

April saw life in Europe, the UK and the United States slowly return back to what could be described as the new Covid-19 normal. Unfortunately, the perfect storm unravelled towards the end of the month with India facing rising daily Covid-19 case numbers and insufficient medical supplies.

Development in Global Economy

COVID-19 Vaccinations

Governments around the world continue to inoculate citizens in the fight against further waves of the Covid-19 pandemic. As Chart 1 below demonstrates, while less than 4% of the world's 8 billion population have been fully vaccinated, just under 10% of the population have received one dose of the vaccine. This is a staggering number given where we were twelve months ago. The key standouts continue to be Israel, Chile, the UK and the US with at least 40% of their population receiving one dose and more than 20% of their respective populations fully vaccinated.

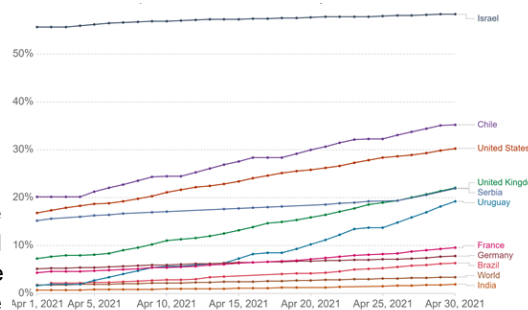
As we mentioned in last month's commentary, Australia continues to lag the pack. Facing further headlines earlier this month with the recommendation by the Therapeutic Goods Authority (TGA) that the AstraZeneca vaccine would not be administered to Australians under the age of 50 because of the increased risk of blood clots. This setback will inevitably delay the full reopening of the economy.

Globally, as mentioned above, saw the reopening of the UK and US while parts of Europe emerged from their March lockdowns. The focus now turns to India, as the daily 7-day rolling average case numbers were in excess of 364,000, hospitals exceeding capacity and reports the country was running

out of oxygen and many turning to black market supplies. Given Covid-19 can have severe respiratory implications leaving both young and old on ventilators, limited to no hospital oxygen will reduce the recovery rate of the seriously ill.

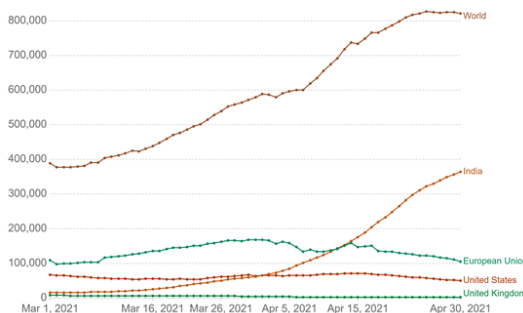
To put the severity and speed of the current outbreak into perspective, Chart 2 shows the total global daily case count started the month at 388k and ended the month at 821k. India started the month at 15k and ended the month at 364k. The US, UK and Europe held fairly steady ending the month at 50k, 106k and 2k respectively. In response to this, many developed nations around the world, including Australia have dispatched charter flights with medical supplies.

Chart 1: Share of country population fully vaccinated (%)



Source: BTIS/Bloomberg

Chart 2: Rolling 7 Day Average of New COVID-19 Confirmed Cases



Source: BTIS/Bloomberg

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Australia

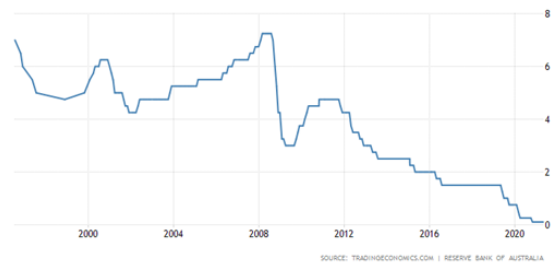
At the 6th of April Reserve Bank of Australia (RBA) meeting, policymakers once again reiterated that the cash rate will remain at 0.10% “for as long as necessary”. Many have referred to the RBA as being in wait-and-see mode. The RBA noted that “while annual CPI inflation was expected to rise temporarily to about 3 per cent around the middle of the year as a result of the reversal of some pandemic-related price reductions, in underlying terms inflation was expected to remain below 2 per cent over both 2021 and 2022.”

Other key metrics over the month included the NAB Business Survey. In which it appears Australia’s economic recovery is intensifying as the survey showed business conditions measuring hiring, sales and profits hit a record high in March even as the government was withdrawing its JobKeeper wage subsidy. While business confidence eased from 11-year highs, it remained above its long-run average with the data providing a positive signal for higher business investment and hiring.

The job market continued its recovery, with more jobs created in the past six months than any similar period on record. Looking at March alone, the labour market results were significant, except for a drop in full-time positions. This was somewhat due to an outsized gain in February. Many feel they need to see a few more months of data to reveal the true state of the economy now JobKeepers has rolled off.

As for travel, April saw the opening of the long awaited two way NZ-Australia travel bubble. While this has offered Australians some more freedom, the complete re-opening of foreign borders is the aim to fully achieve economic normality. To put things into perspective, over the past six months, arrivals to Australia averaged around 30,000 a month while departures were just over 40,000 a month. Before the pandemic, arrivals and departures were closer to 1.8 million a month.

Chart 3: Australian Cash Rate (%)



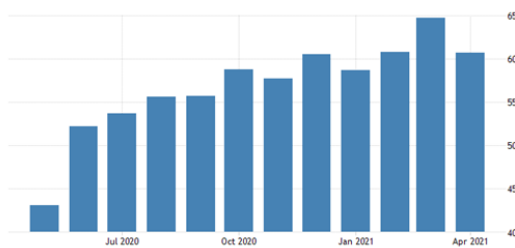
Source: BTIS/Bloomberg

United States

In the US, President Joe Biden’s US\$2 trillion infrastructure build dominated April’s headlines. Like many of the stimulus plans around the world, the US Administration followed suite and will use its plan to revitalise the country’s ailing and neglected infrastructure to help lift the economy out of its pandemic-induced slow down. If passed, the American Jobs Plan presents potential opportunities for a number of Australia’s listed companies and sectors that may supply materials or be hired to undertake work on these tasks.

President Biden aims to increase taxes on higher earners and hike the corporate tax rate to 28% from 21% to pay for the strategy, reversing much of the previous administration’s tax cuts. The plan is due to run over 8 years with US\$621 billion earmarked for the country’s infrastructure, such as roads, bridges, highways and ports, while US\$400 billion will target affordable housing and another US\$300 billion will go towards reviving the manufacturing industry. Biden’s plan will also target the electric grid, nationwide high-speed broadband and the country’s clean water supply, with a significant focus on green initiatives.

Chart 4: US Monthly Manufacturing PMI’s



Source: BTIS/Bloomberg

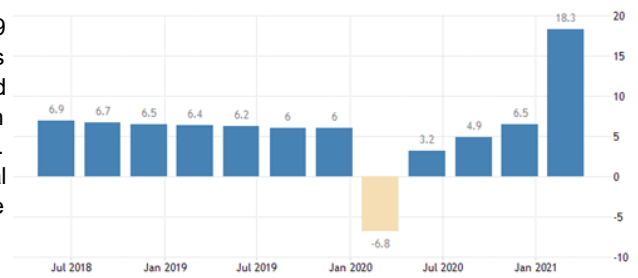
As for other key announcements over the month, The Federal Reserve (Fed) left the target range for its federal funds rate unchanged at the 0-0.25% range and said it will continue to purchase bonds at a rate of \$120 billion a month despite acknowledging a rise in inflation and economic improvement. Policymakers noted that indicators of economic activity and employment have strengthened amid progress on vaccinations and strong policy support, but stressed the pandemic continues to weigh on the economy, and risks to the outlook remain.

The Manufacturing PMI fell to 60.7 in April from 64.7 in March and below expectations of 65. Still, the latest reading pointed to expansion in the manufacturing sector for the 11th month. A slow down was seen in production (62.5 vs 68.1), new orders (64.3 vs 68) and employment (55.1 vs 59.6) while inventories contracted (46.5 vs 50.8). While the Services PMI was revised higher to 64.7 in April 2021, from a preliminary estimate of 63.1, signalling the sharpest pace of expansion in the sector since data collection began in late-2009. On the price front, input costs advanced at an unprecedented rate, due to hikes in supplier prices and greater transportation fees; while the rate of change inflation quickened for the fourth month running and was the steepest since data collection for the series began in October 2009.

Asia

China's economy continues its rebound trajectory after COVID-19 lockdowns plunged the world's second largest economy - and Australia's largest trading partner - into the deepest slump in decades. Data showed China's gross domestic product (GDP) expanded by 0.6% in the March quarter, the slowest quarterly growth rate since the Global Financial Crisis. However, the annual growth rate of 18.3% was the strongest since official quarterly records began in 1992 due to the policy stimulus and the country's success at suppressing the virus.

Chart 5: China Annual GDP Growth Rate (%)

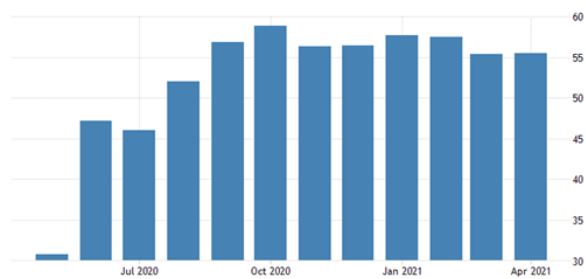


Source: BTIS/Bloomberg

For 2021, China expects the economy to grow by more than 6%. In 2020, the country's GDP expanded 2.3%, the slowest pace in more than four decades.

As for Covid-19 stricken India, now entering another nationwide lockdown in its attempt to curb the virus. Economic data for April remained positive but we do expect this to soften in May as the impact of social and physical distancing slows the recovery. The manufacturing PMI came in at 55.5 in April little-changed from 55.4 in the previous month, beating market consensus of 51.6, indicating a solid improvement in the health of the sector. The services PMI declined to 54.0 in April from 54.6 in the previous month, and below market expectations of 51.1.

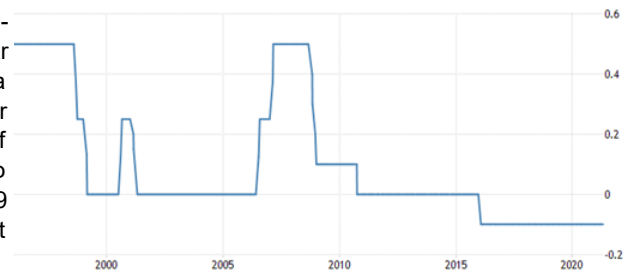
Chart 6: India's Manufacturing PMI's



Source: BTIS/Bloomberg

The Bank of Japan (BoJ) left its key short-term interest rate unchanged at -0.1% in April. Furthermore, it maintained the target for the 10-year Japanese government bond yield at around 0% as widely expected. In a quarterly outlook report, the BoJ slashed its consumer inflation forecast for the current fiscal year to 0.1% from earlier predictions made in January of 0.5%, amid downward pressure on service spending. Policymakers also warned of lingering risks to the economic outlook as the COVID-19 pandemic continues to hurt consumption. The BoJ reaffirmed it would not hesitate to take additional easing measures if necessary.

Chart 7: Japan's Cash Rate (%)



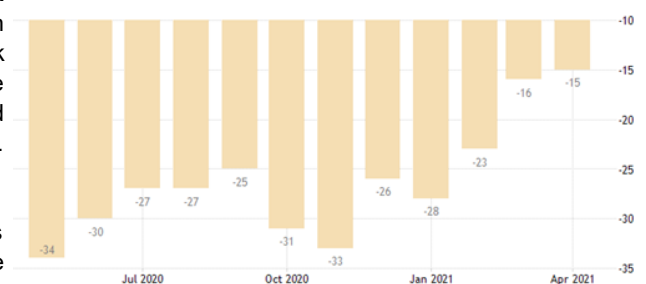
Source: BTIS/Bloomberg

Europe

As the UK headed out of lockdown and restrictions eased, the country's consumer confidence index rose to -15 in April from -16 in the previous month. This was the highest reading since a March 2020. There were improvements to both the economic situation over the last twelve months (-58 vs -60) and the next twelve months (-11 vs -17). Furthermore, the UK Services PMI jumped to 60.1 in April, from 56.3 in the previous month and easily beating market consensus of 59.0. While UK Manufacturing PMI ended at 60.9, above March's 58.9. The latest reading signalled the steepest pace of expansion in the UK manufacturing sector since 1994, due to a loosening of lockdown restrictions.

As for the Eurozone, the European Central Bank (ECB) left monetary policy unchanged during its April meeting. Officials took a wait-and-see approach after last month's decision to conduct emergency bond purchases at a significantly higher pace over Q2. Interest rates were kept at record-low levels and the PEPP quota was maintained at €1.85 trillion with the purchase plan to run at least until March 2022. The central bank reiterated that the envelope might not need to be used in full if favourable financing conditions can be maintained but could be recalibrated if required to help counter the negative pandemic shock to the path of inflation. Essentially not taking any options of the table.

Chart 8: UK Consumer Confidence Index

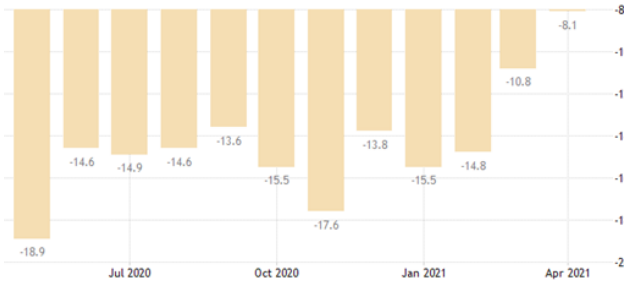


Source: BTIS/Bloomberg

President Lagarde said at the press conference that although inflation has picked up over recent months due to temporary factors, underlying price pressures remain subdued in the context of significant economic slack and weak demand. She added that economic activity is expected to rebound firmly in the course of 2021, but the near-term economic outlook remained uncertain.

Business Confidence in the Euro Area increased to 1.13 points in April from 0.31 points in March. The consumer confidence indicator in the Euro Area was confirmed at -8.1, the highest level since February 2020 and above its long-term average for the first time since March last year. This is a result of the gradual reopening of the economy and the acceleration in the COVID vaccination pace. Households' expectations improved both in respect of the general economic situation in their country and their personal sphere, as measured by their future financial situation and intentions to make major purchases.

Chart 9: Eurozone Consumer Confidence Index



Source: BTIS/Bloomberg

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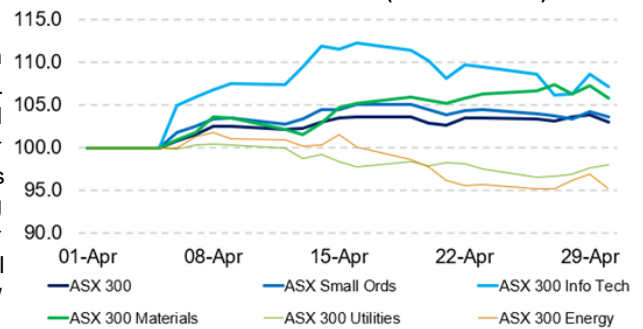
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Development in Financial Markets

Australian shares

As we headed into the second quarter of the year, April saw another month of strong returns in the market, consolidating a strong first quarter of 2021. The ASX300 Accumulation returned +3.70%, while the ASX Small Ordinaries Accumulation gained +4.98% over the month. The one year returns on these respective indices is 31.58% and 39.78%. The market was led by strong performance in the Technology and Materials sectors, ending up (+10.39%) and (+5.87%) respectively. Energy and Utilities struggled over the month, ending the month down (-6.11%) and (-2.77%) respectively. April saw a reversal of the previous few months of sector rotation back to high P/E growth sectors from beaten up cyclical sectors despite the economy continuing to open up.

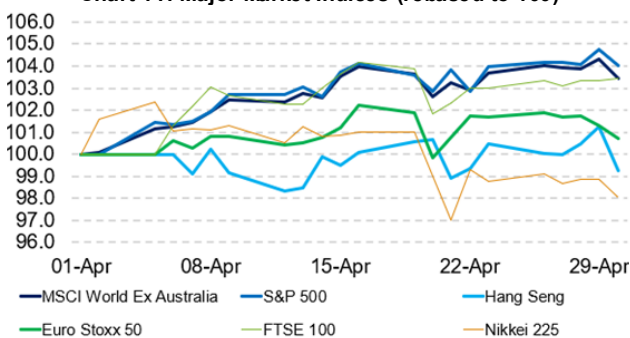
Chart 10: Australian Shares (rebased to 100)



Source: BTIS/Bloomberg

International shares

Chart 11: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

International share markets also consolidated on the strong returns of the first quarter, with US markets hitting all-time highs once again during April. Promising economic data particularly PMIs as mentioned above, positive momentum in vaccination programs, and a continued reopening out of winter lockdowns drove this performance. The MSCI World ex Australia Unhedged index ended the month up +3.18%. The US saw continued benefits of the stimulus cheques hitting bank accounts and further announcements around infrastructure plans. The S&P ended the month up +5.34%, the NASDAQ +5.43%, the Dow Jones +2.78%. The respective 1 year returns on the three US markets are 45.98%, 58.30% and 42.12%. European shares were similar, the Euro STOXX up +1.81%. France's CAC 40 and Germany's DAX Index ended up +3.33% and +0.58% respectively. With the 1 year returns on these respective markets being 28.63%, 37.12% and 39.35%.

Asian Share markets told a slightly weaker story this month. Japan's Nikkei coming off those all-time highs, ending -1.25% return over the month. Despite the fall, this still brings the 1 year return to +44.94%. China's Shanghai Composite finished the month flat +0.14% and the Hang Seng up +1.22%. The Korean KOSPI continued its upward trajectory ending up +2.82%, bringing its one-year return to 61.63%.

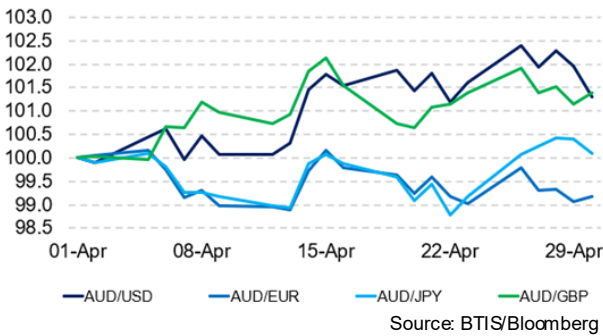
While these one-year returns still continue to look impressive and paint a very different story to the likes of this time last year with the large draw down experienced in March well and truly rolling off the 1 year return number. Going forward you should expect these 1 years to adjust to more normal levels.

Fixed interest

Government bond yields had a benign month. While longer yields continues to steepen, they are still much lower than expected given the central bank rhetoric of lower for longer somewhat dampening expectations on when interest rates will rise.

In Australia, bond yields fell slightly, and prices rose, with the Bloomberg AusBond Composite (0+Y) index ending up +0.56%. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index gained ground as its one-month number closed at +0.24%. While the shorter end of the curve continues to be anchored very close to zero, supported by central bank bond buying programs, the longer end of the curve is well and truly starting to steepen. The 10-year Treasury bond yields in Australia finishing the month at +1.70%, while the US ended at +1.63%.

Chart 12: Major Currencies (rebased to 100)



Currencies

In line with our commentary last month, the Australian dollar continues to appear range bound against most developed market countries. The AUD reversed March's losses as it gained 1.55% against the USD, ending the month at 0.7716. Additionally, the Euro gained ground against the USD, with a 2.47% gain to 1.202. Moreover, the GBP also reversed the losses of March ended up +0.28% to 1.3822.

Commodities

After the turmoil related to the Suez Canal in March cleared and global trade routes returned to normal, commodities rebounded. Oil ended the month up in April, Brent Crude Oil was +5.84% to USD \$67.25 while WTI Oil +7.74% to USD \$63.58. Iron Ore was the stellar performer of all +20.29% to USD \$185.53. Gold continued surprisingly also ended up, despite the risk on sentiment spurring the market on, ending the month up +3.60% to USD \$1769.13. The Bloomberg Commodity Index reported a gain of 8.29% down to 90.36.

Chart 13: Major Commodities (rebased to 100)

