



WEEKLY UPDATE

4th JULY 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	76,475	-0.46%	-12.83%	-7.10%
MSCI World Ex-Aus. (Unhedged)	13,013	0.25%	-6.88%	-5.66%
MSCI World Ex-Aus. (Hedged)	2,136	-2.08%	-15.47%	-12.79%
Bloomberg AusBond 0+ Composite	9,454	0.85%	-3.35%	-10.08%
Bloomberg Barclays Global Agg. (Hedged)	998	0.98%	-4.00%	-8.89%
S&P/ASX300 Property	55,250	-1.80%	-17.18%	-9.97%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,709	-0.86%	-15.56%	-10.38%
S&P Global Infrastructure (Hedged)	5,918	1.35%	-3.71%	9.83%
Bloomberg All Hedge Fund Index	0	N/A	-0.72%	0.28%
VIX	26.7	-1.95%	43.78%	77.17%
Bloomberg Commodity Index (USD)	117.13	-3.45%	-6.72%	23.33%
Iron Ore Index (62% Fe Aus. Off. China, USD)	117.50	1.29%	-26.33%	-46.10%
LME Copper Spot (USD)	7,975.50	-3.68%	-22.17%	-14.63%
Coal 1st Future (Newcastle Export, USD)	388.00	-2.27%	49.95%	181.67%
Brent Crude 1st Future (USD)	111.63	-1.32%	6.94%	47.19%
LNG 1st Future (Japan/Korea)	38.68	4.26%	11.49%	192.33%
Gold in AUD	2,658	1.06%	3.48%	11.76%
AUDUSD	0.6814	-1.89%	-9.10%	-8.78%
AUDEUR	0.6537	-0.64%	-3.87%	3.53%
AUDNZD	1.1013	0.17%	1.74%	2.72%
AUDGBP	0.5635	-0.38%	-1.46%	3.68%
AUDJPY	92.1860	-1.85%	0.32%	9.62%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 3rd July 2022

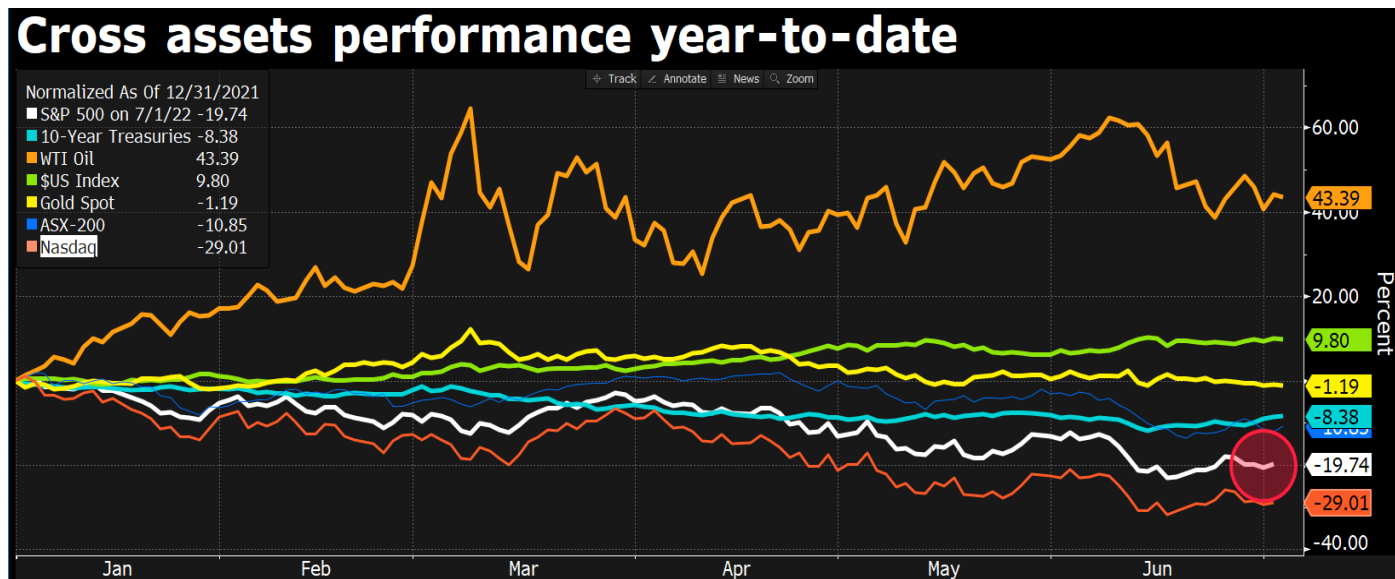
A disappointing financial year for investors came to an end on Thursday, with almost every asset class losing ground.

Bonds made gains last week as yields fell. International data indicated slowing growth in the west, while Chinese and Australian data were relatively upbeat. Speaking at the ECB's annual conference, leading central bankers remained determined to tame inflation despite risks of overtightening.

NATO and the G7 both held meetings, with Russia and China dominating the agenda.

Tomorrow, the RBA is expected to raise the cash rate by +0.40% before the US labour report on Friday. American markets are closed today for Independence Day.

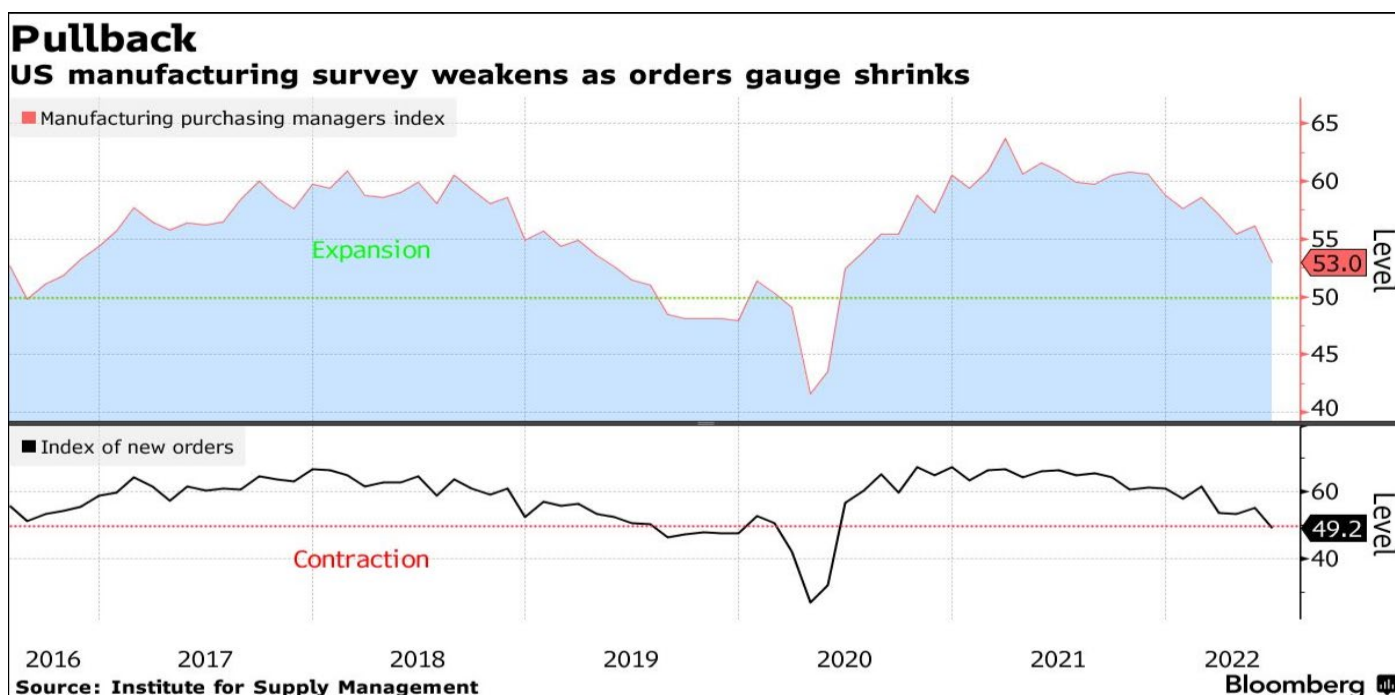
The end of the Australian financial year saw almost all asset classes underwater as high inflation and rising interest rates weighed on valuations. Most of the market falls took place since the beginning of the calendar year. It was the weakest first half for the American stock market since 1970.



Last week, however, bonds appreciated while equities, commodities and the Australian dollar struggled as the economic slowdown began appearing more clearly in economic data.

The June ISM manufacturing survey fell by more than expected on Friday night from 56 to 53 (54.5 expected) as the employment and new orders components dipped below the 50 level, separating expansion and contraction in PMI surveys. Fifteen manufacturing industries grew in June, led by apparel, textiles, printing and computer and electronic products. A reading above 50 indicates expansion in the economy. The June reading is a two-year low as new orders contracted, affected by supply chain bottlenecks and softening demand. This is with the backdrop of consumer spending decreasing as inflation bites into reducing disposable income and inventories build.

- The index of new orders declined 5.9 points to 49.2%. That's the lowest level since May 2020.
- The production barometer rose 0.7 points to 54.9%, indicating that factories are still running at full tilt.
- The employment gauge dropped 2.3 points to 47.3%, the lowest in 22 months.
- The prices index, a measure of inflation, slid 3.7 points to 78.5%. It's fallen three months in a row after touching 87.1% in March.



The survey followed weaker American consumer confidence and personal spending data and steep falls in the Dallas and Richmond Federal Reserve manufacturing surveys, despite an increase in durable goods orders. As a result, there was a surprisingly steep fall in the Atlanta Fed's GDP Nowcast which estimates the current level of real GDP growth based on a range of data points. The current estimated rate of growth is an annualised -2.1%. The significance is that, following the weak Q1 print of -1.6%, **the US is very close to dropping into a technical recession, commonly defined as two consecutive quarters of negative GDP growth.**

Weaker data, especially consumer spending this week has promoted JP Morgan (JPM) economists to reduce their US midyear economic growth outlook. JPM now lowered the estimate for GDP from 2.5% to 1% for the next quarter, followed by a slight uptick of 1.5% for the final quarter on 2022. Michael Feroli (JPM Chief Economist) said "our forecast comes perilously close to a recession...However, we continue to look for the economy to expand, in part because we think employers may be reluctant to shed workers, even in a period of soft product demand."

Odds of recession for the US has increased as the year has ground on. The Atlanta Fed's tracking model (GDPNow) is designed to provide an estimate prior to each initial GDP reading and is often more accurate than consensus estimates. The Atlanta Fed lowered its tracking estimate for US GDP for the second quarter to a contraction of 2.1%

Speaking at the ECB's annual conference in Portugal, the heads of the Bank of International Settlements (BIS), the ECB, Federal Reserve and Bank of England remained far more attuned to inflationary risks. The BIS, often called the central banks' central bank, issued a report warning that leading economies were at risk of falling into a high-inflation trap. Although the issue of slowing growth was raised during a panel discussion, Fed Chair Jerome Powell said he didn't see overtightening as the primary concern. "Certainly, it's a risk [but] the bigger mistake to make would be to fail to restore price stability". ECB President Christine Lagarde played down recessionary risks, while the Governor of the Bank of England acknowledged that UK growth was falling. They will have more time to review the data before the next meetings at the end of July and early August.

Australian figures were far more upbeat last week. Retail sales numbers for May was release on Wednesday. Preliminary data from the ABS indicated a strong uplift, as retail sales grew 10.4% yoy and up 0.9% month-on-month to \$34.2bn, a new record number. The May number marks the fifth consecutive monthly gain. All retail categories except for footwear and clothing grew, and all retails categories grew on a year-on-year basis. Quarterly job vacancies were also +13.8% higher, and lending continued to grow, with private credit rising +9.0% compared to a year ago. Nevertheless, CoreLogic median house prices suggested that interest rates were already starting to bite with a monthly drop of -0.80%, the second consecutive negative month after May's -0.30% fall. **The RBA is expected to raise rates by another +0.40% to 1.25% on Tuesday this week.** Year-end pricing has come down to 3.12% after Governor Lowe played down risks of prolonged higher inflation in a speech just over a week ago. UBS issued a report last week warning of a -20% drop in Australian profits over the next six months. However, most economists, including those at UBS, see Australia avoiding a recession.

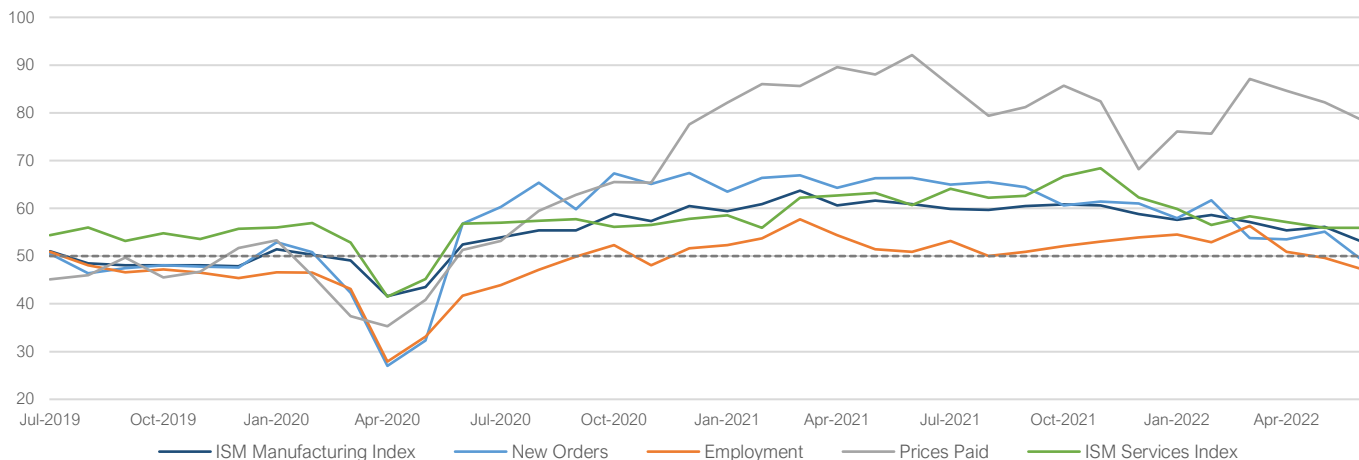
There was a positive surprise in the Chinese official non-manufacturing PMI for June. The index jumped from a contractionary reading of 47.8 in May to an expansionary 54.7, suggesting that services are recovering from recent lockdowns. The manufacturing survey also rose from 49.6 to 50.2 but missed the forecast of 50.5. The government also announced another stimulus measure to finance infrastructure projects, as it tries to increase investment and increase employment in the second half of 2022 from a first half COVID induced lockdown. The government will raise \$US44.8 billion to finance infrastructure projects. The funds raised by the sale of bonds will be used to replenish the capital of major projects, such as new types of infrastructure.

Meeting in Madrid, NATO leaders invited the heads of state from Australia, New Zealand, Korea, and Japan to attend. The organisation symbolically declared China a threat to security for the first time. In a blow to President Putin, Sweden and Finland were formally invited to join after Turkey withdrew its opposition, and the number of troops on alert was increased from 40,000 to 300,000. Earlier in the week, the G7 explored ways to impose a global cap on the price of Russian oil to limit funding resources for the conflict in Ukraine.

NSW was hit by more severe floods over the weekend, and Australians have been told to expect a rise in omicron infections over the winter, although new vaccines should soon be available to combat new variants.

American markets will be closed today for the 4th of July Independence Day holiday. After the RBA meeting tomorrow, the most-watched economic update will be the US labour report on Friday night. Unemployment is expected to remain at 3.6% as the economy adds +273k new jobs, according to the Bloomberg poll.

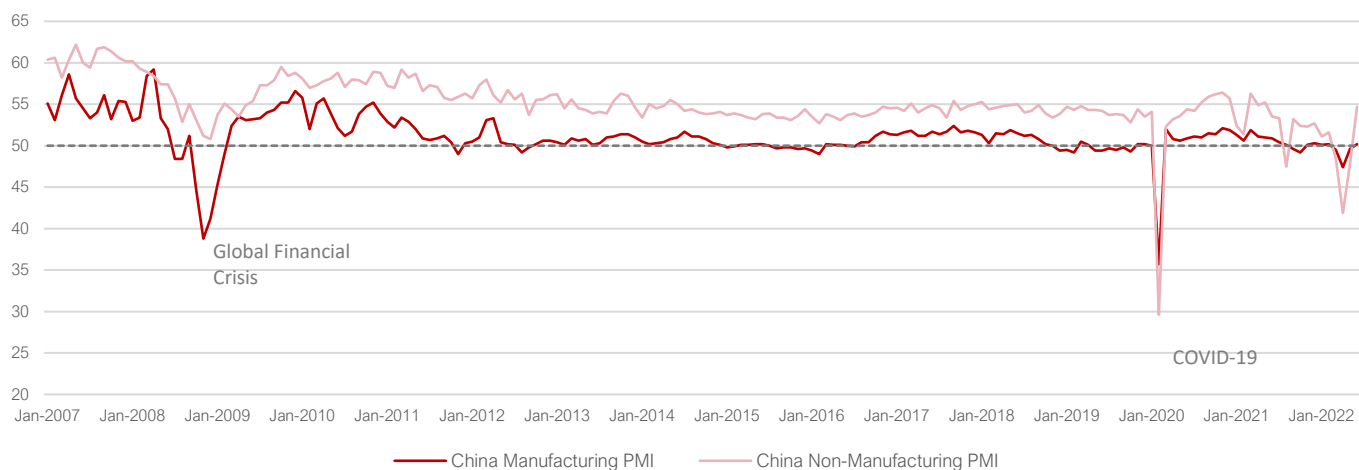
ISM PMI Indices & Manufacturing Sub-Series



Atlanta Federal Reserve Nowcast vs Realised Rate of GDP Growth



Chinese Official PMI Series



Source: Bloomberg, Institute of Supply Management, CFLP, 3rd July 2022

Significant Upcoming Data:

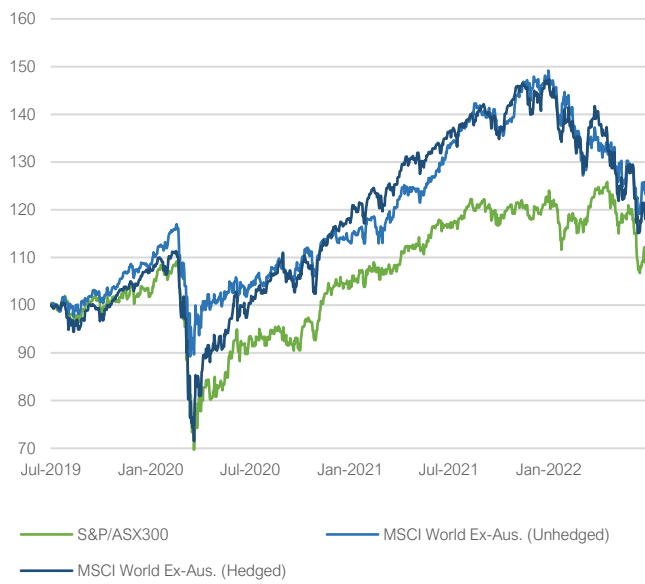
	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	ANZ Job Ads; Building Apps; Private Sector Houses; Melbourne Institute Infl.; Home Loans	RBA Meeting; S&P Global Serv. & Comp. PMI (Final); ANZ Roy Morgan Weekly Cons. Conf.		Trade	
US	Independence Day	Durable Goods Orders; Factory Orders;	JOLTS Job Openings; ISM Services; FOMC Minutes; S&P Global Serv. & Comp. PMI (Final); Mortgage Apps.	Trade; Challenger Job Cuts; Weekly Jobless Claims	Labour Report Wholesale Trade & Inventories; Consumer Credit
Europe	EZ PPI; German Trade; Swiss CPI; Sentix Investor Conf.; Spanish Unemployment; Italian New Car Reg.	French Ind. Prod.; AIB Irish Serv. & Comp. PMI; S&P Global Serv. & Comp. PMIs (Final); UK New Car Reg.	EZ Ret. Sales; German Factory Orders; Spanish Ind. Prod.; UK & German Constr. PMIs; Swedish GDP indicator, Ind. Orders & Household Consumption; Finnish Trade; Irish Unemployment;	German, Danish & Norwegian. Ind. Prod.; Swiss Unemployment.; UK Productivity Dutch CPI; Swedish Budget Balance;	Italian, Finnish, Dutch, Austrian & Greek Ind. Prod.; French Trade & Curr. Acc.; [Swiss Home Price Index]
Japan	Monetary Base	Labour & Real Cash Earnings; Jibun Serv. & Comp. PMI (Final);		Leading & Coinc. Index; Tokyo Ave. Office Vacancies	BoP Curr. Acc.; Household Spending; Bank Lending; Bankruptcies Eco. Watchers Survey;
China		Caixin Serv. & Comp. PMI;			[CPI & PPI, M0 / M1 / M2 Money Supply]

Beside the RBA, other central banks anticipated to make rate decisions this week are:

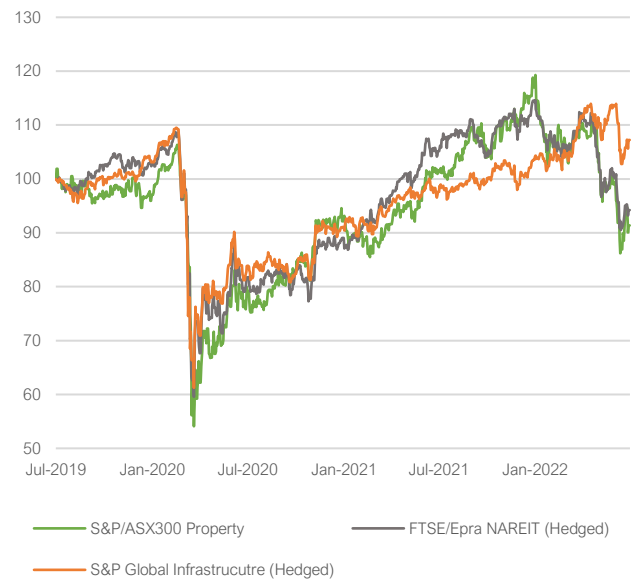
- **Pakistan +0.85%**
- **Poland & Romania +0.75%**
- **Uruguay & Israel +0.50%**
- **Malaysia 0.25%**
- **Hungary 0%**

Also the US Federal Reserve minutes will be released this Wednesday – keep an eye out for what may be installed for the July meeting.

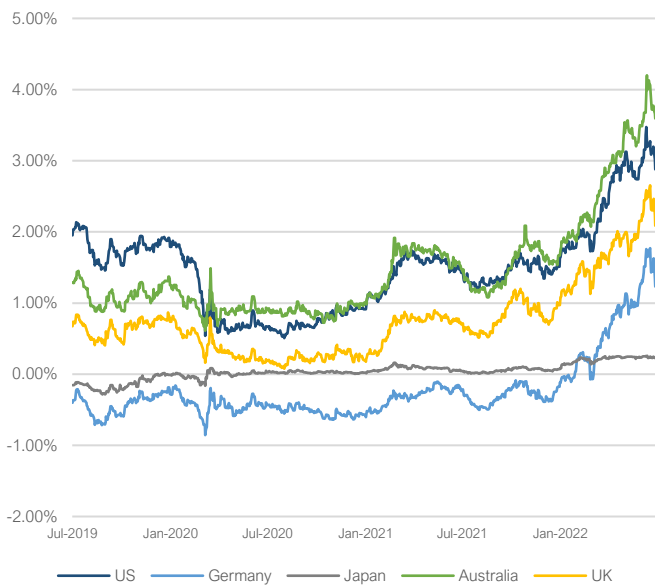
3Yr Equity Indices (Rebased to 100)



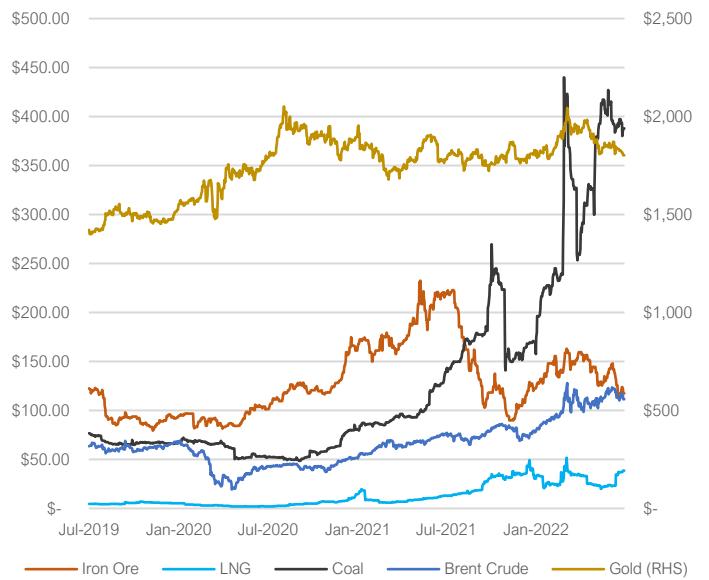
3Yr Prop. & Infrast. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



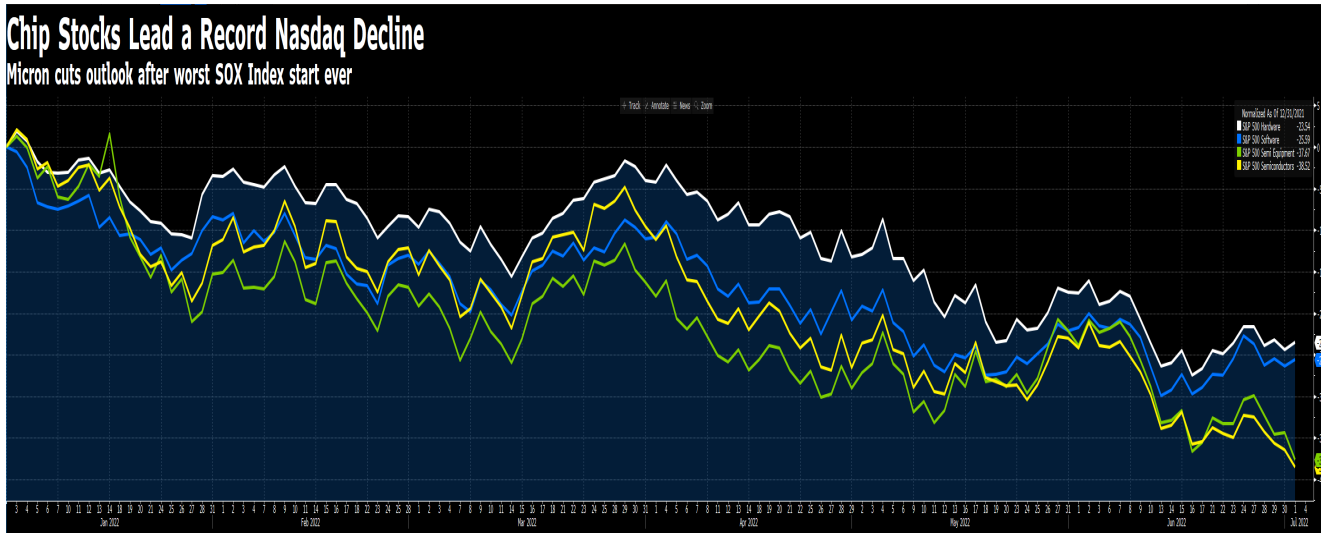
Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 3rd July 2022

Stock news

Micron Technologies provided a grim profit warning on Friday, heightening investor concerns of reduced profits in the face of a potential recession.



Energy - Saudi Aramco will likely release its official selling prices for August early this week. Expectation is for another increase.

Swedish lender Klarna Bank AB “Klarna”, the buy now pay later (BNPL) group is apparently looking to raise new capital via an equity raise in a massive down round with a valuation as low as \$US6bn (and lower than the \$US15bn valuation reported only a month ago). The current valuation is a fraction of that attributed to the company 12 months ago at \$US45.6bn.

Crypto’s woes continued last week, as major players grappled with liquidations, withdrawal freezes, trading halts and a bailout.

- Voyager Digital Ltd, a Crypto broker on Friday suspended trading, deposits and withdrawals – the stock plunged as much as 43% on Friday
- BlockFi, a major credit-asset lender, won the backing of FTX US to be potentially acquired.
- Three Arrows Capital, a crypto hedge fund filed for Chapter 15 bankruptcy protection in NY – this was on the back of a British Virgin Islands court order for liquidation



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