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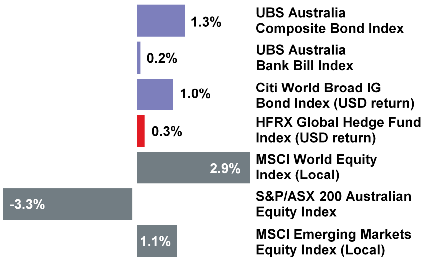
Private View

December 2014

November 2014



What's changed in November?

Global equities continued to rally from their lows in mid October helped by lower oil prices, an easing in geopolitical tensions and reduced fears of a global Ebola outbreak:

- Developed market shares rose 2.9% in local currency terms helped by a 7% rise in German shares and a 6.4% gain in Japan. The Australian market lost 3.3%
- Emerging market equities rose 1.1% with most markets higher, particularly China, where shares continued to rally with a 10.9% rise
- 10-year government bond yields fell 14-32 basis points in the UK, Germany, Australia and the US
- Investment grade credit spreads rose in November, by seven basis points to a spread of 134 basis points above US Treasury yields
- The US Dollar was stronger against the British Pound, Yen, Euro and Australian Dollar
- Gold prices fell by US$6 an ounce to US$1,167 and WTI crude oil fell by US$15 a barrel in November, to US$65.94 a barrel

Macro monitor

Global equity markets extended the October sharp rally through November with the MSCI World equity index 2.9% higher. Gains were broadly based in Europe, Japan and the United States.

Following further weak Eurozone manufacturing data, the European Central Bank has indicated that there will be further monetary easing in order to stabilise the deflationary forces. These announcements have provided positive tailwinds for European equity markets with the German DAX equity index up 7% in November.

Japan's Prime Minister Abe announced an election in December and also that there would not be a further increase in the sales tax. This follows the ¥30 trillion increase in the quantitative easing package announced in October to help stimulate growth.

China has lowered interest rates in order to provide further broad economic stimulus. This was a strategic move away from the targeted stimulus measures adopted over the past two years. A weak property market continues to be of concern though and bears are watching. Further interest rate reductions are forecast to provide broad support for the target growth rates of 7.5%.

Australia did not participate in this continued rally and the ASX200 index lost 3.3%, on the back of the weaker oil and iron ore prices as well as sluggish Q3 GDP data. Australian economic data continues to adjust to declining mining investment. Fourth quarter data continues to show improvement in business credit and capital investment from non-mining sectors. Residential construction continues to improve while the currency decline is helpful overall.
By James Wright, Chief Investment Officer, JBWere

Positioning

The global economy remains out of sync and fragile with Europe and Japan grappling with sustainable growth and China slowly transitioning its growth model, but government policies remain supportive of share markets. The US economy should remain a dominant driver of growth, with expectations of 2.9% growth in 2015, helped by lower energy costs and supportive fiscal policy. Under these circumstances having global equity exposure is a pre-requisite.

We have not changed our views on the US market and the emphasis is on having continued strong exposure to US equities, with healthcare, technology and telecommunications the favoured sectors. Japan also has a preferred bias, a lower Yen leading to increased corporate earnings. Europe remains on a neutral weighting until we start to see further evidence that it's gaining traction.

Domestically, it is anticipated that interest rates will have to be cut in 2015. A weaker Australian Dollar during 2015 provide a tailwind for selective industrials - particularly companies that have a global revenue base or can compete more effectively with a lower currency. Infrastructure is a favoured sector with large capital expenditures earmarked over the next five years. Building materials companies and contractors will continue to benefit from higher residential and infrastructure construction. Valuations for banks remain elevated, and although the recent Murray Financial System Inquiry outcome was viewed favourably, on the basis that the recommendations would have little operational impact, the earnings upgrade cycle is coming to an end for the banks.

By James Wright

Summary of policy developments

Chinese stimulus – The People's Bank of China cut official interest rates for the first time in two years. The benchmark lending rate was cut from 6% to 5.6% while the one-year deposit rate was cut from 2.75% to 2.5%. Banks will also be able to set deposit rates at 1.2 times the official rate versus 1.1 previously.

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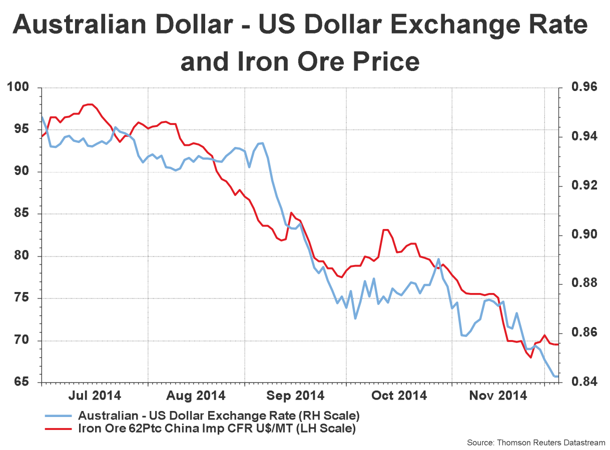
Currency corner

During November, the Australian Dollar fell from US$0.8794 to US$0.8509, a fall of nearly three US cents. The decline was due to the fall in commodity prices combined with a general strengthening in the US Dollar. Over the month the iron ore price dropped 11%, the oil price fell nearly 30% while the US Dollar rose 1.6% against a trade-weighted basket of major currencies.

According to NAB's FX Strategy Team, between 2001 and 2011, Australia's Terms of Trade (the prices of our exports relative to the prices of our imports) doubled, and the Australian Dollar appreciated by about 70% in trade-weighted terms. Since peaking in 2011, Australia's Terms of Trade had fallen 24% to the end of September 2014 (with further falls likely due to the fall in iron ore and oil prices) yet the Australian Dollar is only down 16% from its trade-weighted highs in April 2013. NAB economists expect another 4-5% decline in the Terms of Trade in 2015/16 which combined with additional interest rate cuts from the RBA in 2015 all point to a weaker Australian Dollar over the next 12-18 months.

Based on median forecasts surveyed by Thomson Reuters, market expectations are for the currency to trade at 81 US cents at the end of November 2015. Given the recent drop in the currency to US$0.8240 (as at 9 December), after the survey was undertaken, it is likely that these currency forecasts will be revised lower.

By Nick Ryder and the NAB FX Strategy Team



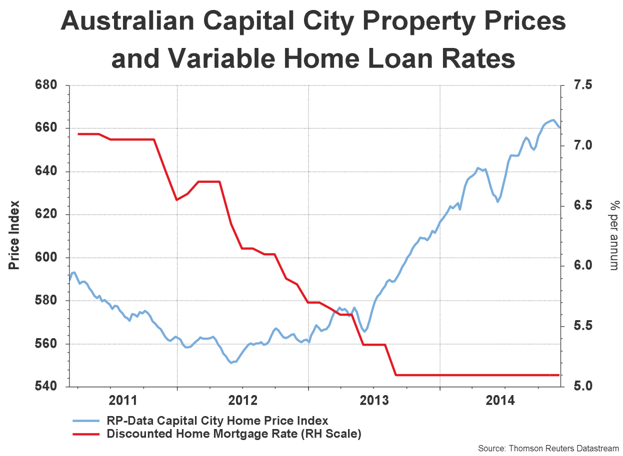
Housing update

According to the Core Logic RP Data Hedonic Home Value Indices, Australian capital city dwelling prices declined 0.3% in November and have only risen 0.8% in the past three months. Sydney was again the strongest capital with prices 1% higher. They were also higher in Perth (+0.9%), Brisbane (+0.4%) and Hobart (+0.2%) while in the other capitals prices fell. Over the past year, prices rose 8.5% (down from 8.9% last month and 11.5% in April) indicating that the rate of overall annual growth has slowed.

Auction clearance rates in Sydney and Melbourne have dropped back in recent weeks pointing to slightly weaker conditions, although they are still at relatively healthy levels of 65-70%. Clearance rates may be impacted by the upward trend in the number of properties for sale hitting the market.

On the supply side, building approvals bounced back in October rising 11.4% and reversing the fall in September, with the result boosted by a 31% rise in apartment approvals concentrated in Sydney and Melbourne. The Reserve Bank of Australia remains concerned about the level of investor activity in the Sydney and Melbourne apartment markets, which has been one of the reasons it is reluctant to reduce interest rates further, despite evidence that the economy is not growing at the level it had been expecting.

By Nick Ryder



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Global performance markets monitor – 28 November 2014

	Last Price / Level	1 Month	3 Month	Year to date	1 Year	2013	2012
Global Equity Markets Performance							
Australia - ASX200	5313.0	-3.3	-4.4	3.5	4.0	20.2	20.3
Japan - Nikkei 225*	17459.9	6.4	13.2	7.2	11.0	56.7	22.9
Japan - TOPIX	1410.3	5.8	11.1	10.4	14.1	54.4	20.9
Hong Kong - Hang Seng	23987.5	0.0	-2.4	7.2	5.0	6.6	27.5
Shanghai Composite (A&B)*	2682.8	10.9	21.0	26.8	20.9	-6.7	3.2
Singapore - STI*	3350.5	2.3	0.7	5.8	5.2	0.0	19.7
New Zealand - NZX50**	5424.4	0.7	3.9	14.5	12.8	16.5	24.2
US Dow Jones	17828.2	2.9	4.8	9.9	13.3	29.7	10.2
US S&P 500	2067.6	2.7	3.7	14.0	16.8	32.4	16.0
NASDAQ*	4791.6	3.5	4.6	14.7	18.5	38.3	15.9
Canada - TSX	14744.7	1.1	-5.0	11.0	13.5	13.0	7.2
Mexico - MSCI*	42113.7	-1.8	-3.5	3.2	4.8	-1.2	18.2
India - Sensex*	8540.6	3.4	8.4	37.2	42.5	6.5	30.6
Brazil - Bovespa**	54664.4	0.1	-10.8	6.1	5.4	-15.5	7.4
UK - FTSE100	6722.6	3.1	-0.8	3.1	4.6	18.7	10.0
France - CAC40	4390.2	3.8	0.5	5.2	5.4	22.2	20.4
Germany - DAX**	9980.9	7.0	5.4	4.5	6.3	25.5	29.1
Spain - IBEX	10770.7	3.3	1.5	13.3	14.2	27.8	2.8
Italy - MIB	20014.8	1.3	-1.5	8.4	7.7	20.5	12.2
World/Regional Indices Performance							
MSCI World (Loc)*	4798.3	2.9	3.1	11.2	13.5	29.6	16.4
MSCI World Value	2525.2	0.9	-2.2	2.9	4.5	23.3	12.1
MSCI World Growth	1933.7	2.7	1.1	6.6	9.0	24.9	14.2
MSCI AC Europe*	1097.5	3.6	1.9	7.2	8.0	21.2	16.5
MSCI Asia ex Japan USD*	577.0	0.3	-4.0	4.6	3.9	0.7	19.4
MSCI Emerging Markets Local	49703.2	1.1	-2.1	5.4	4.9	0.9	13.9
World EPRA/NAREIT Property USD*	4239.7	0.9	0.9	15.4	15.1	4.4	28.7
World/Regional Indices Performance							
MSCI World Cons Discretionary	185.2	5.5	2.0	2.3	4.2	38.3	21.4
MSCI World Cons Staples	202.8	4.0	2.8	6.6	7.1	19.2	10.2
MSCI World Energy	254.1	-2.6	-15.4	-7.1	-5.2	16.0	-1.5
MSCI World Financials	104.4	2.6	-0.3	2.8	3.9	24.5	25.6
MSCI World Health Care	204.3	3.1	5.8	18.9	20.3	34.8	14.6
MSCI World Industrials	203.5	3.7	0.4	1.1	3.9	30.2	13.3
MSCI World Materials	232.1	3.7	-7.1	-2.9	-0.3	1.6	9.1
MSCI World Telecommunications Serv	72.0	3.1	0.9	0.2	2.3	26.8	2.0
MSCI World Utilities	122.7	0.4	1.4	11.8	11.8	9.3	-2.2
MSCI World Information Technology	143.1	6.3	4.8	16.9	21.8	28.5	10.0
Global Rates Levels Change							
AUS - 10Y Govt	3.06	-0.23	-0.24	-1.18	-1.20	0.96	-0.51
AUS - 3Y Govt	2.43	-0.20	-0.20	-0.54	-0.65	0.29	-0.46
AUS - 5Y Swap Rate	3.00	-0.18	-0.22	-0.80	-0.81	0.43	-0.95
AUS - 3Y Swap Rate	2.74	-0.11	-0.13	-0.51	-0.49	0.27	-0.95
AUS – 1Y Swap Rate	2.69	-0.03	0.05	0.06	0.08	-0.17	-1.07
AUS - 3 Month Bill Rate	3.09	0.17	0.13	0.29	0.29	-0.33	-1.77
US - 30Y Govt	2.89	-0.17	-0.19	-1.07	-0.92	1.01	0.06
US - 10Y Govt	2.17	-0.16	-0.17	-0.85	-0.56	1.27	-0.12
US - 5Y Govt	1.49	-0.12	-0.13	-0.25	0.13	1.02	-0.11
US - 2Y Govt	0.48	-0.02	-0.02	0.09	0.19	0.13	0.00
US - TIPS 10Y	0.38	-0.04	0.16	-0.40	-0.18	1.51	-0.63
US - 10Y Breakeven	1.80	1.92	2.12	2.25	2.18	2.49	1.98
Bund - 30Y Govt	1.57	-0.17	-0.17	-1.18	-1.07	0.59	-0.20
Bund - 10Y Govt	0.70	-0.15	-0.19	-1.24	-1.00	0.64	-0.52
Bund - 5Y Govt	0.12	-0.02	-0.06	-0.80	-0.54	0.63	-0.45
Bund - 2Y Govt	-0.03	0.02	-0.01	-0.24	-0.16	0.24	-0.17
Gilt - 30Y Govt	2.67	-0.31	-0.28	-1.00	-0.92	0.58	0.04
Gilt - 10Y Govt	1.93	-0.32	-0.44	-1.10	-0.81	1.20	-0.14
Gilt - 5Y Govt	1.27	-0.27	-0.44	-0.60	-0.25	1.00	-0.20
Gilt - 2Y Govt	0.53	-0.14	-0.32	-0.04	0.07	0.24	0.00
JGB - 30Y Govt	1.39	-0.19	-0.23	-0.35	-0.24	-0.25	0.07
JGB - 10Y Govt	0.43	-0.04	-0.07	-0.31	-0.18	-0.07	-0.19
JGB - 2Y Govt	0.11	-0.02	-0.05	-0.14	-0.08	0.06	-0.16
Global Currency & Commodity Levels Change							
AUD/USD	0.8509	-0.03	-0.08	-0.04	-0.06	-0.15	0.02
EUR/USD	1.2450	-0.01	-0.07	-0.13	-0.12	0.06	0.02
GBP/USD	1.5646	-0.03	-0.10	-0.09	-0.07	0.03	0.07
JPY/USD	118.61	6.31	14.56	13.31	16.32	18.56	9.80
NZD/AUD	1.0841	-0.05	-0.03	0.00	-0.04	-0.17	-0.06
Gold (USD Spot)	1167.04	-6.88	-120.03	-37.90	-76.50	-469.40	110.54
WTI Crude (USD Spot)	65.94	-14.59	-31.92	-32.23	-26.11	6.34	-7.00
GSI Commodity Index	3742.98	-10.92	-21.30	-22.50	-21.08	-1.22	0.08
Volatility Index (VIX) USD	13.33	-0.70	1.35	-0.39	0.35	-4.30	-5.38