Month in Review

Index returns at end April 2018 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	3.91	0.34	3.37	5.46	5.70	7.53	5.29
S&P/ASX Small Ordinaries Accumulation Index	2.75	0.44	7.11	18.45	11.07	8.05	1.28
Global Equities							
MSCI World TR Index (AUD)	2.85	1.92	5.31	12.79	9.75	17.11	8.46
S&P 500 TG Index (AUD)	2.01	1.08	5.46	12.22	12.20	20.39	11.46
FTSE 100 TR Index (AUD)	6.60	5.06	7.74	14.46	4.34	11.42	4.56
MSCI Emerging Markets NTR Index (AUD)	1.17	-0.02	6.45	20.58	7.56	11.63	4.46
Real Estate Investment Trusts (REITs)							
S&P/ASX 300 A-REIT Accumulation Index	4.28	1.10	3.12	1.60	7.62	9.99	3.30
FTSE EPRA/NAREIT Dev. NTR Index (AUD Hgd)	2.87	-1.28	0.79	3.05	3.72	5.93	4.79
Fixed Interest							
Bloomberg Ausbond Composite +Yr Index	-0.35	0.79	0.86	2.16	2.71	3.91	6.01
Bloomberg Ausbond Bank Bill Index	0.16	0.44	0.87	1.75	1.96	2.26	3.44
Barclays Global Aggregate TR Index (AUD Hgd)	-0.38	0.22	-0.04	1.74	3.17	4.30	6.80

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 S&P/ASX 200 Accumulation Index rose 3.8% in April, driven by rises in commodity prices, allowing the index to rebuild following falls through February and March. All sectors were positive, with Energy (+10.7%) and Materials (+7.4%) the top performers. Oil and gas giant Woodside Petroleum's Q1 results revealed an 18% rise in revenue on Q4, underpinned by both price and volume increases. Aluminium had a bumpy ride over the month due to uncertainty around President Trump's proposed tariffs.

After surging to its highest price since 2011, the metal plunged 8% to the end of the month, putting a halt to the rallying Rio Tinto (+9.9%) and South32 (+15.5%). Financials (+0.1%) were flat through the month, with AMP (-19.0%) under pressure in the wake of the Royal Commission into Financial Services, while insurers IAG (+5.6%) and Suncorp (+5.1%) had a positive month. The defensive Telecommunications (+1.9%) and Utilities (+2.2%) sectors underperformed the index in April as the more economically sensitive sectors took centre stage.

Global equities

The MSCI World ex-Australia Index rose 2.8% in Australian dollar terms as global equity markets recovered from the previous month. In the US, the S&P 500 Index gained 0.3%, reaching a high of 2709 points to end the month at 2648. While Q1 earnings season was mostly met with approval, there were signs of cost inflation creeping into results, with the impact felt across major Consumer Staples (4.5%) and Industrials (-2.9%) sector shares. After markets were rocked by volatility in February, the VIX settled at an average of 18.0 over April—still higher than the historic lows of 2017. In Europe, the broad STOXX Euro 600 Index rose 3.9%, led by the Oil & Gas (+12.1%) and Retail (+8.7%) sectors, with a surprise multi-million pound merger between British supermarkets Sainsbury's and ASDA announced at the end of the month, which will come under scrutiny from regulators. In Asia, Japan's Nikkei 225 Index gained 4.7% and Hong Kong's Hang Seng rose 2.4%, while China's CSI 300 Index was down 3.6%.

REITs

The S&P/ASX 300 A-REIT Accumulation Index gained 4.3% in April, with investor concerns about a rising interest rate environment unable to hold the sector back. After falling through Q1 2018, shopping centre REITs bounced back in April, with Westfield (+8.0%) higher as directors unanimously urged shareholders to approve the $30 billion takeover bid from French property behemoth Unibail-Rodamco. Meanwhile, Scentre Group (+5.2%) shrugged off fears of a potential Myer collapse, saying it could adjust the mix of retailers inside its centres if necessary. But it seems retailers should not hold out for rent relief in the near future.

Industrial property REIT Goodman Group (+7.6%) continues to benefit from its biggest client, Amazon, which is expanding its Australian presence with a fulfilment centre in South West Sydney. Globally, the FTSE EPRA/NAREIT Developed Market Index (AUD hedged) rose 2.9% in April. US REITs rose 0.4% in USD terms, boosted by warehouses (+4.9%) and hotels (+3.8%) and dragged down by malls (-1.0%) and diversified managers (-1.6%).

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Fixed income

Australian bonds returned -0.35% in April, with Australian government bonds returning -0.56% and longer-term government bonds (ten years plus) returning -1.24%. Globally, the Bloomberg Barclays Global Aggregate Bond Index (AUD hedged) returned -0.38% as trade tension between the US and China put upward pressure on yields, and rising commodity prices also forced inflation expectations higher. The US 10-year Treasury yield crept above 3.00% in April—the first time it has broken through since January 2014—however shorter-term rates have also risen in line with the Fed's tightening path, producing a very flat looking yield curve. US net borrowing totalled $488 billion in Q1 2018, exceeding the old record of $483 billion in Q1 2010, with Treasury Secretary Mnuchin affirming his faith in the bond market's ability to absorb rising government debt. The Japanese 10-year yield rose from 0.04% to 0.05%, still hovering above the Bank of Japan's zero yield target. The German 10-year yield rose from 0.49% to 0.56%, while the 5-year yield rose from -0.11% to -0.06%.

ASX 200 share movements

S&P/ASX 200 share performance for the month to April

Best performers	
Beach Energy	30.04%
Healthscope	25.58%
Santos	21.10%
Infigen Energy	17.95%
APN Outdoor Group	17.67%

Worst performers	
AMP	-19.04%
G8 Education	-14.39%
Navitas	-13.71%
Perpetual	-13.45%
nib Holdings	-12.70%

S&P/ASX 200 share performance for the year to April

Best performers	
a2 Milk Co	264.84%
Bellamy's Australia	259.67%
Lynas Corp	183.52%
Altium	152.37%
Beach Energy	123.34%

Worst performers	
Retail Food Group	-82.58%
Mayne Pharma Group	-49.44%
Australian Pharmaceutical Industries	-36.86%
G8 Education	-34.70%
Sigma Healthcare	-34.04%

Economic News

Australia

In a decision that undoubtedly surprised very few, the RBA left the **cash rate** on hold at 1.50% at its May meeting, making this the 21st successive month and the longest spell of inactivity since 1990. While there was no discernible shift in rhetoric, the Bank noted that inflation is moving in line with expectations, sitting just below the target 2% rate. **March quarter CPI** growth was 0.4% and 1.9% through the year, and appears to be gaining a foothold. While inflation is still below target nationally, the ABS notes that the East Coast is generally experiencing inflation in excess of 2%, boosted by the Housing and Food groups.

Growth is expected to be around 3.25% through 2018 and 2019, supported by public infrastructure spending, which should help reduce spare capacity. However, the Australian economy is still marked by ongoing consumer caution, and policymakers remain concerned about the impact of any interest rate rise on the household sector, especially given current low wages growth and high levels of household debt.

Australia's labour market continues to tighten, with 4,900 seasonally adjusted jobs added in March. Full-time employment fell 19,900, offset by a rise in part-time employment of 24,800. The **unemployment rate** was steady at 5.5%, where it has been for the past seven months. The number of unemployed persons looking for full-time work rose 9,300 to 522,400, while monthly hours worked rose 4.5 million hours to 1,740.4 million. The labour force participation rate rose to an all-time high in March, reaching 65.7%, with the trend of greater female participation contributing to the historic high.

The **AIG Manufacturing Index** fell 4.8 points to 58.3 points in April, indicating a slower but still buoyant rate of expansion. April marked the nineteenth month of expanding or stable conditions. Major sub-indices experienced a slowdown in the rate of expansion, including new orders (-5.0 points to 61.6), employment (-3.9 points to 56.1) and deliveries (-12.8 points to 53.8). Stocks (-6.2 points to 49.8) and exports (-10.9 points 48.0) slipped into contraction, while sales (-1.4 points to 62.5) and production (-0.1 points to 62.1) were steady.

Month in Review

The Westpac Melbourne Institute **Index of Consumer Sentiment** fell in April from 103.0 to 102.4, remaining in optimistic territory but still well below the 105-115 levels typically associated with a strong consumer-led economy. The sub-index tracking views on finances over the next 12 months posted a sharp fall of 5.8%, while the economic outlook over the next five years rose 2.9%, unwinding part of March's 4.4% drop, which was likely due to the escalating tariff war.

Retail turnover disappointed in March, with total turnover flat across the month. All sectors were lower except the major food retailing component, which rose a solid 0.7% in seasonally adjusted terms. The biggest hits came from cafes & restaurants (-0.8%) and department stores (-0.5%). Excluding food sales, which provides a better indication of discretionary spending, retail turnover was down 0.5%. Economists had predicted a rise of 0.2%.

Australia's **balance on goods and services** was a surplus of $1,112 million in March, an increase of $317 million on the previous month. Total goods credits rose by $447 million, with gains in general merchandise (+$317 million), non-rural goods (+191 million) and non-monetary gold (+131 million) exports. On the debits side, the balance was improved by a reduction in consumption goods imports (-$198 million), while imports of fuels and lubricants (+416 million) and intermediate merchandise goods (+381 million) rose.

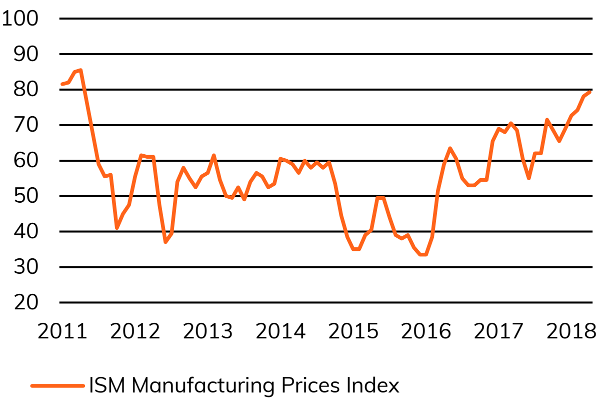
Global

The advance estimate reading for **US Q1 GDP** growth was an annualised 2.3% versus an anticipated 2.0%. Consumer spending grew at its weakest rate in nearly five years, although households are expected to be bolstered by the Trump administration's $1.5 trillion income tax package, which in combination with increased government spending should mean Q1's softer reading is only a temporary setback. Growth in consumer spending, which accounts for more than two-thirds of economic activity, ground to a 1.1% rate, the lowest since Q2 2013. While the market remains uncertain as to how the tariff war will play out between the US, China and Europe, for the meantime a low US dollar and strengthening global economy are providing a tailwind for exports.

The **ISM manufacturing PMI** fell from 59.3 to 57.3 in April, but remains firmly in expansion. Several major sub-indices slowed, including new orders (-0.7 points to 61.2), production (-3.8 points to 57.2), employment (-3.1 points to 54.2), and inventories (-2.6 points to 52.9), while supplier deliveries (+0.5 points to 61.1) pushed higher. The prices sub-index (+1.2 points to 79.3) expanded at its fastest rate since April 2011 in signs that higher commodity prices are translating into higher prices for raw materials, including steel, aluminium and copper. Manufacturers reported a tightening supply chain market and labour shortages, while others voiced concern about recent steel tariffs, which have made it harder to source materials.

US CPI fell 0.1% in March on a seasonally adjusted basis, but rose to 2.4% year-on-year on an annual unadjusted basis. Core inflation, which excludes food and energy, rose 0.2% over the month and 2.1% year-on-year, and is now sitting just above the Fed's 2% target. The core PCE index—the Fed's preferred measure—jumped from 1.6% to 1.9% year-on-year in March, in what is perhaps the strongest evidence yet that inflation is starting to take hold. Markets reacted by driving the US 10-year Treasury yield to 3.0%, with investors now concerned about the potential for inflation to overrun and prompt the Fed to tighten faster.

ISM Manufacturing Prices Index



Source: Institute of Supply Management

Non-farm payrolls showed an increase of employment of 164,000 in April, lower than the expected 189,000 but enough to move the unemployment rate through the 4.0% barrier to 3.9%. Claims for unemployment benefits fell during the month and the number of Americans receiving jobless aid fell to its lowest level since 1973.

Eurozone **investor confidence** weakened for the fourth straight month in May following a series of soft economic data covering the bloc. The index compiled by Sentix fell to 19.2, from 19.6 in April, and has dropped dramatically from 32.9 at the start of the year, with trade tensions weighing on sentiment.

Inflation in the euro area remains sluggish, with the CPI falling to 1.2% in April, down from 1.3% in March, while core inflation fell sharply from 1.0% to 0.7%. The ECB still believes inflation will rise to 1.7% by 2020, with oil prices expected to lift the headline rate in coming months. Real GDP in the euro area has expanded for 20 consecutive quarters, but March quarter growth appears to have pulled back. Europe's composite PMI, which is closely correlated with growth in the euro area, still remains above its long-term average and is close to a 12-year high, with a pickup in services activity in April.

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Unemployment in the eurozone was stable in March at 8.5%, down on March 2017's reading of 9.4% and the post-crisis peak of 12.1% in April 2013. Germany's unemployment rate fell from 3.5% to 3.4% and is now at its lowest level since 1995. In comparison, Italy's rate has fallen to 11.0% from a post-crisis peak of over 13%, and in Spain the rate has fallen to 16% from a post-crisis peak of over 26%. In France, President Macron's reformist resolve is being tested by industrial action from rail unions protesting the overhaul of railway company SNCF.

Chinese data for the early part of 2018 suggests the economy has slowed marginally after the better than expected growth in 2017. The March quarter GDP may have come in at a steady 6.8%, but PMI indicators of manufacturing activity still appear weak, while investment spending also continues to soften. The official PMI rose narrowly to beat expectations in April, but was still one point down on March at 51.4. The Caixin PMI index rose to 51.1 from 51.0, while March industrial production data showed output growth falling to 6.0% from 7.2% in February.

The March money supply and total financing data pointed to an ongoing slowdown in credit, largely in the shadow banking sector, and M2 money supply growth eased to 8.2% from 8.8%. In response to the imposition of tariffs on Chinese steel and a range of industrial technology, auto and medical products, China announced tariffs on a broad range of US goods, including sorghum, wine, fruit and nuts. The measures are designed to target President Trump's supporters in the US, forcing both countries to come to the table.

Commodities

Commodities were full steam ahead in April, as a combination of tariff fears and a pickup in global trade added to price momentum. Aluminium was the biggest gainer, rising 12.5% over the month, while other base metals including nickel (+2.6%), copper (+1.4%) and tin (+0.4%) also rose, and zinc (-4.5%) and Lead (-3.1%) were down. The price of iron ore delivered to China (62% Fe) rose from US $61.87/t to $68.56. Gold was lower in April, falling 0.8% to US $ 1315.39/oz after hitting a high of $1353.38. Oil prices headed north during the month, with WTI rising 5.7% to US $68.56/b and Brent increasing 10.0% to $75.92 and now comfortably above the $70 mark.

Currencies

The Australian dollar fell -1.7% against the US dollar in April and -1.2% on a trade-weighted basis, finishing the month at USD 0.75. The relative weakness in the Australian dollar was mostly due to renewed strength from the greenback, which rose late in the month in response to inflation data. The Australian dollar was steady against the British pound and euro, and higher against the Japanese Yen.

Over three months to April, the AUD has fallen 6.3% against the USD from its high at the end of January, and has weakened against other major currencies including the EUR (-3.8%), JPY (-6.5%), GBP (-3.5%) and NZD (-2.1%). On a trade-weighted bases the AUD has fallen 5.2% over the three months. The USD has strengthened against major currencies, including the EUR (+2.6%), JPY (+0.2%), GBP (+3.0%) and CHF (+6.1%). The US dollar index has risen 3.0%.

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