March 2024
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# Monthly economic report

## The global economy

Central banks in advanced economies are becoming more confident that they will have enough information to start cutting interest rates soon, specifically through data showing that inflation is falling sustainably back to their targets. In the US, despite some surprisingly high monthly inflation outcomes, the Federal Reserve (Fed) still thinks inflation will continue to decline. The continued resilience of the US economy and labour market has also not altered Fed members' view on inflation, still expecting to deliver 3 rate cuts in 2024.

The Bank of England and European Central Bank have also become more dovish as inflation falls more quickly than expected. The Swiss central bank unexpectedly reduced its policy rate by 25bps as inflation is within the target range and the Swedish central bank signalled that a rate cut within a few months is likely. The Reserve Bank of Australia (RBA) also tilted in a dovish direction by dropping its tightening bias, though it appears to still be more concerned about the risk of elevated services price inflation than central banks in most other advanced economies.

The more dovish communication by central banks over the past month saw investor expectations for the timing and magnitude of rate cuts in 2024 pare back slightly. This follows large adjustments in January and February as policymakers aggressively pushed back on investors' expectations of imminent and aggressive rate cuts in 2024. Investors expect most advanced economy central banks (excluding Australia) to start cutting rates around the middle of this year and by around 75bps in 2024.

The Bank of Japan (BoJ) raised its policy rate to between 0 and 0.1% in March, ending the negative interest rate policy that had been in place since 2016, marking the first time that the BoJ has raised interest rates since 2007. The BoJ also abandoned its Yield Curve Control framework, which removes formal limits on 10-year Japanese Government bond yields. However, the BoJ will remain active in the government bond market to ensure that yields do not rise above levels that it is comfortable with.

The BoJ's monetary policy adjustments reflect greater confidence that the 2% inflation target will be sustainably achieved, following decades of deflation in Japan. This, in turn, reflects encouraging signs that wage growth has lifted, with larger-than-expected wage rises awarded in the annual Shunto wage negotiations between unions and large firms. However, the BoJ's forward guidance remains dovish, noting that financial conditions will remain accommodative and that this adjustment does not mark the start of an aggressive tightening campaign.

In China, authorities announced an ambitious 5% growth target for 2024. This is likely only achievable if sizeable economic stimulus measures are announced, though authorities have not yet unveiled any large-scale stimulus programs. In the meantime, household spending in China is weak and the property sector remains in a severe downturn.

## The Australian economy

As expected, the RBA Board held interest rates steady at its March meeting. The RBA's forward guidance was seen as more neutral, rather than hawkish, with the RBA dropping its mild tightening bias. The RBA remains cautious and data-dependent, waiting for more evidence that inflation is falling before starting to discuss rate cuts. Monthly inflation was a touch lower than expected in February, with underlying measures of inflation within the RBA's target band on a 3-month annualised basis.

The Australian economy remains weak, growing by a modest 0.2% in the December quarter 2023, in line with the RBA's expectations. Strong population growth resulted in output per capita falling throughout 2023. Dwelling investment declined in the December quarter and building approvals fell further in January. Household spending remains very weak, with households under financial pressure mostly cutting back on discretionary spending. In contrast, public sector spending has risen and is increasingly driving economic growth. Business investment has been relatively resilient and house prices have risen further in recent months.

By state, growth in the NSW economy was surprisingly weak in the December quarter. Housing construction declined, though it is unclear how much this reflected building activity impacted by wet weather.

Labour market data remains volatile, but there continues to be evidence that it is gradually loosening. Total hours worked have trended lower, job ads have fallen, and job vacancies have declined further (though they remain elevated). Leading indicators also suggest that wages growth has reached its peak.

# Financial market commentary

Bond yields fell in March and equity markets rose as investors became more confident that increasingly dovish central banks will start cutting rates soon.

## Equity markets (performance in local currency, excluding dividends)

Most advanced economy markets rose strongly in March, with the MSCI World (ex-Australia) index rising by 3%. Equity investors are optimistic that rate cuts will commence in a few months and that there will be a 'soft landing' in the global economy, where inflation returns to central banks' targets while labour markets remain resilient.

The US S&P500 gained 3.1% in March and the ASX200 gained 2.6%, with broad-based rises across sectors. Japan's equity market rose by 3.1% as the yen depreciated further and investors focused on the BoJ's dovish forward guidance.

Equity markets in the US, Japan, Europe, UK and Australia have recently surpassed their historical peaks. The ASX200 has underperformed equity markets in other advanced economies since the start of this year (except the UK). While banks have recorded strong gains, mining stocks have fallen sharply due to weakness in China's economy and the acute drop in iron price prices this year.

## Interest rates

Increasingly dovish central banks saw global bond yields fall in March. US 10-year bond yields ended the month 5bps lower, while yields in other advanced economies fell by more. Australian 10-year yields declined 17bps and German 10-year yields fell 11bps.

TCorp bond yields moved broadly in line with those on Commonwealth Government bonds in March.

## Currency and commodity markets

Iron ore prices declined almost 20% in March, to be 25% lower since the start of this year. The weakness reflects concerns about lower steel demand in China, particularly from the property sector, and rising steel inventories at major Chinese steel mills.

# Financial market performance

| **Currency markets**<br>**March 2024** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** |
|---|---|---|---|---|---|
| AUD/USD | 0.650 | 0.662 | 0.650 | **0.652** | 0.4% ▲ |
| AUD/EUR | 0.601 | 0.606 | 0.599 | **0.604** | 0.5% ▲ |
| AUD/JPY | 97.44 | 99.62 | 97.19 | **98.70** | 1.3% ▲ |
| AUD/GBP | 0.515 | 0.519 | 0.512 | **0.517** | 0.4% ▲ |
| AUD/BRL | 3.230 | 3.301 | 3.221 | **3.270** | 1.2% ▲ |
| AUD/INR | 53.87 | 54.86 | 53.91 | **54.39** | 1.0% ▲ |
| AUD/CNY | 4.670 | 4.762 | 4.680 | **4.710** | 0.8% ▲ |

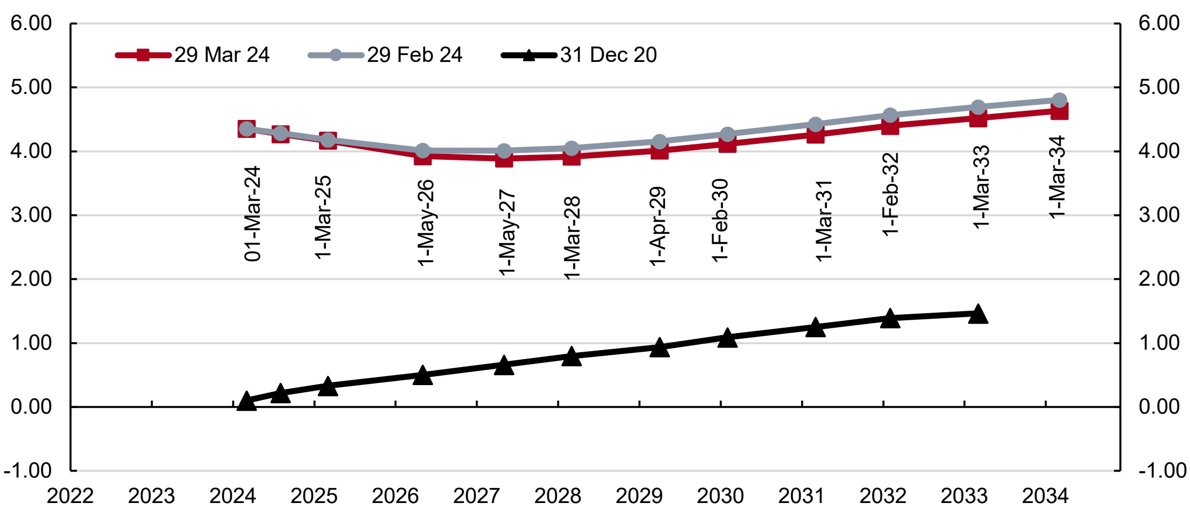
| **Equity markets***<br>**March 2024** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** |
|---|---|---|---|---|---|
| MSCI World ex Australia | 3424 | 3528 | 3424 | **3528** | 3.0% ▲ |
| MSCI Emerging Markets | 1021 | 1049 | 1022 | **1043** | 2.2% ▲ |
| S&P/ASX200 | 7699 | 7897 | 7670 | **7897** | 2.6% ▲ |
| S&P/ASX Small Ordinaries | 2999 | 3124 | 3011 | **3124** | 4.2% ▲ |
| S&P500 (US) | 5096 | 5254 | 5079 | **5254** | 3.1% ▲ |
| FTSE 100 (UK) | 7630 | 7953 | 7640 | **7953** | 4.2% ▲ |
| Stoxx600 (Europe) | 495 | 513 | 496 | **513** | 3.7% ▲ |
| DAX (Germany) | 17678 | 18492 | 17698 | **18492** | 4.6% ▲ |
| CAC 40 (France) | 7927 | 8206 | 7933 | **8206** | 3.5% ▲ |
| Nikkei 225 (Japan) | 39166 | 40888 | 38696 | **40369** | 3.1% ▲ |
| Hang Seng (HK) | 16511 | 17094 | 16163 | **16541** | 0.2% ▲ |
| Shanghai Composite (China) | 3015 | 3085 | 2993 | **3041** | 0.9% ▲ |
| Bovespa (Brazil) | 129020 | 129180 | 126124 | **128106** | -0.7% ▼ |
| IPC (Mexico) | 55414 | 57369 | 54899 | **57369** | 3.5% ▲ |
| S&P/BSE Sensex (India) | 72500 | 74119 | 72012 | **73651** | 1.6% ▲ |

*Returns are in local currency, and exclude dividend payments

| **Bond markets (%)**<br>**March 2024** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** |
|---|---|---|---|---|---|
| RBA Official Cash Rate | 4.35 | 4.35 | 4.35 | **4.35** | 0.00 – |
| 90 Day Bank Bill | 4.34 | 4.35 | 4.34 | **4.34** | 0.01 ▲ |
| 180 Day Bank Bill | 4.48 | 4.52 | 4.48 | **4.50** | 0.02 ▲ |
| New institutional term deposits | 4.70 | 4.70 | 4.70 | **4.70** | 0.00 – |
| 3 Year CGS Bond | 3.70 | 3.74 | 3.58 | **3.62** | -0.09 ▼ |
| 10 Year CGS Bond | 4.14 | 4.14 | 3.95 | **3.96** | -0.17 ▼ |
| 10 Year US Bond | 4.25 | 4.32 | 4.07 | **4.20** | -0.05 ▼ |
| 10 Year German Bond | 2.41 | 2.46 | 2.27 | **2.30** | -0.11 ▼ |
| 10 Year Japanese Bond | 0.71 | 0.79 | 0.71 | **0.73** | 0.02 ▲ |

| TCorp bonds (%)<br>**March 2024** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** | |
|---|---|---|---|---|---|---|
| 20-Aug-24 | 4.28 | 4.33 | 4.27 | **4.27** | -0.01 | ▼ |
| 20-Mar-25 | 4.18 | 4.25 | 4.14 | **4.17** | -0.01 | ▼ |
| 20-May-26 | 4.01 | 4.08 | 3.92 | **3.92** | -0.09 | ▼ |
| 20-May-27 | 4.01 | 4.06 | 3.89 | **3.89** | -0.12 | ▼ |
| 20-Mar-28 | 4.05 | 4.11 | 3.92 | **3.92** | -0.13 | ▼ |
| 20-Apr-29 | 4.15 | 4.21 | 4.01 | **4.01** | -0.14 | ▼ |
| 20-Feb-30 | 4.27 | 4.32 | 4.12 | **4.12** | -0.15 | ▼ |
| 20-Mar-31 | 4.42 | 4.47 | 4.26 | **4.26** | -0.16 | ▼ |
| 20-Feb-32 | 4.56 | 4.61 | 4.40 | **4.40** | -0.17 | ▼ |
| 08-Mar-33 | 4.69 | 4.72 | 4.52 | **4.52** | -0.17 | ▼ |
| 20-Mar-34 | 4.80 | 4.84 | 4.63 | 4.63 | -0.17 | ▼ |
| CIB 2.75% 20 Nov 25 | 1.34 | 1.43 | 1.29 | **1.29** | -0.05 | ▼ |
| CIB 2.50% 20 Nov 35 | 2.31 | 2.32 | 2.14 | **2.18** | -0.13 | ▼ |

**TCorp Yield Curve**




Source: TCorp

| Commodity markets (US$)<br>**March 2024** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** | |
|---|---|---|---|---|---|---|
| Brent Oil (per barrel) | 83.6 | 87.5 | 81.9 | **87.5** | 4.6% | ▲ |
| Iron Ore (per tonne) | 124.9 | 118.1 | 100.1 | **100.1** | -19.8% | ▼ |

| TCorp forecasts | June-24 | Dec-24 | Jun-25 | Dec-25 |
|---|---|---|---|---|
| RBA Official Cash Rate | 4.35 | 3.85 | 3.10 | 2.35 |
| 90 Day Bank Bill | 4.35 | 3.60 | 2.85 | 2.50 |
| 10 Year CGS Bond | 3.75 | 3.50 | 3.25 | 3.25 |

## About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$112 billion of assets under management, TCorp is a top 10 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$168 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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