

# Monthly Market Snapshot

AUGUST 2016

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

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# Key insights

Global equities and bonds retreated from their high at the start of September, following a sell-off after a lack of guidance from global central banks. Central banks around the world are reviewing the effectiveness of their existing monetary policy tools in rejuvenating the economy. Central bankers have stepped out to highlight the need for governments to undertake fiscal spending in order to institute reforms in the economy.

In the United States, calls for a US Federal reserve rate hike have dominated the headlines against the backdrop of improving labour market conditions and measures of core inflation. Non-farm payroll data in June and July emerged strongly at an average of 273,000, leaving the market with a high anticipation for August figures. However, non-farm payroll data in August was published at 151,000, indicating a lower than expected increment of job add-ons to the economy. This raised doubts by the market with the possibility of a Federal rate hike in the upcoming September Federal Market Open Committee (FOMC) meeting. The probability of a Fed rate hike decreased significantly from 45% to 21% , post the publishing of the lacklustre non-farm payrolls. Underemployment rate in the US currently stands at 9.7%, an improvement from the post GFC high of 17% and below the 20 year average of 10.7%.

The European Central Bank (ECB) maintained its current rate of interest for Main Refinancing Operations, Marginal Lending Facility and Deposit Facility at 0.0%, 0.25% and -0.4%, respectively. Monthly asset purchases of € 80 billion will run on course till the end of March. The ECB further downwardly revised the outlook for Europe, to 1.6% for both 2017 and 2018. Markets took the lack of new stimulus in the announcement and the review of the effectiveness of monetary policy tools negatively, leading to a sell-off in global bonds.

In Japan, manufacturing and services Purchasing Manager's Index (PMI) data has fallen into the contractionary region. Manufacturing data has been contracting (below 50) for the last six months, while services has contracted following a marginal expansion in the previous month. This has added negative pressure to the growth of Japan's GDP; Japan reported its 2Q 2016 GDP growth at 0.2%. The Bank of Japan has announced a review of its existing monetary policy tools.

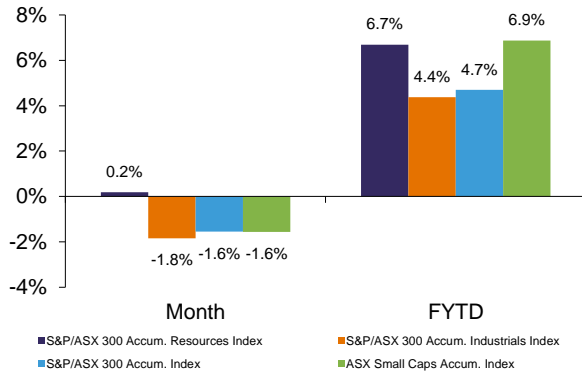
The United Kingdom (UK) PMI data was published; reported data moved the manufacturing and services sector back in the expansionary phase, at 53.3 and 52.9 respectively. Retail sales in the UK increased 5.9% and 1.5% from the previous year and month. The fluctuation in data underscores the ongoing uncertainty resulting from Brexit and the resilience of the UK economy.

In emerging market space, China hosted the G20 meeting in Hangzhou where global leaders congregated to discuss ongoing political and economic issues. While in India, the Reserve Bank of India nominated a new Governor, Urjit Patel, to a three-year term in office.

On the domestic front, the RBA reduced its cash rate to a historical low of 1.5% at the start of August. However, the AUD/USD remains resilient at approximately 75 cents while reported terms of trade improved to 80.5 in August. The Australian economy expanded by 0.5% in 2Q 2016; the weakest growth in a year. The weakness is largely driven by the weakness in the Agriculture, Mining and Construction sectors.



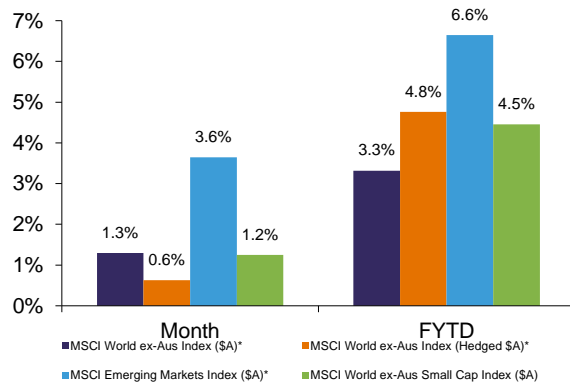
## Australian equities



Australian equities declined in August, closing the month down by 1.6%.



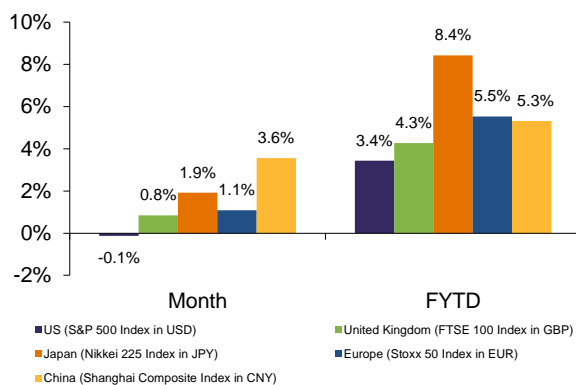
## International equities (\$A)



Unhedged and hedged developed market equities rose by 1.3% and 0.6% in August, respectively. Emerging market equities rose by about 3.6% in August.



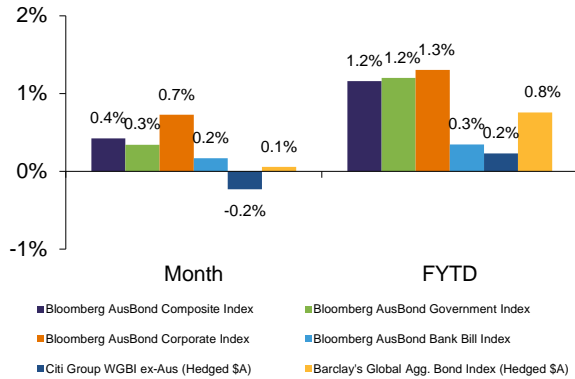
## International equities (local currencies)



Major equity markets delivered positive performance in the month of August, except for the US which declined marginally.



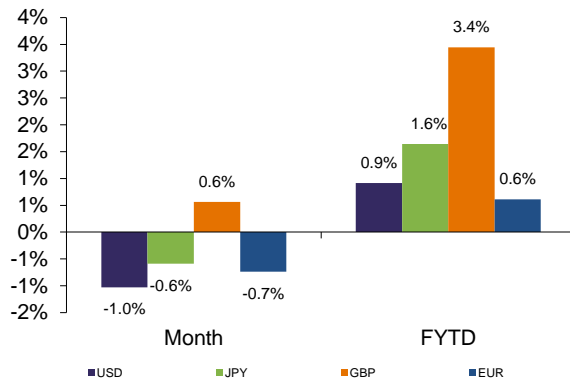
## Fixed income



Australian bonds had a positive month with the composite index closing with a 0.4% gain. Global bond markets rose marginally for the month of August.



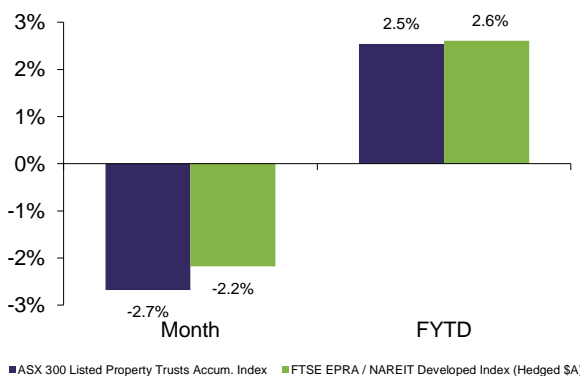
## Australian dollar against major currencies



The Australian dollar (AUD) depreciated against all major foreign currencies except for the pound over the month of August. For the financial year to date, the AUD recorded gains against the major currencies.











## Property



Australian and global listed property performance declined by 2.7% and 2.2%, respectively in August. However, for the financial year to date, Australian and global listed property produced relatively strong returns at 2.5% and 2.6%, respectively.

# August

	Index value	Month	3 months	FYTD	1 year
 <b>Australian equities</b>					
S&P/ASX 300 Accum. Index	50,587	-1.6%	2.1%	4.7%	9.7%
S&P/ASX 300 Accum. Industrials Index	105,601	-1.8%	1.1%	4.4%	10.5%
S&P/ASX 300 Accum. Resources Index	17,018	0.2%	9.0%	6.7%	4.8%
ASX Small Caps Accum. Index	6,543	-1.6%	5.5%	6.9%	26.5%
 <b>International equities</b>					
MSCI World ex-Aus Index (\$A)*	7,083	1.3%	-0.6%	3.3%	0.5%
MSCI World ex-Aus Index (Hedged \$A)*	1,294	0.6%	3.6%	4.8%	7.6%
MSCI Emerging Markets Index (\$A)*	521	3.6%	7.9%	6.6%	5.5%
MSCI World ex-Aus Small Cap Index (\$A)	449	1.2%	-0.5%	4.5%	-0.3%
US (S&P 500 Index in USD)	2,171	-0.1%	3.5%	3.4%	10.1%
United Kingdom (FTSE 100 Index in GBP)	6,782	0.8%	8.8%	4.3%	8.5%
Japan (Nikkei 225 Index in JPY)	16,887	1.9%	-2.0%	8.4%	-10.6%
Europe (Stoxx 50 Index in EUR)	3,023	1.1%	-1.3%	5.5%	-7.5%
China (Shanghai Composite Index in CNY)	3,085	3.6%	5.8%	5.3%	-3.8%
 <b>AUD versus ...</b>					
USD	0.75	-1.0%	3.9%	0.9%	5.7%
JPY	77.48	-0.6%	-3.9%	1.6%	-10.5%
GBP	0.57	0.6%	1.0%	3.4%	23.9%
EUR	0.67	-0.7%	3.6%	0.6%	6.1%
 <b>Property</b>					
ASX 300 Listed Property Trusts Accum. Index	46,458	-2.7%	6.2%	2.5%	26.0%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,445	-2.2%	5.7%	2.6%	17.1%
 <b>Oil and Commodities</b>					
Crude Oil (\$/bbl)	45	7.5%	-9.0%	-7.5%	-9.1%
Copper Spot (\$/tonne)	4,606	-6.3%	-1.9%	-4.8%	-10.5%
Gold Spot (\$/ounce)	1,311	-3.4%	7.2%	-1.2%	15.1%
 <b>Australian Fixed Interest</b>					
Bloomberg AusBond Composite Index	9,091	0.4%	2.5%	1.2%	6.2%
Bloomberg AusBond Government Index	9,542	0.3%	3.0%	1.2%	6.9%
Bloomberg AusBond Corporate Index	9,138	0.7%	2.0%	1.3%	5.3%
Bloomberg AusBond Bank Bill Index	8,489	0.2%	0.5%	0.3%	2.2%
 <b>Global Fixed Interest</b>					
Citi Group WGBI ex-Aus (Hedged \$A)	2,280	-0.2%	2.6%	0.2%	9.5%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.1%	2.7%	0.8%	9.0%
 <b>Fixed income (yields) as at ...</b>					
	<b>31-Aug-16</b>	<b>31-Jul-16</b>	<b>31-May-16</b>	<b>30-Jun-16</b>	<b>31-Aug-15</b>
Australia Bank Bill	1.74	1.87	1.99	1.94	2.13
Australia 10 Year Government Bond	1.82	1.87	2.30	1.98	2.66
US 10 Year Government Bond	1.58	1.45	1.85	1.47	2.22
UK 10 Year Government Bond	0.64	0.69	1.43	0.87	1.96
Germany 10 Year Government Bond	-0.07	-0.12	0.14	-0.13	0.80
Japan 10 Year Government Bond	-0.06	-0.19	-0.11	-0.22	0.38

\* Net dividends reinvested

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