

MONTHLY REVIEW: June...Pauses

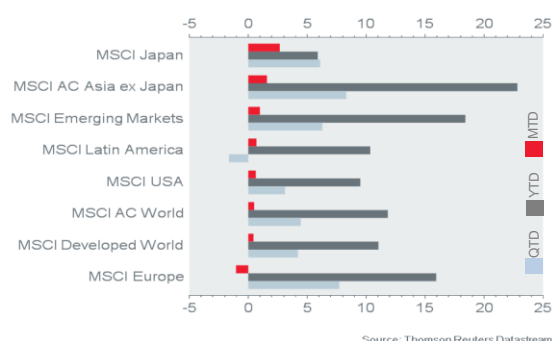
June 2017

Markets took a breather after piling into risk assets over the last six months. Initially strong, markets were tempered by a mini sell-off in bonds towards month-end, set off by coordinated hawkish central banks. Oil, once again was under pressure from rising US inventories while gold gave back some of its year-to-date gains on overall muted markets and inflation concerns.

EQUITY

- ▶ Emerging market equities outperformed their European and US counterparts over the month.
- ▶ The MSCI inclusion of A-shares and firmer economic data gave Chinese stocks a lift while Asia's IT equities helped drive regional performance.
- ▶ Latin American equities finished slightly higher as Brazil continued to be mired in political noise while Mexico rose on better economic prospects.
- ▶ Japanese stocks rose as earnings beat expectations and look to remain solid going into the second half of 2017.
- ▶ European stocks finished the month weaker as investors took into account the ECB's comments on reducing monetary stimulus.
- ▶ Stocks in the US eked out small gains capped by a series of anemic economic data including disappointing consumer spending numbers.

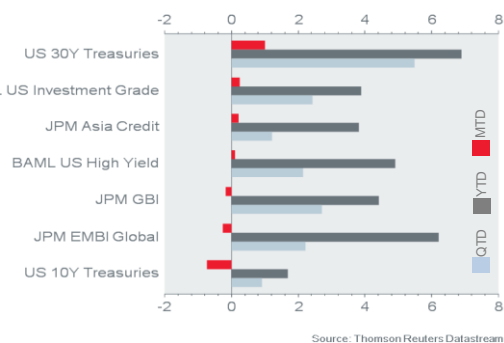
Fig.1. Equity Indices Performance in USD (%)



FIXED INCOME

- ▶ Global government bond yields were reasonably stable for most of the month. However, the last few days of June saw 10-year yields jump over 10 basis points in a minor sell-off as both the Bank of England governor and ECB president indicated the possibility of a withdrawal of stimulus measures.
- ▶ US high yield bonds continued to rise; selling was confined to the oil and retail sectors.
- ▶ Emerging market bonds consolidated slightly as persistent low global rates and stronger local currencies prevented major sell-offs.
- ▶ The Asian USD bond market's modest return was driven by spread return, which was overall positive over the month. US Treasury (UST) return was flat over the month.

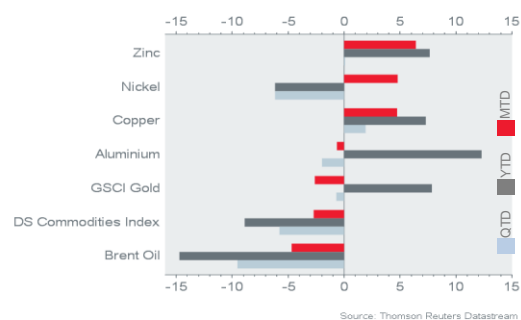
Fig.2. Bond Indices Performance in USD (%)



COMMODITIES

- ▶ Oil prices continued sliding as excess inventories in the US persisted. However, the number of oil rigs coming online have started to slow.
- ▶ Gold prices fell during the month as lesser geopolitical tensions and steady economic growth resulted in lower volatility in the markets.
- ▶ Copper prices were boosted by a strike threats in South America and a steadying Chinese economy.
- ▶ Nickel prices rose as the demand for alloys increased. However, production is poised to grow as Indonesia's export ban softens in addition to the removal of the Philippines' anti-mining minister.
- ▶ Zinc also rose during the month as existing inventories start to deplete at a higher-than-expected rate.

Fig.3. Commodities Performance in USD (%)

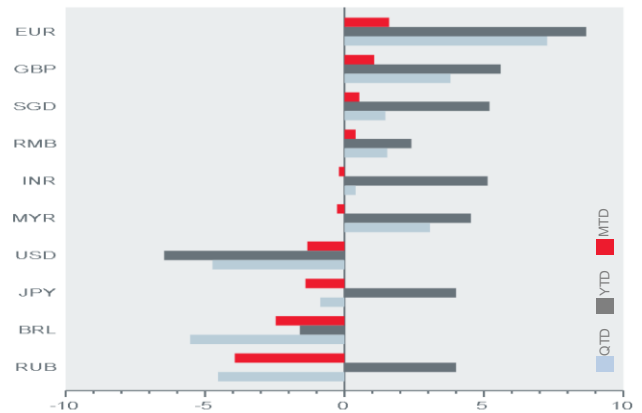




CURRENCIES

- ▶ The US Dollar continued its weakness this year as the Trump inspired greenback rally faded. Lower confidence in the ability for tax reforms also weighed.
- ▶ The Euro continued its rise against the US Dollar driven by rising asset prices, better economic data and falling political risks.
- ▶ The Japanese Yen fell during June as the BOJ maintained its current mix of ultra-low interest rates, expansion of the monetary base and control of the yield curve.
- ▶ Commodity sensitive currencies like the Brazilian Real and the Russian Ruble tumbled in tandem with weaker oil prices over the month.
- ▶ The Chinese Renminbi continued to strengthen against the US Dollar on the back of stabilized economic activity and less uncertainty over political and trade matters.

Fig.4. Currencies Performance versus USD (%)

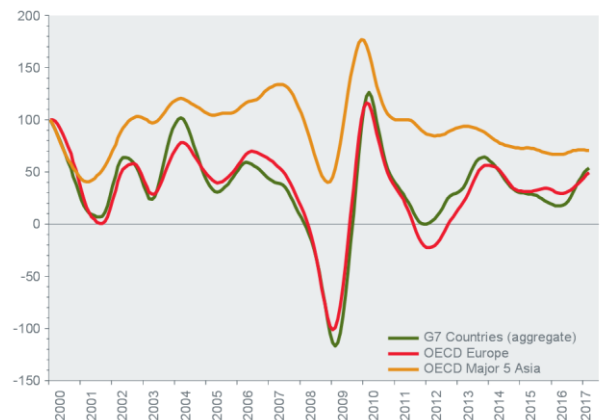


Source: Thomson Reuters Datastream

ECONOMICS

- ▶ Overall US activity print was softer than expected as the ISM manufacturing index rose but the non-manufacturing index fell slightly along with weaker than expected non-farm payrolls, retail sales and housing. A bright spot, however, was the upward revision of Q1 GDP, to a higher than expected 1.4%.
- ▶ In Europe, Germany marched onwards as the Ifo Business Climate index for June soared to a record high of 115.1 and Germany raised its 2017 growth forecast to 1.8% from 1.5%.
- ▶ Over in China, the Markit/Caixin manufacturing PMI fell in May below 50. However, internally measured data indicated a better-than-expected expansion of manufacturing activity.
- ▶ Japanese economic data was in line with expectations as the CPI grew 0.3% year-on-year.

Fig.5. OECD Composite Leading Indicator

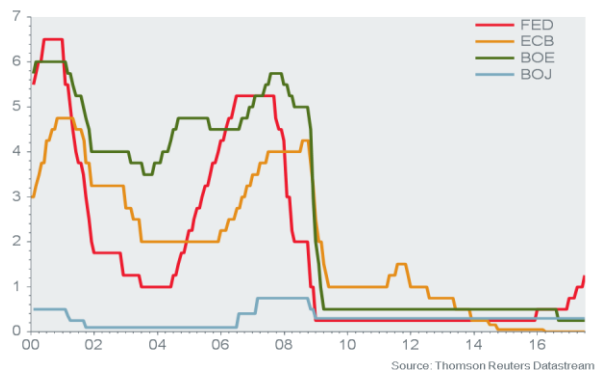


Source: Thomson Reuters Datastream

CENTRAL BANKS

- ▶ The US Fed raised short term interest rates for the second time in 2017. The move was very much anticipated and the Fed cited solid job gains and rising economic activity as reasons.
- ▶ The Bank of England held interest rates at 0.25 % as expected. However, there was stirring within the committee which called for a hike to counter surging inflation.
- ▶ The ECB also froze interest rates in June and did not change its asset buying or QE programs. The ECB did state more confidence in the Euro economy and had the market thinking about life after the liquidity binge.
- ▶ The BOJ maintained its monetary stance and upgraded its view of private consumption and the economy as a whole. Assurance of not reducing its QE program was given to the markets.

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



Source: Thomson Reuters Datastream



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

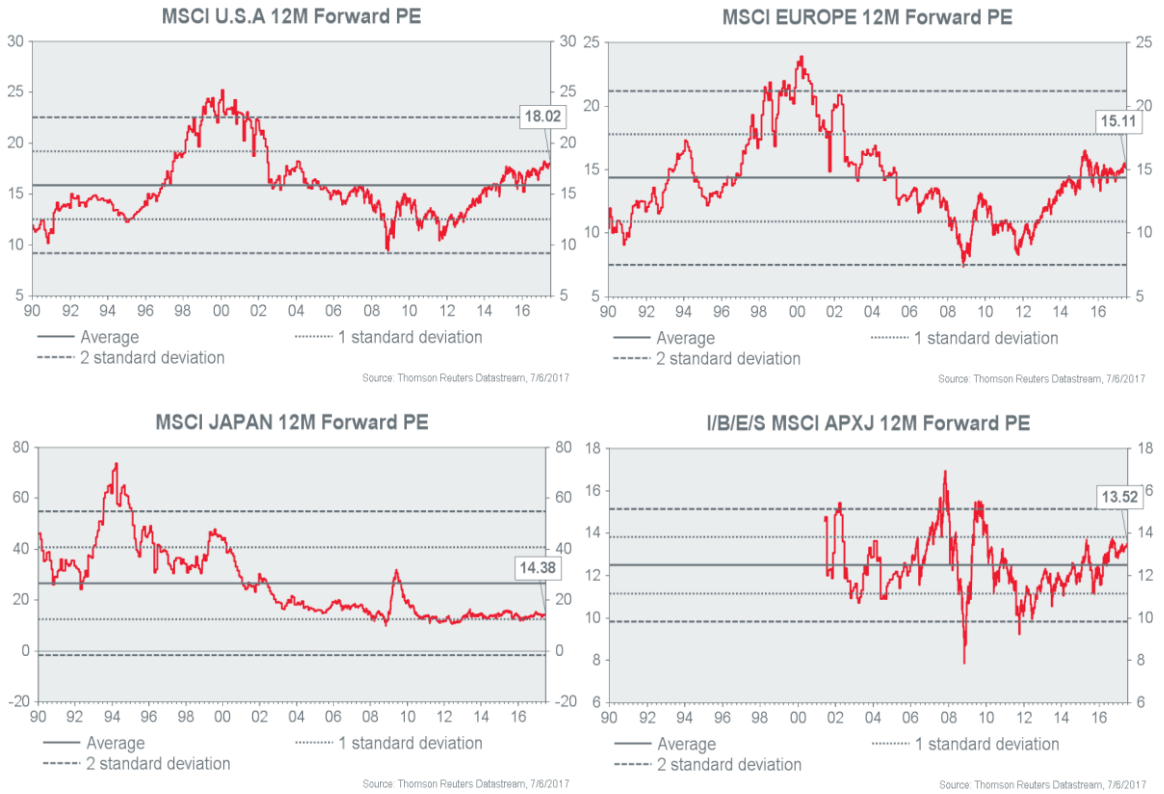
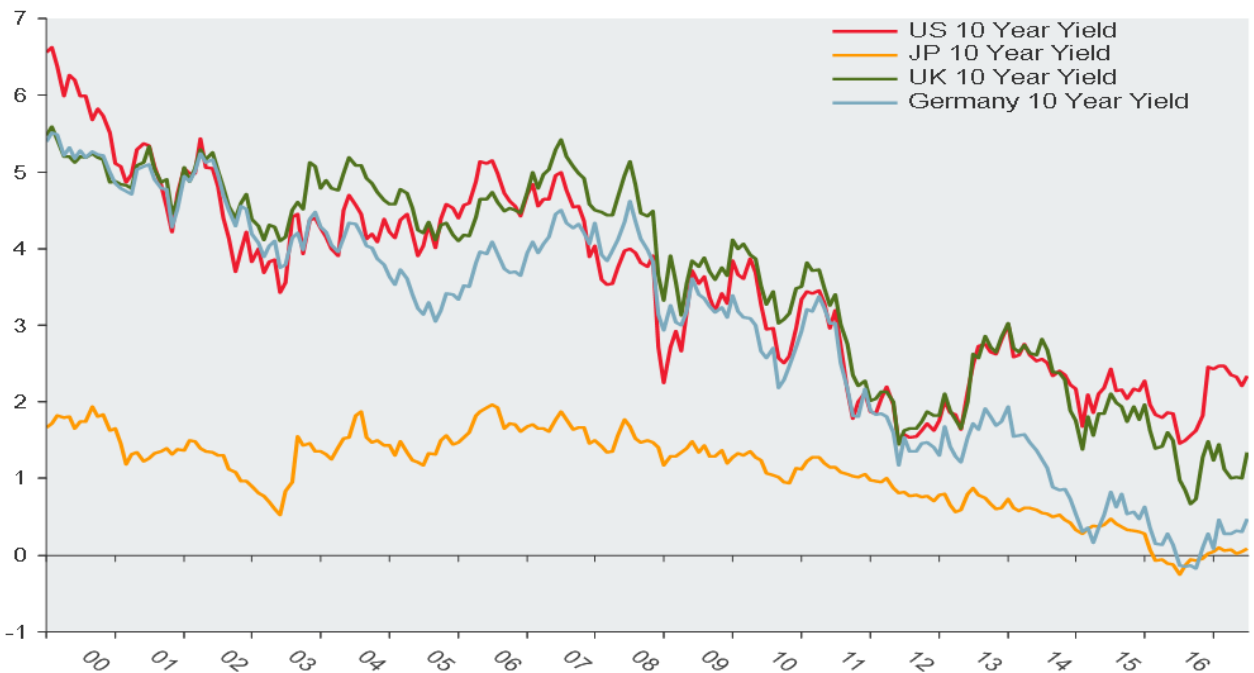


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 June 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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