	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	70,277	0.08%	7.98%	11.29%
MSCI World Ex-Aus. (Unhedged)	10,197	-1.43%	3.23%	9.97%
MSCI World Ex-Aus. (Hedged)	1,781	-0.83%	1.60%	4.65%
Bloomberg AusBond 0+ Composite	10,176	0.40%	3.76%	9.62%
BloombergBarclays Global Agg. (Hedged)	1,045	0.48%	3.37%	7.29%
S&P/ASX300 Property	59,729	-0.57%	10.45%	21.72%
FTSE/Epra NAREIT (Hedged)	2,823	-1.31%	3.32%	8.91%
S&P Global Infrastructure (Hedged)	5,460	-0.83%	5.01%	11.66%
BarclayHedge Global Hedge Fund Index (USD)	5,670	N/A	0.09%	-1.43%
AUDUSD	0.7042	0.31%	-1.54%	-4.33%
AUDEUR	0.6275	0.75%	-1.34%	-0.73%
AUDNZD	1.0413	-0.74%	-2.74%	-4.81%
AUDGBP	0.5632	0.88%	2.27%	-0.41%
AUDJPY	75.8430	0.10%	-5.54%	-9.13%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, Barclays, 21st July 2019

The global economy is doing reasonably well. Global central banks are becoming gradually more accommodative. The Fed is expected to cut by 0.25% at the end of July, after sowing some seeds of confusion last week. The ECB is also expected to cut on Thursday, and more stimulus is expected from the Chinese. The case for more stimulus in Australia seems less strong, provided that the global economy stays on track.

The possibility of a negative external shock is not negligible. It is difficult to be optimistic on the chances of a trade deal between the US and China, and the more recent steady increase in tensions with Iran could potentially lead to a sharp increase in the oil price.

This week sees the US earnings season continue, Mueller gives evidence in Congress, Global PMIs will be updated, and the UK will most likely see Boris Johnson confirmed as the next Prime Minister.

The US earnings season got underway last week with the major financial stocks reporting. By the end of the week, however, it was clear that markets are still largely driven by short-term interest rate expectations.

Speeches from two of the most influential Fed speakers, Vice-Chair Clarida and Williams of the New York Fed stoked expectations of a major move in two week's time. Richard Clarida stated that it wasn't necessary to wait for data to turn decisively, while the Williams seemed to suggest that the Fed may cut by 50bps at the first hit because of the limited scope to cut further. BlackRock CEO, Larry Fink, expressed concerns that a half-point cut could spook the equity market and prompt a sell-off.

An unusual "clarification" from the New York Fed followed, pushing expectations back to a 25bp cut, causing the S&P500 to finish the week a little softer on Friday. Nevertheless, the Fed is expected to cut more than once in the next few months.

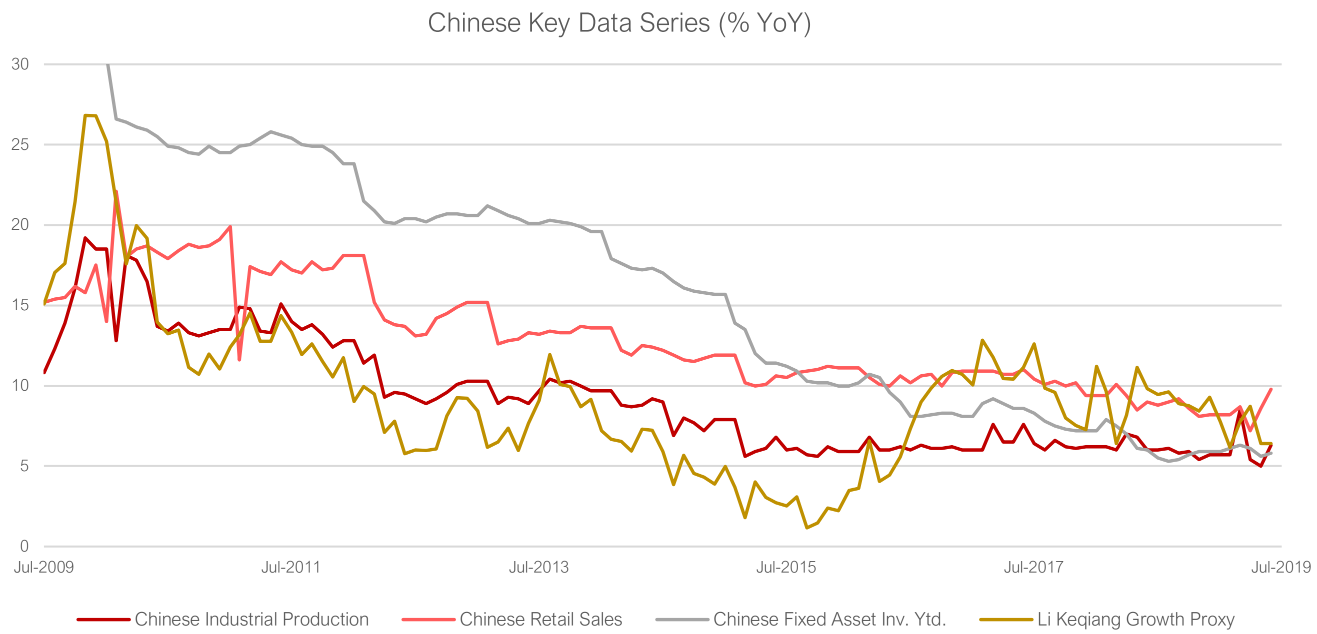
US retail sales (ex-food and energy) accelerated to +0.7% in June, far exceeding the expected +0.3%. The US consumer is apparently in good health, supported by an employment market that is still growing. Interest-sensitive sectors, such as real estate, are faring less well. Last week also saw a surprisingly large decline off 6.1% in building permits. The market had been expecting +0.1% for the month. Other property data points to modest growth in the sector, below the pace of 2018. The weak building permits number causes concern since it the furthest forward indicator – the most leading of the leading indicators. The number is within the historical "noise" range, so we will continue to monitor the series rather than reading too much into it. Moreover, a Fed cut would most likely boost activity. The decline in the manufacturing sector and trade policy is of much greater concern.

The ECB meets on Thursday this week and is expected to cut rates by 0.1% to compensate for the expected Fed cut. Christine Lagarde - former French Finance Minister, outgoing Head of the IMF and lawyer by training - will take over from Mario Draghi at the ECB from October.

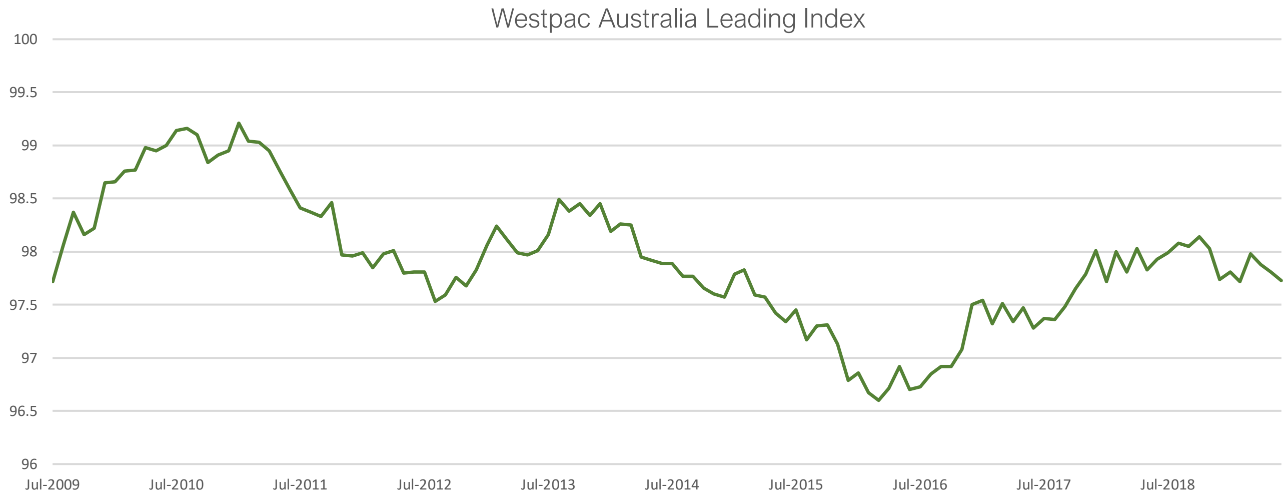
The Bank of Japan is expected to keep rates on hold at the end of the month. This weekend, Prime Minister Abe's party is expected to claim victory in the upper house elections.

More stimulus is expected in China. GDP slowed in the June quarter to the lowest level in at least 27 years. The headline last Monday sounded gloomy, but most countries would be delighted with an annualised 6.2%. Moreover, the figure masked the better-than-expected June industrial production (+6.3% yoy) and retail sales (+9.8% yoy) , both of which exceeded the prior month and the expectation by more than 1%. With policy already stimulatory, the key data seem more likely to rise than fall in the months ahead.

In Australia, the market still expects the RBA to stay on hold until October, but is pricing a reasonably high chance of an earlier cut. The all-important unemployment number held at 5.2% in June, with solid gains in full-time roles, and a slight uptick in the participation rate. Also last week, the Westpac leading index showed that the economy is experiencing a fairly gentle slowdown. Expectations for further easing seem overdone – the economy really isn't so bad. Our view remains that infrastructure spending, tax cuts and the two cuts already made will be enough, provided that there isn't a major deterioration in the global economy. However, the consumer will need some time to be convinced. The stimulatory effects will be felt by businesses first and this week's CBA PMIs numbers will be eagerly anticipated. In the meantime, the RBA July minutes revealed that the risk of interest rate cuts going straight into housing is seen as low. Housing market moves already seem a little at odds with that view. Ultimately a sharply rallying housing market would be a significant barrier to further cuts.



Source: Bloomberg, NBSC, 21st July 2019



Source: Bloomberg, Westpac Melbourne Institute, 21st July 2019

The global economy generally seems in pretty good shape, but two major worries persist; US trade policy (and the effect on manufacturing and activity), and the continually rising tensions with Iran.

There are two main reasons why the situation with Iran could disrupt energy markets and cause a shock to the global economy; Iran's position at the Strait of Hormuz - a critical choke-point for oil tankers leaving the Gulf states - and the increasing chances of a mistake. Last week the US shot down an Iranian drone that came too close to a US warship. The Iranians, in turn, detained a British tanker in a tit-for-tat response to the detention of an Iranian tanker two weeks ago that was apparently bound for Syria in breach of sanctions. The British navy also foiled an earlier attack on a tanker last week.

The deal between Iran and the western allies was designed to slow Iran's progress towards a nuclear weapons capability, for about a decade. During that time, a number of other issues could be dealt with, perhaps paving the way for a second agreement. The deal took 14 years to negotiate. Having seen the US unilaterally withdraw from the deal, Iran will continue to skirmish with the US to pressure the US to return to the deal and remove economic sanctions, or to agree to a new deal that also sees the US drop sanctions immediately. The evidence suggests that economic sanctions are very uncomfortable for all Iranians, so the chances of the government backing down are remote.

The US continues to walk a tightrope between upholding and election promise not to engage in another overseas conflict and protecting the interests of the US and its allies from Iran, at the same time maintaining severe pressure on Iran through sanctions. The policy is attracting justified criticism for its incoherence.

Last week the Iranians seemed to offer a new arrangement to the US, albeit one that is less favourable than the previous deal. The attacks on British tankers are significant since the UK is seen as the US closest ally and, since the UK remains supportive of the deal, the best way to broaden pressure on the US.

That logic may be flawed. There is little evidence that Trump finds the British any more persuasive than any other government. Early this week the UK will most likely confirm Boris Johnson as leader of the Conservative party and Prime Minister. The other candidate is current Foreign Secretary, Jeremy Hunt. It seems the new leader could find himself embroiled in an international crisis in his first week in office, possibly without a Foreign Secretary.

As if the White House didn't have enough to do, Robert Mueller will give evidence in Congress on Wednesday.

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia			CBA PMIs; Skilled Vacancies		
US	Chicago Fed Nat. Activity Index	Richmond Fed Manuf. Index; Existing Home Sales	Markit US PMI; MBA Mortgage Applications; New Home Sales	Durable Goods; Retail & Wholesale Inventories; Kansas Fed Manuf. Index; Weekly Jobless Claims	Q2 GDP
Europe		Finnish Unemployment; Danish Consumer Conf.	PMIs for France; Germany & the Eurozone; EU Money Supply	ECB Meeting; IFO Business Survey; Swiss Unemployment	Italian Manufacturing Confidence; Irish Retail Sales
Japan	Convenience Store Sales	Supermarket & Dept. Store Sales; Machine Tool Orders	Jibun PMIs; Leading & Coincident Indices		Tokyo CPI
China					[Industrial Profits YoY]

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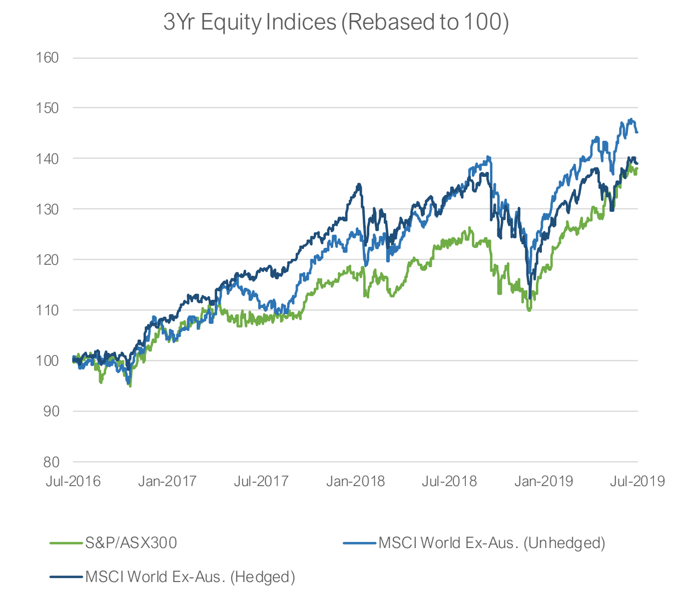

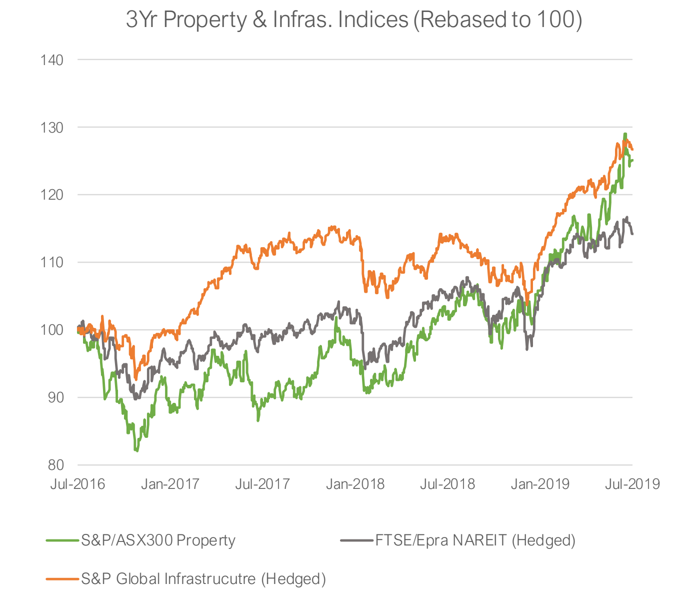

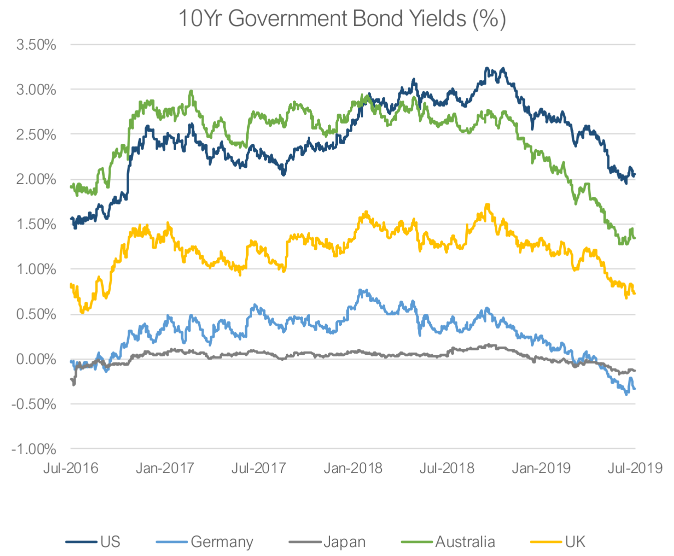

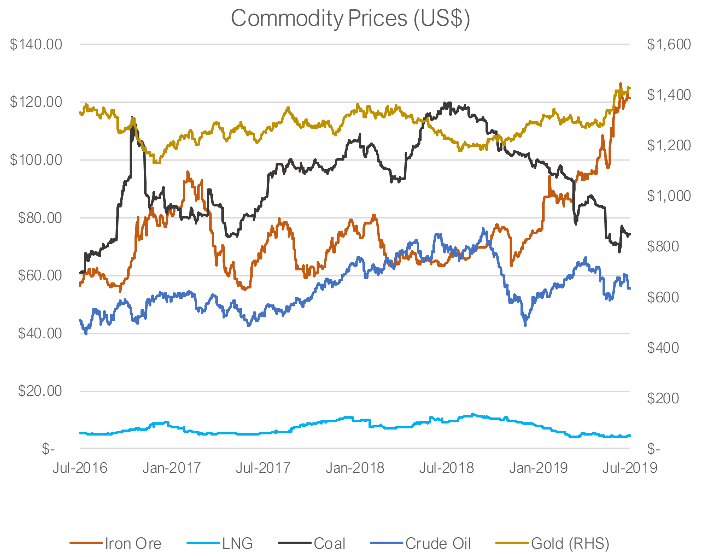

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, 21st July 2019

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