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Woodhall's Wrap

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It's better than you think!

US posts some great data
Japan and China follow suit
Australian employment data still has some strength

The Big Picture

We hear a lot about "fake news". Too much, in fact! We all know what that's about but try this one for size. At the end of August the official US monthly consumer confidence index was released. One of two big international business news wires claimed it was the second best number in 12 months. That was correct and sounds OK.

The other newswire claimed it was the second best number since the year 2000. That too was correct and seems wonderful – so what's going on? Well the best since 2000 happened to be a bit earlier this year. The number was another blockbuster in quick succession but you could have been misled.

On top of that the US jobs data got August rolling with 209,000 new jobs beating the expected 183,000 by a country mile. The second quarter US economic growth number was revised up from 2.6% to an impressive 3.0%.

Is it just the US doing well? Japan just posted its sixth successive quarter of positive growth – the best run in a decade. And that latest growth rate was 4.0%!

Admittedly Germany's growth was only 2.6%. But what about China? Its monthly Retail Sales and Industrial Output were more or less on expectations but the IMF upgraded its China forecast for 2017 from 6.2% to 6.7%. And the China manufacturing PMI (Purchasing Managers Index) came in above expectations at 51.7 (above the 50 that signals expanding expectations). The nonmanufacturing PMI was an impressive 53.4!

Australian labour force data were again positive but full-time employment growth did come back a bit after very strong growth in the first half of the year.

So we go to the talk-fest in Jackson Hole, Wyoming where all the central bankers got together for their annual weekend away. They basically couldn't even muster a sentence or two about what they achieved. Most of the big problems have gone away.

While all this good news was going on most major stock markets were flat or slipped a fraction. It doesn't help that North Korea has worked out how to fire a missile over Japan to land in the ocean beyond. It certainly doesn't help that the two big US political parties can't stand each other and keep demonstrating about it. Hurricane Harvey has devastated part of the Gulf coast. Sadly also ISIS attacks continue but the world economy without the social and political implications is doing very well.

The big issue going forward is whether or not the US Federal Reserve (Fed) and the European Central Bank (ECB) can co-ordinate their repairs of their balance sheets. Both want to address the huge debts they built up in rescuing their economies in the GFC and it's time to start acting.

It is widely acknowledged that this repair will lead to rises in long-term rates on both sides of the Atlantic. What people want is that they do their implicit rate hiking in a measured and co-ordinated fashion. We think they have learnt so much in the last decade that it will be a walk in the park to get this one right.

At home our NAB business indicators came in very strong and the RBA seems firmly on hold when it comes to rates. The big near-term event for us is what the Australian GDP account will look like on 6th September when the new data are released. It is unlikely to be strong. We'll settle for a moderate number for now.

Asset Classes

Australian Equities

The ASX 200 was flat for the month of August – down just -0.1%. But a few sectors were up very strongly: Energy (+5.0%), Materials (+4.1%), Industrials (+4.4%) and Staples (+3.8%). It was Telcos (-10.8%) and Financials (-3.1%) that did the damage. Telstra slashed its dividend and CBA was caught up in yet another scandal.

Our August reporting season just ended. It wasn't that good but, importantly, our analysis of brokers' forecasts has lifted expectations for Materials and the ASX 200 as a whole for the next 12 months. At last, the recent improvements in key commodity prices seem to have worked their way through.

Foreign Equities

The S&P 500 and FTSE were also broadly flat over the month. The VIX fear index has also largely been contained over the month in spite of some of the human tragedies. Even North Korea's launching didn't really flick the needle.

Bonds and Interest Rates

Interest rates in the major countries were on hold in August and there is not much chance of a rate hike anytime soon.

However we are expecting an imminent decision, at least in the US that budget repair will start – possibly this month. The impact of slowing down bond purchases by central banks will push longer rates up. That is why it is less likely the official short-term rates will be hiked anytime soon.

The RBA is also likely to stay on hold. It makes its decision before the next GDP number is released.

Other Assets

Commodity prices were again up in August. Iron ore was up over +3%, Copper was up over +6% but Brent oil was down over -3%.

The volatility index called the VIX was up to 11.2% from 10.3% but both numbers are quite low.

Regional Analysis

Australia

The extremely strong sequence of gains in full-time employment this year stalled in the latest release. However, part-time employment surged to cover that gap. The key question is now whether the good run is over.

The Westpac consumer confidence read was another dismal affair which is unsurprising given our political situation. On the other hand, both NAB business surveys – conditions and confidence – were impressive.

Fortunately China has been strong for us. Indeed, world growth is on our side. It is still unclear how Australia will navigate the transition away from the mining investment boom.

China

The China manufacturing PMI was up over the previous month while expectations were down. So the uptick in the actual PMI was even more satisfying.

We are very close to the time when the new leadership team gets 'sworn' in and, yet again, the transition is going well.

The regular monthly stats came in roughly in line with expectations but the IMF raised their 2017 expectations from 6.2% to 6.7%. However, if the IMF had not earlier gone against the official projections, it would not have then had to come back in line.

There is continued speculation about China's ability to control its debt situation. But this talk has been going on for more than a decade. At least in the medium term, China looks strong but, of course, it would be very helpful if they could help North Korea get in line.

US

The Trump machine continues to roll along with advisors and associates coming and going. But when we take the hysteria away, the economy is doing very well.

Perhaps the increasing presence of social media and its implications has forever changed politics in all developed economies. It is so easy or anyone to express an opinion, the old order may have just changed forever.

Trump is now trying to get his tax policies moving. He has had no real successes to date but it wasn't long ago that we were saying things like that about Obama. That Trump has 'control' over both houses in Congress is not quite true. Trump is not a typical Republican and we remember from the primaries that he was not widely popular within his own party hierarchy.

In that sense six months or so isn't a long time to get things turned around. With half-term elections on their way, something has to give soon. Perhaps we should remain hopeful.

Europe

Brexit still dominates British politics and it will do so until the deal gets done. The UK economy is not doing great but at least it is one of the few countries with a desirable rate of inflation – at 2.6%. May and Johnston are flitting around the world trying to bolster trade deals.

Brexit suffers the same divisiveness that US politics and Australian politics suffer. It might be time to write to Santa to get in early for a pair of noise-cancelling headphones for Christmas.

Rest of the World

North Korea got the attention it was seeking over its nuclear aspirations. What is, perhaps, surprising is that world markets handled it so well.

It must be particularly hard for those living in Japan and other nearby countries. Having the British PM visit while all of this is going on to talk trade is hopefully a strong sign of solidarity.