Amplifying Global FX Capital

23 June 2017

A review of the Australian data, global equity and bond markets

Australian economy mixed

It's a mixed outlook, but probably generally better than what a number of analysts suggest and the RBA is likely to sound reasonably upbeat.

The housing market is an obvious risk, and it appears that Australian housing and household confidence would be quite sensitive to higher rates. But as it stands there is reason to see further improvement in the labour market and business spending. The mining bust is largely over and government spending on infrastructure is now growing rapidly.

Monthly inflation indicators suggest that CPI inflation may firm further in Q2. The surge in electricity prices may be a factor that places some upward pressure on inflation.

Business surveys are stable at solid levels. Measures of business capacity utilization are at highest levels since 2008, so suggests progress in closing output gap and potential for investment to improve.

Labour market has been on a solid improving trend this year. However, there still appears to be significant slack in measures of under-employment. Wage growth is stable but low. Job ads, vacancy, and business surveys suggest it can continue to improve.

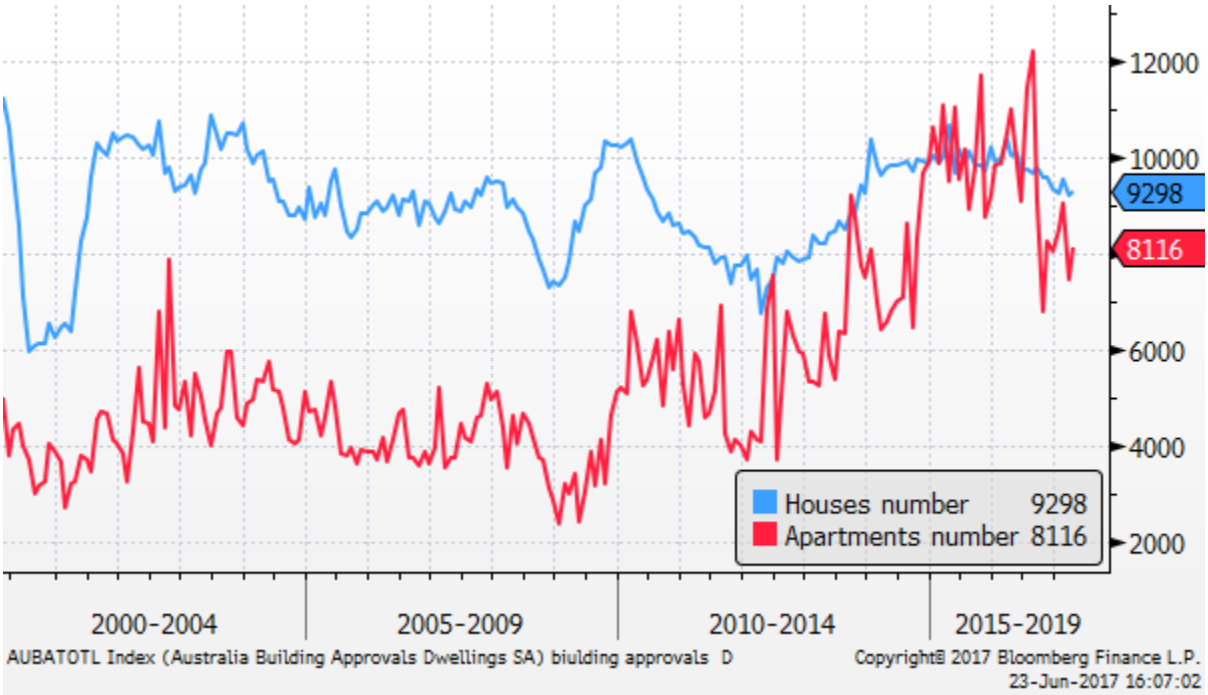
The housing market (finance, building approvals, and sales activity) all are slowing. The evidence suggests lending conditions have tightened and market has peaked and would be vulnerable to a rate rise.

Consumer confidence is weak, household spending jumped in April, but has been trending weaker for two years. It may be now undermined by high household debt, modest credit tightening and peaking in the housing market.

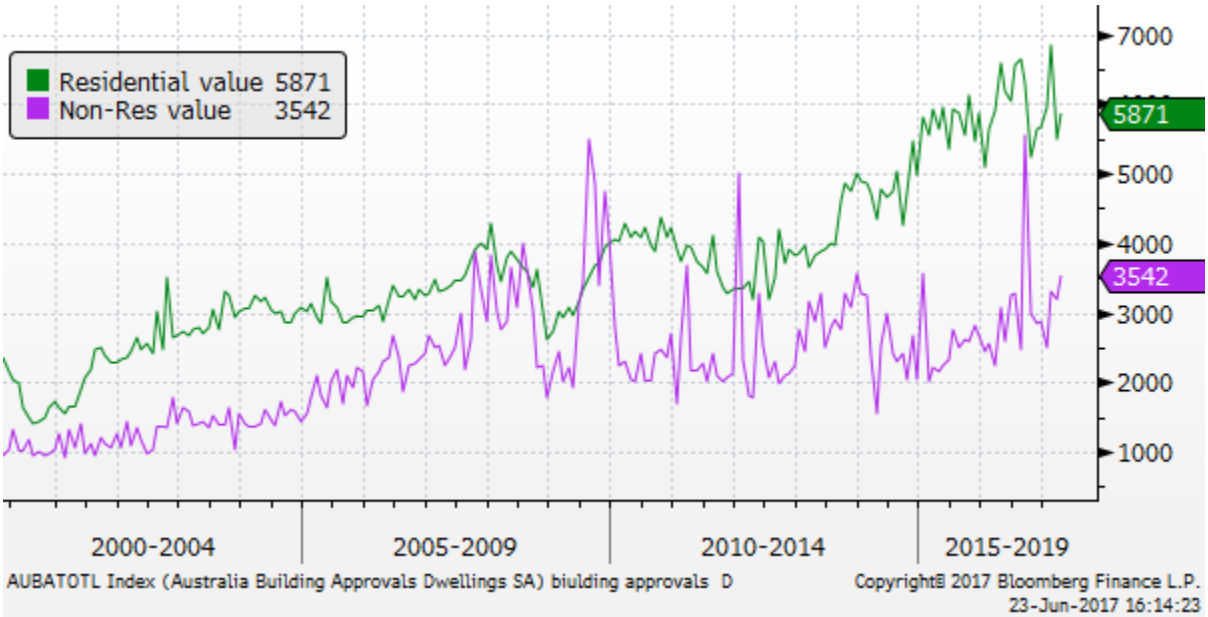
Housing

Housing market is broadly slowing down. Building approvals peaked around the middle of last year, now in a declining trend.

Residential Building approvals number

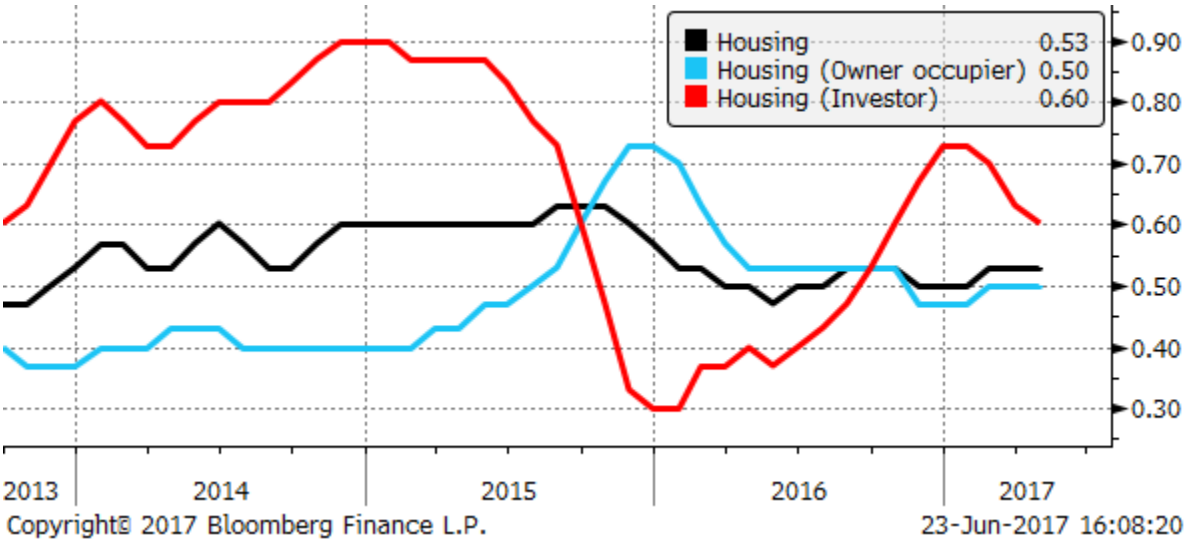


There is some growth now in the value of non-residential building approvals

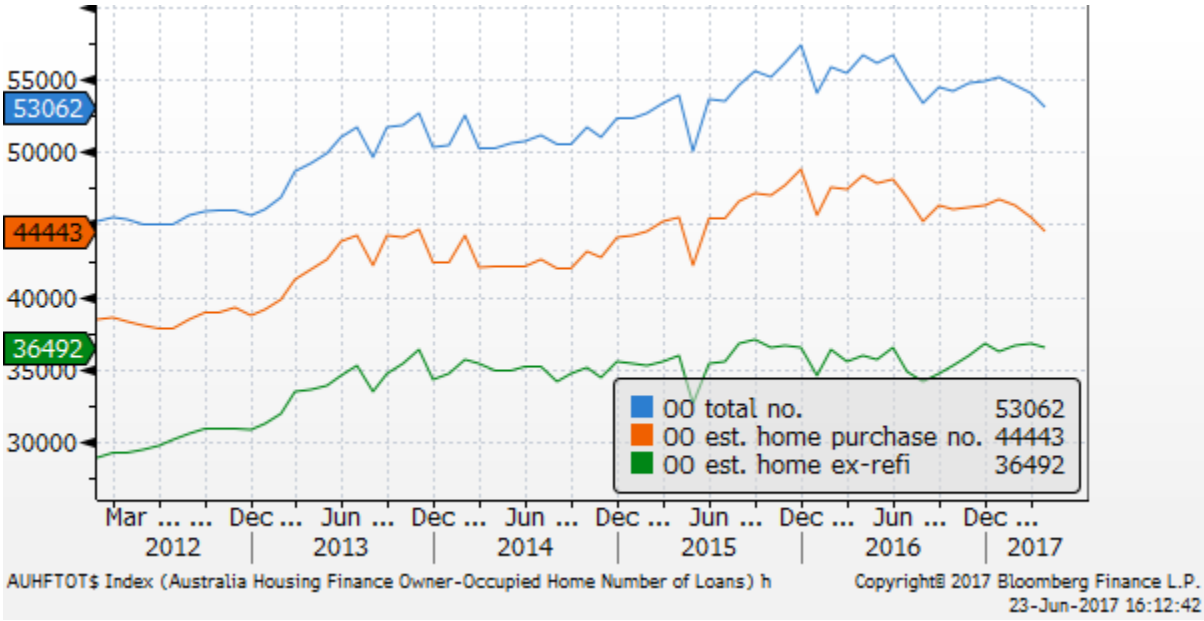


Housing credit growth to investors, after rebounding last year, is slowing again this year. Owner occupier credit growth stable at a moderate rate (0.5% per month / 6% per year)

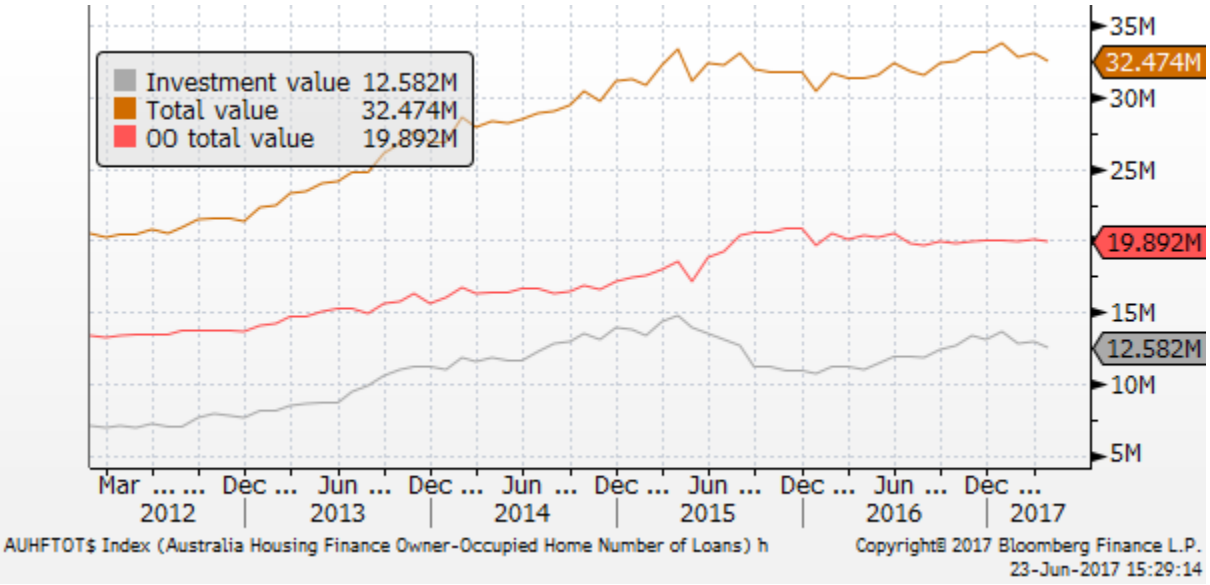
Credit growth %m/m-3mma



House finance approvals for purchase slowed in recent months to April

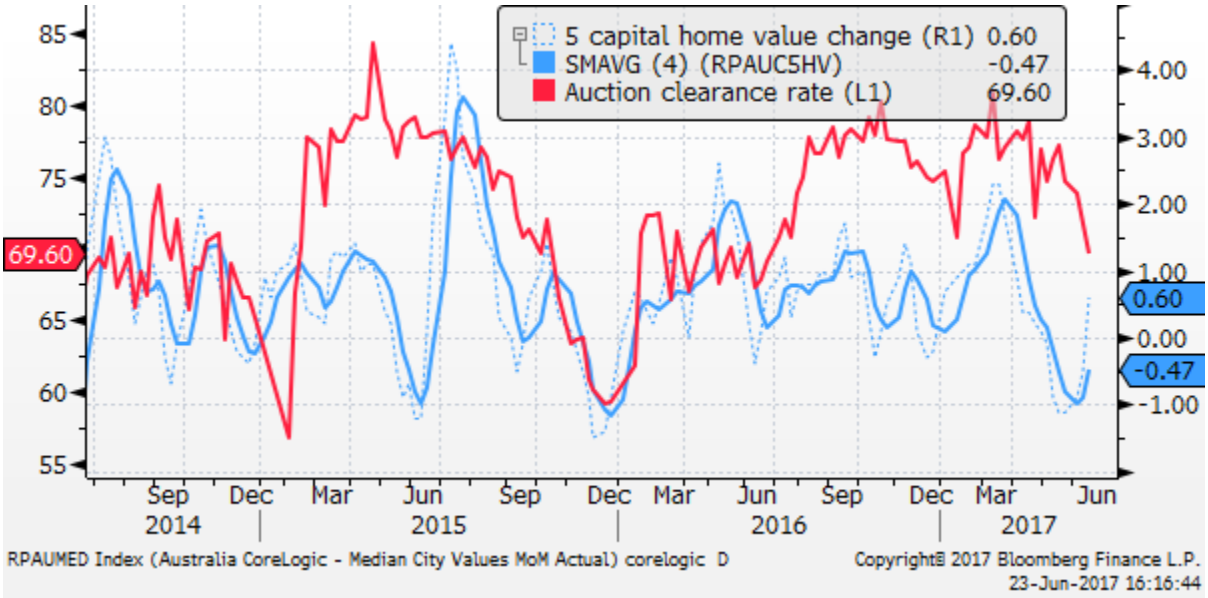


Housing Finance approvals to investors leading recent slowdown



Auction clearance rates softer, house price growth has been negative recently

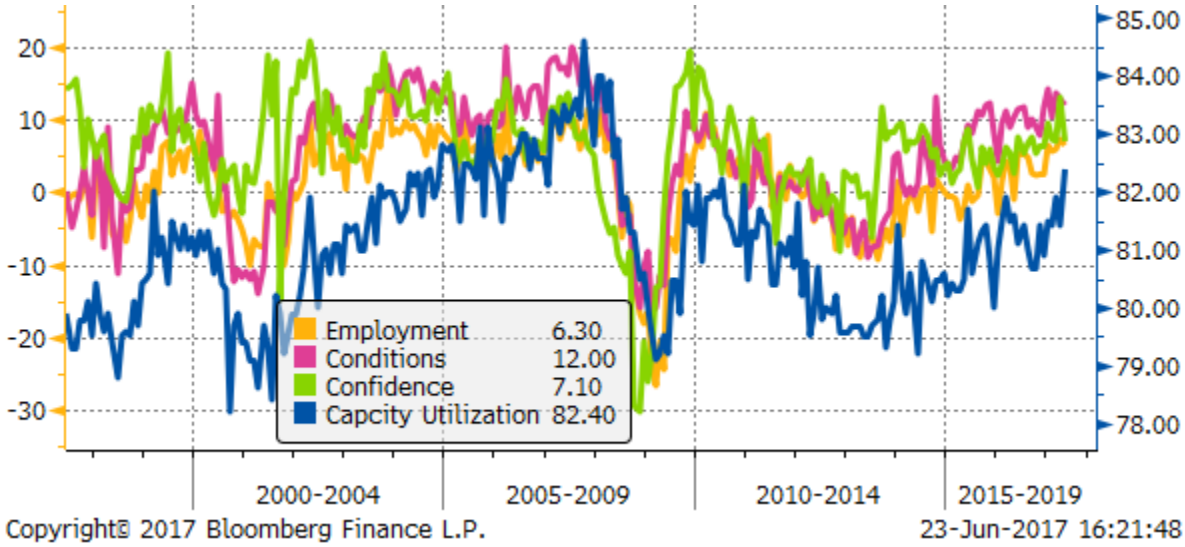
Core logic weekly house market data



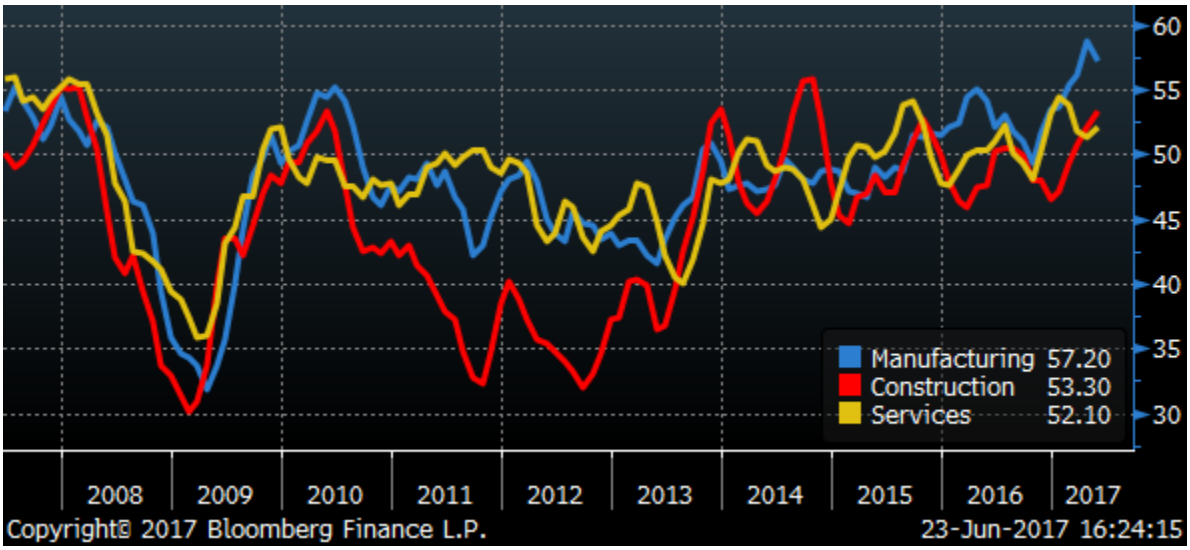
Business surveys are pretty up-beat

Capacity utilization measure has tightened to high since 2008, other components stable at above average levels this year

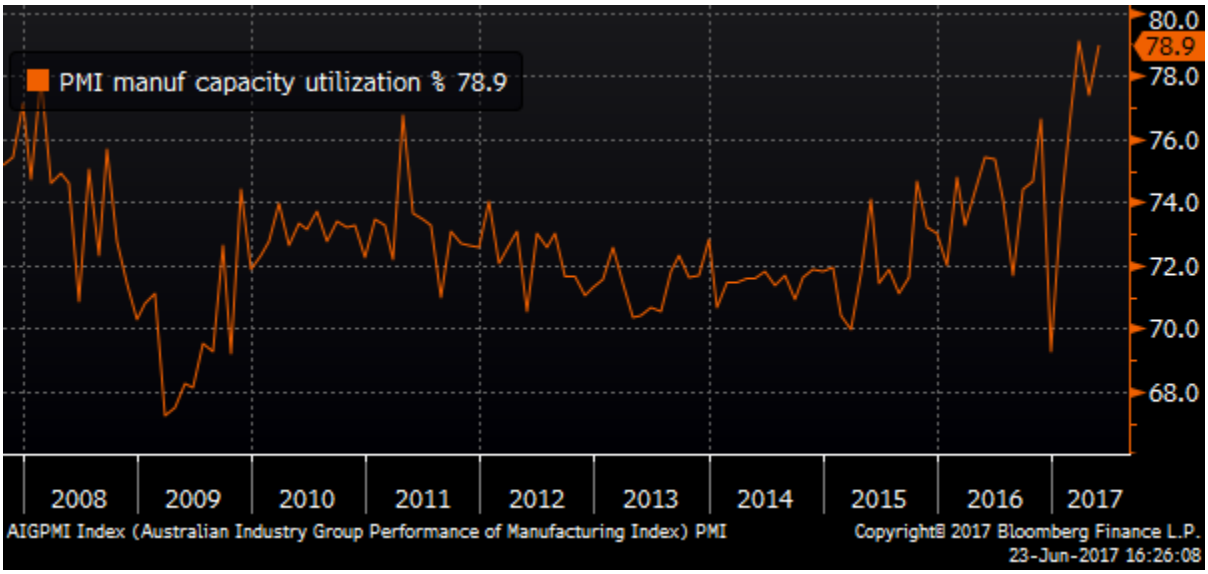
NAB Business survey



PMI surveys 3mma – stronger for manufacturing and construction this year. Services also stronger but more mixed

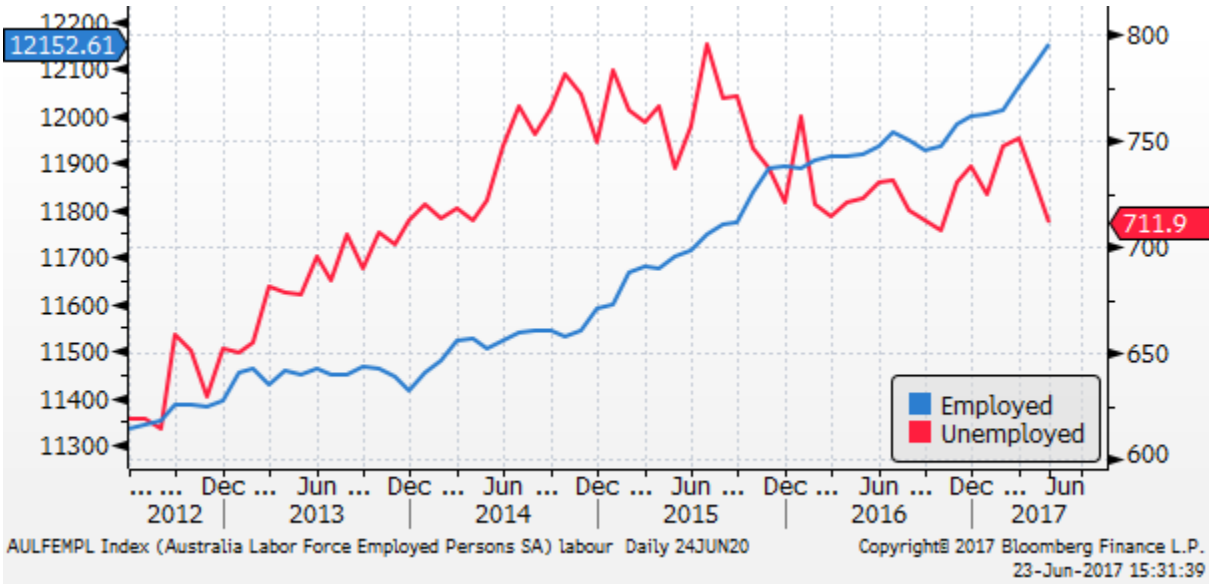


PMI manufacturing capacity utilization index also appears high

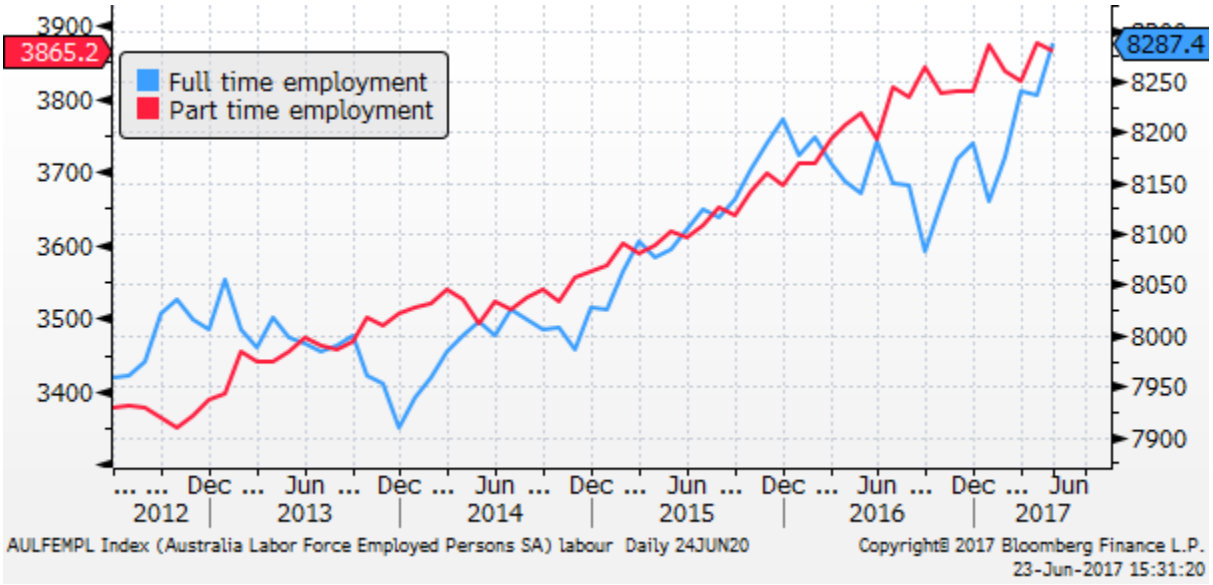


Labour market indicators

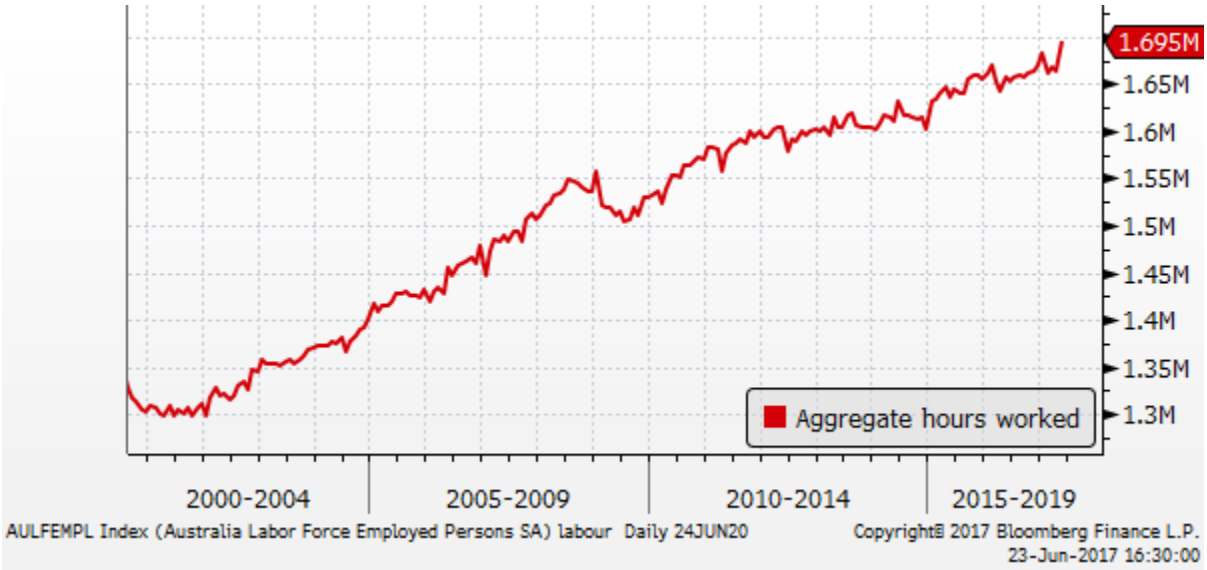
Total employment has accelerated to a solid rate since March



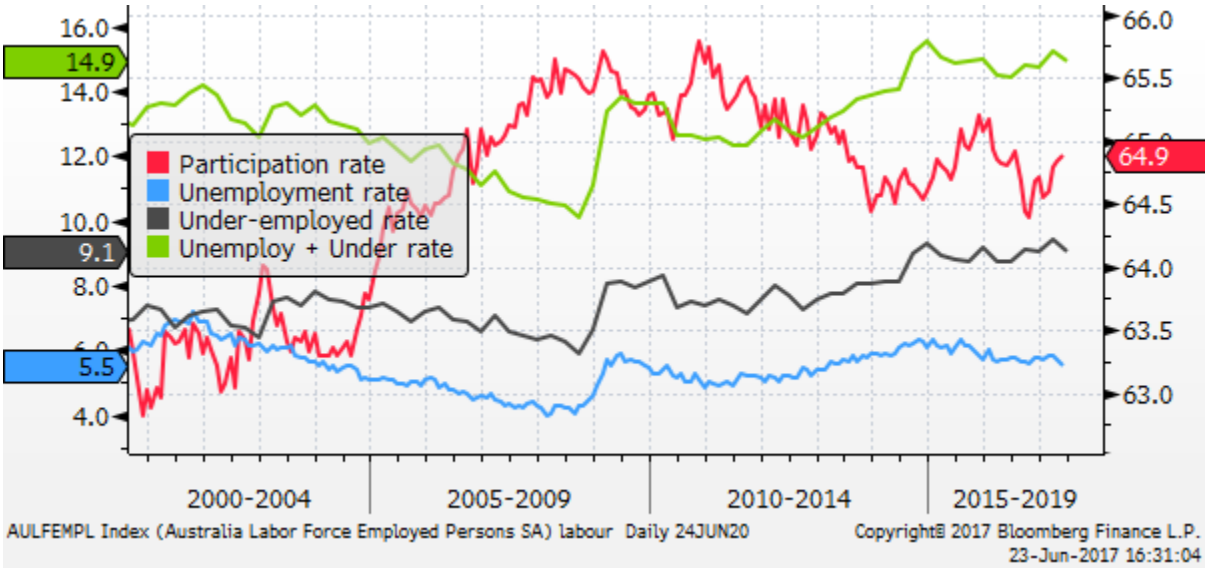
Full-time jobs leading growth since a low in September last year



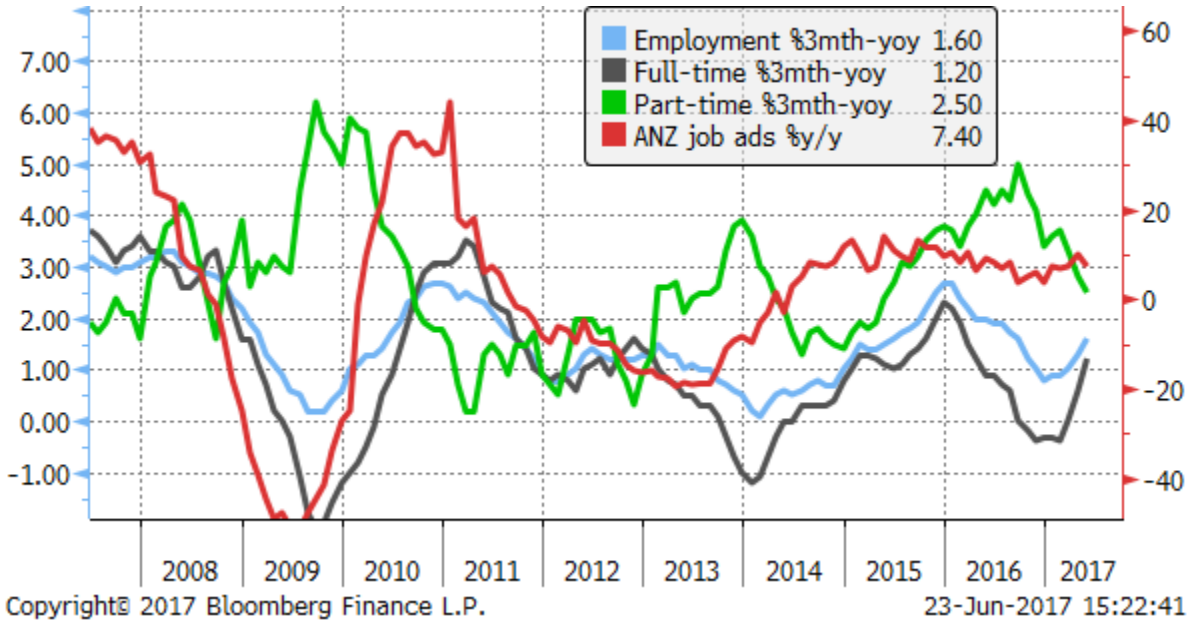
Aggregate hours jumped sharply in May; trend is so far more stable



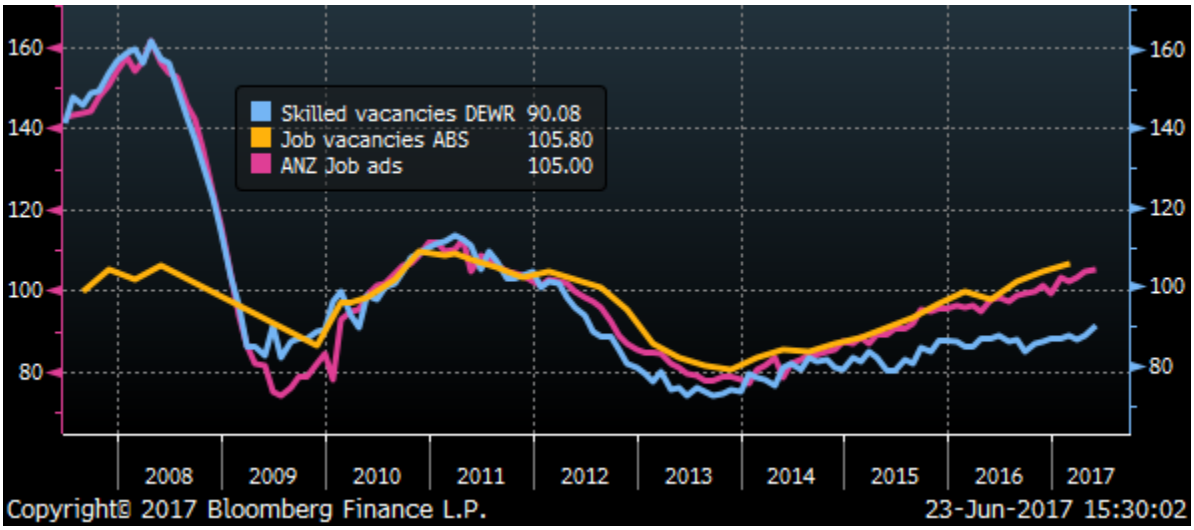
Participation is rising from a low in October last year. Unemployment still above neutral at 5.5%, down from around 6.0% in 2015. However, under-employment rate is higher since 2015, and a total of the two suggests slack remains.



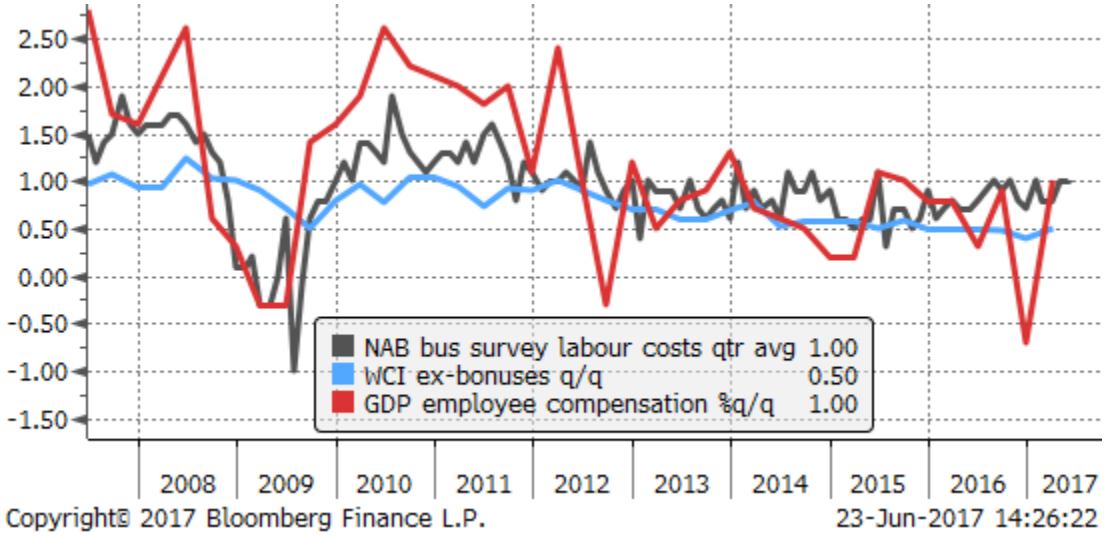
Job ads growth at a stable 7% rate, suggests jobs growth should continue



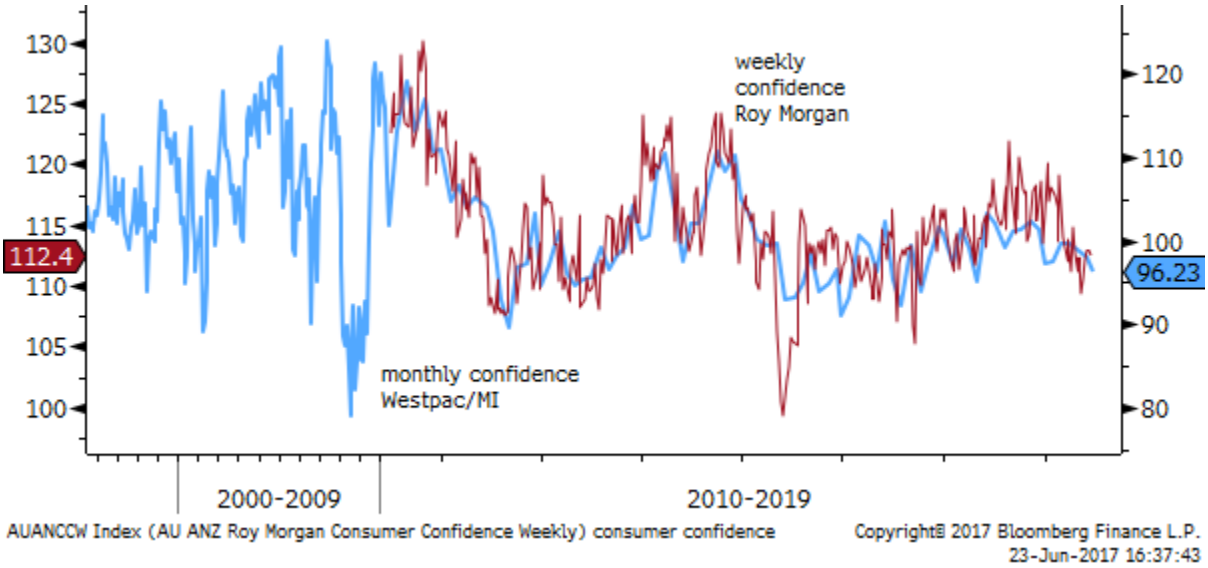
Skilled vacancies coming from a lower level, but have picked up in recent months

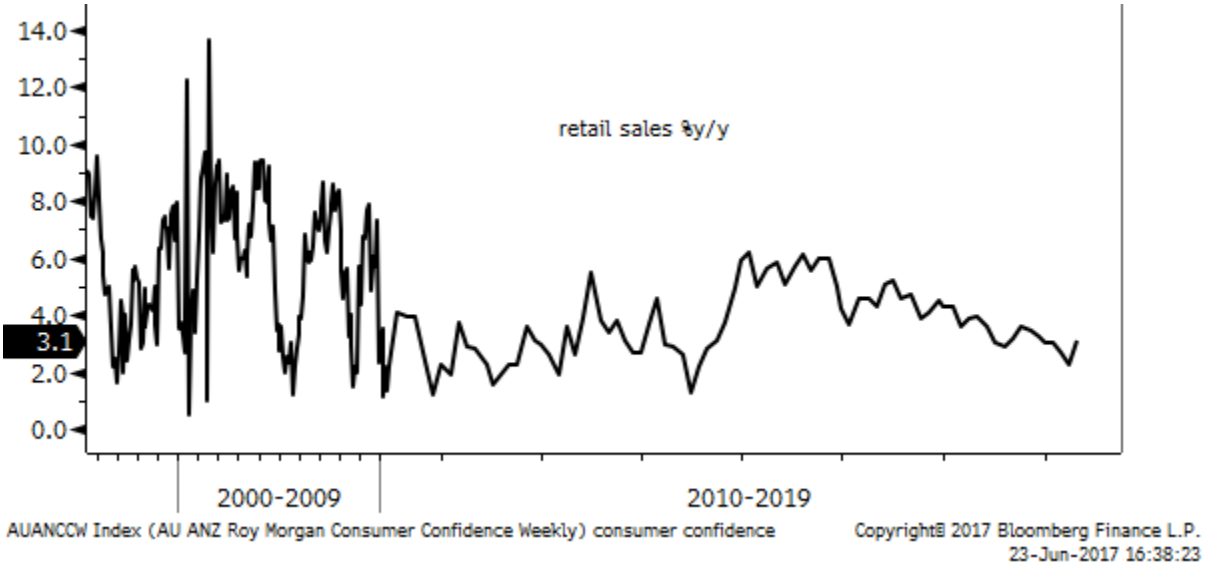


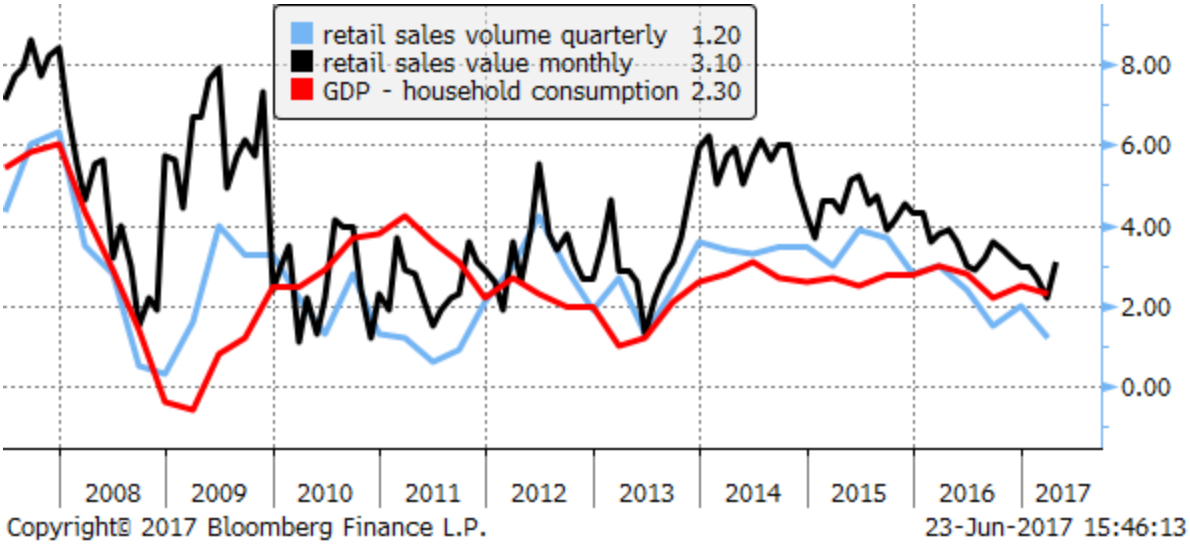
Wage growth indicators remain low but on a stable trend in the last year



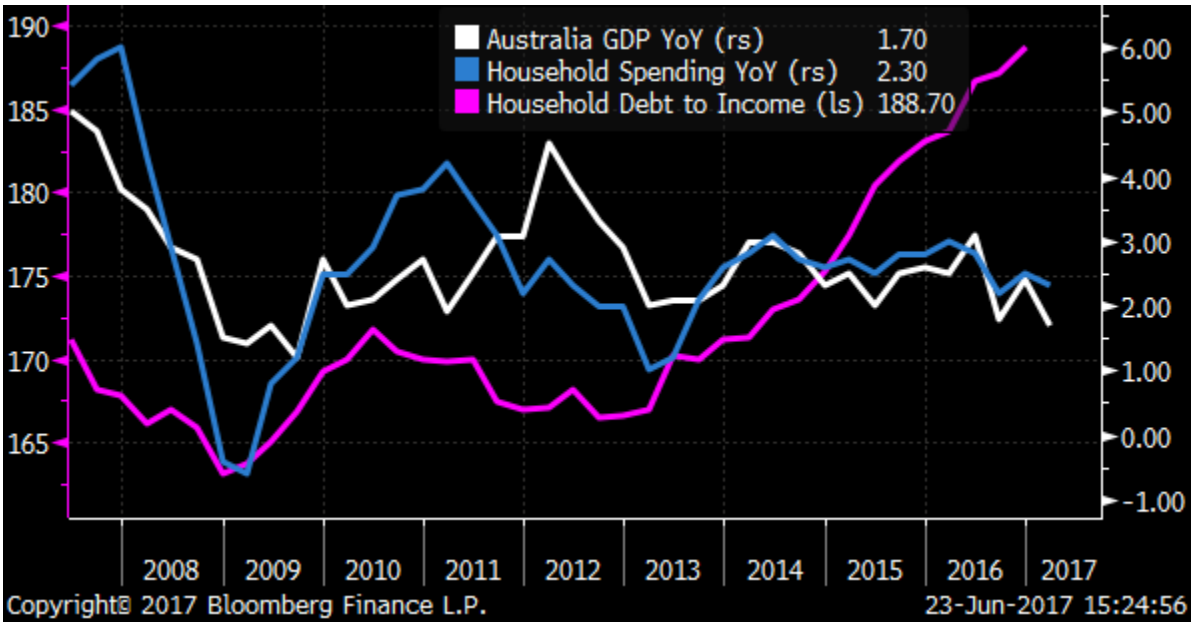
Consumer confidence below average, retail sales soft, but bounced in April.



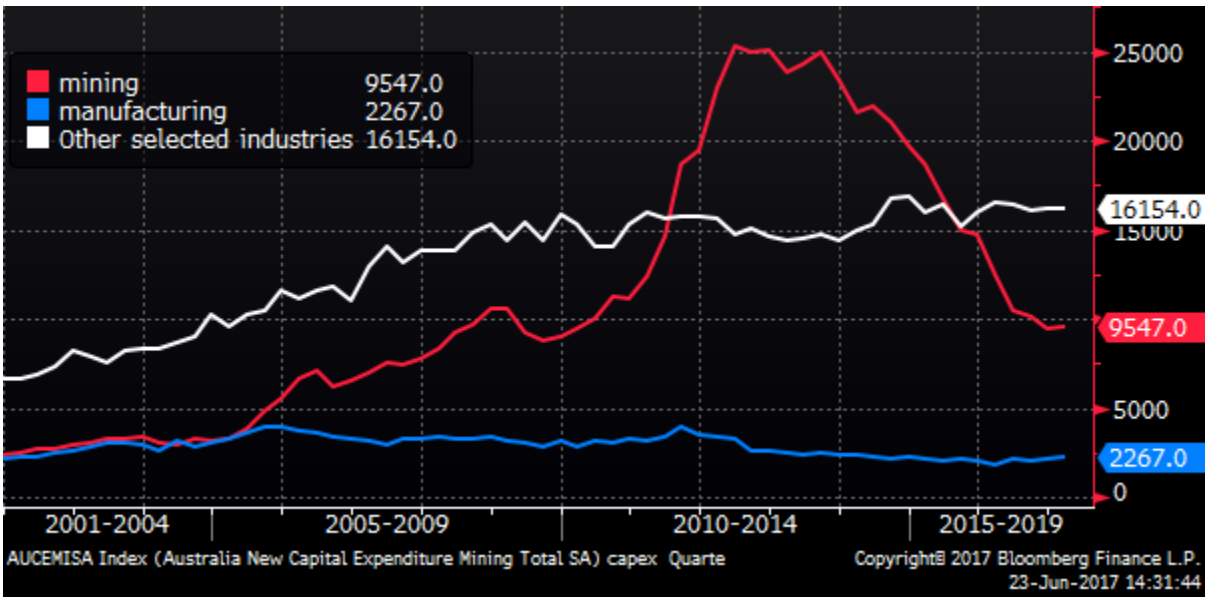




Is household debt now acting as a restraint on consumer confidence and spending? Is confidence affected by some modest tightening in credit conditions and weaker housing market?

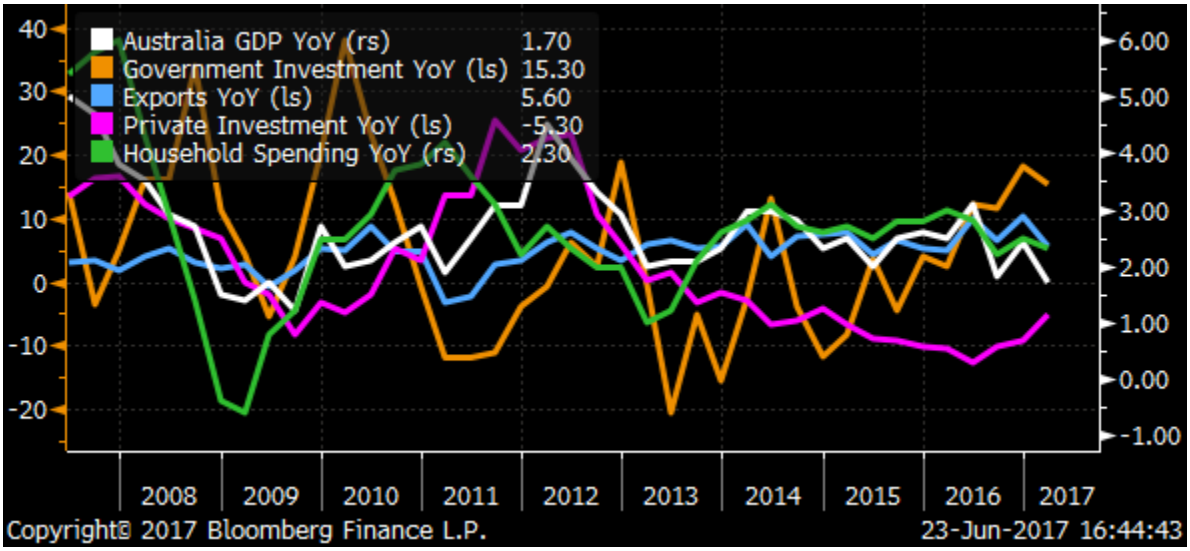


Capital investment in mining bottoming, rising in manufacturing (but a small component). Flat in other industries



Transitioning GDP?

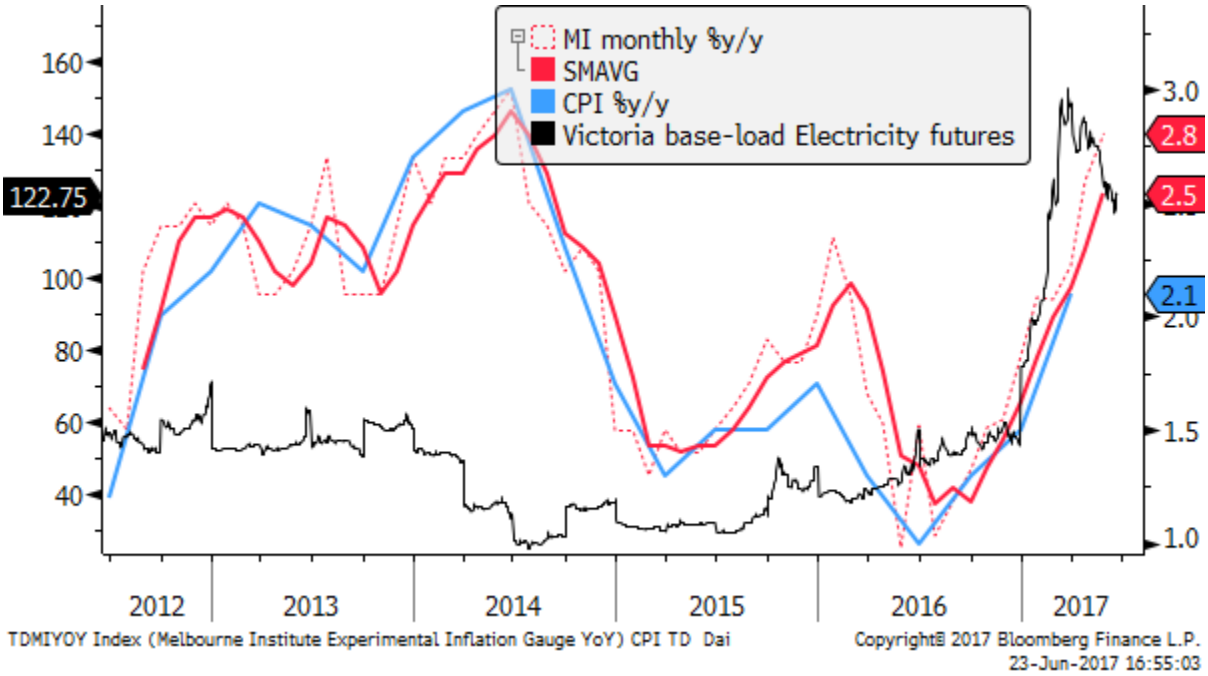
Exports growth stronger, private investment weak, but drag diminishing. Government investment (infrastructure) now adding strongly to growth (+15.3%y/y in Q1). Household spending soft



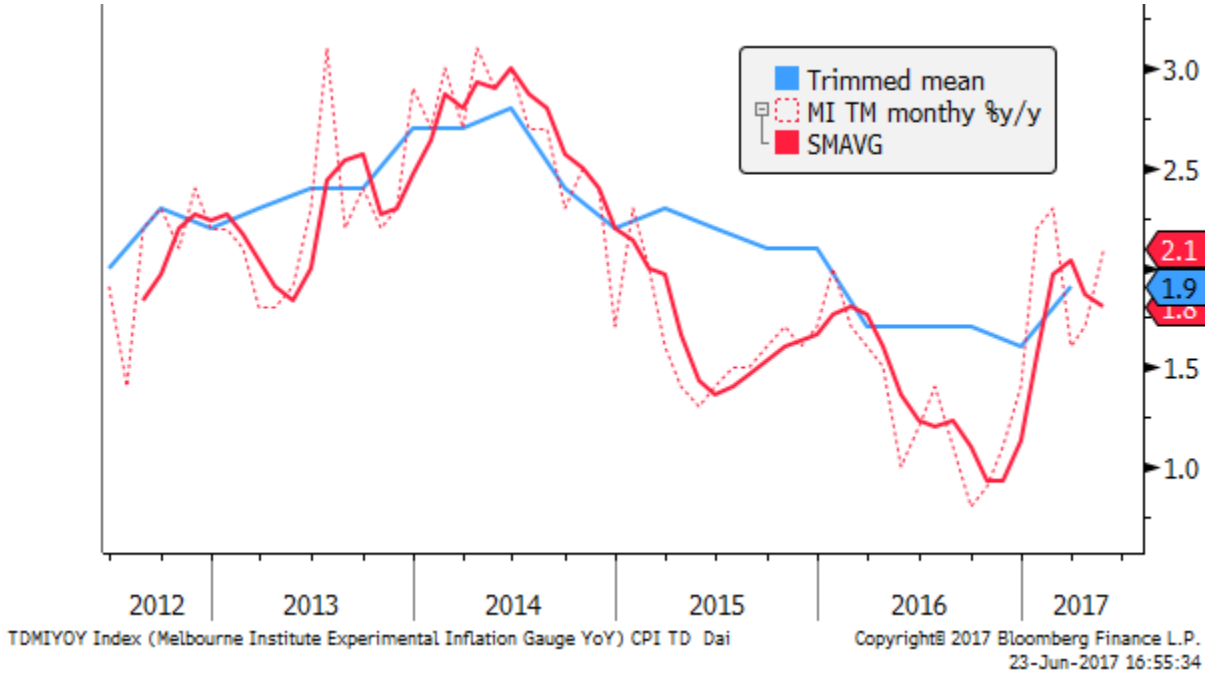
Inflation

The Melbourne Institute monthly indicators, suggest inflation in Q2 is to rise from Q1 in headline and perhaps also in underlying terms.

CPI headline inflation and electricity base-load prices



Trimmed mean CPI %y/y



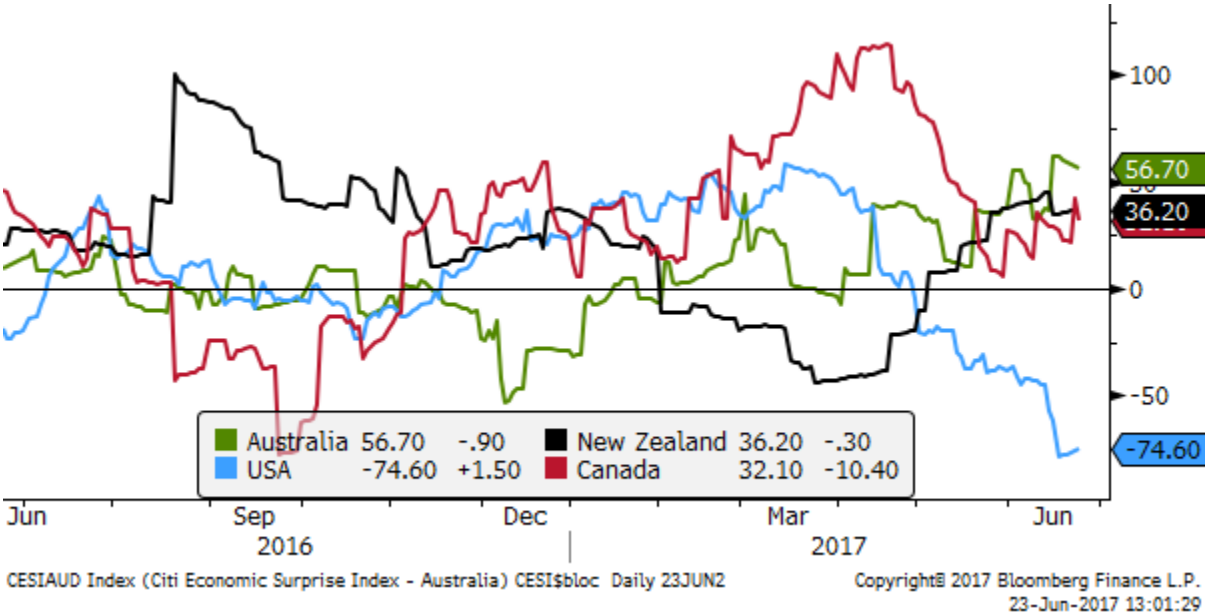
Economic Surprise indices

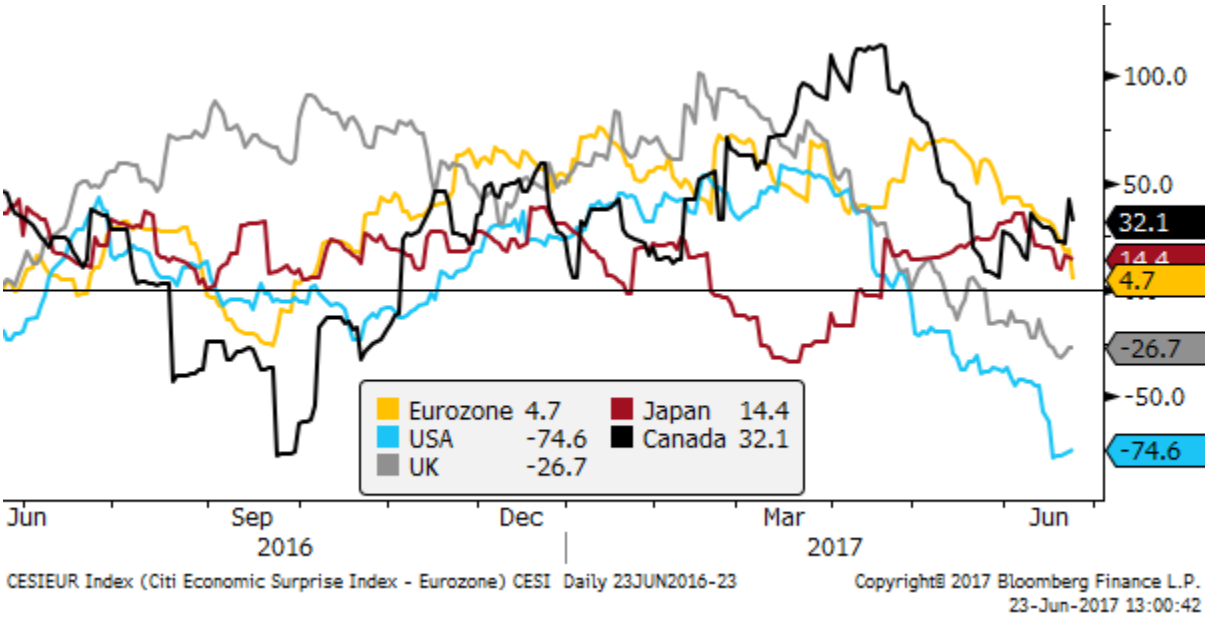
Australia CESI quite solid at 57%, Canada, and NZ reasonable in the 30%, all tending to rise in recent months.

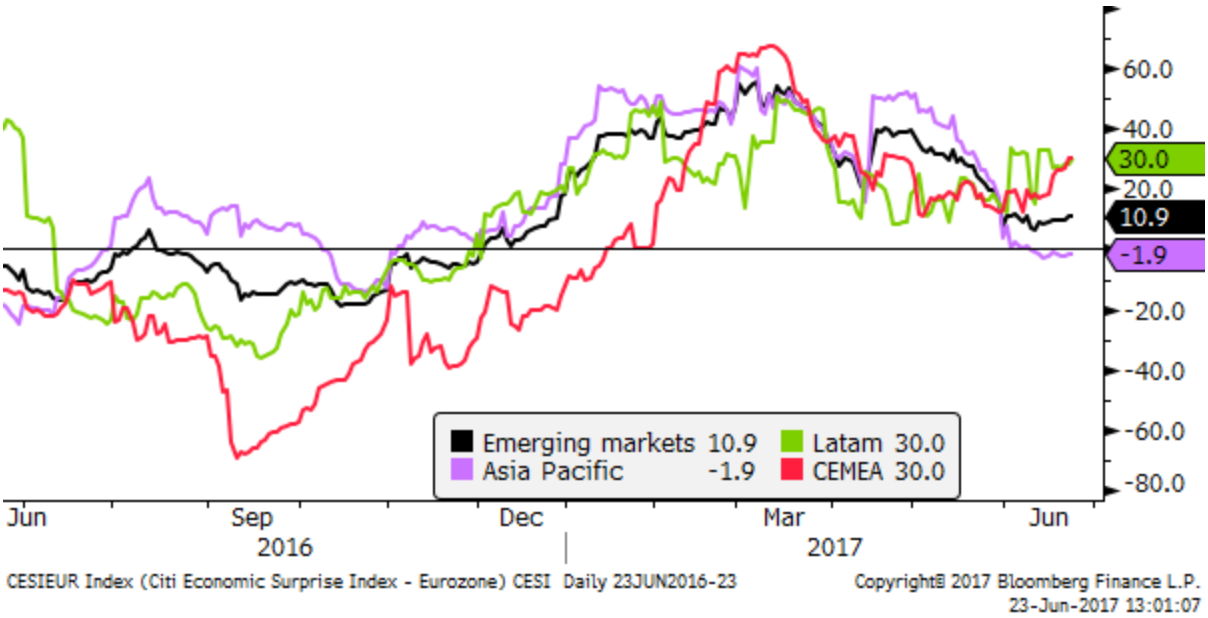
The USA is very weak at -75%. USA, Euro, and UK have been declining in recent months. Euro +5%, UK – 27%. Japan more stable in recent months at +14%.

Asia and EM markets CESI have stabilised in June after sliding in April-May and are close to neutral.

Citibank Economic Surprise Indices







Bank Equities

Australian bank share prices have declined since the government announced the levy. They fell a little more on S.A state levy announcement.

Canada banks were weaker on Home Capital Group event, and a bit weaker on Moody's downgrade of major banks. Prices have been gradually recovering over the last month, Berkshire Hathaway purchase of HCG shares gave a boost this week.

Other countries major banks have been more stable in recent months, although choppy at times. US banks may have been supported by announcements around removing regs. European banks were strong early in the year, but have been weaker since early May, appears led by weaker Deutchebank share performance. Flattening yield curves may be weighing on international bank shares.

Bank share prices

Equities are showing fatigue, but pockets of strength.

Tech shares were market leaders, fell sharply two weeks ago, but grinding higher again.

Financials were leading up to March but have been down since (curve flattening).

S&P500 overall has been grinding higher with low volatility, flat in the last few weeks.

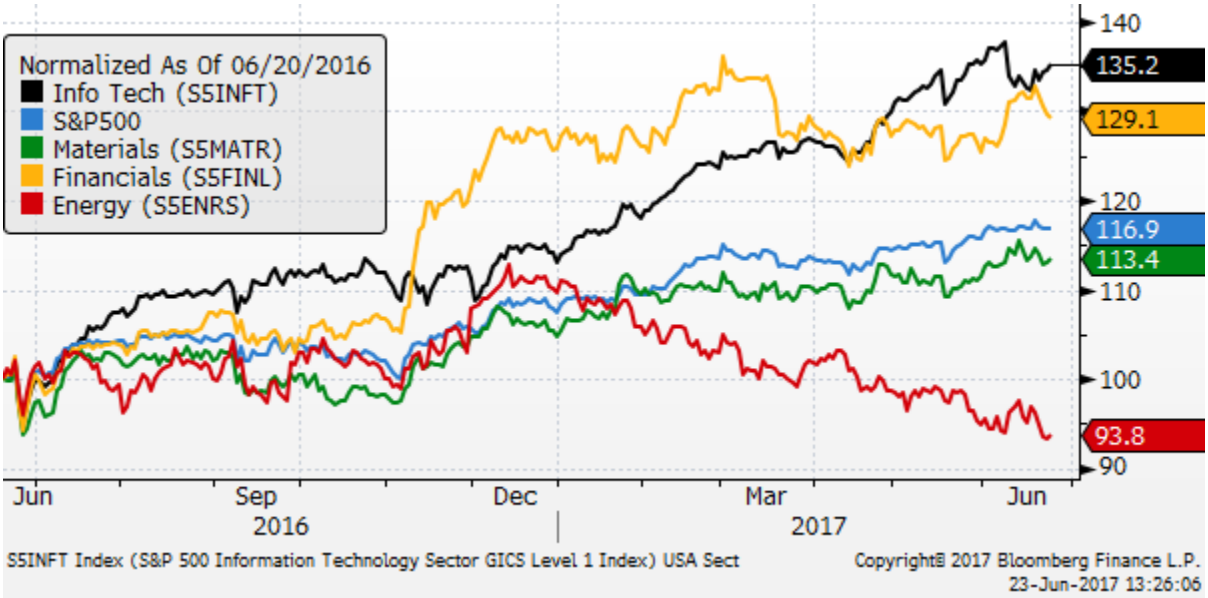
Materials are generally rising, but lagging a bit.

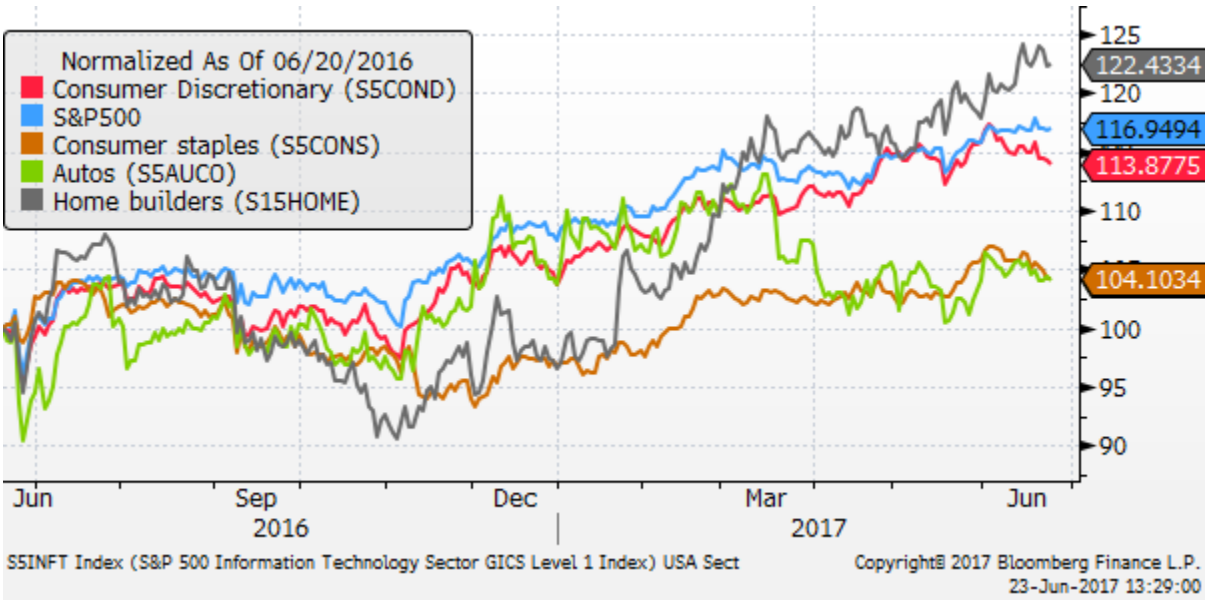
Energy falling all year

Autos and consumer stocks lagging. Staples under-performing discretionary – Amazon effect. All weaker in last few week.

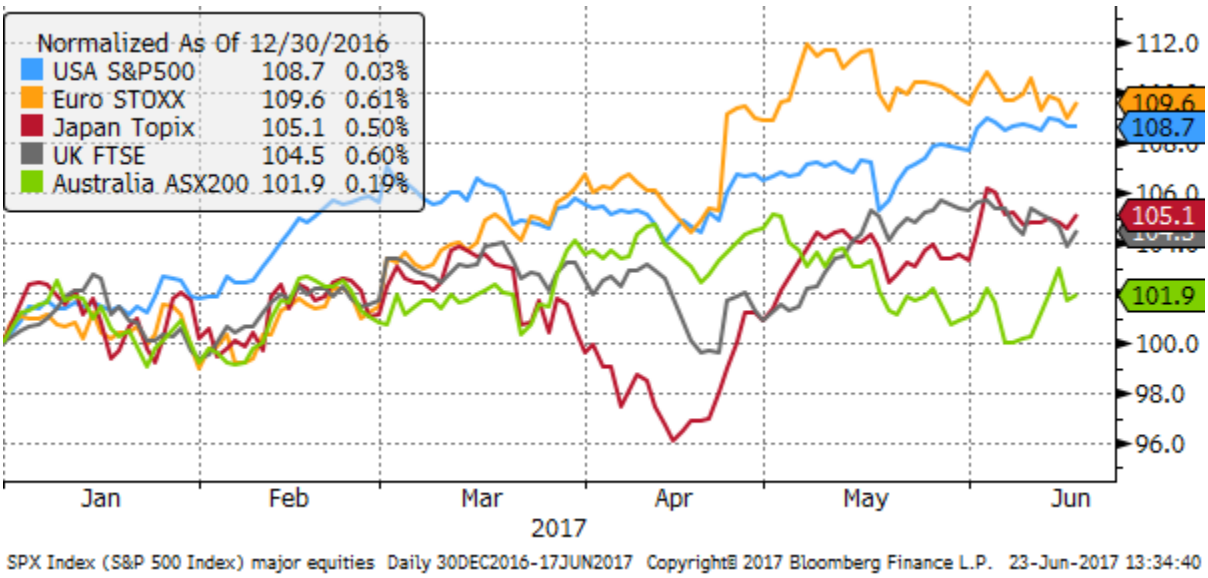
Healthcare stocks have surged in last week or so, taking up the running, offsetting weakness in other sectors

US Equity Sector equities





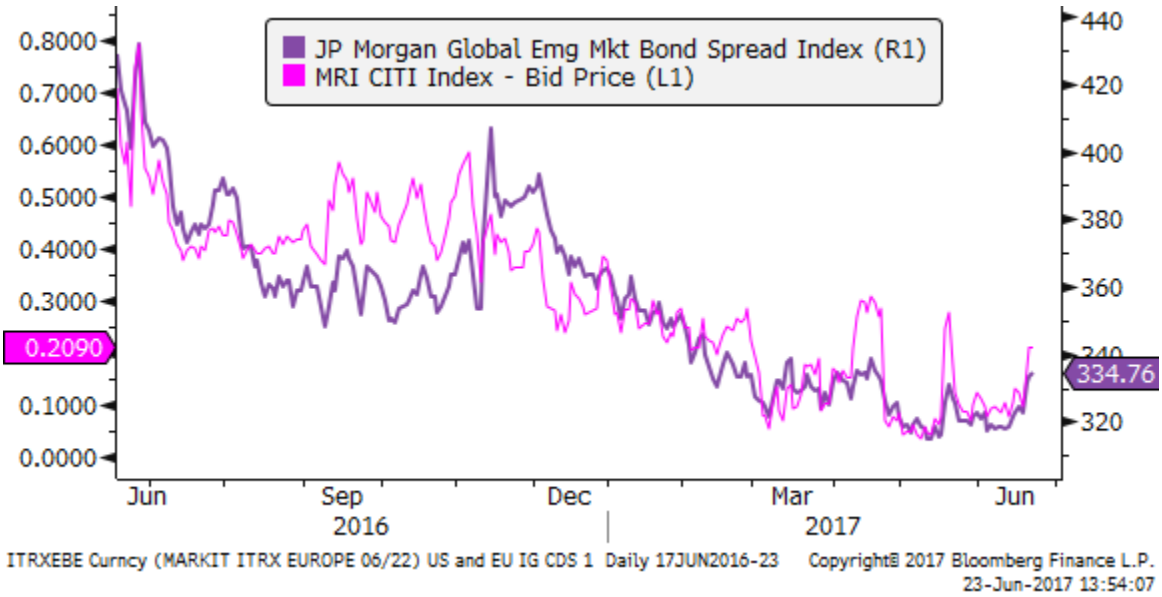
Generally weaker major country equity indices in recent weeks



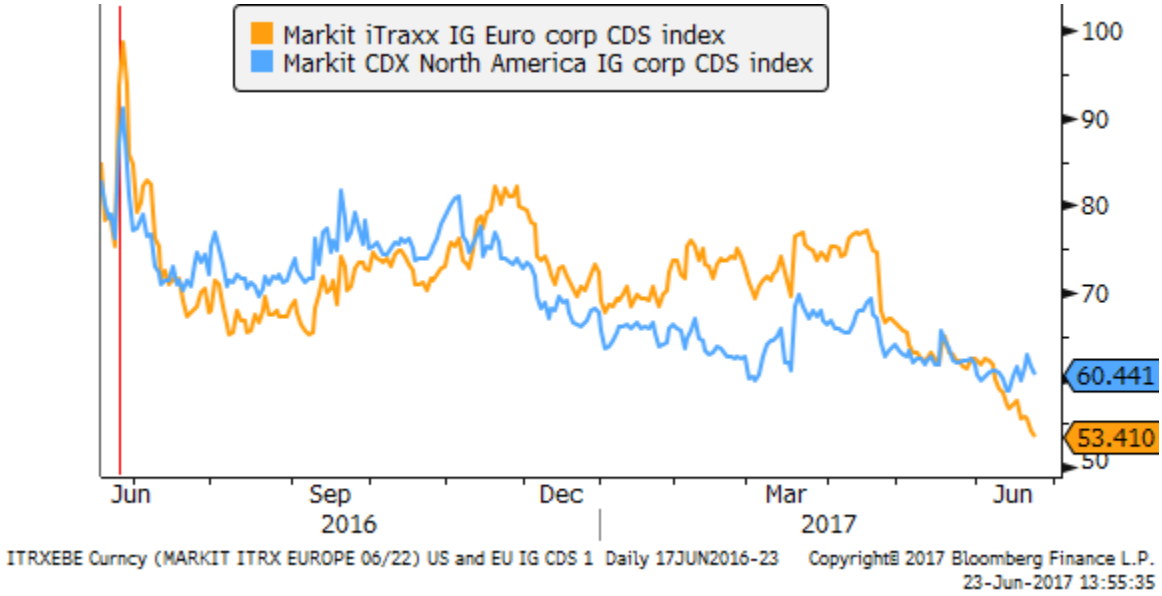
Emerging market equities weaker in recent weeks. Asia outperforming other regions

MSCI global indices flat in recent weeks

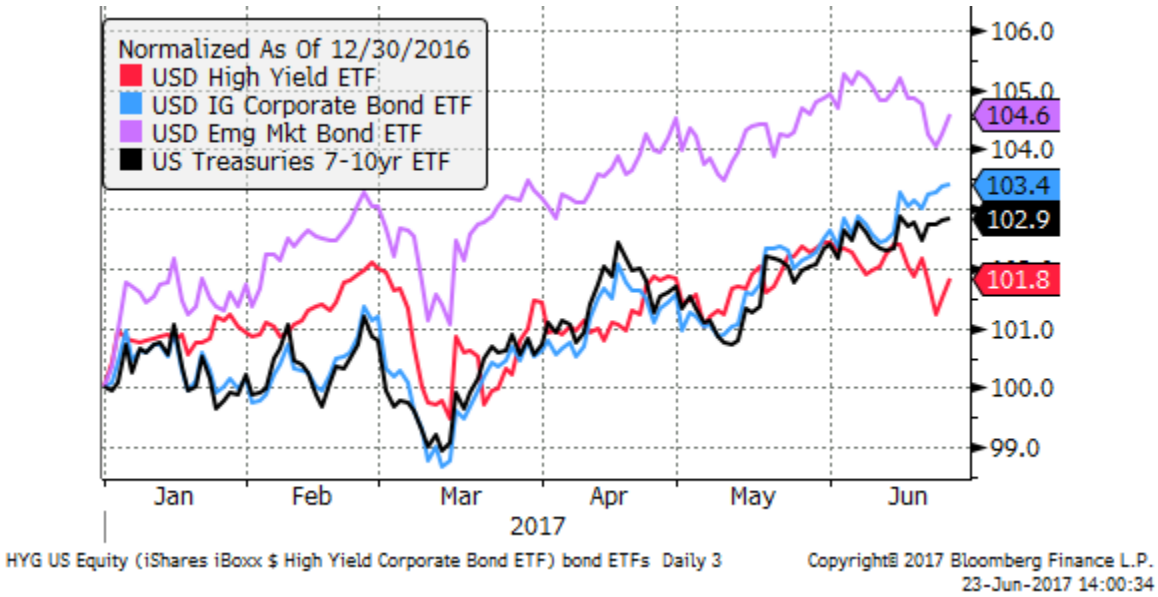
Emerging market bond spreads narrowest for the year on 10 May. Widened more noticeably in last week or so.



Investment Grade Corporate CDS indices – risk falling in Eurozone in recent weeks, stable to a bit higher in the USA.

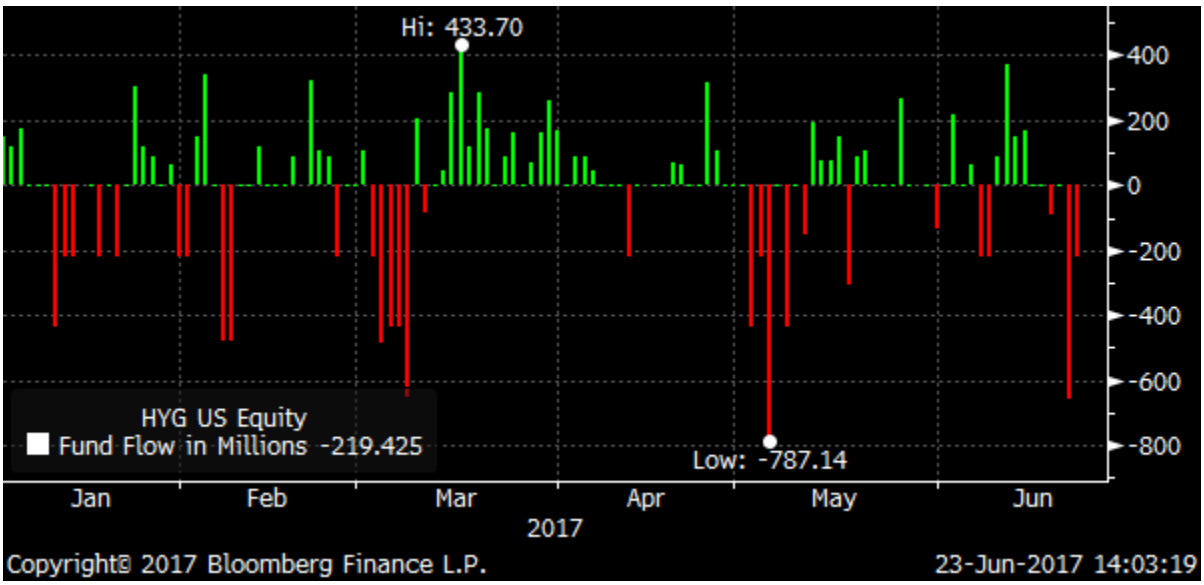


Bond ETF performance – Emerging market and High yield corporate bonds weaker in last two weeks, but recovered in Thursday/Friday this week. Investment Grade bond yields stronger in last two weeks

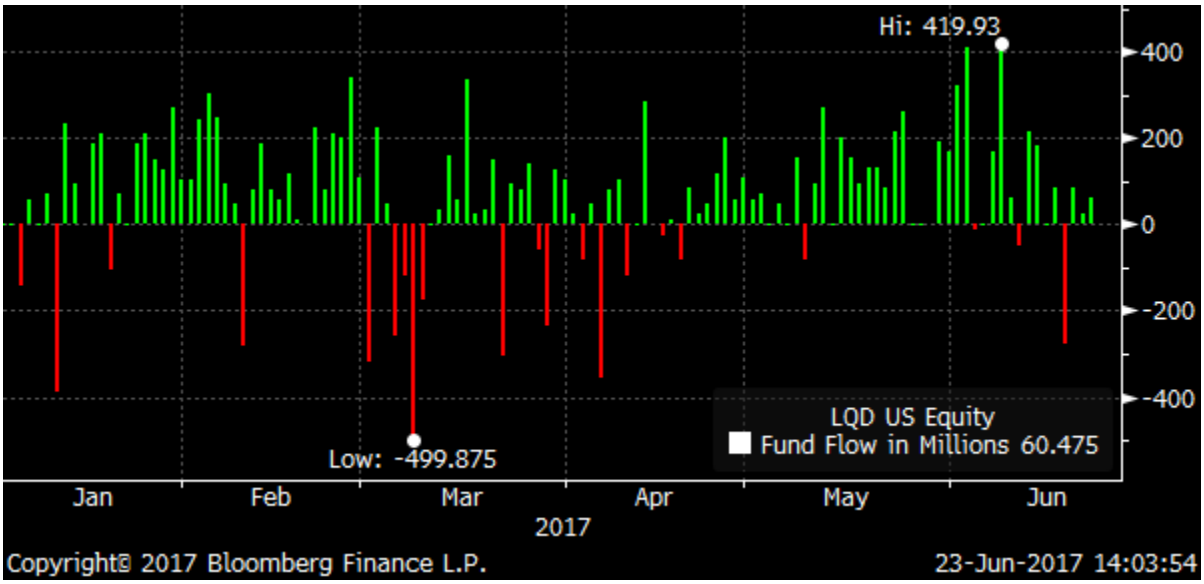


Flows into Bond ETFs – outflows from emerging market bond funds in the last week

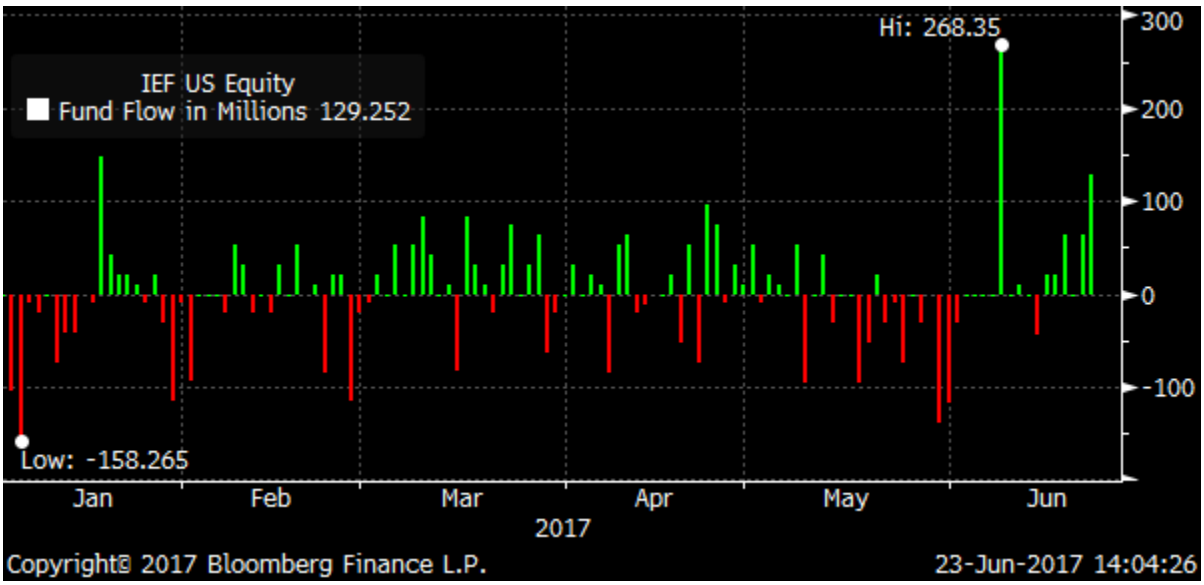
Sharp outflows from High yield bonds – weaker energy sector



Modest flows into Investment Grade



Pickup in inflows to US Treasuries



SPY US Equity – SPDR S&P500 ETF – mixed flows to US overall equities

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Greg Gibbs,
Founder, Analyst and PM
Amplifying Global FX Capital Pty Ltd