

STRATEGY NOTE: EQUITY STRATEGY EQUITY MARKETS NEED LIQUIDITY



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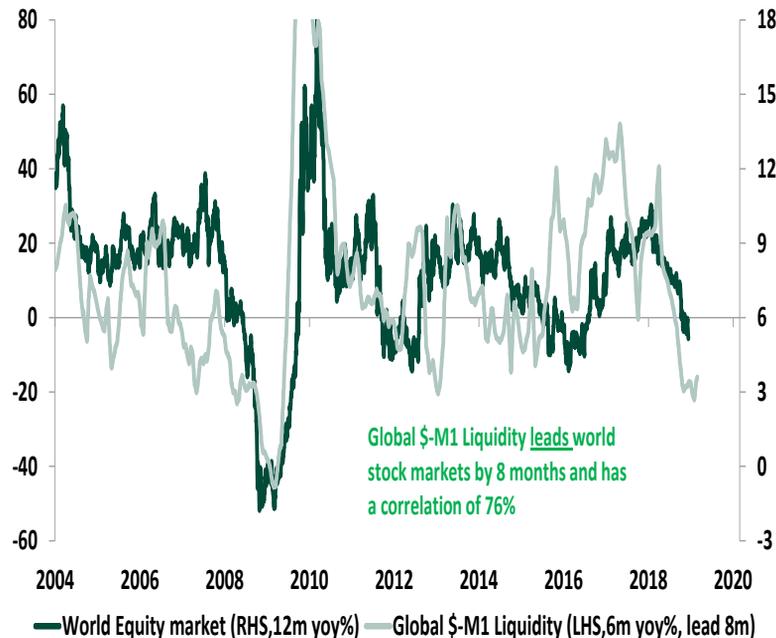
MSCI WORLD INDEX: BREAKING OUT OF THE BULL TREND



Source: Reuters, Nedbank CIB

- We have written extensively over the past couple of months that the equity markets are vulnerable. We reiterate that it is time for central banks or governments to step up to the plate to help these markets. In 2008, the Fed underestimated the size of the shadow-banking system, and the rest is history. We believe investors and regulators are underestimating the damage that widening corporate spreads would cause, especially USD-based cross-border corporate debt (concentrated in Asia)
- Technically, the picture is quite bearish; failure by the markets to remain above the (red) resistance line through the tops is in itself a sell signal. If the world index remains below the (blue) support line at 1,984 over the coming days, it will likely be just a matter of time before the bear trend accelerates.
- According to Elliott wave rules, the correction after the completion of a five-wave structure should retrace the entire fifth wave.
- This indicates a correction to the 50% retracement level at 1,454.

OUR ESTIMATE OF GLOBAL \$-LIQUIDITY POINTS TO CONTINUED EQUITY WEAKNESS



Source: Reuters, Nedbank CIB

- There is a strong relationship between the change in Global \$-Liquidity (M1) and the performance of the global stock market.
- Global \$-Liquidity leads the global stock market by an average of eight months.
- If there is no boost to Global \$-Liquidity, we expect this relationship to hold. As a result, the risk of further downside potential for stock markets across the world would remain intact.



EM \$-CORPORATE SPREADS



Source: Reuters, Nedbank CIB

- The EMBI (USD-denominated corporate debt) spread is very close to a breakout level.
- **We believe this is the “canary in a coal mine” for risk assets.**
- USD-denominated debt of EM corporates has grown from USD650bn in 2009 to the current USD3.2tn and there significant mismatches i.e. USD-denominated debt as a percentage of GDP is 70% and as a percentage of reserves is 75%.
- Amid a slowdown in global growth, coupled with a tighter Global \$-Liquidity environment, if EM \$-corporate spreads continue to widen, it would negate our view below on EM equities, i.e., that a short-term bounce is possible.

MSCI-EM: SUPPORT REMAINS INTACT



Source: Reuters, Nedbank CIB

- The EM market index tested an important support at 936, and the MACD indicates that the market is losing bearish momentum.
- If EMs outperform DMs, it would be bullish for EM currencies, and will likely keep the rand in the 13.50-14.50 trading range over the short term.
- A break below 936 would negate our theory and projects an acceleration in the bear trend to 836.

