

highest since the three months to April 2011. The other regional activity indicator, the Dallas Fed manufacturing outlook rose to 11.4 (vs 8.5 expected and 8.0 prior). Pending home sales rose 6.1% MoM (1.5% expected) which benefited US homebuilders on the equity side (+1.5% yesterday). In terms of Fed speak, the SF Fed's Williams commented that a first rate hike in 2H15 will be appropriate, but he also reiterated that it may be optimal for the Fed to let inflation run above target in order to balance the Fed's dual mandate.

Perhaps one of the key themes of 1H14 was the surging M&A activity globally. With 1H14 books closed, the final M&A tally was \$2.2trillion according to Bloomberg which is a YoY increase of 77%. By region, leading the way was the resurgence of corporate activity in Europe (+109% YoY), though this was coming off a low base, followed closely by North America (+79%). In terms of industry the biggest pickup in activity came in pharma (+677%) and healthcare (+140%). One reason for the surge in M&A has been the accommodative capital markets. We saw an example of that yesterday with a jumbo bond deal from Oracle who priced \$10bn in bonds (the second largest USD offering in the year-to-date according to Bloomberg) to fund the purchase of Micros Systems. The deal was sufficiently large to drag other TMT bonds several basis points wider on the day.

Looking at some of the geopolitical headlines, Ukrainian President Poroshenko said late on Tuesday that we would end the cease-fire with pro-Russian rebels and vowed to intensify military operations in the country's east. However the president also made some concessions including guaranteeing Russian-language rights and more regional autonomy. Russia also offered some concessions yesterday including allowing Ukrainian and international observers in its own border posts along the border with Ukraine. In Iraq, semi-autonomous Kurds plan a referendum for independence according to a regional government spokesperson (Reuters). The Kurds plan to keep control of the Kirkuk oil fields.

There are some mixed headlines elsewhere in China. Firstly China's banking regulator announced a small change in the way that Loan-to-deposit ratios are calculated which our banking analysts think will reduce the system regulatory LDR ratio by 410bp based on end 2013 data. Our analysts think that this will pave the way for more relaxation of Chinese bank liquidity requirements. Secondly, the latest Macau gaming numbers were reported which showed June casino revenues fell 3.7% YoY in June. This is the first drop since 2009, but some are attributing this to the effects of the World Cup.

Turning to the day ahead, the rest of the global manufacturing PMIs/ISMs will be released starting with the final PMIs for Europe. The US manufacturing ISM is expected to show a small bump up to 55.9 (vs 55.4 in May) which would mark a six month high. DB is expecting a print of 55.0. Other highlights on the US data docket are May construction spending and the IBD/TIPP economic optimism index.

YTD performance review

In YTD terms, of the main indices we track the FTSE-MIB (+14.5%) and the IBEX (+12.8%) have been the star performers. Spanish, Portuguese and Italian bonds have not been far behind. Interestingly commodities make up quite a few of the other top ten places (with the CRB index, Gold, Silver and Oil returning between 7-11%), but also 2 of the worst 3 with Wheat and Copper both down more than 6%. Also negative was Chinese equities (-1.5%) after disappointing growth in H1 which may explain some part of the weakness for certain commodities. The Nikkei (-6.1%) was the only other asset lower YTD in our sample. Apart from these four all the other assets saw a positive 2014 total return. Credit has put in a good performance in 2014 so far with most major indices returning between 4-7% which is impressive in the low yield, low spread environment.

For the full numbers for the year, Q2 and June see the charts and tables in today's pdf. We also show the YTD numbers all converted to dollars.

Happy H2!

Other Market Data

(ITX Sen Fin @ 68 // +2)
(ITX Sub Fin @ 103 // +3)
(CDX EM @ 237 // +4)
(ITX Japan @ 68 // -1)
(ITX Australia @ 85 // +2)
(ITX Asia XJ @ 105 // unch)
(Euro NonSov @ 69.15 // unch)
(Euro Corp @ 103 // unch)
(Euro BBB @ 133.94 // +1)
(Sterling NonGilt @ 115 // unch)
(Sterling Corp @ 139 // unch)
(Sterling BBB @ 176 // unch)
(WTI Oil^ @ 105.65 // -0.09%)
(Dollar Index^ @ 79.82 // -0.27%)
(EUR/USD^ @ 1.369 // +0.31%)
(DJ Stoxx 600 @ 342 // -0.03%)