

## MONTHLY REVIEW: FEBRUARY'S FERVOUR

February 2017

February saw selected equity and bond indices notching gains. Economic optimism is reigning, especially in the United States where much-touted 'pro-growth' policies are in the pipelines. The stronger USD has also given a boost to export-oriented economies but did not deter performance in emerging markets.

### EQUITY

- US equities barrelled ahead in the lead-up to Trump's first Congressional address, as investors eagerly awaited details of his 'phenomenal' tax plans and fiscal spending.
- Export-oriented emerging markets registered growth on the back of a stronger US dollar; Latin America's performance stood firm as Brazil kept pace with its aggressive rate cuts.
- Despite gains in all countries except Norway, Europe remained shrouded by its packed electoral calendar, imminent "Brexit" negotiations and tapering growth in developed markets.
- China topped the ACWI this month, leading gains in Asia ex Japan as optimism abounded over its economic data releases in the coming month. Taiwan's equity market also scaled a new peak in nearly two years, shored up partly by the highly-anticipated launch of the new iPhone.

### FIXED INCOME

- Investors remained hopeful but skeptical towards Trump's proposed pro-growth policies. US high yield bonds continued to benefit from the prospect of less stringent regulations, fiscal stimulus and strong inflows. However, Trump's lofty plans are in want of details and US Treasuries rose against this palpable uncertainty.
- In emerging markets, Turkey's government amplified bond buybacks; Russia and Brazil got a boost from oil price spikes, while better-than-expected gains in Argentina's economy activity index indicated that recovery may finally be under way.
- Over in Asia, narrowing spreads and slight tightening of US Treasury yields drove gains.

### COMMODITIES

- As a haven asset, Gold continued to appreciate in view of the geopolitical volatility in Europe and the ambiguity of Trump's grand plans.
- In general, base metals slipped as China's sudden monetary tightening raised concerns about a rein in of the real estate sector.
- Supply woes boosted nickel prices as Indonesia delayed issuing ore export guidelines, halting exports in addition to Duterte-backed proposals to shut down more than half of the Philippines' mines. Aluminum prices also rose as China announced production cuts.
- Oil lost ground in light of record high US crude oil inventories, and ramped up productions in US, Canada, Libya and Nigeria to fill the gap from OPEC cuts.

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

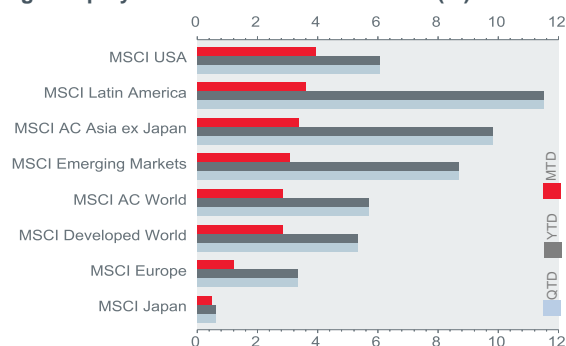


Fig.2. Bond Indices Performance in USD (%)

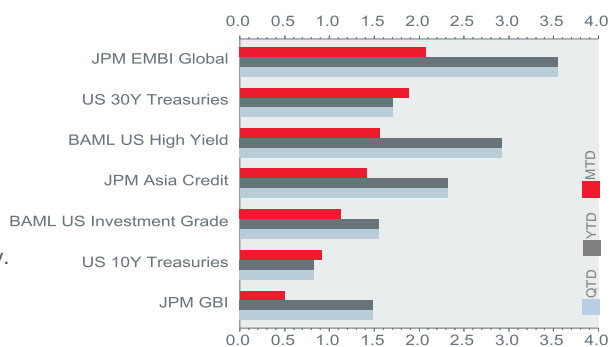
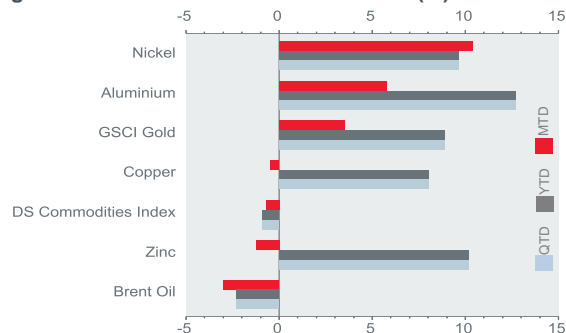


Fig.3. Commodities Performance in USD (%)





## CURRENCIES

- ▶ The US Dollar rebounded amidst hints of a rate hike in March and President Trump's promise of 'phenomenal tax reforms'.
- ▶ Oil-sensitive currencies (Russian Ruble and Brazilian Real) continued their advance with improved compliance to OPEC/non-OPEC production cuts in February.
- ▶ Korea recorded its highest level of export value and growth this month since Feb-2012. This nudged the Korean Won forward as exporters bumped up dollar sales towards the month-end.
- ▶ The British Pound was barraged by disappointing inflation, wage growth and retail sales. Talks of a Second Scottish independence referendum in March did not help.
- ▶ The Euro tumbled on the heightened sentiment of a Le Pen victory.

## ECONOMICS

- ▶ The post-election optimism in the US has certainly not waned. January's payroll increase surpassed expectations and labour markets remained tight, boding well for further wage growth. The Conference Board's consumer confidence index also struck an all-time high in more than 15 years while January home sales rose. Manufacturing appeared to be picking up with durable goods orders finally increasing after two months of decline.
- ▶ Europe still trotted along the road of economic recovery, with the flash CPI rising within expectations. The Economic Sentiment Indicator continued to scale new peaks not seen since 2011, while the Markit Eurozone Composite PMI pushed on its steep ascent.
- ▶ China proved equally stable, as the Caixin Manufacturing PMI continued to rise, approaching its end-2016 highs. The PPI also hit a new high since 2008, rising 7.8%. The CPI gained only 0.8%, likely distorted by the long holiday.

## CENTRAL BANKS

- ▶ The Fed left the federal funds rate unchanged during their Jan-2017 meeting, but expressed that it may be raised 'fairly soon' if labour market and inflation data remain within expectations. *At the time of publication, the Fed raised short term rates by 25 basis points and signaled a shallow path of 2 rate hikes this year.*
- ▶ As expected, Bank of England and Bank of Japan kept rates unchanged at 0.25% and -0.1% respectively.
- ▶ China's central bank unexpectedly raised rates on three reverse repurchases and two standard lending facilities (SLF) by 0.1%, and one SLF rate by 0.35%, in a likely move to prompt deleveraging in the bond and shadow banking markets.
- ▶ Brazil's central bank cut interest rates by another 0.75% for the second consecutive meeting, as expected.
- ▶ In line with expectations, Bank of Mexico lifted its key rate by 0.5% to 6.25% to rein in spiraling inflation.
- ▶ Against expectations of a 0.25% rate cut, the Reserve Bank of India maintained rates at 6.25% to permit further assessment of demonetisation's impact on inflation and output. The monetary policy stance was also changed from accommodative to neutral.

Fig.4. Currencies Performance versus USD (%)

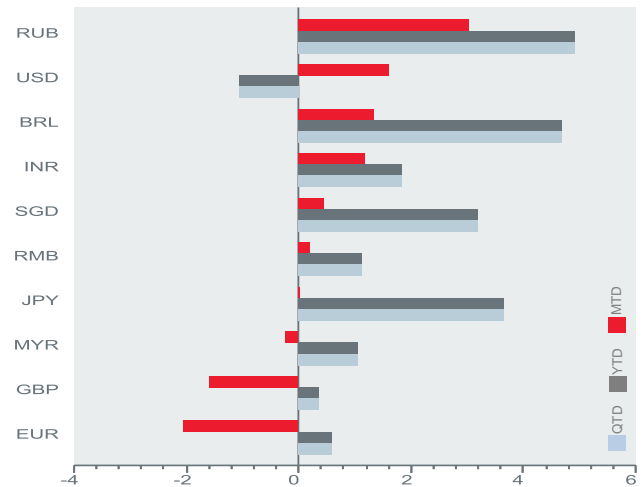


Fig.5. OECD Composite Leading Indicator

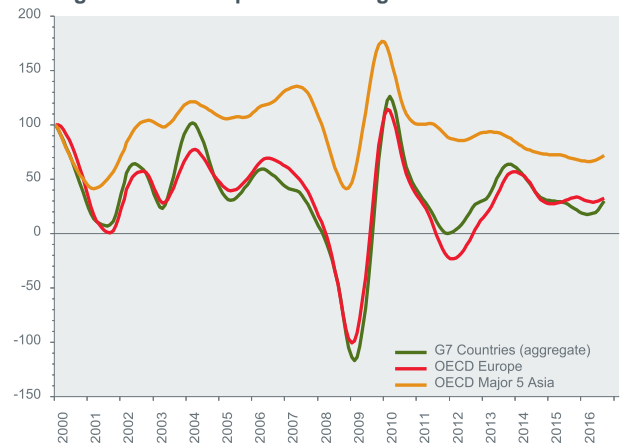
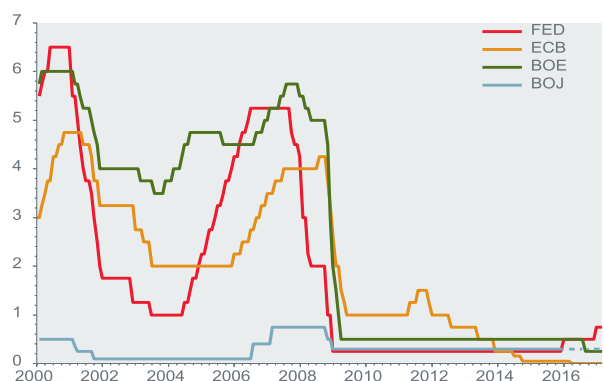
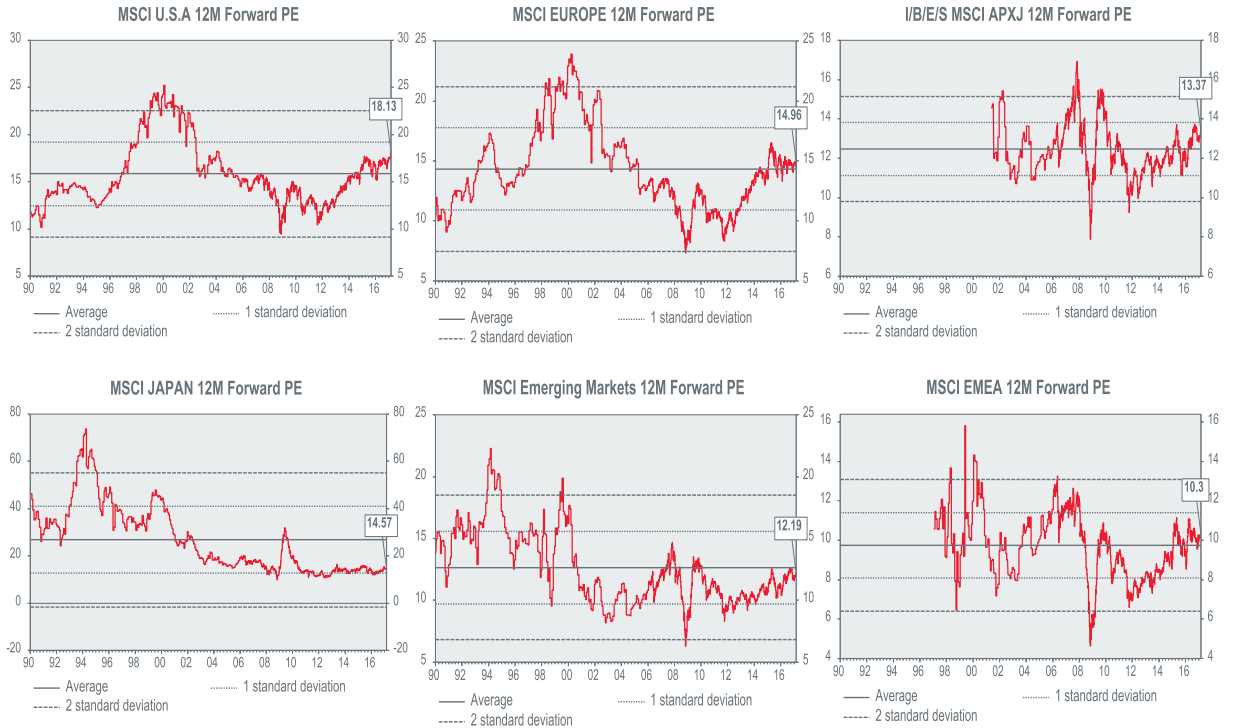


Fig.6. Central Banks Interest Rate (%) (Upper Band)

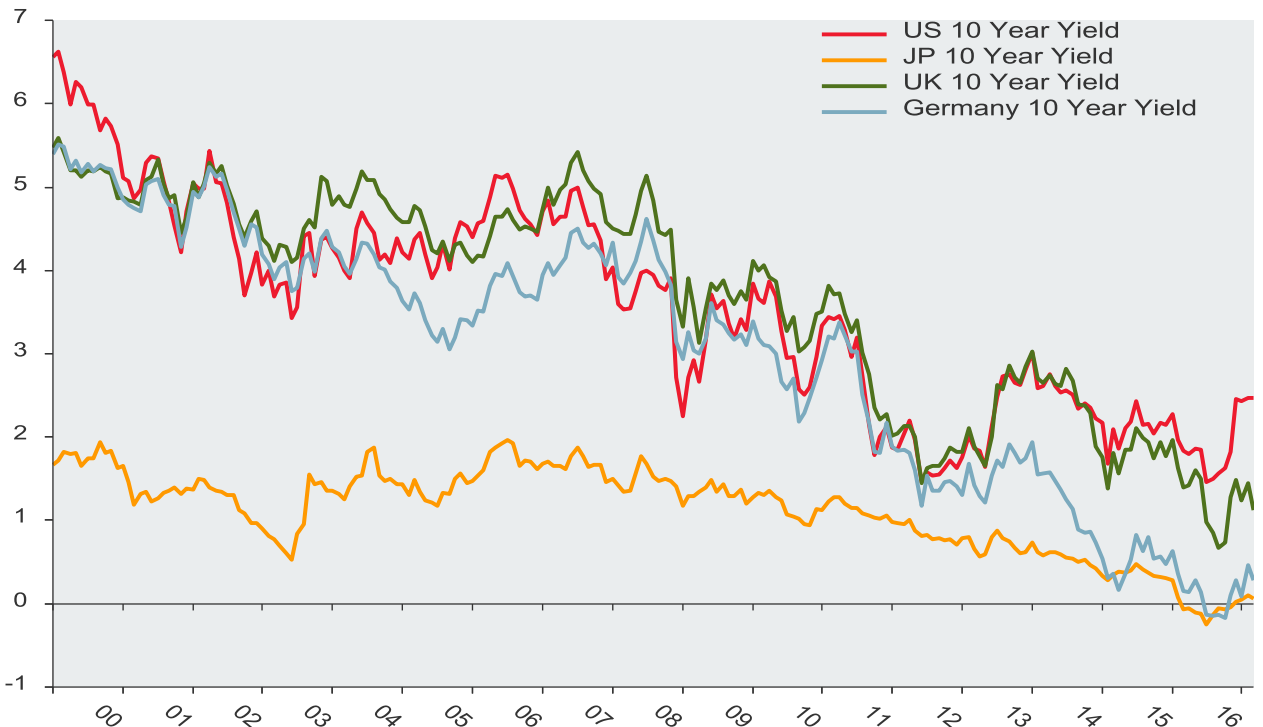




**Fig.7. Key Regional Price to Earnings Valuations (x)**



**Fig.8. Key Bond Yields (%)**



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 28 February 2017. For representative indices and acronym details please refer to notes in the appendix.

**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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