Weekly Report

Microeconomic Analysis

Hugo Boss: Out of Fashion?

Hugo Boss AG (BOSS), the German luxury fashion house whose artistic director has clothed celebrities and politicians alike, lowered its sales and operating profit targets for the year due to a "substantial slowdown" in European demand and a challenging macroeconomic environment.

The luxury fashion house hinted at a further slowdown in North America, its core market for sales, despite strong international sales. They have particularly been affected by Eastern Europe this year, where the conflict in Ukraine has led to fewer Russian tourists in the region. It also conveyed concerns about slower consumer activity, particularly in emerging markets which was affecting the sector; particularly due to a slowdown in growth in Hong Kong stemming from mounting political tension and muted consumer confidence in China.

However, Hugo Boss remains optimistic of being able to deliver solid full-year sales and earnings growth, and thus outpacing the luxury goods sector as a whole. Hugo Boss stated it now expected currency-adjusted sales to grow 6-8% this year, from previous guidance of high single-digit growth. Operating profit is expected to grow 5-7%, also down from a high single-digit forecast, growing 4% in the first nine months of the year. Sales revenue in Q3 rose 9% to €717m, with nearly two-thirds of revenues coming from Europe, including the Middle East and Africa. Sales revenue in the Americas were up 9% and sales in Asia Pacific rose 12% over the period. Net income for Q3 increased 3% to €115m compared with the same period last year.

Whatever happens, I'm looking forward to their new upcoming winter collection.

Macroeconomic Analysis

Brief: All that Glitters is not Gold

The 20-year gold bull market due to deficit spending, wars and quantitative easing has come crashing down since September 2012 after showing severe signs of weakness in late 2011. The market has seen continuing declines with the price reaching its lowest level since June 2010 to US$1,135 t.oz on Friday 7th November. Gold ETF holdings decreased last month showing signs that if there is a similar downward trend in the upcoming couple of years, the bull market has come to an end. Though on the back of positive US employment data and speculation that the Federal Reserve will keep interest rates low, gold prices began to surface, closing at US$1,169.7 t.oz, a rise of 2.4%. However, overall Gold is down by 2.7% compared to last year, with a decrease of 6% in prices this September alone.

Edward Meir, analyst at INTL FCStone, said the "stronger dollar, rising equity prices, tame inflation is a trifecta that doesn't bode well with prospects going into 2015." Other market analysts including Jeffrey Currie, Head of Commodity Research at Goldman Sachs, suggests that Gold will reach $1,050 by the end of the year, echo this

view. Cheaper energy due to falling oil prices means lower inflation, which adds to the bearish attitude of the market at the moment.

India, the second largest consumer of gold, has been facing pressures from politicians who want to reduce their balance of trade. However, demand in both India and China is inching as consumers take advantage of the recent price lows. Although good news for consumers, these lows are causing difficulties in the mining industry. From a survey conducted by Bloomberg, only twelve of nineteen mining companies they surveyed are profitable at the current market rate of gold. If gold prices continue to fall another $50, a further two companies will be producing above the market rate. Mergers could be on the horizon if falls cause a price floor to hit.

There doesn't seem to be any reasoning to buy gold in the immediate future since Mario Draghi, President of the ECB, said he will do what it takes to stimulate the sluggish Euro zone economy and also because debt ceilings have subsided somewhat. Though in the long term, what does central bank balance sheet expansion mean for inflation? Is blemished gold a positive for global outlooks? If the economy really finds traction, then stocks can find new highs, and Gold can go into reverse. But the question is IF.

Russia: Economy on the Brink of Recession

Following the steady fall of the ruble in recent months and rising international tensions with the West, the Russian currency has dipped dramatically earlier this week, plunging more than 10% in 48 hours. Since his election in 2012, Vladimir Putin has promised economic stability and vowed to improve living standards. Therefore, further deterioration of Russia's economic conjecture threatens to undermine his power base.

The ruble's weakness has been exacerbated by the Kremlin's stance, and recent actions in the crisis in Ukraine have caused significant capital flight from the country. Additionally, as part of the Western sanctions imposed on Moscow following the annexation of Crimea, Russian companies have been shut out of Western capital markets. This has prompted large debt repayments and sparked fears of a potential slow-motion credit crunch.

In this context, and in conjunction with fast rising food prices and an inflation rate above 8%, the Russian economy is teetering on the brink of recession. Due to Russia's high level of dependence on tax revenue generated by commodity exports, Russian has also been heavily hit by the declining oil prices which have dropped 25% since June and are now at a four year low.

Finally, the Russian central bank decided on Wednesday to terminate artificial support to the Ruble and allow its rate to float freely. This undertaking has been a determining factor in the Ruble's troubles this week.

Events

ECB Increased their Asset Purchasing Scheme

The Federal Reserve has halted their quantitative easing program this month due to a consensus that the US economic recovery will continue, along with improvements in the labour market as October unemployment dropped to its lowest level since 2008 at 5.8%. However there is a far more bleak picture in the Eurozone with the European Commission cutting growth forecasts for this year and next; this year from 1.2% to 0.8% and the 2015 forecast from 1.7% to 1.1%; the area is still suffering from a prolonged period of low inflation and high unemployment. The president of the ECB Mario Draghi, has signalled that he is ready to boost the economy with up to €1tn of monetary stimulus.

The ECB aims to increase their balance sheet by €1tn and pump money back into the economy. Draghi has stated that the ECB staff are looking at "further measures" to tackle their inflationary concerns, suggesting a possible expansion in their asset purchasing scheme towards a "full-blown" quantitative easing program. The ECB's asset purchasing scheme started in October and involved buying bonds and assets (excluding buying government debt), in order to revive lending and therefore boost demand. However, with October inflation at 0.4%, once again not hitting their 2% target, it is suggested that they may expand their purchases to sovereign bonds as analysts have predicted the market for their current purchases (covered bonds and asset-backed securities) is too small.

The announcement resulted in the euro depreciating further, hitting a two-year low against the US dollar at $1.2398. In addition, markets reacted positively to the news triggering a jump in shares with the FTSE Eurofirst 300 up 0.6%. However, with oil prices plummeting it may not be the solution to deflationary worries in the Eurozone at this time.

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