

## Market Commentary – 29 January 2016

### Japan eases monetary policy again

Global stocks rally for the day and week.

### Equity Markets

**European** markets followed their Asian peers higher after the Bank of Japan's negative interest rate move. Crude oil prices also continued their recent recovery with Brent rising back to around \$34 a barrel. However, oil prices came off their highs on reports that Iran will not support an emergency meeting of OPEC to discuss cutting production. The FTSE was up 2.6 percent, the CAC gained 2.2 percent, the DAX added 1.6 percent and the SMI was 2.0 percent higher. The four indices advanced for the week but tumbled for the month.

The Bank of Japan announced plans to introduce negative interest rate in order to achieve its 2 percent inflation goal at the earliest possible time and left its massive asset purchase program unchanged. The bank also pushed back the projected timing for reaching its inflation target of 2 percent, citing lower crude oil prices. The monetary policy board voted 5 to 4 to reduce its interest rate from plus 0.1 percent to minus 0.1 percent on current accounts that financial institutions maintain at the BoJ. The MPB said it will cut the rate further into negative territory, if judged necessary. The surprise announcement fuelled investor optimism that other central banks as well as policymakers in China will keep pumping more credit into the system in order to prevent further market turmoil.

ThyssenKrupp dropped after the company said it is still performing in line with its forecast for the full year. However, achieving targets will require a clear recovery of the materials markets in the second fiscal half. Both

Fresenius and Fresenius Medical Care gained. In Paris, Airbus Group climbed after Iran signed an agreement to buy 118 Airbus aircraft worth \$25 billion at list prices in one of the biggest deals signed since Western sanctions against Tehran were lifted. In London, Vedanta Resources increased despite its core earnings plummeting by 51 percent in the third quarter. Shares of Sky advanced after the company reported profit before tax of £414 million for the six months ended 31 December 2015 compared to £1.21 billion a year ago.

The Eurozone's January flash harmonized index of consumer prices was up 0.4 percent from a year ago after increasing 0.2 percent in December. Germany's December retail sales decreased a seasonally adjusted 0.2 percent on the month, reversing a 0.4 percent rise in the previous month.

In the **US**, stocks soared on the last trading day of January with Microsoft, Visa and other tech stocks making the biggest gains in a broad market rally. The indices climbed throughout the day and finished with their biggest gains in about five months. Also contributing to buoyant investors was the Bank of Japan's introduction of additional stimulus. Tech stocks climbed after strong fourth quarter results from Microsoft and Visa. Materials companies and banks also made large gains and the price of oil was up for the fourth day in a row. The Dow Jones industrials and S&P were up 2.5 percent while the Nasdaq added 2.4 percent. The indices were up 2.3 percent, 1.7 percent and 0.5 percent respectively for the week. However, the three retreated for the month.

Microsoft advanced a day after its fourth quarter profit and revenue beat expectations. The company posted strong results from its cloud computing business and the unit that sells PC software and Surface tablets and Xbox game consoles. Visa and MasterCard both rose after

reporting solid results. Amazon dropped after its quarterly profit more than doubled, but still fell short of forecasts because of increased costs.

Honeywell advanced following its fourth quarter report. General Electric also gained. Xerox said it would split into two publicly traded companies after pressure from the activist investor Carl Icahn. Electronic Arts was down after its profit and revenue forecasts fell a bit short of estimates. The video game maker said sales of its "Star Wars: Battlefront" game were strong, but analysts said investors were disappointed with the number of downloads, which are more profitable than sales of physical games. Consol Energy jumped following its fourth quarter report and another increase in the price of natural gas.

Stocks were also lifted by weak fourth quarter US gross domestic product which bolstered arguments that the Federal Reserve might go slower than expected on future rate increases. According to the first estimate of gross domestic product for the fourth quarter the economy grew at an annualized pace of 0.7 percent.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down US\$2.20 to US\$1,111.80. Copper futures were up 0.8 percent to US\$2.07. WTI spot crude was up 40 US cents to US\$33.62. Dated Brent spot crude was up US\$1.19 to US\$35.99. The US dollar was up against the euro, yen, pound, Swiss franc and the Australian dollars. However, it declined against the Canadian dollar. The Dollar Index was up 0.95 percent. The yield on US Treasury 30 year bond was down 5 basis points to 2.74 percent while the yield on the 10 year note dropped 7 basis points to 1.92 percent.

**Asian** shares were higher Friday after US stocks rebounded overnight, crude prices extended overnight gains and the safe haven Japanese yen weakened in the wake of further BoJ easing. The yen weakened against all major peers and fell by over 2 percent against the dollar at one point after the Bank of Japan surprised markets by adopting negative interest rates for the first time in a bid to boost the country's flagging economy.

The Shanghai Composite climbed 3.1 percent on the day but lost 6.1 percent for the week and 22.6 percent in January. Investors drew some

relief after the People's Bank of China said it would increase the frequency of open market operations between January 29 and February 19 to keep the banking system flush with cash around the New Year celebration. The Hang Seng added 2.5 percent Friday and 3.2 percent on the week. The Hang Seng dropped 10.2 percent in January.

The Nikkei hit its highest level in more than two weeks after the Bank of Japan introduced negative interest rates. The Nikkei was up 2.8 percent on the day and 3.3 percent for the week. However, it retreated 8.0 percent for the month. Investors largely shrugged off a string of disappointing December data that showed a larger than anticipated drop in industrial production, sluggish retail sales, a decline in household spending and lacklustre inflation. Realty stocks outperformed, with Mitsui Fudosan, Mitsubishi Estate and Sumitomo Realty & Development climbing. Oil stocks Inpex, JX Petroleum and Japan Petroleum rallied. Honda Motor and Toyota Motor climbed even as industry data showed automobile production in Japan decreased at the end of the year after rising in the previous month.

Both the S&P/ASX and All Ordinaries added 0.6 percent after commodities and oil gained overnight. Miners extended the previous session's gains, with Fortescue Metals Group, BHP Billiton and Rio Tinto all advancing. On the week, the indices were up 1.8 percent. However, they both retreated in January. The Kospi gained 0.3 percent after the Bank of Japan's surprise decision. Also, South Korea's industrial output rose more than expected in December providing some relief to investors concerned about the slowing economy. The index was up 1.7 percent on the week but retreated for the month. The Sensex added 1.6 percent and 1.8 percent for the day and week respectively. However, it too slid in January.

## **The Longer-Term Perspective**

Markets historically fall from time to time in the course of their longer-term upward progress. Investors who are willing to accept periods of market volatility and stay invested for the long term are often well positioned to grow their wealth as markets subsequently recover.

We view the market reaction to them as a normal part of the investment cycle that, in itself, creates attractive opportunities for long-term investors.

## Looking forward

The following indicators will be released this week...

### Central Bank activities

February 2	Australia	Reserve Bank of Australia Monetary Policy Announcement
	India	Reserve Bank of India Monetary Policy Announcement
February 4	UK	Bank of England Monetary Policy Announcement

	Index	2016 Jan 29	Daily Change	% Change Daily
<b>North America</b>				
United States	Dow	16466.3	396.7	2.5
	NASDAQ	4614.0	107.3	2.4
	S&P 500	1940.2	46.9	2.5
Canada	S&P/TSX Comp	12822.1	230.2	1.8
<b>Europe</b>				
UK	FTSE 100	6083.8	152.0	2.6
France	CAC	4417.0	94.9	2.2
Germany	XETRA DAX	9798.1	158.5	1.6
Italy	MIB	18657.3	467.3	2.6
Spain	Ibex 35	8815.8	225.2	2.6
Sweden	OMX Stockholm 30	1356.3	23.0	1.7
Switzerland	SMI	8319.8	166.5	2.0
<b>Asia/Pacific</b>				
Australia	All Ordinaries	5056.6	28.5	0.6
Japan	Nikkei 225	17518.3	476.8	2.8
Hong Kong	Hang Seng	19683.1	487.3	2.5
S. Korea	Kospi	1912.1	5.1	0.3
Singapore	STI	2629.1	66.7	2.6
China	Shanghai Comp	2737.6	81.9	3.1
Taiwan	TAIEX	8080.6	175.5	2.2
India	Sensex 30	24870.7	401.1	1.6
Data Source — Haver Analytics				