Bank of St. Louis, Bank of Japan, Bloomberg, Reuters, Seeking Alpha , National Bureau of Statistics, Berenberg

DISCLAIMER


SHARD FUND
www.shardfund.com