Market Watch

December Review 2019

The RBA, FED and BOE kept rates unchanged. The US and China agreed to a 'phase one' trade deal where the US will remove tariffs and China to make structural reforms and change trade practices. The UK election saw a dominant Boris Johnson led conservative party victory, providing a strong mandate to deliver his promised exit from the EU.

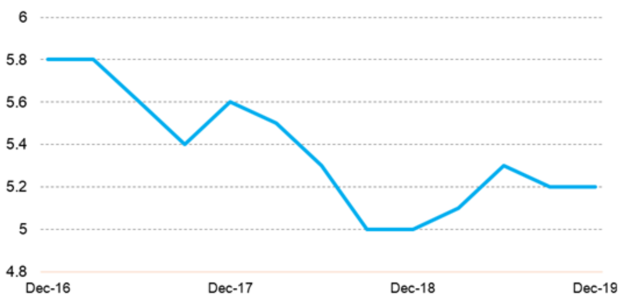
Developments in Global Economy

Australia

Over December the Reserve Bank left the cash rate unchanged at a historic low of 0.75%. The RBA is waiting to further assess the impact of the three rate cuts since June 19', however it appears that the economy has not improved sufficiently to rule out further easing.

The Westpac Melbourne Institute Consumer Sentiment Index fell 2.0% to 95.1 in December from 97.0 in November. It has been below the 100 neutral level for six successive months and is down 8.9% over the year. The index measuring the time to buy a major household item declined 2.1% in December, leaving a 3.7% down over 2019. Weak readings have been consistent with poor outcomes for retail sales at the beginning of the December quarter. Consumer inflation expectations were unchanged at an annual rate of 4.0% in December, pointing to inflation being stable.

Chart 1: Australian Unemployment Rate



Source: BTIS/Bloomberg

The six month annualised growth rate in the Westpac-MI Leading Index fell from -0.78% in October to -0.81% in November. The index indicates the likely pace of economic activity relative to trend, three to nine months into the future. Furthermore, the business confidence index fell to 0 in November, from a 2 in October. The business conditions index was unchanged at 4. The conditions and confidence indexes remain below their 10-year average of 6 and 5, respectively.

Australian employment posted its biggest monthly gain in 15 months in November, led by a surge in part-time jobs. Over the month, there was a net gain of 39.9k jobs, more than offsetting the 24.8k drop in October. The unemployment rate marked lower to 5.2% in November. Participation rate remained stable at 66.0%, near its record high of 66.2% in August.

INSIDE THIS ISSUE

The CoreLogic home value index, covering the major eight capital cities, rose 1.2% in December following the strong 2.0% gain in November. Sydney and Melbourne continued to record the fastest pace of growth, with house prices outweighing those for units. Sydney dwelling prices jumped 1.7%, while Melbourne was closed behind recording a rise of 1.4%. The smaller markets of Brisbane and Adelaide grew at a slower pace of 0.7% and 0.5% respectively. The rental market held reasonably firm. The national rental index rose 0.1%, however rental yields continued to remain compressed.

Housing market lending showed further expansion signs over October. Updated Australian Bureau of Statistics (ABS) numbers showed the value of new lending (excluding refinancing) rose 2.0%, after a 0.4% fall in September. Growth in new lending to owner occupiers outpaced investor growth, recording a 2.2% increase over October in value terms compared to a 1.4% rise in investor lending.

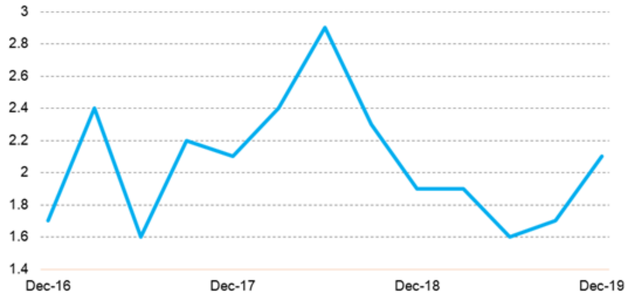
United States

The Federal Reserve left interest rates unchanged as widely expected at a range of 1.50-1.75%. Key messages was that monetary policy was to remain unchanged for some time, signalling it would stay on hold throughout 2020. Fed Chair Powell said that the economic outlook remained “a favourable one, despite global developments and ongoing risks”. The Fed had cut US interest rates in three successive meetings starting in July to late October in order to shield the economy from the disruptive trade war with China that has negatively impacted business investment, harmed exports and contracted the manufacturing sector.

The US and China have reached a ‘phase one’ trade deal just prior to new tariffs coming into effect, that would have affected a mass of consumer goods. The US has decided not to progress with 15% tariffs on US$160 billion worth of consumer goods that were scheduled to take effect December 15, and will reduce the September 1 tariffs on US$120 billion of Chinese goods. However, the 25% tariffs on US$250 billion of Chinese imports will remain.

The University of Michigan’s consumer sentiment for the US was revised slightly higher to 99.3 in December. It is the highest reading since May. Current conditions were seen a bit more positive and inflation expectations declined in the survey. Most of the December gain was among upper income households.

Chart 2: US CPI



Source: BTIS/Bloomberg

Headline inflation was a touch above expectation levels. CPI increased 0.3% in November, for an annual rate of 2.1%. The pick-up reflected higher gasoline prices. Core inflation – all items excluding food and energy – read at an expected rate of 2.3% for a second time in a row.

Asia

In China, the consumer prices rose by 4.5% in the year to November, up from an annual growth of 3.8% from the month before. The Caixin PMI fell to 51.5 in December from 51.8 in the previous month. New orders growth slowed to three-month low amid a marginal increase in export level, while output expansions remained strong overall. Generally, there was weaker level of sentiments due to intense market competition and trade tensions. Imports to China rose 0.5% year-on-year in November, while exports dropped by 1.3%.

China has arranged to increase the purchase of US goods and services by at least US$200 billion over the next two years, suspend retaliatory tariffs, implement intellectual property safeguards and place a tariff exclusion process. Furthermore, China will import US$40 - US$50 billion worth of US agriculture products.

The Japanese manufacturing sector remained stuck in a downturn. Jibun Banks PMI remained below the 50-nuetral mark, reading 48.4 for December, from 48.9 in November. Output volumes fell at the fastest rate since March amid a further decline in orders. Weakness also remained apparent on the export front. The impact of the typhoon along with the sales tax hike from October 1st have pointed to the weakening economic activity in the final quarter. Weaker demand was attributed to a challenging environment, leading to fewer orders. A soft patch in international markets indicated furthered reduction in exports. More positively, survey data indicated further gains on the employment front in Japan's manufacturing sector in December amid expectations of higher production volumes.

Europe

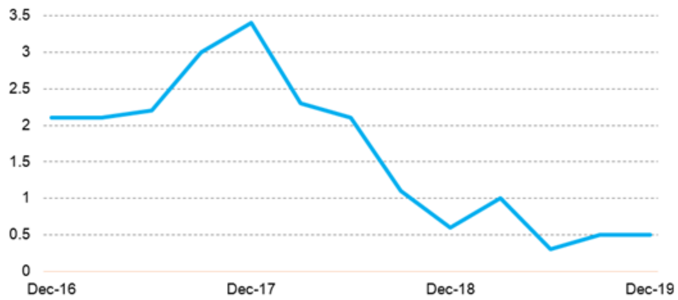
The Bank of England's Monetary Policy Committee voted a 7-2 to maintain the bank rate at 0.75%. Minutes of the meeting showed that policymakers think economic growth is set to pick up from current rates, which are seen to be below the country's potential, due to a reduction in Brexit uncertainties. The British government has named Andrew Bailey as the next governor of the Bank of England.

Boris Johnson's conservative party won the UK general election with a convincing majority, removing some uncertainty as to where Brexit is headed. A New Withdrawal Agreement Bill introduced in Parliament, differing in important respects from the bill considered before the election in October. The bill covers "divorce" payments to the EU, citizens' rights and the proposed 11 month transition period. Proceedings on the bill will continue in January.

UK PMI was revised slightly higher to 47.5 in December, below the previous month's 48.9. Production declined by the most since July 2012. Additionally, employment was reduced for the ninth month in a row, albeit the weakest pace since August. Inflation in the UK held steady at 1.5% in November, the lowest since November 2016.

The German ZEW survey of economic sentiment increased more than expected in December. Investors were buoyed by an unforeseen rise in export levels during October. Manufacturing PMI was revised higher to 43.7 in December, below the previous month's five month high of 44.1. The latest reading pointed to the 12th consecutive month of contractions, with investment good makers seeing the worst performance.

Chart 3: German GDP (Annualised)



Source: BTIS/Bloomberg

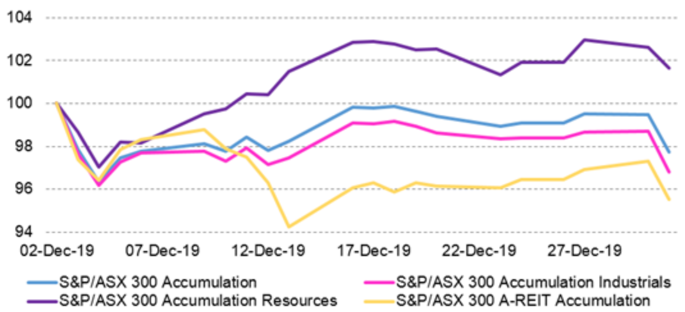
The European Central Bank (ECB) has paused its policy of monetary easing, reacting to early signs that the world economy is stabilising as international tensions and uncertainties begin to fade. The ECB has left its key interest rate on hold at minus 0.5%. Christine Lagarde, the ECB's new president, told reporters that she detected "some initial signs of stabilisation" in Eurozone growth and somewhat "less pronounced" risks to the economy. Eurozone inflation rate accelerated to 1.3%, from 1.0% in November. Eurozone Manufacturing PMI was revised higher to 46.3. The reading pointed to the eleventh straight month of contraction in factory activity.

Development in Financial Markets

Australian shares

The Australian share market finished 2019 with a sharp loss, wiping $40bn in value. The ASX 300 decreased by -2.02%. On a sector basis, the strongest sectors were Materials (+1.82%), and Utilities (+0.78%). Consumer Staples (-7.75%), Telecommunications (-5.46%) and Real Estate (-4.48%) lagged the greatest during the month.

Chart 4: Australian shares (rebased to 100)



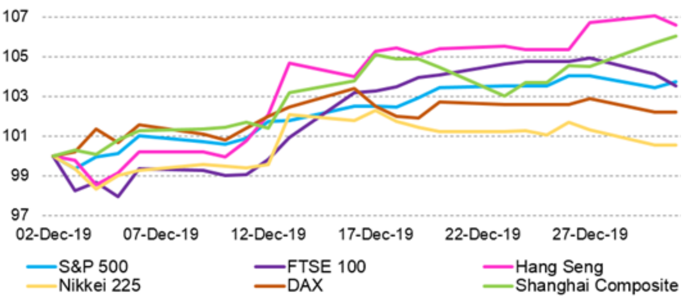
Source: BTIS/Bloomberg

International shares

Global share markets posted solid gains in December as significant geopolitical risks around Brexit and trade eased. But gains were capped by profit-taking during year end. Share markets started on the back foot as President Trump restored tariffs on metal imports from Brazil and Argentina. US share markets hit records highs when China and the US had reached a 'phase one' agreement. The UK FTSE lifted 1.1% following the UK Prime Minister Boris Johnson's landslide general election victory, boosting hopes for an orderly Brexit before the 31 January deadline.

In December overall, the US Dow Jones rose by 1.87%, the S&P 500 Total Return recorded 3.02% and the Nasdaq rose by 3.63%. The MSCI World ex Australia (Unhedged AUD) returned -0.86% in December. Over in Europe, the German DAX rose by 0.1%, while the UK FTSE gained by 2.67%. STOXX Europe 600 delivered a gain of 2.06%. In Asia, the Japanese Nikkei finished up by 1.73%, while the Shanghai Composite rose by 6.20%. The Korean KOSPI finished up December with a solid 5.25%.

Chart 5: Major Market Indices (rebased to 100)

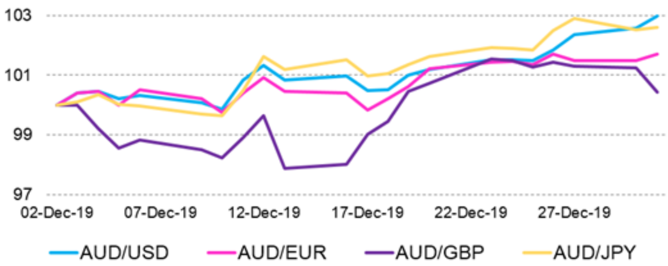


Source: BTIS/Bloomberg

Fixed interest

Bonds in December took cues from reports on the 'phase one' trade deal, which has helped boost forecasts for global economic growth. The Australian Bond market delivered -1.64% in December based on the Bloomberg AusBond Composite 0+ Yr Index. The Barclays Global Aggregate Total Return Index (Hedged) returned -0.28%. US tariffs were scheduled on China were scheduled to increase, but a 'phase one' trade deal avoided that outcome. The 2-year US Treasury bond yield finished off at 1.57% this month, compared to 1.61% in November. At the longer end of the curve, the 10-year US treasury yield finished the month of at 1.92%, while the yield on the 30-year was at 2.37%. The German 10-year bond yields returned to negative territory again at -0.19%.

Chart 6: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

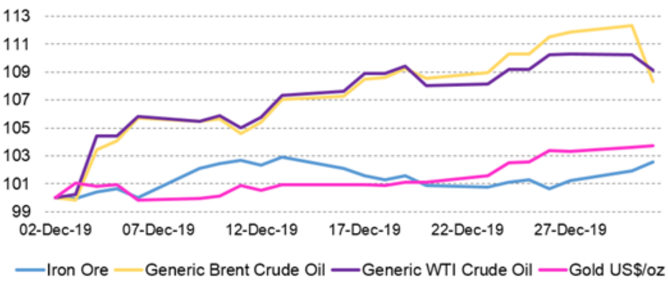
Currencies

AUD/USD monthly end price was 0.7021, slightly higher then November. The USD/JPY end price was lower faintly, while the British pound increased against the greenback as the election ended. The pound is within concerns of another year of Brexit uncertainty, and no-deal Brexit fears are likely to weigh heavily on it.

Commodities

The Bloomberg Commodity Index delivered a positive 4.90% return over December. Brent Crude Oil price increased to $66/b, plus 24% since the start of the year. Traders were contemplating potential supply risks following US airstrikes on Iranian-backed militia in Iraq. Gold , the traditional 'safe haven' commodity, saw prices rise to $1517 for the month as it's receiving an undercurrent of support into year-end from persistent geopolitical risks and ongoing US economic uncertainty. The quoted iron ore price over December climbed 2.6% to US$92/tonne.

Chart 7: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg