ISSUE DATE: 11-10-2017

Month in Review

Market Moves — as at 30•09•2017

RETURNS (% P.A.)	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 200 ACCUMULATION INDEX	-0.02	0.68	-0.91	9.25	7.08	10.08	3.09
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	1.31	4.41	4.04	2.98	8.15	5.09	-1.41
GLOBAL EQUITIES							
MSCI WORLD TR INDEX (AUD)	3.39	2.61	6.35	15.89	12.31	18.08	6.08
S&P 500 TG INDEX (AUD)	3.17	2.14	4.71	15.68	14.91	20.84	8.74
FTSE 100 TR INDEX (AUD)	4.54	2.81	7.27	12.01	4.86	11.26	2.13
MSCI EMERGING MARKETS NET TR INDEX (AUD)	0.68	5.47	11.47	19.43	8.78	10.01	2.54
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT (SECTOR) ACCUMULATION INDEX	0.57	1.94	-1.17	-1.97	12.48	13.21	-0.40
FTSE EPRA/NAREIT DEVELOPED NET TR INDEX (AUD HEDGED)	-0.10	1.04	3.15	1.94	8.67	10.56	3.38
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	-0.31	-0.07	0.94	-0.75	3.90	3.90	6.06
BLOOMBERG AUSBOND BANK BILL INDEX	0.14	0.43	0.87	1.76	2.14	2.43	3.76
BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)	-0.43	0.89	2.07	0.53	4.77	5.10	7.30

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

The Australian market entered its fifth month of negative or flat growth in September, with the ASX 200 Accumulation Index returning -0.02% as commodity sectors pulled back. Healthcare (+2.32%) had the best month, led by listed aged care providers, including Japara Healthcare (+10.40%), which recovered from a late plummet in August but remains below the $2.00 mark, and gains from heavyweight CSL (+4.94%), which announced increased capex in August, with investors considering the company well positioned for growth.

Consumer Staples (-1.65%) shares could not match August's performance, but did see another burst of growth from A2 Milk Co (+16.27%), which pushed to new highs after receiving approval from China's regulatory body to continue selling its products in the country, while Blackmores (+6.25%) reported a 71% surge in direct sales to China. Telecommunications (-4.53%) was the worst performing sector, mostly due to TPG (-11.29%), which announced a cut to its dividend and warned of competitive pressure from the NBN. Financials (+1.21%) were higher, with gains from NAB (+4.30%) and Westpac (+2.08%), while CBA (-0.73%) completed the sale of its troubled CommInsure business.

Global equities

In the US, the S&P 500 gained 3.06% in AUD terms as geopolitical tension gave way to natural disasters in the form of Hurricanes Harvey and Irma, which impacted jobs readings but failed to hold back shares. Energy stocks (+11.16%) were the highest performing, with large gains from Marathon Oil (+23.30%) as well as giants Chevron (+10.39%) and Exxon Mobil (+8.59%). Financials (+6.31%) had a good month in September, which saw broad growth across the sector, with gains from global insurer MetLife (+12.16%), exchange operator CME Group (+9.62%) and banking icon Wells Fargo (+9.19%).

Globally, the MSCI World Index gained 0.68% in AUD terms, supported by US and European shares. The Euro Stoxx 600 Index rose 4.28%, with strong growth from energy producers, including BP (+12.62%) and Europe's largest oil company Royal Dutch Shell (+10.97%). Retail shares (+5.56%) also performed well, with gains from big names Metro (+9.41%) and Tesco (+8.67%). In the UK, the FTSE 100 Index rose 4.54% as the Bank of England held the line on rates, but with a decidedly more hawkish tone as inflation pushed to 2.9%.

In Asian markets, the Nikkei 225 Index rose 2.47% while the Shenzhen CSI 300 Index was up 0.89%. The MSCI Emerging Markets Index rose 0.68%, predominately supported by Chinese markets, with the Indian index (-2.30%) down and Korean shares (+0.70%) marginally higher.

REITs

The S&P/ASX 300 A-REIT Accumulation Index returned 0.57% in September in what has been an average quarter for listed property globally. Some pain was felt by diversified managers such as Charter Hall (-5.29%), Stockland (-2.93%), Mirvac Group (-1.29%) and Dexus (-0.94%). Commercial specialist Propertylink Group (+7.51%) topped the leaderboard, rejecting a takeover bid from Centuria Capital Group late in the month, with Centuria building a 17% stake in the $1.8 billion property portfolio.

Month in Review

Global REITs were slightly lower in September, with the S&P Global REIT NTR Index down a modest 0.21% (in AUD hedged terms), while the FTSE EPRA/NAREIT Developed NR Index lost 0.10%. In the US, yield REIT sectors have generally outperformed through the middle of 2017, including the net lease and manufactured housing sectors. As a whole, REITs have been held back by growth sectors such as offices, malls and hotels. Low volatility remains an attraction, however, and a structural fall in volatility could boost valuations and risk-adjusted returns.

Fixed income

Global yields moved higher in most developed markets throughout September, but so far bond markets have been steady as the Fed begins its balance sheet 'normalisation'. The US 10-year Treasury yield rose from 2.12% to 2.33%, with investors anticipating some 'hunger pains' as the Fed's balance sheet slowly unwinds. The return on US corporate investment grade bonds was slightly negative in September at -0.22% but the index was not far from all-time highs, while US high-yield debt returned 0.87%, with the index similarly near record high levels. The BofA Merrill Lynch US High Yield OAS contracted in September from 3.85% to 3.56%, following a high of 4.00% in August – still low by historical standards – and has generally undergone contraction since February 2016 as volatility has all but vanished.

Global bonds, measured by the Barclays Global Aggregate TR Index, returned -0.43% in September (in AUD hedged terms), with developed market indices still close to their all-time highs. The Ausbond Composite Index returned -0.31%, with government bonds returning -0.40% and corporate debt down -0.04%. The Australian 10-year Treasury yield rose from 2.71% to 2.84%, but is still down on its March peak of 3.05%. The UK 10-year Gilt yield rocketed higher in September after taking a beating in August, rising 36 bps to 1.36%. The German 10-year Bund yield rose from 0.36% to 0.46%, and the 5-year Bund edged higher from -0.35% to -0.27%.

ASX 200 Share Movements

S&P/ASX 200 Share Performance for the Month of September

BEST PERFORMERS		WORST PERFORMERS	
GALAXY RESOURCES LTD	36.84%	RESOLUTE MINING LTD	-13.22%
CSR LTD	17.08%	RETAIL FOOD GROUP LTD	-11.50%
A2 MILK CO LTD	16.27%	REGIS RESOURCES LTD	-11.50%
OROCOBRE LTD	15.80%	TPG TELECOM LTD	-11.29%
SYRAH RESOURCES LTD	15.78%	FORTESCUE METALS GROUP LTD	-10.88%

S&P/ASX 200 Share Performance for the Year to September

BEST PERFORMERS		WORST PERFORMERS	
A2 MILK CO LTD	239.71%	MAYNE PHARMA GROUP LTD	-67.00%
QANTAS AIRWAYS LTD	92.75%	VOCUS COMMUNICATIONS LTD	-61.09%
COSTA GROUP HOLDINGS LTD	90.89%	SIRTEX MEDICAL LTD	-56.71%
MONADELPHOUS GROUP LTD	79.79%	RESOLUTE MINING LTD	-46.69%
WORLEYPARSONS LTD	62.06%	HEALTHSCOPE LTD	-43.59%

Economic News

Australia

At its October meeting the RBA left the **cash rate** on hold at 1.50%, where it has remained since the most recent downward move in rates more than one year ago. The Bank noted the continued improvement in non-mining business investment, as well as positive business sentiment that has led to higher levels of capacity utilisation. However, the household side of the economy remains a challenge, with consumers unable to shake their pessimism, and wage and consumer price growth still stubbornly low.

As the Bank notes, growth in housing debt has been outpacing the slow growth in household incomes for some time, with the prudential arm of monetary policy forced to do some more lifting. APRA has introduced a number of supervisory measures to support sound mortgage lending and effectively tightening credit conditions, meaning growth in borrowing by investors has slowed a little recently.

Australia's labour market continues to improve, with 54,200 seasonally adjusted jobs added in August, which included 40,100 full-time positions. The **unemployment rate** remained steady at 5.6%. The participation rate remains high in historic terms, moving higher in trend terms throughout 2017 and sitting comfortably above 65%. The number of unemployed persons looking for full-time work increased by 6,400. Monthly hours worked rose 6.1 million to 1,705.4 million hours.

Month in Review

The **AIG Manufacturing Index** fell 5.6 points in September to 54.2, pointing to a significant deceleration in growth following a series of recent highs. Major sub-indices contracted, including production (from 61.4 to 56.9), new orders (from 64.3 to 56.9) and employment (from 56.4 to 52.4), while sales expanded modestly (from 50.9 to 51.4) and exports moved into expansion (from 49.3 to 51.2).

Retail turnover fell 0.6% in August, but this time it was restaurants (-1.3%) taking a hit. Department stores (+0.7%) enjoyed some positive growth during a rocky period, but other major sectors were down, including food retailing (-0.6%), household goods retailing (-1.0%), and clothing, footwear and personal accessory retailing (-0.2%).

While September saw a welcome shift in sentiment, Australian consumers are still struggling to stay positive. The Westpac Melbourne Institute **Index of Consumer Sentiment** rose 2.5% from 95.5 in August to 97.9, but pessimists still outnumber optimists. Survey details indicate households are feeling the pinch. The 'finances versus a year ago' sub-index rose 6.1% but was coming from a very weak read in August (a three year low). Concerns around interest rates, deteriorating housing affordability and rising energy prices are all weighing on confidence, offsetting the improved outlook for employment.

Australia's **balance on goods and services** rose $181 million to post a surplus of $989 million. Exports of metal ores and minerals grew by $650 million, while non-rural goods added $398 million and general merchandise $368 million, while exports of non-monetary gold fell by $308 million. On the debits side, imports of consumption goods grew $306 million, while intermediate and other merchandise goods fell $386 million.

Global

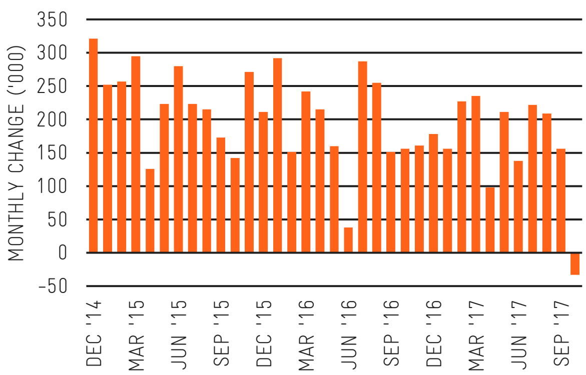
The US economy is bouncing back from major natural disasters, with payrolls down but steady, manufacturing growth higher and ahead of expectations, and headline inflation showing signs of growth. However, core inflation remains low, and this is the sticking point for the Fed. While the aftermath of the hurricanes may see a temporary boost to inflation, on a 12-month basis it is likely to remain below the 2% target. The FOMC left the funds rate on hold at 1–1.25% at its September meeting, with the market pricing in a 91% probability of a 25bp rise in December.

The third estimate for **US Q2 GDP** showed real growth of 3.1% p.a., up from the second estimate reading of 3.0%. Private inventory investment increased more than previously estimated, but little else was changed. The impact of the hurricanes is expected to have an impact on output, with the Atlanta Fed's GDPNow model tracking at 2.5%, after reaching as high as 4.0% in early August.

The **ISM manufacturing PMI** moved higher in September from 58.8 to 60.8, beating expectations and notching up a century with 100 consecutive months of expansion. Manufacturers reported supply chain disruption in the wake of the hurricanes, but this appeared to have little impact on the figures. Most sub-indices were higher on the previous month, including new orders (+4.3 to 64.6), production (+1.2 to 62.2), employment (+0.4 to 60.3), deliveries (+7.3 to 64.4) and prices (+9.5 to 71.5). The only indices to fall were inventories (-3.0 to 52.5) and imports (-0.5 to 54.0).

Non-farm payrolls fell 33,000 in September as the impact from the hurricanes was felt throughout the survey period, with a sharp decline in food services and drinking places, and below-trend growth in other sectors. The unemployment rate improved overall, falling 0.2 points to 4.2%. The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged in September at 1.7 million and accounted for 25.5% of unemployed. The broader U-6 measure of unemployment, which includes discouraged workers and those marginally attached to the labour force, fell from 8.6% in August to 8.3% in September.

Non-farm payrolls



Source: Bureau of Labor Statistics

US CPI figures rose 0.4% in August on a seasonally adjusted basis and 1.9% on an unadjusted y/y basis. Gasoline prices jumped 6.3% after stabilising over the past two months. All items less food and energy rose 1.7%, driven predominately by a 3.3% rise in shelter. The core PCE index – the Fed's preferred measure – fell further to an annual 1.3% in August, down from the more promising level of 1.9% reached at the start of 2017 and now well below the 1.7% forecast for 2017.

Turning to Europe, **Euro area GDP** grew by 0.6% in Q2 2017 according to August's flash estimate, representing annual growth of 2.2%. Over recent quarters, the economic recovery has also become more broad-based across euro area countries and the different sectors of the economy. The IMF predicts the Eurozone will grow 1.9% in 2017.

Month in Review

ISSUE DATE: 11-10-2017

Euro area inflation is expected to be 1.5% p.a. in September, flat on August's reading. Core inflation (excluding energy, food, alcohol and tobacco) remains low at 1.1%, representing a slight decline from 1.2% on the previous month. **Euro area unemployment** was down from 9.2% in August to 9.1% in September as the steady rebuilding of jobs since the GFC has reached something close to a consummation. Dispersion in unemployment rates is still present among members, but the gab has been narrowing as unemployment rates fall across the board.

The **German federal election** saw voters express their disillusionment with both major parties, leaving incumbent Chancellor Angela Merkel to search around for potential coalition partners. Immigration was a key issue during the election and will continue to be the major topic of discussion as Merkel's CDU and its more conservative sister party the CSU enter talks with the liberal FDP and Greens. A recent YouGov poll show 56% of Germans support a limit on the country's refugee intake, with the CSU proposing a flat limit of 200,000 per year.

China's GDP recorded growth of 6.9% in Q2 2017, which proved enough to ward off fears of a slowdown, as well as satisfying officials that efforts to tighten lending have not been detrimental to the economy. September's CPI figures showed inflation jump from 1.4% to 1.8% y/y, with robust demand still supporting price growth. **China's official PMI** survey was boosted in September from 51.7 to 52.4 and beating the expected 51.5. The Caixin PMI, which surveys smaller, private manufacturers, slowed from 51.6 to 51.0.

In other **emerging markets**, Brazil's inflation rate rose from 2.46% y/y to 2.54%, with price growth showing signs of stabilising since falling form a high of over 10% in early 2016. Unemployment continued to fall, reaching 12.6% from 12.9% in August. Russia's GDP recorded growth of 2.5% y/y for Q2 2017, with the economy boosted by higher oil prices. The IMF upgraded its growth outlook from 1.8% to 1.4% for 2017 and from 1.4% to 1.6% for 2018. India's CPI was 3.36% in August, with rising inflation preventing the Reserve Bank of India from lowering rates.

Commodities

The commodities rally ran out of steam in September, with metals generally flat or falling. Nickel (-11.0%) took the biggest hit, after rallying hardest in August, while copper (-4.5%) and aluminium (-0.7%) were also negative. Lead (+3.8%) was the biggest gainer, while zinc (+0.5%), although gaining modestly during the month, hit levels not seen since 2007. Tin (+0.02%) was mostly flat, finding some stability after recent rockiness.

The price of iron ore delivered to Qingdao in China fell 21.4% from US $78.91/t to $62.05. Gold finished 3.2% lower at US $1,279.75/oz after benefiting from some geopolitical turmoil in August. In oil markets the Brent spot price gained 8.2% from USD $52.69/b to $57.02, and WTI rose 9.3% from $47.26 to $51.67.

Currencies

The AUD was mixed through the September quarter, rising 1.1% in trade-weighted terms and appreciating against most major currencies. The AUD rose 1.9% against the USD over the quarter, building to a high of 0.8077 in September to end the period at 0.7834. The AUD rose 3.5% against the NZD and 2.0% against the JPY, and fell -1.4% against the EUR, hitting a high of 0.6901 in July and then falling to 0.6631 at the end of September. In GBP terms the AUD was down 0.9% across the quarter.

The US Dollar Index closed the September quarter down 2.7%, continuing its fall since the start of 2017 but showing some signs of recovery late in September. The USD fell 3.3% against the EUR, hitting a low of 0.8308 in September but recovering to end the month at 0.8464. The USD finished the quarter down against the GBP (-2.8%) and up against the JPY (+0.1%) and CHF (+1.1%).

Month in Review