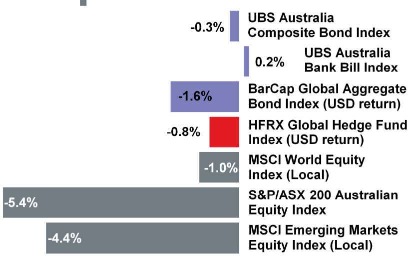
nabprivatewealth

Private Wealth View

October 2014

September 2014



What's changed in September?

Global equity prices were mixed over the past month with large falls in emerging markets due to slower growth in China, Hong Kong and unrest/election uncertainty in Brazil:

- Developed market shares fell 1%, with the US market down 1.4%. Australian shares fell 5.4% - the largest loss since May 2012
- Emerging market equities dropped 4.4%, with Brazil down nearly 12%
- 10-year government bond yields rose in the UK, Germany, Australia, Japan and the US
- Investment grade credit spreads rose in September, by eight basis points to a spread of 120 basis points above US Treasury yields
- The US Dollar was significantly stronger against the British Pound, Yen, Euro and Australian Dollar after the US Fed forecast higher interest rates
- Gold prices fell by US$78 an ounce to US$1,209 and WTI crude oil fell by US$6.70 a barrel in September, to US$91.17 a barrel

Macro monitor

Global equities closed marginally lower in local currency terms. Geopolitical tensions with Russia continued to simmer and several western countries commenced limited military action against ISIS, causing investor uncertainty.

The United States S&P 500 index fluctuated between positive and negative sentiment over the month and, after hitting an intraday record high of 2019 points, closed down 1.4% for the month at 1972, below the psychological 2000 barrier. The US economy remains robust with continued strength in purchasing manager surveys and strong durable goods orders. Housing data was mixed: existing home sales were a touch weaker but were off-set by new home sales that hit a new recovery high. This has strengthened the Fed's resolve to continue its tapering program and expectations of rising interest rates are becoming more prevalent.

European equity markets were again mixed in September. The unemployment rate remained steady at 11.5% (in August), however, inflation came in below expectations at 0.7% versus consensus forecasts of 0.9%. In the UK there was relief as the Scottish referendum rejected independence.

Chinese data was generally soft across the board impacting commodity prices especially the iron ore price which is down 40% year-to-date.

In Australia, the market was down 5.4% in September. Some overarching factors triggered this recent sell-off including prospects of higher capital requirements by banks, possible introduction of macro-prudential policies to limit housing credit and price growth, falling commodity prices and the weaker currency. These factors had the biggest impact on two of Australia's largest sectors – Financials and Materials which fell 6.5% and 6.4% respectively.
By James Wright, CIO, JBWere

Positioning

US corporate earnings momentum remains resilient, while signs of improved corporate capital expenditure have continued to emerge over recent months. Given the prospect of continued earnings momentum, favourable impacts on consumer spending from weaker energy prices and a modest rise in US interest rates in 2015, any global equity market correction is seen as buying opportunity. The emphasis is on remaining overweight US equities, with healthcare, technology and telecommunications the favoured sectors. Japan also has a preferred bias, with Europe at a neutral weighting.

The Australian equities market has been impacted by global investors reducing exposure to higher yielding instruments in Australia, including the Financials and the A-REITs. Current bank valuations are now providing adequate yields for investors though with limited growth prospects. Weaker commodity prices have also resulted in resource stocks being impacted. Valuations across the sector do not appear stretched. However, on a positive note, a weaker Australian Dollar will start to provide a tailwind for industrial companies with a global revenue base, consumer discretionary areas that benefit from increased international inflows such as tourism and gaming, as well as sectors such as energy and healthcare stocks with global exposures. The strategy remains overweight selective industrials, energy, healthcare, consumer discretionary and diversified financials.
By James Wright, CIO, JBWere

Summary of policy developments

ECB starts "Private" QE – Weak inflation prompts the European Central Bank to announce a program to buy asset-backed securities and covered bonds to stimulate demand. The ECB also cut interest rates by 0.1%.

More mini-stimulus in China – Chinese government provides funding to farm sector and ramps up investment in environmental protection and social housing.

Currency corner

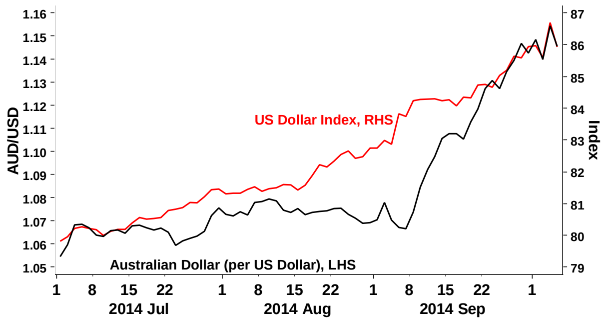
After months of trading in a tight range between US$0.92 and US$0.94, the Australian Dollar fell 6.3% in September, from US$0.9333 at the start of the month to finish at US$0.8743. Over the month, the Australian Dollar was impacted by several factors which saw most currencies weaker against a stronger US Dollar. The rise in the US Dollar picked up following the mid-month US Federal Reserve FOMC meeting where the Fed published new ‘dot point’ forecasts showing that it expects rising interest rates until 2017.

So called “commodity currencies” including the New Zealand Dollar, Canadian Dollar and Brazilian Real were particularly soft in September due to a further sharp fall in iron ore prices to below US$80 a tonne, or in the case of New Zealand, lower milk prices and a central bank talking the currency down. The sharp fall in equity prices has also seen foreign investors reduce their exposure to our market, selling the currency and the spike in volatility has also reduced the attractiveness of Australia as a higher yield investment destination.

Market expectations had been for the currency to decline gradually from 93 US cents to around 88 US cents by August 2015, but the rapid fall has seen the median forecast surveyed by Thomson Reuters adjusted recently - now expecting the currency to be at 86 US cents at the end of March 2015 and 85 US cents in September 2015.

By Nick Ryder, NAB Private Wealth Investment Strategist

Australian Dollar and US Dollar Index



Source: Macrobond

Housing update

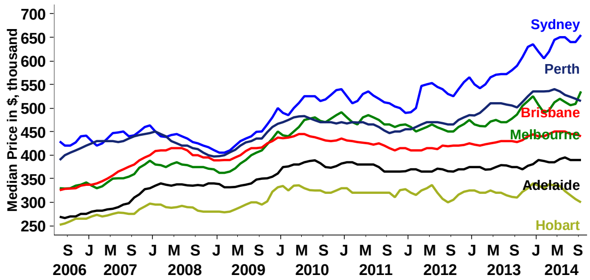
According to the RP Data-Rismark Hedonic Home Value Indices, Australian capital city dwelling prices were essentially flat in September with a small 0.1% rise for the month and 2.9% for the quarter. Prices in Sydney, Brisbane and Adelaide were 0.7 – 0.9% higher, while in the other capitals prices fell 0.3 - 1.0%. Over the past year, capital city prices rose 9.3%, with the highest gains in Sydney (14.3%), followed by Melbourne (8.1%) and Darwin (7.1%).

Although auction clearance rates have remained strong at over 70%, more supply hit the market as the Spring selling season began, which may be one of the reasons price growth slowed last month. Annual price increases have been trending lower since April (when they were running at 11.5%) which may provide some relief for the RBA which remains concerned about the strong rise in prices and levels of investor-driven demand in Sydney and Melbourne. In its recent Financial Stability Review, the RBA stated “the composition of housing and mortgage markets is becoming unbalanced, with new lending to investors out of proportion to rental housing’s share of housing stock”.

Although part of the reason for the strong rises in Sydney and Melbourne can be attributed to low interest rates and investor-driven demand, the other parts of the equation are the under-supply of new dwellings to keep pace with household formation and net immigration and the possible illegal purchases of residential property by foreign investors. With building approvals rising strongly (up 14.5% over the year to the end of August), slower immigration and a possible crackdown on illegal foreign buying, some of these price pressures may ease over the next few months.

By Nick Ryder

Australian Capital City Dwelling Prices



Source: RP Data, Macrobond

Global performance markets monitor – 30 September 2014

	Last Price / Level	1 Month	3 Month	Year to date	1 Year	2013	2012
Global Equity Markets Performance							
Australia - ASX200	5292.8	-5.4	-0.6	2.4	5.9	20.2	20.3
Japan - Nikkei 225*	16173.5	4.9	6.7	-0.7	11.9	56.7	22.9
Japan - TOPIX	1326.3	4.5	5.8	3.8	13.3	54.4	20.9
Hong Kong - Hang Seng	22933.0	-6.9	0.2	2.2	4.4	6.6	27.5
Shanghai Composite (A&B)*	2363.9	6.6	15.4	11.7	8.7	-6.7	3.2
Singapore - STI*	3276.7	-1.5	0.6	3.5	3.4	0.0	19.7
New Zealand - NZX50**	5255.0	0.6	2.2	10.9	11.0	16.5	24.2
US Dow Jones	17042.9	-0.2	1.9	4.6	15.3	29.7	10.2
US S&P 500	1972.3	-1.4	1.1	8.3	19.7	32.4	16.0
NASDAQ*	4493.4	-1.9	1.9	7.6	19.1	38.3	15.9
Canada - TSX	14960.5	-4.0	-0.6	12.2	20.4	13.0	7.2
Mexico - MSCI*	42948.5	-1.6	5.4	5.3	12.0	-1.2	18.2
India - Sensex*	7905.7	0.3	4.4	27.0	40.6	6.5	30.6
Brazil - Bovespa**	54116.0	-11.7	1.8	5.1	3.4	-15.5	7.4
UK - FTSE100	6622.7	-2.8	-0.9	1.0	6.1	18.7	10.0
France - CAC40	4416.2	1.0	0.0	5.7	10.1	22.2	20.4
Germany - DAX**	9474.3	0.0	-3.6	-0.8	10.2	25.5	29.1
Spain - IBEX	10825.5	1.0	0.2	12.8	23.3	27.8	2.8
Italy - MIB	20892.1	2.6	-1.4	12.9	23.2	20.5	12.2
World/Regional Indices Performance							
MSCI World (Loc)*	4607.9	-1.0	0.9	6.8	15.9	29.6	16.4
MSCI World Value	2502.3	-3.1	-3.4	1.9	9.5	23.3	12.1
MSCI World Growth	1861.2	-2.7	-1.8	2.6	10.5	24.9	14.2
MSCI AC Europe*	1074.3	-0.3	-0.3	4.9	10.9	21.2	16.5
MSCI Asia ex Japan USD*	564.8	-6.0	-2.5	2.4	5.8	0.7	19.4
MSCI Emerging Markets Local	48543.2	-4.4	-0.3	2.9	5.7	0.9	13.9
World EPRA/NAREIT Property USD*	3941.0	-6.2	-4.4	7.2	6.7	4.4	28.7
World/Regional Indices Performance							
MSCI World Cons Discretionary	176.2	-2.9	-3.0	-2.7	3.9	38.3	21.4
MSCI World Cons Staples	193.1	-2.1	-2.7	1.5	6.3	19.2	10.2
MSCI World Energy	281.1	-6.5	-9.2	2.8	7.6	16.0	-1.5
MSCI World Financials	101.8	-2.7	-2.2	0.3	6.3	24.5	25.6
MSCI World Health Care	195.1	1.1	3.4	13.5	23.0	34.8	14.6
MSCI World Industrials	197.6	-2.5	-4.0	-1.8	5.6	30.2	13.3
MSCI World Materials	235.4	-5.8	-6.3	-1.6	1.3	1.6	9.1
MSCI World Telecommunications Serv	70.3	-1.5	-3.1	-2.2	5.7	26.8	2.0
MSCI World Utilities	118.1	-2.3	-5.3	7.7	8.6	9.3	-2.2
MSCI World Information Technology	135.7	-0.6	3.5	10.8	22.1	28.5	10.0
Global Rates Levels Change							
AUS - 10Y Govt	3.48	0.19	-0.06	-0.76	-0.41	0.96	-0.51
AUS - 3Y Govt	2.78	0.15	0.09	-0.19	-0.05	0.29	-0.46
AUS - 5Y Swap Rate	3.33	0.11	0.04	-0.47	-0.28	0.43	-0.95
AUS - 3Y Swap Rate	2.94	0.06	0.01	-0.32	-0.15	0.27	-0.95
AUS – 1Y Swap Rate	2.74	0.10	0.09	0.11	0.19	-0.17	-1.07
AUS - 3 Month Bill Rate	2.95	-0.01	0.02	0.15	0.24	-0.33	-1.77
US - 30Y Govt	3.20	0.12	-0.16	-0.76	-0.49	1.01	0.06
US - 10Y Govt	2.50	0.15	-0.04	-0.53	-0.12	1.27	-0.12
US - 5Y Govt	1.76	0.14	0.13	0.02	0.38	1.02	-0.11
US - 2Y Govt	0.57	0.08	0.12	0.19	0.25	0.13	0.00
US - TIPS 10Y	0.53	0.31	0.27	-0.25	0.10	1.51	-0.63
US - 10Y Breakeven	1.97	2.12	2.27	2.25	2.18	2.49	1.98
Bund - 30Y Govt	1.84	0.11	-0.33	-0.91	-0.75	0.59	-0.20
Bund - 10Y Govt	0.95	0.06	-0.31	-1.00	-0.83	0.64	-0.52
Bund - 5Y Govt	0.15	-0.02	-0.20	-0.77	-0.64	0.63	-0.45
Bund - 2Y Govt	-0.08	-0.05	-0.11	-0.28	-0.25	0.24	-0.17
Gilt - 30Y Govt	3.07	0.11	-0.36	-0.61	-0.47	0.58	0.04
Gilt - 10Y Govt	2.43	0.06	-0.24	-0.60	-0.29	1.20	-0.14
Gilt - 5Y Govt	1.78	0.07	-0.26	-0.09	0.25	1.00	-0.20
Gilt - 2Y Govt	0.84	0.00	-0.03	0.28	0.39	0.24	0.00
JGB - 30Y Govt	1.61	-0.02	-0.08	-0.13	-0.10	-0.25	0.07
JGB - 10Y Govt	0.53	0.03	-0.04	-0.21	-0.16	-0.07	-0.19
JGB - 2Y Govt	0.17	0.01	0.00	-0.07	-0.07	0.06	-0.16
Global Currency & Commodity Levels Change							
AUD/USD	0.8745	-0.06	-0.07	-0.02	-0.06	-0.15	0.02
EUR/USD	1.2631	-0.05	-0.11	-0.11	-0.09	0.06	0.02
GBP/USD	1.6212	-0.04	-0.09	-0.03	0.00	0.03	0.07
JPY/USD	109.64	5.59	8.34	4.34	11.43	18.56	9.80
NZD/AUD	1.1201	0.00	0.04	0.03	0.00	-0.17	-0.06
Gold (USD Spot)	1208.74	-78.33	-118.45	3.80	-118.20	-469.40	110.54
WTI Crude (USD Spot)	91.17	-6.69	-14.90	-7.00	-11.19	6.34	-7.00
GSI Commodity Index	4469.27	-6.02	-12.46	-7.46	-7.76	-1.22	0.08
Volatility Index (VIX) USD	16.31	4.33	4.74	2.59	-0.29	-4.30	-5.38