

## MONTHLY REVIEW: Geopolitical Ma(y)chinations

May 2017

Geopolitics took center stage in May. Political tumult hurt markets and currencies in the Americas, while the clearing of political clouds propelled Europe and Asia higher. Bonds and gold rose, while concerns over China's liquidity-tightening dampened commodity demand. Oil plunged on persistent worries of a supply glut, even as OPEC extended supply cuts.

### EQUITY

- Europe continued to lead gains in May, spurred by Macron's presidential victory, strong corporate earnings and promising economic data, particularly from Germany and France.
- Asian markets also outperformed, driven by Korea and China. Korea notched its largest monthly gain in five years, as President Moon's electoral victory portended well for smoother relations with China and Chaebol reforms. China was propped up by surprisingly strong real estate performance amidst marginally weak macro data.
- US equities crept higher even as a stream of political controversies fatigued markets. Yet, generally healthy economic data, solid prospects for a June rate hike, and multi-billion dollar deals struck during Trump's Middle Eastern travels kept US holdings in favor.
- Latin American markets were dragged down after Brazilian equities nosedived on bribery accusations against President Temer, which investors feared would substantially hamper crucial reform efforts.

### FIXED INCOME

- US Treasuries gained as political snags embroiled Washington. These included the abrupt dismissal of FBI head James Comey, Jared Kushner's involvement in the FBI's Russia probe, and Trump's alleged request for Comey to drop investigations into General Flynn – a possibly impeachable offense.
- US IG bonds continued to be supported by foreign investors looking for "quality" yield; while US high yield bonds inched upwards as investor interest tempered.
- China's and Hong Kong's sovereign rating were downgraded by Moody's, while Indonesia's was upgraded by S&P.
- The Asian USD bond market lifted moderately in May, driven by slight declines in US Treasury yields and overall subdued change in Asian USD credit spreads.

### COMMODITIES

- Gold retreated earlier in the month as demand for safe havens waned on receding EU disintegration concerns; the asset later regained lost ground as investors brooded over North Korea's missile capabilities, a global cyber attack, discordant US politics, and bumpy G7 talks.
- Concerns of tapering raw materials' demand due to Beijing's credit-tightening hurt base metals. Yet, aluminum eked a small gain on China's plan for capacity cuts; while nickel prices were pounded down by rising supply – notably from Indonesia – and softer demand.
- Oil trended higher over May, but gains were swiftly erased after the OPEC's 9-month extension of supply quotas disappointed investors who had hoped for deeper cuts. An anticipated resurgence in Libyan and Nigerian production following recent interruptions also boded poorly for the global supply glut.

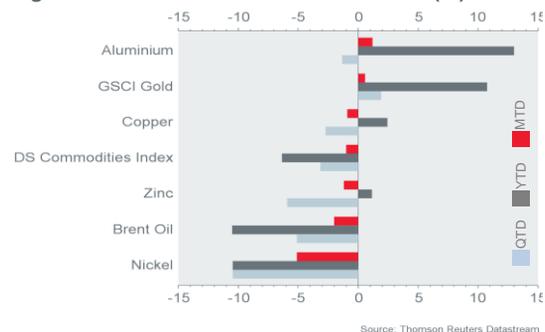
Fig.1. Equity Indices Performance in USD (%)



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



Fig.3. Commodities Performance in USD (%)





## CURRENCIES

- ▶ The Euro continued to rally this month, riding on Merkel's unexpected comment on Euro weakness and signs of a broad-based recovery.
- ▶ Bolstered by foreign buying, the Malaysian Ringgit was another strong performer, kindled by strong 1Q GDP data and encouraging export performance.
- ▶ The US dollar (measured against its performance last month) pulled further back on worries that the political dysfunction embroiling Washington may jeopardise Trump's reform agenda.
- ▶ Likewise, the Brazilian Real struggled as the ongoing political crisis threatened to thwart pivotal reform efforts.
- ▶ The Sterling edged down on the Bank of England's downward revision to 2017 GDP forecasts and growing frictions with the EU over Brexit.

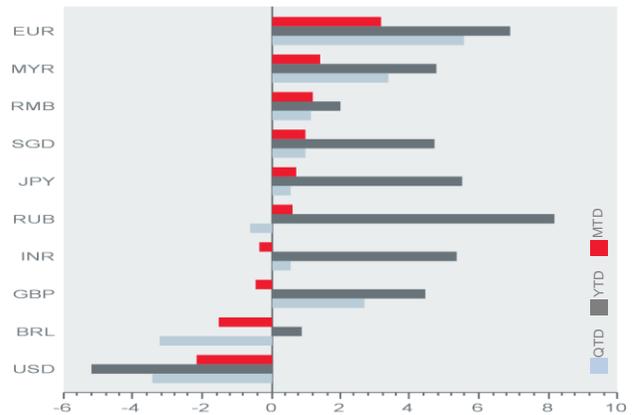
## ECONOMICS

- ▶ US nonfarm payrolls surpassed forecasts in April, while unemployment approached a decade-low. The nonmanufacturing sector expanded faster-than-expected, but manufacturing sector growth disappointed. Nevertheless, manufacturing PMIs this year have surpassed every 2016 reading, and firms remain optimistic about manufacturing activity. Core CPI inflation fell short of consensus, but the revised Q1 GDP data surprised on the upside.
- ▶ The Eurozone notched a healthy 0.5% GDP growth in Q1, while strong May PMI readings pointed further to a rebound in the economy.
- ▶ Over in China, April turned in softer trade growth after the strong showing in March. CPI inflation inched up in April on the back of non-food price increments, while PPI growth slowed along with commodity prices. Investment growth in the manufacturing industry, one of China's key economic sectors, also lagged expectations, especially in heavy industries where steel investments shrunk.
- ▶ Japan's Q1 GDP growth rose for the 5<sup>th</sup> quarter, marking a record-long expansionary phase. Wage growth shrunk, implying limited inflationary pressures from the strong business activity.

## CENTRAL BANKS

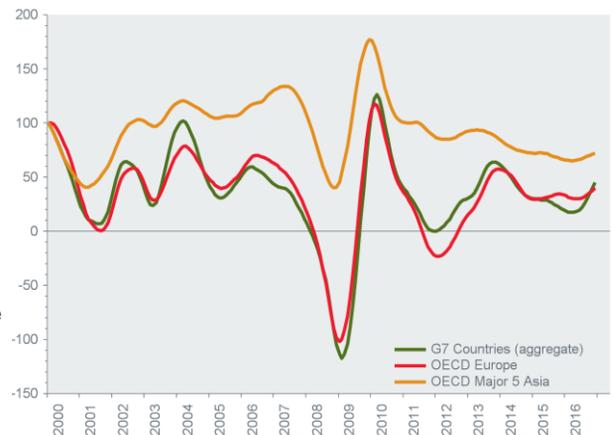
- ▶ The Fed unanimously agreed to retain their target rate range this month, but noted that the 1Q growth slowdown was likely transitory, and expressed positivity on future economic conditions.
- ▶ The Bank of England left its policy unchanged, but lowered 2017 real GDP forecasts to 1.9% on anticipation of weakening household demand. Yet, 2018-19 growth rates were increased on rosier real wage growth prospects.
- ▶ Brazil's central bank opted to maintain a steady 100bps rate cut over more aggressive measures, amid a backdrop of political and reform uncertainty.
- ▶ Mexico's central bank unexpectedly hiked rates by 25bps to 6.75% after April's inflation accelerated to a near 8-year high. Banxico also expected inflation to stay well above targets for the rest of the year.
- ▶ The Bank of Canada maintained rates, citing encouraging economic data and the sufficiency of current monetary stimulus. As expected, central banks in Australia, New Zealand and Korea also held rates steady in May.

Fig.4. Currencies Performance versus USD (%)



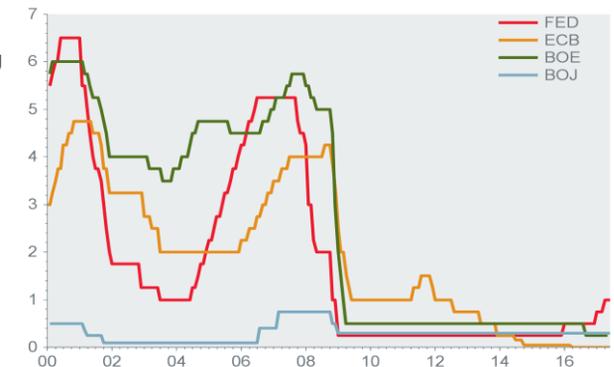
Source: Thomson Reuters Datastream

Fig.5. OECD Composite Leading Indicator



Source: Thomson Reuters Datastream

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



Source: Thomson Reuters Datastream



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

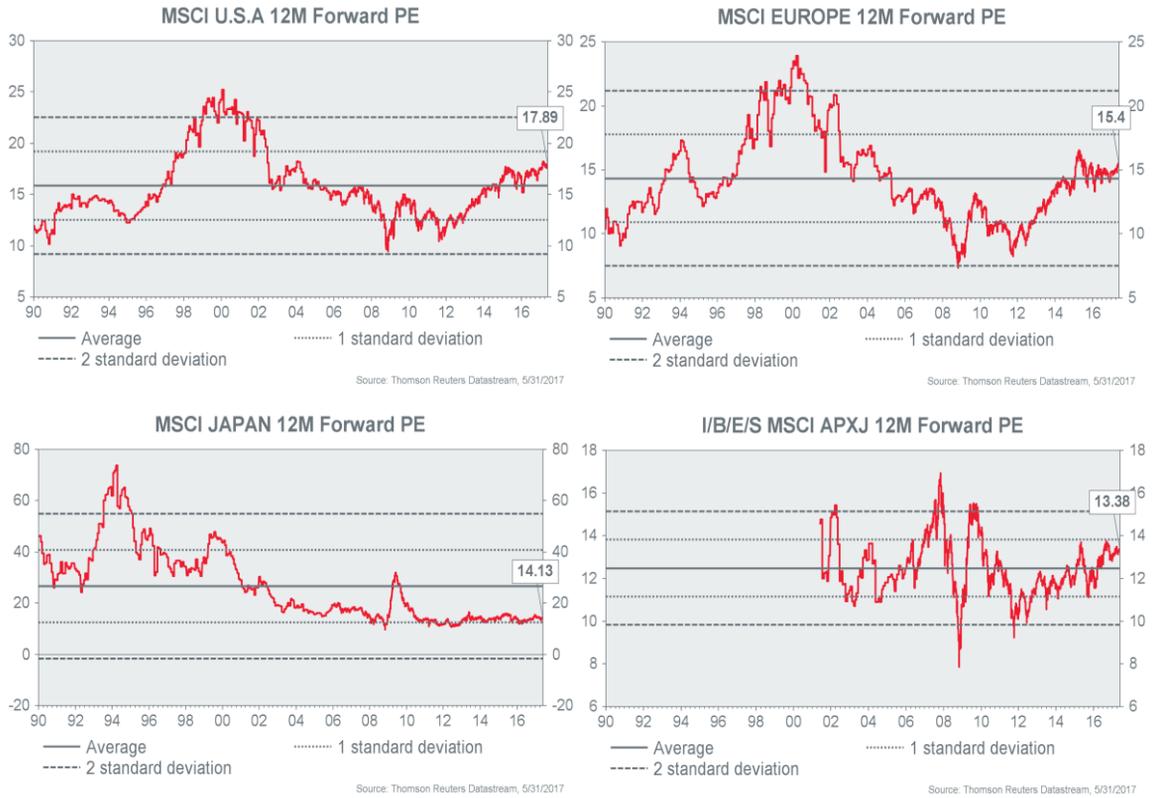
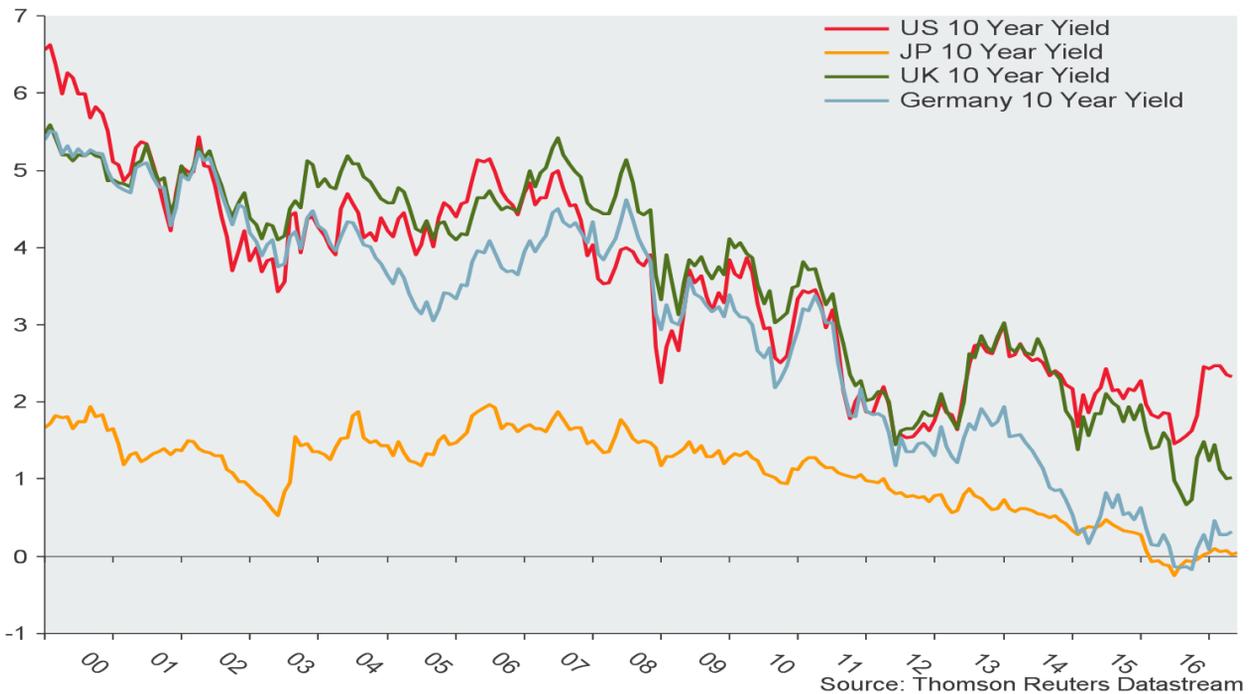


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 May 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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