UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

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Sovereign Wealth Funds May Sell Â£404 Billion of Equities

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Here is the opening of this informative article from Bloomberg:

Sovereign wealth funds may withdraw $404.3 billion from global stock markets this year if crude prices stay between $30 to $40 per barrel as oil-rich nations seek to shore up their finances, according to the Sovereign Wealth Fund Institute.
The value of listed equities held by the world's largest wealth funds will probably drop to $2.64 trillion this year, from about $3.04 trillion at the end of 2015, the Las Vegas-based SWFI said in an e-mailed report sent Monday. Withdrawals are set to approximately double from last year, when sovereign funds sold about $213.4 billion of equities, it said.
"The era of petrodollar-filled wheelbarrows being dumped into giant vats seems to be numbered," according to the Institute. "Commodity wealth funds have to be concerned about the state of their country's finances, since many were created to either be stabilization funds, intergenerational savings vehicles or a combination thereof."
Sovereign funds from Qatar to the United Arab Emirates and Russia, which amassed about $7 trillion of assets as oil soared higher than $100 a barrel, are now liquidating investments after a more than 70 percent slump in crude since 2014. During the boom, oil countries led a surge in investments in the U.S. and Europe, buying stakes in iconic companies such as Barclays Plc as well as trophy assets including Manhattan hotels, European soccer clubs and London luxury homes.

David Fuller's view
Previously prosperous oil countries have some very significant sovereign wealth funds. During accumulation these were investing in shares, bonds and trophy real estate. Today, they are a source of supply for at least the lengthy medium term.

Cameron: His Most Worthy Campaign Yet

This is a well-balanced editorial from Bloomberg:

U.K. Prime Minister David Cameron has reached a deal with Europe's other leaders on new terms for Britain's membership in the European Union, and says the promised referendum on whether to remain in the EU will take place on June 23. He has four months to persuade a closely divided country to stay.
For the sake of the U.K. and the EU both, he needs to succeed -- but he's leading a divided government and a divided Conservative Party. This isn't going to be easy.
Michael Gove, the justice minister, and five other cabinet members have said they'll campaign for exit. Many Tory members of Parliament -- even, by some accounts, a majority -- agree with them. Boris Johnson, the popular mayor of London and a contender to replace Cameron as prime minister, has said he'll join the leave campaign.
Cameron is a strong campaigner, as he proved in the most recent general election, and he'll need to be. He can hardly claim that remaining in the EU is self-evidently in Britain's interests: Throughout, he's said the choice would depend on whether Europe could be reformed. Although the deal he's done is valuable (contrary to the claims of Britain's fervidly anti-EU news media), the new terms aren't as far-reaching as the prime minister had hoped.
The agreement exempts Britain from the EU treaty commitment to "ever closer union"; it recognizes the separate status of EU members that aren't part of the euro single-currency area; it keeps regulation of the U.K.'s financial sector with the Bank of England; and it meets Cameron halfway on EU migrants' access to U.K. welfare benefits.

Those are real gains, even if they don't create the looser "live and let live" EU that Cameron has called for. At least for now, a more flexible EU isn't what most of the union's governments want.
They're wrong about that: There's every sign voters in other countries don't want closer political integration and would welcome more of the flexibility Cameron has proposed. But the main thing for U.K. voters isn't that Europe failed to seize this chance to rethink its future. It's that Cameron has secured Britain's special standing as a country with its own currency and a variety of so-called opt-outs from EU initiatives.
In a way, the U.K. therefore gets the best of both worlds: the main benefits of EU membership (unrestricted access to Europe's single market) without its greatest costs (euro-induced stagnation).
Over the next few months, a lot will be heard from euroskeptics about the freedoms that the EU takes away and the obligations it imposes. It's true that EU membership involves a loss of formal sovereignty, something that Britons (no less than Americans) are sensitive to. Yet a medium-sized country deeply embedded in Europe's larger economy would be deluding itself to think separation from the EU would widen its real choices or help it prosper.
A vote to leave would be too much of a gamble. "I believe we are stronger, safer and better off inside this reformed European Union," Cameron says. He's right.

David Fuller's view
The UK's vote in June, to either leave or stay in the EU, may be close but I think David Cameron's gains described above, following a very energetic and diplomatic campaign, should be enough to ensure that the UK remains within the EU. If so, I do not think that the deciding factor will be fear, caused by the Prime Minister's warning that a vote in favour of Brexit would be a "leap in the dark". Instead, I think most voters will conclude that Britain's international role will be more influential if it remains within the EU.

How Technology Could Unwind a Decade-Long Trend in Global Trade

Here is the opening of this informative article from Bloomberg:

Two of the biggest forces influencing global economic activity over the past three decades—globalization and automation—have had polar-opposite effects on workers in emerging markets.
The former pushed multinationals to move production to countries with cheaper labor costs than advanced economies, while the latter effectively substitutes capital for labor in the production process.
In a note to clients, analysts at the Goldman Sachs Group Inc. led by Senior Asia Economist Goohoon Kwon discuss how these trends have affected the global trade picture.
To the extent that robots become a less expensive input than labor in the production process, multinationals will be encouraged to "onshore" output to move it closer to their customer bases. This would mark an unwind of the long-standing trade formula, which had the growth of global supply chains at its heart, and it is a net negative for global trade that would have far-reaching consequences.
There are nascent signs that this process may be in the works, as emerging market nations in Asia have seen export volumes nose-dive despite continued growth among their major trading partners:

David Fuller's view
This is a hugely important development, and one that this service has discussed occasionally over the years. Briefly, developed economies suffered during the earlier years of globalisation because their labour costs and currencies were too high, relative to developing economies. This hollowed out industries in developed countries, as jobs and production facilities were moved overseas, with the Asia Pacific region being the biggest beneficiary.

Here is why the Fed not the market might be right about a recession

Thanks to a subscriber for this article by Ellie Ismailidou for MarketWatch which may be of interest. Here is a section:
According to Torsten Slok, Deutsche Bank's chief international economist, the 10-year Treasury yield is "significantly mispriced" and should in fact be at 2.3%, instead of 1.762%, where it closed on Thursday amid a strong rally as oil and stocks faltered.

The Atlanta Fed, on the other hand, is broadly viewed as one of the most accurate predictors of U.S. growth, as it uses the so-called GDPNow forecasting model, which provides what the central bank calls a "nowcast" — or real-time estimate — of the official GDP number prior to its release.

Furthermore, a series of data points, such as jobless claims, which hit a three-month low on Thursday; industrial production, which rose for the first time since July; and consumer spending, which rose in 2015 at its fastest pace since 2005, all showed improvement in the U.S. economy, said Slok said.

At the same time, fixed-income strategists pointed to another reason why Treasury yields have been hovering around one-year lows recently, namely a sustained global "flight to quality."

These Treasury rallies pushed prices higher and yields lower not because of changes in economic fundamentals, but because of a massive flight to government bonds, which are perceived as haven assets, amid sharp global equity selloffs over the past few weeks, said Jeroen Blokland, a portfolio manager at Investment Solutions, in a note.

Eoin Treacy's view
Traders can never get enough of a good thing so when money is free and abundant they increase leverage and go in search of opportunities. The longer the trend persists, the larger the positions become as accrued profits are used to increase wagers. When the status quo changes they need to change strategy not least because margin calls necessitate action.

For Silicon Valley, the Hangover Begins
This article by Rolfe Winker may be of interest to subscribers. Here is a section:

It isn't as if venture funding has totally dried up. In the fourth quarter, financing for U.S. startups fell 6.6% to $17.13 billion, the lowest in five quarters but still approaching dotcom-boom levels.

This month, Magic Leap Inc., which has yet to release its "mixed reality" glasses—which overlay virtual images on the real world—raised $794 million in funding at a valuation of $4.5 billion. Car-hailing service Uber Technologies Inc. continues to reach new heights, raising funding in December that valued it at over $60 billion, a record for a private venture-backed company.

Venture capitalists say the pace of these huge deals is rapidly slowing, especially after tech stocks declined drastically on Feb. 5. That exacerbated the already wide valuation gap between high-price private tech shares and their public peers.

Some companies are raising funding by selling shares at lower prices than they had in earlier rounds. Such "down rounds" can hurt a startup's chances at recruiting and discourage employees who are often paid with stock options.

Location-sharing mobile-app company Foursquare Labs Inc. raised cash in January selling shares at a 69% discount from the previous price, according to corporate documents provided by research firm VC Experts. Delivery startup DoorDash this week sold shares at a 16% discount. A DoorDash spokesman declined to comment.

Eoin Treacy's view
The valuation of privately held companies is dependent on the largesse of private equity firms which in turn are heavily influenced by the rates they pay to source finance. As a result the spike in high yield spreads has had an impact on the valuations of so-called "unicorns".

Email of the day on charts for CDS
Could you show a graph of a CDS for Credit Suisse, if there is one? Is there a site where CDS rates for various securities can be found?

Eoin Treacy's view
Thank you for this request. Unfortunately we have always had issues with receiving accurate data on CDS from Bloomberg and they are now charging an eye watering fee so we no longer carry the same number of CDS charts in

the library.

China Stocks Rise to Highest in Month Amid Regulator Reshuffle
This article by Kyoungwha Kim and Kana Nishizawa for Bloomberg may be of interest to subscribers. Here is a section: Liu Shiyu takes over as chairman of the China Securities Regulatory Commission, assuming oversight of the world's second- largest stock market in the wake of last summer's slump that saw predecessor Xiao Gang criticized for mismanagement. Liu was previously chairman of Agricultural Bank of China Ltd. and was a deputy governor at the People's Bank of China before that. The reshuffle comes before the nation's Communist leaders are due to meet next week to set out a new five-year economic plan.

"Consensus in general is taking this replacement as a bullish development," said Hao Hong, Hong Kong-based equity strategist at Bocom International Holdings Co. "The market will be anticipating more supportive policies as the new chairman sets in."

Eoin Treacy's view
The replacement of the stock market regulator following last year's botched opening of the options market, spikes in volatility and needs for massive government intervention is a positive development. This suggests the administration is willing to use every tool at their disposal to help support the market and dampen down speculative surges.