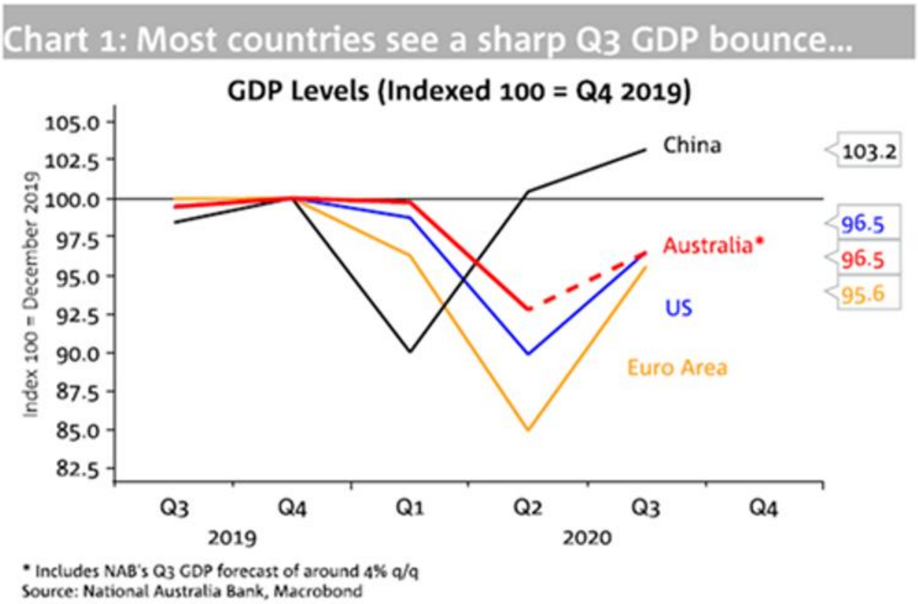
Financial Market Conditions – November 2020

Whilst Australia endeavours to continue contact tracing to maintain control of COVID-19 locally, overseas new infections have reached record highs. In the US and Europe, infections have exceeded that of the ‘first wave’. Many countries have implemented new lock-down measures, with some restrictions set to continue through the Christmas period. Whilst numbers globally continue to increase, positive vaccine news has lifted optimism throughout the month. There is a sense that vaccines will become widely available through 2021; with a number of companies reporting high success rates through their vaccine trials.

In the US, the focus on the election continued throughout November, and despite Trump’s claims of conspiracy and fraud, Biden was confirmed as the winner with a declaration that “Diplomacy is back”, winning 51.12% of the votes. This, combined with positive vaccine news resulted in positive global sentiment and equities climbed throughout November, with US markets bouncing by 13% from its October pre-election lows. In Europe, markets are set for their best month ever, growing 21% and the Australian market is poised to rise to end its best month since 1988, rising by 12%.

Whilst the Australian share market has been extremely upbeat following the RBA’s aggressive Quantitative Easing and policy decisions, Australia’s relationship with China has continued to deteriorate. China announced yet more anti-dumping tariffs in November, with China targeting Australia’s beef, wine and barley exports – with risks for wool, fruit and nuts, and wood chips. The Australian government has proceeded with a formal WTO protest as a result of this. Whilst the trade debate is a concern, the macro impact is not yet significant as the quantitative impact is approx.10% of total exports to China.

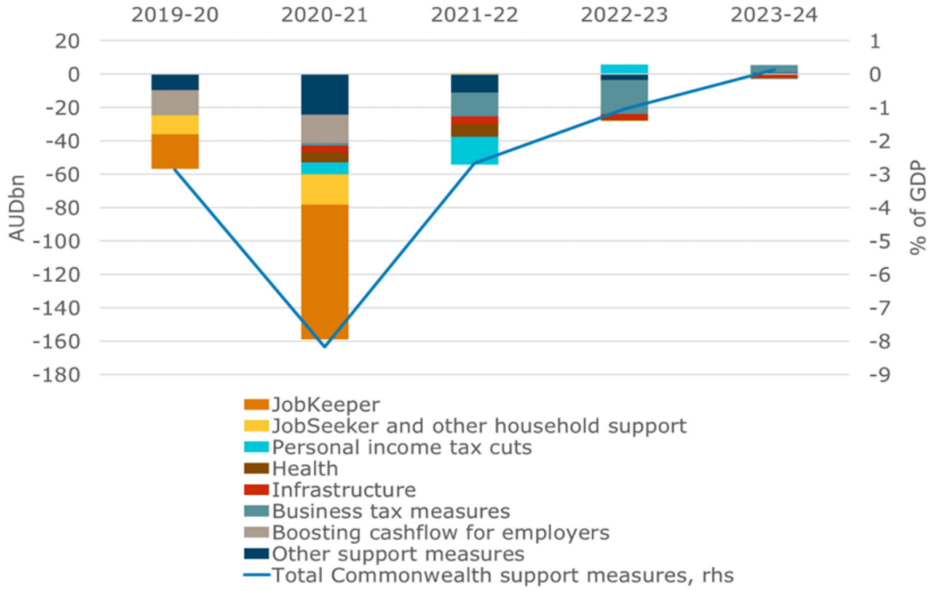
Despite this, Iron Ore prices continue to rally, hitting its highest level since September 2014, and China’s steel demand hit at an all-time high. Copper inventory in China has also dropped to 6yr lows, illustrating the need for continued commodities from Australia. China’s economy continues to grow, despite comments that tourism and some service sectors have not yet fully recovered. Q3 GDP reported growth of 2.7% (vs 3.2% expectation), retail sales boomed by 24% in October, and manufacturing data printed a 3yr high in November, illustrating the strength of their economic recovery from the pandemic.



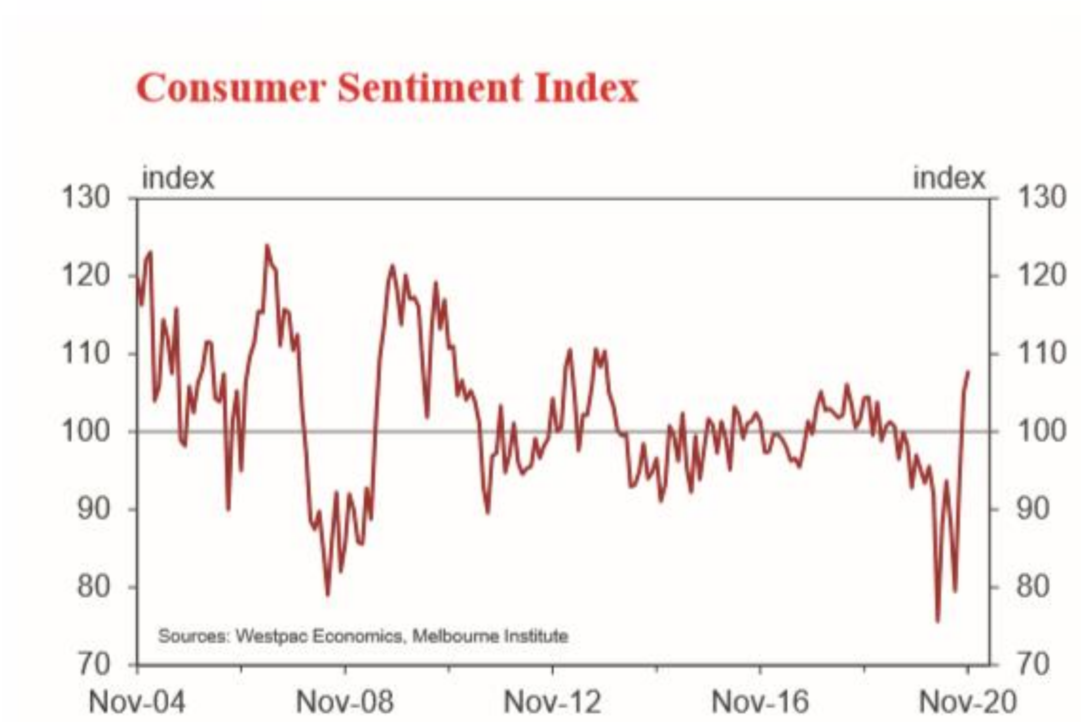
The Australian economy appears to be benefiting from the extensive government packages to assist with economic stimulus, positive vaccine news, in addition to the easing of restrictions in Victoria.

Consumer confidence increased once again in November by 2.5%, to be 35% above its level in August. House prices are now rising after six months of decline, and savings rates continue to rise. Retail sales were better than expected, as was Australian employment. The unemployment rate is currently just 1.7% less than it was in March 2020, at 7%.

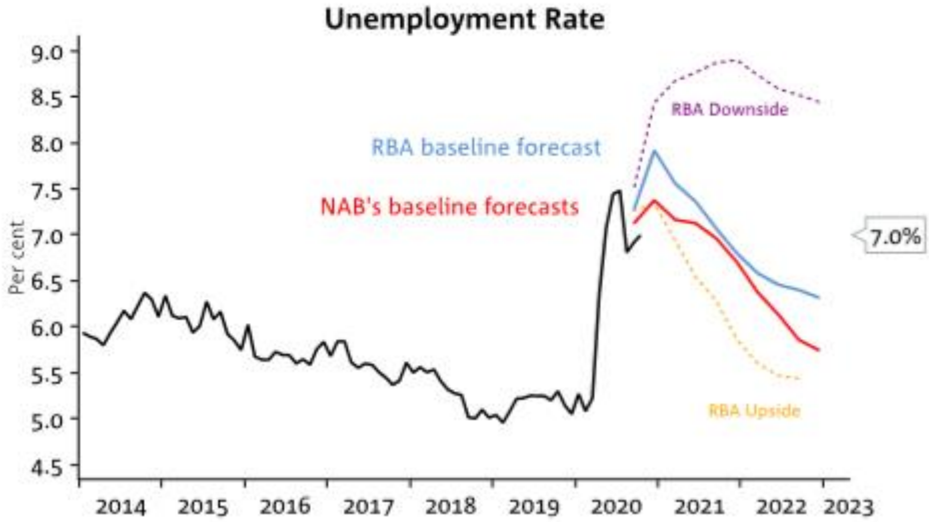
Figure 4. Budget impact of discretionary fiscal measures taken this year



Source: Commonwealth Treasury, ANZ Research



There is the expectation that the RBA will make a significant upward revision to growth forecasts, with GDP printing higher than expected over September (despite Victoria still being in lockdown). Output in the Australian economy expanded by 3.3% (following the -7% contraction in June), with annual growth over the pandemic -3.8%. Many banks have amended previous forecasts for GDP and unemployment following the marked improvement in data to date. Unemployment is expected to peak at 8% (previously expected 10%), and GDP is expected to return to pre-pandemic levels a full year earlier by 2021.



Source: National Australia Bank, ABS, RBA, Macrobond