

Market Musings

I've Got Bills

Financial markets and economic data have held down opposite ends of the spectrum this week. Perhaps markets are celebrating the fact that Donald Trump is out of the country and not wrecking anything.

Since the Trump inspired stock market sell-off mid last week, US stocks have climbed sharply this week to set fresh record highs on both the S&P500 and the NASDAQ. What's more, the Volatility Index (VIX) cooled its heels to be back below the benign 10.0 level.

S&P500 (blue & white) & US Dollar Index (grey)



A 6% slide in the USD helps lift US stocks to yet another record high (Bloomberg)

The FOMC minutes opened the door to the possibility of delaying rate hikes, with some conditional wording around inflation. Whilst the timing of the next US rate hike might be more uncertain, it seems the Fed is on track to raise official rates this year. US stocks, in particular, cheered a possible reprieve on the interest rate front and the lower US dollar which makes US producers more competitive.

The Aussie dollar has fallen 3.8% against the US dollar and a similar 4.3% on a trade weighted (TWI) basis (from this year's highs), which should offer a level of support to Australia's exporters.

This outcome is unequivocally good for the broader Australian economy, and very much a part of the post mining and construction booms transition. However, it will further erode the purchasing power of Australia's already skittish consumers. Noting, consumption is by far the largest component of the domestic economy.

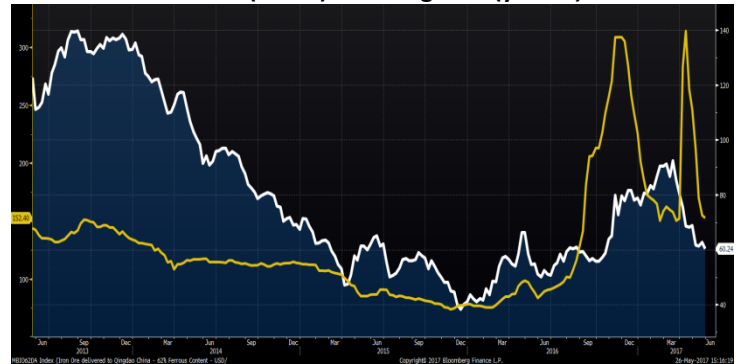
The other big news this week was the credit ratings agencies downgrades of Australia's smaller financiers and China's sovereign credit rating.

Standard & Poor's downgraded twenty three (23) of Australia's smaller financial institutions (i.e. the smaller banks and non-bank lenders). Essentially, this ratings downgrade raises the cost of funds for Australia's financiers to borrow in the global marketplace. These additional costs will ultimately, in part or in full, will be borne by Australia's households and businesses. Yet another factor that applies further downward pressure to an already weakened discretionary spending.

China's credit downgrade was a bitter pill to swallow, as it came from the US based Moody's rating agency. The downgrade comes at a time when China's bond yields are already climbing, as officials attempt to crackdown on financial speculation and the fact that China's total debts approach 260% of GDP.

As a result, we are likely to see borrowing activity and economic growth slow further in China. Such an impact was not lost on the commodity markets, whereby iron ore prices dropped back to US\$60 a tonne.

Iron ore (white) & Coking Coal (yellow)



Bulk commodities reach their lows for 2017 (Bloomberg)

To summarise all this, Australia's high household debt bills will likely cost a little more in the months and years ahead. In the words of Lurchmoney Lewis, "I'm gonna work, work, work every day".

"You may not be able to read a doctor's handwriting and prescription, but you'll notice his bills are neatly typewritten." ~ Earl Wilson