

Monthly Market Snapshot

FEBRUARY 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 February, economies of the major developed countries continued to produce strong economic survey data. A policy rate hike is expected in the US given increasing inflationary pressures and the low unemployment rate, and Europe is also sending a positive signal that it is nearing the end of expansionary monetary policy. Australia regained robust economic growth in the fourth quarter of 2016, and the UK and Japan increased growth expectations for 2017. Markets reacted positively to the continued economic growth across the world. In the US, Europe, UK, and Australia, equities gained 2% to 4% for the month of February, while equities were relatively flat in Japan. Bond markets were also flat across the world.

Domestically, GDP rebounded strongly, posting 1.1% growth during the fourth quarter of 2016, after a negative shock in the September quarter. The well above market consensus outcome was driven by resource exports, household consumption, and investment by government and business. The negative impact on economic growth of declining mining investment appears to be ending. The current account deficit narrowed sharply, largely due to prices of commodities, and is at its lowest level since 1980. Equities' earnings expectations for the financial year have continued improving, with half year earnings reporting being overall positive. Australian equities market earned 2.2% to the month end, while the Resources sector retracted by -3.4%.

In the US, equities rallied 3.7% in February against the backdrop of strong job market figures (4.7% unemployment rate), improving wages growth and inflation, and positive Manufacturing and Services PMI (Purchasing Managers Index) survey results. All of which is supportive of the US Federal Reserve's continuing to tighten monetary policy. Markets are expecting three rate hikes in 2017, including at its mid-March meeting, with a 90% probability.

Both in Europe and Japan, after a near decade long extraordinary accommodative measures to boost the economy, central banks have sent signals to the investors that the economies are expected to be shifting from a deflationary phase to inflationary phase in the coming years. In Japan, core inflation returned to positive territory.

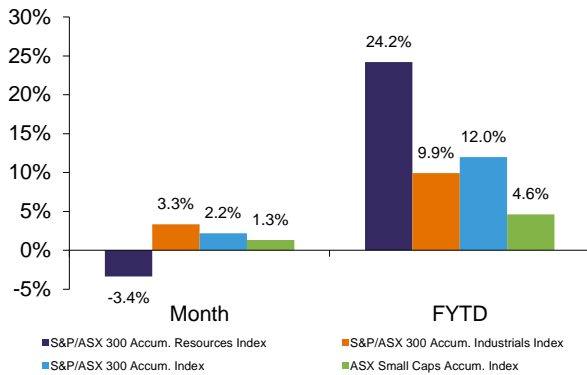
In the UK, the Bank of England released its more optimistic forecast for the country's economic growth for 2017 of 2%, revised up from 1.4% in November. Inflation of 2.7%, which is above the bank's 2% target, is forecast for 2017, largely attributed to the weaker sterling.

China had an unexpected trade deficit in February as imports surged while exports fell, largely due to companies' scaling back operations during Lunar New Year holidays. However, both Manufacturing and Services PMI survey results continued to point to the expansionary direction in February, indicating continued growth in the economy. Strong inflationary pressures driven by recovering commodity prices contributed to an increase of the producer prices index by 7.8% year-on-year during the month. The Chinese government lowered its annual GDP growth target to 6.5%, from a range between 6.5% and 7%, for the final year of Xi Jinping's first term, intending to focus on quality of growth, which is in line with its ongoing reform efforts. In addition, the Chinese government reaffirmed its policy to limit capital outflows.

In property markets, both Australian and global listed property rebounded in February, posting 4.1% and 3.3% returns, respectively.



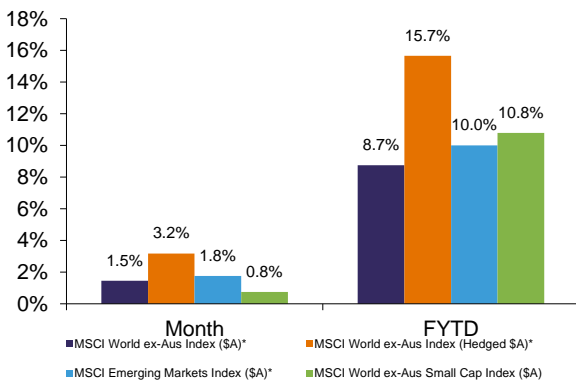
Australian equities



Australian equities rose in February, closing the month up by 2.2%, while the Resources sector decreased by -3.4%.



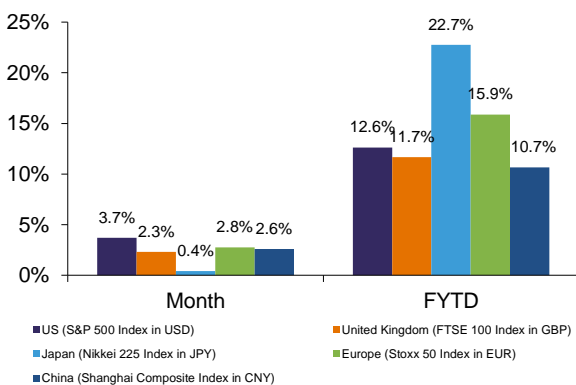
International equities (\$A)



The hedged MSCI World Index rose 3.2% in February, while the unhedged index rose by 1.5%, as the Australian dollar strengthened over the month. Emerging market equities rose by 1.8% in Australian dollar terms.



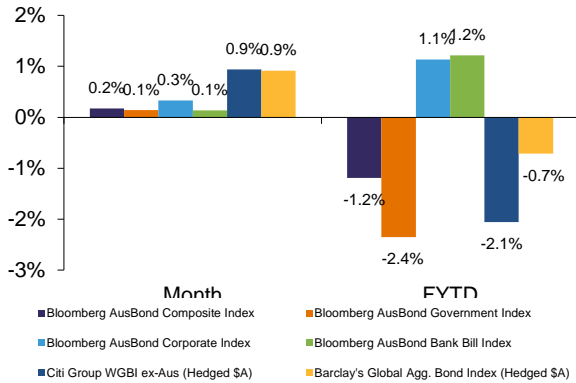
International equities (local currencies)



Major equity markets' performance was strong across the world in February, especially with US equities up by 3.7%, except for Japanese equities which were flat. All markets have produced a double digit return for the financial year to date, with Japanese equities being particularly strong in local currency.



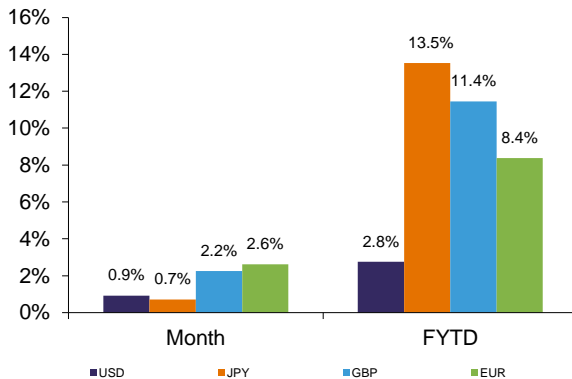
Fixed income



Australian bonds were flat in February producing a 0.2% return. Global bonds had a positive month with the composite index rising 0.9% during the month.



Australian dollar against major currencies

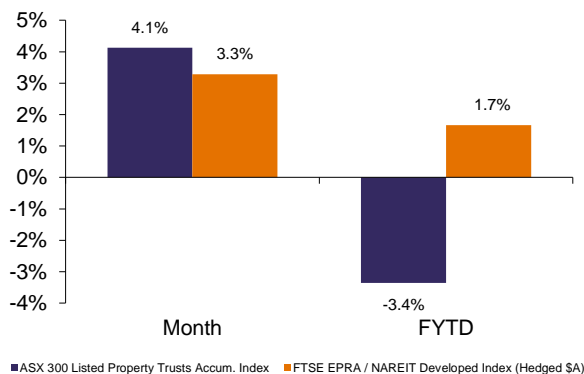


The Australian dollar (AUD) appreciated against all major foreign currencies in February.

For the financial year to date, the AUD has recorded gains against all major currencies, although it is a relatively minor increase against the USD.











Property



Australian and global listed property had a strong gain in February increasing by 4.1% and 3.3%, respectively.

February

	Index value	Month	3 months	FYTD	1 year
 Australian equities					
S&P/ASX 300 Accum. Index	54,099	2.2%	5.8%	12.0%	22.0%
S&P/ASX 300 Accum. Industrials Index	111,201	3.3%	5.9%	9.9%	18.0%
S&P/ASX 300 Accum. Resources Index	19,813	-3.4%	5.5%	24.2%	48.5%
ASX Small Caps Accum. Index	6,404	1.3%	2.4%	4.6%	16.8%
 International equities					
MSCI World ex-Aus Index (\$A)*	7,455	1.5%	3.5%	8.7%	12.4%
MSCI World ex-Aus Index (Hedged \$A)*	1,428	3.2%	7.7%	15.7%	23.7%
MSCI Emerging Markets Index (\$A)*	537	1.8%	4.7%	10.0%	20.3%
MSCI World ex-Aus Small Cap Index (\$A)	477	0.8%	2.5%	10.8%	16.0%
US (S&P 500 Index in USD)	2,364	3.7%	7.5%	12.6%	22.3%
United Kingdom (FTSE 100 Index in GBP)	7,263	2.3%	7.1%	11.7%	19.1%
Japan (Nikkei 225 Index in JPY)	19,119	0.4%	4.4%	22.7%	19.3%
Europe (Stoxx 50 Index in EUR)	3,320	2.8%	8.8%	15.9%	12.7%
China (Shanghai Composite Index in CNY)	3,242	2.6%	-0.3%	10.7%	20.6%
 AUD versus ...					
USD	0.77	0.9%	3.7%	2.8%	7.2%
JPY	86.54	0.7%	2.7%	13.5%	7.2%
GBP	0.62	2.2%	1.0%	11.4%	20.2%
EUR	0.73	2.6%	3.3%	8.4%	11.2%
 Property					
ASX 300 Listed Property Trusts Accum. Index	43,786	4.1%	5.9%	-3.4%	8.2%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,422	3.3%	6.4%	1.7%	13.4%
 Oil and Commodities					
Crude Oil (\$/bbl)	54	2.3%	9.2%	11.8%	60.0%
Copper Spot (\$/tonne)	5,967	-0.5%	2.6%	23.3%	26.8%
Gold Spot (\$/ounce)	1,254	3.5%	6.5%	-5.9%	1.2%
 Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,880	0.2%	0.6%	-1.2%	1.4%
Bloomberg AusBond Government Index	9,207	0.1%	0.5%	-2.4%	0.5%
Bloomberg AusBond Corporate Index	9,122	0.3%	1.0%	1.1%	3.5%
Bloomberg AusBond Bank Bill Index	8,563	0.1%	0.4%	1.2%	2.0%
 Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	2,228	0.9%	0.6%	-2.1%	1.7%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.9%	1.0%	-0.7%	3.1%
 Fixed income (yields) as at ...					
Australia Bank Bill	28-Feb-17	31-Jan-17	30-Nov-16	30-Jun-16	29-Feb-16
Australia 10 Year Government Bond	1.78	1.77	1.76	1.94	2.28
US 10 Year Government Bond	2.72	2.71	2.72	1.98	2.40
UK 10 Year Government Bond	2.39	2.45	2.38	1.47	1.73
Germany 10 Year Government Bond	1.15	1.42	1.42	0.87	1.34
Japan 10 Year Government Bond	0.21	0.44	0.28	-0.13	0.11
	0.06	0.09	0.03	-0.22	-0.06

* Net dividends reinvested

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