

Market Insights

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At a glance:

	GDP Growth	Inflation	Unemployment	Cash rate
Australia	2.5	1.7	6.0	2.00
New Zealand	2.3	0.1	5.3	2.50
Singapore	1.9	-0.6	1.9	0.34
Japan	0.7	0.2	3.3	-0.10
China	6.8	1.8	4.1	4.35
Germany	1.4	0.5	6.2	0.05
France	1.3	0.2	10.2	0.05
UK	1.9	0.3	5.1	0.50
US	1.8	1.3	4.9	0.50

Figures in bold indicate changes since last publication

GDP Growth Forecasts: (Annual change in %)

	2014	2015	2016	2017
Australia	2.6	2.3	2.7	3.0
US	2.4	2.4	2.2	2.3
Eurozone	0.9	1.5	1.6	1.7
UK	2.9	2.3	2.2	2.2
Japan	-0.1	0.5	0.5	0.8
China	7.3	6.9	6.7	6.5
India	7.1	7.5	7.6	7.4
New Zealand	3.3	2.5	2.4	2.5
World	3.3	2.9	2.9	3.2

Source: NAB Economics

FACT: According to Reuters, an internally flawless vivid blue 10.1 carat oval diamond set the highest price for a gemstone at auction in Asia when it sold for US\$31.8 million at Sotheby's. The diamond, known as the De Beers Millennium Jewel 4, is from South Africa and is one of 12 diamonds in the collection first unveiled in 2000.

The Week in Review

Australia/NZ

- In Australia, the NAB business survey rose from +8 in February to +12 in March, the equal highest level since the global financial crisis. Business confidence rose to +6 points, up three points.
- Australian new housing finance (which excludes refinancing) rose 2.6% in February. Owner occupier approvals rose 1.5% while investor finance approvals rose 4.1% over the month, which was the strongest monthly rise since March 2015. The result suggests that the housing market has remained resilient in 2016.
- In New Zealand, REINZ house sales rose 8.2% year-on-year in March, accelerating from 5.7% annual growth in February.

International

- The US NFIB small business index fell 0.3 points to 92.6 in March. This was weaker than expected and the lowest reading since February 2014.
- In Germany, industrial production fell 0.5% in February but was up 1.3% year-on-year, which was better than expected. Growth in January was revised down from +3.3% to +2.3% but overall the result suggests reasonably strong German GDP growth in the first quarter of 2016.
- Germany's trade surplus was stronger than expected, rising €1 billion to €19.7 billion in February, helped by a 1.3% rise in exports over the month.
- In the UK, March headline and core inflation figures were a tad higher than expectations at 0.5% year-on-year and 1.5% year-on-year respectively.
- UK house prices rose more strongly than expected in March, up 2.5% in the month and 11% over the year.
- China's March CPI was unchanged at 2.3% year-on-year. Despite the 7.6% annual rise in food prices, the CPI rise was marginally below market expectations.
- China's foreign exchange reserves stopped declining with a rise of US\$10.26 billion in March, to US\$3.213 trillion, possibly partly due to tightened capital controls.

Market Wrap

Global equities generally had a good week posting solid gains across the board, except in the United States where first quarter earnings reports have started rolling in. Oil surged to its highest level since November after it was reported that Saudi Arabia and Russia had reached a consensus on an oil production freeze. The rise in equity prices saw bond prices retreat with long term government bond yields slightly higher. The Australia Dollar, Pound and Yen also rose on the week against a weaker US Dollar. Iron ore and oil prices enjoyed a strong rise.

What's Hot – What's Not



- Brazil's benchmark equity index, the Bovespa, has risen almost 38% since late January helped by improved sentiment to emerging markets.
- Shares in iron ore miner Fortescue Metals Group have risen 25% in April helped by the stronger iron ore price and strong full-year shipment guidance from the company's management.



- Prices of inner city apartments in the Sydney suburb of Roseberry haven fallen by up to 19% according to a report by real estate group JLL.
- Credit rating agency Fitch downgraded the credit rating of Saudi Arabia from AA to AA- and left the outlook negative due to the assumption that crude oil prices will average US\$35 per barrel in 2016.

The Week Ahead

International

- US: Retail sales, CPI, industrial production, NAHB housing market index, housing starts, building permits
- Euro: Industrial production, CPI, trade balance, ZEW economic expectations survey
- China: Industrial production, fixed asset investment, GDP, retail sales
- UK: BoE rate decision
- Japan: Industrial production, trade balance

Australia/NZ

- Australia: Employment, RBA minutes, skilled vacancies
- New Zealand: Business/manufacturing PMI, CPI

Figure 1: Chinese foreign currency reserves rise suggesting capital controls may be working

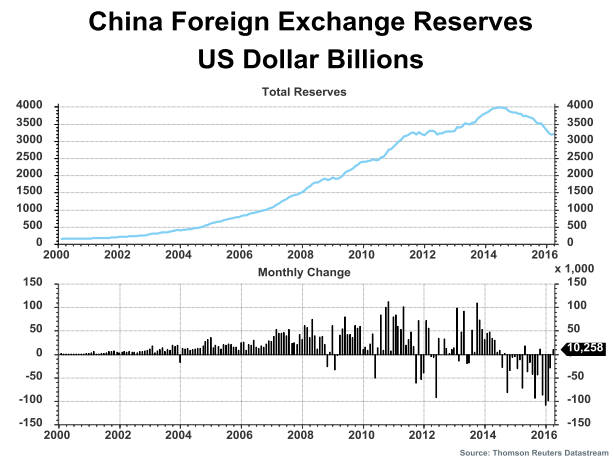


Figure 2: Business conditions in Australia back to the equal highest level since the financial crisis

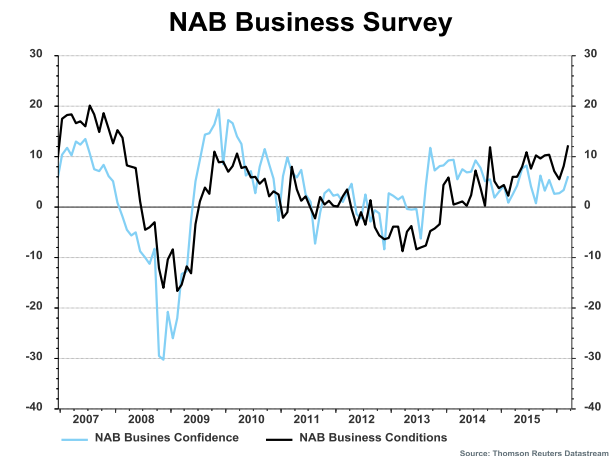
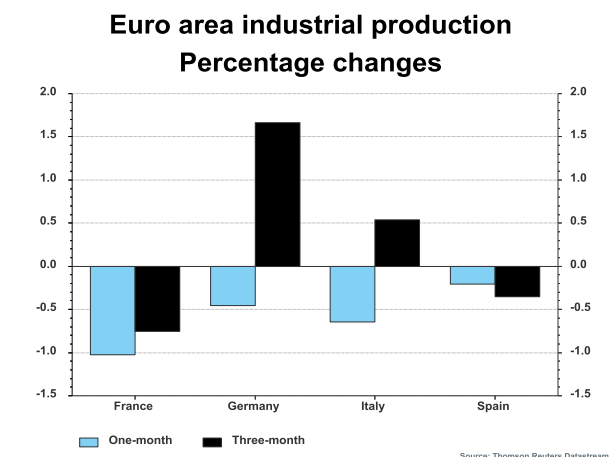


Figure 3: German industrial production growth suggests first quarter GDP growth may be robust



Q & A

Q: What is a trend-following investment strategy?

A: Trend-following is an investment strategy that tries to profit from trends or momentum in security, currency or commodity prices. Trend-followers can use technical analysis, charts or computer models to try to identify short term or long term price trends, either upwards or downwards. Trend-followers do not use any form of fundamental analysis to determine whether a security, currency or commodity is cheap or expensive, rather they simply aim to find prices that appear to be moving in a certain direction and “jump on for the ride”.

Trend-followers generally use a systematic, rules based approach to investing i.e. they create a set of rules that determines when to enter the market, how much to invest, when to exit the market if the trend continues or if the trend reverses. Trend-followers are usually categorised based on their investment time horizon: short term trend followers invest in trends that last for days, whereas longer term trend followers can invest for many months.

An example of a simple trend-following strategy could be to buy US dollars when the 30-day moving average price crosses above the 200-day moving average price, indicating that the trend has turned upwards (see chart below).

Systematic trend-followers typically churn their portfolios frequently, and as a result can incur significant transaction costs. They also need to ensure that the portfolio is diversified so that if the expected trend does

not eventuate, or quickly reverses direction, any losses are limited. Trend-following models will typically include stop-loss rules to limit any losses if the trend does not continue once the investment is made.

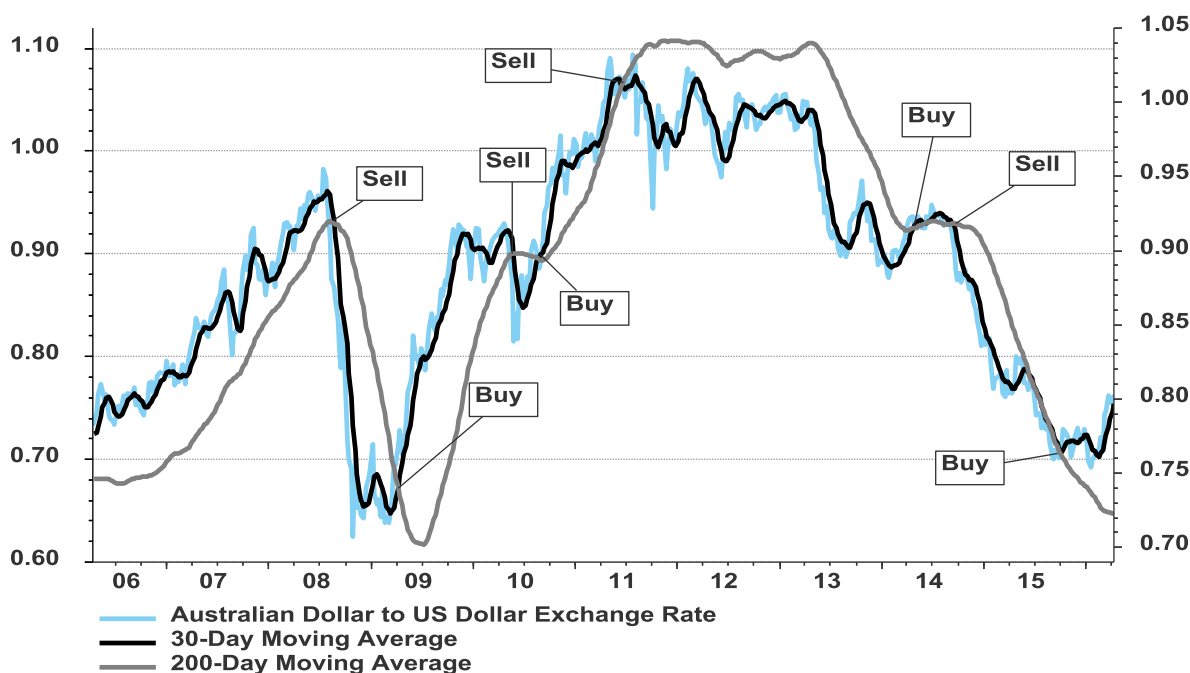
Trend-following strategies tend to work best when markets are rising or falling in a smooth manner e.g. markets trended lower in 2008 which rewarded trend following strategies. Choppy markets that rise and fall without strong moves in either direction tend to hurt trend following strategies. For this reason, many people consider trend-following strategies similar to owning a basket of both call and put options; if market move strongly in either direction the options will pay off, but if market does not move much the investor will lose their option premiums.

Because trend-following strategies can perform well in falling markets and can profit from movements in currencies, indices, futures contracts and commodities they can sometimes be a useful tool to diversify a traditional share and bond portfolio.

Large trend-following fund management firms typically employ significant computing power to analyse thousands of market prices searching for trends, which can then be acted upon quickly.

Critics of trend-following strategies argue that the strategy requires a belief that past performance is an indicator of future performance and that it is not possible to develop computer trading models and investment rules that can consistently generate investment returns in all types of market conditions

Australian Dollar Exchange Rate Trend-Following Buy/Sell Signals



Source: Thomson Reuters Datastream

Market Summary

	Last price	Change				
		Last week	Last month	Last 3 months	Year-to-date	Last 12 months
Major Equity Indices		Percent change				
Australia - S&P/ASX200	5,055	2.2	-2.2	1.3	-4.6	-15.2
New Zealand - NZX50	3,321	0.6	3.1	8.5	5.5	10.5
Japan - Nikkei 225	3,086	1.2	9.8	4.6	-12.8	-25.1
China - Shanghai A&B	16,381	4.2	-3.3	-7.5	-13.9	-17.7
US - S&P 500	2,062	-0.2	2.0	9.1	0.9	-1.5
US - Nasdaq	4,872	-1.0	2.6	7.6	-2.7	-2.3
UK - FTSE100	6,242	1.3	1.7	4.7	0.0	-11.6
Euro Stoxx 600	335	1.2	-2.2	-2.9	-8.5	-19.1
MSCI Emerging Markets	831	2.7	3.7	13.9	4.6	-20.2
Government Bond Yields (% per annum)		Change in yield				
Australia – 10 Year	2.53	0.08	-0.15	-0.26	-0.36	0.18
US – 10 Year	1.79	0.04	-0.19	-0.28	-0.48	-0.14
UK - 10 Year	1.45	0.06	-0.13	-0.30	-0.52	-0.15
Euro – 10 Year	0.17	0.05	-0.11	-0.34	-0.47	0.01
Japan – 10 Year	-0.08	-0.02	-0.07	-0.29	-0.35	-0.42
Global Currencies & Commodities		Change in price				
Australian Dollar (USD/AUD)	0.7663	0.0101	0.0112	0.0667	0.0388	0.0096
Japanese Yen (JPY/USD)	1.11	-0.0008	-0.0109	0.0384	0.0420	0.0907
New Zealand Dollar (NZD/AUD)	108.92	-1.08	-4.60	-9.38	-11.38	-11.45
Euro (USD/EUR)	1.1358	-0.0016	0.0199	0.0509	0.0495	0.0786
Pound Sterling (USD/GBP)	1.4251	0.0164	-0.0143	-0.0192	-0.0488	-0.0391
Chinese Yuan (CNY/USD)	6.4661	-0.0158	-0.0329	-0.1100	-0.0275	0.2494
S&P 500 Implied Volatility	14.8500	0.76	-1.65	-10.37	-3.36	0.91
Gold (USD/Troy Ounce)	1248.3	26.08	-9.98	158.12	185.92	49.35
Iron Ore (62% Fe) (USD/tonne)	58.50	4.70	2.40	19.20	15.60	9.70
WTI Crude Oil (USD/Barrel)	42.07	4.33	3.56	11.65	4.94	-9.88

As of April 13th, 2016 Source: Thomson Reuters

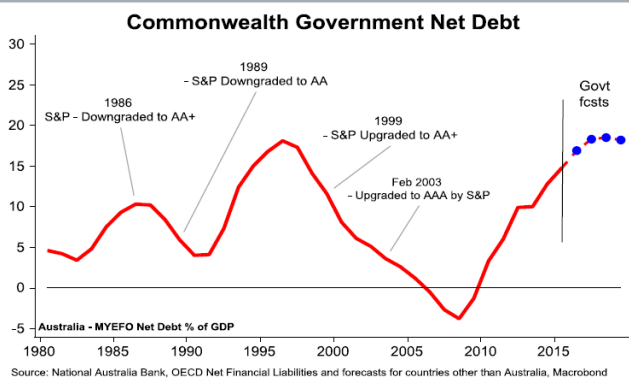
Australian Interest Rate and Currency Corner

At the end of 2015 the RBA appeared comfortable with its outlook for the economy and inflation and also that their 2% cash rate was appropriate. Yet, at each of their three Board meetings this year that comfort has incrementally diminished. To prompt a near-term cut to interest rates we'd likely need to see softer activity indicators including weak employment figures, a very low first quarter CPI reading and/or sustained and unwarranted strength in the Australian Dollar. All of these things are possible and markets are pricing in a high chance of a rate cut in 2016. However, this week's strong NAB survey of business conditions suggests these events are unlikely. The RBA will also be watching the March employment report later this week, and the first quarter CPI due at the end of this month, to determine whether the economy needs further monetary stimulus ahead of what could be a Federal Budget that could show greater fiscal restraint to preserve Australia's AAA credit rating (see chart left below).

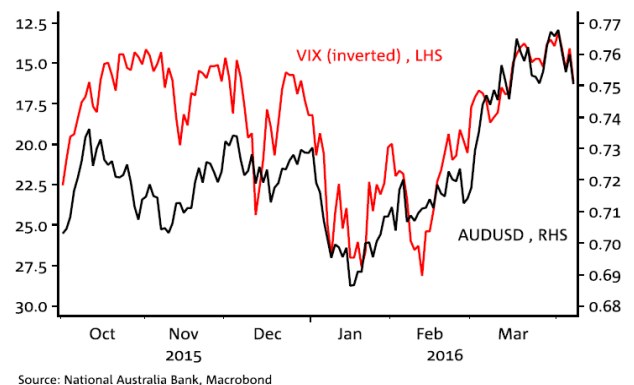
This week has seen a rise in the Australian Dollar back up to around US\$0.77 helped by US Dollar weakness and the rise in commodity and equity markets as well as the strong NAB Business Survey. NAB remain comfortable with the pre-Easter forecast for the Australian Dollar to head back down towards US\$0.74 by the end of June. This is likely to require that volatility heads higher and that US Dollar weakness subsides.

NAB Global Markets Research

Australia pushing AAA limits



VIX (inverted) versus AUD/USD



Main Economic Indicators for the World Economy (RBA)



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