MACRO BRIEFING

MONTHLY REVIEW: MARCH TO SAVOUR

March 2016

Global risk assets reacted positively after the surge in oil prices. Actions of central banks also contributed to the buoyant mood as more accommodative policies emerged from Europe and China while the US Fed took a more dovish stance.

EQUITY: Global equity markets took a turn for the better and rose strongly on the back of rising oil prices and accommodative central banks. Most regions experienced gains that resulted in positive year-to-date returns. Against this backdrop, Emerging Market equities outperformed equities from Developed markets. The rising tide of strong oil prices and a weaker USD lifted equities of commodity sensitive Emerging Markets, especially Latin America while Asia Pacific ex Japan was lifted by the PBoC's decision to cut reserve requirements (even though Chinese economic data remained mixed). Within Developed Markets, Korea was the outstanding performer as persistent strength in the Japanese Yen meant investors preferred the relative attractiveness of Korean companies. European equities also lagged as the possibility of Brexit hampered gains.

FIXED INCOME: Global growth fears abated, lending support to financial markets after the volatility seen at the start of the year. The European Central Bank (ECB) announced further significant policy easing at the beginning of the month while the US Fed turned decisively more dovish, shifting its emphasis from the future prospects for rising inflation towards the downside risks emanating from global economic and financial developments. Against this backdrop, government issues underperformed credit. In particular, rising inflation expectations and recovering oil prices drove returns for Emerging Market credit and High Yield credit. The JACI also gained driven by a tightening of Asian credit spreads while the Asian Local Bond Index rose over 5% as Asian currencies strengthened in addition to increased demand for local issues in Indonesia and Malaysia.

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

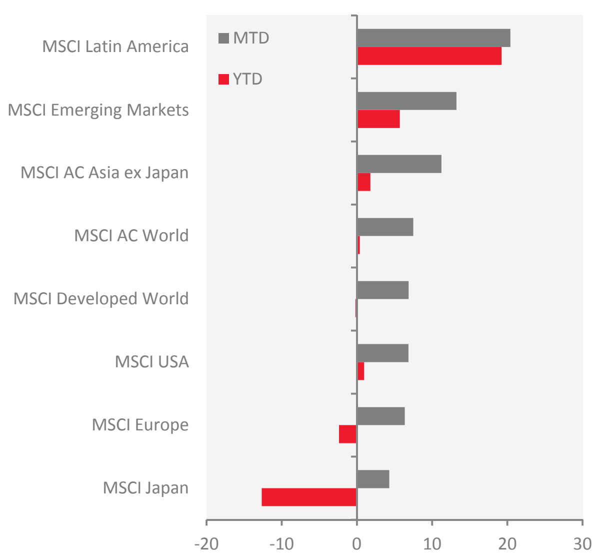
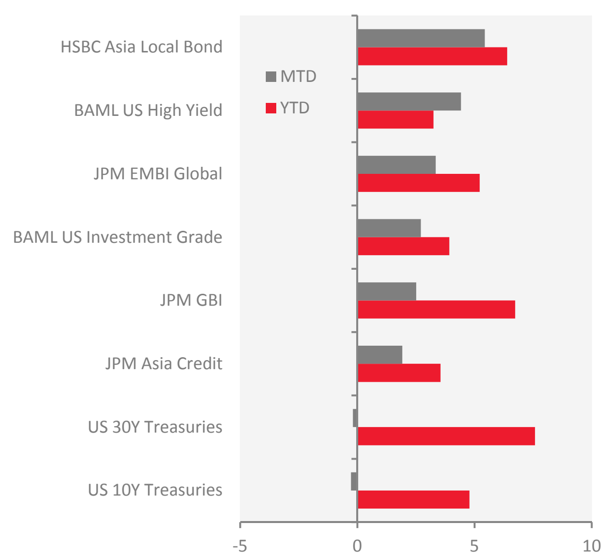


Fig. 2. Bond Indices Performance in USD (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 March 2016. For representative indices and acronym details please refer to notes in the appendix.

COMMODITIES: Steel continued its stellar performance in March as the metal remains at the centre of Beijing's plans to phase out up to 150 million tonnes of steel production capacity by 2020. Brent Oil also built on its price recovery since the start of the year on the back of falling inventories, decreased supply and a possibility of a production freeze agreement amongst its largest exporters. Gold remained flat over the month as investors held on to positions while keeping a close watch on oil prices and inflation expectations. Aluminum was the big loser in March as issues of excess capacity had no reprieve following reports of Chinese smelters restarting production again.

CURRENCIES: Commodity sensitive currencies received a shot in the arm as rising oil prices and a weaker USD boosted returns. The Russian Ruble and the Brazilian Real followed up a strong start to the year with another month of positive returns. The Korean Won also gained against the USD as investors poured into Korean assets, seen as relatively more attractive due to the depreciation of the Won against the Yen. The British Pound bounced back this month as a dovish Fed outweighed Brexit uncertainties. However, it is still weaker against the USD over the last 3 months. The Yen had a muted month against the greenback as investors looked for riskier assets amid lower volatility. The USD was much weaker against its main trading partners and had little help from the US Fed whose communiqué reflected less hawkishness due to international developments.

Fig. 3. Commodities Performance in USD (%)

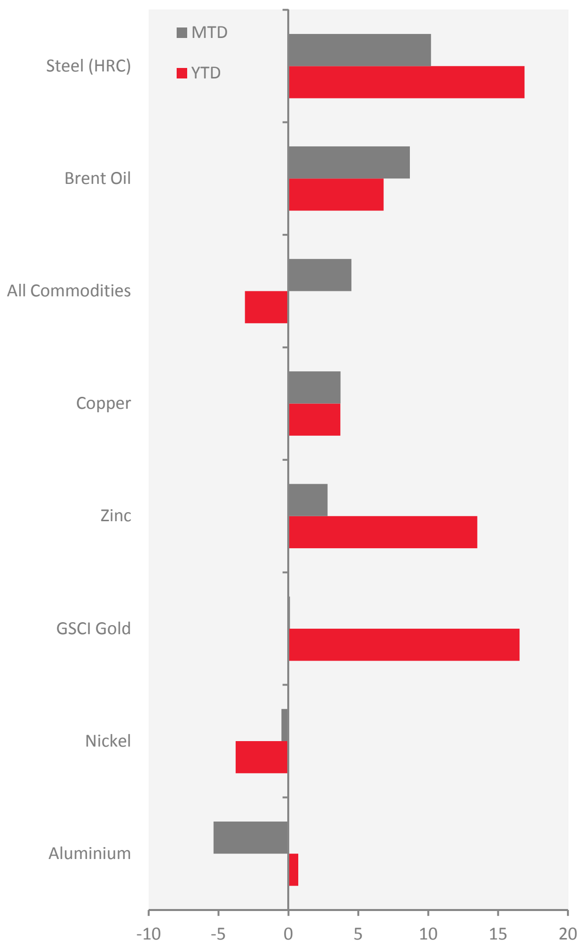
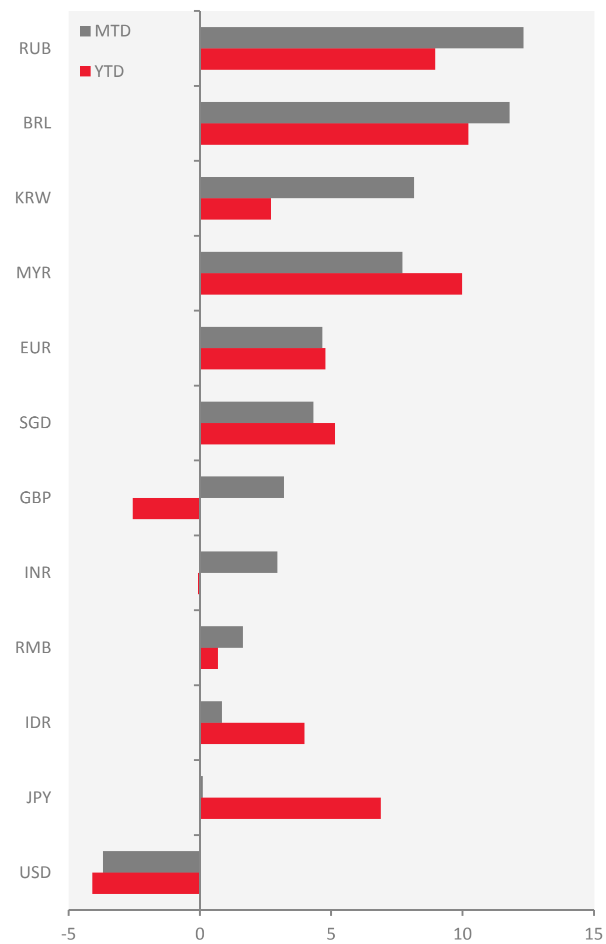


Fig.4. Currencies Performance versus USD (%)



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ECONOMICS:

In the U.S., Q4 2015 GDP report came in better than expected, driven by consumption. Durable orders were up yoy while housing numbers were also robust. Employment continued to stay strong but wages did not rise meaningfully. On the manufacturing front, the ISM Manufacturing report for February came in at 49.5 below the 50 reading. US imports and exports also declined. February PPI came in flat yoy but rose when food and energy were excluded. The Core CPI on the other hand enjoyed a 2.3% yoy gain.

In Europe, 2015 UK GDP growth revised up 0.1% to 2.3% in 2015, driven by domestic forces while trade dragged. The headline services PMI index for February came in at its lowest rate since March 2013. The UK budget was also passed during the month with some policy reforms aimed at improving business conditions, growing household savings and boosting productivity. However, talks on Brexit were minimized. Eurozone economic sentiment fell modestly again in March for the third time in a row.

Chinese exports for February decreased 25.4% yoy (in U.S. dollars) while imports fell 13.8% in the same period, with the resulting Chinese trade surplus falling to USD 32.59 billion from January's USD 63.29 billion. Chinese consumer inflation, which is heavily weighted from the cost of food, was up 2.3% yoy in February. In Japan, exports declined 4.0% yoy in February, which was a considerable improvement from January's 12.9% decline; imports decreased 14.2% on the persistently stronger JPY.

CENTRAL BANKS:

The ECB reduced the eurozone's main interest rate from 0.05% to zero, cut its two other interest rates, expanded its quantitative easing (QE) programme and announced new ultra-cheap, four-year loans to banks, allowing them to borrow from the ECB at negative interest rates.

The Reserve Bank of New Zealand reduced the Official Cash Rate by 25 basis points to 2.25 percent. The outlook for global growth has deteriorated since the December Monetary Policy Statement, due to weaker growth in China and other emerging markets, and slower growth in Europe. This is despite extraordinary monetary accommodation, and further declines in interest rates in several countries.

The Federal Open Market Committee minutes from its January meeting suggests that economic activity has been expanding at a moderate pace despite the global economic and financial developments of recent months. Household spending has been increasing at a moderate rate, and the housing sector has improved further; however, 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 picked up in recent months; however, it continued to run below the Committee's 2 percent longer-run objective, partly reflecting declines in prices of energy and non-energy imports.

Norway's interest rate was cut to 0.50% from 0.75%, as it noted the possibility of negative rates, along with Hungary's cut of its overnight interest rates by 0.15% to -0.05%.

The Bank of Japan left its rates unchanged at -0.1%, as it downgraded its view of Japan's economy.

Source: Eastspring Investments as at 31 March 2016. For representative indices and acronym details please refer to notes in the appendix.

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

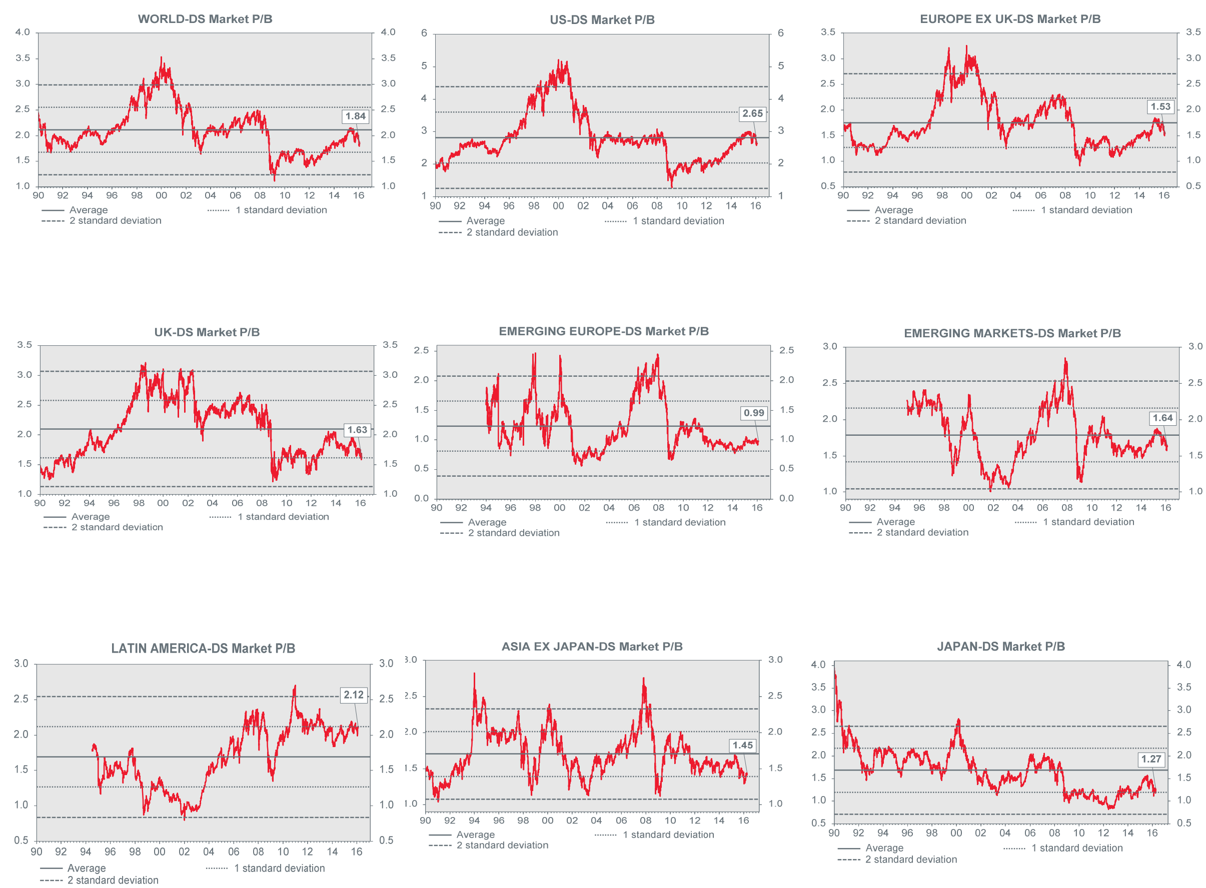

Fig.7. Key Bond Yields (%)

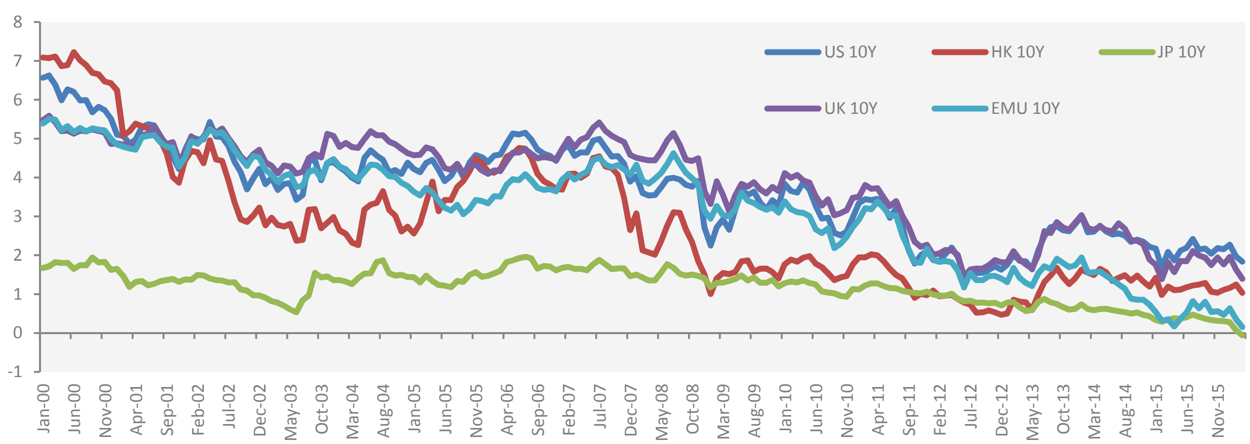

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Fig.8. Selected Economic Data

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	1.4	2.0	51.5	1.0	2.3	0.5	-2.7	106177	-2.6	0.8	-22.1	-4.2
Euro Area	0.3	1.6	51.6	-0.1	1.0	0.0	3.1	248227	-2.6	-7.7	-75.7	-4.6
Australia	0.6	3.0	58.1	1.7	2.1	2.0	-5.2	35701	-1.9	-3.6	-13.6	-4.6
Japan	-0.3	0.7	49.1	0.3	0.8	0.0	3.3	1194190	-6.7	-12.0	-110.9	6.9
Hong Kong	0.2	1.9	46.4	3.1	3.1	0.8	3.1	356867	1.9	-5.2	-18.9	0.1
Singapore	6.2	1.8	51.6	-0.8	0.5	1.1	19.7	244650	0.6	-1.5	-29.2	-4.5

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	46.0	10.4	9.2	14.3	-3.2	350744	-9.7	15.5	-15.4	-9.3
Russia	-0.6	-3.7	48.3	8.1	8.9	11.0	5.3	313465	-3.4	6.2	-4.1	-7.8
India	1.7	7.3	51.1	-0.9	-0.6	7.8	-1.1	326631	-3.5	-2.8	-3.4	0.2
China	1.6	6.8	49.7	2.3	1.3	4.4	3.1	3345190	-3.5	-13.7	1.0	-0.6
Korea	0.7	3.1	49.5	1.0	1.7	1.5	7.7	357860	0.0	1.8	-13.9	-2.5
Taiwan	0.5	-0.5	51.1	2.4	0.8	1.5	14.6	429	-0.2	4.9	-22.5	-1.9
Thailand	0.8	2.8	-3.3	-0.5	0.8	1.5	8.1	33029	-2.3	11.4	-32.5	-2.5
Indonesia	-1.8	5.0	50.6	4.5	3.5	6.8	-2.1	98818	-2.1	5.5	-12.4	-4.3
Philippines	2.0	6.3	-1.1	0.9	1.5	4.0	2.9	72046	-0.9	4.5	-21.3	-2.0
Malaysia	3.1	4.5	48.4	3.5	3.6	3.3	3.0	92492	-3.4	1.5	-9.4	-9.2
Vietnam	5.5	5.5	50.7	1.7	1.9	6.5	0.7	22074	0.1	-3.1	0.0	-0.9

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 10 February 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 CU.S.todia (SELIC) (Special Clearance and Escrow System)
Tankan	Japan Large Business Sentiment Survey
TSF	Total Social Financing
UK	United Kingdom
yoy	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

Source: Eastspring Investments

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