Monthly Market Insights February 2020

Australia

Unfortunately, the coronavirus and the policy response have come at a time when the Australian economy was showing signs of improvement and the budget was on a firm footing. There is a chance that the domestic economy will contract in the current quarter.

The RBA expects GDP growth of 2.0% for 2019 and 2.7% for 2020, down from the 2.3% and 2.8% projected in the November 2019 Statement on Monetary Policy. These latest forecasts include preliminary assessments of the impact of both bushfires and the coronavirus, although they stressed the high degree of uncertainty around the latter.

January's employment figures showed 20,000 jobs were added over the month, including 14,600 full-time (in seasonally adjusted terms). However, the unemployment rate moved upwards from 5.1% to 5.3% and has been edging higher over the past year due to a rise in the participation rate.

The AIG Manufacturing Index fell to 44.3 in February, its lowest result since June 2015. Only the food and beverage sectors were in expansion over the month, while production, sales, new orders, and export indices fell further into contraction. Respondents to the Australian PMI said travel restrictions in response to Covid-19 were denting exports of Australian manufactured goods, particularly consumable items into China. Heavy manufacturing sectors like equipment, machinery and metals noticed supply chain disruptions in February due to factory and freight closures in China.

After a horror bushfire season that saw consumer confidence battered, the Westpac Melbourne Institute Index of Consumer Sentiment saw a pickup in mood. How long this lasts with the coronavirus now dominating the headlines remains to be seen.

Global

The focus over the past month has been almost entirely on the coronavirus outbreak, the measures taken to contain it, and the potential economic fallout.

In response to the coronavirus outbreak and anticipated economic fallout, the US Federal Reserve made an emergency cut to the funds rate of 50 basis points – its biggest single cut since 2008 – bringing the rate to 1.25%. The virus is likely to have a significant effect on economic growth, coming at a time when the underlying economy is reasonably robust. GDP growth for the December quarter was an annualised 2.1%, which was in line with expectations, while inflation remained well under control. Payrolls growth surprised to the upside while consumer confidence was near record highs, in contrast to more sombre business confidence levels.

Eurozone GDP grew by less than 0.1% in the December quarter according to the flash estimate, marking the slowest rate since the recession in 2012-13. Data showed GDP in Germany was essentially unchanged, while in France it shrank by just under 0.1% amid disruptions over pension reform. Over 2019, eurozone GDP grew by just under 1.0%, which was the slowest year-on-year growth rate since 2013.

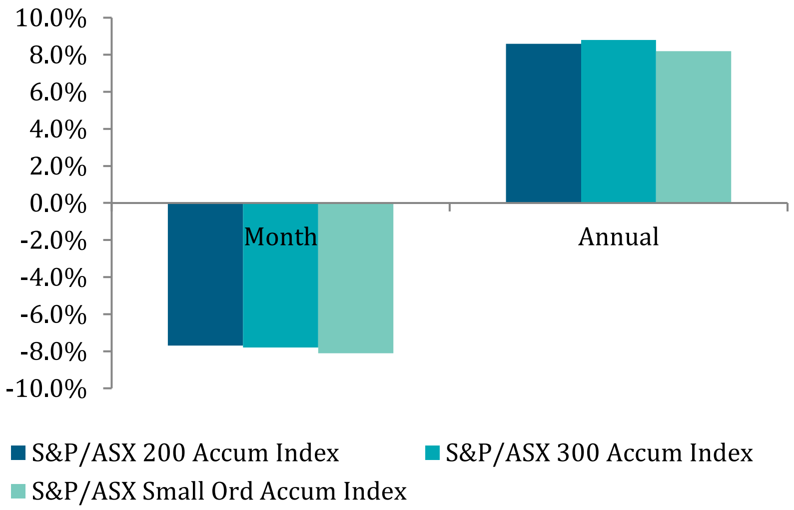
After leaving the EU, the UK is now in the process of negotiating a trade deal with Europe. Prime Minister Johnson said he will not seek an extension if an agreement is not reached before the deadline of 31 December. The UK economy failed to grow in the December quarter following a modest 0.5% growth in the September quarter, as political uncertainty restrained business investment, consumer spending and manufacturing production.

At this stage it is difficult to gauge the exact impact of the coronavirus on Chinese and indeed global growth. Consensus forecasts for Chinese GDP growth in the current quarter are variable but could be close to zero given the extended closure of industry, restrictions on people movement, and the disruption caused to supply chains. While past epidemics like the SARS virus had a limited effect on global growth, the effect of the coronavirus epidemic is expected to be much greater given China's dominant presence in the global economy. According to a Ministry of Industry and Information Technology spokesperson, only 30 percent of small and medium businesses nationwide have resumed work, while car sales have plunged 80% and passenger traffic is down 85%.

Commodities

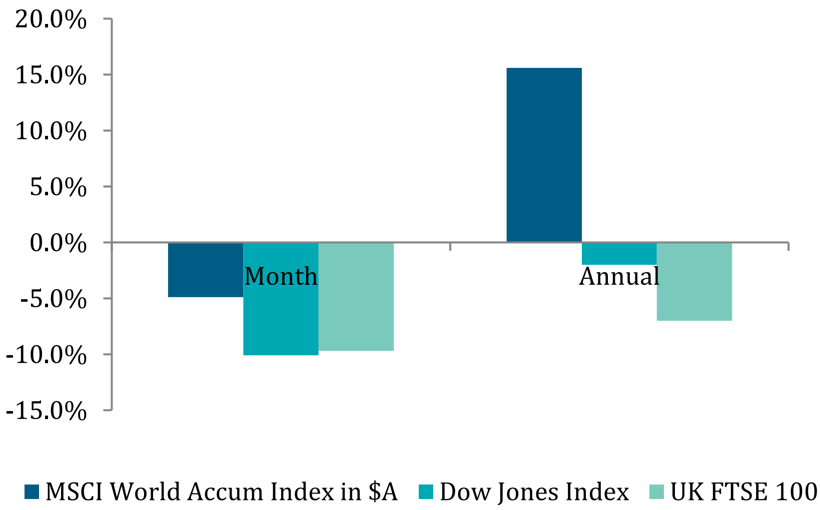
Oil markets have seen plenty of action, moving lower in February and then taking a dive as Saudi Arabia and Russia had a spectacular falling out over how best to manage global supply. Both are now engaged in a price war that is threatening US shale producers, some of which are highly leveraged. Base metals were mostly down in February, with falls in Aluminium, Lead, Nickel, Tin and Zinc and a rise in Copper. Gold was down slightly by 0.2% to US$1,585.69/oz.

Australian Shares



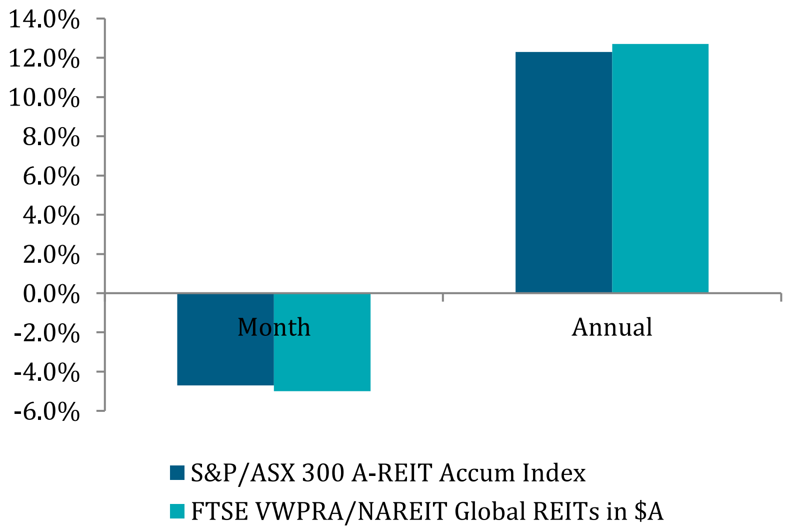
February saw heavy selling in local and global shares as markets priced in the risk of the coronavirus outbreak, which includes significant disruption to supply-chains due to lockdowns, travel restrictions and other efforts to contain the virus. Reporting season also revealed a number of ASX companies have already been forced to make downward adjustments to guidance.

International Shares



Global markets were rocked by the spread of the coronavirus as investors struggled to keep up with the flow of information and price in the potential economic damage. In the United States, there was a shortlived rally in equities after the Fed's rate cut, although selling quickly resumed with all sectors ending the month deep in the red. The situation in Europe and Japan was much the same, while China's CSI 300 Index fell a more modest 1.6% over February on the hopes that authorities will continue to lower financing costs and possibly provide additional support.

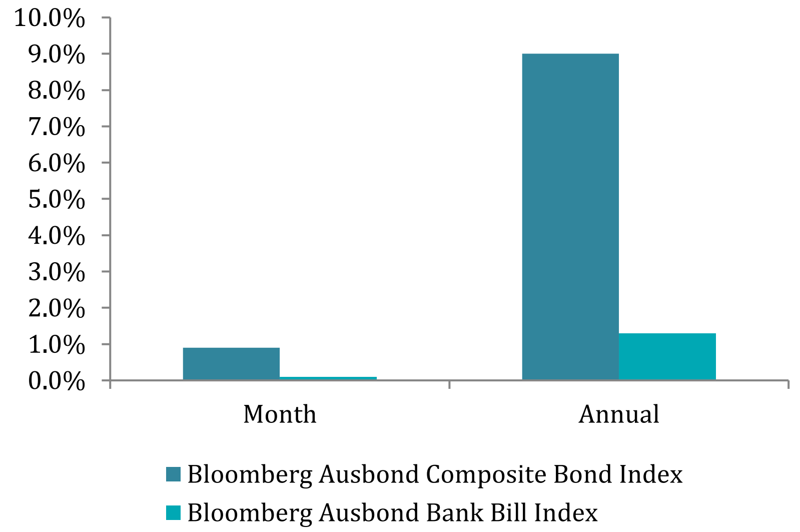
Property



Listed property was unable to avoid the pain as fears of the coronavirus hit markets in February, sending the S&P/ASX 200 A-REIT Index down 4.9%.

The real estate sector is where the green shoots of Australia's recovery were most noticeable, as expected following a period of easing monetary policy. House prices in Melbourne are now just 1.2% off the 2017 peak.

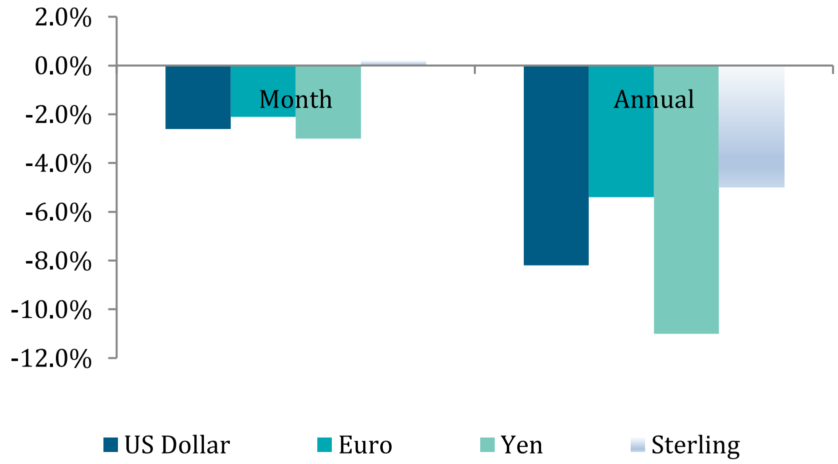
Fixed Interest



Fears of significant disruption to global economic growth in the short-term led to investors to move into safe-haven assets including bonds, while policy responses from central banks pushed yields to record lows.

The yield on Australian 10-year Treasury bonds fell 13 basis points to 0.82% in February.

Australian Dollar



The Australian dollar fell to US$0.6515 in February, hitting an 11-year low. The dollar is down from $0.7024 at the start of 2020 and has endured bushfires, droughts, floods and now the coronavirus.

This, along with a plunge in oil prices, saw flows move from riskier currencies like the Australian dollar to safer currencies like the Japanese yen.

Over the three months to the end of February 2020 the Australian dollar fell 3.7% against the US dollar, 3.8% against the euro, 5.0% against the Japanese yen and 2.9% against the British pound.

Key Investment Indices

As at 29 February 2020		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		-7.7	-5.2	-0.6	8.6	6.2
S&P/ASX 300 Accumulation Index		-7.8	-5.2	-0.7	8.8	6.2
S&P/ASX Small Ordinaries Accumulation Index		-8.1	-5.6	-1.0	8.2	6.4
S&P/ASX 300 Industrials Index		-6.4	-3.8	0.5	12.6	6.1
S&P/ASX 300 Resources Index		-13.2	-11.2	-5.9	-5.6	6.7
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		-4.9	-1.6	5.6	15.6	10.2
MSCI World Accumulation Index ($A hedged)		-8.5	-6.7	0.3	4.4	6.9
MSCI Emerging Markets Index in $A		-1.6	1.8	7.6	8.3	6.8
Dow Jones Index in $US	25,409	-10.1	-9.4	-3.8	-2.0	7.0
S&P 500 Index in $US	2,954	-8.4	-6.0	1.0	6.1	7.0
FTSE 100 Index in £	6,581	-9.7	-10.4	-8.7	-7.0	-1.1
Deutsche Boerse Index in €	11,890	-8.4	-10.2	-0.4	3.3	0.8
Nikkei 225 Index in ¥	21,143	-8.9	-9.2	2.1	-1.1	2.4
Hang Seng Index in HKD	26,130	-0.7	-0.8	1.6	-8.7	1.0
Shanghai Shenzhen CSI 300 Index in RMB	3,940	-1.6	2.9	3.7	7.4	2.0
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		-4.9	-3.3	-2.5	11.8	8.8
S&P/ASX 300 A-REIT Accumulation Index		-4.7	-3.0	-2.2	12.3	9.1
FTSE EPRA/NAREIT Global REITs in $A		-5.0	-3.7	-0.4	12.7	7.0
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.2	0.5	1.3	1.9
Bloomberg Ausbond Composite Bond Index		0.9	1.5	1.4	9.0	4.5
Barclays Global Aggregate Index ($A Hedged)		1.2	2.8	1.7	9.3	4.5
Inflation		%	%	%	%	%
Australia CPI		0.2	0.5	1.2	2.2	1.8
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6515	-2.6	-3.7	-3.2	-8.2	-3.6
Japanese ¥	70.3650	-3.0	-5.0	-1.7	-11.0	-5.5
Euro €	0.5905	-2.1	-3.8	-3.7	-5.4	-3.3
Sterling £	0.5080	0.2	-2.9	-8.3	-5.0	0.1
Chinese Yuan		-2.9	-5.5	-6.8	-5.5	-1.7
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		-7.8	-12.4	-9.7	-15.9	-3.2
Oil ($US/barrel)	82.93	-13.2	-18.9	-18.8	-21.8	-2.1
Gold ($US/ounce)	1585.69	-0.2	8.3	4.3	20.7	5.5
Iron Ore ($US/tonne)	82.93					

Sources: Lonsec, Atchison Consulting