ASX to rally on stellar US employment data

Shares

William McInnes

Australian shares are today set to shake off their worst week in almost 11 months after a stellar jobs report in the US pushed the unemployment rate to a 50-year low.

ASX futures were up 55 points, or 0.9 per cent, to 6542, with Friday's jobs report alleviating concerns the US economy was in dire straits. Earlier in the week, the Institute for Supply Management manufacturing index for September fell to 47.8, its weakest level since June 2009.

A few days later, the ISM's non-manufacturing index dropped to 52.6 for the month, its weakest print since August 2016. But on Friday, the US non-farm payrolls report showed unemployment had dropped from 3.7 per cent to 3.5 per cent, its lowest level since December 1969.

The positive jobs figures and the prospect of further Fed rate cuts allayed the fears that had put US markets into reverse gear earlier in the week.

"It either gets worse and we go into a recession, or we bounce from here. We're leaning to the latter at this point," said Munro Partners chief investment officer Nick Griffin.

"Nothing suggests we're heading into a financial crisis. We see volatility ahead, but don't see a major draw down in markets. These cross-currents are probably likely to continue for some time [though]." While the slowdown in the services sector is still cause for some concern, investors say it's unlikely to be signalling the start of a serious downturn.

"The decline in non-manufacturing ISM's is a concern, but similar declines occurred in 2014 and 2016 and did not precede a recession," said THB Asset Management chief executive Christopher Cuesta.

"ISM and payrolls are reflecting some relative weakness, but nothing which would signal a strong downward shift in US economic activity."

The market is still betting the gentle slide in the US economy will be enough to prompt the Fed to cut rates, with the central bank keen to get ahead of the curve.

"The stepped-down pace of payroll growth continues, but the pace of labour market tightening won't last," said T. Rowe Price chief US economist Alan Levenson.

"The Federal Open Market Committee leadership may argue that the risk of cutting this month is less than the risk of deferring."

The market is pricing in a 76.4 per cent chance the FOMC cuts rates when it meets on October 31, with investors suggesting the Fed will try to maintain some momentum as the economy slows. "Momentum is a very important aspect to consider for central banks," said Swell Asset Management chief investment officer Lachlan Hughes.

"Consumers can become fearful very quickly so it's important for the Fed to stay ahead of the curve." The Fed will also have to consider just how long consumers can support the US economy, with the fall in factory activity likely to feed through the rest of the economy as big manufacturing companies lay off their workers due to a lack of work.

The ongoing trade war between Washington and Beijing looms as a key issue for the US economy, with a resolution likely to set the US economy and global markets soaring.

"Leading into a presidential [election] year next year, you could never underestimate the possibility the trade war gets called off and Trump declares a huge victory," said Bell Asset Management chief investment officer Ned Bell.

"There would be a lot of pent up demand that would come into the market and there could be a huge rally. Trump's main barometer of success is the stock market so there's nothing he'd love to see more than the market rally 20 to 30 per cent."

President Trump could get a chance to soothe markets further this week, with officials from the US and China set to meet in Washington.

NAB senior market strategist Gavin Friend suggested a breakthrough was unlikely but the promise of additional purchases of US agricultural goods or an extension on further tariffs could prove positive.

The local sharemarket movements are set to be dictated heavily by news from the US, with a quiet week of domestic market and economic events ahead.

A job well done

US unemployment rate (%)

SOURCE: FINANCIAL REVIEW, BLOOMBERG

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