

Monthly Market Snapshot

JULY 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 in July recovered from their lows at the start of the year, and the Brexit correction in June, to close at a new high for the calendar year to date.

In the US, the Federal Open Market Committee (FOMC) held its July policy meeting. The FOMC “decided to maintain the target range for the federal funds rate unchanged at 0.25 to 0.5 percent”. In its statement the FOMC noted “a strengthening in the labour market and that economic activity has been expanding at a moderate rate”. Payrolls and other labour market indicators point to some increase in labour utilisation in recent months while household spending has been growing strongly. Against this economic backdrop, business investment has continued to be soft while inflation remains below the Committee’s 2% long run objective, partially reflecting earlier declines in energy prices and in prices of non-energy imports. The unemployment rate stabilised at 4.9% in July.

The oil price declined by approximately 20% in the month, to close around US\$42 per barrel, driven by an increase in production in crude by American producers.

In Europe, the European Central Bank (ECB) left interest rates unchanged. The ECB decided to leave the interest rate on the main refinancing operations, interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively.

The ECB maintained its existing quantitative easing measures, namely the Monthly Asset Purchase Programme (APP) of €80 billion per month and the non-standard measures such as their first operation of a new series of Targeted Longer-term Refinancing Operations (TLTRO II) and corporate bond purchases under the Corporate Sector Purchase Programme (CSPP).

The Bank of England (BOE) initiated a rate cut to 0.25% from 0.5% on 4 August 2016. In addition, the BOE introduced a Term Funding Scheme (TFS) of £100 billion to provide banks with funding at close to the Bank Rate. The TFS is meant to encourage banks to pass on the entire rate cut to households and businesses by providing affordable funding that supports bank profitability. The main criteria for the provision of funds will be the bank’s net lending to households and businesses.

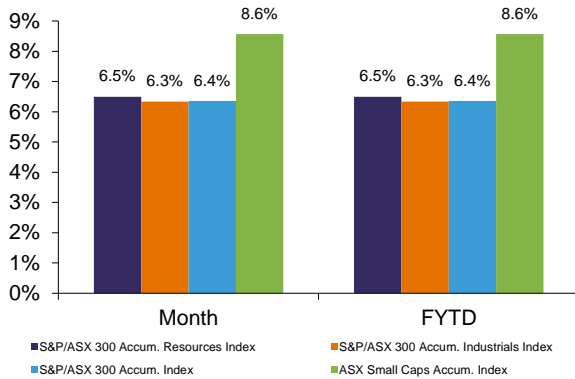
The BOE has also established an asset purchase program of up to £10 billion of corporate bonds and expanded the existing asset purchase programme for UK government bonds to £60 billion. The BOE explicitly stated that it anticipates another rate cut (to 0%) by the end of 2016.

In July, China’s inflation rate expanded by 0.2% from the previous month in June, reversing its decline in June and May. China recorded a trade surplus of US\$52.3 billion compared to US\$41.9 billion a year earlier, beating market’s expectations.

Domestically, the RBA cut the cash rate by 0.25% to 1.5% on 3 August 2016. A weakening terms of trade was highlighted in its decision to reduce the cash rate. “Australia’s terms of trade remains much lower than they had been in recent months.”



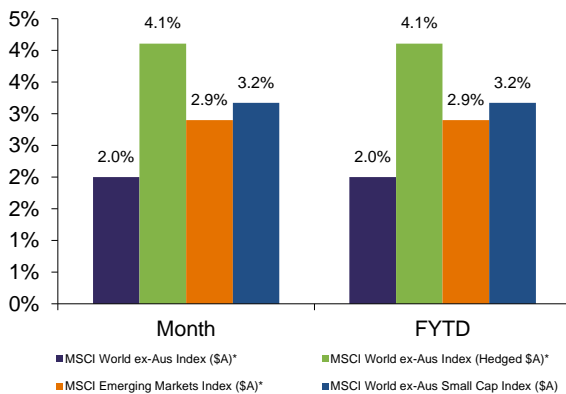
Australian equities



Australian equities rose in July, finishing the month up by 6.4%.



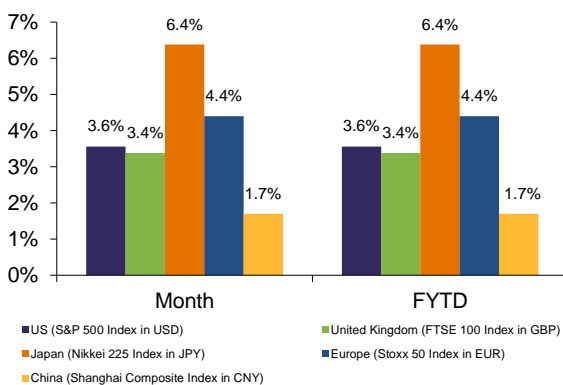
International equities (\$A)



Emerging market equities went up by around 2.9% approximately in July 2016. Unhedged and hedged developed market equities rose by 2.0% and 4.1% respectively.



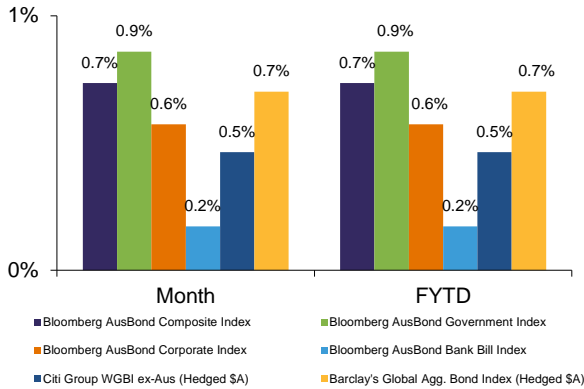
International equities (local currencies)



Major equity markets globally had a positive performance in the month of July. For the financial year to date, Japanese, European and Chinese equities are up by 6.4%, 4.4% and 1.7%, respectively.



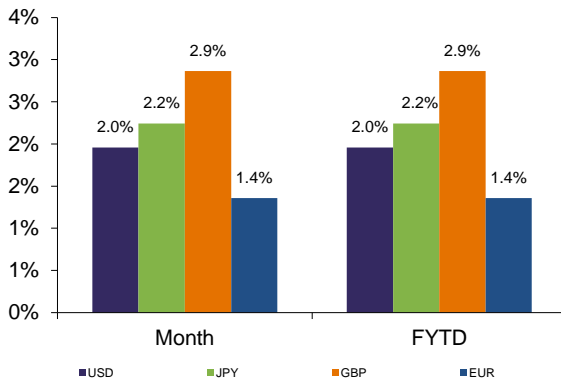
Fixed income



Australian and global bond markets had a positive month, as bond yields continued to fall, providing returns of 0.7% for Australian and global bonds.



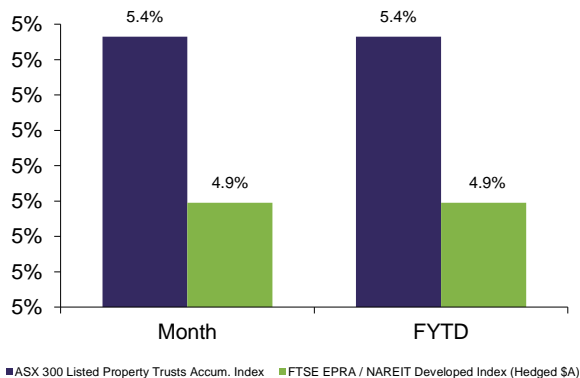
Australian dollar against major currencies



The Australian dollar (AUD) appreciated against all major foreign currencies over the month of July. Over the last year, the Japanese Yen (JPY) has appreciated materially against the AUD, while the British Pound (GBP) has depreciated materially in response to the Brexit vote.











Property



Australian and global listed property performance rose by 5.4% and 4.9% respectively in July. Australian-listed property has produced very strong returns over the last year.

JULY

	Index value	Month	3 months	FYTD	1 year	
Australian equities						
	S&P/ASX 300 Accum. Index	51,387	6.4%	7.0%	6.4%	2.9%
	S&P/ASX 300 Accum. Industrials Index	107,586	6.3%	7.6%	6.3%	3.8%
	S&P/ASX 300 Accum. Resources Index	16,988	6.5%	3.4%	6.5%	-2.9%
	ASX Small Caps Accum. Index	6,647	8.6%	11.5%	8.6%	22.3%
International equities						
	MSCI World ex-Aus Index (\$A)*	6,993	2.0%	4.0%	2.0%	-3.9%
	MSCI World ex-Aus Index (Hedged \$A)*	1,286	4.1%	4.9%	4.1%	-0.1%
	MSCI Emerging Markets Index (\$A)*	502	2.9%	5.6%	2.9%	-4.1%
	MSCI World ex-Aus Small Cap Index (\$A)	444	3.2%	4.6%	3.2%	-3.4%
	US (S&P 500 Index in USD)	2,174	3.6%	5.2%	3.6%	3.3%
	United Kingdom (FTSE 100 Index in GBP)	6,724	3.4%	7.7%	3.4%	0.4%
	Japan (Nikkei 225 Index in JPY)	16,569	6.4%	-0.6%	6.4%	-19.5%
	Europe (Stoxx 50 Index in EUR)	2,991	4.4%	-1.2%	4.4%	-16.9%
	China (Shanghai Composite Index in CNY)	2,979	1.7%	1.4%	1.7%	-18.7%
AUD versus ...						
	USD	0.76	2.0%	-0.2%	2.0%	4.0%
	JPY	77.94	2.2%	-5.1%	2.2%	-13.9%
	GBP	0.57	2.9%	1.0%	2.9%	22.1%
	EUR	0.68	1.4%	1.0%	1.4%	1.8%
Property						
	ASX 300 Listed Property Trusts Accum. Index	47,736	5.4%	12.0%	5.4%	24.2%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,499	4.9%	9.6%	4.9%	12.6%
Oil and Commodities						
	Crude Oil (\$/bbl)	42	-13.9%	-9.4%	-13.9%	-11.7%
	Copper Spot (\$/tonne)	4,915	1.6%	-2.9%	1.6%	-5.9%
	Gold Spot (\$/ounce)	1,358	2.3%	4.7%	2.3%	23.1%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	9,053	0.7%	3.4%	0.7%	6.4%
	Bloomberg AusBond Government Index	9,510	0.9%	4.1%	0.9%	7.3%
	Bloomberg AusBond Corporate Index	9,072	0.6%	2.4%	0.6%	5.1%
	Bloomberg AusBond Bank Bill Index	8,475	0.2%	0.5%	0.2%	2.2%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,285	0.5%	3.7%	0.5%	9.7%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.7%	3.3%	0.7%	8.8%
Fixed income (yields) as at ...						
		31-Jul-16	30-Jun-16	30-Apr-16	30-Jun-16	31-Jul-15
	Australia Bank Bill	1.87	1.94	2.15	1.94	2.14
	Australia 10 Year Government Bond	1.87	1.98	2.52	1.98	2.76
	US 10 Year Government Bond	1.45	1.47	1.83	1.47	2.18
	UK 10 Year Government Bond	0.69	0.87	1.60	0.87	1.88
	Germany 10 Year Government Bond	-0.12	-0.13	0.27	-0.13	0.64
	Japan 10 Year Government Bond	-0.19	-0.22	-0.08	-0.22	0.42

* Net dividends reinvested

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