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Monthly Market Insights July 2020

Australia

The Australian government warned that the economy likely shrunk at its fastest pace in recorded history in the June quarter, while the budget deficit will be the biggest since World War II as payments were extended to businesses and job seekers. The prime minister said the harsher lockdowns in Victoria would reduce GDP by between $7 billion and $9 billion in the September quarter, while the total hit to GDP is forecast to be around $12 billion. At its August meeting the RBA left interest rates on hold and maintained its target for the 3-year yield curve at 0.25%. In his statement Governor Lowe said the worst of the contraction has passed, but the outlook remains highly uncertain, especially given Victoria's move to stage four lockdowns. The recovery is expected to be gradual and highly contingent on how the pandemic evolves.

The June quarter CPI release reported a 1.9% fall in consumer prices (versus -2.0% expected), the largest recorded fall in the index's 72-year history. The federal government announced a $15.6 billion expansion of the JobKeeper program, of which $13 billion is estimated to flow to Victoria.

The unemployment rate came in as expected, rising from 7.1% last month to 7.4% in June, the highest rate since late 1998, with the participation rate rising to 64.0% from 62.7% in May. Retail sales rose slightly more than expected in June, gaining 2.7% (versus 2.4% expected) and following on from the 16.9% increase in the month prior. The trade surplus increased from a downwardly revised $7.34 billion in May to $8.20 billion in June, less than the $8.80 billion surplus expected. Exports rose more than imports, increasing by 3.0% and 1.0%, respectively.

The Westpac-Melbourne Institute Index of Consumer Sentiment fell to 87.9 in July from 93.7 in June, reversing the impressive gains made in the previous month. Sentiment has been rocked by the resurgence in Coronavirus cases over the last month and the deteriorating situation in Victoria. The 'economy, next 12 months' sub-index recorded the biggest decline, slumping 14% in July to be 25% below pre-Covid levels.

Global

The impact of the Covid-19 pandemic on the global economy has been profound, especially in emerging, low-income economies with limited health care capacity. Hopes of a V-shaped recovery faded as Covid19 cases worldwide ticked over 15 million, although policy settings remain incredibly favourable as central banks and governments support economies via monetary easing and fiscal measures. Cyclical indicators such as unemployment figures and PMIs remain weak but are showing signs of improvement as the global economy adapts to the pandemic.

The impact of the coronavirus caused US GDP to shrink by an annualised 32.9% in the June quarter (-9.5% quarter-on-quarter), slightly better than the expected 34.1% fall. The July ISM Manufacturing PMI increased to 54.2, while construction spending disappointed in June, falling 0.7% (versus +1.0% expected). Despite adding 9.3 million jobs over the past three months, total employment remains 12.9 million below its February level and economists fear some job losses may prove permanent. US unemployment stood at 10.8% in July.

The flash estimate for eurozone June quarter GDP came in as expected, falling 12.1%, making it the largest contraction on record as lockdowns continued to impact global demand. Inflation remained subdued in July, with the yearly rate at 0.4%, slightly above the 0.2% expected. In positive news, the July Markit composite PMI printed at 54.8 in July, ahead of expectations of 51.1, with both manufacturing and services returning to growth as more businesses began reopening.

China's June quarter GDP came in above expectations, with the yearly rate increasing to 3.2%, following a -6.8% reading in the previous quarter and becoming the first country to report growth since the beginning of the pandemic. The Caixin Manufacturing PMI for July came in above expectations, rising to 52.8 and posting the third consecutive rise in factory activity as consumer demand continues to pick up following the impacts of the coronavirus.

A World Health Organization team arrived in Wuhan where the outbreak was first detected to begin laying the groundwork for an international investigation into the cause of the Covid-19 virus, including how it was transmitted from animals to humans.

Commodities

Oil prices rose through July, hitting five-month highs in early August following a large drop in US crude inventories, which fell by 7.4 million barrels in the week ending 31 July. Metals gained strongly over the month, with increases in Zinc, Nickel, Tin, Copper, Lead, and Aluminium. Gold rallied 10.8% in July to US$1,975.86 per ounce.

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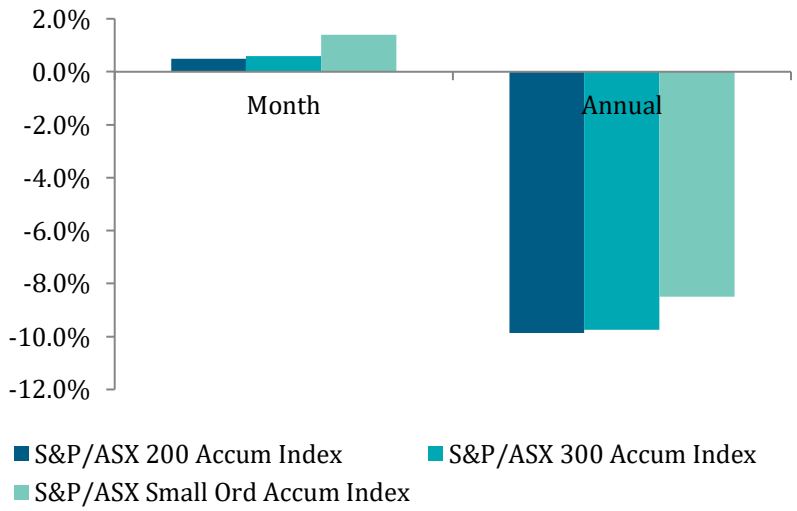
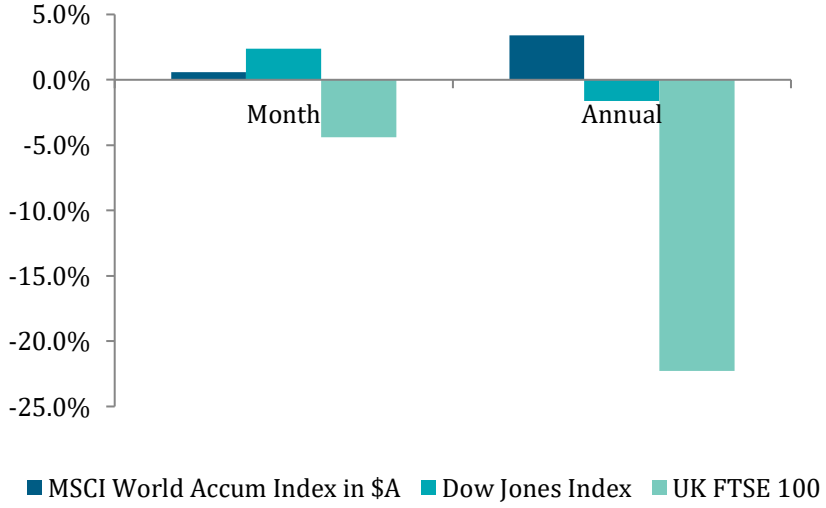
Australian Shares



The recovery in Australian shares was cut short in July amid reports of growing Covid-19 cases and anticipation of harsher restrictions in Victoria. Early in August, the Victorian government announced a state of disaster and moved to stage four lockdown, which will see an estimated 1 million people restricted from going to and from their workplace for at least six weeks, while only essential businesses including supermarkets and pharmacies may remain open. The S&P/ASX 200 Index gained 0.5% over the month, dragged down by the energy and health care sectors.

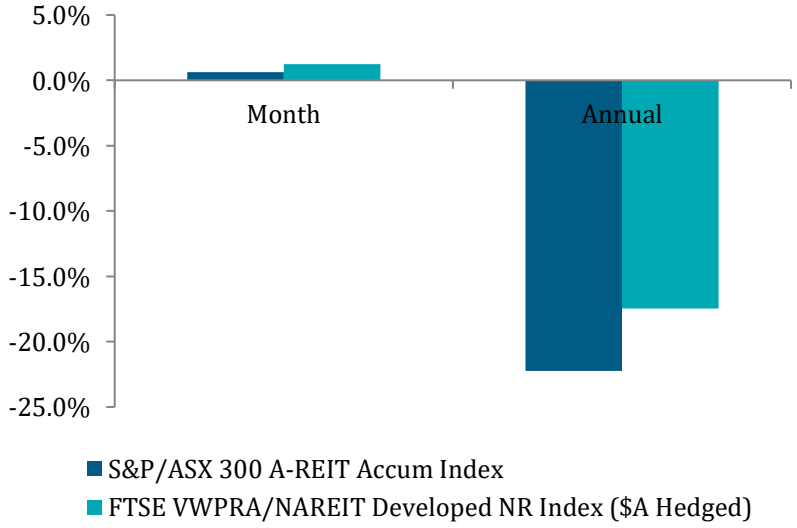
International Shares



Global shares continued their march higher in July, rising 0.6% in Australian dollar terms and 3.5% in local currency terms. With around half of S&P 500 companies having reported at the time of writing, it is clear earnings have been severely affected by the pandemic, although not as badly as anticipated. The US share market has been supported by the 'big four' tech giants (Amazon, Apple, Facebook, and Google), all of which beat estimates.

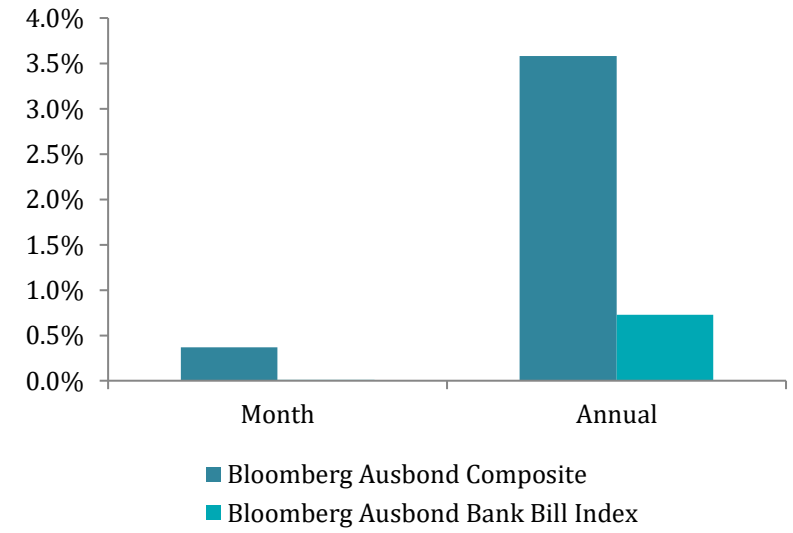
Across the Atlantic, EU leaders have been relatively successful in containing the Covid19 virus and providing much-needed fiscal support.

Property



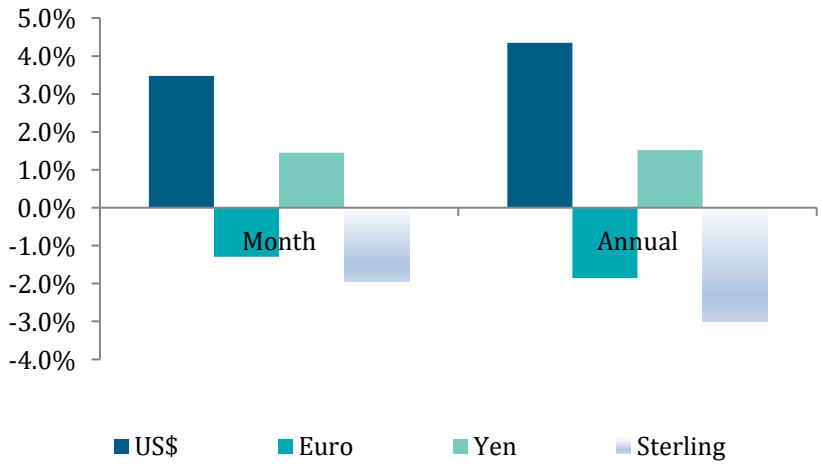
Australian REITs were mixed over July as the economic pain from the pandemic rolled on. Shopping centres, which play a prominent role in the A-REIT index, remain affected by reduced foot traffic and struggling tenants. Meanwhile, some diversified and industrial funds have held up reasonably well during the crisis.

Fixed Interest



According to the RBA, Australian government bond markets are functioning normally and have seen a solid increase in issuance. The yield on 3-year government bonds has been mostly in line with the RBA's 0.25% target, although it has been slightly higher in recent weeks, prompting the Bank to resume purchases in the secondary market. The yield target will remain in place until the RBA is satisfied it has brought the inflation and unemployment rates in line with its objectives.

Australian Dollar



The Australian dollar continued its upward trend in July, appreciating 3.2% in trade-weighted terms and rising from US$0.69 to $0.72. While Australians are not travelling much presently, holidays could prove more expensive when the pandemic is over.

A ballooning US budget deficit is contributing to a weaker US currency, while Australia's relative success in containing the pandemic has supported the dollar.

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Key Investment Indices

As at 31 July 2020		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		0.5	7.6	-14.3	-9.9	5.2
S&P/ASX 300 Accumulation Index		0.6	7.8	-14.2	-9.7	5.2
S&P/ASX Small Ordinaries Accumulation Index		1.4	9.9	-11.0	-8.5	7.9
S&P/ASX 300 Industrials Index		-0.4	6.0	-16.5	-11.2	3.8
S&P/ASX 300 Resources Index		4.5	14.9	-4.4	-4.0	11.7
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		0.6	2.9	-7.1	3.4	8.1
MSCI World Accumulation Index ($A hedged)		3.3	10.6	-3.4	3.5	7.5
MSCI Emerging Markets Index in $A		4.6	7.6	-3.8	2.4	6.7
Dow Jones Index in $US		2.4	8.6	-6.5	-1.6	8.4
S&P 500 Index in $US		5.5	12.3	1.4	9.8	9.2
FTSE 100 Index in £		-4.4	-0.1	-19.1	-22.3	-2.5
Deutsche Boerse DAX Index in €		0.0	13.4	-5.2	1.0	1.7
Nikkei 225 Index in ¥		-2.6	7.5	-6.4	0.9	1.1
Hang Seng Index in HKD		0.7	-0.2	-6.5	-11.5	0.0
Shanghai Shenzhen CSI 300 Index in RMB		12.8	20.0	17.3	22.4	4.2
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		0.7	6.1	-25.5	-22.8	3.4
S&P/ASX 300 A-REIT Accumulation Index		0.6	6.4	-25.2	-22.2	3.7
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		1.2	3.6	-22.6	17.5	1.0
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.0	0.0	0.3	0.7	1.7
Bloomberg Ausbond Composite Bond Index		0.4	1.0	1.6	3.6	4.6
Barclays Global Aggregate Index ($A Hedged)		1.0	1.8	2.8	5.5	4.7
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.7143	3.5	9.7	6.7	4.4	-0.5
Japanese ¥	75.5860	1.5	8.3	4.3	1.5	-3.5
Euro €	0.6065	-1.3	2.0	0.6	-1.9	-1.8
Sterling £	0.5459	-1.9	5.6	7.7	-3.0	3.1
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		4.4	32.2	-12.6	-19.6	-2.1
Oil ($US/barrel)	43.30	2.6	113.7	-21.9	-31.3	-3.1
Gold ($US/ounce)	1,975.86	10.9	17.2	24.3	39.8	12.5
Iron Ore ($US/tonne)	108.90					
Inflation		%	%	%	%	%
Australia CPI		0.0	-1.3	-1.7	-0.6	1.2

Sources: Lonsec