Markets Monthly

Magazine | May 2014

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ANZ

Russia's Economic Woes

While the world watches and waits for Russia's next move on the Ukraine, the economy back home shows further signs of strain.

In recent weeks, Russia's President Putin appears to have adopted a more conciliatory stance towards the Ukraine. However, there are as yet no signs of a pullback of Russian troops from the border. Meanwhile, the controversial referendums held in East Ukraine showed an overwhelming vote in favour of self-rule, sparking fears of a civil war. Tensions are likely to remain high in the period pre and post Kiev's mid-May presidential elections.

Against this background, the Russian equity market (Micex) has fallen by 13% year to date while the rouble has declined about 8% over the same period. Notably, the currency has recovered from its March lows, albeit as a result of the Russian central bank hiking policy rates and stepping up its intervention in the currency market.

In addition, while to date, only limited sanctions have been imposed on a selected number of Russian companies and individuals, their impact is starting to be felt in the Russian economy. Notably, Visa and MasterCard have stopped providing client services at the two Russian banks, Rossiya and SMP, which have been targeted by sanctions. Worryingly, anecdotal evidence suggests that there has been a halt or delay in trade and financial transactions to and from Russia, on fears that further sanctions may be imposed.

Russian corporates are also increasingly facing tough liquidity conditions. Euro bond issues by Russian borrowers fell about 70%yoy in March, with higher yields and weak demand leading many companies to delay their fund raising activities. The domestic bond market has not fared much better, with rouble bond issues down by more than 70%yoy in the first quarter of 2014. While large companies may have sufficient cash flow to meet repayments in the short term, others could struggle if financing conditions continue to remain tight for a prolonged period. In April, Standard & Poor's downgraded Russia's credit rating to BBB, one step above junk. A further downgrade to below investment grade could affect institutional demand for Russian bonds.

Not surprisingly, latest estimates suggest that the Russian economy only grew at 0.8%yoy in the quarter ending March, down from 2% in the previous quarter. During the quarter, industrial production and power generation declined, as did bank lending and domestic demand. Fixed investment fell 5%yoy after staying relatively flat in 2013. The US$55 billion of capital outflows registered in 1Q14

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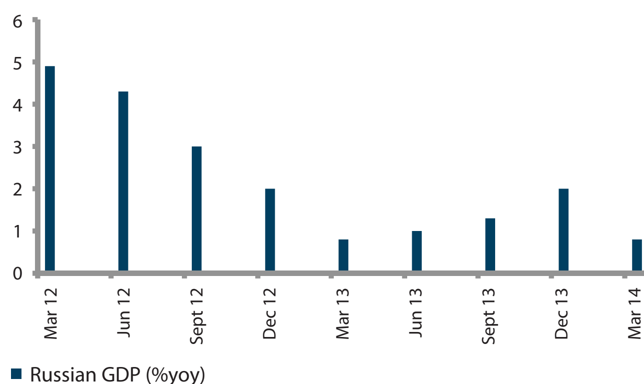
is the second highest on record, dwarfed only by the outflows experienced at the height of the financial crisis in 4Q08. Going forward, leading indicators point to further weakness in the economy, with PMI readings at their lowest levels in nearly four years.

Ukraine tensions are starting to take a toll on the Russian economy



Source: Bloomberg. 1Q14's GDP figure is an estimate only. May 2014.

However, it would be fair to say that Russia's current economic woes, while intensified by the current stand-off, are also a result of longer term structural issues. Russia's growth in 2000 -2008 was driven mainly by total factor productivity, as the surge in commodity prices lifted the utilisation of previously-abandoned Soviet era facilities. Today, Russia continues to be held back by inadequate infrastructure, including transportation and electricity networks, and an over-reliance on commodities, while the business climate remains weak. The lack of clear property rights and absence of an independent judiciary have also discouraged private sector investment and led to capital outflows. Tellingly, even before the developments in Ukraine began, the Russian Economic Ministry downgraded its forecast for annual growth until the year 2030 from 4.3% to 2.5%.

While the performance of Russian equities in the near term will depend on how the Ukraine situation plays out, the medium term headwinds confronting the Russian economy suggest a cautious stance is warranted, until signs of genuine economic reforms become more apparent. Given the links between Russia and numerous European companies, there is also rising concern that more severe trade and economic sanctions could affect the euro area.

Investment Summary

Growth momentum, following a period of consolidation, now looks likely to improve as we head into the second half of the year. Over in the US, with the impact of the poor weather fading, many indicators have started to beat market expectations. This improvement in growth momentum is expected to provide earnings support, thereby underpinning our modest overweight stance on equities. At the same time, equity investors have become more cautious, which could be a positive contrarion signal. For now, this overweight position is biased towards the developed markets such as US, Europe and UK, where the earnings outlook appears more likely to be realised.

We maintain a neutral allocation to fixed income and expect the range-trading environment for global bond yields evident in recent months to continue for now. While stronger global growth will limit the downside in yields, the upside also currently remains limited by a combination of demographics and deleveraging, both of which is constraining potential growth.

On the currency front, we maintain a moderate underweight to the AUD and NZD. While it may take time for the AUD's over valuation to be resolved, the risk is skewed on the downside as we approach the start of rate rises in the US, potentially in 2015. Likewise, recent comments from the RBNZ Governor hinted at intervention in the currency market. Along with the recent decline in dairy prices, this suggests the risks are increasingly skewed towards a fall in the NZD over the coming months.

Finally, although a stabilisation in China's activity indicators and rising seasonal demand could provide some price support for commodities in the coming months, we still prefer the risk-return profile offered by equities. With the strong supply response of recent years, the high prices achieved during the commodity super cycle are unlikely to be repeated.

Asset Allocation	3-12 month view
Global Equities	Moderately Overweight
US	Moderately Overweight
Europe	Moderately Overweight
UK	Moderately Overweight
Japan	Neutral
Emerging Markets	Moderately Underweight
Asia ex Japan	Neutral
Global Bonds	Neutral
Cash	Moderately Underweight

Source: ANZ Global Wealth. May 2014.

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Equities

Our overweight in equities remains concentrated in the developed markets where we believe that the short term currency risk is more favourable, fundamentals remain positive and the earnings outlook appears more certain.

US - We remain modestly overweight the US equity market. Valuations are slightly above fair value with trailing PE's around 17x and 12-month forward PE's at around 15x. The pace of negative earnings revisions has slowed and earnings growth expectations seem reasonable in light of the high level of our profit leading indicators.

Economic indicators are starting to surprise positively following the string of disappointing data releases in the first quarter. Our leading indicators are pointing to GDP growth close to long run trends with low levels of inflation. Meanwhile, the market's consolidation in the early part of the year helped remove overbought conditions.

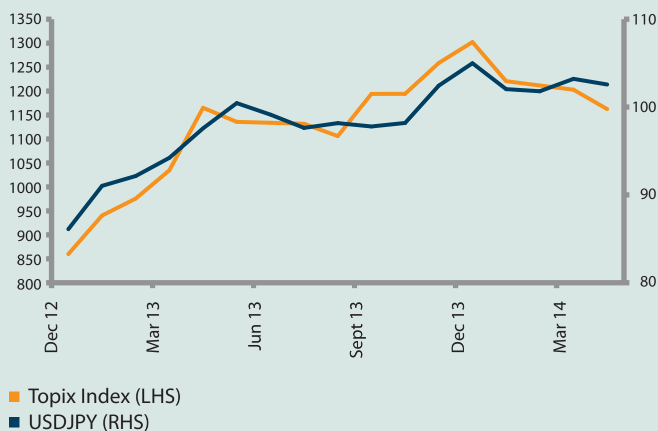
Europe - Valuations look attractive with a 12-month forward price to earnings ratio of 13.5x. The region also appears cheap using the long term Shiller PE ratio of 11x, relative to its own history, as well as other regions such as Japan.

In our view, there is still room for upside from a decline in equity risk premiums assuming macro-economic and financial conditions continue to improve. The pick-up in the Eurozone PMI and IFO business surveys suggests that earnings revisions may improve over the coming months; which would be consistent with the lift seen in Europe's economic surprise index.

Japan - Valuations are not expensive with a 12-month forward PE of 12.7x. However there is a risk that earnings growth may be losing momentum, given the decline in leading indicators and disappointing economic dataflow. Indeed, readings from the Tankan Business Survey suggest that equity market gains are likely to be more modest than last year's. Notably, the JPY is vulnerable to further deterioration in Japan's current account surplus, which would erode returns for foreign investors.

That said, the Topix has declined about 11% year to date and is looking oversold. We maintain a neutral stance on the market. While a weaker yen and signs of a global economic pickup could be supportive of the market in the short term, we require more evidence of structural changes in the economy before turning more positive.

Tight correlation between the JPY and the Topix



Source: Bloomberg. May 2014.

While our view on Asia is relatively neutral, the Ukrainian crisis and Brazil's falling PMI leads us to retain our moderate underweight position in Emerging Market equities.

Russia – While to date, only limited sanctions have been imposed on a selected number of Russian companies and individuals, their impact is starting to be felt in the Russian economy. Worryingly, anecdotal evidence suggests that there has been a halt or delay in trade and financial transactions to and from Russia, on fears that further sanctions may be imposed.

Not surprisingly, latest estimates suggest that the Russian economy only grew at 0.8%yoy in the quarter ending March, down from 2% in the previous quarter. Going forward, leading indicators point to further weakness in the economy, with PMI readings at their lowest levels in nearly four years.

While the performance of Russian equities in the near term will depend on how the Ukraine situation plays out, medium term headwinds confronting the Russian economy suggest a cautious stance is warranted until signs of genuine economic reforms become more apparent.

Brazil – The Bovespa rose 2.4% in April, adding to its 7% gain in March. At the same time, the high yield appeal of the Brazilian real boosted the currency, causing it to climb a further 1.8%. This despite a still sluggish outlook for the economy. Indeed, the most recent Brazilian PMI reading points to a fall in industrial production in the coming months.

Going forward, the outlook for the elections and the currency is likely to be key for the near term direction of the market. On the political front, the polls continue to show President Dousseff leading her opponents by a large margin. That said, given the people's resounding desire for change, Dousseff will need to come up with a credible reform agenda. Meanwhile, the real is vulnerable to a lift in US bond yields, following the US bond rally in recent months. These concerns, coupled with the market's expensive valuations, lead us to maintain a cautious stance.

Within Asia

Taiwan – We remain slightly constructive on the Taiwanese market. Valuations are looking slightly cheap and exports are showing strong momentum. Exports grew 6.2%yoy in April, up from 2% in March. Robust demand for electronics, chemical and plastic products all point to a recovering global economy. Taiwan's equity market continues to be one of the standouts in Asia for its positive earnings revisions. On the other hand, heightened political risk arising from the student campaign against the free trade pact with China, together with growing anti-nuclear protests, have the potential to hurt business and consumer confidence, creating a drag on the economy.

Korea – Valuations are slightly expensive but the outlook for the economy is becoming more positive. Exports saw another strong month in April, up 9%yoy, reflecting robust demand for mobile phones, cars and semiconductor chips. Business sentiment remains firm. That said, the domestic economy is lagging as high levels of household debt continue to weigh on consumption. We maintain our slightly positive view on the market, expecting Korean exporters to be a beneficiary of the uplift in the global economy amid a moderation in the market's negative earnings revisions since the start of the year. That said, we are monitoring the won's performance, having risen 3% in April. Continued won appreciation, particularly against the yen, would hurt Korea's export competitiveness.

China – The market remains cheap but this is largely offset by still weak macroeconomic indicators. Notably, industrial production came in below market expectations in April, while electricity output slowed further. In addition, the slowing property market continues to be a risk. While April's export figures point to recovering external demand, reports of further trust defaults could again dominate headlines in the coming months, making markets jittery. Meanwhile, PBoC's latest statement downplaying the possibility of major policy easing was probably a prudent move, although it disappointed investors. We maintain the view that China's growth and earnings outlook is likely to remain challenging in the medium term.

Singapore – The market is not expensive but the outlook remains relatively unexciting. Singapore's growth profile is expected to be choppy as the economy transitions away from manufacturing to higher value added services. Meanwhile, higher wages continue to exert pressure on businesses. We favour selected industrial companies whose earnings are likely to be boosted by the global growth recovery.

Hong Kong – We are neutral on the market given fair valuations and the ongoing asset restructuring by Hong Kong-listed SOEs (state owned enterprises), which is expected to increase the sector's efficiency over the medium term. However in the near term, its banks' loan exposure to the mainland could weigh on sentiment. We note that Hong Kong banks' cost of funds has been rising, which is a negative for margins. At the same time, a number of banks have cut dividend payouts in order to conserve cash.

India – Given Modi's track record of being reform-minded, pragmatic and efficient, the NDA's strong showing in the recent Indian elections could aid India's gradual growth recovery. The market has rallied on the back of reform hopes since the start of the year and in the near term, there is the risk that investors could be disappointed by the pace of reforms and the turnaround in the Indian economy. After all, the new government is likely to be constrained by the limited room for fiscal stimulus, corporate deleveraging amid tightened bank lending standards. Nevertheless, we remain slightly positive on the market given still reasonable valuations and a constructive medium term growth outlook.

ASEAN – We are neutral on the region. Indicators are pointing to relatively firm growth in Malaysia and the Philippines but policy settings could turn less accommodative in these economies. Over in Malaysia, Bank Negara is expected to act pre-emptively and commence rate hikes in 3Q14. As for the Philippines, our economists expect further tightening to come via macro-prudential measures and hikes in the Special Deposit Accounts rate.

Over in Indonesia, economic growth is expected to be on a rising, albeit choppy, uptrend. On the valuation front, the market appears expensive, but this is partially offset by positive earnings revisions. The market has been boosted by reform hopes, and currently, a two-camp one round election seems to be the most probable scenario. Regardless of the winner, reforms are needed to lift Indonesia's long term growth, and sustain the market's valuations.

As for Thailand, political normalisation is still out of sight with the ruling Pheu Thai Party and anti-government factions vying to fill the political vacuum after Yingluck was removed from power by the Constitution Court. The absence of a functional government by the end of this year could potentially delay the approval of the fiscal 2015 budget and be negative for growth. Inflows of Foreign Direct Investments (FDI) which have been relatively resilient to date, may also be affected. The deteriorating growth profile would in turn increase the risk of rating downgrades. On the other hand, the market is not expensive, which suggests that patient investors may be rewarded when Thailand's political situation normalises. That said, catalysts appear lacking in the short term.

EM Market	3-12 month view
Russia	Slightly Negative
Brazil	Slightly Negative
Within Asia	**3-12 month view***
China	Neutral
Hong Kong	Neutral
India	Slightly Positive
Korea	Slightly Positive
Taiwan	Slightly Positive
Singapore	Neutral
ASEAN	Neutral

Source: ANZ. May 2014. *This is the relative preference within Asia ex Japan Equities.

Fixed Income

While we have a constructive view on select European fixed income sectors, investors should be mindful of the potential for volatility arising from any deterioration in Eastern Europe's geopolitical conditions.

Global fixed interest markets performed well in April. Despite the Fed scaling back its asset purchase program further, bond yields moved lower. Minutes from the Fed's March meeting clarified that it expects to maintain stimulatory policy settings for some time. Meanwhile, falling inflation in Europe prompted the European Central Bank (ECB) to leave open the potential for it to implement its own quantitative easing program, helping drive European bond yields lower.

Australian government bond yields also fell strongly in April. A weaker-than-expected increase in underlying consumer prices in the March quarter helped calm nervousness over a potential rise in the cash rate by the Reserve Bank of Australia (RBA). This became a possibility after the release of stronger-than-expected employment data earlier in the month.

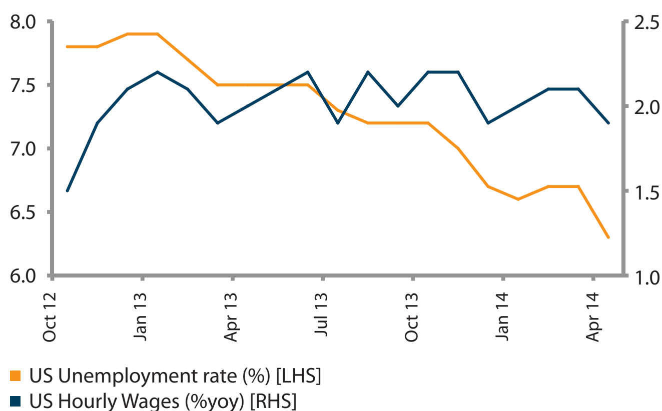
We maintain a neutral allocation to global fixed income and expect the range-trading environment for global bond yields to continue for now. While stronger global growth will limit the downside in yields, the upside also remains limited by a combination of demographics and deleveraging which is constraining potential growth.

While the search for junk bonds could continue for some months, stretched valuations and our expectations of gradually rising bond yields suggest that investors may not want to chase this thematic.

We have seen a return of the global search for yield in the first few months of 2014. This surprised many investors as the start of US Federal Reserve (Fed) tapering was expected to focus financial markets' attention on eventual interest rate rises, thereby driving global bond yields gradually higher. However, with central banks successfully anchoring market expectations for short-term interest rates, bond yields have instead moved steadily lower, for now at least. This, combined with low and relatively stable medium-term inflation expectations, have encouraged demand for higher yielding assets across both equity and fixed income asset classes.

While this search for yield could continue for some months, we are inclined to view this thematic as being relatively advanced. Our analysis indicates that as the US unemployment rate approaches 6%, it is reasonable to expect some pickup in US inflation. When this occurs, it is likely that bond yields will move higher. Moreover, valuations for many of these higher yielding assets are relatively stretched given the performance of recent years. For this reason we do not see it as prudent to chase this thematic.

US inflation may pick up as the unemployment rate approaches 6%



Source: Bloomberg. May 2014.

Our preferred sectors in the fixed income universe currently include US and European financials, where we see room for further spread tightening on the back of improving credit fundamentals.

Within European financials, we favour the subordinated issues that offer a reasonable pickup in yields. We also like European Investment Grade corporates, which could be more resilient to rising US bond yields and are likely to benefit from the improving European macro backdrop and accommodative policy settings.

While we are constructive on select European fixed income sectors, volatility could arise from deteriorating geopolitical conditions in Eastern Europe. A further escalation in the crisis could have a short term negative impact on European financials deemed to have significant lending exposure to Russia. According to recent data from the Bank of International Settlements, Italy's banking sector appears to be the most exposed with loans exposure to Russia - accounting for 1% of total banking loans - followed by France and Netherlands.

We are neutral on Australian Fixed Income, and expect it to deliver higher returns than AUD cash. The RBA left interest rates unchanged in May and reiterated that rates were likely to be stable for some time. Notably, the Bank expects the impact of weaker mining investment in the Australian economy to be largely offset by the recovery in the non-mining economy. This suggests that the economy is unlikely to return to above trend growth until after 2015, and full-time unemployment will probably take even longer to fall. Furthermore, the tough Federal Budget could sap consumer confidence and the moderate economic recovery could be restrained over the remainder of the year.

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Commodities

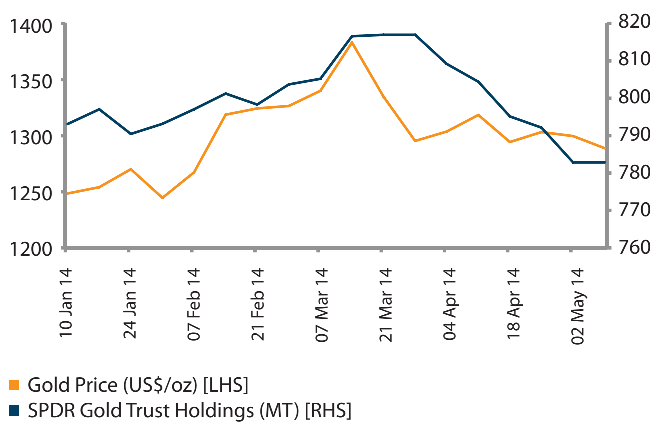
Barring an escalation of Ukraine-related tensions, gold looks set to struggle in the near term. On the other hand, the correction in iron ore prices appears overdone.

Commodity prices have struggled year to date, weighed down by China's lacklustre growth outlook. While a stabilisation in China's activity indicators and rising seasonal demand could provide some price support, we still prefer the risk-return profile offered by equities. With the strong supply response of recent years, the highs achieved during the commodity super cycle are unlikely to be repeated.

While gold prices could struggle in the near term, our longer term outlook, which is premised on still robust demand from Asia, remains constructive.

We see gold prices eventually breaking out of their US$1270-1320/oz range to the downside. ETF selling continues and even speculative investors have been quick to take profit on rallies. Meanwhile, Shanghai gold prices have only picked up modestly, and unlikely to lend much support to global prices. At the same time, the market's reaction to new headlines from Russia seems to be waning. As such, it is difficult to see gold sustaining any significant gains in this environment.

Investors have reduced their gold ETF holdings



Source: Bloomberg. May 2014. .

Beyond the near term, we see prices moving higher towards the end of the year. Supply is limited and demand, particularly from Asia, is likely to continue to be robust. In particular, India's gold demand could rebound if import trade restrictions are lifted. That said, any easing of restrictions is unlikely to happen before the 1Q current account figures are known (probably after June).

The correction in iron ore prices looks overdone and we expect prices to move higher in the coming months, as seasonal Chinese demand improves.

At the point of writing, iron ore prices have now dropped over 13% since the early April peak of US$119/t following reports of a crackdown on Chinese iron inventory financing activity and the partial reinstatement of iron ore exports from India. However, we believe that the correction looks overdone and expect prices to move higher in the coming months, as seasonal Chinese demand improves.

Over in China, steel mills have increasingly used letters of credit and iron ore inventory as collateral for bank loans after it became more difficult to obtain more traditional forms of lending. This has apparently led to record high levels of iron ore inventory at China's ports. However, our estimates suggest that only 35 million tonnes or one-third of the port inventory is entrenched in such financing-related deals. As this represents a modest two weeks of supply, the impact of any unwind is likely to be manageable. In addition, given the very low levels of working inventory of iron ore at Chinese steel mills, rising seasonal demand may help to absorb any liquidation in port inventory.

As for India, the Supreme Court allowed Goa to resume mining and export of iron ore in April. However, this policy reversal is unlikely to have any great bearing on global supply as the affected volume only represents about less than 4% of Australia's 2013 iron ore exports. Furthermore, much of the iron ore output from Goa is expected to be consumed domestically, as China has started to move away from lower quality supplies, on the back of rising environmental concerns.

An improving backdrop is potentially supportive of energy prices. However, rising supply and seasonally slower demand are likely to cap price gains.

WTI prices have been supported by positive economic data, improved access to Cushing inventories and rising tension in the Eastern European energy markets. However, as we approach the seasonally slower demand period in the Northern Hemisphere, price gains are likely to be harder won.

Meanwhile, a partial resolution of the disrupted Libyan supply could weigh on Brent prices. A recent agreement between the Libyan government and rebels to reopen several rebel-held ports could see more normal Libyan supply in the second half of the year. In addition, with Iraq's output running at a 35-year high and increased production from Iran, oversupply in the Middle East could weigh on oil prices. That said, the OPEC's recent statement suggests that the cartel has the means to limit oversupply.

We are broadly positive towards base metal prices, although the upside would probably be limited given the supply overhang across a number of markets.

Copper prices are expected to garner support as the seasonal upswing in Chinese construction activity gets underway. At the same time, the expansion of power cables by the China State Grid is likely to see China's demand for refined copper rise by more than 10%yoy. That said, with the copper market expected to register its fourth-straight year of surplus this year, ample supply is likely to keep a lid on price gains.

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Currencies

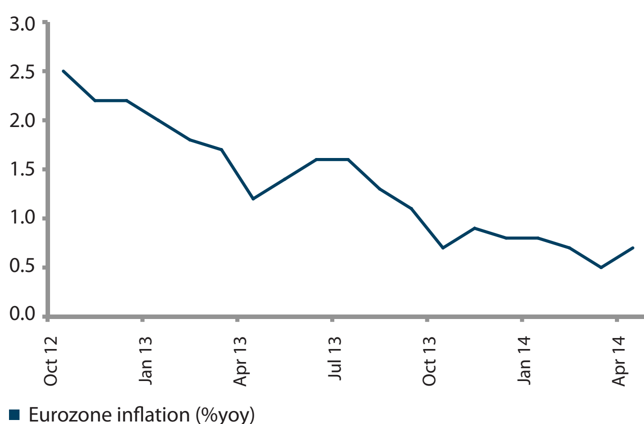
We see limited downside for the euro as the region's unfolding recovery continues to attract capital inflows. On the other hand, further significant upside for the sterling seems unlikely, with much of the good news now largely priced in.

USD – US bond yields appear to be basing and a shift higher is likely, although the longevity of the move still depends on the future tone of US data flow. This is likely to be negative for the NZD, AUD as well as the Asian currencies. Among the G4 currencies, the yen is probably the most sensitive to rising US bond yields, while we continue to see the EUR in a sustained medium term uptrend.

EUR – The ECB left interest rates unchanged in May but the prospect, of a rate cut raised by Draghi caused the euro to sell off. However, in our view, any ECB action will likely be limited to conventional measures for now. This could include a 10-15 basis points cut in the refi rate, a cut in the marginal lending facility and/or leaving SMP bonds unsterilized. We are less convinced that the ECB is ready to undertake unconventional monetary policy. A negative deposit rate also runs counter to the current recapitalisation efforts of selected European banks.

As such, we see any euro downside as likely to be limited, given strong capital inflows on the back of rising confidence in the region. Notably, economic activity is recovering, with both structural and fiscal reforms being carried out. Therefore, while negative market sentiment may weigh on the currency in the short term, our medium term stance remains one of gradual euro appreciation from current levels.

Weak eurozone inflation exerts downward pressure on the euro



Source: Bloomberg. May 2014.

JPY – We believe that the aggregate wage growth in Japan will ultimately disappoint and exert pressure on the Bank of Japan to do more to lift inflation. However, the central bank is likely to wait a few months to assess the impact of the consumption tax hike on the economy before acting. As such, the market's expectations of further easing in the short term appears somewhat premature, risking an unwind in the current consensus to short the JPY. In such a scenario, we expect the JPY to strengthen against most Asian and commodity currencies. That said, the JPY is still forecast to weaken against the USD over the medium term, when the US recovery gathers pace.

GBP – We see the pound remaining buoyant against the USD and further moderate gains can be expected, especially against the AUD, NZD and Asian currencies. However, we are not expecting significant upside as much of the good economic news appears to be priced in, including a 25 basis points hike in 4Q14.

On the domestic front, factors that could potentially undermine the pound's strength would be, firstly, a worsening in the trade balance and secondly, reduced competitiveness and growth due to a pick-up in inflation. However, there is currently no evidence of such forces. Notably, the strength in the labour market has not translated into an emergence of wage pressures and real wage growth. Sterling's appreciation has in fact helped support the economic recovery by containing inflationary pressures at the margin and allowing interest rates to stay lower for longer.

AUD – The AUD seems to be caught in a tug of war between fundamentals and global liquidity and the currency could remain elevated in the near term as liquidity factors dominate. However, struggling commodity prices and weak Chinese growth are negatives for the currency, and suggests that the AUD could be overvalued.

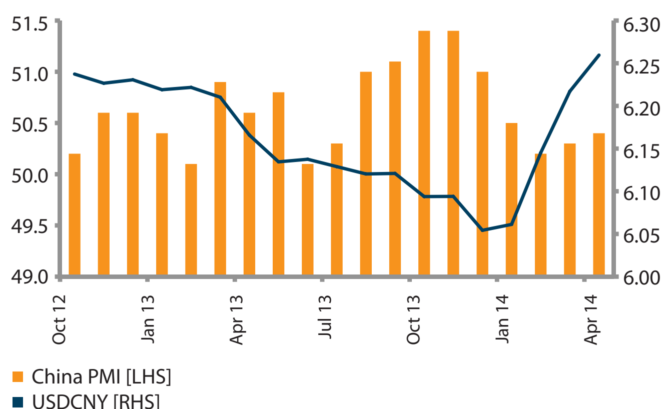
The Reserve Bank of Australia nevertheless kept interest rates unchanged in May and seems to be expecting a slow strengthening of the economy, with the unemployment rate unlikely to decline significantly anytime soon. Meanwhile, the Government unveiled a mild tightening of fiscal policy in its 2014-15 Budget, aimed at returning the country's budget balance to a surplus of 1% of GDP within a decade. We estimate the near term tightening of fiscal policy to have a modest drag on growth of about ¼-½ percent per annum. There is risk therefore that monetary policy tightening could be delayed or more gradual than current ANZ forecasts of a start to rate hikes in early 2015.

NZD – In our view, the NZD has benefited significantly from the multi-month rally in US bonds. As such, the kiwi appears highly vulnerable to any upward shift in US bond yields. Meanwhile, New Zealand's negative data surprises of late, coupled with the RBNZ's shift in rhetoric could weigh on the currency. Add to this the fact that the market has largely priced in rate hikes in June and July, and we have to conclude that the currency is looking overbought.

We maintain our longer term view that US data will improve throughout the course of the year, causing US yields to eventually break out of the recent trading ranges. This is expected to result in a weakening of Asian currencies.

CNY – China's official PMI for April picked up modestly to 50.4 from 50.3 in March. In addition, April's exports also showed signs that the economy may be basing. Nevertheless, our view is that until the Chinese economy show firmer signs of turning around, monetary policy will retain an easing bias to bolster growth. This bias can already be seen in the recent cut in the Reserve Requirement Ratio for rural-sector banks. Looking back in history, we note that the USDCNY fix rose 1.3% in May-August 2012 before starting to retrace in the fourth quarter, following a bottoming out of manufacturing PMIs. As such, it is likely to take a while for the RMB to resume its appreciation path.

China may maintain an easing bias to bolster growth



Source: Bloomberg. May 2014.

IDR – The improvements in Indonesia's macroeconomic fundamentals resulted in a re-rating of the rupiah, making it the best performing Asian currency year to date. At the same time, a positive political premium had been priced into the currency on expectations that Jokowi will emerge a clear winner at the presidential elections. However, the weaker than expected showing of the PDI-P party in parliamentary elections has introduced some uncertainty into the political landscape. If history is any guide, we could see a weaker rupiah in the lead-up to the presidential elections in July. The risk to this view is if the search for yield intensifies, which would benefit the rupiah.

SGD – We expect the SGD to depreciate against the USD over the medium term, and we have a year-end target of 1.30. This is based on our view that the USD will strengthen as the US economic recovery gathers pace following recent weather-induced weakness. As a low yielding currency and one with a high beta to the US, we see SGD assets becoming less attractive as we get closer to interest rate rises in the US.

TWD – The TWD, given its attractive valuations, could remain relatively resilient in the near term, while we await greater clarity on the US growth dynamic. On the interest rate front, the central bank is expected to maintain its dovish stance. Although April's exports beat expectations, a more robust external demand outlook could be partially offset by a sluggish domestic economy. Notably, an uncertain political environment ahead of the municipal elections in November could dampen business investment.

Returns

Country Equity Markets	YTD	1-Yr	3-Yr
ASX 200	2.6%	10.5%	13.5%
FTSE 100	0.5%	5.7%	14.7%
Hang Seng	-5.0%	-0.7%	-5.9%
India Sensex	5.9%	19.0%	15.3%
Jakarta Comp	13.2%	-2.0%	31.6%
Korea KOSPI	-2.5%	-1.6%	-6.9%
Malaysia KLCI	0.2%	11.8%	21.1%
Nikkei 225	-9.5%	19.5%	51.1%
S&P 500	1.9%	20.1%	42.1%
Shanghai-A	-4.2%	-9.4%	-30.8%
Singapore ST	3.1%	-1.3%	5.1%
Taiwan Weighted	2.1%	11.8%	1.2%

Regional Equity Markets	YTD	1-Yr	3-Yr
MSCI World	1.4%	15.0%	20.5%
MSCI Europe	3.6%	23.5%	18.1%
MSCI BRIC	-4.4%	-7.5%	-27.5%
MSCI Emerging Market	-0.7%	-3.6%	-15.0%
MSC AP ex Japan	1.3%	0.5%	-2.4%

Fixed Income	Yield	1-mth chg	YTD chg
Aust Govt (10Y)	3.95	-13	-29
Bunds (10Y)	1.47	-10	-46
Gilts (10Y)	2.66	-7	-36
JGB (10Y)	0.63	-2	-11
NZ Govt (10Y)	4.41	-18	-31
SG Govt (10Y)	2.42	-7	-14
US Trsy (2Y)	0.41	-1	3
US Trsy (10Y)	2.65	-7	-38

Currencies	Level	1-mth chg	YTD chg
USD-JPY	102.57	0.6%	2.6%
EUR-USD	1.38	0.2%	0.6%
AUD-USD	0.93	0.4%	3.9%
USD-SGD	1.26	0.2%	0.5%
NZD-USD	0.86	-1.1%	4.1%
GBP-USD	1.68	1.1%	1.6%
USD-CAD	1.10	0.8%	-3.2%
USD-TWD	30.23	0.8%	-1.4%
USD-IDR	11562.00	-1.8%	5.0%
USD-INR	60.34	-0.7%	2.4%
USD-KRW	1033.22	3.0%	1.6%

Base Metals (US$/lb)	Sep-14	Dec-14	Mar-15
Aluminium	1800	0.8%	0.0%
Copper	6642	0.0%	-9.8%
Gold	1296	1.0%	7.8%
Lead	2106	1.8%	-5.1%
Nickel	18325	15.3%	31.8%
WTI Oil	100	-1.8%	1.3%
Zinc	2040	2.9%	-0.7%

Source: Bloomberg. As of 30 April 2014.

Forecasts

Precious Metals (US$/oz)	Sep-14	Dec-14	Mar-15
Gold	1400	1450	1470
Platinum	1540	1550	1570
Palladium	850	870	849
Silver	22.4	23.4	23.9

Energy (US$/bbl)	Sep-14	Dec-14	Mar-15
WTI Nymex	102	104	107

Currencies	Sep-14	Dec-14	Mar-15
USD-JPY	107	110	110
EUR-USD	1.4	1.42	1.42
GBP-USD	1.72	1.73	1.75
AUD-USD	0.87	0.85	0.84
NZD-USD	0.83	0.81	0.79
USD-SGD	1.28	1.29	1.3
USD-TWD	30.5	30.6	30.7
USD-IDR	11800	12000	12200
USD-INR	63.5	64.0	64.2

Cross Rates	Sep-14	Dec-14	Mar-15
AUDNZD	1.05	1.05	1.06
AUDSGD	1.11	1.10	1.09
NZDSGD	1.06	1.04	1.03
EURSGD	1.79	1.83	1.85
SGDJPY	83.59	85.27	84.62
GBPSGD	2.20	2.23	2.28
AUDIDR	10266	10200	10248
NZDIDR	9794	9720	9638
EURIDR	16520	17040	17324
JPYIDR	110	109	111
GBPIDR	20296	20760	21350

Source: ANZ Economics & Markets Research. As of 15 May 2014. Forecasts are quarterly averages.

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