	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	64,247	0.05%	9.52%	11.28%
MSCI World Ex-Aus. (Unhedged)	9,860	2.09%	12.15%	15.60%
MSCI World Ex-Aus. (Hedged)	1,743	2.21%	12.24%	9.46%
Bloomberg AusBond 0+ Composite	9,821	-0.55%	2.43%	6.86%
BloombergBarclays Global Agg. (Hedged)	1,012	-0.30%	2.51%	4.33%
S&P/ASX300 Property	53,807	-3.03%	10.94%	20.30%
FTSE/Epra NAREIT (Hedged)	2,814	0.32%	12.00%	16.26%
S&P Global Infrastructure (Hedged)	5,225	0.66%	11.31%	13.46%
BarclayHedge Global Hedge Fund Index (USD)	5,667	N/A	2.09%	-1.03%
AUDUSD	0.7105	0.13%	-0.60%	-7.54%
AUDEUR	0.6335	0.14%	1.67%	0.90%
AUDNZD	1.0558	1.22%	-0.23%	-0.01%
AUDGBP	0.5449	0.08%	-2.65%	-0.70%
AUDJPY	79.3770	0.89%	2.10%	-3.96%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, Barclays, 7th April 2019

Both major political parties delivered their budget plans this week. Despite tax cuts and higher infrastructure spending promises from both sides of the House, interest rate futures were little changed. The RBA is still expected to cut rates at least once by the end of the calendar year.

A series of market fears have been allayed in the last week; Chinese manufacturing has improved, the US jobs report showed healthy employment gains without rising wage pressure, and Theresa May has asked for another Brexit delay from the EU after finally commencing cross-party talks.

However, the growth and policy outlook remains relatively unclear. Uncertainty in economic forecasts appears to be rising as economists and policy-makers find it difficult to assess the implications of slowing global manufacturing and trade.

Last week the RBA left rates on hold, leaving some clean air for the Treasurer to present the Budget on Tuesday evening. The Liberals pledged to cut taxes for middle-income earners, increase infrastructure spending and deliver a budget surplus of $7.1bn in 2019-20.

CBA's Chief Economist, Michael Blythe, was reported by the AFR to have suggested that the lower taxes could be the equivalent of two 0.25% cuts by the RBA in 2019-20 and 2020-21[1]. He may well be correct, in that households will benefit from lower outgoings on taxes, as they would with lower mortgage payments if rates were cut. The dates are significant though; the effect would not be instant but would be spread out over the next couple of years.

The result is sensible government finances and a less severe fiscal drag. But in the short-term households are unlikely to materially increase spending. The consumption boost will be further out into the future. More importantly, this will be a difficult environment for households to reduce leverage, leaving Australia still very vulnerable to external economic shocks in the short-term.

Source: Bloomberg, ABS, 7th April 2019

Labor's response is to match the Liberal tax cuts for middle-income earners and reduce taxes further for lower-income households. They also intend to increase healthcare, housing, and infrastructure spending earlier in 2019-20, then fund these measures by closing what they see as tax loopholes. They plan to end franking credit refunds for retirees, raise capital gains taxes by 50%, restrict negative gearing to new housing, and place a minimum 30% tax rate on discretionary trusts. If you include the reintroduction of penalty wage rates, overall the Labor budget is very slightly more pro-consumption and stimulatory in the next financial year. Given the timing differences between early spending and late collection of taxes, a surplus seems challenging.

Labor's plans are likely to weigh on share and house prices and make life a little harder for small businesses. Australia's main vulnerability to external shocks comes through the effect on asset prices and household balance sheets. So, even allowing for some increase in lower incomes, Labor's plans may even leave Australia more vulnerable to shocks, not less.

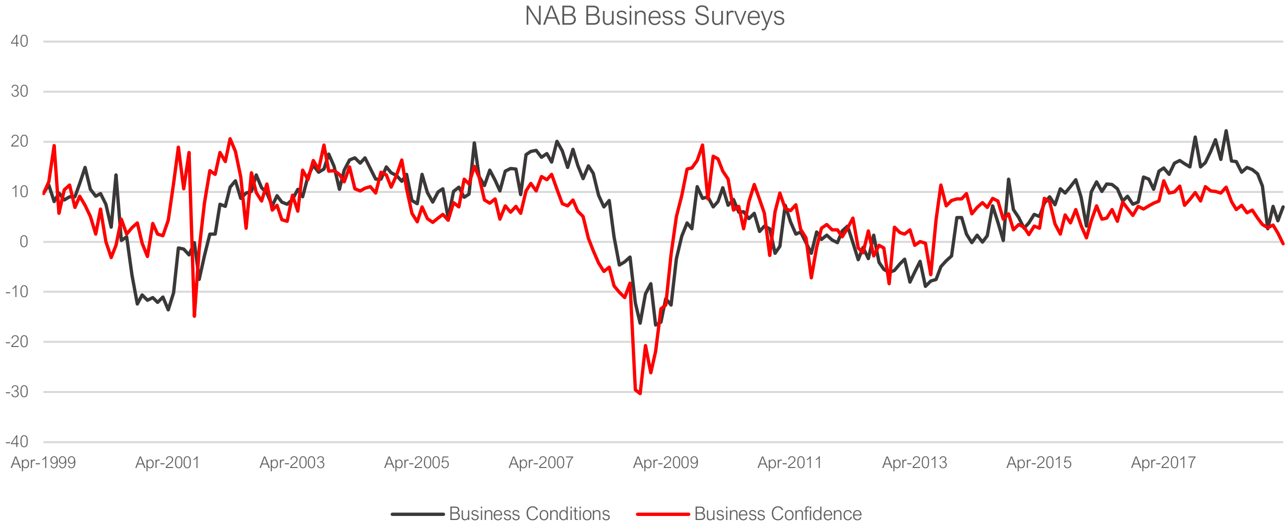
Market pricing of interest rates has changed very little in response to the Budget. Both parties are effectively leaving it to the RBA to support the economy. The market is still assigning a roughly 80% probability of at least one cut by the end of 2019, as has been the case since the beginning of March[2].

Turning to last week's large volumes of data, the surprisingly positive Chinese manufacturing survey last week was followed better-than-expected Australian retail sales (+0.8%, see chart above) and building approvals (+19.1%). However, allowing for inflation, retail sales are little changed over the last year, and building approvals are still 12.5% lower than a year ago. In the NAB business surveys, current conditions are holding firm, but confidence continues to deteriorate (see chart below). In other words, Australian economic variables are not deteriorating as quickly as the market had forecast, but slowing growth remains apparent. It is still likely that the RBA will downgrade their forecasts for growth and inflation in the Statement on Monetary Policy at the beginning of May, before cutting interest rates later in the year. If they do downgrade the outlook, it could be released just before the Federal election.

In the US, the March labour report on Friday saw a rebound in the non-farm payrolls to 196k from last month's disappointing 20k (revised up to 33k). Unemployment held at 3.8%, and underemployment also remained at 7.3% after last month's drop. Annual wage growth (average hourly earnings) fell from 3.4% to 3.2%. Stronger jobs growth and receding inflationary pressure make for a very market-friendly report. Moreover, the strength in employment is corroborated by the weekly jobless claims figures. After rising slightly at the beginning of the year, initial jobless claims are now the lowest they have been since the 1960s. Initial claims have a strong correlation with future economic growth.

An expanding US economy is generally very positive for the global economy, as is a strong Chinese economy. After all the growth worries at the beginning of the year, both the US and China are showing clear improvements in the data. Eurozone unemployment is also in a declining trend. The current level of 7.8% is the lowest since 2009.

That is not to say that the fears are overdone. Global manufacturing growth is slowing. Evidence can be found in the global PMI surveys, the ISM survey in the US, and in the Tankan survey in Japan. Global trade is also declining. What is less clear is how significant this might turn out to be.



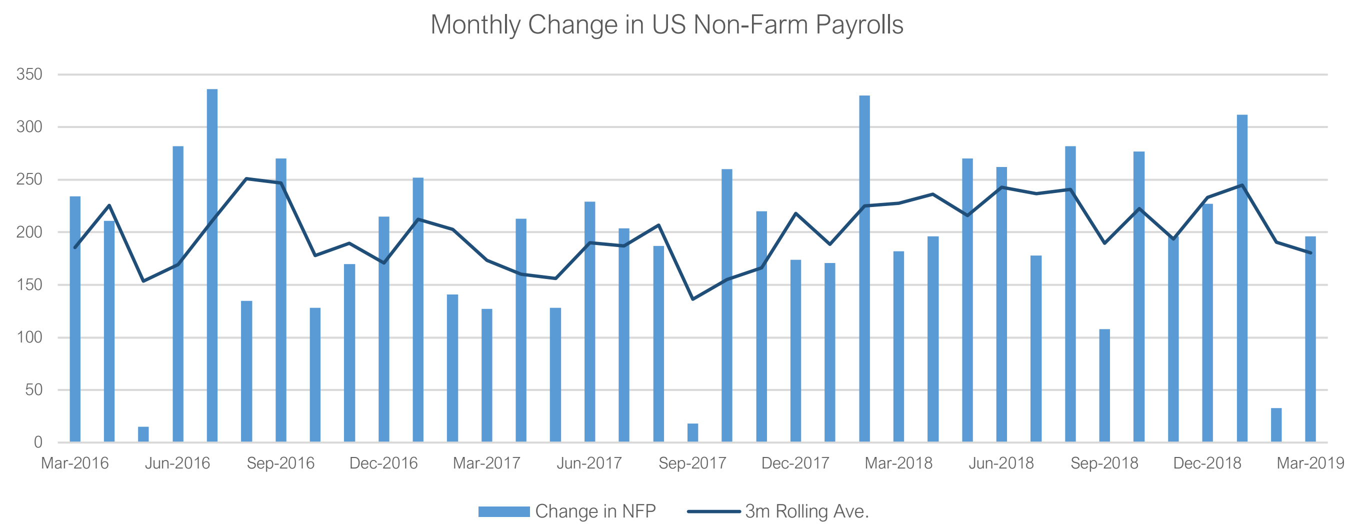
Source: Bloomberg, NAB, 7th April 2019

In manufacturing centres, such as Germany, France, Italy, China, Japan and South Korea, slowing manufacturing is very significant. In other economies in northern Europe and the US, where the less cyclical services have a greater share of the economy, lower manufacturing growth is probably less important. Due to the more cyclical nature of manufacturing, it used to be a fairly good indicator of the business cycle and was highly correlated with GDP growth. But in the developed world, the manufacturing share of economic activity has generally declined over the last few decades. Economists are now less sure as to how this will affect future growth. Central bankers also appear puzzled and global measures of economic policy uncertainty are at very high levels.

Thankfully, the chances of a negative shock from a “no deal” Brexit appear to be receding. Theresa May has begun talks with the Labour opposition leaders. While a joint-party solution will not be struck overnight, it does materially increase the chances that any solution will pass through parliament. The British Prime Minister has requested another extension to 30th June, extending beyond the May elections to the European Parliament. Early indications suggest that the EU is more inclined to insist on a longer delay, to avoid the political calendar being consumed by future delay requests from the UK. A longer delay will frustrate many in the UK, but equity investors will feel relieved, for the time being at least.

[1] AFR, “ScoMo delivers 'equivalent of two RBA rate cuts”, 5th April 2019

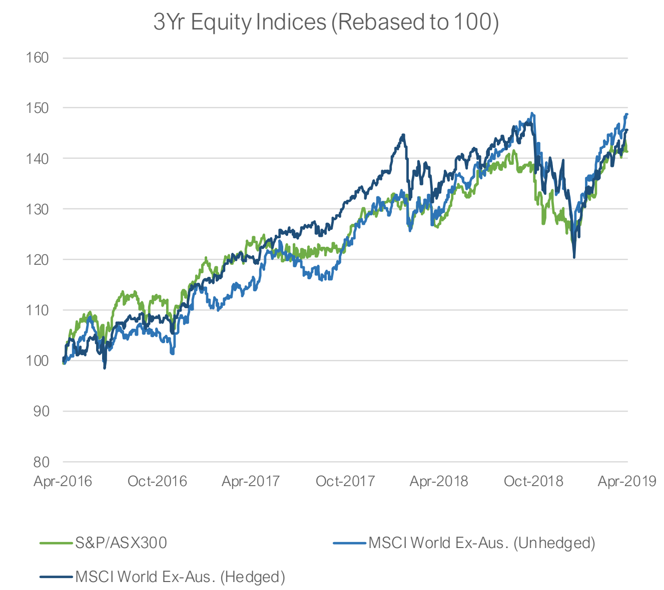
[2] Bloomberg, 7th April 2019

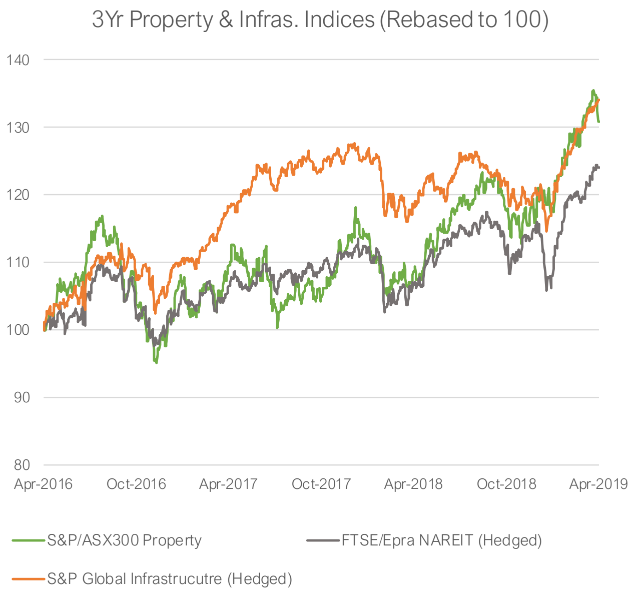


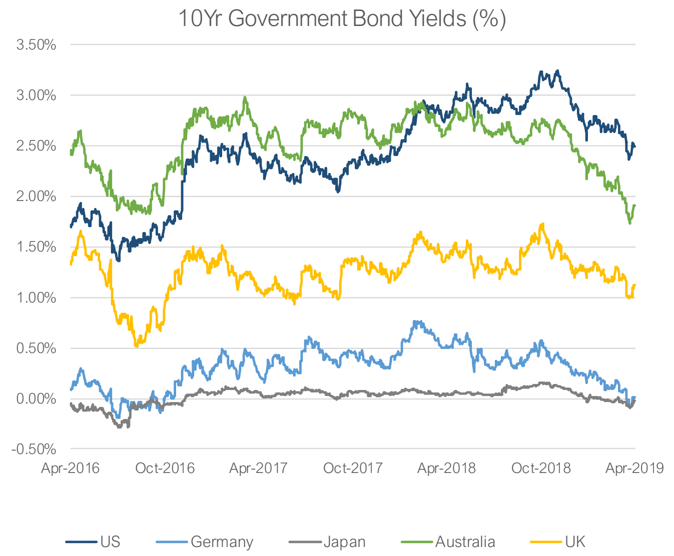
Source: Bloomberg, BLS, 7th April 2019

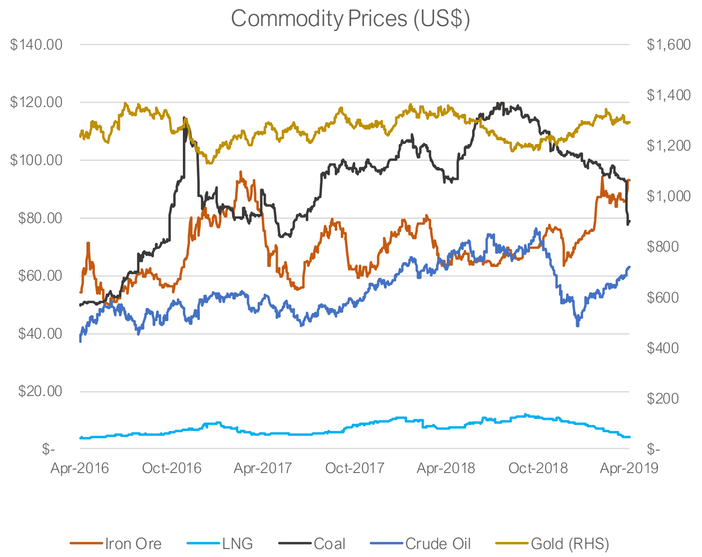
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	ANZ Job Advertisements	Home Loans	Westpac Consumer Conf.		RBS Financial Stability Review
US	Factory Orders	**NFIB Small Business Optimism; JOLTS**	**FOMC Minutes; CPI;** Monthly Budget Statement; Mortgage Applications; Real Ave. Hourly Earnings	PPI; Jobless Claims	**UMich Cons. Sentiment**
Europe	German Trade	Italian Retail Sales; Swiss Unemployment; Greek Ind.Prod.	**ECB meeting; UK, French, Italian Ind.Prod.;** UK Trade	German, Swiss, French CPI	Eurozone Ind.Prod.; Spanish CPI
Japan	Balance of Payments		Machine Orders	Money Stock	
China	**[Money Supply due in the week]**			**CPI**	**Trade**









Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, 7th April 2019

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