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July 2019 Market Wrap

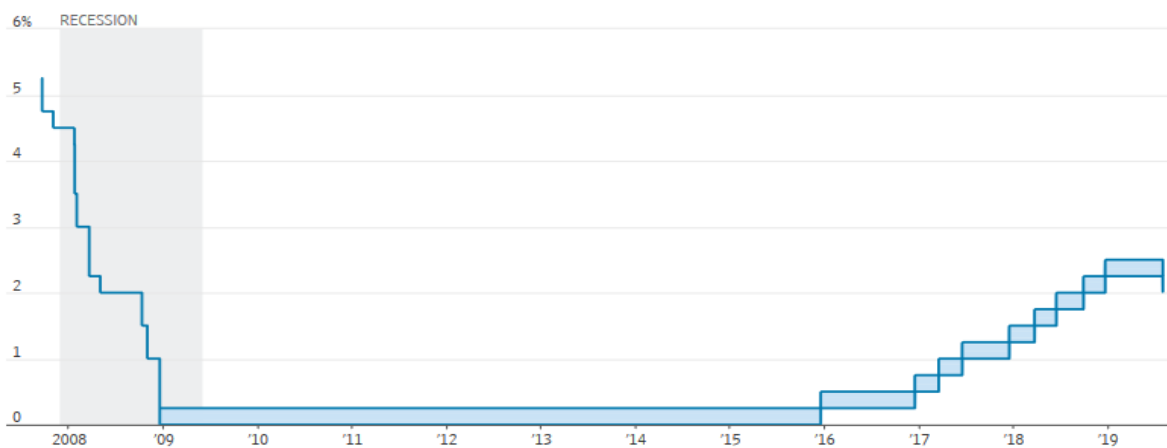
Thursday 1 August 2019

The Australian equity market marked the completion of a recovery that began over a decade ago. On July 30th, the S&P/ASX 200 finally broke through 6,828 to record the first closing all-time high in the benchmark since 2007. "Party" The Australian dollar has again traded lower at around 0.6840 and looks like it will test the downside again.

The Reserve Bank of Australia lowered the cash rate by 25 basis points to 1.00%. "This easing of monetary policy will support employment growth and provide greater confidence that inflation will be consistent with the medium-term target". "Today's decision to lower the cash rate will help make further inroads into the spare capacity in the economy". Following the cut interest rates (standard variable mortgage rates) sit at their lowest levels since the early 1960's.

The Fed (US Federal Reserve) lowered the target range for the federal funds rate 25 basis points to 2%-2.25%. Policy makers based their decision on global developments and "muted" inflation pressures and left the door open to further reductions. Jerome Powell (Head of Fed) said the FOMC is thinking of the cut "as a mid-cycle adjustment to policy" designed to "insure against downside risks" rather than signal the start of a lengthy cycle of monetary policy easing. "It's not the beginning of a long series of rate cuts," he said, adding: "I didn't say it's just one" cut. The Fed chief also tried to explain the move by describing it as in response to "threats to what is clearly a favorable outlook."

Federal Reserve rate target



Note: Target became a range Dec. 16, 2008
Source: Federal Reserve

What the?

- US Federal Reserve
 - First reduction since 2008
 - Ends qualitative tightening two month early, that being the runoff of \$3.8 trillion asset portfolio (equals 18% of GDP)



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- Ends a decade of gradually rising the target cash rate

Other central banks have cuts rates as the global economy slows. Lower and negative rates in foreign countries make it very difficult to have higher rates and maintain growth. This is a key factor in the RBA and Fed moves as they do not want their currencies being too strong and hence impacting domestic growth.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-0.38%	+6.04%	+15.16%
Nasdaq	+0.06%	+6.60%	+23.21%
S&P 500	-0.52%	+5.94%	+18.89%
Russel 2000	+0.16%	-5.67%	+16.76%
Europe 600 Index	-1.74%	-1.04%	+9.30%
UK FTSE 100 Index	-0.30%	-0.86%	+14.25%
Hong Kong Hang Seng	-3.74%	+0.02%	+7.25%
Japan Nikkei 225	+3.28%	-4.61%	+6.30%
China Shanghai Composite	-2.68%	+5.67%	+17.28%
ASX 200 (Australia)	+2.94%	+8.92%	+23.25%

Australian Dollar

	Close	52 week Range
AUD	0.6848%	0.6740-0.7453%

Government Bonds

	Close	52 week Range
US 3 Month	2.074%	1.997-2.487%
US 10 Years	2.042%	1.940 – 3.263%
US 30 Years	2.535%	2.454 - 3.465%
Australia 10 years	1.214%	1.165-2.799%

Source: Wall Street Journal.

If you have any questions or concerns, please don't hesitate to contact me.

Regards

Michael Clapham