Month in Review

ISSUE DATE: 6-11-2015

Market Moves — as at 31•10•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	4.37	-6.61	-7.30	-0.74	9.84	7.08	6.21
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	7.12	1.36	-2.83	2.43	0.63	-1.83	1.49
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	6.02	-0.49	7.38	25.99	27.14	16.97	6.86
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	6.73	2.28	11.40	29.61	31.62	21.83	8.35
FTSE100 ACCUMULATION INDEX (A$)	5.55	-2.13	3.41	19.91	19.54	12.25	4.66
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	5.22	-3.15	-8.84	5.61	10.41	3.94	6.51
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	4.87	0.37	4.62	18.21	16.04	14.82	2.72
FTSE EPRA/NAREIT DEVELOPED INDEX (A$)	5.64	0.77	0.42	8.71	13.98	12.43	6.90
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.30	1.19	1.59	6.22	4.99	6.70	6.43
BLOOMBERG AUSBOND BANK BILL INDEX	0.19	0.55	1.11	2.43	2.69	3.46	4.58
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	0.49	1.15	1.02	5.23	5.61	6.98	7.49

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, posted a 4.4% total return during the month but nevertheless underperformed its regional and global counterparts. Energy was the best performing domestic sector - up 8.0%, in line with the global trend. However, the Australian Mining & Metals sub-sector heavily underperformed its global counterpart, dragged down by a weakening iron ore price.

The S&P/ASX Small Ordinaries Accumulation Index also performed strongly, up 7.1%. This outperformance relative to its large cap counterpart was driven by the turnaround in small resources companies, which were up 16.2% in October. Other notable outperformers over the month included vitamin maker Blackmores, Domino's Pizza, and baby foods producer Bellamy's Organic.

Global equities

After mostly weak performance recorded in September, global share markets rebounded over October to record their best month in four years. This occurred against a backdrop of generally weakening economic data in most major economies, which saw the Fed hold off on raising rates, the People's Bank of China cut rates, and rising speculation of further easing from the European Central Bank (ECB) and Bank of Japan.

While the timing of the Fed lift-off remains uncertain, the S&P 500 Accumulation Index still gained 6.7% over the month. Earnings momentum supported the rally; 76% of companies in the index beat analyst EPS estimates, with only 30% yet to report at month's end according to JP Morgan. Solid results from Microsoft, Google and Amazon confirmed the transition to a new age economy is well underway.

Other global markets were all stronger across October: Japanese Nikkei +9.7%, Hong Kong Hang Seng +8.6%, German DAX +12.3%, UK FTSE 100 +4.9%.

REITs

The S&P/ASX 300 Property Accumulation Index returned 4.9% in October, outperforming the broader domestic market. The sector is up ~18% over the past 12 months or ~13% YTD. Office stocks have lagged the market over the past year returning 13.6%, vs. the sector 12 month return of 18.2%. Residential stocks regained the previous month's losses.

Globally, REITs returned 5.6% over the month, as measured by the FTSE EPRA/NAREIT Developed Index. New Zealand was the top performing region in USD terms (+11.9%), while Japan was the worst (+3.2%).

Fixed interest

Bonds were little changed over the month and remain influenced by the conflicting forces of weak growth, monetary stimulus and reserve manager selling. The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, was up 0.3%. The Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, similarly finished 0.2% higher.

US long bond yields finished the month slightly higher after the Fed appeared to leave the door open to tightening monetary policy at its next meeting in December. The Barclays Global Aggregate Index (Hedged A$) inched up 0.5% in October. Otherwise, Eurozone and Japanese bond yields finished the month lower on talk of further QE.

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ASX 200 Stock Movements

S&P/ASX 200 Stock Performance for the Month of October 2015

BEST PERFORMERS		WORST PERFORMERS	
REGIS RESOURCES	+42.96%	DICK SMITH	-53.82%
EVOLUTION MINING	+37.75%	LIQUEFIED NATURAL GAS	-46.42%
NORTHERN STAR RESOURCES	+36.63%	AWE	-32.26%
BEGA CHEESE	+28.89%	CREDIT CORP GROUP	-25.11%
DRILL SEARCH ENERGY	+26.40%	ORIGIN ENERGY	-23.89%

S&P/ASX 200 Stock Performance for the Year to October 2015

BEST PERFORMERS		WORST PERFORMERS	
NORTHERN STAR RESOURCES	+150.91%	MMA OFFSHORE	-77.42%
EVOLUTION MINING	+150.45%	BRADKEN	-74.87%
DOMINO'S PIZZA ENTERPRISES	+72.64%	ARRIUM	-70.15%
NUFARM	+69.09%	DICK SMITH	-68.41%
MAGELLAN FINANCIAL GROUP	+67.76%	SENEX ENERGY	-65.42%

Economic News

Australia

The domestic headline CPI lifted 0.5% in Q3. The annual rate remains unchanged from Q2 at 1.5%, below the RBA's 2-3% target band for the fourth quarter in a row. This is the longest 'undershoot' since 1999. The September quarter was softer in nearly all categories indicating that competition in the Australian retail space is keeping pressure on the retail prices, preventing the usual pass through from the lower AUD.

Australia's unemployment rate remained unchanged at 6.2% (seasonally adjusted) in September, but decreased 0.1% based on unrounded estimates with the number of employed persons decreasing by 5,100 to 11.77 million.

Consumer sentiment rebounded by 4.2% in October largely offsetting a 5.6% fall in September.

NAB's Quarterly ASX 300 Business Survey rose +12 points from the previous quarter to reach a new high of +20 points. The survey claims conditions are strong in finance, business, property services and retail, but not surprisingly, mining and construction remain negative. All sub-components of the index (trading, profitability and employment) improved. Capital-expenditure edged down in Q3 but remains reasonably strong at +14 points. However, fewer non-mining firms are planning to increase cap-ex in the next 12 months, while more mining firms are expecting to cut back.

Global

US economic data releases were mostly weak in October. The closely watched ISM indices of economic activity was one of the indicators to deteriorate. The September reading for the manufacturing ISM index fell to a weaker-than-expected 50.2 – the lowest level since May 2013. Additionally, the non-manufacturing ISM index also fell to 56.9. Non-farm payrolls for September rose below consensus estimates to 142,000, although the US unemployment rate remained unchanged at 5.1%.

US GDP growth slowed in the September quarter to 0.4% q/q or 1.5% annualised, continuing the recent volatility in quarterly GDP rates. A large part of the slowdown was due to an inventory correction which will be transitionary. Consumption growth remained strong, as did housing investment, while fixed business investment and government demand continued to expand. However export and import growth continued to slow.

The Westpac MNI China Consumer Sentiment Indicator decreased by 8.5 points from 118.2 in September to 109.7 in October. The indicator is now 1.1% lower than a year ago and 8.8% below its long run average. The largest category falls were: 'business conditions next 12 months' and 'business conditions next 5 years' reflecting the evaporation of confidence in the broader economy. Consumer attitudes toward real estate were less favourable than in September, but still look resilient relative to other areas.

The People's Bank of China (PBOC) announced a 25 basis point cut to the benchmark deposit rate and lending rate. The PBOC also cut reserve requirements on bank deposits from 17.5% to 17%, with the additional targeted 50 basis point cut for qualified banks to support agriculture and SMEs lending. Additionally, after more than 30 years, China finally announced the full relaxation of the "one-child" policy nationwide.

ECB president Mario Draghi signalled the bank's willingness to undertake another stimulus package that could include more bond purchases and a cut to the already negative deposit rate, as the Eurozone struggled with subdued inflation. The Swedish central bank announced an expansion of its quantitative easing programme.

Month in Review

Commodities

Commodity prices generally fell during October on a weakening global economic backdrop. The major development during the month was the iron ore price, which fell 9% to below US$50Mt. Base metals were also generally weak, with Aluminium falling heavily to a new six-year low. The US natural gas price fell over 20% during the month. Oil and gold managed to eke out gains.

Currency

The AUD rose through most of October, eventually touching US$0.73 before easing back at the end of the month (AUD/USD +1.6%). This corresponded with Fed Chair Janet Yellen suggesting the possibility of a December rate increase, in addition to a weak domestic CPI while bank mortgage rates were increased leading to a possible RBA rate cut.

The AUD also gained against the euro (+3.3%) and Japanese yen (2.3%), while the GBP (-0.3%) and NZD (-3.9%) were both weaker.