SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

April 5th - April 11th, 2014 | Issue 15

TEAM:

Georgi Stanoev USA
Petar Tsachev Europe

Harry Collins Commodities
David Twomey Editor
Jaskiran Mangat Co-Editor

SPECIAL ANNOUNCEMENT

Young Finance Scholars' Conference

The conference provides an opportunity for junior scholars that have little (or no) experience with publishing in academic journals to share their research, debate their methodology and results, network with their peers from other institutions and, primarily,to receive expert comment and advice on publication from leading finance academics.

Schedule: **http://bit.ly/1iWEtVd**

To register follow the link or the logo: **http://bit.ly/1gzMYlP**

USA

The ‘great’ rotation

In a relatively uneventful week, the US market started showing its true, rotten fundamentals. The growth factor once again took a punch in the face as the Russell 2000 and the NASDAQ took a nose dive. Both indices will test their year-to-date lows next week (Nasdaq is just 3 points away). The iShares MSCI USA Momentum Factor ETF we suggested last week is down 3.25% in the last 5 trading days. Meanwhile the USD is very close to the lowest point in the past 1 year and the 10 year treasury yield dropped more than 10 basis points in the past week.

Utilities	0.55%
Consumer Staples	-0.47%
Energy	-1.90%
Technology	-2.00%
Materials	-2.77%
Industrials	-3.12%
Consumer Discretionary	-3.73%
Healthcare	-3.96%
Financials	-4.01%

All this happened in the face of the FOMC meeting minutes showing that the committee is not as hawkish on interest rates as Janet Yellen wanted us to believe during her first speech as chairman.

Dow Jones Ind. Avg.	-2.35%
S&P 500	-2.65%
Nasdaq	-3.10%
Russell 2000	-3.64%

The game that began at the beginning of March, which we outlined in previous issues, is still on. US cyclicals down, defensives up, USD down, bonds up, commodities up (ripping), US stock market down, Emerging Markets (EM) up. Classical rotation, which is gaining full power, and is the backbone of our view for the second quarter of the year.

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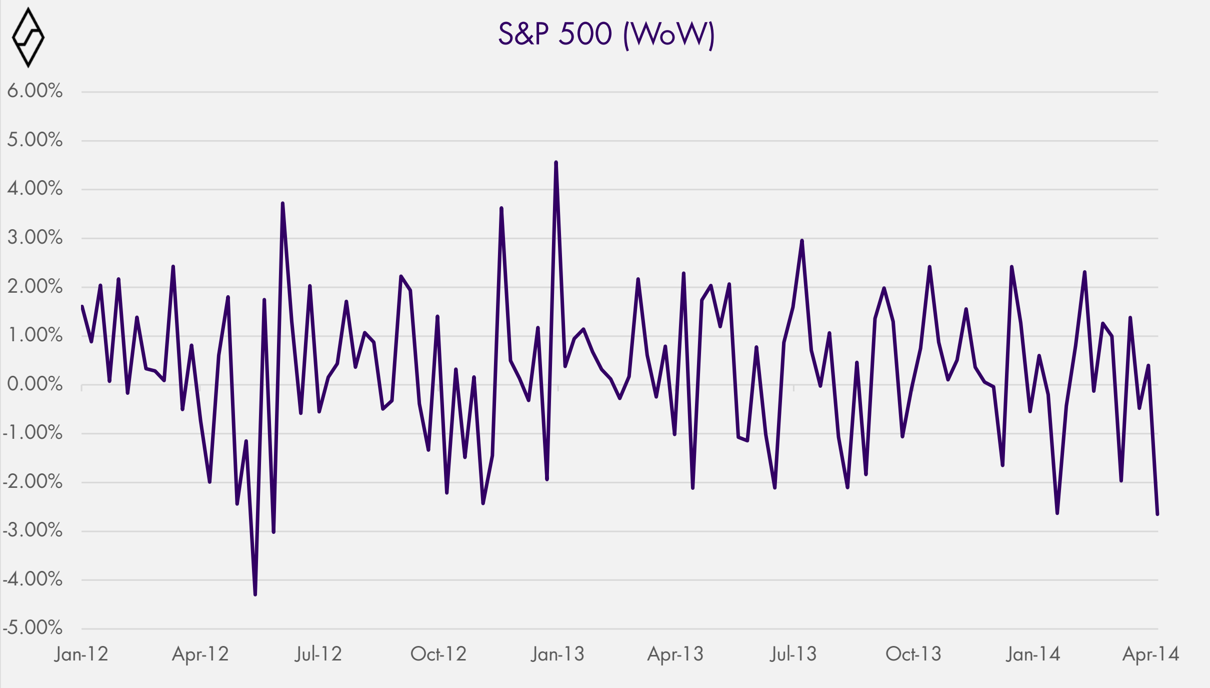
So start playing the game, follow the trend and we will update you every week until something fundamental changes which will persuade us to change our view. Until then, be wary of the US market. After all, the S&P 500 has had its largest weekly drop since the last week of May 2012.
In regards to the Fed, we (market participants) were incorrectly led to believe (by Janet Yellen) that interest rates will rise sooner rather than later. Last week she corrected her previous statement by saying that the economy needs “extraordinary” support, which was further emphasised in the minutes from the FOMC meeting. Commodities loved the news,



Source: Thomson Reuters

while the USD was crushed. Considering this view from the Fed, we do not see any reason why the rotation we have been talking about is not a viable theme for the next couple of months (maybe even more). We are also starting to see the results from the pumped commodity prices – the Producer Price Index (leading indicator for inflation) increased to 1.4% (YoY), which is 0.5% more than the corresponding number in February and 0.7% more than in December. Start following the value chain and see where it hits consumers the hardest.

Day	Country	Indicator	Actual	Forecast	Previous
Wednesday	United States	FOMC Meeting Minutes			
Thursday		Initial Jobless Claims	300K	320K	332K
		Continuing Jobless Claims	2,776K	2,850K	2,838K
Friday		Core PPI (YoY)	1.40%	1.10%	1.10%
		PPI (YoY)	1.4%	1.1%	0.9%
		Michigan Consumer Sentiment	82.6	81.0	80.0
		Michigan Current Conditions	97.1	96.3	95.7

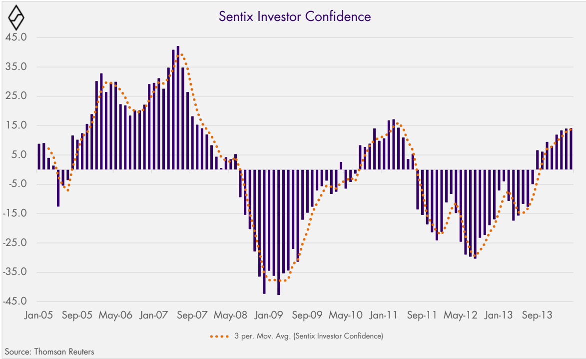
EUROPE

The turbulence brings inflows

On the old continent, it was definitely a hard week. European stocks posted their worst weekly slump in a month amid a global rout that sent technology shares tumbling. The worst performing indexes, on 5 day bases, were the Spanish IBEX 35 – declining by 4.42%, the Italian FTSMIB- sinking by 4.4% and DAX – going down by 3.92%. Moreover, there's been contagion from the correction in the U.S. which is probably not over, but the fact is, this is mostly a U.S. correction. Thus we believe that the European stock market will be affected to a less extent.

However, despite the week's pull-back, data from Thomson Reuters Lipper showed that European equities saw inflows from U.S. investors in the seven-day period ending April 9. Since the start of the year, European stocks have enjoyed brisk inflows from U.S. investors, with 13 weeks of net inflows and only one week of net outflows. This speaks volumes about investors' attitude over the recovery of the two world centers (EU and US).

Looking at the macro environment of the Continent, the things get better and better. The Sentix survey of euro-area investor confidence rose to 14.1 in April from 13.9 last month. The index, based on about 900 investors, has risen for four months and been above the 10-year average of 0.78 since September.

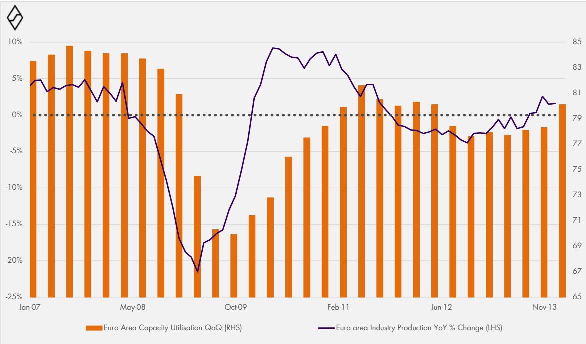


At the same time the industrial output is also getting better. German industrial production rose for a fourth consecutive month in February, and U.K. industrial production rose more than economists forecast in February. Production increased 0.9 percent from January, when it was unchanged. French industrial production climbed 0.1 percent in February after a 0.2 percent fall in January. The next paragraph will describe how we could take advantage of the current positive data.

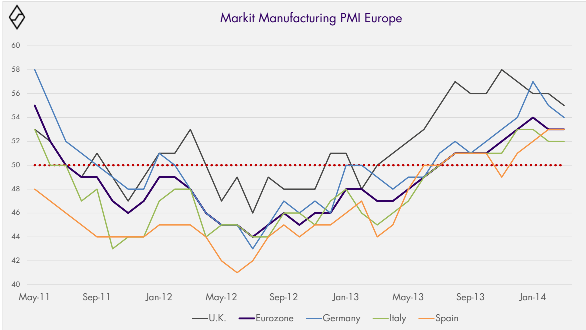
ITALY INVESTMENT OPPORTUNITIES

One of the most interesting parts of the whole European recovery is coming from the industrial part of the production. Together with growing economic conditions and rising confidence, industrial production is gaining as well. Moreover, during the last months we witnessed the European capacity utilisation rise to 80%, which is the highest since Q2 2012. At the same time looking at the Euro Area industry production pass on positive territory in the middle of 2013 and is keeping that positive rate.

Another indicator which tracks the industrial production activity is the Manufacture PMI index. The continued positive momentum in PMIs signals that European industrial activity



Source: Eurostat, Thomson Reuters



Source: Bloomberg, Markit

has bottomed and will improve in 2014/15, supporting the industry forecasts.

Taking all these facts into consideration, we believe that the European industrial recovery will boost the demand for industrial needed products, such as machine tools. In 2014, global machine tools' consumption is set to grow by 5%, with the US +6.6% outpacing Europe +4.6% and Asia +4.8%. Getting into Europe, the predictions are around +2.6% growth in Germany, +8.2% in France and +4.6% in Italy.

Thus, we propose 4 companies which are likely to gain because of this.

Campanies	Ticker Google
DMG Mori Seiki AG	ETR:GIL
Kion Group AG	ETR:KGX
Duerr AG	ETR:DUE
DEUTZ AG	ETR:DEZ

Global Machine tool consumption, 2014

Source: VDW/Oxford Economics, Berenberg estimate
*Note: **Calculation on JPY basis*

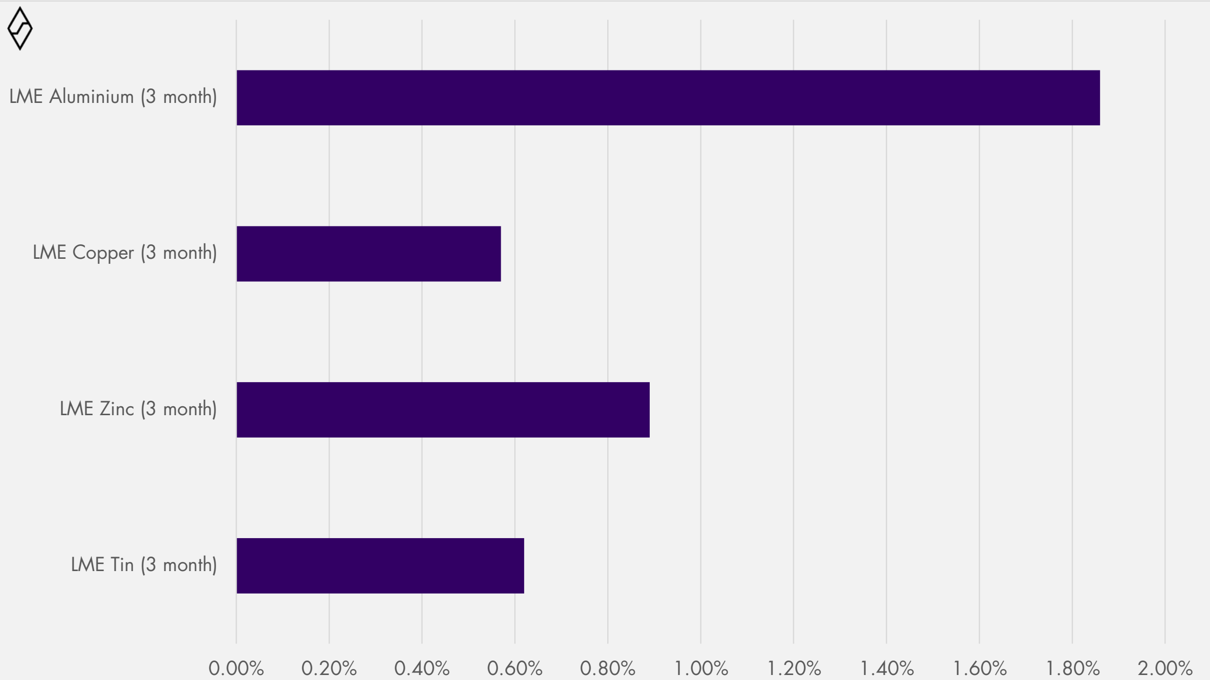
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United Kingdom	Manufacturing Production m/m	1.0%	0.3%	0.3%
		Industrial Production m/m	0.9%	0.3%	0.0%
Wednesday	United Kingdom	Trade Balance	-9.1B	-9.3B	-9.5B
Thursday	France	CPI m/m	0.4%	0.6%	0.6%
	Italy	Industrial Production m/m	-0.5%	-0.2%	1.1%

COMMODITIES

Copper's upcoming pain

METALS

Weak copper prices and tighter financing are forcing mining companies to cut or stall spending on exploring to their lowest levels in four years. Instead they are opting to focus on axing costs and reducing debt. Furthermore, tougher environmental standards, labour strikes, community resistance and resource nationalism are also having an impact. In the short-term copper prices are likely to remain weak due to uncertain Chinese growth, accounting for more than 40 percent of global consumption. In addition since the financial crisis, credit conditions have become a lot tighter; making it much harder to raise financing from third-party sources and weak copper prices are only exacerbating this. As a result the next few months could be a painful time for the copper and mining industries, the main reasons being: Copper is the worst performing metal on the LME this year, down 10 percent, and prices are expected to continue to fall as supply from current projects increase. This puts further strain on smaller mining companies in particular as most probably weren't expecting copper prices to be as low as they are. This has the knock on effect of making it harder to payback what they promised shareholders, and thus delays spending even more.



Source: Bloomberg

ENERGY

Putin has warned that Russian gas supplies to Europe could be disrupted if Moscow cuts the flow to Ukraine over unpaid bills, making it clear that his patience is running out over Kiev's $2.2 billion gas debt to Russia. Putin said Gazprom would demand advance payment for gas supplies to Ukraine and "In the event of further violation of the conditions of payment will completely or partially cease gas deliveries". As mentioned in previous editions, this could be a political tactic to gain more of Ukraine and with the mounting pressure being put onto Ukraine this seems to be more and more likely. In any event this could-have knock on effects for EU countries, much of whose Russian gas flows in pipelines across Ukraine.

AGRICULTURE

Vietnam's domestic coffee price rose to between 41,500 – 41,900 dong ($1.97 - $1.99) per kg, the highest level in nearly a month. As a result the July Robusta contract was up by 1.2 percent at $2,158 per tonne. However, prices in Vietnam, the world's top Robusta producer, could soon fall because of a government crackdown on overloaded trucks this month has caused transportation costs to jump.

World demand for sugar, under pressure from heavy surpluses, is unlikely to pick up unless prices fall sharply enough to trigger business from leading importers such as China. Discounts on April delivery for raw sugar from central-south Brazil is 9-10 points below ICE May futures, implying a lack of global demand at the start of the cane harvest. As a result, Brazilian mills are allocating an increasing share of cane to ethanol, rather than sugar, as the currency is becoming firmer boosting incentives to sell the bio-fuel to the domestic market rather than export the dollar-denominated sweetener.

World demand for sugar,...,is unlikely to pick up unless prices fall sharply enough to trigger business from leading importers

FOREX

Pair	Open	Close	Weekly %	Monthly %	YTD
EUR/USD	1.3701	1.3882	1.32%	0.82%	1.00%
USD/JPY	103.25	101.61	-1.59%	-1.56%	-3.50%
USD/CHF	0.8916	0.8757	-1.78%	-0.99%	-1.92%
USD/CAD	1.0978	1.0976	-0.02%	-0.65%	3.35%
AUD/USD	0.9287	0.9392	1.13%	1.39%	5.37%
NZD/USD	0.8591	0.8685	1.09%	0.18%	5.84%
USD/CNY	6.2123	6.2113	-0.02%	0.07%	-1.49%
GBP/USD	1.6569	1.6728	0.96%	0.40%	1.04%

PORTFOLIOS

MAVERICK

CORTEZ

UNDER CONSTRUCTION

EVENTS

USA

- Retail Sales
- CPI
- Building Permits/Housing Starts

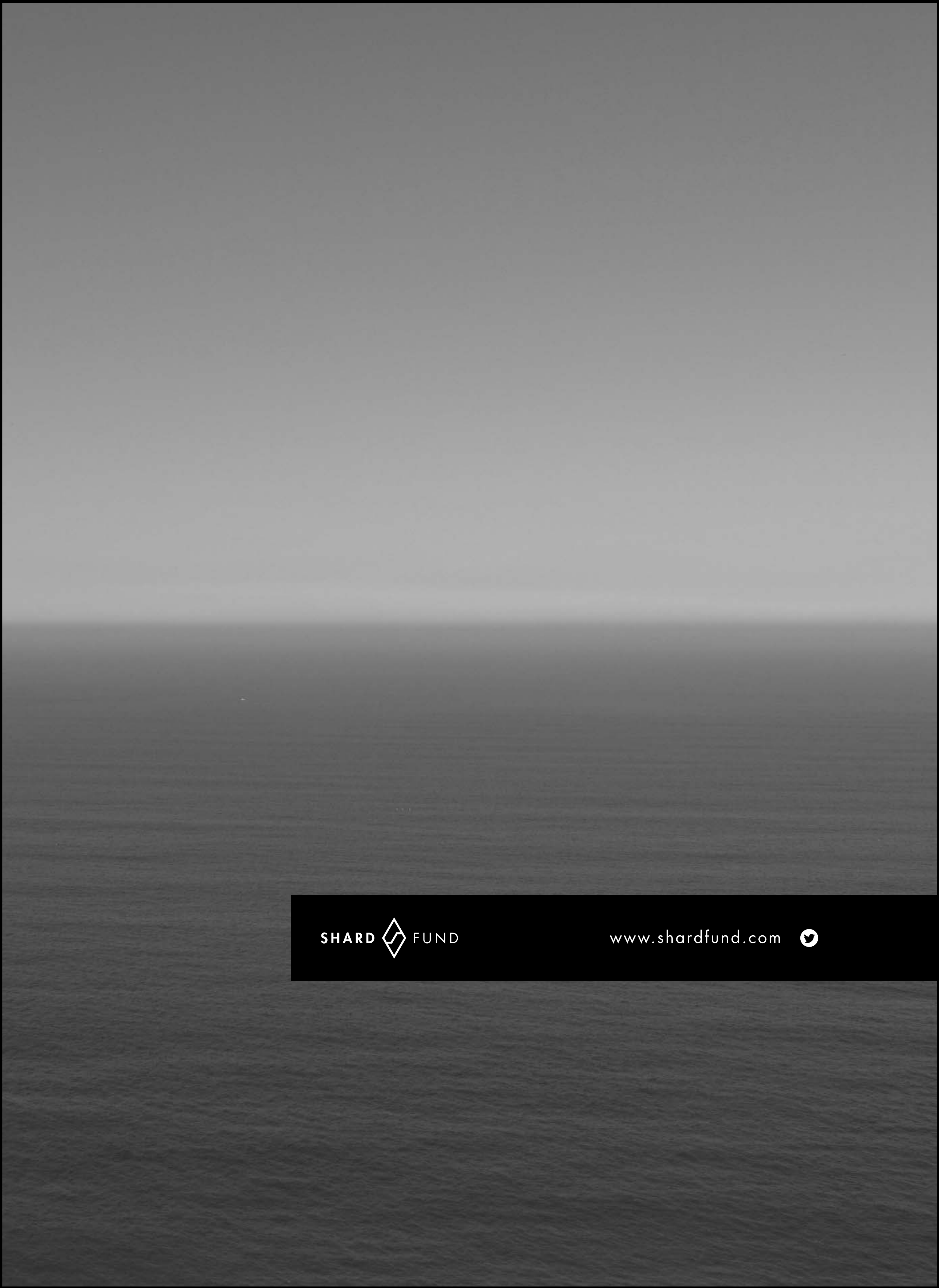
EUROPE

- EU: CPI y/y, Current Account
- UK: CPI y/y, Unemployment Rate

REFERENCES

Reserve Bank of Australia, Bank of Japan, Bloomberg, Thomson Reuters, Markit ,Eurostat, ECB, Bloomberg, Reuters, Berenberg, Seeking Alpha

DISCLAIMER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