ECONOMIC SNAPSHOT

JULY 2021

SUMMARY

July saw markets continue to worry about the global growth profile. Some key readings of economic activity in June were lower than in previous months, leading markets to revisit the "peak growth theme". Potential disruption from the accelerating COVID-19 waves around the world added to these concerns. This narrative outweighed some stronger-than-expected inflation figures. Some key central banks started talking about reducing QE programs, given the economic data has been improving faster than they had expected. However, markets are not convinced the central banks can move as fast as they have said because of the impact of COVID-19 lockdowns on economic activity. Regulatory changes by Beijing caught markets by surprise towards the end of the month and knocked the Chinese equity markets back sharply.

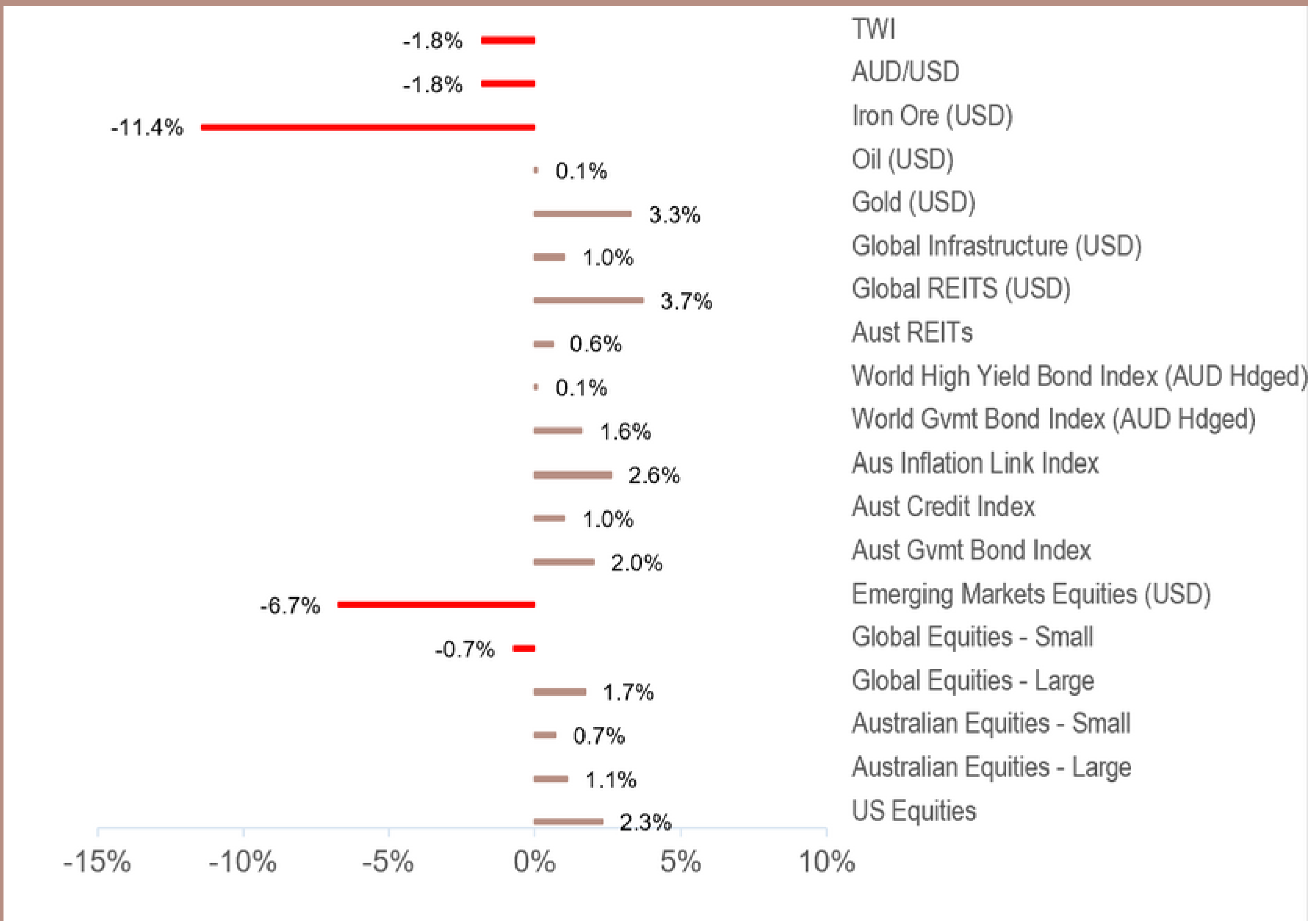
Government bond yields fell further as markets priced slower growth and extended easy monetary policy. The US 10 year TIPS real yield fell to a new low of -1.16%. Equity markets performed well, with the Australia, US and MSCI World equity indices making new highs. Concerns about "peak growth" and high valuations were offset by good earnings seasons and the prospect of ongoing monetary policy support. The Emerging Markets index was dragged down by weakness in the Chinese equity market.

The price of gold rallied as the number of COVID-19 cases around the world increased and the US TIPS yield fell. A softer US$ also helped gold to rally. The A$/US$ slipped 1.8% in July to close at US$0.7381, the lowest level since early December 2020, on expectations of easier monetary policy here than in the US.

SOME KEY CENTRAL BANKS STARTED TALKING ABOUT REDUCING QE PROGRAMS, GIVEN THE ECONOMIC DATA HAS BEEN IMPROVING FASTER THAN THEY HAD EXPECTED.

THE EMERGING EQUITY INDEX AND IRON ORE FELL SHARPLY IN JULY IN RESPONSE TO DEVELOPMENTS IN CHINA

Selected market returns July 2021



Sources: Thomson Reuters, Bloomberg. Equity returns are total return.

JULY 2021 KEY DEVELOPMENTS

The Delta variant of COVID-19 has been spreading rapidly around the world. Here in Australia, the number of new cases per week has risen to nearly 1,500. While small compared with case numbers overseas, these are the largest figures we have seen since August 2020 when Australia was coming off its big second wave. Many other countries are seeing new COVID-19 waves, including the US, parts of Europe, China, Japan and South Korea. On a more positive note, countries which were earliest into the Delta wave, including the UK, Spain and Holland, are now showing falling case numbers as the number of new cases per week appears to have peaked.

Latest domestic economic news show Business Conditions in June slipping to 24.1 after 35.8 in May. Business Confidence also eased in June. However, we need to remember that these figures are coming off record high levels and still represent a solid rate of growth for the economy. The labour market improved in June, with 29,100 new jobs and the unemployment rate falling to 4.9%. These figures show that conditions in the labour market continue to exceed the Reserve Bank's expectations. The June quarter inflation figures showed headline inflation of 3.8% over the year to the end of June, but underlying inflation of only 1.6%, which is still below the Reserve Bank's target of 2% - 3%.

Overall, these figures show our economy in a good light. Growth is respectable, unemployment is falling, and the higher headline inflation figure was due to temporary factors. The Reserve Bank flagged it is thinking about scaling back its bond-buying program in view of these developments. However, the impact of the Sydney lockdown, which has now extended to other parts of the country, has led markets to believe the Reserve Bank will have to put these plans on hold, and may even have to temporarily expand its bond buying.

A similar story applies to the US in July. The latest CPI figures were somewhat higher than expected due to temporary factors, the ISM Manufacturing PMI slipped to 59.5 from 60.8, and the unemployment rate was 5.9% in June after 5.8% the previous month. Real GDP grew 6.5% over the year to the second quarter, compared with 6.3% over the year to the first quarter. The Federal Reserve again said it is discussing winding back its bond-buying program. Markets expect a more formal announcement in the coming months.

In Europe, real GDP grew by 2% in the second quarter, well ahead of market expectations, the unemployment rate fell to 7.7%, and core inflation eased from 0.9% to 0.7% in June. The ECB announced it will continue to run an easy monetary policy for some time and will tolerate periods of inflation above 2%.

In China, GDP growth, which had been running a bit over 18% in year-on-year terms in Q1, slipped to 7.9% in Q2. However, the Q1 figure was distorted by COVID-19 induced base effects from a year earlier. The quarterly rate of growth was actually a bit higher than expected. Late in the month, Beijing announced crackdowns on education providers, property developers and tech companies.

These moves are motivated by concerns about national security and social inequality. Markets were blind-sided by these developments and the share prices of affected companies fell sharply. Markets were already assessing prospects for slower growth in China and the impact of the new COVID-19 wave appearing in parts of the country. In response to these concerns, Beijing announced more fiscal stimulus will be used to support the economy.

In this environment, government bond yields fell further as markets priced slower growth and extended easy monetary policy. The Australian 10 year government yield fell 0.37% in July to end at 1.12%, the lowest level since January 2020. In the US, the equivalent bond yield fell 0.21% to 1.24%. Similar declines in yields were seen in European markets. The US 10 year TIPS real yield fell to a new historic low of -1.16%.

Equity markets performed well, with the Australian, US and MSCI World equity indices making new highs. Concerns about “peak growth” and high valuations were offset by good earnings seasons and the prospect of ongoing monetary policy support. The Emerging Markets index was dragged down by weakness in the Chinese equity market.

The price of gold rallied as the number of COVID-19 cases around the world increased and the US TIPS yield fell. A softer US$ also helped gold to rally.

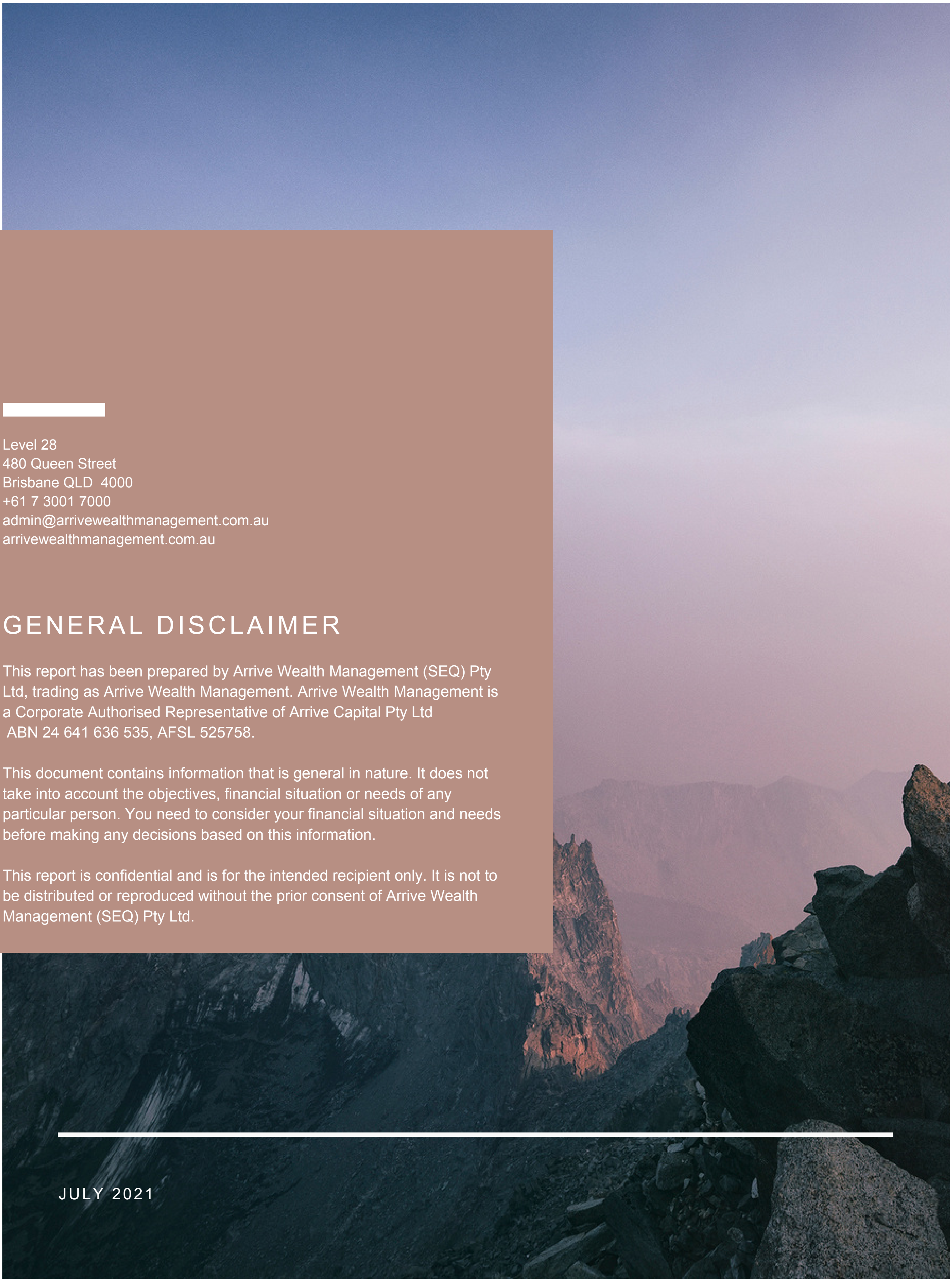
The A$/US$ slipped 1.8% in July to close at US$0.7381, the lowest level since early December 2020. The currency slipped as the Australia-US bond differential narrowed on expectations of easier monetary policy here than in the US.

MAJOR MARKET INDICATORS

		1 Month	3 Months	6 Months	12 Months
Cash rates					
Australia	0.10%	0.00%	0.00%	0.00%	-0.15%
USA	0.07%	0.02%	0.04%	-0.01%	-0.01%
Japan	-0.10%	0.00%	0.00%	0.00%	0.00%
Europe	0.00%	0.00%	0.00%	0.00%	0.00%
10 Government bond yields					
Australia	1.12%	-0.37%	-0.53%	0.03%	0.30%
USA	1.24%	-0.21%	-0.39%	0.14%	0.70%
Japan	0.01%	-0.05%	-0.08%	-0.03%	-0.01%
Europe	-0.46%	-0.26%	-0.26%	0.06%	0.08%
Equity markets					
ASX200	7393	1.1%	5.2%	11.9%	24.7%
AREITs	3554	0.6%	5.4%	11.9%	26.5%
S&P 500	4395	2.3%	5.1%	18.3%	34.4%
Topix	1901	-2.2%	0.1%	5.1%	27.1%
EuroStoxx	4089	0.6%	2.9%	17.5%	28.8%
MSCI Emerging Markets	1278	-7.0%	-5.2%	-3.9%	18.4%
VIX volatility index	18	15.6%	-2.0%	-44.6%	-25.4%
Currency markets					
AUD/USD	0.7381	-1.8%	-5.1%	-3.5%	2.3%
AUD/TWI	61.60	-1.8%	-4.3%	-2.2%	-0.5%
USD/YEN	109.75	-1.1%	0.4%	4.8%	3.8%
EURO/USD	1.1858	0.0%	-1.5%	-2.4%	0.3%
Commodity markets					
Gold	1823.2	3.3%	3.0%	-1.9%	-7.7%
Oil	73.6	0.1%	15.9%	41.1%	83.6%
Iron Ore	191.0	-11.4%	2.1%	20.9%	74.4%
Coal	125.3	0.0%	33.5%	47.6%	139.9%

*For cash rates and bonds the changes are % differences. For the rest of the table, % changes are used.

ARRIVE
WEALTH MANAGEMENT



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