

# Greece, China and monetary policy



## JANUARY

After a 6.2 per cent rise in the Straits Times Index in 2014, the early months of 2015 were dominated by worries of a Greek exit from Europe ("Grexit") because of snap elections on Jan 25, and concerns raised by falling oil prices. Hopes of large-scale monetary easing by the European Central Bank (ECB) helped support sentiment and these hopes would continue for the whole year. Reports from data compilers point to a continued outflow of funds from emerging Asia that started at the end of 2014. Daily average volume hovered around S\$1-1.2b.

**Starts:** 3,365.15  
**Ends:** 3,391.20  
**(+0.8%)**

Tharman Shanmugaratnam

## FEBRUARY

Early in the month came news that 1,225 retail trading representatives had signed a petition to Finance Minister Tharman Shanmugaratnam, expressing unhappiness about the state and direction of the market. Mid-month saw Iceberg Research issue a negative report on commodities firm Noble Group which questioned Noble's accounting. Not helping was that Noble reported a shock US\$240m Q4 loss. Near month-end, US Federal Reserve chief Janet Yellen said the Fed was in no rush to raise interest rates helping stocks end the month on a firm note.

**Start:** 3,391.2  
**End:** 3,402.86  
**(+0.3%)**

## MARCH

Early in the month, Germany approved a bailout of Greece and China cut interest rates to boost growth. All over the world bond yields slumped to record lows, either because of a flight to safety and/or because inflation isn't seen as threatening. Noble's shares break below S\$1 despite plenty of insider buying and brokers report disappointment at the Q1 reporting season – Maybank Kim Eng said earnings were of poor quality and may not be sustainable. "Without a convincing earnings recovery, the market should continue to trade sideways with a downward bias" the broker said. Markets begin betting that the US Federal Reserve might start raising rates in June while Bank of America-Merrill Lynch reported in its fund manager survey that funds were shifting out of the US in favour of Europe and Japan. Five consecutive rises up to March 30 help the STI record a 2.4 per cent rise for Q1.

**Start:** 3,402.86  
**End:** 3,447.01  
**(+1.3%)**

## APRIL

The year's first IPO was real estate manager LHN Group while a weak March US jobs report injected caution into trading. A change in the rules allowed China mainland mutual funds to buy Hong Kong stocks via the Stock Connect, propelling the Hang Seng 8 per cent up in four days and helping keep the STI afloat. On April 15 the STI closed at its third consecutive 7-year high of 3,539.95, fuelled by speculation of a Singapore-China stock connection which also sent shares of the Singapore Exchange (SGX) soaring.

**Start:** 3,447.01  
**End:** 3,487.39  
**(+1.2%)**



Janet Yellen

## MAY

Greece returned to the radar as worries over a debt default surface, while in China, a large stock market selloff started amid reports that the rally of the past month came mainly from over-leveraged retail buying and not institutional money. Also a dampener was a comment by US Fed chief Janet Yellen that Wall Street's stock prices were "quite high" and that once interest rates start to rise, they could be raised quickly. China cut interest rates again but relief proved short-lived.

**Start:** 3,487.39  
**End:** 3,392.11  
**(-2.7%)**

## JUNE

Sentiment was weighed down by the increasing threat of a "Grexit", a plunging China market and new liquidity requirements for continued STI membership which cast doubt on the Jardine group's inclusion. Helping support prices was weak US economic data which suggested interest rate hikes could be delayed. Also helping was an announcement by MSCI that it wouldn't be including China "A" shares in its emerging markets indices which meant that Singapore's weighting wouldn't have to be cut. The Greek government shocked markets by calling a referendum on whether to accept the demands of its creditors that prompted the ECB not to increase its emergency liquidity assistance to the country's banks.

**Start:** 3,392.11  
**End:** 3,317.33  
**(-2.2%)**  
**First Half:** -1.4%



Alexis Tsipras

## JULY

China stocks underwent massive volatility, falling as much as 5-10 per cent in a day. Greece voted "no" to more austerity which, confusingly, eventually turned out to be "yes" when bailout negotiations commenced. This then helped calm markets that had been plunging in tandem with a China collapse and worries over a messy "Grexit". Penny stock fever erupted in the third week – on July 20, 3.2 billion units were traded, albeit valued at only S\$985 million. The charge was led by CEFC International, which gained 900 per cent in a week, leading to spillover punting of many other low-priced issues.

**Start:** 3,317.33  
**End:** 3,202.5  
**(-3.5%)**

## AUGUST

China's equity market collapse moved into full swing resulting in contagion selling here. On Aug 11 a shock announcement by the China government that the yuan would be devalued sent the STI to a 92-point or almost 3 per cent loss. The ECB warned that financial developments in China could have a larger than expected adverse impact. On Aug 18, the Shanghai Composite collapsed by 6.1 per cent, taking regional

markets down with it. Renewed worries surfaced of a US interest rate hike at the Sept FOMC after Fed vice-chair Stanley Fisher said "there is good reason to believe that inflation will move higher as the forces holding down inflation dissipate further".

**Start:** 3,202.5  
**End:** 2,921.44  
**(-8.8%)**

## SEPTEMBER

On Sept 9, a corporate tax cut in Japan sent the Nikkei up 7.7 per cent – its best one-day rise in 7 years - which propelled regional markets higher.



However, reality quickly set in – a resounding victory at the General Elections for the incumbent People's Action Party did not translate into an election rally here; instead, prices continued to move in tandem with China and the US. The Fed delayed raising interest rates, citing overseas considerations which markets took to mean China's problems. On Sept 29, the STI sank to an intraday low of 2,740 before closing at its lowest in 38 months at 2,787.

**Start:** 2,921.44  
**End:** 2,790.89  
**(-4.5%)**



## OCTOBER

The STI dropped for five consecutive days at the start of the month as China weakness from Sept continued. On Oct 12, Morgan Stanley recommended investors "believe in the bounce" based on developed market growth holding up, Chinese growth stabilising, attractive valuations, and better positioning/technical. Strong hints from ECB chief Mario Draghi about increased stimulus also helped. Meanwhile, the People's Bank of China cut interest rates, lowered banks' reserve ratios and injected 105.5 billion yuan (S\$23.2 billion) into 11 financial institutions to boost

liquidity and encourage lending to small businesses and the agricultural sector.

**Start:** 2,790.89  
**End:** 2,998.35  
**(+7.5%)**

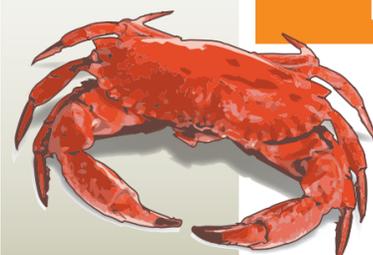


Mario Draghi

## NOVEMBER

Morgan Stanley proclaimed the bounce had run its course, partly because reported earnings were poor. Comments from Fed chief Janet Yellen about moving ahead with rate hikes "in timely fashion" weighed on sentiment. The listing of Jumbo and the takeover of NOL by France's CMA CGM gave traders something to sink their teeth into, while Mr Draghi's comment that the ECB would "do what it takes" to reach its inflation targets also helped. On Nov 30, the International Monetary Fund (IMF) admitted China's yuan as a reserve currency, a move which gave sentiment a boost.

**Start:** 2,998.35  
**End:** 2,855.94  
**(-4.8%)**



## DECEMBER

Markets were disappointed that after all the promises by ECB chief Draghi, the actual stimulus unveiled fell short of expectations. Also a drag was weak oil prices which weighed heavily on Wall Street. The Fed delivered its first, widely-anticipated interest rate hike in 7 years. A brief, "relief" rally ensued but the lack of liquidity meant it fizzled out quickly. Almost all investment houses released bleak 2016 outlooks for emerging markets mainly because of a slowing China. Noble's downgraded its credit to "junk" status while SingPost garnered unwelcome headlines because of questions over its corporate governance.

**Start:** 2,855.94  
**End:** 2,882.73  
**(+0.9%)**  
**For the year:** -14.3%

**2,882.73**  
Dec 31

To say that 2015 was not a good year for stocks would be a bit of an understatement – even Wall Street, aided by a recovering economy and several years of massive monetary stimulus, has not performed while for the Straits Times Index, the loss was a sobering 14.3 per cent. The main themes of 2015 were the threat of a "Grexit" or Greek exit from the eurozone in the first six months, a drastically slowing China economy in the second half that sent its over-valued and over-leveraged stock market into a tailspin,

and the divergent monetary policies of central banks – the US Federal Reserve raised interest rates last month (its first hike in seven years) even as the People's Bank of China and European Central Bank moved in the opposite direction. At its peak in June the Straits Times Index gained about 9 per cent for 2015, but all of this and more was wiped out by the end of the year as rising geopolitical risk, worries about rising interest rates and an aversion to all emerging markets set in. Not all negative forces were external –

domestically, an economy which almost entered a technical recession in the third quarter added to the market's worries while brokers and retail investors grappled with challenges posed by the new minimum trading price or MTP rule, dwindling liquidity and a dearth of large, quality listings. At the end of 2015, most investment houses forecast a continuation of the events of 2015 which, if they are correct, would mean a bleak 2016. All investors can do is hope that these forecasts will be proven wrong.