April 2015

As discussed in last month's Chart Book, we see the rising US dollar as posing a potential negative risk to US equities and earnings. And over the month of April, we are starting to see its impact flow through to economic data. For instance, the April manufacturing purchasing manager index (PMI), which measures manufacturing activity, albeit still at a high level was softer at 54.1 compared to 55.7 from a month ago. Digging deeper into the numbers, the "new export business" index subcomponent declined for the first time since November, likely partly driven by the stronger greenback.

The strong US dollar as well as heavy weather also left their mark on the US GDP release. First quarter real GDP growth for the US was reported at 0.2% q/q, far below market expectations. More importantly, the Federal Open Market Committee (FOMC) statement released at the end of the month described the weakness as "transitory", indicating that the FOMC is not drawing any conclusions from the recent slowdown and is unlikely to be persuaded by recent data to delay raising interest rates. That being said, the FOMC remains "data dependent". Counter to all of this, the US labour market was a positive, adding 223,000 new jobs over the month and pushing the unemployment rate down to 5.4%.

Globally, the impact of falling oil prices on inflation appears to have mostly taken its course. In Europe, inflation has accelerated over the last few months, reducing deflation fears there. Similar to the US, economic growth in the UK have also slowed recently leading to diminishing expectations for a hike in interest rates this year.

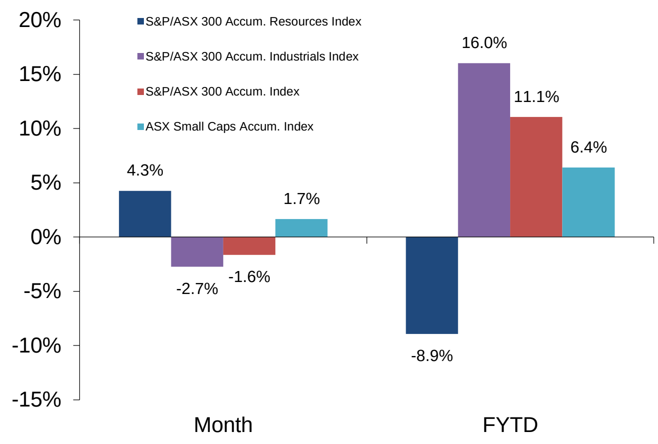
In China, the People's Bank of China (PBoC) cut interest rates again, reducing its benchmark rate by 0.25% to 5.1%. The PBoC stated that the main reason for the cut was to promote real interest rates (growth) towards reasonable levels. In addition to the rate cut, the deposit rate ceiling was raised by 1.5%, allowing banks to maintain its deposit rates. Although the PBoC stated that this was done as part of the process to liberalise deposit rates, it will also act to reduce the deposit outflows to China's booming equity market.

Elsewhere in Asia, the Bank of Japan (BoJ) left its policy rate and pace of quantitative easing unchanged. However, the BoJ did announce that it now expects to reach its 2% inflation goal "around the first half of fiscal 2016" instead of "within fiscal 2015" which was its original goal.

Locally, the Reserve bank of Australia (RBA) cut the cash rate by 0.25% to 2% at its May meeting as widely expected. However not widely expected was the tone and language used in its monetary policy statement. In its statement, the reason provided for the rate cut was to "reinforce recent encouraging trends in household demand". The wording of the statement as well as the many positive economic trends cited in the statement suggested that the RBA is keen to fully evaluate the impact of its two rate cuts this year before adjusting policy again, creating doubt for further rate cuts.

In our view, any further rate cut would likely require a strong case such as a significant reversal in the current generally positive economic trends in Australia. We provide a more detailed analysis of this in a memo published earlier this month.

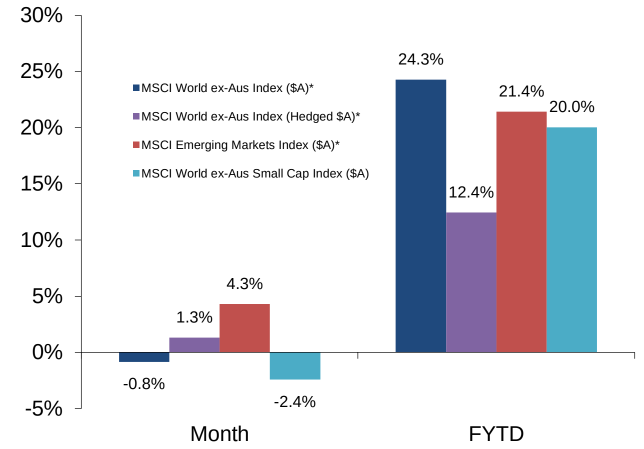
Australian equities



Domestic equities finished the month in the red. Although the Resources sector performed strongly, the market was pulled down by the Industrials sector's negative return over the month.

The main cause for the weakness in domestic equities was Financials (-4.1%) and Healthcare (-3.9%). The best performing sector for the month was Energy, driven by the rebound in commodity prices, particularly oil.

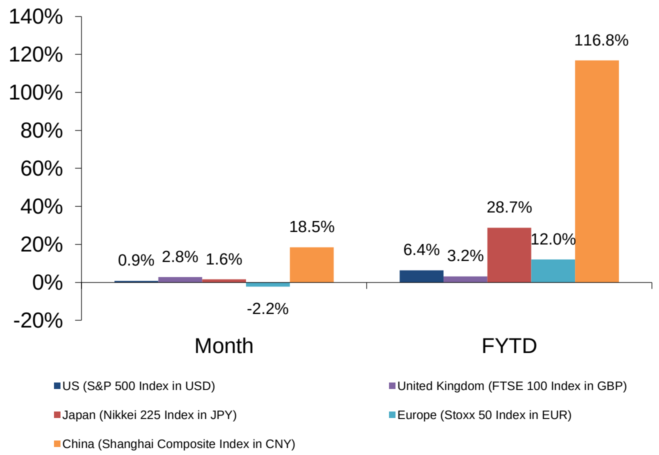
International equities ($A)



Hedged developed market equities outperformed its unhedged counterpart over the month as the Australian dollar strengthened against the other major currencies.

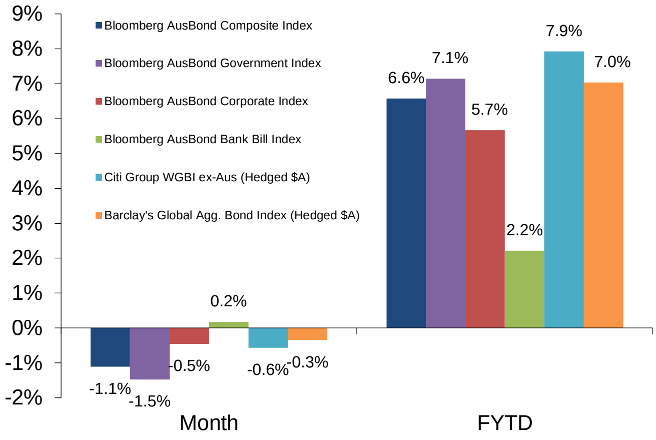
US, Japan and UK equities were the main positive contributors to performance for developed markets. In emerging markets, Chinese equities continued to be the main driver of performance with Brazilian and Russian equities contributing as well.

International equities (local currencies)



Chinese equities continued its bull run, ending the month 18.5% higher resulting in its financial year to date performance now being over 100%! This has been driven by expectations of further stimulatory policies from both the Chinese government and central bank which the PBoC obliged this month by cutting its benchmark rate by 0.25% to support economic growth.

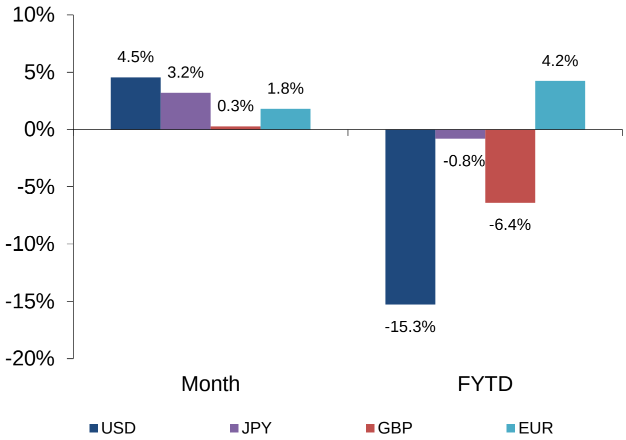
Fixed income



April was a negative month for Australian and international fixed interest.

This was largely driven by the rise in sovereign bond yields, particularly at the longer end ("bear steepening").

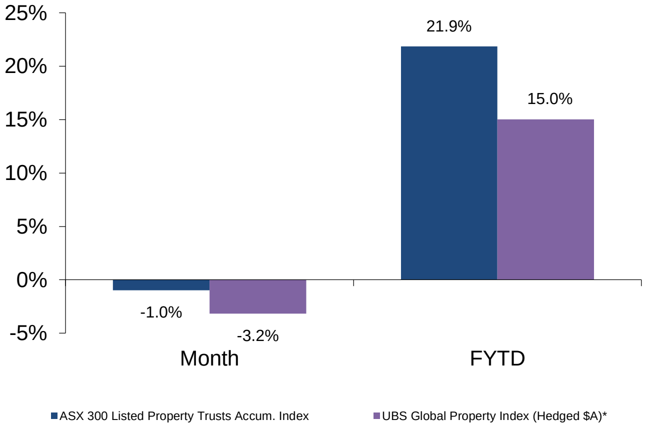
Australian dollar against major currencies



The Australian dollar (AUD) appreciated against all the major currencies this month.

It is likely that part of the rise is driven by the weaker economic data overseas mainly from the US and UK (increasing expectations of delays in rate hikes there) and partly because of improving economic conditions locally which the RBA cited in its May monetary policy statement (diminishing expectations for rate cuts here).

Property



Both Australian and international listed property ended April in negative territory.

Over the month, there appears to have been a sell-off in higher yielding sectors (which listed property is part of) such as Financials and Healthcare.

30-Apr-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	50,369	-1.6%	5.1%	11.1%	10.2%
S&P/ASX 300 Accum. Industrials Index	102,476	-2.7%	4.4%	16.0%	15.7%
S&P/ASX 300 Accum. Resources Index	19,521	4.3%	8.8%	-8.9%	-11.6%
ASX Small Caps Accum. Index	5,669	1.7%	8.1%	6.4%	5.3%
International equities					
MSCI World ex-Aus Index ($A)*	6,778	-0.8%	5.3%	24.3%	26.7%
MSCI World ex-Aus Index (Hedged $A)*	1,270	1.3%	7.1%	12.4%	17.2%
MSCI Emerging Markets Index ($A)*	560	4.3%	8.1%	21.4%	26.6%
MSCI World ex-Aus Small Cap Index ($A)	428	-2.4%	5.5%	20.0%	23.6%
US (S&P 500 Index in USD)	2,086	0.9%	4.5%	6.4%	10.7%
United Kingdom (FTSE 100 Index in GBP)	6,961	2.8%	3.1%	3.2%	2.7%
Japan (Nikkei 225 Index in JPY)	19,520	1.6%	10.4%	28.7%	36.5%
Europe (Stoxx 50 Index in EUR)	3,616	-2.2%	7.9%	12.0%	13.0%
China (Shanghai Composite Index in CNY)	4,442	18.5%	38.4%	116.8%	119.2%
AUD versus …					
USD	0.80	4.5%	2.6%	-15.3%	-14.1%
JPY	94.66	3.2%	3.1%	-0.8%	-0.4%
GBP	0.52	0.3%	0.3%	-6.4%	-6.3%
EUR	0.72	1.8%	4.8%	4.2%	7.0%
Property					
ASX 300 Listed Property Trusts Accum. Index	36,864	-1.0%	0.6%	21.9%	26.0%
UBS Global Property Index (Hedged $A)*	2,155	-3.2%	-3.7%	15.0%	19.7%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,473	-1.1%	-0.1%	6.6%	8.9%
Bloomberg AusBond Government Index	8,851	-1.5%	-0.4%	7.1%	9.7%
Bloomberg AusBond Corporate Index	8,584	-0.5%	0.7%	5.7%	7.4%
Bloomberg AusBond Bank Bill Index	8,243	0.2%	0.6%	2.2%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	-0.6%	-0.2%	7.9%	9.7%
Barclay's Global Agg. Bond Index (Hedged $A)	-	-0.3%	0.0%	7.0%	8.9%
Oil and Commodities					
Crude Oil ($/bbl)	60	25.3%	23.6%	-43.4%	-40.2%
Copper Spot ($/tonne)	6,365	4.9%	14.9%	-9.6%	-4.4%
Gold Spot ($/ounce)	1,182	-0.1%	-7.6%	-10.7%	-8.8%

Fixed income (yields) as at …	**30-Apr-15**	**31-Mar-15**	**31-Jan-15**	**30-Jun-14**	**30-Apr-14**
Australia Bank Bill	2.24	2.23	2.53	2.68	2.67
Australia 10 Year Government Bond	2.65	2.32	2.44	3.54	3.95
US 10 Year Government Bond	2.03	1.92	1.64	2.53	2.65
UK 10 Year Government Bond	1.83	1.58	1.33	2.67	2.66
Germany 10 Year Government Bond	0.37	0.18	0.30	1.25	1.47
Japan 10 Year Government Bond	0.34	0.41	0.28	0.57	0.63

* Net dividends reinvested