Month in Review

ISSUE DATE: 5-08-2015

Market Moves — as at 31•07•2015

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 200 ACCUMULATION INDEX	4.40	-0.74	4.23	5.68	15.11	9.67	7.26
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	1.56	-4.13	3.63	-2.77	3.05	0.63	1.82
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	7.33	7.91	13.31	34.10	29.89	17.23	7.18
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	8.11	10.19	14.32	42.44	33.08	21.49	8.22
FTSE100 ACCUMULATION INDEX (A$)	6.72	5.66	11.54	20.63	23.62	13.32	5.28
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	-1.84	-5.88	1.32	10.51	13.95	5.29	7.35
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	5.67	4.24	4.91	21.02	18.34	15.24	2.66
FTSE EPRA/NAREIT DEVELOPED NR (A$) HEDGED	4.55	-0.35	-2.34	12.63	14.82	14.47	
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	1.30	0.40	0.32	6.69	5.14	6.66	6.34
BLOOMBERG AUSBOND BANK BILL INDEX	0.18	0.56	1.16	2.55	2.82	3.60	4.67
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	0.99	-0.35	-0.33	6.17	5.76	7.24	7.38

Data source: IRESS & Financial Express. Returns greater than one year are annualised
Commentary regarding equity indexes below references performance without including the effects of currency (unless specifically stated)

Australian equities

The Australian 'large cap' equity market, as measured by the S&P/ASX 200 Accumulation Index, ended the month on a positive note closing just shy of the 5700 mark, gaining 4.40% over July. The domestic market performed well in local currency terms, though it underperformed other markets in US dollar terms given the fall in the Australian dollar. A sharp fall in long-term interest rate expectations (10-year government bonds -0.25%) supported the ASX 200 as defensive sectors performed strongly. Health Care was the best performing sector after a very strong 4Q earnings release by Resmed and a positive announcement from CSL. The latter claiming it expects to settle the acquisition of the Novartis influenza vaccine business much sooner than forecast, boosting FY16 revenues. As was the case globally, Resource sectors were the worst performers due to significant weakness in the commodities market. 'Value' stocks underperformed 'Growth' names by 7% during July, taking their cumulative underperformance to over 90% since mid-2012 according to Goldman Sachs.

The S&P/ASX Small Ordinaries Accumulation Index underperformed its large cap counterpart, up 1.56%. This underperformance is further magnified when assessed over the 12 months to July.

Global equities

Global equity markets managed to post gains, although it was U.S. and European markets which did the heavy lifting, with the S&P 500 Accumulation Index up 8.11% while the NASDAQ Index hit a record high during July.

European markets rallied as the Greek government accepted Europe's terms for a bailout. The German DAX +1.15%, French CAC +4.08% and UK FTSE +1.33% all posted good gains. Globally, Resource sectors such as Energy and Mining underperformed while Consumer Staples, Utilities and REITs outperformed.

Emerging markets, particularly China, underperformed as measured by the MSCI Emerging Markets Index which was down -1.84%. Chinese stocks continued the selloff that began in June, provoking Chinese authorities into announcing a series of unprecedented measures aimed at stabilising the market. Such measures included a total freeze on new share sales and trading halts on eventually half of mainland China's listed stocks. The Shanghai A Shares Index posted its worst calendar month loss since August 2009.

REITs

The S&P/ASX 300 A-REIT Accumulation Index gained 5.67% in July. Over 12 months to July, the Index is up 21.02%. However growth is beginning to moderate as the domestic economy faces headwinds from its dependency on resources, a weakening Australian dollar, and challenging leasing conditions driving elevated vacancy rates and incentives.

The G-REIT market, as measured by the FTSE EPRA/NAREIT Developed Index (A$) Hedged underperformed versus its domestic counterpart but still posted a 4.55% gain for the month.

Fixed interest

The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, was up 1.30%. The Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, finished 0.18% higher.

The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A$), also edged up close to 1.0%.

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ASX 200 Stock Movements

S&P/ASX 200 Stock Performance for the Month of July

BEST PERFORMERS		WORST PERFORMERS	
SELECT HARVESTS	+27.56%	BRADKEN	-46.12%
ASCIANO	+20.27%	SLATER & GORDON	-43.28%
KATHMANDU HOLDINGS	+16.99%	SENEX ENERGY	-39.74%
SIRTEX MEDICAL	+15.59%	PALADIN ENERGY	-34.92%
CREDIT CORP GROUP	+14.41%	CABCHARGE AUSTRALIA	-32.39%

S&P/ASX 200 Stock Performance for the Year to July

BEST PERFORMERS		WORST PERFORMERS	
QANTAS AIRWAYS	+180.90%	ARRIUM	-83.27%
SELECT HARVESTS	+149.81%	BRADKEN	-73.89%
DOMINO'S PIZZZA ENTERPRISES	+87.49%	MMA OFFSHORE	-73.15%
M2 GROUP	+81.58%	SENEX ENERGY	-65.44%
NUFARM	+77.47%	FORTESCUE METALS GROUP	-62.30%

Note: Stock movements calculated as price return

Economic News

Australia

Private sector credit grew by 0.4% m/m in June. While this is in line with the average of the past three months, it is below the second half of 2014 average rate of 0.5%. This is attributable to consolidation within the business segment caused by weaker business confidence and a decline in new lending to business. In saying that, annual credit growth is 5.9%, up from 5.0% this time a year ago.

Final demand PPI (excluding exports) rose 0.3% in the June quarter primarily due to rising prices for petroleum refining & fuel manufacturing (18.2% q/q) and building & construction (0.8% q/q). While the y/y picked up to 1.1%, it still implies low (CPI) inflation pressure ahead.

Set against softer retail trade and weakening international trade, employment has taken a stronger turn, up by 7,300 in June after lifting 39,900 in May and leading to the unemployment rate stabilising at 6.0%.

Australian house prices surged 2.8% m/m higher in July, lifting the annual growth rate to 11.1% y/y according to CoreLogic RPData. The price growth was largely due to continued momentum in Sydney (+18.4% y/y) and Melbourne (+11.5% y/y). As expected, houses (+2.8% m/m) continued to outpace units (+2.5% m/m). Rental growth has slipped to a record low of 0.9% y/y, putting downward pressure on rental yields.

The June quarter NAB Business Survey confirms the trend of gradually improving near-term indicators, but remain clouded for the longer term outlook. Business confidence strengthened in Q2 to +4 index points (from 0 points), which is its highest level since Q3 2014. Confidence is now positive for all industries outside of the mining sector. However, leading indicators from the survey, such as forward orders, remain at subdued levels.

There was a flurry of activity attempting to cool the hot Australian property market. The Australian Prudential Regulation Authority announced that banks would have to carry more capital against residential mortgages after raising the risk-weighting on home loans to at least 25% (previously 16%), effective 1 July 2016. Several banks took steps of their own to rein in growth in investor home loans, including increases in interest rates and Loan to Valuation Ratio (LVR) caps on investment property loans.

Global

Global economic readings in July took a slightly more positive turn with firmer-than-expected economic readings on balance out of the world's two biggest economies; the U.S. and China. Concerns for the global economy arising from the Greek debt negotiations also faded as the European Union and Greece came to an agreement about another bail-out package. Another longstanding geopolitical issue relating to Iran's nuclear ambitions also reached a resolution in July. Despite mostly positive news for the global economy through the month however, most commodity prices continued to weaken, highlighting downside risk to Australian national income.

U.S. GDP growth accelerated in the June quarter to 0.6% q/q (2.3% annualised). The economy is expected to continue growing at an above trend growth rate in the coming months. Furthermore, the manufacturing ISM index for June rose to 53.5 which was slightly above analyst forecasts, while the non-manufacturing ISM rose to 56.0. Both of these indices are at levels indicating strength in the U.S. economy. Non-farm payrolls for June rose by 223,000 and the unemployment rate fell - 0.2% to 5.3%. Wage growth, via the employment cost index, rose only 0.2% in 2Q which was a record low. Housing starts for June jumped 9.8% m/m (1,174,000 annualised). Existing homes sales also rose 3.2% m/m,

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the strongest pace since February 2007. CPI gained 0.4% m/m. In her semi-annual testimony to Congress, Fed Chair Janet Yellen reiterated that "economic conditions likely would make it appropriate at some point this year to raise the federal funds target rate".

China's GDP for Q2 grew at a better-than-expected 7.0% y/y. Industrial production also beat expectations, growing 6.8% y/y. However, both major manufacturing surveys continued to be at levels indicating contraction: the official PMI for June fell to 49.4 and the Caixin preliminary PMI for July fell to 48.2.

In Europe, economic readings have been mixed. May retail sales rose by 0.2% while industrial product fell by -0.4%. The May unemployment rate was steady at 11.1%. The European Central Bank met in July and down played developments in Greece, leaving interest rates unchanged and continuing to buy 60 billion euro of securities a month.

Commodities

It was a particularly bad month for commodities, with almost every major commodity posting a price fall. The iron ore price slumped early in the month to a low of US$44/Mt on rising supply before moderately recovering. Nevertheless iron ore it finished down 11% for July. The oil price fell sharply during the month, with WTI oil particularly hard hit, as the Iranian nuclear deal meant sanctions on the Iranian economy would likely be lifted soon suggesting further supply. Gold fell to its lowest level since February 2010, weighed down by reports of massive selling in China.

Currency

The Australian dollar fell against most major currencies during the month. It closed at $0.7294 against the US dollar at month's end in July, dragged down by falling commodity prices and U.S. dollar strength. Elsewhere rates were broadly stable: JPY -0.04%, EUR -0.03%, GBP -0.04% and NZD -0.02%.