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Month in Review

Market Moves — as at 31•05•2017

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	-2.75	1.52	7.49	11.10	6.03	11.92	3.57
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-2.05	0.31	2.72	3.55	6.04	4.22	-2.07
GLOBAL EQUITIES							
MSCI WORLD TR INDEX (AUD)	2.68	8.40	12.38	13.94	14.54	19.19	5.55
S&P 500 TG INDEX (AUD)	1.87	5.93	9.98	14.31	18.65	21.69	8.07
FTSE 100 TR INDEX (AUD)	5.17	12.16	15.95	8.33	5.80	13.24	1.83
MSCI EMERGING MARKETS NET TR INDEX (AUD)	3.43	11.40	16.63	23.99	9.47	10.22	3.37
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT (SECTOR) ACCUMULATION INDEX	-1.00	2.25	8.30	2.30	15.21	16.29	-0.11
FTSE EPRA/NAREIT DEVELOPED NET TR INDEX (AUD HEDGED)	0.52	0.05	6.50	4.75	7.96	12.53	2.57
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	1.17	2.38	3.00	2.50	4.85	4.48	6.28
BLOOMBERG AUSBOND BANK BILL INDEX	0.15	0.45	0.89	1.84	2.25	2.55	3.93
BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)	0.64	1.41	2.44	2.68	5.35	5.59	7.51

Data source: IRESS & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

The Australian market pulled back in May, posting a return of -2.75%, with losses driven by Financials (-7.16%). After riding a tide of positive sentiment since November 2016 – and taking the index with them – the big four banks faced something of a reckoning in May, with ANZ (-11.24%) and Westpac (-9.26%) the hardest hit. The reversal of fortunes also continued for the Materials sector (-0.17%), with losses from Fortescue Metals (-8.66%) and Mineral Resources (-5.52%). While some shares managed to gain, including Syrah Resources (+20.18%) and Saracen Mineral Holdings (+12.37%), these have struggled to find a floor after coming off the lofty highs of August 2016.

Conditions generally benefitted the bond proxies in May, with Telstra (4.27%), APA Group (+4.59%) and Spark Infrastructure (+8.43%) making headway. Qantas (+18.16%) led the gains for the Industrials sector (+4.71%), while shares in Sydney Airport (+7.98%) were given a boost on speculation the Chinese government may be interested in financing Sydney's proposed second airport at Badgerys Creek.

Global equities

US market momentum showed signs of slowing in May, but the wheels are still firmly in place. The S&P 500 gained 1.87% in AUD terms following a return of 3.05% in April, pushing to new record highs, while the Dow Jones Industrial Average price index posted 0.92%. Gains were again driven by the Information Technology sector (+5.01%), while Utilities (+4.86%) was another solid performer, with consistent returns delivered across the sector, including from the world's largest producer Duke Energy (+5.55%) as well as Dominion Resources (+5.91%). Consumer Staples (+2.85%) were also back in favour, with names like Philip Morris (8.08%), Coca-Cola Co (+5.38%) and Wal-Mart Stores (+5.25%) gaining.

Globally, the MSCI World Index gained 2.68% in AUD terms, boosted by Europe and emerging markets. The EuroStoxx 600 Index rose 5.38%, with Utilities (+13.35%) and Telecommunications (+10.13%) the big winners, with gains from major energy supplier EDF (+29.74%) and Vodafone Group (+16.45%). The French CAC 40 returned 4.01% in May, continuing April's gains early in the month but flattening as parliamentary elections approached. In the UK, the FTSE 100 Index gained 5.17% in AUD terms, but flattened late in the month as the result of the general election became increasingly uncertain. In Asian markets, the Nikkei 225 Index gained 3.66% while the Shenzhen CSI 300 Index returned 3.28%. The MSCI Emerging Markets Index rose 3.43%, supported by gains from the Chinese, Hong Kong and Korean markets.

REITs

The S&P/ASX 300 A-REIT Accumulation Index lost 1.00% in May. The retail-focused REIT's were hit the hardest, with Westfield Corporation (-6.61%), Vicinity Centres (-4.17%) and Charter Hall Retail REIT (-2.68%) all losing. As a sign of the continued transformation of the retail sector, Goodman Group (+4.81%) – whose list of tenants will include Amazon – continued to rise as it solidified its strategy to cater to 'last-mile' delivery and take advantage of the growth in online shopping. Other winners in May were Propertylink Group (+6.25%), which moved closer to finalising the sale of its Pitt Street assets, and Centuria Industrial REIT (4.90%), which won backing to consolidate its office funds.

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Global REITs were also down in May, with the S&P Global REIT NTR Index returning -0.14% (in AUD hedged terms), while the FTSE EPRA/NAREIT Developed NR Index managed a gain of 0.52% as developed market yields tracked lower through the month. With the market expecting two further Fed rate rises for 2017, cap rates and leasing spreads may continue to come under pressure, but if the tightening path remains on the dovish side, yield-producing asset classes like REITs may continue to be in demand.

Fixed income

Global yields fell further in May, continuing a downward trend that began in March. While rates began trending higher in October 2016 and yield curves have steepened, investors have appeared to embrace duration again, reflected in longer-term fund flow. The US 10-year Treasury yield fell from 2.28% to 2.20%, moving down from its March highs. While recent CPI releases in both Europe and the US have been promising, the numbers have moderated in recent months, and core inflation remains below central bank targets. The return on US corporate investment grade bonds was 1.19% in May, while US high-yield debt returned 0.83%. After some moderate expansion in March, the BofA Merrill Lynch US High Yield OAS narrowed further in May from 3.81% to 3.74%.

Global bonds, measured by the Barclays Global Aggregate TR Index, returned 1.04% in April (in AUD hedged terms) and is now at record highs. Returns on Australian corporate bonds were 1.03% while government bonds returned 0.92%. The Australian 10-year Treasury yield fell 19 bps from 2.58% to 2.39% – the lowest since November 2016 but still above the historic low of 1.87%. The UK 10-year Gilt yield fell from 1.08% to 1.05% in May as the electorate prepared for a general election, with yields still substantially softer than the post-Brexit high of 1.51% in January. The German 10-year Bund yield fell from 0.32% to 0.30%, while the 5-year Bund fell from -0.39% to -0.43% and the Japanese 10-year yield fell from 0.07% to 0.01%.

ASX 200 Share Movements

S&P/ASX 200 Share Performance for the Month of May

BEST PERFORMERS		WORST PERFORMERS	
ISENTIA GROUP LTD	21.38%	SIGMA HEALTHCARE LTD	-34.80%
SYRAH RESOURCES LTD	20.18%	FLEXIGROUP LTD/AUSTRALIA	-26.82%
QANTAS AIRWAYS LTD	18.16%	SIRTEX MEDICAL LTD	-22.84%
FAIRFAX MEDIA LTD	17.45%	MYER HOLDINGS LTD	-22.07%
OROCOBRE LTD	16.51%	ASALEO CARE LTD	-22.00%

S&P/ASX 200 Share Performance for the Year to May

BEST PERFORMERS		WORST PERFORMERS	
WHITEHAVEN COAL LTD	199.42%	VOCUS COMMUNICATIONS LTD	-68.90%
A2 MILK CO LTD	117.81%	SIRTEX MEDICAL LTD	-61.58%
SEVEN GROUP HOLDINGS LTD	114.68%	ISENTIA GROUP LTD	-54.20%
MONADELPHOUS GROUP LTD	92.25%	BELLAMY'S AUSTRALIA LTD	-52.51%
WEBJET LTD	88.42%	TPG TELECOM LTD	-50.25%

Economic News

Australia

Australian growth for Q1 2017 slowed to 0.3% for the quarter and 1.7% through the year, compared to the 2.4% growth in Q4 2016. The trade sector was the biggest drag, with exports down 2.6% for the quarter, driven by falls in iron ore and coal shipments. The RBA left the cash rate on hold at 1.50% at its 6 June meeting, with no change since its August 2016 cut. The Bank reiterated its concerns about high levels of Chinese debt, low core inflation and mixed labour market conditions. Low wage growth remains a key long-term issue for the Australian economy, but employment growth has been relatively strong in recent months.

Inflation was 0.5% in Q1 2017, unchanged on the previous quarter. The CPI reached 2.1% over the year, rising above the target and in line with the RBA's expectations. Underlying inflation is running at 1.75% and is expected to pick up as the economy strengthens.

The unemployment figures for April showed an increase in employed persons of 37,400 in seasonally adjusted terms, following a gain of 60,900 in March. Full-time employment fell by 11,600 – the first decrease since January – while part-time employment grew by 49,000. The unemployment rate fell 0.1 pts to 5.7%, and the labour force participation rate also fell by 0.1 pts to 64.6%. Unemployment remains highest in South Australia (7.3%) and lowest in NSW (4.7%) and Victoria (6.1%). Total hours worked fell by 4.3 million hours in April and has been falling since the start of 2017.

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The AIG Manufacturing Index is still in expansionary territory but eased 4.4 pts in May to 54.8, indicating a slower rate of growth. All seven activity sub-indices were above 50, with new orders (58.1) still at an elevated level, suggesting current expansion will continue to run over coming months. Employment (54.2), deliveries (55.8) and sales (54.4) are relatively strong, while exports (52.0), production (52.2) and stocks (50.9) are expansionary but slowing.

The Westpac Melbourne Institute Index of Consumer Sentiment fell 1.1% from 99.0 in April to 98.0 in May. The survey period covered the days before and after the federal Budget, with virtually no movement in the reading once the Budget had been handed down. This is disappointing, especially as a key focus of the Budget was on improving confidence and awakening some 'animal spirits' from consumers. The 'family finances compared to a year ago' sub-index fell from 83.4 before the Budget to 81.4 post-Budget, while the 'family finances over the next 12 months' sub-index tumbled from 104.8 to 92.1 post-Budget.

Australia's current account deficit narrowed in Q2 2017 for the third quarter in a row, falling from $3.5 to $3.1b and boosted by commodities. This is the closest Australia has been to surplus since September 2001. The balance on goods and services rose 51% from $6.1b to $9.2b over the quarter. The largest increases in goods exports came from general merchandise (+$4.9b), metal ores and minerals (+$2.7b) and coal coke and briquettes (+$1.1b).

Global

The second estimate for US Q1 GDP showed real growth of 1.2% versus the advance estimate reading of 0.7% and beating the expected 0.9%. However, despite the modest improvement, the general picture of growth remains the same. The deceleration in real GDP in the first quarter reflects a downturn in private inventory and slowing private consumption expenditure. While consumer spending rose 0.6% rather than the previously reported 0.3%, it remains at the slowest pace since Q4 2009. April's durable goods orders were also down 0.7%, after rising 2.3% in March. Capital goods orders excluding aircraft – a proxy for business spending plans – were flat.

The ISM manufacturing PMI continued to show expansion in May, recording 54.9 versus 54.8 in April. The New Orders Index registered 59.5 percent, up 2 pts from the April reading of 57.5, while the Production Index registered 57.1, a 1.5 pt decrease on the April reading of 58.6. The Prices Index fell significantly from 68.5 to 60.5 in May, with inflationary pressures possibly starting to move through the supply chain as the commodities prices soften.

Non-farm payrolls recorded 138,000 new jobs in May, lower than the anticipated 185,000 and down on April's promising 211,000 figure. 774,000 jobs have been added since the start of the year, with the unemployment rate falling 0.5 pts, but employment growth remains slightly below the 12-month average, and broader indicators are mixed. Health care employment continued to grow in May, rising by 24,000, while mining added 7,000. The broader U-6 measure of unemployment that includes discouraged workers and those marginally attached to the labour force grew from 9.4% to 9.7%.

US consumer prices rose 0.2% in April and 2.2% over the year, following a month of negative growth in March. The index for all items less food and energy rose 0.1%, and is sitting at 1.9% over 12 months. The energy index grew 1.1% in April following declines in February and March. Energy prices fell 3.2% in March, with the largest fall coming from gasoline, which fell 6.2%. The core PCE index – the Fed's preferred measure – fell to an annual 1.5%, down from 1.6% in February and moving slightly further from the Fed's 2% target.

With key elections on the European continent over, attention turns to the result of the snap UK general election held on 8 June. Incumbent prime minister Theresa May appears to have lost her majority, with Labour taking 23 seats from the Tories. Poll averages ahead of election day had May's Conservatives ahead of Labour (42.9% to 37.2%), with the gap narrowing. Next up will be the French legislative election on 11 and 18 June, followed by Germany's federal election in September. A recent Insa poll has Merkel's CDU party at 38% (+2.5) and Martin Schulz's SPD at 23% (-3) after surging as high as 32.5% in April. The right-wing AfD party is now on 8% after hitting 15.5% at the end of 2016.

GDP in the Euro area grew by 0.6% in Q1 2017, higher than the previously expected 0.5%, providing further support to Europe's recovery story. Growth on Q1 2016 is now at 1.9%, higher than current US growth of 1.2%. ECB President Draghi gave the clearest indication yet that the Bank has reached the bottom of the easing cycle. Draghi's statement included the usual words "We expect [the key ECB rates] to remain at their present levels for an extended period of time", but omitted the words "or at a lower level". In case you hadn't noticed, this is forward guidance ECB-style.

Euro area annual inflation continued to slide in May, falling to an estimated 1.4%, down from 1.9% in April and the 2.0% high reached in February. The energy component was again a major contributor to inflation, rising 7.6%, while non-energy industrial goods rose only 0.3%. Core inflation (excluding energy, food, alcohol and tobacco) fell from 1.2% to 0.9%, and has remained stubbornly low since the GFC. The euro area unemployment rate fell to 9.3% in April, down from 9.4% in March and 10.2% in April 2016. Youth unemployment is high but is falling consistently, down to 16.7% in April from 17.2% in March, although significant dispersion still exists between member states.

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China's official PMI survey showed manufacturing growth was steady in May at 51.2, while the Caixin PMI showed a modest contraction, with the index at 49.6, down from 50.3 in April. Industrial production in April grew 6.5%, down on the expected 7.1% and March's 7.6%. In other emerging markets, Brazil's GDP grew 1.0% in the March quarter – the first positive reading since March 2015 – boosted by a record soybean harvest. Unemployment fell in May from 13.7% to 13.6% but remains high, with a record 14 million people unemployed, according to official figures.

Russia's CPI was steady in May at 4.1%, while unemployment fell from 5.4% to 5.3%. The Russian economy, which is recovering from a two-year recession, grew 0.5% in Q4 2016 y/y and is forecast to grow 1.3% in 2017, according to the World Bank, although reduced access to international markets may continue to take its toll. India's inflation rate rose slightly from 3.7% to 3.8% in March, moving closer to the Reserve Bank of India's medium-term target of 4%. Guidance from the RBI that it will stick to the 4% target, rather than tolerate a looser band of 2–6%, may mean interest rates rise sooner than the market anticipates.

Commodities

Base metals were lower or flat in May, with Lead (-5.7%) and Nickel (-5.1%) continuing their April slide. Copper (-0.9%) and Zinc (-0.9%) were also down, while Aluminium (+0.9%) was higher after dipping early in the month. Tin (+2.1%) managed to build but has had a bumpy ride since its peak in December 2016. The price of iron ore delivered to Qingdao in China tumbled 17.1% in May after falling 14.4% in April, ending the month at US $57.02/t, much reduced from its February high of $94.86.

Gold struggled through May, hitting a low of US $1,219.10/oz but ending the month up 0.1% at $1,268.90. The Brent crude oil spot price moved lower from US $49.46/b to $49.40 (-0.1%), while the WTI crude price fell from US $49.31/b to $48.29 (-2.1%).

Currencies

The AUD fell 0.8% against the USD in May, from 0.7488 to 0.7430, hitting a low of 0.7345. The AUD fell 1.1% in trade-weighted terms, losing against major currencies, including EUR (-3.8%), JPY (-1.5%), GBP (-0.3%), and NZD (-3.8%). The US Dollar Index closed the month 2.2% lower, falling against major currencies including EUR (-3.1%), JPY (-0.6%) and CHF (-2.7%) but gaining against the GBP (0.5%).

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