

Month in Review

Market Moves — as at 31-01-2016

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 300 ACCUMULATION INDEX	-5.45	-3.53	-9.68	-5.83	5.28	5.46	4.56
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-5.11	-1.38	-0.04	3.59	-1.43	-3.10	0.53
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (AS)	-3.17	-7.18	-7.64	4.66	20.88	13.96	5.16
S&P 500 COMPOSITE ACCUMULATION INDEX (AS)	-2.25	-5.37	-3.21	9.36	26.68	18.79	7.20
FTSE100 ACCUMULATION INDEX (AS)	-3.47	-10.92	-12.81	-2.75	12.52	9.21	2.66
MSCI EMERGING MARKETS FREE W/GROSS DIV (AS)	-3.71	-11.31	-14.10	-12.96	3.67	1.51	2.85
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	0.95	2.06	2.44	7.47	14.58	14.93	2.18
FTSE EPRA/NAREIT DEVELOPED NR INDEX HEDGED AS	-3.62	-4.15	-3.41	-5.67	8.93	10.61	4.98
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	1.22	0.67	1.87	2.19	5.24	6.69	6.30
BLOOMBERG AUSBOND BANK BILL INDEX	0.20	0.56	1.11	2.28	2.61	3.32	4.49
BARCLAY GLOBAL AGGREGATE INDEX HEDGED SA	1.65	1.76	2.93	2.82	5.95	7.50	7.51

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 equity market, as measured by the S&P/ASX 300 Accumulation Index, experienced a volatile start to 2016 and finished January down -5.5%. Global market weakness was the key driver with Australia following the results from offshore. Commodities markets once again resumed their loss leadership with Materials and Energy falling -9.1% and -6.5% respectively, as concerns around Chinese growth intensified. The result saw defensives favoured with outperformance only in Telecommunications (+0.7%) and Utilities (+0.7%) sectors.

Growth fears were confirmed via a decline in Australia 10-year bond yields from 2.9% to 2.6% and the Australian dollar falling to a low of AUDUSD 0.683 during the month. At its worst point in January, the S&P/ASX 300 was down by ~10%.

Global equities

Global share markets were dominated by threats of slower growth in China and a precipitous drop in oil which saw inventory write-downs of US\$7.8T in the first two weeks of January. Volatility and caution remained the overarching themes this month; however, shares globally came off their lows towards the end of the month on hopes the Federal Reserve will slow the pace of future interest rate hikes. Characterised by a retreat from risky assets, the S&P500 Index finished down -2.3%, similar to the MSCI World ex Australia NR Index which lost -3.2%.

Key Asian markets were also down as news from China heightened fears the economy was slowing and attempts to prevent market wide panic failed. The Shanghai Shenzhen CSI Index (-21.0%), NIKKEI 225 Index (-8.0%) and Hong Kong Hang Seng (-10.2%) all lost significant ground. Consecutive substantial devaluations of the Yuan saw the Shanghai Composite close early, twice in one week, after hitting the daily -7% threshold. China factory activity shrank for the tenth straight month and a ban on share sales by major shareholders was put in place.

REITs

The S&P/ASX 300 Property Accumulation Index returned 1.0% in January, outperforming the S&P/ASX 300 Index, which returned -5.5%. Astro Japan Property Group saw the largest gains in the Index up 4.1% during the month; conversely Generation Healthcare REIT lost -7.7%. Domestic REITs have reported strong portfolio revaluations and cap rate compressions to December 2015, reflecting the fundamentals of the direct market over the past 12 months. This was apparent in Dexus Property Group, Investa Office Fund, Stockland, Vicinity Centres and BWP Trust.

Globally, REITs returned -4.3% over the month of January in USD terms. Similarly, the FTSE EPRA/NAREIT Developed NR Index (A\$ Hedged) lost -3.6%. Australia was the top performing region in USD terms (-1.5%), followed by Japan (-2.6%), Continental Europe (-3.4%) and the United States (-3.5%).

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Fixed interest

In January, a sharp decline in risk appetite led to high levels of market volatility and weakness in risk assets. Global bond markets saw perceived safe havens rally with Treasury, gilt and Bund yields declining. As such, high grade corporate bonds were stable and high yield bond indices sold off. The 10-year Treasury yield fell sharply from 2.27% to 1.92%, as the equivalent gilt yield fell 0.40% to 1.56%. The 10-year Bund yield dropped from 0.63% to 0.33%, shuffling off investor disappointment from December in light of renewed global growth concerns.

The investment grade Bank of America Merrill Lynch Global Corporate Index generated a return of 0.48% as the high yield equivalent fell -1.44%. The dispersion of returns across US dollar, sterling and euro markets was relatively narrow. Investment grade corporate bonds in all three currencies ended the month with positive returns, while all the high yield indices declined.

The final trading day of the month stunned the market when the Bank of Japan went against its prior view of being against negative interest rates by adopting a negative -0.1% interest rate for bank reserves. The Japanese government 10-year bond yield finished January at an all-time low of 0.11%.

ASX 200 Stock Movements

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

BEST PERFORMERS	
JB HI-FI	+19.98%
MEDIBANK PRIVATE	+16.74%
M2 GROUP	+9.97%
TREASURY WINE ESTATES	+9.16%
METCASH	+8.36%

WORST PERFORMERS	
WHITEHAVEN COAL	-41.43%
SELECT HARVESTS	-37.41%
TEN NETWORK HOLDINGS	-29.41%
SLATER & GORDON	-27.27%
WORLEYPARSONS	-26.78%

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

BEST PERFORMERS	
BLACKMORES	+384.92%
AUSTRALIAN PHARMACEUTICAL INDUSTRIES	+135.49%
DOMINO'S PIZZA ENTERPRISES	+131.05%
APN OUTDOOR GROUP	+127.38%
MAYNE PHARMA GROUP	+115.85%

WORST PERFORMERS	
SLATER & GORDON	-90.12%
LIQUEFIED NATURAL GAS	-78.52%
WHITEHAVEN COAL	-66.94%
WORLEYPARSONS	-62.49%
MESOBLAST	-62.19%

Economic News

Australia

The Australian Performance of Manufacturing Index (PMI) edged lower in January falling -0.4 points but continued its seven-month stretch in modest expansion at 51.5 points. Positive trends identified by manufacturers in January included: the low Australian dollar supported exports to Asia and the Middle East and better local orders; improved local confidence; and stronger demand for local building materials, food, groceries and healthcare products. Against this, respondents flagged headwinds from slowing automotive production, mining projects and Government infrastructure projects.

The January AIG Australian Performance of Services Index (PSI) indicated a fourth consecutive month of contraction in the services sector, rising 2.1 points but remaining below the 50-point expansion/contraction threshold at 48.4 points. The report was quite weak, with key sub-components like new orders and employment all contracting over the past several months and activity reportedly expanding in just two of the nine surveyed industries (with continued contraction in the retail sector).

Australia's trade deficit widened to \$3.5bn in December, a \$0.8bn deterioration on November, which was revised down to a deficit of \$2.7bn, from a previously reported -\$2.9bn.

December retail sales posted a disappointing finish to 2015 with sales flat during the month and volumes up 0.6% in Q4, undershooting expectations. The detail showed non-food retail sales recorded contraction in December, down -0.3% led by sizeable falls in household goods (-1.0% m/m) and 'other retail' (-0.9% m/m) segments.

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The Westpac-Melbourne Institute Consumer Sentiment Index fell -3.5% in January, slipping below the 100 level indicating pessimists outnumber optimists, albeit only marginally. Global financial market jitters were the main contributing factor.

Global

Data released for the US in January was also generally weaker. The ISM Manufacturing Index for December fell to a worse-than-expected 48.2, the second straight month of sub-50 readings indicating contraction. The non-manufacturing ISM Index for December fell to 55.3 which was also slightly below analyst forecasts. However, payrolls were once again strong. December payrolls rose 292,000, exceeding the market's forecast by nearly 100,000. Retail sales disappointed as the indicator fell from 0.2% m/m to 0.1% m/m, while retail sales ex-autos fell -0.1% m/m. The apparent weakness in retail sales seems at odds with continued strong employment gains; near full employment; and rising real wages. Industrial production for December fell a worse-than-expected -0.4% m/m while durable goods orders collapsed -5.1% m/m. Finally, Q4 real GDP grew at a weaker-than-expected 0.7% q/q (annualised).

Chinese economic data continued to weaken, raising investor concern. The 'official' manufacturing PMI for December rose marginally to 49.7 – the fifth straight month of sub-50 readings. The Caixin/Markit manufacturing PMI under-delivered on analysts' forecasts with a reading of 48.2. Industrial production for December grew at a weaker-than-expected 5.9% y/y; GDP for Q4 grew 6.8% y/y; and GDP for CY15 came in at 6.9% y/y – the weakest calendar year growth in 25 years.

In the Eurozone, the flash composite purchasing managers' index slipped to 53.5 from 54.3 in December, indicating ongoing growth albeit that this was the slowest rate of expansion in almost a year. Eurozone annual inflation (consumer price index) ticked up to 0.4% in January from 0.2% in December. France saw fourth quarter GDP growth slow to 0.2% q/q while in Spain growth picked up to 0.8% q/q.

Generally speaking, emerging markets data released in January was weak. In Brazil, inflation reached 10.7%; however, the central bank, contrary to expectations, left rates unchanged. Conversely, South Africa's central bank moved to hike rates by 50 basis points to 6.75%. Greece was the weakest market in emerging Europe as banking stocks fell heavily.

Commodities

Brent crude lost -4.5% in January with prices plunging below US\$30 per barrel for the first time since 2004 as the International Energy Agency warned the market could "drown in oversupply", a situation possibly exacerbated by the lifting of sanctions on Iran during the month. Iron ore also lost -1.4% over the month on rising supply.

Base metals were mixed with lead (-4.2%), copper (-3.1%), nickel (-2.3%) and platinum (-2.1%) all having negative performances, whilst Gold (+5.3%), Silver (+3.0%), tin (+2.0%), zinc (+0.9%) and aluminium (+0.8%) all gained.

Currency

Foreign exchange markets restored stability towards the month's end, supported by a bounce in the price of oil. The Bloomberg Dollar Spot Index closed January 1.7% higher and the USD strengthened on the vulnerability of emerging markets and oil-dependent currencies. It posted gains against all major currencies: GBP (+3.43%), AUD (+2.8%), JPY (+0.72%) and EUR (+0.23%).

The AUD weakened against most major currencies – USD (-3.30%), EUR (-2.53%), JPY (-2.03%); however, strengthened against the NZD (+2.48%) and GBP (+0.58%).

The Chinese Yuan was the big currency story of the month, as it weakened amid fears over the weakening domestic economy and accelerating capital flight risk.

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