

## MONTHLY REVIEW: JUNE'S VOLATILITY VORTEX

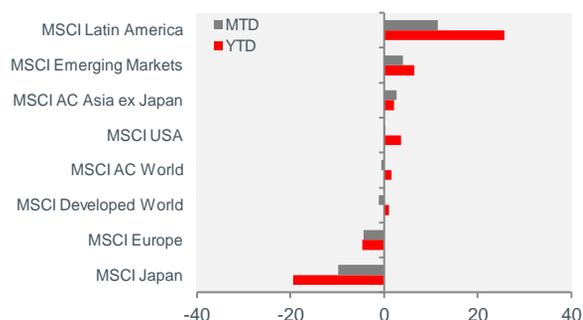
June 2016

Volatility surged post the unexpected UK referendum result as USD 2.08 trillion worth of global assets were wiped out. However, markets gained almost all of it back within the days that followed. Safe haven assets rose, bond yields fell and gold prices moved higher. Base metals (and LATAM) also gained on a muted USD and easing supply issues.

### EQUITY

- Global equity markets were rattled during the month as the unexpected result of the UK referendum took centre stage and caused an increase in risk aversion
- Developed markets underperformed emerging markets, dragged by Japan and Europe
- Latin America rose on strengthening commodity prices
- Japan came under pressure as investors bid up the Yen in the aftermath of Brexit
- ASEAN nations outperformed led by Indonesia (tax amnesty) and the Philippines (strong election mandate)

Fig.1. Equity Indices Performance in USD (%)



### FIXED INCOME

- Global government long bond yields drifted lower during the month, on risk-off buying of bonds
- US high yield bonds continued its upward march as oil price was more stable
- Investment grade bonds also gained as a proxy for US Treasuries
- Commodity-sensitive emerging market bonds gained as prices for base materials rose
- Asian bonds gained during the month driven by moves in US Treasuries, which delivered strong performance towards the end of the month on the back of the UK's Brexit vote, even as Asian credit spreads saw some widening.

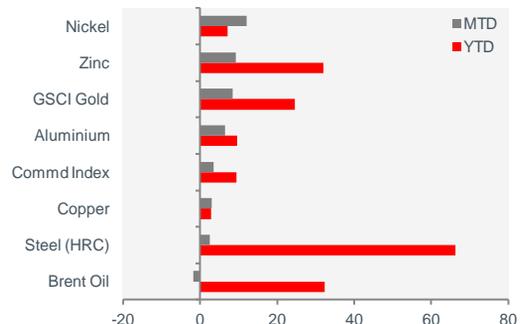
Fig.2. Bond Indices Performance in USD (%)



### COMMODITIES

- Commodity prices generally rose, driven in part by a muted USD
- Gold had a good month as it gained from risk-off trades
- Oil gave back some gains over the month as disruptions faded and inventory showed signs of increasing
- Nickel prices gained on the back of expectations of lower nickel pig-iron exports from the Philippines. Ore producers in the Philippines warned earlier this year that they would cut production due to low prices
- Zinc also had a stellar month on the back of destocking and capacity reductions

Fig.3. Commodities Performance in USD (%)





## CURRENCIES

- ▶ The USD index, which compares the USD against its major trading partners was muted during the month as attention was focused on Europe
- ▶ The GBP was affected by the UK referendum result, falling heavily against most other currencies and touching a 31-year low of 1.31 against the USD
- ▶ The Japanese Yen rallied strongly against other currencies, finding favor as a 'safe-haven' currency
- ▶ Resource related currencies like the MYR gained on base metals' rising prices

## ECONOMICS

- ▶ **US:** Farm payrolls was the big miss this month, growing at a much weaker than expected 38k. In May, durable goods orders fell a worse-than-expected 2.2% m/m and industrial production fell a weaker-than-expected 0.4% m/m. However, the unemployment rate fell to 4.7%, its lowest level since November 2007, the ISM manufacturing survey rose to a stronger-than-expected 51.3 and real Q1 GDP growth was revised up to 1.1% q/q.
- ▶ **China:** SAFE data suggest FX outflow continued in May as banks net sold USD10bn in FX to non-banks compared to USD23bn in April). May's industrial production grew 6% y/y. However, fixed investments grew at a slower-than-expected pace, hitting 9.6% year-to-date. May's credit and money data were mixed with RMB loans surprising on the upside and M2/Total Social Financing surprising on the downside. Headline export and import growth rebounded on seasonal effects and better fundamentals. In May, CPI inflation came in below market expectations at 2.0% y/y compared to consensus 2.2%. PPI was still negative, albeit less so, at -2.8% y/y than the -3.4% in April, reflecting moderation in commodity prices in May.
- ▶ **Europe:** The Euro area market manufacturing PMI came in at 52.8 in June. The seasonally adjusted trade balance printed at € 28bn in April compared to € 23.7bn in March. The working day adjusted Euro area industrial production increased 2% in April compared to a rise of 0.2% in March. Seasonally adjusted retail sales were flat in April compared to March's decline of 0.6%. Consumer confidence was at -7.3 for June. The core CPI figure for June came in at 0.9% compared to 0.8% y/y in May (advance estimate).

## CENTRAL BANKS

- ▶ **US:** The Fed held its interest rate unchanged and shifted towards a more dovish stance, sounding more cautious on the labour market and upbeat on consumer spending. The statement also cited Brexit decision as one of the key concerns.
- ▶ **Asia Pacific:** Bank of Korea cut the base rate by 25 bps from 1.5% to 1.25%, a record low. Bank of Indonesia cut rates by 25bps to 6.5%. The Taiwan Central Bank cut rates by 12.5 bps to 1.375%
- ▶ **Europe:** The ECB minutes "confirm that it was open to adding more stimulus in the light of Brexit". Policy makers also expected additional stimulus to come in the form of corporate bond purchases and a series of cheap loans for banks. The ECB continues to buy around €80 billion a month of private and public debt. The central bank has also cut interest rates to below zero

Fig.4. Currencies Performance versus USD (%)

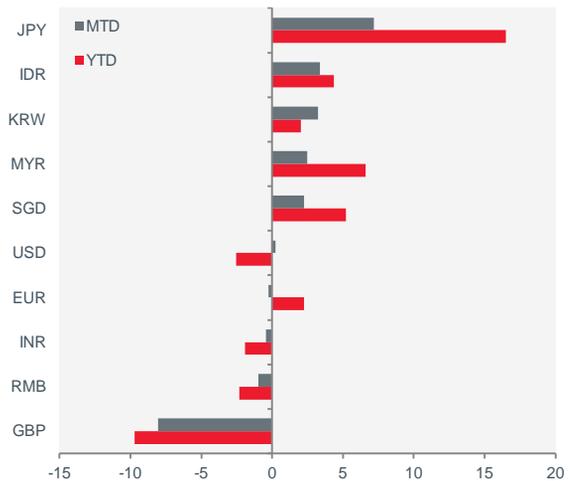


Fig.5. Global Leading Indicators

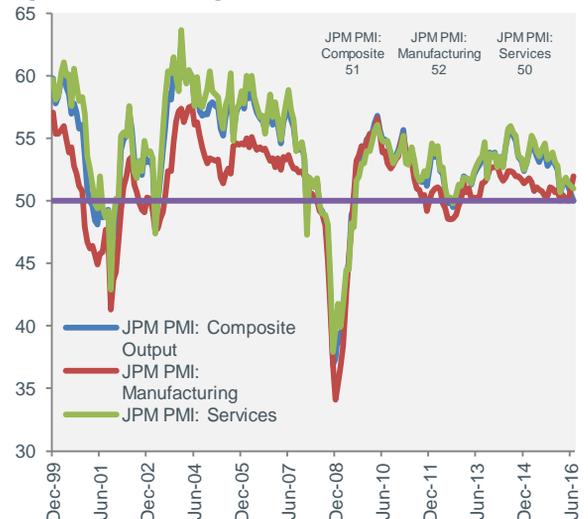


Fig.6. Central Banks Interest Rate (%) (Upper Band)

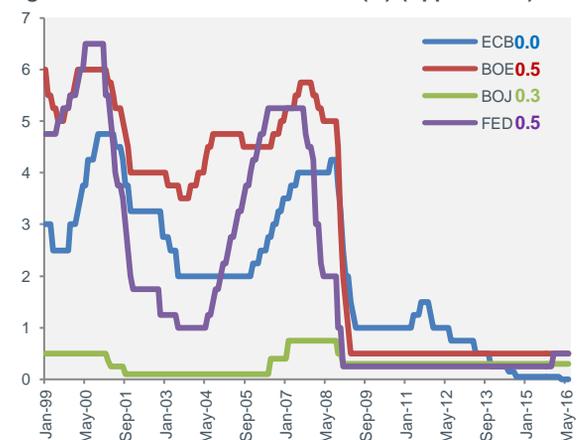




Fig.7. Key Regional Price-to-book Valuations (x)

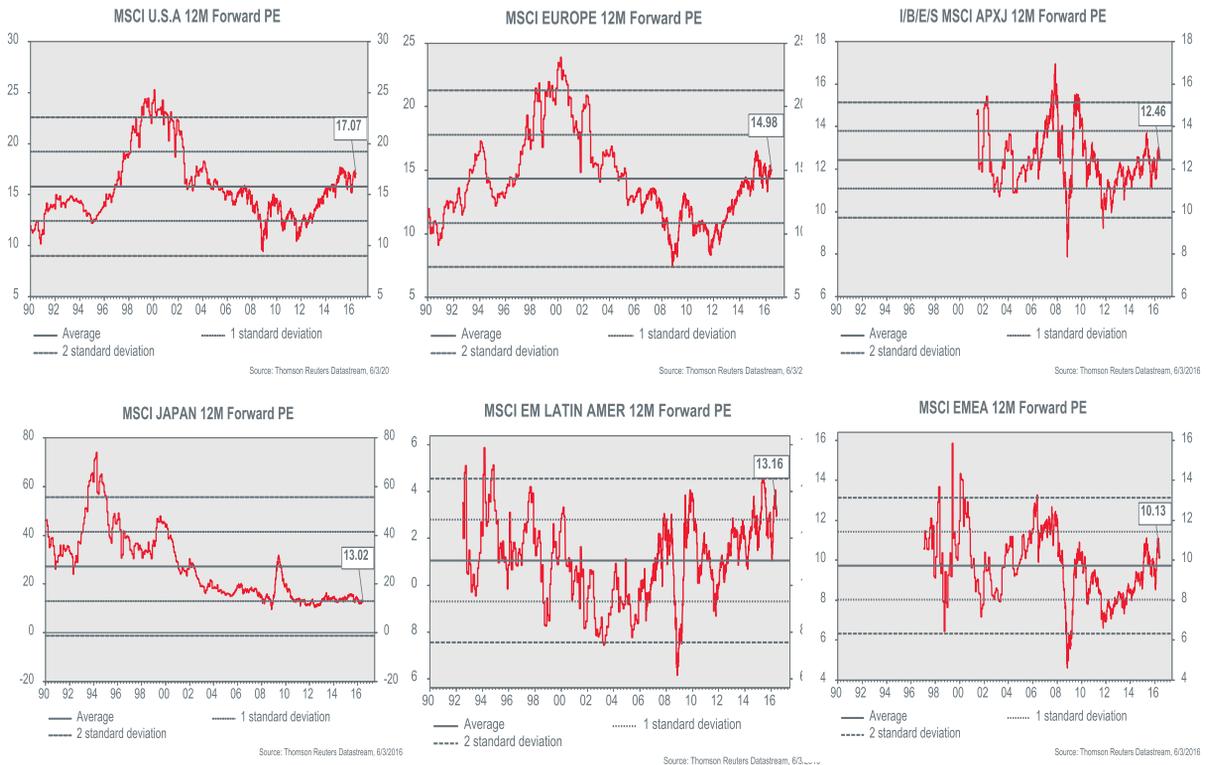
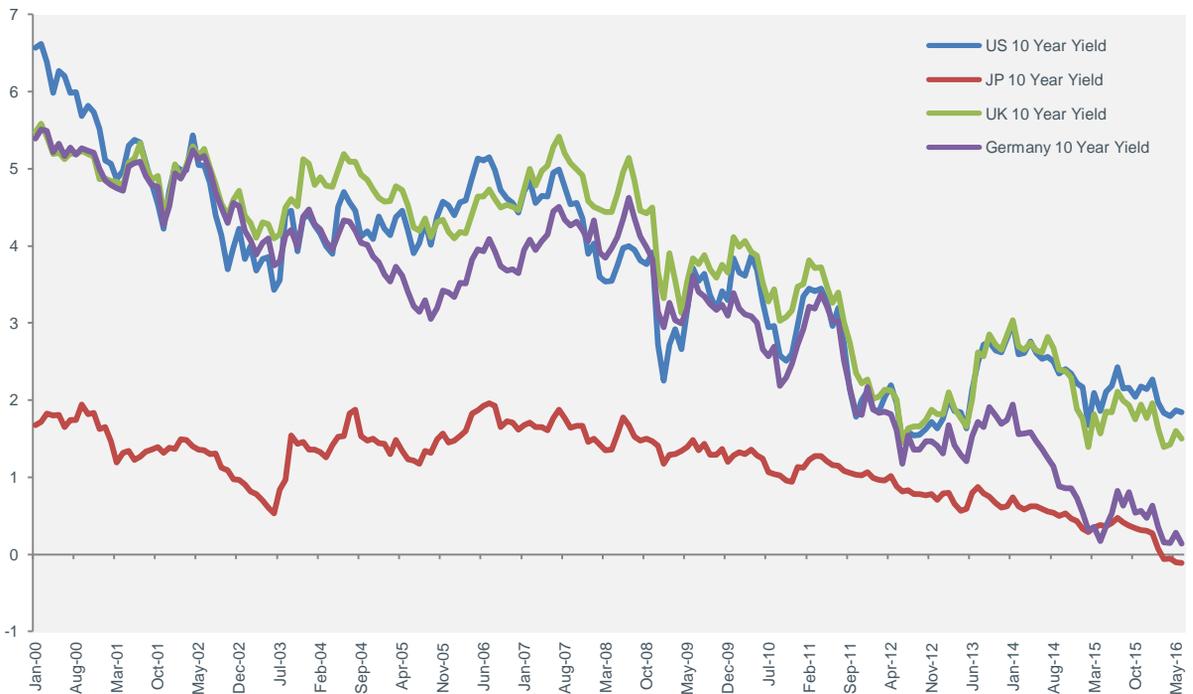


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 June 2016. For representative indices and acronym details please refer to notes in the appendix.



Fig.8. Selected Economic Data

Developed Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
United States of America	1.1	2.1	51.3	1.0	2.2	0.5	-2.6	108149	-2.5	2.7	-35.2	-2.6
Euro Area	0.6	1.7	52.8	0.1	0.9	0.0	3.1	252892	-2.1	-9.8	-120.7	-2.2
Australia	1.1	3.1	51.8	1.3	1.7	1.8	-5.1	50307	-1.9	-0.6	-31.2	-2.0
Japan	0.5	0.1	48.1	-0.4	0.6	-0.1	3.6	1194500	-6.7	-18.2	-181.9	16.6
Hong Kong	-0.4	0.8	47.2	2.6	2.6	0.8	3.8	360643	0.6	-5.1	-35.3	0.1

Emerging Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
Brazil	-0.3	-5.4	43.2	9.3	8.2	14.3	-2.5	354830	-10.5	18.9	-26.9	-18.9
Russia	-0.6	-3.7	51.5	7.3	7.5	10.5	4.1	319823	-2.7	7.4	-6.5	-11.9
India	1.8	7.9	51.7	0.8	0.9	7.0	-1.1	339025	-3.9	4.1	-3.6	2.1
China	1.1	6.7	48.6	2.0	1.6	4.4	3.1	3212600	-3.5	-15.5	0.0	2.4
Korea	0.5	2.8	50.5	0.8	1.7	1.3	7.9	363450	0.0	0.5	-29.7	-1.8
Taiwan	0.5	-0.7	50.5	0.9	0.8	1.4	14.4	433	-0.2	3.9	-25.2	-1.8
Thailand	0.9	3.2	-3.3	0.4	0.8	1.5	10.3	488695	-2.3	11.9	-22.0	-2.6
Indonesia	-0.3	4.9	51.9	3.5	3.5	6.5	-2.1	97858	-2.4	9.2	-14.9	-4.5
Philippines	1.1	6.9	-1.1	1.9	1.9	3.0	2.3	73960	-1.5	12.1	-29.2	0.6
Singapore	0.2	1.8	50.1	-1.6	1.0	0.9	18.9	250132	-0.7	-1.5	-26.5	-4.6
Malaysia	-4.6	4.2	47.1	2.1	2.1	3.3	2.4	93880	-3.2	-2.3	-10.0	-6.2
Vietnam	5.6	5.5	52.6	2.4	1.9	6.5	1.4	20876	0.1	9.2	-2.8	-0.8

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 5 July 2016. Please contact us for source and definitions of individual data points.

**KEY TERMS**

CA	Current Account
CBR	Central Bank of Russia
COPOM	Central Bank of Brazil
CPI	Consumer Price Index
DM	Developed Markets
ECI	Employment Cost Index
EM	Emerging Markets
EM Currencies	MSCI Emerging Markets Currency Index
EM Equities	MSCI Emerging Markets Index
EM Local Currency Bonds	JP Morgan Emerging Local Currency Bond Index
EM USD Bonds	JP Morgan Emerging Market Bond Index
EMU	European Monetary Union
EU	European Union
Fed	The Federal Reserve Board of the United States
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
Global Developed Equities	MSCI Developed Markets Index
Global Equities	MSCI All Country World Index
Global Government Bonds	Citigroup World Government Bond Index
IP	Industrial Production
M2	M2 Money
mom	Month on month
PBoC	Peoples Bank of China
qoq	Quarter on quarter
Repo	Repossession
SDRs	Special Drawing Rights
SELIC	Sistema Especial de Liquidação e CU.S.todia (SELIC) (Special Clearance and Escrow System)
Tankan	Japan Large Business Sentiment Survey
TSF	Total Social Financing
UK	United Kingdom
y/y	Year on year

**REPRESENTATIVE INDICIES**

Aluminum	S&P GSCI Aluminum Index
Asia Local Bond (ALBI)	HSBC Asia Local Bond Index
Brent Oil	Cash settlement price for the InterContinental Exchange (ICE) Brent Future based on ICE Futures Brent index
Commodities	Datastream Commodities Index
Copper	S&P GSCI Copper Index
EMU 10 Year	Datastream EMU 10 Year
Global Emerging Bond	JPM Global Emerging Bond Index
Gold	S&P GSCI Gold Index
Japan 10 Year	Datastream Japan 10 Year
JACI	JP Morgan Asia Credit Index
MSCI Dev World	MSCI Developed Markets Index
MSCI EM	MSCI Emerging Markets Index
MSCI Europe	MSCI Europe Index
MSCI Japan	MSCI Japan Index
MSCI Latam	MSCI Latin America Index
MSCI Russia	MSCI Russia Index
MSCI U.S.	MSCI U.S. Index
MSCI World	MSCI All Country World Index
Steel (HRC)	TSI Hot Rolled Coil Index
UK 10 Year	Datastream UK 10 Year
U.S. 10 Year Treasuries	Datastream U.S. 10 Year Treasuries
U.S. 30 Year Treasuries	Datastream U.S. 30 Year Treasuries
U.S. High Yield	BAML U.S. High Yield Constrained II
U.S. Investment Grade	BAML Corporate Master
DXY	U.S. Dollar Index
Zinc	S&P GSCI Zinc Index



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