

## Another Bad Month in Central Banking

"Transitory"

For months we have been told that inflation is "transitory."

In preparation for a spike in headline data as the deflationary shock of 1Q20 rolled out, central banks have amended their inflation targets. From keeping inflation range-bound, **central banks have increased their flexibility for inflation to move outside target bands.**

**Australia's RBA was the thought leader** – in the RBA's case, after years of missing to the downside, they moved the goalposts to a "through the cycle" target. Sometimes higher, sometimes lower, but anchored around 2-3%.

In the Fed and ECB's case, it was clear that there would be a brief breakout. **In August 2020, Fed Chair Powell moved to a similar long-term average definition. Few would have expected them to abuse it to this degree in the subsequent year, though.**

In Senate testimony, Fed Chair Powell said it's time to retire the word as it had been misinterpreted.

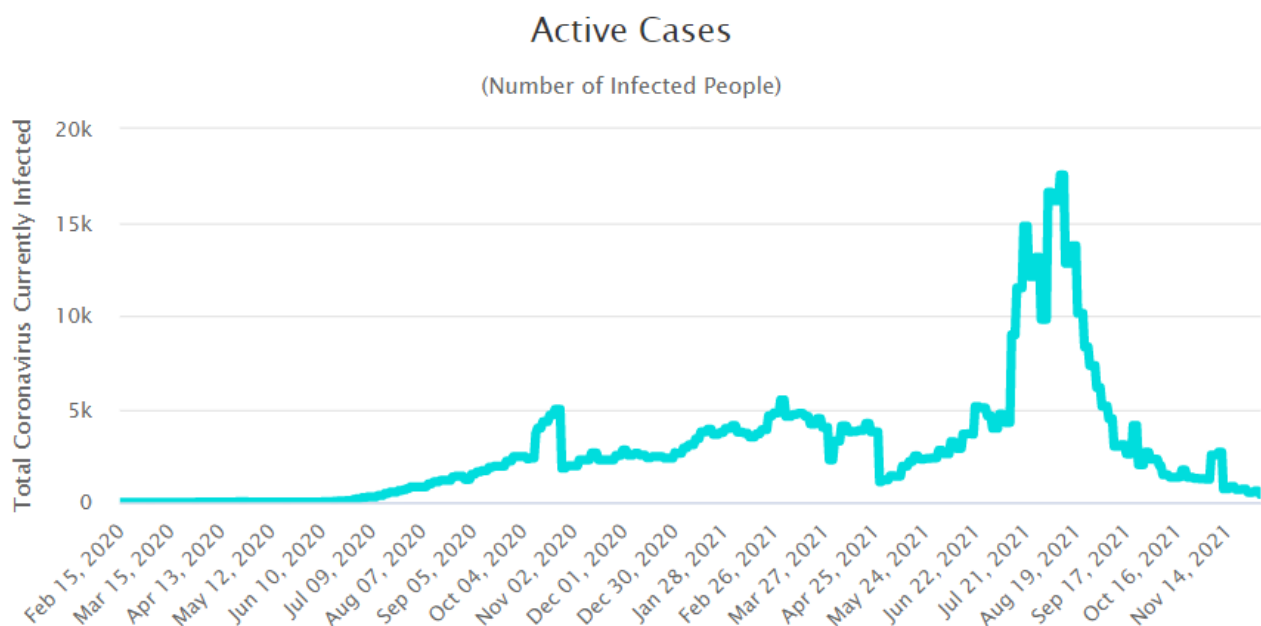
*Transitory (adj.) ephemeral, evanescent, fleeting, fugitive, momentary, transient.*

**Apparently, they meant "not permanent."** That's a relief, as US inflation has reached 6.2%, and much of Europe is not far short of that.

**This really should be a staggering loss of credibility, but investors have stopped worrying about inflation after a generation without it** – and a decade where the only fear was deflation.

*And another thing:*

Botswana is Ground Zero of the omicron variant of COVID19.



Source: Worldometers

## Leading Markets

Stocks eased after the declaration of omicron as a COVID19 “variant of concern.” Tightened border controls point to elevated economic risks. The US Dow Jones, S&P500 fell -3.5%, and -0.7% after intra-month records, but NASDAQ gained +0.3%. MSCI World ex-AUS slipped -1.5% in local terms.

Emerging Markets slumped -4.1% in \$US driven by Russia on fears of another Ukraine invasion and sanctions (dragging down Eastern Europe). Frontier fell -4.6%.

US 10-year bonds firmed to 1.43% (-12bp). High yield slumped to 367bp spread (+59bp).

## Other Highlights

COVID19 deaths approach 5¼m (+200k) from over 260m cases (+12m). The world reached 43% 2<sup>nd</sup> shot (+4%), slightly slower than October.

A new “omicron” variant put governments back into closure mode, with Israel now closed to entry.

Glasgow’s COP26 brought incremental commitments, but not what organisers had hoped – largely blocked by China.

A reduced infrastructure package cleared the US House of Reps, as a chastened majority contemplated a shock loss in VA and massive swing in NJ. It faces further pressure in the Senate, as the CBO found it would add to the deficit.

US unemployment fell to 4.6% (-0.2%) in October, on stronger Non-farm Payrolls of +531k vs September’s +312k. Participation was steady at 61.6%. Youth unemployment fell to 8.7% (-0.3%).

Inflation jumped to +6.2% YoY (+0.8%) after a +0.9% month vs +0.4%; core inflation soared to +4.6% - both 30-year highs. Retail sales rose +1.8%.

Eurozone unemployment eased to 7.4% (-0.1%) in October. Prices rose +0.8% in October and are +4.1% YoY. In Germany, they are 6% YoY (harmonised EU formula). But European bonds rallied. Bank of England flagged rate hikes as inflation hit 4.2% (+1.1% MoM).

China’s Evergrande again made bond payments, but Fantasia faced a liquidation petition from creditors.

## Domestic

Tax revenues slumped -16.8% in Q3 due to the lockdowns.

Australia walked back domestic and international border opening, on omicron fears despite being 87% vaccinated and 92% 1<sup>st</sup> dosed.

The RBA confirmed it spent a token \$1bn in October to support its yield curve target, before abandoning it as initially successful but ultimately a failure. It affirmed all other settings and guidance.

3-year bonds rallied to 82bp, with the 2-year yield halving to 34bp. The RBA remains very dovish, and omicron threatens economic weakness.

COVID counts eased despite reopening.

The ASX200 eased 0.5% and the Small Ordinaries slid 0.3%. CoreLogic reports +1.2% housing gains in October.

10-year bonds rallied to 1.65% (-30bp).

Q3’s current account was a record \$23.9bn surplus (+\$1bn) after September’s +\$12.2bn trade surplus (from +\$14.7bn).

Building approvals fell -12.9% in October to be -8% YoY.

Wages grew +0.6% to be +2.2% YoY, in line with prices.

In a surprise, October unemployment soared to 5.2% (+0.6%) on 64.7% participation (+0.1%), with NSW, SA and NT improving. Employment fell -46k (fulltime -40k). Underemployment rose 0.3% to 9.5%. Youth unemployment jumped to 13.1% (+2.3%).

Economies shrank in FY21 in NT and Victoria.

Retail trade rose +4.9% in October.

Life expectancy at birth reached 81.2 (male) and 85.3 (female).

## Commodities and Currency

WTI oil plunged to \$US66/bbl (-20%). Gold eased to \$1777/oz (-0.3%). Iron ore dived as low as \$85, closing \$102/t (-3%).

Base metals were mixed with Tin (+4%) and Nickel (+4%) higher but Zinc (-3%), Copper (-4%) and Aluminium (-2%) down.

The \$A dived to US71.5c (-5%), touching a 2021 low.

**KEY FINANCIAL MARKET DATA – AS AT 30<sup>TH</sup> NOVEMBER 2021 (UNLESS SPECIFIED)****Interest Rate Markets**

Index Performance	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg AusBond Bank	0.01%	0.01%	0.01%	0.02%	0.23%	0.68%	1.14%

Key Rates	Nov-21	Oct-21	Sep-21
Australian Cash Rate	0.10%	0.10%	0.10%
90 day BBSW	0.05%	0.07%	0.02%
3 Yr Commonwealth Bonds	0.92%	1.24%	0.32%
10 Yr Commonwealth Bonds	1.67%	1.95%	1.49%
CDX North American 5 Yr CDS	58bp	52bp	54bp
iTraxx Europe 5 Yr CDS	58bp	51bp	51bp
iTraxx Australia 5 Yr CDS	74bp	65bp	70bp
US Fed Funds Rate	0-0.25%	0-0.25%	0-0.25%
US 10 Yr Bond Rate	1.43%	1.55%	1.52%

**Equity Markets**

Domestic	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
S&P/ASX 200 TR	-0.54%	-2.48%	3.35%	15.48%	6.39%	12.56%	10.11%
S&P/ASX Small Ordinaries TR	-0.31%	-1.54%	7.27%	18.44%	12.04%	13.54%	11.65%
S&P/ASX 200 A-REIT TR	4.52%	2.66%	15.46%	20.78%	4.72%	11.67%	9.74%

International	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
US: S&P 500 (\$US)	-0.69%	1.32%	9.38%	27.92%	22.58%	20.38%	17.90%
US: NASDAQ (\$US)	0.33%	1.98%	13.36%	28.20%	34.96%	29.60%	25.08%
MSCI World Acc. (Local Currency)	-1.47%	0.12%	7.01%	23.58%	17.72%	16.71%	14.24%
MSCI World Acc. (AUD)	3.61%	2.10%	14.50%	26.55%	15.34%	18.05%	15.56%
FTSE 100 (£)	-2.17%	-0.17%	2.36%	16.78%	1.39%	4.23%	4.78%
MSCI Emerging Markets (\$US)	-4.08%	-6.98%	-10.81%	2.70%	10.28%	9.27%	9.52%

**Fixed Interest Markets**

Bonds	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg Global Agg TR AUD	5.62%	0.70%	6.68%	0.50%	-0.01%	5.37%	4.15%
Bloomberg AusBond Composite	2.08%	-3.04%	-0.56%	-3.23%	-0.14%	3.35%	3.30%
ICE BofA US High Yield TR USD	-1.02%	-1.17%	1.09%	5.39%	5.87%	7.10%	6.12%

Data*	Current Period		Previous Period	
<i>Employment Data</i>				
Employment Growth	October	-46,300	September	-138,000
Unemployment Rate	October	5.20%	September	4.60%
Participation Rate	October	64.70%	September	64.50%
<i>Lending Finance</i>				
Housing Finance	October	-2.50%	September	-1.40%
Personal Finance	October	4.70%	September	0.40%
Business Finance	October	3.60%	September	13.00%
<i>Other</i>				
Balance on goods and services	October	11,220m	September	11,824m
Retail Sales	October	4.90%	September	1.30%
Building Approvals	October	-12.90%	September	-4.30%

\*All data is seasonally-adjusted.

<b>Median Fund Manager Returns (Morningstar)</b>	<b>1 month</b>	<b>3 month</b>	<b>6 month</b>	<b>1 year</b>	<b>2 year p.a.</b>	<b>3 year p.a.</b>	<b>5 year p.a.</b>
Australian Equity Large Cap	-0.90%	-2.15%	3.55%	16.16%	7.15%	12.19%	8.89%
Australian Equity Small Cap	-1.07%	-0.08%	9.01%	21.96%	14.82%	15.25%	11.58%
Global Equity Large Cap	2.15%	-0.39%	9.21%	21.67%	13.23%	15.83%	14.45%
Global Equity Small Cap	0.27%	-2.42%	5.29%	27.60%	16.11%	16.19%	11.98%
Australian Fixed Income	2.02%	-3.11%	-0.68%	-3.38%	-0.17%	3.15%	3.03%
Global Fixed Income	0.52%	-1.05%	0.42%	-1.40%	1.60%	3.97%	3.09%
Australian Listed Property	3.84%	2.07%	14.45%	19.96%	4.09%	10.84%	8.77%
Australian Cash	0.00%	0.00%	0.01%	0.04%	0.23%	0.68%	1.14%
Conservative <sup>1</sup>	0.36%	-1.51%	0.28%	0.84%	0.71%	3.18%	2.90%
Moderate <sup>2</sup>	0.60%	-1.17%	1.67%	4.87%	3.05%	5.05%	4.29%
Balanced <sup>3</sup>	0.55%	-1.03%	2.86%	8.91%	5.13%	7.38%	6.30%
Growth <sup>4</sup>	0.59%	-1.09%	3.89%	12.63%	6.50%	9.33%	7.73%
Aggressive <sup>5</sup>	0.53%	-1.03%	5.15%	17.02%	8.50%	11.64%	9.81%

<sup>1</sup> Growth Assets 0% - 20%

<sup>2</sup> Growth Assets 21% - 40%

<sup>3</sup> Growth Assets 41% - 60%

<sup>4</sup> Growth Assets 61% - 80%

<sup>5</sup> Growth Assets 80%+

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