

Monthly Market Snapshot

JULY 2017

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets

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Key insights

In July, Australian equities remained relatively unchanged and flat. International equity market performance was positive, and this was led by China and US. Rising global bond yields suggest that central banks are edging away from accommodative monetary conditions. However, the lack of significant inflation pressures suggest a gradual approach to tightening.

Various leading indicators continue to suggest stronger growth in the US. US inflation edged marginally higher, but is still undershooting the Federal Reserve's (Fed) targets which has led the Fed to be cautious about raising rates again this year. Expectations for fiscal stimulus which appears to be waning, continues to weigh on the US economic outlook, particularly with the Congressional Republicans' struggle with tax reforms following the collapse of the healthcare bill in the Senate in early July.

Recovery in the Eurozone continues to come through positive momentum in economic sentiment. There was a robust 0.6% increase in GDP over the first quarter. However, headline inflation continues to remain well below its 2.0% target, reflecting that strong growth has yet to feed through to consumer prices. The European Central Bank (ECB) has kept rates on hold but is expected to announce its plans in September to gradually wind-down its bond-buying program over the next year. This has fuelled tapering speculations which triggered a sell-off in the bond markets in recent months.

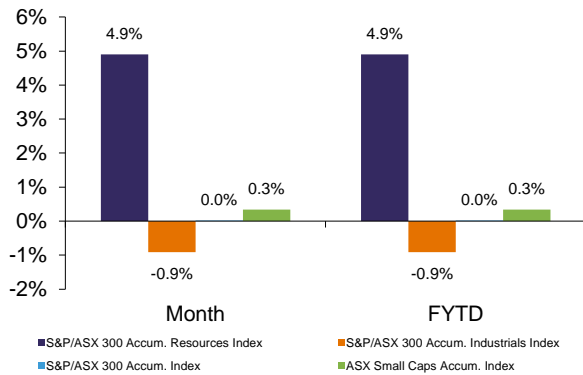
The UK economy showed the lowest annual GDP growth rate of 1.7%, easing from 2.0% in the previous quarter. The Bank of England (BoE) has left its rates unchanged in order to constrain demand for consumer spending and reduce the budget deficit. UK inflation also fell for the first time in nine months.

GDP growth in the Chinese economy has improved slightly from 6.8% y/y to 6.9% y/y exceeding the 2017 growth target of 6.5%. This is largely driven by increased spending on infrastructure and property constructions. The high level of debt still presents a medium-term risk in its economy, and the government continues to put more emphasis on implementing economic reforms along with its shift towards tightening which appears to have filtered through to the property market, which has recently corrected.

Domestically, the Reserve Bank of Australia (RBA) has left the cash rate unchanged at 1.5% on the back of improving global conditions and stronger growth in China. The RBA is concerned that the recent appreciation of the AUD could dampen economic growth and inflation, which decreased in June quarter. There continues to be a divergence between business and consumer sentiment which casts concerns over the near term outlook. Improving business conditions and capacity utilisation have encouraged rising corporate profits, particularly in the mining sector. However, wage growth continues to be muted despite stronger employment growth and high levels of debt suggest that the recent boost from higher commodity prices is not being passed through to the household sector.



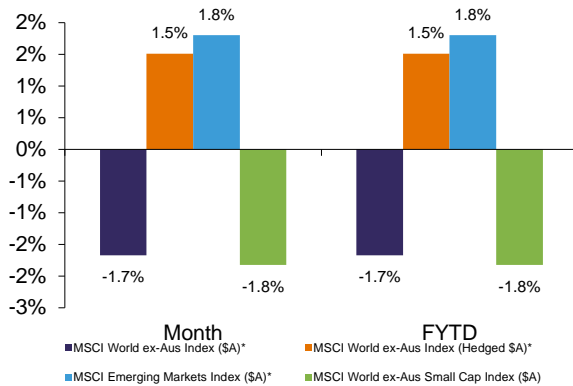
Australian equities



Australian equities were flat again in July, while the Resources sector rose by 4.9%.



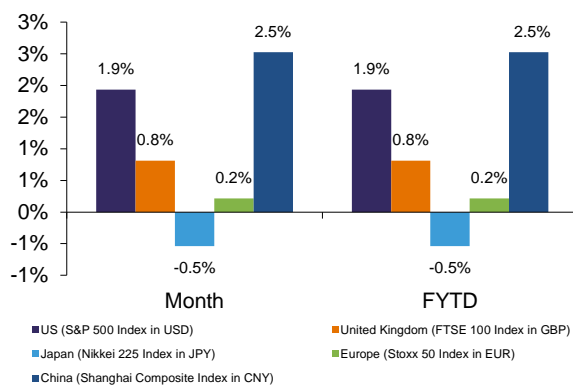
International equities (\$A)



MSCI Emerging Markets led the international equities sector with an increase by 1.8% during July followed by hedged MSCI World Index which rose by 1.5%. The unhedged MSCI World index fell by 1.7%, as the Australian dollar strengthened over the month.



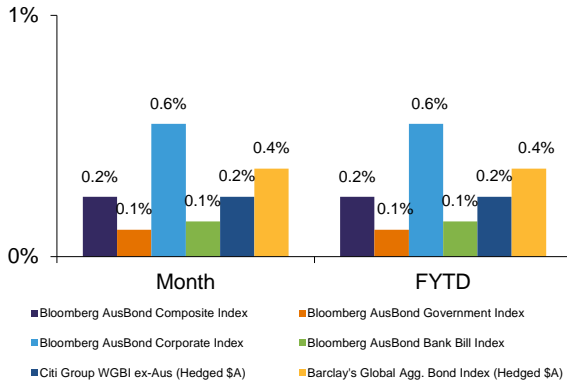
International equities (local currencies)



International equity markets' performance was led by China and US. Overall, major overseas equity markets gained over the month, with the exception of Japan which declined by 0.5%.



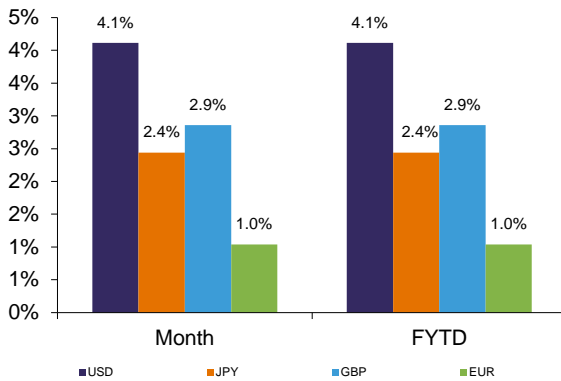
Fixed income



Both Australian and global bonds rose by 0.2% and 0.4%, respectively.



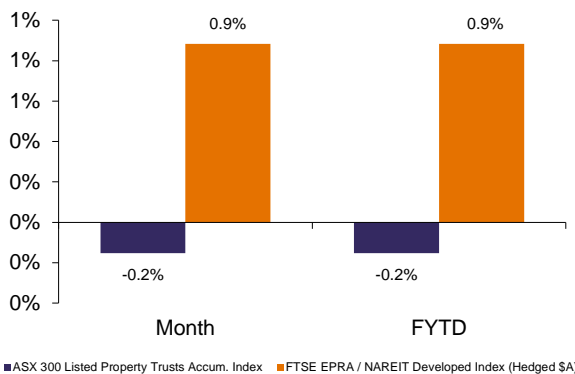
Australian dollar against major currencies



The Australian dollar (AUD) appreciated against all major foreign currencies in July, particularly against the USD where it increased by 4.1%.











Property



In July, Australian listed property declined by 0.2%, while hedged Global listed property increased by 0.9%.

July

	Index value	Month	3 months	FYTD	1 year	
Australian Equities						
	S&P/ASX 300 Accum. Index	55,001	0.0%	-2.5%	0.0%	7.0%
	S&P/ASX 300 Accum. Industrials Index	112,827	-0.9%	-3.7%	-0.9%	4.9%
	S&P/ASX 300 Accum. Resources Index	20,342	4.9%	3.8%	4.9%	19.7%
	ASX Small Caps Accum. Index	6,574	0.3%	0.2%	0.3%	-1.1%
International Equities						
	MSCI World ex-Aus Index (\$A)*	7,734	-1.7%	-1.6%	-1.7%	10.6%
	MSCI World ex-Aus Index (Hedged \$A)*	1,511	1.5%	3.4%	1.5%	17.5%
	MSCI Emerging Markets Index (\$A)*	597	1.8%	3.2%	1.8%	18.9%
	MSCI World ex-Aus Small Cap Index (\$A)	489	-1.8%	-2.6%	-1.8%	10.2%
	US (S&P 500 Index in USD)	2,470	1.9%	3.6%	1.9%	13.7%
	United Kingdom (FTSE 100 Index in GBP)	7,372	0.8%	2.3%	0.8%	9.6%
	Japan (Nikkei 225 Index in JPY)	19,925	-0.5%	3.8%	-0.5%	20.3%
	Europe (Stoxx 50 Index in EUR)	3,449	0.2%	-3.1%	0.2%	15.3%
	China (Shanghai Composite Index in CNY)	3,273	2.5%	3.8%	2.5%	9.9%
AUD Versus...						
	USD	0.80	4.1%	6.9%	4.1%	5.3%
	JPY	88.26	2.4%	6.2%	2.4%	13.2%
	GBP	0.61	2.9%	1.0%	2.9%	6.6%
	EUR	0.68	1.0%	-1.2%	1.0%	0.1%
Property						
	ASX 300 Listed Property Trusts Accum. Index	42,685	-0.2%	-5.6%	-0.2%	-10.6%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	2,457	0.9%	1.9%	0.9%	-1.7%
Oil and Commodities						
	Crude Oil (\$/bbl)	50	9.0%	1.7%	9.0%	20.6%
	Copper Spot (\$/tonne)	6,336	6.9%	11.0%	6.9%	28.9%
	Gold Spot (\$/ounce)	1,273	1.9%	-0.4%	1.9%	-7.5%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	9,032	0.2%	0.5%	0.2%	-0.2%
	Bloomberg AusBond Government Index	9,361	0.1%	0.3%	0.1%	-1.6%
	Bloomberg AusBond Corporate Index	9,327	0.6%	1.0%	0.6%	2.8%
	Bloomberg AusBond Bank Bill Index	8,626	0.1%	0.4%	0.1%	1.8%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,254	0.2%	0.5%	0.2%	-1.3%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.4%	0.8%	0.4%	0.1%
Fixed Income (Yields) as at ...						
		31-Jul-17	30-Jun-17	30-Apr-17	30-Jun-17	31-Jul-16
	Australia Bank Bill	1.69	1.71	1.75	1.71	1.87
	Australia 10 Year Government Bond	2.68	2.60	2.58	2.60	1.87
	US 10 Year Government Bond	2.29	2.30	2.28	2.30	1.45
	UK 10 Year Government Bond	1.23	1.26	1.09	1.26	0.69
	Germany 10 Year Government Bond	0.54	0.47	0.32	0.47	-0.12
	Japan 10 Year Government Bond	0.08	0.09	0.02	-0.19	-0.19

* Net dividends reinvested

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