

# MONTHLY REVIEW:

## CAUTIOUS END TO 2015

DECEMBER 2015

2015 ended with caution as the Fed rate hike was greeted with relief and also confusion. There was turmoil in the US high yield bond market on liquidity concerns while as oil prices continued to fall on the back of a dysfunctional OPEC and soft demand. The US labor market surprised on the upside while the Chinese economy continued its soft decent.

**EQUITY:** Global equities fell as the Fed finally raised rates. There was also turmoil in the US high yield bond market as oil prices continued to fall on the back of a dysfunctional OPEC and soft demand. The US labor market surprised on the upside while the Chinese economy continued its soft descent. Against this backdrop, Developed Markets (DM) equity declined less than Emerging Markets (EM) equity. Within DM, European and Japanese equity led the decline, perhaps due to the disappointment of lack of more aggressive action from their respective central banks. US equities were dragged into the red by energy. Within EM, Latin American stocks fell on commodity related concerns and the Fed raising rates. Asian equities were flat in December driven by a sharp rebound in Indonesia and Australia. Indonesia was the best performer while Thailand's equity market declined the most.

**FIXED INCOME:** Global bond markets were busy in December as it digested ongoing concerns over emerging market growth, weak commodity prices, poor year-end market liquidity and the first US Federal Reserve (Fed) rate increase in over 9 years. As a result, high yield corporate bonds and EM bonds underperformed while government bonds gained. The US Treasury (UST) yield curve continued to flatten as long bond yields rose by less than shorter-dated maturities, in spite of the Fed rate hike being well communicated. Divergent policies were eventually confirmed when the ECB and the BOJ loosened monetary policy in the form of rate cuts and bond purchases. The J.P. Morgan Asia Credit Index (JACI) lost ground over the month driven by a bear-flattening of the US Treasury (UST) curve while the HSBC Asia Local Bond Index (ALBI) also saw losses driven in part by losses in Asian currencies.

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

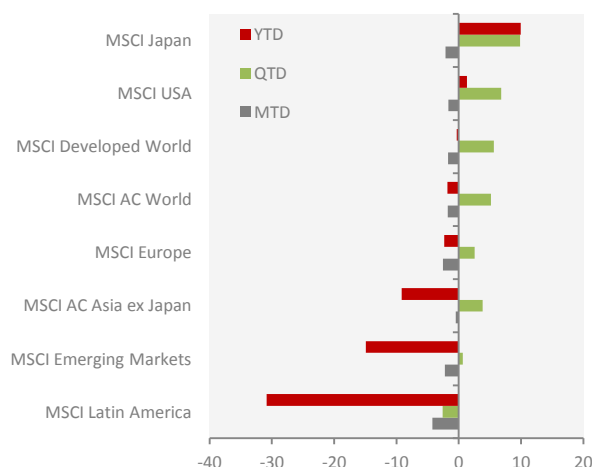
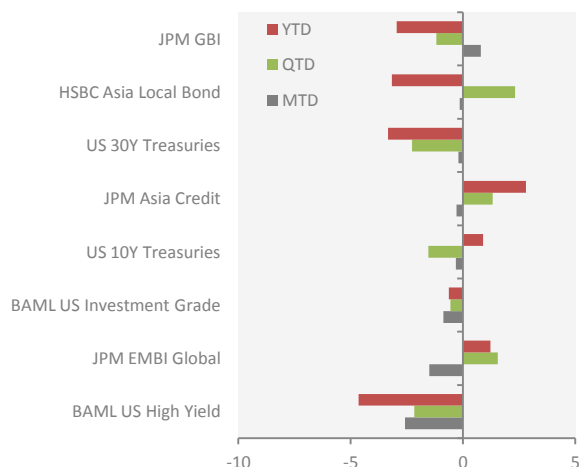


Fig. 2. Bond Indices Performance in USD (%)



**COMMODITIES:** Commodities finish off a torrid year as a mixed bag. OPEC's decision to continue to maintain its oil output, put more pressure on crude oil prices. The US also revealed that its oil inventories had risen by 2.6 million barrels to 487 million barrels in December. Aluminum, steel, zinc and copper prices seemed to have a decent December but prices were pushed upwards due to short covering and not because of an adjusting supply demand picture. Gold was flat over the month as investors initially waited for the Fed to hike rates as higher rates should curtail the demand for non-interest-paying gold. However, there has already been rumblings on increased gold demand due to geopolitical issues and upcoming festive seasons in Asia.

**CURRENCIES:** The US dollar gave back some gains over December even as the Fed raised rates. The expectations of the Fed had already been fulfilled in the preceding months. The Euro and Yen rallied also due to the perceived lack of action by their respective central banks. The Russian ruble headlined the fall in commodity related currencies as the price of crude oil touched the USD35 per barrel mark during the month. Russian Deputy Finance Minister Aleksey Moiseev noted that the ruble is seasonally weak in November and December. It is worthy to note that the Brazilian Real received some support as investor sentiment improved on speculation that there was support in the nation's congress to oust President Dilma Rousseff who had lost the confidence of the public.

Fig. 3. Commodities Performance in USD (%)

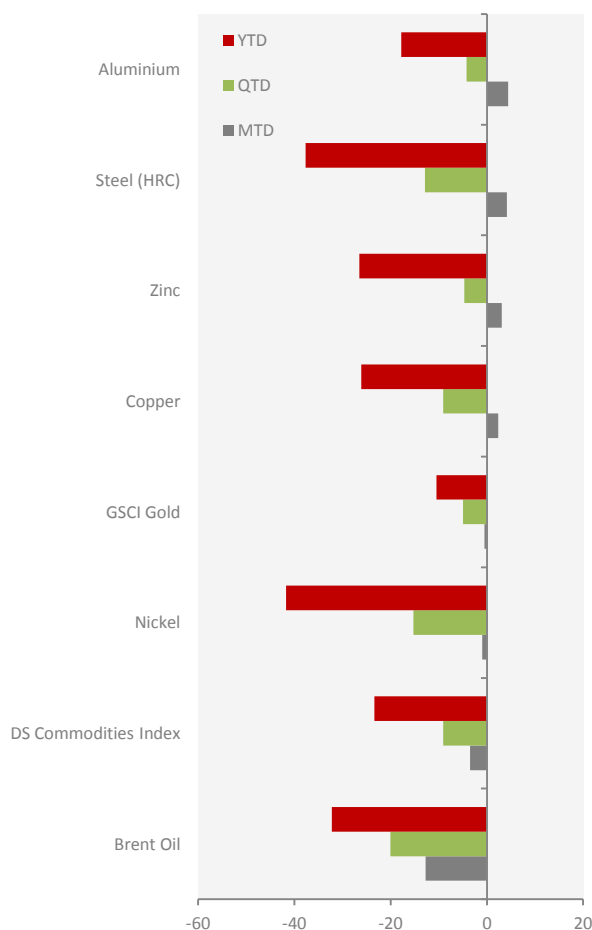
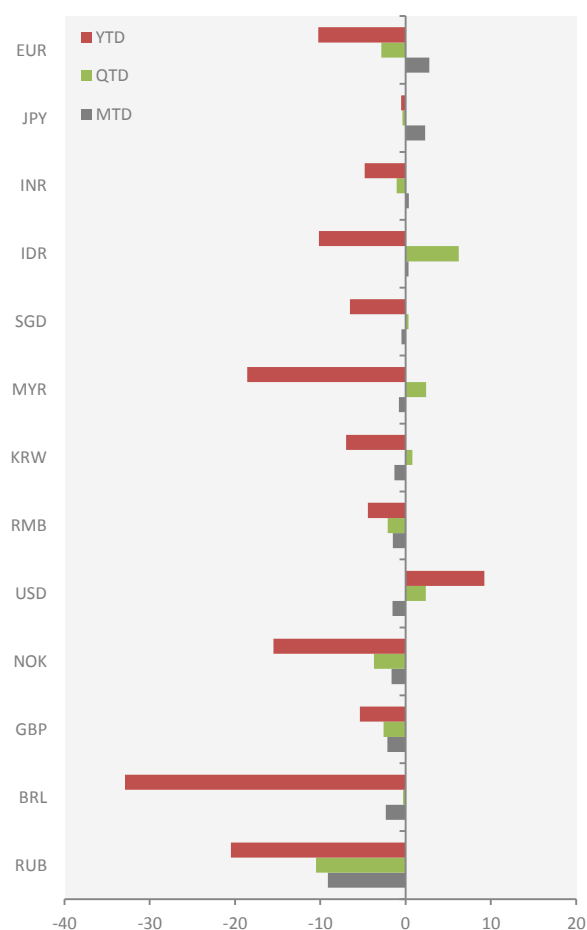


Fig.4. Currencies Performance versus USD (%)



**ECONOMICS:** In the U.S., the final report on 3Q GDP came in as expected, at 2.0%. The U.S. November employment report also outperformed expectations with jobs in construction boosting numbers. The unemployment rate was flat at 5.0% as the average hours worked declined slightly from last month, which was originally reported at 34.5. Average hourly wage also increased 0.2% (to USD 25.25). U.S. housing news was mixed, but optimism continued in the form of housing starts and home prices. However, the headline grabber was the Existing Home Sales report, which came in with a 10.5% decline and a year-over-year change of -3.8%. The ISM Non-Manufacturing Index for November disappointed, as did the ISM manufacturing report. Construction spending for October came in stronger than expected when compared to last month and last year. November exports declined more than expected, while imports came in better, with exports down 6.3% year-over-year and imports were down 9.4% year-over-year. The November CPI ex-food and energy rate was at 2.0% year-over-year.

Over in the UK, Christmas shopping was in full swing: November retail sales volumes (excl auto) increased by 1.7% mom and 3.9% yoy, significantly above consensus estimates of 0.5% and 2.2%, respectively. Retail sales volumes including auto fuel increased by 5.0% yoy and 1.7% mom. The UK unemployment rate was 5.2% in October, beating estimates of 5.3% but in line with our own view. After a rise in November, the German IFO index fell back slightly to 108.7 in December from 109.0 in the month before. While the assessment of current conditions softened from 113.4 to a still buoyant 112.8, forward-looking expectations stayed stable at 104.7 after three gains in a row in the months before. The 19 EU nations grew 0.3% for the third quarter, which was down from the second quarter's 0.4% gain, as the U.K. came in with an annual rate of 2.1%.

In China, the official November Manufacturing PMI fell to 49.6 from 49.8, while the Services PMI increased to 53.6 from 53.1, and Chinese exports declined (6% year-over-year in November), as did imports (down 8.7% year-over-year in November). Industrial production came in higher than expected, up 6.2% year-over-year in November, when a lower rate of 5.7% was expected.

In other economic news, the IMF, as expected, announced the addition of the Chinese yuan to its currencies of lending reserve, effective Oct. 1, 2016, while China said it would double the trading hours for the yuan in preparation.

**CENTRAL BANKS:** Divergence in central bank policies was more obvious over December as different local economic and monetary conditions resulted in different central bank moves.

In a move that was widely expected, on 16th December the U.S. Federal Reserve raised its Fed funds rate corridor by 25 basis points to 0.25-0.50%, ending a policy of near-zero interest rates that had been in place since December 2008.

The ECB cut the deposit rate by 10 basis points to -0.30% and extended the length of its asset purchase program another six months to March 2017, though it refrained from expanding the size of the asset purchase program, which currently stands at €60B a month, disappointing some who had expected a more aggressive move.

The Bank of Japan, like its European counterpart, refrained from increasing the size of its QE program, though it did make some minor adjustments, including lengthening the maturity of Japanese government bonds that it is buying and adding ¥300 billion to its existing ¥3 trillion a year program of buying exchange traded funds.

The Reserve Bank of Australia kept cash rate unchanged at 2%, noting a moderate expansion in the economy despite its trade sector getting hurt due to depressed commodity prices, while, the Reserve Bank of New Zealand cut its cash rate by 25 basis points to 2.50%.

Taiwan central bank cut policy rates for the second time in 2015 by 12.5bps to 1.625%, stating it would keep monetary policy loose to shore up growth as the outlook for global demand had worsened.

Fig.6. Key Regional Price-to-book Valuations (x)

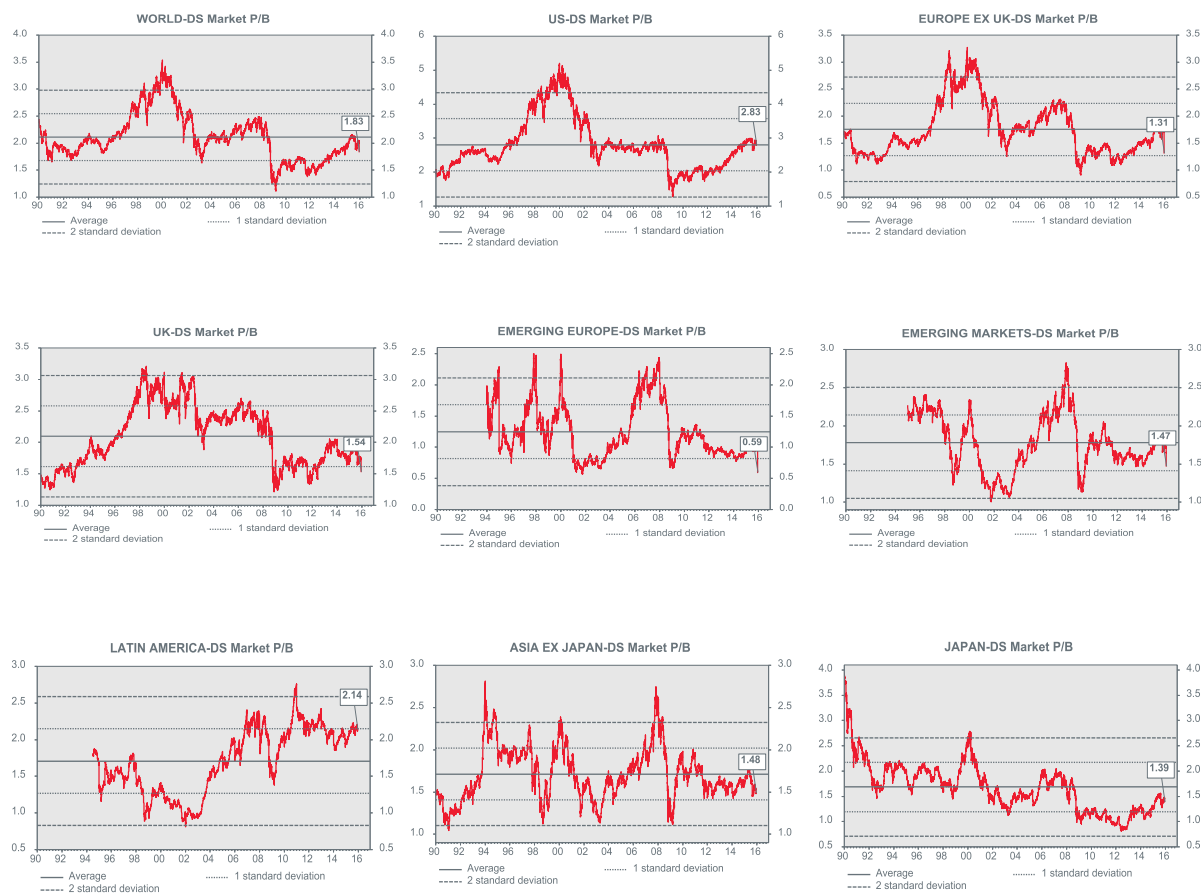
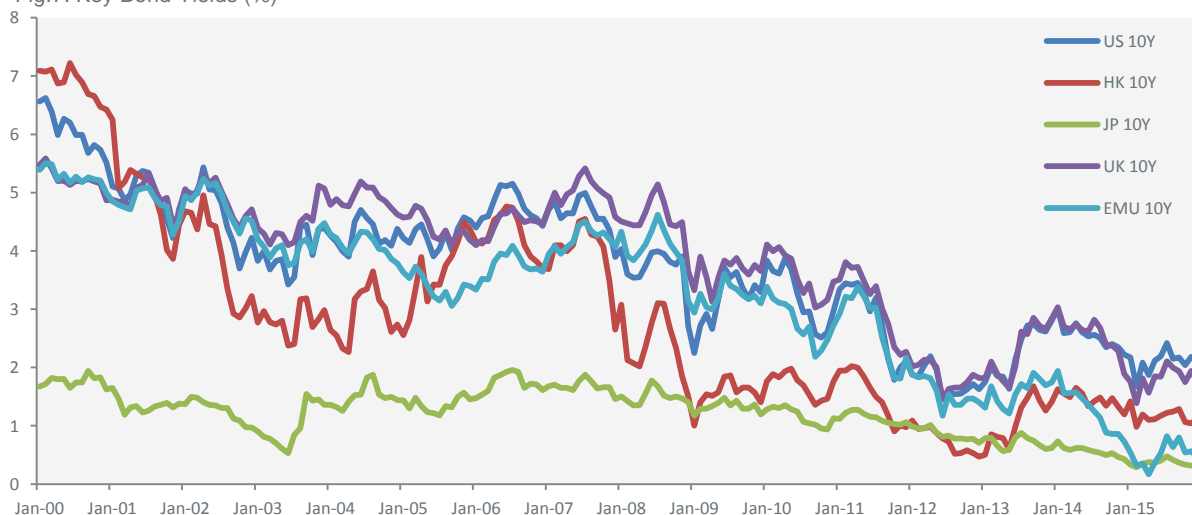


Fig.7. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 December 2015. 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	2.0	2.1	51.2	0.0	1.9	0.3	-2.5	105600	-2.4	-0.7	4.5	9.3
Euro Area	0.3	1.6	53.2	-0.1	0.9	0.1	2.9	236369	-2.6	6.8	16.3	11.5
Australia	0.9	2.5	51.9	1.5	2.1	2.0	-4.7	40646	-1.9	-0.8	2.5	12.3
Japan	0.3	1.6	52.6	0.0	0.9	0.0	3.0	1179570	-6.0	9.1	-19.5	-0.4
Hong Kong	0.9	2.3	46.6	2.0	2.0	0.5	3.1	356928	2.2	-7.2	-16.7	-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	-1.7	-4.5	45.6	9.5	9.1	14.3	-3.9	349443	-8.9	-13.3	33.5	49.0
Russia	-0.6	-3.7	48.7	12.9	15.9	11.0	5.3	306658	-3.4	26.1	-8.9	25.5
India	1.6	7.4	49.1	-4.6	-1.7	7.8	-1.1	330141	-3.4	-4.1	-1.5	4.4
China	1.8	6.9	48.2	1.6	1.6	4.6	2.1	3529280	-1.8	5.6	-21.6	4.6
Korea	1.3	2.7	50.7	0.6	2.1	1.5	7.7	359938	0.0	2.4	-20.0	7.4
Taiwan	-1.7	-0.6	51.7	0.3	0.6	1.8	14.7	424	-0.3	-10.4	-26.9	3.9
Thailand	1.0	2.9	-3.3	-1.1	1.0	1.5	8.1	-82167	-2.3	-18.7	-8.4	9.3
Indonesia	3.2	4.7	47.8	6.8	5.1	7.5	-2.2	94967	-2.1	-12.1	11.8	11.3
Philippines	1.1	6.0	3.0	0.4	1.4	4.0	3.3	72294	-0.5	-3.9	-6.3	4.9
Singapore	1.7	1.8	52.2	-0.6	0.6	1.1	23.4	249564	1.0	-14.3	13.9	7.2
Malaysia	3.2	4.7	48.0	2.5	3.9	3.3	2.5	90643	-3.5	-3.9	2.2	22.8
Vietnam	6.8	6.5	51.3	0.6	1.9	6.5	0.7	21835	4.6	6.1	0.0	5.1

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 14 January 2015. 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 C.U.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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