Xtra-Ordinary Opportunities

WEEKLY UPDATE

12th SEPTEMBER 2022

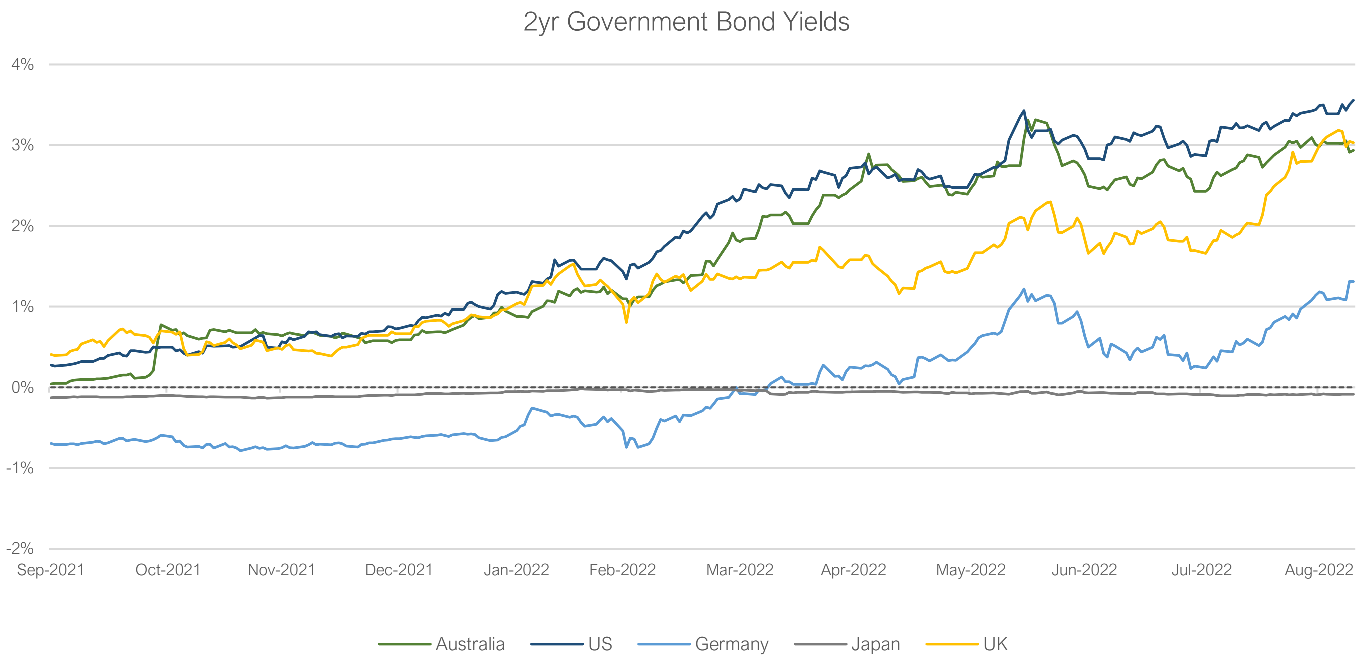
	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	82,155	1.46%	1.48%	-2.98%
MSCI World Ex-Aus. (Unhedged)	13,537	3.19%	5.18%	-5.98%
MSCI World Ex-Aus. (Hedged)	2,261	3.09%	2.83%	-10.19%
Bloomberg AusBond 0+ Composite	9,513	0.61%	0.96%	-10.61%
BloombergBarclays Global Agg. (Hedged)	982	-0.59%	-0.93%	-11.09%
S&P/ASX300 Property	57,745	0.32%	4.04%	-10.80%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,774	2.90%	0.84%	-10.40%
S&P Global Infrastructure (Hedged)	6,120	1.40%	0.49%	11.67%
Bloomberg All Hedge Fund Index	1,980	N/A	2.86%	0.20%
VIX	22.8	-10.84%	-17.87%	8.78%
Bloomberg Commodity Index (USD)	118.52	-0.79%	-12.49%	22.05%
Iron Ore Index (62% Fe Aus. Off. China, USD)	103.50	6.70%	-30.07%	-21.29%
LME Copper Spot (USD)	7,985.00	5.25%	-17.08%	-14.66%
Coal 1st Future (Newcastle Export, USD)	435.25	0.06%	9.91%	145.21%
Brent Crude 1st Future (USD)	92.84	-0.19%	-24.56%	29.94%
LNG 1st Future (Japan/Korea)	53.90	-8.88%	132.73%	189.40%
Gold in AUD	2,510	-0.15%	-3.61%	3.04%
AUDUSD	0.6841	0.43%	-3.62%	-7.15%
AUDEUR	0.6812	-0.44%	1.88%	8.53%
AUDNZD	1.1202	0.48%	0.78%	7.43%
AUDGBP	0.5905	-0.19%	3.81%	9.82%
AUDJPY	97.5810	2.13%	2.27%	17.14%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 11th September 2022

The RBA, ECB and Bank of Canada all raised interest rates last week. Bond yields moved higher internationally but not in Australia after comments from the Governor of the RBA were interpreted as suggesting a slower pace of rate rises ahead.

Economic data supported equities. Australian GDP was in line with expectations for the second quarter. The ISM Service index provided an upside surprise, and final global PMI surveys improved relative to the flash estimates. Chinese figures, however, indicated that there is still some way to go to hit this year's official growth target of +5.5%.

This week will see the latest American CPI figures and Australian employment and confidence surveys. Firmer core CPI is expected to keep the Fed on course to raise by another +0.75% later this month.

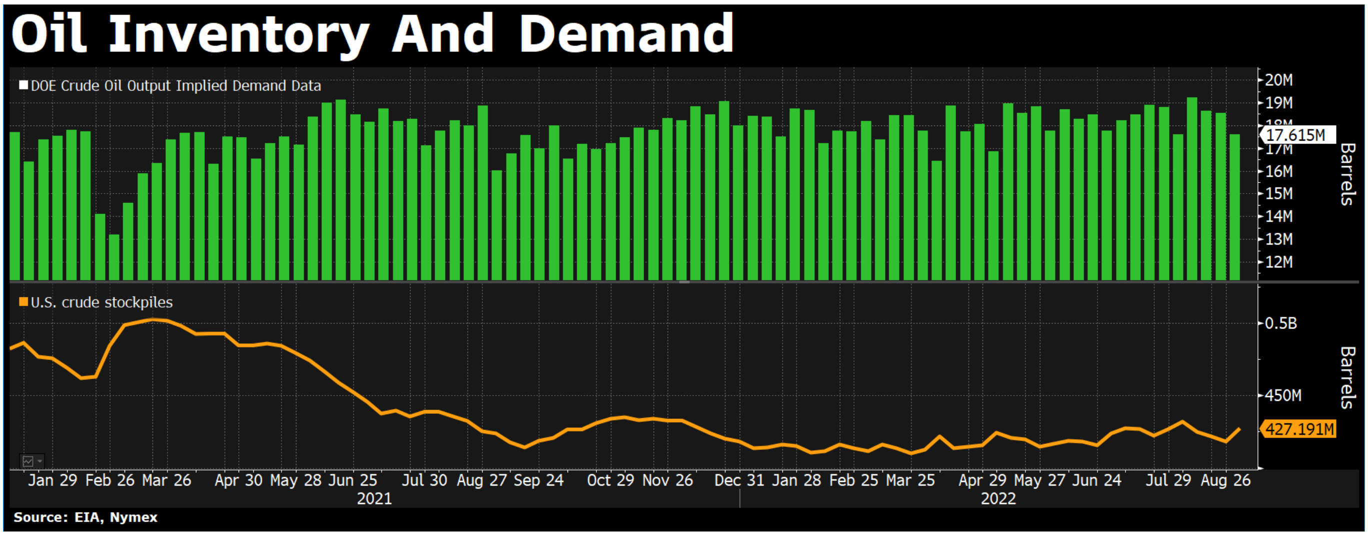


Source: Bloomberg, 11th September 2022

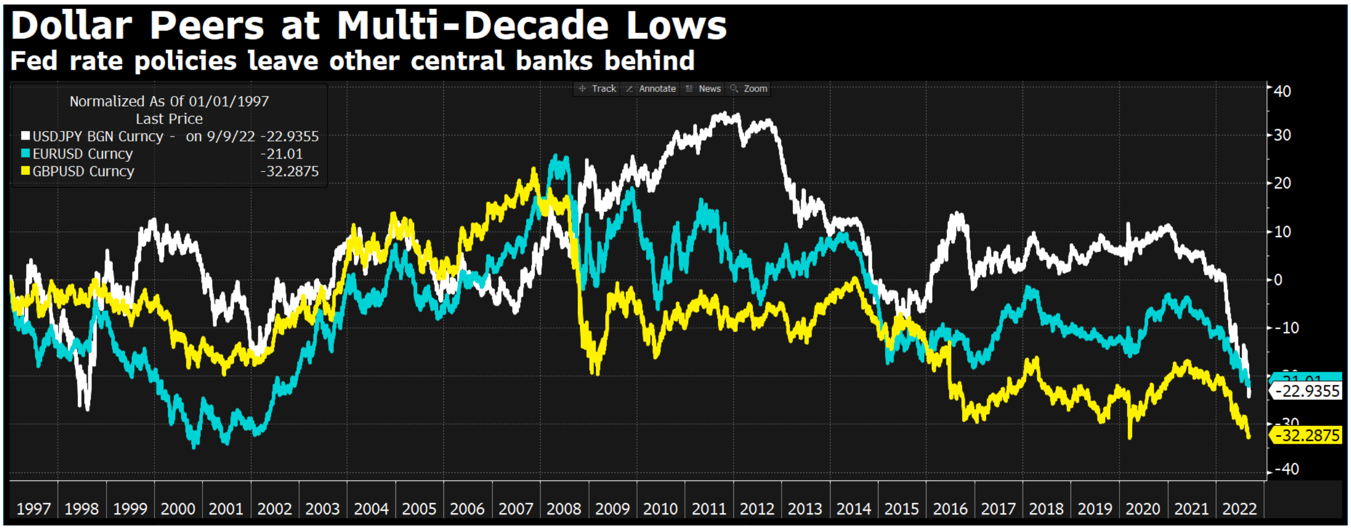
Stock indices advanced for the first time since Jackson Hole last week, despite several interest rate rises. Equity investors seemed to focus on the more dovish comments by central bankers, while data were generally supportive. The final global PMIs were a little firmer than the flash estimates, and the ISM Services index rose slightly to 56.9, instead of softening as economists expected.

Soft Chinese credit growth, CPI, and export figures all indicated a less optimistic outlook for the world's second-largest economy. Nevertheless, iron ore and copper still traded higher.

Oil prices were steady after OPEC+ cut production targets by about -100k barrels per day from October, reversing the production increase announced in August.



The Australian dollar strengthened against the US dollar and Japanese Yen after the RBA raised the cash rate for the fifth time in as many meetings and despite a steep drop in the trade surplus from a surprisingly high A$17.7bn in June to A$8.7bn in July. Exports fell by -10% while imports grew by +5%. Second quarter GDP figures indicated an increase of +3.6% from a year ago, as consumers increased spending on services and saved less. Previously strong exports also contributed to economic growth.



Global bond yields continued to rise at both the short and long ends of the curve as news of sizeable corporate bond issuance was digested, and fixed income investors drew a more nuanced interpretation of central bank updates.

Companies including Lowe's Cos., Walmart Inc., Deere & Co., and McDonald's are soon expected to issue between $30bn and $40bn in new debt.

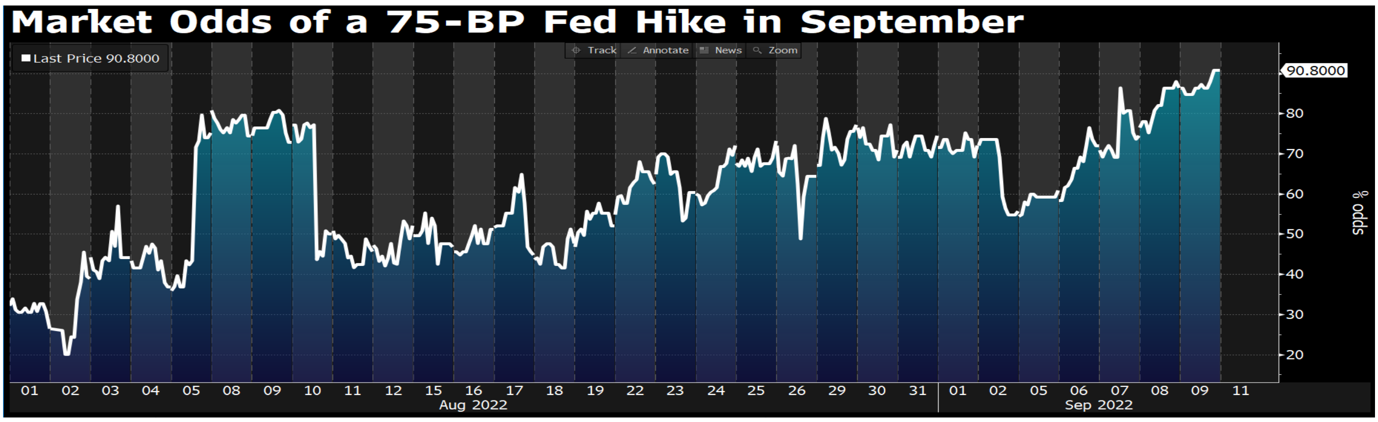
Speaking last week, the Vice Chair of the Federal Reserve, Lael Brainard, said:

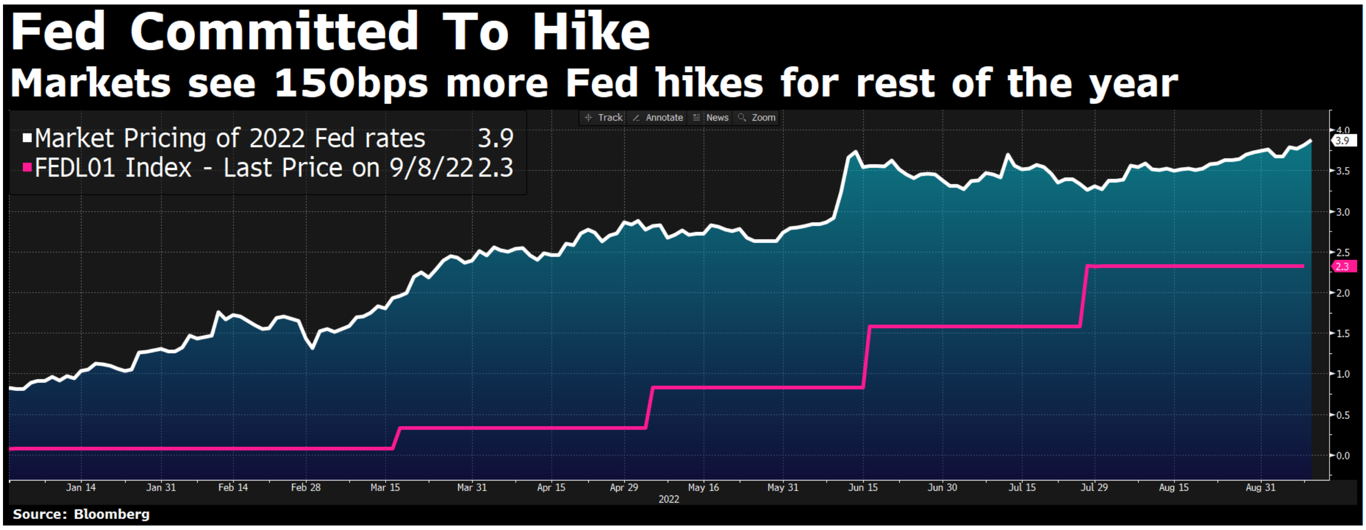
"*At some point in the tightening cycle, the risks will become more two-sided. The rapidity of the tightening cycle and its global nature, as well as the uncertainty around the pace at which the effects of tighter financial conditions are working their way through aggregate demand, create risks associated with overtightening.*"

However, she also went on to say:

"*And if history is any guide, it is important to avoid the risk of pulling back too soon. Following a lengthy sequence of adverse supply shocks to goods, labour, and commodities that, in combination with strong demand, drove inflation to multidecade highs, we must maintain a risk-management posture to defend the inflation expectations anchor. While we have no control over the supply shocks to food, energy, labour, or semiconductors, we have both the capacity and the responsibility to maintain anchored inflation expectations and price stability. We are in this for as long as it takes to get inflation down. So far, we have expeditiously raised the policy rate to the peak of the previous cycle, and the policy rate will need to rise further. As of this month, the maximum monthly reduction in the balance sheet will be nearly double the level of the previous cycle. Together, the increase in the policy rate and the reduction in the balance sheet should help bring demand into alignment with supply. Monetary policy will need to be restrictive for some time to provide confidence that inflation is moving down to target.*"

The speech was followed by presentations from other FOMC members in which the hawkish line was reaffirmed. As a result, the 2yr yield continued to advance, and a further +0.75% increase in the Fed Funds rate to the 3.0%-3.25% range is fully priced in for September 21st. CPI figures are due out on Tuesday this week. The headline rate is expected to slow to +8.0% yoy. But core inflation is forecast to accelerate from +5.9% to +6.1% yoy.





The RBA raised by +0.50%, as expected, to 2.35% on Tuesday. However, in Thursday's annual address at the Anika Foundation lunch, the market also seemed to see Governor Lowe's statements as more dovish than expected:

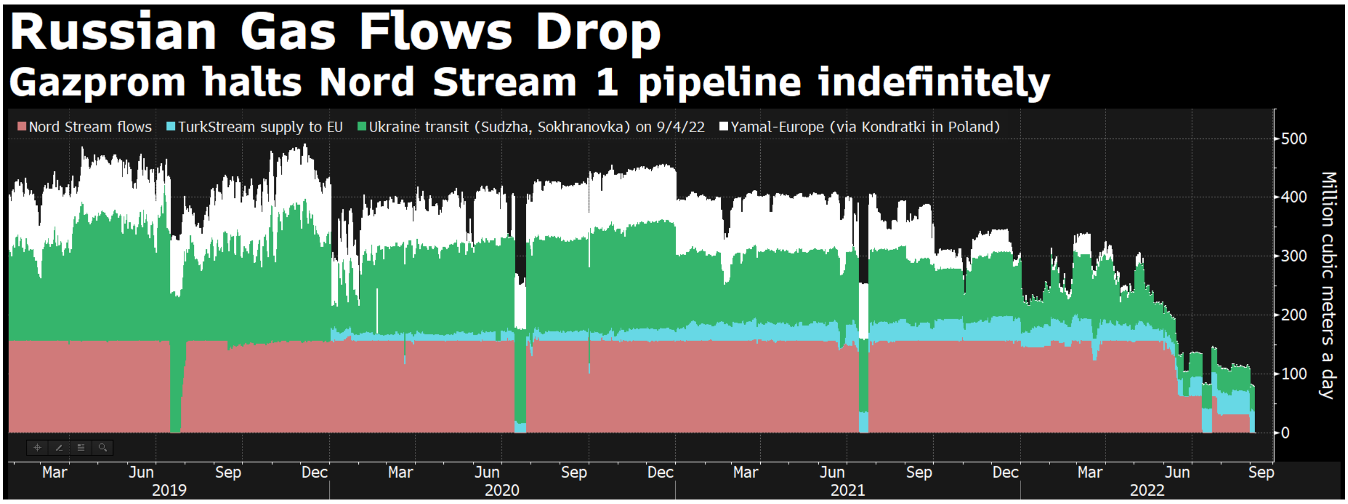
"It is also noteworthy that inflation expectations in Australia remain consistent with the inflation target. In addition, wages growth has picked up, but not nearly to the same extent as in the United States. This is an important difference. While there are some areas where wages are rising very quickly in Australia, aggregate growth in wages has not responded materially to the higher inflation and is not inconsistent with inflation returning to target over time. It is important that this remains the case and that we avoid the cycle of higher inflation leading to higher wages growth and then higher inflation – a cycle like that would end in higher interest rates and a sharper slowing in the economy. The Board is not on a pre-set path, especially given the uncertainties that I have spoken about. We are conscious that there are lags in the operation of monetary policy and that interest rates have increased very quickly. And we recognise that, all else equal, the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises. But how high interest rates need to go and how quickly we get there will be guided by the incoming data and the evolving outlook for inflation and the labour market".

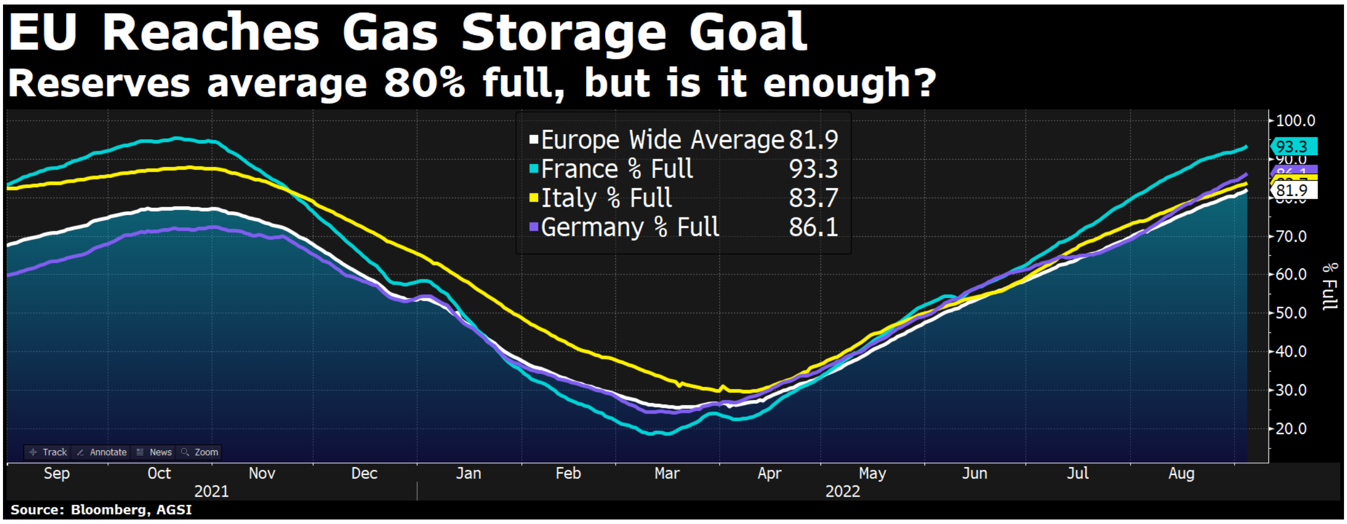
Australian yields did not rise alongside the international equivalents.

Both the Bank of Canada and European Central Bank raised rates by +0.75% and told the market to expect more to follow. On Friday, it was announced that the Bank of England will delay its next meeting by one week until September 22nd to allow a period for mourning Queen Elizabeth II.

The ECB raised from 0% to 0.75%, attempting to front-load rate rises ahead of an "extended period" of high inflation. High European energy prices present a formidable obstacle to economic growth. Germany has pledged about €65 billion to help households struggling with energy bills. In her first major policy announcement, the newly appointed UK Prime Minister Liz Truss also announced £150bn worth of energy price caps for British households and businesses from October 1st. The measures are, however, also likely to increase inflationary pressure as spending power is diverted to other sectors, complicating the task facing central banks.

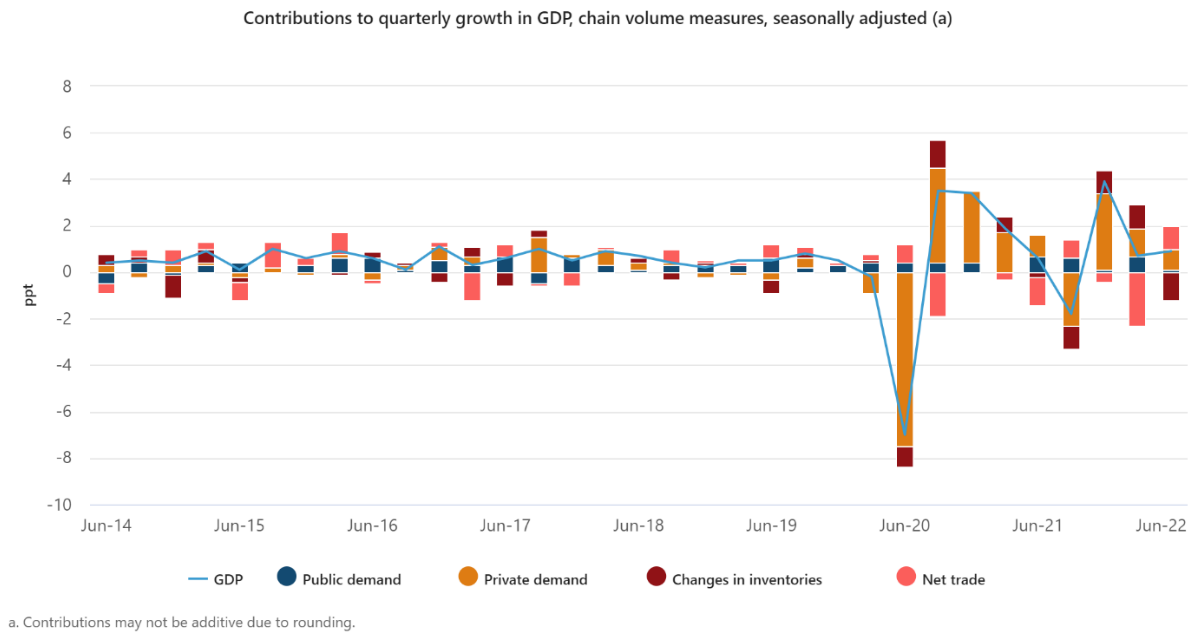
Dmitry Peskov, President Vladimir Putin's spokesman, blamed EU, UK, and Canadian sanctions for Russia's failure to deliver gas through the Nord Stream 1 pipeline, which pumps gas to Germany from St Petersburg via the Baltic Sea. The Kremlin has said that Russia's gas supplies to Europe will not resume in full until the "collective west" lifts sanctions against Moscow over its invasion of Ukraine. The conflict seems destined to continue for some time as it emerged last week that Russia had ordered rockets and artillery shell supplies from North Korea. President Putin is scheduled to meet President Xi of China this week in Uzbekistan.



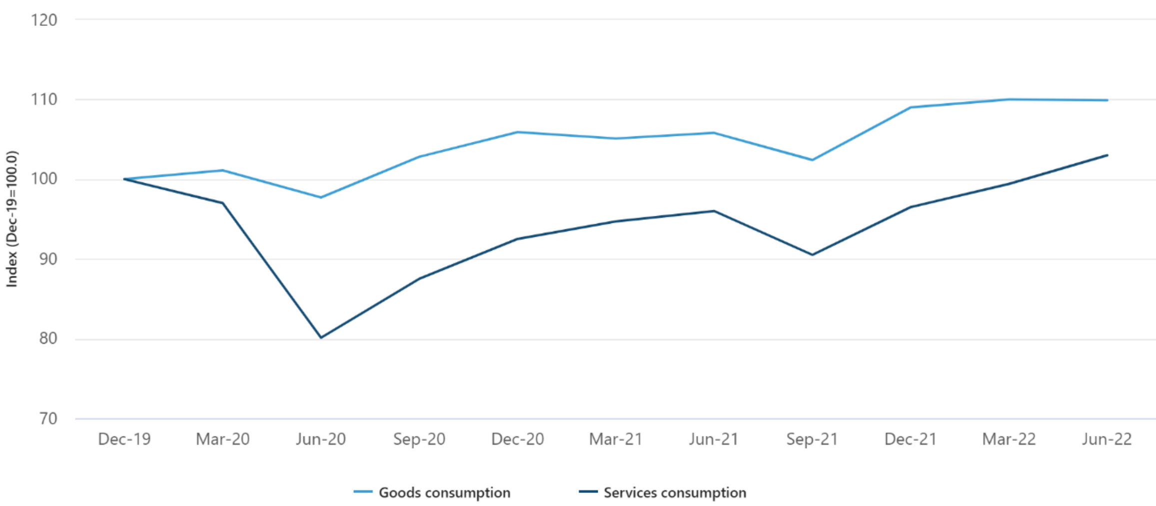


American CPI figures will be the most followed this week. In addition, Australian employment data, business conditions, and consumer confidence will be published, with important Chinese activity figures due out on Friday.

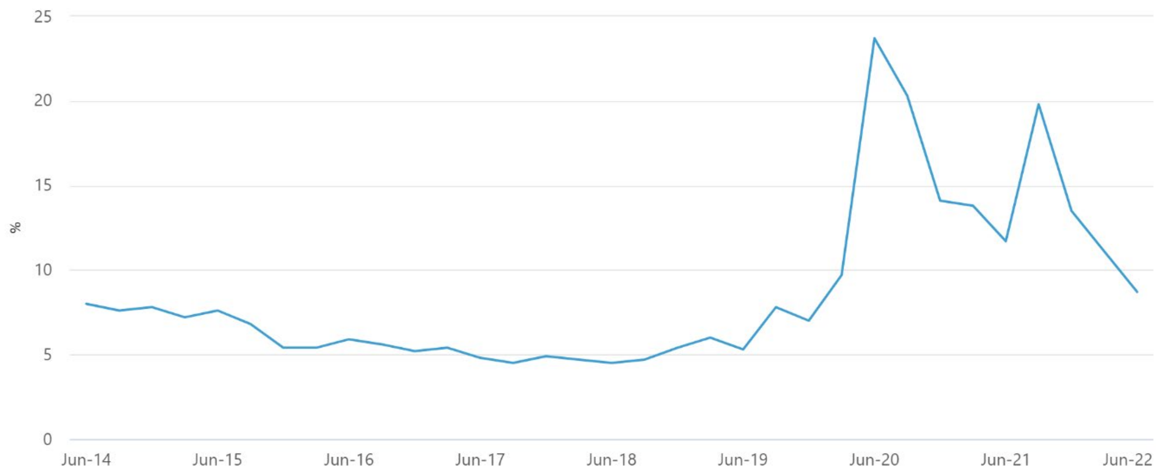
ABS Australian National Accounts Data, Q2 2022



Goods and services consumption - comparison against December quarter 2019 pre-pandemic levels, chain volume measures, seasonally adjusted

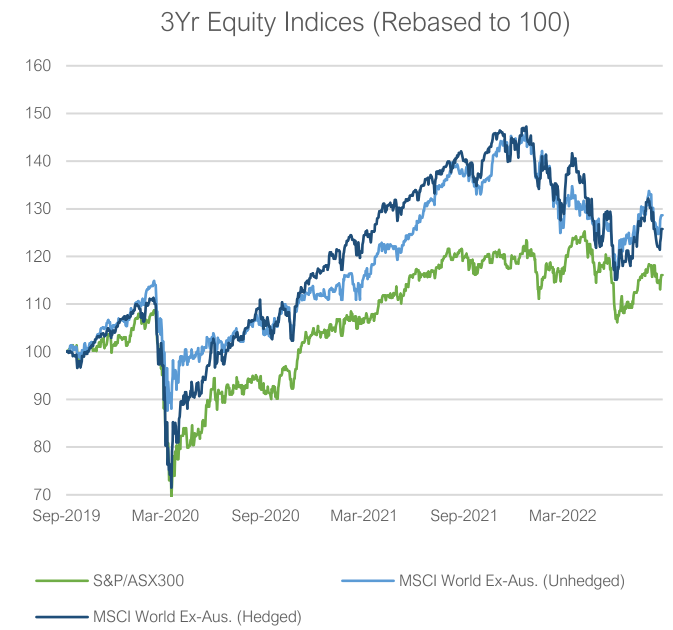


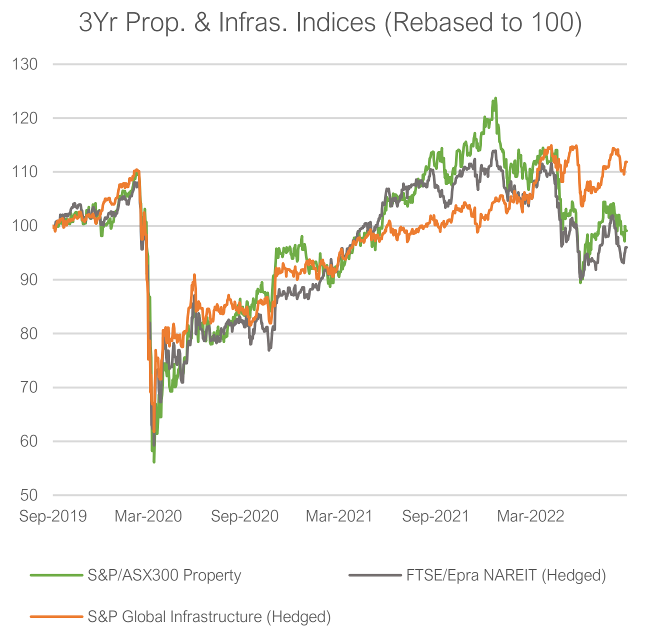
Household saving ratio, seasonally adjusted

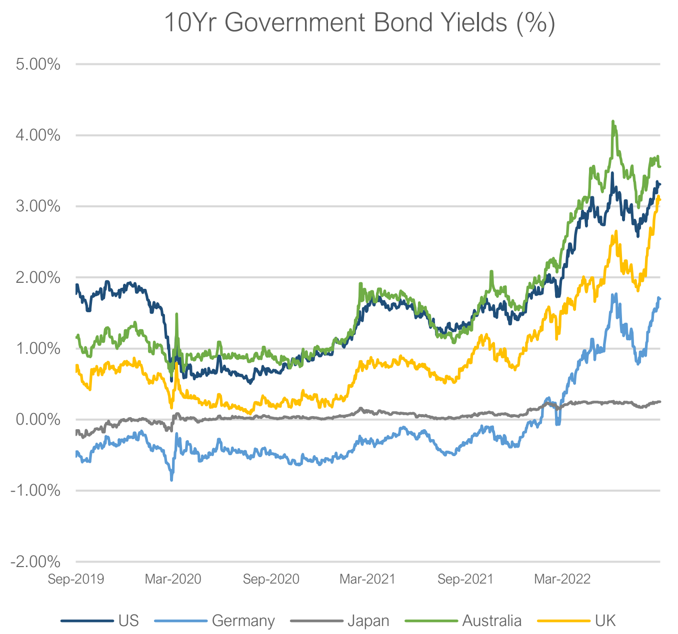


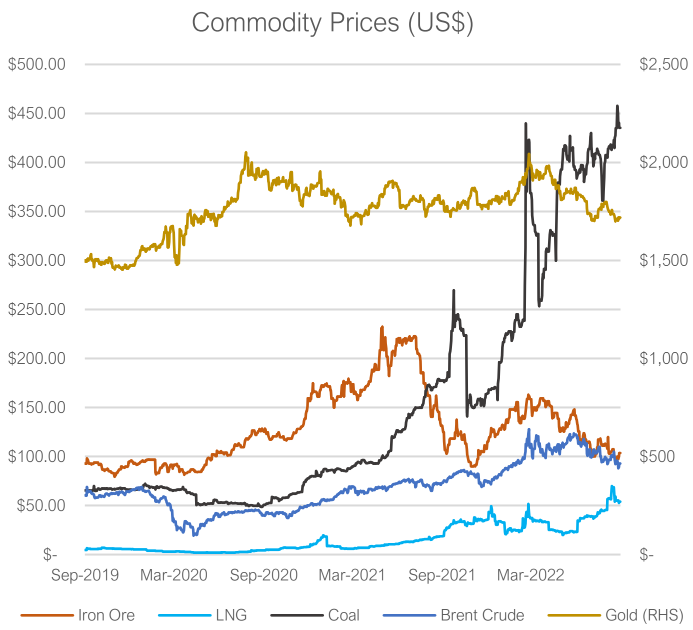
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**NAB Business Survey; Westpac Cons. Conf.; CBA Household Spending;**		**Employment**	
US		**CPI ; NFIB Small Bus. Opt. ;** Real Ave. Weekly Earnings; Monthly Budget Statement	**PPI;** MBA Mortgage Apps.	**Retail Sales; Ind. Production; Business Inventories; Empire Manuf. Survey; Philly Fed. Survey;** Import/Export Prices Weekly Jobless Claims	**UMich Cons. Sent.;** TIC Flows
Europe	**German & Finnish Curr. Acc.; Danish CPI; UK & Italian Ind. Production; UK Monthly GDP, Construction Output, & Serv. Index; UK & Dutch Trade;**	**ZEW Survey; German & Spanish CPI; UK Unemp.;**	**EZ Ind. Prod.; UK, Finnish, Swedish CPI; Swedish Unemp.; UK PPI;** Irish Property Prices	**EZ, Norwegian & Irish Trade; Danish & French CPI;** German Wsale Prices; Danish PPI; Dutch Cons. Spending & Unemp.	**UK Ret. Sales; Italian Trade;** Spanish Labour Costs; EU27 New Car Reg.; EZ & Italian CPI (F)
Japan	Machine Tool Orders	**PPI**	**Ind. Production;** Core Machine Orders	**Trade;** Tertiary Industry Index	
China	**Mid-Autumn Festival**	**[1yr Med. Term Lending Rate]**			**Ind. Production; Retail Sales; Fixed Asset Inv.; Resi. Property Prices; Surveyed Jobless Rate**









Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 11th September 2022