SIERRA

SHARD FUND

A JOURNEY ACROSS FINANCIAL MARKETS

July 26th - August 1st, 2014 | Issue 21

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HIGHLIGHTS

USA

While the Q2 GDP growth rate surprised even the most bullish economists out there, the market didn't seem very excited about that news. The S&P had its worse weekly performance since 2012 with all 9 sectors down, while the 10 year treasury yield barely moved +1 bps. This supports our sceptic view for a yearly GDP growth rate in line with Fed expectations (2.1%-2.3%), as the market signals growth slowdown from almost every possible angle.

EUROPE

Definitely one of the bloodiest weeks from the beginning of the year, on the European markets. European stocks sank in huge volumes on Friday for the third straight session, with a broad index hitting a 3-1/2 month low. UK Manufacturing continued to expand at a decelerating rate in June, suggesting the economy might be experiencing a slight cool off. Until there is more conviction, this could be a good buying opportunity for the GBP, which weakened in July.

ASIA & OCEANIA

As the intense data feed and significant sell-off in the US and EU equities was taking place last week, investors weighted China as a preferred investment geographic. The Hang Seng and Shanghai Composite idexes reached new yearly highs, supported by the PMI and HSBC PMI.

COMMODITIES

Aluminium market outside China is set to record its first deficit in nine years in 2015 following production cuts and an Indonesian export ban, a turning point that could be the start of a prolonged shortfall. Meanwhile, global grain and oilseed markets came under increasing pressure in the last month due to expectations for large 2014/2015 supplies and strong competition for exports. The GOI (Grains and Oilseeds Index) fell 6% MOM, with the steepest drops in maize and soybeans.

Weekly Change	
Indices	
Shanghai (China)	2.76%
Hang Seng	1.43%
Nikkei 225 (Japan)	0.51%
S&P/ASX (Australia)	-0.49%
FTSE 100 (UK)	-1.66%
BSE (India)	-2.47%
S&P 500 (USA)	-2.61%
CAC (France)	-2.92%
IBEX (Spain)	-3.47%
FTSE MIB (Italy)	-3.50%
DAX (Germany)	-4.50%
Currencies	
USD/CAD	0.96%
EUR/GBP	0.91%
EUR/AUD	0.87%
USD/JPY	0.77%
EUR/JPY	0.75%
USD/CHF	0.15%
EUR/CHF	0.12%
EUR/USD	-0.01%
GBP/AUD	-0.04%
GBP/JPY	-0.16%
USD/CNY	-0.19%
AUD/NZD	-0.37%
NZD/USD	-0.48%
AUD/USD	-0.86%
GBP/USD	-0.91%
BTC/USD	-1.37%
Commodities	
Gold	-0.95%
Copper	-0.96%
Silver	-2.02%
Brent Crude Oil	-3.27%
WTI Crude Oil	-4.27%

CALENDAR

USA					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	United States	Pending Home Sales (MoM)	-1.1%	0.5%	6.0%
Tuesday		CB Consumer Confidence	90.9	85.3	86.4
		S&P/CS HPI Composite - 20 (YoY)	9.3%	10.0%	10.8%
Wednesday		GDP (QoQ)	4.0%	3.0%	-2.1%
Friday		ISM Manufacturing PMI	57.1	56.0	55.3
		Unemployment Rate	6.2%	6.1%	6.1%
		Nonfarm Payrolls	209K	233K	298K
		Upcoming events		Forecast	Previous
Tuesday	United States	Factory Orders (MoM)	1.10%	0.6%	-0.6%
		ISM Non-Manufacturing PMI	58.7	56.3	56.0
EU					
Day	Country	Indicator	Actual	Forecast	Previous
Tuesday	United Kingdom	Mortgage Approvals	67K	63K	62K
Wednesday	Germany	Prelim CPI m/m	0.3%	0.2%	0.3%
	Spain	Flash GDP q/q	0.60%	0.50%	0.40%
Thursday	EU	CPI Flash Estimate y/y	0.4%	0.5%	0.5%
		Unemployment Rate	11.5%	11.6%	11.6%
Friday	United Kingdom	Manufacturing PMI	55.4	57.2	57.2
		Upcoming events		Forecast	Previous
Monday	EU	Sentix Investor Confidence		9.1	10.1
Thursday	United Kingdom	MPC Rate Statement			
	EU	ECB Press Conference			
Asia and Oceania					
Day	Country	Indicator	Actual	Forecast	Previous
Monday	Japan	Household Spending y/y	-3.0%	-3.7%	-8.0%
	Japan	Retail Sales y/y	-0.6%	-0.4%	-0.4%
Wednesday	Australia	Building Approvals m/m	-5.0%	-1.0%	10.3%
Thursday	China	Manufacturing PMI	51.7	51.4	51
	Australia	PPI q/q	-0.1%	0.7%	0.9%
		Upcoming events		Forecast	Previous
Saturday	China	Non-Manufacturing PMI			55
Sunday	Australia	Retail Sales m/m		0.3%	-0.3%
Monday	Australia	Trade Balance		-2.00B	-2.04B
Tuesday	New Zealand	Employment Change q/q			
Wednesday	Australia	Employment Change		13.5K	15.9K
Friday	China	Trade Balance		26.0B	31.6B
	China	CPI y/y		2.30%	2.30%

USA

Let's talk growth

hcp	5D	1M	3M	YTD
Healthcare	-1.41%	-1.04%	4.65%	9.96%
Utilities	-2.43%	-5.50%	-4.56%	9.06%
Technology	-2.34%	0.13%	6.30%	8.53%
Energy	-4.00%	-4.30%	2.48%	8.29%
Materials	-2.83%	-2.15%	2.79%	5.34%
Financials	-2.93%	-2.88%	1.00%	1.65%
Consumer Staples	-2.95%	-2.80%	-1.65%	1.14%
Industrials	-3.74%	-4.80%	-2.12%	-0.92%
Consumer Discretionary	-1.75%	-2.67%	2.43%	-1.77%
Indices				
Nasdaq	-2.17%	-2.38%	5.46%	4.22%
S&P 500	-2.69%	-2.44%	2.20%	4.15%
Dow Jones Ind. Avg.	-2.76%	-2.73%	-0.40%	-0.50%
Russell 2000	-2.61%	-7.15%	-0.99%	-4.19%

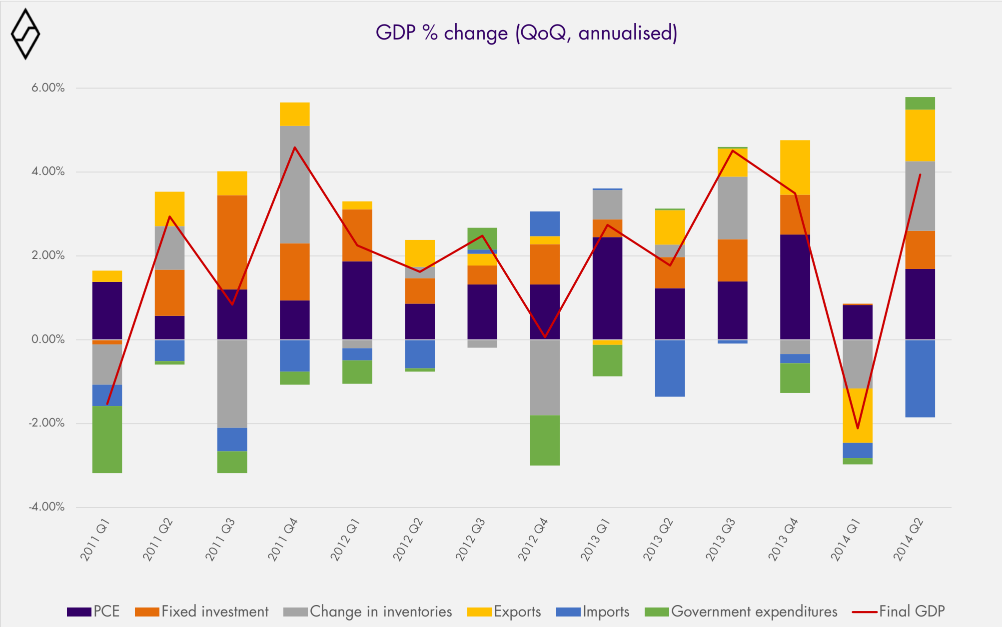
The 'growth' story in the US continues after Q2 GDP growth was reported at 4%, beating the desperately optimistic consensus target, thus putting a smile on Janet Yellen's face (at least for now).

The S&P had its worse weekly performance since 2012...with all 9 sectors down.

What is interesting about it is that the market couldn't care less. Is it because this is just a preliminary data prone to be revised, or is the backward focus of the print (it's Q3 already)? Honestly, we do not know, however, facts are facts — the S&P had its worse weekly performance since 2012 (yes there is geopolitical tension) with all 9 sectors down, while the 10 year treasury yield barely moved +1 bps. Following the QE narrative, growth is expanding, the Fed will taper by the end of the year, and rates are rising next year, all of which should be pushing the 10 year yield higher. Yet, we are not seeing that move.

Component	Actual	Average (14 qtrs.)
PCE	1.69%	1.40%
Fixed investment	0.91%	0.85%
Change in inventories	1.66%	0.11%
Exports	1.23%	0.44%
Imports	-1.85%	-0.46%
Government expenditures	0.30%	-0.36%

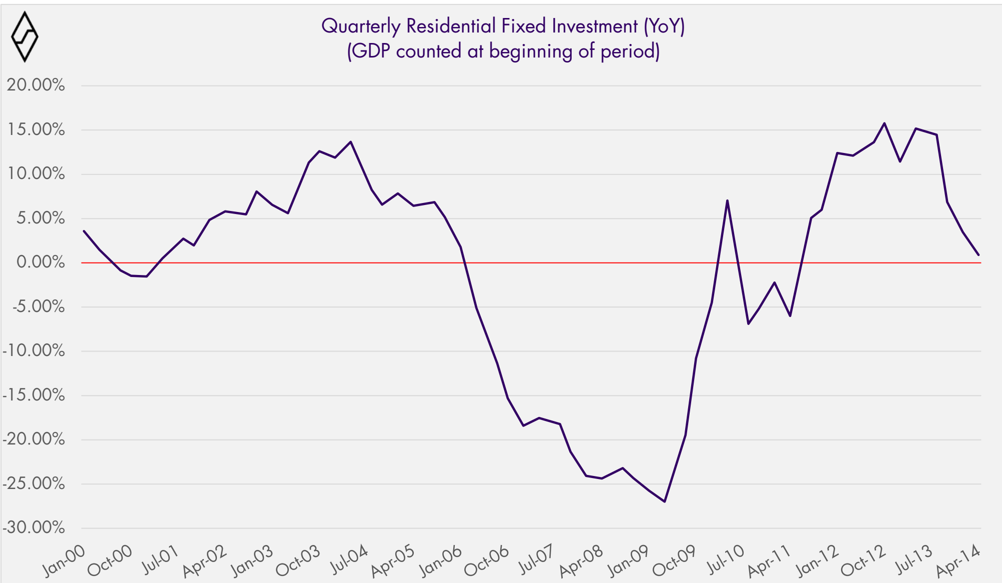
Yields and yield spreads are real time, leading indicators and the Fed knows that, or at least it should know that. The long-short term yield spread (also known as net interest margin for banks) is down by 60 bps this year and so far there is no observable evidence that shows a reversal is coming.



Source: Bureau of Economic Analysis

The GDP itself wasn't anything spectacular. After the worst quarter in many quarters, Q2 GDP allowed growth optimists to dream once again. Consumption and fixed investment (above 80% of GDP) had a slightly above average contribution to the final growth rate. On the other hand, inventories rose significantly, as firms looked to restock after the horrible first quarter.

Also, the deflator rose significantly to 2% (from 1.3%) signalling that the inflated commodity prices have made their way along the value chain and have reached the final consumer — not good. As for the beauty of all beauties, housing looks awful even in the GDP report. Residential fixed investment bounced slightly this quarter, which is normal as spring is considered house shopping season, however, the rate of change in residential investment (YoY) has been negative ever since Q3 2013, when mortgage applications started decreasing. No wonder why the iShares Dow Jones US Home Construction ETF ($ITB) looks awful this year.



Source: BEA

EUROPE

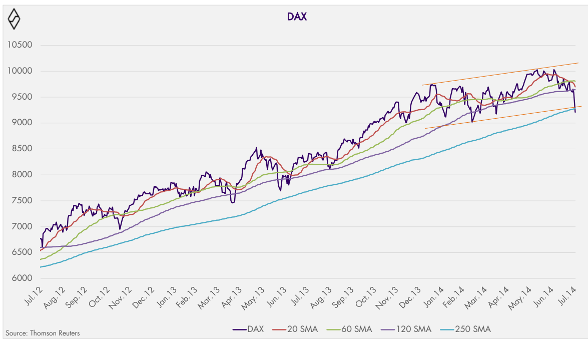
The new beginning

Indices	5D	1M	3M	YTD
STOXX Europe 600 Real Estate Cap	-1.75%	-3.02%	2.40%	11.91%
STOXX Europe 600 Health Care	-0.52%	-1.52%	2.19%	10.86%
STOXX Europe 600 Basic Resources	-4.26%	2.92%	5.76%	7.97%
STOXX Europe 600 Oil & Gas	-3.51%	-7.17%	-2.83%	4.25%
STOXX Europe 600 Food & Beverage	-2.84%	-4.23%	0.38%	3.16%
STOXX Europe 600 Construction & Materials	-5.53%	-9.14%	-11.15%	1.24%
STOXX Europe 600	-2.94%	-3.91%	-1.99%	1.11%
STOXX Europe 600 Personal & Household Goods	-2.98%	-4.68%	-1.54%	0.53%
STOXX Europe 600 Travel & Leisure	-3.33%	-5.72%	-3.39%	0.50%
STOXX Europe 600 Financial Services	-4.39%	-5.74%	-1.66%	0.26%
STOXX Europe 600 Telecommunications	-2.05%	-3.49%	-2.37%	-1.38%
STOXX Europe 600 Banks	-2.64%	-2.37%	-5.21%	-1.49%
STOXX Europe 600 Insurance	-3.50%	-2.67%	-1.87%	-1.58%
STOXX Europe 600 Technology	2.44%	-1.14%	2.11%	-2.07%
STOXX Europe 600 Automobiles & Parts	-5.69%	-10.33%	-9.34%	-2.17%
STOXX Europe 600 Chemicals	-3.68%	-7.64%	-5.01%	-3.73%
STOXX Europe 600 Media	-2.32%	-2.45%	-0.55%	-4.20%
STOXX Europe 600 Industrial Goods & Services	-3.40%	-4.65%	-4.79%	-5.27%
STOXX Europe 600 Retail	-3.92%	-6.34%	-5.46%	-8.74%

Definitely one of the bloodiest weeks from the beginning of the year, on the European markets. European stocks sank in huge volumes on Friday for the third straight session, with a broad index hitting a 3-1/2 month low, hurt by concerns over losses at Banco Espirito Santo as well as tension between Russia and the West. The DAX was the biggest looser with 4.5% decline on a weekly basis, with the index breaking below its 250-day moving average for the first time in two years. Among all the declining EU indices, the FTSE 100 declined by 1.73% and the Italian FTSE Mib Index by 3.34%.

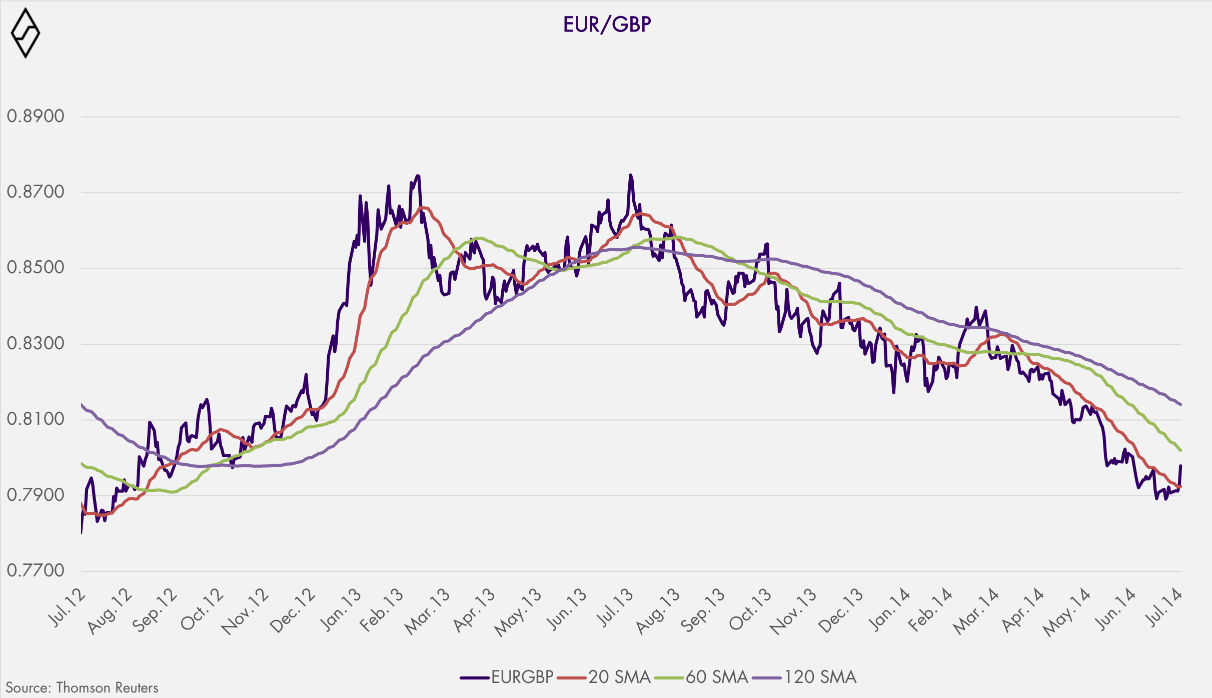
Looking at the divergence of the economic situations in main Europe and the United Kingdom, the peer EUR/GBP provides us with a nice trading opportunity. However, if the recent weak data from the UK continues, this might prove to be a solid headwind, as we saw in the past week.

On Friday, The British pound has experienced the biggest loss since the beginning of the year against the EUR. However, for now we do not believe the downtrend has changed and until there is a strong observable evidence to shift our view, we will stay short the EUR/GBP. Anyway, let's look at the big picture in order to back up our opinion.



Source: Thomson Reuters

After a strong June, expectations were very high for July's UK Manufacturing PMI. The PMI came in at a strong 55.4 in July, but under expectations for 57.2. This is the lowest PMI in a year. The good news is that this is



now the 17th month in a row that the PMI has been over 50, representing ongoing strength in manufacturing conditions. However, the rate of change has slowed, which suggests that the economy is cooling down. The case for Bank of England to raise rates sooner than later still remains intact, suggesting the British pound's weakness in June could be a good buying opportunity.

- The underlying fundamentals for the UK economy remain strong, according to the July PMI: "The sustained growth in output volumes was again underpinned by a marked uptick in levels of incoming new orders during July. Companies linked increased inflows of new work to the launch of new product lines, price promotions, stronger economic sentiment and rising demand from both domestic and overseas clients."
- Job growth remains robust: "Job creation was recorded for the fifteenth successive month in July, with broad-based gains in payroll numbers seen in the consumer, intermediate and investment goods sector and also at SMEs and large-scale producers."

ASIA & OCEANIA

Chinese market holding strong during western massacre

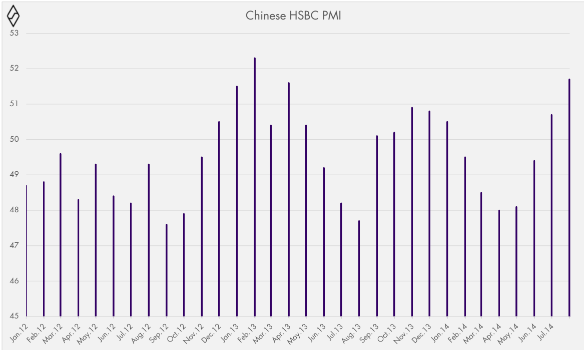
Indices	5D	1M	3M	YTD
STOXX Asia/Pacific 600 Technology	0.05%	3.14%	12.82%	12.67%
STOXX Asia/Pacific 600 Construction & Materials	-1.42%	1.58%	10.18%	10.48%
STOXX Asia/Pacific 600 Oil & Gas	-2.53%	0.69%	5.99%	8.58%
STOXX Asia/Pacific 600 Food & Beverage	-0.61%	3.40%	10.36%	7.96%
STOXX Asia/Pacific 600 Health Care	-0.96%	1.66%	9.28%	6.00%
STOXX Asia/Pacific 600 Personal & Household Goods	-1.23%	1.19%	10.78%	5.96%
STOXX Asia/Pacific 600 Industrial Goods & Services	-0.60%	2.14%	10.37%	4.94%
STOXX Asia/Pacific 600 Real Estate	-0.07%	3.42%	9.71%	4.12%
STOXX Asia/Pacific 600 Chemicals	-0.54%	3.05%	11.10%	3.98%
STOXX Asia/Pacific 600 Index	-0.58%	2.37%	9.10%	2.87%
STOXX Asia/Pacific 600 Basic Resources	-1.25%	4.98%	8.54%	1.56%
STOXX Asia/Pacific 600 Utilities	-0.68%	1.01%	8.70%	1.27%
STOXX Asia/Pacific 600 Banks	-0.01%	2.40%	6.77%	1.16%
STOXX Asia/Pacific 600 Telecommunications	-0.57%	2.87%	8.12%	1.16%
STOXX Asia/Pacific 600 Insurance	-1.16%	2.30%	8.04%	0.59%
STOXX Asia/Pacific 600 Media	-1.28%	-0.23%	7.61%	0.58%
STOXX Asia/Pacific 600 Retail	-0.21%	1.83%	5.51%	-1.35%
STOXX Asia/Pacific 600 Automobile & Parts	-0.27%	1.78%	10.35%	-2.64%
STOXX Asia/Pacific 600 Financial Services	0.19%	0.78%	10.13%	-3.74%

Source: Stoxx; quoted in EUR

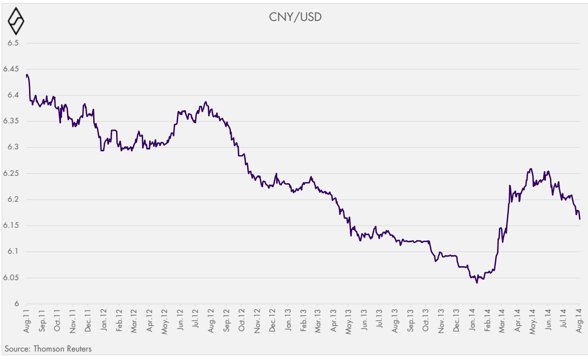
CHINA

As the intense data feed and significant sell-off in the US and EU equities was taking place last week, investors weighted China as a preferred investment geographic. The Hang Seng and Shanghai Composite idexes reached new yearly highs, supported by the PMI and HSBC PMI both inching up to 51.7. The appreciation of the USD may prove to be very beneficial for China as this makes exports better priced and returns on Chinese investment in US debt more valuable.

While a lot of people are sceptical about the possibility of China showing and moreover keeping growth rates at current or higher levels, now there seems to be more upside than in developed markets. This is partly due to the overextended, Central Bank induced bull market and risk disregard in the US and to some extent the EU. Even though there is major government involvement and stimulus in the Chinese economy, there is a lot of room for organic growth in consumption, investment, exports etc. The PBC is more prudent and "conventional" with its interest rate policy, but government stimulus and credit expansion are very much present. The main purpose being to keep the system liquid and prevent debt issues and money expansion declines. We see China as a more special economic entity in the international market system. As we like to think about markets as interconnected and reliant, we see a lot of application of Game Theory in world Central Banks' actions, or Game of Thrones, depends on your agenda. In this line of thought, China has a few core principles and targets, to achieve its economic superiority in the long run. This is something that we very much see as an advantage for the Chinese people – they are more long-term focused than our fellow politicians in the EU and especially US. So monetary policy wise, the strategy of



China to preserve itself and prosper revolves around the fragile balance of its currency and



money supply in relation to economic growth and structural development. In other words, as China's economy grows at its rate of above 7%, it needs to expand money supply so that it can keep its currency low, so that it can export cheaply. As we have explained in our previous issue of Sierra, China has numerous tools to keep its currency undervalued. All this is complemented by the aim of liberalization and development of the domestic market. The other side of the currency devaluation coin is, as Frederick Neuman, HSBC co-head of Asia economic research, says "I think it's really important to lay the groundwork for a sustained increase in consumption and remember that for 15-20 years, consumption has been restrained by certain policy settings as the government focused on industrialization, now has to reverse that. It's not about having a one-time shopping trip, it's really about giving people the means to have sustained consumption growth over the next 10, 15 years. And that's part and parcel of this policy but patience is really needed here,". China is in the process of becoming a developed nation and has a strategy to achieve that goal. In summary, we see China as a growth country that achieves its high growth rate by a symbiosis of trade surpluses and domestic market development. Therefore the PBC is trying to boost exports, keep the financial system on a path of sustainable expansion and in the same time control inflation and improve structural problems.

In recent months the PBC has cut reserve requirements for banks and has set the repo rate lower. After cutting the 14-day repo agreement rate to 3.8% in April, it is now 3.7% and is unlikely to go higher in the mid-term. China is now trying to manage medium-term interest rates for highly indebted industries and municipalities, by deploying targeted capital.

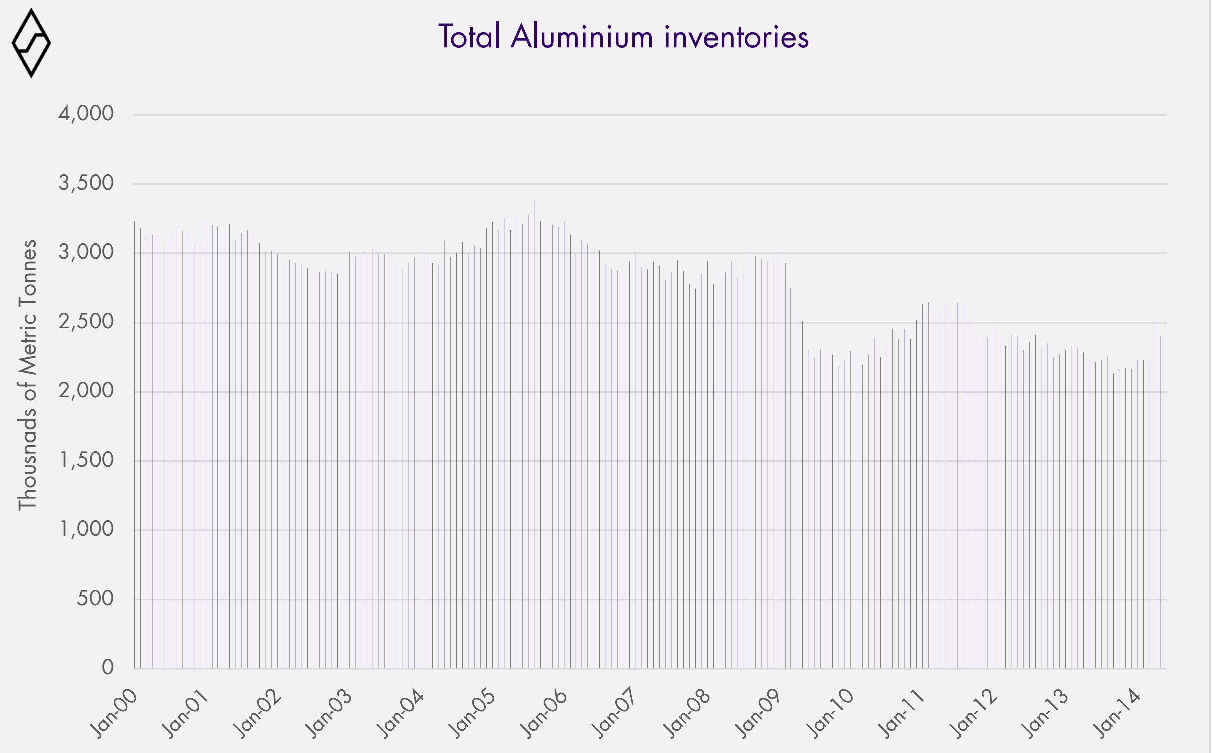
COMMODITIES

The collapse of the Republic's copper production

METALS

The aluminium market outside China is set to record its first deficit in nine years in 2015 following production cuts and an Indonesian export ban, a turning point that could be the start of a prolonged shortfall as demand recovers. The market is beginning to tighten as producers cut production to battle rising costs, Indonesia bans bauxite ore exports and demand for aluminium rises, particularly from the US automotive sector. However, looking at the historical data, high inventories are likely to prevent much of a price rise.
The deficit could be quite prolonged, but it needs to be, there is an awful lot of hidden

Aluminium market outside China is set to record its first deficit in nine years in 2015...

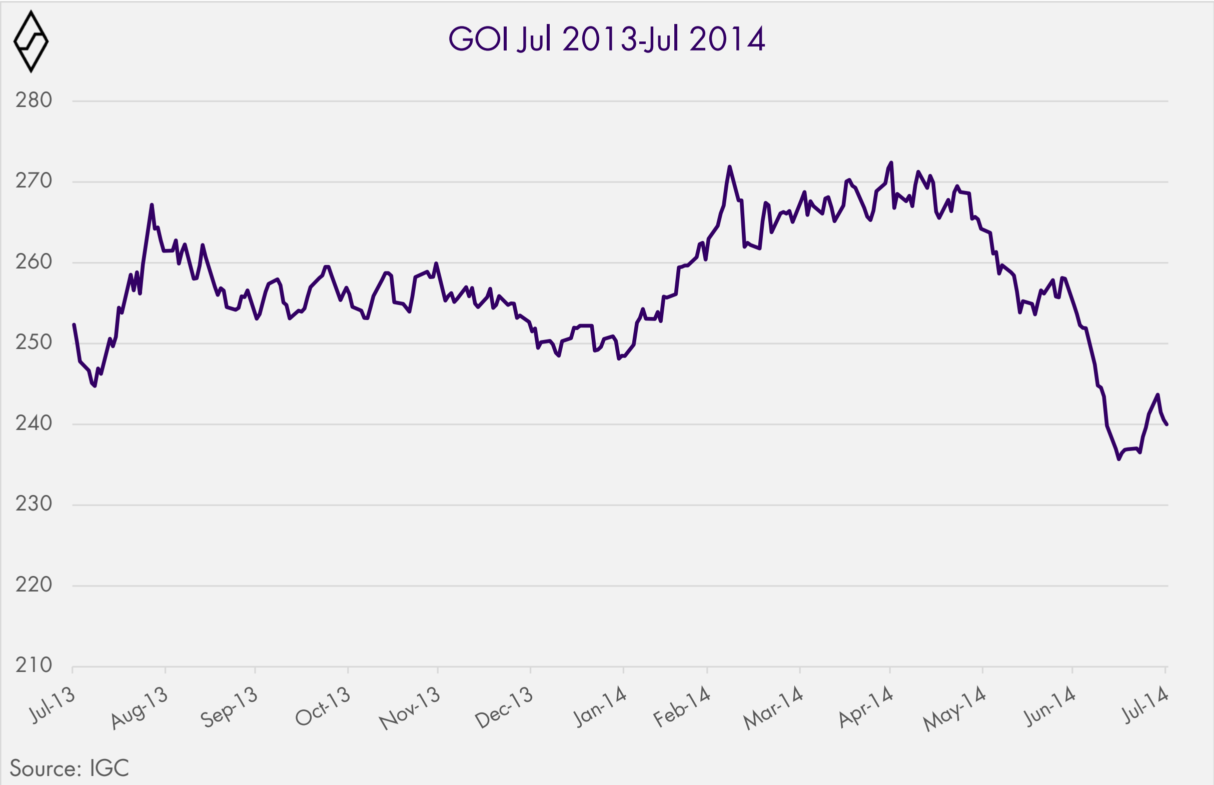


Source: IAI

inventory, not just in China but in the West, financing deals and in warehouses. Estimates of inventory outside China are around 12 million tonnes. In LME registered warehouses alone stocks are around 5 million tonnes, although they have fallen 9% since the beginning of the year. Outside China, producers are cutting back due to high costs and low prices eroding margins. Highlighting reduced output Rusal, the world's largest producer, said in May its Q1 primary aluminium production fell 2.3%. The major factor driving the bullish view is demand from the auto industry as it moves to produce lighter and more energy-efficient vehicles. Ford is planning to produce a new aluminium-intensive truck this year and aluminium firms have announced plans to build plants to fabricate sheets for automakers. There are also new efficiency rules in the US markets and EU regulation on carbon emissions.

AGRICULTURE

Global grain and oilseed markets came under increasing pressure in the last month due to expectations for large 2014/2015 supplies and strong competition for exports. The GOI (Grains and Oilseeds Index) fell 6% MOM, with the steepest drops in maize and soybeans. The forecast for total grains (wheat and coarse grains) production in 2014/2015 is 10M tonnes higher, largely due to better maize prospects in the US and wheat in Russia. Whilst an increase in world consumption forecast includes higher feed use of wheat. This is due to rains affecting wheat harvests within the EU. Increasing global demand however is likely to absorb much of the grain supply increase.



FOREX

Pair	Open	Close	Weekly	Trend w/w	Monthly	YTD
NZD/USD	0.8552	0.8502	-0.58%	3	0.25%	3.61%
AUD/USD	0.9394	0.9308	-0.92%	2	0.00%	4.43%
GBP/USD	1.6977	1.6817	-0.94%	4	0.00%	1.58%
USD/CNY	6.1913	6.1803	-0.18%	2	0.00%	2.09%
EUR/JPY	136.7	137.71	0.74%	1	0.00%	3.05%
USD/CAD	1.0815	1.0917	0.94%	2	0.00%	2.80%
USD/CHF	0.9041	0.9055	0.15%	1	0.00%	1.42%
AUD/NZD	1.0987	1.094	-0.43%	1	0.00%	0.78%
GBP/JPY	172.8	172.52	-0.16%	4	0.00%	-0.99%
EUR/CHF	1.215	1.2165	0.12%	3	0.00%	-1.19%
EUR/USD	1.343	1.3424	-0.04%	5	0.00%	-2.34%
GBP/AUD	1.8066	1.8061	-0.03%	1	0.00%	-2.39%
USD/JPY	101.78	102.58	0.79%	2	0.00%	-2.58%
EUR/GBP	0.7906	0.7979	0.92%	1	0.00%	-3.82%
EUR/AUD	1.4291	1.4418	0.89%	1	0.00%	-6.87%
BTC/USD	590	586.1	-0.66%	3	0.00%	-13.48%

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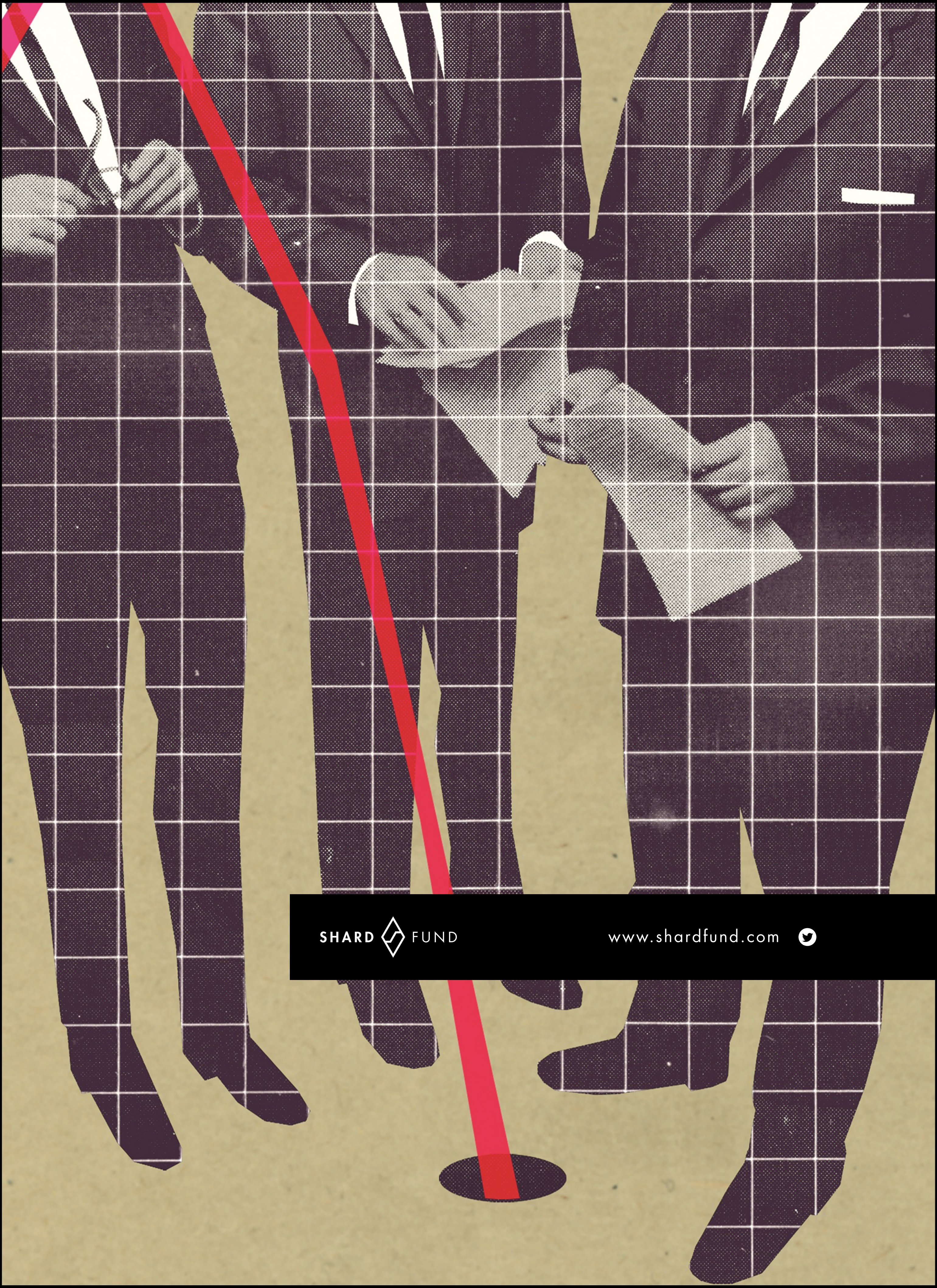
DISCLAIMER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