

Monthly Market Snapshot

NOVEMBER 2016

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

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Key insights

Equity markets recovered in November from its trough towards the end of October. Bond yields continued to rise; the US and Australia 10 year yield rose to 2.4% and 2.8% respectively.

Within the US, Donald Trump was elected as the next president of the United States and will be inaugurated on the 20th January 2016. Equity markets fell momentarily before reversing its losses and posting gains. Bond yields rose by an approximate of 20 bps post the election results. The Federal Reserve left its target range for its federal funds rate unchanged at 0.25% to 0.5% during its November 2016 meeting. The committee continued to support the case for a rate hike on the back of strengthening labour market and economic activity. US Manufacturing PMI index that rose to a 12 month high of 53.2; indicating a sustained expansion in the manufacturing sector with strong demand. A stronger dollar also supports domestic growth, providing optimism for the US economy.

Within Japan, the Yen depreciated against the US dollar and the yield on ten-year government bonds (JGBs) turned positive. Exports recovered and grew by 2% but weak domestic demand raises uncertainty on economic recovery and more so, potentially derailing the promise of the central bank's target to achieve its 2% inflation rate.

The European Central Bank (ECB) has extended its asset purchase program to the end of 2017 albeit at a slower pace of €60 billion (bn) with the discretion to increase the pace should the economic climate warrant it. However, political contagion risks of "populism" globally is priced into the market with the recent Italian referendum and upcoming French and German elections which influences the spreads between the European peripheral (Spain, Portugal, Italy and Greece) and German 10 year bonds.

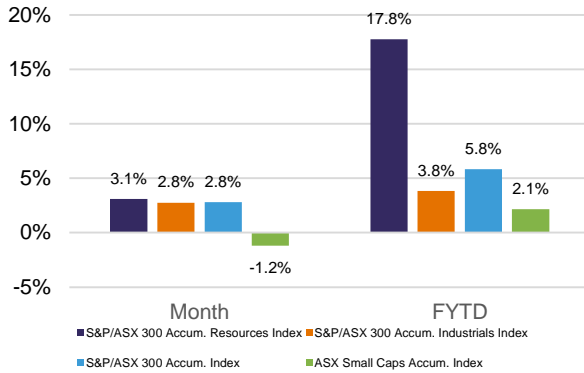
UK manufacturing sector detracted in November driven by a continued weakening of the pound, pushing input costs up. Although still within expansionary levels, higher costs add inflationary pressures. Within the month, the Bank of England (BOE) confirmed that interest rates will remain at 0.25% and raised its inflation forecast to 2.7% in 2017, compared with the current rate of 0.9%.

China's economy grew 6.7% as at the end of September and is within the government's target range of between 6.5 and 7% for 2016. This is a relatively high target that suggests the Chinese government will continue to support its economy. In November, manufacturing in China is the strongest since mid-2014; denoting expansionary levels as large, state-owned enterprise (SOE) benefitted the government stimulus and economic recovery. Concerns on considerably high corporate debt particularly within the SOE sector was recently addressed by introducing policies to allow firms to swap debt for equity.

Domestically, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5% consistent with sustainable growth in the economy and achieving the inflation target over time. The RBA in its latest monthly statement acknowledged that weakening mining investment is balanced by growth in other sectors such as exports, driven by the rebound of commodity prices.



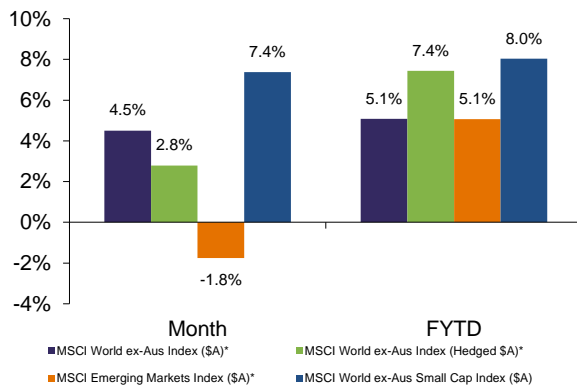
Australian equities



Australian equities rose in November, finishing the month up by 2.8%. The Resources sector performed strongly, delivering 3.1% in November.



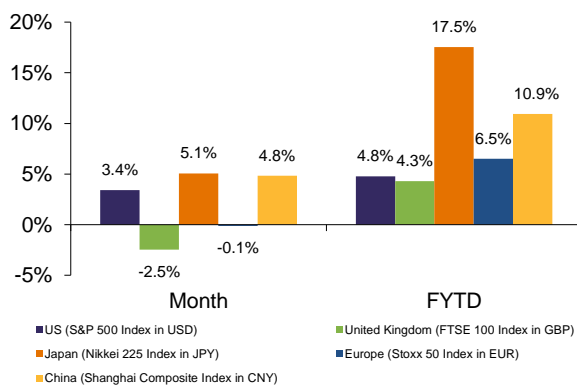
International equities (\$A)



The hedged MCSI World Index gained 2.8% in November, while unhedged developed market equities gained 4.5%, as the Australian dollar weakened over the month. Emerging market equities fell by 1.8% in Australian dollar terms.



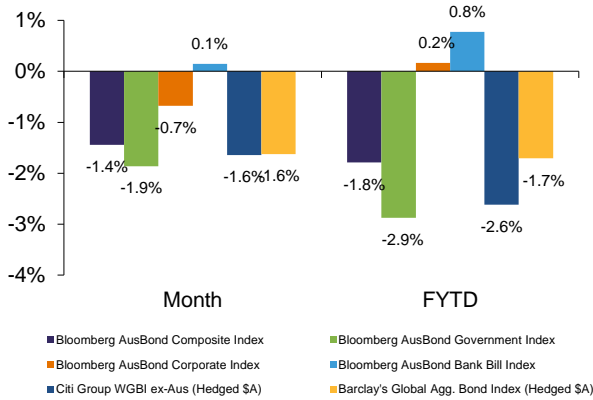
International equities (local currencies)



Major equity markets gained over the month, with the exception of the UK which fell by 2.5% and Europe by 0.1%. All major markets have posted positive returns for the current financial year to date.



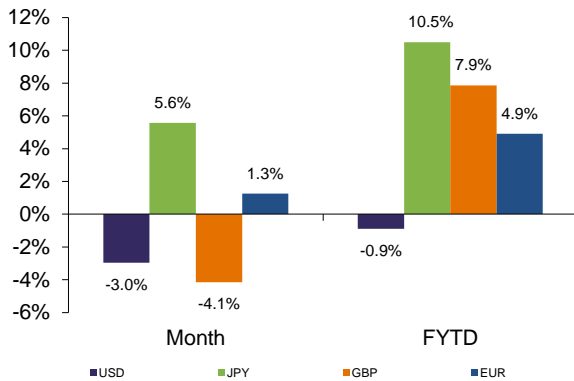
Fixed income



Bond yields rose globally in reaction to the Trump presidency in November. This resulted in a selloff in bonds posting negative returns; -1.4% domestically and -1.6% (hedged to Australian dollar) globally.



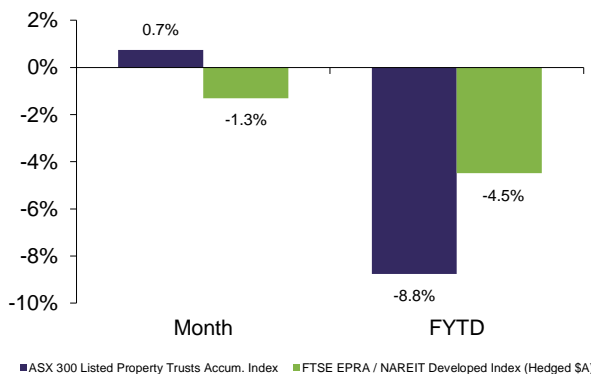
Australian dollar against major currencies



In November, the Australian dollar has appreciated against Japanese Yen and the Euro dollar but depreciated against the US dollar and British pound. For the financial year to date, the AUD recorded gains against all major currencies with the exception of the US dollar.











Property



Listed property indices delivered a positive return of 0.7% domestically and declined by 1.3% globally during November.

November

	Index value	Month	3 months	FYTD	1 year
 Australian equities					
S&P/ASX 300 Accum. Index	51,137	2.8%	1.1%	5.8%	10.1%
S&P/ASX 300 Accum. Industrials Index	105,048	2.8%	-0.5%	3.8%	6.3%
S&P/ASX 300 Accum. Resources Index	18,784	3.1%	10.4%	17.8%	35.0%
ASX Small Caps Accum. Index	6,254	-1.2%	-4.4%	2.1%	13.5%
 International equities					
MSCI World ex-Aus Index (\$A)*	7,204	4.5%	1.7%	5.1%	0.9%
MSCI World ex-Aus Index (Hedged \$A)*	1,327	2.8%	2.6%	7.4%	5.0%
MSCI Emerging Markets Index (\$A)*	513	-1.8%	-1.5%	5.1%	6.4%
MSCI World ex-Aus Small Cap Index (\$A)	465	7.4%	3.4%	8.0%	3.4%
US (S&P 500 Index in USD)	2,199	3.4%	1.3%	4.8%	5.7%
United Kingdom (FTSE 100 Index in GBP)	6,784	-2.5%	0.0%	4.3%	6.7%
Japan (Nikkei 225 Index in JPY)	18,308	5.1%	8.4%	17.5%	-7.3%
Europe (Stoxx 50 Index in EUR)	3,052	-0.1%	0.9%	6.5%	-13.0%
China (Shanghai Composite Index in CNY)	3,250	4.8%	5.3%	10.9%	-5.7%
 AUD versus ...					
USD	0.74	-3.0%	-1.8%	-0.9%	2.2%
JPY	84.23	5.6%	8.7%	10.5%	-4.5%
GBP	0.60	-4.1%	1.0%	7.9%	25.1%
EUR	0.70	1.3%	4.3%	4.9%	3.5%
 Property					
ASX 300 Listed Property Trusts Accum. Index	41,339	0.7%	-11.0%	-8.8%	10.3%
FTSE EPRA / NAREIT Developed Index (Hedged \$A)	2,276	-1.3%	-6.9%	-4.5%	3.0%
 Oil and Commodities					
Crude Oil (\$/bbl)	49	5.5%	10.6%	2.3%	18.7%
Copper Spot (\$/tonne)	5,813	20.1%	26.2%	20.1%	26.4%
Gold Spot (\$/ounce)	1,174	-8.1%	-10.7%	-11.6%	9.6%
 Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,826	-1.4%	-2.9%	-1.8%	3.4%
Bloomberg AusBond Government Index	9,157	-1.9%	-4.0%	-2.9%	3.1%
Bloomberg AusBond Corporate Index	9,035	-0.7%	-1.1%	0.2%	4.1%
Bloomberg AusBond Bank Bill Index	8,526	0.1%	0.4%	0.8%	2.1%
 Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	2,215	-1.6%	-2.8%	-2.6%	4.6%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	-1.6%	-2.4%	-1.7%	4.8%
 Fixed income (yields) as at ...					
	31-Oct-16	30-Sep-16	31-Jul-16	30-Jun-16	31-Oct-15
Australia Bank Bill	1.76	1.75	1.74	1.94	2.26
Australia 10 Year Government Bond	2.72	2.35	1.82	1.98	2.86
US 10 Year Government Bond	2.38	1.83	1.58	1.47	2.21
UK 10 Year Government Bond	1.42	1.25	0.64	0.87	1.83
Germany 10 Year Government Bond	0.28	0.16	-0.07	-0.13	0.47
Japan 10 Year Government Bond	0.03	-0.05	-0.06	-0.22	0.31

* Net dividends reinvested

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