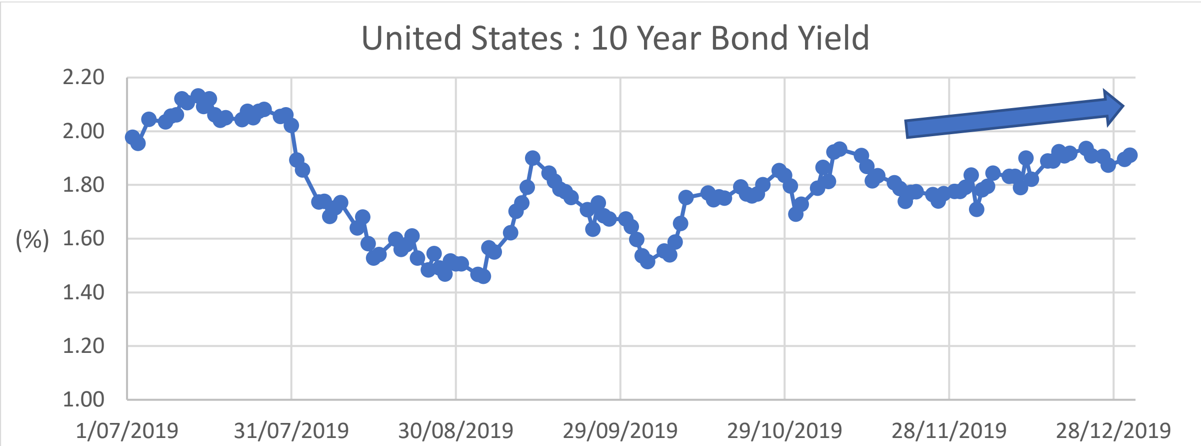
Financial Market Conditions

Global financial markets experienced some volatility over the past month after positive sentiment associated with the US and China agreeing on the first phase of a trade deal saw equity markets rise and global interest rates rise.

In mid-December the US and China agreed on a phase one trade deal between the countries. The partial deal involves tariff relief on Chinese goods being imported into the US and China purchasing additional US agricultural products. The deal also includes better protection of the intellectual property of US Companies manufacturing in China. Financial Markets were buoyed by this announcement with equity markets seeing large gains around the globe. The deal has yet to be signed, however, a Chinese delegation is scheduled to travel to the US and sign on 15 January 2020.

In the UK, the Conservative Party, led by Prime Minster Boris Johnson, were elected with a large majority on the back of a get Brexit done agenda. The victory while decisive has fractured UK politics and may lead to increased right wing populist campaigns across Europe.

The phase one trade deal between the US-China saw bond yields push higher across the globe as markets started to factor in a resumption to somewhat normal trade relations between the superpowers. This move was highlighted by the US 10-year bond yield pushing 0.12% higher (from 1.79% to 1.91%) over the course of the month.



Australian financial markets also experienced some volatility over the past month which was driven by the US-China trade deal and some good local data. In mid-December the ABS data released November employment figures which showed that the Australian unemployment rate fell from 5.3% to 5.2%, with almost 40,000 new jobs being created. Most economists were predicting that the unemployment rate would rise so interest rate markets quickly reduced the probability of a near term February cut and is now not even fully pricing in one additional 0.25% cut in 2020. The Australian Dollar appreciated around $0.02 USD over the past month and was trading at around $0.70 USD at 31 December but is now trading at around $0.69 USD.

On 3 December 2019, the RBA left the official cash rate on hold at 0.75%. In the accompanying statement, the RBA Governor was concerned about the US-China trade and technology dispute but also pointed out that most advance economies had low levels of unemployment and that wage growth had picked up. He also noted that there were signs of a turnaround in the Australian property market and that rate cuts delivered earlier in the year were supporting employment and income growth within the Australian economy. Market pricing has moved considerably since the RBA statement was released as the recent trade deal between the US and China and stronger than expected Australian jobs data forced traders and economists alike to reduce the probability of further cuts to the official cash rate.