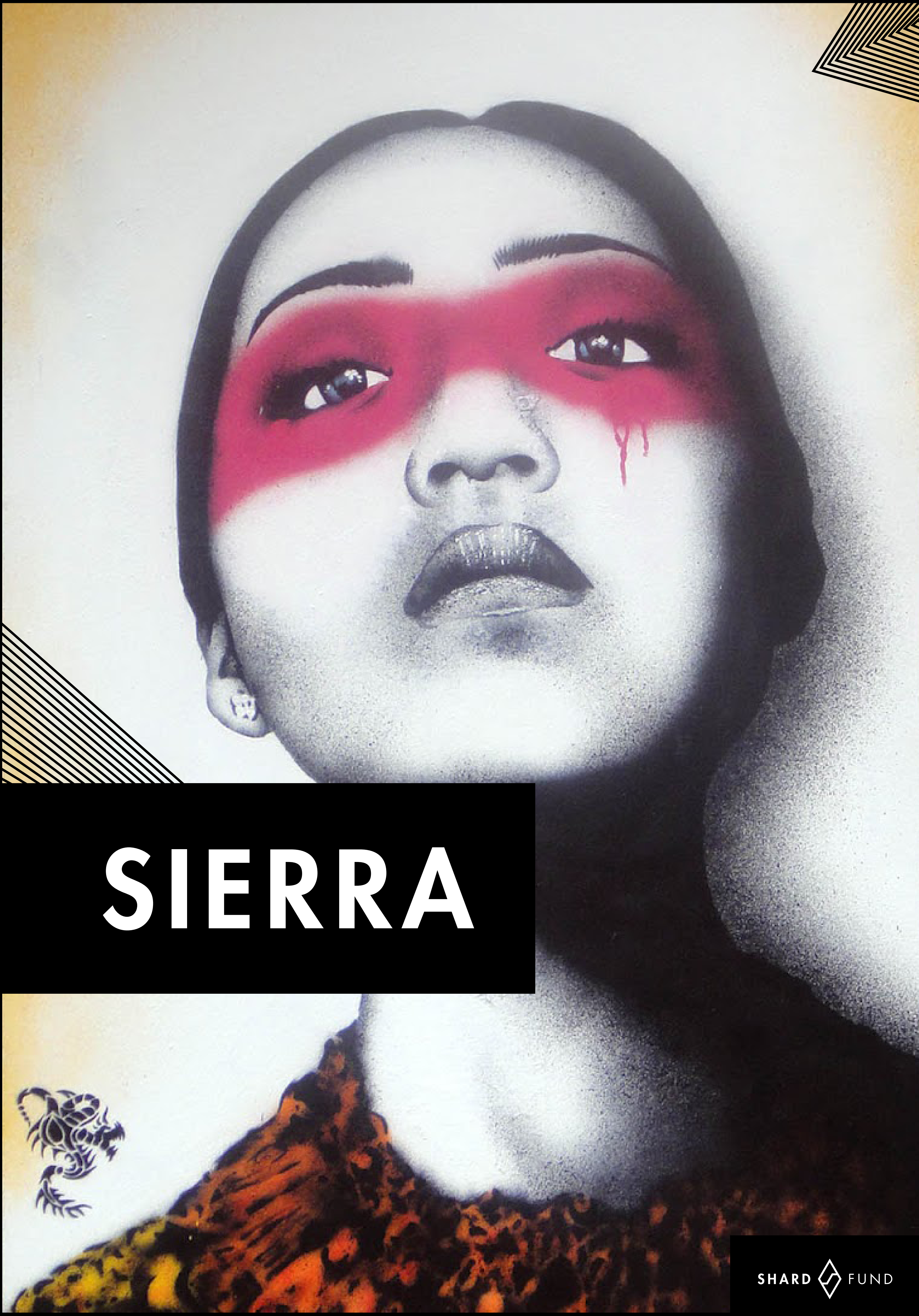

SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

July 12th - July 18th, 2014 | Issue 20

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HIGHLIGHTS

USA

Historically, housing demand came from hedge funds, relying on the Fed to support the party. However, now even they are turning on the trade and things are getting flat. In fact, the yearly growth rate in housing starts and permits has started to decelerate with the beginning of QE3 in the fall of 2012. Meanwhile, rent demand and prices soared with the current (Q1 2014) house ownership rate at 64.8% — the lowest since 1995. Mortgage applications have also been decreasing steadily since last summer.

EUROPE

The Continent is separated on two. On the one side is the core European economy which starts to suffer somehow from its leader – Germany. On the other side is the United Kingdom which surely is out of the pressure now and is looking to escaping from the stimulus monetary policy anytime soon. All of that, together with a little of geopolitical tension – we have a real economic experience.

ASIA & OCEANIA

Chinese GDP hit the annual target of 7.5%, above the analysts' expectations of 7.4%. When looking at FX reserves, government debt, savings rates and inflation control, the current economic condition look stable and whatever headwinds occur, the government seems like it will be able to cope with them.

COMMODITIES

The Democratic republic of Congo annual growth rate forecast for copper production is down over 40% compared to last year. The Ending stocks to use ratio for sugar is projected at 11.92% indicating the US market is tightening in 2014/2015.

Weekly Change	
Indices	
BSE (India)	2.47%
Hang Seng	0.95%
FTSE 100 (UK)	0.89%
S&P/ASX (Australia)	0.82%
FTSE MIB (Italy)	0.59%
Shanghai (China)	0.59%
DAX (Germany)	0.56%
S&P 500 (USA)	0.54%
CAC (France)	0.44%
Nikkei 225 (Japan)	0.34%
IBEX (Spain)	-0.11%
Currencies	
AUD/NZD	1.46%
USD/CHF	0.69%
USD/CNY	0.23%
EUR/CHF	0.10%
USD/CAD	0.05%
AUD/USD	0.02%
USD/JPY	-0.01%
GBP/JPY	-0.04%
GBP/USD	-0.10%
GBP/AUD	-0.16%
EUR/GBP	-0.44%
EUR/AUD	-0.57%
EUR/USD	-0.59%
EUR/JPY	-0.59%
BTC/USD	-0.83%
NZD/USD	-1.42%
Commodities	
WTI Crude Oil	2.12%
Brent Crude Oil	0.11%
Gold	1.94%
Copper	2.49%
Silver	2.72%

CALENDAR

USA					
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United States	Retail Sales	0.2%	0.6%	0.5%
		Core Retail Sales	0.4%	0.5%	0.4%
		NY Empire State manufact.	25.60	17.00	19.28
Wednesday		PPI (MoM)	0.4%	0.2%	-0.2%
		PPI (YoY)	1.9%	1.8%	2.0%
Thursday		Building permits	0.963M	1.040M	0.991M
		Housing Starts	0.893M	1.018M	0.985M
Friday		Michigan Consumer Sentiment	81.3	83.0	82.5
		Upcoming events		Forecast	Previous
Tuesday	United States	CPI (YoY)		2.1%	2.1%
		Existing home sales		4.98M	4.89M
Thursday		New Home Sales		480K	504K
Friday		Durable Goods Orders		0.5%	-0.9%
EU					
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United Kingdom	CPI y/y	1.9%	1.6%	1.5%
	Germany	ZEW Economic Sentiment	27.1	28.9	29.8
Wednesday	United Kingdom	Unemployment Rate	6.5%	6.5%	6.6%
	EU	Trade Balance	15.3B	16.3B	15.2B
Thursday		CPI y/y	0.5%	0.5%	0.5%
Friday		Current Account	19.5B	24.3B	21.6B
		Upcoming events		Forecast	Previous
Wednesday	EU	Consumer confidence		-6.0	-7.0
Thursday		Flash Manufacturing PMI		52.0	51.8
		Flash Services PMI		52.7	52.8
Asia and Oceania					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	China	New Loans	1080B	950B	871B
Tuesday	New Zealand	CPI q/q	0.3%	0.4%	0.3%
	China	GDP q/q	7.5%	7.4%	7.4%
		Industrial Production y/y	9.2%	9.0%	8.8%
		Fixed Asset Investment ytd/y	17.3%	17.2%	17.2%
		Upcoming events		Forecast	Previous
Monday	Australia	RBA Gov Stevens Speaks			
Tuesday		CPI q/q		0.5%	0.6%
Wednesday	New Zealand	Official Cash Rate		3.5%	3.5%
		Trade Balance		155M	285M
	China	HSBC Flash Manufacturing PMI		51.2	50.7
Thursday	Japan	Tokyo Core CPI y/y		2.7%	2.8%
	New Zealand	ANZ Business Confidence			42.8

USA

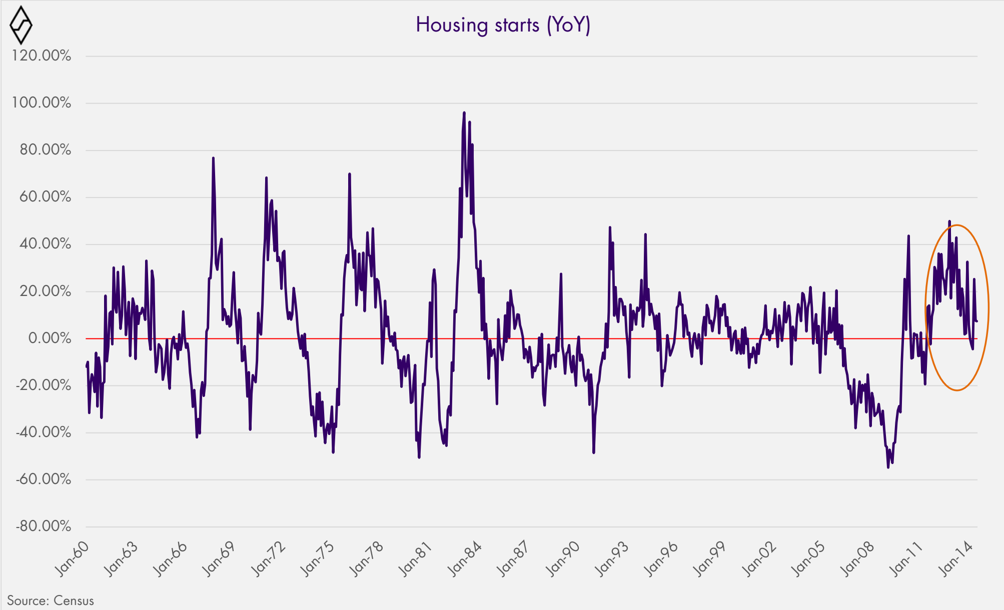
The housing games

Sectors	5D	1M	3M	YTD
Utilities	-0.21%	-2.31%	1.04%	12.56%
Energy	0.60%	-0.70%	6.68%	11.84%
Healthcare	-0.34%	2.01%	7.94%	10.77%
Technology	1.36%	2.68%	9.49%	10.38%
Materials	0.62%	0.54%	5.09%	8.05%
Consumer Staples	-0.13%	-0.46%	3.60%	5.17%
Financials	0.97%	0.22%	4.80%	4.80%
Industrials	0.31%	-1.20%	2.82%	3.79%
Consumer Discretionary	0.16%	1.20%	5.85%	1.00%
Indices				
S&P 500	0.54%	1.09%	6.08%	7.03%
Nasdaq	0.36%	1.67%	8.22%	6.12%
Dow Jones Ind. Avg.	0.90%	1.06%	4.22%	3.16%
Russell 2000	-1.48%	-2.74%	1.20%	-1.03%

As people who enjoy mocking (not without justification) the US economy as much as possible, we should mention that the new cover of the Economist is brilliant. After all, anyone is only as fast as the animal he is riding and in this case Americans are riding the turtle of slow growth and misery. The Economist's issue correctly depicts where the US economy is headed and what the major problems are, and although some of the solutions are not to our taste, overall the briefing is solid and is an essential weekend reading.
In this issue we will briefly touch on housing as we haven't discussed this topic in a while. There is nothing to talk about really. Housing, just like the rest of the economy, is bleak and most of the demand was supplied by hedge funds relying on the Fed to support the party. However, now even they are turning on the trade and things are getting flat. In fact, yearly the growth rate in housing starts and permits has started to decelerate with the beginning of QE3 in the fall of 2012. Meanwhile rent demand and price have soared and currently (Q1 2014) the house ownership rate is 64.8% — the lowest since 1995. Also, mortgage applications have been decreasing in a straight line since last summer. So, one does not have to look hard to find reasons to believe that housing is not a growth story.

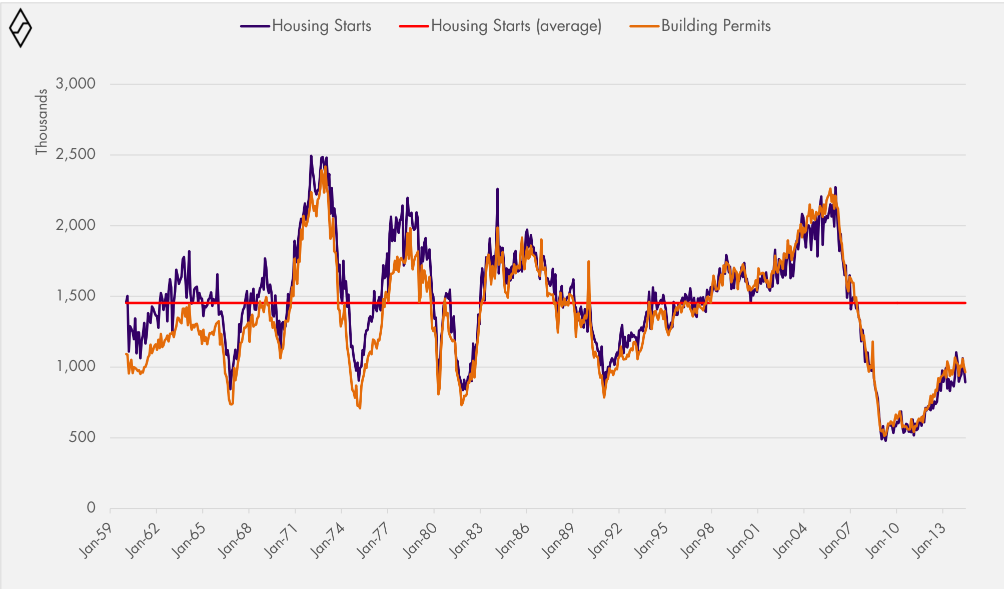
Rent demand and price have soared and currently (Q1 2014) the house ownership rate is 64.8% — the lowest since 1995.

The easiest way to play the housing slowdown is just to stay away from it. However, if you are looking for some exposure, do some research on the iShares U.S. Home Construction ETF ($ITB). Alternatively, you could look at the financial side in terms of mortgage, insurance and tittle insurance companies.



Source: Census

It is interesting to imagine what follows next this year. Chances are the summer will be quiet with sudden episodes of high volatility and low volume. However, if the worse than anticipated data continues, people will start getting nervous when they come back to the office in September. Also, assuming a summer of below-consensus data, it is going to be truly intriguing to see what Janet Yellen has to say in the September FOMC meeting. Currently, the market has been pricing in tapering by the end of the year (roughly speaking). Just like last year, when markets were pricing in tapering in September, we explicitly said that this notion was flawed. So, as we know the current path, the risk scenario would be the fear factor to kick in and money to start flowing once again. Food for thought indeed.



Source: Census

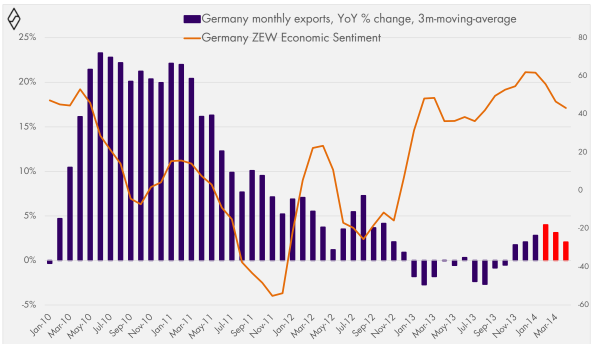
EUROPE

Burn down

Indices	5D	1M	3M	YTD
STOXX Europe 600 Real Estate Cap	1.21%	2.45%	6.11%	14.99%
STOXX Europe 600 Health Care	0.25%	0.03%	7.98%	11.86%
STOXX Europe 600 Oil & Gas	-0.18%	-3.80%	4.37%	7.40%
STOXX Europe 600 Construction & Materials	0.44%	-6.10%	-4.01%	6.19%
STOXX Europe 600 Basic Resources	2.97%	5.87%	6.27%	8.71%
STOXX Europe 600 Food & Beverage	1.02%	0.02%	4.74%	6.59%
STOXX Europe 600 Automobiles & Parts	-0.26%	-3.82%	-3.79%	4.66%
STOXX Europe 600 Personal & Household Goods	0.67%	-0.29%	4.04%	5.11%
STOXX Europe 600	0.82%	-1.90%	2.13%	3.47%
STOXX Europe 600 Travel & Leisure	1.42%	-1.04%	1.24%	4.00%
STOXX Europe 600 Financial Services	1.41%	-0.61%	4.21%	3.86%
STOXX Europe 600 Insurance	0.68%	0.13%	-1.21%	1.27%
STOXX Europe 600 Chemicals	0.37%	-2.27%	3.81%	0.90%
STOXX Europe 600 Telecommunications	1.13%	-3.30%	2.04%	-0.89%
STOXX Europe 600 Banks	1.17%	-6.62%	-4.51%	-1.95%
STOXX Europe 600 Industrial Goods & Services	0.30%	-2.90%	-2.22%	-2.91%
STOXX Europe 600 Technology	2.44%	-1.14%	2.11%	-2.07%
STOXX Europe 600 Retail	1.50%	-0.50%	0.93%	-3.60%
STOXX Europe 600 Media	2.60%	-1.54%	1.00%	-2.80%

The tragic crash of a Malaysia Airlines jet with 295 passengers in eastern Ukraine sparked a rush toward safe-haven assets like gold and Treasuries, while the stock markets saw consistent outflows. Investors were reluctant to open new long positions after a passenger plane was shot down over Ukraine on Thursday, and fears were that the situation would deteriorate at the current weekend. Thus, the already injured European stock market was under attack one more time. Despite that the week was positive for most of the major indexes on the Continent. The DAX surged by 0.56%, the FTSE 100 increased by 0.89%, the Italian FTSE MIB Index was up by 0.59%.

However, the biggest economic looser from the situation might be Germany. Its economic data continues to decelerate from levels of growth seen last year, especially after the beginning of the Ukrainian/ Russian crises. Having known that one of the biggest export partners of Germany is Russia and the strained economic relations of Russia and the EU, the Germany exports to Russia fell 16.9% and to Ukraine plunged 43.1%, since April. Hence, as the conflict has escalated since then, the data for the coming months could well be worse.

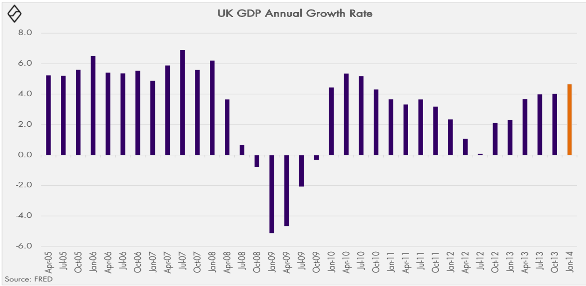


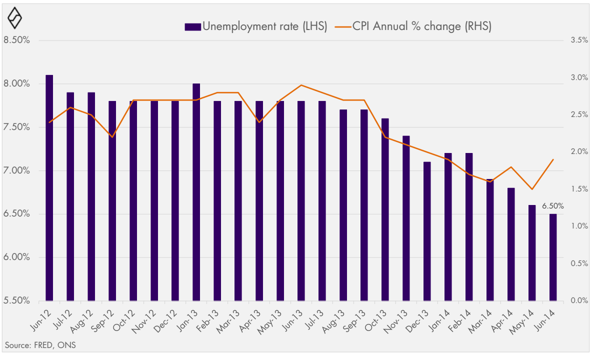
Source: Destatis, Thomson Reuters

Thus, this is likely to weigh on euro-area growth. Moreover, knowing that the expectations component of the ZEW survey has a 0.67 correlation with the year-over-year change in euro-area GDP (source: Bloomberg) and the three major industrial indicators, Investor Expectations of Economic Growth, German Industrial Production, and the German Markit Manufacturing PMI, have been in a down trend for 6 months, it is possibly to witness stronger slowdown in the EU economy in the upcoming months.

The three major industrial indicators (...) have been in a down trend for 6 months, it is possibly to witness stronger slowdown in the EU economy in the upcoming months.

The figures of the economic calendar will show us, if we are right or wrong. The next Markit Germany Manufacturing PMI data will be released on July 24th. The next data point for Germany Industrial Production will be available August 6th. All of these indicators might weight strongly on the stock market, which will open more short opportunities for the upcoming month. We are expecting them!
However, one more time on the other side of the coin is the United Kingdom with determined monetary policy, strong labor market, strong currency.
It is well known that rapid economic growth can seemingly only be achieved these days through big gains in employment. This is the thing that we are witnessing in the UK. The unemployment rate is declining since the beginning of the year and we believe that it will continue develop in the same direction. Moreover, the GDP annual growth rate is growing strongly.
Furthermore, the UK CPI inflation rose by 0.4 percentage points, to 1.9% in June. This was 0.3 % points higher than the consensus. Core inflation also rose 0.4 % points, to 2.0%. The pick-up in inflation in June was broad based. Of the twelve sub-components, only ‘miscellaneous goods and services’ acted to push inflation lower. Of the remainder, seven acted to push inflation higher, with the contribution from the other four unchanged. So, the current data and indeed the strong data on labor market quantities, may have





shortened the odds on an interest rate rise sooner than later.
So, if that happens it might be good to know how to play on the market that policy moves. Taking that such scenario and the strong pound, which by the way may get even stronger, a possible “niche” play might be shorting the tourism market in the UK. The strong currency is weighting strongly on the tourism inflows, which is creating some good short opportunities.

ASIA & OCEANIA

The bulletproof Chinese GDP

Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Technology	1.59%	2.56%	12.98%	10.96%
STOXX Asia/Pacific 600 Oil & Gas	1.98%	1.78%	8.12%	9.35%
STOXX Asia/Pacific 600 Construction & Materials	1.43%	3.34%	9.31%	8.90%
STOXX Asia/Pacific 600 Food & Beverage	0.09%	2.66%	8.92%	6.27%
STOXX Asia/Pacific 600 Personal & Household Goods	0.82%	2.01%	10.88%	5.52%
STOXX Asia/Pacific 600 Health Care	1.21%	3.00%	10.03%	5.52%
STOXX Asia/Pacific 600 Industrial Goods & Services	1.12%	2.38%	8.83%	3.30%
STOXX Asia/Pacific 600 Real Estate	1.57%	2.24%	8.54%	2.89%
STOXX Asia/Pacific 600 Telecommunications	2.39%	4.23%	11.06%	1.78%
STOXX Asia/Pacific 600 Index	1.26%	2.58%	8.27%	1.75%
STOXX Asia/Pacific 600 Utilities	1.50%	3.06%	8.65%	1.71%
STOXX Asia/Pacific 600 Chemicals	1.64%	3.91%	8.63%	1.68%
STOXX Asia/Pacific 600 Basic Resources	2.38%	6.98%	5.07%	0.42%
STOXX Asia/Pacific 600 Media	0.46%	0.57%	9.11%	-0.06%
STOXX Asia/Pacific 600 Banks	0.73%	0.56%	4.94%	-0.39%
STOXX Asia/Pacific 600 Insurance	0.58%	-0.48%	5.40%	-1.93%
STOXX Asia/Pacific 600 Retail	0.94%	2.37%	4.82%	-2.11%
STOXX Asia/Pacific 600 Automobile & Parts	1.22%	2.91%	10.13%	-3.79%
STOXX Asia/Pacific 600 Financial Services	0.75%	0.13%	8.06%	-5.69%

CHINA

This week was the quarterly GDP week for China, which roughly speaking is what has been the centre of attention lately. The annual growth target is 7.5% and most government decisions so far have been made in order to meet this promised figure. Indeed they meet it and even exceed the 7.4% expectations.
The GDP data was the first to reflect growth in the past three quarters for China. This was largely due to a few things:

- The working monetary policy, as M2 (a measure of money supply in the economy) reached 14.7% YoY in June, which was the highest one since May 2013 and also above the average analysts' estimates
- Upward trending new CNY loans, which have increase on average with 30% since 2013
- Reserve ratios have been slightly cut in June (mainly to support smaller companies)
- Finally, the government has initiated an infrastructure investment programme

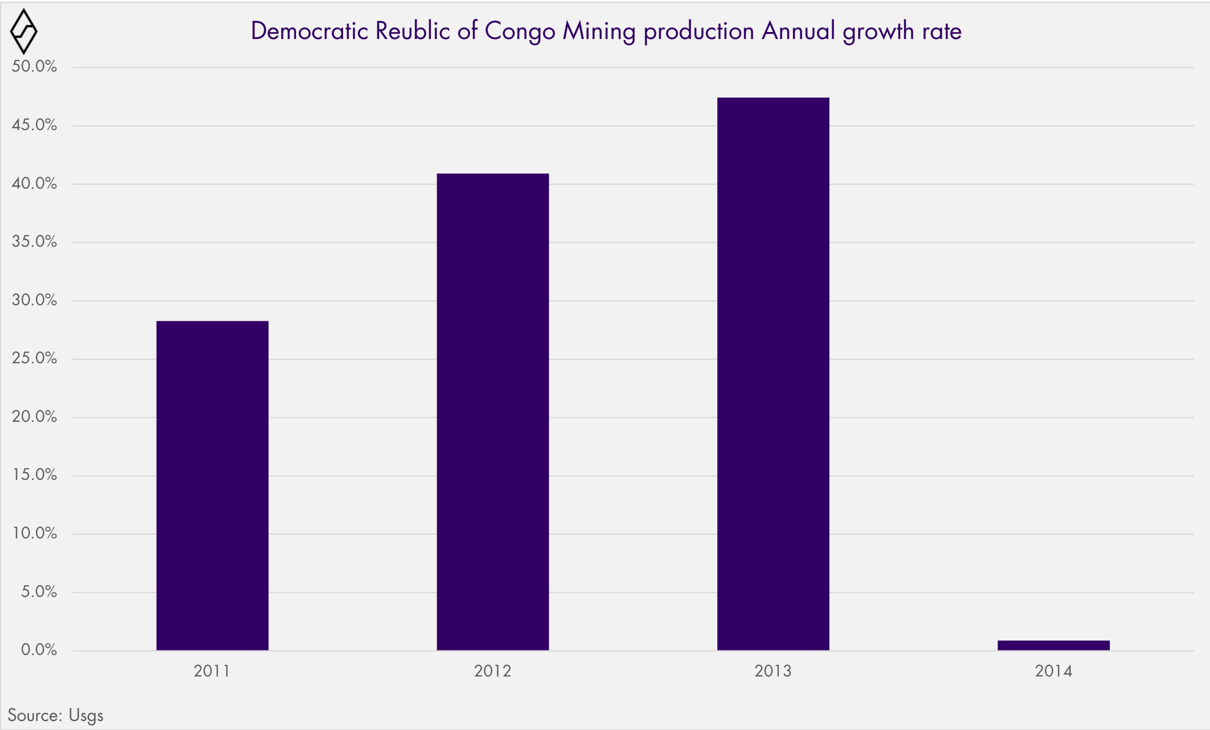
China is getting a lot of help to achieve this growth and this reflects on the massive increase in credit. However this time fundamentally the reason for such an increase is different. Now the government is targeting lower growth (not higher as before). There is low debt, high private savings, controlled inflation and an abundance of foreign exchange reserves (almost $4trn). All of those things give a pretty stable outlook for the economy. The expected future growth should be diminishing steadily with a fundamental change in the primary growth source for the economy (more domestic).
The risks for the economy keep on being a real estate collapse, shadow banking problems etc. However it does seem that the giant can handle them well with the recourses on disposal.

COMMODITIES

The collapse of the Republic's copper production

METALS

The pace of copper production in Democratic Republic of Congo is poised to slow due to insufficient energy supply, and uncertainty over new mining laws. The leap in production in previous years has been due to new mining projects and expansion, but following the Q1 report earlier this year, annual growth is predicted at just 0.82% compared to 47% last year.
Congo does still have the potential to produce a significant quantity of copper if it can control the parameters that influence investment, notably electricity supply and the mining code.



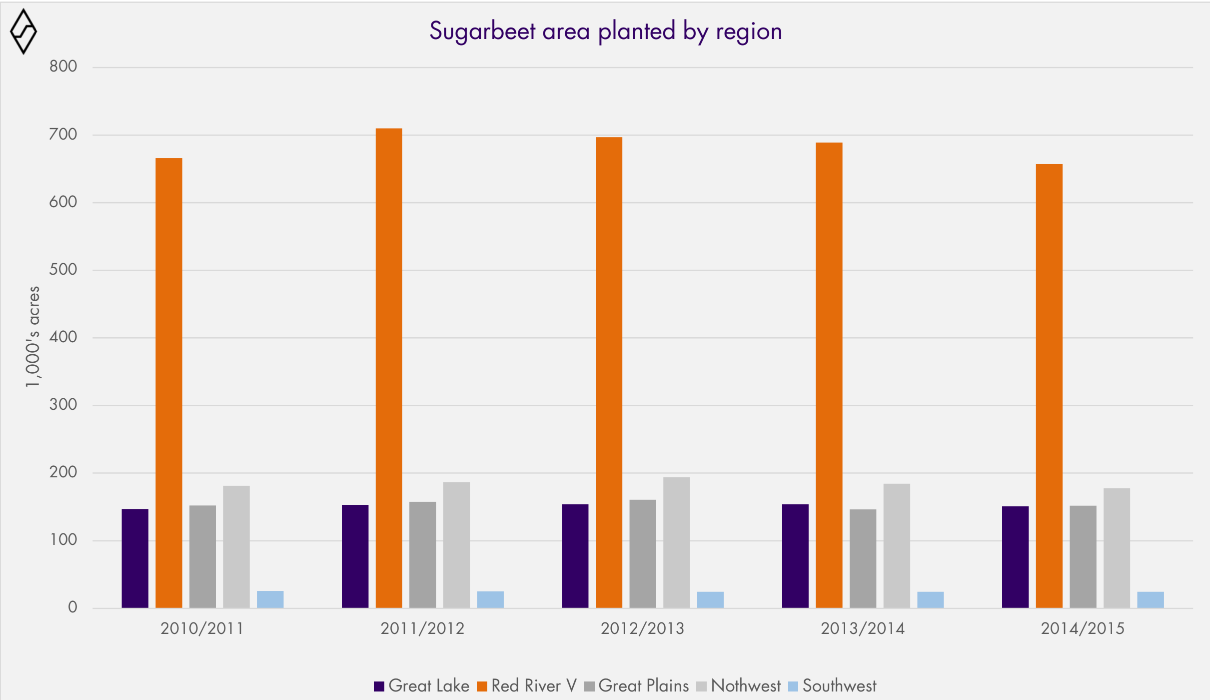
ENERGY

In what has been a continuous downtrend since mid-June, oil speculators will find it somewhat refreshing to see prices post their first weekly gain since May.
Both WTI and Brent have been in steep decline from their June highs on a combination of overhang of supply in West Africa and the North Sea and as concerns over supply

disruptions in Iraq and Libya started to ease. Present weakness in physical markets stemmed from lower refiner demand in Europe and Asia, and a drastic slowdown in stockpiling by china has caused futures traders to unwind long positions. This led to Brent witnessing its biggest one day drop of 2014.
The end of the week saw heightened geopolitical risk after the shooting down of a Malaysian passenger plane over Ukraine and Israeli troops advancing on Gaza. Oil prices reacted quickly spiking to highs of $103.93bl on Thursday but profit taking soon set in and closed the week at $102.88 and $107.22.
Traders will be watching the week ahead to see how the Ukrainian crises evolves and if there is any disruption to the main Ceyhan pipeline in northern Iraq that now runs through land that is 2/3rds controlled by Islamic militant group ISIS.

AGRICULTURE

The 2014/2015 forecast of area planted for US sugarbeets has been made, and the results look generally on the downside for most regions.
The vast majority of the area decline from last year is taking place in the largest producing states, Minnesota and North Dakota, both these states have experienced significant planting delays since the beginning of June. In addition, looking at sugar, ending stocks as the difference between total supply and use are forecast at 1.447 million STRV, a reduction of 463,000 STRV. The reduction coming from a 50.5% decrease in imports from Mexico, 28.1% production decrease, 10.8% consumption increase and a 10.6% decrease in beginning stocks. This yields an ending stocks to use ratio of 11.92%. Approximately a 3.88 percentage point decrease compared to last month and an indication that the US market is tightening in 2014/2015.



Source: USDA

FOREX

Pair	Open	Close	Weekly	Trend w/w	Monthly	YTD
NZD/USD	0.8807	0.8681	-1.43%	1	2.36%	5.79%
AUD/USD	0.9389	0.9388	-0.01%	1	0.88%	5.33%
GBP/USD	1.711	1.7082	-0.16%	2	2.00%	3.18%
USD/CNY	6.2038	6.208	0.07%	1	-0.32%	2.55%
EUR/JPY	137.84	137.02	-0.59%	4	-1.20%	2.53%
USD/CAD	1.0731	1.0732	0.01%	1	-1.01%	1.05%
USD/CHF	0.8918	0.898	0.70%	1	0.34%	0.58%
AUD/NZD	1.0656	1.0812	1.46%	1	-1.35%	-0.40%
GBP/JPY	173.37	173.07	-0.17%	2	1.57%	-0.67%
EUR/CHF	1.214	1.2151	0.09%	1	-0.48%	-1.31%
EUR/USD	1.3605	1.3522	-0.61%	3	-0.79%	-1.62%
GBP/AUD	1.8232	1.819	-0.23%	2	1.15%	-1.69%
USD/JPY	101.29	101.31	0.02%	2	-0.39%	-3.79%
EUR/GBP	0.7946	0.7911	-0.44%	1	-2.74%	-4.64%
EUR/AUD	1.4486	1.4398	-0.61%	2	-1.46%	-7.00%
BTC/USD	632.03	632.0032	0.00%	2	-1.09%	-13.48%

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