2015 June – Greece falling, Euro not?

Despite the Greek tragedy going on (see our May 2015 factsheet), we find it interesting Euro has not fallen more to reflect the uncertain future of Europe's single currency. E.g. in last 3 months EUR/USD is up 1.23% (as of 7th July).

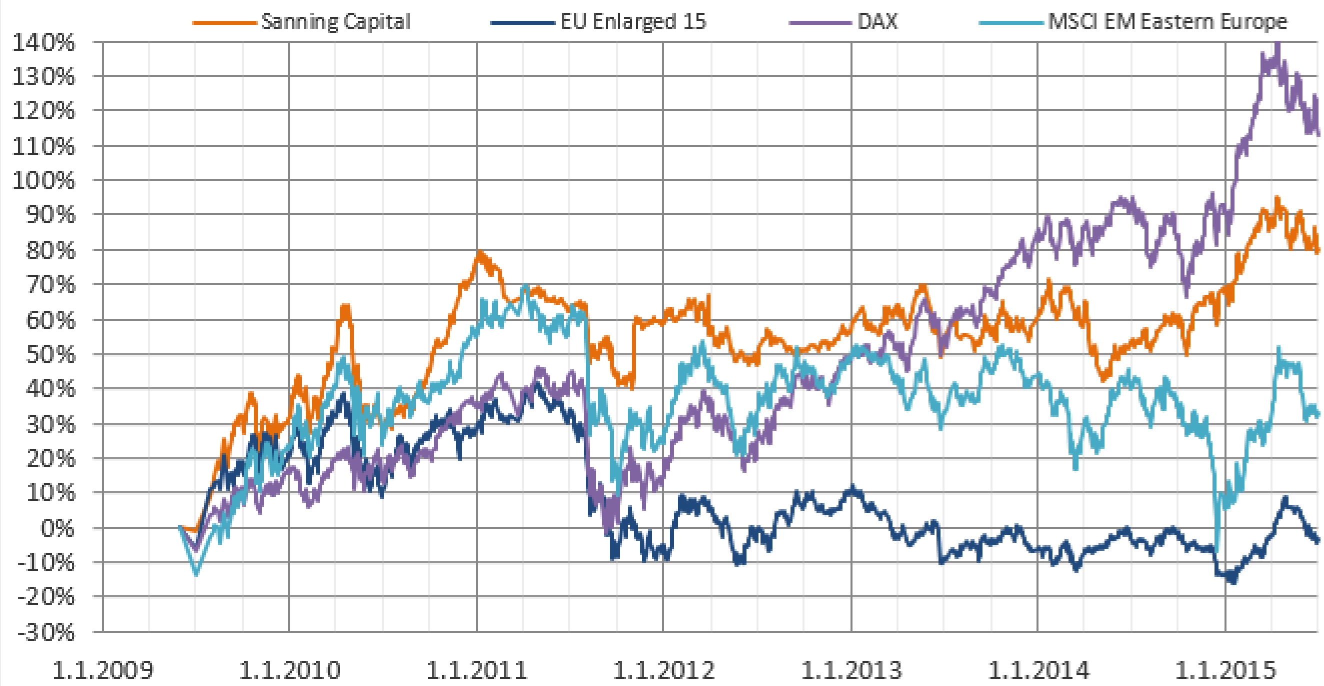
The most logical explanation of this paradoxical situation offered Morgan Stanley. Their research outlined three important points:

1. Foreign investors often currency-hedge their European equity positions. E.g. US based investor going to Europe would buy European shares and sell forward equivalent amount of EUR. In the case of falling equity markets (such as we have seen in Europe in last 3 months), they find themselves to be over-hedged and are forced to reduce short positions in EUR by buying EUR back. This creates upward pressure on EUR.
2. Short term, FX changes are driven also by capital flows. Investors perform so called carry trades: borrowing funds in currency with low interest rates and investing them in currencies with higher rates. Low interest EUR could up until recently be described as a funding currency used to acquire assets overseas and in Emerging markets. This put pressure on EUR. However, higher inflation expectations, Greek crisis and most importantly, increased volatility of bond yields caused flows from carry trades to slow down (less borrowing of EUR, less selling of it in order to purchase other assets, upward pressure on EUR). Since then, EUR/USD became dominated by flows originating from trade of goods and services. In case of Eurozone, a net exporter, this creates more demand for EUR and thus EUR appreciation.
3. Rising risk awareness is directing capital flows from riskier emerging markets to more stable developed markets, incl. Europe. This so called "risk-off" mode causes sell-off in Emerging markets currencies and conversion back to EUR.

We believe the 1st and 2nd reason for EUR appreciation will only be temporary. EUR interest rates are still comparatively favorable and ECB is scheduled to press yields lower by its quantitative easing (QE) till at least September 2016 (it may even reconsider to extend it if Greek default spreads contagion). When these effects are gone and "risk-on" paves its way back to the market, we expect downward correction of EUR.

We also believe that this EUR depreciation will be accompanied by European equity rise as cheaper currency and QE will outweigh recent pessimism regarding Greece.

Fund vs. Indices



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 1 802.73

Performance Fee

20 % HWM

Management Fee

2% p.a.

Cumulative Performance

Period	Sanning[1]	EU Enlarged[2]	MSCI EM EU[2]	DAX	S&P 500	Nasdaq
1 month	-4.0%	-6.6%	-4.3%	-4.1%	-2.1%	-1.6%
3 months	-4.4%	-1.0%	1.3%	-8.5%	-0.2%	1.8%
12 months	18.2%	-1.7%	-5.2%	11.3%	5.2%	13.1%
3 years	22.9%	-2.9%	0.1%	70.6%	51.5%	69.9%
5 years	40.0%	-12.1%	3.7%	83.5%	100.2%	136.4%
Since inception (2.6.2009)	**80.3%**	-3.6%	33.0%	112.8%	118.4%	171.5%

Further Characteristics

Beta relative to:		Volatility [3]	**18.3%**
EU Enlarged 15	**0.28**	Alpha (vs EU15)	**0.11**
DAX	**0.23**	Sharpe ratio	**0.53**

(1) Net off management fees, gross off performance fees

(2) These two indeces presented only to illustrate performance in 2009-2014, when focused on Central Eastern Europe

(3) Annualized standard deviation since inception

SANNING CAPITAL LIMITED is an opportunity fund based on fundamental research focused on investments into publicly traded companies providing global improvements of eifficiency and/or reduction of consumption of energy, capital and time. It is funded by the managers' own capital and several private investors.

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Our address:
Sanning Capital Limited
Opletalova 1417/25
Prague 11000
Czech Republic

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