Markets Summary – December 2019

Taken from the CBA Global Markets Research report, 'December Month in Review'; first published on 3 January 2020 and the FX Month in Review published on 2 January 2020.

Highlights in December

- The Reserve Bank of Australia (RBA) left the cash rate on hold at 0.75%.
- Australian government bond yields moved higher.
- Credit markets recorded negative returns.
- The ASX200 index decreased by 2.4% in December. Over the calendar year 2019 the ASX200 rose 18.4%.
- The Australian Dollar (AUD) and United States Dollar (USD) edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australian November employment report.

Cash

As expected, the RBA kept policy rates on hold at the December meeting. The RBA staff hinted at the potential for further moves in 2020 and continued to make clear in both statements and speeches that it remained ready to cut "if needed".

Financial markets continue to expect rate cuts, with talk of another rate cut expected. There was a better than expected Australian November employment report. The number of jobs in Australia rose 39.9k in November (the bulk in part-time jobs), the unemployment rate fell 0.1pts to 5.2%, the underemployment dipped 0.2pts to 8.3% and the participation rate was unchanged at 66%.

The RBA noted again "the Australian economy appears to have reached a gentle turning point" despite sluggish Australian GDP growth in the third quarter and Australia's economy grew by 0.4% (consensus: +0.5%/qtr) or 1.7% over the year. The annual pace of growth remains below trend of 2.75% and sits around the rates of growth recorded at the height of the global financial crisis.

Australian and Global Fixed Interest

Australian government bond yields climbed in Australia over the month of December, in line with market moves globally. The 10 year yield climbed from 1% to 1.32%, which made it one of the larger monthly moves this year.

The rise in bond yields was driven by the slow progress leading up to the US-China trade deal and the fact that Australian economic data was not as bad as feared.

Offshore, as was widely expected, the Federal Open Market Committee (FOMC) left the Federal Funds target range at 1.50-1.75% at the December meeting. Federal Chair Jay Powell emphasised there would need to be a "significant" and "persistent" increase in inflation before interest rates need to rise. On 13 December, the US and China agreed to a phase-one trade deal and Prime Minister Boris Johnson's Conservative party won a decisive majority in the UK general election, paving the way for further progress on Brexit. There was also some better news for global manufacturing and there were signs that China's growth slowdown had stabilised.

Global Credit

The major theme in Australian corporate bond markets in December was higher government bond yields leading to credit markets outperforming. There was less new supply of corporate bonds and that saw investors buy bonds in the secondary market, leading to a reduction in credit spreads (which lifts returns). This saw the Australian credit market record negative returns, but the returns were higher than recorded in other fixed income markets.

Global Equities

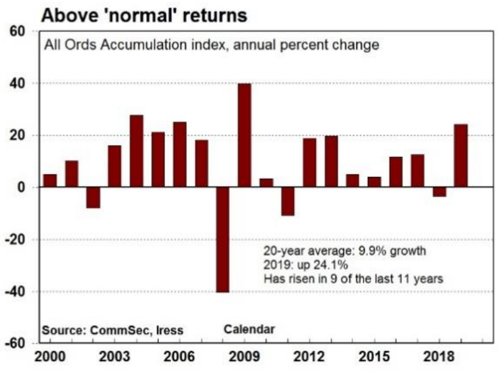
Global sharemarkets posted solid gains in December as key geopolitical risks around trade and the Brexit eased. But gains were capped by profit-taking at year-end. In 2019, the US benchmark S&P500 index notched its best annual gain since 2013, up 28.9%, while the Australian S&P/ASX200 index lifted by the most in a decade, up 18.4%.

Overall in December the US Dow Jones rose by 1.7%, the S&P 500 lifted by 2.9% and the Nasdaq rose by 3.6%. In Europe, the German DAX index rose by just 0.1%, and the UK FTSE gained 2.7%. In Asia, Japan's Nikkei rose by 1.6%, but the ASX 200 lagged, down by 2.4% in the month.

Over December, 17 of Australia's 22 sub-industry sectors posted losses. Food & Staples Retailing fell by the most (down 9.2%) followed by Telecommunications (down by 7.8%). Household & Personal products rose the most, up by 2.8%. Also of note, Consumer Durables & Apparel was among the sectors to post gains, up by 1.7%. Of the size categories, the ASX50 index fell by the most (down by 2.6%), followed by the ASX100 index (down by 2.4%), ASX200 index (down by 2.4%), ASX MidCap50 index (down by 1.5%); and Small Ordinaries down by 0.6%.

Over 2019, the All Ordinaries rose by 19.1% and the ASX200 lifted 18.4%. Total return on shares (All Ords Accumulation index) rose by 24.1% – the best returns in a decade.

Chart 1 – All Ordinaries accumulation Index



Source: iress, CommSec

Australian Dollar

The Australian trade-weighted index increased by 2.2% in December. The AUD rose against most major currencies except the New Zealand Dollar (NZD).

The AUD and USD edged up throughout December, supported by a more favourable global growth outlook and a better than expected Australia November employment report. The RBA's post-meeting Statement also helped AUD early in the month. As was widely expected, the RBA left the cash rate at 0.75% and maintained its easing bias. However, the RBA pointed out the downside risks to the global economy have "lessened recently" and signalled it wants to assess the effects of the recent cuts to the cash rate on the economy (75 basis points (bps) of rate cuts over the past 6 months) emphasising "the long and variable lags in the transmission of monetary policy".

Table 1 – Australian dollar December performance

	End-Nov 29-Nov-19	End-Dec 31-Dec-19	m/m % Change
AUD-USD	0.6780	0.7013	3.4
AUD-JPY	74.28	76.44	2.9
AUD-EUR	0.6163	0.6257	1.5
AUD-GBP	0.5262	0.5348	1.6
AUD-CHF	0.6781	0.6804	0.3
AUD-CAD	0.9009	0.9151	1.6
AUD-NZD	1.0555	1.0425	-1.2
TWI	59	60.3	2.2
Month high		0.7013	31-Dec-19
Month low		0.6756	02-Dec-19