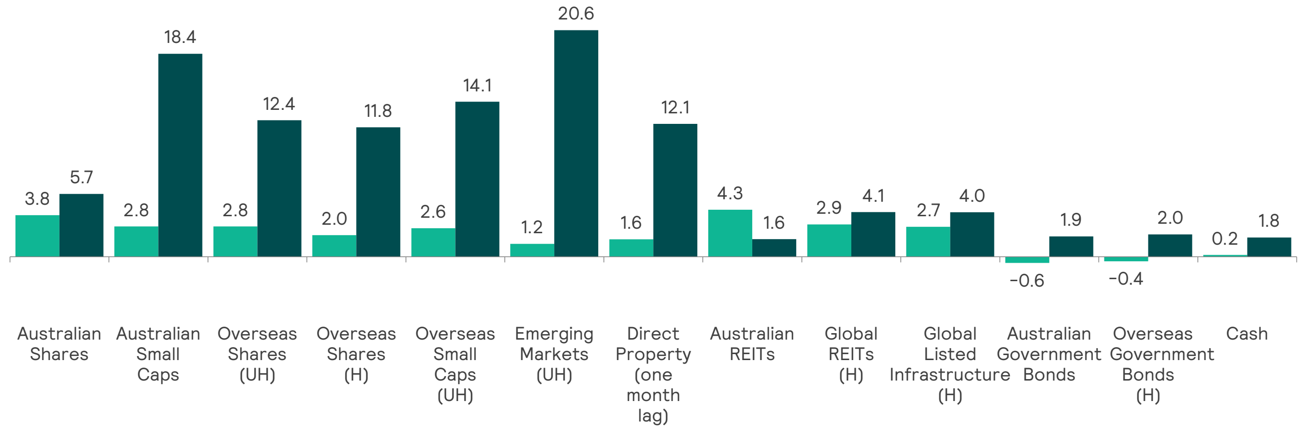
APRIL 2018

AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS
COMMENTARY

ASSET CLASS RETURNS (%) AS AT 30 APRIL 2018



Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'

■ APRIL 2018 ■ 12 MONTHS TO APRIL 2018

The air of volatility remained over April 2018, following continued trade tensions which were escalated further under President Trump with the revelation that the United States (US) would withdraw from the Iran nuclear deal, reinstating all sanctions previously removed following agreement on the deal in 2015. European allies were disappointed, expressing their desire to commit to the deal and urging Iran to do the same. This move by the Trump government was surprising following a show of solidarity just a few weeks earlier in which the US and its European allies coordinated air strikes in Syria in retaliation to the use of deadly gas attacks on civilians.

In Asia, the mood was brighter, as North Korean Leader, Kim Jong Un, hinted at denuclearisation actions following talks with Chinese President and General Secretary, Xi Jinping, with China expressing support for the idea.

Despite the increasing tension and volatility, it was a risk on environment over April as major equity markets bounced back following the setbacks over February and March. The MSCI World ex Australia (NR) Index was up 2.0% in hedged terms while the MSCI Emerging Markets Index increased 1.2% in unhedged terms.

Globally, the strongest sectors were Energy (+11.2%) and Utilities (+4.2%), spurred on by rising oil prices due to higher demand and increased tensions in the Middle East, as well as rising aluminium and nickel prices off the back of continued sanctions on Russia. The beginning of April also coincided with several major stock rebounds including Facebook, Amazon and Tesla following idiosyncratic sell-offs for each in late March. Bond yields rose over the month, following speculation of further tightening down the road for major central banks in Europe and the US.

Domestically, Australian shares outperformed their hedged international counterpart index over April, with the S&P/ASX 300 Index increasing 3.8%. Rising commodities prices and the weakening Australian dollar (AUD) against the US dollar (USD) helped Australia to outperform the global market, with Energy (+10.7%) and Materials (+7.4%) sectors providing the strongest returns. The domestic market had a breather following a tense March quarter following the opening rounds of the Royal Commission, which saw the Financials sector create a drag on the broader market. It is looking increasingly likely that lending standards will be further tightened following news coming out of the Commission, which will likely have far reaching effects on the housing market and Australian economy in general.

SIGNIFICANT DEVELOPMENTS

- The Reserve Bank of Australia (RBA) decided to leave the cash rate unchanged again in its early May meeting at 1.50% pa, the cash rate has remained at this level since August 2016. RBA Governor, Philip Lowe, noted that economic growth in the global economy has strengthened over the past year, with above-trend growth experienced in most major economies. Conditions in USD short-term money markets have tightened over the first quarter of 2018, with USD short-term interest rates increasing for reasons other than an increase in the federal funds rate. This movement has flowed through to high short-term interest rates in other countries, including Australia. The price of oil and some base metals have also experienced a recent increase in prices.

  The RBA's central forecast for the Australian economy remains for growth to pick up and average just above 3.0% across 2018 and 2019. Employment growth, whilst being quite strong over the past year, has experienced a slowdown over recent months. Recently, the AUD has slightly depreciated, but on a trade-weighted basis remains within the range that it has been in over the past two years. With the gradual improvements in the economy and a view that low interest rates will continue to support the Australian economy, the RBA believed it was appropriate to leave the rate unchanged.

- Australian seasonally adjusted employment increased 4,900 in March, below expectations for a 20,000 rise while February figures were revised to a decrease of 6,300. The unemployment rate decreased to 5.5% for March, in line with expectations. The participation rate decreased to 65.5%, below expectations to remain at 65.7%. Part time jobs increased by 24,800 while full time jobs decreased by 19,900.

- Australian building approvals increased 2.6% month-on-month (MoM) to be up 14.5% for the year to March, compared to previous levels of -4.2% (revised) and -0.5% (revised) for respective periods ending February.

- The Institute for Supply Management (ISM) Manufacturing Index recorded 57.3 in April, below consensus for 58.5, and below the 59.3 recorded in March. Of the 18 manufacturing industries, Wood Products, Electrical Equipment and Appliances & Components were the top contributors while Printing & Related Support Activities, Miscellaneous Manufacturing and Apparel, Leather & Allied Products recorded the lowest growth for the month. The ISM Non-Manufacturing Index recorded 56.8 in April, below consensus for 58.0, and below the 58.8 for March. All 18 non-manufacturing industries reported growth during April. The top performers in April were Mining, Utilities and Retail Trade and the industries recording the lowest growth were Accommodation & Food Services, Information and Health Care & Social Assistance.

- US Non-Farm Payrolls increased by 164,000 in April, above the previous 135,000 increase (revised) for March. The unemployment rate decreased to 3.9% in April.
- US gross domestic product (GDP) estimate for Q1 2018 is 2.3% quarter-on-quarter (QoQ) annualised, above expectations for 2.0%, and below the 2.9% growth estimate recorded for Q4 2017.
- The Caixin Manufacturing purchasing managers' index (PMI) in China recorded 51.1 in April, above expectations for 50.9. The indicator signals a marginal improvement in operating conditions across China's manufacturing sector.
- European Core consumer price index (CPI) estimate dropped to 0.7% over the year to April, below expectations for 0.9%.
- The Eurozone composite PMI decreased to 55.1 in April, below expectations for 55.2, but maintained an expansionary signal for the fifty-eighth month in a row.
- Eurozone seasonally adjusted GDP decreased to 2.5% for year-on-year, and also decreased to 0.4% QoQ for Q1 2018.

AUSTRALIAN EQUITIES

The Australian equity market outperformed its hedged international developed counterpart index over the month, as the S&P/ASX 300 Index increased 3.8%. The S&P/ASX 50 was the strongest relative performer, increasing 4.1%, while the S&P/ASX Small Ordinaries was the weakest, increasing 2.8% over the month.

The best performing sectors were Energy (+10.7%) and Materials (+7.4%) while the weakest performing sectors were Financials (+0.1%) and Telecom Services (+1.9%). The largest positive contributors to the return of the index were BHP Billiton, CSL and Rio Tinto, with absolute returns of 10.1%, 9.7% and 10.3% respectively. In contrast, the most significant detractors from performance were AMP, CBA and Boral with absolute returns of -18.6%, -0.7% and -7.3% respectively.

GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index increased 2.0% in hedged terms and 2.8% in unhedged terms over the month, as the AUD depreciated against the USD. The strongest performing sectors were Energy (+11.2%) and Utilities (+4.2%), while Consumer Staples (-0.4%) and Industrials (+0.8%) were the worst performers. In AUD terms, the Global Small Cap sector was up 2.6% and Emerging Markets increased by 1.2%.

Over April, the NASDAQ remained flat, the S&P 500 Composite Index increased by 0.4% and the Dow Jones Industrial Average increased by 0.3%, all in USD terms. In local currency terms, major European equity markets experienced positive returns as the FTSE 100 (United Kingdom (UK)) increased 6.8%, the DAX 30 (Germany) increased by 4.3% and the CAC 40 (France) increased by 7.2%. In Asia, the Japanese TOPIX (+3.6%), Hang Seng (+2.5%) and Indian S&P BSE 500 (+6.5%) all increased while the Chinese SSE Composite (-2.7%) decreased over April.

REAL ASSETS

The Real Assets sector was positive over April. The FTSE Global Core Infrastructure index increased 2.7% while Global REITs also increased 2.9% over the month (both in AUD hedged terms). Domestic REITs posted an increase of 4.3% over April, while Australian Direct Property (NAV) returned 1.6% on a one-month lagged basis.

FIXED INTEREST

Global bond markets were broadly negative over April as yields generally rose across major regions. The Barclays Capital Global Aggregate Bond Index fell 0.4% while the Citigroup World Government Bond (ex-Australia) Index fell 0.4% over the month. Ten-year bond yields rose in the US (19bps to 2.94%), the United Kingdom (7bps to 1.42%), Germany (7bps to 0.56%) and Japan (2bps to 0.06%). Two-year bond yields saw mixed movements over the month as US yields rose (+21bps to 2.48%) along with Germany (+1bp to -0.63%) while yields fell in the UK (-5bps to -0.78%) and were flat in Japan (at -0.13%).

Returns for existing domestic bond holders were also weak over April, as 10-year yields (+17bps to 2.77%), five-year yields (+12bps to 2.43%), and two-year (+4bps to 2.07%) yields all rose. Of the Bloomberg Ausbond indices, the Bank Bill Index produced the highest return, increasing 0.2% over the month, while the Australian Composite Bond Index return was -0.3% over the month.

CURRENCY MARKETS

The AUD depreciated against the US dollar over April, ultimately finishing with a lower Trade Weighted Index of 62.1 on 30 April 2018. The AUD depreciated against the USD (-1.6%) but appreciated against the Pound Sterling (+0.8%), the Euro (+0.3%) and the Yen (+1.2%). On a trade-weighted basis, the local currency decreased 0.3% over the month.

COMMODITIES

Iron Ore rose 3.1% over April, finishing the month at $67 per metric tonne. The S&P GSCI Commodity Total Return Index rose 6.7% over the month. Gold prices finished the month at US$1,313.18 per ounce, falling 0.8% over the period, while the oil price increased 7.0% to $75.0 per barrel over April.

CONTACT: Mercer >IS<

Tel: 1800 512 947

Email: merceris@mercer.com

IMPORTANT NOTICES