

## MONTHLY REVIEW: A hot one

July 2018

### The World in five bullet points

- ▶ For years the darling of the stock market, Facebook faceplanted in July. The stock fell nearly 20% in a single day after it said its privacy problems were impacting its growth plans. The next day, Twitter tweeted similarly bad news and had an equally bad day in the market as a result. Netflix also lost around 14% for the month after disappointing on subscriber growth numbers and with the tech sector catching a cold in the US, China internet stocks sneezed, with Tencent losing 10% over the month.
- ▶ Trade continued to dominate headlines with President Trump threatening China with \$200bn worth of tariffs in addition to the \$50bn already imposed. But a thaw developed with Europe when the US and EU Presidents reached a deal to at least continue talking and avoid imposing further tariffs on each other's economies.
- ▶ The President Trump show hit Europe in July. His first stop was the NATO summit in Brussels in which he gave conflicting messages on spending targets, calling for each (non-US) member to spend up to 4% of GDP on defence before backtracking somewhat. His next stop was the UK, in which he said, among other things, that the former foreign secretary Boris Johnson would make a better prime minister than the embattled Theresa May. His final stop was Helsinki, in which he and Russia's President Putin gave a joint press conference in which he declined to blame Russia for interference in the US's 2016 election.
- ▶ Former cricketer Imran Khan is likely to become Pakistan's next prime minister after fighting its election on an anti-corruption ticket that included a reform of government spending and a pledge to improve the lives of the poor by increasing welfare payments. But one of his first meetings will be with the IMF to negotiate a \$12bn bail out package to counter the country's foreign reserve crisis, and it's unlikely the IMF will allow such an ambitious economic and social programme under its terms.
- ▶ The northern hemisphere basked in one of the hottest summers in living memory with temperatures from Ireland to Japan touching record levels. Politics heated up too in Europe with the UK losing two senior cabinet ministers, Germany just about hanging onto its coalition while in the US, an errant lawyers' tape made an unexpected appearance to trouble the President.

Fig.1. Regional Equity Indices Performance, US\$ %

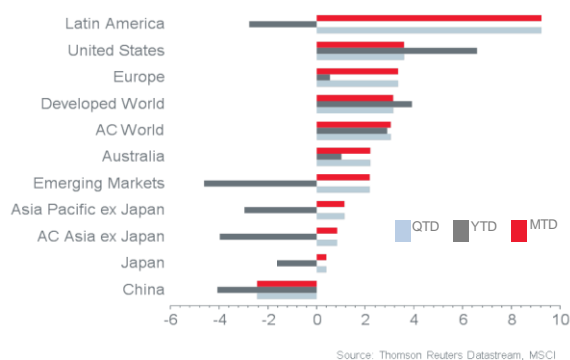
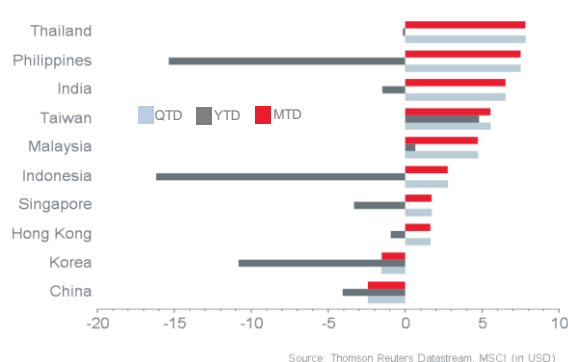


Fig.2. Asia Equity Indices Performance, US\$ %



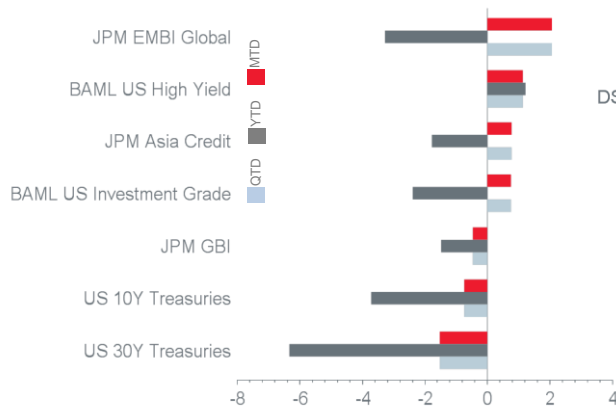
### Equity Markets

- ▶ Equity markets bounced back from losses in June with the MSCI World index up 3.0% with Developed Markets again outperforming Emerging Markets. The MSCI US index led with a gain of 3.6% but this time closely followed by gains in Europe, which ended up 3.3%. Emerging Markets modestly lagged with a gain of 2.3% but with a wide disparity in performance.
- ▶ Latin America regained much of the ground lost in the second quarter with a gain of 9.2%, mainly pulled higher by a resurging Brazil which led the region with a nearly 12% gain. Other regions also bounced with EMEA gaining 4.9%, with gains here capped by more turbulence in Turkey, which fell 7.2%. MSCI Asia ex Japan gained just 0.9% with China and Korea being notable drags, the former seeing continuing problems with liquidity in its equity market and Korea facing a collapsing biotech sector. ASEAN markets fared better than recent months with Philippines and Thailand returning almost 8% each.



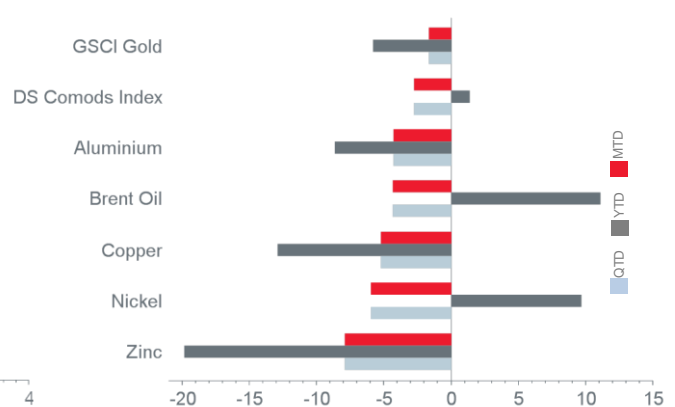
- ▶ Chinese markets continued to underperform, weighed by the threat of trade tariffs but also weaker economic data. Shanghai's market saw market liquidity continue to stagnate partially caused by the IPO of Foxconn Industrial Internet and partially by the general crackdown on lending in the country. Still, despite a 2.4% dip over the month, it still managed one week that turned out to be its best five days in the past two years. Hong Kong fared a bit better but it still underperformed the region substantially.
- ▶ Among the markets that gained in July were the high-beta ASEAN exchanges that finally saw an uptick as the dollar eased back on its gains (see below). The Philippines and Thailand led while Indonesia saw a gain for the first calendar month since January. India also bounced with a 6.0% rise as the oil price and the US dollar both stabilised.
- ▶ Elsewhere, Australia continued to tick higher as commodity prices and the Aussie dollar both maintained their high levels while Japan saw a 0.4% gain with the final couple of days seeing the indices dip slightly as the tech sell off gathered pace. Among Emerging Markets, as well as the losses in Turkey (see Currencies section below), Greece gave up some of June's gains.

Fig 3. Bond Indices Performance, USD %



Source: Thomson Reuters Datastream

Fig 4. Commodities Performance in USD (%)



Source: Thomson Reuters Datastream

## Fixed Income

- ▶ Government bond yields in the developed markets moved higher amid speculation that Bank of Japan (BOJ) would tweak its monetary policy at its end-July policy meeting. This shook US Treasury yields out of a tight trading band to close the month at 2.96%, up 10 bps since the end of June.
- ▶ Japanese government bonds (JGB) saw more dramatic swings in yields with the 10-year JGB yields rallying to 0.1% ahead of the BOJ's policy meeting before retracing lower to 0.06% on the last day of the month. Although the BoJ maintained its 10-year target at 0%, Governor Kuroda, at his accompanying press conference, made reference to the new range being about +/-20bp from the current 10-year target of "around zero", to provide more policy flexibility.
- ▶ Despite the upward moves in risk-free rates, investor sentiment towards Emerging Market bond markets firmed during the month. In the Asian USD-denominated credit market, news that the China government could ease its monetary and fiscal policies drove significant credit spread tightening. Asian high yield credits, in particular, benefitted from the development.
- ▶ The improved sentiment also led to a lowering of risk premium in selective domestic government bond markets, including India and Indonesia.

## Commodities

- ▶ Crude oil was volatile during the month....surging on one day only to fall back the next after President Trump threatened his Iranian counterpart via a Twitter message, saying the country faced "severe consequences" if it threatened the US. However, a drop in gasoline supplies helped the various crude blends find support.
- ▶ Copper prices fell, particularly into the end of the month, to hit year-to-date lows after economic data from China suggested slowing economic growth and rhetoric around trade wars continued. Copper is frequently seen as the canary in the coal mine for global economic growth as it has often been the first commodity to fall in previous recessions.
- ▶ Meanwhile, Iron ore retained its steady price seen all year despite the wobble in economic data out of China, while gold, a commodity quickly losing its safe haven status, fell to one-year lows of \$1,228/ounce.
- ▶ Coal completed the mixed picture for commodities by rising to levels not seen since 2012 for Newcastle blend and despite some inventory levels reaching capacity at some ports in China. Going the other way, volatile lignite coal from Inner Mongolia due for export in two Chinese ports found an unusual method of de-stocking – by spontaneously combusting in the summer heat.



## Currencies

- US dollar (USD) strengthening lost some momentum in July as investors seemed more comfortable moving into riskier currencies. Most G10 currencies particularly the higher-beta currencies like the Swedish krona and New Zealand dollar saw some gains against the USD. The real winners were emerging market currencies such as the Mexican peso, South African rand, and Brazilian real which saw substantial gains against the USD.
- The renminbi (RMB) declined nearly 3% against the USD. Some fear this is the start of a larger devaluation scheme by Beijing that will be used as a tool against US trade tariffs, while others say this is merely a weakening that reflects slower economic growth as well as financial deleveraging and escalating trade tensions. The weakening currency is a type of monetary easing for policymakers which may reduce the pressure to provide some form of stimulus in the wake of a slowing economy. Policymakers will have to tread carefully and avoid the mistake of 2015 when a depreciation led to large outflows but this time around capital controls are much more stringent so if the economy bounces, so too may the renminbi. Elsewhere RMB depreciation led Asian currencies lower against the US dollar.
- The yen was in focus this month following leaks the Bank of Japan (BoJ) may tweak its current bond and equity buying program. Members of the BoJ expressed concerns the current program was unsustainable. At the 31 July meeting, the BoJ announced it will allow greater flexibility in its bond buying program and allocate more of its ETF buying to the Topix from the Nikkei.
- Turkey's lira fell sharply once again as the central bank stalled on raising interest rates even as the annual inflation rate hit 15.4% in June, more than three times the official target rate. Interest rates are already at 17.75% and the market was penciling in another rise of up to 125 basis points but the decision to keep rates on hold raised questions over the influence of President Erdogan, who placed his son in law in charge of the economy post elections in June.

Fig 5. Currencies Performance versus USD (%)

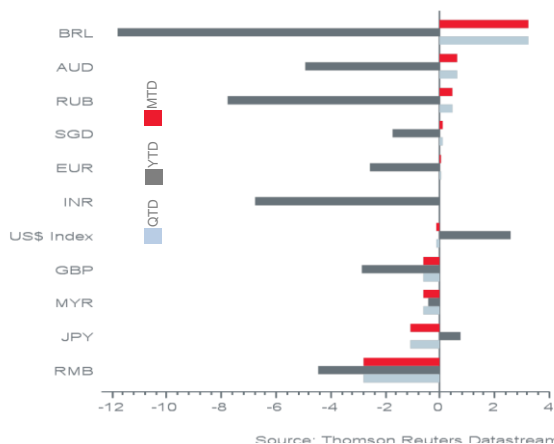
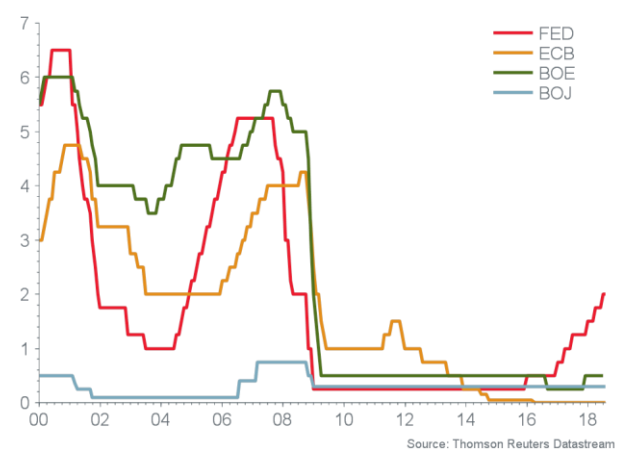


Fig 6. Central Banks Interest Rate, %



## Economics

- The US economy grew by 4.1% in Q2, giving a 2.8% growth rate year on year. Inflation rose 3.0% in Q2, a 2.8% year-on-year increase, pushing the boundaries of the Fed's upper limit for inflation. Fed Chairman Jerome Powell gave a positive spin on the US economy in testimony to congress although admitted tariffs would damage growth; indeed the Fed's "Beige Book", which surveys the economy on a more qualitative way, quotes the tariffs as the biggest worry for business in the US.
- The ECB kept its interest rates and accompanying message the same as last month which means QE will wind down into the end of the year and interest rates will likely rise but not until the summer of 2019 at the earliest. Germany saw its Purchasing Managers' Index increase to 57.3 from 55.9, the first such increase in 2018 with its new orders component, which is likely to have been adversely affected by the tariff war with the US, bouncing from its lowest reading in two years in June.
- China injected RMB502bn – roughly US\$74bn – into its financial system via its Medium Term Lending Facility in a bid to help fortify the economy that was beginning to show signs of a wobble amid the escalating trade war with the US. For Q2, China GDP ticked lower to 6.7% from 6.8% in Q1, likely influenced by a continued deacceleration in investment spending as well as the dent caused by the tariff battle with the US. July's manufacturing data also slowed more than expected with poor weather and weaker domestic demand adding to the trade-war weight. Nevertheless, the move was the biggest indication to date of a relaxation of monetary policy in China; it not only forced the renminbi to its lowest point in over a year against the dollar but also led to some observers to speculate whether the trade war with the US would turn into a currency war.
- Korea's equity market was weak with the decision by the central bank to keep interest rates steady and accompany the announcement with a hawkish signal weighing on stocks. Weak consumer sentiment figures, and weaker economic data from China also weighed on the market as well as a collapse in bio-tech stocks that pushed the KOSDAQ down by 5%.

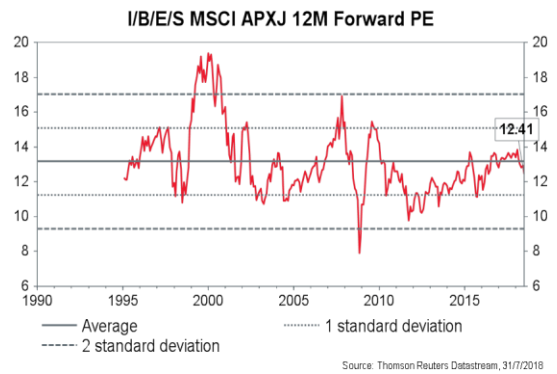
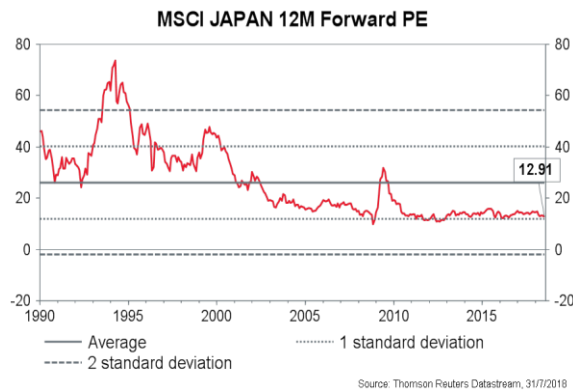
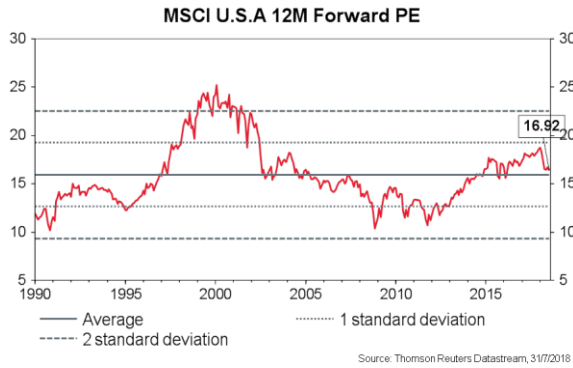
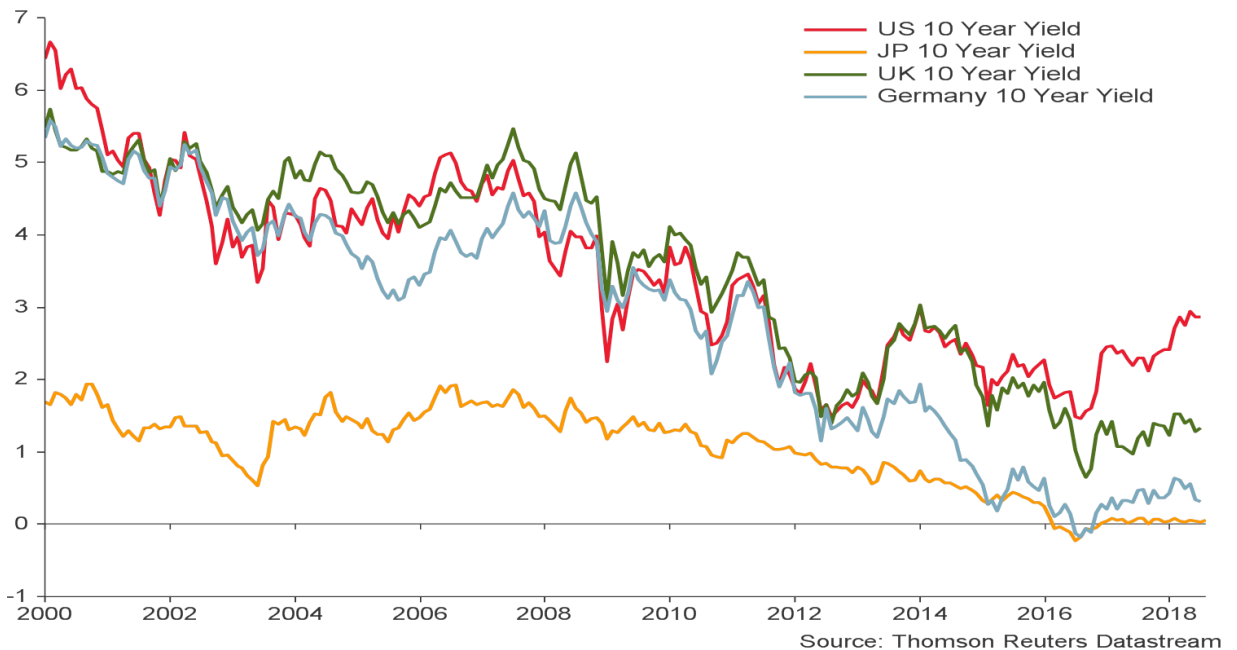


Fig 8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 May 2018. For representative indices and acronym details please refer to notes in the appendix.



## MSCI monthly, quarterly and year-to-date data

	July 2018	YTD	Q2 18	Q1 18	June 18	May-18	Apr-18	2017
<b>World</b>	3.0	2.9	0.7	-0.8	-0.5	0.2	1.0	24.6
<b>Developed World</b>	3.1	3.9	1.9	-1.2	-0.0	0.7	1.2	23.1
<b>United States</b>	3.6	6.6	3.5	-0.6	0.7	2.4	0.4	21.9
<b>Europe</b>	3.3	0.5	-0.9	-1.9	-0.6	-3.1	2.9	26.2
<b>Japan</b>	0.4	-1.5	-2.8	1.0	-2.5	-1.0	0.7	24.4
<b>Emerging Markets</b>	2.3	-4.4	-7.9	1.5	-4.1	-3.5	-0.4	37.8
<b>Asia Pac Ex Japan</b>	1.1	-3.0	-3.5	-0.6	-3.7	-0.8	1.0	37.3
<b>Asia Ex Japan</b>	0.9	-3.8	-5.3	0.7	-4.7	-1.3	0.7	42.1
<b>Latin America</b>	9.2	-2.8	-17.7	8.1	-3.0	-14.0	-1.2	24.2
<b>Brazil</b>	11.8	-7.4	-26.4	12.5	-8.3	-16.4	-4.0	24.5
<b>EMEA</b>	4.9	-6.4	-10.0	-0.9	-2.2	-5.8	-2.3	25.2
	July 2018	YTD	Q2 18	Q1 18	June 18	YTD	Apr-18	2017
<b>Australia</b>	2.2	1.0	5.3	-6.1	1.3	1.4	2.4	20.2
<b>New Zealand</b>	-0.5	0.2	5.8	-4.9	2.1	3.9	-0.3	12.7
<b>Hong Kong</b>	1.6	-1.0	-1.2	-1.4	-4.9	0.6	3.3	36.2
<b>China</b>	-2.4	-4.1	-3.4	1.8	-5.2	1.9	-0.0	54.3
<b>Korea</b>	-1.5	-10.8	-9.1	-0.4	-6.6	-5.2	2.7	47.8
<b>Taiwan</b>	5.6	4.8	-6.1	5.7	-1.4	-0.2	-4.6	28.5
<b>Thailand</b>	7.8	0.0	-14.9	9.0	-10.3	-4.9	-0.2	34.9
<b>Malaysia</b>	4.7	0.6	-11.4	8.5	-2.8	-8.1	-0.9	25.1
<b>Singapore</b>	1.7	-3.3	-7.5	2.8	-7.4	-5.9	6.3	35.6
<b>Indonesia</b>	2.8	-16.2	-12.2	-7.1	-7.3	-0.8	-4.5	24.8
<b>India</b>	6.5	-1.5	-0.6	-7.0	-1.0	-3.6	4.1	38.8
<b>Philippines</b>	7.5	-15.3	-11.1	-11.4	-5.7	-4.7	-1.1	25.2
	July 2018	YTD	Q2 18	Q1 18	June 18	YTD	Apr-18	2017
<b>Mexico</b>	8.7	5.9	-3.5	0.9	9.3	-13.6	2.2	16.3
<b>Chile</b>	4.5	-5.5	-11.0	1.6	-5.0	-7.9	1.8	43.6
<b>Hungary</b>	2.5	-13.1	-14.4	-1.0	0.3	-13.9	-0.8	39.9
<b>Poland</b>	11.4	-9.6	-11.6	-8.2	-2.2	-10.8	1.3	55.3
<b>Czech Republic</b>	5.9	9.1	-3.2	6.4	1.0	-4.4	0.3	38.9
<b>Russia</b>	4.3	7.5	-5.8	9.4	0.6	1.2	-7.4	6.1
<b>Turkey</b>	-7.2	-34.4	-25.7	-4.8	-4.6	-12.8	-10.6	39.1
<b>South Africa</b>	5.1	-11.0	-11.8	-4.0	-4.3	-6.7	-1.1	36.8
<b>United Kingdom</b>	0.9	-0.1	3.0	-3.9	-1.0	-0.8	4.8	22.4
<b>Germany</b>	4.3	-2.8	-3.4	-3.5	-2.4	-3.1	2.1	28.5
<b>France</b>	3.6	4.4	0.3	0.4	-0.9	-3.5	4.8	29.9
<b>Netherlands</b>	4.1	3.5	-1.6	1.0	0.1	-3.2	1.6	32.7
<b>Austria</b>	5.1	-1.2	-8.4	2.7	-2.7	-5.4	-0.5	52.1
<b>Italy</b>	3.3	1.5	-6.8	5.4	-0.6	-11.2	5.6	29.6
<b>Spain</b>	3.9	-2.0	-4.1	-1.6	2.7	-9.3	2.9	27.7
<b>Hreece</b>	-0.2	-8.8	-2.0	-6.7	4.2	-18.7	15.7	29.1
<b>Portugal</b>	5.0	10.6	2.2	3.1	0.4	0.1	1.7	25.2
<b>Switzerland</b>	6.5	0.1	-2.2	-3.9	0.9	-3.2	0.1	23.6
<b>Sweden</b>	5.4	0.2	-3.1	-1.9	-0.5	-1.8	-0.9	21.8
<b>Norway</b>	0.9	6.3	3.0	2.4	1.5	-1.2	2.7	29.6

Source: Thomson-Reuters Datastream, MSCI. All data Total Returns, in US dollar terms, as of 31 May 2018

**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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