

Economic commentary

The global economy

The global economic recovery gathered pace in April, supported by the vaccine rollout. However, the recovery is uneven; some economies struggled in the face of new waves of COVID-19 infections, while others were strong enough for policy makers to begin reducing stimulus measures.

April's round of purchasing managers' indexes (PMIs) – which provide a snapshot of business conditions – showed manufacturing was in good shape, and services – which were hit harder by COVID-19 related restrictions – were bouncing back. The US manufacturing and services PMIs are well above their historical averages; in the Eurozone the manufacturing index is soaring and the services index is now signalling a modest expansion; and China's PMIs are consistent with solid growth.

Vaccination rates are rising rapidly. The UK and US lead the way for major economies with more than 40% of their populations receiving at least one vaccine dose by the end of April. In Europe – where vaccination rates are lower (about 25%) and caseloads higher – restrictions imposed to rein in new infections pushed the Eurozone back into recession in the March quarter. Rapidly rising case numbers in India have prompted Indian state governments to reinstate restrictions.

The Bank of Canada announced it was reducing emergency measures and could likely begin increasing interest rates from record low levels in late 2022, earlier than previously expected. This followed the People's Bank of China announcement that it was intent on stabilising the economy's leverage ratio and reducing government debt in 2021.

The Australian economy

The Australian economy continues to recover more quickly than expected. Employment jumped 70,700 in March and the unemployment rate dropped from 5.8% to 5.6%. Moreover, it appears that labour demand remains healthy as indicated by job vacancies reports showing high levels of job vacancies in March.

NAB's business survey reported the best conditions overall for Australian business for more than 20 years, although some sectors are still hindered by COVID-19 related border closures and disruptions to supply chains.

Inflation remains low, supporting the Reserve Bank of Australia's (RBA) case for keeping interest rates lower for longer. The March quarter Consumer Price Index (CPI) report showed the RBA's preferred measure of inflation increased just 1.1% from a year earlier, less than expected by forecasters and well below the RBA's 2-3% target range. A number of temporary factors related to the pandemic are affecting the CPI, but even without these the inflation pulse is weak.

Stronger growth and low inflation will also improve government budget balances, by increasing revenue and reducing outlays. The Commonwealth budget deficit for 2020-21 may be \$30bn smaller than previously expected.

Financial market commentary

Risk assets performed well again in April, benefitting from the overall improvement in economic prospects and ongoing policy support from governments and central banks. Most share markets and commodity prices ended the month higher. Bond markets experienced mixed fortunes.

Equity markets (performance in local currency, excluding dividends)

World equity markets (excluding Australia) rose 4.5% in April. US and European markets posted record highs during April, while Australia's share market got close to the pre-COVID high.

In the US, the broad-based S&P500 rose 5.2%, supported by positive surprises for first quarter earnings reported by many of its constituent companies. The technology-centric NASDAQ 100 gained 5.4%. News of President Biden's plans for raising corporate taxes and capital gains taxes to partly fund increased government spending had a short-lived negative impact on share prices.

The pan-European Stoxx600 index rose 1.8% in April. Amongst large European firms, positive earnings surprises exceeded negative surprises in the March quarter.

Some emerging markets experienced strong headwinds during April; concerns about mounting bad debts in China's banking system limited the rise in the Shanghai Composite to just 0.1%, and India's Sensex dropped 1.5% under the weight of rising COVID-19 case numbers.

Australia's S&P/ASX200 index gained 3.5% in April, ending at 7082 – just 1.1% below the record close recorded in February 2020. High iron ore prices helped resources stocks (+5.6%) to outperform property trusts (+2.9%) and banks (+2.7%).

Interest rates

Central banks maintained their low target interest rates, but bond yields diverged during April. US and Australian bond yields fell, while European bond yields increased. Anecdotally, the influence of Japanese investors re-entering the market at the start of their financial year on 1 April had a significant impact on bond prices. Reduced uncertainty about prospects for Europe's economies may also have encouraged investors to move money from European bonds to risk assets.

The US 10-year yield fell 11bps to 1.63%, largely due to lower real yields, and the Australian Government's November 2031 bond yield fell 4bps, to 1.75%. Meanwhile, Germany's 10-year bond yield increased 9bps to -0.20%, and French yields jumped 20bps. The yield on TCorp's March 2031 bond fell 14bps, to 1.83%.

Currency and commodity markets

The US dollar depreciated 2.1% against the currencies of its trading partners in April, consistent with US bond yields falling relative to European bond yields. The Australian dollar moved from US\$0.76 to US\$0.77.

Commodity prices rose across the board. The Commodity Research Bureau (CRB) index, which includes energy, metals and agricultural products, gained 8% in April. Brent oil rose 5.8%, to US\$67 per barrel and iron ore increased 7.6% to US\$179 per tonne. Copper prices leaped 11.7% in the month, and briefly exceeded US\$10,000 per tonne.

Financial market performance

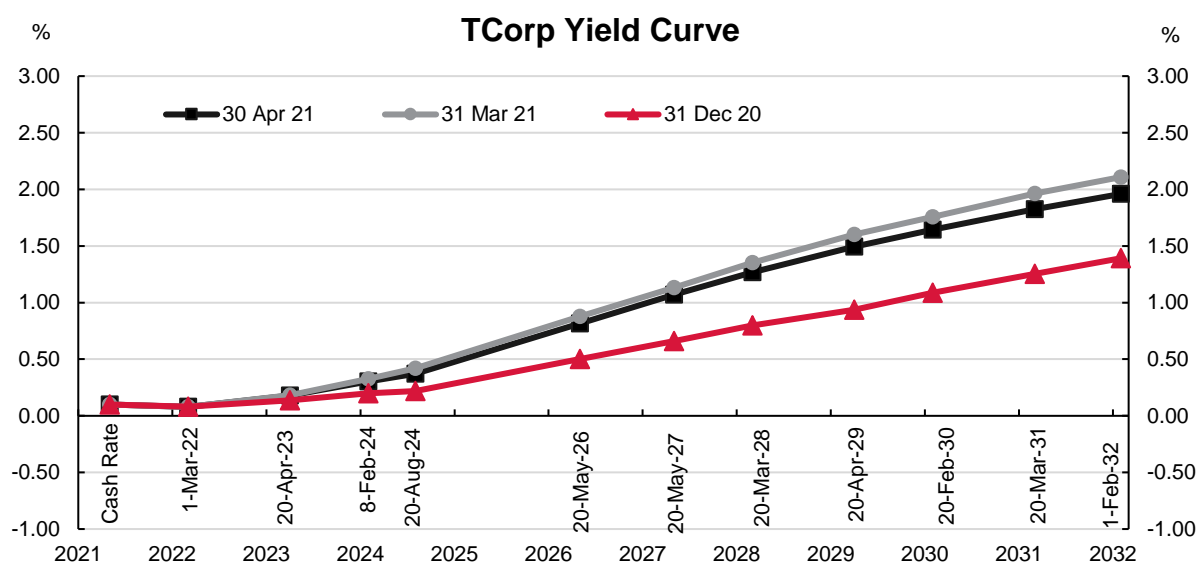
Currency markets April 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.760	0.780	0.760	0.772	1.55% ▲
AUD/EUR	0.648	0.648	0.640	0.642	-0.90% ▼
AUD/JPY	84.13	84.61	83.21	84.34	0.26% ▲
AUD/GBP	0.551	0.562	0.550	0.559	1.33% ▲
AUD/BRL	4.280	4.372	4.147	4.196	-1.98% ▼
AUD/RUB	57.51	59.40	57.51	58.03	0.91% ▲
AUD/INR	55.55	58.51	55.55	57.16	2.90% ▲
AUD/CNY	4.979	5.059	4.979	4.996	0.35% ▲

Equity markets* April 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2875	3029	2875	3004	4.5% ▲
MSCI Emerging Markets	1316	1365	1316	1348	2.4% ▲
S&P/ASX200	6791	7082	6791	7026	3.5% ▲
S&P/ASX Small Ordinaries	3131	3334	3131	3286	4.9% ▲
S&P500 (US)	3973	4211	3973	4181	5.2% ▲
FTSE 100 (UK)	6714	7020	6714	6970	3.8% ▲
Stoxx 600 (Europe)	430	442	430	437	1.8% ▲
DAX (Germany)	15008	15460	15008	15136	0.8% ▲
CAC 40 (France)	6067	6307	6067	6269	3.3% ▲
Nikkei 225 (Japan)	29179	30089	28509	28813	-1.3% ▼
Hang Seng (HK)	28378	29303	28378	28725	1.2% ▲
Shanghai Composite (China)	3442	3484	3396	3447	0.1% ▲
Bovespa (Brazil)	116634	121114	115253	118894	1.9% ▲
IPC (Mexico)	47246	49092	47246	48010	1.6% ▲
S&P/BSE Sensex (India)	49509	50030	47706	48782	-1.5% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) April 2021	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	0.10	0.10	0.10	0.10	0.00 –
90 Day Bank Bill	0.04	0.04	0.04	0.04	0.01 ▲
180 Day Bank Bill	0.09	0.10	0.09	0.10	0.01 ▲
1 Year Term Deposit Rate	0.30	0.30	0.30	0.30	0.00 –
3 Year CGS Bond	0.12	0.34	0.12	0.30	0.18 ▲
10 Year CGS Bond	1.79	1.84	1.70	1.75	-0.04 ▼
10 Year US Bond	1.74	1.74	1.54	1.63	-0.11 ▼
10 Year German Bond	-0.29	-0.19	-0.34	-0.20	0.09 ▲
10 Year Japanese Bond	0.10	0.13	0.07	0.10	0.00 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
April 2021					
01-Mar-22	0.08	0.10	0.07	0.08	0.00 –
20-Apr-23	0.18	0.19	0.17	0.18	0.00 ▼
08-Feb-24	0.33	0.33	0.30	0.30	-0.02 ▼
20-Aug-24	0.42	0.42	0.37	0.37	-0.05 ▼
20-May-26	0.88	0.88	0.81	0.82	-0.06 ▼
20-May-27	1.13	1.13	1.05	1.07	-0.06 ▼
20-Mar-28	1.35	1.35	1.24	1.27	-0.09 ▼
20-Apr-29	1.60	1.60	1.45	1.49	-0.11 ▼
20-Feb-30	1.76	1.76	1.60	1.64	-0.11 ▼
20-Mar-31	1.96	1.96	1.78	1.83	-0.14 ▼
20-Feb-32	2.11	2.11	1.93	1.96	-0.15 ▼
CIB 2.75% 20 Nov 25	-1.21	-1.21	-1.45	-1.34	-0.13 ▼
CIB 2.50% 20 Nov 35	0.54	0.54	0.25	0.32	-0.22 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
April 2021					
Brent Oil (per barrel)	63.5	68.6	62.2	67.3	5.8% ▲
Iron Ore (per tonne)	166.9	180.2	163.0	179.6	7.6% ▲
TCorp forecasts		Jun-21	Sep-21	Dec-21	Dec-22
RBA Official Cash Rate		0.10	0.10	0.10	0.10
90 Day Bank Bill		0.10	0.10	0.10	0.10
10 Year CGS Bond		1.50	1.25	1.00	1.00

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