

Economic and market monthly update

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Bob reviews events in Australian and overseas markets during August.

What drove global markets in August?

Global shares made mild monthly gains of 0.5% in August in local currency terms.

US shares remain near record highs. Strong corporate profit reports and solid economic activity have favoured US shares. However North Korea's provocative missile testing and President Trump's pledge to respond with "fire and fury" did cause some market turbulence in August. Also concerning was the continued revolving door for staff in the White House. This has cast some doubt on whether President Trump's policy agenda of corporate tax cuts and higher infrastructure spending will be implemented. President Trump's bold stimulus promises have so far been very supportive of US shares. However financial markets are still awaiting the detail and timetable for implementing these new policies.

North Korea has become a prominent military risk in August after firing a missile across northern Japan. Both Japan and South Korea are key trading partners for Australia, so any military conflict would be a major concern for economic stability in Asia.

European shares recorded mild falls in August. The Barcelona terrorist attack and the stronger euro currency performance weighed on European shares. However European economic data was positive with strong business surveys and improving credit growth.

Emerging market shares made solid gains given favourable economic data. Solid Chinese business surveys were supportive of Chinese shares. Brazil has emerged from a deep recession this year. India's economic growth has moderated but low inflation has seen the central bank cut interest rates.

How about markets in Australia?

Australian shares posted a mild monthly return of 0.7% in August (S&P/ASX 200 Accumulation Index). There were robust gains for the Resources (5.5%) sector given the strong increases for key commodity prices such as iron ore and copper. However this was countered by sharp falls in the Telecommunications (-7.4%) sector given competitive pressures and Telstra cutting their dividend. Financial shares also disappointed (-2.2%) with increased scrutiny by regulators of the Commonwealth Bank given compliance issues.

Australian government bond yields edged higher in August given more positive economic data. After a slow start to 2017, Australia has experienced strong jobs growth over recent months with the unemployment rate stabilising at 5.6%. Retail spending has also improved and the National Australia Bank survey indicates strong responses for business confidence and conditions. The Australian dollar has held close to 0.80 against the US dollar given this better economic data as well as the sharp rally in commodity prices (particularly iron ore, which rose from US\$74 to US\$79 per tonne).

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