Xtra-Ordinary Opportunities

WEEKLY UPDATE

24th OCTOBER 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	79,495	-1.17%	-0.05%	-6.35%
MSCI World Ex-Aus. (Unhedged)	13,486	2.51%	2.90%	-5.90%
MSCI World Ex-Aus. (Hedged)	2,091	3.81%	-5.56%	-17.94%
Bloomberg AusBond 0+ Composite	9,223	-1.11%	-2.38%	-11.05%
BloombergBarclays Global Agg. (Hedged)	937	-0.55%	-7.00%	-13.95%
S&P/ASX300 Property	51,365	-0.16%	-12.36%	-22.59%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,354	1.53%	-15.47%	-25.41%
S&P Global Infrastructure (Hedged)	5,423	2.04%	-7.91%	-4.05%
Bloomberg All Hedge Fund Index	2,046	N/A	5.87%	3.07%
VIX	29.7	-7.28%	28.92%	92.42%
Bloomberg Commodity Index (USD)	111.27	-2.11%	-4.51%	7.24%
Iron Ore Index (62% Fe Aus. Off. China, USD)	93.50	-2.09%	-6.50%	-22.41%
LME Copper Spot (USD)	7,545.00	-1.86%	4.34%	-24.93%
Coal 1st Future (Newcastle Export, USD)	390.00	-0.64%	-3.32%	70.68%
Brent Crude 1st Future (USD)	93.50	2.04%	-9.97%	10.51%
LNG 1st Future (Japan/Korea)	32.47	-6.64%	-14.77%	-2.94%
Gold in AUD	2,599	-2.04%	4.84%	8.84%
AUDUSD	0.6379	2.90%	-8.00%	-14.57%
AUDEUR	0.6475	1.48%	-4.73%	0.79%
AUDNZD	1.1120	-0.25%	0.29%	6.16%
AUDGBP	0.5648	1.77%	-2.33%	4.16%
AUDJPY	94.1930	2.07%	-1.12%	9.63%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 23rd October 2022

Global equities enjoyed stronger performance last week after positive data, earnings results, and a marginally less hawkish Fed improved sentiment.

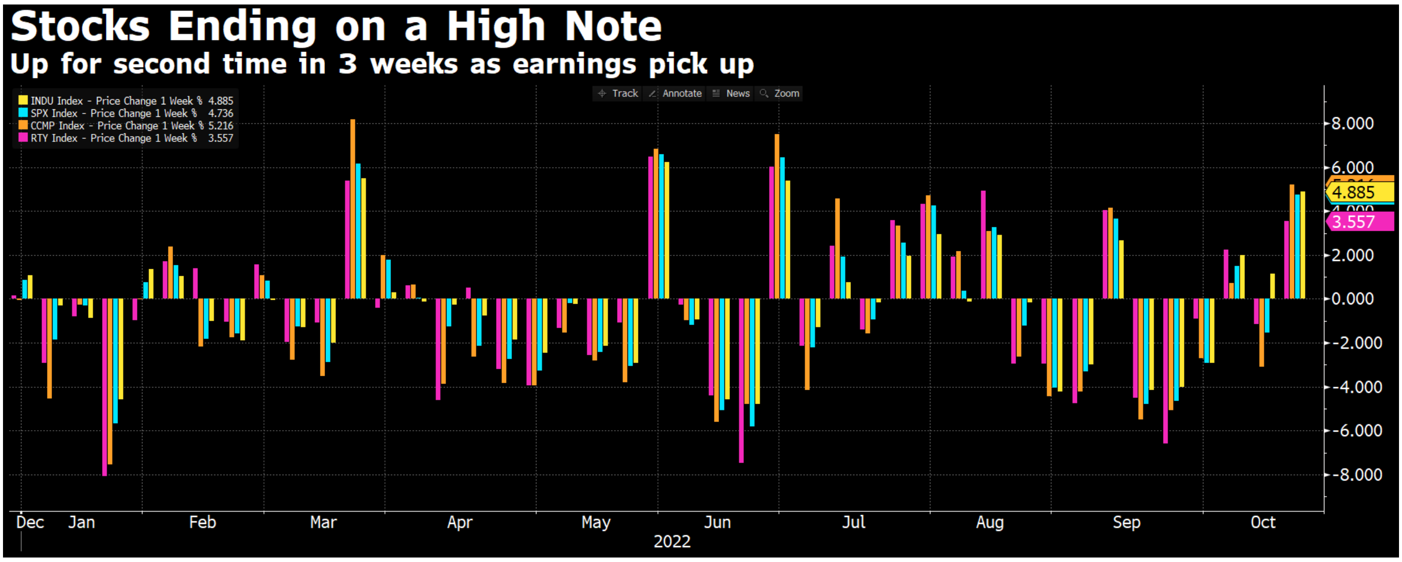
Bonds yields fell after the UK published a new budget but yields still finished the week higher on the back of global data. Liz Truss resigned as prime minister despite the well-received budget update.

China delayed the release of GDP and activity data before Xi Jinping's historic third term was confirmed over the weekend.

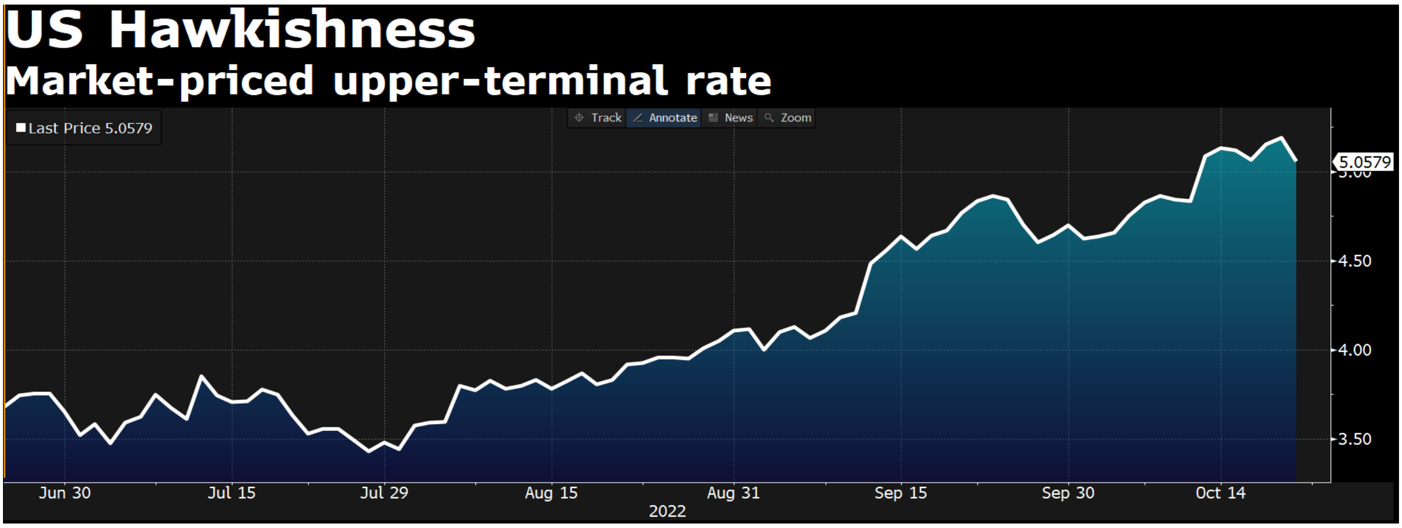
Last week the RBA minutes and speeches suggested that the dovish turn may not be so dovish after all. The Treasurer will deliver the Australian budget on Tuesday this week before CPI numbers arrive on Wednesday.

US GDP follows on Thursday, with PCE inflation due out on Friday. The ECB will likely raise rates on Thursday, while the Bank of Japan looks set to hold on Friday.

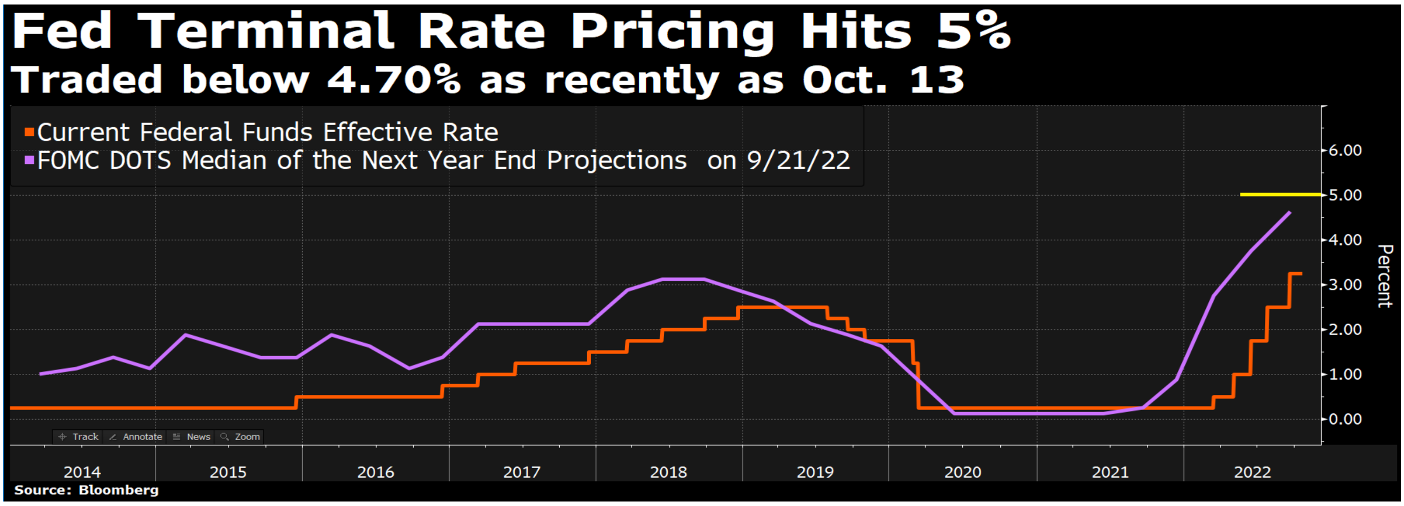
Investor sentiment improved last week, with Wall Street enjoying a solid session on Friday with more than +2% gains. Australian futures are pricing a market open +1.4% higher later this morning.



US 10-Year bond yields surpassed 4.3%, the first time since 2007. The market reacted positively on Friday to the expectation the Fed may slow the pace of rate hikes in December to 50bp from a previous 75bp expectation. The Fed peak fed funds rate is expected to be 5%.



Source: Bloomberg



Source: Bloomberg

It is still early in the quarterly earnings season, with approximately 15% of global companies having published results. Profits are surprising higher by roughly +4%, which still leaves the quarterly growth rate slightly negative. S&P500 earnings are down by -1.7% and -0.7% lower worldwide. Netflix shares rose by nearly +26% after subscriber growth surprised to the upside, while Goldman Sachs prepared to withdraw from several markets and announced significant leadership changes. Apple, Microsoft, Boeing, and Exxon all report this week.

US economic data was decidedly upbeat. There was a slight improvement in the Fed's Beige Book business outlook, and industrial production accelerated to +5.3% over last year. In addition, initial jobless claims fell rather than rising as expected, and building permits came out higher instead of falling as forecast.

A statement by one of the more hawkish FOMC members, St Louis Fed President James Bullard, lifted share prices and weakened the US dollar. He expects the Fed's aggressive front-loading of interest rates to end by next year, although policy is set to remain relatively restrictive. He also said that the labour market strength gave the Fed room to raise rates. As a result, US interest rate pricing softened slightly to a peak of around 4.9% in May.

Bonds yields moved higher over the week on the improved data. Yields had fallen on Monday as the new Chancellor, Jeremy Hunt, unveiled plans for British spending cuts. These included cutting the two-year energy subsidy to a few months, matching the initial opposition plan that party leader Liz Tuss had previously derided. This was followed by the resignation of the Home Secretary and unruly scenes at a parliamentary vote indicating a loss of confidence from her own party's MPs. The speedily revised budget could not save her job, and she resigned after just 45 days in office. She is on course to become the UK's shortest-serving prime minister.

Conservative MPs hope to avoid putting the election of a new prime minister to party members, beginning a fast-track leadership contest that could be concluded by the end of this week. Three leading contenders have emerged; former Chancellor and runner-up to Liz Truss in the recent leadership contest, Rishi Sunak, the second runner-up Penny Mordaunt and, astonishingly, disgraced former prime minister Boris Johnson. His appearance seems symptomatic of growing Tory party desperation as Labour has established a historic 36-point lead in the polls.

In contrast, Xi Jinping solidified his grasp on Chinese politics by being confirmed for a historic third term as chairman of the Chinese communist party at the closing of the 20th Party Congress. At the same time, his predecessor Hu Jintao was publicly escorted out of the room, apparently due to ill health, and rivals Li Keqiang and Wang Yang were removed from the Central Committee. The result is that Xi is surrounded by allies and all but certain to gain a third presidential term in March next year.

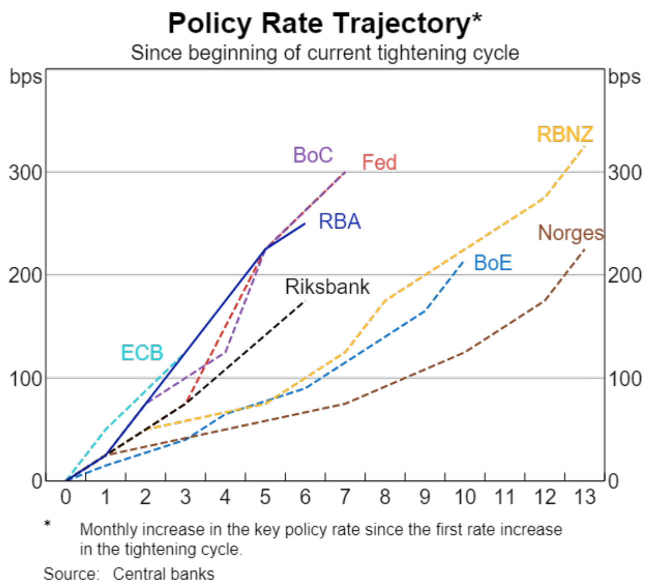
Perhaps the planned data release early last week was withdrawn to smooth his path. Q3 GDP and the main monthly activity series are now due to be released by the end of the month, leading to speculation that the figures were likely to be very disappointing. Investors are hopeful that Xi's confirmation will give way to an easing of coronavirus restrictions and more stimulus. However, there is little scope for monetary easing due to the overheated property market. Last week, Rio Tinto warned of slower iron ore shipments as construction activity slows.

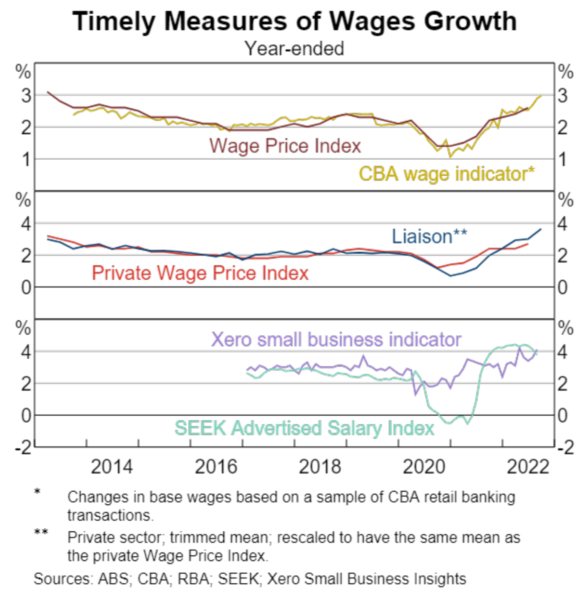
The Treasurer will unveil the first Labor budget on Tuesday this week. Previously higher commodity prices are likely to reduce the government deficit in the short term, and inflation expectations are likely to be revised slightly higher for 2022.

Australian Q3 CPI inflation figures are due out on Wednesday. The annual increase is expected to be +7.0%, while the monthly data shows price changes accelerating to +7.1%. The RBA and the Treasury both expect inflation to peak at 7.75% towards the end of the year, with the next RBA estimates due at the beginning of November.

On Tuesday, the minutes of the October RBA meeting were surprisingly hawkish, stating that the decision to raise the cash by +0.25% instead of the expected +0.50% was much closer than previously understood. This coincided with a speech by Deputy Governor Michele Bullock that provided further clarity on the Board's decision:

"*There was no doubt that a further increase in interest rates was warranted. Inflation is too high in Australia and is expected to rise further. While a lot of this can be explained by global factors such as supply chain disruptions and energy prices, there is an important element of strong domestic demand. Indeed, the labour market is very tight – unemployment is as low as it has been in around 50 years – and this is starting to put upward pressure on wages. For all these reasons,*





Source: RBA, 23rd October 2022

interest rates need to rise to ensure inflation returns to the 2 to 3 per cent band over time and that inflationary expectations remain anchored.

But there was an active discussion both internally and at the Board meeting about the appropriate size of the increase. On the one hand, inflation is high and the labour market is very strong, which indicates a need for interest rates to rise further. On the other hand, there has already been a substantial rise in interest rates since May, which, along with price rises, is beginning to put pressure on household budgets. How household spending will respond to this is uncertain. The international economic environment has also deteriorated quite sharply. For these reasons, the Board felt that a smaller increase in October was warranted while it took stock of developments in consumption, wages and the international economy.

Some commentators have contrasted the Board's decision to raise rates by 25 basis points with those of overseas central banks that have been increasing interest rates by larger increments. In part, this reflects our particular economic circumstances. But it is also relevant that the Board meets more frequently than most of our peer central banks. The Reserve Bank Board is making monetary policy decisions 11 times a year so it is discussing regularly the evidence on the economy and has more flexibility on the size and timing of rate increases. This is a particular advantage in uncertain times, as it allows more frequent evaluation of the evidence and recalibration if necessary. It also means that if we increase interest rates at every meeting, we can potentially move much faster than overseas central banks. Or, alternatively, we can achieve a similar rise in interest rates with smaller increments. The incremental change in the policy rate at recent meetings has been smaller than some other major central banks. However, our policy rate trajectory has been as steep, or steeper, than other central banks".

Her speech also provided details of higher frequency data collected, including wage data which indicated ongoing strength. Thursday's September unemployment also held at 3.5%. Consequently, market pricing of future cash rates rose substantially for 2023. The cash rate is now expected to reach 4.4% this time next year.

This week, besides the Australian Budget and CPI figures, the market expects a +0.75% increase in eurozone interest rates from ECB on Thursday. On the other hand, no change is expected from the Bank of Japan on Friday, despite ongoing market intervention to support the yen.

American Q3 GDP real numbers are expected to return to positive territory on Thursday after two negative quarters in the first half of 2022. There will also be updated PCE inflation numbers on Friday, which are expected to show a slight acceleration from +4.9% to 5.2% in the core series, the Fed's preferred measure of inflation.

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	S&P Global PMIs (F)		**CPI**	**Export/Import Prices**	**PPI**
US	**Chicago Fed Natl. Activity;** S&P Global PMIs (F)	**Conf. Board Cons. Conf.;** **Richmond Fed. Manuf. Index;** S&P CoreLogic & FHFA House Prices;	**Advance Goods Orders;** **Ret. & Wsale Inventories;** New Home Sales; MBA Mortgage Apps	**Q3 GDP;** **Durable Goods;** **Kansas City Fed Manuf. Activity;** **Personal Cons.;** Weekly Jobless Claims	**PCE Inflation;** **Employment Cost Index;** **UMich Cons. Sent.;** **Personal Inc. & Spending;** Pending Home Sales
Europe	S&P Global PMIs (F); Finnish PPI; Dutch House Prices	IFO Survey; Swedish & Spanish PPI; Finnish Unempl;	**EZ M3 Money Supply;** Belgian Bus. Conf.; French Cons. Conf. & Jobseekers; Swedish Trade; Spanish Mortgage Lending & House Purchases	**ECB Meeting;** **German GfK Cons. Conf.;** **Norwegian & Spanish Unempl.;** **Danish Ret. Sales;** **Italian & Swedish Cons. & Bus. Conf.;** **Italian Ind. Sales;** **Swedish Lending;** Finnish Cons. & Bus. Conf.; Unicredit Austria Manuf. PMI	**German GDP; CPI & Ret. Sales;** **EZ Consumer Conf.;** **French, Spanish & Belgian GDP;** **French & Spanish CPI;** **French & Italian PPI;** **Swedish GDP & Ret. Sales;** **Norwegian Ret. Sales & Unempl.;** **Swiss KOF Leading Ind.;** French Cons. Spend.; Finnish House Prices; Italian Wages; Irish Ret. Sales; UK Nationwide House Prices
Japan	Jibun Bank PMIs (F)	Machine Tool Orders; Dept. Store Sales	**Leading & Coinc. Indices**; Services PPI		**BoJ Meeting;** **Tokyo CPI;** **Jobless Rate;** **Job-To-Applicant Ratio**
China	**[Q3 GDP;** **Ind. Production;** **Ret. Sales;** **Fixed Asset & Property Inv.;** **Surveyed Jobless Rate;** **New Home Prices;** **Resi. Property Sales]**			**Industrial Profits**	

US earnings for the week:

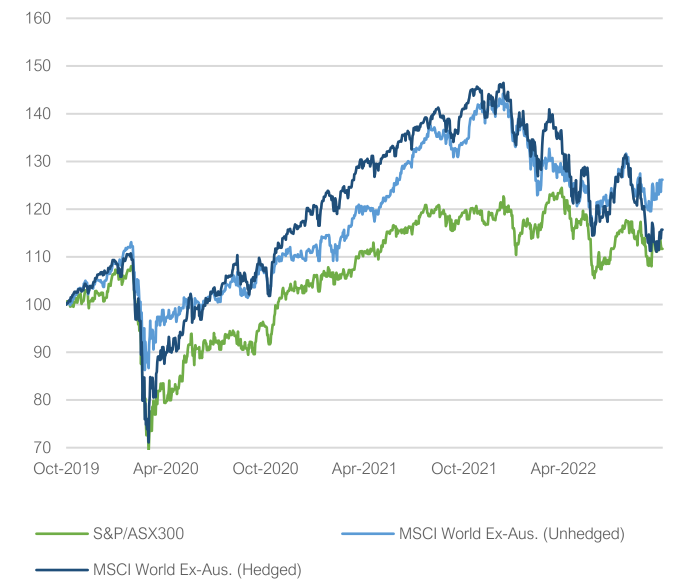
Tuesday 25th: Valero Energy, General Motors (GM), UPS, Coco-Cola (KO), Alphabet (GOOG), Mattel, Microsoft (MSFT), Visa (V), Chipotle

Wednesday 26th: Boeing (BA) General Dynamics, Kraft Heinz, Ford (F), Meta Platforms (META), Canadian Pacific, Hilton

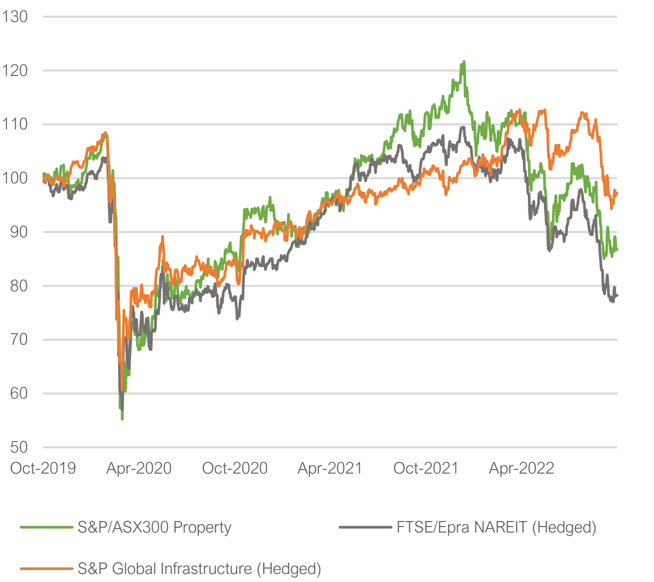
Thursday 27th: Comcast, Anheuser-Busch, Inbev, Caterpillar (CAT), Marck, McDonalds (MCD), Southwest Airlines, Altria, Amazon (AMZN), Apple (AAPL), Intel (INTC)

Friday 28th: Exxon Mobil (XOM), Chevron (CVN), AbbVie (ABBV)

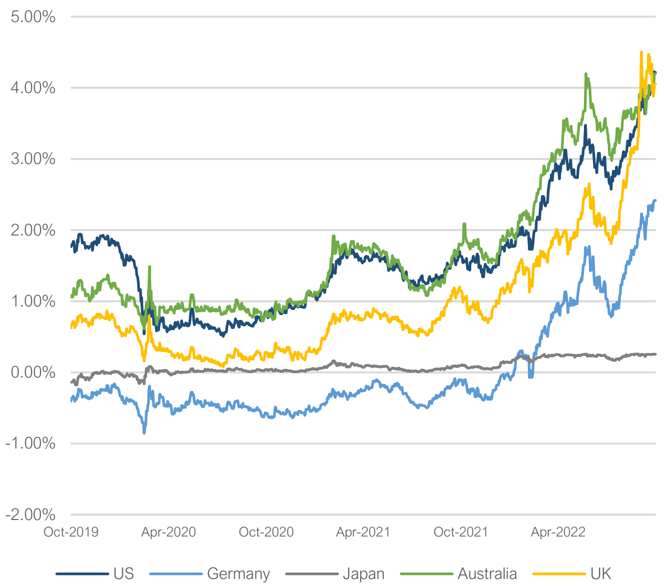
3Yr Equity Indices (Rebased to 100)



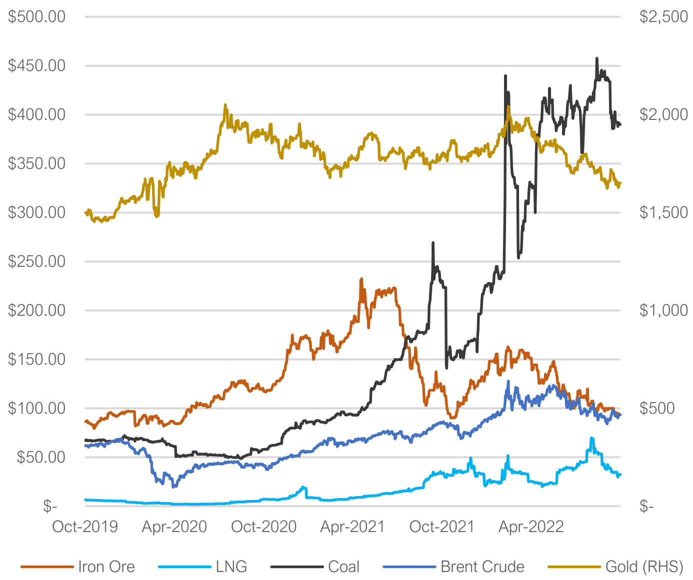
3Yr Prop. & Infras. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 23rd October 2022