

MONTHLY REVIEW: MAY'S REALITY CHECK

May 2016

Global risk assets corrected as resource related assets gave back gains from the previous months. Oil, however, bucked the trend on supply reduction. Government 10-year yields fell, while the US Dollar (USD) rallied, fueled by hawkish Fed remarks towards the end of the month.

EQUITY

- Global equity markets were flattish during the month as resource-related stocks gave back some of its gains.
- Developed markets outperformed emerging markets, led by Japan and the US.
- Latin America fell on internal political and commodity related concerns as the USD strengthened.
- Within Asia, China continued its slide and commodity-sensitive Malaysia also came under pressure. Elections in the Philippines buoyed investor sentiment.

FIXED INCOME

- Global government long bond yields fell during the month, then rose sharply following Fed commentary suggesting a possible June rate hike.
- US high yield bonds continued its upward march as oil, although volatile, closed just off the USD50 mark.
- Investment grade bonds saw outflows as investors piled into riskier bonds on improved sentiment.
- Emerging market bonds took a hit as the USD strengthened, putting commodity related assets under pressure.
- Asian Bonds eked out gains during the month driven more by a tightening of Asian credit spreads and less by moves in flattish US Treasuries.

COMMODITIES

- Commodity prices generally fell, dragged down in part by a rising USD.
- Steel prices continued to surge on a boost in infrastructure and real estate projects in China.
- The oil price rallied strongly on supply disruptions in Canada and Nigeria as well as continuing falls in US shale production.
- Gold gave back some gains during the month as the USD rallied on the back of a hawkish Fed in spite of mixed US economic data.
- Aluminum and nickel continued to suffer from oversupply issues. Even a strike at Perth-based world's second-biggest Ferro-Nickel mine, South32 failed to lead to a sustained increase in prices.

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

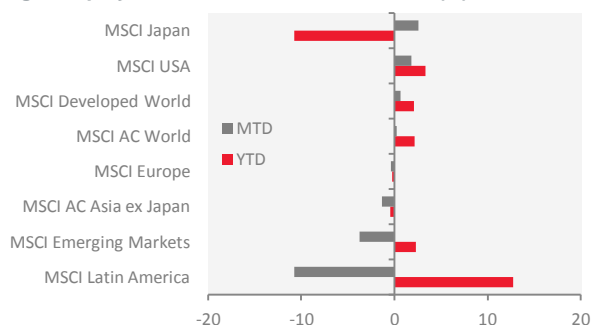


Fig. 2. Bond Indices Performance in USD (%)

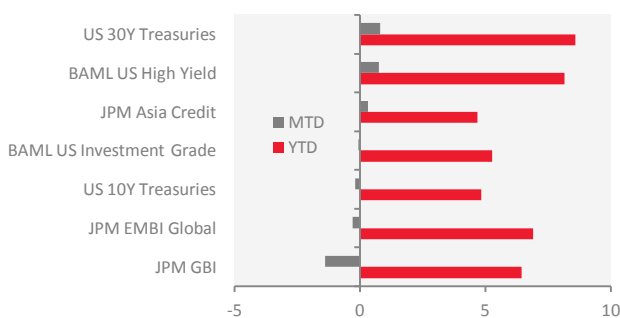
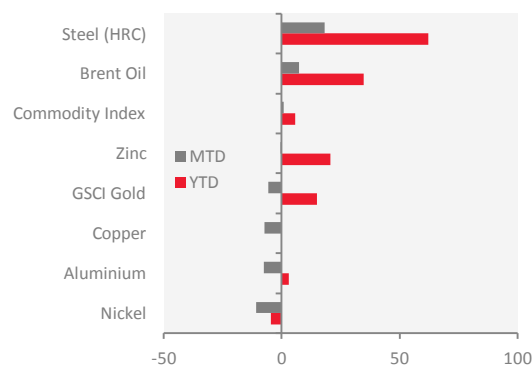


Fig. 3. Commodities Performance in USD (%)





CURRENCIES

- ▶ The USD index, which compares the USD against its major trading partners rallied as the Fed became increasingly hawkish over the month.
- ▶ The GBP remained under pressure as UK's EU Referendum nears in June.
- ▶ Commodity-related currencies like the RUB, BRL and MYR fell on USD strength.
- ▶ The JPY weakened on the back of against all 16 major peers. Economic data remained weak, spurring authorities to run easing and expansionary policies.
- ▶ The SGD continued to weaken after the Monetary Authority of Singapore unexpectedly eased in April
- ▶ The IDR saw losses over the month as the USD strengthened. IDR tends to depreciate in May-June every year on dividend outflows concentrated during this period. Large foreign holdings also contributes to the IDR's volatility.

ECONOMICS

- ▶ **US:** April data was mixed. Manufacturing ISM fell to a weaker-than-expected 50.8 while non-manufacturing ISM rose to a better-than expected 55.7. Non-farm payrolls grew a weaker-than expected 160k but unemployment remained at 5.0%. Industrial production grew a stronger-than-expected 0.7% m/m. Late in the month Q1 real GDP growth was revised higher from 0.5% up to 0.8% q/q seasonally adjusted.
- ▶ **China:** "Official" manufacturing PMI for April slipped to 50.1 while the Caixin manufacturing PMI fell to 49.4. Both industrial production and fixed asset investment growth slowed in April to a weaker-than-expected 6.0% y/y and 10.5% y/y respectively. Retail sales growth for April edged down 10.1% y/y.
- ▶ **Europe:** Markit's Eurozone flash composite PMI for May fell to a worse-than-expected 52.9. German real GDP for Q1 grew at a stronger-than-expected 0.7% q/q. German factory orders for March increased 1.9% m/m. The German IFO Business Climate Index for May increased to a better-than expected 107.7.

CENTRAL BANKS

- ▶ **US:** April's FOMC meeting minutes, revealed a hawkish outlook, noting that if incoming data were consistent with economic growth picking up in the second quarter, it likely would be appropriate for the Fed to increase the target Fed Funds rate in June.
- ▶ **Asia Pacific :** Yen depreciation followed expectations of a sizeable fiscal stimuli via infrastructure projects and monetary stimuli.. Royal Bank of Australia lowered cash rate by 25 basis points on lower inflation pressures and slow global growth.
- ▶ **Europe:** The ECB meets in June with little expectations for anything new as UK referendum on EU membership and new program of longer-term funding for Eurozone banks is just around the corner.

Fig.4. Currencies Performance versus USD (%)

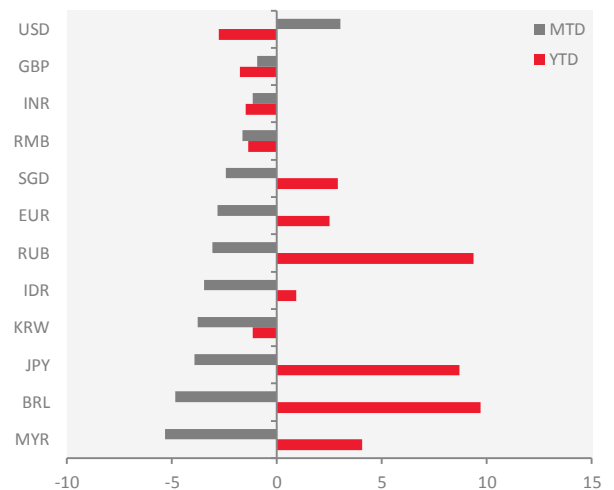


Fig.5. Global Leading Indicators

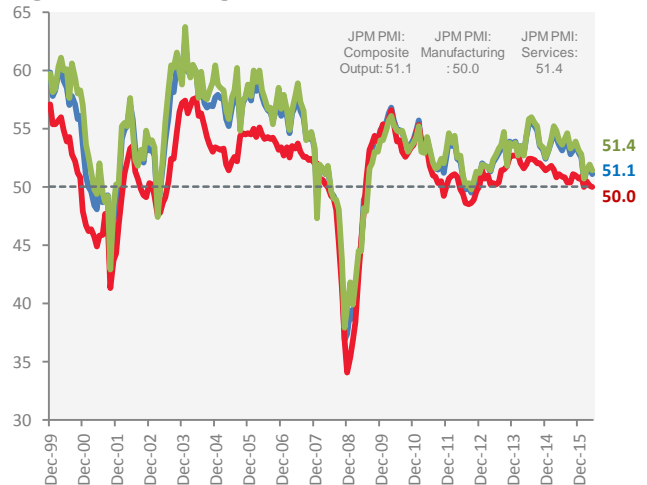


Fig.6. Major Central Banks Interest Rate (Upper Band)

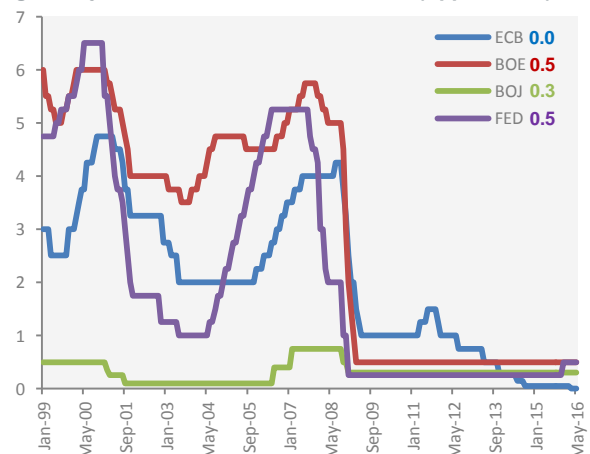




Fig.7. Key Regional Price-to-book Valuations (x)

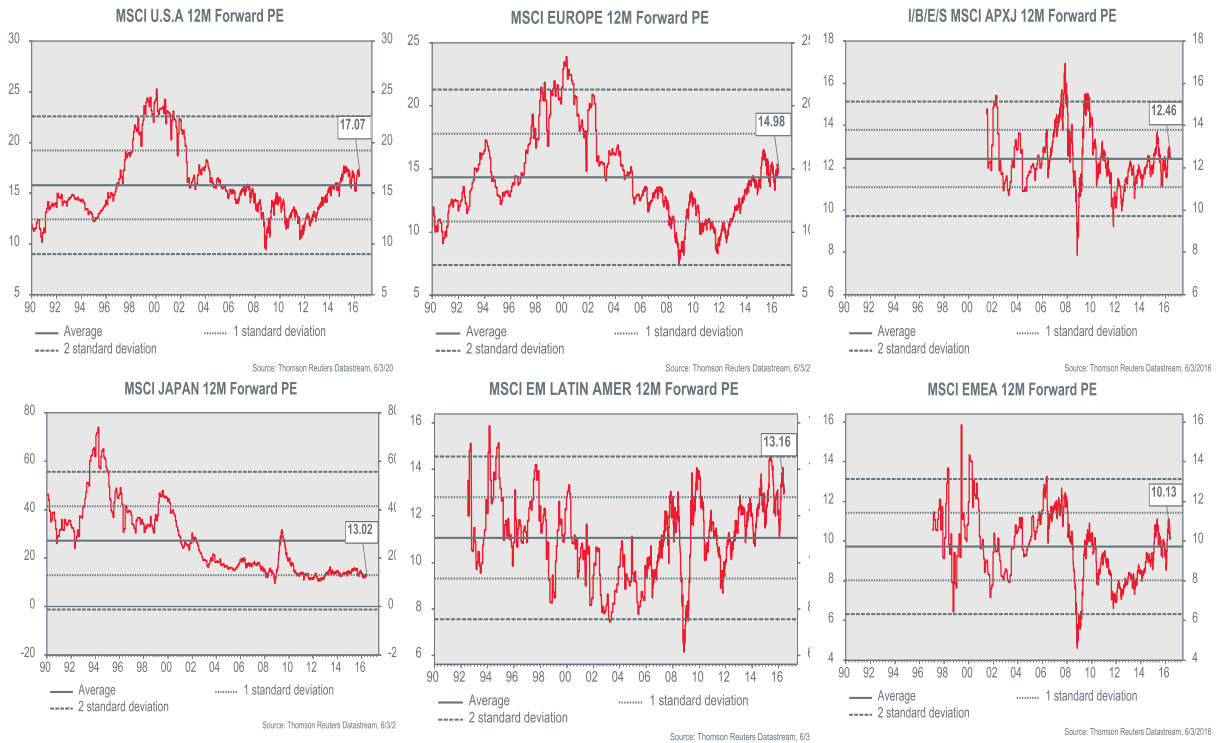
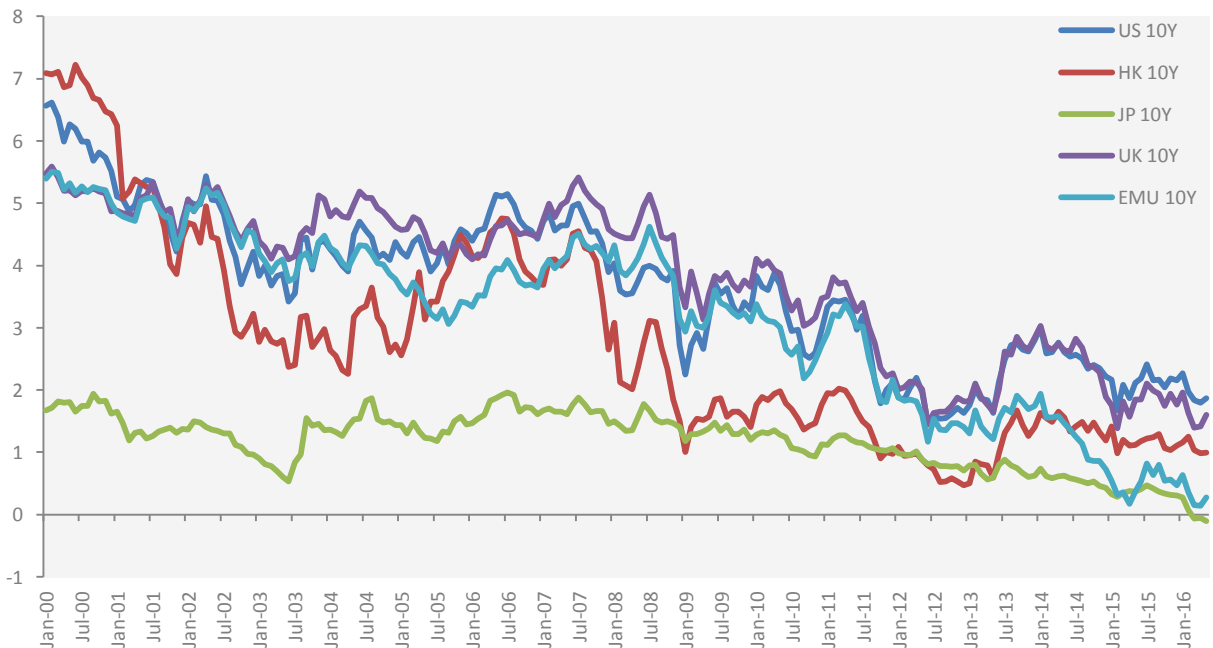


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 May 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	0.8	2.0	50.7	1.1	2.1	0.5	-2.7	109994	-2.6	2.6	-18.7	-2.8
Euro Area	0.5	1.5	51.5	0.0	1.0	0.0	3.2	250208	-2.1	-5.0	-77.9	-2.5
Australia	1.1	3.1	51.0	1.3	1.7	2.0	-5.1	42091	-1.9	1.9	-20.0	1.0
Japan	0.4	0.0	47.7	-0.1	0.7	-0.1	3.6	1200930	-6.7	-9.5	-139.6	8.7
Hong Kong	-0.4	0.8	47.2	2.9	2.9	0.8	3.1	361854	0.6	-5.0	-18.6	0.3

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	-0.3	-5.4	41.6	9.4	8.0	14.3	-2.5	353357	-10.5	11.8	-21.4	-8.8
Russia	-0.6	-3.7	49.6	7.3	7.5	11.0	5.3	320948	-2.9	7.8	-6.5	-8.0
India	1.8	7.9	52.4	-0.9	-0.1	7.8	-1.1	336104	-3.9	2.5	-3.3	1.7
China	1.1	6.7	49.2	2.3	1.5	4.4	3.1	3240870	-3.5	-15.0	3.8	1.4
Korea	0.5	2.8	50.1	1.0	1.7	1.5	7.9	360825	0.0	1.1	-13.2	1.7
Taiwan	0.5	-0.7	48.5	2.0	0.8	1.5	14.4	432	-0.2	2.4	-22.5	-0.7
Thailand	0.9	3.2	-3.3	-0.5	0.8	1.5	10.2	488695	-2.3	12.0	-7.9	-0.8
Indonesia	-0.3	4.9	50.6	4.5	3.5	6.8	-2.1	101863	-2.4	4.4	-10.1	-1.3
Philippines	1.1	6.9	10.5	1.1	1.5	4.0	2.9	73596	-1.5	6.5	-24.4	-0.3
Singapore	0.2	1.8	50.1	-1.0	0.6	1.1	18.9	246330	-0.7	-3.2	-13.8	-2.4
Malaysia	-4.6	4.2	47.2	3.5	2.3	3.3	2.4	93603	-3.2	-3.9	-5.7	-3.8
Vietnam	5.5	5.5	52.7	2.3	1.9	6.5	1.4	20387	0.1	6.8	-2.1	-0.5

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 7 June 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
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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