Economic Insights

Winners & losers in 2018

Financial market perspectives

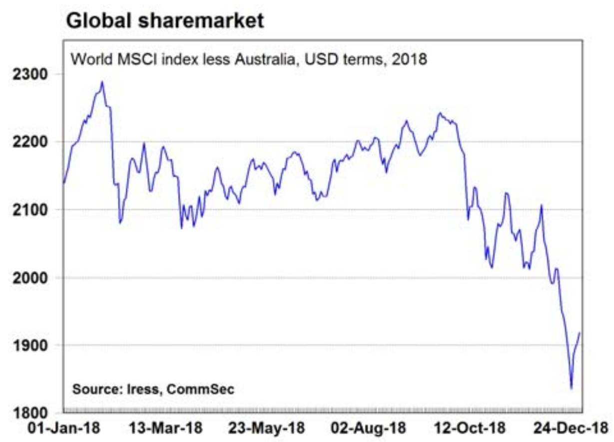
- **Exchange rates: Of 120 currencies monitored, only nine lifted against the greenback in 2018. The Aussie dollar fell by 9.5 per cent against the greenback, putting it in 104th place of the world's currencies.**
- **Sharemarkets: Of 73 global sharemarkets monitored, only 15 ended in positive territory for 2018. The Aussie sharemarket is actually mid pack, in 42nd position with the All Ordinaries down 7 per cent.**
- **Interest rates: The cash rate was unchanged in 2018. But 10-year yields hit two-year lows of 2.32 per cent.**

The report puts Australian financial market trends in a global perspective for investors.

What do the figures show and what does it all mean?

Currencies

- The Aussie dollar started the year around US78 cents and finished the year around US70 cents. At face value that may suggest that somehow the Australian economy has under-performed. But rather the fall reflects the strength of the greenback rather than the weakness of the Aussie dollar. In short, US interest rates have risen and Aussie interest rates have been stable.
- In fact of 120 currencies monitored by CommSec, only nine increased against the greenback, the strongest being the Seychelles Rupee, up 3.6 per cent. Of major currencies, the Japanese yen lifted by 3.3 per cent – the strongest G10 performer. But the Euro lost 4.5 per cent and the British pound fell 5.6 per cent.
- When measured in terms of Aussie dollars per US dollar the Aussie fell 9.5 per cent in 2018 (when measured as US dollars per $A, the Aussie has lost 10.9 per cent). That puts the Aussie in 104th place of the 120 currencies. The weaker Aussie dollar has been positive for Australian businesses. It has served to support in-bound tourism, assisted in keeping Aussie exports competitive, and has 'encouraged' Aussie consumers to spend more money at home rather than overseas.
- The weakest currencies against the greenback in 2018 included: Argentine peso (down 50.6 per cent), followed by the Angolan Kwanza (down 45.6 per cent), Turkish Lira (down 28.2 per cent), Pakistani Rupee (down 20.5 per



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cent), Russian Ruble (down 17.3 per cent) and Brazilian Real (down 14.6 per cent). Of course, that means some of these countries have become attractive destinations for Aussie travellers given that the currencies have fallen further against the greenback compared with our dollar.

Sharemarkets

- Not only did most countries see the value of their currencies fall against the greenback, they have also saw their sharemarkets go backwards in 2018. Shares recorded their worst annual performance since the Global Financial Crisis.
- Of 73 global sharemarkets monitored, only 15 posted gains in 2018.
- The world sharemarket (world MSCI less Australia) fell by 10.3 per cent in 2018.
- The Aussie sharemarket was mid pack, in 42nd position with the All Ordinaries down 7.4 per cent – its worst year since 2011. Total returns on Aussie shares (dividends and share prices) fell by 3.5 per cent in 2018.
- Out-performing global sharemarkets included Ukraine (up 77.5 per cent, although inflation is 10 per cent), Qatar, Brazil, Saudi Arabia, India and New Zealand. Under-performers include Venezuela, Ireland, China (down 24.6 per cent), Greece, Turkey and Germany.
- The US Dow Jones (down 5.6 per cent), S&P500 (down 6.5 per cent) and Nasdaq (down 3.9 per cent) indexes all fell. In Europe, Germany's Dax (down 18.3 per cent) and the UK FTSE (down 12.5 per cent) bourses tumbled. In Asia, Japan's Nikkei fell by 12.1 per cent.

Interest rates

- The Reserve Bank has left the cash rate at an "emergency" level of 1.50 per cent for 28 months. But while the cash rate was stable in 2018, other rates moved over the year – up and down.
- Ninety-day bank bill yields continue to hold above the 1.5 per cent cash rate. Ninety-day bills held between 1.76-2.12 per cent over 2018 and yields are currently near 2.08 per cent – not far below 2-year highs. At the other end of the yield curve, At the other end of the yield curve, 10-year bond yields held between 2.32-2.92 per cent over 2018. Yields on 10-year bonds ended 2018 at the year's lows, down 35 points.

What are the implications for interest rates and investors?

- The past year has been dominated by increases in US interest rates and, as a result, a stronger greenback. But in 2019 the expectation is that the US Federal Reserve will have less work to do – the federal funds rate is now close to where the central bank wants it. But other central banks don't look like rushing in with their own rate hikes. Economies are in good, not great shape. And inflation still remains contained.
- The Aussie dollar is expected to creep higher against the greenback, perhaps reaching US75 cents later in the year. We continue to pencil in a rate hike by the Reserve Bank, but not until November at the earliest.
- The year 2018 was also a year when global sharemarkets generally lost ground – especially after October. The US-China trade dispute raised fears about future global economic growth. And the expectation that the US rate hiking cycle is drawing to a close caused uncertainty in investor minds about what comes next.
- Fear rather than fundamentals drove sharemarket action in the latter months of 2018. In Australia, with companies in good shape and profits at record highs, 2019 looks a better year for sharemarket investors.
- The Australian ASX 200 share index is expected to rebound by 10-12 per cent in 2019 after a decline of around 6-8 per cent in 2018. Including dividends, total returns are tipped to lift by 14-17 per cent in 2019.
- While above-normal growth of total return on equities is expected, this must be seen in the context of the below-normal performance in the latter part of 2018. The forecasts naturally assume that the US and China make progress on reconciling their trade disagreements.

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