Market Watch

May Review 2020

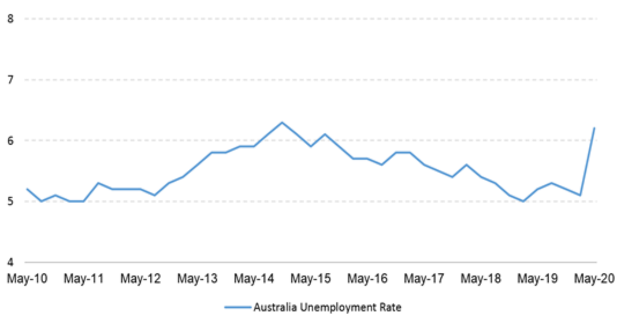
Following the surprise market recovery experienced in April, May has seen many indexes continue their early stages of bouncing back. As countries begin to relax their Coronavirus restrictions, the positive effect of reopening major economies has been felt globally. However, some uncertainty remains over how quickly economies can be reopened without risking a second wave of COVID-19 cases.

Developments in Global Economy

Australia

The Westpac-Melbourne Institute Index of Consumer Sentiment experienced a bounce back of 16.4% to 88.1 as at the end of May. This follows last month's decrease of 17.7%. The astounding improvement in confidence can be attributed to the fact that consumers are reacting positively to Australia's successful response to COVID-19 and the subsequent relaxation of restrictions. The flow-on increase in consumer sentiment represents the largest monthly Index rise in the history of this survey. However, this is still considered the second worst result for the index since the GFC, remaining 7.6% below the six-month average covering September '19 to February '20. More positive outcomes were seen through the sentiment indicator on the 'economy, next 12 months' sub index, which rebounded 32.6% from its poor April result of 53.7 to finish at 71.2 in May.

Chart 1: Australian Unemployment Rate



Source: BTIS/Bloomberg

The Federal Government plans to achieve a budget surplus have been shelved in order to deliver much needed economic stimulus. It is important to note that prior to COVID-19, domestic economic growth was already below trend. This can be cited to increased levels of household debt and diminishing growth of wages, which in turn, lowered consumer spending. Despite Government stimulus and efforts from the RBA, unemployment is expected to remain at a higher level than prior to COVID-19 for some time. There are some concerns for the potential of significant unemployment growth when stimulus measures are withdrawn later this year.

While there are ongoing reports that the economic outlook will not be as severe as previously expected, sales volumes highlight that turnover has decreased 60% over the past year. That said, to assess the impact of the COVID-19, the Australian Bureau of Statistics revealed the strongest rise in retail spending to date. Panic buying may possibly be the sole driver of this increase, which represents the considerable extent of cushioning being implemented by the Government. Ultimately, the eventual reduction of income and employment will have a negative impact on consumer spending in the near term.

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people's choice CREDIT UNION

The Australian Labour Force survey indicated the decline in market conditions, with unemployment increasing by 1% to 6.2%, a 594,000 reduction in jobs.

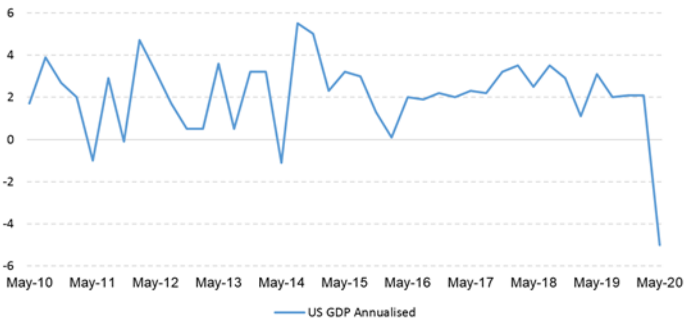
While these statistics are alarming, the result was less severe than the labour conditions around the world. The Government announced this month that JobKeeper payments are being made to support millions of workers across 860,000 businesses.

Australia's gross domestic product (GDP) fell 0.3% in Q1 of 2020. While this is the first quarterly reduction in GDP since 2011, the Government announced that the Q2 results are expected to far exceed Q1. COVID-19 has clearly played a significant role in this result, however, weak performance in private sector demand over the past year has also contributed. RBA Governor Lowe displayed a sense of cautious optimism by noting "it is possible that the depth of the downturn will be less than earlier expected" and that "some restrictions have been eased earlier than previously thought likely".

United States

Over Q1 of 2020, the United States GDP decreased by 1.2%, representing the most significant decline since late 2008, and its first drop in six years. This decrease was heavily concentrated in late March, associated with the lockdown measures implemented to contain COVID-19. A significantly worse Q2 is expected for the United States, with initial results from this quarter confirm this likelihood. The high levels of unemployment combined with low consumer confidence is expected to have a serious effect on consumption. With most states across the US beginning to open again, the stimulus packages being pushed by policy makers should assist in stabilizing retail sales.

Chart 2: US GDP (Annualised)



Source: BTIS/Bloomberg

The US Congress has approved fiscal stimulus worth over US$3 trillion. In addition to this, the While House has established nine emergency-lending initiatives to reinforce key market liquidity. While the Democrats are pushing hard for further stimulus to boost the economy, the Republican leadership still maintain the outlook that in addressing the national priority of restarting the economy the first steps should be the easing of state restrictions.

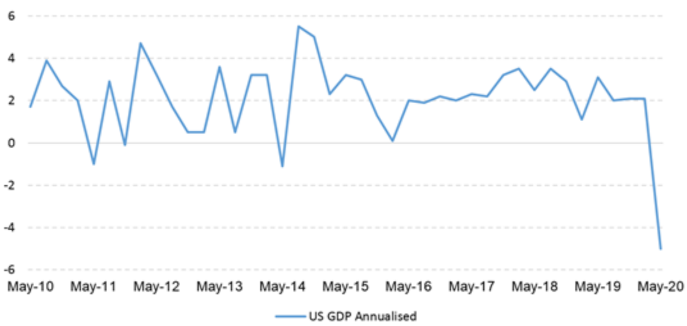
May's jobless data saw a surprisingly positive result, with a 2.5 million increase in jobs, reducing unemployment to 13.3%. This was the result of restrictions easing and many employers bringing back workers after COVID-19 -induced redundancies. While the unemployment rate did improve from April's 14.7%, it continues to be higher than any post-war recession.

Unfortunately, the tensions between China and the US have continued throughout this crisis. These issues have been the dominant theme affecting financial market sentiment for the past year and the current civil unrest has only contributed further to the economic uncertainty.

Asia

Global market volatility increased this month with US President Trump vowing to "take action to revoke Hong Kong's preferential treatment as a separate customs and travel territory from the rest of China" as well as imposing sanctions on individuals who are caught "smothering" Hong Kong's freedom. The Chinese government has continued to ease restrictions to return to normal economic activity in mainland China. To date, there has been slow progress, with the industrial sector plateauing in its recovery. While most businesses are back to work across the country, only a fraction of them are operating at full capacity. Ultimately, the Chinese Government will have to introduce stimulus to back the recovery. At the May meeting of the National People's Congress, the government announced that the budget deficit is going to increase to over 3.6% of GDP. That figure was 2.8% in 2019. While this statistic is quite small when compared to other financial stimulus packages around the world, there are two reasons that explain this. Firstly, total government spending does not include local governments, which are expected to fund social welfare and infrastructure plans. Secondly, China's opaque spending habits creates difficulty in establishing the total fiscal support provided.

Chart 3: China GDP (Annualised)



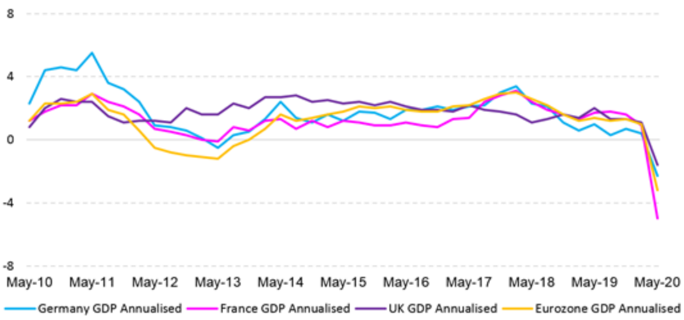
Source: BTIS/Bloomberg

Thailand's consumer prices have experienced their largest drop since July 2009, with a decline of 3.44% year on year in May. This follows a 2.99% fall last month. This considerable reduction can be attributed to transport, communication, vehicles, vehicle operations as well as housing and furnishing prices. Furthermore, Malaysian exports suffered its steepest fall since 2010, with a 23.8% decrease from last year. Products leading this plunge include timber (-49.6%), liquefied natural gas (-20.5%) and crude petroleum (33.8%). South Korea's trade with its neighbours fell quite substantially with a 16.3% decrease to Singapore. Interestingly, it's sales with China increased by 4.2%, driven primarily by electrical product demand.

Europe

The European Central Bank completed its most recent Financial Stability Review, articulating substantial concerns over the finances of its members. One startling comment within the report was that the total sovereign debt from European member countries will increase from 86% of GDP last year to above 100% in 2020. These massive levels of debt are spearheaded by both Greece and Italy. European consumer spending will experience an even further drop this year, with household savings estimates to rise to 19% from 12.8% last year.

Chart 4: Eurozone GDP (Annualised)



Source: BTIS/Bloomberg

The Bank of England anticipates British GDP will decrease by 14% this year, which will be the most severe recession since the Great Frost in 1709. Italy, which was one of the first, hardest hit countries by COVID-19, announced a recession in Q1, with GDP reducing by 4.7%. Additionally, Germany and France are now considered already to be experiencing a technical recession. The German economy decreased by 2.2% while French GDP shrank by 5.8% in Q1.

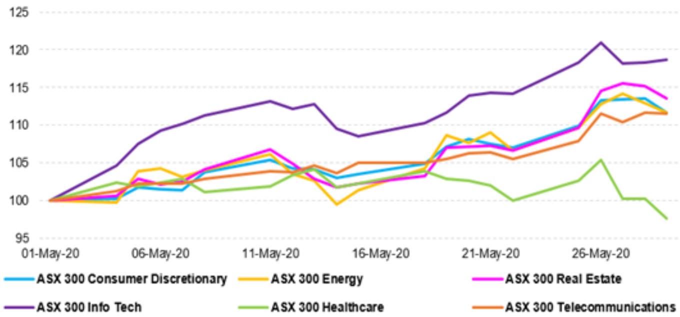
Markit's May PMI saw a jump from April's 13.6 record low to 31.9 in May. This highlights that although economic activity is starting to rebound, the levels are well below normal standards. In Germany, unemployment increased to 6.3% along with services starting to decline at a slower rate with restrictions being lifted across the country. Similarly, France's services sector has begun improving following the easing of restrictions. The PMI for Europe's leading service sector hit 30.5 after a record result of 12 during April.

Development in Financial Markets

Australian shares

The Australian share market (ASX300) continued its recovery, posting a +4.68% gain for the month of May. This was led by the Technology and Energy sectors up +19.52% and +13.28% respectively. The Small Ordinaries Index has maintained its strong performance from April, rising +14.19%. Similarly, the AREIT sector continued its recovery with a +7.05% gain. Over the last 3 months however, both sectors remain down with total performance of -1.91% and -21.08% respectively.

Chart 5: Australian shares (rebased to 100)

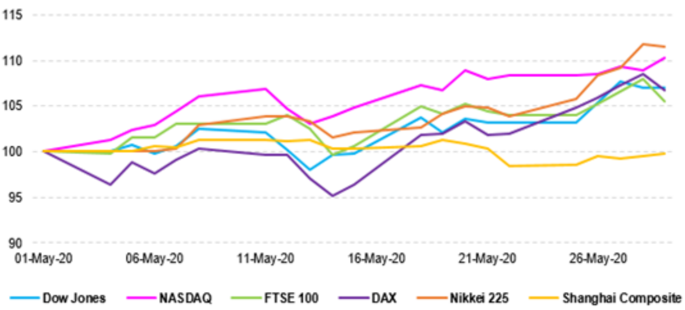


Source: BTIS/Bloomberg

International shares

Global share markets saw a continued, albeit slower growth from what we saw in April. The US market returns throughout the month of May were positive, the Dow Jones increasing by +4.66%, the S&P 500 up by +4.76% and the Nasdaq rising by +6.89%. European shares experienced a similar, but slower increase from last month. Once again, the German DAX realized the largest gain from the European countries, with a +6.68% increase. The European STOXX 600 index was up by +3.04% and the UK FTSE rose +2.97%.

Chart 6: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

In Asia, the Japanese Nikkei led with a solid +8.34% increase, followed by the Korean KOSPI, which, after a very strong April, saw a +4.21% rise in May. These increases were contrasted with negative returns from Chinese and Hong Kong markets, with the Hang Seng decreasing by -6.83% and the Shanghai Composite falling -0.27%.

Fixed interest

This month, 10-year bond yields exhibited a certain level of diversity throughout key markets, with mixed performance. Australian and US yields displayed a degree of stability. After widening throughout April, the spread between Australian and US 10-year bonds tightened from 25bps to 23bps.

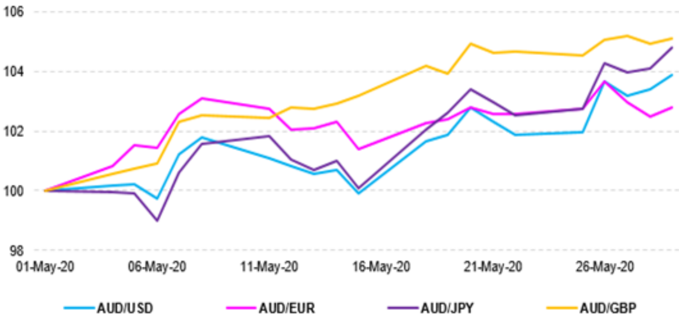
Treasury yields in Australia saw a decrease in the first week of May and then started rising again thereafter. At the end ofMay, the 3-year Australian Commonwealth Government Bonds (ACGB) yield that the RBA has been targeting in their most recent purchasing program had reached 0.27%, a rise of 2bps from the desired target of 0.25%.The 10-year yield had dropped by 1bp to 0.88% and the 20-year yield fell by 2bps to 1.49%.

In Europe, the German 10-year bund yield increased by 9bps finishing up at –0.45%. Italian and UK 10-year bond yields both fell by 28bps (to +1.49%) and 8bps (+.15%) respectively. Meanwhile, the French 10-year OATS experienced no movement.

Currencies

The AUD/USD has reached pre-crisis levels, increasing through another month, after an 18-year low in March. Finishing at 0.67, the AUD/USD saw a +2.38% rise during May. This can be attributed to the positive rhetoric stemming from the RBA May meeting, surrounding employment growth and a more rapid spending recovery than originally expected. Additionally, continued increasing of Iron Ore prices are considered as a key reason for this surge in the AUD. The EUR was up +1.33% against the USD to 1.11 contrasted with the GBP/USD, which fell -1.99% during May.

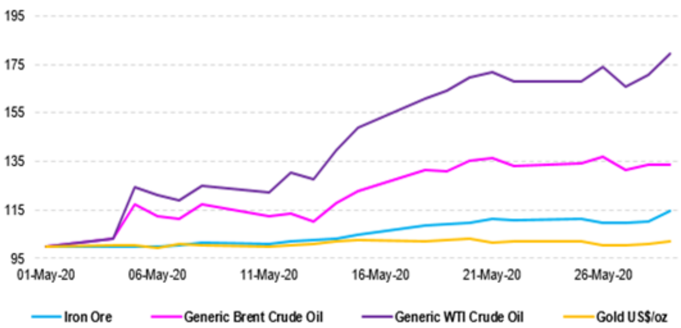
Chart 7: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Commodities

Chart 8: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg

Commodities displayed significant growth this month, with Oil leading the way. Brent Crude Oil increased +39.81% to a month end price of 35.33. Likewise, WTI Crude Oil rose by +88.38% to 35.49, resulting in the strongest monthly performance on record. Iron Ore also exhibited positive gains, with a +14.53% price increase to 94.56. Similarly, Gold grew by +2.6% to a US$1730.27 price point. These encouraging outcomes throughout the month of May were reflected in the Bloomberg Commodity Index, which was up +4.33% to 65.53.