

Monthly Market Snapshot

JANUARY 2018

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

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Key insights

In Australia, the RBA kept the cash rate at 1.5% in its February meeting, citing that a low level of interest rates is needed to continually support economic growth and achieve the inflation target. Underlying inflation is running a little below 2%, short of the 2-3% target set by the Bank. Fiscal policy remains stimulative, with increased infrastructure spending to continue to support the economy. Economic data on a broader level over the summer continues to support and is consistent with the RBA's GDP forecast of an average 3% over the next couple of years. The unemployment rate steadied around 5.5% for the quarter ended December 2017 after a strong year of nationwide growth in employment accompanied by significant rise in labour force participation. However, the improved labour market has yet to lead to wage growth, and this is likely to persist. Slow growth in household income and high levels of household debt are contributing to the uncertainty in the outlook for household consumption.

In the US, as widely expected, the Federal Reserve left interest rates unchanged at 1.25%-1.5% range in its January meeting. This was also Janet Yellen's final meeting as Chair of the FOMC before Jerome Powell takes over. Monetary policy remains accommodative, to support strong market conditions and a sustained return to 2% inflation. US unemployment rate stood at a 17-year low of 4.1% in January 2018, unchanged from the previous month and in line with market consensus. The number of unemployed increased by 108 000 to 6.68 million. Inflation increased to 2.1% in December of 2017, easing from a 2.2% rise in November. However, overall inflation and inflation for items other than food and energy have continued to run below 2%.

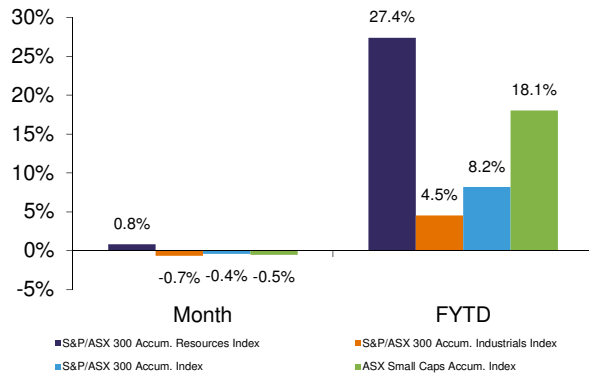
In China, reforms in excess capacity sectors and deleveraging shifted focus to "quality" rather

than "pace" of economic growth post the 19th Communist Party Congress in October 2017. We expect economic growth to continue to slow down as credit growth and investments in both infrastructure and property fades. PBOC benchmark interest rates remain unchanged and accommodative, but "surgical" tightening is being implemented on various other interbank policy rates. We view that there is a risk that China might deleverage too quickly and destabilise its economy, but a hard landing is still seen unlikely, provided global economic growth continues to be supportive.

Global equities has performed well in January, while correcting about 8% on February 6. The correction was felt the largest in US equities. Government bond yields have risen materially in 2018. The pickup in global economy has contributed to a rise in oil and other commodity prices, supporting Australian dollars on the back of recent Fed rate hikes.



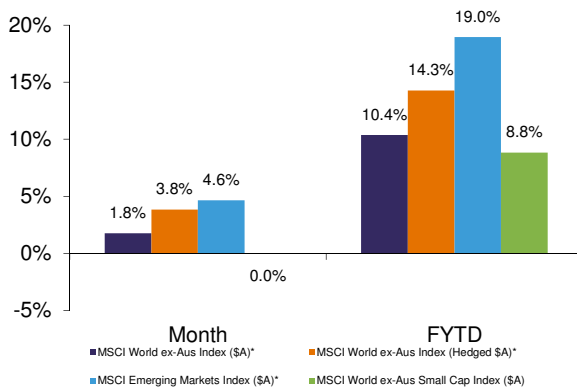
Australian equities



Australian equities is down 0.4% in January. Resources is the only sector that saw growth of 0.8%.



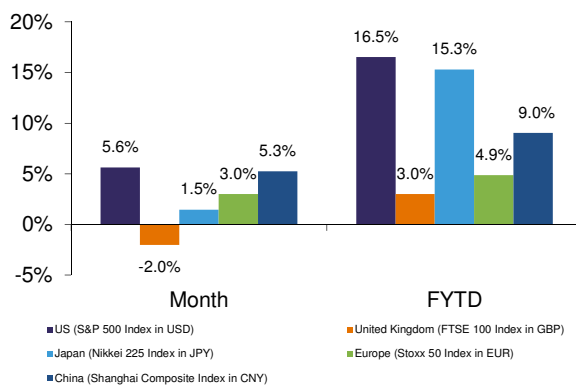
International equities (\$A)



International equities increased by 1.8% in the month, with emerging market leading the gain at 4.6%.



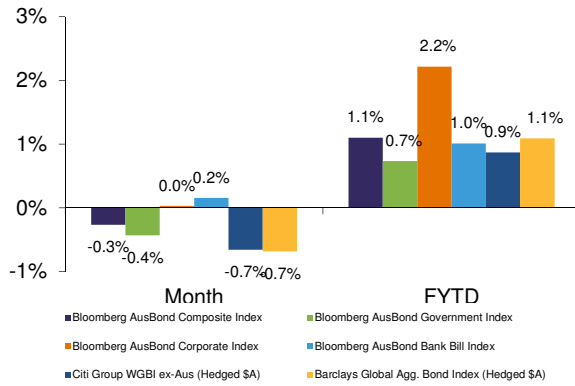
International equities (local currencies)



US and China lead the growth in international equities, while UK equities declined by 2%.



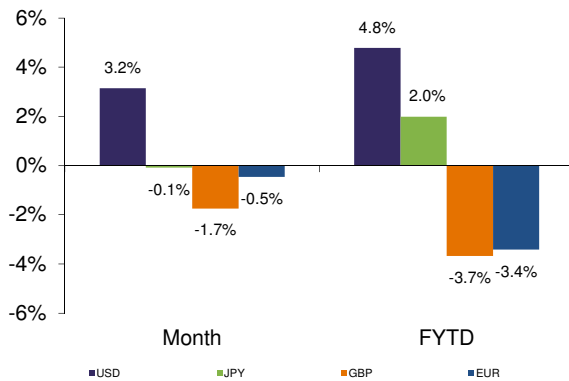
Fixed income



Australian Bond had a return of -0.3% in January, while Global Bond returned -0.7%.



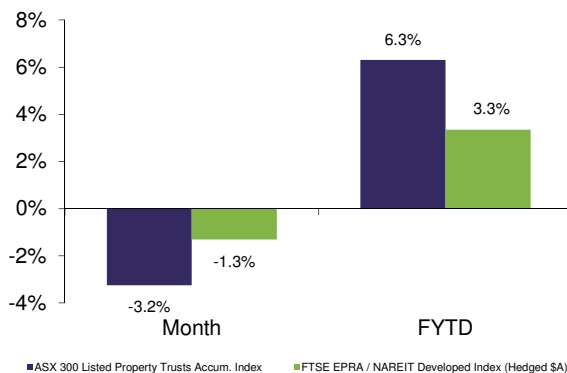
Australian dollar against major currencies



Australian dollar depreciated against all major currencies except for USD.











Property



Australian property and international properties are down by 3.2% and 1.3% respectively, reversing the growth trend in the current financial year.

January

	Index value	Month	3 months	FYTD	1 year
 Australian equities					
S&P/ASX 300 Accum. Index	59,491	-0.4%	3.2%	8.2%	12.4%
S&P/ASX 300 Accum. Industrials Index	119,005	-0.7%	1.4%	4.5%	10.6%
S&P/ASX 300 Accum. Resources Index	24,699	0.8%	11.4%	27.4%	20.5%
ASX Small Caps Accum. Index	7,735	-0.5%	6.6%	18.1%	22.4%
 International equities					
MSCI World ex-Aus Index (\$A)*	8,682	1.8%	3.2%	10.4%	18.2%
MSCI World ex-Aus Index (Hedged \$A)*	1,701	3.8%	6.8%	14.3%	22.9%
MSCI Emerging Markets Index (\$A)*	698	4.6%	6.5%	19.0%	32.2%
MSCI World ex-Aus Small Cap Index (\$A)	542	0.0%	1.3%	8.8%	14.6%
US (S&P 500 Index in USD)	2,824	5.6%	9.7%	16.5%	23.9%
United Kingdom (FTSE 100 Index in GBP)	7,534	-2.0%	0.5%	3.0%	6.1%
Japan (Nikkei 225 Index in JPY)	23,098	1.5%	4.9%	15.3%	21.3%
Europe (Stoxx 50 Index in EUR)	3,609	3.0%	-1.8%	4.9%	11.7%
China (Shanghai Composite Index in CNY)	3,481	5.3%	2.6%	9.0%	10.2%
 AUD versus ...					
USD	0.81	3.2%	5.2%	4.8%	6.2%
JPY	87.87	-0.1%	1.2%	2.0%	2.3%
GBP	0.57	-1.7%	1.0%	-3.7%	-5.8%
EUR	0.65	-0.5%	-1.5%	-3.4%	-8.1%
 Property					
ASX 300 Listed Property Trusts Accum. Index	45,448	-3.2%	2.0%	6.3%	8.1%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,517	-1.3%	2.1%	3.3%	7.3%
 Oil and Commodities					
Crude Oil (\$/bbl)	65	7.1%	19.0%	40.6%	22.6%
Copper Spot (\$/tonne)	7,079	-1.8%	3.8%	19.4%	18.1%
Gold Spot (\$/ounce)	1,343	2.2%	5.0%	6.9%	9.2%
 Australian Fixed Interest					
Bloomberg AusBond Composite Index	9,108	-0.3%	0.1%	1.1%	2.7%
Bloomberg AusBond Government Index	9,419	-0.4%	-0.1%	0.7%	2.4%
Bloomberg AusBond Corporate Index	9,481	0.0%	0.5%	2.2%	4.3%
Bloomberg AusBond Bank Bill Index	8,701	0.2%	0.4%	1.0%	1.7%
 Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	2,268	-0.7%	-0.3%	0.9%	2.8%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.7%	-0.3%	1.1%	3.2%
 Fixed income (yields) as at ...	31-Jan-18	31-Dec-17	31-Oct-17	30-Jun-17	31-Jan-17
Australia Bank Bill	1.77	1.78	1.69	1.71	1.77
Australia 10 Year Government Bond	2.81	2.63	2.67	2.60	2.71
US 10 Year Government Bond	2.71	2.41	2.38	2.30	2.45
UK 10 Year Government Bond	1.51	1.19	1.33	1.26	1.42
Germany 10 Year Government Bond	0.70	0.43	0.36	0.47	0.44
Japan 10 Year Government Bond	0.09	0.05	0.07	0.09	0.09

* Net dividends reinvested

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