**September 2019**

**Monthly Market Insights**

**Australia**

The Australian economy has not suffered a recession (defined as two consecutive quarters of negative economic growth) for almost 28 years, yet for many conditions will appear stagnant. Australia’s per capita GDP growth rate for the year to June was -0.2% following the slightly negative result in the previous quarter and is the worst outcome since the financial crisis. At its October meeting the RBA voted to lower the cash rate to a new record low of 0.75%, citing the risks to international trade posed by the US-China trade dispute, as well as uncertainty around consumer spending, which has seen only modest increases.

The unemployment rate rose slightly from 5.2% to 5.3% in August, as increased demand for labour is met with more supply, thanks to a rising population and workforce participation rate. With ‘full employment’ thought to be closer to 4.5%, it is difficult to see wages growth picking up much from current levels, particularly if the cyclical weakness in employment, as suggested by job ads data and business surveys, comes like to fruition.

The Westpac Melbourne Institute Index of Consumer Sentiment fell with consumers still on edge, possibly viewing the interest rate cut as a sign that not all is well with the economy. Global events have certainly not helped, with a smorgasbord of risks dominating the headlines over the past month.

Australia’s balance on goods and services fell in seasonally adjusted terms from $7.25 billion to $5.93 billion. Exports of metal ores and minerals fell $1,217 million or 10.2% as the iron ore price weakened. The consensus had been for the trade balance to contract to a surplus of around $6 billion. Add to weaker commodity prices a fall in the Australian dollar, which made imports more expensive, along with softness in the domestic economy, and a pullback in the external sector was to be expected.**Global**

With central banks divided on monetary policy, markets expect rates to continue to move down as global risks intensify. The US and China will re-enter trade negotiations in October, but relations between the two countries have hardly improved since talks broke down in September. Markets are not holding out hope that all issues will be resolved in one round.

In the US, the Fed followed through with the largely anticipated easing on 18 September, cutting the Fed funds rate to 1.75–2.00%, the second move in this cycle.

The August CPI data again came in above expectations. The core CPI rose 0.3%, as it has for the past three months, taking the annual rate to 2.4%, the highest reading since early 2008. However, with the uncertainty surrounding trade, indicators of investment spending continue to tread water while business confidence has fallen for the past six quarters.

The manufacturing sector is bearing the brunt of the downturn in global trade and confidence. The ISM manufacturing index for September saw its worst reading in a decade, while the ISM services index saw its worst reading since the start of the Trump presidency.

European data shows growth in the services economy continues to be offset by a slump in the manufacturing sector. The contraction in manufacturing is strongest in Germany, prompting the Bundesbank to warn that the country is likely in a technical recession following negative growth in the June quarter.

The Chinese economy continues to slow. June quarter GDP growth declined to 6.2%, the slowest in 27 years, and there is a risk that it could drop below 6% in the September quarter. With the trade war escalation, the risk is that growth continues to falter, and this has prompted a series of easing measures over the past month. However, the easing in policy is relatively minor compared to the stimulus put in place in 2009 and 2015-16 as the authorities are loath to add to the already high levels of debt and spending on unproductive investment projects and property.

**Commodities**

Softer demand, especially from China, as well as rising supply have dampened the commodities sector over the past two months. Earnings from mining and energy exports are expected to peak by mid-2020, while the global slowdown in industrial output and manufacturing has seen prices retreat. Metals were mixed in September, with rises in Zinc, Lead and Copper, and falls in Nickel, Tin and Aluminium.

Oil markets were rocked in mid-September by a drone attack on a Saudi Arabian facility, causing the price to rise, ending end the month at $60.68. Gold fell 3.3% over the month to US$1,470.5 per ounce.

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| **Australian Shares** |  |
|  | Australian shares managed to reclaim some ground in September which saw the S&P/ASX 200 Index post a modest 1.8% return.  Energy was the top performing sector, clawing back some losses from the previous month, with the oil price spiking, the result of major disruption to the oil market. The materials sector (+3.1%) also saw significant gains.  Large cap shares rose 2.0% with solid gains from major banks and miners, but were outshone by their small cap peers, which returned 2.6%. |
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| **International Shares** |  |
|  | Global markets adjusted to renewed geopolitical risks, including the US-China trade dispute, growing tensions in the Middle East, the threat of impeachment, protests in Hong Kong, and the ongoing Brexit saga. A drone attack on a major Saudi Arabian oil facility, which wiped out 5.7 million barrels of production per day, or around five percent of the world’s supply, wrought havoc on oil markets.  Economic indicators point to a rise in the risk of a US recession and a possible turning point in equities, but so far, the bullish trend since the start of 2019 remains intact. |
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| **Property** |  |
|  | September was a trying month for listed property as the S&P/ASX 200 A-REIT Index lost 2.7% as a temporary rise in yields undermined values, but the broad low-rate environment is likely a positive for property as investors continue their hunt for yield.  The improvement in house prices since June may now be flowing through to an improvement in housing finance. However, what is important is the trajectory of dwelling construction and it is difficult to envisage a recovery in housing construction any time soon given supply issues and the projection of ongoing subdued wages growth. |
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| **Fixed Interest** |  |
|  | While equities were choppy, it was the bond market that revealed the full extent of investor indecisiveness.  September began with a sharp sell-off in bonds as markets, which may have been partly due to high-than expected US inflation, along with evidence of robust consumer spending.  Over the course of September, global bonds, measured by the Bloomberg Barclays Global Aggregate Index, fell 0.6% in Australian dollar hedged terms, while Australian bonds fell 0.5%. |
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| **Australian Dollar** |  |
|  | The Australian dollar succumbed to the lower interest rate outlook, rising to an intra-month high of around 69 US cents before falling back to 67 cents by the end of September. Expectations of the cash rate moving to 0.50%, potentially 75 basis points below market expectations for the Fed funds rate, combined with softer iron ore prices, have contributed to the weaker currency.  Over the three months to the end of September 2019 the Australian dollar has fallen 1.5% in trade-weighted terms. |

**Key Investment Indices**

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| **As at 30 September 2019** |  | | | **1 month** | | | **3 months** | | | **6 months** | | | **1 yr** | | **5 yrs** |
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| **Australian Shares** |  | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| S&P/ASX 200 Accumulation Index |  | | 1.8 | | | 2.4 | | | 10.5 | | | 12.5 | | | 9.5 |
| S&P/ASX 300 Accumulation Index |  | | 1.9 | | | 2.6 | | | 10.8 | | | 12.6 | | | 9.6 |
| S&P/ASX Small Ordinaries Accumulation Index | | | 2.6 | | | 3.1 | | | 7.0 | | | 4.0 | | | 9.6 |
| S&P/ASX 300 Industrials Index |  | | 1.7 | | | 4.1 | | | 13.4 | | | 13.2 | | | 9.9 |
| S&P/ASX 300 Resources Index |  | | 2.9 | | | -3.6 | | | 1.3 | | | 10.2 | | | 7.6 |
|  |  | |  | | |  | | |  | | |  | | |  |
| **International Shares** | **Value** | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| MSCI World Accumulation Index in $A | | | | | 2.0 | | | 4.7 | | | 10.1 | | | 9.1 | 13.0 |
| MSCI World Accumulation Index ($A hedged) | | | | | 2.3 | | | 1.3 | | | 4.8 | | | 1.9 | 9.3 |
| MSCI Emerging Markets Index in $A | | | | | 1.8 | | | -0.4 | | | 1.5 | | | 5.1 | 7.8 |
| Dow Jones Index in $US | | 26,917 | | | 2.0 | | | 1.2 | | | 3.8 | | | 1.7 | 9.6 |
| S&P 500 Index in $US | | 2.977 | | | 1.7 | | | 1.2 | | | 5.0 | | | 2.2 | 8.6 |
| FTSE 100 Index in £ | | 7,408 | | | 2.8 | | | -0.2 | | | 1.8 | | | -1.4 | 2.3 |
| Deutsche Boerse Index in € | | 12,428 | | | 4.1 | | | 0.2 | | | 7.8 | | | 1.5 | 5.6 |
| Nikkei 225 Index in ¥ | | 21,756 | | | 5.1 | | | 2.3 | | | 2.6 | | | -9.8 | 6.1 |
| Hang Seng Index in HKD | | 26,092 | | | 1.4 | | | -8.6 | | | -10.2 | | | 6.1 | 2.6 |
| Shanghai Shenzhen CSI 300 Index in RMB | | 3,815 | | | 0.4 | | | -0.3 | | | -1.5 | | | 10.9 | 9.25 |
|  |  | |  | | |  | | |  | | |  | | |  |
| **Property** |  | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| S&P/ASX 200 A-REIT Accumulation Index | | | -2.7 | | | 1.0 | | | 5.1 | | | 18.3 | | | 13.6 |
| S&P/ASX 300 A-REIT Accumulation Index | | | -2.7 | | | 1.1 | | | 5.3 | | | 18.4 | | | 13.8 |
| FTSE EPRA/NAREIT Global REITs in $A |  | | 2.4 | | | 10.0 | | | 12.4 | | | 23.1 | | | 12.9 |
|  |  | |  | | |  | | |  | | |  | | |  |
| **Fixed Interest** |  | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| Bloomberg Ausbond Bank Bill Index |  | | 0.1 | | | 0.3 | | | 0.7 | | | 1.7 | | | 2.0 |
| Bloomberg Ausbond Composite Bond Index | | | -0.5 | | | 2.0 | | | 5.1 | | | 11.1 | | | 5.3 |
| Barclays Global Aggregate Index ($A Hedged) | | | -0.6 | | | 2.3 | | | 5.1 | | | 9.8 | | | 5.0 |
|  |  | |  | | |  | | |  | | |  | | |  |
| **Inflation** |  | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| Australia CPI |  | | 0.1 | | | 0.7 | | | 1.0 | | | 1.6 | | | 1.6 |  |  |  |
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| **Currencies (relative to $A)** | **Value** | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| $US | 0.6750 | | 0.3 | | | -3.9 | | | -4.9 | | | -6.6 | | | -5.1 |
| Japanese ¥ | 72.9520 | | 1.9 | | | -3.6 | | | -7.3 | | | -11.2 | | | -5.3 |
| Euro € | 0.6193 | | 1.0 | | | 0.3 | | | -2.1 | | | -0.5 | | | -2.2 |
| Sterling £ | 0.5492 | | -0.9 | | | -0.7 | | | 0.9 | | | -0.9 | | | 0.4 |
| Chinese Yuan |  | | -0.1 | | | 3.8 | | | 5.9 | | | 3.6 | | | 3.0 |
|  |  | |  | | |  | | |  | | |  | | |  |
| **Commodities** | **Value** | | **%** | | | **%** | | | **%** | | | **%** | | | **%** |
| S&P Goldman Sachs Commodity Index ($US) | | | 1.7 | | | -5.1 | | | -7.0 | | | -17.0 | | | -6.8 |
| Oil ($US/barrel) | 60.78 | | -1.9 | | | -7.5 | | | -10.1 | | | -26.2 | | | -9.9 |
| Gold ($US/ounce) | 1,472.49 | | -3.2 | | | 4.5 | | | 13.9 | | | 23.7 | | | 4.0 |
| Iron Ore ($US/tonne) | 92.24 | |  | | |  | | |  | | |  | | |  |
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Sources: Lonsec, Atchison Consulting