Market View

January 2014

Read the latest market update from the Economic and Market Research team at Colonial First State.

Market and economic overview

Australia

- Inflation rose by 0.8% in January, taking the annual rate of inflation to 2.7%. This is well past the mid-point in the RBA's 2% to 3% target range.
- It now seems likely that the RBA Board will remove its easing bias and revise-up its near-term inflation forecasts in its Statement of Monetary Policy on 7 February.
- The Westpac-Melbourne Institute Consumer Confidence Index fell by 1.7% in January to a six-month low, with the weak employment market weighing on sentiment.

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- Employment decreased by 22,600 in December, but the unemployment rate remained flat at a 4½ year high of 5.8%.
- Retail sales exceeded expectations for a fourth consecutive month, rising by 0.7% in November, led by a 2.2% increase in cafés and restaurants.

United States

- The Fed's policy statement was similar to its December 2013 announcement, although perhaps a little more upbeat.
- The US recorded mixed economic data in January. December quarter GDP growth increased by an annualised rate of 3.2%. The key drivers of output were consumer spending (+2.3%) and investment (+0.6%). Trade added +1.3%, but Government spending (due to the recent Government shutdown) subtracted 0.9%.
- The December employment report was impacted by poor weather.
- Retail sales rose by 0.2% for the month, while the ex-autos measure increased by the most since February 2013 at +0.7%.
- Housing activity was adversely affected by the cold weather, with housing starts (-9.8%), building permits (-3.0%) and new home sales (-7.0%) all weaker in December.

Europe

- The European Central Bank (ECB) left its monetary policy settings unchanged at its 9 January meeting, as widely expected.
- At the World Economic Forum in Davos, President Draghi confirmed that the ECB would consider buying packages of bank loans as a tool to fight-off deflation.
- Estimated Eurozone January CPI inflation was weaker-than-expected at 0.7%/year, driven by lower energy prices. The last time inflation was this low, the ECB cut rates.
- Retail sales increased by 1.4% in December to its highest level in 12 years (equal to December 2009), lifting hopes for a revival in the Eurozone.
- Unemployment remained 'sticky', unchanged at 12.0% in December, but better than expectations for 12.1%.

United Kingdom

- The Bank of England Monetary Policy Committee (MPC) left its policy settings unaltered at the January meeting. The MPC minutes revealed an unchanged 9-0 vote to leave the bank rate at 0.5% and the asset purchase target at £375bn.
- Economic activity continued to gain momentum, with December 2013 GDP growth (0.7% for the quarter and 2.8% for the year) surging to its best level since 2007.
- The November employment report was stronger than expected. The unemployment rate fell to 7.1% from 7.4% in October.
- UK consumer confidence increased sharply in January, after three consecutive months of decline.
- December retail sales increased sharply by 2.8% to 6.1% for the year, driven by a surge in December department store sales (+8.7%).

Japan

- Core CPI inflation (excluding fresh food) was +1.3% for the year in December, up slightly from +1.2% in November.
- Japanese retail sales declined by 1.1% in December after a revised 2.0% gain in November. Annual sales decelerated to 2.6% from a revised 4.1% in November.

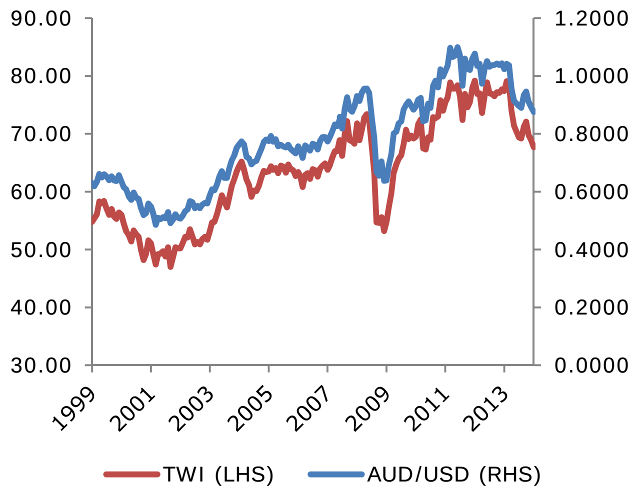
China

- The Chinese economy grew by 1.8% in the December quarter of 2013, down from 2.2% in the previous quarter. This lowered the annual growth rate to 7.7% from 7.8%. Consumption and property construction were the bright spots, while production and investment disappointed.
- CPI inflation eased to 2.5% for the year in December, down from 3.0% for the year in November. Food prices rose by 4.1%, the largest contributor to inflation at 1.3%/pts.

Australian dollar

- The Australian dollar (AUD) declined by 1.9% to finish January at $US0.8756. The weak domestic employment report, a rebound in the US dollar (USD), capital flows out of emerging markets, slightly weaker overall Chinese economic activity data weighed on the AUD.

AUSTRALIAN DOLLAR LOWER

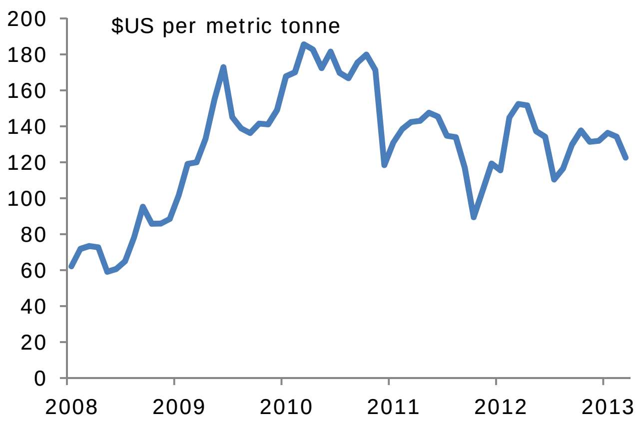


Source: Bloomberg as at 31 January 2014. Past performance is not an indication of future performance.

Commodities

- Commodities prices started 2014 on a subdued note due to low crude oil prices, and poor manufacturing data from China.
- A stronger USD and expectations of increasing Libyan supply contributed to a decline in the oil price (-4.0%) at the beginning of 2014.
- Iron ore prices fell to a six-month low on 30 January, pressured by weaker steel prices in China as trading activity wound down in the lead-up to the Lunar New Year.

IRON ORE FALLS TO SIX-MONTH LOWS



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Australian shares

- The S&P/ASX 200 Accumulation Index declined by 3.0% in January, weighed down by concerns over slowing Chinese economic growth momentum, emerging market turmoil and the gradual withdrawal of liquidity by the Fed.
- Arguably the most significant company news released during the month was Twenty First Century Fox's (-8.1%) announcement that it intends to delist from the ASX. The company is currently dual-listed in Australia and the US. Shareholders will vote on the Australian delisting in late March and, if the vote is successful, the delisting will occur in May.
- In other news, it emerged that department store operator Myer (-8.0%) had approached rival David Jones (-1.0%) regarding a potential merger in October 2013. This approach was rejected by David Jones at the time, but there is now some speculation as to whether a tie-up of the two companies is a possibility.

Listed property

- The Australian listed property sector, as represented by the S&P/ASX 200 Property Accumulation Index, increased by 0.5% in January, outperforming the broader market by 3.5%. Sharemarket volatility, triggered by emerging market concerns, led to increased demand for stable, income generating assets such as property securities.
- In local currency terms, returns from global property markets rose by 2.1% in January. The US and Canada led global peers with an increase of 4.1% for the month, followed by the UK which rose by 4.0%. Japan underperformed, falling 1.0% during the month.

Global shares

- Global sharemarkets came under pressure in January as emerging market concerns resurfaced, while economic data releases were mixed.
- The MSCI World Developed Markets Index decreased by 3.8% in USD terms and 1.8% in AUD terms over the month, its worst monthly outcome since May 2012. The US S&P500 Index fared little better, down by 3.6%.
- A mixed start to the European corporate earnings season also weighed on the Euro Stoxx 50 Index (-3.1%), while in London the FTSE100 Index was dragged 3.5% lower.
- In Asia, the Japanese Nikkei 225 Index plunged by 8.5%, more than reversing the 4.0% gain in December.

Global emerging markets

- The MSCI World Emerging Markets (‘EM’) Index declined by 6.6% in USD terms and by 4.7% in AUD terms in January.
- The MSCI EM Asia Index fell by 4.9% in USD terms and by 3.0% in AUD terms during the month.
- Indonesian shares were a strong performer with foreign investors purchasing net $US197m of shares. This was the first monthly increase since April 2013. The Indonesian Rupiah was fairly stable over the month at $US12,213 unlike its emerging market counterparts.
- China was the poorest performer, on concerns over an easing of economic momentum and rising credit risk. A Chinese trust firm negotiated a last-minute agreement to resolve a troubled high yield investment product, avoiding a default of nearly $US500m.
- The MSCI Emerging Markets EMEA Index declined by 7.5% in AUD terms over the month.
- The South African Rand (-5.6%) fell to a 10-year low, despite a surprise 50bp rate hike by the South African Reserve Bank.
- Latin American equity markets followed suit, with the MSCI Emerging Markets LatAm Index falling by 7.7% in AUD terms during the month. The MSCI Argentina Index (-23.9%) was the poorest performer in the region during January.

Need more information?

Please speak with your financial adviser or visit our website at colonialfirststate.com.au. Alternatively, you can call us on 13 13 36.