



WEEKLY UPDATE

5th DECEMBER 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	87,247	0.63%	7.26%	4.88%
MSCI World Ex-Aus. (Unhedged)	13,922	0.47%	5.65%	-7.33%
MSCI World Ex-Aus. (Hedged)	2,270	0.80%	3.68%	-9.77%
Bloomberg AusBond 0+ Composite	9,651	1.17%	2.08%	-6.95%
Bloomberg Barclays Global Agg. (Hedged)	982	0.90%	-0.59%	-10.99%
S&P/ASX300 Property	58,003	-0.50%	1.47%	-12.74%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,584	-0.09%	-4.00%	-17.38%
S&P Global Infrastructure (Hedged)	5,966	-0.12%	-1.04%	9.18%
Bloomberg All Hedge Fund Index	2,083	N/A	6.81%	7.58%
VIX	19.1	-7.02%	-25.17%	-37.85%
Bloomberg Commodity Index (USD)	114.47	-0.39%	-3.89%	19.49%
Iron Ore Index (62% Fe Aus. Off. China, USD)	107.00	8.63%	10.31%	2.39%
LME Copper Spot (USD)	8,342.00	3.37%	9.95%	-12.37%
Coal 1st Future (Newcastle Export, USD)	391.00	11.91%	-10.11%	146.69%
Brent Crude 1st Future (USD)	85.57	2.32%	-8.01%	22.82%
LNG 1st Future (Japan/Korea)	31.76	6.01%	-42.51%	-10.08%
Gold in AUD	2,647	1.84%	5.33%	6.18%
AUDUSD	0.6790	0.58%	-0.32%	-4.29%
AUDEUR	0.6447	-0.71%	-6.13%	2.65%
AUDNZD	1.0618	-1.82%	-4.99%	2.02%
AUDGBP	0.5528	-0.96%	-7.03%	3.55%
AUDJPY	91.2530	-2.93%	-4.66%	12.02%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 4th December 2022

Last week's data generally indicated a slowing global economy, easing inflationary pressures, and a slower pace of interest rate rises - all before a surprisingly strong wage figure appeared in Friday's American labour report.

The US and Australian dollars weakened while bonds rallied. Equity price action was harder to interpret due to the rebalancing of MSCI indices at month end.

Economists are split on whether the RBA will raise the cash rate tomorrow. The day after, Australia is expected to record a healthy +0.6% advance in Q3 GDP.

Markets got off to a bumpy start on Monday following anti-lockdown protests in China. In addition, Peter Thiel-backed BlockFi filed for Chapter 11 bankruptcy, suggesting that the fallout from the FTX collapse is not over yet. Investors remain wary that there may be contagion beyond cryptocurrency markets if more firms go under. But sentiment nevertheless improved throughout the week despite softer activity data, before a surprisingly strong American labour report on Friday night.

Australian October retail sales came out much weaker than expected on Monday. Economists had been expecting reasonable gains of +0.6% for the month. Instead, consumers spent -0.2% less, with only food retailers seeing an increase in sales. On Wednesday, the monthly CPI estimate suggested that Australian CPI inflation may have peaked two months earlier than expected. Instead of rising from +7.3% yoy in September to +7.6% in October, the annual change unexpectedly dropped to +6.9%. Even without the re-weighting of the CPI basket, the figure would have been +7.1%, at the low end of the forecast range. Unsurprisingly, Australian bonds made substantial gains as yields fell over the week. The Commonwealth government 10yr bond is now trading at a yield of 3.39%, the lowest since August and well below the October peak of 4.2%.

We expect the RBA to raise the cash rate by +0.25% to 3.1% tomorrow before taking the usual break in January. The median forecast of economists polled by Bloomberg is also a raise to 3.1%. But market pricing suggests that move has only a 56% probability, compared to a 44% chance that rates remain at 2.85%. An early "hold" is very possible.

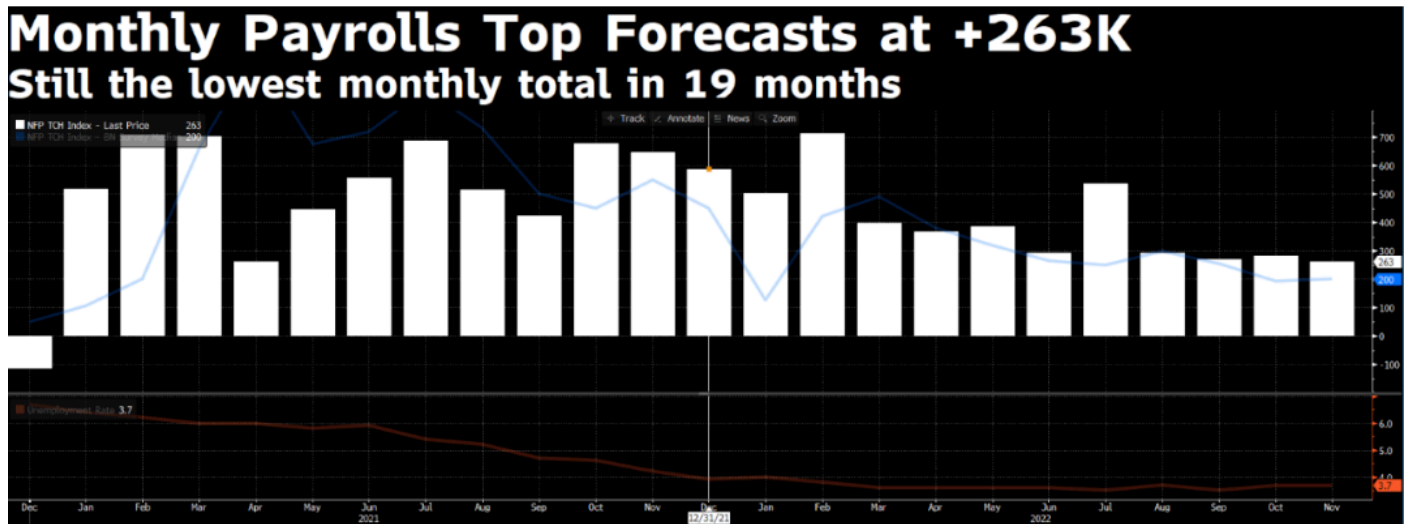
As interest rate expectations fell, the Australian share market made a small gain, while the dollar weakened against all of the majors except the US currency.

Almost all new US data pointed to a slowing economy. The ISM Manufacturing survey (49.0) fell into contractionary territory on the back of slowing new orders (47.2) and employment (48.4).

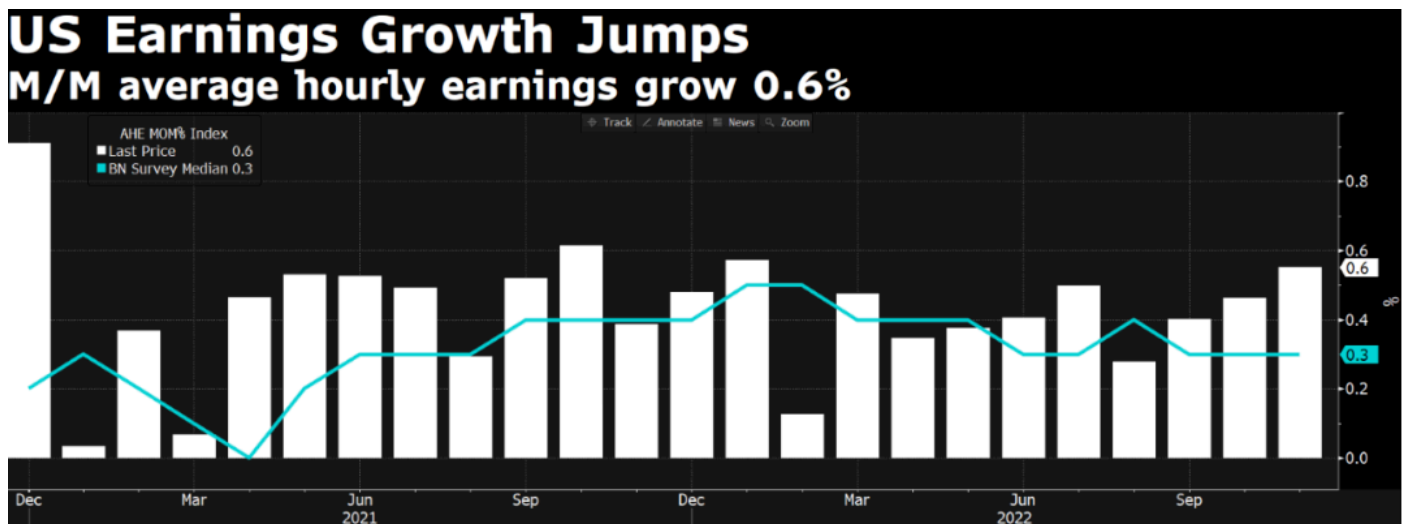


The total number of US employees has now exceeded the February 2020 peak for the last four months. But falling job advertisements suggest that unemployment will likely rise before too long. That will relieve the Fed, who will be watching the wage data with some concern. Average hourly earnings rose in November to +5.1% yoy. Economists had been expecting wages to fall to +4.6% yoy.

The November employment data was a notable exception, with the economy adding +263k new non-farm payrolls, +63k above forecasts. However, there were -23K prior revisions, and the unemployment rate held at 3.7%.



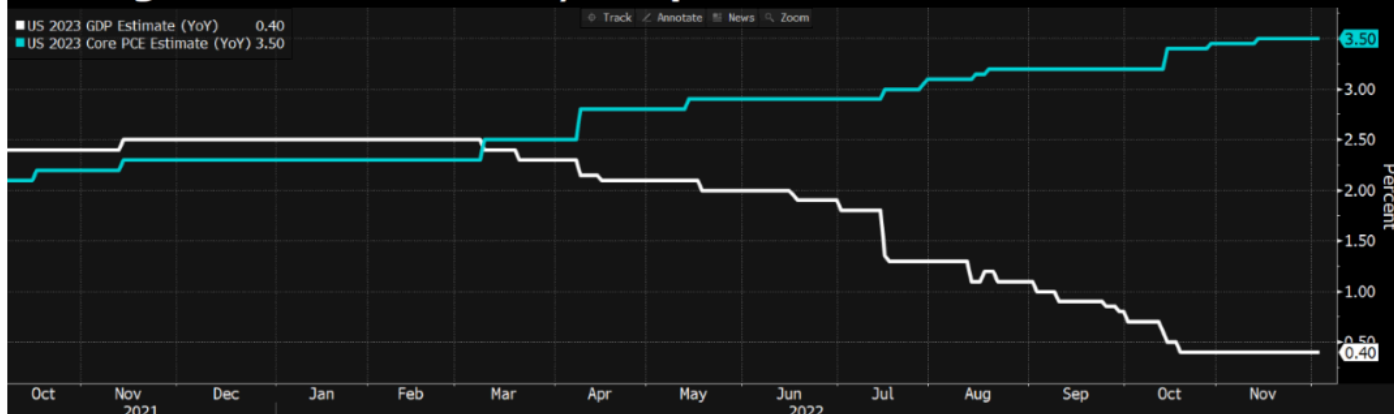
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Earlier in the week, the market had become more optimistic about inflation. The Federal Reserve's preferred inflation measure, the PCE deflator, was slightly weaker than expected on a monthly basis. The annual change eased in line with expectations from +6.2% to +6.0%. The core series also softened to +5.0% from an upwardly revised +5.2% in September.

The Fed's Fight

2023 growth forecasts cut, composite core PCE estimate at record



In a speech given on Wednesday, Fed. Chair Jerome Powell said, “the time for moderating the pace of rate increases may come as soon as the December meeting”. However, he later added, “my colleagues and I do not want to overtighten. I will simply say that we have more ground to cover. History cautions strongly against prematurely loosening policy. We will stay the course until the job is done.” The speech cemented market expectations of a reduced +0.5% increase in Fed Funds on 14th December, bringing US overnight rates to 4.5%. Markets are now pricing a slightly lower peak near 4.9%, and rate-cut bets have increased for mid-late 2023.

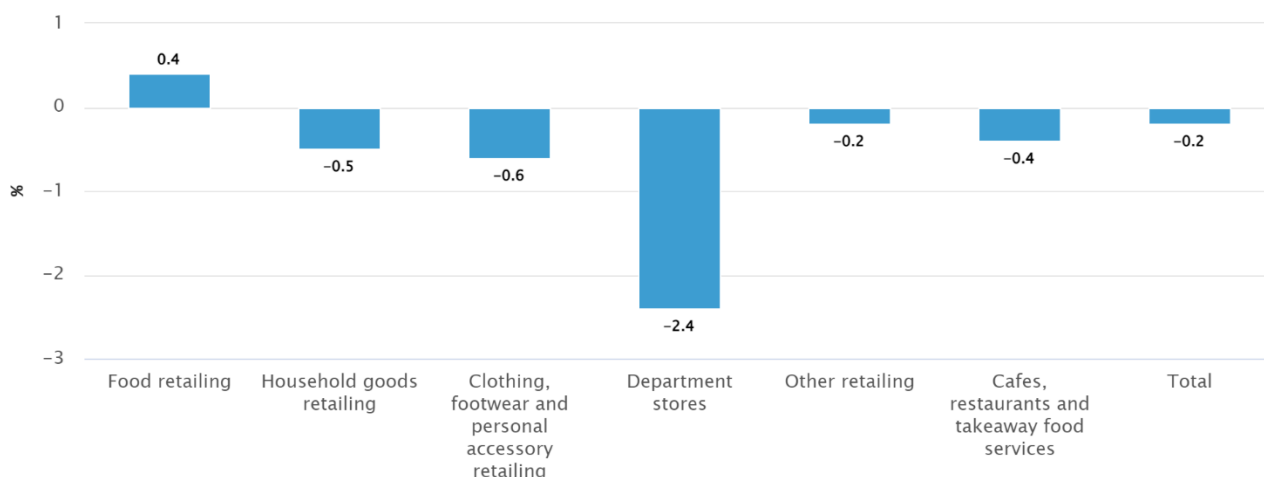
Equity markets rallied significantly on Wednesday. But it’s hard to attribute all of the gains to the Powell speech and the impact on rates. At the close on the same day, the semi-annual MSCI index changes also came into effect, leading to a spike in volumes. Moreover, the index has failed to make further gains despite the S&P500 breaching the 200-day moving average resistance.

The official Chinese PMIs also weakened last week, in line with the S&P Global surveys. However, iron ore and copper nevertheless appreciated. The oil price also rose slightly. This week, OPEC+ is expected to maintain current production targets.

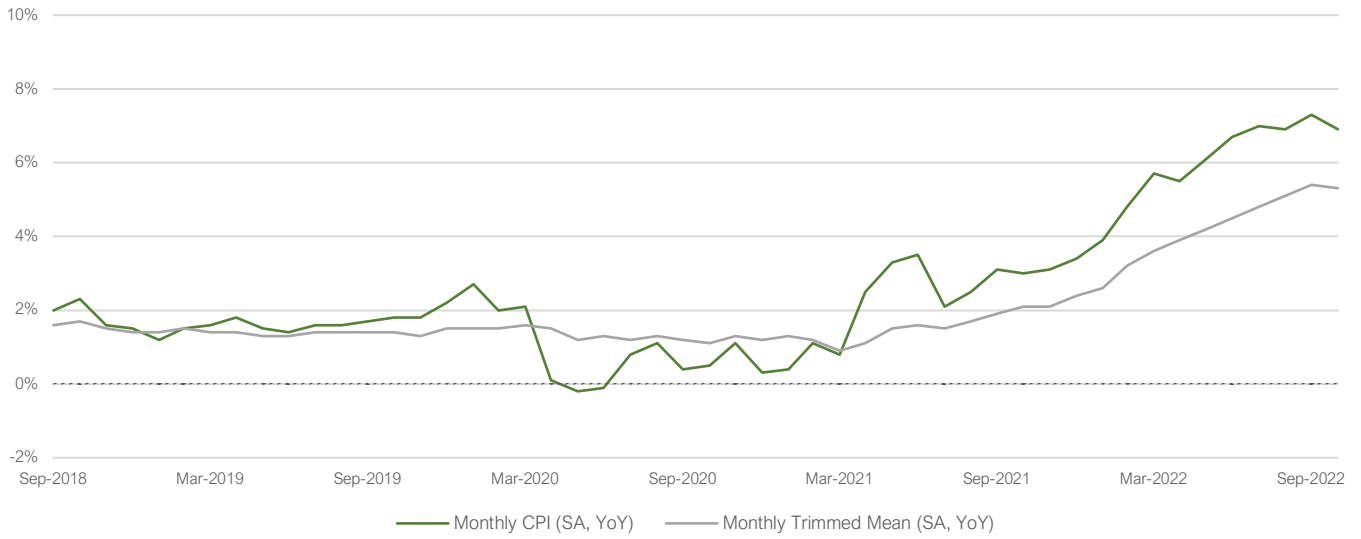
In Canberra on Friday, Labor succeeded in passing the controversial industrial relations package, opening the door to the wider use of multi-firm bargaining.

Following the RBA meeting this week, Australia is expected to see a +6.2% increase in Q3 GDP compared to last year and +0.6% over the quarter. There will also be US and Chinese PPI figures, Chinese CPI and money supply data, German Factory Orders, and an update on American productivity.

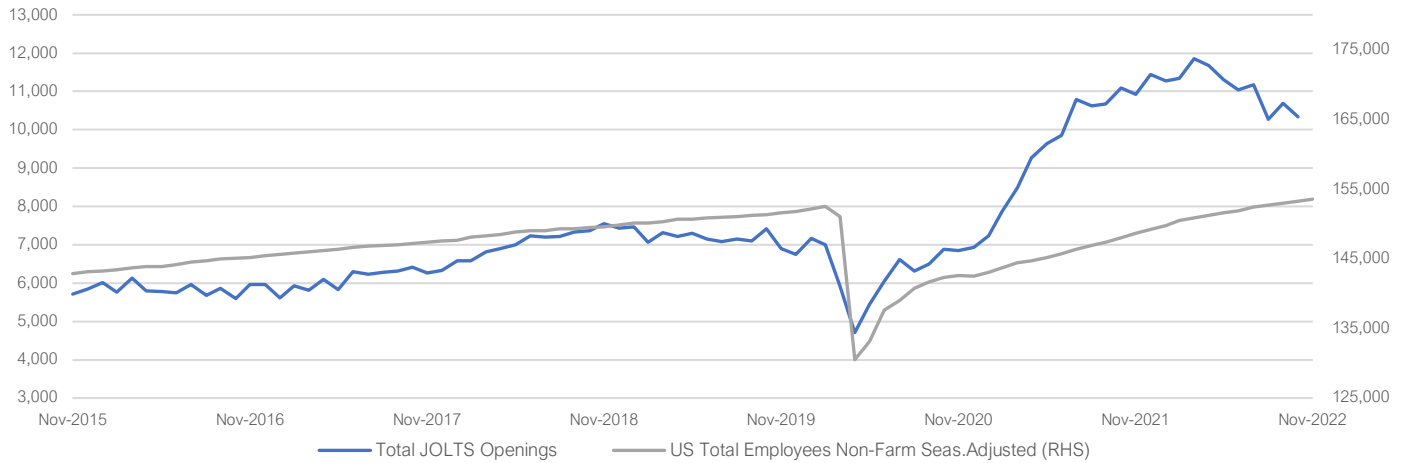
Australian Retail Sales, Monthly % Change, Seasonally Adjusted



Australian Monthly CPI Inflation

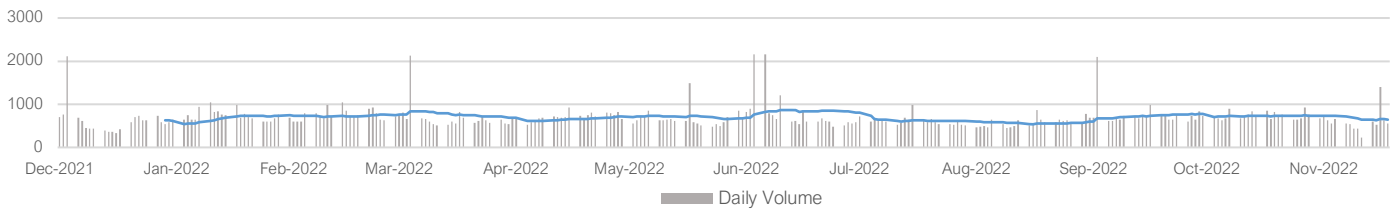


US Job Openings vs Total Non-Farm Employees

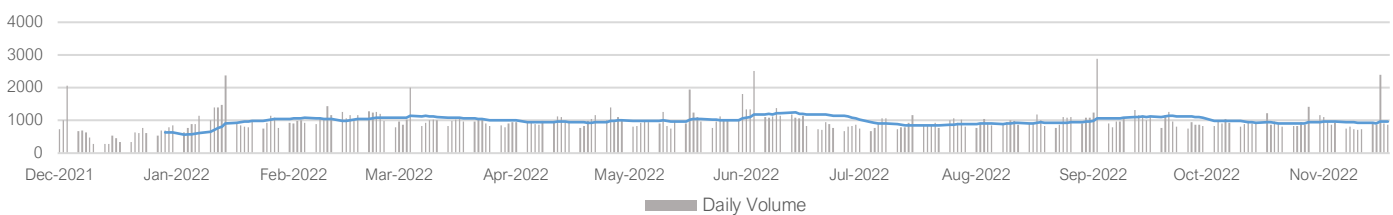


Source: Bloomberg, ABS, BLS, 4th December 2022

S&P500 Index



S&P/ASX 300 Index

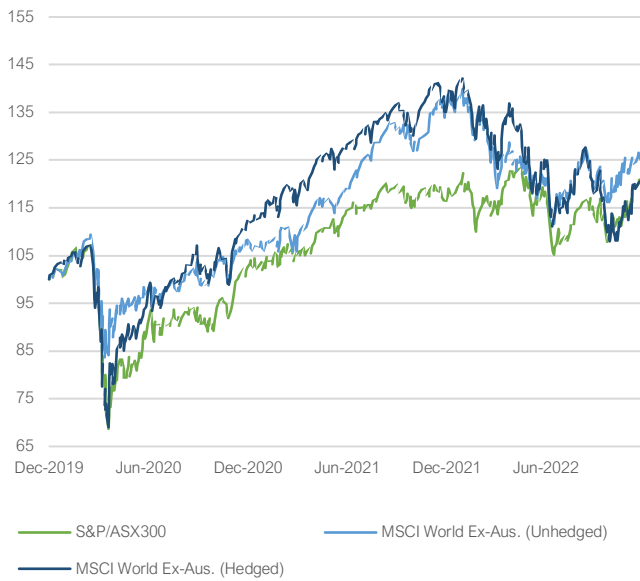


Source: Bloomberg, S&P Dow Jones, 4th December 2022

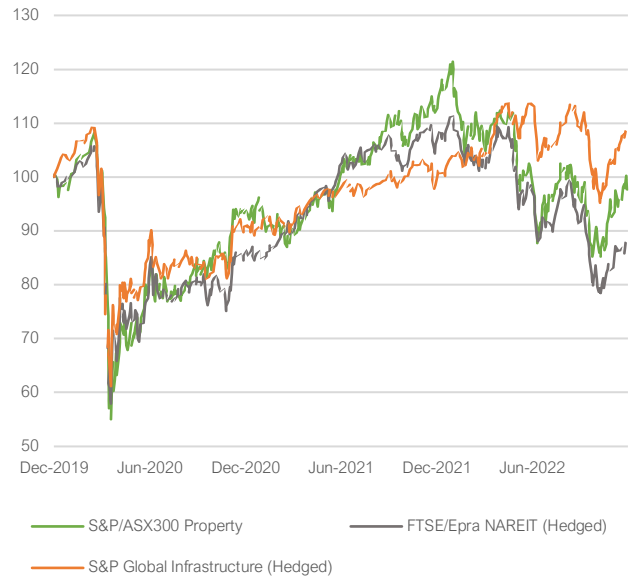
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	Melbourne Inst. Inflation; Company Profits; Inventories; S&P Global Serv. & Comp. PMIs (Final)	RBA Meeting; BoP Current Acc. Balance; Net Exports;	Q3 GDP	Trade	
US	ISM Services Index; Factory Orders; Durable Goods; S&P Global Serv. & Comp. PMIs (Final)	Trade	Unit Labour Costs; Non-Farm Productivity; Consumer Credit; MBA Mortgage Apps;	Weekly Jobless Claims	PPI; UMich Sentiment; Household Change in Net Worth; WSale Trade Sales & Inventories;
Europe	EZ Retail Sales; Tier 2 Serv. & Comp. PMIs; Swedish Curr. Acc.; UK New Car Reg.;	German Factory Orders; S&P Global German & UK Constr. PMIs; Austrian WSale Price Index	EZ Employment & Q3 GDP (Final); Norwegian, Irish & Finnish Ind. Prod.; Swiss Unempl; Italian Ret. Sales; French & Finnish Trade; Norwegian & French Curr. Acc.; Swedish Ind. Orders & GDP Indicator;	Danish Ind. Prod.; Dutch & Irish CPI; UK RICS House Prices	Spanish, Finnish & Austrian Ind. Prod.; BoE/Ipsos Inflation Outlook; Norwegian CPI & PPI; Dutch Manuf. Prod.; Spanish INE House Prices
Japan	Jibun Manuf. & Comp. PMIs (Final)	Labour / Real Cash Earnings; Household Spending	Leading & Coinc. Index	BoP Curr. Acc.; Eco Watchers Survey; Bank Lending; Tokyo Ave. Office Vacancies; Q3 GDP (Final)	M2 / M3 Money Stock
China	Caixin Serv. & Comp. PMIs		Trade		CPI & PPI; [M0 / M1 / M2 Money Supply]

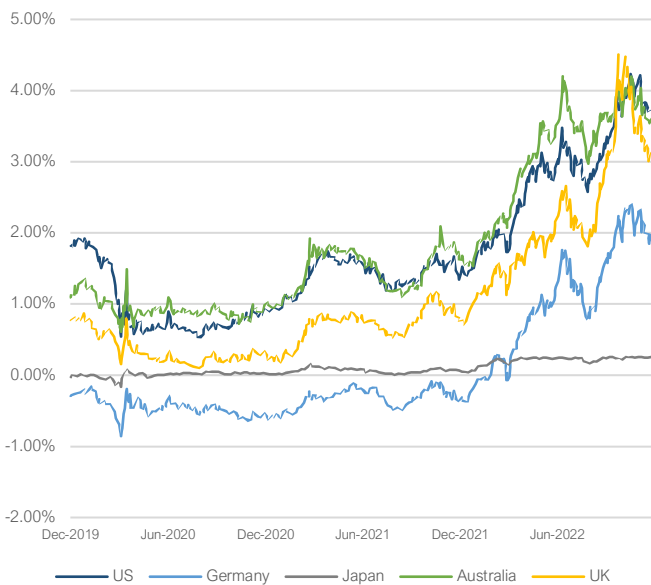
3Yr Equity Indices (Rebased to 100)



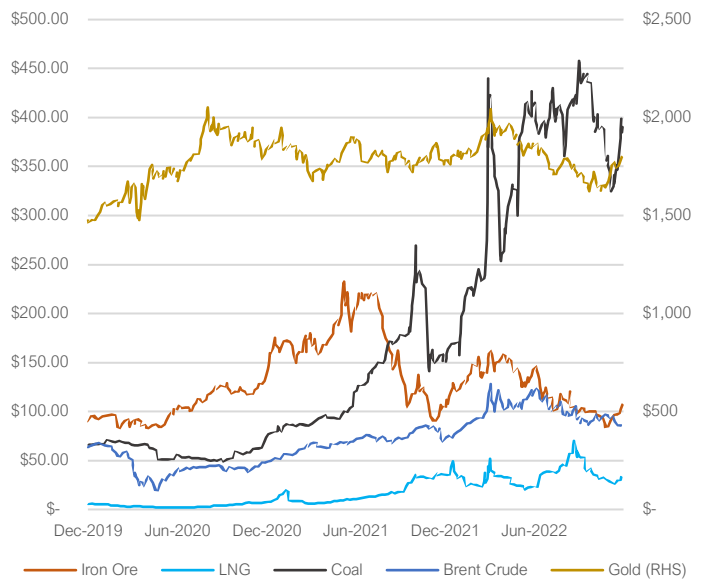
3Yr Prop. & Infrac. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 4th December 2022

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