

Monthly Commentary - October 2019

Developments in the global economy

Australia

The Reserve Bank lowered the cash rate in early October for the third time this year by 25 basis points to a record low of 0.75%, in a bid to decrease the unemployment rate and push inflation back into the 2-3% target band. Minutes from the meeting provided insight into the cases for and against easing policy further, with the RBA stating that unemployment and inflation results were “likely to be short of the Bank’s goals.” With the unemployment rate rising from 5.0% at the start of the year to 5.2% in September and an inflation rate of only 1.6% posted in the September quarter, economists are now forecasting that the RBA may cut rates further in early 2020.

Chart 1: Australian CPI



The Westpac-Melbourne Institute leading index dropped from -0.24% in August to -0.92% in September, falling for the second consecutive month. The index continues to indicate that economic growth will remain below trend over the next three to nine months. The Westpac-Melbourne Consumer Sentiment index also slipped 5.5% to a four year low, from 98.2 in September to 92.8 in October, despite rate cuts and tax relief. The index has fallen 8.4% since the RBA started cutting rates in June, signifying that consumers are looking behind the purpose of the rate cuts.

A recovery appears to be continuing for housing prices. The CoreLogic dwelling prices across 8-capital cities rose

1.4% over October, the strongest monthly gain in around 10 years, marking the fourth successive month that prices have risen. The increase over September was primarily driven by increased dwelling prices in Sydney and Melbourne, where prices rose 1.7% and 2.3% respectively. Auction clearance rates have seen a large improvement over the second half of 2019, however the volume of auctions held remains low comparative to recent years. Further expectations of future rate cuts would improve demand for housing, while stagnant wage growth and high household debt levels are likely to restrict the recovery.

United States

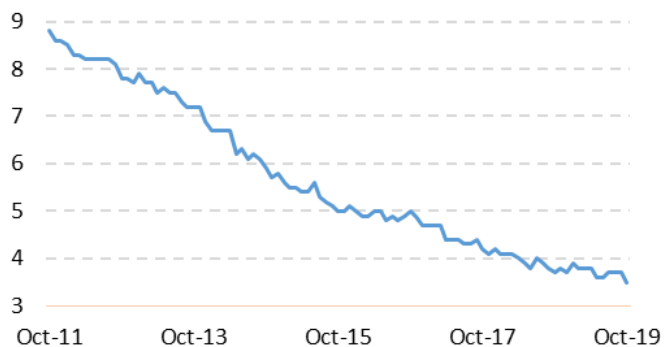
Trade talks between the US and China initiated in early October, with media reports signalling that a partial trade deal had yet to be agreed upon. China’s Vice Premier Liu He stated that the two countries were making progress on the “Phase 1” agreement, with the deal possibly being formalised as soon as next month. Trump tweeted about a “Substantial Phase 1 deal”, further signifying a positive outcome. Although progress may lead to the US cancelling tariff increases of US\$250Bn on Chinese goods, there are no signs that either side will shift on the key disputes of subsidies for Chinese State-owned enterprises and technology protection.

The US Federal Reserve cut its policy rate by 25bp to a range midpoint of 1.625% in late October, the third consecutive reduction. The outlook statement did not indicate further cuts however reserved the option to do so. Fed board members stated that the Fed “would assess the appropriate path...” In relation to any future cuts.

Positive sentiment surrounding trade talks distracted markets from another weak outturn in US CPI data, as prices rose beneath expectations in September. The core measure lifted 0.1% over the month, below market expectations of 0.2%. Headline inflation was 1.7% year-on-year. The Federal Reserve announced a proposal of Treasury bill purchases of US \$60Bn per month, starting in October and continuing into the second quarter of 2020. The Fed stated that the package was implemented to “support the effective implementation of the FOMC’s

monetary policy.” Conversely the US labour market showed strength in September as the unemployment rate fell to 3.5%, the lowest rate seen since December 1969. A total of 136,000 jobs were added to the economy over the month.

Chart 2: US Unemployment Seasonally Adjusted



The US Markit flash manufacturing PMI showed further signs of stabilisation, as the headline measure rose from 51.1 to 51.5 in October, beating market expectations of 50.7. The expansion was the strongest since April, as output, new orders and employment all increased at a faster than expected pace. Retail sales fell unexpectedly in September by 0.3%, falling against forecasts of a 0.3% gain. The numbers were the weakest posted in eight months, indicating that the trade tensions were starting to flow through to the consumer.

Asia

China’s Balance of Trade Surplus increased from \$34.83Bn USD in August to \$39.65Bn USD in September. The surplus reported was less than expected, falling 3.2% from September the year prior. China’s exports in Yuan terms fell by 0.7% year on year in September, as shipments to the US fell, still being affected by trade wars. Chinese imports dropped 6.2% in the same period. The Caixin services PMI shifted down from 52.1 in August to 51.3 in September, the lowest figure since February. Despite the index sitting above 50 and in expansion, the moderation in activity further supports concerns regarding the impending outlook on growth.

The Jibun Bank flash manufacturing survey for Japan fell from 48.9 in September to 48.5 in October – the weakest result in three years. The services PMI remained in expansion at 50.3, however decreased from 52.8 in September and was the weakest reading in more than a year. Exports in Japan fell for the 10th consecutive month in September, as slowing demand and global trade instability impacted heavily. Exports fell 5.2% over the year while imports fell 1.2%. Both figures were an improvement

on the month prior, when exports plunged 8.2% and imports fell 12%.

Europe

The Eurozone flash PMI’s were mixed across the board. The services and composite indices improved slightly, remaining in expansion. Manufacturing however remained at 45.7, indicating that activity is likely to continue to contract. Germany posted the lowest PMI figure across the Eurozone in October, edging up from 41.7 to 41.9, however sitting well below the expansionary benchmark of 50. The reading pointed to the tenth consecutive contraction in factory activity. The UK Manufacturing PMI rose to 49.6 in October 2019 from 48.3 in the previous month, its highest level since April and well above market expectations of 48.1.

The annual Eurozone inflation rate slowed to 0.8% in October from 1% percent in the previous month, below market expectations. It was the lowest inflation rate since November 2016, as cost of energy dropped further. The highest annual rate was recorded in France (1.1 percent), followed by Germany (0.9 percent), Italy (0.2 percent) and Spain (0.2 percent).

Chart 3: Eurozone CPI



The EU agreed to grant a Brexit extension at the end of October as the 31 October deadline was not met, providing further consolation that the UK can avoid a “no-deal” Brexit. The UK now has until January 31 2020 to leave the EU. British Prime Minister Boris Johnson attempted to call a snap election for the third time, however parliament denied the proposal yet again.

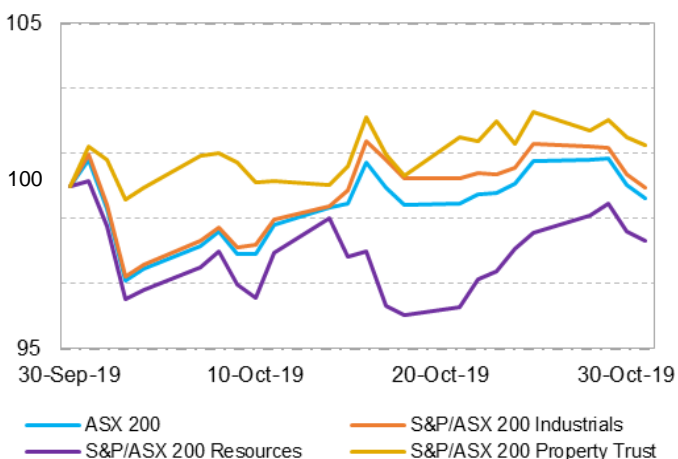
UK Consumer spending data revealed that retail sales rose 3.1% in September from 2.6% in the month prior. Consumer spending has been the main growth driver for the UK since Brexit negotiations began, compensating for a tumble in business investment, as growth reduced to 3.1% over the year in Q3 from 3.6% in Q2.

Developments in financial markets

Australian shares

The ASX had a difficult start to the month amid global growth concerns, with \$74.1Bn wiped from the boards across the first two days of October. Gains later in the month weren't able to surpass the early losses, with the ASX300 finishing the month at 6623.34, down -0.4% from September's close.

Chart 4: ASX Indices (rebased to 100)



The highest contributors on the ASX were Healthcare (7.27%), Industrials (2.89%), Real Estate (1.77%) and Utilities (1.23%). The largest detractors for the month were Info Tech (-3.19%), Financials (-2.88%) and Consumer Staples (-2.24%).

International shares

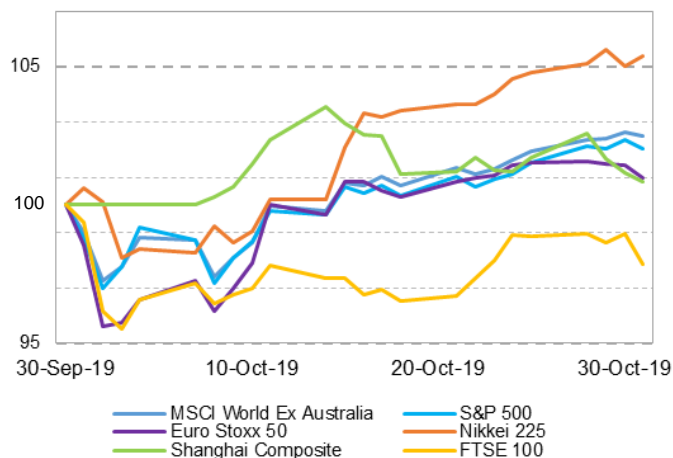
The MSCI World ex Australia (Unhedged AUD) rose 0.41% over October. The S&P 500 hit record highs over the month, backed by stronger than expected Q3 earnings and positive sentiment surrounding US-China trade wars. The S&P 500 Total Return index closed the month up 2.17%, while the Nasdaq Total return closed the month up 3.71%.

European stocks also rallied over the month on positive trade news, with the Trump administration possibly delaying fresh tariffs that were supposed to affect EU carmakers. The STOXX Europe 600 Total Return rose 0.92% over October, while the DAX soared 3.53% over the month. The FTSE however fell -2.16% due to Brexit uncertainty.

The Shanghai composite slipped in the last week of the month after reports that factory activity had contracted once again, finishing the month only 0.82% higher. The Bank of Japan announced that it would keep monetary policy steady, with the Nikkei 225 Total Return finishing up

5.39% for the month. The Korean KOSPI finished October up 0.99% while the Hang Seng finished 3.12% higher.

Chart 5: Global Indices (rebased to 100)



Fixed interest:

The Bloomberg AusBond Bank Bill Index rose 0.08% over the month. Australian 3yr government bond yields initially fell from 0.70% to 0.64% at the start of October in response to the RBA rate cut, and then fell further to 0.59% - a record low. The 3 year yield spiked at 0.80% in the month post Fed policy cut announcement, but fell to finish the month at 0.77%.

2-year US Treasury yields fell in early October on expectations that the Fed would cut rates at the end of the month, falling 1.498%. The 2 year yield jumped 6 basis points to 1.67% in response to the Fed rate cut announcement on the 31st, then fell back to finish the month at 1.64%. Euro zone bond yields rose in late October following upbeat noises from U.S. China trade talks and a slightly stronger tone to U.S. economic data.

Currencies

The AUD/USD reached one month highs of 0.6830 in mid-October amidst an increase in risk appetites resulting from positive trade talks. The AUD/USD finished the month even higher at 0.6894, up 2.13%. The dollar also rose against the British Pound and the Euro as the EU and Boris Johnson announced the additional Brexit delay.

GBP rose late October on the fading prospect of a no-deal Brexit (despite the delay) from 1.2900 to 1.3013, a five-month high, before retracting to 1.2915. The GDP/USD closed the month at 1.2942. The EURO/USD also increased over the month, closing at 1.1152, 2.32% higher on the previous months close.

Commodities:

The Bloomberg Commodity Index rose 1.87% over the month of October. Generic Brent Crude Oil fell -0.90% over the month, finishing at a price of 60.23. Gold rose 2.75%, finishing at 1512.99 US\$/oz. Iron Ore fell the greatest over the month, a total of -8.88%, closing at 84.72.

October Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation	-0.38%	-0.78%	19.50%	12.53%	8.56%
S&P/ASX 300 Industrials Accumulation	-0.09%	0.60%	20.35%	11.45%	8.68%
S&P/ASX 300 Resources Accumulation	-1.59%	-6.22%	16.04%	17.68%	7.71%
S&P/ASX 300 Accumulation A-REIT	1.37%	-0.09%	23.87%	13.01%	12.67%
S&P/ASX Small Ords Accumulation	-0.50%	-1.84%	14.41%	10.38%	9.62%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in \$A	0.41%	2.70%	15.83%	15.70%	13.09%
EPRA/NAREIT Developed Index Hedged A\$	1.80%	6.47%	19.31%	9.21%	7.86%
STOXX Europe 600 Total Return	0.92%	2.85%	9.72%	5.39%	3.33%
S&P 500 Total Return	2.17%	2.43%	14.33%	14.91%	10.78%
Nikkei 225 Total Return	5.39%	7.39%	6.86%	11.78%	8.99%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.08%	0.25%	1.65%	1.77%	1.98%
Bloomberg AusBond Composite (0+Y)	-0.49%	0.52%	10.06%	4.86%	4.97%
Barclays Global Aggregate TR Hedged A\$	-0.28%	1.35%	9.75%	3.87%	4.71%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	79.2367	1.87%	0.35%	-4.75%	-2.28%	-7.61%
Generic Brent Crude Oil	60.23	-0.90%	-7.58%	-20.19%	7.64%	-6.85%
Generic WTI Crude Oil	54.18	0.20%	-7.51%	-17.04%	4.96%	-7.62%
Gold US\$/oz	1512.99	2.75%	7.02%	24.55%	5.81%	5.22%
Iron Ore	84.72	-8.88%	-27.62%	13.55%	10.74%	1.80%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.6894	2.13%	0.72%	-2.53%	-3.24%	-4.76%
EUR/USD	1.1152	2.32%	0.69%	-1.41%	0.52%	-2.30%
USD/JPY	108.03	-0.05%	-0.69%	-4.35%	1.01%	-0.78%
GBP/USD	1.2942	5.31%	6.44%	1.38%	1.87%	-4.15%

For more information

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