Weekly Report

GRIFF INVESTMENT FUND

Microeconomic Analysis

Rumoured Etsy IPO: Crafty Business

By Himalee Tailor

E-commerce is a booming industry with five out of the thirteen largest internet companies, by revenue and market cap, operating in this industry. The current largest is Amazon whose revenue in the third quarter of 2014 stood at $20.58bn, up from $17.09bn in the third quarter of the previous year. We have also seen the growth of Chinese company Alibaba whose IPO last September totalled $25bn, making it the largest ever stock market floatation. 2015 will see significant changes within the industry as most online retailers will offer customers a mobile site as more and more savvy shoppers 'go mobile'. We will also see a rise in big data analysis as online retailers aim to understand customer behaviour and intentions in order to shape strategies to customise offerings.

Recently is has been reported that Etsy Inc, the online marketplace for crafts and vintage items, is working with Morgan Stanley and Goldman Sachs on an IPO, hoping to raise $300m. If the IPO goes through, it will be the biggest IPO to come out of New York since 1999 as technology start ups struggle to match the growth of companies who succeeded during the Silicon Valley era.

The Brooklyn based company is the perfect platform to buy and sell unique handmade or vintage items and attracts creative entrepreneurs from around the world. It was founded by Robert Kalin in 2005, a painter and carpenter, who could not find a viable online marketplace where he could sell his handmade wooden computers. Etsy charges $0.20 for sellers to list products and takes a 3.5% commission from each item sold. The company also generates revenue from advertising and reported $1.35 billion in gross merchandise sales in 2013.

What's so special about Etsy? Firstly, it is extremely user friendly- you can open up a shop and start selling within a day. Etsy also has a great reputation, community spirit and global reach. It is well trusted by its users and is reflected through its 43 million users and 26 million listed items. Although it provides sellers with all the right tools, it is highly competitive making it hard to stand out from the crowd. There is limited scope for brand recognition and the same charges apply regardless of the number of items you list meaning beginners win and popular shops who list hundreds of items lose out.

The e-commerce industry is a tough field for start ups to gain scale in because of the dominance of big players like Amazon. News of the rumoured IPO have caused a mixed reaction amongst users. Some believe Etsy is about to 'sell out' and the website will lose its unique style while others believe it might make for a better future and generate sales. As long as Etsy sticks to its true values and culture, it could see a prosperous future. In an interview with the Washington Post, Etsy CEO Chad Dickerson said "I see the opportunity for Etsy to create a new model for how commerce is done in the world''.

Macroeconomic Analysis

ECB Announces a QE Package

By Kai Tham

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On Thursday 22nd January 2015, the European Central Bank announced a €60bn a month bond buying programme, meaning that the central bank would purchase more than €1tn in assets by next September. Mario Draghi has exceeded many expectations with the size of the asset purchasing programme. He argued because of the deflation that was expected, even though in the short term this has been a result of falls in the oil price, in the medium term, wages and price setting issues would come into effect. Furthermore the central bank feels that there is still economic slack in the economy and there is a lack of money and credit development.

The programme will launch in March and is expected to last until September 2016 if inflation is close to its 2% target. The ECB will purchase asset-backed securities, sovereign bonds and covered bonds, however will not purchase corporate bonds. National central banks will be responsible for 80% of the losses on defaults and restructuring whilst there will be risk sharing of the assets on the other 20%. Furthermore the ECB and national central banks would not be able to buy more than 33% of a countries debt and the maturities on sovereign bonds will be between 2 and 30 years.

As a result of the announcement, the Euro has fallen to its lowest value against the dollar in 11 years to $1.11. The value of the Euro is going to be significant factor as to whether the quantitative easing would be successful, given the export market in Europe, and given the indefinite length of the programme, we can expect the value to fall further.

The yields on Eurozone bonds have also fallen, for example German 10 year Bunds are now at 0.35%. As a result of this, we could see the search for yield to return, with currency wars in Emerging Markets occurring again due to increased inflows.

There are several arguments as to why this dose of bond purchasing programme will not have the results desired. Firstly, it is argued that is not a “full-blown” programme, as mentioned earlier, only 20% will be subject to risk sharing and in a case of a “normal” programme, central banks buys assets with the assumption that they can always print more money if the assets lose value. Secondly, Mark Carney argued that in an environment of lower interest rates, investors could take excessive risk. This reflects the view of many Germans that the liquidity in the Eurozone will fuel asset bubbles. Thirdly is it argued a fiscal stimulus is needed as well as a monetary policy and quantitative easing provides an opportunity for growth and does not have a catalyst effect.

Events

Davos 2015

By Michaela Lucas

This week saw the World Economic Forum meet in Davos-Klosters, Switzerland to discuss the priorities on the economic agenda in the coming year. There were upbeat economic prospects with the International Monetary Fund forecasting a 3.5% growth forecast. With a new European Central Bank package to be launched there is excitement but also concern as now the key challenge is for governments to move ahead with the structural reforms. The decrease in oil price should help to further boost economies and it has also been highlighted that technology looks to play a huge role in the coming year but there is uncertainty as to how large an impact this industry will have.

Angela Merkel explained the need for an environment that encourages public and private investment. Whilst she was less forthcoming in expressing her views on European Unity this may have been due to the ‘timely’ announcement of the ECB package as she walked off-stage. It has been claimed that 90% of the people present at Davos thought it was a positive change. What Merkel did express was her opinion that Greece must take responsibility for its debt, as the country reaches their elections. Merkel stated that she wishes for Greece to stay with the Eurozone, yet all that could be done politically has been achieved.

This year international conflict presented itself as a new challenge for the World Economic Forum. EU leaders have confirmed their backing of sanctions in the Russia-Ukraine conflict and certain politicians such as Merkel are still pushing Russian President Vladimir Putin towards a diplomatic solution. Merkel condemned Moscow’s annexations of Ukraine as a violation of the territorial rights that are crucial to Europe, which simply cannot be ignored. There has also been talk of the North Korean hackers of the Sony computer systems, proving that conflict can come in a variety of forms. The forum has assessed the top global risks over the next 10 years, putting interstate conflict with regional consequences as the number 1 risk.

The UN Secretary-General Ban Ki-moon has urged world leaders to maintain their focus on gender equality issues, stating that the year ahead must be filled with strong commitment and global action. Mr. Ban expressed that future gains would depend on future advances in gender parity, drawing attention to the UN Women-led HeForShe campaign. It should be noted that gender parity remained present at Davos with just 17% participants women, showing no improvement on two years ago. This is significantly lower than the 30% benchmark which is the target for women’s participation in matters of global importance.

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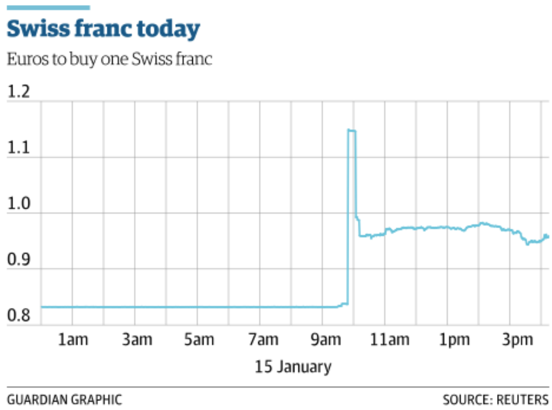
Swiss Currency Cap: Impacts and why it happened

By Pav Sehmar

On the 15th January 2015, the Swiss National Bank (SNB) announced to the surprise of many that they were scrapping the currency cap introduced in September 2011. This saw the value of the Franc soar, as shown in the graph below.



Many Swiss markets have been impacted. Tourism in Switzerland is feared to be hit, with the Franc now higher, the price of visiting Switzerland has in effect increased to Europeans. With Skiing in Switzerland a popular attraction to the country, many skiers may choose to ski elsewhere due to the increase in price. One particular region in South West Switzerland popular for skiing is Zermatt, a spokeswoman for 'Zermatt Tourism' stated that they do get feedback saying visiting Zermatt is indeed expensive, so with the increase in the Swiss Franc, this problem will most likely only get worse.

Swiss watchmakers have been hit as well, with exports now appearing more expensive; resulting in pressure being applied on companies to decide whether they should increase prices or keep prices the same and accept lower profits. Switzerland based watchmakers have shown a grudge to the move by the SNB, with Nick Hayek, chief executive of Swatch Group, describing it as 'a tsunami: for the export industry and for tourism, and finally for the entire country'. Swatch saw its share price slump by 15 per cent the day the currency cap was decided to be scrapped, luxury goods firm Richemont and cement-maker Holcim were also down 10 to 16 per cent, with the Swiss market falling 9 per cent, its biggest decline in 25 years.

With the apparent damage on Swiss exports and many investors believing that Swiss companies will struggle to cope with such a high Franc, the question is why did the SNB deem the currency cap to be irrelevant? Many believed at the time this was an indication that the ECB are about to do something, which they indeed did with Quantitative Easing being introduced on the 22nd January 2015. The SNB clearly saw that the Euro was weakening and with Quantitative Easing being planned to be introduced, the Euro was expected to depreciate even more against the dollar, which would cause the Swiss Franc to weaken against the dollar too if it was still pegged to the Euro, meaning if the Swiss Franc was continued to be pegged against the Euro, it would become increasingly expensive as the SNB sold its own currency and bought other currency/bonds such as US dollars, Canadian dollars, sterling and yen (done in the form of government bonds) to depreciate their currency.

To conclude, the SNB scrapping the currency cap was as an act of them trying to be proactive before the ECB announced its quantitative easing plans. Zurnbreugg, number three in the bank, stated that 'we would have spent about 100 billion francs (100 billion euros, $116 billion) for January alone'. But this has resulted in an increase in export prices, hitting the luxury fashion market and tourism; two sectors Switzerland are famous for. It will be interesting to see how export levels in Switzerland will be in the short and long term, but for now it looks like if you've already booked a ski trip to Switzerland, your queue for the Ski lifts may be a lot shorter than before.

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