

Market Bulletin

July 5, 2019

Two for two

The Reserve Bank of Australia (RBA) did something it hadn't done since 2012 and cut rates twice in successive meetings. The market reaction was limited given the high level of communication running into the July meeting. However, whether the rate cut came in July or in August, the cash rate was always going to 1% as the RBA had told us as much. RBA Governor Philip Lowe had been very clear in letting the market know that the projections for the economy it set out back in May were based on a 1% cash rate.

WITH TWO RATE CUTS DONE AND DUSTED, THE QUESTION IS WHAT NEXT?

More easing is likely but the commitment behind that easing is not as strong. The final paragraph from the RBA's statement was largely unchanged from last month shy of two words "if needed". The same emphasis was placed on achieving the inflation target and the capacity for the unemployment rate to fall, but the introduction of these two words provides the RBA some flexibility on the timing of the next move and being able to assess the impact of the 50bps decline on rates on the domestic economy as well as the developments internationally.

There are tentative signs of stabilisation in the housing market and household spending is expected to pick up thanks to individual tax reforms that should shortly pass through the senate. But with a very weak first quarter growth figure (1.8% y/y), the economy will have to pick its socks up to deliver on the "around trend" growth the RBA expects and the 2.75% forecast in May's Statement on Monetary Policy (SoMP).

The RBA clearly didn't take too many positives away from the G20 meeting, given their downgraded assessment of the global outlook from last month's statement. They may be hoping for some better signals in the domestic economy, as global politics remains the wild card. Sentiment indicators for global manufacturing have been in contractionary territory and trade is clearly having an impact. To the extent this may be a signal of broader economic momentum slowing beyond the trade uncertainty, the potential for a retrenchment in corporate spending or worse—hiring—would be difficult to offset in the domestic economy.



Kerry Craig
Global Market Strategist

When it comes to monetary policy, the conversation has changed. It's no longer a question of if, or when, but rather how far the RBA will go. Further cuts are still expected given the economic growth is unlikely to be strong enough to sustain an increase in employment growth, a fall in the unemployment rate or drive inflation back towards the RBA's target. The August SoMP will give the RBA another opportunity to set market expectations for the path of rates over the rest of the year and into 2020, currently they are sticking to their central scenario and if that continues, further rate cuts will be pushed out until year end.

Right now the market is reacting to the easing favourably, but in as much as it signals weakness in the economy, further cuts may not elicit the same reaction.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be used as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our [Company's Privacy Policy](#). For further information regarding our regional privacy policies please refer to the [EMEA Privacy Policy](#); for locational Asia Pacific privacy policies, please click on the respective links: [Hong Kong Privacy Policy](#), [Australia Privacy Policy](#), [Taiwan Privacy Policy](#), [Japan Privacy Policy](#) and [Singapore Privacy Policy](#).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA; and J.P. Morgan Investment Management Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

Material ID: 0903c02a8262d598