



Investment Insight

Friday, 13 February 2015

Billy Goats Gruff: 2015 is the year of the goat in China. Indeed, "gruff" might be about right based on Bloomberg's "Animal Spirits Indicator" which, so far this year, doesn't look so promising for China.

Exports fell 3.3% year on year in January, down from 9.7% growth in December and imports registered a massive 19.9% year-on-year contraction. The trade surplus hit a record \$60 billion. A slump in China's exports and imports in January rings alarm bells for investors.

In this week's **Inside Track** we examine the Animal Spirits Indicator, which provides an alternative take on development in the world's second-largest economy.

Cheesy: The Grilled Cheese Truck Inc. started trading on the US stock market on 29th January. Its ticker, GRLD of course. However, it would appear that the valuation might be running a little ahead of itself. With 18m shares outstanding and a recent share price of \$4.65 the company has a market value of c. \$84 million (it was over \$100m at its peak).

So far, so good. Until you see what its balance sheet (it has about \$1 million of assets and almost \$3m in liabilities) and its P&L (in Q3 2014 it had sales of almost \$1m, on which it had a net loss of more than \$0.9) look like. Essentially this loss-making company whose assets amount to a few cheese trucks is trading at an \$84m valuation! Something's cheesy....in **Pic of the Week** we take a closer look.

The Inside Track

Data from Bloomberg's Animal Spirits Indicators show investment and consumption weak, exports doing a little better, and policy makers continuing to keep their powder dry on stimulus. The following are some of the key findings.

Industry – Electricity Production

Low voltage growth in electricity output suggests the industrial sector has yet to regain its old spark. A 1.3% annual expansion in December was a little better than 0.6% in November, but still shockingly bad.

Investment – Land Sales

A continued contraction in land sales suggests the real estate sector has dug itself into a hole. Land sales in China's top 30 cities were down more than a third from a year earlier in December. Weak land sales also raise concerns about local government's capacity to repay debts.

Trade – Container Volume

As U.S. consumers return to the shops, China hopes to sell a few more flat screen televisions. Shanghai port container throughput was up 7.2% year on year in December, improving on a fractional contraction in November.

Leisure – Macao Baccarat Revenue

It's not just the high rollers that are staying away from gambling hot spot Macau. Baccarat revenue, a mass-market earner for the former colony's casinos, is also falling – down 17.6% year on year in the fourth quarter.

Consumption – Yum Same Store Sales

China's consumers aren't hitting the shops as hard as the advocates of re-balancing would like. Yum! Brands saw its China same-store sales fall 16% in the fourth quarter. Consumer staples giant Unilever and baby milk producer Mead Johnson also cited China weakness in their latest results.

Inflation – Alibaba Online Shopping Price Index

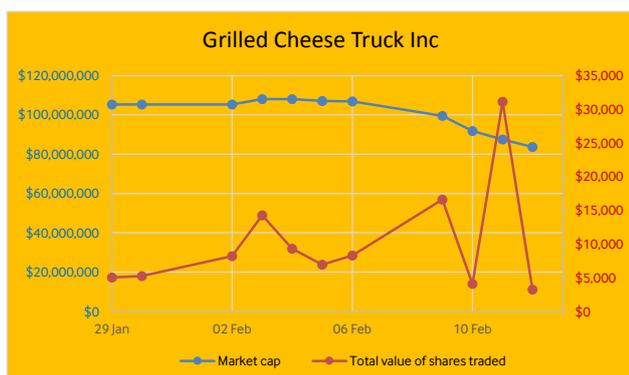
Roaring equity markets are doing their best to make up for lack of animal spirits elsewhere. A major rally on the mainland markets has created a favourable atmosphere for fundraising. IPO announcements totalled above 100 billion yuan (\$16 billion) in each of the last three months — among the highest on record.

Policy – News Trend Story Count

A total of 945 stories with the words 'China' and 'stimulus' in January is way off the peak of close to 3,000 in March 2009. One interpretation is that the government has kept the latest stimulus in the 'mini' category. Another is that the world is losing interest.

Pic of the Week

We've seen it close at hand with AIB's stratospheric valuation as one of Europe's largest banks in recent years. Share prices can be distorted for many reasons. So why is the loss-making Grilled Cheese Truck Inc valued at \$88m? The answer may lie in a very small free-float, a very thinly traded share, or just plain irrational exuberance. Such apparent anomalies recall the heady days of late 1999 when, just before the bubble burst, one company proclaimed: "Our business strategy is to lose money on every sale but make up for it in volume."



Market View

	Last 7 days	YTD	5Y Ann.
Global equities	+0.9%	+3.0%	+9.7%
US equities	+1.3%	+1.4%	+14.2%
European equities	+0.3%	+9.4%	+8.8%
Emerging market equities	-0.8%	+1.6%	+1.1%
Irish equities	+1.9%	+9.5%	+14.5%
Commodities	+1.1%	-0.5%	-4.5%
Hedge funds	+0.5%	+0.5%	+1.2%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+1.2%	-0.3%	+3.5%
Germany	+0.3%	-0.4%	+1.4%
USA	+2.0%	+0.8%	+2.5%
China	+3.3%	+0.8%	+7.3%

Currencies	Current	YTD Δ
EUR:USD	1.14	-5.6%
EUR:GBP	0.74	-4.5%
EUR:CNY	7.13	-5.5%
GBP:USD	1.54	-1.1%
Bitcoin	229.54	-27.7%

Week ahead: Key events

16/02 UK House Prices
17/02 UK CPI & PPI
17/02 EU ZEW Survey Expectations
18/02 UK Jobless Claims & EU Construction Output
18/02 US Housing Starts & Industrial Production
18/02 Japan Trade Balance
19/02 US Initial Jobless Claims & Leading Index
19/02 EU Consumer Confidence
20/02 Eurozone Composite PMI & UK Retail Sales

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,230.43	+3.8%
Copper	5,752.25	-9.7%
Oil	60.29	+1.9%
Wheat	522.50	-12.1%

Central Bank rates	<i>Current</i>
Eurozone	0.05%
USA	0.25%
UK	0.50%

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