

## MONTHLY REVIEW: JULY'S EMERGING MARKET LEAP

July 2016

With risk back on, July marked record inflows into both EM equities and bonds. Developed Government bond yields fell while commodities were mixed in reaction to an environment of a weaker USD, economic uncertainty and specific supply-side issues.

### EQUITY

- ▶ A post-“Brexit” suspension of redemptions from UK property funds, as well as European banking sector concerns spooked markets early on.
- ▶ However sentiment turned positive on positive US economic data.
- ▶ EM led gains driven by Latam, EMEA then EM Asia.
- ▶ Turkish stocks however bucked the trend in the wake of a failed coup.
- ▶ Japanese equities outperformed on stimulus expectations.
- ▶ Mining stocks outperformed too, aided by a rising iron ore and gold price.

### FIXED INCOME

- ▶ Global government bond yields generally fell during the month, hitting new record lows, as markets reassessed the likelihood and timing of future rate hikes from the Fed.
- ▶ Japanese government bond yields bucked the trend, rising during the month.
- ▶ Germany became the first Eurozone country to sell 10-year Treasury bonds at a negative rate
- ▶ US IG rose with investors looking for the next “safer” yield asset after US Treasuries.
- ▶ US HY continued its upward climb on firmer US economic data.
- ▶ EM bonds rose as investors bought up the higher yielding assets.
- ▶ Asian Bonds also gained as risk-taking spilled into Asia.

### COMMODITIES

- ▶ Nickel and Zinc had a stellar month on the back of potential supply shortages and a government stimulus in China, which has boosted the transport and infrastructure sectors.
- ▶ Gold prices rose again in response to the US Fed hesitancy to raise rates, negative interest rate policies and a slow moving economy
- ▶ The combination of weaker demand growth, a quicker-than-expected rebound in supply from Nigeria and stronger-than-anticipated output from Saudi Arabia, Russia and others led to the decline of crude oil prices.

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

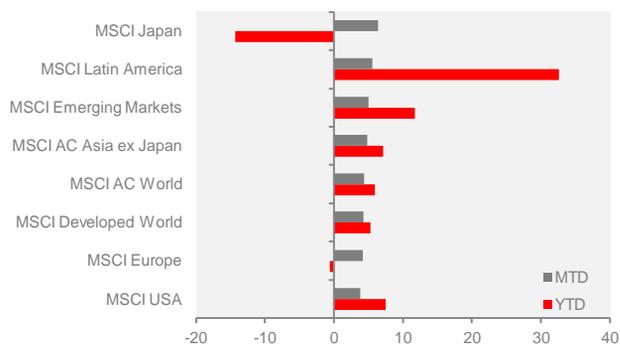


Fig.2. Bond Indices Performance in USD (%)

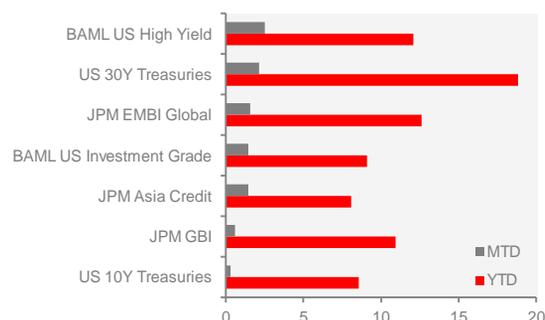
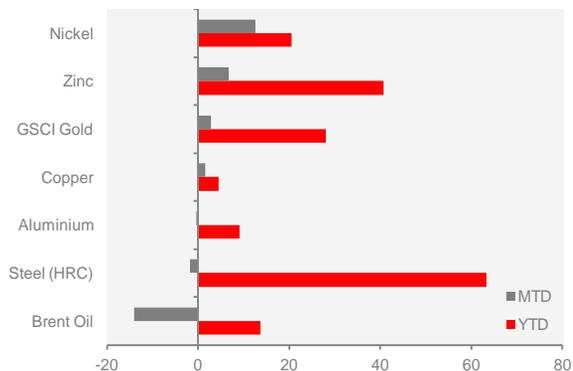


Fig.3. Commodities Performance in USD (%)





## CURRENCIES

- Strong inflow into EM bonds and weaker dollar following lower-than-expected US GDP data led Asian currencies to strengthen.
- The Korean won was the best performing currency this month, the strongest since June 2015, supported by positive earnings beat and the BoK's decision to hold.
- The Yen surged as the BoJ refrained from boosting the pace of government bond purchases.

## ECONOMICS

- US activity surveys for June were strong: the ISM manufacturing and non manufacturing indices rose better-than-expected. US non-farm payrolls rose much higher-than-expected though the unemployment rate increased slightly. Equally US headline retail sales and housing starts grew better-than-expected. However, at the end of the month real GDP for Q2 grew a weaker than-expected 1.2%/q seasonally adjusted.
- China's manufacturing surveys for June released early in the month were soft, indicating contraction. However, other activity indicators were reasonably strong i.e. Industrial production and retail sales for June. GDP for Q2 too grew at a slightly better-than-expected rate of 6.7%/y.
- Markit's Eurozone PMI flash report declined to 52.9 from June's 53.1, less than expected. In the U.K. the PMI fell to 47.7 from 52.4, indicating a potential Q3 2016 contraction in the U.K. economy, post-"Brexit". German investor confidence for July declined to -6.8 from June's 19.2.
- The IMF adjusted its 2016 global growth estimate downward to 3.1% from 3.2%; it also reduced its estimates for 2017 to 3.4% from 3.5%.

## CENTRAL BANKS

- The ECB met for the first time since the Brexit vote and kept its policies unchanged; it said it would keep interest rates at current or lower levels for an extended period
- At the time of writing (8 August 2016, the BoE had reduced rates by 25 basis points to fend off "Brexit" concerns and revive an anemic domestic economy.
- The Bank of Japan increased its annual exchange-traded stock fund purchases to USD58billion, as it left its government bond program and interest rates unchanged. In addition, Japan launched a USD280 fiscal-stimulus package channeled towards infrastructure and payouts.
- The FOMC statement in late July observed that labour markets have "strengthened," labour utilisation has increased, and, notably, "near-term risks to the economic outlook have diminished." These changes were modest but in an optimistic direction, and the improved risk assessment could begin to lay the groundwork for a hike in a few meetings' time, provided the data cooperates.
- On 2 August, the RBA cut the cash rate to 1.5% from 1.75%, a new record low; fearing that a strengthening AUD might further depress the local economy.

Fig.4. Currencies Performance versus USD (%)

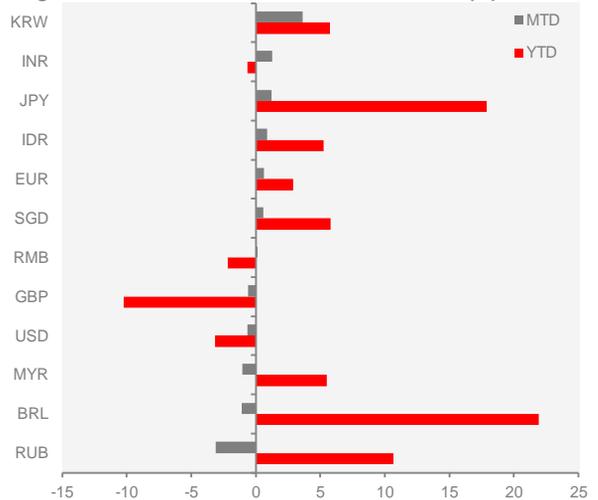


Fig.5. Global Leading Indicator

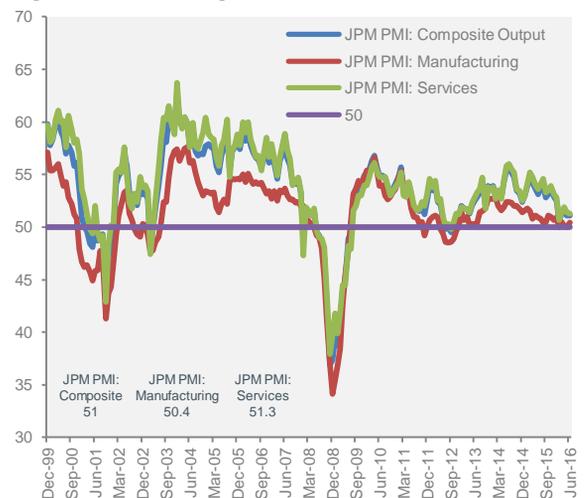


Fig.6. Central Banks Interest Rate (%) (Upper Band)

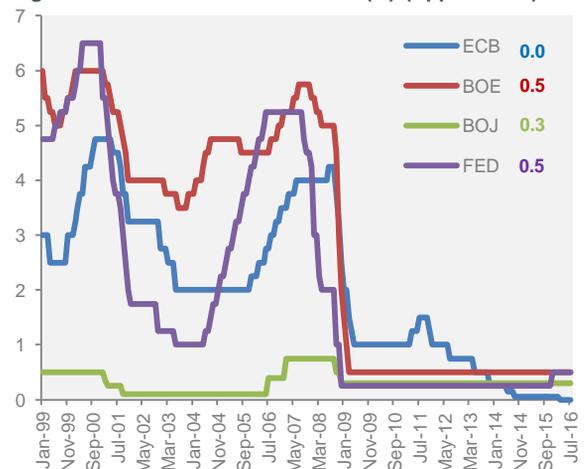




Fig.7. Key Regional Price-to-book Valuations (x)

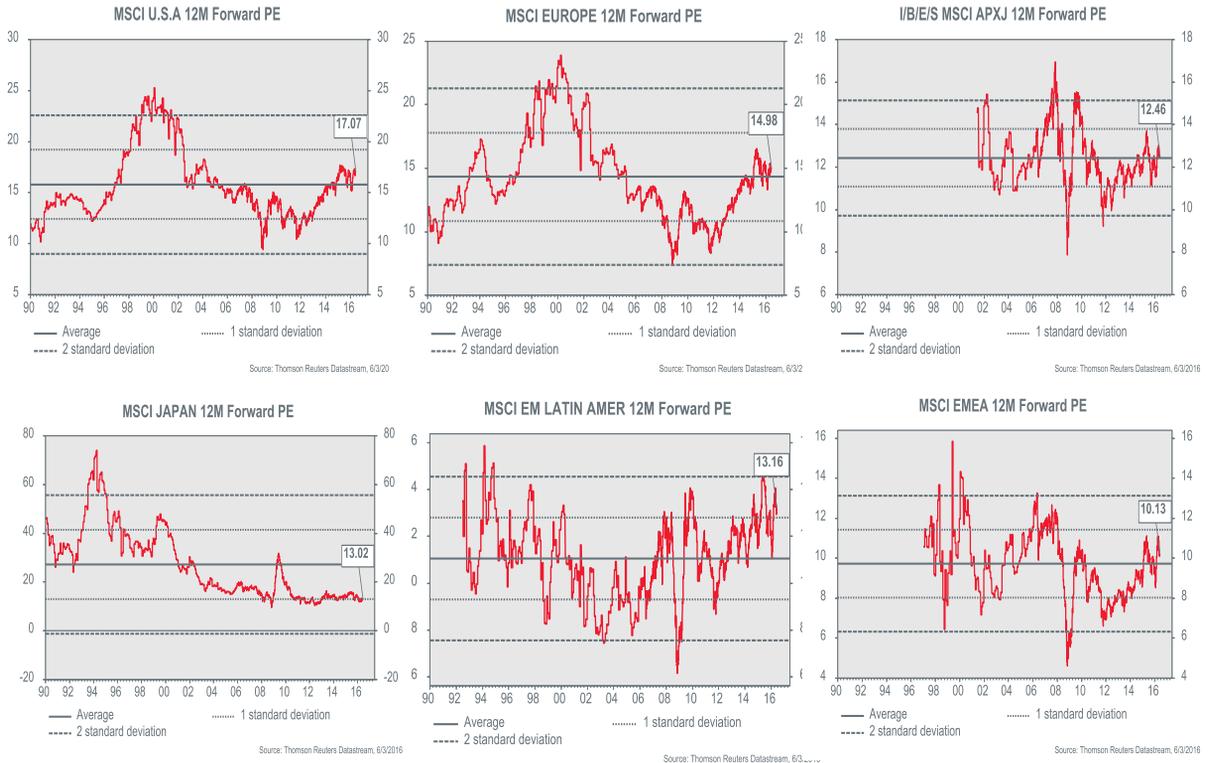
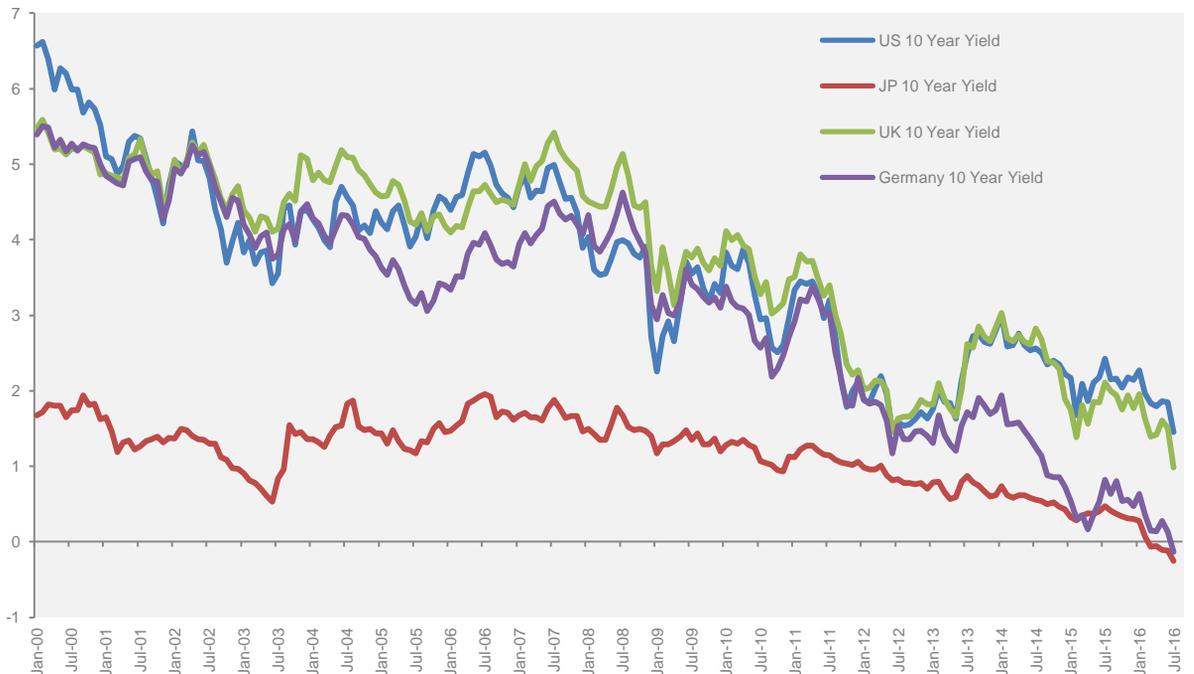


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 29 July 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	1.2	1.2	52.9	1.0	2.3	0.5	-2.6	108149	-2.8	6.3	-36.0	-3.2
Euro Area	0.3	1.6	52.0	0.1	0.9	0.0	3.2	252892	-2.1	-6.5	-118.9	-2.8
Australia	1.1	3.1	56.4	1.0	1.6	1.8	-5.1	50307	-1.9	5.6	-34.9	-3.9
Japan	0.5	0.1	49.3	-0.4	0.4	0.0	3.6	1194500	-6.7	-12.9	-171.7	17.9
Hong Kong	-0.4	0.8	47.2	2.4	2.4	0.8	3.8	360643	0.6	-0.1	-36.9	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	46.0	8.8	7.7	14.3	-2.5	354830	-10.1	32.2	-28.5	-18.0
Russia	-0.6	-3.7	49.5	7.5	7.5	10.5	4.1	319823	-2.7	10.4	-7.6	-9.1
India	2.1	7.9	51.7	1.6	1.2	7.0	-1.1	339025	-3.9	8.5	-7.3	1.3
China	1.8	6.7	50.6	1.9	1.6	4.4	3.0	3212600	-3.4	-14.1	-2.1	2.2
Korea	0.7	3.2	50.1	0.8	1.7	1.3	7.9	363450	0.0	2.8	-33.7	-4.4
Taiwan	0.4	0.7	51.0	0.9	0.8	1.4	14.4	434	-0.2	7.8	-29.7	-3.1
Thailand	0.9	3.2	-3.3	0.4	0.8	1.5	10.3	488695	-2.3	18.5	-17.7	-3.5
Indonesia	-0.3	4.9	48.4	3.5	3.5	6.5	-2.1	97858	-2.4	13.6	-20.8	-5.0
Philippines	1.1	6.9	-7.1	1.9	1.9	3.0	2.3	73960	-1.5	14.5	-33.6	0.5
Singapore	0.8	2.2	50.7	-0.7	1.1	0.9	18.9	250132	-0.7	-0.5	-30.5	-5.1
Malaysia	-4.6	4.2	48.1	1.6	2.1	3.3	2.4	93880	-3.1	-2.3	-14.0	-5.3
Vietnam	5.6	5.5	51.9	2.4	1.9	6.5	1.4	20876	-5.5	12.6	-2.8	-0.9

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 4 August 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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