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Glenn Stevens takes on Ellerston advisory role

Former Reserve Bank governor Glenn Stevens will consult to Ellerston's global macro fund. **Louie Douvis**

by **Jonathan Shapiro**

Former Reserve Bank governor Glenn Stevens has taken on a role as an advisor at Ellerston Capital's new global macro fund.

Mr Stevens, who retired from the central bank one year ago, will take a permanent role on Ellerston Global Macro's Investment Counsel and will provide insights to the fund's portfolio managers on international market and policy matters.

"Our main focus is on his international perspective and how other central banks see their economies. He's here to challenge and debate all of our investment theses," said Ellerston Global Macro head Brett Gillespie.

Ellerston's macro fund was set up by Mr Gillespie, a former Tudor Investments trader who has since lured former Goldman Sachs chief economist Tim Toohey to his team.

As part of his role, Mr Stevens will take part in the fund's four-hour monthly investment meetings but also provide insights and feedback on events as they arise.

"What we are after with Glenn is a much more challenging internal debate. We are using him to challenge and contribute to our investment themes," said Mr Gillespie.

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"Global macro is defined as educated guesses, which is the case with all investing and you have to keep stress testing. We are always seeking someone to take a different view."

Mr Stevens has largely stayed out of the public eye since retiring from the Reserve Bank.

'Thinking very much about global macro'

This year he took on a role advising the NSW government on housing affordability. He also chairs the Financial Markets Foundation for Children charity and is a volunteer pilot for Angel Flight, which helps people in rural areas access medical care.

This role, Mr Gillespie said, suited Mr Sevens because "it keeps him thinking very much about global macro".

He joins other retired central bank chiefs in providing their services to asset managers.

Former US Federal Reserve chairman Ben Bernanke is an adviser to bond fund PIMCO and US hedge fund Citadel. Former Reserve Bank governor Ian Macfarlane also served on the international advisory board of Goldman Sachs from 2007 to 2017.

Ellerston Capital has about $5 billion of assets in several hedge fund, equity and private strategies

The Reserve Bank cut the cash rate in the penultimate month of Mr Stevens' tenure to a record low of 1.5 per cent. Mr Gillespie says the fund expects the Reserve Bank of Australia to begin hiking interest rates as early as February 2018.

He says the obsession with housing has meant there has been an underestimation of how much Western Australia's slowdown has hurt the economy.

By Ellerston's forecasts, a forecast decline in housing-related activity will detract about half a per cent of GDP growth but the estimated 1.5 per cent detraction from the decline in mining investment in Western Australia will stop.

"That's how we will get a firming of the economy. For us, it means it will move the unemployment rate to 5 per cent and the RBA will commence a hiking cycle in the first half of next year – either in February or May."

Dollar fluctuations

Mr Gillespie says current market pricing implies around a 15 per cent chance of a RBA rate hike in February but he puts the odds at closer to 50 per cent.

With regard to the Australian dollar, Mr Gillespie says it "certainly doesn't look expensive" relative to the US dollar and says fair value at "around the 82¢ to 83¢ mark".

That's marginally higher than the current level of the Australian dollar relative to the US dollar of 79.60¢

"There's two factors that drive the Australian dollar – one is the commodity cycle the other is the rate differential.

"On the rate differential, we would be fairly neutral as we see Aussie and US rates going up at the same speed relative to what bond markets are expecting. On the commodities cycle, we are mildly positive.

"I would expect the [Australian dollar] settle above 80¢ rather than below over the coming six months but it's not a key [trading] opportunity for us at the moment."

Increasing rates

Ellerston's Macro Fund has started its existence with a "core view" that globally bond rates are going to increase.

"Investors that are interested in coming into the fund early have a similar view, or they at least want the insurance."

So far in 2017, bond markets have pared back expectations of future interest rate rises in the United States, pricing in a 30 per cent chance of single rate cut this year while forecasting less than one hike next year.

That's at odds with the Fed's own projections of one interest rate hike this year, and three in 2018.

The Fed, of course, has been wrong in the past. Mr Gillespie said the Fed had previously underestimated the impact of a rising US dollar, and overestimated the positive impact of declining oil prices in forecasting hikes.

But they're less likely to be wrong from here, he says. A rise in inflation and the wind back of global quantitative easing, he said, should push the 10-year US Treasury rate closer to 3.4 per cent by the end of next year, about 1.4 per cent higher than its current trading level.