

Monthly Market Snapshot

OCTOBER 2016

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

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Key insights

Domestic and international equities (unhedged) posted a marginal loss of -1.0% to -2.0% in October, with increasing uncertainty as the US Presidential campaign approached the election date on 8 November. The subsequent victory of Donald Trump caused some initial volatility in equity markets, but to date markets have not moved significantly. An exception is emerging market equities, which have declined due to concerns over trade restrictions and capital flow vulnerabilities. Bonds had a selloff globally losing all the positive returns from the third quarter, during October, as central banks globally approach the limits of monetary policy.

In the US, GDP growth rebounded in the third quarter of the year posing 2.9% p.a. Solid employment numbers (4.9% unemployment rate) and improving economic growth, increase the likelihood of the Federal Reserve increasing the federal funds rate in the near-term.

In Japan, Manufacturing PMI results are still weak but have moved into expansionary level after six months in contraction, and business conditions appear to have stabilised based on the Tankan Index (a measure for the country's business confidence). The Yen weakened in October, after a number of months of appreciating, which will be positive for Bank of Japan attempts to increase inflation.

In Europe, the European Central Bank continues to attempt to revitalise the economy through its quantitative easing and negative interest rates. However, there is some disagreement with regards to the effectiveness of this easy monetary policy and the potential consequences, adding to divisions post the Brexit vote. Inflation has risen slightly, albeit it is still well below the 2% target at 0.5%, and PMI numbers are stabilised at around 53 (above 50 meaning expansion).

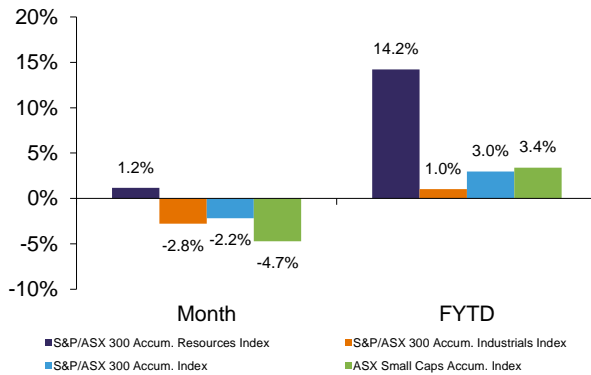
In the UK, business confidence (CBI Business Optimism Index) recovered, albeit still negative, from a significant drop right after the Brexit vote in June. PMI numbers remain at a positive level of around 53-54, and somewhat surprisingly economic data has been relatively robust in the short time post the Brexit vote. However, the upward trend of housing prices (Halifax House Price Index) has stagnated since the vote and the expectation is that economic growth will be negatively impacted in the year ahead. The pound was down by 6% against the USD and remains below US\$1.3.

In China, average new house prices increased by 11% year-on-year surpassing the recent peak in late 2013. The Yuan continued its depreciation against the USD, which helped improve export data in October.

Domestically, Australia's core inflation rose to 1.6% (headline 1.3%) over the month, which is still below the Reserve Bank of Australia's (RBA) target range of 2-3%. The latest inflation reading supports the case for the RBA to retain its cash rate at its all-time low level of 1.5% over the near term. However, the RBA continues to emphasise the risk to financial stability due to the build-up of household debt and the strong housing market.



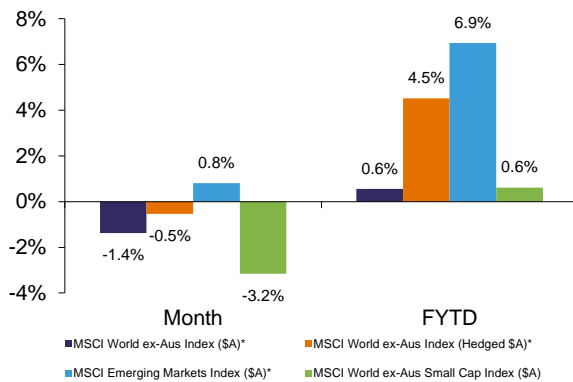
Australian equities



Domestic equities posted a loss of -2.2% in October 2016, while the Resource sector gained 1.2%.



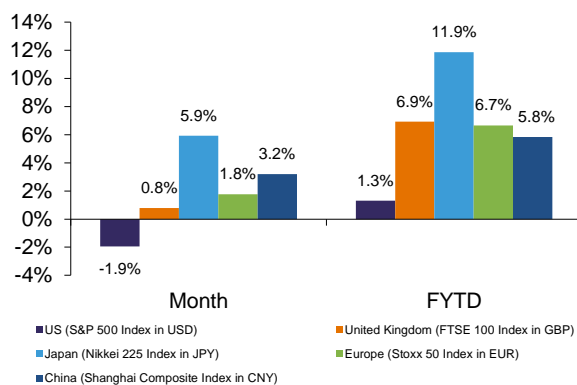
International equities (\$A)



The hedged MSCI World Index declined marginally by 0.5% in October, while unhedged developed market equities fell by 1.4%, as the Australian dollar strengthened over the month. Emerging market equities rose by 0.8% in Australian dollar terms.



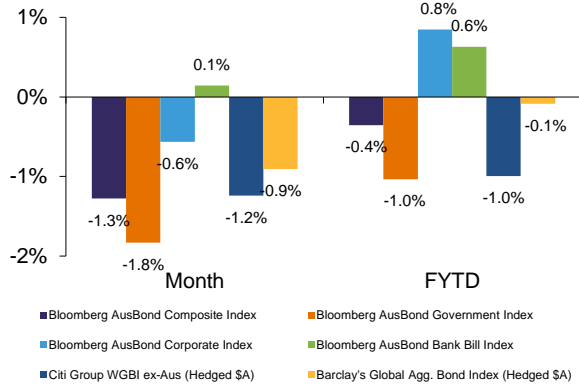
International equities (local currencies)



Major equity markets gained over the month, with the exception of the US. All major markets have posted positive returns for the current financial year to date.



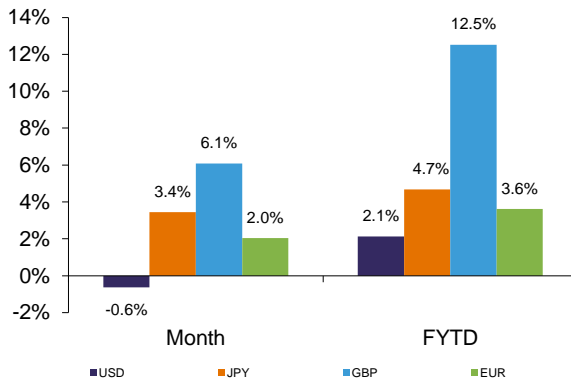
Fixed income



Global bonds had a selloff posting -1.3% domestically and -0.9% (hedged to Australian dollar) globally.



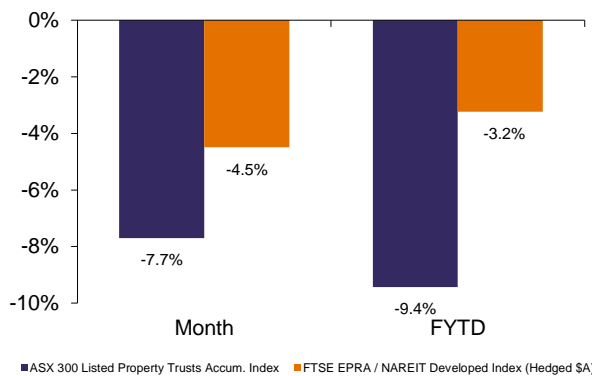
Australian dollar against major currencies



The Australian dollar has appreciated against major foreign currencies, with the exception of a small depreciation against the US dollar, in October.











Property



Listed property indices plunged by 7.7% domestically and 4.5% globally during October.

October

	Index value	Month	3 months	FYTD	1 year
 Australian equities					
S&P/ASX 300 Accum. Index	49,741	-2.2%	-3.2%	3.0%	6.3%
S&P/ASX 300 Accum. Industrials Index	102,234	-2.8%	-5.0%	1.0%	4.7%
S&P/ASX 300 Accum. Resources Index	18,221	1.2%	7.3%	14.2%	15.4%
ASX Small Caps Accum. Index	6,330	-4.7%	-4.8%	3.4%	14.9%
 International equities					
MSCI World ex-Aus Index (\$A)*	6,893	-1.4%	-1.4%	0.6%	-5.4%
MSCI World ex-Aus Index (Hedged \$A)*	1,291	-0.5%	0.4%	4.5%	3.0%
MSCI Emerging Markets Index (\$A)*	522	0.8%	3.9%	6.9%	2.4%
MSCI World ex-Aus Small Cap Index (\$A)	433	-3.2%	-2.5%	0.6%	-4.2%
US (S&P 500 Index in USD)	2,126	-1.9%	-2.2%	1.3%	2.3%
United Kingdom (FTSE 100 Index in GBP)	6,954	0.8%	3.4%	6.9%	9.3%
Japan (Nikkei 225 Index in JPY)	17,425	5.9%	5.2%	11.9%	-8.7%
Europe (Stoxx 50 Index in EUR)	3,055	1.8%	2.2%	6.7%	-10.6%
China (Shanghai Composite Index in CNY)	3,100	3.2%	4.1%	5.8%	-8.3%
 AUD versus ...					
USD	0.76	-0.6%	0.2%	2.1%	6.6%
JPY	79.79	3.4%	2.4%	4.7%	-7.4%
GBP	0.62	6.1%	1.0%	12.5%	34.7%
EUR	0.69	2.0%	2.2%	3.6%	7.3%
 Property					
ASX 300 Listed Property Trusts Accum. Index	41,032	-7.7%	-14.0%	-9.4%	6.4%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,306	-4.5%	-7.7%	-3.2%	3.1%
 Oil and Commodities					
Crude Oil (\$/bbl)	47	-2.9%	12.6%	-3.0%	0.6%
Copper Spot (\$/tonne)	4,841	-0.1%	-1.5%	0.0%	-5.6%
Gold Spot (\$/ounce)	1,273	-3.3%	-6.2%	-4.1%	11.1%
 Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,955	-1.3%	-1.1%	-0.4%	4.0%
Bloomberg AusBond Government Index	9,331	-1.8%	-1.9%	-1.0%	3.9%
Bloomberg AusBond Corporate Index	9,096	-0.6%	0.3%	0.8%	4.3%
Bloomberg AusBond Bank Bill Index	8,513	0.1%	0.5%	0.6%	2.1%
 Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	2,252	-1.2%	-1.5%	-1.0%	6.6%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.9%	-0.8%	-0.1%	6.7%
 Fixed income (yields) as at ...					
	31-Oct-16	30-Sep-16	31-Jul-16	30-Jun-16	31-Oct-15
Australia Bank Bill	1.75	1.72	1.87	1.94	2.07
Australia 10 Year Government Bond	2.35	1.91	1.87	1.98	2.61
US 10 Year Government Bond	1.83	1.59	1.45	1.47	2.14
UK 10 Year Government Bond	1.25	0.75	0.69	0.87	1.92
Germany 10 Year Government Bond	0.16	-0.12	-0.12	-0.13	0.52
Japan 10 Year Government Bond	-0.05	-0.09	-0.19	-0.22	0.31

* Net dividends reinvested

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