MACRO BRIEFING

A member of Prudential plc (UK)

MONTHLY REVIEW: A bumpy road at the top

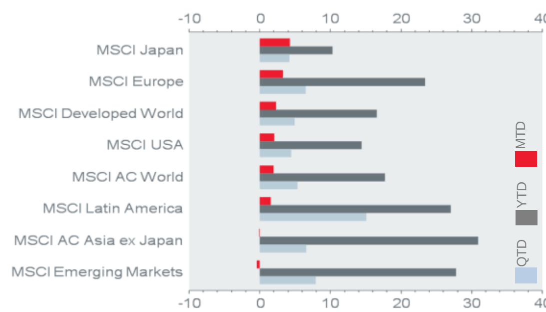
September 2017

Global stockmarkets were mixed in September with Developed Markets outperforming Emerging Markets for the first time this year largely due to a slightly stronger US$, a drop in commodity prices and a rise in crude oil. Markets also shrugged off geopolitical concerns in North Asia, hurricanes in the US and worries over liquidity tightening with many equity indices reaching all-time highs.

EQUITIES

- A slightly firmer **US dollar** was behind the outperformance of developed markets as prospects of tax reform progressed in the US and Fed Reserve policymakers hinted at further rate rises. Confirmation that the Fed was beginning to reduce its balance sheet also supported the dollar.
- Chancellor Merkel was returned in elections in **Germany** which gave stability to eurozone markets. **UK** indices underperformed again.
- **Emerging Europe** was the worst performing EM region although Russia was strong as crude price rose. Brazil continued its recovery while the Philippines hit record highs. Among the decliners were South Africa, Greece and Turkey.
- In **Asia**, the MSCI Asia Pacific ex Japan index was down 0.3% in September to record its first monthly loss for the year however the performance of individual markets was mixed.

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

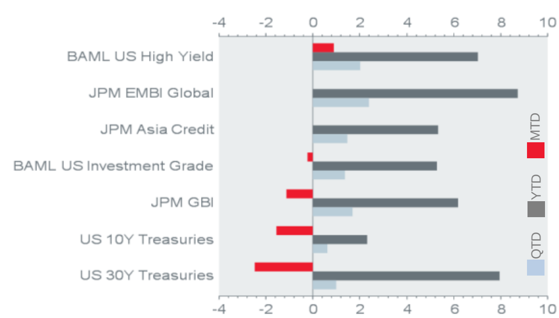


Source: Thomson Reuters Datastream

FIXED INCOME

- **US:** 2- and 10- year UST bond yields moved higher post hawkish Fed comments. The market is now pricing a 70% probability of a rate increase.
- **Eurozone** inflation again failed to pick up however ECB President Mario Draghi still said details of the bank's taper programme would be announced on 26th October.
- The **Asian** USD bond market, measured by JPM Asia Credit Index, was flat with the return year to date now totaling 5.34%.

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

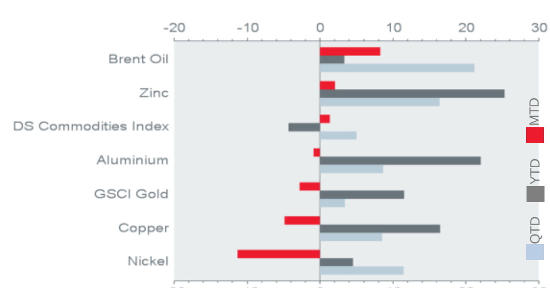


Source: Thomson Reuters Datastream

COMMODITIES

- Brent **Oil** increased 7.5% in September to US$56.8/bbl while West Texas Intermediate rose 7.7% to US$51.7/bbl; both prices are the highest in two years. The strength was down to solid demand figures, an appearance of cohesion among OPEC members on supply issues as well as the hurricanes in the Gulf of Mexico disrupting supply.
- **Gold** fell 3.1% weighed by a stronger US dollar
- **Iron ore** fell 21.4% ending the quarter at US$62/t ahead of China's National People's Congress in October.

Fig.3. Commodities Performance in USD (%)



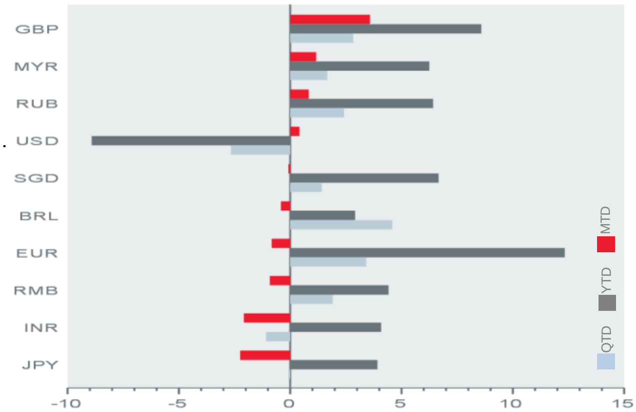
Source: Thomson Reuters Datastream

Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 2017. For representative indices and acronym details please refer to notes in the appendix.

CURRENCIES

- The **US dollar** reversed its year-long decline in September as Fed Chair Yellen said soft inflation figures supported gradual rate rises.
- **UK Sterling** had a volatile month, at first rising to highs not seen since the day after the European referendum before falling back on concerns over the possibility of a 'hard Brexit'.
- In **Asia**, the Malaysian ringgit (+1%), the Philippine peso (+0.5%) and the Hong Kong dollar (+0.2%) were the best-performing currencies. The Indian rupee and the Korean won were the worst-performing currencies.
- The **euro** fell against the US dollar for the first time in seven months as the market began to price in a Fed Reserve rate hike, US tax reform and the return of political risk following the German elections.

Fig 4. Currencies Performance versus USD (%)

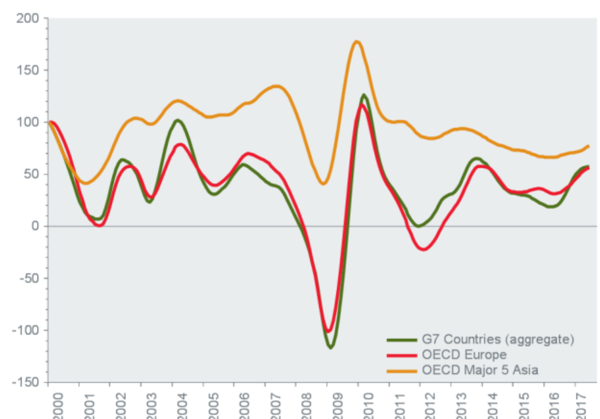


Source: Thomson Reuters Datastream

ECONOMICS

- **Global:** Economic data during September was broadly supportive for markets with few material surprises.
- **US**: The 2Q annualized GDP came in at 3.1% vs 1.2% in 1Q. Retail sales contracted 0.2% mom in August. CPI was at 0.4% mom in August; the ISM survey was at 60.8. New orders for durable goods expanded 1.7% in Aug vs a contraction of -6.8% in July. The Unemployment rate came in at 4.4% in August.
- **Eurozone:** PMI came in at 58.1. IP increased 3.2% in July vs +2.8% in June. Retail sales contracted 0.3% vs 0.6% expansion in June. Consumer confidence was at -1.2 for September. The core CPI figure for September came in at 1.1% vs 1.2% in August.
- **China**: Manufacturing PMI came at 51.0 vs 51.6 in August. August CPI came in at 1.8% vs 1.4% in July. PPI expanded 6.3% in August. New loan creation increased to 1,090 billion yuan in August.

Fig 5. OECD Composite Leading Indicator

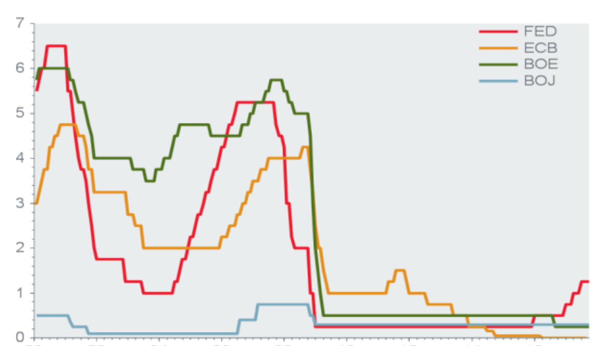


Source: Thomson Reuters Datastream

CENTRAL BANKS

- **The Fed** announced initiation of balance sheet normalisation in October while keeping the benchmark interest rate constant at 1.0-1.25%.
- **Bank of Japan** held policy rates: 10-year JGB yields at 0% and short-term policy rate at -0.1%.
- The **PBoC** announced targeted Reserve Ratio cuts on 30 September, the first since October 2015. The move is regarded as largely neutral and aimed at fine tuning liquidity.
- In **Emerging Markets,** Brazil lowered its Selic rate by 100bps to 8.25%; Peru and Indonesia lowered rates by 25bps each to set rates at 3.5% and 4.25% respectively; Russia lowered its key policy rate by 50bps to 8.5%.

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



Source: Thomson Reuters Datastream

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

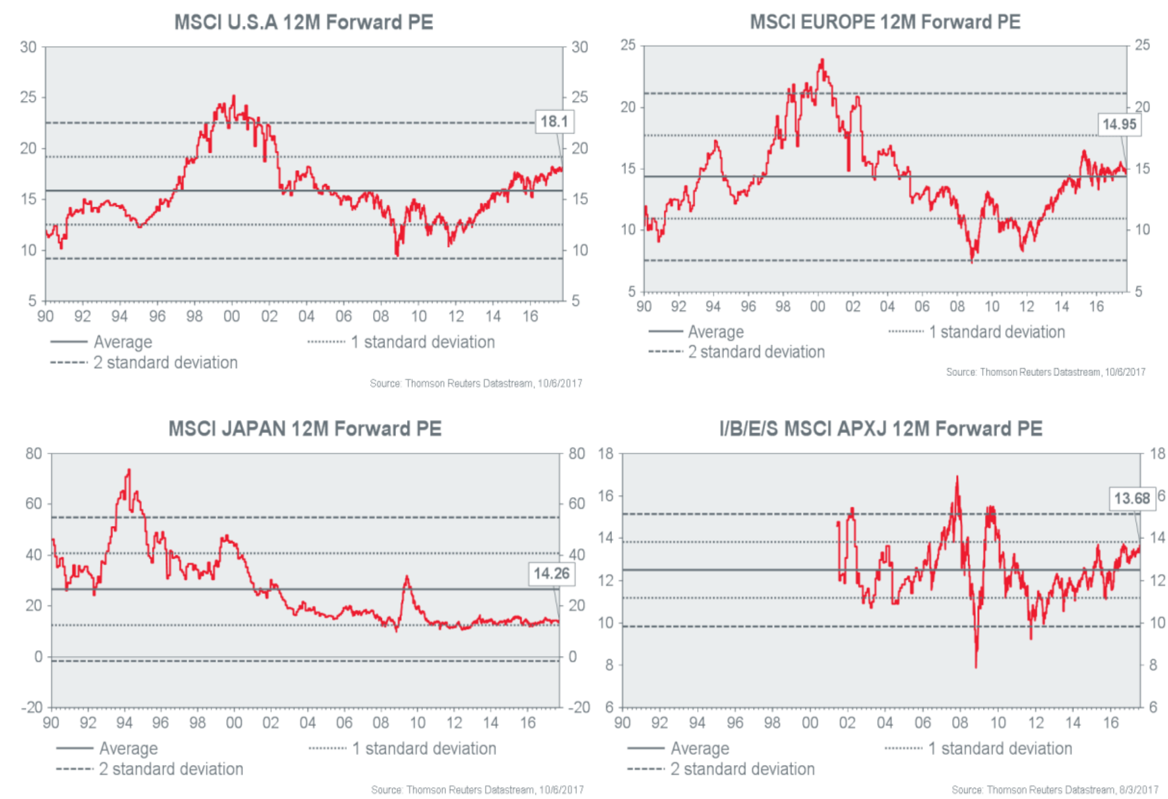
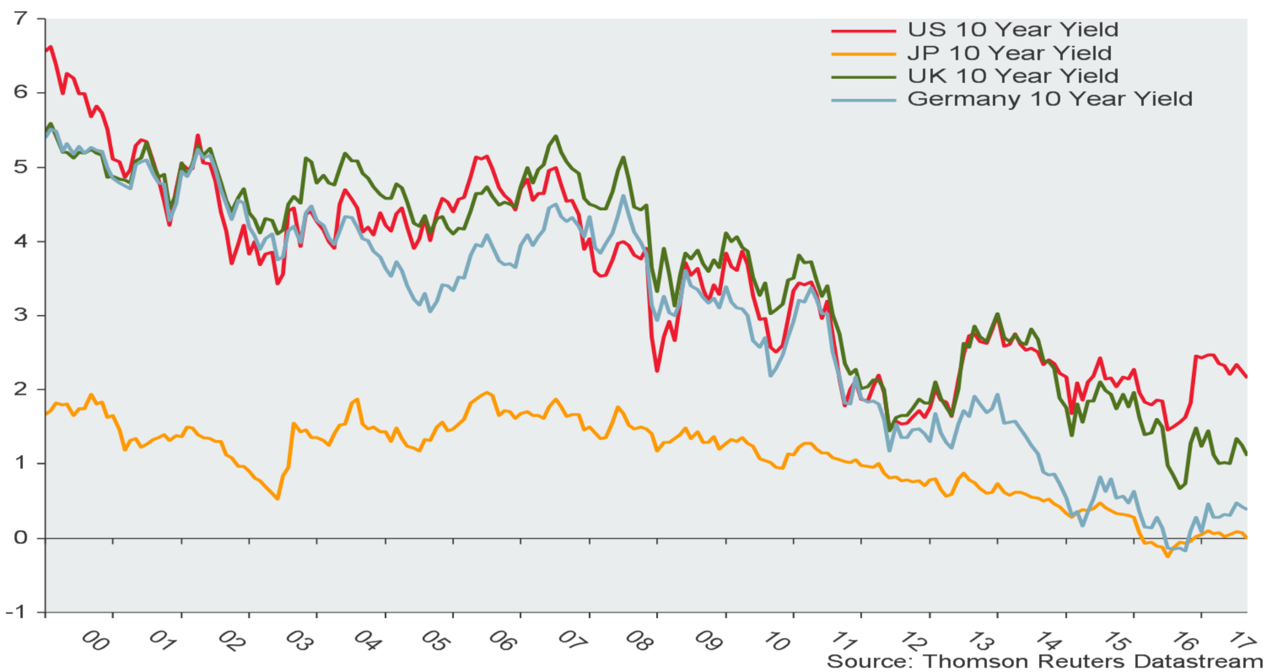


Fig 8. Key Bond Yields (%)



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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

Source: Eastspring Investments

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