



## MONTHLY REVIEW: Trade becomes a political football...and the US scores

June 2018

### The World in five bullet points

- Trade dominated the headlines in June. Much of the rhetoric proved to be noise, charging up one day only to be toned down the next. The noisy headlines did not stop investors fretting about the damage a trade war could inflict on global economic growth and the result was not only a strengthening US dollar (and a fall almost everywhere else) but also a small rise in US equity markets (and a fall almost everywhere else). So although the US didn't qualify for the football World Cup, US equities still scored in June.
- The US confirmed it would impose \$50bn worth of tariffs on Chinese goods provoking Beijing to respond in kind. The EU stuck a \$3bn ticket on US goods in retaliation for steel tariffs, including Harley-Davidson motorbikes and US whiskey, and, in a re-retaliation, the US threatened EU carmakers with a 20% charge. Late in the month, President Trump threatened to ban Chinese firms from investing in US tech, escalating tensions further and sending technology shares around the world lower.
- The ECB said it would end its bond purchase programme by the end of the year but in the same statement, said it would not look to raise rates until the second half of 2019. The euro fell, exacerbated by the US Federal Reserve the previous day raising interest rates, which had the effect of sending the US dollar higher.
- US President Trump and North Korean leader Kim Jong Un met in Singapore, agreeing on a vaguely-worded statement that pointed to the end of war games in the south and a commitment to denuclearize in the north. Opinion generally favoured North Korea getting the better of the deal but the real progress was that the US and North Korea were talking to each other at all.
- June was notable for some sizeable movements in the currency markets. China's renminbi saw its worst month against the US dollar after it eased monetary policy by lowering its reserve ratio requirement for banks while questions also started to be asked on the impact of the trade wars on its economy. Other emerging market currencies also suffered with Brazil the worst hit (see Figure 5) while Argentina, Indonesia and the Philippines also saw their currencies depreciate further.

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

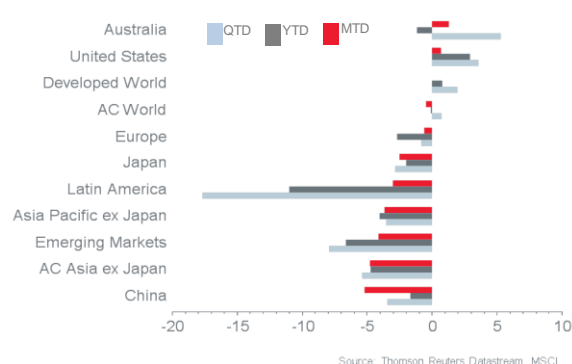
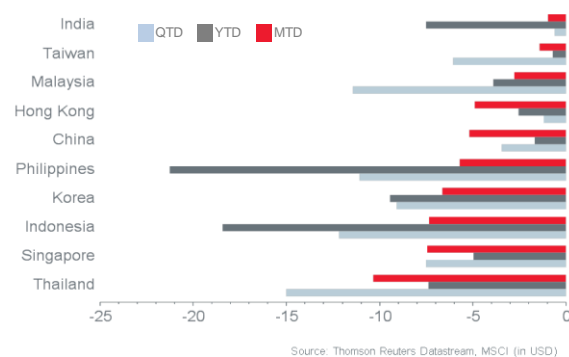


Fig.2. Asia Equity Indices Performance, US\$ %



### Equity Markets

- Equity markets tumbled especially late in the month as concerns started to grow over what impact the escalating trade war would have on economic growth. The MSCI Developed Markets index outperformed the Emerging Markets index for the third month in a row but the former was almost exclusively supported by the US – one of only a handful of exchanges to record a monthly gain.
- Among Emerging Markets, Latin America and EMEA outperformed Asia, while here, India and Taiwan outperformed at the expense of ASEAN countries and China. As well as the ongoing trade dispute with the US, Shanghai suffered from a withdrawal of stockmarket liquidity when Foxconn Industrial Internet was IPOed to raise US\$4.3bn in new funds and instantly became China's largest listed technology stock. But the market is now 20% off its peak in January and thus in a technical bear market.

Source: Eastspring Investments. Chart data from Thomson Reuters Datastream as at 30 June 2018. For representative indices and acronym details please refer to notes in the appendix.



- ▶ Chief among the fallers in EMEA were Turkey and South Africa. Turkish stocks dropped sharply as the run on the lira continued and an increase in interest rates failed to stem the flow of selling, a trend exacerbated late in the month by the successful re-election of President Erdogan. The MSCI Turkey index is down 29% year to date. South Africa fell another 4% and is down 15% for the year with the rand falling further as investor outflows hit the high-beta South African forex, bond and equities markets.
- ▶ But it wasn't all doom and gloom in June for EMEA. Spain and Greece eked out small gains as the former saw a smooth transition to power of a new government after a vote of no confidence in the old one saw its prime minister leave office in May. Meanwhile Greece saw another step forward in its quest to end its economic bailout package after creditors agreed that its final bailout package could be used to create a cash buffer.
- ▶ High-beta indices in Asia also sold off with ASEAN exchanges chief among the losers. Indonesia, Singapore, Philippines and Thailand fell 6-10% while Malaysia outperformed as the new government showed signs of steadying the economic ship.

Fig 3. Bond Indices Performance, USD %

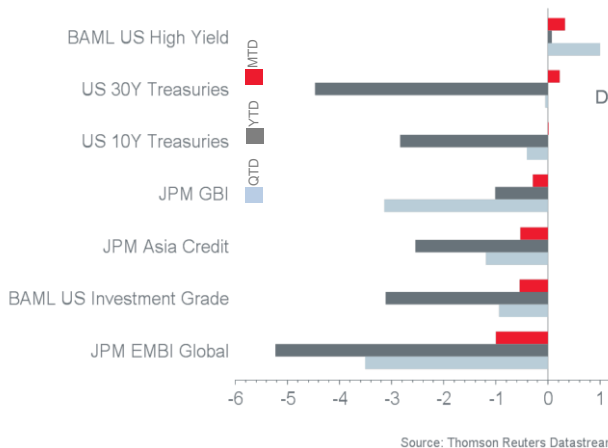
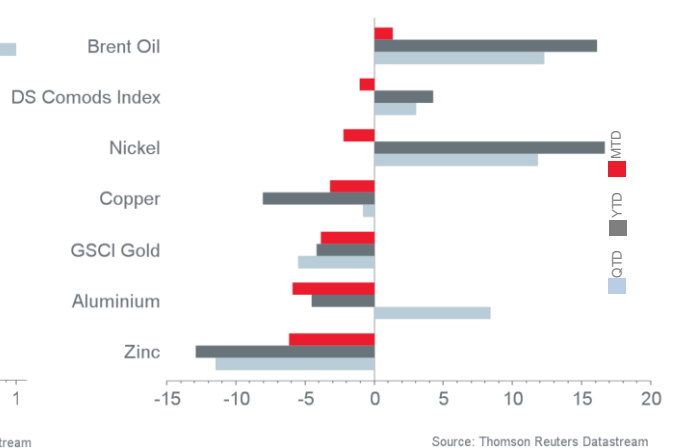


Fig 4. Commodities Performance in USD (%)



## Fixed Income

- ▶ The Federal Reserve raised US interest rates to 1.75-2% and projected a fourth increase later this year, while at the same time, hiking its inflation and GDP growth forecasts.
- ▶ Market reaction to the rate hike announcement was muted as the policy move had been largely priced in. Renewed concerns over global trade tensions also triggered "safe-haven" flows into US Treasuries later in the month as risk appetite waned. Over the month, the short-end of the US Treasury yield curve edged modestly higher with 2-year yield rising by 10 bps to finish the month at 2.53%. Longer-dated bond yields held relatively steady, resulting in a further flattening of the yield curve.
- ▶ Despite the largely stable US interest rate environment, Asian USD-denominated bonds declined as the rise in risk aversion contributed to a widening in credit spreads, particularly in the high yield credit sector. As a result, the JPMorgan Asia Credit Index fell 0.54% over the month.
- ▶ Performance of Asian local currency bonds was more divergent with higher government bond yields seen in selected markets, such as Indonesia, India and the Philippines, where central banks have been on a tightening path to stabilise their currencies or to contain inflationary pressures.

## Commodities

- ▶ Crude oil began the month drifting lower on fears OPEC would increase production in response from a request by the US and India. But at its meeting in Vienna, Saudi Arabia, which wanted to increase quotas, managed to persuade other, more reluctant, members to modestly increase output, albeit to an unspecified target level. Regardless, it was enough to send oil prices back to close to where they started June with an outage in the Canadian oil sands and the start of sanctions on Iran also lending support.
- ▶ Copper prices rose then fell during the month, first as a strike in a key Chilean mine pushed up prices, then the threat of a prolonged trade war drove them down again. The catalyst was the threat of US\$200bn of tariffs on China that would start to hit industrial production in China, and thus demand for imported metals. Aluminium, zinc and iron ore also fell into the end of the month while platinum prices hit a two-and-a-half-year low. The Baltic Dry Index, a key indicator of the health of the commodity market, was resilient over the month to record an almost 30% gain pushed higher by buoyant coal prices.
- ▶ Gold, traditionally a safe haven in uncertain times, fell in June and indeed quite sharply in the final week as the strong dollar capped investor demand. Gold is now down almost 5% for the year.



## Currencies

- ▶ The US dollar was strong again in June to add to May's gains. Once again, the driver was global trade war fears as well as indications from the Fed that more interest rate rises were likely before the end of the year. Strong economic data, a high oil price and a strengthening equities market – one of the few to see a rise over the month – also provided support.
- ▶ The renminbi depreciated by the most in the 24-year history of the Chinese foreign exchange market as fears over a trade war with the US escalated while counter measures by the central bank to inject more liquidity into the banking system by lowering its Reserve Requirement Ratio also weighed. For the usually stable renminbi, the slide was notable in the final two weeks of the month as it fell almost 3% raising fears that China would be prepared to use devaluation as a tool in its trade war with the US.
- ▶ The euro came under pressure from dovish comments from the ECB that signaled it would not look to raise rates until the second half of 2019. It also said it would end its quantitative easing programme by year end. This had been expected but the potential rate hike delay was not. The escalating trade dispute with the US didn't help either and while positive political developments in Italy and Spain gave some support, the euro slipped again in June, leading to an almost 5% depreciation in the quarter.
- ▶ The Bank of England chose to keep rates on hold but the vote mix changed with the bank's chief economist voting for a rate increase, giving strong indication that rates will rise in August.
- ▶ A month after Argentina's peso fell sharply, it was the turn of Brazil that saw its real fall to two-year lows against the dollar with the potential now for the central bank to increase interest rates just weeks after some were calling for a cut. A nationwide truckers' strike and divided opinion polls on the Presidential election drove down demand for Brazilian bonds, prompting the bank to increase sales of currency swaps to try and support the currency.

Fig 5. Currencies Performance versus USD (%)

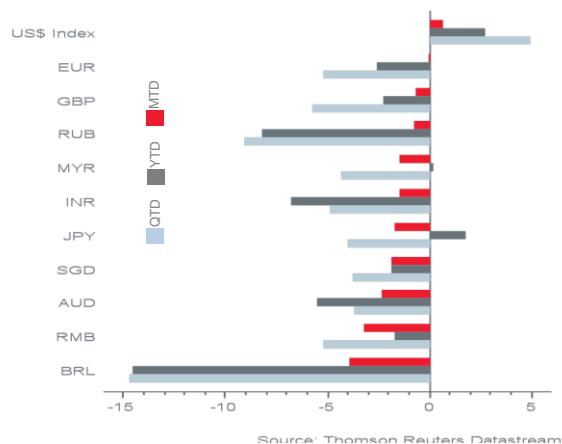
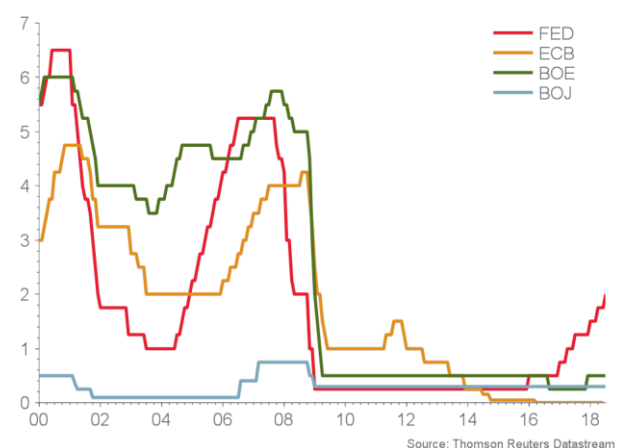


Fig 6. Central Banks Interest Rate, %



## Economics

- ▶ US Unemployment strengthened further in May with 223,000 new jobs added, the unemployment rate falling to 3.8% and wages rising 0.3%. However, with household spending up 0.6%, Americans spent more than they earned for the second month in a row. Retail sales were also up in April however the thought is that consumer spending may start to come under pressure from inflation and, especially, rising fuel prices. But for now, consumer confidence is still close to record high levels. Meanwhile, the trade deficit fell to \$46bn in April to add to the tick down in March from a multi-year high in February.
- ▶ Global GDP data for the first quarter showed the world was still growing, even if equity markets were faltering in places. The contrasting economies of India and Switzerland were among those reporting robust growth, the EU slowed a little from Q417, while Canada slipped a little versus expectations but still showed growth of 1.8%.
- ▶ Eurozone inflation saw an uptick after a couple of soft months, leading the ECB to announce a timing to the end of its bond-buying programme. Meanwhile in the UK, Industrial Production fell sharply in May and so too did inflation; but retail spending was better than expected, which, combined with a surprise change in voting at the monthly BoE meeting, points to an increase in rates in August despite the growing gloom over progress of Brexit negotiations.
- ▶ In Asia, China's weak credit data surprised...but it was up for grabs whether it was positive or negative for the country: some said it was positive for the country's deleveraging campaign while others saw the glass half empty by questioning its impact on growth. China also cut its Reserve Rate Ratio by 50 basis points, its third cut in 2018 leading to as much as R700bn of new liquidity being injected into the financial system.
- ▶ The Reserve Bank of India surprisingly hiked its main repurchase rate by 25bps with some suspecting the government was moving to stop any spillover from runs on Argentinian, Turkish and Brazilian markets.

Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 June 2018. For representative indices and acronym details please refer to notes in the appendix.

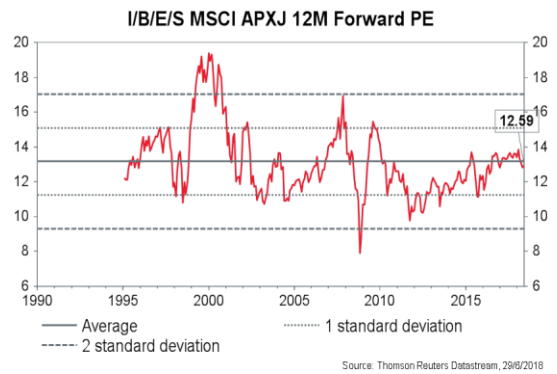
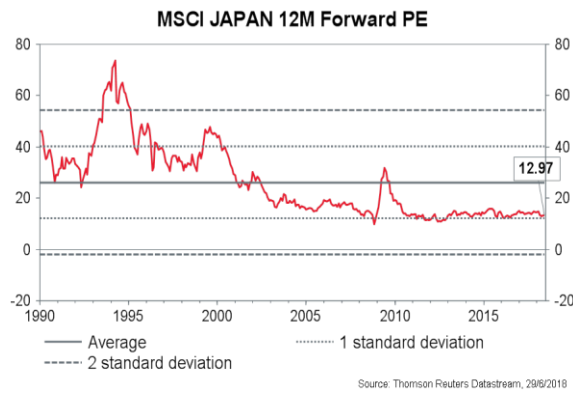
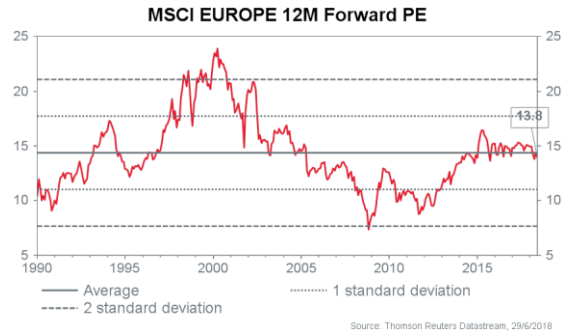
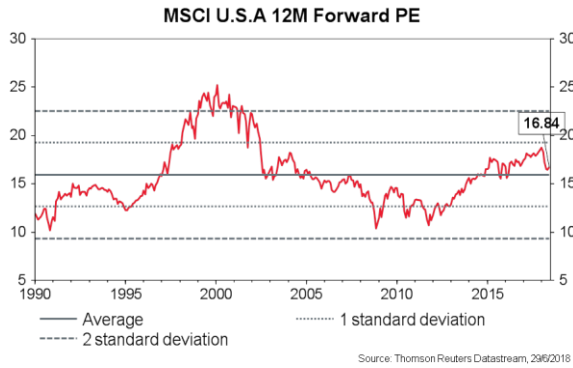
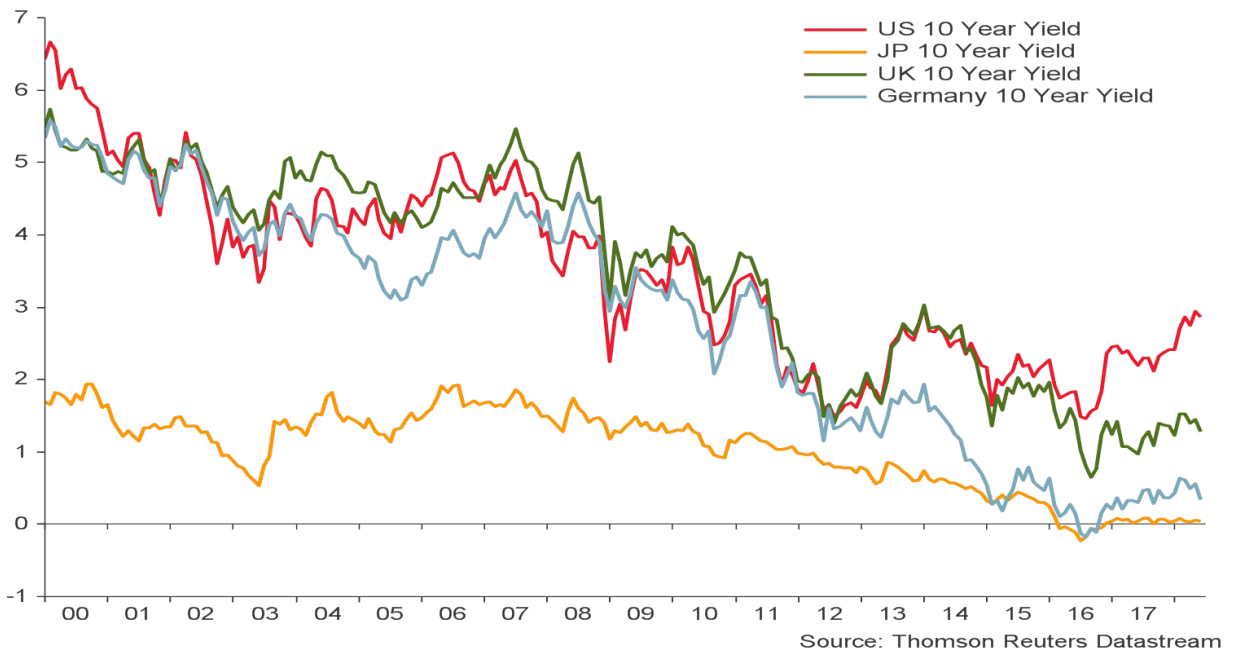


Fig 8. Key Bond Yields (%)



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

	June 18	QTD	YTD	Q1 18	May-18	Apr-18	Mar-18	2017
<b>World</b>	-0.5	0.7	-0.1	-0.8	0.2	1.0	-2.1	24.6
<b>Developed World</b>	-0.0	1.9	0.8	-1.2	0.7	1.2	-2.1	23.1
<b>United States</b>	0.7	3.5	2.9	-0.6	2.4	0.4	-2.4	21.9
<b>Europe</b>	-0.6	-0.9	-2.7	-1.9	-3.1	2.9	-1.1	26.2
<b>Japan</b>	-2.5	-2.8	-1.8	1.0	-1.0	0.7	-2.0	24.4
<b>Emerging Markets</b>	-4.1	-7.9	-6.5	1.5	-3.5	-0.4	-1.8	37.8
<b>Asia Pac Ex Japan</b>	-3.7	-3.5	-4.1	-0.6	-0.8	1.0	-2.2	37.3
<b>Asia Ex Japan</b>	-4.7	-5.3	-4.7	0.7	-1.3	0.7	-1.5	42.1
<b>Latin America</b>	-3.0	-17.7	-11.0	8.1	-14.0	-1.2	-0.9	24.2
<b>Brazil</b>	-8.3	-26.4	-17.2	12.5	-16.4	-4.0	-1.8	24.5
<b>EMEA</b>	-2.2	-10.0	-10.8	-0.9	-5.8	-2.3	-4.9	25.2
	June 18	QTD	YTD	Q1 18	May-18	Apr-18	Mar-18	2017
<b>Australia</b>	1.3	5.3	-1.2	-6.1	1.4	2.4	-5.6	20.2
<b>New Zealand</b>	2.1	5.8	0.6	-4.9	3.9	-0.3	-1.3	12.7
<b>Hong Kong</b>	-4.9	-1.2	-2.5	-1.4	0.6	3.3	-2.6	36.2
<b>China</b>	-5.2	-3.4	-1.7	1.8	1.9	-0.0	-3.3	54.3
<b>Korea</b>	-6.6	-9.1	-9.4	-0.4	-5.2	2.7	2.6	47.8
<b>Taiwan</b>	-1.4	-6.1	-0.7	5.7	-0.2	-4.6	1.3	28.5
<b>Thailand</b>	-10.3	-14.9	-7.2	9.0	-4.9	-0.2	-1.8	34.9
<b>Malaysia</b>	-2.8	-11.4	-3.9	8.5	-8.1	-0.9	2.1	25.1
<b>Singapore</b>	-7.4	-7.5	-4.9	2.8	-5.9	6.3	-1.5	35.6
<b>Indonesia</b>	-7.3	-12.2	-18.4	-7.1	-0.8	-4.5	-7.0	24.8
<b>India</b>	-1.0	-0.6	-7.5	-7.0	-3.6	4.1	-3.6	38.8
<b>Philippines</b>	-5.7	-11.1	-21.2	-11.4	-4.7	-1.1	-5.9	25.2
	June 18	QTD	YTD	Q1 18	May-18	Apr-18	Mar-18	2017
<b>Mexico</b>	9.3	-3.5	-2.6	0.9	-13.6	2.2	0.8	16.3
<b>Chile</b>	-5.0	-11.0	-9.5	1.6	-7.9	1.8	-1.6	43.6
<b>Hungary</b>	0.3	-14.4	-15.3	-1.0	-13.9	-0.8	-0.5	39.9
<b>Poland</b>	-2.2	-11.6	-18.8	-8.2	-10.8	1.3	-6.3	55.3
<b>Czech Republic</b>	1.0	-3.2	3.0	6.4	-4.4	0.3	2.9	38.9
<b>Russia</b>	0.6	-5.8	3.0	9.4	1.2	-7.4	-3.7	6.1
<b>Turkey</b>	-4.6	-25.7	-29.3	-4.8	-12.8	-10.6	-7.3	39.1
<b>South Africa</b>	-4.3	-11.8	-15.3	-4.0	-6.7	-1.1	-6.4	36.8
<b>United Kingdom</b>	-1.0	3.0	-1.0	-3.9	-0.8	4.8	-0.3	22.4
<b>Germany</b>	-2.4	-3.4	-6.8	-3.5	-3.1	2.1	-1.9	28.5
<b>France</b>	-0.9	0.3	0.7	0.4	-3.5	4.8	-1.4	29.9
<b>Netherlands</b>	0.1	-1.6	-0.6	1.0	-3.2	1.6	0.0	32.7
<b>Austria</b>	-2.7	-8.4	-6.0	2.7	-5.4	-0.5	-0.5	52.1
<b>Italy</b>	-0.6	-6.8	-1.7	5.4	-11.2	5.6	0.3	29.6
<b>Spain</b>	2.7	-4.1	-5.7	-1.6	-9.3	2.9	-1.9	27.7
<b>Hreece</b>	4.2	-2.0	-8.6	-6.7	-18.7	15.7	-9.1	29.1
<b>Portugal</b>	0.4	2.2	5.3	3.1	0.1	1.7	3.3	25.2
<b>Switzerland</b>	0.9	-2.2	-6.0	-3.9	-3.2	0.1	-1.6	23.6
<b>Sweden</b>	-0.5	-3.1	-4.9	-1.9	-1.8	-0.9	-2.3	21.8
<b>Norway</b>	1.5	3.0	5.4	2.4	-1.2	2.7	-1.6	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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