FRONTIER ADVISORS

20 years

Monthly Markets

January 2015

It has been an eventful start to the calendar year with key announcements coming out from several countries. The most market sensitive announcement in January was from the European Central Bank (ECB). As speculated by the market for several months now, ECB president Mario Draghi announced the European Union's version of quantitative easing (QE), calling it an "expanded asset purchase programme". This entails expanding its current (private sector) asset purchasing program to include sovereign bonds issued by euro area central governments. The program is expected to make monthly asset purchases of €60 billion.

Further analysis on the announcement is provided in our capital markets memo ("European Central Bank (ECB) policy update and portfolio strategy implications"). The main reasons cited by the ECB for this policy action was to combat the risks of prolonged low inflation and to assist in supporting investment and consumption.

In Greece, the anti-austerity Syriza party was elected into power. Some of the announcements made by the new government include halting privatisation of its assets as it negotiates with its European counterparts on restructuring their debt. Elsewhere in Europe, the Swiss national bank (SNB) removed its 1.20 Swiss Francs per Euro currency cap before the ECB met during the month probably because it believed it would not be able to defend its currency if a QE programme did eventuate. The Swiss Francs skyrocketed up in value against the Euro post the announcement given its safe haven status to the Euro. In addition, the SNB cut its main rate to -0.75%.

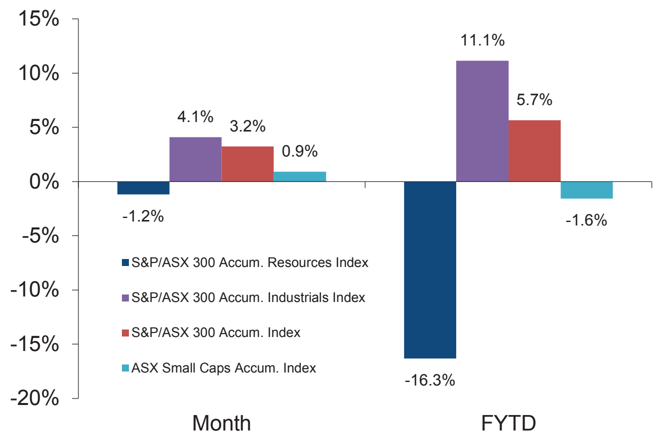
US data remain solid. Its purchasing manager index (PMI – which measures manufacturing activity) held at a robust 53.9 level for January. In terms of its labour market, 257,000 nonfarm payrolls were added for the month. Despite the positive job figure, the unemployment rate rose slightly from 5.6% to 5.7%. This was due to a rise in "participation rate" in the labour force – a positive sign as it indicates discouraged workers may be returning to the labour force looking for work.

Other central banks around the world also announced changes to their monetary policies – generally towards easing. These included central banks in China, Singapore, India, Canada and Denmark. Although in Denmark's case, unlike other central banks, it has cut its rates four times this year to reduce upward pressure on its currency (due to speculation it may follow the way of the Swiss central bank) rather than for economic stimulatory reasons. The Danish deposit rate is now -0.75%.

The rationale behind the Bank of Canada cutting its key policy rate to 0.75% have been largely due to falling commodity prices which its economy is heavily dependent on (similar to Australia). In China, the People's Bank of China cut its reserve requirement ratio by 0.5% to 19.5% to encourage Chinese banks to lend more. This was likely in reaction to weakening growth as indicated by the Chinese PMI which fell to 49.8 in January (a reading below 50 denotes manufacturing activity is contracting).

Locally, the Reserve Bank of Australia (RBA) lowered its interest rate by 0.25% to 2.25% in its first meeting of the year. This was in response to the below trend growth outlook for Australia. Although Australia's subpar growth prospects have been spoken about by the RBA for some time now, it is likely the lower inflation for the December 2014 quarter (1.7% y/y), weaker Chinese growth and other central banks also easing caused the RBA to cut rates this time.

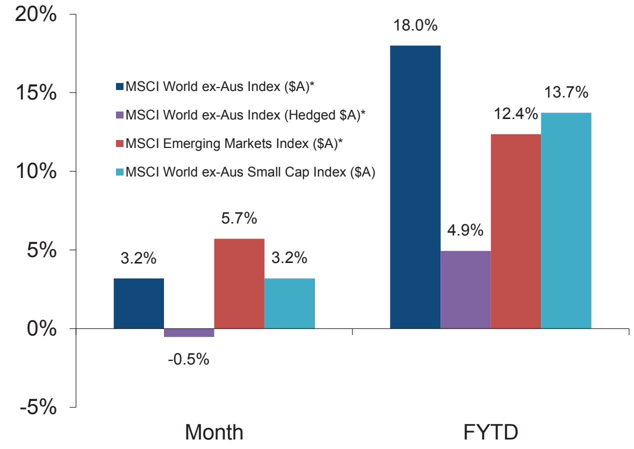
Australian equities



Australian equities started the 2015 calendar year strongly driven mostly by the Industrials sector with the continual fall in commodity prices plaguing the performance of the Resources sector.

By sector, the worst performer was Energy (-6.6%). All other sectors had a positive month with IT (-1.7%) being the other exception. The best performing sector in January was Telecommunication (8.2%).

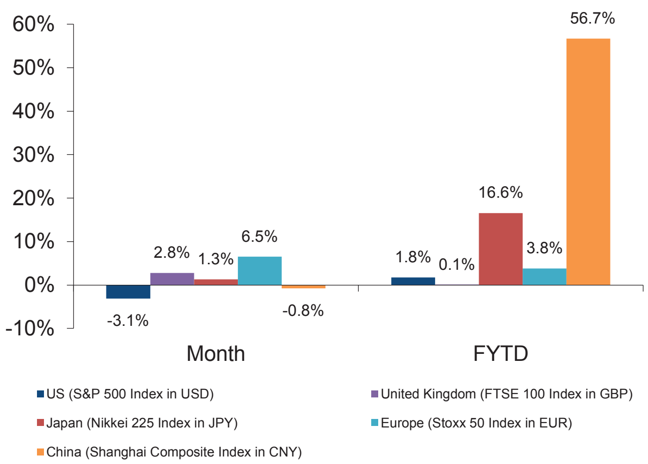
International equities ($A)



Unhedged developed market equities delivered a positive return over the month largely due to the fall in the Australian dollar in January. In hedged Australian dollar terms, developed market equities posted a negative return.

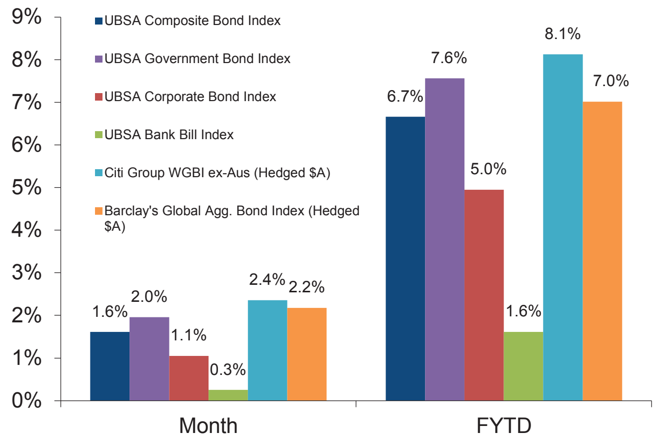
The US was the main cause for the poor performance. Swiss equities also contributed to the negative performance as a result of the scrapping of its currency cap. On the other hand, other European equities (particularly UK, French and German equities) had a strong performance, driven by the QE program announcement from the ECB.

International equities (local currencies)



As mentioned above, local European equity markets had a positive month with US equities being one of the few developed markets that posted a negative return in January.

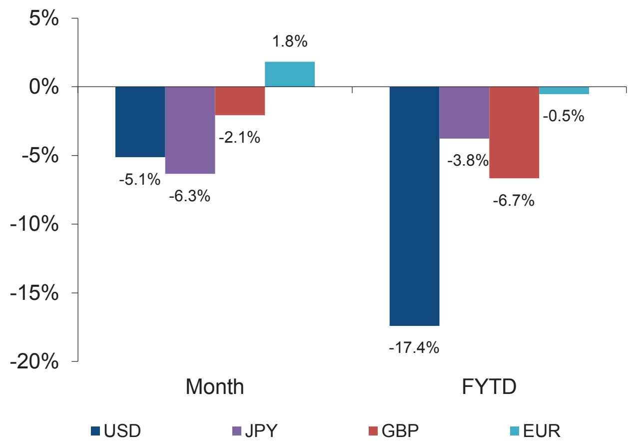
Fixed income



Both Australian and international fixed interest markets recorded a positive month as sovereign yields fell. Sovereign yield curves across most countries flattened (yield of longer term bonds falling more than shorter term bonds).

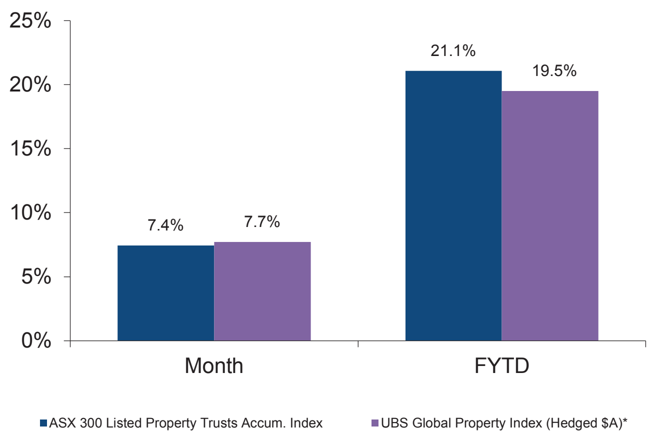
Greek sovereign bonds continued their rollercoaster ride with uncertainty surrounding their debt restructuring negotiations with their European counterparts. Greek sovereign yields rose again this month by more than 1.5%.

Australian dollar against major currencies



January saw the Australian dollar depreciate against most of the major currencies with the exception of the Euro. The strengthening of the Australian dollar against the Euro over the month is most likely the result of the ECB's QE program announcement.

Property



Both Australian and international listed property trusts posted stellar performances for January. International listed property (hedged back into Australian dollar) slightly outperformed its Australian counterpart over the month.

31-Jan-14	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	47,922	3.2%	1.9%	5.7%	12.1%
S&P/ASX 300 Accum. Industrials Index	98,161	4.1%	5.1%	11.1%	19.2%
S&P/ASX 300 Accum. Resources Index	17,936	-1.2%	-12.4%	-16.3%	-15.1%
ASX Small Caps Accum. Index	5,245	0.9%	-2.5%	-1.6%	-0.2%
International equities					
MSCI World ex-Aus Index ($A)*	6,437	3.2%	11.5%	18.0%	20.1%
MSCI World ex-Aus Index (Hedged $A)*	1,185	-0.5%	2.1%	4.9%	15.5%
MSCI Emerging Markets Index ($A)*	519	5.7%	7.2%	12.4%	17.9%
MSCI World ex-Aus Small Cap Index ($A)	406	3.2%	11.9%	13.7%	12.9%
US (S&P 500 Index in USD)	1,995	-3.1%	-1.1%	1.8%	11.9%
United Kingdom (FTSE 100 Index in GBP)	6,749	2.8%	3.1%	0.1%	3.7%
Japan (Nikkei 225 Index in JPY)	17,674	1.3%	7.7%	16.6%	18.5%
Europe (Stoxx 50 Index in EUR)	3,351	6.5%	7.6%	3.8%	11.2%
China (Shanghai Composite Index in CNY)	3,210	-0.8%	32.6%	56.7%	57.9%
AUD versus …					
USD	0.78	-5.1%	-11.6%	-17.4%	-11.2%
JPY	91.83	-6.3%	-5.3%	-3.8%	2.3%
GBP	0.52	-2.1%	-6.3%	-6.7%	-3.0%
EUR	0.69	1.8%	-1.8%	-0.5%	6.2%
Property					
ASX 300 Listed Property Trusts Accum. Index	36,627	7.4%	12.3%	21.1%	35.7%
UBS Global Property Index (Hedged $A)*	2,238	7.7%	12.4%	19.5%	35.0%
Australian Fixed Interest					
UBSA Composite Bond Index	8,479	1.6%	4.6%	6.7%	10.4%
UBSA Government Bond Index	8,885	2.0%	5.3%	7.6%	11.2%
UBSA Corporate Bond Index	8,525	1.1%	3.1%	5.0%	8.3%
UBSA Bank Bill Index	8,195	0.3%	0.7%	1.6%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	2.4%	4.9%	8.1%	11.8%
Barclay's Global Agg. Bond Index (Hedged $A)	-	2.2%	4.2%	7.0%	10.9%
Oil and commodities					
Crude Oil ($/bbl)	48	-9.4%	-40.1%	-54.2%	-50.5%
Copper Spot ($/tonne)	5,541	-13.0%	-18.1%	-21.3%	-21.9%
Gold Spot ($/ounce)	1,279	8.0%	9.1%	-3.3%	2.8%

Fixed income (yields) as at …	31-Jan-15	31-Dec-14	31-Oct-14	30-Jun-14	31-Jan-14
Australia Bank Bill	2.53	2.77	2.72	2.68	2.61
Australia 10 Year Government Bond	2.44	2.74	3.29	3.54	4.00
US 10 Year Government Bond	1.64	2.17	2.34	2.53	2.64
UK 10 Year Government Bond	1.33	1.76	2.25	2.67	2.71
Germany 10 Year Government Bond	0.30	0.54	0.84	1.25	1.66
Japan 10 Year Government Bond	0.28	0.33	0.46	0.57	0.62

* Net dividends reinvested