

**China**

After a weaker end to 2014, China looks set to continue the trend into 2015, bringing into question their 7.5% GDP growth target. The services PMI for China was at its highest level for 3 months at 53.4, well away from the 50 level separating contraction and expansion. However, manufacturing and factory output has been sluggish and whilst the economy is set to move to a more domestic consumption driven model, in the interim, it is not clear what will drive growth.

China's manufacturing PMI has been on a steady downtrend since 2009 as the country suffers from reduced demand from the West and Asia, combined with a strategy that will curb China's dependence on manufacturing as a means of growth. However, the well documented lack of credit and stagnant housing market has been a drag on domestic consumption, with the first bout of monetary easing by the government having a minimal impact.

Whilst another round of easing has been on the cards, China has announced today plans to fast-track 300 infrastructure projects valued at \$1.1 trillion. The projects span a range of industries but focus mainly on energy and health, with financing from all levels of government and some private input. This is a long-term strategy for the country and not one that would accompany plans for monetary easing or an additional rate cut following November's. Whilst there could be a short term compromise in growth, China has been clear in sticking to the plan of steering the economy away from manufacturing, so there is confidence in that.

Yields

The current Chinese 10 year bond yield has fallen since its issuance, at 4.13% coupon; it yields 3.63% this morning. Yields look to continue to fall as China strengthens the economy and infrastructure, inviting investment from service firms to increase domestic earnings and employment. The Yuan has demonstrated a steady rise over 2014, falling following the interest rate cut. However, with investment in the economy, it looks set to be on a long term uptrend.

Chinese bonds continue to hold long term value.

**Chinese Current 10 year bond yield**



source: Bloomberg

INTERNATIONAL BOND COMPARISONS							
			yield (s/a)	yield change on day %	ield change MTD %	return MTD (local CCY)	Duration
UK	2 yr	UKT 4 09/2016	0.42	0.00	-0.03	3.84	1.60
	5 yr	UKT 1.75 07/2019	1.08	-0.05	-0.08	2.07	4.33
	10 yr	UKT 2.75 09/2024	1.67	-0.05	-0.09	3.30	8.48
	30 yr	UKT 3.25 01/44	2.42	-0.05	-0.09	4.62	19.45
US	2 yr	912828F47	0.56	-0.01	-0.01	0.52	1.72
	3yr	912828F54	1.00	-0.01	N/A	N/A	2.74
	5 yr	912828F39	1.54	-0.04	-0.08	2.14	4.54
	10 yr	912828D56	2.03	-0.08	-0.14	3.55	8.59
	30 yr	912810RH3	2.60	-0.09	-0.15	6.00	19.92
Australia	2 yr	EC575249 Corp	2.18	-0.03	0.01	5.61	1.97
	5 yr	EK3821791	2.26	-0.05	-0.00	2.75	4.49
	10 yr	EJ2445694	2.69	-0.11	-0.05	3.21	8.21
Canada	2 yr	EK4387479	0.93	-0.02	-0.03	1.07	1.80
	5 yr	EK1739599	1.26	-0.05	-0.07	2.06	4.45
	10 yr	EJ7362241	1.69	-0.05	-0.10	3.22	8.45
	30 yr	EI7057215	2.24	-0.05	-0.09	4.65	15.22
Japan	2 yr	EK5229738	N/A	N/A	N/A	0.11	1.76
	5 yr	EK4879822	0.01	-0.01	-0.01	0.24	4.69
	10 yr	EK4690054	0.29	-0.01	-0.01	0.56	9.45
	30 yr	EK4826393	1.21	0.00	0.00	1.46	22.25
Germany	2 yr	EK4355757	-0.10	0.01	-0.00	0.00	1.69
	5 yr	EK4585510	0.01	0.01	0.00	0.25	4.73
	10 yr	EK4694379	0.52	0.02	-0.02	1.17	9.18
	30 yr	EK0809500	1.32	-0.01	-0.07	3.52	23.26
France	2yr	EK1774786	-0.05	0.01	-0.01	0.26	1.88
	5yr	EK3340909	0.15	0.01	-0.02	0.60	4.83
	10yr	EK3074136	0.80	0.03	-0.02	1.81	9.18
	30yr	EJ6098374	1.85	0.01	-0.04	3.37	21.07
Netherlands	1 yr	EJ4989046	-0.06	0.00	-0.01	0.01	1.27
	5 yr	EK4197019	0.08	0.00	-0.01	0.31	4.99
	10 yr	EK1418137	0.63	0.01	-0.04	2.16	8.74
	30 yr	EK0414632	1.38	-0.01	-0.08	3.96	23.01
Austria	2 yr	EF3754068	-0.06	0.01	0.01	3.76	1.65
	5 yr	EJ2583262	0.05	0.01	-0.01	1.87	4.26
	10 yr	EK3001824	0.67	0.01	-0.04	1.87	9.12
	25 yr	EG1036748	1.28	-0.00	-0.07	3.84	16.18
Switzerland	2 yr	EC394599 Corp	-0.33	-0.01	-0.01	1.96	1.74
	5 yr	ED4438336	-0.15	-0.01	-0.01	2.71	4.08
	10 yr	EJ1752710	0.22	-0.09	-0.09	1.98	8.92
	20yr	SWISS 2.5 3/36	0.51	-0.11	-0.11	4.04	14.51
Sweden	2 yr	EF0868820	0.01	-0.00	-0.00	2.91	1.48
	5 yr	EH0398089	0.10	-0.02	-0.02	3.73	3.83
	10 yr	EK0417692	0.89	-0.02	-0.02	2.42	9.21
	26 yr	EH7669102	0.89	-0.02	-0.02	2.42	17.65
Denmark	2 yr	EI5589029	-0.05	0.00	-0.00	2.41	1.83
	5 yr	EH6950768	0.11	0.02	0.01	3.35	4.52
	10 yr	EK2541788	0.81	0.02	-0.03	1.92	10.01
	26 yr	EH6131138	1.28	-0.00	-0.07	4.04	17.72
Spain	2 yr	EI7927748	0.38	0.03	-0.00	4.02	1.77
	5 yr	EH8448167	0.76	0.09	-0.02	3.82	4.45
	10 yr	EK3289700	1.60	0.11	0.01	2.47	8.76
	28 yr	ED7737726	2.67	0.08	0.02	3.08	15.22
Italy	2 yr	EJ6263705	0.38	0.03	-0.07	2.31	1.34
	5 yr	EK3526614	0.87	0.10	-0.05	1.72	4.40
	10 yr	EK0933524	1.82	0.11	-0.03	3.50	8.23
	30 yr	EJ6794667	3.13	0.00	-0.09	4.55	16.11
New Zealand	2 yr	EC935138	3.51	0.00	0.01	6.05	0.27
	5 yr	EJ6281665	3.55	-0.04	-0.06	3.42	4.87
	10 yr	EI7035203	3.61	-0.04	-0.06	5.33	6.79

		sell			
buy	10yr				
	GLOBAL	UK	US	Japan	Euro
	UK				
	US	15	-36	138	115
	Japan	#VALUE!	#VALUE!	174	151
Euro	-52	-67		#VALUE!	
		sell			
10yr	DOLLAR	US	Australia	Canada	NZ
US			-66	34	-158
Australia		66		-100	-92
Canada		-34	-100		-192
NZ		295	133	258	

EUROPE	Spread to Germany	
	2 yr	10 yr
Belgium	0	-11
Denmark	5	29
France	5	29
Switzerland	-23	-30
Austria	5	15
Italy	49	130
Netherlands	4	12
Spain	48	109
Sweden	11	38

The information used here is obtained from sources that we consider to be reliable but its accuracy and completeness cannot be guaranteed. The opinions and conclusions contained are those of King & Shaxson Limited. ("K&S"), and are subject to change without notice. No responsibility is taken for any losses, including any consequential loss, which may be incurred by acting upon such recommendations or information.

Whilst all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts opinions and expectations contained herein are fair and reasonable, neither the author nor K&S has verified the information contained herein and accordingly none of the author, K&S nor any of their respective directors, officers or employees makes any representation or warranty, express or implied as to the accuracy or completeness of the information or opinions contained herein and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Nothing in this paragraph shall exclude liability for any representations or warranties made fraudulently. The material does not attempt to describe all the economic, political, competitive and other factors that underlie any estimates, forecasts, or opinions, or potential changes that could affect the assumptions on which these estimates, forecasts and opinions are based. K&S makes no representation that the information is current. In particular, but without limiting the preceding sentence, statements of fact or opinion regarding securities, investments, financial products, companies, markets, territories or particular circumstances may not be up-to-date or may not represent the current opinion of K&S.

Any opinions, forecasts or estimates herein constitute a judgment as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. This information is subject to change without notice. It may be incomplete or condensed and it may not contain all material information concerning the Company.

This document does not constitute or form part of and should not be construed as any offer for sale or purchase of (or solicitation of or invitation to make any offer to buy or sell) any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

The information contained in this transmission is legally privileged and confidential information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient you are hereby notified that any dissemination, distribution or copy of this facsimile or any parts of it is strictly prohibited. If you have received this facsimile in error, please notify us immediately by telephone +44 (0)20 7426 5950 and speak to Compliance).

King & Shaxson Limited Reg. No. 869780, member of the London Stock Exchange, King & Shaxson Capital Limited Reg. No. 2863591 and King & Shaxson Asset Management Limited Reg. No. 3870667. The Registered Office for all companies is 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS. All companies are registered in England and are part of the PhillipCapital Group.

King & Shaxson Capital Limited (FSA Reg. No. 169760), King & Shaxson Limited (FSA Reg. No. 179213), and King & Shaxson Asset Management Limited (FSA Reg. No. 193698) are Authorised and Regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.