Monthly Market Insights July 2019

Australia

The minutes from the RBA's July meeting noted that low wages growth and spare capacity in the labour market meant there was room for the bank to cut rates. The underemployment rate in May was 8.6%, barely below the level seen in 2014 when the unemployment rate was more than 1.0% higher at 6.5%. The participation rate is now at a record 66.0%, up from 64.5% in 2014. Employment growth data has surpassed expectations over recent years, and has risen 2.6% in trend terms over the past year to June. Meanwhile, GDP growth is just 1.8% p.a., suggesting productivity growth is negative. On the positive side, Australia's commodity prices remain firm and the mining sector is experiencing a 'mini-boom'.

Iron ore moved to above US$120 per tonne, and with export volumes strong, China accounted for over 40% of Australia's exports of goods. The 2019-20 federal budget assumed a US$88 per tonne iron ore price, below current prices with every US$10 above forecast adding around $4 billion to the budget surplus.

Employment growth was flat in June but in trend terms remains robust, growing 2.6% over the financial year, although the growth has come predominately from part-time jobs.

The AIG Manufacturing Index edged back into expansion in July, rising 1.9 points to 51.3. Local demand for Australian manufactured products remains weak but overseas demand remains strong, particularly for consumable manufacturing products.

Australia's balance on goods and services added $1,863 million in June, bringing the surplus to $8,036 million, helped by an upward revision to the previous month's result. Net exports of general merchandise delivered a $2 billion windfall, while exports of metal ores and minerals added $554 million, boosted by the rise in commodity prices.

Global

Markets enjoyed a short-lived reprieve from the US-China trade conflict in July, but economic data points to a further slowing in the global economy. The US Federal Reserve's recent rate cut appears justified given the re-emergence of trade tensions, with the US administration threatening 10% tariffs on the remaining $300 billion of Chinese goods. The US Fed has finally completed one of the most significant policy reversals in recent history.

After lifting the funds rate towards 2.50% in late 2018 and signalling that there was some way to go with tightening (the FOMC dot plot pointed to a peak of 3.40% in 2021), July's FOMC meeting saw members vote to lower the funds rate to a range of 2.00–2.25%. The pivot in policy over the past six to nine months has been in response to a combination of a slowing US economy, weaker global growth, uncertainties associated with the ongoing trade war, and consistent undershooting in inflation.

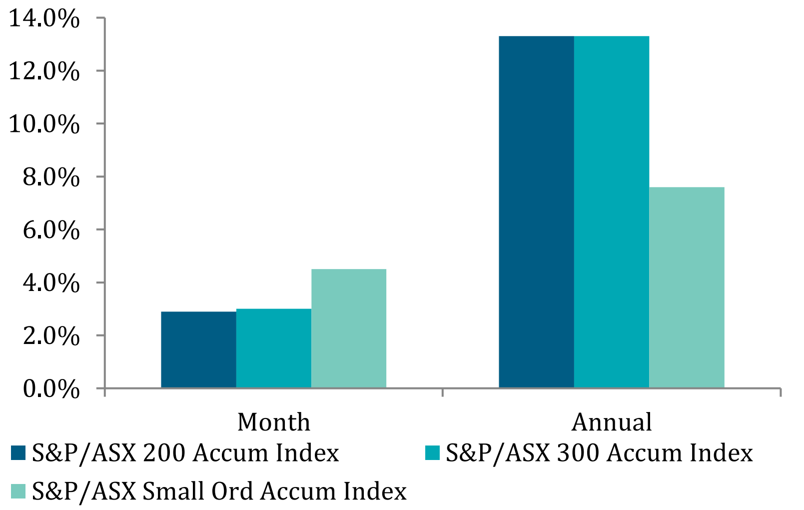
Core inflation in the Eurozone fell to 0.9% year-on-year in July from 1.1% and remains in the 0.8–1.2% range that has prevailed since early 2017. The Markit surveys suggest it is more likely to ease than rise, at least in the near term. Unemployment in the euro area continues to fall, dropping to 7.5% in June from 7.6%. The rate in each of the main economies is falling on a sustained basis in Germany unemployment is at its lowest level since 1990. In the UK Boris Johnson was handed the prime ministership by his party and will begin negotiations with the EU, calling on Brussels to drop the controversial Irish backstop from the withdrawal agreement.

Chinese data over the past month has been mixed but generally in line with expectations. GDP growth in the June quarter slowed to 6.2%—the lowest level since 1992. Chinese exports recorded growth of 3.3% year-on-year in July, firmly beating expectations for a contraction, giving investors hope that the economy may prove resilient to the trade conflict. Money supply growth and the level of outstanding loans and total social financing (total credit) suggests the authorities have attempted to support the economy through monetary stimulus but not anywhere near the scale of previous stimulus phases

Commodities

The oil rally proved fragile through July, with prices volatile due to growing geopolitical risks including sanctions as well as slowing demand growth and inventory drawdowns. The Brent spot price fell -5.1% to $64,07 per barrel. A flare up in trade tensions at the start of August saw oil prices head down. Metals were mixed over July, with a large gain in Nickel and further gains in Lead while other metals were down including Tin, Zinc, Copper and Aluminium. Gold continued its climb, rising to $1424.6 /oz.

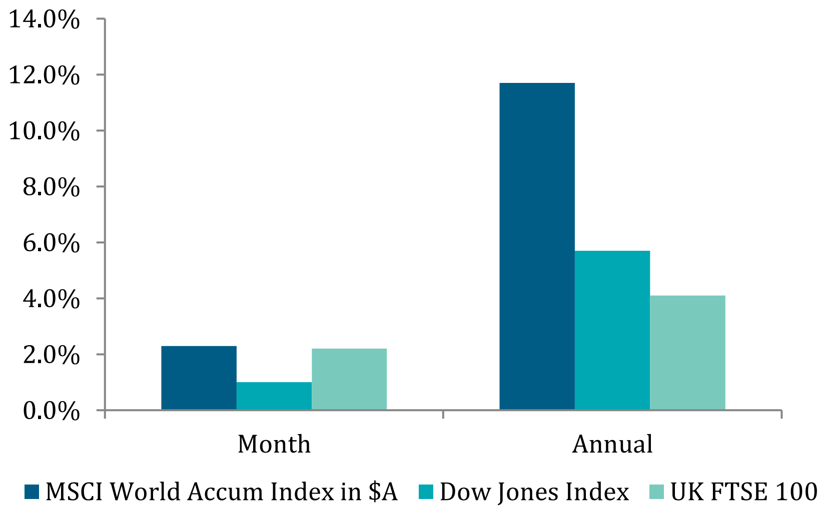
Australian Shares



Australian shares lifted in July on the back of improving global sentiment as trade negotiations between the US and China appeared to be heading in a positive direction and central banks stepped in to offer support to address the ongoing uncertainty.

Expectations for aggregate FY19 EPS growth have continued to drift lower over the course of this calendar year. Uncertainty and volatility are expected to remain in global markets, with ramifications for Australian shares, as central banks continue to drive speculation surrounding additional global monetary policy support.

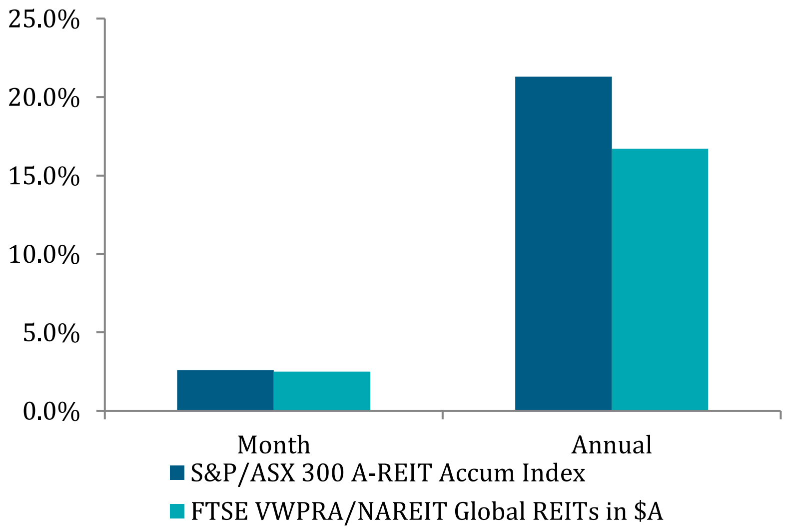
International Shares



Global shares finished modestly higher in July but positive signs from trade negotiations and the strong expectations of rate cuts could not sustain the previous month's momentum. The MSCI World Ex Australia Index rose 2.4% in Australian dollar terms and 1.2% in local currency terms.

In the US, the S&P 500 Index was lifted to an all-time high of 3,025 points late in the month, only to be undone by the subsequent falls in global markets. Chinese equites made only modest headway in July and remain under pressure as the US's trade actions take their toll.

Property



Listed property is benefiting from the hunt for yield spurred by the low rate environment, with the S&P/ASX 200 A-REIT Index gaining 2.6% in July. Despite a beaten down retail sector there were solid gains from shopping centres.

With the RBA having cut the official rate twice (from 1.5% to 1.0%), the sector continues to attract capital, which is underpinning high valuations and reflecting lower yields. Nonetheless, fundamentals are supportive, with rental and earnings growth continuing in most sectors across the globe.

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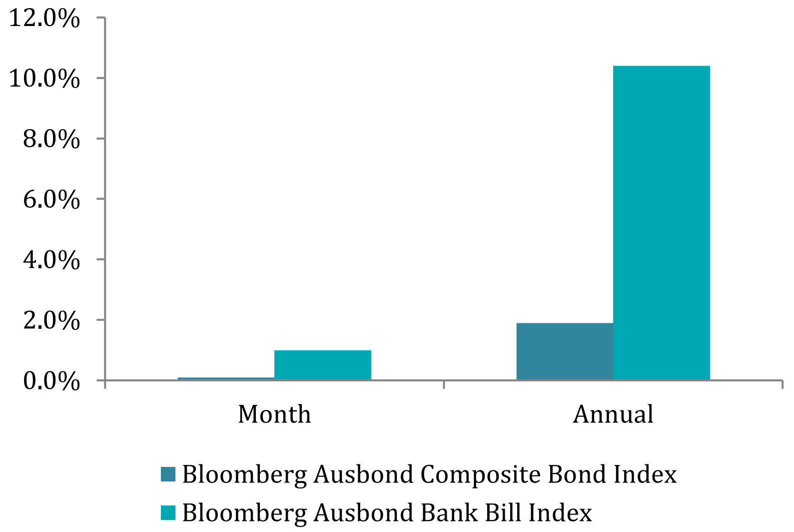
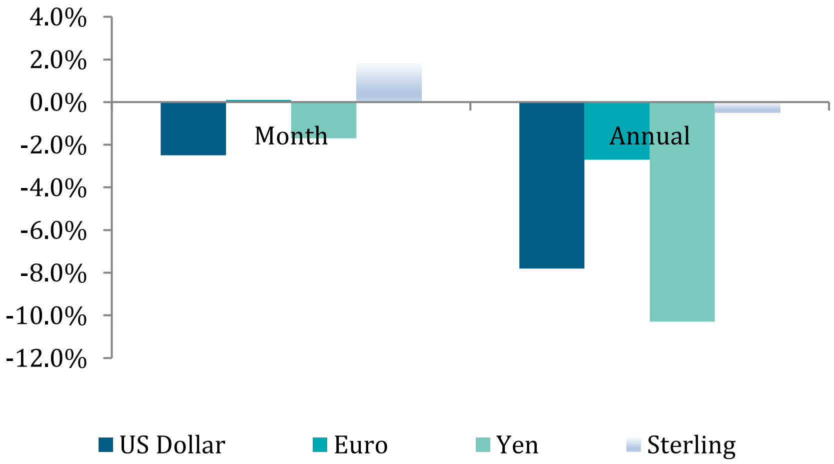
Fixed Interest



The rise in bonds continued through July with the US 10-year Treasury yield dropping from 3.24% in November 2018 to 1.71%. The bond market continues to track a deterioration in global growth, but so far there are few signs that more aggressive action is required by the Fed.

In Australia, the 10-year Treasury yield fell from 1.32% to 1.19% over July. Domestic bonds have rallied significantly in recent months on the back of two RBA cuts and weakening economic data.

Australian Dollar



Despite a rise in commodity prices the Australian dollar is under pressure from the narrowing interest rate differential with the US, falling 2.0% in July. The Australian dollar fell 1.0% in trade-weighted terms, losing value against the Japanese yen and gaining against the British pound and euro.

Over the three months to the end of July 2019 the Australian dollar has fallen 1.7% in trade-weighted terms, depreciating against the US dollar, euro and Japanese yen and rising against the British pound.

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Key Investment Indices

As at 31 July 2019		1 month	3 months	6 months	1 yr	5 yrs
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		2.9	8.6	18.7	13.3	8.6
S&P/ASX 300 Accumulation Index		3.0	8.6	18.8	13.3	8.6
S&P/ASX Small Ordinaries Accumulation Index		4.5	4.2	15.7	7.6	9.2
S&P/ASX 300 Industrials Index		3.4	8.5	19.6	12.5	8.9
S&P/ASX 300 Resources Index		1.2	9.0	15.8	16.3	6.7
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		2.3	2.9	15.3	11.7	13.8
MSCI World Accumulation Index ($A hedged)		1.1	0.7	9.9	4.1	9.7
MSCI Emerging Markets Index in $A		0.6	-0.6	6.3	5.5	8.1
Dow Jones Index in $US	26,864	1.0	1.0	7.5	5.7	10.2
S&P 500 Index in $US	2,980	1.3	1.2	10.2	5.8	9.1
FTSE 100 Index in £	7,587	2.2	2.3	8.9	4.1	2.4
Deutsche Boerse Index in €	12,189	-1.7	-1.3	9.1	-4.8	5.3
Nikkei 225 Index in ¥	21,522	1.2	-3.3	3.6	-4.6	6.6
Hang Seng Index in HKD	27,778	-2.7	-6.5	-0.6	-2.8	2.3
Shanghai Shenzhen CSI 300 Index in RMB	3,835	0.3	-2.0	19.8	9.0	10.3
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		2.6	9.5	15.4	21.2	13.1
S&P/ASX 300 A-REIT Accumulation Index		2.6	9.4	15.3	21.3	13.3
FTSE EPRA/NAREIT Global REITs in $A		2.5	4.3	10.8	16.7	11.7
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.4	0.9	1.9	2.1
Bloomberg Ausbond Composite Bond Index		1.0	3.7	6.9	10.4	5.2
Barclays Global Aggregate Index ($A Hedged)		0.7	3.4	5.3	8.0	4.9
Inflation		%	%	%	%	%
Australia CPI		0.1	0.3	0.3	1.3	1.6
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6845	-2.5	-2.9	-5.9	-7.8	-5.9
Japanese ¥	74.4520	-1.7	-5.2	-6.0	-10.3	4.9
Euro €	0.6180	0.1	-1.7	-2.7	-2.7	-2.3
Sterling £	0.5628	1.8	4.1	1.5	-0.5	0.4
Chinese Yuan		-1.6	0.1	-3.0	-6.9	-3.9
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		-0.7	-5.4	3.6	-9.1	-7.4
Oil ($US/barrel)	65.17	0.2	-8.3	8.9	-14.1	-9.8
Gold ($US/ounce)	1,413.78	0.3	14.1	7.0	15.5	2.0
Iron Ore ($US/tonne)	115.55					

Sources: Lonsec, Atchison Consulting