Monthly Market Insights August 2019

Australia

Australia's GDP growth for the June quarter recorded only 1.4% year-on-year, the worst result since the GFC. While in line with expectations, the result highlights the challenging environment on the spending side of the economy. The unemployment rate was steady in August at 5.2% and the RBA expects this rate to hold through 2019 and 2020 before falling to 4.75% in 2021. The updated forecasts indicate that unemployment will remain well above what is now considered to be full employment at around 4.5%. This excess capacity in the labour market keeps wages growth lower for longer. Meanwhile, core or underlying inflation is also anticipated to fall short of the bank's mandate. Core inflation reached 1.5% year-on-year for the June quarter, and the RBA expects it will pick up to 1.75% in 2020. The updated projections justify the back-to-back easing undertaken in June and July, and the market's pricing of a further two moves in the cash rate to 0.5%. The RBA has also signalled that it is prepared to consider adopting "unconventional" policy moves if warranted. The key to whether such measures will be used will be triggered by developments on the global growth front, in particular, the global trade situation.

Jobs data showed seasonally adjusted employment growth of 41,000, including solid growth in full-time jobs of 34,500, while the participation rate pushed to a new high of 66.1%. A rising population and rising participation in the workforce is putting upward pressure on the unemployment rate, which was steady at 5.2%.

The AIG Manufacturing Index moved further into expansion in August, providing a positive leading indication of actual production. Australia recorded its first current account surplus in 44 years benefiting from the recent rise in commodity prices, which has provided six consecutive quarters of goods and services surpluses.

Global

The renewed bout of risk aversion through August and September reflected the escalation in the US-China trade and technology war, along with evidence of further slowing in the global economy. An inversion of the yield curve rattled markets, giving rise to the debate about the timing of the next recession and whether the US Fed was doing enough to fight the slowdown.

President Trump voiced his disappointment in the Fed's "hawkish cut" at the end of July, announcing a 10% tariff on the remaining un-tariffed Chinese goods, valued at around US$300 billion. China followed suit with new tariffs of 10% and 15% against the remaining US$75 billion of US imports. There are also legitimate concerns that business confidence and investment intentions will be impacted by the uncertainty over trade and growth more generally, raising the risk that a downturn becomes self-fulfilling.

Europe's slowing growth is leading to weak inflation, with the core CPI (excluding food and energy) steady at 0.9%, while headline inflation was steady at 1.1%, well below the ECB's 2.0% target. The weak June quarter GDP numbers and the soft growth outlook together with recent falls in inflation have led the ECB to consider a range of stimulus options to ensure that inflation does not persistently undershoot. However, similar policies in the past have not been successful and it may be that the time for more direct stimulus to economic activity is approaching.

The ratcheting up of the US-China trade war in early August caught markets by surprise. In the following days the USD/CNY currency pair broke through 7.0 US dollars, marking the weakest level for the yuan in 11 years. Chinese economic news has also been weaker than expected. August's manufacturing PMI reading revealed further contraction. Industrial production growth fell to its lowest reading in 17 years, while retail sales growth eased. For now, it appears the Chinese economy is achieving its 6.0–6.5% growth target but the simmering trade war continues to skew risks to the downside.

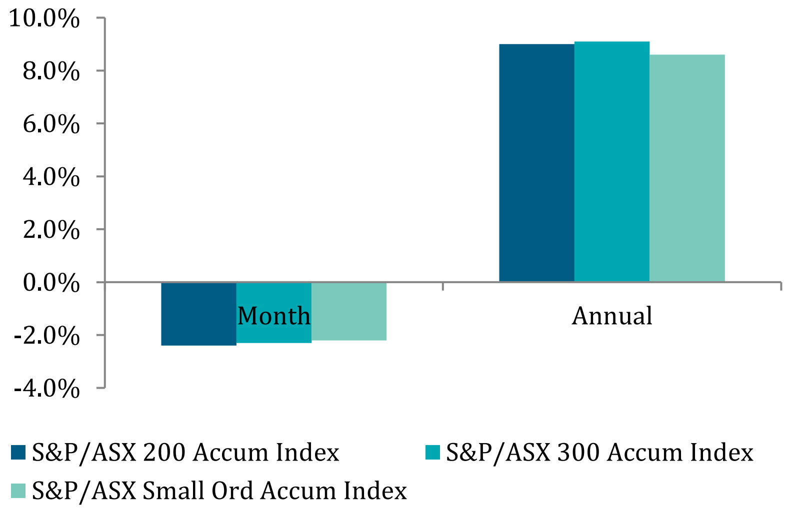
Commodities

Australia has ridden the commodity wave to its first trade surplus since the Whitlam government, but things are starting to take a turn. The price of iron ore was hit with its largest monthly fall in eight years and may come under further pressure as recession fears mount. Aluminium, Copper and Zinc came under pressure, while Nickel jumped higher on the back of speculative trading prompted by supply concerns in Indonesia.

An intensification in the trade war was not enough to make up for supply disruption risks in the Gulf region and OPEC's oil output deal. The Oil price fell to US$60.43 per barrel while Gold benefited from the geopolitical climate, rising to US$1,520.38/oz.

Paradigm Wealth Management Pty Ltd Level 12, 8 Exhibition Street Melbourne 3000 **03 8646 4000 paradigmgroup.com.au**
ABN 97 101 700 949 AFSL 297 465

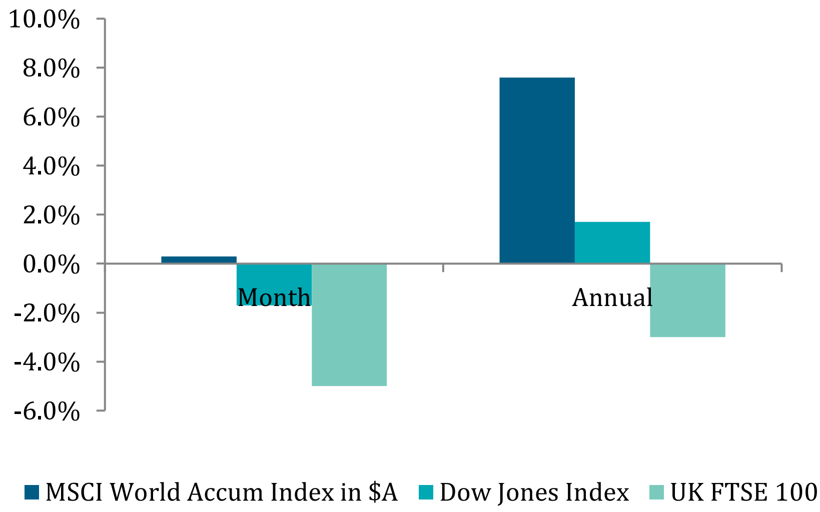
Australian Shares



Australian shares suffered a fall in August as global pressures weighed on sentiment while earnings season mostly delivered in line with expectations. The S&P/ASX 200 Index returned -2.4% over the month, with the Materials and Energy sectors the hardest hit.

Bucking the trend was the Health Care sector with the Information Technology sector flat.

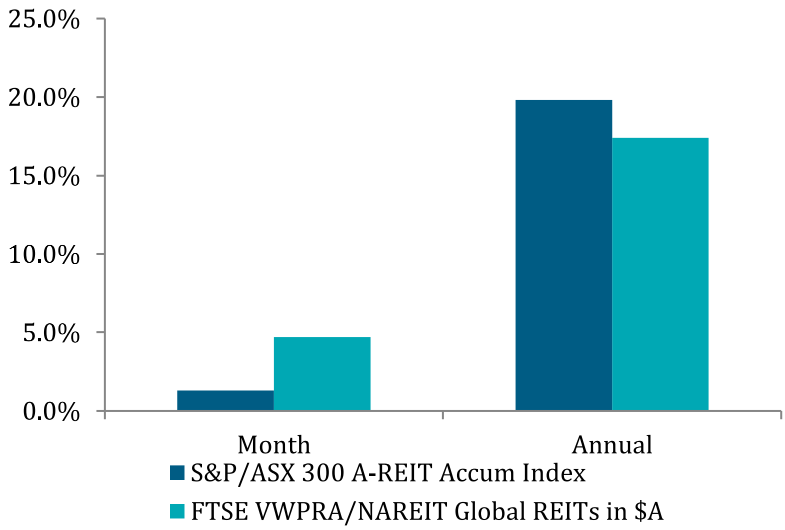
International Shares



Global equity markets could not withstand the pressure of renewed trade tension and a host of other geopolitical risks dominating the headlines in August. The MSCI World Ex Australia Index returned 0.3% in Australian dollar terms but fell 2.0% in local currency terms.

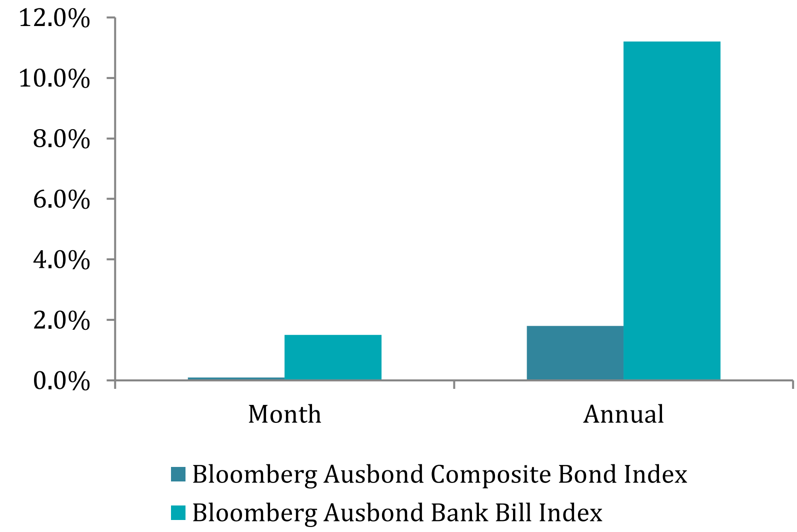
The US S&P 500 Index fell 1.6%, with steep selling midway through the month, triggered by a brief inversion of the yield curve between 2-year and 10-year Treasuries. Volatility returned to the share market and remaining at elevated levels.

Property



After a year and a half of continuous monthly declines, Australian house prices began to flatten in mid-2019 as interventions like interest rate cuts and relaxed lending rules lured buyers back to the market. It remains to be seen how lower interest rates filter through to the housing market and whether the availability of credit to the banks will help to produce a rebound. For listed property it was a tough month in August, but the sector managed to produce a small positive result, with the S&P/ASX 200 A-REIT Index returning 1.2%.

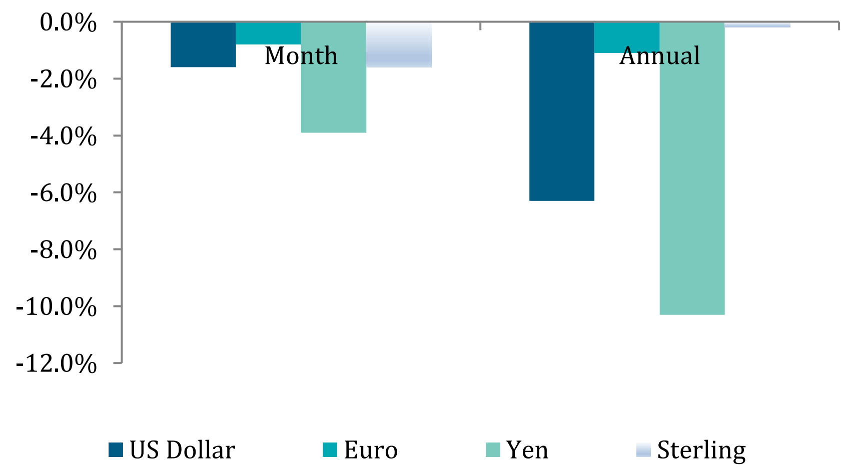
Fixed Interest



The bond rally continued unabated through August as markets foresaw further cuts to interest rates and investors sought safe-haven assets and jurisdictions to avoid fallout from the trade war and other geopolitical risks.

Corporates have taken advantage of the steep fall in benchmark rates to raise debt. US 10-year Treasury yields fell through August. Similarly, Australian 10-year Treasury yields fell to a low of 0.88% mid-month, recovering to 1.09% in early September.

Australian Dollar



The Australian dollar weakened in August. Weakness against the US dollar is due to the outlook for interest rates and investors' preference for safe-haven assets. The US Fed is expected to cut rates further this year, but it appears likely that the RBA will cut by more, which has led to the US dollar appreciating with respect to the Australian currency.

Over the three months to the end of August 2019 the Australian dollar has fallen against the US dollar, Japanese yen and euro and rising against the British pound.

Key Investment Indices

As at 31 August 2019		1 month	3 months	6 months	1 yr	5 yrs
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		-2.4	4.2	9.3	9.0	7.9
S&P/ASX 300 Accumulation Index		-2.3	4.3	9.5	9.1	7.9
S&P/ASX Small Ordinaries Accumulation Index		-2.2	4.1	9.3	8.6	8.1
S&P/ASX 300 Industrials Index		-1.0	5.5	12.0	8.3	8.4
S&P/ASX 300 Resources Index		-7.4	-0.4	0.4	12.7	5.6
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		0.3	8.0	9.5	7.6	13.5
MSCI World Accumulation Index ($A hedged)		-2.1	4.9	4.1	0.5	8.6
MSCI Emerging Markets Index in $A		-2.7	2.7	0.7	2.7	7.2
Dow Jones Index in $US	26,403	-1.7	6.4	1.9	1.7	9.1
S&P 500 Index in $US	2,926	-1.8	6.4	5.1	0.9	7.9
FTSE 100 Index in £	7,207	-5.0	0.6	1.9	-3.0	1.1
Deutsche Boerse Index in €	11,939	-2.1	1.8	3.7	-3.4	4.7
Nikkei 225 Index in ¥	20,704	-3.8	0.5	-3.2	-9.5	6.1
Hang Seng Index in HKD	25,725	-7.4	-4.4	-10.2	-7.8	0.8
Shanghai Shenzhen CSI 300 Index in RMB	3,800	-0.9	4.7	3.6	14.0	10.2
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		1.2	8.2	14.7	19.4	13.0
S&P/ASX 300 A-REIT Accumulation Index		1.3	8.3	14.8	19.8	13.2
FTSE EPRA/NAREIT Global REITs in $A		4.7	7.9	13.1	17.4	12.4
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		1.5	3.5	7.5	11.2	5.3
Bloomberg Ausbond Composite Bond Index		0.1	0.3	0.8	1.8	2.0
Barclays Global Aggregate Index ($A Hedged)		2.2	4.2	7.5	10.0	5.1
Inflation		%	%	%	%	%
Australia CPI		0.1	0.7	0.9	1.6	1.6
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6733	-1.6	-3.0	-5.1	-6.3	-6.3
Japanese ¥	71.5870	-3.9	-4.7	-9.4	-10.3	-5.9
Euro €	0.6132	-0.8	-1.3	-1.7	-1.1	-2.9
Sterling £	0.5538	-1.6	0.8	3.6	-0.2	-0.3
Chinese Yuan		3.6	3.4	6.4	4.4	3.0
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		-6.0	-2.6	-6.9	-11.7	-10.3
Oil ($US/barrel)	60.43	-5.9	3.0	-3.7	-21.1	-10.5
Gold ($US/ounce)	1,520.38	7.5	16.5	15.8	26.6	3.4
Iron Ore ($US/tonne)	84.64					

Sources: Lonsec, Atchison Consulting

Paradigm Wealth Management Pty Ltd Level 12, 8 Exhibition Street Melbourne 3000 **03 8646 4000 paradigmgroup.com.au**
ABN 97 101 700 949 AFSL 297 465