

MONTHLY REVIEW: **ONEROUS OCTOBER**

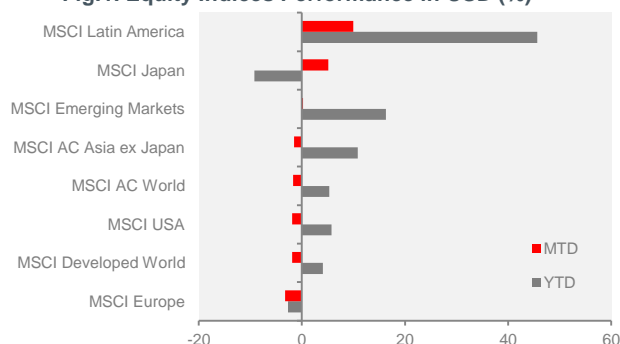
November 2016

Bond yields backed up and developed market equities took a breather. However, Japanese equities rose on a weaker JPY. Although the USD strengthened, better supply/demand dynamics drove commodities higher. Latam markets and currencies followed suit. Rising interest rate expectations led to a hint of risk taking which saw gold fall in tandem with lower bond prices. The US election fanfare began to take center stage.

EQUITY

- Emerging markets outperformed developed markets, led by Latin America as commodities prices raced higher and Latam currencies strengthened. Brazil's stock market and currency rebounded on the back of encouraging political developments.
- Election uncertainty and the earnings season took its toll on US equities and October turned in another horror show.
- In Asia, Taiwan had a slight reprieve whilst Japanese equities surged on a weaker JPY. Other Asian markets mostly turned in negative returns.

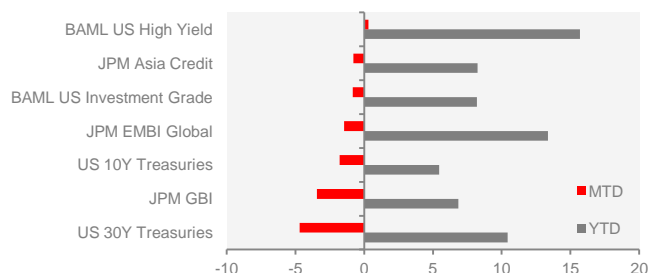
Fig.1. Equity Indices Performance in USD (%)



FIXED INCOME

- Most major markets' long bond yields rose steadily through the month, with the U.S. 10-year Treasury yield reaching its highest level since May.
- US high yields eked out gains as commodities rallied and demand remained strong with the markets pricing in a rate hike by December. US investment grades had a more subdued month.
- In Asia, the Asian USD bond market (represented by the JP Morgan Asia Credit Index) turned in a negative return attributed to the rise in US Treasury (UST) yields over the month as overall Asian credit spreads closed the month tighter.
- Emerging market bonds continued to receive inflow, as investors continued to seek arbitrage opportunities from interest rate differentials.

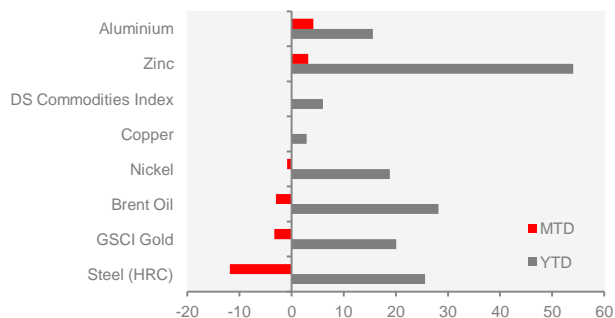
Fig.2. Bond Indices Performance in USD (%)



COMMODITIES

- Aluminum continued to make a run as producers in Europe and the US cut supply amid increasing demand.
- Zinc also did well as investors positioned for a rebound in demand from China underpinned prices.
- Oil prices settled down as investors reeled from a surge in U.S. crude inventories, and remained skeptical about whether OPEC can actually implement its planned output cap.
- Steel prices fell as price of coking coal (a key production ingredient) surged during the month.

Fig.3. Commodities Performance in USD (%)





CURRENCIES

- ▶ The US dollar generally rose against most major currencies as the US Fed rate hike expectations increased
- ▶ The British Pound weakened again against most major currencies on looming expectations the Bank of England (BOE) would intervene to soften Brexit's impact on near-term economic growth.
- ▶ The Japanese Yen fell against the USD on expectations of a stronger USD as the Fed grew increasingly warmer to a December rate hike.
- ▶ Commodity sensitive currencies were mixed over the month in response to a stronger USD but also increased demand for emerging market assets.
- ▶ The Chinese yuan continued to weaken, hitting its weakest level against the USD since September 2010.

ECONOMICS

- ▶ US economic data was stronger over the month. September ISM Manufacturing index rose better than expected while real GDP growth grew at 2.9% q/q. However, non-farm payrolls were weaker. Unemployment remained steady at 5%.
- ▶ China painted a mixed picture. China's manufacturing held steady last month but September's exports fell more than expected. Both the producer and consumer price inflation were strong. Industrial production was slightly weaker and real GDP rose 6.7% y/y.
- ▶ Eurozone's economy strengthened over the month as industrial production in Germany, France and Spain surprised on the higher side. The composite PMI also rose better than expected. The first post-Brexit UK GDP came in at 0.5%, beating the 0.4% estimate.

CENTRAL BANKS

- ▶ Most central banks watched and gave indications, but few actually moved, though India did cut 0.25% to 6.25%, citing a growth slowdown.
- ▶ Brazilian central bank cut the Selic rate by 25 bps and indicated that the pace and magnitude of monetary easing would depend on inflation sensitivity to monetary policy and the pace of the economic reforms.
- ▶ In Indonesia, Bank Indonesia surprised markets by cutting its rate by 25 bps. Bank Indonesia representatives expected the Indonesian rupiah to tilt towards the strong side, keeping the currency in line with fundamentals.
- ▶ The ECB commented on the scarcity of bonds for the quantitative easing program (which ends in March 2017) and it kept its interest rates unchanged.
- ▶ The FOMC's Nov. 1-2, 2016, meeting is expected to show indications for a rate change in December 2016; if there is an increase, it would be the second time December saw a rate increase (with the prior one being in 2006).
- ▶ After the BOJ announced its new comprehensive assessment in September, there was a decrease in purchases of 10 yr JGBs when the yield neared -10 bps, establishing the lower bound of its 10yr JGBs.

Fig.4. Currencies Performance versus USD (%)

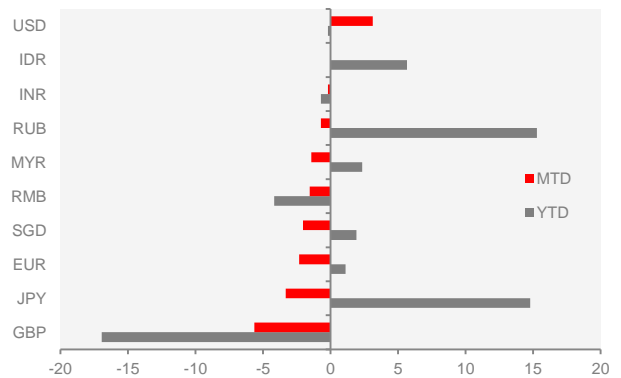


Fig.5. Global Leading Indicator

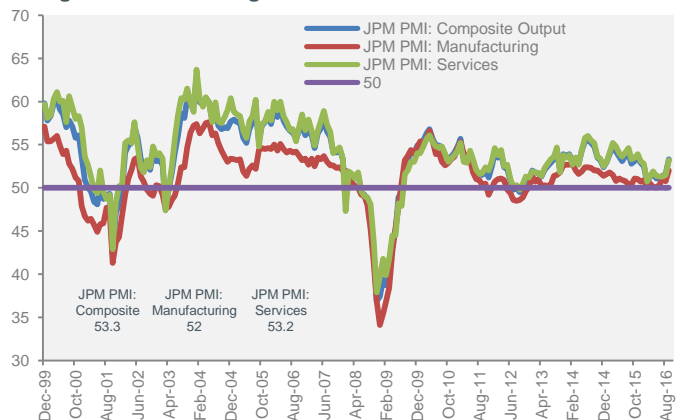


Fig.6. Central Banks Interest Rate (%) (Upper Band)

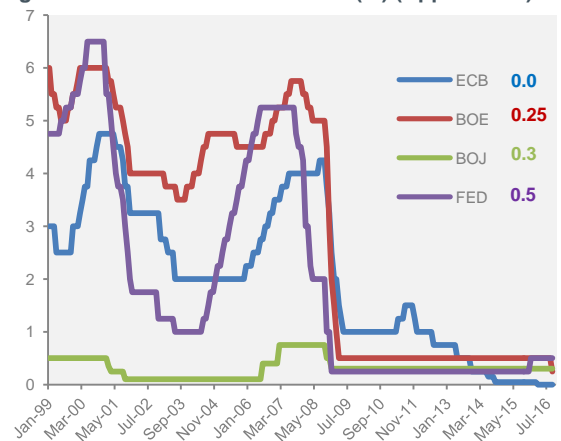




Fig.7. Key Regional Price-to-book Valuations (x)

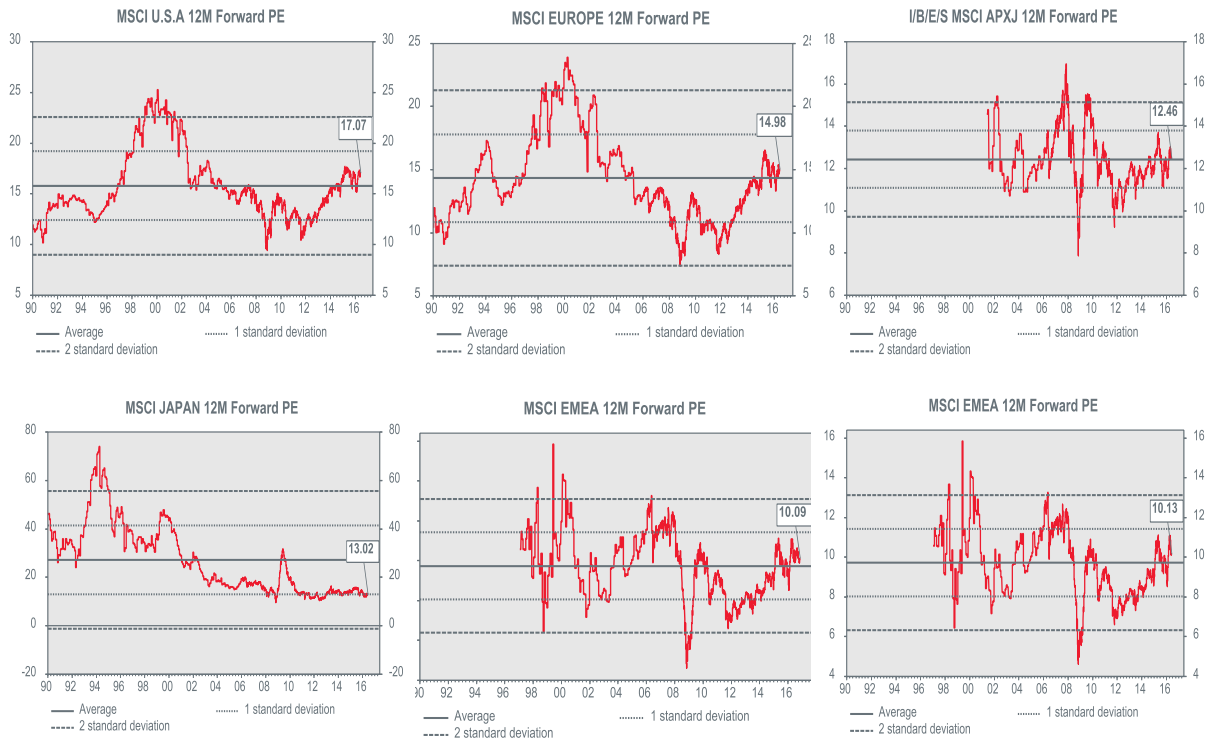
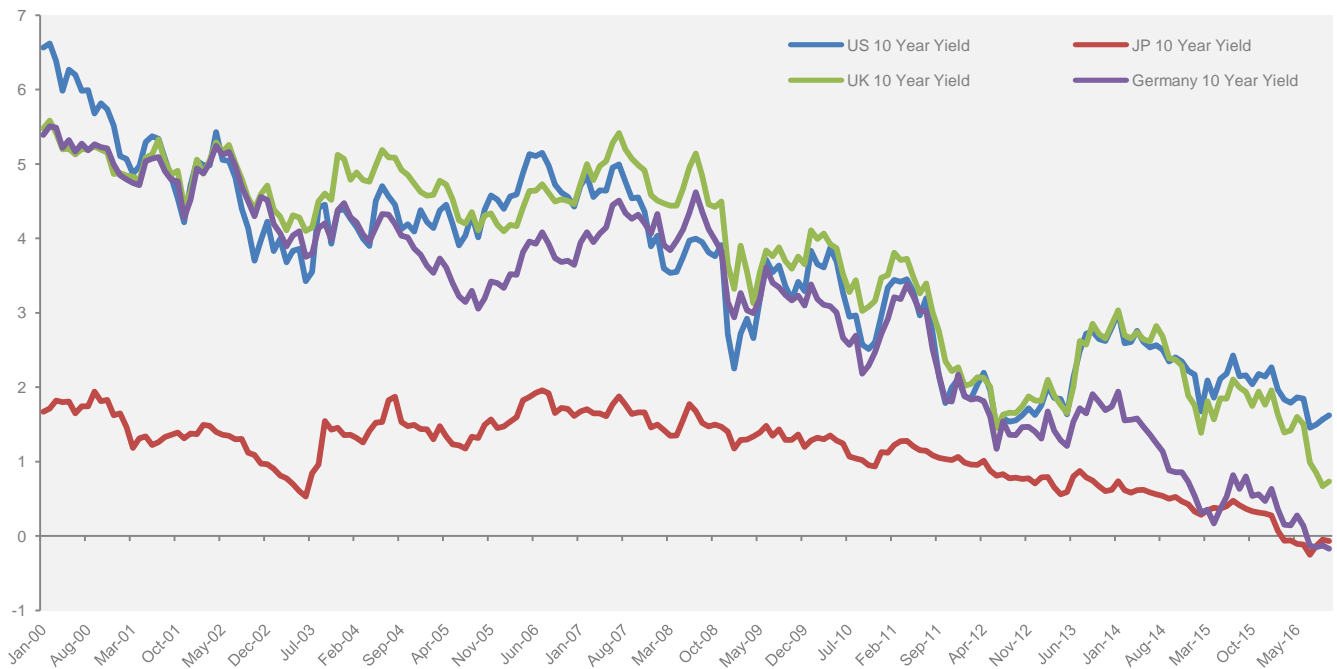


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 October 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	1.5	2.0	54.1	0.0	1.9	0.3	-2.4	109177.0	-2.4	1.0	-1.3	7.4
Euro Area	0.4	1.5	52.3	-0.1	0.9	0.1	2.9	242451.0	-2.6	9.6	-4.3	10.0
Australia	0.2	2.0	50.2	1.5	2.1	2.0	-4.7	42218.4	-2.1	-1.9	-7.1	14.6
Japan	-0.3	0.8	52.4	0.0	0.9	0.1	2.3	1193440.0	-7.1	9.4	-6.1	-0.7
Hong Kong	0.4	2.8	46.6	2.0	2.0	0.5	2.4	334309.0	3.3	-4.1	-18.9	-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	-1.9	-2.6	44.1	9.5	9.1	14.3	-4.3	353560.0	-9.1	-8.3	28.5	45.1
Russia	-2.0	-4.5	50.2	15.6	16.4	11.0	5.0	311749.0	-2.9	22.5	-3.6	10.6
India	1.6	7.0	50.7	-4.5	-1.7	7.8	-1.3	329875.0	-3.8	-2.6	-3.0	3.0
China	1.8	6.9	48.3	1.6	1.6	4.6	2.1	3708950.0	-1.8	0.0	-15.6	1.8
Korea	1.2	2.6	49.1	0.6	2.1	1.5	7.3	358156.0	0.9	5.9	-18.9	4.3
Taiwan	-1.7	-1.0	47.8	0.3	0.6	1.8	13.7	426.8	-0.3	-8.1	-26.3	3.0
Thailand	0.4	2.8	-3.3	-1.1	1.0	1.5	5.7	110046.3	-2.3	-10.1	-2.8	8.1
Indonesia	3.2	4.7	47.8	6.8	5.1	7.5	-2.5	96199.9	-2.1	-14.8	13.5	10.5
Philippines	1.8	5.6	7.8	0.4	1.4	4.0	4.0	71470.2	0.0	-1.3	-11.6	4.8
Singapore	0.1	1.4	50.2	-0.6	0.6	1.1	23.1	250205.0	1.0	-10.9	7.9	5.9
Malaysia	3.2	4.7	48.1	2.6	4.1	3.3	2.5	89426.0	-4.0	-5.4	7.1	23.0
Vietnam	6.8	6.5	50.1	0.0	1.9	6.5	4.9	26463.7	4.6	11.3	0.0	4.4

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 7 November 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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