

Monthly Market Snapshot

JUNE 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 June, Australian equities were flat. International equity markets' performance was mixed, with UK and Europe down by 3%, while Japan and China were up by 2%, and US equities were relatively flat. Global bond yields, which move inversely to price, have increased marginally over the month.

Government bond yields across the developed markets had been declining since March this year from the heightened level where the yields reached late last year. However, the US Federal Reserve raised its policy rate to 1-1.25% range during its June meeting, and, in a similar vein, both US and European central banks sent a hawkish message to the markets by the end of the month. The central banks reaffirmed their stance to a gradual shift to a reflationary phase by tightening monetary policy and to reducing their balance sheet in the aftermath of a prolonged program of Quantitative Easing. Markets reacted quickly, with 10-year government bond yields up.

Why are the central banks doing this? The outlook for the global economy continues to remain positive. In the US, the outlook for the labour market continues to improve, and business conditions and confidence are improving. In Europe and Japan, although core measures of inflation remain underwhelming, economic data releases have generally been stronger than expected, e.g. positive Manufacturing and Services PMI survey result, particularly robust in Europe, and growing business confidence in both regions. The exception to this trend is that political uncertainty around Brexit continues to cloud the outlook for the UK economy over the medium term.

Australian economic growth has been patchy over the past year. After posting a weak GDP growth figure during the first quarter of 2017, the trade surplus widened thanks to a strong recovery in resources exports and the negative impact of Cyclone Debbie abated. Labour market conditions have improved recently (unemployment rate down to 5.5%), but underemployment remains high (8.8%) and wage growth has been subdued.

Consensus forecasts for 2017 GDP growth have been lowered recently, but it is expected to improve going into 2018. The Reserve Bank of Australia left the cash rate unchanged at 1.5% during the recent meeting, and the policy rate is expected to be on hold until 2018 with concerns over low inflation and increasing household debt at the same time.

The economic activity in China remains constructive, showing a continued expansionary Manufacturing and Services PMI survey result. However, continued reform efforts, such as tightening of credit conditions and waning fiscal stimulus by authorities, suggest growth may slow.

As a recap of the 2017 financial year, despite the variety of political events and geopolitical tensions across the world and some of the unexpected outcomes (e.g. Brexit and the US presidential election outcome), equities markets globally have shown strong performance over the year thanks to strong corporate earnings and the synchronised global economic growth. Both developed and emerging equity markets gained over 20% (in local currency terms) during the financial year, while Australian equities rose by less, with Telecom, Energy, and Financials being the biggest detractors.

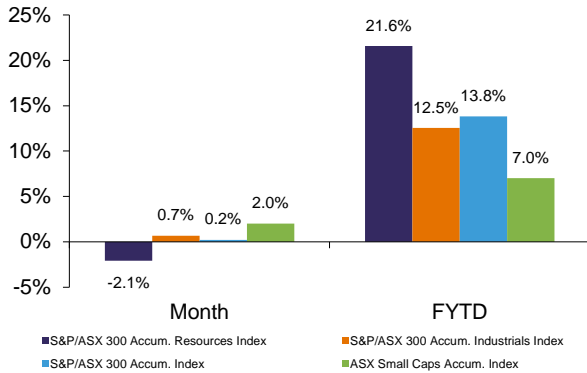
Long-term (10-year) government bond yields rose across the world over the year, with US yields up particularly strongly by 0.8%, and Australian and German yields were up 0.6%, suggesting we are at an inflection point that central banks' accommodative monetary policies are fading.

Australian dollar appreciated against the Japanese Yen, Sterling, and the US dollar by 13%, 7%, and 3%, respectively, while the value of the local currency has not moved much against Euro.

Finally, Australian Listed Property (A-REITs) had a plunge of -4.5% in June, finishing the year down -5.6%.



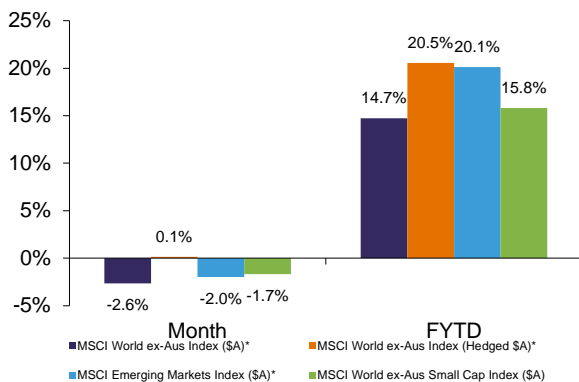
Australian equities



Australian equities were flat in June, while the Resources sector fell by 2.1%.



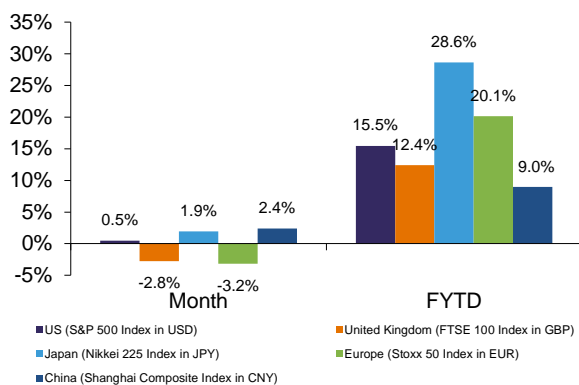
International equities (\$A)



The hedged MSCI World Index did not move in June, while the unhedged index fell by 2.6%, as the Australian dollar strengthened over the month. Emerging market equities fell by 2% in Australian terms.



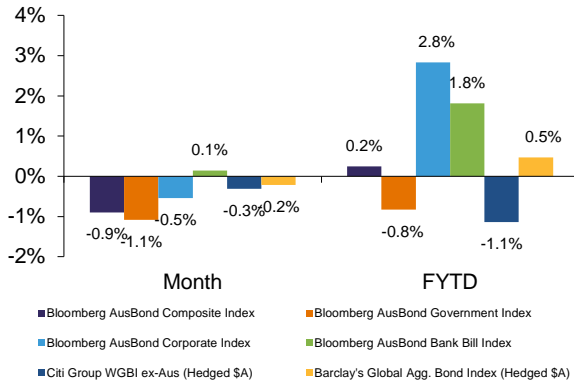
International equities (local currencies)



Major overseas equity markets' performance was mixed in June, with Japan and Chinese equities up by 1.9% and 2.4%, respectively, while UK and Europe were down by 2.8% and 3.2%, respectively.



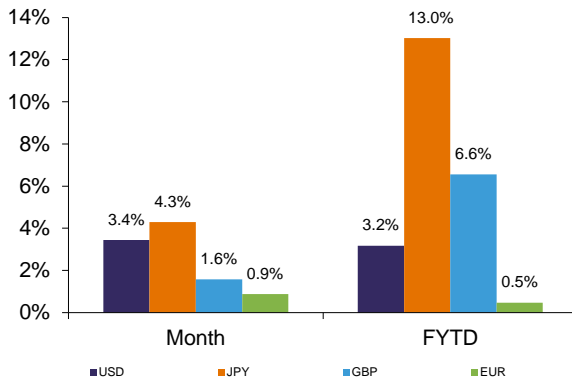
Fixed income



Both Australian and global bonds declined by 0.9% and 0.2%, respectively.



Australian dollar against major currencies

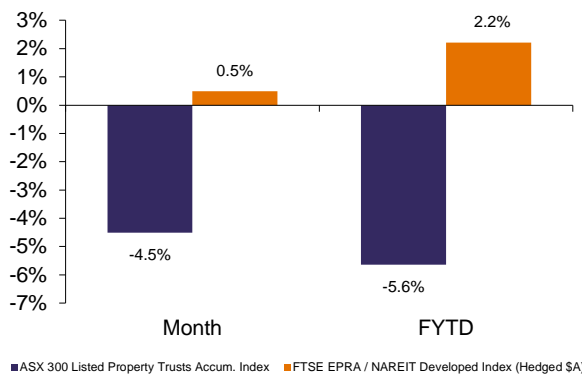


The Australian dollar (AUD) appreciated against all major foreign currencies in June, particularly against the Japanese Yen where it increased by 4.3%.

For the financial year to date, the AUD has recorded gains against JPY, GBP, and USD, although it is relatively flat against the EUR.











Property



In June, Australian listed property declined by 4.5%, while hedged Global listed property increased by 0.5%.

June

	Index value	Month	3 months	FYTD	1 year	
Australian Equities						
	S&P/ASX 300 Accum. Index	54,993	0.2%	-1.6%	13.8%	13.8%
	S&P/ASX 300 Accum. Industrials Index	113,862	0.7%	-1.4%	12.5%	12.5%
	S&P/ASX 300 Accum. Resources Index	19,392	-2.1%	-2.6%	21.6%	21.6%
	ASX Small Caps Accum. Index	6,552	2.0%	-0.3%	7.0%	7.0%
International Equities						
	MSCI World ex-Aus Index (\$A)*	7,865	-2.6%	3.6%	14.7%	14.7%
	MSCI World ex-Aus Index (Hedged \$A)*	1,489	0.1%	3.2%	20.5%	20.5%
	MSCI Emerging Markets Index (\$A)*	586	-2.0%	5.7%	20.1%	20.1%
	MSCI World ex-Aus Small Cap Index (\$A)	498	-1.7%	3.3%	15.8%	15.8%
	US (S&P 500 Index in USD)	2,423	0.5%	2.6%	15.5%	15.5%
	United Kingdom (FTSE 100 Index in GBP)	7,313	-2.8%	-0.1%	12.4%	12.4%
	Japan (Nikkei 225 Index in JPY)	20,033	1.9%	5.9%	28.6%	28.6%
	Europe (Stoxx 50 Index in EUR)	3,442	-3.2%	-1.7%	20.1%	20.1%
	China (Shanghai Composite Index in CNY)	3,192	2.4%	-0.9%	9.0%	9.0%
AUD Versus...						
	USD	0.77	3.4%	0.8%	3.2%	3.2%
	JPY	86.16	4.3%	0.6%	13.0%	13.0%
	GBP	0.59	1.6%	1.0%	6.6%	6.6%
	EUR	0.67	0.9%	-6.0%	0.5%	0.5%
Property						
	ASX 300 Listed Property Trusts Accum. Index	42,751	-4.5%	-3.1%	-5.6%	-5.6%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	2,435	0.5%	2.1%	2.2%	2.2%
Oil and Commodities						
	Crude Oil (\$/bbl)	46	-4.7%	-9.0%	-4.7%	-4.7%
	Copper Spot (\$/tonne)	5,927	4.8%	1.9%	22.5%	22.5%
	Gold Spot (\$/ounce)	1,242	-2.6%	-1.0%	-7.0%	-7.1%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	9,009	-0.9%	1.0%	0.2%	0.2%
	Bloomberg AusBond Government Index	9,351	-1.1%	1.1%	-0.8%	-0.8%
	Bloomberg AusBond Corporate Index	9,276	-0.5%	1.1%	2.8%	2.8%
	Bloomberg AusBond Bank Bill Index	8,614	0.1%	0.4%	1.8%	1.8%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,249	-0.3%	1.0%	-1.1%	-1.1%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.2%	1.2%	0.5%	0.5%
Fixed Income (Yields) as at ...						
		30-Jun-17	31-May-17	31-Mar-17	30-Jun-16	30-Jun-16
	Australia Bank Bill	1.71	1.73	1.79	1.94	1.94
	Australia 10 Year Government Bond	2.60	2.39	2.70	1.98	1.98
	US 10 Year Government Bond	2.30	2.20	2.39	1.47	1.47
	UK 10 Year Government Bond	1.26	1.05	1.14	0.87	0.87
	Germany 10 Year Government Bond	0.47	0.30	0.33	-0.13	-0.13
	Japan 10 Year Government Bond	0.09	0.05	0.07	-0.22	-0.22

* Net dividends reinvested

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