



## MONTHLY REVIEW: **APRIL'S RESOURCE RUSH**

April 2016

Global risk assets continued to push ahead driven by a surge in resource assets. Mining and commodity related assets rose on dovish central banks, a weaker dollar and firmer commodity prices.

**EQUITY:** Global equities rose again in April, propelled by mining and energy names. Volatility fell as central banks remained accommodative and the US dollar weakened. However, in spite of the "resource rush", country specific issues played a part in determining investor sentiment. For the month, developed markets outperformed emerging markets. Returns were dispersed within emerging countries with Brazil and Russia doing well. Brazil benefitted from both recovering commodity prices and a clearer presidential impeachment process. Russian energy and financials also did better as ill effects of sanctions and crude oil price declines tailed off. ASEAN countries, however, bucked the uptrend as a weaker Chinese economy and domestic issues weighed. Within developed markets, Australian and European equities gained on mining stocks but Taiwanese equities were weaker due to poor corporate earnings.

**FIXED INCOME:** Amid central banks' actions, the surge in oil price and a weaker US Dollar, bonds from most sectors turned in positive performance. The ECB left its policy unchanged as did the BOJ which failed to appease markets in the face of a stronger Japanese Yen (JPY) and lack of inflation. The FOMC minutes revealed a dovish committee. Against this background, global government bonds were slightly weaker and the month belonged to the riskier spectrum of bond offerings; US dollar high yield emerging markets bonds led the charge. In Asia, despite the recent downgrade of China's Sovereign Funds and Singapore banks, the JPM Credit Index strengthened with credit spreads tightening to 278 basis points. This was driven by inflows into the Indonesian quasi-government issues encouraged by a reform minded government and a more stable currency. The HSBC ALBI also edged up as Asian currencies gained against the US Dollar.

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

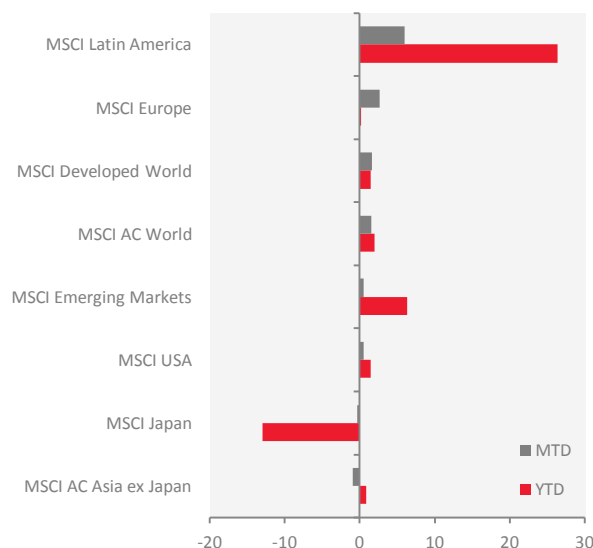
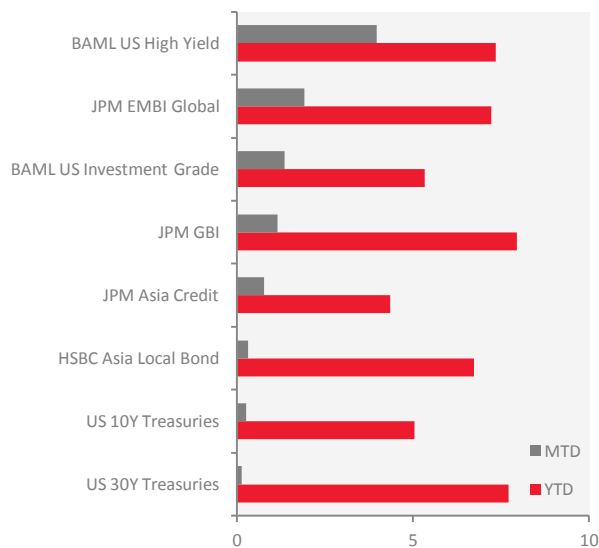


Fig. 2. Bond Indices Performance in USD (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 April 2016. For representative indices and acronym details please refer to notes in the appendix.



**COMMODITIES:** The global commodity glut that has plagued markets are finally starting to subside, sending commodities to their biggest monthly gain since December 2010. Brent Oil is up 17% this month, the most in a year, rebounding after slumping to the lowest (since 2003) earlier this year. Base metals rallied, with aluminum set for its biggest monthly advance since 2012 amid signs of improved demand in China, the world's biggest consumer. Raw materials have recovered as China's property and construction industry rebounded after a slow start to the year. Copper, zinc, lead and nickel climbed at least 1%. Gold and silver rose, both closing at the highest since January 2015.

**CURRENCIES:** The USD index, which compares the USD against its major trading partners produced a third straight monthly slide. The JPY strengthened against all 16 major peers and surged over the last week of the month as BOJ defied economists' expectations that stimulus would be stepped up. Emerging market currencies rose for a third month advance as oil rallied. The Russian Ruble extended the best start to a year on record as Russia's central bank left borrowing costs on hold. Colombia's Peso rose 0.7%, pushing its gain in April to 5.1%. The Brazilian Real strengthened 4.4% in April.

Fig. 3. Commodities Performance in USD (%)

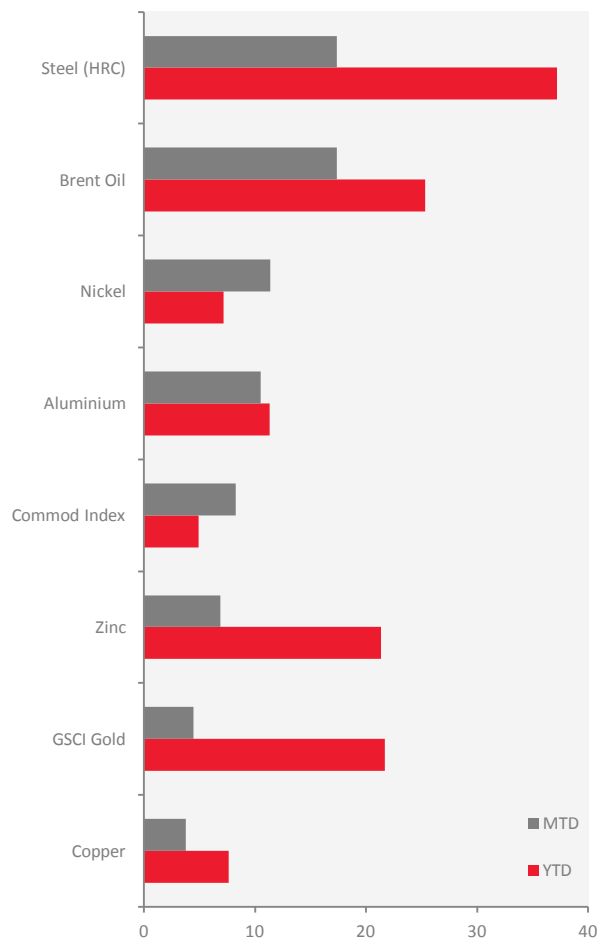
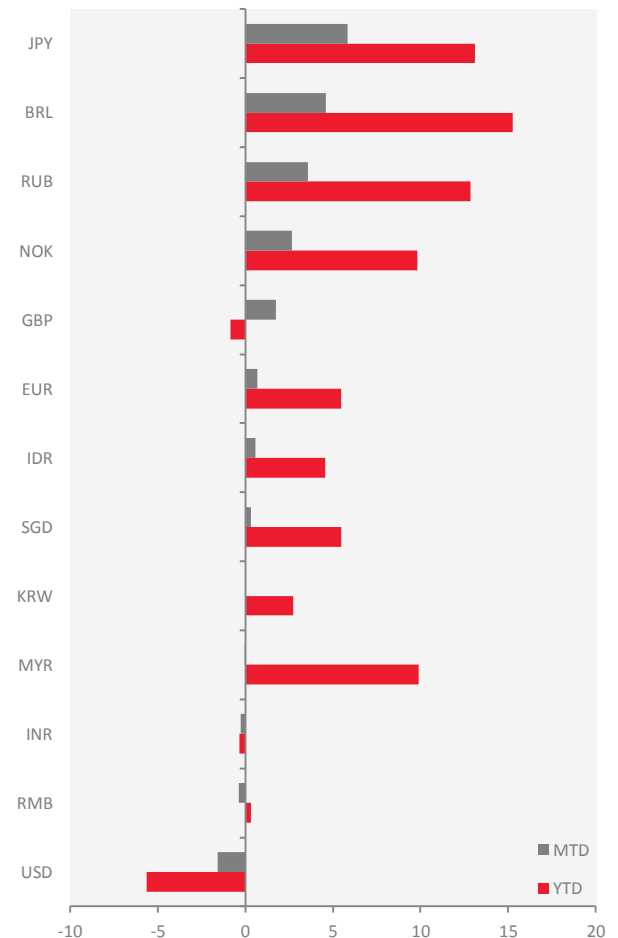


Fig.4. Currencies Performance versus USD (%)





**ECONOMICS:** US economic data started strong led by strengthening manufacturing surveys. The ISM manufacturing index for March rose to a better-than-expected 51.8, the first reading in seven months above 50 suggesting expansion. The ISM non-manufacturing index for March rose to a better-than-expected 54.5. Labor force data was also strong as non-farm payrolls for March increased a slightly better-than-expected 215k, unemployment rate rose to 5.0% and Initial jobless claims for the week ending 16th April fell to 248k, the lowest level since November 1973. However, towards the end of the month, weaker real GDP, orders for durable goods and industrial production tempered hopes of a sustained recovery.

Chinese economic data over the month suggested some sort of stability had been reached. Early in the month the 'official' manufacturing PMI for March rose to a better-than-expected 50.2, the first time since mid-2015 that it had registered a reading above 50. The Caixin/Markit manufacturing PMI for March rose to a better-than-expected 49.7, still in deflationary territory. Chinese house prices continued to accelerate in March, with new home prices rising 4.9% year on year. Real GDP for Q1 grew by 6.7% over the last year, the slowest pace since Q1 2009. Industrial production for March grew by a stronger-than-expected 6.8%.

European economic data was mixed as Eurozone real GDP for Q1 expanded a better-than-expected 0.6% over the last quarter and unemployment for April fell to a better-than-expected 10.2%. However, the Markit Eurozone flash manufacturing Purchasing Managers' Index fell to 51.5.

The Bank of Japan Tankan quarterly survey of business confidence for the March quarter saw the index for large manufacturers fall to a worse-than-expected +6 (consensus: +8, previous: +12) – the biggest contraction in three years.

**CENTRAL BANKS:** At its April meeting, the Reserve Bank of Australia (RBA) decided to leave the cash rate unchanged at 2.0%, citing the lower-than-expected growth in the global economy is continuing to grow. However at the time of writing (9 May 2016), the RBA decided to lower the cash rate by 25 basis points to 1.75%, effective 4 May 2016, citing lower-than-expected inflationary pressures. They also noted that while several advanced economies have recorded improved conditions over the past year, conditions have become more difficult for a number of emerging market economies. China's growth rate moderated further in the first part of the year, though recent actions by Chinese policymakers are supporting the near term outlook.

The Reserve Bank of India (RBI) lowered the repurchase rate by 0.25 percentage point to 6.5%, its lowest level in five years and announced steps to increase liquidity in the country's banking system, as it took stock of slowing inflation. The RBI also reduced the cash reserve ratio, the percentage of deposits banks must park with the RBI, to 90% from 95%, and cut the marginal standing facility, the emergency funding rate for banks, by 0.75 percentage points.

Bank of Thailand's monetary policy committee members voted 5-2 to cut the benchmark interest rate by 0.25 percentage points to 1.5%, citing slow economic recovery despite higher government spending and a sunnier outlook for the tourism sector.

Colombia's central bank increased the benchmark interest rate by a half point in an effort to stem still-rising inflation even as economic growth is weakened by a drop in oil prices. The seven-member board decided to boost the lending rate to 7%, surprising the majority of analysts in a Reuters survey, who had expected a 25 basis point rise.

The Bank of Japan (BOJ) kept its monetary policy stimulus intact during the month. The BOJ voted 8-1 to maintain its pledge of increasing base money at an annual pace of 80 trillion yen (\$659 billion) via purchases of government bonds and risky assets. This is in spite of growing signs that slumping energy costs, weak exports and a fragile recovery in household spending will keep inflation short of its 2% target.

The FOMC statement released in April indicates that labor market conditions have improved further even as growth in economic activity appears to have slowed. Growth in household spending has moderated, although households' real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further but business fixed investment and net exports have been soft. A range of recent indicators, including strong job gains, points to additional strengthening of the labor market. Inflation has continued to run below the Committee's 2.0% longer-run objective, partly reflecting earlier declines in energy prices and falling prices of non-energy imports.



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

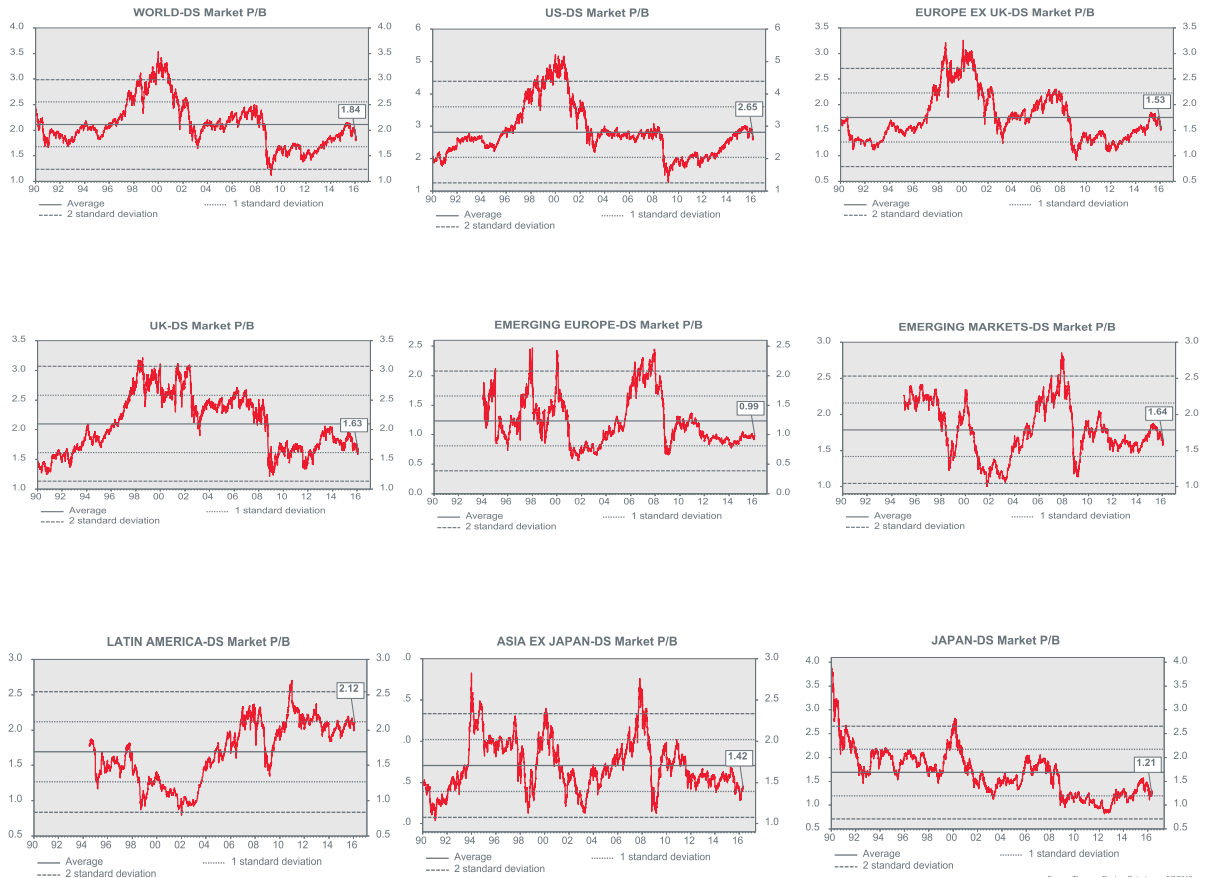
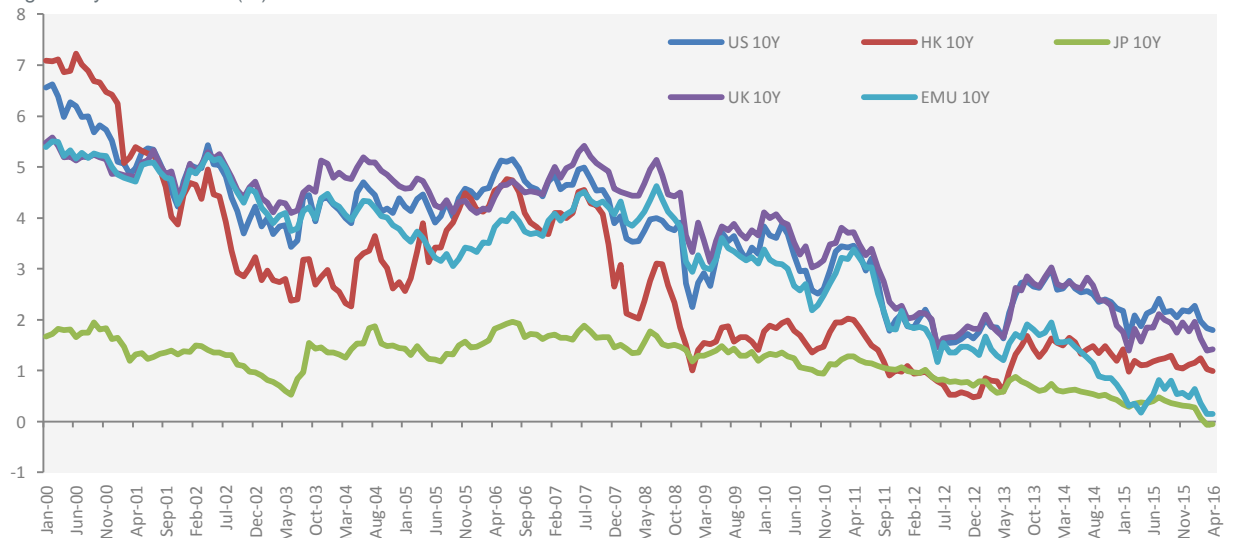


Fig.7. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 April 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 | 0.5                   | 1.9                   | 50.8          | 0.9                | 2.2            | 0.5         | -2.7                  | 108686                | -2.6                  | 1.0                | -19.2                         | -5.7                      |
| Euro Area                | 0.6                   | 1.6                   | 51.7          | 0.0                | 1.0            | 0.0         | 3.2                   | 249253                | -2.1                  | -6.7               | -56.8                         | -5.2                      |
| Australia                | 0.6                   | 3.0                   | 53.4          | 1.3                | 1.7            | 2.0         | -5.2                  | 41185                 | -1.9                  | -0.5               | -12.6                         | -4.0                      |
| Japan                    | -0.3                  | 0.7                   | 48.2          | -0.1               | 0.7            | -0.1        | 3.3                   | 1201720               | -6.7                  | -12.4              | -128.3                        | 13.2                      |
| Hong Kong                | 0.2                   | 1.9                   | 45.3          | 2.9                | 2.9            | 0.8         | 3.1                   | 359819                | 1.9                   | -3.9               | -13.9                         | 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           | -1.5                  | -5.9                  | 42.6          | 9.4                | 8.0            | 14.3        | -3.2                  | 349012                | -10.5                 | 24.4               | -24.5                         | -13.3                     |
| Russia           | -0.6                  | -3.7                  | 48.0          | 7.3                | 7.6            | 11.0        | 5.3                   | 318865                | -2.9                  | 10.9               | -2.7                          | -10.7                     |
| India            | 1.7                   | 7.3                   | 50.5          | -0.9               | -0.1           | 7.8         | -1.1                  | 325049                | -3.5                  | -1.4               | -3.8                          | 0.3                       |
| China            | 1.1                   | 6.7                   | 49.4          | 2.3                | 1.5            | 4.4         | 3.1                   | 3233790               | -3.5                  | -15.4              | 2.1                           | -0.2                      |
| Korea            | 0.4                   | 2.7                   | 50.0          | 1.0                | 1.7            | 1.5         | 7.7                   | 356746                | 0.0                   | 1.7                | -13.9                         | -2.8                      |
| Taiwan           | 0.5                   | -0.8                  | 49.7          | 2.0                | 0.8            | 1.5         | 14.6                  | 432                   | -0.2                  | 0.5                | -26.1                         | -1.7                      |
| Thailand         | 0.8                   | 2.8                   | -3.3          | -0.5               | 0.8            | 1.5         | 8.1                   | 33029                 | -2.3                  | 9.6                | -28.2                         | -3.2                      |
| Indonesia        | -0.3                  | 4.9                   | 50.9          | 4.5                | 3.5            | 6.8         | -2.1                  | 101758                | -1.9                  | 5.3                | -11.6                         | -4.7                      |
| Philippines      | 2.0                   | 6.3                   | -21.2         | 1.1                | 1.5            | 4.0         | 2.9                   | 72475                 | -0.9                  | 3.0                | -23.2                         | 0.0                       |
| Singapore        | 0.0                   | 1.8                   | 49.4          | -1.0               | 0.6            | 1.1         | 19.7                  | 243803                | 0.6                   | -1.5               | -23.1                         | -4.8                      |
| Malaysia         | 3.1                   | 4.5                   | 47.1          | 3.5                | 3.6            | 3.3         | 3.0                   | 93641                 | -3.4                  | -1.2               | -7.0                          | -9.1                      |
| Vietnam          | 5.5                   | 5.5                   | 52.3          | 1.9                | 1.9            | 6.5         | 1.4                   | 22074                 | 0.1                   | 3.3                | -4.1                          | -0.9                      |

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 9 May 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 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<br>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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