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ANZ

How much longer can the equity market rise?

While the largest gains may be behind us, the relative return to equities versus bonds and cash is likely to be superior in the year ahead. In addition, the lagging cycles in most other markets also suggest the potential for market leadership to change to relatively undervalued non-US markets, providing another leg of gains.

Global equity markets reached their low point in the current cycle during March 2009, almost half a decade ago. A look at 8 decades of US share market history reveals that the average bull market lasts a little under 6 years, or only 5 years if the extraordinary 13-year run between 1987 and 2002 is treated as exceptional. So the current cycle in the US, if history is any guide, is becoming a bit long in the tooth.

US Bull Market Analysis

Bear Through	Bull Peak	Trough to peak	Trough to peak
		No of Years	% gain
Jun1932	Feb 1937	4.7	308%
Apr 1942	May 1946	4.1	150%
Feb 1948	Jul 1956	8.4	255%
Dec 1957	Dec 1961	4.0	79%
Jun 1962	Nov 1968	6.4	98%
Jun 1970	Dec 1972	2.5	62%
Sep 1974	Nov 1980	6.2	121%
Jul 1982	Aug 1987	5.1	208%
Oct 1987	Aug 2000	12.8	503%
Sep 2002	Oct 2007	5.1	90%
Feb 2009	Jul 2013	4.4	129%
Average		5.8	182%
Average ex 87-00		5.1	150%
Median		5.1	129%

Notes: End month data for S&P 500 . End of bull market is marked by a peak followed by a 20% decline. Source: ANZ Global Wealth, Bloomberg.

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The pace of the current rise in the market from its trough is also historically large. Notably, the current cycle is in line to be the 3rd fastest recovery, only behind the 1932 and 1942 cycles and equal with 1982. The latter was the longest lasting at just over 5 years. We have seen 4 other cycles of somewhat longer length (1948, 1962, 1974, 1987) but they have all had a more measured pace of advance. Again the current US cycle seems to be approaching peak territory.

While history rhymes, it certainly does not repeat exactly, so we need to be careful with comparisons with past cycles. After all, every cycle has its own characteristics which we need to take into consideration when making judgment on the outlook for markets. Also, the analysis above is only for the US, and does not extend to the other half of the global equity market.

There are two critical factors that suggest to us that global equity markets still have some room to advance, although the strongest gains are likely to be behind us.

The first point is what non-US equity markets have, or more precisely have not done, since 2009. In contrast to the US, Europe has had a much more tepid recovery to date, up only 75% since end February 2009, half that of the US. Other developed markets such as Australia, Canada and Japan have posted gains of close to 60%. Therefore while the rally in the US equity market in terms of length and cumulative rise is looking late cycle, the same cannot be said for many other key markets given their more measured gains.

The second key point relates to the stage at which respective markets are in their economic cycles. Despite four years into the economic recovery, the pace of growth since the GFC recession has been particularly slow - unemployment still remains historically high in most of the developed economies. Our base case expectation for global GDP growth is for a move from a sub trend 3% pace of growth in 2013 to around 4% pace in 2014 and 2015. Once combined with high unemployment and subdued inflation, this is usually a positive environment for equity markets. From an economic perspective, the developed economies overall still have a relatively early cycle feel, with large spare capacity and OECD unemployment stuck around a multi-decade peak. The eventual raising of rates by the Fed and other central banks is likely to be measured and aimed at setting conditions to make the current economy expansion more enduring. This potentially provides a backdrop where earnings can continue to grow, a positive for equity markets.

Overall, our analysis of past cycles and the specifics of the current upswing suggest that while the largest gains may be behind us, the relative return from equities versus bonds and cash is likely to be superior in the year ahead. However, the advanced state of the bull market in US equities versus history does give us pause for thought, and is a critical part in our moderate positioning in equities. But with the actual improvement underway in global growth, coupled with neutral valuations and central banks in no hurry to raise rates sharply, equities are expected to outperform bonds. The lagging cycles in most other markets also suggest the potential for market leadership to change to relatively undervalued non-US markets, providing another leg of gains.

Investment Summary

We maintain a modest overweight position to equity markets as equities continue to offer better relative value than bonds and cash, in our view. An improving global economy with accommodative monetary policies should help equities post positive returns.

Within equities, our preferred market is Europe given its relatively cheap valuation. At the same time, a recovering economy is positive for earnings. The United States is still held overweight as the economy continues to grow, but it is more fully valued than Europe. Japan's allocation is at benchmark as the Bank of Japan's aggressive QE operations is beginning to boost the economy but not without its risks. For AUD based investors, we are also overweight the Australian market amidst signs of a budding recovery in the non-mining part of the Australian economy. Emerging Markets are held at benchmark, with a preference for Asia ex Japan driven by sounder macro and political factors.

We are modestly underweight fixed income. While bond yields are well advanced in pricing the impact of the end of QE by the Fed, they are still set to rise over the longer-term.

Within currencies, over the medium term, the USD is expected to continue appreciating against many peripheral currencies, including the AUD, INR and IDR. Against the other majors, however, we expect the movement to be modest and disparate.

We expect commodity prices to remain firm going into the fourth quarter on the back of seasonal restocking demand. That said, the longer term outlook for commodity prices is less encouraging.

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Equities

While recognizing that US debt ceiling uncertainties will continue to plague markets in the near term, we maintain our view that the medium term macro backdrop remains supportive.

US - We maintain a slightly overweight stance on US equities, although we acknowledge that the market may be subject to significant volatility in the near term as political tensions simmer. In addition, given the market's strong run over the last 18 months, valuations appear fair. Companies will need to deliver healthy earnings growth going forward in order for the market to rally further.

On this front, while a prolonged US government shutdown could feed through to weaker activity data in the near term, our expectations of stronger GDP growth in 2014 is supportive of medium term earnings. At the same time, given the absence of important economic data as a result of the shutdown, the Fed is likely to delay tapering further. The liquidity environment for risk assets is therefore likely to remain conducive over the medium term.

Europe - We retain a similar modestly overweight position in European equities. Valuations remain attractive, especially when compared to the US. Meanwhile, still-depressed earnings forecasts and margins have room to expand on the back of an improving macro backdrop. Muted inflationary pressures also imply that rates will remain low, helping to keep monetary conditions accommodative and supportive of growth.

Japan - We remain neutral on Japanese equities. Much of the good news has been priced in and stronger earnings growth or greater progress on structural reforms is required to push the market higher. With exporters accounting for more than 50% of Japan's market capitalisation, the outlook for the yen could be an important swing factor for earnings. That said, many Japanese manufacturers have already shifted much of their operations overseas over the years, and the positive impact of a weak JPY may be more muted than before.

On the reform front, Prime Minister Abe has given the green light for the government to raise Japan's consumption tax from 5% to 8%, starting April 2014. This is expected to boost the government's coffers by JPY7.5tr. Partially offsetting this drag on consumption is a one-off stimulus package amounting to JPY5.9tr, which should help allay concerns that the tax hike will derail the current economic recovery. We view the move as a sign that the government is committed to economic and fiscal reforms, although Abe recently warned of delays in liberalising Japan's labour markets.

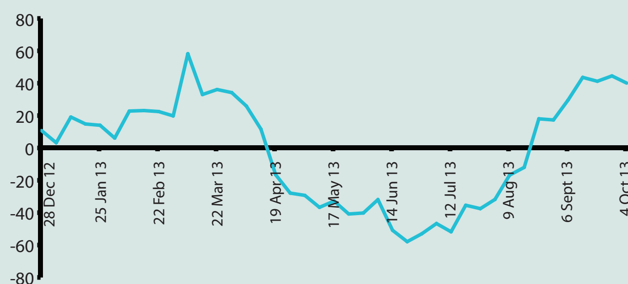
The Fed's surprise tapering delay has lifted stressed EM markets and currencies. However, prevailing concerns, if left unaddressed, will return to haunt the markets once the tapering discussion resumes. Investors are advised to look deeper and be more selective within the Emerging Markets sector.

Taiwan/Korea – The delay in Fed tapering is positive for Asia as it has reduced the risk of a premature removal of its current stimulus, hence allowing the US recovery to gain a firmer footing. This is positive for Asian exporters and the more cyclical markets within Asia. Within Asia, we should see a rotation out of expensive ASEAN markets into North Asia. The latter are more leveraged to the recovery in the developed world. A recovery in business IT spending would potentially be more positive for Taiwan while a recovery in consumer spending is likely to benefit Korea. The key risk to our positive Taiwan and Korea outlook is a protracted US government shutdown and continued debt ceiling impasse.

China – The Citigroup Economic Surprise Index for China, which measures how actual economic data releases compare with market expectations, is close to its historical peak (see chart). This implies that there is risk that China's activity data may start to disappoint going forward. We had indicated previously that beyond stabilising China's growth trajectory, the Chinese government has its sights set on reforms and is unlikely to stimulate growth aggressively.

Meanwhile, in our view, the impact of tighter credit conditions in China has yet to fully play out. Notably, it has been reported that selected LGFVs (Local Government Financing Vehicles) have been struggling to gain access to funds. The H-share market has rallied 22.5% since mid-June, ahead of the Party Meeting in November. It now runs the risk of being disappointed when reform initiatives are finally announced.

Citigroup Surprise Index - China



Source: Bloomberg. October 2013. The Index is a quantitative measure of economic news. A positive reading means that economic data releases have on balance been beating market expectations.

India – While the Sensex has rebounded in response to the delay in Fed tapering, the outlook for the economy and earnings in the medium term remains clouded. India's new central bank governor appears committed to combating inflation, but this is only likely to have benefits for the currency and the economy in the long term. On the other hand, tighter liquidity conditions and higher interest rates are likely to weigh on the highly leveraged Indian corporate sector. Notably, gross debt at the ten largest Indian corporates rose above $100 billion this year. In addition, many of India's problems, which include its twin deficits and insufficient fixed asset investment, are structural issues which require policy reforms. However, with elections set for 1H14, the temptation for the government to pass through more populist policies becomes ever more compelling.

ASEAN – Having fallen by about 8% in August, ASEAN markets pared back as much as half of their losses in September, on the back of the Fed's decision to delay tapering. However, going forward, it is uncertain if these markets can outperform their Asian counterparts. For one, although valuations are less onerous, they are still expensive compared to the other Asian markets. Meanwhile, earnings may have further to adjust given the more subdued growth outlook. Indonesia will have to grapple with the impact of higher interest rates, while Thailand is burdened by a leveraged household sector. On the other hand, while the Philippines looks set to be one of the fastest growing Asian economies this year and next, the positive impact on earnings may have been largely priced in, with valuations among the highest in the region. Rising inflationary pressures and therefore the risk of higher rates may also cap the Philippines market's upside. Singapore could fare better within the ASEAN region, given its higher leverage to an export recovery and a relatively more resilient currency.

Russia – As for the other EM markets, Russia has cheap valuations (4.7x 2014F PER) and given its ample fiscal and foreign exchange reserves, and positive current account balance, it appears less vulnerable to Fed tapering. That said, consensus GDP growth estimates for 2014 appear lacklustre at 2%, and is unlikely to provide much support for earnings. At the same time, the central bank's inflation target of 4.5% for 2014 appears aggressive and potentially limits the room for aggressive monetary policy going forward. Finally, the government's recent decision to delay higher dividend payouts from state owned companies by two years, further reduces the appeal of Russian equities.

Brazil – GDP growth is expected to fall further next year as a result of the ongoing monetary tightening and weak business/ consumer confidence. A relatively subdued outlook for commodities is also likely to weigh on earnings and the market.

Market	6-12 month view
China	Neutral
Hong Kong	Neutral
India	Neutral
Indonesia	Neutral
Korea	Slightly positive
Singapore	Neutral
Taiwan	Slightly positive
ASEAN	Neutral

Source: ANZ. October 2013.

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Fixed Income

The recent pullback in yields offers investors opportunities to shorten bond duration and reduce overweight bond exposures.

The Fed's decision not to taper drove a solid return in global bond markets in September, as evidenced by lower bond yields in most major economies. We had in fact highlighted the possibility of this short term counter trend move in bond yields in view of several potential market volatility triggers. At this point, we believe that investors should take advantage of any pullback in yields to shorten their bond duration. Investors with significant fixed income exposure may also want to lighten up. This is premised on our medium term view of bond yields trending higher in line with the improving global growth momentum. Going forward, we expect bonds to offer investors close to coupon returns, with the potential for modest capital appreciation in selected sectors.

At the point of writing, the market's attention is firmly fixed on the budget and debt ceiling negotiations which are taking place in the US. While our economics team believes a US government default is likely to be averted, given the potentially costly consequences of such a move, the longer the government shutdown impasse drags on, the more adverse the impact on household and business sentiment. In addition, even the perceived threat of a default can lead to substantial volatility in the financial markets (see chart). Already, signs of stress are emerging. For example, yields for very short term Treasury bonds have risen. In addition, the cost of insuring against a US government default, as measured by credit default swap spreads, has also been rising and the demand for such protection has reportedly jumped 10-fold.

VIX Index (Jan 2011 - Sep 2013)

Source: Bloomberg. ANZ. October 2013.

In the event of an unsatisfactory resolution to the US debt ceiling deadline/s, sovereign bonds from fiscally strong countries such as Australia and New Zealand could potentially enjoy some safe haven flows. On the other hand, the impact on their currencies could be less positive in a risk-off environment. Japanese Government Bonds are likely to be relatively resilient in this scenario, while poorer quality and less liquid bond sectors, such as high yield bonds, could be more adversely affected.

However, assuming a satisfactory if somewhat delayed resolution to this potential crisis, our preferred medium term sectors within fixed income are US and Asian Financials, although we continue to advocate that investors remain defensive on duration. We believe that US financials will continue to enjoy improving credit fundamentals. Healthy deposit balances suggest that US banks will be able to benefit from the rising loan demand which is expected to transpire as the US economy gains momentum. A benign macro backdrop should also be positive for the banks' asset quality. The expectation of a rise in the borrowing rates may also be positive for earnings in the medium term. These factors are generally supportive of further spread compression within US financials, although probably not to the same extent as in 2012.

We also favour Asian Financials for their relatively strong credit profile and higher yields relative to their counterparts in the US and Europe. We do not expect non-performing loan ratios to increase dramatically in the region, unless credit conditions in China deteriorate significantly, which is not our base case. In turn, we believe that there is room for further spread compression within the sector.

Besides US and Asian Financials, we also find European Investment Grade (IG) credits to be modestly attractive. The macro outlook for the Eurozone has brightened since the start of the year, with recent PMI indicators and new orders signalling a stabilisation in the Eurozone economy. Meanwhile, inflation is not expected to be a threat in the near term, helping the central bank to maintain its forward guidance of keeping rates low for longer.

On the policy front, progress towards the establishment of a single banking supervisor to directly oversee the large banks, as well as the member states' regulators, will help to address a key structural risk in the European banking system. Against this backdrop, we believe that there is scope for spreads to tighten modestly over the course of the year. We also expect European IG credits to benefit from the reallocation of capital from Emerging Markets to Developed Markets when the market refocuses on the Fed's tapering timetable.

We remain cautious on Asian high yield corporates even though they have seen some respite from capital outflows following the Fed's non-tapering decision. However, we believe that this respite will be short-lived, and expect investors to be more discerning within the Asian high yield space going forward. Moody's has forecast the default rate to increase by the end of the year, although it remains low relative to historical levels. With Chinese corporate bonds making up more than 50% of the Asian high yield issuances, we would advocate caution on bonds issued by Chinese property developers and industrials given the tight credit conditions in the Mainland.

Finally, we have pared back our positive outlook on Australian sovereigns, in favour of a more neutral stance. While it is still early days, the recent lift in business and consumer confidence is an encouraging sign for the economy. Capacity utilisation has also risen for the last three consecutive months, suggesting that labour market conditions could stabilise in the near term. Importantly, the non-mining sectors of the economy, such as the property and financials sector, have also exhibited modest improvements. As such, we have pushed back the timing of the next rate cut by the RBA to Feb 2014, and acknowledge the rising likelihood that we are close to the bottom of the current cash rate cycle. That said, we are expecting the RBA to stay on hold for most of 2014.

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We expect commodity prices to remain firm going into the fourth quarter. Seasonally, commodity demand tends to improve in the latter part of the year, as key consumers restock inventory ahead of the cooler months.

In addition, should macro data in China and the larger developed economies continue to improve, short covering may give way to genuine investment inflows, causing price gains to become more sustainable. That said, we still expect commodity markets to be volatile, buffeted by the USD trend, growth concerns in the emerging economies as well as potential unrest in the Middle East.

However, the longer term outlook for commodity prices is less encouraging. The commodity supercycle has ended amidst rising supply side growth for most commodities and prices are unlikely to revisit their previous highs.

Copper looks to be best supported within base metals, given reports of very low stockpiles in China. On the other hand, reports of aluminium and zinc hoarding could cap their price upside.

Base metals still look oversold, with prices at unsustainably low levels, particularly for aluminium and steel. We expect to see better supply discipline following the heavy losses suffered by high cost producers in the first half of the year. This should be supportive of prices. Seasonal demand and falling exchange-based stockpiles of copper and aluminium are also positives.

One of the strongest performers in 3Q13, record high speculative positioning leaves the oil market vulnerable to profit-taking.

On the demand front, the US is now entering a seasonal slow down, as US refineries undergo a maintenance period. However, the seasonal impact from the US could be less apparent this year with inventories at Cushing Oklahoma hub falling since the end of June, and likely to continue to decline.

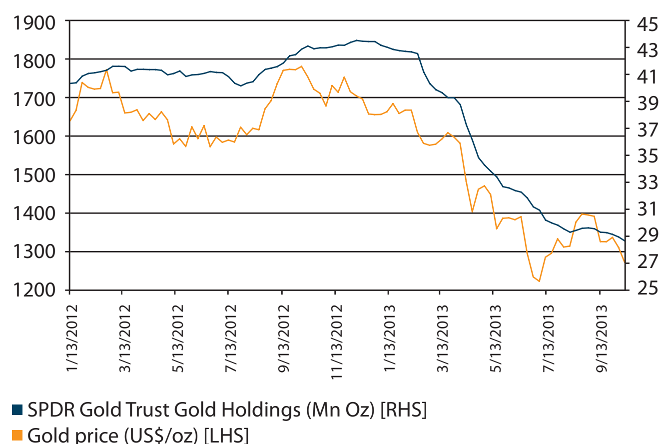
Meanwhile, China's demand for oil appears to be stronger than last year's. China's oil import volumes have jumped sharply, averaging 17-20% y/y growth in July and August on the back of low commercial crude stocks and improved demand. Crude oil intake by Chinese refineries has increased following the end of the second quarter maintenance period and could continue to surprise on the upside.

Our June 2014 forecasts for WTI and Brent stand at US$109/bbl and US$113/bbl respectively. On the geopolitical front, only an escalation of the Syrian conflict to the broader region has the potential to drive prices higher. Under this scenario, we could see WTI reaching US$125/bbl and Brent at US$130/bbl.

The perceived threat of a US government default can boost safe haven demand for gold in the near term, although stronger global growth and higher rates are potential headwinds over the longer term.

That said, barring a flare up of tail risks, the investment community is unlikely to increase their near term exposure to gold as global interest rates rise. Notably, CTFC (Commodities Futures Trading Commission) data shows that gold's significant price recovery since the beginning of July has been driven mainly by short covering, and not real demand (see chart). While we continue to believe that emerging market central banks will continue to diversify their reserves into gold, this is likely to take place on a measured pace. Hence, in our view, the upside for gold is limited and our June 2014 forecasts stand at US$1440/oz.

Gold ETF Holdings vs Gold Price (Jan 2012 - Sep 2013)



Source: Bloomberg. ANZ. October 2013.

Mild profit taking is likely in iron ore, while coal prices appear to have bottomed, and the market for thermal coal is likely to remain relatively flat.

China remains the key for bulks. Re-stocking, as well as record Chinese steel output has helped to drive iron ore prices up 25% since May. While some profit taking cannot be ruled out, we still expect Chinese traders to buy on dips in order to replenish their still low iron ore stockpiles. This is likely to absorb most if not all of the new seaborne iron ore supply expected over the coming months.

Meanwhile, the recent rise in coking coal prices have compelled traders to keep buying for fear of paying even higher prices. That said, better supply discipline by high cost Australian producers is needed to support higher prices. Finally, while stronger seasonal demand is a positive for thermal coal prices, heavy discounting by well-stocked large Chinese coal producers is likely to put a cap on prices until the end of the year.

Currencies

Reversification remains our over-arching theme in the medium term, with G4 currencies expected to outperform their non-core counterparts, as growth and yield differentials between the two continue to diverge.

USD –The USD is expected to continue appreciating against many peripheral currencies, including the AUD, INR and IDR. Against the other majors, however, we expect the movement to be modest and disparate. We look for EUR strength, some modest JPY weakness and the GBP to perform somewhere between these two extremes. One reason underpinning our view is that the US had been the recipient of very strong flows into Treasuries in the post crisis period, totalling US$2.5tr since 2008. Going forward, the outlook for Treasury demand will likely be increasingly challenging in the face of rising bond yields. In addition, following the US government shutdown, investors may start anticipating a delay in the Fed's tapering timetable to 1Q14. This shift in the tapering time horizon may in turn weigh on the dollar.

GBP – Over in the UK, the stronger PMI readings and better than expected 2Q GDP data, coupled with the improvement in the labour market, have lifted the sterling by 9% since July 2013. Given the stronger tone in the data, the BoE's forward guidance of keeping interest rates low for longer, has struggled to gain credibility with the markets.

That said, in our view, much of the good news has been priced into the sterling. Meanwhile, the UK's trade deficit, having widened in July, poses a potentially weak link for the economy. We also note that wage growth is still negative and a pick up in productivity growth has yet to materialise. At the same time, the recovery in house prices appears to be limited to London, with prices outside the capital showing only a modest uplift. These factors do not support a sustained appreciation of the exchange rate. That said, given the Fed's delayed tapering, any downside in the GBPUSD may be limited.

EUR –The ECB kept interest rates unchanged at its latest policy meeting in early October and did not adopt any new measures to boost liquidity. ECB governor Draghi's statement that the euro exchange rate was not a policy target suggests that European policymakers do not regard currency depreciation as a means to drive growth. Instead, maintaining low and stable inflation and promoting internal competitiveness through structural reform appears to be the preferred ways to support economic activity in the medium to longer term.

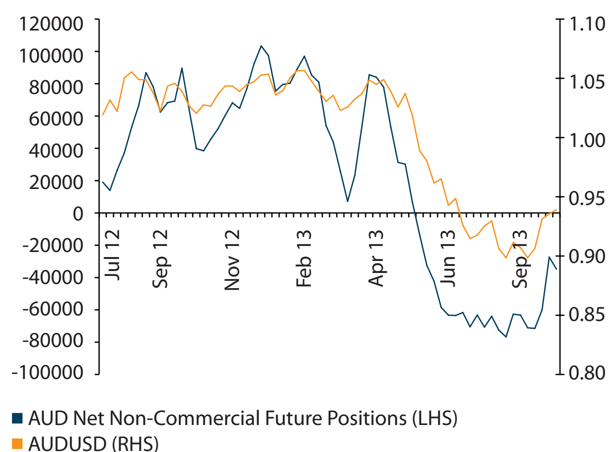
In addition, Draghi views money supply growth as essential to the economic recovery. To that end, actively weakening the euro could be counterproductive, given its potential to stem the capital inflows currently driving money supply. Finally, the ECB appears to expect a pick up in monetary and credit growth, thereby further lowering the likelihood of easing at this point.

Against this backdrop, we continue to expect the euro to outperform the GBP, JPY, AUD and NZD. We also prefer the euro to Asian currencies, given eventual Fed tapering and the eurozone's strong balance of payments position. On the other hand, a quick resolution of the debt ceiling debacle could lead to a rebound in the USD. Hence, we prefer to be positioned within the EUR against the crosses.

JPY – We maintain our stance that USDJPY at around 100 has priced in much of the BoJ's aggressive easing program. Notably, inflation expectations are currently at a little above 1%, not too far from the BoJ's ultimate goal of 2% inflation. As such, external factors would be required to drive the USDJPY higher. This is likely to come from rising US bond yields, on the back of Fed tapering. That said, the yen's move is likely to be limited by its already cheap valuations, and the fact that Japan is also a potential beneficiary of the global recovery.

AUD – The AUD rose to a high of 0.95 in September triggered by the Fed's decision not to taper its asset purchase program, which led to a generalised unwinding of large scale short positions in the currency. See chart. At the same time, the basing of China's activity data supported investor sentiment towards the commodity currency. Nevertheless, going forward, given that positioning in the AUD is now neutral, the currency is unlikely to enjoy a further lift from portfolio adjustments.

AUD/USD & Speculative Positions



Bloomberg. ANZ. October 2013.

On the interest rate front, the RBA kept its policy rate at 2.5% in October and the accompanying statement suggests that the central bank remains comfortably on hold in the near term. We have now pushed back the timing for the final rate cut in this interest rate easing cycle to February 2014. We believe that we are close to the low in the Australian cash rate cycle, given the improving housing sector, better global growth news and accommodative monetary policy. That said, given the wind back in mining investment, we do not expect any rate hikes throughout 2014. As such, our medium term view remains that the AUDUSD will continue to depreciate towards 0.85 by end-2014. We do expect the depreciation to be orderly however, as commodity prices are forecast to remain elevated for some time.

NZD – We expect the NZDUSD to remain elevated, but not make a new high this year, despite supportive domestic factors. This is because the factors in NZ's favour, such as the Canterbury rebuild, rising commodity prices, stronger relative growth and potentially higher interest rates, are already well-recognised by the market. Therefore, unless an intensification of these drivers materialises, they are unlikely to be able to push the NZDUSD higher. At the same time, the NZD may not see much support from fixed income inflows. While the carry from New Zealand bonds continue to look attractive, the risk return characteristics seem more compelling for the shorter duration bonds, which are in short supply.

CNY – China's ongoing domestic reform and leverage adjustment is likely to slow Chinese growth, but this may not necessarily translate to currency weakness. A slower domestic economy is likely to rein in imports and coupled with improving exports, could help China sustain its current account surplus. This could result in the RMB outperforming other Asian currencies.

INR – We are looking for structural reforms needed to open up the Indian economy and attract foreign direct and portfolio investment. The RBI's decision to hike policy rates by 25bp gave credence to Governor R G Rajan's pledge to tackle inflation. This may bode well for the INR over the longer-term, but will likely impact the stock and bond markets in the interim. A 75bp cut in the Marginal Standing Facility (MSF) rate will also dampen the INR in the near-term, but is part of a necessary process to narrow the gap between the MSF and policy rates.

IDR – The government's plan to unveil an easing in investment rules is a positive step. However, we are still looking for further monetary tightening to curb domestic demand, and in the process dampen imports and narrow the current account deficit. Our forecasts currently incorporate a further IDR depreciation next year as Indonesia's structural current account deficit will take time to improve.

SGD – The MAS maintained its policy of a modest and gradual appreciation of the S$NEER (Nominal Effective Exchange Rate) policy band at its policy meeting in October, with no change to the slope and width of the policy band. We expect the MAS to remain vigilant towards cost-push pressures stemming from a tight labour market. Although the unemployment rate has risen marginally to 2.1% in 2Q13, tighter restrictions on foreign workers are likely to continue to put upward pressure on wages.

TWD – Taiwan's central bank (CBC) held its policy rate at 1.875% in September, consistent with the macroeconomic profile of a country facing moderate growth potential in a low inflation environment. The central bank's moderate growth expectations for Q4 is based on stabilising demand from the US, EU and Mainland China, although notably, domestic consumption and investments have been soft to date.

We continue to pencil in the first rate hike in December this year, but the interest rate outlook will largely depend on the US tapering schedule. Although bond yields have declined somewhat following the US Fed's decision to retain the current scale of asset purchases, it is a matter of time before the US Fed starts to taper. Taiwan's interest rate profile will therefore continue to face steepening pressure, causing Taiwan's monetary policy stance to display a tightening bias.

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Returns

Country Equity Markets	YTD	1-Yr	3-Yr
ASX 200	12.3%	19.0%	13.9%
FTSE 100	9.6%	12.5%	16.5%
Hang Seng	0.9%	9.7%	2.2%
India Sensex	-0.2%	3.3%	-3.4%
Jakarta Comp	0.0%	1.3%	23.3%
Korea KOSPI	0.0%	0.0%	6.6%
Malaysia KLCI	4.7%	8.1%	20.8%
Nikkei 225	41.8%	66.2%	57.3%
S&P 500	17.9%	16.7%	47.3%
Shanghai-A	-4.2%	4.2%	-18.1%
Singapore ST	0.0%	3.5%	2.3%
Taiwan Weighted	6.2%	5.9%	-0.8%

Regional Equity Markets	YTD	1-Yr	3-Yr
MSCI World	12.5%	15.2%	25.2%
MSCI Europe	13.2%	20.7%	16.9%
MSCI BRIC	-7.6%	-1.9%	-20.3%
MSCI Emerging Market	-6.4%	-1.5%	-8.2%
MSC AP ex Japan	-1.4%	4.1%	2.8%

Fixed Income	Yield	1-mth chg	YTD chg
Aust Govt (10Y)	3.81	-8	54
Bunds (10Y)	1.78	-8	46
Gilts (10Y)	2.72	-5	89
JGB (10Y)	0.69	-3	-11
NZ Govt (10Y)	4.57	2	106
SG Govt (10Y)	2.35	-32	105
US Trsy (2Y)	0.32	-8	7
US Trsy (10Y)	2.61	-17	85

Currencies	Level	1-mth chg	YTD chg
USD-JPY	98.27	-0.1%	-13.3%
EUR-USD	1.35	2.3%	2.5%
AUD-USD	0.93	4.7%	-10.4%
USD-SGD	1.26	1.5%	-2.8%
NZD-USD	0.83	7.4%	0.1%
GBP-USD	1.62	4.4%	-0.4%
USD-CAD	1.03	2.2%	-3.9%
USD-TWD	29.63	1.0%	-2.1%
USD-IDR	11406.00	-2.0%	-16.5%
USD-INR	62.62	4.7%	-13.9%
USD-KRW	1074.64	3.2%	-1.0%

Source: Bloomberg. As of 30 September 2013.

Commodities	Level	1-mth chg	YTD chg
Aluminium	1845	1.7%	-11.0%
Copper	7302	2.8%	-7.9%
Gold	1327	-5.0%	-20.8%
Lead	2117	-1.6%	-9.1%
Nickel	13955	1.1%	-18.2%
WTI Oil	102	-4.9%	11.4%
Zinc	1918	0.7%	-7.8%

Forecasts

Base Metals (US$/lb)	Mar-14	Jun-14	Sep-14
Aluminium	0.88	0.91	0.93
Copper	3.60	3.65	3.65
Nickel	7.10	7.60	8.00
Zinc	0.94	0.99	1.01
Lead	1.01	1.03	1.05
Tin	10.10	10.10	10.20

Precious Metals (US$/oz)	Mar-14	Jun-14	Sep-14
Gold	1415	1440	1460
Platinum	1550	1600	1620
Palladium	800	830	850
Silver	24.7	25.2	25.5

Energy (US$/bbl)	Mar-14	Jun-14	Sep-14
WTI Nymex	106	109	111

Currencies	Mar-14	Jun-14	Sep-14
USD-JPY	105	105	105
EUR-USD	1.38	1.4	1.4
GBP-USD	1.57	1.58	1.60
AUD-USD	0.88	0.87	0.87
NZD-USD	0.80	0.79	0.78
USD-SGD	1.3	1.31	1.31
USD-TWD	30.4	30.5	30.5
USD-IDR	11700	12000	12000
USD-INR	65	66	66

Cross Rates	Mar-14	Jun-14	Sep-14
AUDNZD	1.10	1.10	1.12
AUDSGD	1.14	1.14	1.14
NZDSGD	1.04	1.03	1.02
EURSGD	1.79	1.83	1.83
SGDJPY	80.77	80.15	80.15
GBPSGD	2.04	2.07	2.10
AUDIDR	10296	10440	10440
NZDIDR	9360	9480	9360
EURIDR	16146	16800	16800
JPYIDR	111	114	114
GBPIDR	18369	18960	19200

Source: ANZ Economics & Markets Research. As of 10 Oct 2013. Forecasts are quarterly averages.

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