Month in Review

ISSUE DATE: 11-12-2017

Market Moves — as at 30•11•2017

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	1.64	5.71	6.63	14.61	8.72	10.56	3.66
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	3.91	11.60	17.31	20.50	13.36	7.40	-0.59
GLOBAL EQUITIES							
MSCI WORLD TR INDEX (AUD)	3.24	11.33	7.68	21.02	13.14	19.76	6.98
S&P 500 TG INDEX (AUD)	4.10	12.47	8.74	19.59	15.32	23.34	9.97
FTSE 100 TR INDEX (AUD)	1.11	9.02	2.14	18.43	5.96	11.82	2.46
MSCI EMERGING MARKETS NET TR INDEX (AUD)	1.20	7.93	10.84	29.27	10.37	11.48	2.92
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT (SECTOR) ACCUMULATION INDEX	5.29	8.27	4.79	13.49	12.87	14.00	1.05
FTSE EPRA/NAREIT DEVELOPED NET TR INDEX (AUD HEDGED)	2.41	2.49	4.17	10.94	6.28	10.52	4.32
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.87	1.66	0.99	4.02	3.81	4.30	6.23
BLOOMBERG AUSBOND BANK BILL INDEX	0.13	0.42	0.86	1.75	2.08	2.37	3.68
BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)	0.19	0.22	1.33	3.80	4.26	4.96	7.13

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

Australian equities

The Australian share market looks set to finish 2017 on a positive note, with the S&P/ASX Accumulation Index gaining 1.64% in November, albeit underperforming global stocks. In a continuation of October's trends, the leading sectors were again Information Technology (+4.48%) and Energy (+4.15%), which has recovered from a mid-year slump to resume its rally. Similarly, Telecommunications (-1.60%) was at the bottom of the heap and the only negative sector.

In the IT sector, online car classifieds Carsales.com rose 6.13% after taking control of Korean JV Encar.com, while Computershare (+5.71%) lifted its guidance. Santos (+12.89%) was the standout Energy stock, indicating a stable outlook for 2018 and fending off a private takeover bid from US private equity-owned Harbour Energy. Australia's small cap shares outperformed their large-cap peers, with the S&P/ASX Small Ordinaries Accumulation Index posting a 3.91% return, handing them a solid lead over large caps over one and three years.

Global equities

In the US, the S&P 500 gained 4.10% in AUD terms as positive data, including an upwardly adjusted Q3 GDP figure, helped the market along. November was a solid month for defensive shares, with mobile and fixed-line giants AT&T (+9.53%) and Verizon Communications (+7.70%) pushing higher, while consumer staples shares like Costco Wholesale (+16.33%) and Estee Lauder (+13.45%) were big movers. Consumer discretionary shares also enjoyed some big gains, including retailer Mattel (+30.94%) and department store Macy's (+28.53%) as the Christmas rush took hold.

Globally, the MSCI World TR Index gained 3.24% in AUD terms, mostly supported by US and Japanese shares. Japan's Nikkei gained 5.68%, while China's Shenzhen CSI 300 Index was up 1.66%. The Euro Stoxx 600 Index rose 1.19%, with broad gains across sectors. Resources (-0.27%), which was last month's top performing sector, fell to the bottom of the heap. The largest gainer in the Media sector (+3.43%) was digital publisher Axel Springer (+18.83%), which has benefited from the booming digital economy. Germany's largest auto maker Volkswagen (+18.53%) led gains for the DAX in November, as the worst of the emissions scandal seemed to fade into the rear-view mirror.

In the UK, the FTSE 100 Index rose 1.11%, with the vicissitudes of Brexit negotiations still weighing on investors. The MSCI Emerging Markets Index rose 1.20%, supported by Chinese shares as well as South Korea's KOSPI (+2.31%), which has managed to hold reasonably firm in the face of a very stressful few months on the peninsula.

REITs

The S&P/ASX 300 A-REIT Accumulation Index returned 5.29% in November, as the index entered its fourth positive month. Topping the leaderboard was National Storage REIT, revealing expected underlying earnings growth of between 8.3% and 13.8% in FY 2018, with continued improvement in occupancy and rate per square metre. Social infrastructure investor Arena REIT (+11.61%) was another strong gainer in November, reporting earnings growth of 33% and like-for-like rental growth of 4.3%. With Amazon now open for business in Australia, retail REITs have withstood the pressure, with Westfield (+7.85%) and Charter Hall Retail REIT (+7.39%) faring well through November.

Month in Review

Global REITs bounced back in November, with the S&P Global REIT NTR Index up 2.68% (in AUD hedged terms), while the FTSE EPRA/NAREIT Developed NR Index managed a gain of 2.41%. In the US, malls were again under pressure, with low-end mall REIT CBL cutting its dividend and downgrading FFO per share by more than expected. Regional malls are trading at the sector's largest median discount to consensus NAV, which was at 30.7% at month-end. Not a great start to the Christmas season, unless of course you are part of the large short interest in the sector.

Fixed income

Yields were flat through November, with US sovereign yields moving slightly lower in what proved a quiet month for bond markets. This is in stark contrast to the situation one year ago, when the US election saw historically significant daily moves in US yields both on and after election day. The US 10-year Treasury yield rose modestly through November from 2.39% to 2.41%. The return on US corporate investment grade bonds was -0.15% in November with the index still close to all-time highs, while US high-yield debt took a hit in November, returning -0.26%. The BofA Merrill Lynch US High Yield OAS widened in November from 3.51% to 3.61% but remains at historic lows, with volatility still all but absent from financial markets.

The Ausbond Composite Index returned 0.87%, with government bonds returning 0.95% and corporate debt up 0.72%. The Australian 10-year Treasury yield slid through November from 2.67% to 2.50%, hitting a low of 2.47%. Yields have been historically flat through 2017 and have in fact fallen since the start of the year.

Global bonds, measured by the Barclays Global Aggregate TR Index, returned 0.19% in November (in AUD hedged terms), with developed market indices still close to their all-time highs. The UK 10-year Gilt yield was flat at 1.33%, and there was no movement in the German 10-year Bund yield over the month, which held at 0.37%. The German 5-year yield rose modestly from -0.35% to -0.31%.

ASX 200 Share Movements

S&P/ASX 200 Share Performance for the Month of November

BEST PERFORMERS		WORST PERFORMERS	
OROCOBRE LTD	29.34%	WEBJET LTD	-17.65%
SPEEDCAST INTERNATIONAL LTD	24.52%	ORICA LTD	-17.26%
SYRAH RESOURCES LTD	22.26%	CORPORATE TRAVEL MANAGEMENT LTD	-15.43%
NEWS CORP	18.06%	NANOSONICS LTD	-15.33%
CREDIT CORP GROUP LTD	14.29%	ALS LTD	-12.66%

S&P/ASX 200 Share Performance for the Year to November

BEST PERFORMERS		WORST PERFORMERS	
A2 MILK CO LTD	218.91%	MAYNE PHARMA GROUP LTD	-59.56%
COSTA GROUP HOLDINGS LTD	104.58%	SIRTEX MEDICAL LTD	-44.96%
MCMILLAN SHAKESPEARE LTD	88.84%	MYER HOLDINGS LTD	-35.06%
NINE ENTERTAINMENT CO HOLDINGS LTD	85.90%	FLETCHER BUILDING LTD	-34.35%
NEXTDC LTD	84.18%	SIGMA HEALTHCARE LTD	-32.29%

Economic News

Australia

The Australian economy grew at just below its trend growth rate in the September quarter, supported by a boost in consumer spending. While advanced economies including the US, Europe, Canada and the UK have begun the task of tightening policy, monetary conditions remain expansionary. The RBA has maintained the **cash rate** at 1.50% for well over a year, and appears content to wait and see how high other banks go and how quickly. In the meantime, the RBA's growth forecast of 3.0% over 2018 is realistic, but may be a touch on the optimistic side. While there has been continued improvement in business conditions and the employment situation, low wages growth remains a sticking point. While consumers are spending, this has come at the expense of a lower savings ratio, which may put pressure on households over the medium-term. Inflation is also low, due to suppressed wages growth and competitive pressure, while headline CPI is being boosted by higher prices for tobacco and electricity.

Australia's labour market continues to improve, with 3,700 seasonally adjusted jobs added in October, which included 24,300 full-time jobs, offset by a fall in part-time jobs of 20,700. The **unemployment rate** fell 0.1 points to 5.4%, while the participation rate eased 0.1 points to 65.1%. The number of unemployed persons looking for full-time work was steady at 485,900, and monthly hours worked rose 4.6 million to 1,723.7 million hours.

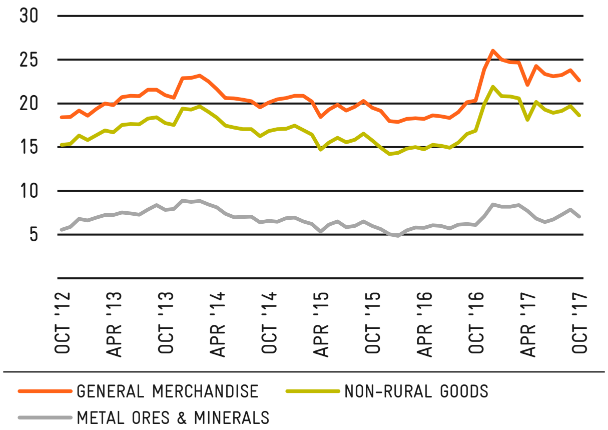
Month in Review

The **AIG Manufacturing Index** took a leap higher in November, rising 6.2 points to 57.3, in an abrupt reversal of the decelerating trend evident since August. Major sub-indices moved higher, including production, which moved from contraction (48.4) to expansion (56.6). New orders rose 5.3 points to 60.4, which bodes well for growth heading into 2018, while employment rose 1.7 points to 54.9, and inventories rose 11.8 points to 54.4 (also moving into expansion). November marked the fourteenth month of expanding or stable conditions for manufacturing (the longest run since 2005).

Retail turnover rose 0.5% in October, beating the expected 0.3% rise, with department stores growing 0.5% in what has been a mostly disappointing round of pre-Christmas sales. The major food retailing sector rose 0.3%, cafes and restaurants gained 1.7%, and clothing, footwear & personal accessory retailing grew 1.0%. October's upside surprise came as Amazon began taking online orders in Australia.

The Westpac Melbourne Institute **Index of Consumer Sentiment** fell 1.7% to 99.7 from 101.4 in October. While the Index is still up 4.4% from its August low, the November decline takes it back below 100, indicating pessimists again outnumber optimists. Just under a third of Australians expect to spend less on gifts this year than last, with 54% expecting to spend about the same and just 11% spending more – the lowest proportion since this survey question appeared in 2009.

Australia balance on goods & services – goods credits ($A billion)



Source: ABS

Australia's **balance on goods and services** fell a seasonally adjusted $1.499 billion to post a surplus of $0.105 billion in September. Exports of general merchandise fell $1.159 billion and non-rural goods fell $1.074 billion. In a sign the metals rally may have peaked, exports of metal ores and minerals fell $793 million. On the debits side, imports of general merchandise grew $461 million and consumption goods rose $197 million.

Global

The second estimate of **US Q3 GDP** indicated real growth of 3.3%, revised upwards from the initial reading of 3.0% and beating the anticipated 3.2%. Consumer spending grew by 2.3%, revised down from 2.4%, while business equipment spending rose 10.4%, reaching a three-year high. The **ISM manufacturing PMI** moved lower in November from 58.7 to 58.2, but remains firmly in expansion. New orders grew from 63.4 to 64.0, while production rose 2.9 points from 61.0 to 63.9. Employment (59.8 to 59.7), supplier deliveries (61.4 to 56.5) and inventories (48.0 to 47.0) were all lower. Respondents reported robust conditions, reporting strong demand heading into 2018, with employment conditions fairly tight.

Non-farm payrolls rose 228,000 in November, building on October's gain of 261,000. The unemployment rate was unchanged at 4.1%, and the number of persons employed part-time for economic reasons was essentially unchanged at 4.8 million. The largest employment gains came from professional and business services (+46,000) and manufacturing (+31,000). The broader U-6 measure of unemployment, which includes discouraged workers and those marginally attached to the labour force, rose slightly in November from 7.9% to 8.0%, but is still relatively low compared to previous months.

US CPI moderated in October, rising 0.1% on a seasonally adjusted basis and 2.0% on an unadjusted y/y basis. Gasoline prices jumped 10.8% after rising 13.1% in the previous month. All items less food and energy rose 1.8% y/y, driven predominately by a 3.2% rise in shelter. The core PCE index – the Fed's preferred measure – was steady at an annual 1.4%, down from the more promising level of 1.9% reached at the start of the year and still below the 1.7% forecast for 2017.

Turning to Europe, **euro area GDP** grew by 0.6% in Q3 according to November's estimate, bringing growth over the past 12 months to 2.6%. Growth across the 19 eurozone countries has improved steadily over the past year, and the recovery has also become more broad-based, both across different countries and sectors. **Euro area inflation** is expected to be 1.5% p.a. in November, up on October's reading of 1.4%. Core inflation (excluding energy, food, alcohol and tobacco) was steady at 0.9%.

Euro area unemployment was down in October from 8.9% to 8.8%. The lowest rates were recorded in the Czech Republic (2.7%), Malta (3.5%) and Germany (3.6%). The highest rates are still evident in Greece (21.6%), which has fallen gradually from over 23% since the start of 2017, and Spain (16.7%), which has experienced a similar gradual decline.

The eurozone's tax-to-GDP ratio (sum of taxes and net social security contributions as a percentage of GDP) stood at 41.3% in 2016, with Greece's ratio growing the

Month in Review

largest, moving from 39.8% in 2015 to 42.1% in 2016. The Greek government unveiled its budget in November, projecting economic growth of 2.5% in the coming year and a primary surplus of 2.4%, which is higher than the country's creditors anticipated.

China's official PMI survey was higher in November, pushing from 51.6 to 51.8 and slightly higher than the expected 51.4. The Caixin PMI, which surveys smaller, private manufacturers, moved slightly lower from 51.0 to 50.8. China's CPI was lower in November, posting 1.7% y/y, down from 1.9% in October and below the expected 1.8%. In other **emerging markets**, Brazil's GDP grew 1.4% y/y in Q3, with CPI rising from 2.8% from 2.7% in October. India's GDP grew by 6.3% y/y in Q2, up from 5.7% in Q1 but slightly lower than the expected 6.4%. The Reserve Bank of India held rates steady at 6.00%. In Russia, GDP rose 1.0% in Q3, slowing from 1.8% in Q2 and lower than the 2.2% growth the government had been expecting.

Commodities

November saw commodities take a mostly downward path after a strong showing in October. Lead (+2.3%) and Tin (+1.3%) were able to find some higher ground but had a quiet month, while Nickel (-9.6%) retreated after climbing aggressively through October and early November. Aluminium (-5.2%) fell in November after hitting what may have been a cyclical high in October, while Zinc (-3.3%) and Copper (-1.1%) were also lower.

Gold was up 0.3% through November, reaching a price of US $1,275.01, down on its September peak and mostly flat through November as geopolitical tensions failed to trigger a flight to safety. It was a different story for iron ore, however, with the price of the mineral delivered to Qingdao in China rising 16.6% in November from US $58.44/t to $68.16, still down on its recent August high of $78.91. In oil markets, the Brent spot price gained 3.6% from US $61.35/b, and WTI rose 5.6% from $54.36/b to $57.40.

Currencies

The AUD was lower over the three months to November, falling 4.0% in trade-weighted terms and down against major currencies. The AUD has fallen 4.6% against the USD over three months, building to a high of 0.8077 in September to end November at 0.7563. The AUD has fallen against the EUR (-4.7%), JPY (-2.6%), GBP (-8.9%), and NZD (-0.1%).

The US Dollar Index has fallen 0.1% over the three months to November, with the currency appearing to recover from September before heading back down. The USD reached a high of 0.8634 against the EUR in early November before falling steeply to end the three-month period at 0.8409 (-0.1%). The USD has gained against the JPY (+2.1%) and CHF (+2.3%) and fallen against the GBP (-4.5%).

Month in Review