Economic and market update

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Bob reviews events in Australian and overseas markets during September.

How did markets perform in September?

Global shares (unhedged) slipped by 1.1% in September given the rising Australian dollar (AUD).

The AUD rose significantly against the US dollar (USD) due to higher commodity prices (notably coal and oil) and the US Federal Reserve (Fed) delaying once again increasing US interest rates. The AUD rose by 2.4% against the British pound given Brexit concerns.

In local currency terms, global shares made a marginal gain of 0.4%. Concerns over the health of the European banking system and the prospect for higher US interest rates constrained global shares.

US shares drifted sideways in September. US jobs growth and business surveys have moderated ahead of November's Presidential election. Given the moderate economic activity, the Fed decided there is still time to wait before raising US interest rates, although there is a "*strengthened*" case for higher rates.

European shares edged lower. Concerns over the low capital ratios and weak profit performance of European banks had a negative impact. Yet European economic activity was solid with positive business surveys.

Australian shares made a mild gain of 0.5%. Higher coal and oil prices supported the Resources sector. However Australian Real Estate Investment Trusts (A-REITs) fell sharply by 4.3% in September given their sensitivity to higher bond yields.

Global bond yields were mixed. European bond yields fell with concerns over the health of Europe's banking system. US bond yields moved higher with the prospect of the Fed raising interest rates by year end as well as the rebound in oil prices with the Organization of the Petroleum Exporting Countries (OPEC) announcing production cuts.

What were the key factors driving markets?

The key issues are the timing for higher US interest rates and the health of Europe's banking system.

US economic activity was modest in September and caution ahead of November's US Presidential election may partly explain these mild results.

European business surveys are solid and have showed minimal impact from Britain's exit from the European Union (Brexit). However Europe's persistently low annual inflation at only 0.4% suggests pressure for further policy stimulus measures.

China's economic activity was stable in September. China's industrial production maintained a steady 6% annual growth rate while retail sales were robust at 10% annual growth.

Emerging markets provided positive signals. India's inflation has moderated to a 5% annual rate. Brazil's high annual inflation has also moderated to 8.8% as pricing pressures have softened after a severe recession.

Australia's economic activity was solid with the unemployment rate edging down to 5.6%, which is the lowest in the past three years. The National Australia Bank's business survey and consumer sentiment surveys also show favourable results. Positive comments from the new Reserve Bank of Australia Governor, Dr Philip Lowe, that the Australian economy was "adjusting reasonably well" after the end of the mining boom were also supportive.