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Economic Snapshot

November 2021 In Review

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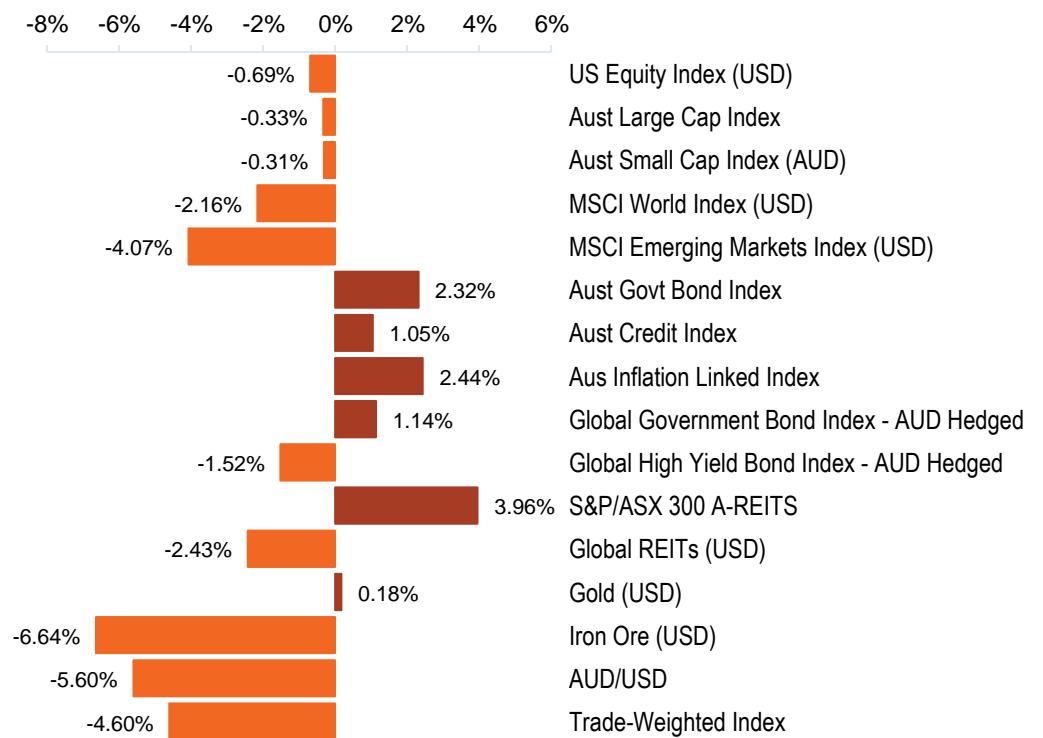
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In summary

- New Covid-19 variant Omicron rattles financial markets
- Australia's quarterly GDP result comes in better than expected
- US Federal Reserve Chairman, Jerome Powell signals bringing forward the timetable for accelerated tapering and concedes that inflation could be higher for longer.

Selected Market Returns, November 2021



Sources: Thomson Reuters, Bloomberg



Key developments in November 2021

Financial markets contracted in the final days of the month after the discovery of a more transmissible Covid-19 variant called Omicron reached Australian shores. The volatility index shot higher as market fears took hold, resulting in intense selling pressure of risk assets in the final days of the month both here and abroad.

Emerging markets (EM) were one of the hardest hit sectors, falling over 4% courtesy of a continued slowdown and energy crisis in China, heightened concerns about inflation and the uncertainty posed by Omicron to EM given relatively low vaccination rates compared to more developed economies.

Elsewhere, the dominos continued to shake and fall. An increase in Covid-19 cases in Europe and the reintroduction of lockdowns there dampened the global mood. The Aussie market fell in sympathy but outperformed global shares this month. Defensive sectors such as Telecommunications, Consumer Staples, Real Estate and Utilities were well supported, all benefitting from a decline in global bond yields. Energy on the other hand, was the worst performing sector with a decline of -6.7% on the back of falling oil prices and the Omicron variant. The Australian Dollar fell from 75c to 71c reflecting falling commodity prices, widening interest rate differentials and a general market preference for safe-haven currencies during this recent bout of volatility.

On the economic front, key third quarter statistics including Gross Domestic Product (GDP), consumption, investment income and savings were released. There were no major surprises other than that the results were not as weak as originally feared. GDP fell 1.9% reflecting reduced activity due to extended lockdowns across NSW, Victoria, and the ACT. Private demand was down, driven by a fall in household consumption. Exports of mining and rural commodities rose, reflecting increased global demand for coal, LNG, and meat products. Imports of goods fell, reflecting the reality of continued global supply constraints and a broad-based fall in domestic demand.

The domestic household savings ratio jumped noticeably from 11.8% to 19.8% in the September quarter. This was driven by increased household income coupled with a general decline in spending. Overall, these National Accounts results were better than many economists were expecting. One positive development that can be gleaned from the data is that greater savings plus the wealth effect from appreciating assets, now provides the population with a financial buffer to turn to if economic conditions were to deteriorate in the year ahead. It also offers consumers the wherewithal to spend once current caution is thrown to the wind and confidence returns.

On the subject of inflation, which has been getting plenty of attention by the financial press recently, the Reserve Bank of Australia (RBA) continued to reiterate that underlying inflation is expected to be around 2.25% by the end of 2022 and around 2.5% by the end of 2023. Headline inflation, however, was expected to run above underlying inflation in the near term largely owing to the sharp rise in fuel prices before stabilising. This may already be playing out. Whilst wage growth is subdued, the prospect of monetary policy tightening and a policy mistake by going too hard too early, would appear to be unlikely in the year ahead given the RBA's view that wage growth is going to take some time to manifest itself.

In the US, progress on vaccinations, indicators of economic activity and employment have continued to strengthen much like they have in Australia and elsewhere in the world. Inflation remains elevated, however. The cost of goods and services in October jumped 6.2% over the past year, with food prices up 5.3% over the last year and energy rising an astronomical 49%. Interestingly, Federal Reserve Chair, Jerome Powell has gone on the record recently suggesting that higher inflation is likely to persist for longer than the Fed originally thought. This remark marks a departure from the central bank's long held view (and that of the RBA) that inflation would start to ease once supply chain challenges are resolved. This pivot clears the way for accelerated tapering and ultimately tighter monetary policy which some market commentators forecast to happen towards the end of next year if not sooner. More will be revealed at the December Federal Reserve meeting. In the meantime, markets will be fixated on the Fed's response to the changing environment, including the potential threat of Omicron. The stage is set for a fascinating year ahead.



Major Market Indicators

	30-Nov-21	31-Oct-21	30-Sep-21	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90-day Bank Bills	0.04%	0.04%	0.01%	+3.0	+2.0
Aus 10yr Bond	1.81%	1.72%	1.28%	+69.0	+94.0
US 90-day T Bill	0.05%	0.05%	0.04%	+1.0	-3.0
US 10 yr Bond	1.44%	1.56%	1.53%	+13.9	+59.9
Currency (against the AUD)					
US Dollar	0.709	0.751	0.722	-2.98%	-3.77%
British Pound	0.536	0.547	0.536	0.88%	-3.25%
Euro	0.632	0.647	0.622	1.97%	2.36%
Japanese Yen	80.70	85.74	80.51	0.29%	5.31%
Trade-Weighted Index	60.20	63.10	60.80	-1.63%	-2.11%
Equity Markets					
Australian All Ordinaries	-0.3%	0.1%	-1.6%	-1.8%	16.7%
MSCI Australia Value (AUD)	-2.6%	-0.2%	-1.0%	-3.7%	15.6%
MSCI Australia Growth (AUD)	1.9%	0.8%	-3.0%	-0.3%	14.3%
S&P 500 (USD)	-0.7%	7.0%	-4.7%	1.3%	27.9%
MSCI US Value (USD)	-2.7%	5.7%	-3.6%	-0.9%	22.9%
MSCI US Growth (USD)	0.6%	8.2%	-5.7%	2.5%	31.1%
MSCI World (USD)	-2.2%	5.7%	-4.1%	-0.8%	22.3%
Nikkei (YEN)	-3.7%	-1.9%	5.5%	-0.3%	7.0%
CSI 300 (CNY)	-1.6%	1.0%	1.3%	0.7%	-0.8%
FTSE 100 (GBP)	-2.2%	2.2%	-0.2%	-0.2%	16.8%
DAX (EUR)	-3.8%	2.8%	-3.6%	-4.6%	13.6%
Euro 100 (EUR)	-3.1%	5.4%	-2.4%	-0.3%	22.0%
MSCI Emerging Markets (USD)	-4.1%	1.0%	-3.9%	-6.9%	3.0%
Commodities					
Iron Ore (USD)	-6.6%	-4.6%	-25.2%	-33.4%	-19.8%
Crude Oil WTI US\$/BBL	-20.8%	11.2%	9.6%	-3.5%	46.0%
Gold Bullion \$/t oz	0.2%	0.9%	-2.5%	-1.5%	0.3%

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