



# Markets brace for year of turmoil

Sally Rose and  
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The year ahead is being tipped as the most volatile for investment markets since the global financial crisis despite China's decision to back away from controversial sharemarket and currency controls delivering a reprieve on Friday.

Australia's sharemarket began 2016 with its biggest weekly fall in more than four years, while the local currency posted the worst start to a year since it was floated more than three decades ago.

Concerns about China were compounded by oil prices at a 12-year low, tensions between Saudi Arabia and Iran, North Korea's aggressive posturing on its hydrogen bomb capabilities, a weaker global growth outlook and uncertainty about what will happen to global asset prices in the coming months as the United States Federal Reserve raises interest rates.

The benchmark S&P/ASX 200 closed lower for the sixth session in a row on Friday as it edged down 0.4 per cent to 4990.8 points, bringing the losses for the week to 5.76 per cent. Roughly \$85 billion was wiped off the market in the first five sessions of 2016, obliterating the gains of a nine-day winning streak at the end of 2015.

Local losses were comparable to those in major global markets. Equity markets across the United States, Europe and Asia fell to similar extents after the introduction of a new circuit-breaker on the Chinese stock exchange, designed to reduce volatility, backfired by sparking panic selling. Chinese markets were forced to shut on two out of the past five days.

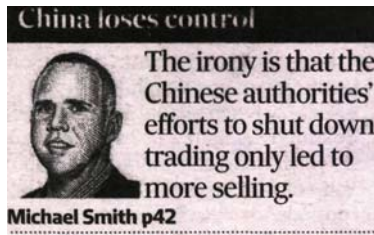
Chinese attempts to drive down the yuan to boost the world's second largest economy have only succeeded in unsettling markets. The Australian dollar fell 3.1 per cent this week and dipped below US70¢ on Friday.

However RBC Capital Markets senior currency strategist Sue Trinh said the reaction to sharp falls in China's currency was "unwarranted angst".

"Concerns about a reversal in the progress of internationalising the

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renminbi are overblown. China has tabled 2020 as the 'deadline' for managed convertibility of the RMB and we expect convergence in the long run."

Markets are concerned China will continue to devalue its currency to maintain its competitiveness.

Thin trading volumes, with many traders still on holidays trading volumes, exacerbated the pessimism.

Total turnover on the ASX over the past week roughly two-third of the 2015 weekly average.

Billionaire US investor George Soros left many market watchers nervous on Thursday when he told a conference in Colombo Sri Lanka he "saw echoes of 2008" in current market conditions and warned investors "should be very cautious".

Local fund managers took a more sanguine view of the investment outlook, pointing to signs of decent growth in the domestic economy, but noted more market volatility should be expected.

"Global markets will almost certainly be more choppy in 2016 than they have been over the past few years, we have been waiting for a return to volatility for some time," BlackRock investment strategist Stephen Miller said.

UBS Wealth Management investment strategist David Sokulsky said it

was "probably still too early to start deploying capital", but predicted the impact on markets of the latest jitters about China would be short lived.

"China's behaviour this week con-

fused the market, hurt sentiment and made investors skittish, but nothing has fundamentally changed in its real economy," Mr Sokulsky said.

"Domestically, Australia is in quite a sweet spot at the moment where the economy is doing decently enough but not growing so fast as to give the RBA any reason to hike interest rates, which could put pressure on the housing sector".

A lift in the latest official retail sales figures for November, released on Friday, offset some of the worries about that sector following the collapse of electronics retailer Dick Smith.

Mr Sokulsky predicted increased volatility would eventually benefit stockpickers.

Magellan Financial Group deputy chief investment officer Domenico

Giuliano also expects more volatility ahead to eventually create buying opportunities.

"We have been holding 15 per cent of the portfolio in cash since April because it is obvious that many asset classes around the world had been inflated and that would start to unwind as the US Federal Reserve inevitably hikes rates."

In global commodity markets Brent crude oil finished the week down 7.4 per cent at \$US34.48, having got a slight bounce on Friday off Thursday's 12-year low.

Bosses from three Australian oil producers told Fairfax Media they would not be shocked to see oil prices fall further still.

"Overall I think it will touch \$US30 and maybe have a 2 in front of it in the first quarter of this year," OilSearch chief executive Peter Botten said.

He expected oil to trade in the \$US40 to \$US50 barrel a range in the second half of the year.

Drillsearch Energy chairman Jim McKerlie also saw a risk oil could trade in the range of \$US20-something a barrel in 2016, while MEO Australia boss Peter Strickland tipped falls below current levels.

Weakness in other bulk commodity markets is also putting pressure on the local market. Iron ore prices are still struggling off their December all-time low and finished the week slightly lower at \$US42.65 per tonne. Falling



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commodity prices are one of the reasons the World Bank downgraded its global growth forecast for 2016.

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David Sokulsky, UBS