Monthly Market Snapshot

MARCH 2016

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

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Key insights

Global markets recovered in March from the trough in mid-February. Similarly to previous several months, the actions of central banks and the swing in oil prices have been driving the global financial markets.

In the US, the Federal Open Market Committee (FOMC) held its second meeting this year on 15-16 March. As largely expected, the FOMC "decided to maintain the target range for the federal funds rate unchanged at ¼ to ½ percent". The meeting minutes showed that the FOMC had a slightly more positive view on the overall US economy, stating that "it is expanding at a moderate pace" rather than "slowing down" in the December quarter last year. However, the Committee also recognised that "the global economic and financial developments continue to pose risks". This was one of the key reasons for the delaying in the pace of US interest rate normalisation. Following the FOMC March meeting, the Fed's "Dot Plot", which summarises FOMC voting members' expectation for future interest rates, only suggests two interest rate hikes in 2016.

Oil price rose by 14% in March. The recovery in oil price and the dovish stance by the Fed provided a boost to US equities, which went up by 6.6% in March. Over the March quarter, US equities were flat, and US 10-year bond yield fell by 0.5% due to lower future interest rate expectations.

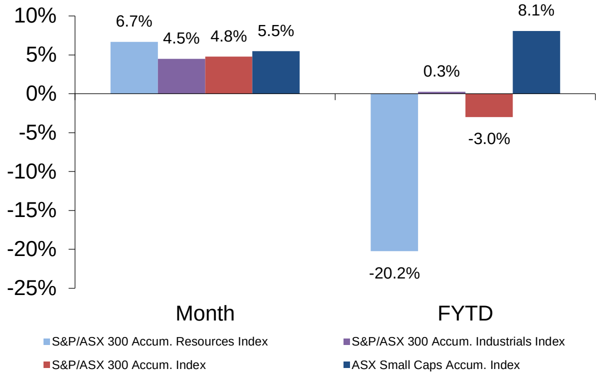
In Europe, the European Central Bank (ECB) also held its policy meeting in March and announced another round of policy easing measures to address the region's economic challenges. Specifically, the ECB dropped the main refinancing rate and marginal lending rate by 0.05% (to 0.0% and 0.25%, respectively), and lowered the negative deposit rate by another 0.1% to -0.4%. The ECB also expanded its Monthly Asset Purchase Program (APP) from €60 billion to €80 billion per month, and added investment grade corporate bonds to the monthly APP. In addition, the ECB will conduct the second round of Targeted Long-Term Refinancing Operations (TLTRO II), which are essentially special loans (with negative rates) offered to European banks to encourage them to lend to the real economy.

The ECB's new policy was a dovish surprise to the market, and showed that the ECB is committed to doing "whatever it takes" to support the Eurozone economic recovery. As part of the policy announcement, the ECB also provided guidance on future interest rates, which will "remain at present or lower levels for an extended period of time, well past the horizon of the asset purchase program". The more aggressive easing measures are broadly supportive for growth assets (equity and credit), and European stocks did recover by 2% from the sell-off in the first two months of the year.

At the time of writing, the Chinese first quarter GDP came out at 6.7% YoY, same as the market consensus and well within the target growth range of 6.5% to 7% set up by the Chinese government early this year. The latest GDP update seems to suggest that China is broadly stabilising following a few policy missteps and financial market volatility in the second half of last year. The latest PMI and trade data in China all beat market expectations.

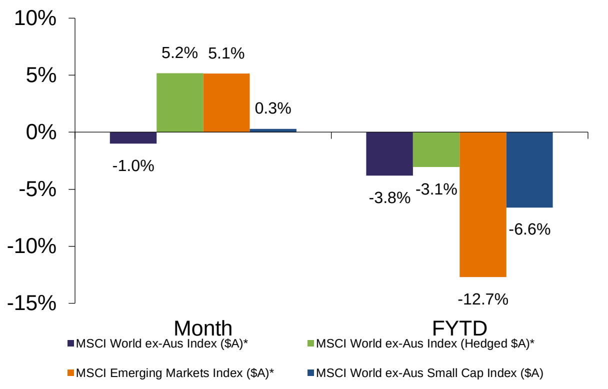
Locally, the RBA continued to keep its cash rate at 2% (unchanged since May 2015), as widely expected. The RBA recognised the appreciation of the Australian dollar recently, and left the door open to future easing, as low inflation provides "scope for easier policy if appropriate".

Australian equities



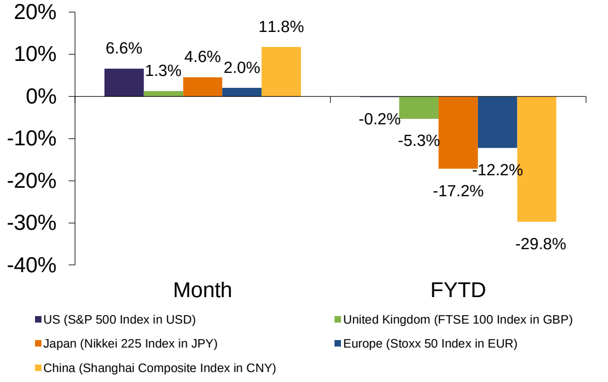
Australian equities recovered in March, finishing the month up by 6.7%. All sectors delivered positive returns following the sell-off in the first two months of 2016.

International equities ($A)



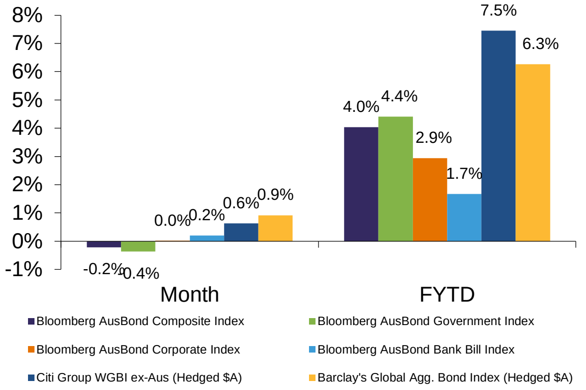
Developed market and emerging market equities both went up by around 5% in March. Hedged developed market equities underperformed their unhedged counterpart as the Australian dollar strengthened over the month.

International equities (local currencies)



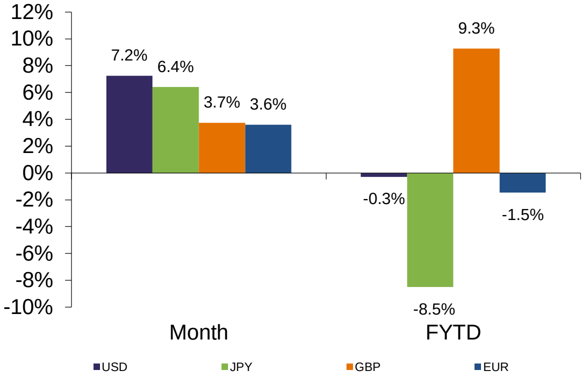
All major equity markets globally had a positive month. The Chinese equity market was the stand-out last month, rising by 12%. However, this was not enough to recover the loss in Chinese equities from last year. For the financial year to date, Chinese equities were still down by 30%.

Fixed income



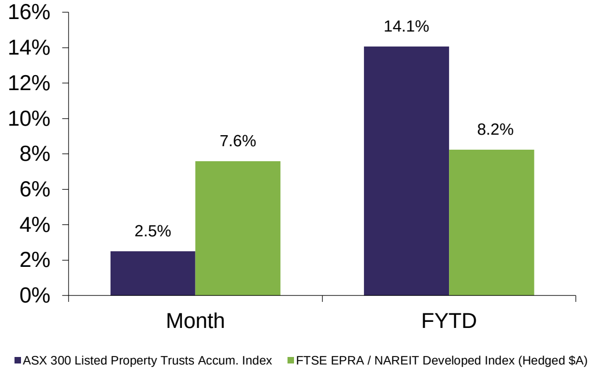
Australian Bond yields were largely unchanged in March. Global bond yields fell slightly due to lower interest rate expectations. This resulted in a positive return from global bonds.

Australian dollar against major currencies



The Australian dollar (AUD) appreciated against all major foreign currencies over the month, likely driven by the recovery in energy and commodity prices.

Property



Global listed property had a superb month, rising by 7.6%. Australian property also delivered a positive return of 2.5% in March.

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	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	46,466	4.8%	-2.6%	-3.0%	-9.3%
S&P/ASX 300 Accum. Industrials Index	98,460	4.5%	-3.6%	0.3%	-6.5%
S&P/ASX 300 Accum. Resources Index	14,235	6.7%	4.4%	-20.2%	-24.0%
ASX Small Caps Accum. Index	5,784	5.5%	1.0%	8.1%	3.7%
International equities					
MSCI World ex-Aus Index ($A)*	6,569	-1.0%	-5.8%	-3.8%	-3.9%
MSCI World ex-Aus Index (Hedged $A)*	1,215	5.2%	-1.8%	-3.1%	-3.1%
MSCI Emerging Markets Index ($A)*	469	5.1%	0.0%	-12.7%	-12.6%
MSCI World ex-Aus Small Cap Index ($A)	412	0.3%	-5.3%	-6.6%	-6.1%
US (S&P 500 Index in USD)	2,060	6.6%	0.8%	-0.2%	-0.4%
United Kingdom (FTSE 100 Index in GBP)	6,175	1.3%	-1.1%	-5.3%	-8.8%
Japan (Nikkei 225 Index in JPY)	16,759	4.6%	-12.0%	-17.2%	-12.7%
Europe (Stoxx 50 Index in EUR)	3,005	2.0%	-8.0%	-12.2%	-18.7%
China (Shanghai Composite Index in CNY)	3,004	11.8%	-15.1%	-29.8%	-19.9%
AUD versus ...					
USD	0.77	7.2%	4.8%	-0.3%	0.3%
JPY	85.93	6.4%	-2.3%	-8.5%	-6.3%
GBP	0.53	3.7%	8.3%	9.3%	3.4%
EUR	0.68	3.6%	1.2%	-1.5%	-4.3%
Property					
ASX 300 Listed Property Trusts Accum. Index	41,478	2.5%	6.4%	14.1%	11.4%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,297	7.6%	3.3%	8.2%	0.7%
Oil and Commodities					
Crude Oil ($/bbl)	38	13.6%	3.5%	-35.5%	-19.5%
Copper Spot ($/tonne)	4,881	3.7%	3.7%	-15.2%	-19.5%
Gold Spot ($/ounce)	1,236	0.0%	16.4%	4.9%	4.0%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,736	-0.2%	2.1%	4.0%	2.0%
Bloomberg AusBond Government Index	9,125	-0.4%	2.3%	4.4%	1.6%
Bloomberg AusBond Corporate Index	8,814	0.0%	1.4%	2.9%	2.2%
Bloomberg AusBond Bank Bill Index	8,413	0.2%	0.6%	1.7%	2.2%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	0.6%	4.3%	7.5%	5.1%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.9%	3.7%	6.3%	4.5%

Fixed income (yields) as at ...	31-Mar-16	29-Feb-16	31-Dec-15	30-Jun-15	31-Mar-15
Australia Bank Bill	2.27	2.28	2.33	2.13	2.23
Australia 10 Year Government Bond	2.49	2.40	2.88	3.01	2.32
US 10 Year Government Bond	1.77	1.73	2.27	2.35	1.92
UK 10 Year Government Bond	1.42	1.34	1.96	2.02	1.58
Germany 10 Year Government Bond	0.15	0.11	0.63	0.76	0.18
Japan 10 Year Government Bond	-0.03	-0.06	0.27	0.47	0.41

* Net dividends reinvested

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