ThinkSeries | Trader's Chat

2020 Outlook: Australia right in the crosshairs

Bethel Loh
Macro Strategist
Asia Pacific, Australia
Bloh@ThinkMarkets.com
+61 9093 3428

Here are our top 10 themes and favourite expressions for Australia as we navigate through the upside and downside risks in 2020.

1. How low can we go?

Two rate-cuts on the horizon brings the cash target rate down to 0.25%, the effective lower bound according to the RBA. After that, assessing the timing, substance and stimulatory impact of fiscal and unconventional policy will be the name of the game.

2. Subdued wage growth here to stay

A persistent sticking point in the side of Australia's return to trend, labour market slack fails to dissipate. The reduction in leading indicator job ads signals weaker times ahead. Employment reports in January and February found wanting is the nail in the coffin for a Feb. cut.

3. Housing out of the frying pan, into the fire

If there's one thing most are betting on, it's the continued rise of Aussie house prices amid weak construction activity, low mortgage rates, easy macro-prudential and FOMO chasing. But, like the years preceding this one, the downside risks of affordability are thrown into the spotlight.

4. Low consumption could see better times ahead

Despite optimistic Black Friday sales, consumer confidence and consumption seem sluggish. And while partially helped by stronger housing turnover in 2020, it seems consumer intent is on saving ahead of soft growth and the impact of bushfires.

5. Cost of bushfires undetermined

Devastation caused by widespread bushfires have not only had a human cost, but also a significant, potentially under-estimated economic cost. Some have tossed around A$400m-A$700m, but there's risk that it goes well beyond that and strains consumption.

6. Front row seats at the US-China trade show

With Phase One ceremoniously signed, it's now onto Phase Two. Though, risks of non-compliance could flare up at any time. For the time being, near-term policy uncertainty remains low and that's likely to encourage Aussie businesses with cross-border supply chains.

7. Corporate earnings lag ASX rally

A perennial debate among bulls and bears is what should drive the stock market. The answer: it doesn't really matter if you're on the right side. So, while ASX earnings nudge along at a meagre pace, watch this debate intensify against the backdrop of envious bears.

8. Another double-digit year for the ASX?

Quite possibly. More likely than not as it stands. Especially when you consider the stimulatory impact of two potential rate-cuts, Fed QE, an improved property market, a simmering US-China trade war and China growth soft landing.

9. Australia's largest export tipped to rise

Iron Ore, Australia's major export to China, is some way off its 2019 high. The sedimentary rock, usually closely monitored for its correlation to **AUDUSD** due to current account impacts, could be led higher off the back of reflation, better China growth and increased global activity.

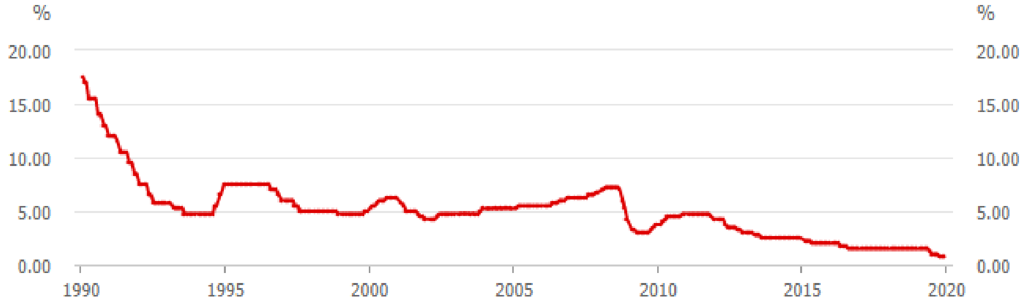
10. Pressure builds for fiscal policy

The government's obsession and intent on delivering a budget surplus in 2020 is being increasingly met with concern, given the reparation costs of bushfires and waning efficacy of low interest rates. Watch this space.

Top Expressions:

1. Long CAD vs short AUD
2. Long S&P 500 vs short ASX 200
3. Long Macquarie Group (MQG) vs short Westpac (WPC)
4. Long Fortescue Metals Group (FMG)
5. Short Kogan (KGN)

Figure: RBA official cash rate is at the lowest point in its history



Source: RBA