

MONTHLY REVIEW: APRIL ON THE EDGE

April 2017

Overcast with geopolitical tensions, April had investors on the edge. Safe haven assets gained but reversed after the first round of French elections played out as expected. Earnings season saw generally better results, which kept optimism afloat. Save for gold, commodities closed in the negative on mounting stockpiles and a weaker demand outlook.

EQUITY

- Europe strode to the forefront of this month's gains, being the largest beneficiary in the global rally spurred by Macron's lead in first phase of French presidential voting. The EU's release of draft guidelines for Brexit negotiations, Draghi's assurances of continued ECB stimulus, and solid support for Theresa May's snap election call pushed the region up further.
- US equities inched forward this month. Strong corporate earnings and details of a new tax reform plan boosted sentiment, but the Fed's plans for a balance sheet reduction and geopolitical strains kept any rally in check.
- Latin America closed flat this month as tumbling commodity prices weighed markets down.
- ASEAN markets fuelled Asian performance in April, with Philippines, Malaysia and Indonesia leading the pack. China notched a modest gain as Beijing's policy and credit tightening tempered strong macro data.

FIXED INCOME

- Fixed income recovered from their poor showing last month.
- Investors sought refuge in US treasuries at the start of the month, as weak US economic data and geopolitical frictions dominated headlines. US investment grade and high yield picked up in the latter half of April as robust 1Q17 corporate earnings and Trump's tax agenda lifted sentiment.
- Emerging market assets also took over in the second half of the month as global risk appetite returned after an EU dismantlement was deemed to have been averted and other international tensions receded.
- The Asian USD bond market rose in April, driven by positive US Treasury return as Asian credit spreads closed the month moderately higher.

COMMODITIES

- Gold winded up being the lone gainer this month due to accumulating geopolitics. These included a Russian metro blast, tough talks from Trump in the lead-up to the China-US summit, US missile strikes in Syria, France electoral nerves, and protracted tensions in the Korean Peninsula.
- Base metals posted losses this month on news of massive Chinese inventories and a poor demand outlook in light of China's liquidity-tightening and signs of a slowdown in manufacturing growth. A US probe into aluminum imports also weighed on commodities.
- Oil extended falls amidst record-high US rig counts, growing shale production, resumption of Libyan production, and a lack of confirmation regarding an extension of OPEC cuts.

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

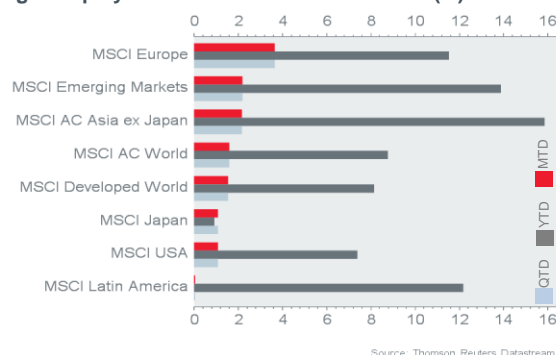


Fig.2. Bond Indices Performance in USD (%)

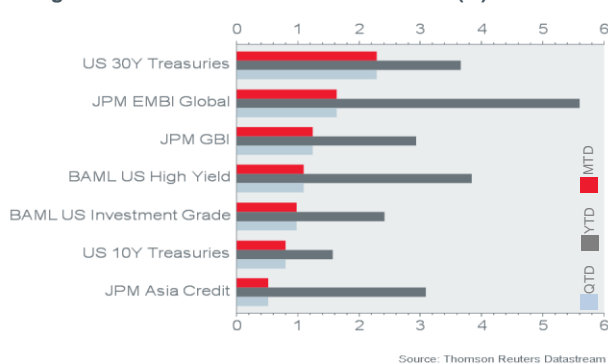
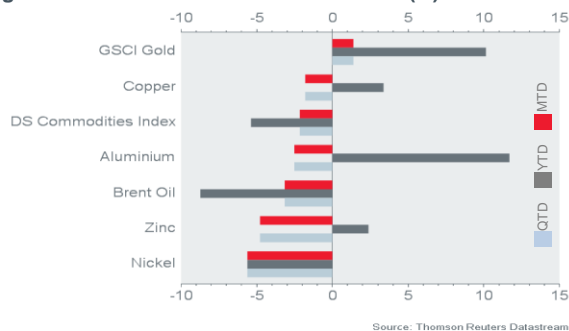


Fig.3. Commodities Performance in USD (%)

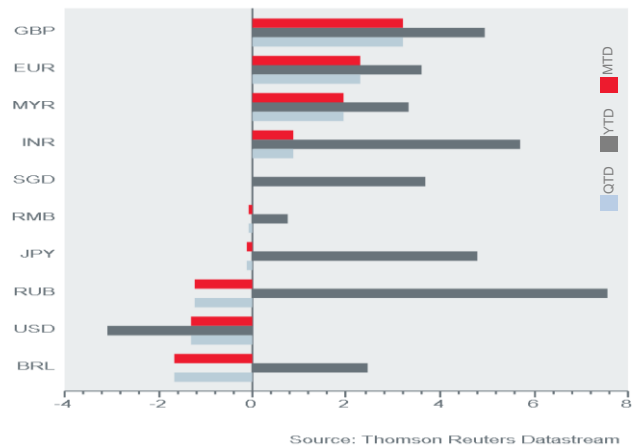




CURRENCIES

- ▶ The Pound and Euro notched the strongest gains as Macron's first-round lead left muted concerns of an EU breakup. Subsequent polls that reaffirmed a clear lead for the pro-EU candidate in the finals continued to prop up demand for these currencies. An announcement of a UK snap election in June to strengthen Theresa May's Brexit mandate gave the Sterling an further boost.
- ▶ The Malaysian Ringgit gained as the country disclosed plans to develop and expand onshore financial markets.
- ▶ The Brazilian Real suffered heavy losses this month over President Temer's uphill struggle to pass a key pension reform that would alleviate their massive budget deficit.
- ▶ The Russian Ruble tumbled on souring Russia-US relations after the US launched strikes against Syria. Weak oil prices further depressed the Ruble.
- ▶ The USD fell on lingering concerns of an economic slowdown, mixed signals on the pace of hikes, and uncertainty towards the potency of the current administration. Trump's comments on the dollar strength also unsettled investors.

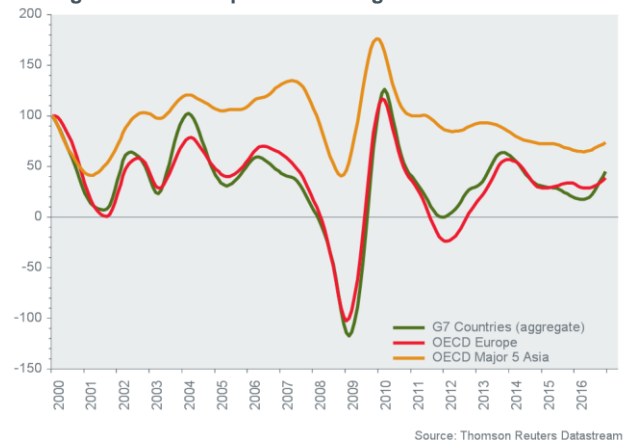
Fig.4. Currencies Performance versus USD (%)



ECONOMICS

- ▶ The US labor market presented a mixed picture in April. Non-farm payrolls fell significantly short of expectations, but both manufacturing and non-manufacturing sectors continued to expand, based on ISM figures. Q1 real GDP growth disappointed, dragged down by sluggish consumer spending in services and autos.
- ▶ The HICP, Eurozone's headline inflation, beat year on year consensus estimates in April. The composite PMI peaked at a six-year high, propelled by robust employment and incoming new business growth. Foreign demand, notably from Asia, have also bolstered new export orders.
- ▶ Over in China, March retail sales, industrial production, trade balances, imports and exports, and Q1 GDP all came in stronger than expected. However, CPI inflation remain subdued, weighed down by falling food prices; while manufacturing and service sector growth slowed. In Japan, headline inflation softened in spite of a taut labor market and stable industrial activity.

Fig.5. OECD Composite Leading Indicator



CENTRAL BANKS

- ▶ The ECB maintained rates and policy during its April meeting, while acknowledging that economic recovery has strengthened. Sweden's Riksbank left its key rate unchanged, but unexpectedly extended its QE program and adopted a dovish stance, citing global political uncertainty.
- ▶ The BoJ held rates steady in April, but lifted economic growth forecasts and trimmed inflation targets. India left its key repo rate unchanged, but hiked its reverse repo rate by 0.75% to 6.00% to reduce excess liquidity.
- ▶ Brazil slashed its benchmark rate by 1.00% to 11.25%, as the country continued its aggressive rate cuts to spur its failing economy.
- ▶ Russia's central bank shaved its key rate by 0.50% to 9.25%, stating that inflation was on track to meeting targets.
- ▶ Turkey, on the other hand, lifted one of its policy rates for the second consecutive month, while holding the other three steady. The late liquidity window rate was raised by 0.50% to 12.25% in efforts to curtail inflation.

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

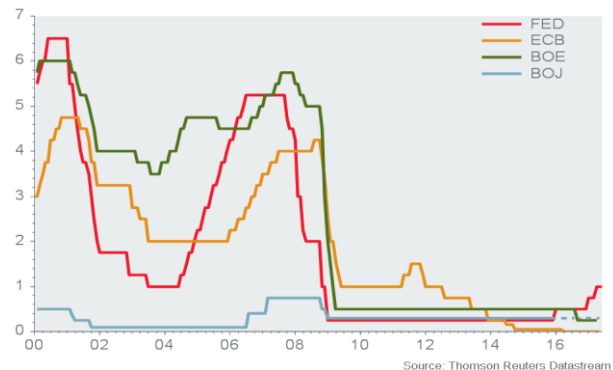




Fig.7. Key Regional Price to Earnings Valuations (x)

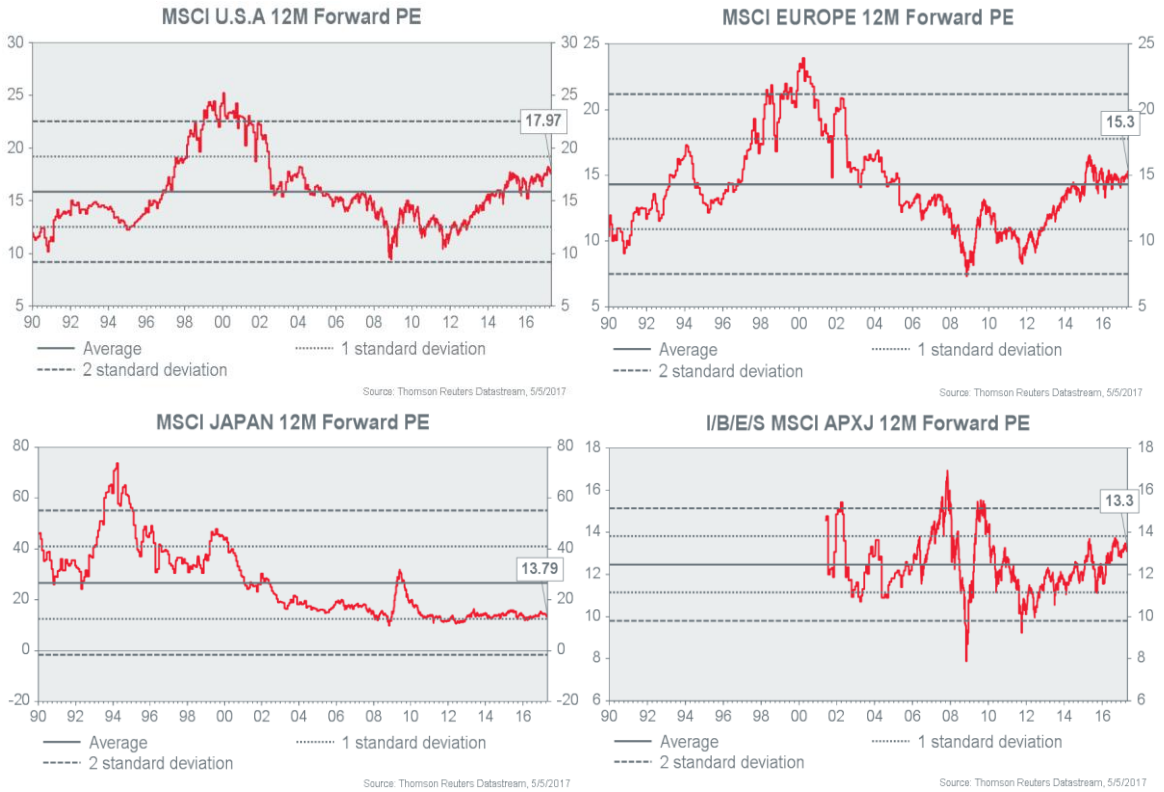
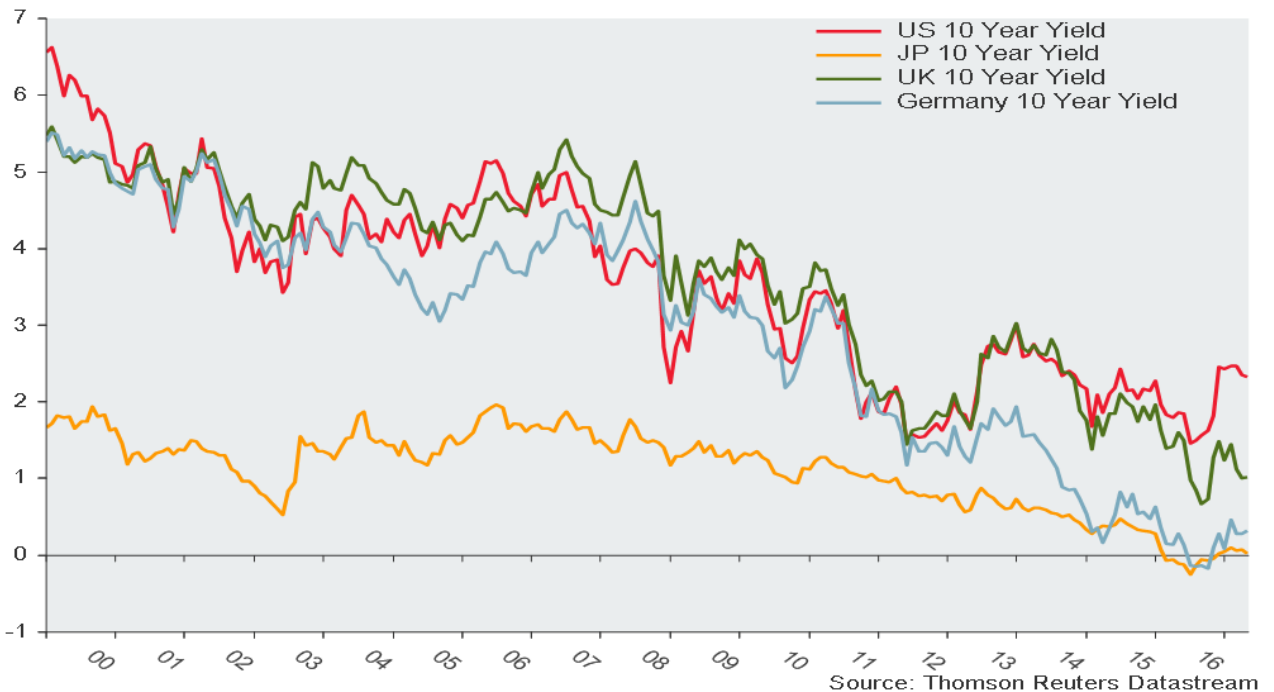


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 28 April 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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