

MONTHLY REVIEW: July Galvanised

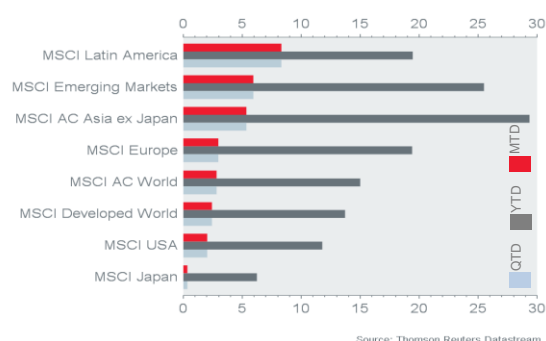
July 2017

Less-than-hawkish Fed comments and firming commodity prices fueled equities in Emerging Markets. Riskier bonds rose in tandem and did better than investment grade counterparts. A weaker US Dollar and stronger Chinese economic data supported commodity-sensitive currencies while the Euro gained on stronger economic print. Volatility fell to its lowest since 1993.

EQUITY

- Latin American equities were the best performing driven by currency stability, improving political landscapes and rising commodity prices.
- Asian stocks were next in line as Chinese and Indian equities rose on better investor sentiment supported by better economic data.
- Japanese stocks lagged the regional rally as internal politics and uncertainty about the BOJ's exit strategy weighed.
- European equities did better than US equities on stronger economic data, fading political pressures and rising corporate earnings.
- Stocks in the US did not gain as much as fears of over-valuations, political mis-steps and poor economic data kept bullish investors in check. However, the S&P500, NASDAQ and Dow all managed to breach record highs while volatility fell to its lowest level since 1993.

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

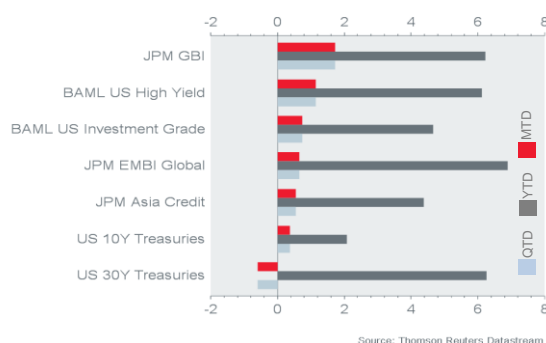


Source: Thomson Reuters Datastream

FIXED INCOME

- Bond yields were relatively stable, with US 10-year treasury yields little changed. Eurozone 10-year yields rose on better economic data and Japanese 10-year government yields fell in response to the BOJ extending its 2% inflation forecast.
- Investors were willing to move up the risk curve as spreads on the safest category of US high-yield bonds have fallen to just a couple of basis points above their historical lows.
- Firming fundamentals, weaker inflationary pressures and stable markets led to increased risk taking and Emerging Market bonds gained.
- The Asian USD bond market, measured by JPM Asia Credit Index, rose as credit spreads compressed in tandem with positive sentiment. Riskier and longer tenure bonds did well.

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

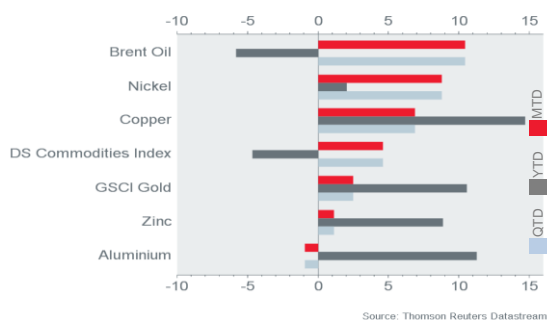


Source: Thomson Reuters Datastream

COMMODITIES

- Oil prices continued sliding as excess inventories in the US persisted. However, the number of oils rigs coming online have started to slow.
- Gold prices fell during the month as lesser geopolitical tensions and steady economic growth resulted in lower volatility in the markets.
- Copper prices were boosted by a strike threats in South America and a steady Chinese economy.
- Nickel prices rose as the demand for alloys increased. Country specific issues within Indonesia and the Philippines also supported prices.
- Zinc also rose during the month as existing inventories start to deplete at a higher-than-expected rate.

Fig.3. Commodities Performance in USD (%)



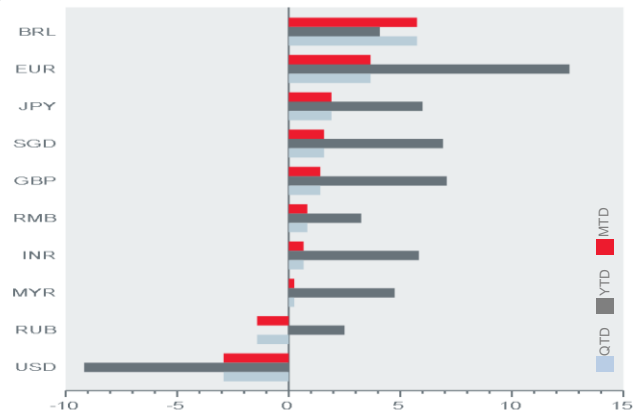
Source: Thomson Reuters Datastream



CURRENCIES

- ▶ The US Dollar endured five consecutive months of decline hampered by strife within Washington, poor economic data and diminishing expectations of fiscal stimulus.
- ▶ Hawkish comments by the ECB in addition to strengthening economic data lifted the Euro to 31 month highs against the US Dollar.
- ▶ In spite of Japan's efforts to maintain quantitative easing the Japanese Yen gained over the month.
- ▶ Commodity-sensitive currencies like the Brazilian Real and the Russian Ruble had diverging returns. The Real gained on a weaker USD and stronger commodity prices while the Ruble fell in response to impending US sanctions.
- ▶ The Chinese Renminbi continued its steady climb against the US Dollar as Chinese economic growth and liquidity concerns receded during the month.

Fig.4. Currencies Performance versus USD (%)

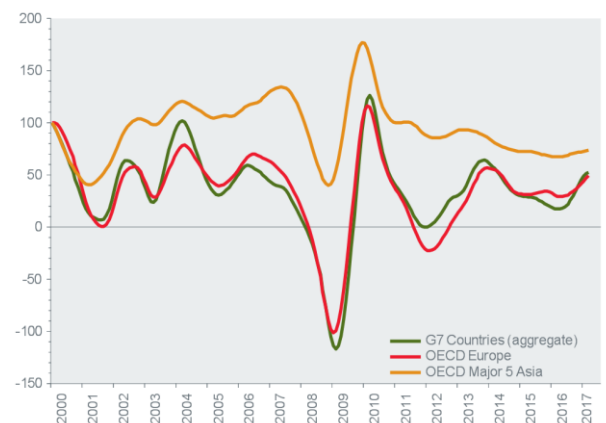


Source: Thomson Reuters Datastream

ECONOMICS

- ▶ Overall US activity print was mixed as ISM numbers rose stronger-than-expected in tandem with non farm payrolls. However, a weaker-than-expected CPI reading, soft retail sales and poor hourly earnings data raised questions on the trajectory of the US recovery.
- ▶ In Europe, May's industrial production grew stronger-than-expected and the closely-watched German IFO business climate index for July hit a record high of 116.0
- ▶ Over in China, the Markit/Caixin manufacturing PMI rose more than expected. Construction activity also rose to its highest level since December 2013. Better than expected GDP and retail data gave further evidence of the Chinese economic recovery.
- ▶ In Japan, the Tankan (Big Manufacturers) survey rose to a three-year high, indicating rising corporate sentiment and the willingness to increase spending.

Fig.5. OECD Composite Leading Indicator

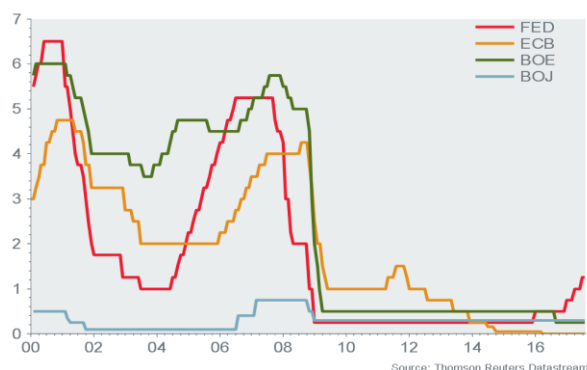


Source: Thomson Reuters Datastream

CENTRAL BANKS

- ▶ The US Fed kept interest rates unchanged in July but pointed to an impending unwind of its USD 4.5 billion balance sheet.
- ▶ The Bank of England held interest rates at 0.25% as expected. However, there continued to be factions within the committee which called for a hike in response to impending inflation.
- ▶ The European Central Bank left its monetary policy stance unchanged as expected but the markets interpreted its subsequent comments as more hawkish.
- ▶ The BOJ maintained its monetary stance while officials lowered their inflation forecasts for fiscal years 2017-18 and 2018-19. The outlook on GDP growth was revised higher for the same period.

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



Source: Thomson Reuters Datastream



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

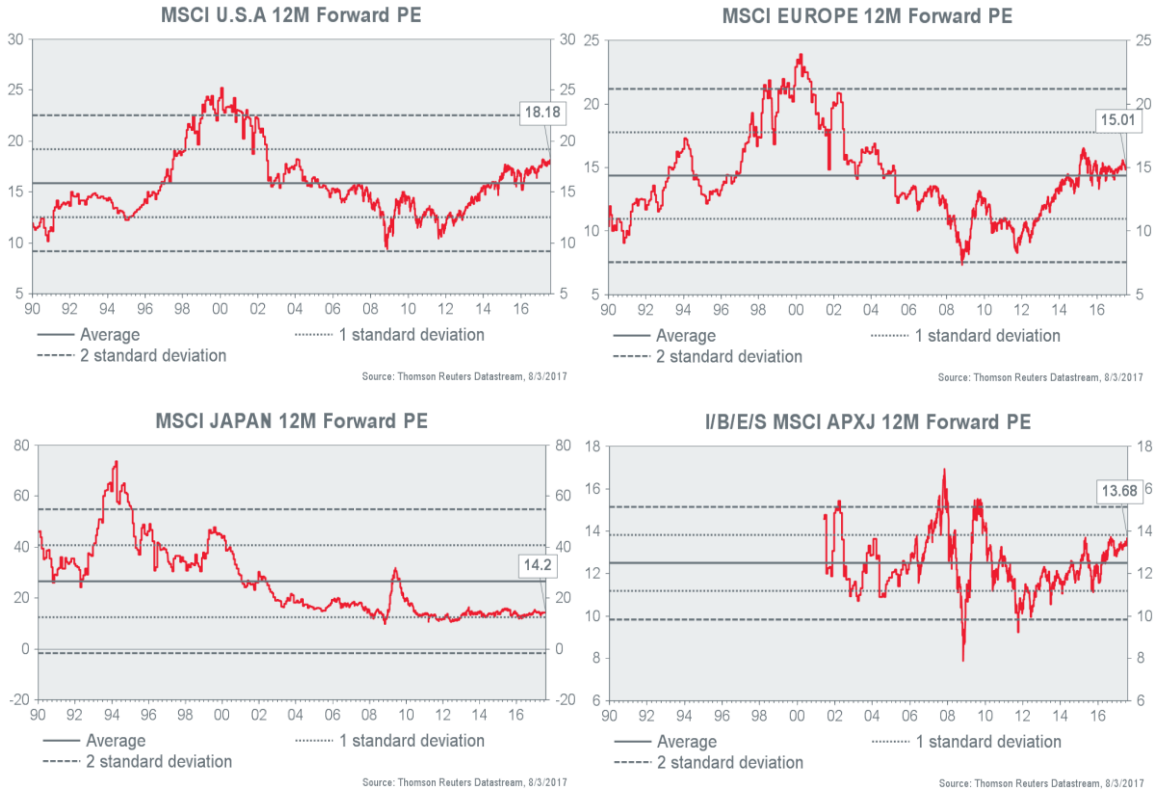
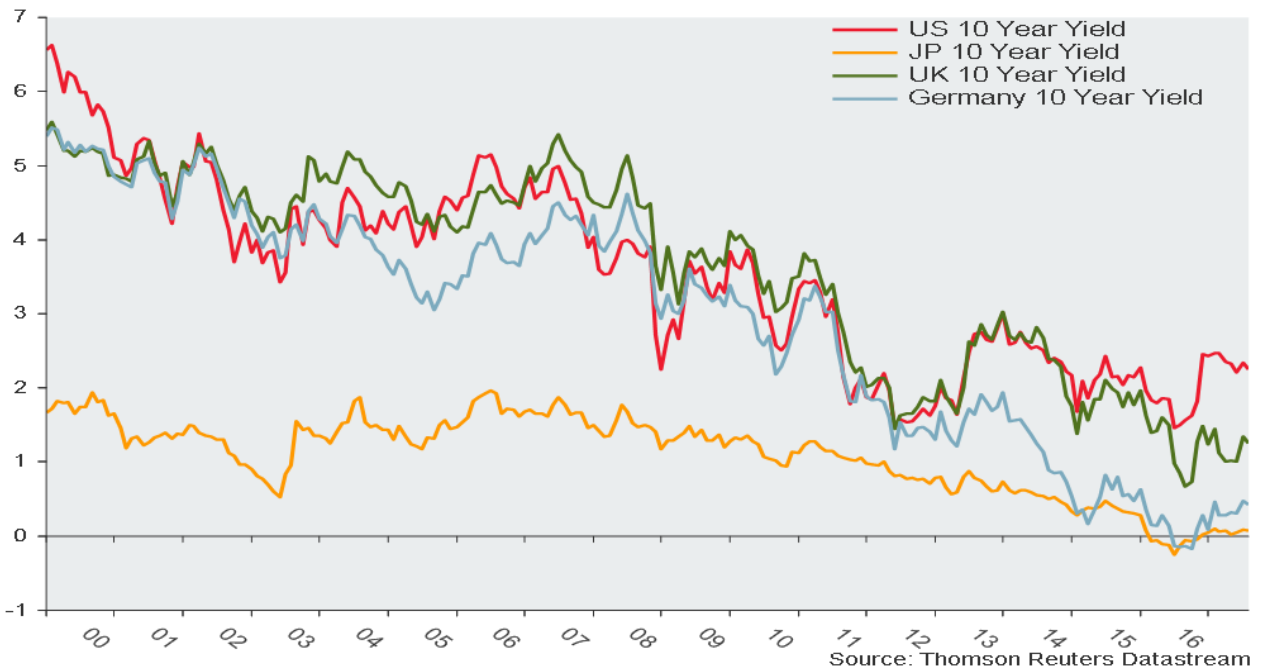


Fig.8. Key Bond Yields (%)



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