Month in Review

ISSUE DATE: 7-09-2015

Market Moves — as at 31•08•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	-7.79	-8.84	-10.09	-3.16	11.25	8.16	6.18
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-4.87	-10.89	-9.08	-9.62	0.38	-0.72	0.88
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	-4.03	-0.07	3.27	26.45	26.28	16.78	6.58
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	-2.67	1.58	4.54	32.56	29.62	21.27	7.77
FTSE100 ACCUMULATION INDEX (A$)	-5.00	-2.60	0.18	14.84	19.42	12.23	4.30
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	-6.53	-11.20	-7.61	1.44	10.85	3.95	6.45
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	-4.02	-2.61	-2.89	14.24	16.78	13.51	2.07
FTSE EPRA/NAREIT DEVELOPED NR (A$) HEDGED	-5.92	-5.95	-7.75	3.92	12.41	13.06	
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.64	1.00	0.68	6.29	5.15	6.39	6.32
BLOOMBERG AUSBOND BANK BILL INDEX	0.18	0.54	1.13	2.51	2.78	3.55	4.64
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	-0.10	0.03	0.20	4.81	5.61	6.82	7.27

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, underperformed its global peers – down -7.8% in August. Banks were one of the worst performing domestic sub-sectors, posting a total return of -12.6% during the month, weighed down by $8 billion of equity raisings. Domestic Energy continued to perform poorly relative to the global Energy sector. However, Australian Mining & Metals bucked this trend, likely reflecting the rise in the iron ore price. The Australian market was also pre-occupied with reporting season, the key feature of which was weak FY16 guidance despite in-line FY15 results for many high profile companies.

The S&P/ASX Small Ordinaries Accumulation Index outperformed its large cap counterpart, down -4.9%. Yet, over 12 months, the large cap market is ahead of the smaller companies benchmark.

Global equities

Volatility across global share markets kicked up a gear in August, with a variety of issues concerning investors. The major culprit was a series of Chinese currency devaluations and the related issue of China's faltering economy. This led to a sharp rise in risk aversion which saw equity market volatility spike to multi-year highs and bond yields fall. Almost all equity markets posted double-digit losses at their lows on the 24th or 25th of August, before rallying in the last few trading days of the month. In the US, the S&P 500 Accumulation Index finished the month -2.7% lower despite reasonably strong fundamentals. Almost three-quarters of the S&P 500 companies that had reported by month's end, beat earnings expectations according to FactSet. The MSCI World Accumulation Index was down also down -4.0% in August. Globally, defensive sectors such as Telecommunications and Utilities outperformed cyclical sectors such as Materials and Consumer Discretionary. Mining & Metals were the worst performing sub-sector globally.

Emerging markets, particularly China (-11.7%), underperformed as measured by the MSCI Emerging Markets Index which was down -6.5%. Aside from China, the largest losses came from Brazil (-8.4%) and Malaysia (-6.9%). Russia (+1.2%), Argentina (-1.3%) and Mexico (-2.1%) were the best performers.

REITs

The A-REIT sector has been on a negative skew since peaking in January 2015, yet continues to outperform general equities in a low growth and low bond yield environment. The S&P/ASX 300 A-REIT Accumulation Index fell -4.0% in August representing the level of fear dominating markets over the month. Following FY15 reporting season, A-REIT Net Operating Income growth averaged +2.7% across the sector in the period to June 2015, up 1.0% over the year, with all sub-sectors improving.

The G-REIT market, as measured by the FTSE EPRA/NAREIT Developed Index (A$) Hedged posted a negative return of -5.9% in August.

Fixed interest

Demand for "safe haven" sovereign bonds increased as global equity markets corrected leading to a new wave of low yields as their prices increased. However, the Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, was up 0.64%. The Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, also finished 0.18% higher. The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A$) was down -0.10.

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ASX 200 Stock Movements

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

BEST PERFORMERS		WORST PERFORMERS	
PACIFIC BRANDS	+41.67%	SENEX ENERGY	-36.17%
SIMS METAL MANAGEMENT	+21.35%	BEACH ENERGY	-31.28%
BLUESCOPE STEEL	+18.73%	SANTOS	-30.68%
OZFOREX GROUP	+16.52%	DRILLSEARCH ENERGY	-29.38%
SPARK NEW ZEALAND	+13.01%	APN NEWS & MEDIA	-29.37%

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

BEST PERFORMERS		WORST PERFORMERS	
QANTAS AIRWAYS	+128.57%	ARRIUM	-83.88%
SELECT HARVESTS	+105.27%	MMA OFFSHORE	-78.57%
NUFARM	+65.89%	BRADKEN	-75.21%
SIRTEX MEDICAL	+59.13%	SENEX ENERGY	-74.36%
TPG TELECOM	+55.72%	SANTOS	-65.41%

Note: Stock movements calculated as price return

Economic News

Australia

Total employment for July rose 38,500 although the unemployment rate surged to a 13-year high of 6.3%. The leap in unemployment was attributable to a surge in participation, from 64.8% to 65.1%. The participation rate is back to the average since March 2008. The wage price index for Q2 rose 0.6% q/q or 2.3% y/y – a record low annual rate of growth.

Australian output surprised to the low side in Q2 with GDP expanding by only 0.2% while annual GDP growth slowed to 2.0% from 2.5% in Q1. Despite the lower headline GDP number, domestic demand held up reasonably well amidst surprising strength in government spending and a more moderate decline in business sentiment than might be expected given the current phase of the mining investment cycle. Nevertheless, household consumption was on the soft side, while dwelling investment recorded a surprise decline – inconsistent with the pipeline of residential construction that has accumulated to date.

Australia's current account deficit widened sharply in the June quarter as exports weakened to $19.0 billion, a $5.5 billion deterioration from Q1. The deficit represents 4.7% of GDP, the largest in five years.

The six month annualised deviation from trend growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months in the future, decreased from 0.02% in June to -0.49% in July. This suggests the economy will lose momentum in the coming months.

Global

US economic data uncharacteristically took a back seat to the deteriorating Chinese economy. Nevertheless, US economic data releases remained strong. The ISM manufacturing index for July recorded 52.7 while the non-manufacturing ISM index jumped to 60.3. Durables orders for July rose a much stronger-than-expected 2.0% with prior months revised up. GDP growth was revised upwards in August to an annual pace of 3.7% for the second quarter in 2015 after annual growth of 2.3% was reported in the previous month. Non-farm payrolls for July rose 215,000 and the unemployment rate remained unchanged. The strengthening data gives weight to the prospect of a rate rise by the Federal Reserve later this year.

Economic data in China continued to weaken. Early in August the official PMI for July came in at 50.0. The preliminary Caixin/Markit Manufacturing Purchasing Managers' Index for August fell to 47.1 – the worst reading since March 2009 and the sixth straight reading below the 50-point level, which separates growth in activity from contraction. Industrial production for July grew at a worse-than expected 6.0% y/y while exports for July fell 8.3% y/y.

Late in the month the People's Bank of China announced another 25 basis point cut each in the benchmark lending rate and deposit rate (the fifth cut in nine months) and lowered the Reserve Requirement Ratio for banks by another 50 basis points. The Chinese authorities also took an unprecedented step of imposing a ceiling for local government debt at 16 trillion yuan, consisting of 15.4 trillion yuan outstanding and another 600 billion of additional borrowing allowed this year.

Commodities

Commodity prices generally fell during the month. By far the biggest commodity story of the month was the roller-coaster ride of the oil price, which spent most of the month falling, touching a 7.5 year low of US$42.70 per barrel on the 24th of August before rebounding 27% over the next few trading days. The iron ore price displayed an uncharacteristic lack of volatility and

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managed to post a gain during August, as did gold. Nickel was the worst performing base metal during the month, falling 9% to its lowest in nearly seven years.

Currency

The USD Index weakened 1.6% in August. The weakest developed market currencies against the US dollar were the New Zealand dollar (-3.8%), Australian dollar (-2.7%), and British pound (-1.8%), while the Japanese yen (+2.2%), euro (+2.1%), and Swedish krona (+1.8%) all strengthened against the US dollar. The US dollar was strongest against emerging market currencies with the biggest losses seen in the Malaysian ringgit (-8.5%), Brazilian real (-5.5%), and the Turkish lira (-4.9%).