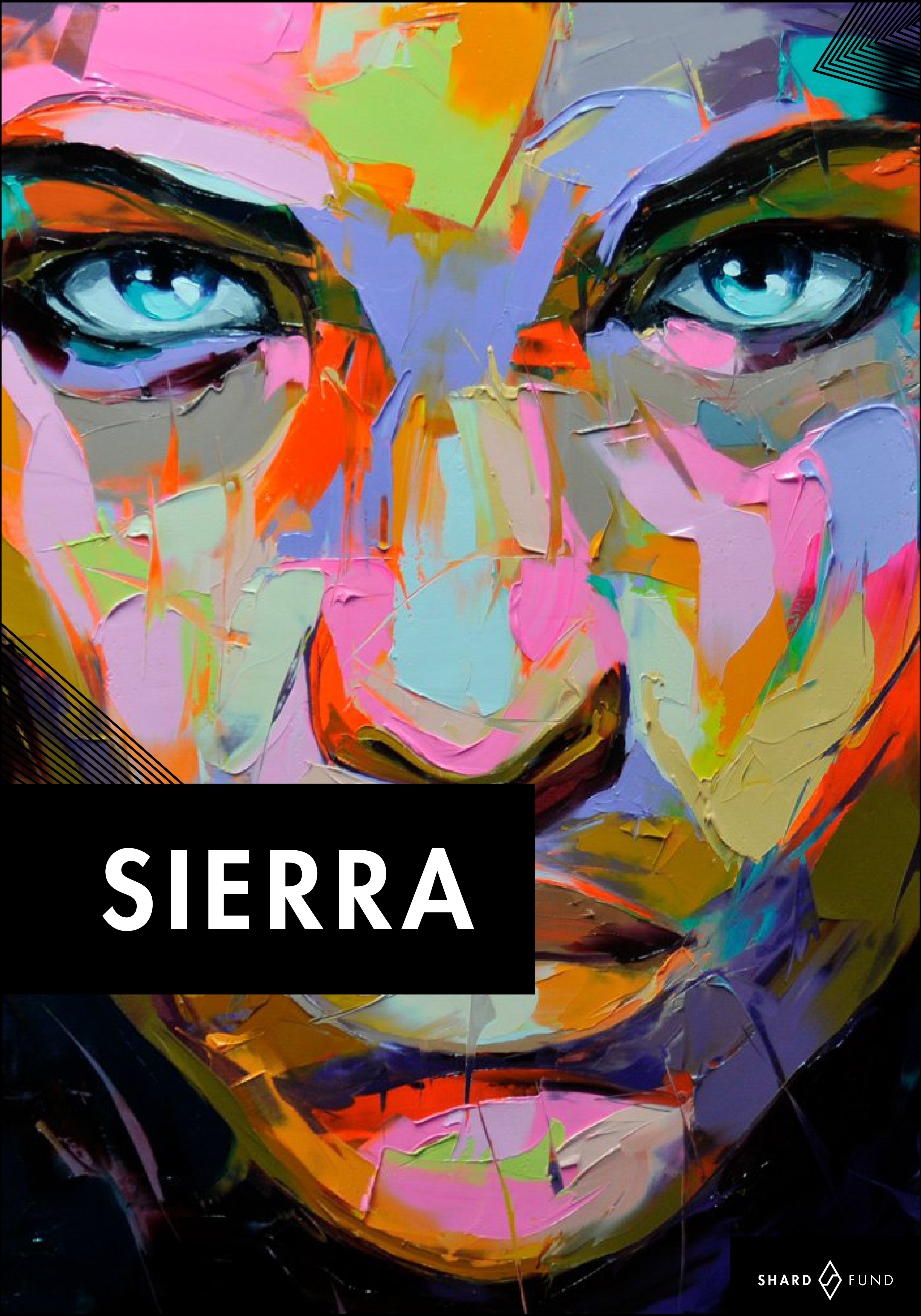

SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

June 28th - July 04th, 2014 | Issue 18

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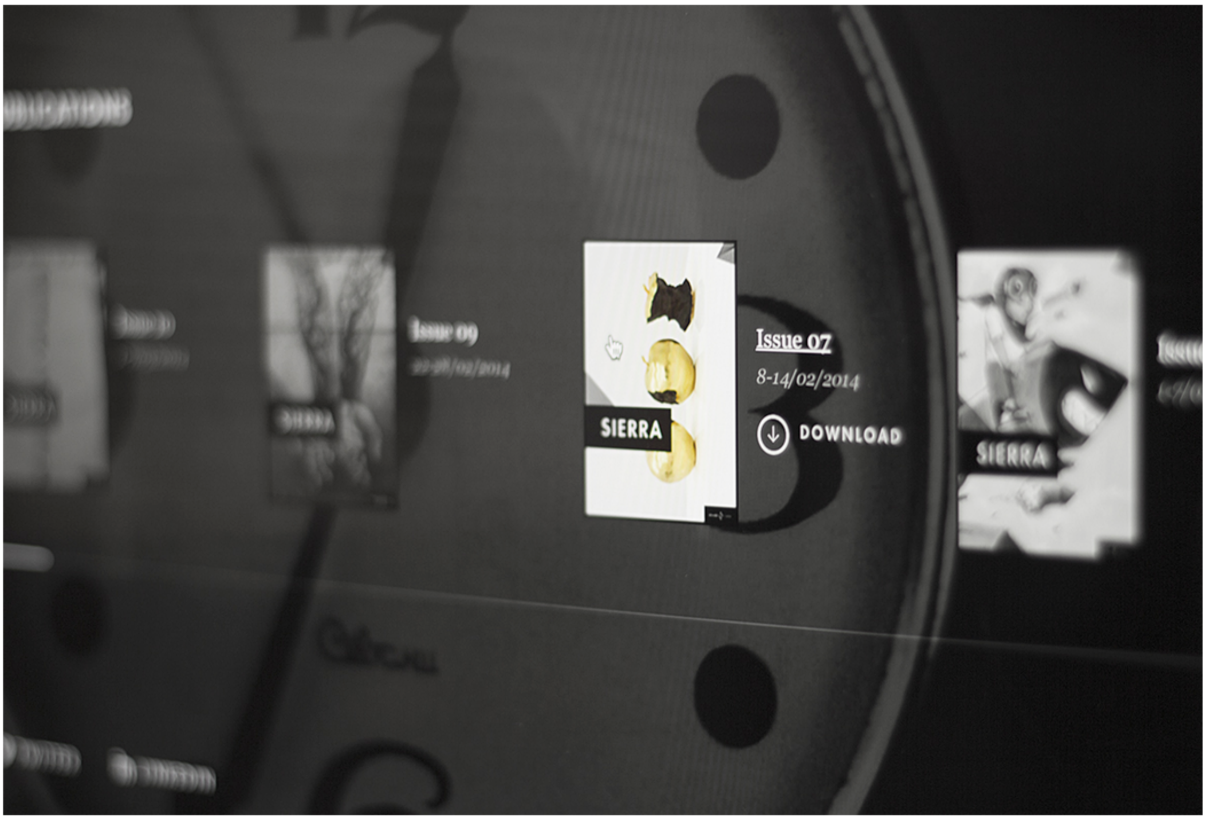
SPECIAL ANNOUNCEMENT

The Shard Fund website is up and running.

www.shardfund.com



View case study: **http://kickflipx.com/work/shardfund**

HIGHLIGHTS

USA

Economic activity in Q1 experienced a horrendous 2.9% drop, with PMIs flirting with the 50 level (no change) at the beginning of the year. Given the horrible initial months that respondents compare against, it should not be a surprise that PMIs have increased. Since the beginning of the year, nonfarm payrolls have averaged 220,000 per month however part-time job creation is significantly outpacing full-time job creation while real average earnings are already negative.

EUROPE

The most monitored figures in Europe was performing at non-satisfactory conditions: the final GDP % change QoQ stayed at the same close to zero levels – 0.2% and the CPI Flash estimates YoY performed worse than forecasted, declining to 0.5%. Despite that, the European equities finished on green territory because of some external reasons.
Knowing that the TLTROs is still a couple months away, everybody is looking at the upcoming details from Draghi about the stimulus program, in order to get more informed investment decisions. And at the end of the day the question is one: how much can banks borrow, and who is going the take

COMMODITIES

Copper has become an unexpected victim of the Indonesian export ban. Copper concentrates by 2017, will be banned completely. Domestic US coal production was up 2.1% year on year from Q1 2013. China is likely to surpass Japan as the world's leading importer of maize. the chief driver in the coffee market rally seen in Q1.

Weekly Change	
Indices	
S&P/ASX (Australia)	0.51%
Hang Seng	0.12%
BSE (India)	-0.02%
S&P 500 (USA)	-0.10%
SSE (China)	-0.72%
FTSE 100 (UK)	-0.99%
Nikkei 225 (Japan)	-1.66%
DAX (Germany)	-1.72%
IBEX (Spain)	-1.75%
CAC (France)	-2.30%
FTSE MIB (Italy)	-3.04%
Currencies	
EUR/USD	0.35%
AUD/USD	0.35%
GBP/USD	0.14%
USD/CHF	-0.49%
AUD/NZD	-0.57%
USD/JPY	-0.66%
USD/CAD	-0.86%
Commodities	
Copper	1.44%
Silver	0.77%
Gold	0.05%
WTI Crude Oil	-0.87%
Brent Crude Oil	-1.33%

CALENDAR

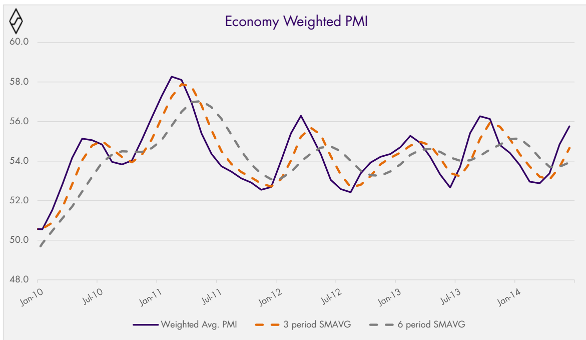
USA					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	United States	Pending home sales (MoM)	6.1%	1.5%	0.5%
Tuesday		ISM Manufacturing PMI	55.3	55.8	55.4
Wednesday		ADP Nonfarm Employment Change	281K	200K	179K
Thursday		Nonfarm Payrolls	288K	212K	224K
		Unemployment Rate	6.1%	6.3%	6.3%
		ISM Non-Manufacturing PMI	56.0	56.3	56.3
		Upcoming events		Forecast	Previous
Friday	United States	Federal Budget Balance		79.5B	-130.0B
EU					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	EU	CPI (YoY)	0.5%	0.5%	0.5%
Tuesday	EU	Unemployment Rate	11.6%	11.7%	11.6%
		Manufacturing PMI	51.8	51.9	51.9
	Germany	Manufacturing PMI	52.0	52.4	52.4
	United Kingdom	Manufacturing PMI	57.5	56.8	57.0
Wednesday	EU	GDP (QoQ)	0.2%	0.2%	0.2%
Thursday	EU	Interest Rate Decision	0.15%	0.15%	0.15%
	United Kingdom	Services PMI	57.7	58.3	58.6
		Upcoming events		Forecast	Previous
Monday	EU	CPI Flash Estimate y/y		0.60%	0.50%
Tuesday	United Kingdom	Manufacturing Production (MoM)		0.4%	0.4%
Asia and Oceania					
Day	Country	Indicator	Actual	Forecast	Previous
Sunday	New Zealand	ANZ Business Confidence	42.8%		53.5%
Monday	Japan	Tankan Manufacturing Index	12	16	17
		Tankan Non-Manufacturing Index	19	19	24
	China	Manufacturing PMI	51.0	51.0	50.8
		HSBC Final Manufacturing PMI	50.7	50.8	50.8
Tuesday	Australia	Interest Rate Decision	2.50%	2.50%	2.50%
		Trade Balance	-1.911B	-0.120B	-0.780B
Wednesday	China	Non-Manufacturing PMI	55.0		55.5
		HSBC Services PMI	53.1		50.7
	Australia	Retail Sales (MoM)	-0.5%	0.3%	-0.1%
		Upcoming events		Forecast	Previous
Tuesday	China	CPI (YoY)			0.025
Wednesday	Australia	Employment Change		12.0K	-4.8K
	China	Unemployment Rate		5.9%	5.8%
		Exports			7.0%
		Imports			-1.6%
		Trade Balance			35.92B

USA

Economics of employment and wages

Sectors	5D	1M	3M	YTD
Utilities	-2.83%	-0.91%	3.06%	13.42%
Energy	0.37%	5.10%	10.94%	12.41%
Healthcare	1.78%	3.90%	5.65%	11.93%
Technology	2.20%	3.32%	6.36%	8.98%
Materials	1.05%	1.97%	4.57%	8.48%
Financials	1.63%	2.95%	2.90%	5.40%
Consumer Staples	1.14%	0.71%	4.64%	4.91%
Industrials	1.09%	0.98%	3.01%	4.76%
Consumer Discretionary	2.19%	3.48%	3.54%	1.86%
Indices				
S&P 500	1.44%	3.18%	5.12%	7.42%
Nasdaq	2.70%	4.42%	8.68%	7.41%
Russell 2000	1.66%	4.70%	4.75%	3.83%
Dow Jones Ind. Avg.	1.32%	1.38%	3.99%	2.97%

In this issue we continue the never-ending discussion surrounding the growth in the US economy, or conversely, the lack thereof. Starting with economic activity, as measured by the ISM indices, both manufacturing and services seem to be growing. The economy weighted PMI has almost reached its high from last year when Q3 GDP growth hit 4.1%. However, it is also important to consider the current circumstances when assessing this performance. Economic activity in Q1 experienced a horrendous 2.9% drop, with PMIs flirting with the 50 level (no change) at the beginning of the year. PMIs are measured by questioning companies about conditions in different aspects of the business (new orders, production etc.) compared to the previous month. In other words, given the horrible initial months that respondents compare against, it should not be a surprise that PMIs have increased. We could apply the same logic to the Q2 GDP number and quarterly growth rate, which should be somewhat elevated, given the comparably horrible Q1 figures and the potential pickup in lost demand. Accordingly, PMIs should be significantly stronger in order to suggest something meaningful. Just look at the UK where the index for both manufacturing and services has been close to the level of 60 for the past one year, (although it has slowed slightly in recent months to around 58).

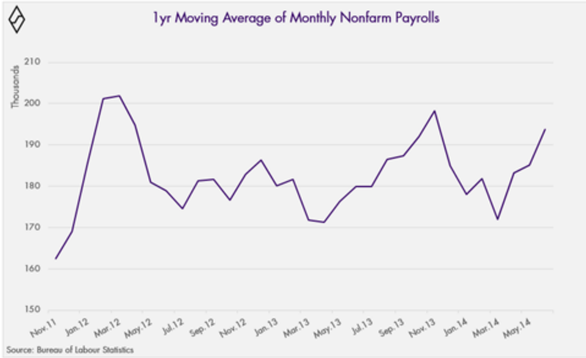


Source: Institute of Supply Management

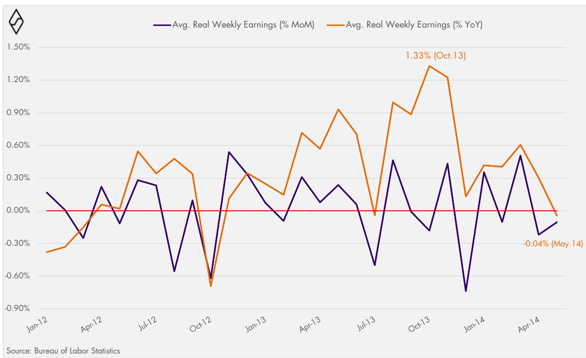
The only aspect of the two ISM surveys that has consistently stayed at or around 60 this year are prices, which is not something to be proud of. That said, this might be a good opportunity for spread trades along different value chains: going long companies that could pass along the increase in cost to consumers versus going short companies that are not capable of doing that. Put in a different way, we are currently looking into matching late cycle sectors like industrials (long) with early cycle sectors such as financials and consumer discretionary (short).

The only aspect of the two ISM surveys that has consistently stayed at or around 60 this year are prices.

If there has been one particularly positive aspect so far this year, this has to be employment. Since the beginning of the year, nonfarm payrolls have averaged 220,000 per month and in the last 5 months that average has been 240,000 per month, which is rather substantial. The unemployment rate has dropped to 6.1% and long-term unemployment is finally taking a breather as that number has dropped by 800,000 (20%) since February 2014. However, there is a major negative aspect that counteracts some of the positives. Part-time job creation is significantly outpacing full-time job creation. This has been especially notable in June, when the economy lost 523,000 full time jobs and added 799,000 part-time jobs. One way to interpret this is that companies are looking for more flexibility making full-time employees redundant and hiring more part-timers, especially the long-term unemployed that will be happy to work for less as long as they have a job. All in all, we cannot deny that the employment situation this year has been positive, however the quality of jobs created must improve. This is only one of the reasons why we are pessimistic about the "consumption resurgence" thesis circulating among market analysts.



On the other hand, we have wages (last week we talked about income), which are barely growing in nominal terms and stagnating in real terms. Month-on-month real average weekly earnings have decreased in 3 of the 5 months so far (June CPI is not released), while the same measure (year-over-year) has decreased this May for the first time since July 2013. Bear in mind that if real earnings are negative in terms of official, government reported CPI, then (in real world terms) the consumer has been suffering significantly. As mentioned in the last issue, that environment has persuaded people to tap their credit cards, in order to continue eating and driving. The investment environment in the US will stay the same (discussed in the previous issue), or get even more defensive, until the fundamentals signal both differently and convincingly.



EUROPE

Variability

Another bullish week passed for the European Union's equities, despite the relatively negative fundamental figures across the Continent. The major indexes in the leading European countries finished in green territory, the German DAX in the forefront with a 1.98% increase, the FTSE 100 with 1.6% and the Italian FTSE MIB with 1.12%. The main moves took place on Thursday when the ECB made a rhetoric support and the US data backed up the world financial sentiment (Refer to the US section). On the flip side, the most monitored figures in Europe performed at non-satisfactory conditions: the final GDP % change QoQ stayed at the same close to zero levels – 0.2% and the CPI Flash estimates YoY performed worse than forecasted, declining to 0.5%. What a shame!

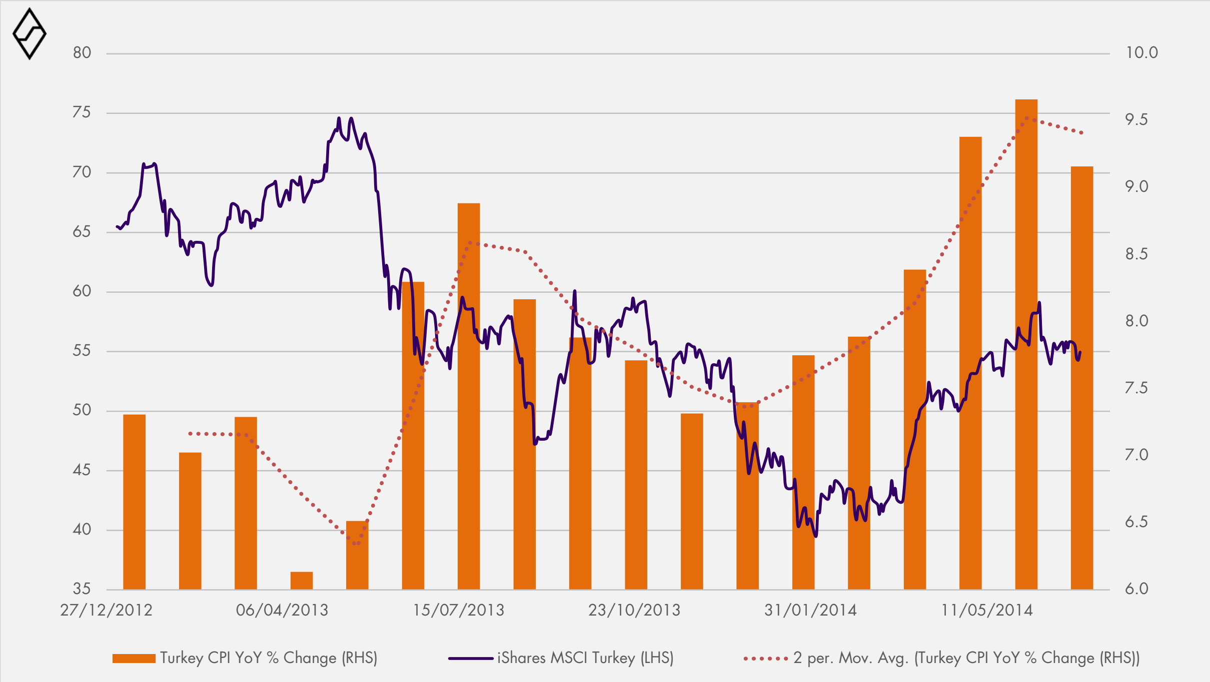
TURKEY

Even partly located in Europe, Turkey is definitely an important place for Emerging market investors and the worldwide economy: currently, there are some very interesting things there. For that reason, we are going to provide a quick tour of its fundamentals and stock market movements, linking their performance with recent influential economic events.

At the edge of the last month, The monetary policy committee of the Central Bank of Turkey (CBRT) decided to lower its benchmark interest rate for the second straight month with a 75 basis points cut, which it says will help boost economic growth amid mounting political pressure for a looser monetary policy. However, the bank left the overnight borrowing rate at 8% and the overnight lending rate at 12%. The jury is still out over the loosening of monetary policy: is the central bank continuing to lower rates in response to demands from the prime minister for lower cost of funds in the run up to elections this summer? Or, as the central bank claims in a statement on its website, improving global liquidity conditions have made conditions right for a "measured" cut to its one-week repo rate

The Turkish asset prices and the lira have been on the rise since the end of January, but has recently start to turn its positive run down (partly helped by economic decisions, partly helped by the external geopolitical tension of Iraq).

It is clear that pressure from the government has also played a pivotal role. Only a day before this rate action, the ruling Party's deputy chairman openly questioned the desirability of the monetary authority's independence: "… at the end of the day, the central bank should lead the process in line with the government's targets". Additionally, several weeks ago, leading central bank officials were removed from their posts. Mr Erdogan himself recently described May's 50 basis point rate cut as a "joke", calling for much larger reductions in order to spur growth ahead of presidential elections in August, while Economy Minister Zeybekci suggested June's cut was "far away" from what the country needs to boost manufacturing.



Source: Thomson Reuters

Consequently, the Turkish CPI rose to a two-year high of 9.7% in the twelve months to May, up from 9.4% in April and well above both the central bank's year-end forecast of 7.6% and its 5% medium-term target.

As a result, Investors have, so far, taken the news in their stride: the lira has barely budged, bond yields have not really moved and equities have more than recovered from their initial slight move lower. Apparently, Policymaker's credibility still resonates well with the market. The implied five-year breakeven rate remains below 7% - near the lower limit of a relatively tight trading range - despite CPI being consistently on the rise since last November. Bank stocks have shrugged off last week's downgrade by Fitch of the country's three biggest lenders to just a notch above junk status.

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TAKE THE MONEY AND RUN

Knowing that the TLTROs is still a couple months away, everybody is looking at the upcoming details from Draghi about the stimulus program, in order to get more informed investment decisions. And at the end of the day the question is one: how much can banks borrow, and who is going the take the biggest slice from the pie?

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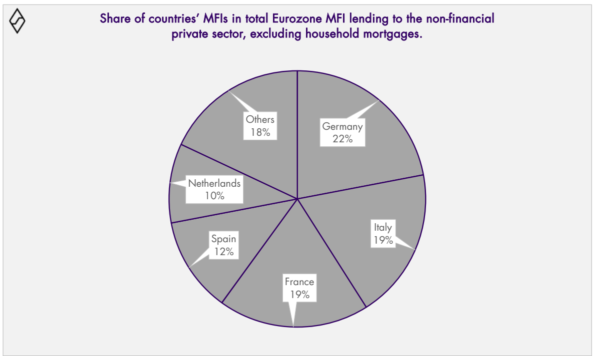
As we all know, there are going to be three new liquidity injections:

- In two auctions this September and December, banks can borrow up to 7% of their total lending to the non-financial private sector, excluding household mortgages, as of 30 April 2014.
- In six further auctions between March 2015 and June 2016, banks can cumulatively borrow up to three times their net lending to the Eurozone non-financial private sector (excluding household mortgages) between April 2014 and the auction date, in excess of a "specified" benchmark, which will be determined "by taking account each counterparty's net lending recorded in the 12-month period leading up to April 2014."
- The ECB is intensifying the preparatory work for outright purchases in the Asset-backed securities (ABS) market, which could result in purchases of "simple and transparent" ABS, where the underlying assets are claims against the Eurozone's non-financial private sector.

For the first two auctions, the calculation is simple. The ECB has estimated the total maximum take-up at "some €400bn". The national distribution looks set to favour some countries more than others. In April, German Monetary Financial Institutions (MFIs) accounted for 22% of relevant Eurozone lending, with French banks close behind at 19%. But while in these two countries the lending levels are lower than their shares in GDP (29% and 21%, respectively), Italian and Dutch potential TLTRO shares exceed their GDP shares of 16% and 6% significantly. Thus probably, Netherlands and Italy are favoured by the initial TLTROs?



ASIA & OCEANIA

What's wrong Mr. Abe?

Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Technology	2.21%	3.66%	7.46%	11.76%
STOXX Asia/Pacific 600 Construction & Materials	0.62%	3.81%	6.72%	10.20%
STOXX Asia/Pacific 600 Oil & Gas	0.24%	2.30%	8.20%	9.85%
STOXX Asia/Pacific 600 Food & Beverage	1.96%	3.06%	7.67%	7.31%
STOXX Asia/Pacific 600 Personal & Household Goods	1.80%	5.21%	6.95%	7.16%
STOXX Asia/Pacific 600 Health Care	1.06%	2.59%	4.93%	6.42%
STOXX Asia/Pacific 600 Industrial Goods & Services	2.04%	4.74%	5.82%	5.47%
STOXX Asia/Pacific 600 Index	1.49%	3.50%	5.40%	3.29%
STOXX Asia/Pacific 600 Utilities	0.88%	2.93%	6.84%	3.13%
STOXX Asia/Pacific 600 Chemicals	2.06%	5.50%	6.76%	3.08%
STOXX Asia/Pacific 600 Real Estate	0.02%	0.99%	5.43%	2.93%
STOXX Asia/Pacific 600 Media	0.85%	3.45%	7.50%	2.89%
STOXX Asia/Pacific 600 Banks	0.90%	3.36%	3.47%	1.96%
STOXX Asia/Pacific 600 Telecommunications	1.00%	1.48%	6.64%	1.15%
STOXX Asia/Pacific 600 Basic Resources	2.56%	5.44%	3.16%	0.85%
STOXX Asia/Pacific 600 Insurance	0.13%	0.90%	3.23%	0.75%
STOXX Asia/Pacific 600 Retail	1.30%	1.23%	3.17%	-0.27%
STOXX Asia/Pacific 600 Financial Services	1.85%	4.22%	6.68%	-1.36%
STOXX Asia/Pacific 600 Automobile & Parts	2.40%	4.64%	5.60%	-1.65%

JAPAN

When we last wrote about Japan, the tax rate hike had just been introduced and the market was generally dipping since January. Japan has a history of short successful attempts to reach a sustainable 2% CPI, which was generally followed by somewhat prolonged subsequent failures. Our forecasts were for the BoJ to ease the monetary situation even more and thus help boost the investors' confidence (maybe a naïve forecasts, however it has happened before in other countries). Well this didn't happen and, as a result, the Nikkei 225 has been relatively flat after its initial decline in January...that is until recently. On June 19th, the index broke its 4-month consolidation period where it was moving roughly between 14k & 15.5k. Now it's on the resistance of 15.5k. The uptrend since mid-May has been stable, even though YTD Japan is still in negative territory (-5.79%) while developed markets such as the US are hitting all-time highs.

... we feel it is better to keep trading USD/JPY and stay away from Nikkei 225 as a whole

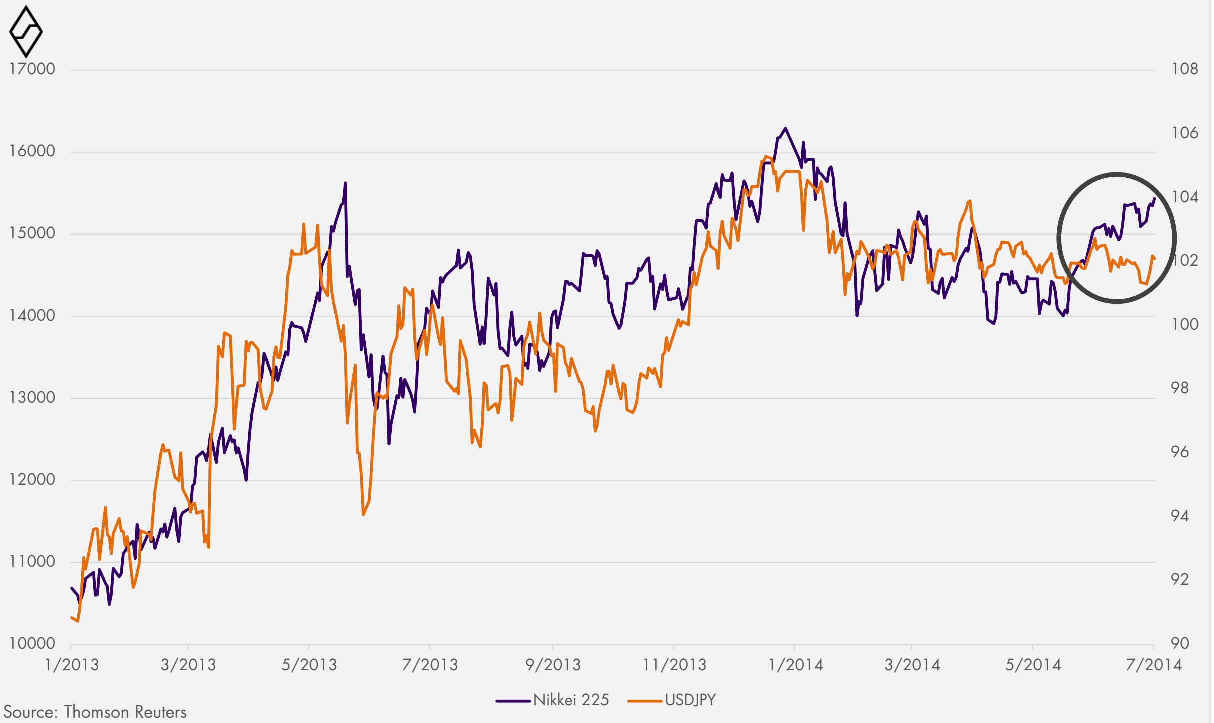
Enough with a technical perspective though! An interesting observation is the movement of the USD/JPY in relation to the Nikkei 225. Since Mr Abe became Prime Minister of Japan, the index has been largely driven (and therefore correlated highly) to the movement in the Japanese Yen (we use USD/

JPY to illustrate those movements). However recently, as noted in the above paragraph, the index "broke free" from the consolidation, whereas the currency is still bouncing off its strong support of 101. Cleary the Nikkei movement is not as a result of an expected monetary policy stimulus. The question now is why is that?

The facts are that the BoJ cut its fiscal year (to March 2015) GDP forecasts from 1.4% to 1.1% even though the country grew at 6.4% annualized growth from Q1, 2014 (the largest since the post-tsunami GDP growth in 2011). Now this was not due to e tsunami, but to a tax rate hike...I guess from a GDP perspective, it's the same thing, but from an event like a tsunami we get the weak number before the strong one, yet now it is vice-versa. As to why the index is now recovering, we believe it can be explained by a few major factors:

Firstly, the supposedly stronger economy—US is certainly contributing positively. Secondly, on a valuation basis, Japan (along with Europe), is more attractive compared to the all-time high hitting US.

Thirdly, we still hold a view that a further monetary easing seems even more likely (as there has already been a GDP forecast decrease) and the Yen is not getting any weaker to aid exporters. From a trade perspective, we feel it is better to keep trading the USD/JPY and stay away from the Nikkei 255 as a whole. The support on the currency is very strong and if bought close to the 101 level, the technical will align well with fundamentals and the risk-return ratio would be very favorable.



Source: Thomson Reuters

COMMODITIES

China the up and coming number 1 Maize

METALS

Copper has become an unexpected victim of the Indonesian export ban. When Indonesia banned the export of unprocessed minerals on January 12th this year, the consensus was that the most significant impact would be on the nickel and aluminium markets in that order, but six months on and copper has been hit hard. One of the giant copper mine's is under care and maintenance, the other has cut production by half. There have been no concentrated exports since January. This is the single biggest hit to copper mine supply this year, and is acting as a catalyst to fragment the copper concentrates pricing model.
Both Freeport McMoran, which owns and operates the Grasberg mine, and Newmont Mining, major stakeholder and operator of the Batu Hijau mine, appear to have been blindsided by the January rule changes. Furthermore copper concentrates aren't unprocessed minerals. As Newmont, has repeatedly, pointed out around 95% of the value chain is captured in this form of copper. Indonesian policy makers, though, beg to differ. There will be a steep and escalating tax on exports of copper concentrates, until 2017, when they will also be banned completely.
The evolution of concentrates pricing into a two-tier model one for "clean" and one for "dirty" is only going to accelerate with the loss of a sizeable amount of "clean" Indonesian material. The inference is that Asian copper smelters are going to lose permanently two major sources of concentrates supply, and "clean" supply at that, in a couple of years' time. By then, the current mine supply growth dynamic is likely to have waned.

ENERGY

First quarter saw domestic US coal production increase by 2.1% year on year from 2013 estimates. The vast majority, over 90% being used by the Electric Power Sector. By far the leading origin state, Wyoming accounted for around 95.1 million short tons to 34 states. Whilst the leading destination state, Texas received around 23.8 million short tons. Thus despite the US moving more towards renewables coal still plays a major part within the domestic energy markets.

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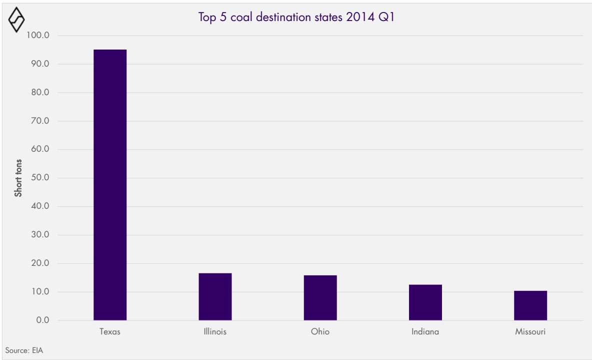
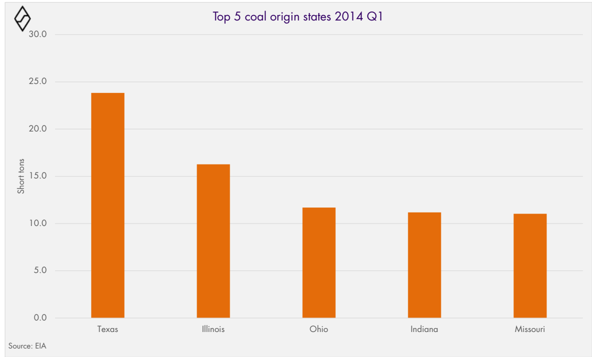
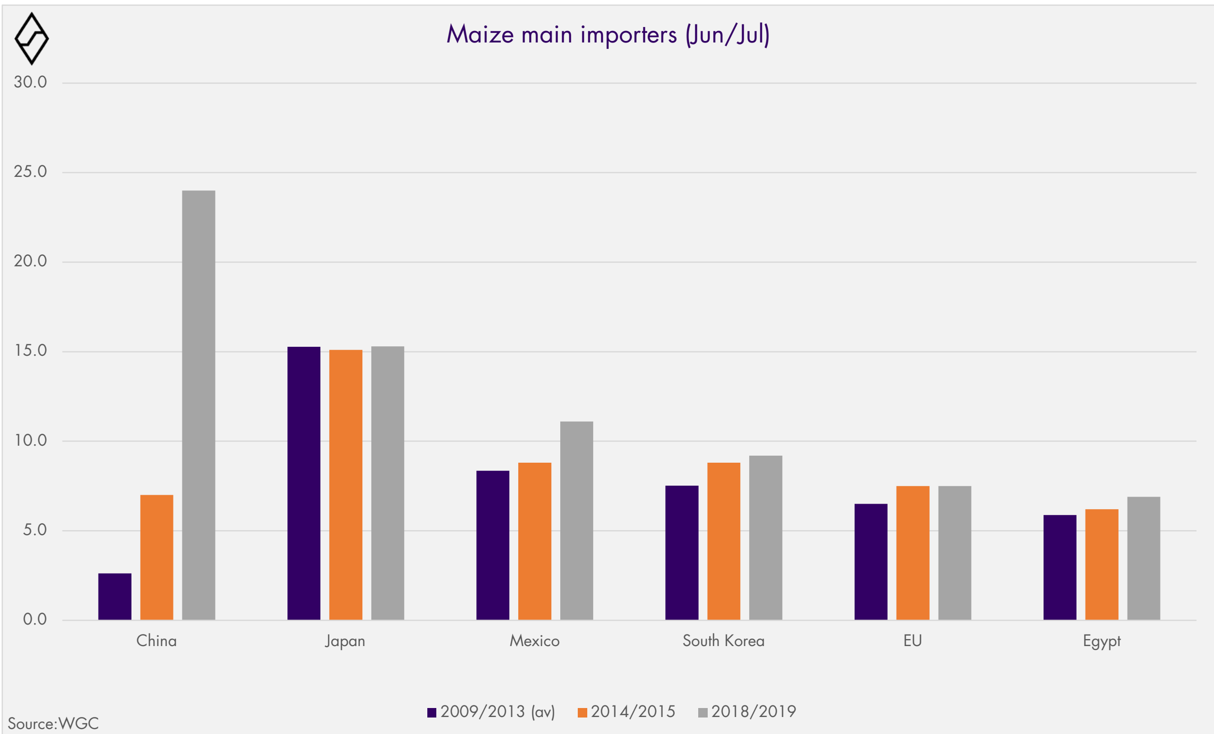




AGRICULTURE

Due to high domestic prices, imports of Maize into China have become increasingly competitive in recent seasons, with both public and private enterprises moving to secure additional supplies. In the medium term, projected growth in demand, is likely to outpace increasing production, necessitating even larger imports. As a result China is likely to overtake Japan as the world's leading importer of maize, with Jun/Jul shipments forecast to rise from around 7.0 mt to around 24. by 2018/2019, approximately 9% of domestic use. Furthermore whilst US exports have been dominant in recent years, maize imports from Argentina, Brazil, and Ukraine have also recently received regulatory approval.



FOREX

Pair	Open	Close	Weekly %	Trend w/w	Monthly %	YTD
NZD/USD	0.8771	0.8733	-0.43%	3	2.97%	6.42%
AUD/USD	0.9421	0.9362	-0.63%	4	0.60%	5.04%
EUR/JPY	138.38	138.71	0.24%	2	0.01%	3.79%
GBP/USD	1.703	1.7157	0.75%	4	2.45%	3.63%
USD/CNY	6.2197	6.2105	-0.15%	1	-0.28%	2.59%
GBP/JPY	172.72	175.06	1.35%	2	2.73%	0.47%
USD/CAD	1.0661	1.0647	-0.13%	2	-1.79%	0.25%
USD/CHF	0.8906	0.8938	0.36%	1	-0.13%	0.11%
GBP/AUD	1.8074	1.8326	1.39%	1	1.90%	-0.96%
EUR/USD	1.3646	1.3592	-0.40%	2	-0.28%	-1.11%
EUR/CHF	1.2071	1.2159	0.73%	3	-0.33%	-1.24%
AUD/NZD	1.0737	1.0714	-0.21%	2	-2.24%	-1.30%
USD/JPY	101.4	102.04	0.63%	3	0.32%	-3.10%
EUR/GBP	0.8007	0.792	-1.09%	2	-2.63%	-4.53%
EUR/AUD	1.4481	1.4517	0.25%	2	-0.64%	-6.23%
BTC/USD	594.93	627.53	5.48%	1	-1.79%	-14.10%

REFERENCES

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

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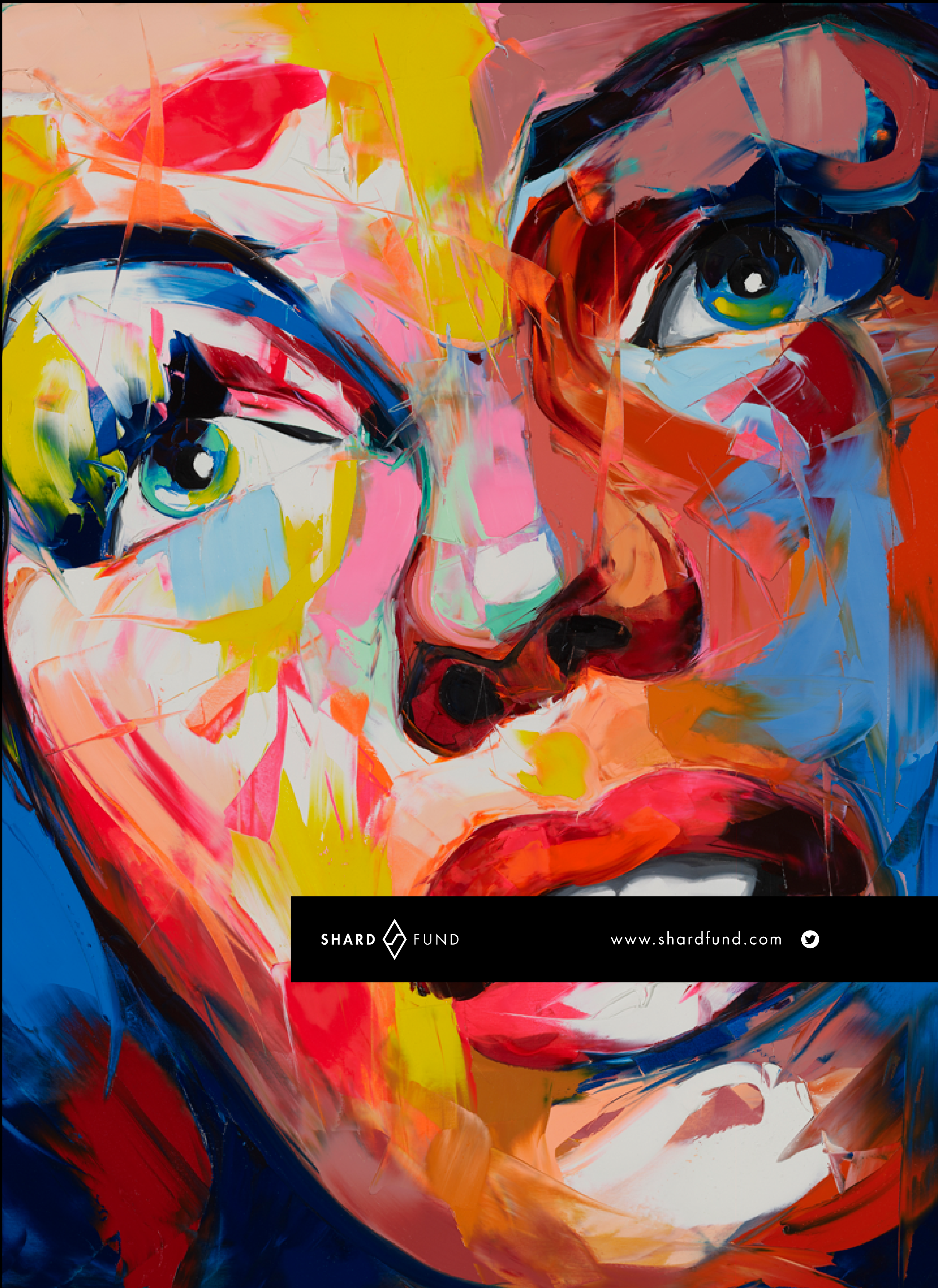
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