

WEEKLY MARKET UPDATE / OVERVIEW FOR THE WEEK STARTING 29 JULY 2019

Major upcoming global economic releases and events

DATE	DATA/EVENT	PREVIOUS	CONSENSUS
30-Jul-19	Australia building permits m/m (Jun)	0.7%	-1.0%
30-Jul-19	US core PCE price Index y/y (Jun)	1.6%	1.7%
31-Jul-19	Australia core inflation rate y/y (Q2)	1.2%	1.2%
31-Jul-19	Europe GDP growth rate y/y (Q2)	1.2%	1.0%
01-Aug-19	US ISM Manufacturing PMI (Jul)	51.7	52
02-Aug-19	Australia retail sales m/m (Jun)	0.1%	0.3%
02-Aug-19	US unemployment rate (Jul)	3.7%	3.6%

Source: Bloomberg, UBS Global Research, Tradingeconomics.com

What to watch this week



Australia

A quiet week of domestic releases saw July PMI data remain subdued. The forward-looking measure held above the neutral level but suggests a fairly muted growth environment ahead.

The RBA has been in focus of late, as have other central banks around the world. The two rate cuts delivered in June and July seem set to be followed by a pause as the RBA evaluates the impact and assesses the need for a follow up cut. The governor, Phillip Lowe, spoke about inflation targeting last week and emphasised that rates won't rise until inflation hits the middle of the 2-3% target range, which is not expected until late 2020 at the earliest. In the meantime, the RBA stands ready to provide additional policy easing "if needed" and current pricing suggests we are likely to see another 0.25% cut before year end.

Inflation data is the domestic highlight this week. The core number has been consistently outside of the RBA's 2-3% target band and is expected to print at 1.7% in Q2. Private sector credit and retail sales are also due to be published.



US

Data was largely positive in the US last week, although PMI numbers were a little disappointing and existing home sales also missed expectations. On the positive side, both new home sales and durable goods orders were reported stronger than expected. The highlight came late in the week, as GDP growth significantly outperformed expectations at 2.1% in Q2.

The Fed meeting this week will be closely watched around. An interest rate cut is widely expected and essentially fully priced in. The key questions are firstly whether a 0.25% or 0.50% reduction will be delivered and subsequently whether it is a one-off move or the start of a more prolonged easing cycle. A one-time cut will be seen as a positive for investment markets while a prolonged easing cycle would signal a more recessionary environment.

Inflation data and consumer confidence are scheduled for release in the early part of this week, but the highlights come later in the week in the form of ISM manufacturing PMI data and non-farm payrolls.



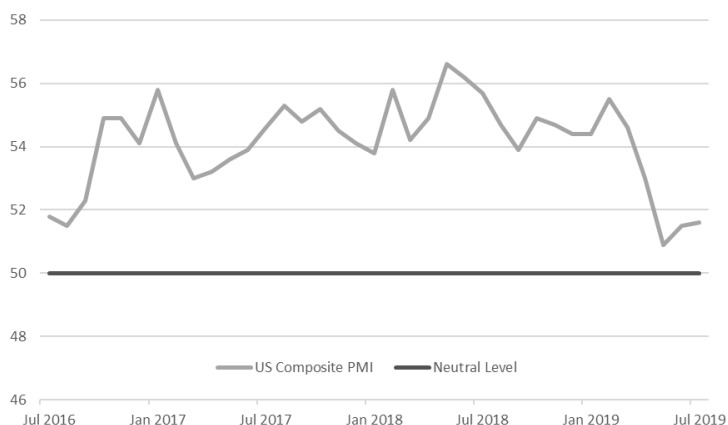
Europe

European PMI data pushed lower last week, below expectations of a small gain. Sharp weakness in the manufacturing series was partially offset by a stronger service sector result. European consumer confidence made positive progress in July but remains well and truly in negative territory.

Away from data the ECB were in focus and there was a real chance of a policy adjustment at the July meeting. Ultimately, rates stayed on hold but there was a shift in tone to an explicit easing bias. A number of dovish comments suggest that lower rates are likely in the months ahead. In politics, Boris Johnson was confirmed as Theresa May's replacement and officially became UK Prime Minister on Wednesday. The Brexit deadline is 31 October, leaving little time to negotiate a new deal, particularly as the EU have consistently said that is not an option.

A busy week sees Q2 GDP, business confidence, labour market and inflation data released in Europe. In the UK consumer confidence and PMI data are due and the Bank of England will meet.

Chart of the week—US Purchasing Manager's Index



Purchasing Manager's Indices provide a good leading indicator of economic conditions. A reading above 50 indicates an expansionary environment, with a drop below 50 suggesting a weaker period ahead.

US economic data has defied expectations of a slowdown recently, with stabilisation and some signs of strength. The PMI data has remained subdued however, suggesting that the outlook is still uncertain. The most recent data set affirmed that picture but stabilisation above the neutral level does provide some comfort on the back of sharp recent declines.

Looking ahead, PMI data in the US and globally will be key in determining the prospects for the global economic outlook, which has come under scrutiny after recent signs of slowing.

Source: Bloomberg

Financial market movements

INDICATOR	AS AT 26-JULY-19	1 WEEK CHANGE	1 YEAR CHANGE	3 YEAR CHANGE (ANNUALISED)	5 YEAR CHANGE (ANNUALISED)
EQUITIES		%	%	%	%
S&P/ASX 200 Accum. Index	72,154.55	1.39	12.58	11.58	8.66
US S&P 500 TR^ Index	6,083.82	1.38	9.53	13.93	11.23
Europe STOXX TR Index	766.13	1.45	0.48	8.52	6.02
UK FTSE 100 TR Index	6,848.82	0.58	2.40	8.29	6.22
Japan TOPIX TR Index	2,244.70	0.48	-9.71	7.92	5.90
MSCI World ex-Australia TR Index	4,943.37	1.15	5.66	11.40	8.58
FIXED INCOME	%	BP	BP	BP	BP
Australian 90-day bank bill yield	1.12	-3.30	-79.60	-19.50	-29.19
Australian 10-year bond yield	1.21	-12.70	-143.90	-22.35	-45.72
US 90-day bank bill yield	2.07	5.53	11.73	59.19	40.43
US 10-year bond yield	2.07	1.51	-90.61	16.94	-7.92
UK 10-year bond yield	0.69	-4.70	-59.10	-4.50	-37.95
German 10-year bond yield	-0.38	-5.20	-78.00	-11.65	-30.65
COMMODITIES		%	%	%	%
Gold	1,419.85	-0.35	16.24	1.66	1.79
Oil—West Texas Crude	56.09	-0.23	-18.34	10.48	-11.09
Iron Ore Spot Price Index	114.23	-2.90	90.67	27.05	4.58
CURRENCIES		%	%	%	%
AUD:USD	0.69	-1.78	-6.70	-3.10	-5.93
EUR:USD	1.11	-0.69	-4.90	-0.13	-3.65
GBP:USD	1.24	-0.76	-5.73	-2.19	-6.08
USD:JPY	108.64	0.71	-2.16	2.10	1.25
NZD:USD	0.66	-1.79	-2.71	-2.67	-4.83
CHF:USD	1.01	-1.12	-0.49	-0.80	-1.80
AUD:EUR	0.62	-1.10	-1.88	-3.00	-2.37
AUD:GBP	0.56	-1.01	-1.01	-0.94	0.16
AUD:JPY	75.08	-1.07	-8.72	-1.06	-4.76

*BP = Basis Point, Source: Bloomberg; ^TR = Total Return

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