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Data/Event	Movement	
	LATEST	PREVIOUS
Australia – Official cash rate	1.0%	1.0%
China – Exports (Jul) (YoY)	+3.3%	-1.3%
China – Imports (Jul) (YoY)	-5.6%	-7.3%

Financial markets

Indicator	Friday 9 August 2019	Friday 2 August 2019	Weekly change	9 August 2018	12-month change
S&P/ASX 200 Index	6,584.4	6,768.6	-2.7%	6,297.7	4.6%
S&P/ASX 200 Property Trusts	1,658.7	1,686.4	-1.6%	1,457.5	13.8%
US S&P 500	2,918.6	2,932.0	-0.5%	2,853.6	2.3%
Dow Jones Eurostoxx	362.5	367.7	-1.4%	387.9	-6.6%
UK FTSE 100	7,253.8	7,407.1	-2.1%	7,741.8	-6.3%
Japan TOPIX	1,503.8	1,533.5	-1.9%	1,740.2	-13.6%
CHINA – CSI 300	3,633.5	3,747.4	-3.0%	3,397.5	6.9%
MSCI (ex-Aust/in LC)	1,656.3	1,670.0	-0.8%	1,670.1	-0.8%
Australian 90-day bank bill yield	0.99	1.01	-2 bps	1.97	-98 bps
Australian 10-year bond yield	0.96	1.09	-14 bps	2.65	-170 bps
US 10-year bond yield	1.71	1.86	-14 bps	2.93	-122 bps
Oil – West Texas Crude	79.80	81.62	-2.2%	101.15	-21.1%
A$ in US dollars	0.68	0.68	0.1%	0.74	-8.1%
A$ trade-weighted index (TWI)	59.00	59.00	0.0%	63.70	-7.4%

Major upcoming global economic releases and events

Date	Data/Event	FORECAST	PREVIOUS
13 August	US – Consumer Price Index - ex Food & Energy (Jul) (YoY)	+2.1%	+2.1%
14 August	China – Industrial Production (Jul) (YoY)	+6.0%	+6.3%
15 August	Australia – Unemployment Rate (Jul)	5.3%	5.2%

Source: Bloomberg, FXStreet, AMP Capital

Investment markets and key developments over the past week

The past week saw a roller coaster ride in share markets with sharp falls after China responded to US President Trump's latest tariffs by letting the Renminbi fall in value and ordering state owned enterprises to halt agricultural imports from the US and the US responded by labelling China a currency manipulator, followed by a rebound as China limited downside in the Renminbi and more central banks eased only to see softness return as President Trump said US/China trade talks in September may not go ahead. For the week US shares fell 0.5%, Eurozone shares lost 1.4%, Japanese shares fell 1.9% and Chinese shares lost 3%. Australian shares may not be directly affected by the trade war but they are vulnerable to the threat it poses to demand for our exports and the plunging iron ore price and an earnings miss by Commonwealth Bank of Australia didn't help, but perversely the largest falls were seen in IT, health, utility and industrial shares. This saw the Australian share market fall 2.7% for the week despite some help being provided by expectations for more interest rate cuts. Bond yields – except in Italy which looks headed to yet another election - continued to plunge on safe-haven demand and as expectations for further monetary stimulus ramped up with the Australian 10-year bond yield hitting a record low of 0.94%. That means if you hold it for 10 years you get a 0.94% return! Gold continued to rally on safe-haven demand, but oil prices fell 5.7% and iron ore fell 14%. (Fortunately, iron ore at $92 is still above Australian Government budget assumptions.) The A$ remained just below US$0.68 with the US$ falling over the week.

Why all the fuss about the Chinese Renminbi and the US labelling China a currency manipulator? A depreciation in the Renminbi is an inevitable outcome of the US imposing more tariffs on China's exports because it has the effect of making China less competitive. But the break above 7 Renminbi to the US$ dollar has psychological significance because it's a big round number and the US$ has not been above it since 2008. This has several implications.

- First, the US is not happy because a falling RMB offsets the impact of its tariffs and so it has labelled China a "currency manipulator". This is mostly symbolic, but it does provide cover for more protectionist measures against it. It's ironic that the real concern to the US is a lower Renminbi and yet China's intervention is actually aimed at limiting the RMB's fall which is a natural outworking of US tariffs on its exports. While the US will engage with the IMF on the issue its doubtful the IMF will back them as it recently concluded that the RMB was around fair value. This won't necessarily stop the US from using the labelling as a pretext to take more measures against China though.
- Second, as we saw in 2015 a falling Renminbi is not good for emerging markets that compete with China and will put more downwards pressure on their currencies which leads to renewed concerns about US$ debt servicing costs.

With the trade war escalating central banks are getting nervous and swinging into action – and this is the big difference compared to last year when central banks were seen as moving towards tightening. Given the threat to global growth this is not surprising and was clearly evident over the last week with New Zealand and India easing more than expected, Thailand unexpectedly easing and the Philippines cutting rates as expected. The 0.5% cut from the RBNZ and talk of negative rates there looks a bit over the top though given the NZ economy's recent performance and the RBNZ's own forecasts. But it highlights how dovish central banks are becoming. A 0.5% cut from the Fed next month is now possible.

The RBA provided no surprises leaving interest rates on hold, but RBA Governor Lowe retained an easing bias and the RBA's own forecasts leave it on track to ease again. Given the increasing global risks we have brought forward the timing of our forecast next two RBA rate cuts to September and November. The RBA's August Statement on Monetary Policy yet again downgraded its forecasts for this year with GDP growth cut to 2.5% (only last November it was forecasting 3.25%) and underlying inflation cut to 1.5% (last November it was forecasting 2.25%) and it revised up its unemployment forecasts to 5.25% out to December next year and to 5% through 2021. What's more, these forecasts are predicated on market forecasts for the cash rate to fall to around 0.5%, suggesting that if the RBA does not cut again the outlook will be even worse and it will be even further away from meeting its inflation objective! So, with the RBA a long way from achieving its desire for unemployment to fall below 4.5% in order to meet its inflation objective we remain of the view that more rate cuts lie ahead and continue to see the cash rate falling to a low of 0.5%. We had pencilled in two 0.25% cuts around November and February but given the increasing threat to the global outlook we have moved them forward to September and November.

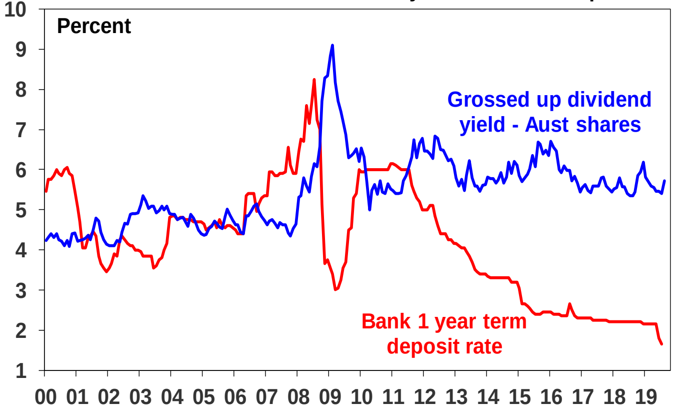
I agree with Governor Lowe that more fiscal stimulus and structural reform is needed (in fact it's a no brainer!) but the debate around quantitative easing is also set to hot up as the cash rate heads nearer to zero. A far more efficient and equitable approach than the quantitative easing practiced in the US, Europe and Japan would be for the RBA to directly finance fiscal expansion (ie real helicopter money). This could be targeted to achieve a boost to growth in a far fairer and more efficient way than conventional QE.

While it's possible that the RBA will go below 0.5% for the cash rate it's unlikely as there will be little point as the banks will struggle to pass it on to borrowers as they won't cut their deposit rates into negative territory. It's also unlikely that the RBA will move to pay negative rates on bank reserves with it as there is little evidence from Japan and Europe where that has been deployed that it actually works. In fact, negative rates risk damaging the banks and their ability to lend. If the RBA wants to encourage banks to lend more it could always work with APRA to ease up on lending standards again!

With the trade war still escalating, global and Australian share markets are at risk of further weakness through the seasonally weak August to October period. In fact, share markets may need to fall further to convince President Trump of the need to make a deal as he is unlikely to get re-elected next year if the share market goes into a major bear market associated with recession and rising unemployment. But providing recession is avoided as we ultimately expect – either because a deal is reached and/or as further policy stimulus is unleashed – then shares are likely to be higher on a 6-12 month horizon helped by reasonable valuations – particularly against low bond yields and bank deposits and as global growth eventually improves.

In terms of relative valuation, an Australian investor in Australian shares can get a cash flow from grossed up dividends of around 5.7% compared to a cash flow from bank term deposits that have crashed to 1.7% or less.

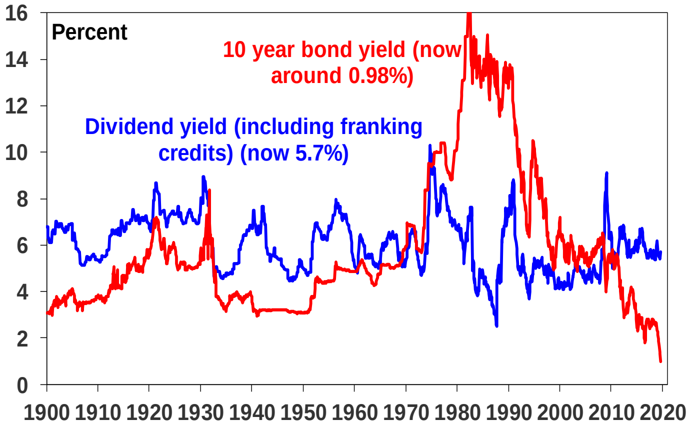
Aust shares offer a far more attractive yield than bank deposits



Source: Bloomberg, AMP Capital

Similarly, the gap of 4.8% between the grossed-up dividend yield on shares of 5.7% and the Australian ten-year bond yield of 0.95% is at an equal record high with where it was at the GFC share market low in 2009. In other words, relative to bank deposits and bonds shares are very cheap.

Aust shares - the dividend yield is well above the bond yield



Source: Global Financial Data, Bloomberg, AMP Capital

In terms of something completely different, but arguably of greater importance, the latest Financy Women's Index is worth a look. Combining metrics for tertiary education, unpaid work, employment, pay, boards and superannuation it shows ongoing progress towards gender financial equality but there is a long way to go before its achieved.

Major global economic events and implications

US economic data was softish with a fall in the ISM non-manufacturing conditions index and a decline in job openings. In terms of the latter the level of job openings, hiring and quits remain high but they may have peaked warning of some softening in the US jobs market ahead. That said the Fed's latest survey of bank willingness to lend shows nothing like the sort of deterioration that occurred prior to the last two US recessions.

UK GDP fell 0.2% in the June quarter with a rundown in inventories offset by net trade but investment falling not helped by global and Brexit uncertainty.

Japanese June quarter GDP rose a stronger than expected 0.4% helped by consumer spending and investment but annual growth is just 1%. Meanwhile household spending rose more than expected in June, but the Economy Watchers business and household sentiment surveys showed a further fall in July with business respondents citing trade friction.

Chinese trade data for July was better than expected with an unexpected rise in exports and a smaller than anticipated fall in imports. That said, the rise in exports may reflect front running of anticipated tariffs and imports are still falling which is indicative of weak demand. Chinese underlying inflation remained benign in July.

Australian economic events and implications

Housing finance commitments saw a small bounce driven mainly by owner occupiers. This could just be statistical noise but it's consistent with increased buyer interest post the election and recent rate cuts. Time will tell but we remain of the view that the upside for house prices will be constrained relative to past cycles. Meanwhile, ANZ job ads improved slightly but the AIG's services and construction PMIs fell with the latter pointing to further weakness in building approvals.

There was some good news with a record trade surplus in June leaving Australia on track for its first current account surplus since 1975 and with trade likely to support June quarter GDP growth. However, much of the good fortune owes to the surge in the iron ore price to above US$100 a tonne which looks like providing a last hurrah for the trade surplus in July, but it has since fallen sharply as Brazilian production is returning.

What to watch over the next week?

In the US expect core CPI inflation for July due Tuesday to remain around 2.1% year on year which is consistent with the Fed's preferred measure of inflation remaining around 1.6%yoy. Meanwhile, expect solid growth in retail sales and industrial production and a rise in home builder conditions (all due Thursday) and an increase in housing starts (Friday). Manufacturing conditions surveys for the New York and Philadelphia regions will be released Thursday.

Chinese activity data for July is expected to show a slowing in industrial production to 6%yoy and in retail sales growth to 8.6%yoy but a slight lift in investment growth to 5.9%yoy.

In Australia the focus will be on wages and jobs. The June quarter Wage Price Index due Wednesday is expected to show wages growth stuck around 2.3% year on year and July labour market data (Thursday) is expected to show a modest 10,000 gain in employment but unemployment rising to 5.3% and underemployment remaining high at around 8.2%. Continuing high levels of unemployment and underemployment make it hard to see much of a lift in wages growth anytime soon which will maintain pressure on the RBA and the Government to provide more stimulus to the economy. Meanwhile business conditions as measured by the NAB business survey (Tuesday) and consumer confidence as measured by Westpac/MI (Wednesday) are expected to have remained subdued.

Australian June half earnings report releases will ramp up with about 40 major companies reporting including Ansell, GPT and JB HiFi (Monday), Computershare, Telstra and CSL (Tuesday), QBE, Woodside and the ASX (Thursday) and Domain and Cochlear (Friday). Consensus expectations are for around 2% earnings growth for 2018-19, mainly due to resources.

Outlook for investment markets

Share markets are at risk of further short-term volatility and weakness on the back of the escalating US/China trade war, Middle East tensions and mixed economic data as we enter a seasonally weak part of the year for shares. But valuations are okay – particularly against low bond yields, global growth indicators are expected to improve by next year and monetary and fiscal policy are becoming more supportive all of which should support decent gains for share markets on a 6 to 12 month horizon.

Low yields are likely to see low returns from bonds once their yields bottom out, but government bonds remain excellent portfolio diversifiers.

Unlisted commercial property and infrastructure are likely to see reasonable returns. Although retail property is weak, lower for longer bond yields will help underpin unlisted asset valuations.

The combination of the removal of uncertainty around negative gearing and the capital gains tax discount, rate cuts, support for first home buyers via the First Home Loan Deposit Scheme and the removal of the 7% mortgage rate test suggests national average capital city house prices have probably bottomed. Next year is likely to see broadly flat prices though as lending standards remain tight, the supply of units continues to impact and rising unemployment acts as a constraint.

Cash and bank deposits are likely to provide poor returns as the RBA cuts the official cash rate to 0.5% by early next year.

The A$ is likely to fall further to around US$0.65 this year as the RBA cuts rates further. Excessive A$ short positions, high iron ore prices and Fed easing will help provide some support though with occasional bounces and will likely prevent an A$ crash.