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Market Watch

Monthly Commentary June 2021

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June started with the continuing outbreak of COVID-19 in Melbourne and by the end of the month, Sydney was feeling the full force of the Delta variant. The resulting three-week lockdown has seen considerable pressure being placed on the domestic economy. Whilst the RBA stayed firm on its 0.10% cash rate at its June 1 meeting, industry consensus is leaning further towards a pre-2024 rate hike, despite what has been indicated by the RBA. Neighbouring China will allow couples to have a third child to combat a falling birth rate, whilst in Europe consumer confidence rose from -5.1 to -3.3 in June, representing a return to pre-pandemic levels. Global COVID-19 vaccinations reached 2 billion doses early in the month.

Developments in the global economy

COVID-19 Update

In Australia, the start of the month saw Melbourne's COVID-19 outbreak grow, with lockdowns being extended until June 10. Concurrently, the Bondi cluster in Sydney continued to spread, eventuating in a three-week lockdown until July 16. Other states followed suit with their own lockdowns, including Western Australia, the Northern Territory and Queensland, while South Australia implemented additional restrictions.

The outbreaks come largely as a result of the Delta variant, which Victorian Chief Health Officer Brett Sutton describes as moving "faster than any other strain".

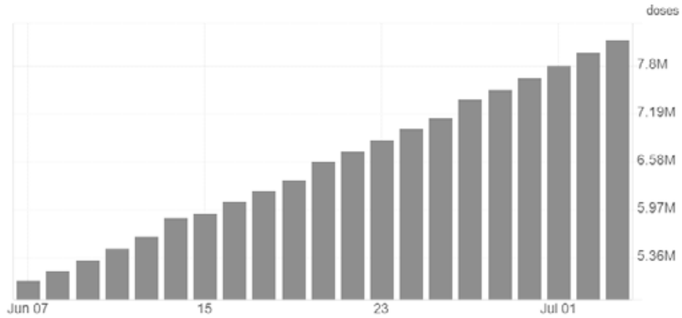
Sydney and its surrounding areas are home to around 6.6 million people and the area represents approximately 25% of Australian GDP. As a result, the current three-week lockdown is estimated to reduce national economic activity by around $2 billion (or 0.1% of GDP). Compounding this loss, Perth's four- day lockdown will cost another $200 million and Queensland's three-day lockdown, $300 million. This follows the $1.5 billion hit caused by Victoria's two-week lockdown in late May.

Continuing in Australia, the AstraZeneca vaccine will now only be recommended by the Therapeutic Goods Adminitration (TGA) for people aged 60 and over, up from the previous recommendation of people aged 50+. However, in news released at the end of the month, adults of all ages in Australia may request the AstraZeneca jab from GPs. Notably, it was also confirmed that come September all aged care workers must have received at least one dose of the vaccine.

For those in the NSW lockdown, the COVID-19 disaster relief payment is available to those who are eligible. It is a one-off payment for workers who are unable to work due to COVID-19. For those that have lost less than 20 hours, the payment is $324, and for those who have lost 20 hours or more, the payment is $500.

Early in the month global COVID-19 vaccinations reached 2 billion doses, over 7.5 million of which were administered in Australia. At the current pace, it is predicted that it will take nine more months to vaccinate 75% of the world's population, the threshold some report as providing herd immunity.

Chart 1: Total COVID-19 Vaccines administered in Australia



Source: Trading Economics

In other global COVID-19 news, the UK reported the most cases since January due to the Delta mutation, although Prime Minister Johnson said an end to restrictions is "very likely" to go ahead on July 19. Hong Kong, Portugal and Spain subsequently imposed new restrictions on British travellers.

Australia

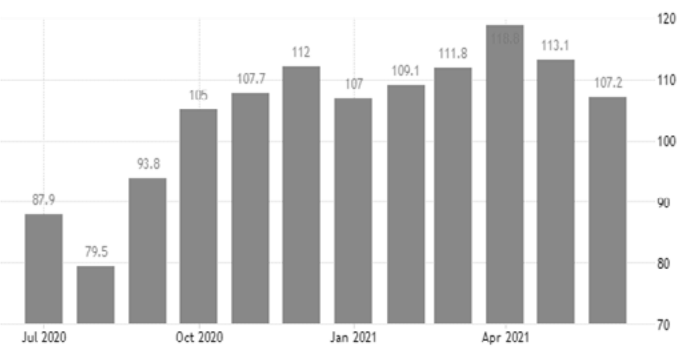
The remarkable economic recovery continued in the March quarter of 2021, with the Australian economy growing by a stronger than expected 1.8% for the quarter, beating consensus expectations for a rise of 1.5%. Economic activity has now recovered to its pre-pandemic levels, with the economy now 0.8% bigger than it was before the pandemic. Australia represents one of only a few countries around the world that have already recovered the ouput lost as a result of COVID-19. Leading the charge in this recovery was consumer spending, which continued to underpin economic activity in the March quarter. Falling unemployment, low interest rates, and elevated confidence asistsed with this economic bounce back.

The RBA met at the outset of the month but left policy settings unchanged. Despite this, over the course of the month, industry consensus tended increasingly in favour of the cash rate hiking before 2024. Minutes released from the June 1 RBA meeting reaffirmed expectations that the 3-year yield target under the yield curve control (YCC) will not be rolled to the November 2021 bond and that quantiative easing (QE) will transition to an open-ended, flexible model.

Consumer sentiment declined by 5.2% to 107.2 in June, according to the latest Melbourne Institute and Westpac surveys.

This decline likely reflects some impact from the two-week lockdown in Melbourne, which may only be further exacerbated by the current Sydney lockdown. This decline, however, is coming off an 11-year high in April. Notably, sentiment remains high and well above its long-run average.

Chart 2: Australian Consumer Confidence

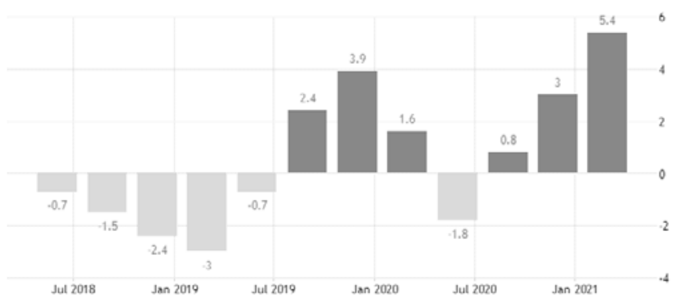


Source: Trading Economics

During the month, the Fair Work Commission (FWC) raised the minimum wage by 2.5%, representing more than double the rate of inflation. This will increase the hourly rate of more than 2.2 million workers from $19.84 to $20.33. The FWC said the decision followed the economy's stronger-than-expected economic recovery.

In other data released during the month, the house price index published by the ABS rose 5.4% in the March quarter, following a rise of 3.0% in the December quarter.

Chart 3: Australia House Price Index QoQ



Source: Trading Economics

Annually, house prices rose 7.5%. The strong demand for housing was supported by record low interest rates, government initiatives like the HomeBuilder Scheme, and elevated consumer confidence. Across all states, Sydney had the highest increase in prices in the quarter with a 6.1% gain, followed by Melbourne and Brisbane, which rose 5.1% and 4.0%, respectively.

Job data released during June was nothing short of amazing, with jobs surging by 115.2k in May, well above the consensus forecast of 30.0k. What is even more remarkable is that job gains over the twelve months to May summed to 987.2k, the best on record.

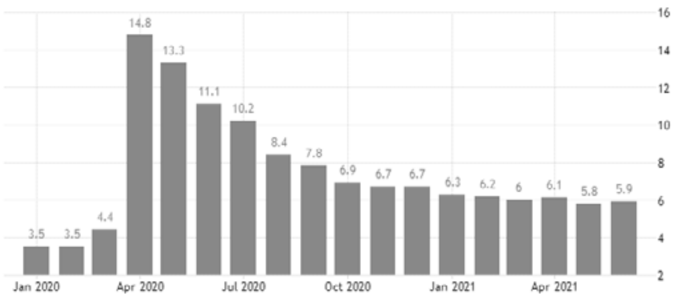
Unemployment fell 0.4% to 5.1%, the lowest rate since December 2019. This makes it even more likely that the unemployment rate will have a '4' in front this year and hit full employment in the middle of next year, which will generate wage and inflation pressures.

Total household wealth rose 4.3% in the March quarter to reach a new record. Over the year, growth was 15.3% - the strongest growth in 11 years. Wealth per capita also rose to a record high of $492,055. The continued growth has been driven by higher residential property prices, support from government incentives and a recovery in the labour market.

United States

In the US, the ADP jobs report showed 978k jobs were added in May, well above the 650k expected and the largest increase since June 2020. The unemployment rate rose conservatively in June to 5.9% from 5.8% in May, however it remains elevated relative to its pre-pandemic levels of around 3.5%.

Chart 4: US Unemployment Rate



Source: Trading Economics

Amid other signs the labour market continues to gradually recover, mid-June saw a downward trend in workers filing for unemployment benefits. Initial jobless claims, a proxy for layoffs, moved lower in the middle of the month to 411,000 from an upwardly revised 418,000 the prior week, when claims rose. The 4-week moving average for claims, which smooths out volatility in the weekly figures, rose slightly off a pandemic low to 397,750.

While these initial jobless claims were higher than projected and claims overall remain above pre-pandemic levels, their downward trajectory, along with a pickup in hiring, a falling unemployment rate and elevated consumer confidence, points to an improving labour market.

President Biden reportedly proposed a corporate tax floor of 15%, setting aside an earlier plan to raise them as high as 28%, which was unpopular with Republicans. During the month, Biden was also able to reach an agreement with a bipartisan group of senators on a $579 billion infrastructure plan. The bill will move in tandem with a much larger package of spending and tax increases that Republicans oppose and of course passage of this bill is not assured.

The University of Michigan survey showed that consumer sentiment slipped in the second half of June, remaining at subdued levels. The final reading of the index of consumer sentiment was 85.5 in June, down from the preliminary reading mid-month of 86.4 and below consensus expectations that centred on an outcome of 86.5.

The Dallas Fed manufacturing index remained in expansionary territory. General business activity declined from 34.9 to 31.1, but production, new orders and prices paid indices all rose.

The US Federal Reserve (FED) moved markets this month after the Chair, Jerome Powell, said that the central bank had begun discussing a slowing of the bank's US$120 billion per month bond buying program. At the June 15-16 meeting the FED Market Committee left its target range for the federal funds rate unchanged at 0-0.25 per cent.

Asia

China will allow couples to have a third child to boost the nation's falling birth rate. This comes despite 2016 reforms which allowed second children but did little to reverse the declining birth rate.

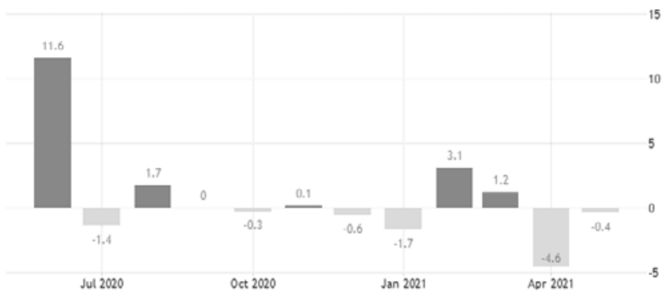
Tensions between Australia and China continue as China seeks World Trade Organisation (WTO) rulings on the alleged dumping of goods by Australia.

In May, China's manufacturing sector expanded at the fastest pace in five months, despite the surge in prices for raw materials. The Caixin manufacturing PMI rose modestly in May to 52.0, from 51.9 in April.

China's trade surplus widened to US$45.5 billion in May, as imports grew faster than exports. Exports rose 27.9% from a year earlier, fuelled by strong global demand as the UK and US both emerged from months of lockdown, fuelling consumer spending. Imports grew 51.1% in the year to May, the fastest pace in 10 years. The increase was largely due to the rise in commodity prices. Aggregate financing was 1.92 trillion Yuan in May, up from 1.85 trillion Yuan in April, broadly in line with expectations.

The Bank of Japan maintained its policy settings in June, as widely expected. The short-term policy rate and 10-year government bond yield target remained unchanged at 0.1% and 0.0%, respectively. The central bank decided to extend its pandemic relief program by 6 months from September 2021 to March 2022 and announced a new back-financing program for climate change. The program aims to commence by the end of the year. Retail sales in Japan contracted 4.6% in April, compared to a 1.2% increase in March, largely due to ongoing COVID-19 restrictions. Over the year, retail sales rose 12% reflecting base effects from a sharp decline in spending following the onset of the pandemic.

Chart 5: Japan Retail Sales MoM



Source: Trading Economics

Europe

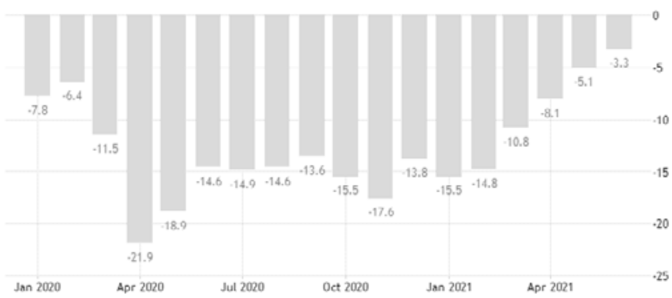
During the month, the European Central Bank (ECB) left policy settings unchanged, as expected. Over the coming quarter, the ECB expects net purchases under the pandemic emergency purchase program to continue to be conducted at a significantly higher pace than during the first few months of the year. In other news, the ECB raised its GDP forecasts for 2021 and 2022 and had a more balanced view on risks to the economic outlook. However, the central bank is still forecasting 1.4% p/a inflation in 2023, which is well below the 2% target and suggests that policy will remain accommodative for some time yet.

Eurozone inflation dropped conservatively to 1.9% p/a, down from 2.0% p/a in May.

In reports released during the month, the unemployment rate in the Euro area fell 0.2%to 7.9% in May down from 8.1% in both March and April.

As infection rates fell and restrictions eased in the Eurozone, consumer confidence increased, up from -5.1 to -3.3 in June. Confidence is now well above its pre-pandemic level.

Chart 6: Eurozone Consumer Confidence

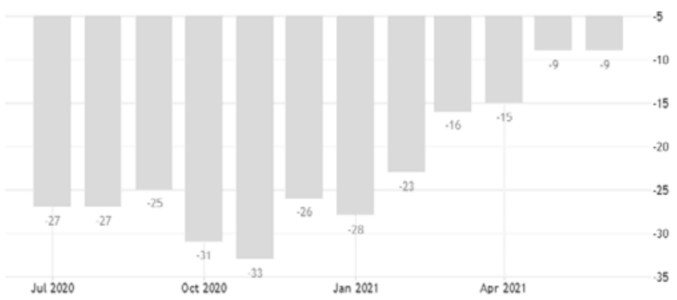


Source: Trading Economics

The Eurozone PMI rose from 64.4 in May to 64.9 in June with the services PMI rising from 55.2 to 58.0 and the composite index lifting to a record high of 59.2.

Over in the UK and the GfK Consumer Confidence Barometer remained at -9 in June, unchanged from May and matching pre-pandemic levels. Consumer confidence may weaken as the country continues its post COVID recovery, with expectations that retail price inflation will rise.

Chart 7: UK Consumer Confidence



Source: Trading Economics

By the end of the month, the FTSE 100 fell 0.9% after governments from Europe to Asia imposed new limits on travel from Britain following a spike in COVID-19 cases.

The average asking price for a home in the UK grew 0.8% in June to a new record high, with buyer demand remaining strong whilst property availability was low.

World

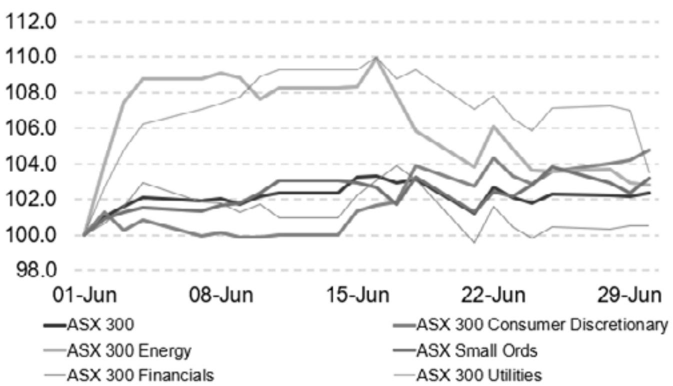
The Group of Seven (G7) nations reached a landmark deal in June to impose a minimum corporate tax rate of at least 15% on foreign earnings. The rules could help states collect tax from digital (or technology) companies based on where they make money instead of purely where they are headquartered. G7 leaders also debated their responses to China's continued effort to win influence around the world as well as rebuking the nation for its alleged forced labour practices.

Developments in financial markets

Australian shares

June saw another month of strong returns for the Australian Share market, continuing the strong rally of CY 2021 and regaining losses caused by the pandemic. The ASX300 Accumulation returned +2.25%, while the ASX Small Ordinaries Accumulation gained +3.08% over the month. The one year returns on these respective indices is +28.49% and +33.23%. The market was led by strong performance in the Information Technology sector which ended the month up (+11.32%). The Utilities and Consumer Discretionary sectors also did well, ending up (+3.14%) and (+4.20%), respectively. The Financials sector struggled over the month, ending down (-0.74%).

Chart 10: Australian Shares (rebased to 100)



Source: BTIS/Bloomberg

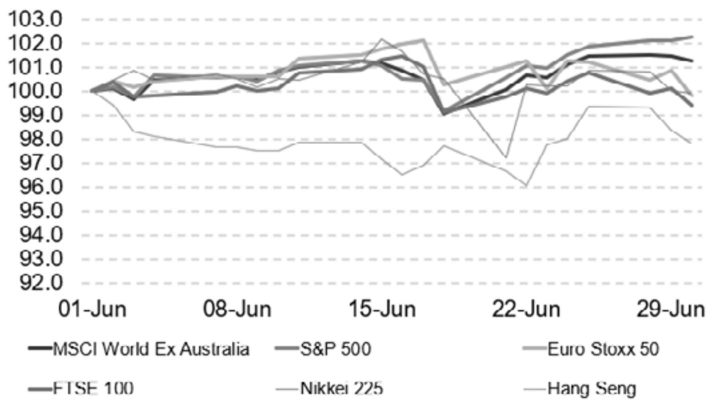
International shares

Despite building inflationary pressures, global markets mostly increased over June. Tech mega caps lifted during the month with Microsoft up (+2.8%) and Apple up (+1.2%). Despite a sharp fall in the US after the FED's mid-month meeting which signalled two potential interest rate hikes in 2023, reversals at the end of the month returned US markets into positive territory. End of month saw a mixed bag in global share markets, affected by end-of-month and end-of-quarter squaring, compounding with concerns mounting around increased COVID-19 infections attributable to the rising Delta variant.

The MSCI World ex Australia Unhedged index ended the month up +4.71%. The S&P ended the month up +2.33%, the NASDAQ finished up +5.55%, as did Dow Jones up just 0.02%. The respective 1 year returns on the three US markets are +40.79%, +45.23% and +36.34%. European shares were similar, the Euro STOXX up +1.36%. France's CAC 40 and Germany's DAX Index ended up +0.94% and +0.71%, respectively. With the 1 year returns on these respective markets being +25.67%, +31.84% and +26.16%.

Asian share markets saw a mix of returns over June. Japan's Nikkei saw a conservative dip, ending -0.08% return over the month, with 1 year returns of +31.26%. China's Shanghai Composite finished the month down -0.67% and the Hang Seng was down -1.11%. The Korean KOSPI increased from May, ending up +2.90%, bringing its one-year return to +56.36%.

Chart 11: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Fixed interest

Over June, the 10-year US Treasury yield increased by eight basis points to 1.52%, whilst the US FED left its target range for the federal funds rate unchanged at 0-0.25%. Across the pond and the Bank of England kept its monetary policy stable at 0.1%, with the RBA keeping its cash rate and three-year government bond target intact at 0.10% at its June 1 meeting. Despite this, doubt is cast upon the RBA's assertion that it will wait until 2024 to raise the cash rate; this comes after data released during the month showed Australian jobs surged in May and unemployment fell to pre-COVID-19 levels.

The Bloomberg AusBond Composite (0+Y) index ending up +0.69% up from +0.27% in May. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index's one-month number closed at +0.49%. The 10-year Treasury bond yields in Australia finishing the month at +1.51%, while the US ended at +1.47%.

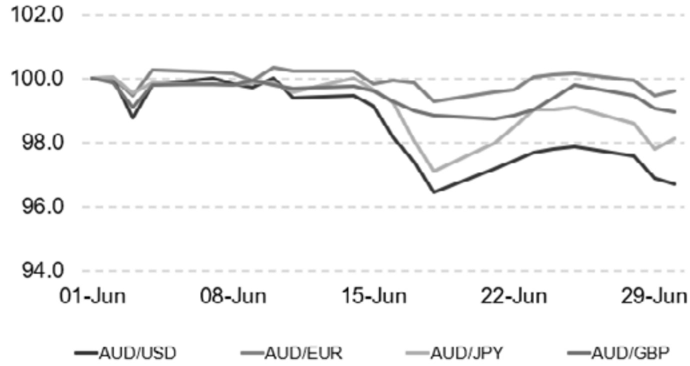
Currencies

The end of the financial year saw the AUD slip below 75 US cents, down by -3.05% from May, ending the month at 0.7498. With the market focused on labour market performance and US monetary policy, the AUD remains vulnerable in the near term, with an extended break below 0.75 looking likely.

Additionally, the Euro is also down from April at -3.02% against the USD, ending May at 1.1858. Moreover, the GBP ended down -2.38% to 1.3831.

The People's Bank of China took steps to restrict the Yuan's appreciation by increasing the reserve ratio required for banks' foreign-currency deposits from June 15. This decision underlines the authorities' determination to stabilise currency. The change caused offshore Yuan to weaken slightly.

Chart 12: Major Currencies (rebased to 100)



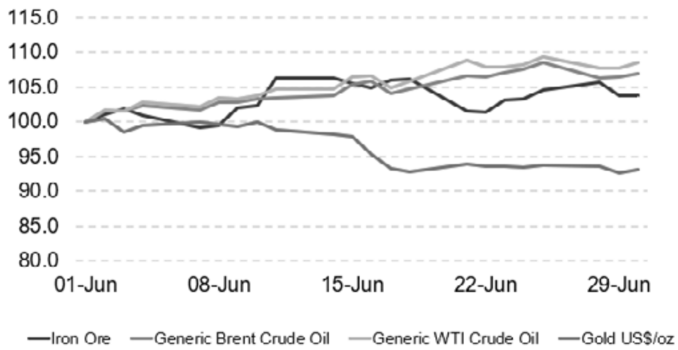
Source: BTIS/Bloomberg

Commodities

Key major commodities had another strong month as economies around the world continue to reopen. The short-term supply impact of the shut down to the colonial pipeline in May cleared through the system. As the US enter into the warmer months, we do expect to see a higher demand for oil (petrol) as we see a return to the summer driving season. Oil increased in May with Brent Crude oil finishing the month at +8.38% to US$75.13 while WTI Oil performed even better, up +10.78% to US$73.47. The potential for sanctions to be lifted against Iran could see more oil flow into the global supply, which may create downward price pressure.

Iron Ore also continued its upward trajectory of the last 12 months, ending the month up +5.01% to US$210.98. Iron ore is now up +115.26% over the last 12 months. Gold fell, ending the month down -7.17% to US $1770.11. The Bloomberg Commodity Index reported a gain of +1.85% up to 94.5412.

Chart 13: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg