Market Watch

June Review 2020

June experienced continual, albeit slower economic growth against the last 2 months of surprise positive news. While most countries appear to be relaxing restrictions, various second wave outbreaks indicate that this global pandemic is far from over. Black Lives Matter protests have played centre stage throughout the media, with less attention placed on the precarious pandemic related situation that the world remains in.

INSIDE THIS ISSUE

Developments in Global Economy

Australia

The Westpac-Melbourne Institute Index of Consumer Sentiment continued increasing from last month's bounce back, rising +6.3% to 93.7 in June. This is the highest result of this index since February and represents a full recovery from the massive fall over March and April. Consumers are increasingly encouraged by the containment of COVID-19 and the lifting of restrictions. The index is still suggesting consumers are pessimistic but indicates that a recovery is likely to be underway. More good news has come this month as Treasury Secretary Steven Kennedy noted a revision to Treasury's unemployment rate forecast to peak at 8% instead of 10% as previously thought. However, the official unemployment rate will be realised in September, when various forms of support, including JobKeeper, are due to end. The ABS announced that total payroll jobs increased +1.00% between mid-May and mid-June.

Chart 1: Australian Unemployment Rate

Source: BTIS/Bloomberg

Australia's fight against the coronavirus was put into question this month with the start of rapidly rising case numbers in Victoria. While all other states and territories have been continuing with their relaxation of restrictions, Victoria has been placed back into varying levels of lockdown. These new outbreaks come with the risks of additional restrictions being imposed as well as a longer economic contraction. Investors now appear to be reassessing the consensus for the shape and the timing of the recovery.

Consumer inflation expectations remain well anchored, edging down from an annual rate of 3.4% in May to 3.3% in June. Inflation is set to weaken considerably, reflecting a sharp drop in demand for goods and services. Consensus is that inflation is likely to turn negative over the second quarter. Moreover, this month's lending to investors fell -4.2%. This represents the fourth consecutive monthly fall in investor lending. fall in May.

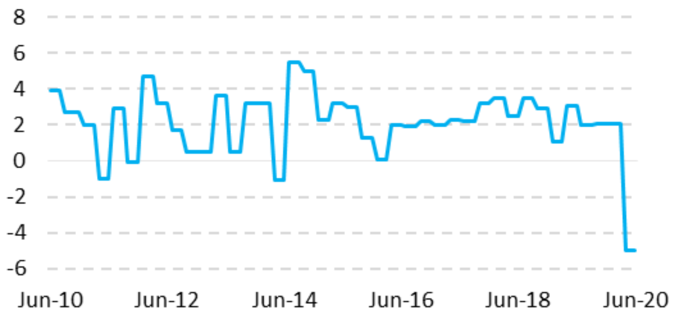
Rising real estate vacancy rates and concerns on the impact of slower migration flows on population are likely factors weighing on investor demand. The CoreLogic home value index, covering the eight major capital cities, declined 0.8% in June, following on from a 0.5%

The expected budget deficits for 2019/20 and 2020/21 have now been revised to $95bn (4.8% of GDP) and $240bn (12.2% of GDP) respectively. This significant increase from $80bn and $170bn can be attributed to cyclical deficit, the existing fiscal stimulus, $50bn of new spending and a new $15bn stimulus package expected to be announced on budget day.

United States

The fallout from the murder of George Floyd dramatically altered the Coronavirus conversation throughout June. The ensuing Black Lives Matter demonstrations across the United States (and in fact, the world) created chaos that saw violent protests and anti-establishment sentiment spread rapidly. Just as economies were beginning to open, entire cities were being placed into lockdown with the Federal Government threatening the possibility of a declaration of Martial Law. Overall, these protests, which began on May 26, spread to over 2000 cities in 60 countries with an estimated 15-26 million people participating.

Chart 2: US GDP (Annualised)



Source: BTIS/Bloomberg

Infection rates of COVID-19 have begun to increase throughout the United States once again. US Treasury Secretary Mnuchin said that the US should not shut down the economy again even if cases escalate. Mnuchin also added that it would not be necessary to re-impose restrictions because testing on COVID-19 and contact tracing was improving.

Economic data in the United States beat most estimates in June. The New York Fed Empire Manufacturing Index rebounded to -0.2 in June from -48.5in May. Future business conditions recorded a sharp increase to +56.5 from +29.5 previously. Consumer sentiment also increased +9.1% to 78.9, the highest result since March. However, the index remains low on a historical basis, suggesting consumers remain cautious about the outlook. The PMI for manufacturing rose +9.8 to +49.6 in June highlighting a continual recovery for this industry sector after its sharp from in March. Furthermore, the PMI for the services sector increased from +37.5 to +46.7 in June. While this suggests that services activity is still declining, the good news is that it is doing so at a lower rate than last month.

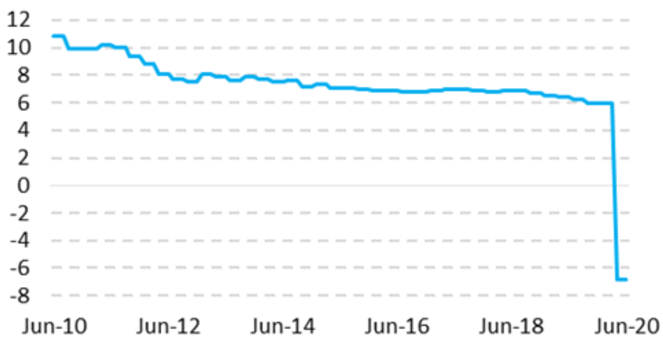
More positive results were seen in June regarding employment levels. The US department of Labour announced that non-farm payrolls were up by +4.8 million over the course of the month. Additionally, the unemployment rate decreased from +13.3% to + 11.1% as more lockdown restrictions were gradually eased.

Tensions between the United States and China have continued throughout this month. For the first time in six years, the US Navy have sent two Aircraft Carriers, part of the Nimitz Carrier Strike Force, to the South China Sea as a show of force.

Asia

Economic activity is continuing to recover in China after lockdown measures were imposed in late January of this year. Growth in industrial production edged up from an annual rate of +3.9% to +4.4%. However, the increase was still below consensus. Retail sales were still in decline but improved from an annual growth rate of -7.5% in April to -2.8% last month. The data highlights a steady but slow recovery in the economy. Both industrial activity and retail spending were below expectations and suggest that a weak global economy and cautious consumers are preventing a stronger recovery. China is providing an early example of what recovery could look like post-lockdown. A renewed outbreak in Beijing suggests that confidence could remain fragile and undermine the current recovery. The pace of inflation slowed in the year to May to +2.4%, from an annual rate of +3.3% in April. Wholesale inflation shrunk 3.7% in the year to May, suggesting deflationary pressures may be in the pipeline.

Chart 3: China GDP (Annualised)



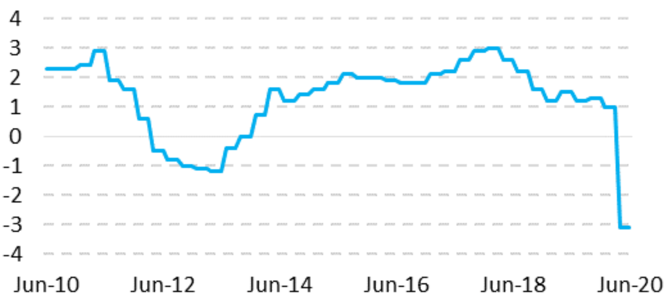
Source: BTIS/Bloomberg

A survey conducted by the Bank of Japan determined that big manufacturers' confidence decreased to levels last realised during the GFC. Both Japan and Korea's PMI's increased this month to 40.1 and 43.4 respectively. These numbers remain well below the rise-or-fall threshold of 50. Parts of Asia continue to open as restrictions are lifted with Tokyo Disneyland welcoming visitors for the first time in 4 months. In Taiwan, industrial production growth has slowed but remains positive over the year. The market forecasts a sligh t decline from last month's YoY% estimate of 3.51% to 2.95% in May.

India's economy is projected to have contracted by -20.6% in the three-month period leading to June. While the Indian Government have implemented stimulus packages worth about 10% of GDP, the spread of infection remains out of control. Additionally, Singapore's industrial production has defied expectations by withstanding the global economic deterioration until now. The market anticipates a fall from +3.6% to -7.1%.

Europe

Chart 4: Eurozone GDP (Annualised)



Source: BTIS/Bloomberg

Throughout June, the first wave of COVID-19 infections appear to be subsiding. While there are some new, smaller outbreaks across the region, most restrictions are continuously being eased. Additionally, the EU announced that it will open its borders to 14 'safe countries', including Australia, Canada, Japan, South Korea and Thailand.

Confidence in Europe continued to improve over June. Economic confidence rose from 67.5 in May to 75.7, although it remains well below the plus-100 readings reported before February. Confidence in the services and industrial sectors also lifted but remain well below pre-pandemic levels. However, Eurozone PMI's this month indicated that economic activity has continued to weaken, albeit at a slower rate than May. The manufacturing PMI rose to 48.2 from 35.6. Moreover, the composite PMI increased to 47.5 from 31.9. Markit revealed that France was the only country in the Eurozone that has experienced a return to growth activity. However, this might be because France's initial decline in Q1 was more severe than most other European countries.

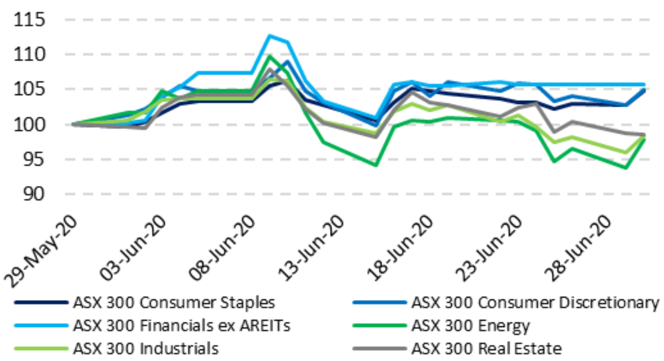
The United Kingdom saw similar results to the rest of Europe with the PMI for manufacturing rising from last month's 40.7 to 50.1. The services PMI saw a massive increase from 29.0 to 47.0 demonstrating a continual decline of activity but at a lesser rate than before. Consumer sentiment has stabilised after the personal finance and major purchase outlooks rose in May. The final estimate for Q1 GDP will likely remain unchanged at -2.0%.

Development in Financial Markets

Australian shares

The Australian share market (ASX300) experienced a strong increase, posting a +2.43% gain for the month of June. This was led by Consumer Staples (+4.75%), Consumer Discretionary (+5.06%), Financials ex AREITs (5.79%). Losses were seen through Energy (-2.12%), Industrials (-1.57%) and Real Estate (-1.45%). Over the last 3 months, Information Tech and Energy returns are up 53.68% and 33.43% respectively.

Chart 5: Australian shares (rebased to 100)



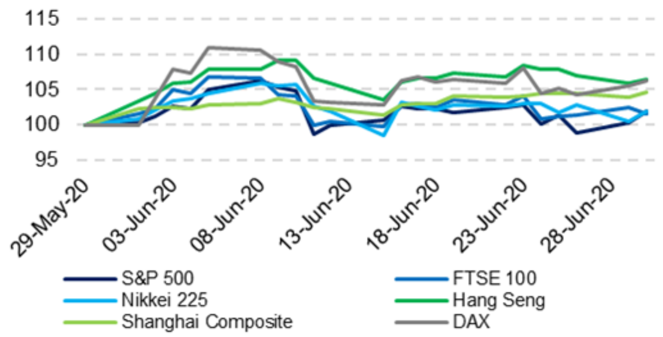
Source: BTIS/Bloomberg

International shares

Global share markets continued with their recovery from last month. The US market indexes experienced positive results in June, with the Dow Jones increasing by +1.82%, S&P 500 by +2% and the Nasdaq leading the way with a +6.07% rise. European shares also saw some solid growth throughout June. Once again, the German DAX experienced the strongest performance with a 6.25% increase. The European STOXX 600 Index rose by +2.8% and the UK FTSE increased by +1.53%.

In Asia, after a very strong May, the Japanese Nikkei increased by +2.00%. Similarly, the Korean KOSPI rose by +3.88%. After poor results in May, Chinese and Hong Kong markets turned around with positive results for the month. The Hang Seng rose by +6.38% and Shanghai Composite by +4.60%

Chart 6: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Fixed interest

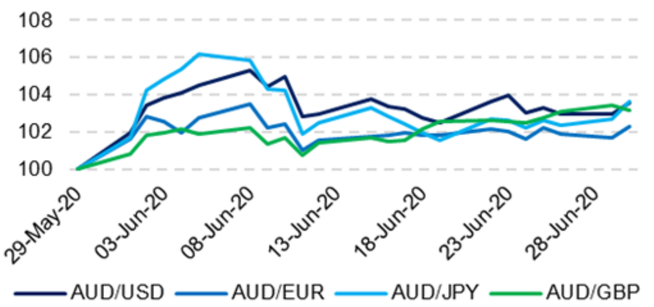
Notwithstanding some early signs of improvement several weeks ago, bond yields dropped slightly over the course of the month. Following a tightening in May, the US and Australia 10-year bond yield spread once again narrowed from 26bps to 23 bps over June. This can be attributed to Australian yields decreasing 2bps as well as US yields slightly increasing.

This month, the 10-year Treasury bond yields displayed mixed performance, with an initial fall before peaking at 1.11%. By the end of June, the 10-year yield sat at 0.89%, the 3-year ACGB remained at 0.28% and the 20-year yield endured at 1.50%.

In Europe, both the German and UK 10-year bund yield decreased by 1bp to -0.45% and 0.17% respectively. The French 10-year OAT yield dropped 5bps to -0.12% and the Italian 10-year government bond yield fell by 24bps, finishing the month at 1.25%.

Currencies

Chart 7: Major Currencies (rebased to 100)



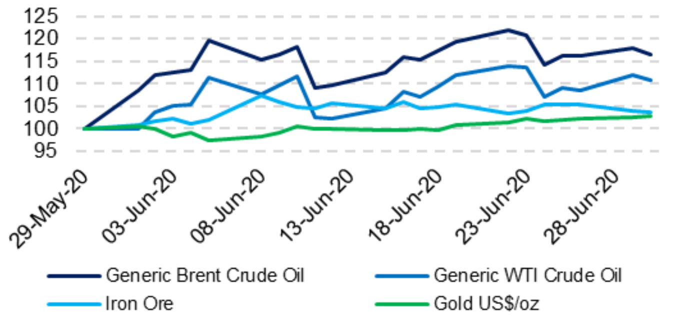
Source: BTIS/Bloomberg

The AUD/USD has continued to increase over the month of June coming off an 18-year low in March. Finishing at 0.69, the AUD/USD saw a +3.54% rise during June. The strong performance of the AUD can be attributed to the successful coronavirus containment measures seen across the country, as well as the RBA ruling out the prospect of negative interest rates. Additionally, the EUR once again increased against the USD, rising +1.20% to a month end price of 1.12. Similarly, the GBP also increased against the USD after a fall last month. Increasing +0.47%, the GBP finished June at 1.24.

Commodities

Commodities once again increased throughout the month of June after a very strong May. Leading the way was Brent Crude Oil with a +16.47% increase to a month end price of US$41.15. WTI Crude Oil also rose +10.65% to US$39.27. After a near +15% rise last month, Iron Ore performed well, increasing by +3.65% to US$98.01. Furthermore, Gold prices were up by +2.93% to US$1780.96. These strong results were reflected in the Bloomberg Commodity Index, which gained +2.27% to 64.98.

Chart 8: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg