Xtra-Ordinary Opportunities

WEEKLY UPDATE

10th OCTOBER 2022

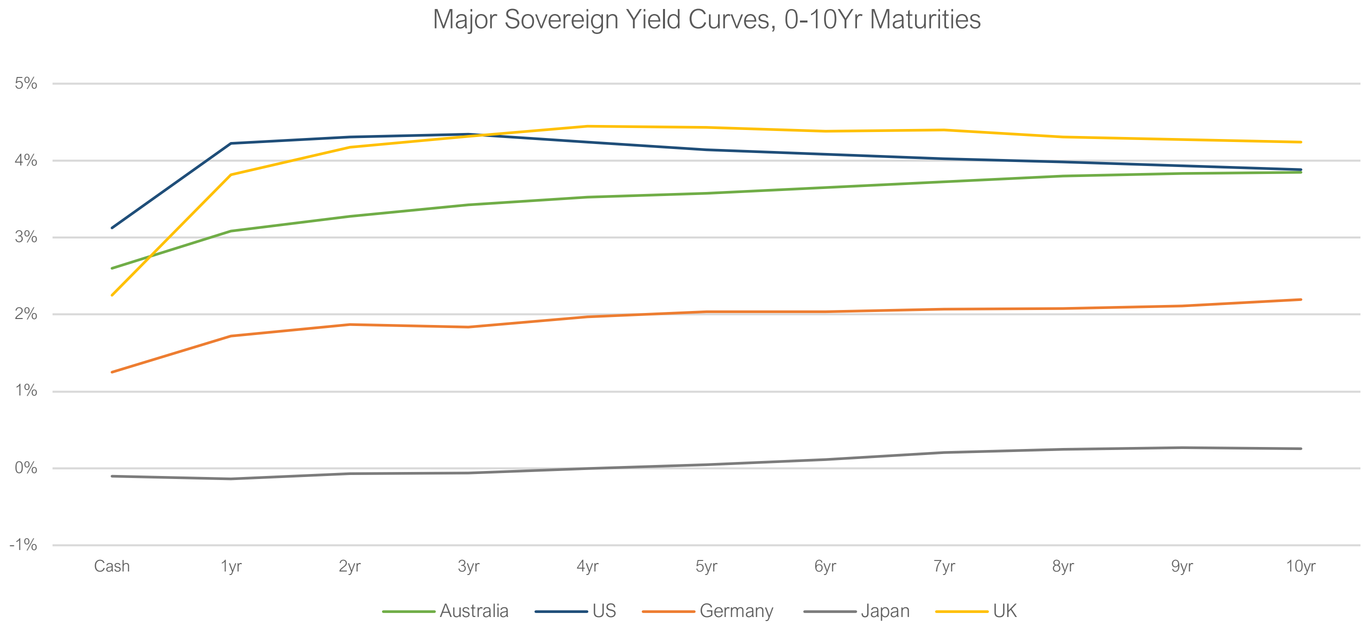
	Price	5 Day % Change	3 Month % Change	1 Yr % Change
S&P/ASX300	80,577	4.46%	3.10%	-3.77%
MSCI World Ex-Aus. (Unhedged)	13,038	2.00%	-0.08%	-7.97%
MSCI World Ex-Aus. (Hedged)	2,045	1.69%	-6.15%	-17.08%
Bloomberg AusBond 0+ Composite	9,396	0.52%	-1.21%	-10.53%
BloombergBarclays Global Agg. (Hedged)	951	-0.33%	-4.16%	-12.74%
S&P/ASX300 Property	52,373	3.29%	-8.61%	-17.58%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,349	-2.11%	-13.10%	-21.95%
S&P Global Infrastructure (Hedged)	5,402	-0.01%	-7.88%	-2.40%
Bloomberg All Hedge Fund Index	2,066	N/A	6.91%	4.08%
VIX	31.4	-0.82%	27.27%	67.08%
Bloomberg Commodity Index (USD)	117.14	5.06%	1.05%	14.14%
Iron Ore Index (62% Fe Aus. Off. China, USD)	96.50	-3.50%	-16.09%	-22.49%
LME Copper Spot (USD)	7,575.50	-0.94%	-3.31%	-17.45%
Coal 1st Future (Newcastle Export, USD)	385.80	-11.04%	-5.90%	66.36%
Brent Crude 1st Future (USD)	97.92	11.32%	-6.43%	19.49%
LNG 1st Future (Japan/Korea)	34.46	-11.01%	-12.91%	4.17%
Gold in AUD	2,659	2.46%	4.47%	10.72%
AUDUSD	0.6375	-0.39%	-6.77%	-12.81%
AUDEUR	0.6538	0.11%	-2.17%	3.18%
AUDNZD	1.1371	-0.57%	2.65%	7.18%
AUDGBP	0.5743	0.13%	0.95%	6.48%
AUDJPY	92.5630	-0.10%	-0.49%	11.81%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 9th October 2022

A reversal of the UK tax cuts, weaker data, and an earlier slowing in Australian cash rate rises all conspired to lift market sentiment last week. However, other central banks reiterated their more hawkish stance, and yields climbed throughout the rest of the week. The Australian stock market is expected to follow Wall Street lower today.

This week's most closely watched data point will be the US CPI figures on Thursday night. Core CPI is likely to remain stubbornly strong. However, the expected drop in headline inflation has already been overshadowed by the OPEC+ production cuts, which pushed oil more than +10% higher last week.

There will also be the latest FOMC minutes, Australian business and consumer confidence surveys, and the Q3 international reporting season gets underway at the end of the week.



Source: Bloomberg, 9th October 2022

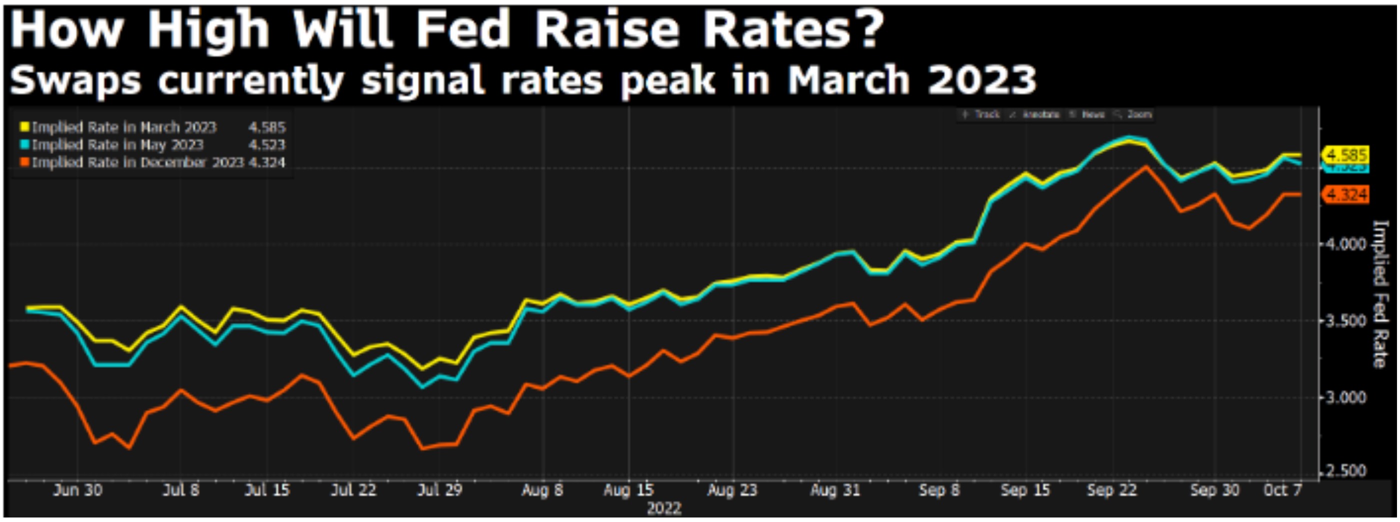
Risk appetite rebounded strongly at the beginning of the week as the British government was embarrassingly forced to abandon its controversial tax cuts. It became apparent that it would be unlikely to receive the necessary votes in parliament as Tory backbenchers rebelled against the new leadership. The U-turn reduced the risk that yields would pose further threats to financial stability, and following the intervention of the Bank of England, yields moved sharply lower. This was aided by a weaker Japanese Tankan survey and softer American ISM Manufacturing report.

On Tuesday, the Reserve Bank stoked further optimism that central banks may soon pivot to a less hawkish policy stance, raising the cash rate by +0.25% instead of the expected +0.50%. But a further +0.50% rate increase from the RBNZ, followed by the ECB minutes favouring another large increase, and very hawkish speeches from FOMC members soon showed that the RBA was breaking ranks with other major central banks.

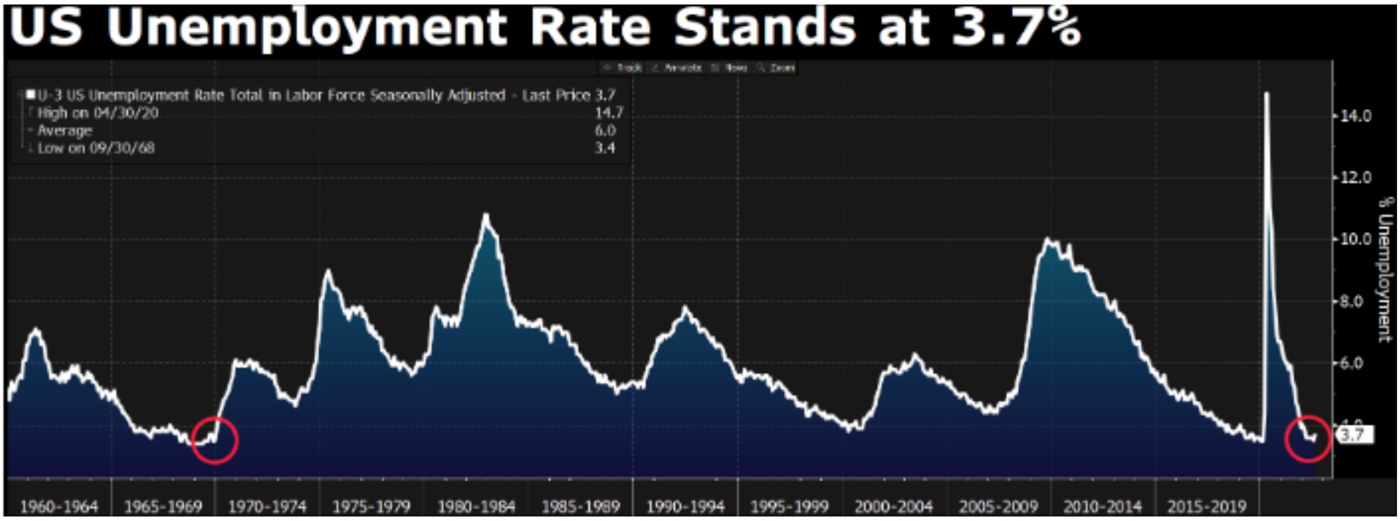
The RBA was expected to slow the pace of monthly rate rises from November onwards. In deciding to slow the pace of rate rises one month earlier than priced, the governor cited a weaker outlook for the global economy and softer inflationary forces in the domestic economy. The cash rate now stands at 2.6%, the lower bound of the RBA's estimate of the neutral rate. The statement clearly indicated that further rate rises are likely, but the market is now expecting the cash rate to peak at around 3.8% instead of 4.1% in the middle of next year.

The Reserve Bank is betting that inflation will slow sharply from the expected end-2022 peak of 7.75%. However, given the uncertainty in the outlook that even the RBA is at pains to stress, the earlier slowing of rate rises may not be overly significant. At the margin, the risk of overtightening is reduced, while Australian rate rises may persist for longer than in the G4 currencies, particularly if inflation is "stickier" than expected. The inverted yield curves in the US and UK show that tightening is likely to defeat inflation and weigh on growth, while the upward-sloping Australian curve suggests more consistent growth and higher inflation risk.

Friday night's unexpected drop in US unemployment from 3.7% to 3.5% keeps the Fed on course to raise by +0.75% next month (to the 3.75%-4.0% range), even if the drop was due to a slight fall in participation rather than substantial employment gains. Rate expectations in the US are now tipped to peak at 4.5% by March 2023 as outined in the Chart 1 below which highlights the current swap curves.



The economy added +263k new non-farm payrolls, and hourly earnings held at +5.0% yoy, both in line with estimates. But the report was strong enough to push yields higher and spark a further sell-off in stocks. The US unemployment rate remains at an historically low 3.7%

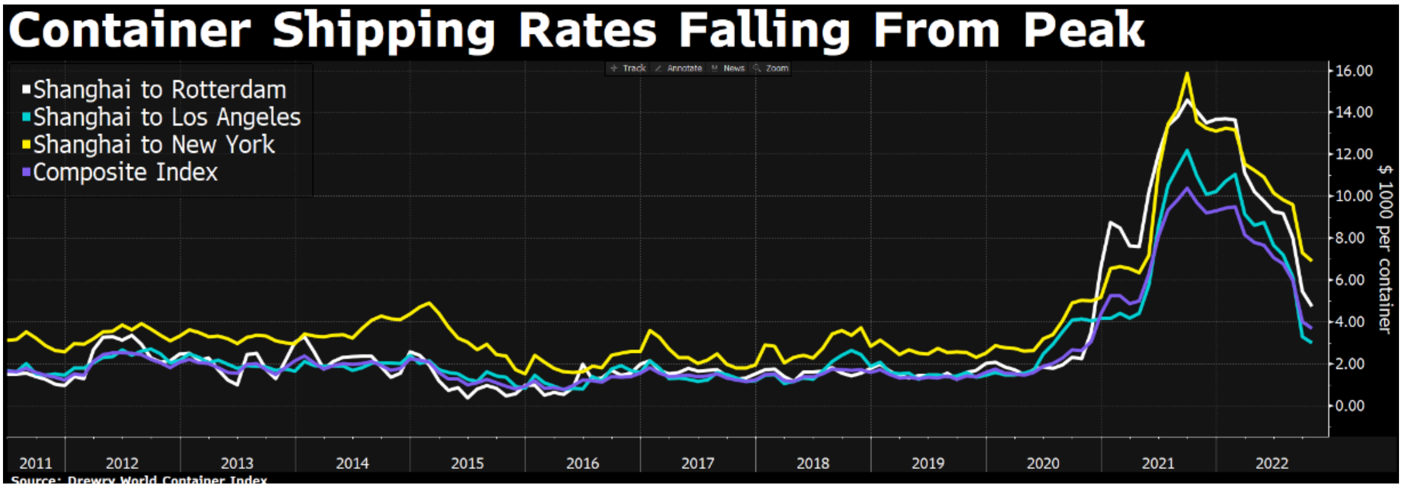


The Australian market is priced to open -0.9% lower later today but could go lower after China's September Caixin Services PMIs fell into contractionary territory over the weekend as a consequence of the recent lockdowns.

There may be further volatility ahead, as the American CPI report is expected to show a slight increase in September Core CPI from +6.3% to +6.5% yoy this Thursday, despite a likely slowdown in headline CPI from +8.3% to +8.1% yoy.

Any fall in headline inflation is likely to be overlooked following the OPEC+ decision to cut oil production by 2 million barrels per day, or roughly 2% of total daily output. The oil price rallied by more than +10% over the week and is likely to impact prices at the bowser. In contrast, coal and LNG prices fell by more than -10%.

Interestingly the chart below highlights the falling container shipping rates out of China since the peak that was seen in the middle of 2021 as global economies started to re-emerge from Covid. This recent weakness indicates slowing demand for imported goods manufactured from China and could be viewed as a processor to a global recession that many economists are predicting.



Currently being sued by Twitter for attempting to pull out of the US$44bn acquisition, Elon Musk offered to honour the original bid price last week. As a result, the transaction is significantly more likely to be completed.

Ray Dalio announced that he would hand over control of hedge fund manager Bridgewater Associates having established an Operating Board of Directors in December, followed by the appointment of two co-CEOs in January.

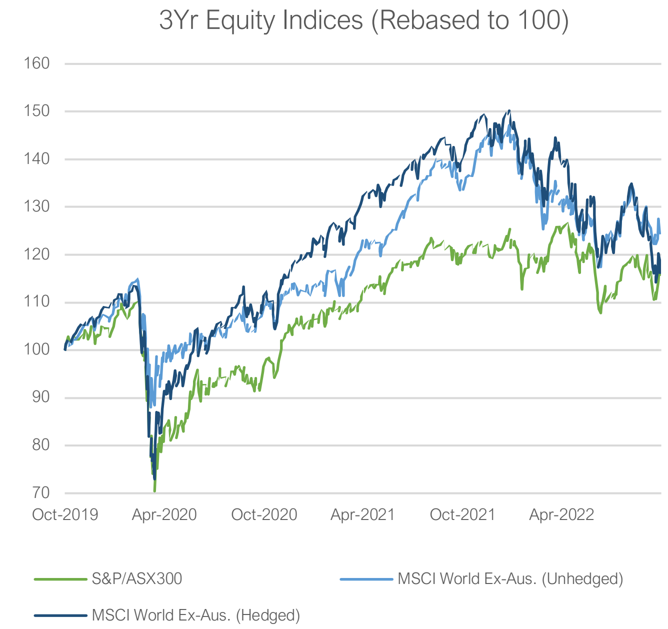
Australian fund manager Magellan was also in the news last week as further outflows prompted a -5.25% drop in the share price.

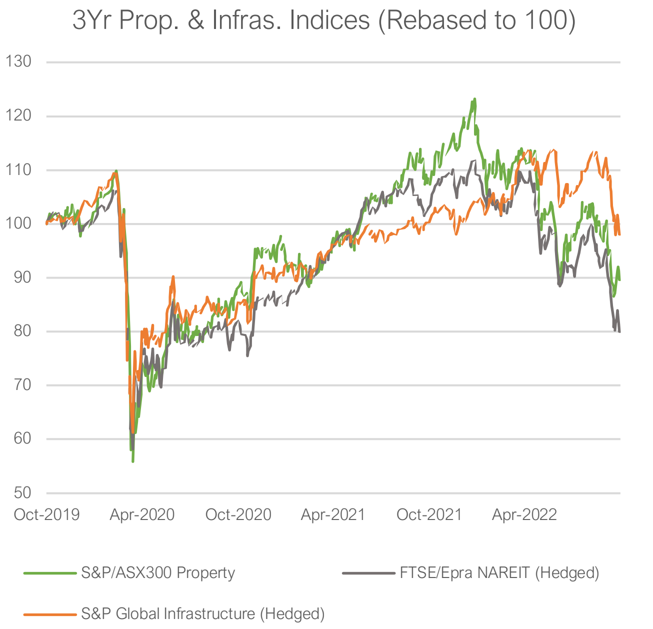
The major US banks will kick off the Q3 earnings season on Friday. This quarter is expected to see the first significant downgrades to earnings outlooks. Several companies have preannounced a build-up in inventories, while FedEx recently warned of signs of a global recession.

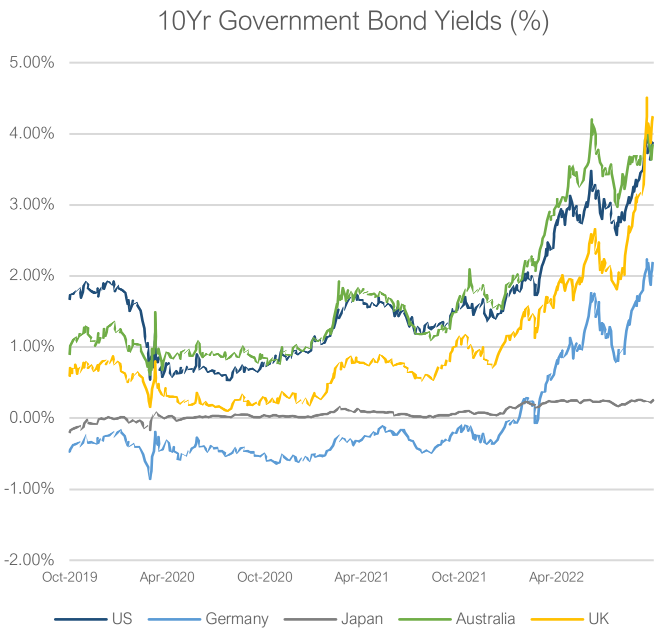
In addition to earnings and American CPI figures, there will be US PPI, retail sales, and the latest Federal Reserve minutes. China will release inflation and trade data on Friday, Europe will report industrial production and inflation numbers, and the UK will release activity and unemployment results. Australia will see the latest business and consumer survey results from NAB and Westpac, as well as CBA household spending.

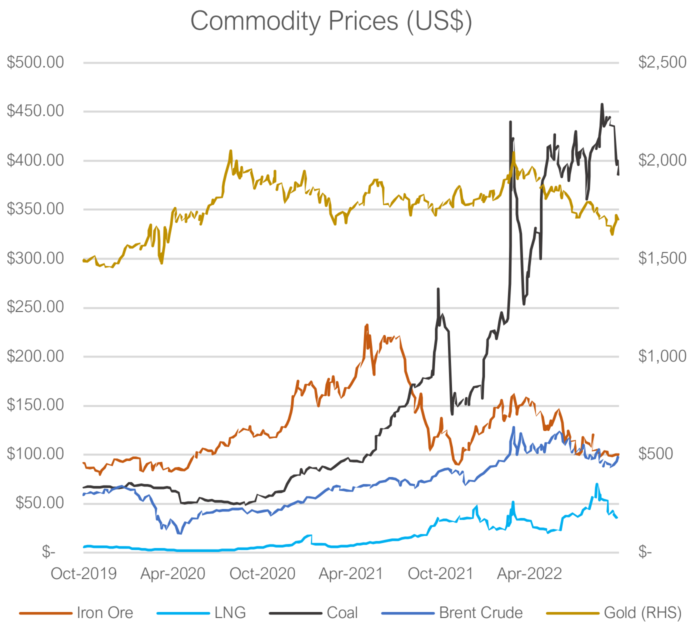
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**NAB Business Survey;** **CBA Household Spending;** **Westpac Cons. Conf**		**Consumer Inflation Expectations**	
US	**Columbus Day**	**NFIB Small Bus. Opt.**	**PPI;** **FOMC Minutes;** [Monthly Budget Statement]; MBA Mortgage Apps	**CPI;** Real Ave. Earnings; Weekly Jobless Claims	**Retail Sales;** **Bus. Inventories;** **UMich. Cons. Sent.;** Imp./Exp. Prices;
Europe	**Danish CPI;** **Norwegian CPI & PPI;** Austrian, Dutch & Finnish Ind. Prod.; Dutch Ind. Sales; Swedish House Prices	**UK Unempl.;** **Italian Ind. Prod.**	**EZ & UK Ind. Prod.;** **UK Monthly GDP & Constr. Output;** **UK & Dutch Trade;** **Swedish PES Unempl.;**	**German, Irish & Swedish CPI;** **[German Curr. Acc.];** UK RICS House Prices; Irish Property Prices	**EZ Trade;** **French, Spanish & Finnish CPI;** **German WSale Prices;** Italian Gen. Gov. Debt; Finnish GDP Indicator
Japan	**Health Sports Day**	**Trade & Curr. Acc.;** **Eco Watchers Survey**	Core Machine Orders; Machine Tool Orders;	**PPI;** **Bank Lending;**	**M2 & M3 Money Stock;**
China	**M0 / M1 / M2 Money Supply**		**[1yr Med. Term Lending]**		**CPI & PPI;** **Trade**









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