

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

## Market and economic overview

### Australia

The Reserve Bank of Australia (RBA) left the official cash rate on hold in June at 2%, as was widely anticipated by financial markets.

The RBA noted that "the global economy is expanding at a moderate pace" but commodity prices have declined over the past year, generally reflecting increased supply. On Australia, the RBA noted "the available information suggests the economy has continued to grow, but at a rate somewhat below its longer-term average."

The positives for growth include improving household spending, a large rise in dwelling construction and rising exports. The negatives include the weakness in business capital expenditure and subdued public sector spending. This is leading to spare capacity, very slow growth in labour costs and inflation that is expected to be within target over the next one to two years even with the lower exchange rate.

Q1 2015 GDP data was released showing growth of 0.9% per quarter and 2.3% per year. The quarterly growth figure was stronger than expected and was driven primarily by net exports which contributed 0.5%ppts to growth.

The unemployment rate fell to 6.0% in May, with 42,000 jobs added, this comprised of 14,700 full-time jobs and 27,300 part-time jobs.

Australian house prices rose 2.1% in June according to RPData-Rismark, this took annual house price growth to 9.8% per year. On a capital city basis Melbourne, Sydney, Brisbane and Adelaide all rose while Perth fell.

### United States

The US Federal Open Market Committee (FOMC) met on 16-17 June 2015. Attention is on the first interest rate hike, currently expected in

September 2015. At this meeting the Fed lowered its near-term economic growth expectations, but at the same time continued to guide the markets towards the start of monetary policy normalisation in the months ahead.

The key message contained in the FOMC statement and press conference from Chair Janet Yellen was "clearly most participants are anticipating that a rate increase this year will be appropriate" however this assumes that growth in the second half of the year picks up and further improvement is made in the labour market.

On employment, there were further positive signs in the month with 280,000 jobs added in the month of May. The unemployment rate did rise back to 5.5% from 5.4% with a lift in the participation rate. Average Hourly Earnings rose 0.3% per month and 2.3% per year, showing tentative signs of emerging wages pressure. The JOLTS Index, a measure of job openings also rose, up to 5376, from 5109, and for the first time in its history recorded a higher level than the number of hires over the month, signalling a tightening labour market.

Consumer spending rose, with retail sales rising 1.2% per month in May, ex-autos and gas rose 0.7% per month. Gains were broadbased across industries after weak sales growth for much of 2015.

The housing market is also improving with the NAHB Housing Market Index, a measure of home builder's confidence rising from 54 to 59, the strongest level since September 2014. Building permits rose 11.8% in the month, existing home sales were up 5.1%, new home sales rose 2.2% per month and the FHFA House Price Index rose 0.3% for April (latest data available) and 5.3% over 12 months.

## Europe

The European Central Bank (ECB) met on 3 June 2015 and no policy changes were announced.

In Europe the focus over the month were the fraught negotiations for the Greek bailout extension between the Greek government, led by Alex Tsipras and the creditors, the International Monetary Fund, European Central Bank and European Commission. While optimism increased at several points throughout the month, they ended without agreement when Alex Tsipras announced he would call a referendum for 5 July 2015 on the last bailout conditions put forward by the creditors. As a result the second Greek bailout plan expired on 30 June and Greece officially entered into arrears on its IMF repayments and became the first developed country to do so.

The European Central Bank responded by leaving the Emergency Liquidity Assistance (ELA) line at the level of 26 June 2015 and noting "the Governing Council is closely monitoring the situation in financial markets and the potential implications for the monetary policy stance and for the balance of risks to price stability in the euro area. The Governing Council is determined to use all the instruments available within its mandate."

## United Kingdom

The Bank of England (BoE) left policy unchanged at its 4 June 2015 meeting, as expected. The Bank Rate was unchanged at 0.5% and the stock of asset purchases remained at £375bn.

The final estimate of Q1 2015 GDP was revised up, with growth of 0.4% per quarter (was 0.3%) and 2.9% per year (was 2.4%). This is the ninth quarter of growth for the UK economy with growth continuing to be led by domestic demand with net exports a drag on growth.

Inflation remains subdued, rising 0.2% per month in May and 0.1% per year. Core CPI is 0.9% per year. Average weekly earnings rose to 2.7% per year, this is the strongest growth since August 2011.

## Japan

The Bank of Japan's (BoJ) policy board convened on 19 June 2015 and left its qualitative and quantitative easing (QQE) program at an annual increase of ¥80trillion to its monetary base.

## China

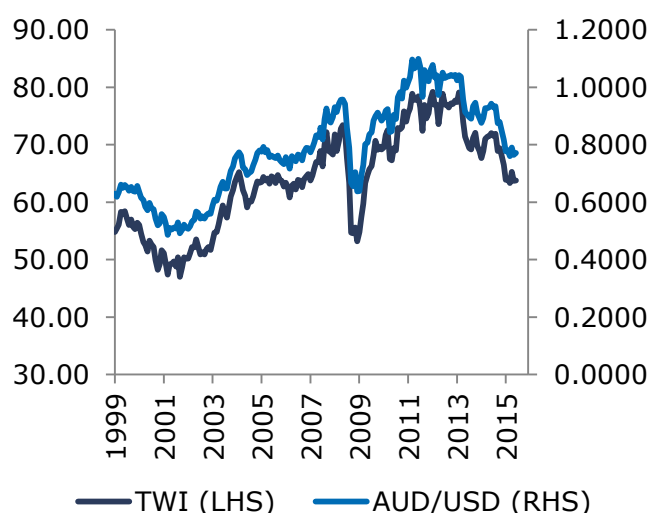
The Peoples Bank of China (PBOC) eased monetary policy again in late June. The 1-year lending rate was cut to 4.85% from 5.1% on 27 June 2015. This is the fourth rate cut since November 2014. The PBOC also cut the Reserve Requirement Ratio (RRR) by 50 bps for selected lenders whose loans to the agriculture sector and small companies have satisfied the PBOC's criteria at the same time. The PBOC noted the purpose of this easing was to "support real economic development", the timing of the easing coincided with volatile moves on the China A-sharemarket, which had fallen near 20% in recent weeks. This is the first combined easing since late 2008.

## Australian dollar

The Australian dollar was mixed in June, recording a small gain against the US dollar, up 0.8% to \$US0.7708. This was in contrast to general US dollar weakness in the month of June. The Australian dollar fell against the Sterling and the Euro and the Japanese yen in the month.

Over the 2015 Financial Year, the Australian dollar fell 18.3% against the US dollar, 11.1% against the Sterling, 1.2% against the Yen, rose 0.4% against the Euro and 5.9% against the NZ dollar.

## AUSTRALIAN DOLLAR SLIGHTLY STRONGER



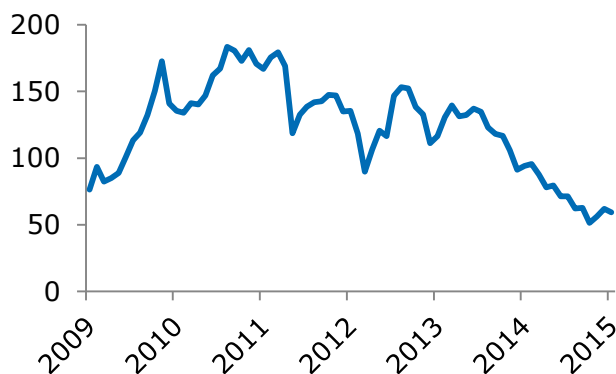
Source: Bloomberg as at 30 June 2015

## Commodities

Commodity prices were weaker in June with tin, lead, zinc and nickel leading commodity prices lower. Much of the price falls were driven by

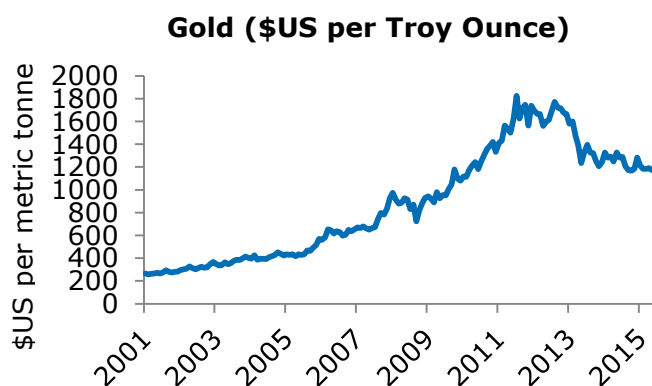
concerns of oversupply. The iron ore, oil and gold prices also fell in June.

### IRON ORE PRICE WEAKER



Source: Bloomberg as at 30 June 2015

### GOLD DIRECTIONLESS



Source: Bloomberg as at 30 June 2015

### Australian shares

Sentiment towards global share markets deteriorated towards the end of the month as the probability of a debt default in Greece appeared to increase. All major share markets closed the month lower against this background.

In Australia, the S&P/ASX 200 Accumulation Index closed June 5.3% lower, reducing gains in the FY15 year as a whole to 5.7%.

Stocks in the Materials sector tended to struggle, likely reflecting subdued economic indicators in China. The Financials sector, which accounts for nearly half of the S&P/ASX 200 Accumulation Index, performed rather better and prevented the market from losing further ground.

### Listed property

Listed property stocks weakened alongside the broader Australian share market in June, with the S&P/ASX 200 Property Accumulation Index closing the month 4.1% lower.

Only a handful of stocks rose in value in June, although National Storage REIT performed particularly well after acquiring a portfolio of self-storage assets in Christchurch, New Zealand. This is the first acquisition since the group's successful capital raising in April 2015.

National Storage REIT was not the only company on the acquisition trail. Dexus Property Group, Mirvac Group, SCP Group and Stockland Group all made acquisitions during June.

In spite of the disappointing end to the year A-REITs performed very well in FY15, with the S&P/ASX 200 Property Accumulation Index adding more than 20%. Investors have been attracted by the relatively stable earnings streams and dividends provided by property companies.

Returns from overseas property markets were much more subdued in the FY15 year, with the UBS Global Property Investors Index adding just 0.4% in US dollar terms. Markets other than Australia which performed well included Hong Kong and the UK.

### Global shares

Global sharemarkets were weak in June, with losses accelerating at the end of the month on the breakdown of negotiations with Greece and resulting deterioration in investor sentiment. All major markets were down over the month. This is despite improvements in both the European economic outlook with Purchases Managers Index data improving as well as better economic news out of the US.

Overall the MSCI World Index fell 2.5% in USD terms and 3.2% in AUD terms.

The S&P 500 Index fell 2.1% in the month, the Dow Jones was down 2.2% and the NASDAQ fell 1.6%. Equity markets also reacted to the increase in bond yields experienced in June, with the MSCI Utilities sector the worst performer, down 5.9% in June in response. The S&P 500 Index returned 5.2% over the financial year.

Equity markets in Europe were weaker, the German DAX fell 4.1% in June, France fell 4.3%,

Spain was down 4.0% and Italy was down 4.4% in response to the Greek drama. The DAX recorded gains of 11.3% for the financial year.

The Athens Stock Exchange was down 3.4% before the referendum was called and the market was closed. At one point the market was down as much as 18% before optimism of a deal rose, just prior to the referendum being called. The market was down 33.4% over the financial year

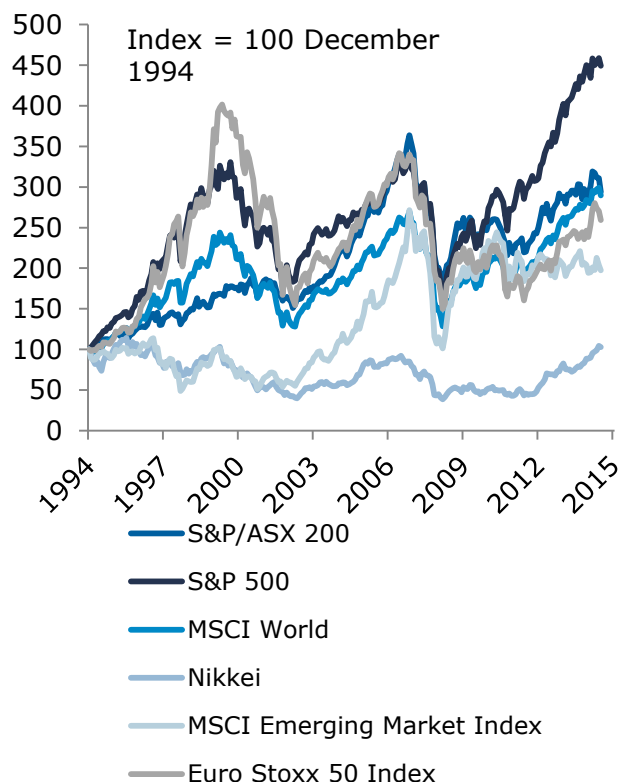
The UK FTSE 100 was down 6.6% in the month to be down 3.3% over the financial year.

## Global emerging markets

Emerging market (EM) equities fell again in June, down 3.2% in US dollar terms (MSCI EM Index) after falls in May. The MSCI Emerging Markets Index underperformed the broader developed market index. In AUD terms, the index fell 3.9%.

The index was not helped by falling commodity prices, a risk off mood by investors and volatility caused by Greece. The losses in China also weighed the index down.

## EQUITY MARKETS MIXED



Source: Bloomberg as at 30 June 2015

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For more information, visit our website [colonialfirststate.com.au/investments](http://colonialfirststate.com.au/investments), contact your local Business Development Manager or call Adviser Services on 13 18 36, Monday to Friday, 8am to 7pm (AEST).

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