



## November 2014

Oil prices continued to plunge in November, dipping below USD70/barrel in the days following OPEC's scheduled meeting when, in a surprising development, the organisation decided to leave its output ceiling unchanged. The price of Brent has now fallen by some 35% since the beginning of the financial year. Equities and bonds generally delivered positive returns in November as expectations of the European Central Bank (ECB) expanding its quantitative easing (QE) policy increased. Strong performance from the non-energy sectors in the US also saw the S&P 500 eke out successive record highs during the month. Energy related equities and High Yield bonds sold off significantly, in line with the falling oil price.

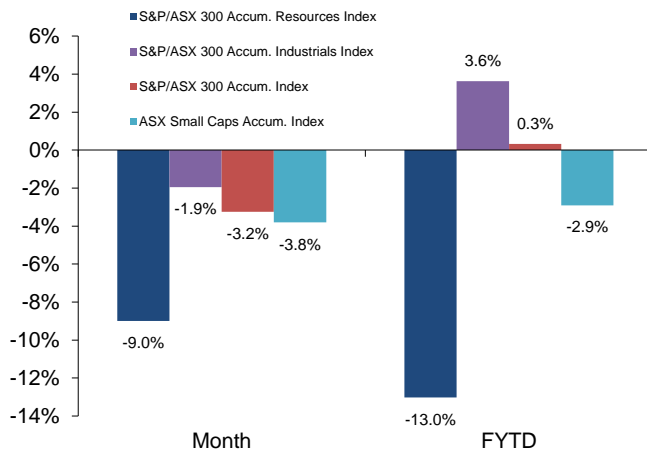
The theme of divergence, both in terms of economic growth and monetary policy, was also prominent during the month. As the ECB cut both its GDP growth and inflation forecasts for 2015-17, the US was able to report that an additional 321,000 jobs were created in November, well above market expectations. This, along with continued strength in manufacturing activity surveys such as the ISM, have seen markets re-assess their expectations about when the US Federal Reserve will increase interest rates. This contrasts with Europe, where the yield on 10 year French government bonds fell below 1% for the first time ever, as markets are betting the ECB will eventually be forced into conducting a sovereign QE.

In Japan, confirmation that the economy entered into a recession in Q3, along with signs of faltering prospective growth, convinced Prime Minister Shinzo Abe to postpone the consumption tax rate increase until April 2017. Abe also dissolved parliament, calling an early election as he looked for a fresh mandate from voters to continue with "Abenomics".

The People's Bank of China (PBoC) surprised markets by cutting its benchmark interest rates for the first time in two years. The cut is expected to ease the burden on indebted companies and support growth as the economy continues its rebalancing process. However, markets seemed to view this as just the beginning of a more prolonged policy easing cycle. At the time of writing, the benchmark CSI 300 equity index has rallied by more than 20% in a little over two weeks, trading at levels not seen in over three years. These moves have certainly caught the attention of the PBoC, with concerns over the use of margin lending accounts and the sheer speed at which markets have appreciated leading to stricter enforcement of collateral rules. The economic indicators are also less exuberant than the equity market might suggest, with the HSBC/Markit manufacturing PMI falling to a six-month low of 50.0 – on the cusp between expansion and contraction.

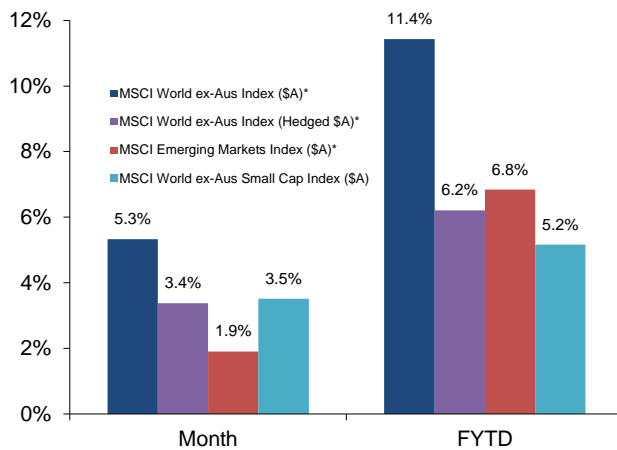
The major development in Australia over the month was the depreciation of our currency, particularly against the US dollar. Contributors to our dollar's weakness were general US dollar strength, falling commodity prices and expectations that the Reserve Bank of Australia (RBA) may opt to cut rates in 2015 to further encourage the non-resource sectors of the economy. In the meantime, the RBA left interest rates unchanged, noting that the stability in interest rates is likely to continue for a while yet and that although the dollar had fallen, it remains above most estimates of its fundamental value.

## Australian equities



November saw Australian equities give up their gains from the previous month, underperforming all other major developed markets in the process. The declines were concentrated in the resources sector, which experienced a sharp drawdown due to falling commodity prices (iron ore and crude oil). The only sectors to record gains over the month were Health Care and Telecommunications.

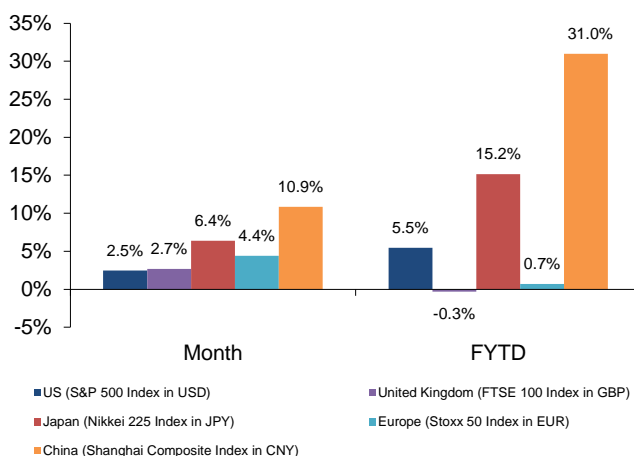
## International equities (\$A)



Developed and emerging market equities both performed well over the month. The US and Japan contributed the most for developed markets, while in emerging markets there was a divide between the fortunes of energy exporting and importing countries. Energy importing countries such as South Korea, China, Taiwan and India all recorded gains, which offset the losses experienced in Russia, Mexico and Malaysia.

The fall in the Australian dollar saw unhedged international equities outperform their hedged equivalents, from an Australian investor's perspective.

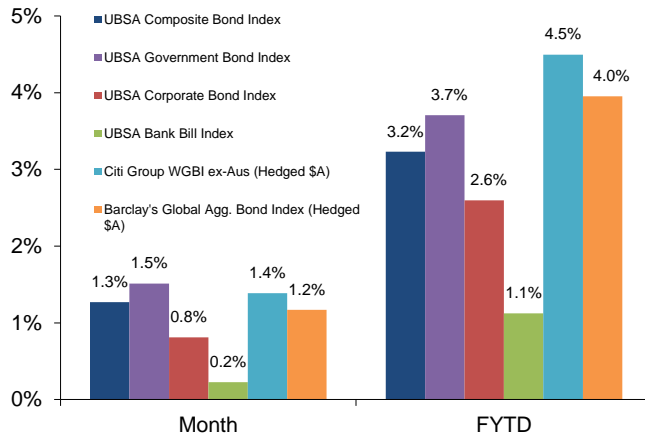
## International equities (local currencies)



The local equity market in China was the standout performer in November after the People's Bank of China (PBoC) surprised investors by cutting interest rates. China is also the top performing country over the financial year to date.

Japanese equities also recorded strong gains in November as investors priced into continued monetary policy support after the Prime Minister's decision to call an early election.

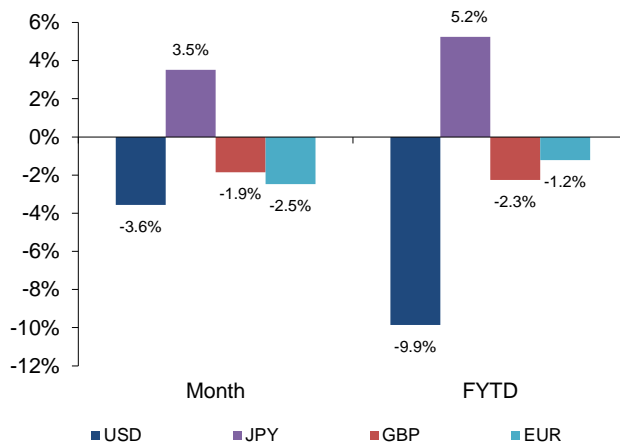
## Fixed income



International and Australian fixed interest generated positive returns in November as yields fell across both “safe haven” and “peripheral” European markets, with the exception of Greece.

Sovereign yield curves across the major markets flattened as longer term bonds outperformed (yields fell more than) shorter term bonds.

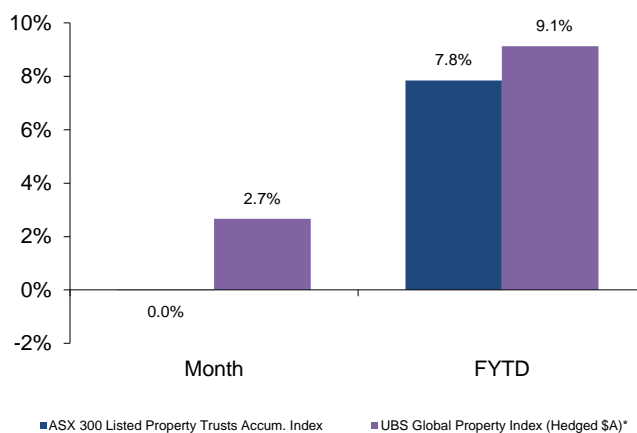
## Australian dollar against major currencies



With the exception of the Japanese yen, the Australian dollar depreciated against all major currencies in November. This was in line with historical precedents given the falls in Australian equities over the month. Key drivers of the AUD's depreciation were a combination of commodity price declines, a general strengthening in the US dollar and faltering Australian growth expectations fuelling expectations of a RBA interest rate cut next year were the likely drivers.

The yen stood out as confirmation of an early Japanese election caused it to continue to slide.

## Property



Australian listed property trusts held up relatively well in November despite the broad falls in Australian equities. However, they under-performed international listed property (hedged back into Australian dollars), despite the depreciation in our currency.

# Monthly Markets

	30-Nov-14	Index value	Month	3 months	FYTD	1 year
<b>Australian equities</b>						
S&P/ASX 300 Accum. Index		45,497	-3.2%	-4.5%	0.3%	4.0%
S&P/ASX 300 Accum. Industrials Index		91,539	-1.9%	-1.5%	3.6%	8.2%
S&P/ASX 300 Accum. Resources Index		18,641	-9.0%	-16.7%	-13.0%	-12.2%
ASX Small Caps Accum. Index		5,173	-3.8%	-9.6%	-2.9%	-1.8%
<b>International equities</b>						
MSCI World ex-Aus Index (\$A)*		6,078	5.3%	9.9%	11.4%	17.0%
MSCI World ex-Aus Index (Hedged \$A)*		1,199	3.4%	3.9%	6.2%	16.0%
MSCI Emerging Markets Index (\$A)*		493	1.9%	1.6%	6.8%	8.2%
MSCI World ex-Aus Small Cap Index (\$A)		375	3.5%	5.7%	5.2%	9.8%
US (S&P 500 Index in USD)		2,068	2.5%	3.2%	5.5%	14.5%
United Kingdom (FTSE 100 Index in GBP)		6,723	2.7%	-1.4%	-0.3%	1.1%
Japan (Nikkei 225 Index in JPY)		17,460	6.4%	13.2%	15.2%	11.5%
Europe (Stoxx 50 Index in EUR)		3,251	4.4%	2.5%	0.7%	5.3%
China (Shanghai Composite Index in CNY)		2,683	10.9%	21.0%	31.0%	20.8%
<b>AUD versus ...</b>						
USD		0.85	-3.6%	-9.2%	-9.9%	-6.6%
JPY		100.43	3.5%	3.5%	5.2%	8.1%
GBP		0.54	-1.9%	-4.1%	-2.3%	-2.6%
EUR		0.68	-2.5%	-3.9%	-1.2%	2.2%
<b>Property</b>						
ASX 300 Listed Property Trusts Accum. Index		32,625	0.0%	1.1%	7.8%	19.8%
UBS Global Property Index (Hedged \$A)*		2,044	2.7%	5.3%	9.1%	26.1%
<b>Australian Fixed Interest</b>						
UBSA Composite Bond Index		8,207	1.3%	1.9%	3.2%	8.6%
UBSA Government Bond Index		8,567	1.5%	2.2%	3.7%	8.9%
UBSA Corporate Bond Index		8,334	0.8%	1.5%	2.6%	7.2%
UBSA Bank Bill Index		8,155	0.2%	0.7%	1.1%	2.7%
<b>Global Fixed Interest</b>						
Citi Group WGBI ex-Aus (Hedged \$A)		-	1.4%	2.3%	4.5%	9.4%
Barclay's Global Agg. Bond Index (Hedged \$A)		-	1.2%	2.0%	4.0%	9.2%
<b>Oil and commodities</b>						
Crude Oil (\$/bbl)		66	-17.9%	-31.1%	-37.2%	-28.7%
Copper Spot (\$/tonne)		6,412	-5.2%	-8.5%	-8.9%	-9.1%
Gold Spot (\$/ounce)		1,176	0.3%	-8.7%	-11.2%	-6.4%
<b>Fixed income (yields) as at ...</b>						
	<b>30-Nov-14</b>	<b>31-Oct-14</b>	<b>31-Aug-14</b>	<b>30-Jun-14</b>	<b>30-Nov-13</b>	
Australia Bank Bill	2.76	2.72	2.63	2.68	2.58	
Australia 10 Year Government Bond	3.03	3.29	3.29	3.54	4.22	
US 10 Year Government Bond	2.16	2.34	2.34	2.53	2.74	
UK 10 Year Government Bond	1.93	2.25	2.37	2.67	2.77	
Germany 10 Year Government Bond	0.70	0.84	0.89	1.25	1.69	
Japan 10 Year Government Bond	0.42	0.46	0.50	0.57	0.61	
* Net dividends reinvested						