Markets Summary – November 2019

Taken from the CBA Global Markets Research report, 'November Month in Review'; first published on 3 December 2019

Highlights in November

- The Reserve Bank of Australia (RBA) left the cash rate on hold in November at 0.75%.
- Australian government bond yields broadly lower after a rise at the start of the month.
- Australian Dollar (AUD) and United States Dollar (USD) were weak on a broad scale.
- Many global equity markets hit new highs.
- Lower coal and gold prices offset slight gains in iron ore and oil.
- Dwelling prices rose by 2.0% across the eight capital cities.

Cash

The RBA left rates unchanged at 0.75% in November in line with market expectations, but it was clear from statements by the RBA that they remained ready to cut the cash rate again if needed.

Towards the end of the month, financial markets began to expect the RBA to deliver more rate cuts, as RBA Governor Lowe discussed the lessons on unconventional monetary policy (i.e. quantitative easing) for an Australian context.

Australian and Global Fixed Interest

Markets had to digest a number of reports over the possibility of a US-China trade deal in November. The prospect of signing a deal moved from November to December, but some issues with negotiations around tariff removals and agricultural goods purchases saw delays more likely. US economic data released over the month suggested the US economy remained strong. As a result there is a risk that the US Federal Reserve will not have to cut interest rates as much as originally expected.

Weaker than expected Australian and Chinese economic data weighed on the market. Australian employment contracted by 19,000 in October (consensus expectations: +15,000). As a result, the unemployment rate lifted to 5.3%. The contraction in monthly employment was the first fall since May 2018.

November also saw a drop in government bond yields in Australia, with the 10-year government bond yield dropping from 1.15% to 1.035%. There were expectations that the RBA had more work to do based on a speech by RBA Governor Lowe.

Global Credit

The major theme in Australian corporate bond markets in November was the large increase in companies looking to issue new corporate bonds. A total of ten corporates came to market in November, including some names like David Jones and Virgin. The majority of these new bonds were well absorbed by the market.

The major banks bonds were impacted after Australia's financial crimes regulator AUSTRAC filed civil proceedings against Westpac for breaching the Anti-Money Laundering and Counter-Terrorism Funding Act 2006 on over 23 million occasions. The bank is also under investigation by ASIC over whether they adequately informed investors of money laundering violations before its A$2 billion capital raising on 4 November.

The Australian credit market delivered positive total returns in November, mostly driven by the lift in government bond yields.

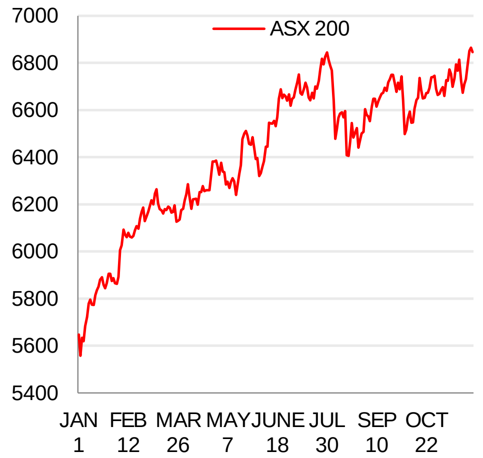
Global Equities

The key influences for global equity markets over the month were the US-Chinese trade talks, US and European corporate earnings results; central bank interest rate decisions, and economic data. Protests in Hong Kong were also monitored by investors.

Global sharemarkets rose over November with a number of markets hitting all-time highs in the month. The US Dow Jones rose by 3.7%, the S&P 500 lifted by 3.4% and the Nasdaq rose by 4.5%. In Europe, the German Dax rose by 2.9%, and the UK FTSE gained 1.4%. In Asia Japan's Nikkei rose by 1.6% and the ASX 200 was up by 2.7%.

Over November, 18 of Australia's 22 sub-industry sectors posted gains. Consumer durables rose the most (up 11.9%). Banks fell the most, down by 5.5%. Also of note, Materials was amongst the sectors to post gains, up by 4.5%. Of the size categories, the ASX MidCap 50 led the gains during the month, up by 3.9%, followed by the large-cap ASX 100 and ASX 50 indexes (up by 2.8% and 2.6% respectively) while the Small Ordinaries was up by 1.4%.

Chart 1 – ASX 200 – year to end of November



Source: iress, CommSec

Australian Dollar

The Australian trade-weighted index decreased by 1.7% in November. The AUD decreased against all the currencies under our coverage.

AUD/USD trended lower through November, falling sharply in the middle of November. Weaker than expected Australian and Chinese economic data weighed on A$. Australian employment was negative for the month while Chinese economic data showed weaker industrial production, retail sales and investment figures. Some of this was due to the National Day holiday and pollution control measures.

Also weighing on AUD was expectations of further rate cuts by the RBA.

Table 1 – Australian dollar November performance

	AUSTRALIAN DOLLAR		
	End Oct 31-Oct-19	End Nov 29-Nov-19	M/M % Change
AUD-USD	0.6894	0.6763	-1.9
AUD-JPY	74.48	74.04	-0.6
AUD-EUR	0.6182	0.6138	-0.7
AUD-GBP	0.5327	0.5231	-1.8
AUD-CHF	0.6800	0.6764	-0.5
AUD-CAD	0.9075	0.8984	-1.0
AUD-NZD	1.0749	1.0529	-2.0
TWI	60.0	59.0	-1.7
Month High		0.6928	5-Nov-19
Month Low		0.6754	29-Nov-19

Source: Bloomberg, CBA

Commodities

Commodity prices were mixed in November. Hopes that the US and China will sign the first phase of a trade deal drove oil and most base metals higher. The same news drove gold futures lower on weaker safe haven demand. Commodity specific factors help explain the fall in nickel and premium coking coal prices last month.

Premium coking coal prices fell steeply at the start of November on steel demand concerns outside China. Iron ore prices started the first half of November heading lower. The initial pessimism was driven on mostly an improving supply outlook. The second half of November was a different story with iron ore prices rising strongly.

Nickel prices fell in November as supply shortfall concerns ease.

Australian Residential Property Market

Dwelling prices rose by 2.0% across the eight capital cities for November. This was the largest gain since September 2003. Prices now sit 5.7% above the trough in June 2019. All capital cities except Darwin recorded gains in November.

A combination of the Federal election outcome, three RBA rate cuts and a loosening in loan serviceability policy from APRA have added to firm population growth and led to the resurgence in prices. Advertised stock levels remain low, exacerbating buyer behaviour amid concerns of missing out. In the Q&A following his speech last week, RBA Governor Lowe also attributed some of the price gains to signs the balance between supply and demand is tight. Vacancy rates are quite low in all cities apart from Sydney.

The RBA is not particularly worried about the strength of the recovery. The RBA would be worried if credit growth (or debt) is rising materially in response to high housing prices. This is not the case. If there are signs of rising credit growth, there could be regulatory measures imposed on housing lending.

The gains in dwelling prices are being driven by Sydney and Melbourne, up by 2.7% and 2.2%, respectively. Prices are being pulled higher by the top quartile of homes by value. This segment fell sharply during the downturn but dwellings at all price points are rising. Australia-wide, the top quartile rose by 2.5%, the middle half of properties rose by 1% and the lowest quartile rose by 0.4%.

Prices in Perth rose by 0.4%, the first monthly gain since April 2018. It is too early to tell if the long downturn in Perth has run its course. Vacancy rates have fallen a long way and mining investment is rising, providing some stability to the WA economy.

Chart 2 – Dwelling price moves

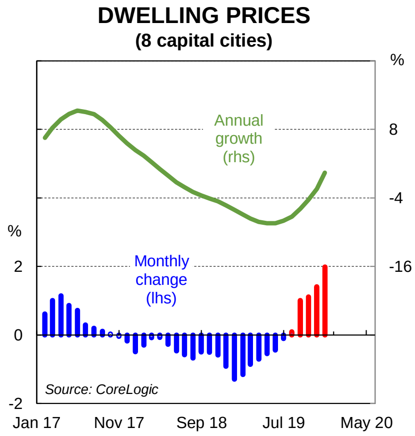


Chart 3 – Dwelling price index

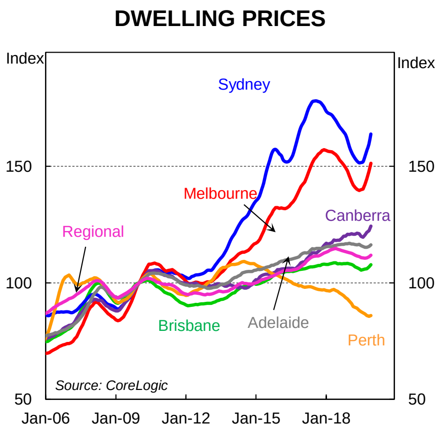


Table 2: CoreLogic Dwelling Prices – November 2019

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	Capital cities
%chg mth	2.7	2.2	0.8	0.5	0.4	2.3	-1.2	1.6	2.0
% ann chg	1.6	2.2	-0.5	-0.5	-7.7	4.2	-10.9	3.0	0.4
% chg from trough	8.2	8.3	1.7	0.9	NA	NA	NA	NA	5.7
% chg peak to trough	-14.9 (July 17-May 19)	-11.1 (Nov 17-May 19)	-2.9 (Apr 18-June 19)	-1.6 (Dec 18 – Sep 19)	-21.6 (June 14-)	NA	-30.6 (May 14-)	NA	-10.2 (Sept 17-June 19)