



MONTHLY COMMENTARY – 27th February 2015

THEMES FROM THE MONTH

*Janet Yellen, Federal Reserve Chair confirmed the Federal Reserve is considering raising the Fed funds rate during 2015 but is not in a rush to do so. The Fed Funds rate has been held at 0%-0.125% since 2008.

*Despite agreeing an extension of the Greek bailout, the Greek government has now requested the ECB assist in paying off Greek obligations at the IMF.

* Sterling has jumped to multi year highs against the Euro at €1.3690 helped by the implications of the Greek bailout.

*The FTSE 100 reached a new record surpassing its previous high reached in December 1999. The spur to a new record was a large gain in BHP Billiton whose earnings were ahead of expectations.

*National Express reported EPS of 22.7p up 6% and free cash flow of £190m. Net debt declined £80m to £664.3m after a strong second half of 2014.

*The board of Gulf Keystone has put the company up for sale but is also considering asset sales. The board confirmed a cash balance of \$90.1m.

*Premier Oil cancelled its annual dividend after reporting a charge of \$784m relating to asset write downs. The company has hedged 50% of its 2015 production via forward sales contracts at \$98.30 per barrel.

*Petrodavlovsk bond holders agreed to the board's rights issue (157 for 10 at 5p per share) that is intended to rescue the company from administration.

*TSB Banking Group reported a statutory profit of £170.2m up 100.7% with net assets rising to 327p per share.

FORTHCOMING UK EVENTS

27th February Nationwide House Price Index

2nd March BoE Consumer Credit/ Mortgage Approvals/ Mortgage Lending

3rd March UK Construction PMI

4th March UK Services PMI

5th March BoE Interest Rate Decision

6th March Halifax House Prices

11th March Industrial Production/ Manufacturing Production

12th March Balance of Trade

COMPANIES RECOMMENDED

*Petrofac BUY 17/2/2015

PERFORMANCE OF WORLD MARKETS 26 FEBRUARY 2015

NORTH AMERICAN

INDICES

	VALUE	CHANGE	+/- (1D)%	+/- (1YR) %
DOW JONES (25 Feb close)	18,224.57	15.38	0.08	15.19
S&P 500 (25 Feb close)	2,113.86	-1.62	-0.08	16.93
NASDAQ (25 Feb close)	4,967.14	-0.99	-0.02	17.26

EUROPE/ UK

INDEX

	VALUE	CHANGE	+/- (1D)%	+/- (1YR)%
FTSE 100 INDEX (14:10 GMT)	6,925.8	-9.5	-0.14	1.86
DAX 30 INDEX (14:12 GMT)	11,251.6	40.8	0.36	16.45
EUROSTOXX 50 (14:15 CET)	3,549.2	7.42	0.22	12.73

ASIA/ FAR EAST (FEB 26TH)

	VALUE	CHANGE	+/- (1D)%	+/- (1YR) %
Shanghai Composite (close)	3,298.36	69.52	2.15	56.01
Nikkei- 225 (close)	18,785.79	200.59	1.08	26.38
ASX 200 (close)	5,908.50	-36.40	-0.61	8.61
HANG SENG (close)	24,902.06	123.78	0.24	10.35

SOURCE: FIDESSA



UNITED KINGDOM

The Bank of England appears less concerned at sterling's rise against the Euro than inflation which could move into deflation. Indeed Mark Carney cited the option of "cutting base rates" if downside risks on inflation are realised. This would follow other central banks in introducing negative rates, Switzerland (-0.75%) and Sweden (-0.1%) – however it is unlikely to happen in the UK due to the impact on bank lending margins.

Many investors had a period of reflection post the celebrations at the FTSE 100 finally reaching the December 1999 record high. The FTSE 100 index composition has changed from those "TMT" days (technology, media, telecoms) to largely dependent on four sectors, Oil & Gas, Mining, Pharmaceuticals and Banking. The FTSE 100 experienced a structural shift from high growth industries into lower growth. In addition the market P/E has moved down from mid 20s to mid-teens. Still companies like Baltimore, Freeserve are unlikely to be missed.

EUROPE

The fact the Greek 4 month extension was agreed at all, suggests flexibility on both sides of the table. But all that Europe has done is "put off the evil hour". The new left wing Syriza government does not want to undertake any reforms whether mandated by Europe, the IMF or anyone else. They have concluded their mandate is to reverse austerity measures and return the country to its free-spending ways. The very weak Euro (\$:€1.1225) is rapidly moving to parity with the US dollar partly due to concern the problem will recur over summer.

CHINA/ JAPAN

China's vast overseas diplomatic push is very much the pet project of current Premier Li Keqiang. China appears particularly keen on Latin America and lent \$22bn in 2014 to Latin America, with Brazil receiving \$8.6bn, Argentina \$7bn, Venezuela \$5.7bn and Ecuador \$821m. In total, Chinese state banks have lent Venezuela over \$50bn since 2007. In short this must be viewed as money that China is likely to lose.

But also odd was China opening of its "largest overseas" diplomatic mission in Pakistan mid-month. In part these overtures to a vast array of different countries reflect a mix of business ambitions and genuine cultural objectives. The Chinese are actively pushing tourism to China as part of what appears a "glasnost" strategy.

UNITED STATES

The soaring Dow Jones, which notched up its third consecutive record high on Wednesday despite falls in other major indices continues to defy sceptics. Is it all just a problem of a lack of alternatives, with US bond 10 year yields now 2% or is it about earnings strength?

On one hand the "race to the bottom" i.e. the tendency of central banks to target weaker external values for their currencies is a problem for US multi-nationals as is broad based crises in Latin America. But US earnings are strong because of a strong US economy excluding problem areas like oilfield services. Wal-Mart's pay increase suggests tightness in the labour market.

Apple Inc pushed up \$17 to \$127 in February leaving it worth \$739bn almost double that of nearest rival Exxon Mobile at \$372bn.

IMPORTANT INFORMATION

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