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Monthly Market Insights November 2019

Australia

The Reserve Bank kept the cash rate at a record low 0.75% in early November, as widely expected and offered guidance that a December rate cut was unlikely owing to some slight improvements in the domestic economy as well as the global trade picture. It seems the RBA is pleased with the response of the housing sector to the rate cuts although there is little evidence elsewhere of a response to date. Global risks may have eased with the trade truce but have not completely disappeared. Essentially the RBA believes the economy is coming out of a soft patch and that growth is likely to improve slightly as a result of low interest rates, tax cuts, infrastructure spending and an upswing in house prices. Unemployment is likely to remain above the full employment rate of 4.5% while inflation is expected to pick up only gradually.

However, the RBA this time last year was projecting GDP to grow by 3.2% in the 12 months to June 2019. It ended up being less than half that at just 1.4%. The September quarter wages data showed that growth slowed to 2.2%, with public sector wages growth outpacing the private sector. Consumer concerns about the state of the economy are starting to translate into a spending strike.

Australia's GDP growth was a less-than-expected 0.4% in the September quarter, reflecting softer consumer activity as lower interest rates and tax cuts failed to get people spending. Exports added 0.2 percentage points to GDP while domestic consumption was held up by government spending in aged care and infrastructure.

Global

Economic data is mixed. Indicators such as manufacturing PMIs have been trending down, while housing has been strong in the US and has improved in Australia. Consumers are also holding up well, especially in the US. Geopolitics remains an unknown factor, with trade talks continually shifting, while further quantitative easing is still a possibility.

The apparent easing of trade tensions between the US and China—with the prospect of a so-called 'phase one' deal that would involve a roll-back on existing tariffs— has added to market confidence. It comes just in time, as further deterioration in business confidence would further constrain business investment and hiring.

GDP growth has already slowed from 3.1% p.a. early in 2019 to 1.9% in the September quarter. The labour market remains strong, with the average gain in non-farm payrolls to 173,000 through 2019, which is still down on the average of 223,000 in 2018.

Europe's recent PMI data suggest that GDP was rising at a 0.1% rate at the start of the December quarter, but likely with a weakening trend. Growth remains soft in Europe while Germany narrowly avoided a technical recession in the September quarter.

The UK economy grew by 0.3% in the September quarter, the slowest rate of growth since the first quarter of 2010. On the political front, Prime Minister Johnson finally secured a new Brexit deal with the EU, which involves a customs border in the Irish Sea—something many unionists were determined to avoid. The UK went to a general election on 12 December, with early polling suggesting a Conservative majority.

There is no clear evidence that the Chinese economy has stabilised. While credit growth appears to have lifted, indictors of consumer spending, investment and production appear to be slowing. In the September quarter the Chinese economy slowed to just 6%, the slowest annual pace in almost 30 years.

There are signs that the authorities are becoming increasingly concerned with the slowdown in growth and in November, China's central bank cut its short-term lending rate for the first time in four years, signalling the start of a new easing cycle—a sign that the trade war was starting to hurt businesses. It also suggests the authorities are beginning to place more priority on growth rather than financial stability. However, by no means can the current stimulus be compared with the 2008-09 and 2015-16 stimulus packages. Accordingly, any lift in growth is expected to be marginal. The authorities are keen to avoid a further lift in debt levels, unsustainable property investment and rising risks to bank balance sheets.

Commodities

Metals fell in November, with significant drops in Nickel, Lead and Zinc, while Copper held firm and Aluminium and Tin were mostly flat. The gold price fell while the oil prices rose.

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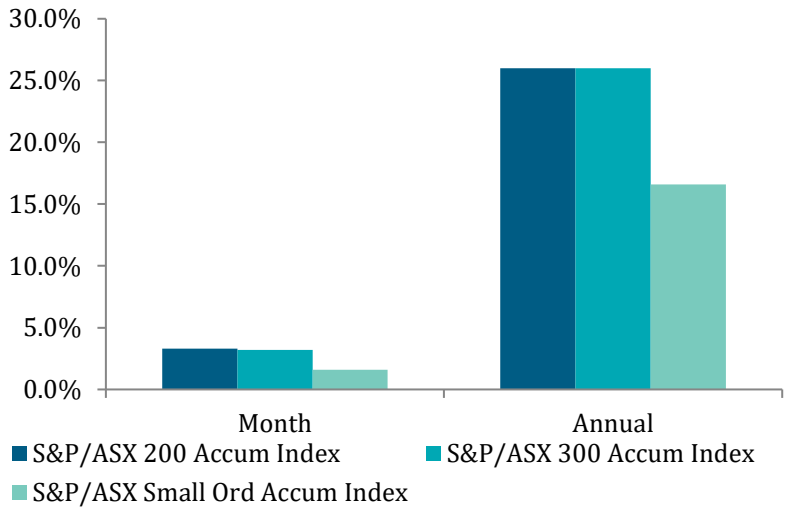
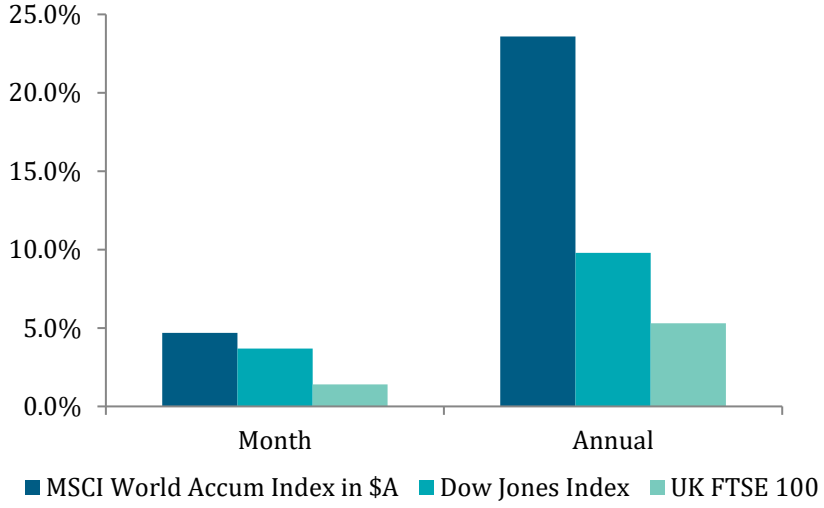
Australian Shares



After a shaky start to the December quarter, Australian shares rebounded in November, returning 3.3%. Gains were driven by strength in Health Care, while Materials continues to support the index. This despite weakness from the major Financials sector, which slipped 2.1% over the month as the major banks were marked down due to the lower interest rate outlook, which doesn't bode well for lending margins.

If returns in December hold up, the ASX 200 will be on track to deliver a return of around 26% for the 2019 calendar year, which would be the highest return investors have seen since 2009.

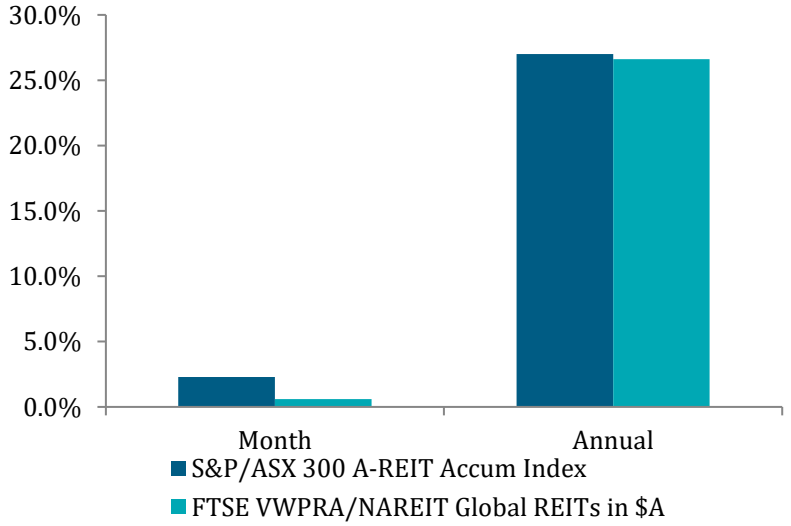
International Shares



November saw global equities extend their strong run over 2019, supported by an easing of trade tensions but generally at odds with economic data, which has been mixed. Markets responded favourably to the prospect of a 'phase one' trade deal between the US and China, while the US market made it through Q3 earnings season in high spirits with 80% of firms beating expectations, although earnings overall were mostly flat on the previous year.

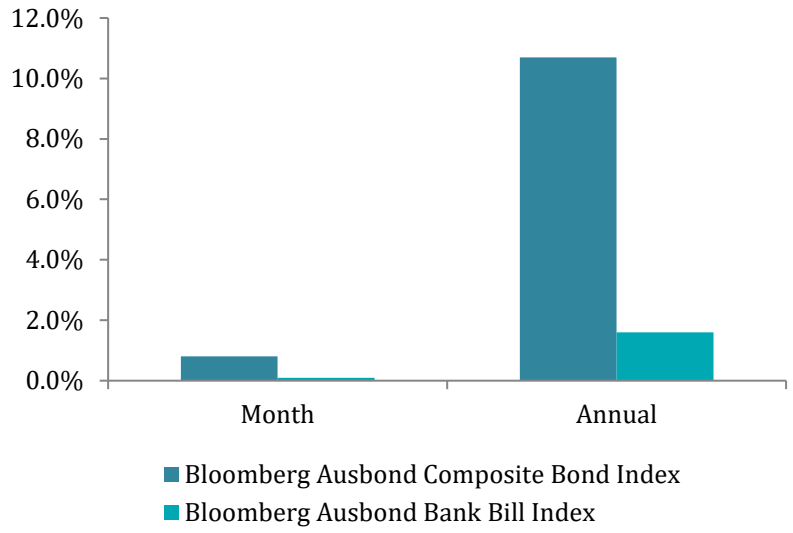
The MSCI World Ex-Australia Index returned 4.7% in November, with weakness in the Australian currency providing a significant tailwind.

Property



While underperforming the rest of the ASX 200 in November, Australian listed property has enjoyed an equally impressive year, returning 27.0% over the 12 months ending November. A lift in housing demand, along with record-low interest rates, have boosted property values, lifting the A-REIT sector across the board.

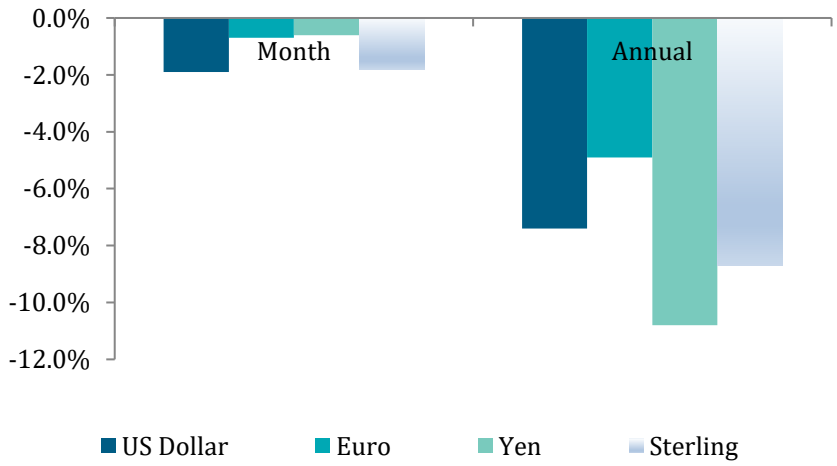
Fixed Interest



In Australia, a fall in yields saw a modest return from fixed interest in November, with government bonds returning 0.86%, beaten slightly by corporate bonds, which returned 0.72%. While a risk-on environment has prevailed through 2019, bonds have performed reasonably well, with Australian government bonds returning 9.6% over the year to the end of November, compared to 8.0% from corporate bonds.

While the RBA is not completely dissatisfied with the effect of recent rate cuts, the likelihood of further cuts in 2020 mean yields may have further to fall.

Australian Dollar



The Australian dollar moved higher early in November, rising above US$0.69, but failed to break through, falling to $0.68 at the end of the month. Metals fell through November, putting pressure on the currency. The RBA appears content to look back and judge the effects of 2019's rate cuts before moving further, but a rate cut in early 2020 is still the likely scenario.

Over the three months to the end of November 2019 the Australian dollar rose against the US dollar, the euro and the Japanese yen and fell against the British pound.

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Key Investment Indices

As at 30 November 2019		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		3.3	4.8	9.2	26.0	9.9
S&P/ASX 300 Accumulation Index		3.2	4.8	9.3	26.0	10.0
S&P/ASX Small Ordinaries Accumulation Index		1.6	3.7	5.1	16.6	10.8
S&P/ASX 300 Industrials Index		2.8	4.5	10.2	25.1	9.7
S&P/ASX 300 Resources Index		4.7	6.0	5.6	30.0	10.8
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		4.7	7.3	15.9	23.6	13.0
MSCI World Accumulation Index ($A hedged)		3.2	7.5	12.8	13.6	9.4
MSCI Emerging Markets Index in $A		1.7	5.6	8.5	15.8	8.0
Dow Jones Index in $US	28,164	3.7	6.2	13.0	9.8	9.5
S&P 500 Index in $US	3,154	3.4	7.3	14.1	13.8	8.7
FTSE 100 Index in £	7,416	1.4	1.9	2.6	5.3	1.8
Deutsche Boerse Index in €	13,246	2.9	10.9	12.9	17.6	5.8
Nikkei 225 Index in ¥	23,409	1.6	12.5	13.1	4.2	5.9
Hang Seng Index in HKD	26,894	-2.1	2.4	-2.1	-0.6	1.9
Shanghai Shenzhen CSI 300 Index in RMB	3,862	-1.5	0.8	5.5	20.7	6.4
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		2.3	0.8	9.0	27.0	12.9
S&P/ASX 300 A-REIT Accumulation Index		2.3	0.8	9.2	27.0	13.2
FTSE EPRA/NAREIT Global REITs in $A		0.6	3.4	11.6	25.1	10.6
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.3	0.6	1.6	2.0
Bloomberg Ausbond Composite Bond Index		0.8	-0.2	3.4	10.7	4.9
Barclays Global Aggregate Index ($A Hedged)		-0.2	-1.0	3.2	9.0	4.4
Inflation		%	%	%	%	%
Australia CPI		0.1	0.5	1.0	1.6	1.7
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6767	-1.9	0.5	-2.5	-7.4	-4.5
Japanese ¥	74.1160	-0.6	3.4	-1.4	-10.8	-6.0
Euro €	0.6147	-0.7	0.1	-1.2	-4.9	-2.1
Sterling £	0.5242	-1.8	-5.6	-4.8	-8.7	-0.8
Chinese Yuan		-2.0	-1.3	-0.6	-6.7	-2.0
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		0.4	3.1	0.4	0.7	-3.2
Oil ($US/barrel)	63.87	1.8	0.1	3.1	8.3	-3.4
Gold ($US/ounce)	1,456.27	-3.2	-3.7	12.1	20.0	4.6
Iron Ore ($US/tonne)	84.42					

Sources: Lonsec, Atchison Consulting