Monthly Market Insights October 2019

Australia

The Reserve Bank of Australia cut rates to a record low 0.75% in early October, it's third move since June. The aggressive approach taken by the RBA over recent months is partly in response to the global trade uncertainty and the domestic housing sector slowdown. Easing policy globally and a rising unemployment rate locally made the case for an easing bias a relatively simple one. However, the economy's response to the easing cycle, along with moves by APRA to free up some lending capacity and the government's tax cuts, has been subdued, at least to date.

The latest NAB survey data confirm the sluggish state of the economy, although the mining and finance industry sectors seem to be faring better than other industries, particularly retail. The government, despite reporting a balanced budget for the first time in 11 years, seems intent on maintaining a strong fiscal position. While commendable for the long term, this stance appears to ignore the opportunity for an upgrade and expansion of infrastructure spending at a time when borrowing rates are at record lows.

Although the unemployment rate edged down to 5.2%, jobs growth has proved insufficient to absorb the growing workforce resulting from a 1.6% growth in population and rising workforce participation rates.

The AIG Manufacturing Index indicated a slowdown in the manufacturing economy in October while the Westpac Melbourne Institute Index of Consumer Sentiment fell. Even with the RBA lowering rates by a further 25 basis points, consumers were still on edge, possibly viewing the cut as a sign that not all is well with the economy.

Australia's balance on goods and services was a surplus of $7.18 billion in September, with exports rising to a record high of $43.2 billion, resulting in the third-largest seasonally adjusted surplus on record. August's surplus also received a significant upward revision as the US-China trade dispute seems to be having little negative effect on Australia's external situation.

Global

While no firm agreement has been made, the US and China appear to be moving to a phase one deal, which may be followed by the rolling back of some tariffs. The trade conflict is starting to bite for the world's two largest economies, with economic data pointing to a continued slowdown in global growth, especially in the manufacturing sector. In the US, trade-exposed sectors are suffering as a result of the trade conflict, but the consumer sector appears to be holding up well. President Trump announced the suspension of tariff hikes on US$250 billion of Chinese goods, while China agreed to buy $40–50 billion in US farm products. The 'agreement in principle' does not roll back the existing tariffs that China and the US have in place.

The ISM manufacturing index rose in October, but the sector remains in contraction. The services sector also rose, reflecting the robustness of the consumer sector. While below the average of recent years, it still falls comfortably within the expansion zone.

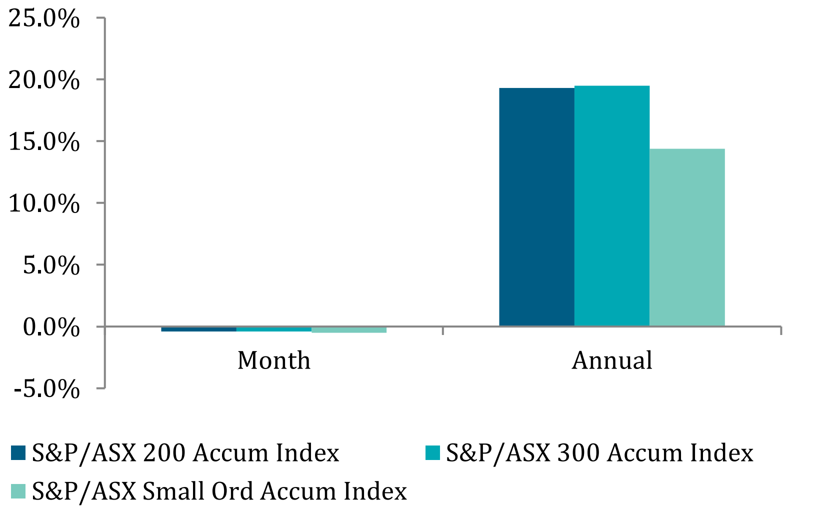
The IHS Markit Eurozone Composite PMIs present a grim picture of slowing growth and declining inflation. The index suggests that activity in the eurozone will be lucky to have grown by 0.1% in the September quarter, with flagging momentum at the start of the December quarter. In Germany, the manufacturing sector outlook is described as "simply awful" as trouble in the auto industry and Brexit uncertainty have paralysed order books. The weakness in German manufacturing has led to calls for the government to abandon its commitment to balanced budgets and allow fiscal policy to provide stimulus.

The Chinese economy slowed to an annual growth rate of just 6.0% in the September quarter—the slowest pace in almost 30 years. However, to put this growth in perspective, the Chinese economy is more than 2.5 times the size it was in 2009, while GDP per capita has doubled over this period. Over the past 12 months a downturn in industry, trade and construction underpinned the weaker GDP result, partly offset by solid service sector performance

Commodities

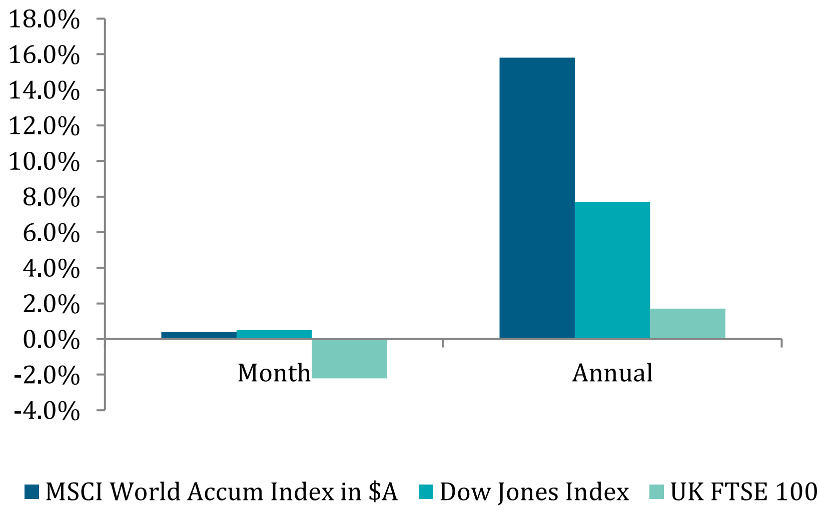
Metals moved higher in October, with rises in Zinc, Tin, Aluminium, Copper and Lead, while Nickel softened further. Oil prices were lower over the month, with US stockpiles declined surprisingly in October, although markets remain concerned about crude oil demand, with is expected to put pressure on price. Growing uncertainty regarding deeper OPEC production cuts have made the outlook even murkier.

Australian Shares



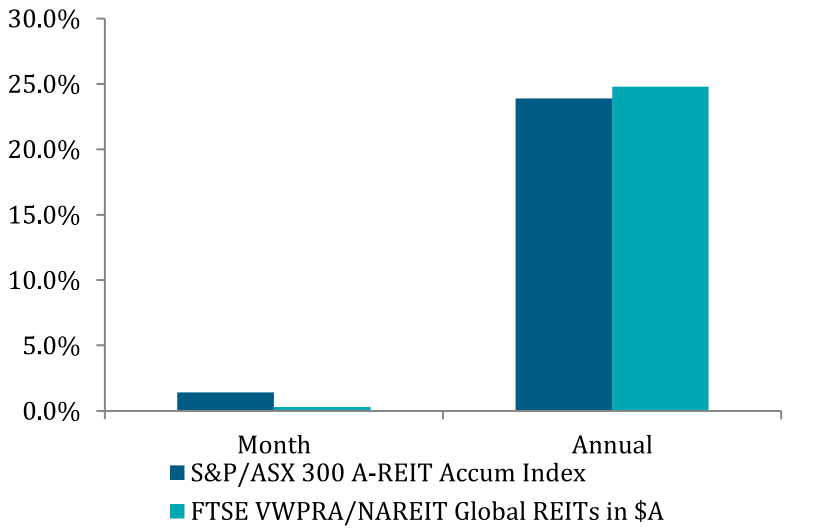
Following relatively strong performance in the September quarter, the outlook appears mixed across most sectors. Australian shares were in the red in October, dragged down by the Information Technology and Financials sectors. Optimism among investors is being driven by monetary stimulus, signs of a recovery in the housing market, and a soft Australian dollar, which boosts earnings from foreign operations. Working in the opposite direction is sluggish wages growth, relatively weak building and construction activity, and an uncertain global outlook.

International Shares



The trade wars have weighed on business sentiment, which is taking its toll on manufacturing and export sensitive sectors across several regions, particularly Europe, Japan and China. However, the services sector has remained relatively resilient, driven primarily by the robust US consumer sector, which is enjoying healthy balance sheets, steady employment and wage growth, and low interest rates. Emerging markets remain in the passenger seat of the ongoing trade wars, which saw emerging market equities remaining under pressure.

Property



From a macro perspective, Australian real estate capital values appear to be late in the cycle, with 'lower for longer' monetary policies extending cycle duration.

Moving forward, growth is likely to be driven by asset level net operating income growth. The retail landscape is experiencing a bifurcation and 'flight to quality', where foot traffic is increasingly flowing to shopping centres that are grocery anchored or have a mix of experiential retail offerings in densely populated primary trade areas. The logistic and industrial sector continues to enjoy robust investor demand.

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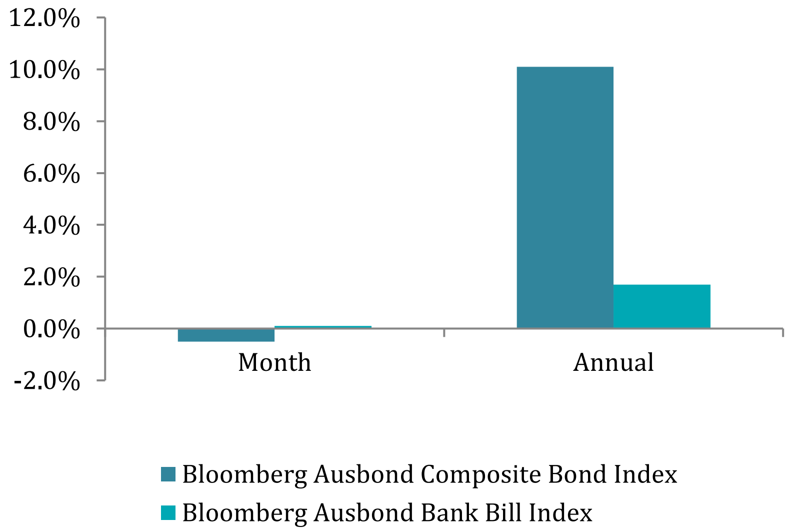
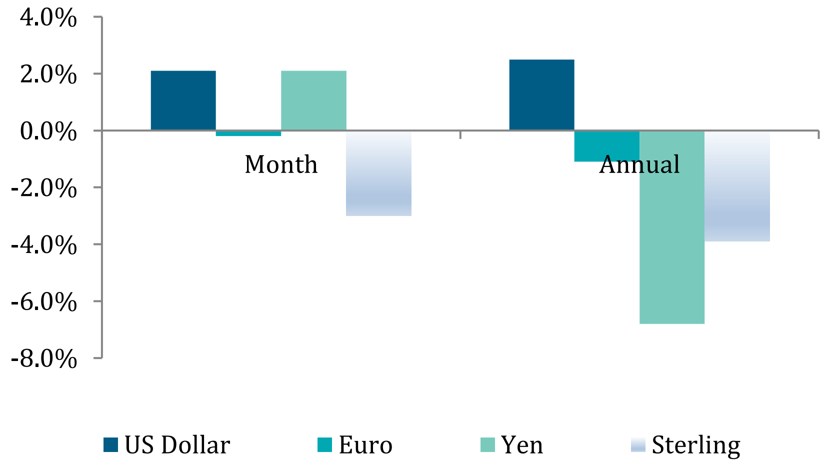
Fixed Interest



After a brief pause, the RBA continued its easing bias in October with a 25-basis point reduction in the cash rate to a historic low of 0.75%. The decision was taken in order to support employment and income growth, and to provide greater confidence that inflation will be consistent with its medium-term target.

Australian bonds returned -0.5% in October as yields edged back up, while global bonds, measured by the Bloomberg Barclays Global Aggregate Index, fell 0.3% in Australian dollar hedged terms.

Australian Dollar



The Australian dollar has remained in the 67–69 US cent range since the end of July, constrained by the lower interest rate outlook and falling commodity prices. The US dollar remains relatively stable despite Fed easing, mostly due to the lack of attractive alternatives. Should the Fed follow through with rate cuts as implied by the market (which expects a rate of 1.25% by early 2021), the Australian dollar may start to see some appreciation against the greenback.

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

Key Investment Indices

As at 31 October 2019		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		-0.4	-0.9	7.6	19.3	8.5
S&P/ASX 300 Accumulation Index		-0.4	-0.8	7.7	19.5	8.6
S&P/ASX Small Ordinaries Accumulation Index		-0.5	-1.8	2.2	14.4	9.6
S&P/ASX 300 Industrials Index		-0.1	0.6	9.1	20.4	8.7
S&P/ASX 300 Resources Index		-1.6	-6.2	2.2	16.0	7.7
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		0.4	2.7	5.7	15.8	13.1
MSCI World Accumulation Index ($A hedged)		1.9	2.1	2.8	11.5	9.4
MSCI Emerging Markets Index in $A		2.0	1.1	0.5	15.1	8.1
Dow Jones Index in $US	27,046	0.5	0.7	1.7	7.7	9.2
S&P 500 Index in $US	3,038	2.0	1.9	3.1	12.0	8.5
FTSE 100 Index in £	7,248	-2.2	-4.5	-2.3	1.7	2.1
Deutsche Boerse Index in €	12,867	3.5	5.6	4.2	12.4	6.7
Nikkei 225 Index in ¥	22,927	5.4	6.5	3.0	4.6	6.9
Hang Seng Index in HKD	26,907	3.1	-3.1	-9.4	7.7	2.3
Shanghai Shenzhen CSI 300 Index in RMB	3,887	1.9	1.3	-0.7	23.2	9.2
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		1.2	-0.4	9.2	23.6	12.4
S&P/ASX 300 A-REIT Accumulation Index		1.4	-0.1	9.2	23.9	12.7
FTSE EPRA/NAREIT Global REITs in $A		0.3	7.6	12.2	24.8	11.5
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.3	0.7	1.7	2.0
Bloomberg Ausbond Composite Bond Index		-0.5	0.5	4.3	10.1	5.0
Barclays Global Aggregate Index ($A Hedged)		-0.3	1.4	4.8	9.8	4.7
Inflation		%	%	%	%	%
Australia CPI		0.1	0.5	1.1	1.6	1.6
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6894	2.1	0.7	-2.2	2.5	-4.8
Japanese ¥	74.4790	2.1	0.0	-5.2	-6.8	-5.5
Euro €	0.6182	-0.2	0.0	1.7	-1.1	-2.5
Sterling £	0.5327	-3.0	-5.4	-1.5	-3.9	-0.6
Chinese Yuan						
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		1.0	-3.5	-8.7	-10.7	-5.5
Oil ($US/barrel)	60.23	0.2	-7.5	-15.2	-17.0	-7.6
Gold ($US/ounce)	1,512.99	2.8	7.0	17.9	24.6	5.2
Iron Ore ($US/tonne)	82.75					

Sources: Lonsec, Atchison Consulting